

DEVON ENERGY CORP/DE  
Form 10-Q  
August 07, 2013  
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**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, 2013

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)*

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**Delaware**  
(State of other jurisdiction of

**73-1567067**  
(I.R.S. Employer

incorporation or organization)

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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

On July 18, 2013, 406 million shares of common stock were outstanding.

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**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

This report includes forward-looking statements regarding our expectations and plans, as well as future events or conditions. Such forward-looking statements are based on our examination of historical operating trends, the information used to prepare our December 31, 2012 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, such as changes in the supply of and demand for oil, natural gas and NGLs and related products and services; exploration or drilling programs; political or regulatory events; general economic and financial market conditions; and other factors discussed in this report.

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.

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**DEVON ENERGY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED COMPREHENSIVE STATEMENTS OF EARNINGS**

|                                                                       | <b>Three Months</b>                            |                | <b>Six Months</b>     |                |
|-----------------------------------------------------------------------|------------------------------------------------|----------------|-----------------------|----------------|
|                                                                       | <b>Ended June 30,</b>                          |                | <b>Ended June 30,</b> |                |
|                                                                       | <b>2013</b>                                    | <b>2012</b>    | <b>2013</b>           | <b>2012</b>    |
|                                                                       | <b>(Unaudited)</b>                             |                |                       |                |
|                                                                       | <b>(In millions, except per share amounts)</b> |                |                       |                |
| <b>Revenues:</b>                                                      |                                                |                |                       |                |
| Oil, gas and NGL sales                                                | \$ 2,222                                       | \$ 1,617       | \$ 4,026              | \$ 3,532       |
| Oil, gas and NGL derivatives                                          | 366                                            | 665            | 46                    | 810            |
| Marketing and midstream revenues                                      | 503                                            | 277            | 991                   | 714            |
| <b>Total revenues</b>                                                 | <b>3,091</b>                                   | <b>2,559</b>   | <b>5,063</b>          | <b>5,056</b>   |
| <b>Expenses and other, net:</b>                                       |                                                |                |                       |                |
| Lease operating expenses                                              | 559                                            | 513            | 1,084                 | 1,027          |
| Marketing and midstream operating costs and expenses                  | 382                                            | 209            | 745                   | 534            |
| Depreciation, depletion and amortization                              | 674                                            | 684            | 1,378                 | 1,364          |
| General and administrative expenses                                   | 167                                            | 176            | 317                   | 344            |
| Taxes other than income taxes                                         | 125                                            | 100            | 238                   | 202            |
| Interest expense                                                      | 108                                            | 99             | 218                   | 186            |
| Restructuring costs                                                   | 8                                              |                | 46                    |                |
| Asset impairments                                                     | 40                                             |                | 1,953                 |                |
| Other, net                                                            | 31                                             | 44             | 49                    | 54             |
| <b>Total expenses and other, net</b>                                  | <b>2,094</b>                                   | <b>1,825</b>   | <b>6,028</b>          | <b>3,711</b>   |
| <b>Earnings (loss) from continuing operations before income taxes</b> | <b>997</b>                                     | <b>734</b>     | <b>(965)</b>          | <b>1,345</b>   |
| Current income tax expense                                            | 132                                            | 31             | 132                   | 49             |
| Deferred income tax expense (benefit)                                 | 182                                            | 226            | (441)                 | 405            |
| <b>Earnings (loss) from continuing operations</b>                     | <b>683</b>                                     | <b>477</b>     | <b>(656)</b>          | <b>891</b>     |
| <b>Loss from discontinued operations, net of tax</b>                  |                                                |                |                       | <b>(21)</b>    |
| <b>Net earnings (loss)</b>                                            | <b>\$ 683</b>                                  | <b>\$ 477</b>  | <b>\$ (656)</b>       | <b>\$ 870</b>  |
| <b>Basic net earnings (loss) per share:</b>                           |                                                |                |                       |                |
| Basic earnings (loss) from continuing operations per share            | \$ 1.69                                        | \$ 1.18        | \$ (1.63)             | \$ 2.20        |
| Basic loss from discontinued operations per share                     |                                                |                |                       | (0.05)         |
| <b>Basic net earnings (loss) per share</b>                            | <b>\$ 1.69</b>                                 | <b>\$ 1.18</b> | <b>\$ (1.63)</b>      | <b>\$ 2.15</b> |
| <b>Diluted net earnings (loss) per share:</b>                         |                                                |                |                       |                |
| Diluted earnings (loss) from continuing operations per share          | \$ 1.68                                        | \$ 1.18        | \$ (1.63)             | \$ 2.20        |
| Diluted loss from discontinued operations per share                   |                                                |                |                       | (0.05)         |
| <b>Diluted net earnings (loss) per share</b>                          | <b>\$ 1.68</b>                                 | <b>\$ 1.18</b> | <b>\$ (1.63)</b>      | <b>\$ 2.15</b> |
| <b>Comprehensive earnings (loss):</b>                                 |                                                |                |                       |                |
| <b>Net earnings (loss)</b>                                            | <b>\$ 683</b>                                  | <b>\$ 477</b>  | <b>\$ (656)</b>       | <b>\$ 870</b>  |

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|                                       |        |        |            |        |
|---------------------------------------|--------|--------|------------|--------|
| Other comprehensive loss, net of tax: |        |        |            |        |
| Foreign currency translation          | (271)  | (171)  | (454)      | (19)   |
| Pension and postretirement plans      | 5      | 5      | 9          | 9      |
| Other comprehensive loss, net of tax  |        |        |            |        |
|                                       | (266)  | (166)  | (445)      | (10)   |
| Comprehensive earnings (loss)         | \$ 417 | \$ 311 | \$ (1,101) | \$ 860 |

See accompanying notes to consolidated financial statements.

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                                            | <b>Six Months<br/>Ended June 30,<br/>2013      2012<br/>(Unaudited)<br/>(In millions)</b> |         |
|------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|---------|
| Cash flows from operating activities:                                                                      |                                                                                           |         |
| Net earnings (loss)                                                                                        | \$ (656)                                                                                  | \$ 870  |
| Loss from discontinued operations, net of tax                                                              |                                                                                           | 21      |
| Adjustments to reconcile earnings (loss) from continuing operations to net cash from operating activities: |                                                                                           |         |
| Depreciation, depletion and amortization                                                                   | 1,378                                                                                     | 1,364   |
| Asset impairments                                                                                          | 1,953                                                                                     |         |
| Deferred income tax expense (benefit)                                                                      | (441)                                                                                     | 405     |
| Unrealized change in fair value of financial instruments                                                   | 46                                                                                        | (362)   |
| Other noncash charges                                                                                      | 176                                                                                       | 114     |
| Net decrease (increase) in working capital                                                                 | (128)                                                                                     | 14      |
| Decrease in long-term other assets                                                                         | 22                                                                                        | 3       |
| Increase (decrease) in long-term other liabilities                                                         | 48                                                                                        | (3)     |
| Cash from operating activities   continuing operations                                                     | 2,398                                                                                     | 2,426   |
| Cash from operating activities   discontinued operations                                                   |                                                                                           | 26      |
| Net cash from operating activities                                                                         | 2,398                                                                                     | 2,452   |
| Cash flows from investing activities:                                                                      |                                                                                           |         |
| Capital expenditures                                                                                       | (3,569)                                                                                   | (4,267) |
| Proceeds from property and equipment divestitures                                                          | 34                                                                                        | 864     |
| Purchases of short-term investments                                                                        | (1,076)                                                                                   | (1,471) |
| Redemptions of short-term investments                                                                      | 2,550                                                                                     | 2,030   |
| Other                                                                                                      | 82                                                                                        | 14      |
| Cash from investing activities   continuing operations                                                     | (1,979)                                                                                   | (2,830) |
| Cash from investing activities   discontinued operations                                                   |                                                                                           | 58      |
| Net cash from investing activities                                                                         | (1,979)                                                                                   | (2,772) |
| Cash flows from financing activities:                                                                      |                                                                                           |         |
| Proceeds from borrowings of long-term debt, net of issuance costs                                          |                                                                                           | 2,465   |
| Net short-term debt repayments                                                                             | (1,495)                                                                                   | (1,498) |
| Credit facility borrowings                                                                                 |                                                                                           | 750     |
| Credit facility repayments                                                                                 |                                                                                           | (750)   |
| Proceeds from stock option exercises                                                                       | 1                                                                                         | 22      |
| Dividends paid on common stock                                                                             | (170)                                                                                     | (162)   |
| Excess tax benefits related to share-based compensation                                                    | 5                                                                                         | 1       |
| Net cash from financing activities                                                                         | (1,659)                                                                                   | 828     |
| Effect of exchange rate changes on cash                                                                    | (34)                                                                                      | 38      |
| Net change in cash and cash equivalents                                                                    | (1,274)                                                                                   | 546     |

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|                                                  |          |          |
|--------------------------------------------------|----------|----------|
| Cash and cash equivalents at beginning of period | 4,637    | 5,555    |
| Cash and cash equivalents at end of period       | \$ 3,363 | \$ 6,101 |

See accompanying notes to consolidated financial statements.

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

|                                                                                                                         | June 30,<br>2013<br>(Unaudited) | December 31,<br>2012 |
|-------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| (In millions, except share data)                                                                                        |                                 |                      |
| <b>ASSETS</b>                                                                                                           |                                 |                      |
| Current assets:                                                                                                         |                                 |                      |
| Cash and cash equivalents                                                                                               | \$ 3,363                        | \$ 4,637             |
| Short-term investments                                                                                                  | 869                             | 2,343                |
| Accounts receivable                                                                                                     | 1,538                           | 1,245                |
| Other current assets                                                                                                    | 587                             | 746                  |
| Total current assets                                                                                                    | 6,357                           | 8,971                |
| Property and equipment, at cost:                                                                                        |                                 |                      |
| Oil and gas, based on full cost accounting:                                                                             |                                 |                      |
| Subject to amortization                                                                                                 | 71,057                          | 69,410               |
| Not subject to amortization                                                                                             | 3,382                           | 3,308                |
| Total oil and gas                                                                                                       | 74,439                          | 72,718               |
| Other                                                                                                                   | 5,839                           | 5,630                |
| Total property and equipment, at cost                                                                                   | 80,278                          | 78,348               |
| Less accumulated depreciation, depletion and amortization                                                               | (53,353)                        | (51,032)             |
| Property and equipment, net                                                                                             | 26,925                          | 27,316               |
| Goodwill                                                                                                                | 5,917                           | 6,079                |
| Other long-term assets                                                                                                  | 821                             | 960                  |
| Total assets                                                                                                            | \$ 40,020                       | \$ 43,326            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                             |                                 |                      |
| Current liabilities:                                                                                                    |                                 |                      |
| Accounts payable                                                                                                        | \$ 1,197                        | \$ 1,451             |
| Revenues and royalties payable                                                                                          | 830                             | 750                  |
| Short-term debt                                                                                                         | 2,194                           | 3,189                |
| Other current liabilities                                                                                               | 644                             | 613                  |
| Total current liabilities                                                                                               | 4,865                           | 6,003                |
| Long-term debt                                                                                                          | 7,956                           | 8,455                |
| Asset retirement obligations                                                                                            | 2,121                           | 1,996                |
| Other long-term liabilities                                                                                             | 816                             | 901                  |
| Deferred income taxes                                                                                                   | 4,196                           | 4,693                |
| Stockholders' equity:                                                                                                   |                                 |                      |
| Common stock, \$0.10 par value. Authorized 1.0 billion shares; issued 406 million shares in 2013 and 2012, respectively | 41                              | 41                   |
| Additional paid-in capital                                                                                              | 3,747                           | 3,688                |
| Retained earnings                                                                                                       | 14,952                          | 15,778               |
| Accumulated other comprehensive earnings                                                                                | 1,326                           | 1,771                |

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|                                            |           |           |
|--------------------------------------------|-----------|-----------|
| Total stockholders' equity                 | 20,066    | 21,278    |
| Commitments and contingencies (Note 17)    |           |           |
| Total liabilities and stockholders' equity | \$ 40,020 | \$ 43,326 |

See accompanying notes to consolidated financial statements.

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**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

|                                       | Common<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Unaudited)<br>(In millions) | Accumulated<br>Other<br>Comprehensive<br>Earnings | Treasury<br>Stock | Total<br>Stockholders<br>Equity |
|---------------------------------------|------------------|------------------------|----------------------------------|------------------------------------------------------|---------------------------------------------------|-------------------|---------------------------------|
| Six Months Ended June 30, 2013:       |                  |                        |                                  |                                                      |                                                   |                   |                                 |
| Balance as of December 31, 2012       | 406              | \$ 41                  | \$ 3,688                         | \$ 15,778                                            | \$ 1,771                                          | \$                | \$ 21,278                       |
| Net loss                              |                  |                        |                                  | (656)                                                |                                                   |                   | (656)                           |
| Other comprehensive loss, net of tax  |                  |                        |                                  |                                                      | (445)                                             |                   | (445)                           |
| Stock option exercises                |                  |                        | 1                                |                                                      |                                                   |                   | 1                               |
| Common stock repurchased              |                  |                        |                                  |                                                      |                                                   | (9)               | (9)                             |
| Common stock retired                  |                  |                        | (9)                              |                                                      |                                                   | 9                 |                                 |
| Common stock dividends                |                  |                        |                                  | (170)                                                |                                                   |                   | (170)                           |
| Share-based compensation              |                  |                        | 62                               |                                                      |                                                   |                   | 62                              |
| Share-based compensation tax benefits |                  |                        | 5                                |                                                      |                                                   |                   | 5                               |
| Balance as of June 30, 2013           | 406              | \$ 41                  | \$ 3,747                         | \$ 14,952                                            | \$ 1,326                                          | \$                | \$ 20,066                       |
| Six Months Ended June 30, 2012:       |                  |                        |                                  |                                                      |                                                   |                   |                                 |
| Balance as of December 31, 2011       | 404              | \$ 40                  | \$ 3,507                         | \$ 16,308                                            | \$ 1,575                                          | \$                | \$ 21,430                       |
| Net earnings                          |                  |                        |                                  | 870                                                  |                                                   |                   | 870                             |
| Other comprehensive loss, net of tax  |                  |                        |                                  |                                                      | (10)                                              |                   | (10)                            |
| Stock option exercises                | 1                |                        | 22                               |                                                      |                                                   |                   | 22                              |
| Common stock repurchased              |                  |                        |                                  |                                                      |                                                   | (1)               | (1)                             |
| Common stock retired                  |                  |                        | (1)                              |                                                      |                                                   | 1                 |                                 |
| Common stock dividends                |                  |                        |                                  | (162)                                                |                                                   |                   | (162)                           |
| Share-based compensation              |                  |                        | 75                               |                                                      |                                                   |                   | 75                              |
| Share-based compensation tax benefits |                  |                        | 1                                |                                                      |                                                   |                   | 1                               |
| Balance as of June 30, 2012           | 405              | \$ 40                  | \$ 3,604                         | \$ 17,016                                            | \$ 1,565                                          | \$                | \$ 22,225                       |

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 financial statements and notes of Devon Energy Corporation ( Devon ) have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying financial statements and notes should be read in conjunction with the financial statements and notes included in Devon's 2012 Annual Report on Form 10-K.

The accompanying unaudited interim financial statements furnished in this report reflect all adjustments that are, in the opinion of management, necessary to a fair statement of Devon's results of operations and cash flows for the three-month and six-month periods ended June 30, 2013 and 2012 and Devon's financial position as of June 30, 2013.

**2. Derivative Financial Instruments***Objectives and Strategies*

Devon periodically enters into derivative financial instruments with respect to a portion of its oil, gas and NGL production. These instruments are used to manage the inherent uncertainty of future revenues due to commodity price volatility and typically include financial price swaps, basis swaps, costless price collars and call options.

Devon periodically enters into interest rate swaps to manage its exposure to interest rate volatility. Devon periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in exchange rates.

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 contain provisions that provide for collateral payments, depending on levels of exposure and the credit rating of the counterparty.

As of June 30, 2013, Devon held \$39 million of cash collateral. Such amount represented the estimated fair value of certain derivative positions in excess of Devon's credit guidelines. The collateral is reported in other current liabilities in the accompanying balance sheet.

*Commodity Derivatives*

As of June 30, 2013, Devon had the following open oil derivative positions. Devon's oil derivatives settle against the average of the prompt month NYMEX West Texas Intermediate futures price.

| Period     | Price Swaps |               | Price Collars |                     |                       | Call Options Sold |               |
|------------|-------------|---------------|---------------|---------------------|-----------------------|-------------------|---------------|
|            | Volume      | Average Price | Volume        | Average Floor Price | Average Ceiling Price | Volume            | Average Price |
|            | (Bbls/d)    | (\$/Bbl)      | (Bbls/d)      | (\$/Bbl)            | (\$/Bbl)              | (Bbls/d)          | (\$/Bbl)      |
| Q3-Q4 2013 | 70,000      | \$ 100.26     | 65,000        | \$ 90.13            | \$ 111.91             | 10,000            | \$ 120.00     |

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|            |        |    |       |        |    |       |    |        |        |    |        |
|------------|--------|----|-------|--------|----|-------|----|--------|--------|----|--------|
| Q1-Q4 2014 | 21,000 | \$ | 94.99 | 10,000 | \$ | 86.53 | \$ | 102.75 | 42,000 | \$ | 116.43 |
| Q1-Q4 2015 | 500    | \$ | 91.00 |        | \$ |       | \$ |        | 22,000 | \$ | 115.45 |

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

| Period     | Index                   | Basis Swaps        |                                                     |
|------------|-------------------------|--------------------|-----------------------------------------------------|
|            |                         | Volume<br>(Bbls/d) | Weighted Average<br>Differential to WTI<br>(\$/Bbl) |
| Q3-Q4 2013 | Western Canadian Select | 40,000             | \$ (22.30)                                          |

As of June 30, 2013, 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 AECO index.

| Period     | Price Swaps         |                                         | Volume<br>(MMBtu/d) | Price Collars       |                                               | Call Options Sold   |                                         |
|------------|---------------------|-----------------------------------------|---------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------|
|            | Volume<br>(MMBtu/d) | Weighted<br>Average Price<br>(\$/MMBtu) |                     | Volume<br>(MMBtu/d) | Weighted<br>Average Floor Price<br>(\$/MMBtu) | Volume<br>(MMBtu/d) | Weighted<br>Average Price<br>(\$/MMBtu) |
| Q3-Q4 2013 | 987,500             | \$ 4.09                                 | 650,000             | \$ 3.61             | \$ 4.28                                       |                     | \$                                      |
| Q1-Q4 2014 | 800,000             | \$ 4.42                                 | 210,000             | \$ 4.01             | \$ 4.71                                       | 500,000             | \$ 5.00                                 |
| Q1-Q4 2015 |                     | \$                                      |                     | \$                  | \$                                            | 550,000             | \$ 5.09                                 |

| Period     | Price Swaps         |                                         |
|------------|---------------------|-----------------------------------------|
|            | Volume<br>(MMBtu/d) | Weighted<br>Average Price<br>(\$/MMBtu) |
| Q3-Q4 2013 | 28,435              | \$ 3.46                                 |

As of June 30, 2013, Devon had the following open NGL derivative positions. Devon's NGL derivatives settle against the average of the prompt month OPIS Mont Belvieu, Texas hub.

| Period     | Product | Price Swaps        |                                       |
|------------|---------|--------------------|---------------------------------------|
|            |         | Volume<br>(Bbls/d) | Weighted<br>Average Price<br>(\$/Bbl) |
| Q3-Q4 2013 | Propane | 1,141              | \$ 41.24                              |
| Q3-Q4 2013 | Ethane  | 1,957              | \$ 15.36                              |

| Period     | Pay              | Basis Swaps        |                                                        |
|------------|------------------|--------------------|--------------------------------------------------------|
|            |                  | Volume<br>(Bbls/d) | Weighted<br>Average<br>Differential to WTI<br>(\$/Bbl) |
| Q3-Q4 2013 | Natural Gasoline | 500                | \$ (6.80)                                              |

***Interest Rate Derivatives***

As of June 30, 2013, Devon had the following open interest rate derivative position:

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| Notional<br>(In millions) | Weighted Average<br>Fixed Rate Received | Variable Rate Paid | Expiration |
|---------------------------|-----------------------------------------|--------------------|------------|
| \$750                     | 3.88%                                   | Federal funds rate | July 2013  |

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Foreign Currency Derivatives***

As of June 30, 2013, Devon had the following open foreign currency derivative position:

| Currency        | Forward Contract<br>Contract Type | CAD<br>Notional<br>(In millions) | Weighted Average<br>Fixed Rate Received<br>(CAD-USD) | Expiration     |
|-----------------|-----------------------------------|----------------------------------|------------------------------------------------------|----------------|
| Canadian Dollar | Sell                              | \$ 1,261                         | 0.967                                                | September 2013 |

***Financial Statement Presentation***

The following table presents the cash settlements and unrealized gains and losses on fair value changes included in the accompanying comprehensive statements of earnings associated with derivative financial instruments. Cash settlements and unrealized gains and losses on fair value changes associated with Devon's commodity derivatives are presented in the Oil, gas and NGL derivatives caption in the accompanying comprehensive statements of earnings. Cash settlements and unrealized gains and losses on fair value changes associated with Devon's interest rate and foreign currency derivatives are presented in the Other, net caption in the accompanying comprehensive statements of earnings.

|                                                              | Three Months<br>Ended June 30,<br>2013 |        | Six Months<br>Ended June 30,<br>2013 |        |
|--------------------------------------------------------------|----------------------------------------|--------|--------------------------------------|--------|
|                                                              | 2013                                   | 2012   | 2013                                 | 2012   |
|                                                              | (In millions)                          |        |                                      |        |
| Cash settlements:                                            |                                        |        |                                      |        |
| Commodity derivatives                                        | \$ 14                                  | \$ 267 | \$ 100                               | \$ 425 |
| Interest rate derivatives                                    | 5                                      | (11)   | 14                                   | (1)    |
| Foreign currency derivatives                                 | 16                                     | 20     | 35                                   | 9      |
| Total cash settlements                                       | 35                                     | 276    | 149                                  | 433    |
| Unrealized gains (losses):                                   |                                        |        |                                      |        |
| Commodity derivatives                                        | 352                                    | 398    | (54)                                 | 385    |
| Interest rate derivatives                                    | (5)                                    | (5)    | (14)                                 | (15)   |
| Foreign currency derivatives                                 | 26                                     | (9)    | 22                                   | (8)    |
| Total unrealized gains (losses)                              | 373                                    | 384    | (46)                                 | 362    |
| Net gains recognized on comprehensive statements of earnings | \$ 408                                 | \$ 660 | \$ 103                               | \$ 795 |

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table presents the derivative fair values included in the accompanying balance sheets.

|                              | Balance Sheet Caption       | June 30, 2013 | December 31, 2012 |
|------------------------------|-----------------------------|---------------|-------------------|
|                              |                             | (In millions) |                   |
| Asset derivatives:           |                             |               |                   |
| Commodity derivatives        | Other current assets        | \$ 299        | \$ 379            |
| Commodity derivatives        | Other long-term assets      | 109           | 22                |
| Interest rate derivatives    | Other current assets        | 9             | 23                |
| Foreign currency derivatives | Other current assets        | 23            | 1                 |
| Total asset derivatives      |                             | \$ 440        | \$ 425            |
| Liability derivatives:       |                             |               |                   |
| Commodity derivatives        | Other current liabilities   | \$ 24         | \$ 3              |
| Commodity derivatives        | Other long-term liabilities | 69            | 29                |
| Total liability derivatives  |                             | \$ 93         | \$ 32             |

**3. Restructuring Costs*****Office Consolidation***

In October 2012, Devon announced plans to consolidate its U.S. personnel into a single operations group centrally located at the company's headquarters in Oklahoma City. As of June 30, 2013, Devon had substantially completed this initiative and incurred \$126 million of restructuring costs associated with the office consolidation.

***Divestiture of Offshore Assets***

In the fourth quarter of 2009, Devon announced plans to divest its offshore assets. Devon completed this divestiture program in 2012, having incurred \$196 million of cumulative restructuring costs associated with the divestitures.

***Financial Statement Presentation***

The schedule below summarizes restructuring costs presented in the accompanying comprehensive statements of earnings related to the office consolidation. There were no costs related to the offshore divestitures in the three-month and six-month periods ended June 30, 2013 and 2012.

|                             | <b>Six Months<br/>Ended June 30,<br/>2013 2012<br/>(In millions)</b> |    |
|-----------------------------|----------------------------------------------------------------------|----|
| Lease obligations and other | \$ 40                                                                | \$ |
| Asset impairments           | 6                                                                    |    |

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|                     |       |    |
|---------------------|-------|----|
| Restructuring costs | \$ 46 | \$ |
|---------------------|-------|----|

In the six months ended June 30, 2013, Devon incurred \$25 million of restructuring costs related to office space that is subject to non-cancellable operating lease agreements that Devon ceased using as a part of the office consolidation. Devon also recognized \$6 million of asset impairment charges for leasehold improvements and furniture associated with the office consolidation.

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The schedule below summarizes Devon's restructuring liabilities.

|                                                  | <b>Other<br/>Current<br/>Liabilities</b> | <b>Other<br/>Long-Term<br/>Liabilities<br/>(In millions)</b> | <b>Total</b> |
|--------------------------------------------------|------------------------------------------|--------------------------------------------------------------|--------------|
| Balance as of December 31, 2011                  | \$ 29                                    | \$ 16                                                        | \$ 45        |
| Lease obligations Offshore                       | (9)                                      | (1)                                                          | (10)         |
| Employee severance Offshore                      | (5)                                      |                                                              | (5)          |
| Balance as June 30, 2012                         | \$ 15                                    | \$ 15                                                        | \$ 30        |
| Balance as of December 31, 2012                  | \$ 52                                    | \$ 9                                                         | \$ 61        |
| Lease obligations and other Office consolidation | 14                                       | 11                                                           | 25           |
| Employee severance Office consolidation          | (21)                                     |                                                              | (21)         |
| Lease obligations Offshore                       | (1)                                      | (1)                                                          | (2)          |
| Balance as of June 30, 2013                      | \$ 44                                    | \$ 19                                                        | \$ 63        |

**4. Other, net**

The components of other, net in the accompanying comprehensive statements of earnings include the following:

|                                           | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                           | <b>2013</b>                            | <b>2012</b> | <b>2013</b>                          | <b>2012</b> |
|                                           | <b>(In millions)</b>                   |             |                                      |             |
| Accretion of asset retirement obligations | \$ 29                                  | \$ 28       | \$ 57                                | \$ 55       |
| Interest rate derivatives                 |                                        | 16          |                                      | 16          |
| Foreign currency derivatives              | (42)                                   | (11)        | (57)                                 | (1)         |
| Foreign exchange loss                     | 44                                     | 15          | 61                                   | 1           |
| Interest income                           | (4)                                    | (9)         | (12)                                 | (16)        |
| Other                                     | 4                                      | 5           |                                      | (1)         |
| Other, net                                | \$ 31                                  | \$ 44       | \$ 49                                | \$ 54       |

**5. Income Taxes**

In the second quarter of 2013, Devon repatriated to the United States \$2.0 billion of cash from its foreign subsidiaries. In conjunction with the repatriation, Devon recognized approximately \$100 million of current income tax expense. The current expense was entirely offset by the recognition of deferred income tax benefits, which included the reduction of the deferred tax liability previously recognized for unremitted foreign earnings deemed not to be indefinitely reinvested.

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As of June 30, 2013, Devon's unremitted foreign earnings totaled approximately \$5.6 billion. Of this amount, approximately \$4.4 billion was deemed to be indefinitely reinvested into the development and growth of Devon's Canadian business. Therefore, Devon has not recognized a deferred tax liability for U.S. income taxes associated with such earnings. If such earnings were to be repatriated to the U.S., Devon may be subject to U.S. income taxes and foreign withholding taxes. However, it is not practical to estimate the amount of such additional taxes that may be payable due to the inter-relationship of the various factors involved in making such an estimate.

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Devon has deemed the remaining \$1.2 billion of unremitted foreign earnings not to be indefinitely reinvested. Consequently, Devon has recognized a deferred tax liability of approximately \$550 million associated with such unremitted earnings as of June 30, 2013.

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

|                                                  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                  | <b>2013</b>                            | <b>2012</b> | <b>2013</b>                          | <b>2012</b> |
| Total income tax expense (benefit) (in millions) | \$ 314                                 | \$ 257      | \$ (309)                             | \$ 454      |
| U.S. statutory income tax rate                   | 35%                                    | 35%         | (35%)                                | 35%         |
| State income taxes                               | 1%                                     | 1%          | (1%)                                 | 1%          |
| Taxation on Canadian operations                  | (2%)                                   | (1%)        | 6%                                   | (2%)        |
| Other                                            | (2%)                                   |             | (2%)                                 |             |
| Effective income tax rate                        | 32%                                    | 35%         | (32%)                                | 34%         |

**6. Earnings (Loss) Per Share**

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

|                                                     | Earnings (loss)                         | Common<br>Shares | Earnings (loss)<br>per Share |
|-----------------------------------------------------|-----------------------------------------|------------------|------------------------------|
|                                                     | (In millions, except per share amounts) |                  |                              |
| Three Months Ended June 30, 2013:                   |                                         |                  |                              |
| Earnings from continuing operations                 | \$ 683                                  | 406              |                              |
| Attributable to participating securities            | (5)                                     | (4)              |                              |
| Basic earnings per share                            | 678                                     | 402              | \$ 1.69                      |
| Dilutive effect of potential common shares issuable |                                         | 1                |                              |
| Diluted earnings per share                          | \$ 678                                  | 403              | \$ 1.68                      |
| Three Months Ended June 30, 2012:                   |                                         |                  |                              |
| Earnings from continuing operations                 | \$ 477                                  | 404              |                              |
| Attributable to participating securities            | (6)                                     | (4)              |                              |
| Basic earnings per share                            | 471                                     | 400              | \$ 1.18                      |
| Dilutive effect of potential common shares issuable |                                         |                  |                              |
| Diluted earnings per share                          | \$ 471                                  | 400              | \$ 1.18                      |

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|                                                     |          |     |    |        |
|-----------------------------------------------------|----------|-----|----|--------|
| Six Months Ended June 30, 2013:                     |          |     |    |        |
| Loss from continuing operations                     | \$ (656) | 406 |    |        |
| Attributable to participating securities            | (1)      | (4) |    |        |
| Basic earnings per share                            | (657)    | 402 | \$ | (1.63) |
| Dilutive effect of potential common shares issuable |          |     |    |        |
| Diluted loss per share                              | \$ (657) | 402 | \$ | (1.63) |

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

|                                                     | Earnings (loss)                         | Common<br>Shares | Earnings (loss)<br>per Share |
|-----------------------------------------------------|-----------------------------------------|------------------|------------------------------|
|                                                     | (In millions, except per share amounts) |                  |                              |
| Six Months Ended June 30, 2012:                     |                                         |                  |                              |
| Earnings from continuing operations                 | \$ 891                                  | 404              |                              |
| Attributable to participating securities            | (10)                                    | (4)              |                              |
| Basic earnings per share                            | 881                                     | 400              | \$ 2.20                      |
| Dilutive effect of potential common shares issuable |                                         | 1                |                              |
| Diluted earnings per share                          | \$ 881                                  | 401              | \$ 2.20                      |

Certain options to purchase shares of Devon's common stock are excluded from the dilution calculation because the options are antidilutive. During the three-month and six-month periods ended June 30, 2013, 7.6 million shares were excluded from the diluted earnings per share calculations. During the three-month and six-month periods ended June 30, 2012, 8.9 million shares and 6.7 million shares, respectively, were excluded from the diluted earnings per share calculations.

**7. Other Comprehensive Earnings**

Components of other comprehensive earnings consist of the following:

|                                                                                     | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|-------------------------------------------------------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                                                                     | 2013                           | 2012     | 2013                         | 2012     |
|                                                                                     | (In millions)                  |          |                              |          |
| Foreign currency translation:                                                       |                                |          |                              |          |
| Beginning accumulated foreign currency translation                                  | \$ 1,813                       | \$ 1,954 | \$ 1,996                     | \$ 1,802 |
| Change in cumulative translation adjustment                                         | (284)                          | (179)    | (475)                        | (20)     |
| Income tax benefit                                                                  | 13                             | 8        | 21                           | 1        |
| Ending accumulated foreign currency translation                                     | 1,542                          | 1,783    | 1,542                        | 1,783    |
| Pension and postretirement benefit plans:                                           |                                |          |                              |          |
| Beginning accumulated pension and postretirement benefits                           | (221)                          | (223)    | (225)                        | (227)    |
| Recognition of net actuarial loss and prior service cost in earnings <sup>(1)</sup> | 6                              | 7        | 12                           | 13       |
| Income tax expense                                                                  | (1)                            | (2)      | (3)                          | (4)      |
| Ending accumulated pension and postretirement benefits                              | (216)                          | (218)    | (216)                        | (218)    |
| Accumulated other comprehensive earnings, net of tax                                | \$ 1,326                       | \$ 1,565 | \$ 1,326                     | \$ 1,565 |

- (1) These accumulated other comprehensive earnings components are included in the computation of net periodic benefit cost, which is a component of general and administrative expenses on the accompanying comprehensive statements of earnings (see Retirement Plans note

for additional details).

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Supplemental Information to Statements of Cash Flows**

|                                             | <b>Six Months Ended<br/>June 30,</b> |             |
|---------------------------------------------|--------------------------------------|-------------|
|                                             | <b>2013</b>                          | <b>2012</b> |
|                                             | <b>(In millions)</b>                 |             |
| Net change in working capital accounts:     |                                      |             |
| Accounts receivable                         | \$ (300)                             | \$ 384      |
| Other current assets                        | 72                                   | (191)       |
| Accounts payable                            | 56                                   | 13          |
| Revenues and royalties payable              | 82                                   | (139)       |
| Other current liabilities                   | (38)                                 | (53)        |
| Net decrease (increase) in working capital  | \$ (128)                             | \$ 14       |
| Interest paid (net of capitalized interest) | \$ 208                               | \$ 169      |
| Income taxes paid (received)                | \$ (2)                               | \$ 88       |

**9. Short-Term Investments**

The components of short-term investments include the following:

|                                                     | <b>June 30, 2013</b> | <b>December 31, 2012</b> |
|-----------------------------------------------------|----------------------|--------------------------|
|                                                     | <b>(In millions)</b> |                          |
| Canadian treasury, agency and provincial securities | \$ 759               | \$ 1,865                 |
| U.S. treasuries                                     | 110                  | 429                      |
| Other                                               |                      | 49                       |
| Short-term investments                              | \$ 869               | \$ 2,343                 |

**10. Accounts Receivable**

The components of accounts receivable include the following:

|                                  | <b>June 30, 2013</b> | <b>December 31, 2012</b> |
|----------------------------------|----------------------|--------------------------|
|                                  | <b>(In millions)</b> |                          |
| Oil, gas and NGL sales           | \$ 915               | \$ 752                   |
| Joint interest billings          | 432                  | 270                      |
| Marketing and midstream revenues | 160                  | 161                      |
| Other                            | 41                   | 72                       |
| Gross accounts receivable        | 1,548                | 1,255                    |

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|                                 |          |          |
|---------------------------------|----------|----------|
| Allowance for doubtful accounts | (10)     | (10)     |
| Net accounts receivable         | \$ 1,538 | \$ 1,245 |

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****11. Property and Equipment*****Asset Impairments***

In the first six months of 2013, Devon recognized asset impairments related to its oil and gas property and equipment as presented below.

|                                | <b>Six Months Ended June 30, 2013</b> |                     |
|--------------------------------|---------------------------------------|---------------------|
|                                | <b>Gross</b>                          | <b>Net of Taxes</b> |
|                                | <b>(In millions)</b>                  |                     |
| U.S. oil and gas assets        | \$ 1,110                              | \$ 707              |
| Canada oil and gas assets      | 843                                   | 632                 |
| <b>Total asset impairments</b> | <b>\$ 1,953</b>                       | <b>\$ 1,339</b>     |

Under the full-cost method of accounting, capitalized costs of oil and gas properties, net of accumulated DD&A and deferred income taxes, may not exceed the full cost ceiling at the end of each quarter. The ceiling is calculated separately for each country and is based on the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10 percent per annum, net of related tax effects. Estimated future net cash flows are calculated using end-of-period costs and an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months.

The oil and gas impairments resulted primarily from declines in the U.S. and Canada full cost ceilings since December 31, 2012. The lower ceiling values resulted primarily from decreases in the 12-month average trailing prices for oil, bitumen and NGLs, which have reduced proved reserve values.

If estimated future cash flows decline due to price decreases or other factors, Devon could incur additional full cost ceiling impairments related to its oil and gas property and equipment.

**12. Goodwill**

During the first six months of 2013, Devon's Canadian goodwill decreased \$162 million entirely due to foreign currency translation.

**13. Debt*****Commercial Paper***

During the second quarter of 2013, Devon repatriated \$2.0 billion of foreign earnings to the United States and repaid \$2.0 billion of commercial paper borrowings. As of June 30, 2013, Devon had \$1.7 billion of outstanding commercial paper at an average rate of 0.36 percent.

***Credit Lines***

Devon has a \$3.0 billion syndicated, unsecured revolving line of credit (the Senior Credit Facility). As of June 30, 2013 there were no borrowings under the Senior Credit Facility. 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 percent. As of June 30, 2013, Devon was in compliance with this covenant with a debt-to-capitalization ratio of 22.8 percent.



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**DEVON ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**14. Asset Retirement Obligations**

The schedule below summarizes changes in Devon's asset retirement obligations.

|                                                        | <b>Six Months Ended June 30,</b> |             |
|--------------------------------------------------------|----------------------------------|-------------|
|                                                        | <b>2013</b>                      | <b>2012</b> |
|                                                        | <b>(In millions)</b>             |             |
| Asset retirement obligations as of beginning of period | \$ 2,095                         | \$ 1,563    |
| Liabilities incurred                                   | 67                               | 33          |
| Liabilities settled                                    | (40)                             | (32)        |
| Revision of estimated obligation                       | 105                              | 399         |
| Liabilities assumed by others                          | (4)                              | (2)         |
| Accretion expense on discounted obligation             | 57                               | 55          |
| Foreign currency translation adjustment                | (72)                             | (10)        |
| Asset retirement obligations as of end of period       | 2,208                            | 2,006       |
| Less current portion                                   | 87                               | 64          |
| Asset retirement obligations, long-term                | \$ 2,121                         | \$ 1,942    |

**15. Retirement Plans**

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

|                                                   | <b>Pension Benefits</b>            |             |                                  |             | <b>Postretirement Benefits</b>     |             |                                  |             |
|---------------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|------------------------------------|-------------|----------------------------------|-------------|
|                                                   | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|                                                   | <b>2013</b>                        | <b>2012</b> | <b>2013</b>                      | <b>2012</b> | <b>2013</b>                        | <b>2012</b> | <b>2013</b>                      | <b>2012</b> |
|                                                   | <b>(In millions)</b>               |             |                                  |             |                                    |             |                                  |             |
| Service cost                                      | \$ 9                               | \$ 10       | \$ 18                            | \$ 21       | \$                                 | \$          | \$                               | \$          |
| Interest cost                                     | 13                                 | 15          | 26                               | 30          | 1                                  | 1           | 1                                | 1           |
| Expected return on plan assets                    | (16)                               | (16)        | (31)                             | (32)        |                                    |             |                                  |             |
| Amortization of prior service cost <sup>(1)</sup> | 1                                  | 1           | 2                                | 2           |                                    |             |                                  | (1)         |
| Net actuarial loss (gain) <sup>(1)</sup>          | 6                                  | 6           | 11                               | 12          | (1)                                | (1)         |                                  |             |
| Net periodic benefit cost <sup>(2)</sup>          | \$ 13                              | \$ 16       | \$ 26                            | \$ 33       | \$                                 | \$          | \$                               | \$          |

(1) These net periodic benefit costs were reclassified out of comprehensive earnings in the current period.

(2) Net periodic benefit cost is a component of general and administrative expenses on the accompanying comprehensive statements of earnings.



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**DEVON ENERGY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**16. Stockholders' Equity**

***Dividends***

Devon paid common stock dividends of \$170 million and \$162 million in the first six months of 2013 and 2012, respectively. The quarterly cash dividend was \$0.20 per share in the first and second quarter of 2012 and in the first quarter of 2013. Devon increased the dividend rate to \$0.22 per share in the second quarter of 2013.

**17. 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 natural gas producers and related parties, including Devon, have been named in various lawsuits alleging royalty underpayments. The suits allege that the producers and related parties used below-market prices, made improper deductions, used improper measurement techniques and entered into gas purchase and processing arrangements with affiliates that resulted in underpayment of royalties in connection with natural gas and NGLs produced and sold. Devon's largest exposure for such matters relates to royalties in New Mexico. 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 laws and regulations relating 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.

***Chief Redemption Matters***

In 2006, Devon acquired Chief Holdings LLC ( "Chief" ) from the owners of Chief, including Trevor Rees-Jones, the majority owner of Chief. In 2008, a former owner of Chief filed a petition against Rees-Jones, as the former majority owner of Chief, and Devon, as Chief's successor pursuant to the 2006 acquisition. The petition claimed, among other things, violations of the Texas Securities Act, fraud and breaches of Rees-Jones' fiduciary responsibility to the former owner in connection with Chief's 2004 redemption of the owner's minority ownership stake in Chief.

On June 20, 2011, a court issued a judgment against Rees-Jones for \$196 million, of which \$133 million of the judgment was also issued against Devon. Devon did not have a legal right of set off with respect to the judgment. Therefore, Devon had recorded a \$133 million long-term liability relating to the judgment with an offsetting \$133 million long-term receivable relating to its right to be indemnified by Rees-Jones and certain other parties pursuant to the indemnification agreement.

The plaintiffs and Rees-Jones have settled all claims related to the 2004 redemption. Under the terms of the settlement, Rees-Jones and Devon received full releases for all of the plaintiffs' claims with Rees-Jones funding all settlement payments. Consequently, Devon reversed the previously recorded liability and asset in the first quarter of 2013.

***Other Matters***

Devon is involved in other various routine 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.

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****18. Fair Value Measurements**

The following tables provide carrying value and fair value measurement information for certain of Devon's financial assets and liabilities. The carrying values of cash, accounts receivable, other current receivables, accounts payable, other payables and accrued expenses included in the accompanying balance sheets approximated fair value at June 30, 2013 and December 31, 2012. Therefore, such financial assets and liabilities are not presented in the following tables.

|                                         |                 |                  | Fair Value Measurements Using: |                |                |
|-----------------------------------------|-----------------|------------------|--------------------------------|----------------|----------------|
|                                         | Carrying Amount | Total Fair Value | Level 1 Inputs                 | Level 2 Inputs | Level 3 Inputs |
|                                         |                 |                  | (In millions)                  |                |                |
| June 30, 2013 assets (liabilities):     |                 |                  |                                |                |                |
| Cash equivalents                        | \$ 2,559        | \$ 2,559         | \$ 65                          | \$ 2,494       | \$             |
| Short-term investments                  | \$ 869          | \$ 869           | \$ 110                         | \$ 759         | \$             |
| Long-term investments                   | \$ 62           | \$ 62            | \$                             | \$             | \$ 62          |
| Commodity derivatives                   | \$ 408          | \$ 408           | \$                             | \$ 408         | \$             |
| Commodity derivatives                   | \$ (93)         | \$ (93)          | \$                             | \$ (93)        | \$             |
| Interest rate derivatives               | \$ 9            | \$ 9             | \$                             | \$ 9           | \$             |
| Foreign currency derivatives            | \$ 23           | \$ 23            | \$                             | \$ 23          | \$             |
| Debt                                    | \$ (10,150)     | \$ (11,026)      | \$                             | \$ (11,026)    | \$             |
| December 31, 2012 assets (liabilities): |                 |                  |                                |                |                |
| Cash equivalents                        | \$ 4,149        | \$ 4,149         | \$ 200                         | \$ 3,949       | \$             |
| Short-term investments                  | \$ 2,343        | \$ 2,343         | \$ 429                         | \$ 1,914       | \$             |
| Long-term investments                   | \$ 64           | \$ 64            | \$                             | \$             | \$ 64          |
| Commodity derivatives                   | \$ 401          | \$ 401           | \$                             | \$ 401         | \$             |
| Commodity derivatives                   | \$ (32)         | \$ (32)          | \$                             | \$ (32)        | \$             |
| Interest rate derivatives               | \$ 23           | \$ 23            | \$                             | \$ 23          | \$             |
| Foreign currency derivatives            | \$ 1            | \$ 1             | \$                             | \$ 1           | \$             |
| Debt                                    | \$ (11,644)     | \$ (13,435)      | \$                             | \$ (13,435)    | \$             |

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

**Level 1 Fair Value Measurements**

*Cash equivalents and short-term investments* Amounts consist primarily of U.S. and Canadian treasury securities and money market investments. The fair value approximates the carrying value.

**Level 2 Fair Value Measurements**

*Cash equivalents and short-term investments* Amounts consist primarily of Canadian agency and provincial securities and commercial paper investments. The fair value approximates the carrying value.

*Commodity, interest rate and foreign currency derivatives* The fair values of commodity, interest rate and foreign currency 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.

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*Debt* Devon's debt instruments do not actively trade in an established market. The fair values of its fixed-rate debt are estimated based on rates available for debt with similar terms and maturity. The fair value of Devon's variable-rate commercial paper is the carrying value.

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Level 3 Fair Value Measurements***

*Long-term investments* Devon's long-term investments presented in the tables above consisted entirely of auction rate securities. Due to an inactive market for Devon's auction rate securities, quoted market prices for these securities were not available. Therefore, Devon used valuation techniques that rely on unobservable inputs to estimate the fair values of its long-term auction rate securities. These inputs were based on continued receipts of principal at par, the collection of all accrued interest to date, the probability of full repayment of the securities considering the U.S. government guarantees substantially all of the underlying student loans, and the AAA credit rating of the securities. As a result of using these inputs, Devon concluded the estimated fair values of its long-term auction rate securities approximated the par values as of June 30, 2013 and December 31, 2012.

Included below is a summary of the changes in Devon's Level 3 fair value measurements during the first six months of 2013 and 2012.

|                                                      | <b>Six Months Ended June 30,</b> |             |
|------------------------------------------------------|----------------------------------|-------------|
|                                                      | <b>2013</b>                      | <b>2012</b> |
|                                                      | <b>(In millions)</b>             |             |
| Long-term investments balance at beginning of period | \$ 64                            | \$ 84       |
| Redemptions of principal                             | (2)                              | (15)        |
| Long-term investments balance at end of period       | \$ 62                            | \$ 69       |

**19. 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 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 segments are all primarily engaged in oil and gas producing activities. Revenues are all from external customers.

|                                                         | U.S.     | Canada<br>(In millions) | Total    |
|---------------------------------------------------------|----------|-------------------------|----------|
| Three Months Ended June 30, 2013:                       |          |                         |          |
| Oil, gas and NGL sales                                  | \$ 1,514 | \$ 708                  | \$ 2,222 |
| Oil, gas and NGL derivatives                            | \$ 366   | \$                      | \$ 366   |
| Marketing and midstream revenues                        | \$ 489   | \$ 14                   | \$ 503   |
| Depreciation, depletion and amortization                | \$ 465   | \$ 209                  | \$ 674   |
| Interest expense                                        | \$ 94    | \$ 14                   | \$ 108   |
| Asset impairments                                       | \$       | \$ 40                   | \$ 40    |
| Earnings from continuing operations before income taxes | \$ 885   | \$ 112                  | \$ 997   |
| Income tax expense                                      | \$ 294   | \$ 20                   | \$ 314   |
| Earnings from continuing operations                     | \$ 591   | \$ 92                   | \$ 683   |
| Capital expenditures                                    | \$ 1,140 | \$ 356                  | \$ 1,496 |

**Three Months Ended June 30, 2012:**

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|                                                         |          |        |          |
|---------------------------------------------------------|----------|--------|----------|
| Oil, gas and NGL sales                                  | \$ 1,014 | \$ 603 | \$ 1,617 |
| Oil, gas and NGL derivatives                            | \$ 665   | \$     | \$ 665   |
| Marketing and midstream revenues                        | \$ 250   | \$ 27  | \$ 277   |
| Depreciation, depletion and amortization                | \$ 439   | \$ 245 | \$ 684   |
| Interest expense                                        | \$ 84    | \$ 15  | \$ 99    |
| Earnings from continuing operations before income taxes | \$ 727   | \$ 7   | \$ 734   |
| Income tax expense (benefit)                            | \$ 259   | \$ (2) | \$ 257   |
| Earnings from continuing operations                     | \$ 468   | \$ 9   | \$ 477   |
| Capital expenditures                                    | \$ 1,985 | \$ 384 | \$ 2,369 |

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

|                                                         | U.S.      | Canada<br>(In millions) | Total     |
|---------------------------------------------------------|-----------|-------------------------|-----------|
| <b>Six Months Ended June 30, 2013:</b>                  |           |                         |           |
| Oil, gas and NGL sales                                  | \$ 2,804  | \$ 1,222                | \$ 4,026  |
| Oil, gas and NGL derivatives                            | \$ 71     | \$ (25)                 | \$ 46     |
| Marketing and midstream revenues                        | \$ 927    | \$ 64                   | \$ 991    |
| Depreciation, depletion and amortization                | \$ 934    | \$ 444                  | \$ 1,378  |
| Interest expense                                        | \$ 190    | \$ 28                   | \$ 218    |
| Asset impairments                                       | \$ 1,110  | \$ 843                  | \$ 1,953  |
| Loss from continuing operations before income taxes     | \$ (202)  | \$ (763)                | \$ (965)  |
| Income tax benefit                                      | \$ (101)  | \$ (208)                | \$ (309)  |
| Loss from continuing operations                         | \$ (101)  | \$ (555)                | \$ (656)  |
| Property and equipment, net                             | \$ 18,762 | \$ 8,163                | \$ 26,925 |
| Total assets                                            | \$ 24,439 | \$ 15,581               | \$ 40,020 |
| Capital expenditures                                    | \$ 2,394  | \$ 940                  | \$ 3,334  |
| <b>Six Months Ended June 30, 2012:</b>                  |           |                         |           |
| Oil, gas and NGL sales                                  | \$ 2,250  | \$ 1,282                | \$ 3,532  |
| Oil, gas and NGL derivatives                            | \$ 810    | \$                      | \$ 810    |
| Marketing and midstream revenues                        | \$ 649    | \$ 65                   | \$ 714    |
| Depreciation, depletion and amortization                | \$ 870    | \$ 494                  | \$ 1,364  |
| Interest expense                                        | \$ 155    | \$ 31                   | \$ 186    |
| Earnings from continuing operations before income taxes | \$ 1,260  | \$ 85                   | \$ 1,345  |
| Income tax expense                                      | \$ 444    | \$ 10                   | \$ 454    |
| Earnings from continuing operations                     | \$ 816    | \$ 75                   | \$ 891    |
| Property and equipment, net                             | \$ 18,818 | \$ 8,423                | \$ 27,241 |
| Total assets                                            | \$ 24,916 | \$ 18,554               | \$ 43,470 |
| Capital expenditures                                    | \$ 3,421  | \$ 894                  | \$ 4,315  |

**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 and capital resources and uses for the three-month and six-month periods ended June 30, 2013, compared to the three-month and six-month periods ended June 30, 2012, and in our financial condition and liquidity since December 31, 2012. For information regarding our critical accounting policies and estimates, see our 2012 Annual Report on Form 10-K under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Overview of 2013 Results**

Key components of our financial performance are summarized below, which exclude amounts from our discontinued operations.

|                                             | Three Months Ended June 30,                |          |        | Six Months Ended June 30, |          |        |
|---------------------------------------------|--------------------------------------------|----------|--------|---------------------------|----------|--------|
|                                             | 2013                                       | 2012     | Change | 2013                      | 2012     | Change |
|                                             | (\$ in millions, except per share amounts) |          |        |                           |          |        |
| Net earnings (loss)                         | \$ 683                                     | \$ 477   | +43%   | \$ (656)                  | \$ 891   | -174%  |
| Adjusted earnings <sup>(1)</sup>            | \$ 491                                     | \$ 224   | +119%  | \$ 761                    | \$ 650   | +17%   |
| Earnings (loss) per share                   | \$ 1.68                                    | \$ 1.18  | +43%   | \$ (1.63)                 | \$ 2.20  | -174%  |
| Adjusted earnings per share <sup>(1)</sup>  | \$ 1.21                                    | \$ 0.55  | +119%  | \$ 1.87                   | \$ 1.61  | +17%   |
| Production (MBoe/d)                         | 697.6                                      | 678.9    | +3%    | 692.3                     | 686.2    | +1%    |
| Realized price per Boe                      | \$ 35.00                                   | \$ 26.18 | +34%   | \$ 32.13                  | \$ 28.28 | +14%   |
| Operating margin per Boe <sup>(2)</sup>     | \$ 22.03                                   | \$ 17.22 | +28%   | \$ 20.07                  | \$ 19.03 | +5%    |
| Operating cash flow                         | \$ 1,396                                   | \$ 1,426 | -2%    | \$ 2,398                  | \$ 2,426 | -1%    |
| Adjusted operating cash flow <sup>(1)</sup> | \$ 1,397                                   | \$ 1,063 | +31%   | \$ 2,554                  | \$ 2,412 | +6%    |
| Capitalized costs                           | \$ 1,496                                   | \$ 2,368 | -37%   | \$ 3,334                  | \$ 4,314 | -23%   |
| Shareholder distributions                   | \$ 88                                      | \$ 82    | +9%    | \$ 170                    | \$ 162   | +5%    |

- (1) Adjusted earnings, adjusted earnings per share and adjusted operating cash flow are financial measures not prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). For a description of adjusted earnings, adjusted earnings per share and adjusted operating cash flow as well as reconciliations to the comparable GAAP measures, see Non-GAAP Measures in this Item 2.
- (2) Computed as revenues from commodity sales, commodity derivatives settlements, and marketing and midstream operations, less expenses for lease operations, marketing and midstream operations, general and administration, taxes other than income taxes and interest, with the result divided by total production.

During the three-month and six-month periods ended June 30, 2013, our adjusted earnings, adjusted earnings per share and operating margin per Boe all increased compared to the 2012 periods. The improved 2013 results were driven primarily by increases in gas prices and oil volumes. These factors also contributed to higher adjusted operating cash flow, which when combined with a reduction in capitalized costs, caused our cash flow deficit to narrow considerably in 2013.

During the first six months of 2013, we recognized noncash asset impairments totaling \$2.0 billion (\$1.3 billion after tax).

**Table of Contents****Results of Operations***Production, Prices and Revenues*

|                           | Three Months Ended June 30, |                     |        | Six Months Ended June 30, |                     |        |
|---------------------------|-----------------------------|---------------------|--------|---------------------------|---------------------|--------|
|                           | 2013                        | 2012                | Change | 2013                      | 2012                | Change |
| <b>Oil (MBbls/d)</b>      |                             |                     |        |                           |                     |        |
| U.S.                      | 76.2                        | 56.1                | +36%   | 71.9                      | 55.4                | +30%   |
| Canada                    | 39.7                        | 41.4                | -4%    | 40.0                      | 41.3                | -3%    |
| Total                     | 115.9                       | 97.5                | +19%   | 111.9                     | 96.7                | +16%   |
| <b>Bitumen (MBbls/d)</b>  |                             |                     |        |                           |                     |        |
| Canada                    | 53.2                        | 51.1                | +4%    | 53.8                      | 48.6                | +11%   |
| <b>Gas (MMcf/d)</b>       |                             |                     |        |                           |                     |        |
| U.S.                      | 1,969.6                     | 2,050.2             | -4%    | 1,969.3                   | 2,061.0             | -4%    |
| Canada                    | 470.5                       | 519.1               | -9%    | 462.8                     | 537.8               | -14%   |
| Total                     | 2,440.1                     | 2,569.3             | -5%    | 2,432.1                   | 2,598.8             | -6%    |
| <b>NGLs (MBbls/d)</b>     |                             |                     |        |                           |                     |        |
| U.S.                      | 112.2                       | 90.0                | +25%   | 111.3                     | 96.1                | +16%   |
| Canada                    | 9.6                         | 12.0                | -20%   | 9.9                       | 11.7                | -16%   |
| Total                     | 121.8                       | 102.0               | +19%   | 121.2                     | 107.8               | +12%   |
| <b>Combined (MBoe/d)</b>  |                             |                     |        |                           |                     |        |
| U.S.                      | 516.7                       | 487.9               | +6%    | 511.4                     | 495.0               | +3%    |
| Canada                    | 180.9                       | 191.0               | -5%    | 180.9                     | 191.2               | -5%    |
| Total                     | 697.6                       | 678.9               | +3%    | 692.3                     | 686.2               | +1%    |
|                           |                             |                     |        |                           |                     |        |
|                           | Three Months Ended June 30, |                     |        | Six Months Ended June 30, |                     |        |
|                           | 2013 <sup>(1)</sup>         | 2012 <sup>(1)</sup> | Change | 2013 <sup>(1)</sup>       | 2012 <sup>(1)</sup> | Change |
| <b>Oil (per Bbl)</b>      |                             |                     |        |                           |                     |        |
| U.S.                      | \$ 91.56                    | \$ 88.74            | +3%    | \$ 89.64                  | \$ 93.98            | -5%    |
| Canada                    | \$ 72.47                    | \$ 65.53            | +11%   | \$ 64.76                  | \$ 70.21            | -8%    |
| Total                     | \$ 85.02                    | \$ 78.88            | +8%    | \$ 80.73                  | \$ 83.83            | -4%    |
| <b>Bitumen (per Bbl)</b>  |                             |                     |        |                           |                     |        |
| Canada                    | \$ 53.90                    | \$ 46.23            | +17%   | \$ 41.10                  | \$ 48.49            | -15%   |
| <b>Gas (per Mcf)</b>      |                             |                     |        |                           |                     |        |
| U.S.                      | \$ 3.49                     | \$ 1.72             | +103%  | \$ 3.15                   | \$ 2.00             | +58%   |
| Canada                    | \$ 3.44                     | \$ 1.91             | +80%   | \$ 3.24                   | \$ 2.24             | +45%   |
| Total                     | \$ 3.48                     | \$ 1.76             | +98%   | \$ 3.17                   | \$ 2.05             | +55%   |
| <b>NGLs (per Bbl)</b>     |                             |                     |        |                           |                     |        |
| U.S.                      | \$ 24.80                    | \$ 29.50            | -16%   | \$ 25.53                  | \$ 31.56            | -19%   |
| Canada                    | \$ 43.68                    | \$ 45.87            | -5%    | \$ 45.54                  | \$ 49.92            | -9%    |
| Total                     | \$ 26.29                    | \$ 31.42            | -16%   | \$ 27.16                  | \$ 33.55            | -19%   |
| <b>Combined (per Boe)</b> |                             |                     |        |                           |                     |        |
| U.S.                      | \$ 32.19                    | \$ 22.86            | +41%   | \$ 30.29                  | \$ 24.98            | +21%   |
| Canada                    | \$ 43.02                    | \$ 34.66            | +24%   | \$ 37.34                  | \$ 36.83            | +1%    |
| Total                     | \$ 35.00                    | \$ 26.18            | +34%   | \$ 32.13                  | \$ 28.28            | +14%   |

- (1) The prices presented exclude any effects due to oil, gas and NGL derivatives.

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The volume and price changes in the tables above caused the following changes to our oil, gas and NGL sales between the three months ended June 30, 2013 and 2012.

|                       | Oil    | Three Months Ended June 30,<br>(In millions) |        |        | Total    |
|-----------------------|--------|----------------------------------------------|--------|--------|----------|
|                       | Oil    | Bitumen                                      | Gas    | NGLs   | Total    |
| 2012 sales            | \$ 700 | \$ 215                                       | \$ 410 | \$ 292 | \$ 1,617 |
| Change due to volumes | 131    | 9                                            | (20)   | 57     | 177      |
| Change due to prices  | 65     | 37                                           | 383    | (57)   | 428      |
| 2013 sales            | \$ 896 | \$ 261                                       | \$ 773 | \$ 292 | \$ 2,222 |

Upstream sales increased \$177 million due to a 16 percent increase in our liquids production, partially offset by a 5 percent decline in our gas production in the second quarter of 2013. As a result of continued development of our oil properties, primarily in the Permian Basin, oil sales increased \$131 million. Bitumen sales increased \$9 million due to development of our Jackfish thermal heavy oil projects in Canada. Additionally, our NGL sales increased \$57 million primarily as a result of continued drilling in the liquids-rich gas portions of the Cana-Woodford and Barnett Shales and the Permian Basin. These increases were partially offset by decreases in our gas production, which resulted in a \$20 million decline in sales.

Production information for our key properties is summarized below:

Permian Basin production increased 30 percent compared to the second quarter of 2012 and 13 percent compared to the first quarter of 2013. Oil production accounted for 60 percent of our 76,000 Boe per day produced in the Permian Basin during the second quarter of 2013. The year-over-year increase in total production was driven by a 32 percent increase in oil production.

Barnett Shale production increased 4 percent compared to the second quarter of 2012 and decreased 1 percent compared to the first quarter of 2013. Although total production decreased in the second quarter of 2013 compared to the first quarter of 2013, liquids production increased 2 percent. Liquids production accounted for 24 percent of our 1.4 Bcfe per day produced in the Barnett Shale during the second quarter of 2013. The year-over-year increase in total production was driven by a 34 percent increase in liquids production.

Cana-Woodford Shale production increased 15 percent compared to the second quarter of 2012 and decreased 5 percent compared to the first quarter of 2013. Liquids production accounted for 39 percent of our 322 MMcf per day produced in Cana during the second quarter of 2013. The year-over-year increase in total production was driven by a 48 percent increase in liquids production.

Jackfish production increased 4 percent compared to the second quarter of 2012 and decreased 2 percent compared to the first quarter of 2013. Bitumen production accounted for all of our 53,000 Boe per day produced at Jackfish during the second quarter of 2013. In June 2013, our Jackfish 1 project reached payout status. Consequently, our Jackfish 1 production will be burdened with a higher Canadian provincial government royalty rate beginning with June 2013. The higher royalty rate decreases our production net of royalties.

Granite Wash production increased 16 percent compared to the second quarter of 2012 and 33 percent compared to the first quarter of 2013. Liquids production accounted for 52 percent of our 22,000 Boe per day produced in the Granite Wash during the second quarter of 2013.

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Mississippian-Woodford Trend production increased 73 percent compared to the first quarter of 2013 to 5,000 Boe per day. Oil production accounted for 61 percent of our total production in the Mississippian-Woodford Trend during the second quarter of 2013.

Rocky Mountain production decreased 6 percent compared to the second quarter of 2012. Although total production was down, oil production increased 27 percent compared to the second quarter of 2012. Liquids production accounted for nearly 32 percent of our 333 MMcfe per day produced in the Rocky Mountains during the second quarter of 2013.

Gulf Coast/East Texas production decreased 11 percent compared to the second quarter of 2012. Liquids production accounted for nearly 25 percent of our 329 MMcfe per day produced in Gulf Coast/East Texas during the second quarter of 2013.

Lloydminster production decreased 12 percent compared to the second quarter of 2012. Oil production accounted for 94 percent of our 30,000 Boe per day produced at Lloydminster during the second quarter of 2013.

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Upstream sales increased \$428 million in the second quarter of 2013 primarily due to a 34 percent increase in our realized price without hedges. Our gas sales were the most significantly impacted with a \$383 million increase due to prices. The change in our gas price was largely due to fluctuations of the North American regional index prices upon which our gas sales are based. Oil and bitumen sales increased \$102 million as a result of 11 percent increase in our realized price without hedges. NGL sales decreased \$57 million as a result of a 16 percent decrease in our realized price without hedges. The largest contributor to the lower NGL price was a decrease in the average NGL prices at the Mont Belvieu, Texas hub.

The volume and price changes in the tables above caused the following changes to our oil, gas and NGL sales between the six months ended June, 30, 2013 and 2012.

|                       | Oil                              | Bitumen | Gas      | NGLs   | Total    |
|-----------------------|----------------------------------|---------|----------|--------|----------|
|                       | <b>Six Months Ended June 30,</b> |         |          |        |          |
|                       | <b>(In millions)</b>             |         |          |        |          |
| 2012 sales            | \$ 1,476                         | \$ 429  | \$ 969   | \$ 658 | \$ 3,532 |
| Change due to volumes | 223                              | 43      | (67)     | 78     | 277      |
| Change due to prices  | (63)                             | (72)    | 492      | (140)  | 217      |
| 2013 sales            | \$ 1,636                         | \$ 400  | \$ 1,394 | \$ 596 | \$ 4,026 |

Upstream sales increased \$277 million due to a 13 percent increase in our liquids production, partially offset by a 6 percent decline in our gas production in the first six months of 2013. As a result of continued development of our oil properties, primarily in the Permian Basin, oil sales increased \$223 million. Bitumen sales increased \$43 million due to development of our Jackfish thermal heavy oil projects in Canada. Additionally, our NGL sales increased \$78 million primarily as a result of continued drilling in the liquids-rich gas portions of the Cana-Woodford and Barnett Shales and the Permian Basin. These increases were partially offset by decreases in our gas production, which resulted in a \$67 million decline in sales.

Upstream sales increased \$217 million during the first six months of 2013 due to a 14 percent increase in our realized price without hedges. Our gas sales increased \$492 million due to prices. The change in our gas price was largely due to fluctuations of the North American regional index prices upon which our gas sales are based. Our liquids sales decreased \$275 million due to lower realized prices without hedges. The largest contributors to the lower liquids prices were a decrease in the average NYMEX West Texas Intermediate index price, wider bitumen differentials and lower NGL prices at the Mont Belvieu, Texas hub.

*Oil, Gas and NGL Derivatives*

A summary of our open commodity derivative positions is included in Note 2 to the financial statements included in Item 1. Consolidated Financial Statements of this report. The following tables provide financial information associated with our commodity derivatives. The first table presents the cash settlements and unrealized gains and losses that are recognized as components of our revenues. The subsequent tables present our oil, bitumen, gas and NGL prices with, and without, the effects of the cash settlements. The prices do not include the effects of unrealized gains and losses.

|                                                  | Three Months Ended June 30,<br>2013 | 2012   | Six Months Ended June 30,<br>2013 | 2012   |
|--------------------------------------------------|-------------------------------------|--------|-----------------------------------|--------|
|                                                  | <b>(In millions)</b>                |        |                                   |        |
| Cash settlements:                                |                                     |        |                                   |        |
| Gas derivatives                                  | \$ (17)                             | \$ 211 | \$ 36                             | \$ 374 |
| Oil derivatives                                  | 29                                  | 57     | 61                                | 51     |
| NGL derivatives                                  | 2                                   | (1)    | 3                                 |        |
| Total cash settlements                           | 14                                  | 267    | 100                               | 425    |
| Unrealized gains (losses) on fair value changes: |                                     |        |                                   |        |
| Gas derivatives                                  | 308                                 | (280)  | 52                                | (184)  |

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|                                                       |        |        |       |        |
|-------------------------------------------------------|--------|--------|-------|--------|
| Oil derivatives                                       | 43     | 679    | (104) | 570    |
| NGL derivatives                                       | 1      | (1)    | (2)   | (1)    |
| Total unrealized gains (losses) on fair value changes | 352    | 398    | (54)  | 385    |
| Oil, gas and NGL derivatives                          | \$ 366 | \$ 665 | \$ 46 | \$ 810 |

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|                                            | Three Months Ended June 30, 2013 |                      |                  |                   |                  |
|--------------------------------------------|----------------------------------|----------------------|------------------|-------------------|------------------|
|                                            | Oil<br>(Per Bbl)                 | Bitumen<br>(Per Bbl) | Gas<br>(Per Mcf) | NGLs<br>(Per Bbl) | Boe<br>(Per Boe) |
| Realized price without hedges              | \$ 85.02                         | \$ 53.90             | \$ 3.48          | \$ 26.29          | \$ 35.00         |
| Cash settlements of hedges <sup>(1)</sup>  | 2.82                             |                      | (0.07)           | 0.10              | 0.23             |
| Realized price, including cash settlements | \$ 87.84                         | \$ 53.90             | \$ 3.41          | \$ 26.39          | \$ 35.23         |

|                                            | Three Months Ended June 30, 2012 |                      |                  |                   |                  |
|--------------------------------------------|----------------------------------|----------------------|------------------|-------------------|------------------|
|                                            | Oil<br>(Per Bbl)                 | Bitumen<br>(Per Bbl) | Gas<br>(Per Mcf) | NGLs<br>(Per Bbl) | Boe<br>(Per Boe) |
| Realized price without hedges              | \$ 78.88                         | \$ 46.23             | \$ 1.76          | \$ 31.42          | \$ 26.18         |
| Cash settlements of hedges                 | 6.36                             |                      | 0.90             |                   | 4.33             |
| Realized price, including cash settlements | \$ 85.24                         | \$ 46.23             | \$ 2.66          | \$ 31.42          | \$ 30.51         |

|                                            | Six Months Ended June 30, 2013 |                      |                  |                   |                  |
|--------------------------------------------|--------------------------------|----------------------|------------------|-------------------|------------------|
|                                            | Oil<br>(Per Bbl)               | Bitumen<br>(Per Bbl) | Gas<br>(Per Mcf) | NGLs<br>(Per Bbl) | Boe<br>(Per Boe) |
| Realized price without hedges              | \$ 80.73                       | \$ 41.10             | \$ 3.17          | \$ 27.16          | \$ 32.13         |
| Cash settlements of hedges <sup>(1)</sup>  | 3.05                           |                      | 0.08             | 0.11              | 0.80             |
| Realized price, including cash settlements | \$ 83.78                       | \$ 41.10             | \$ 3.25          | \$ 27.27          | \$ 32.93         |

|                                            | Six Months Ended June 30, 2012 |                      |                  |                   |                  |
|--------------------------------------------|--------------------------------|----------------------|------------------|-------------------|------------------|
|                                            | Oil<br>(Per Bbl)               | Bitumen<br>(Per Bbl) | Gas<br>(Per Mcf) | NGLs<br>(Per Bbl) | Boe<br>(Per Boe) |
| Realized price without hedges              | \$ 83.83                       | \$ 48.49             | \$ 2.05          | \$ 33.55          | \$ 28.28         |
| Cash settlements of hedges                 | 2.89                           |                      | 0.79             | 0.01              | 3.40             |
| Realized price, including cash settlements | \$ 86.72                       | \$ 48.49             | \$ 2.84          | \$ 33.56          | \$ 31.68         |

(1) Cash settlements of oil hedges include settlements from our Western Canadian Select basis swaps presented in Note 2 to the financial statements included in Item 1. Consolidated Financial Statements of this report.

Cash settlements presented in the tables above represent realized gains or losses related to various commodity derivatives. In addition to cash settlements, we also recognize unrealized changes in the fair values of our commodity derivatives in each reporting period. The changes in fair value result from new positions and settlements that occur during each period, as well as the relationships between contract prices and the associated forward curves. Including the cash settlements discussed above, our commodity derivatives generated a net gain of \$366 million and \$665 million in the second quarter of 2013 and 2012, respectively. Including the cash settlements discussed above, our commodity derivatives generated a net gain of \$46 million and \$810 million in the first six months of 2013 and 2012, respectively.

*Marketing and Midstream Revenues and Operating Costs and Expenses*

| Three Months Ended June 30, |      |        | Six Months Ended June 30, |      |        |
|-----------------------------|------|--------|---------------------------|------|--------|
| 2013                        | 2012 | Change | 2013                      | 2012 | Change |

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|                              | (\$ in millions) |        |      |        |        |      |
|------------------------------|------------------|--------|------|--------|--------|------|
| Revenues                     | \$ 503           | \$ 277 | +82% | \$ 991 | \$ 714 | +39% |
| Operating costs and expenses | 382              | 209    | +83% | 745    | 534    | +40% |
| Operating profit             | \$ 121           | \$ 68  | +79% | \$ 246 | \$ 180 | +37% |

During the second quarter and first six months of 2013, marketing and midstream operating profit increased \$53 million and \$66 million, respectively, primarily due to higher natural gas prices and higher utilization at the fractionator facility in Mont Belvieu.

**Table of Contents****Lease Operating Expenses ( LOE )**

|                       | Three Months Ended June 30, |          |        | Six Months Ended June 30, |          |        |
|-----------------------|-----------------------------|----------|--------|---------------------------|----------|--------|
|                       | 2013                        | 2012     | Change | 2013                      | 2012     | Change |
| LOE (\$ in millions): |                             |          |        |                           |          |        |
| U.S.                  | \$ 307                      | \$ 259   | +19%   | \$ 595                    | \$ 511   | +16%   |
| Canada                | 252                         | 254      | -1%    | 489                       | 516      | -5%    |
| Total                 | \$ 559                      | \$ 513   | +9%    | \$ 1,084                  | \$ 1,027 | +6%    |
| LOE per Boe:          |                             |          |        |                           |          |        |
| U.S.                  | \$ 6.54                     | \$ 5.84  | +12%   | \$ 6.43                   | \$ 5.68  | +13%   |
| Canada                | \$ 15.25                    | \$ 14.61 | +4%    | \$ 14.92                  | \$ 14.83 | +1%    |
| Total                 | \$ 8.80                     | \$ 8.30  | +6%    | \$ 8.65                   | \$ 8.23  | +5%    |

LOE increased \$0.50 per Boe and \$0.42 per Boe during the second quarter and first six months of 2013, respectively. The largest contributor to the higher unit cost is related to our liquids production growth, particularly in the Permian Basin in the U.S. Such projects generally require a higher cost to produce per unit than our gas projects. We experienced upward pressures on costs in certain operating areas, which also contributed to the higher LOE per Boe.

**Depreciation, Depletion and Amortization ( DD&A )**

|                        | Three Months Ended June 30, |          |        | Six Months Ended June 30, |          |        |
|------------------------|-----------------------------|----------|--------|---------------------------|----------|--------|
|                        | 2013                        | 2012     | Change | 2013                      | 2012     | Change |
| DD&A (\$ in millions): |                             |          |        |                           |          |        |
| Oil & gas properties   | \$ 595                      | \$ 612   | -3%    | \$ 1,222                  | \$ 1,228 | -1%    |
| Other properties       | 79                          | 72       | +9%    | 156                       | 136      | +15%   |
| Total                  | \$ 674                      | \$ 684   | -1%    | \$ 1,378                  | \$ 1,364 | +1%    |
| DD&A per Boe:          |                             |          |        |                           |          |        |
| Oil & gas properties   | \$ 9.37                     | \$ 9.89  | -5%    | \$ 9.75                   | \$ 9.83  | -1%    |
| Other properties       | 1.25                        | 1.18     | +6%    | 1.25                      | 1.09     | +14%   |
| Total                  | \$ 10.62                    | \$ 11.07 | -4%    | \$ 11.00                  | \$ 10.92 | +1%    |

DD&A from our oil and gas properties decreased in both 2013 periods largely as a result of the asset impairment charges recognized in 2012 and 2013. DD&A from our other properties increased in both 2013 periods largely from the construction of our new headquarters in Oklahoma City and natural gas pipeline development in the Cana-Woodford Shale.

**General and Administrative Expenses ( G&A )**

|                 | Three Months Ended June 30, |        |        | Six Months Ended June 30, |        |        |
|-----------------|-----------------------------|--------|--------|---------------------------|--------|--------|
|                 | 2013                        | 2012   | Change | 2013                      | 2012   | Change |
|                 | (\$ in millions)            |        |        |                           |        |        |
| Gross G&A       | \$ 287                      | \$ 296 | -3%    | \$ 570                    | \$ 584 | -2%    |
| Capitalized G&A | (85)                        | (92)   | -9%    | (183)                     | (183)  | +0%    |
| Reimbursed G&A  | (35)                        | (28)   | +26%   | (70)                      | (57)   | +22%   |
| Net G&A         | \$ 167                      | \$ 176 | -5%    | \$ 317                    | \$ 344 | -8%    |

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|                 |         |         |     |         |         |     |
|-----------------|---------|---------|-----|---------|---------|-----|
| Net G&A per Boe | \$ 2.63 | \$ 2.85 | -8% | \$ 2.53 | \$ 2.76 | -8% |
|-----------------|---------|---------|-----|---------|---------|-----|

Net G&A and net G&A per Boe decreased in both 2013 periods largely due to lower administrative expenses, as well as higher reimbursements due to increased well counts and reimbursement rates.

**Table of Contents*****Taxes Other Than Income Taxes***

|                                         | Three Months Ended June 30, |               |             | Six Months Ended June 30, |               |             |
|-----------------------------------------|-----------------------------|---------------|-------------|---------------------------|---------------|-------------|
|                                         | 2013                        | 2012          | Change      | 2013                      | 2012          | Change      |
|                                         | (\$ in millions)            |               |             |                           |               |             |
| Production                              | \$ 71                       | \$ 51         | +39%        | \$ 131                    | \$ 104        | +26%        |
| Ad valorem and other                    | 54                          | 49            | +10%        | 107                       | 98            | +9%         |
| <b>Taxes other than income taxes</b>    | <b>\$ 125</b>               | <b>\$ 100</b> | <b>+25%</b> | <b>\$ 238</b>             | <b>\$ 202</b> | <b>+18%</b> |
| Percentage of oil, gas and NGL revenue: |                             |               |             |                           |               |             |
| Production                              | 3.2%                        | 3.2%          | +1%         | 3.3%                      | 2.9%          | +11%        |
| Ad valorem and other                    | 2.4%                        | 3.0%          | -20%        | 2.6%                      | 2.8%          | -5%         |
| <b>Total</b>                            | <b>5.6%</b>                 | <b>6.2%</b>   | <b>-9%</b>  | <b>5.9%</b>               | <b>5.7%</b>   | <b>+3%</b>  |

Taxes other than income taxes as a percentage of oil, gas and NGL revenue decreased during the second quarter of 2013, primarily due to ad valorem and other taxes that do not change in direct correlation with oil, gas and NGL revenues. Taxes other than income taxes as a percentage of oil, gas and NGL revenue increased during the first six months of 2013, primarily due to lower Canadian revenues with no associated production taxes as well as ad valorem and other taxes that do not change in direct correlation with oil, gas and NGL revenues.

***Interest Expense***

|                              | Three Months Ended June 30, |              |            | Six Months Ended June 30, |               |             |
|------------------------------|-----------------------------|--------------|------------|---------------------------|---------------|-------------|
|                              | 2013                        | 2012         | Change     | 2013                      | 2012          | Change      |
|                              | (\$ in millions)            |              |            |                           |               |             |
| Interest on outstanding debt | \$ 116                      | \$ 108       | +7%        | \$ 234                    | \$ 207        | +13%        |
| Capitalized interest         | (12)                        | (13)         | -4%        | (23)                      | (29)          | -21%        |
| Other                        | 4                           | 4            | -3%        | 7                         | 8             | -16%        |
| <b>Interest expense</b>      | <b>\$ 108</b>               | <b>\$ 99</b> | <b>+8%</b> | <b>\$ 218</b>             | <b>\$ 186</b> | <b>+17%</b> |

Interest expense increased in both 2013 periods primarily due to higher average debt borrowings and lower capitalized interest, partially offset by lower weighted average interest rates. Borrowings were primarily used to fund capital expenditures in excess of our operating cash flow.

***Restructuring Costs***

|                             | Six Months Ended June 30, |           |
|-----------------------------|---------------------------|-----------|
|                             | 2013                      | 2012      |
|                             | (In millions)             |           |
| Lease obligations and other | \$ 40                     | \$        |
| Asset impairments           | 6                         |           |
| <b>Restructuring costs</b>  | <b>\$ 46</b>              | <b>\$</b> |

In the six months ended June 30, 2013, we incurred \$46 million of restructuring costs associated with the consolidation of our U.S. personnel into one location in Oklahoma City. This amount includes \$25 million related to office space that is subject to non-cancellable operating lease agreements that we ceased using as a part of the office consolidation. We also recognized \$6 million of asset impairment charges for leasehold improvements and furniture associated with the office consolidation.



**Table of Contents****Asset Impairments**

|                                | Six Months Ended June 30, 2013 |                 |
|--------------------------------|--------------------------------|-----------------|
|                                | Gross                          | Net of Taxes    |
|                                | (In millions)                  |                 |
| U.S. oil and gas assets        | \$ 1,110                       | \$ 707          |
| Canada oil and gas assets      | 843                            | 632             |
| <b>Total asset impairments</b> | <b>\$ 1,953</b>                | <b>\$ 1,339</b> |

Under the full-cost method of accounting, capitalized costs of oil and gas properties are subject to a quarterly full cost ceiling test, which is discussed in Note 11 to the financial statements under Item 1. Consolidated Financial Statements of this report.

The oil and gas impairments resulted primarily from declines in the U.S. and Canada full cost ceilings since December 31, 2012. The lower ceiling values resulted primarily from decreases in the 12-month average trailing prices for oil, bitumen and NGLs, which have reduced proved reserve values.

If pricing conditions decline from June 30, 2013, we could incur additional full cost ceiling impairments related to our oil and gas property and equipment.

**Income Taxes**

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

|                                                  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--------------------------------------------------|-----------------------------|------------|---------------------------|------------|
|                                                  | 2013                        | 2012       | 2013                      | 2012       |
| Total income tax expense (benefit) (in millions) | \$ 314                      | \$ 257     | \$ (309)                  | \$ 454     |
| U.S. statutory income tax rate                   | 35%                         | 35%        | (35%)                     | 35%        |
| State income taxes                               | 1%                          | 1%         | (1%)                      | 1%         |
| Taxation on Canadian operations                  | (2%)                        | (1%)       | 6%                        | (2%)       |
| Other                                            | (2%)                        |            | (2%)                      |            |
| <b>Effective income tax rate</b>                 | <b>32%</b>                  | <b>35%</b> | <b>(32%)</b>              | <b>34%</b> |

In the second quarter of 2013, we repatriated to the United States \$2.0 billion of cash from our foreign subsidiaries. In conjunction with the repatriation, we recognized approximately \$100 million of current income tax expense. The current expense was entirely offset by the recognition of deferred income tax benefits, which included the reduction of the deferred tax liability previously recognized for unremitted foreign earnings deemed not to be indefinitely reinvested.

**Table of Contents****Capital Resources, Uses and Liquidity*****Sources and Uses of Cash***

The following table presents the major changes in our cash and short-term investments.

|                                                      | <b>Six Months Ended June 30,</b> |                |
|------------------------------------------------------|----------------------------------|----------------|
|                                                      | <b>2013</b>                      | <b>2012</b>    |
|                                                      | <b>(In millions)</b>             |                |
| Operating cash flow – continuing operations          | \$ 2,398                         | \$ 2,426       |
| Capital expenditures                                 | (3,569)                          | (4,267)        |
| Debt activity, net                                   | (1,495)                          | 967            |
| Shareholder distributions                            | (170)                            | (162)          |
| Divestitures of property and equipment               | 34                               | 935            |
| Other                                                | 54                               | 88             |
| <b>Net change in cash and short-term investments</b> | <b>\$ (2,748)</b>                | <b>\$ (13)</b> |
| <br>Cash and short-term investments at end of period | <br>\$ 4,232                     | <br>\$ 7,045   |

***Operating Cash Flow – Continuing Operations***

Net cash provided by operating activities ( operating cash flow ) was our primary source of capital in the first six months of 2013. Our operating cash flow was comparable to the first six months of 2012.

During the first six months of 2013 and 2012, our operating cash flow funded approximately 70 percent and 60 percent, respectively, of our cash payments for capital expenditures. Leveraging our liquidity, we used cash balances and short-term debt to fund the remainder of our cash-based capital expenditures.

***Capital Expenditures***

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

|                                       | <b>Six Months Ended June 30,</b> |                     |
|---------------------------------------|----------------------------------|---------------------|
|                                       | <b>2013</b>                      | <b>2012</b>         |
|                                       | <b>(In millions)</b>             |                     |
| Development                           | \$ 2,511                         | \$ 2,437            |
| Exploration                           | 402                              | 1,263               |
| <b>Subtotal</b>                       | <b>2,913</b>                     | <b>3,700</b>        |
| Capitalized G&A and interest          | 202                              | 200                 |
| <b>Total oil and gas</b>              | <b>3,115</b>                     | <b>3,900</b>        |
| Midstream                             | 385                              | 206                 |
| Corporate and other                   | 69                               | 161                 |
| <br><b>Total capital expenditures</b> | <br><b>\$ 3,569</b>              | <br><b>\$ 4,267</b> |

Our capital expenditures consist of amounts related to our oil and gas exploration and development operations, our midstream operations and other corporate activities. The vast majority of our capital expenditures are for the acquisition, drilling and development of oil and gas

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properties, which totaled \$3.1 billion and \$3.9 billion in the first six months of 2013 and 2012, respectively. The 21% decline in exploration and development capital spending in the first six months of 2013 was primarily due to a decline in new venture acreage acquisitions and utilization of the drilling carries in 2013 from our Sinopec and Sumitomo joint venture arrangements.

Capital expenditures for our midstream operations are primarily for the construction and expansion of natural gas processing plants, natural gas gathering systems and oil pipelines. Our midstream capital expenditures are largely impacted by oil and gas drilling activities. The higher 2013 midstream expenditures primarily relate to our plants in the Barnett and Cana-Woodford Shales and the Access Pipeline in Canada.

**Table of Contents***Debt Activity, Net*

During the first six months of 2013, we repatriated \$2.0 billion of foreign earnings to the U.S. and repaid outstanding commercial paper borrowings. The repayment resulted in a net repayment of \$1.5 billion for the first six months of 2013. During the first six months of 2012, we received \$2.5 billion from the issuance of long-term debt, the proceeds of which were primarily used to repay outstanding commercial paper and credit facility borrowings. We also utilized short-term borrowings of \$967 million to fund capital expenditures in excess of our operating cash flow.

*Shareholder distributions*

The following table summarizes our common stock dividends (amounts in millions) during the first six months of 2013 and 2012. In the second quarter of 2013, we increased our quarterly dividend to \$0.22 per share.

|           | Six Months Ended June 30, |           |        |           |
|-----------|---------------------------|-----------|--------|-----------|
|           | 2013                      |           | 2012   |           |
|           | Amount                    | Per Share | Amount | Per Share |
| Dividends | \$ 170                    | \$ 0.42   | \$ 162 | \$ 0.40   |

*Divestitures of Property and Equipment*

During the second quarter of 2012, we closed a joint venture transaction with Sinopec. Sinopec paid approximately \$900 million in cash and received a 33.3% interest in five of our new ventures exploration plays in the U.S. Sinopec is also funding approximately \$1.6 billion of our share of exploration, development and drilling costs associated with these plays.

*Liquidity*

Historically, our primary sources of capital and liquidity have been our operating cash flow, asset divestiture proceeds and cash on hand. Additionally, we maintain revolving lines of credit and a commercial paper program, which can be accessed as needed to supplement operating cash flow and cash balances. Other available sources of capital and liquidity include debt and equity securities that can be issued pursuant to our shelf registration statement filed with the SEC. We estimate the combination of these sources of capital will be adequate to fund future capital expenditures, debt repayments and other contractual commitments. The following sections discuss changes to our liquidity subsequent to filing our 2012 Annual Report on Form 10-K.

*Operating Cash Flow*

Our operating cash flow is sensitive to many variables, the most volatile of which are the prices of the oil, gas and NGLs we produce. We expect operating cash flow to continue to be our primary source of liquidity. To mitigate some of the risk inherent in prices, we have utilized various derivative financial instruments to set minimum and maximum prices on a portion of our 2013 production. The key terms to our open oil, gas and NGL derivative financial instruments as of June 30, 2013 are presented in Note 2 to the financial statements under Item 1. Consolidated Financial Statements of this report.

*Credit Availability*

As of June 30, 2013, we had \$2.9 billion of available capacity under our syndicated, unsecured revolving line of credit (the Senior Credit Facility), net of letters of credit outstanding. We also have access to \$5.0 billion of short-term credit under our commercial paper program. At June 30, 2013, we had \$1.7 billion of commercial paper borrowings outstanding.

The Senior Credit Facility contains only one material financial covenant. This covenant requires us to maintain a ratio of total funded debt to total capitalization, as defined in the credit agreement, to be no greater than 65 percent. As of June 30, 2013, we were in compliance with this covenant with a debt-to-capitalization ratio of 22.8 percent.

At June 30, 2013, we held approximately \$4.2 billion of cash and short-term investments. Included in this total was \$4.0 billion of cash and short-term investments held by our foreign subsidiaries. While we are using a portion of our foreign cash to invest in the development and growth of our Canadian business, we did repatriate \$2.0 billion to the U.S. in the second quarter of 2013 at a reduced income tax rate.

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Additionally, as we progress through 2013 and gain additional clarity on our current and expected tax attributes, we believe we could repatriate additional amounts of cash to the U.S. in a tax-efficient manner in the second half of 2013 or in 2014. We anticipate using any repatriated funds to reduce outstanding debt.

**Table of Contents****Non-GAAP Measures**

We make reference to adjusted earnings, adjusted earnings per share and adjusted cash flow in Overview of 2013 Results in this Item 2 that are not required by or presented in accordance with GAAP. These non-GAAP measures should not be considered as alternatives to GAAP measures. Adjusted earnings represents net earnings excluding certain non-cash or non-recurring items that are typically excluded by securities analysts in their published estimates of our financial results. Adjusted cash flow represents cash flow from operating activities excluding certain balance sheet changes and non-recurring items that are typically excluded by securities analysts in their published estimates of our financial results. We believe these non-GAAP measures facilitate comparisons of our performance to earnings and cash flow 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. The amounts below exclude any amounts from our discontinued operations.

***Adjusted Earnings and Adjusted Earnings Per Share***

Below are reconciliations of our adjusted earnings and earnings per share to their comparable GAAP measures.

|                                               | Three Months Ended June 30,             |         | Six Months Ended June 30, |         |
|-----------------------------------------------|-----------------------------------------|---------|---------------------------|---------|
|                                               | 2013                                    | 2012    | 2013                      | 2012    |
|                                               | (In millions, except per share amounts) |         |                           |         |
| Net earnings (loss) (GAAP)                    | \$ 683                                  | \$ 477  | \$ (656)                  | \$ 891  |
| Adjustments (net of taxes):                   |                                         |         |                           |         |
| Asset impairments                             | 31                                      |         | 1,339                     |         |
| Oil, gas and NGL derivatives                  | (232)                                   | (258)   | 37                        | (250)   |
| Restructuring costs                           | 5                                       |         | 29                        |         |
| Interest rate and other financial instruments | 4                                       | 5       | 12                        | 9       |
| Adjusted earnings (Non-GAAP)                  | \$ 491                                  | \$ 224  | \$ 761                    | \$ 650  |
| Earnings (loss) per share (GAAP)              | \$ 1.68                                 | \$ 1.18 | \$ (1.63)                 | \$ 2.20 |
| Adjustments (net of taxes):                   |                                         |         |                           |         |
| Asset impairments                             | 0.07                                    |         | 3.31                      |         |
| Oil, gas and NGL derivatives                  | (0.56)                                  | (0.64)  | 0.09                      | (0.61)  |
| Restructuring costs                           | 0.01                                    |         | 0.07                      |         |
| Interest rate and other financial instruments | 0.01                                    | 0.01    | 0.03                      | 0.02    |
| Adjusted earnings per share (Non-GAAP)        | \$ 1.21                                 | \$ 0.55 | \$ 1.87                   | \$ 1.61 |

***Adjusted Cash Flow***

Below is a reconciliation of our adjusted operating cash flow to its comparable GAAP measure.

|                                                             | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|-------------------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                             | 2013                        | 2012     | 2013                      | 2012     |
|                                                             | (In millions)               |          |                           |          |
| Operating cash flow (GAAP)                                  | \$ 1,396                    | \$ 1,426 | \$ 2,398                  | \$ 2,426 |
| Adjustments (net of taxes):                                 |                             |          |                           |          |
| Changes in assets and liabilities                           | (97)                        | (363)    | 58                        | (14)     |
| Operating cash flow before balance sheet changes (Non-GAAP) | 1,299                       | 1,063    | 2,456                     | 2,412    |
| Current taxes on cash repatriation                          | 98                          |          | 98                        |          |

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|                                         |          |          |          |          |
|-----------------------------------------|----------|----------|----------|----------|
| Adjusted operating cash flow (Non-GAAP) | \$ 1,397 | \$ 1,063 | \$ 2,554 | \$ 2,412 |
|-----------------------------------------|----------|----------|----------|----------|

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk****Commodity Price Risk**

We have commodity derivatives that pertain to a portion of our production for the last six months of 2013, as well as 2014 and 2015. The key terms to our open oil, gas and NGL derivative financial instruments as of June 30, 2013 are presented in Note 2 to the financial statements under Item 1. Consolidated Financial Statements of this report.

The fair values of our commodity derivatives are largely determined by estimates of the forward curves of the relevant price indices. At June 30, 2013, a 10 percent change in the forward curves associated with our commodity derivative instruments would have changed our net asset positions by the following amounts:

|                 | 10% Increase  | 10% Decrease |
|-----------------|---------------|--------------|
|                 | (In millions) |              |
| Gain (loss):    |               |              |
| Gas derivatives | \$ (272)      | \$ 265       |
| Oil derivatives | \$ (278)      | \$ 274       |
| NGL derivatives | \$ (1)        | \$ 1         |

**Interest Rate Risk**

At June 30, 2013, we had total debt outstanding of \$10.2 billion. Of this amount, \$8.5 billion bears fixed interest rates averaging 5.4 percent. The remaining \$1.7 billion of commercial paper borrowings bears interest rates that averaged 0.36 percent.

As of June 30, 2013, we had open interest rate swap positions that are presented in Note 2 to the financial statements under Item 1. Consolidated Financial Statements of this report. The fair values of our interest rate swaps are largely determined by estimates of the forward curves of the Federal Funds rate. A 10 percent change in these forward curves would not have materially impacted our balance sheet at June 30, 2013.

**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 percent unfavorable change in the Canadian-to-U.S. dollar exchange rate would not materially impact our June 30, 2013 balance sheet.

Our non-Canadian foreign subsidiaries have a U.S. dollar functional currency. However, one of these foreign subsidiaries holds Canadian-dollar cash and engages in short-term intercompany loans with Canadian subsidiaries that are based in Canadian dollars. Additionally, at June 30, 2013, we held foreign currency exchange forward contracts to hedge exposures to fluctuations in exchange rates on the Canadian-dollar cash and intercompany loans. The increase or decrease in the value of the forward contracts is offset by the increase or decrease to the U.S. dollar equivalent of the Canadian-dollar cash. Additionally, the increase or decrease in the value of the forward contracts is offset by intercompany loans which increase or decrease from the remeasurement of the loans into the U.S. dollar functional currency. Based on the amount of the intercompany loans as of June 30, 2013, a 10 percent 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.



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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, 2013, 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**

There have been no material changes to the information included in Item 3. Legal Proceedings in our 2012 Annual Report on Form 10-K.

**Item 1A. Risk Factors**

There have been no material changes to the information included in Item 1A. Risk Factors in our 2012 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 2013.

| Period  |          | Total Number<br>of Shares<br>Purchased <sup>(1)</sup> | Average<br>Price<br>Paid per Share |
|---------|----------|-------------------------------------------------------|------------------------------------|
| April 1 | April 30 | 51,108                                                | \$ 54.59                           |
| May 1   | May 31   | 5,843                                                 | \$ 58.20                           |
| June 1  | June 30  | 2,935                                                 | \$ 54.56                           |
| Total   |          | 59,886                                                | \$ 54.94                           |

(1) Share repurchases represent shares received by us from employees and directors for the payment of personal income tax withholding on restricted stock vesting and stock option exercises.

Under the Devon Canada Corporation Savings Plan (the Canadian Plan), 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. Eligible Canadian employees purchased approximately 4,100 shares of our common stock in the second quarter of 2013, at then-prevailing stock prices, that they held through their ownership in the Canadian Plan. We acquired the shares sold under the Canadian Plan 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.

**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**

(a) Exhibits required by Item 601 of Regulation S-K are as follows:

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                       |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------|
| 10.1                      | Devon Energy Corporation Non - Qualified Deferred Compensation Plan (as Amended and Restated Effective January 1, 2013). |
| 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.LAB                   | XBRL Taxonomy Extension Labels Linkbase Document                                                                         |
| 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase Document                                                                   |
| 101.DEF                   | XBRL Taxonomy Extension Definition Linkbase Document                                                                     |

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**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 7, 2013

*/s/ Jeffrey A. Agosta*  
Jeffrey A. Agosta  
*Executive Vice President and Chief Financial Officer*

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**INDEX TO EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                       |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------|
| 10.1                      | Devon Energy Corporation Non - Qualified Deferred Compensation Plan (as Amended and Restated Effective January 1, 2013). |
| 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.LAB                   | XBRL Taxonomy Extension Labels Linkbase Document                                                                         |
| 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase Document                                                                   |
| 101.DEF                   | XBRL Taxonomy Extension Definition Linkbase Document                                                                     |