

DEVON ENERGY CORP/DE

FORM 8-K (Current report filing)

Filed 11/07/12 for the Period Ending 11/07/12

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|-------------|---|
| Address | 333 W. SHERIDAN AVENUE OKLAHOMA CITY, OK 73102 |
| Telephone | 4055528183 |
| CIK | 0001090012 |
| Symbol | DVN |
| SIC Code | 1311 - Crude Petroleum and Natural Gas |
| Fiscal Year | 12/31 |

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): November 7, 2012

DEVON ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

001-32318
(Commission
File Number)

73-1567067
(IRS Employer
Identification Number)

333 W. SHERIDAN AVE., OKLAHOMA CITY, OK
(Address of Principal Executive Offices)

73102
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition

Devon Energy Corporation hereby furnishes the information set forth in its news release dated November 7, 2012 announcing 2012 third quarter financial results, a copy of which is attached as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits**(d) Exhibits**

99.1 Devon Energy Corporation news release dated November 7, 2012.

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 hereto duly authorized.

DEVON ENERGY CORPORATION

By: /s/ Jeffrey A. Agosta

Jeffrey A. Agosta
Executive Vice President and
Chief Financial Officer

Date: November 7, 2012



Devon Energy Corporation
 333 West Sheridan Avenue
 Oklahoma City, OK 73102-5015

News Release

| | | |
|-------------------|-------------|--------------|
| Investor Contacts | Scott Coody | 405 552 4735 |
| | Shea Snyder | 405 552 4782 |
| Media Contact | Chip Minty | 405 228 8647 |

DEVON ENERGY REPORTS THIRD-QUARTER 2012 RESULTS

OKLAHOMA CITY – November 7, 2012 – Devon Energy Corporation (NYSE:DVN) today reported a net loss of \$719 million for the quarter ended September 30, 2012, or \$1.80 per common share (\$1.80 per diluted share). A \$1.1 billion non-cash asset impairment charge was the primary driver of the quarterly loss. Adjusting for this and other items securities analysts typically exclude from their published estimates, the company earned \$355 million or \$0.88 per diluted share in the third quarter of 2012.

The company generated cash flow from operations of \$1.4 billion during the third quarter. Combined with \$533 million in cash payments from the closing of its joint venture agreement with Sumitomo and other minor asset sales, Devon's cash inflows totaled \$1.9 billion in the quarter.

Strong Oil Growth Drives Production Increase

Devon continued to deliver strong oil production growth in the third quarter of 2012. Oil production averaged 143,000 barrels per day, a 14 percent increase compared to the third quarter of 2011. This was achieved in spite of the scheduled shut-down for facilities maintenance at our Jackfish 1 oil sands project, which reduced production by approximately 10,000 barrels per day. Regionally, the most significant growth came from the company's U.S. operations, where year-over-year oil production increased 26 percent.

In total, Devon's production averaged 678,000 oil-equivalent barrels (Boe) per day in the third quarter, a 3 percent increase compared to the year-ago quarter. Year-over-year declines in natural gas volumes driven by reduced activity levels in liquids-rich gas projects partially offset the company's oil production growth in the third quarter.

"Devon's capital program has delivered strong results this year with aggressive drilling programs in oil-focused basins," said John Richels, president and chief executive officer. "As we have pursued higher-returning oil projects, we also have de-emphasized natural gas drilling, limiting overall production growth. This is exactly the right tactical decision for Devon in this environment and is consistent with our longstanding strategy to optimize returns as opposed to top-line production growth."

Permian Basin Results Lead Operating Highlights

- Permian Basin oil production increased 35 percent over the third quarter of 2011. Oil production accounted for nearly 60 percent of the company's 65,000 Boe per day produced in the Permian during the third quarter.
- In the Bone Spring and Delaware plays in the Permian Basin, the company added 25 new wells to production in the third quarter 2012. Initial 30-day production from these wells averaged 575 Boe per day.
- Also in the Permian, Devon brought five Midland-Wolfcamp Shale wells online in the third quarter with initial 30-day production averaging 560 Boe per day.
- In September, Devon closed its \$1.4 billion joint venture agreement with Sumitomo covering 650,000 net acres in the Permian Basin. Devon has now successfully entered into two exploration joint ventures during 2012, delivering almost \$4 billion in value to the company.

- In Canada, net production from Devon's Jackfish 1 and Jackfish 2 oil sands projects averaged 44,000 barrels per day in the third quarter. This represents a 24 percent increase in oil production over the year-ago quarter.
- Construction of Devon's third Jackfish oil sands project is now approximately 45 percent complete, with plant startup expected by year-end 2014.
- The company's third quarter activity in the Mississippian Lime play in Oklahoma was highlighted by the increase in activity to 13 operated rigs. Results from the Mississippian play continue to support Devon's target economics.
- Devon brought seven operated Granite Wash wells online in the third quarter. The average 30-day production rate from these wells was 1,065 Boe per day.
- The company's Cana-Woodford Shale production averaged 283 million cubic feet of natural gas equivalent per day in the third quarter 2012. Third-quarter liquids production increased 64 percent compared to the prior-year quarter to 13,000 barrels per day.
- Net production in the Barnett Shale totaled 1.4 billion cubic feet of natural gas equivalent per day in the third quarter. Liquids production increased 11 percent compared to the third quarter of 2011 to 51,000 barrels per day, accounting for 22 percent of total Barnett production.

Oil and Gas Sales Total \$1.7 Billion; Natural Gas Hedge Position Strengthened

Revenue from oil, natural gas and natural gas liquids sales totaled \$1.7 billion in the third quarter of 2012, an 18 percent decline from the third quarter of 2011. Lower realized prices for all three products more than offset increased production. Cash settlements related to the company's oil and natural gas hedges boosted revenue by \$243 million or \$3.89 per Boe in the third quarter of 2012.

The recent rise in natural gas prices has provided Devon the opportunity to add attractive hedges for next year. For the full-year 2013, the company now has approximately 1.0 billion cubic feet per day of natural gas production protected at a weighted average floor price of \$3.88 per thousand cubic feet. Devon's 2013 hedge position covers volumes equal to about 40 percent of the company's current rate of natural gas production.

In the third quarter of 2012, the company's marketing and midstream operating profit reached \$109 million. The solid results were aided by the resumption of operations at the company's Gulf Coast Fractionators facility in Mont Belvieu following the completion of a recent plant expansion.

Operating Costs Below Expectations

The company's pre-tax, cash costs of \$877 million, or \$14.04 per Boe, were lower than forecasted for the third quarter. Pre-tax, cash costs per unit of production were 4 percent higher than the third quarter of 2011 but declined 2 percent from the second quarter of 2012. Cost containment efforts and increased production offset higher activity levels in oil-focused basins. In general, oil projects are more expensive to produce and have higher operating costs than gas production.

Balance Sheet and Liquidity Remain Strong

With third quarter net cash inflows roughly equal to capital expenditures, the company ended the quarter with a very strong balance sheet. At September 30, 2012, the company's cash and short-term investments totaled \$7.5 billion, and Devon's net debt to adjusted capitalization was just 15 percent.

Impairment Charge Methodology

On a quarterly basis, the carrying value of Devon's oil and natural gas assets are subject to a "ceiling test." Under the full-cost method of accounting, the net book value of the company's oil and gas properties, less related deferred income taxes, may not exceed a calculated ceiling. The ceiling is the estimated future net cash flow from proved oil and gas properties, discounted at 10 percent per year. Any excess is written off as a non-cash expense and may not be reversed in future periods, even though higher oil and gas prices may subsequently increase the ceiling. Future net cash flows are calculated assuming continuation of prices and costs in effect at the time of the calculation, except for changes that are fixed and determinable by existing contracts. Trailing 12-month average prices at the end of each quarter are used in the future net cash flow calculation.

As a result of this accounting calculation, Devon recorded a \$1.1 billion non-cash asset impairment charge in the third quarter, reducing the carrying value of its oil and gas properties. This impairment charge resulted primarily from the decline of natural gas prices over the past 12 months and is not reflective of the fair value of the company's assets and has no impact on cash flow or cash balances.

Non-GAAP Reconciliations

Pursuant to regulatory disclosure requirements, Devon is required to reconcile non-GAAP financial measures to the related GAAP information (GAAP refers to generally accepted accounting principles). Net debt and adjusted capitalization are non-GAAP financial measures referenced within this release. Reconciliations of these non-GAAP measures are provided on page 11.

Items Excluded from Published Earnings Estimates

Devon's reported net earnings include items of income and expense that are typically excluded by securities analysts in their published estimates of the company's financial results. The following table summarizes the effects of these items on third-quarter 2012 earnings.

| | Quarter Ended September 30, 2012 | |
|--|----------------------------------|-----------|
| | Before-Tax | After-Tax |
| Net earnings (GAAP) | | \$ (719) |
| Asset impairments | 1,128 | 719 |
| Oil and gas derivatives | 538 | 349 |
| Interest rate and other financial instruments | 9 | 6 |
| Adjusted earnings (Non-GAAP) | | \$ 355 |
| Diluted share count | | 405 |
| Adjusted diluted earnings per share (Non-GAAP) | | \$ 0.88 |

Conference Call to be Webcast Today

Devon will discuss its third-quarter 2012 financial and operating results in a conference call webcast today. The webcast will begin at 10 a.m. Central Time (11 a.m. Eastern Time) and may be accessed from Devon's home page at www.devonenergy.com.

This press release includes "forward-looking statements" as defined by the Securities and Exchange Commission. Such statements are those concerning strategic plans, expectations and objectives for future operations. All statements, other than statements of historical facts, included in this press release that address activities, events or developments that the company expects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of the company. Statements regarding future drilling and production are subject to all of the risks and uncertainties normally incident to the exploration for and development and production of oil and gas. These risks include, but are not limited to the volatility of oil, natural gas and NGL prices; uncertainties inherent in estimating oil, natural gas and NGL reserves; drilling risks; environmental risks; and political or regulatory changes. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. The forward-looking statements in this press release are made as of the date of this press release, even if subsequently made available by Devon on its website or otherwise. Devon does not undertake any obligation to update the forward-looking statements as a result of new information, future events or otherwise.

The United States Securities and Exchange Commission permits oil and gas companies, in their filings with the SEC, to disclose only proved, probable and possible reserves that meet the SEC's definitions for such terms, and price and cost sensitivities for such reserves, and prohibits disclosure of resources that do not constitute such reserves. This release may contain certain terms, such as resource potential and exploration target size. These estimates are by their nature more speculative than estimates of proved, probable and possible reserves and accordingly are subject to substantially greater risk of being actually realized. The SEC guidelines strictly prohibit us from including these estimates in filings with the SEC. U.S. investors are urged to consider closely the disclosure in our Form 10-K for the fiscal year ended December 31, 2011, available from us at Devon Energy Corporation, Attn. Investor Relations, 333 West Sheridan Avenue, Oklahoma City, OK 73102-5015. You can also obtain this form from the SEC by calling 1-800-SEC-0330 or from the SEC's website at www.sec.gov.

Devon Energy Corporation is an Oklahoma City-based independent energy company engaged in oil and gas exploration and production. Devon is a leading U.S.-based independent oil and gas producer and is included in the S&P 500 Index. For more in the S&P 500 Index. For more information about Devon, please visit our website at www.devonenergy.com.

DEVON ENERGY CORPORATION
FINANCIAL AND OPERATIONAL INFORMATION

PRODUCTION (net of royalties)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|--------------------------------|----------------|------------------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Total Period Production: | | | | |
| Natural Gas (Bcf) | | | | |
| United States | 190.2 | 186.5 | 565.3 | 547.9 |
| Canada | 44.8 | 53.4 | 142.7 | 160.3 |
| Total Natural Gas | <u>235.0</u> | <u>239.9</u> | <u>708.0</u> | <u>708.2</u> |
| Oil (MMBbls) | | | | |
| United States | 5.4 | 4.3 | 15.5 | 12.2 |
| Canada | 7.7 | 7.2 | 24.1 | 20.2 |
| Total Oil | <u>13.1</u> | <u>11.5</u> | <u>39.6</u> | <u>32.4</u> |
| Natural Gas Liquids (MMBbls) | | | | |
| United States | 9.3 | 8.4 | 26.7 | 24.3 |
| Canada | 0.8 | 0.9 | 3.0 | 2.7 |
| Total Natural Gas Liquids | <u>10.1</u> | <u>9.3</u> | <u>29.7</u> | <u>27.0</u> |
| Oil Equivalent (MMBoe) | | | | |
| United States | 46.4 | 43.8 | 136.5 | 127.8 |
| Canada | 16.0 | 17.0 | 50.8 | 49.7 |
| Total Oil Equivalent | <u>62.4</u> | <u>60.8</u> | <u>187.3</u> | <u>177.5</u> |
| | | | | |
| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Average Daily Production: | | | | |
| Natural Gas (MMcf) | | | | |
| United States | 2,067.1 | 2,027.7 | 2,063.0 | 2,007.1 |
| Canada | 487.2 | 580.0 | 520.8 | 587.1 |
| Total Natural Gas | <u>2,554.3</u> | <u>2,607.7</u> | <u>2,583.8</u> | <u>2,594.2</u> |
| Oil (MBbls) | | | | |
| United States | 58.9 | 46.7 | 56.6 | 44.6 |
| Canada | 83.6 | 78.3 | 87.8 | 74.1 |
| Total Oil | <u>142.5</u> | <u>125.0</u> | <u>144.4</u> | <u>118.7</u> |
| Natural Gas Liquids (MBbls) | | | | |
| United States | 100.8 | 91.0 | 97.7 | 89.0 |
| Canada | 9.2 | 10.2 | 10.8 | 10.0 |
| Total Natural Gas Liquids | <u>110.0</u> | <u>101.2</u> | <u>108.5</u> | <u>99.0</u> |
| Oil Equivalent (MBoe) | | | | |
| United States | 504.2 | 475.6 | 498.1 | 468.1 |
| Canada | 174.0 | 185.2 | 185.4 | 181.9 |
| Total Oil Equivalent | <u>678.2</u> | <u>660.8</u> | <u>683.5</u> | <u>650.0</u> |

DEVON ENERGY CORPORATION
FINANCIAL AND OPERATIONAL INFORMATION

BENCHMARK PRICES

(average prices)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|---------|------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Natural Gas (\$/Mcf) – Henry Hub | \$ 2.80 | \$ 4.20 | \$ 2.58 | \$ 4.21 |
| Oil (\$/Bbl) – West Texas Intermediate (Cushing) | \$92.32 | \$89.55 | \$ 96.23 | \$ 95.42 |

REALIZED PRICES

| | Quarter Ended September 30, 2012 | | | |
|--|----------------------------------|------------------|-------------------|--------------------|
| | Oil (Per Bbl) | Gas (Per Mcf) | NGLs (Per Bbl) | Total (Per Boe) |
| United States | \$ 84.84 | \$ 2.37 | \$ 25.07 | \$ 24.64 |
| Canada | \$ 58.75 | \$ 2.31 | \$ 46.41 | \$ 37.14 |
| Realized price without hedges | \$ 69.53 | \$ 2.36 | \$ 26.86 | \$ 27.85 |
| Cash settlements | \$ 6.58 | \$ 0.66 | \$ 0.03 | \$ 3.89 |
| Realized price, including cash settlements | <u>\$ 76.11</u> | <u>\$ 3.02</u> | <u>\$ 26.89</u> | <u>\$ 31.74</u> |

| | Quarter Ended September 30, 2011 | | | |
|--|----------------------------------|------------------|-------------------|--------------------|
| | Oil (Per Bbl) | Gas (Per Mcf) | NGLs (Per Bbl) | Total (Per Boe) |
| United States | \$ 86.30 | \$ 3.71 | \$ 40.95 | \$ 32.11 |
| Canada | \$ 61.70 | \$ 3.93 | \$ 54.85 | \$ 41.42 |
| Realized price without hedges | \$ 70.89 | \$ 3.76 | \$ 42.35 | \$ 34.72 |
| Cash settlements | \$ (0.13) | \$ 0.40 | \$ 0.09 | \$ 1.58 |
| Realized price, including cash settlements | <u>\$ 70.76</u> | <u>\$ 4.16</u> | <u>\$ 42.44</u> | <u>\$ 36.30</u> |

| | Nine Months Ended September 30, 2012 | | | |
|--|--------------------------------------|------------------|-------------------|--------------------|
| | Oil (Per Bbl) | Gas (Per Mcf) | NGLs (Per Bbl) | Total (Per Boe) |
| United States | \$ 90.79 | \$ 2.12 | \$ 29.31 | \$ 24.86 |
| Canada | \$ 58.56 | \$ 2.26 | \$ 48.92 | \$ 36.93 |
| Realized price without hedges | \$ 71.19 | \$ 2.15 | \$ 31.27 | \$ 28.14 |
| Cash settlements | \$ 3.47 | \$ 0.75 | \$ 0.02 | \$ 3.56 |
| Realized price, including cash settlements | <u>\$ 74.66</u> | <u>\$ 2.90</u> | <u>\$ 31.29</u> | <u>\$ 31.70</u> |

| | Nine Months Ended September 30, 2011 | | | |
|--|--------------------------------------|------------------|-------------------|--------------------|
| | Oil (Per Bbl) | Gas (Per Mcf) | NGLs (Per Bbl) | Total (Per Boe) |
| United States | \$ 91.18 | \$ 3.64 | \$ 39.05 | \$ 31.73 |
| Canada | \$ 65.30 | \$ 4.01 | \$ 55.92 | \$ 42.61 |
| Realized price without hedges | \$ 75.04 | \$ 3.73 | \$ 40.74 | \$ 34.78 |
| Cash settlements | \$ (0.70) | \$ 0.37 | \$ 0.07 | \$ 1.35 |
| Realized price, including cash settlements | <u>\$ 74.34</u> | <u>\$ 4.10</u> | <u>\$ 40.81</u> | <u>\$ 36.13</u> |

DEVON ENERGY CORPORATION
FINANCIAL AND OPERATIONAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|----------------|------------------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| Oil, gas and NGL sales | \$ 1,738 | \$2,111 | \$5,270 | \$6,171 |
| Oil, gas and NGL derivatives | (295) | 738 | 515 | 986 |
| Marketing and midstream revenues | 422 | 653 | 1,136 | 1,712 |
| Total revenues | <u>1,865</u> | <u>3,502</u> | <u>6,921</u> | <u>8,869</u> |
| Expenses and other, net: | | | | |
| Lease operating expenses | 513 | 475 | 1,540 | 1,352 |
| Marketing and midstream operating costs and expenses | 313 | 515 | 847 | 1,304 |
| Depreciation, depletion and amortization | 716 | 566 | 2,080 | 1,622 |
| General and administrative expenses | 150 | 138 | 494 | 403 |
| Taxes other than income taxes | 104 | 108 | 306 | 336 |
| Interest expense | 110 | 104 | 296 | 270 |
| Restructuring costs | — | (3) | — | (2) |
| Asset impairments | 1,128 | — | 1,128 | — |
| Other, net | (8) | 61 | 46 | 88 |
| Total expenses and other, net | <u>3,026</u> | <u>1,964</u> | <u>6,737</u> | <u>5,373</u> |
| Earnings (loss) from continuing operations before income taxes | (1,161) | 1,538 | 184 | 3,496 |
| Current income tax expense (benefit) | (41) | (248) | 8 | (301) |
| Deferred income tax expense (benefit) | (401) | 746 | 4 | 2,184 |
| Earnings (loss) from continuing operations | (719) | 1,040 | 172 | 1,613 |
| Earnings (loss) from discontinued operations, net of tax | — | (2) | (21) | 2,584 |
| Net earnings (loss) | <u>\$ (719)</u> | <u>\$1,038</u> | <u>\$ 151</u> | <u>\$4,197</u> |
| Basic net earnings (loss) per share: | | | | |
| Basic earnings (loss) from continuing operations per share | \$ (1.80) | \$ 2.51 | \$ 0.42 | \$ 3.83 |
| Basic earnings (loss) from discontinued operations per share | — | — | (0.05) | 6.14 |
| Basic net earnings (loss) per share | <u>\$ (1.80)</u> | <u>\$ 2.51</u> | <u>\$ 0.37</u> | <u>\$ 9.97</u> |
| Diluted net earnings (loss) per share: | | | | |
| Diluted earnings (loss) from continuing operations per share | \$ (1.80) | \$ 2.50 | \$ 0.42 | \$ 3.82 |
| Diluted earnings (loss) from discontinued operations per share | — | — | (0.05) | 6.11 |
| Diluted net earnings (loss) per share | <u>\$ (1.80)</u> | <u>\$ 2.50</u> | <u>\$ 0.37</u> | <u>\$ 9.93</u> |
| Weighted average common shares outstanding: | | | | |
| Basic | 405 | 414 | 404 | 421 |
| Diluted | 405 | 415 | 405 | 423 |

DEVON ENERGY CORPORATION
FINANCIAL AND OPERATIONAL INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|--------------------------------|-----------------|------------------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Cash flows from operating activities: | | | | |
| Net earnings (loss) | \$ (719) | \$ 1,038 | \$ 151 | \$ 4,197 |
| (Earnings) loss from discontinued operations, net of tax | — | 2 | 21 | (2,584) |
| Adjustments to reconcile earnings from continuing operations to net cash from operating activities: | | | | |
| Depreciation, depletion and amortization | 716 | 566 | 2,080 | 1,622 |
| Asset impairments | 1,128 | — | 1,128 | — |
| Deferred income tax expense | (401) | 746 | 4 | 2,184 |
| Unrealized change in fair value of financial instruments | 535 | (587) | 173 | (661) |
| Other noncash charges | 22 | 103 | 136 | 185 |
| Net cash from operating activities before balance sheet changes | 1,281 | 1,868 | 3,693 | 4,943 |
| Net decrease (increase) in working capital | 26 | (219) | 48 | (308) |
| Decrease (increase) in long-term other assets | (25) | 6 | (22) | 51 |
| Increase (decrease) in long-term other liabilities | 79 | (258) | 68 | (459) |
| Cash from operating activities - continuing operations | 1,361 | 1,397 | 3,787 | 4,227 |
| Cash from operating activities - discontinued operations | — | 7 | 26 | (13) |
| Net cash from operating activities | <u>1,361</u> | <u>1,404</u> | <u>3,813</u> | <u>4,214</u> |
| Cash flows from investing activities: | | | | |
| Capital expenditures | (1,961) | (1,795) | (6,228) | (5,515) |
| Purchases of short-term investments | (1,498) | (1,231) | (2,969) | (5,751) |
| Redemptions of short-term investments | 278 | 3,367 | 2,308 | 4,665 |
| Proceeds from property and equipment divestitures | 533 | 8 | 1,397 | 13 |
| Other | 4 | 9 | 18 | (23) |
| Cash from investing activities - continuing operations | (2,644) | 358 | (5,474) | (6,611) |
| Cash from investing activities - discontinued operations | — | (8) | 58 | 3,162 |
| Net cash from investing activities | <u>(2,644)</u> | <u>350</u> | <u>(5,416)</u> | <u>(3,449)</u> |
| Cash flows from financing activities: | | | | |
| Proceeds from borrowings of long-term debt, net of issuance costs | — | 2,221 | 2,465 | 2,221 |
| Net short-term borrowings (repayments) | 600 | 856 | (898) | 3,196 |
| Debt repayments | — | (1,760) | — | (1,760) |
| Credit facility borrowings | — | — | 750 | — |
| Credit facility repayments | — | — | (750) | — |
| Proceeds from stock option exercises | 3 | 5 | 25 | 101 |
| Repurchases of common stock | — | (697) | — | (1,987) |
| Dividends paid on common stock | (80) | (69) | (242) | (209) |
| Excess tax benefits related to share-based compensation | 4 | (1) | 5 | 11 |
| Net cash from financing activities | <u>527</u> | <u>555</u> | <u>1,355</u> | <u>1,573</u> |
| Effect of exchange rate changes on cash | (7) | (42) | 31 | (10) |
| Net change in cash and cash equivalents | (763) | 2,267 | (217) | 2,328 |
| Cash and cash equivalents at beginning of period | 6,101 | 3,351 | 5,555 | 3,290 |
| Cash and cash equivalents at end of period | <u>\$ 5,338</u> | <u>\$ 5,618</u> | <u>\$ 5,338</u> | <u>\$ 5,618</u> |

DEVON ENERGY CORPORATION
FINANCIAL AND OPERATIONAL INFORMATION

CONSOLIDATED BALANCE SHEETS

| (in millions) | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 5,338 | \$ 5,555 |
| Short-term investments | 2,164 | 1,503 |
| Accounts receivable | 1,113 | 1,379 |
| Other current assets | 818 | 868 |
| Total current assets | <u>9,433</u> | <u>9,305</u> |
| Property and equipment, at cost: | | |
| Oil and gas, based on full cost accounting: | | |
| Subject to amortization | 67,345 | 61,696 |
| Not subject to amortization | 3,827 | 3,982 |
| Total oil and gas | 71,172 | 65,678 |
| Other | 5,643 | 5,098 |
| Total property and equipment, at cost | 76,815 | 70,776 |
| Less accumulated depreciation, depletion and amortization | (49,669) | (46,002) |
| Property and equipment, net | <u>27,146</u> | <u>24,774</u> |
| Goodwill | 6,114 | 6,013 |
| Other long-term assets | 855 | 1,025 |
| Total assets | <u>\$ 43,548</u> | <u>\$ 41,117</u> |
| Current liabilities: | | |
| Accounts payable | \$ 1,485 | \$ 1,471 |
| Revenues and royalties payable | 696 | 678 |
| Short-term debt | 2,780 | 3,811 |
| Other current liabilities | 535 | 778 |
| Total current liabilities | <u>5,496</u> | <u>6,738</u> |
| Long-term debt | 8,455 | 5,969 |
| Asset retirement obligations | 2,009 | 1,496 |
| Other long-term liabilities | 863 | 721 |
| Deferred income taxes | 4,944 | 4,763 |
| Stockholders' equity: | | |
| Common stock | 41 | 40 |
| Additional paid-in capital | 3,644 | 3,507 |
| Retained earnings | 16,217 | 16,308 |
| Accumulated other comprehensive earnings | 1,879 | 1,575 |
| Total stockholders' equity | <u>21,781</u> | <u>21,430</u> |
| Total liabilities and stockholders' equity | <u>\$ 43,548</u> | <u>\$ 41,117</u> |
| Common shares outstanding | 405 | 404 |

DEVON ENERGY CORPORATION
FINANCIAL AND OPERATIONAL INFORMATION

COMPANY OPERATED RIGS

| | As of September 30, | |
|--|---------------------|-----------|
| | 2012 | 2011 |
| Number of Company Operated Rigs Running: | | |
| United States | 65 | 59 |
| Canada | 4 | 11 |
| Total | <u>69</u> | <u>70</u> |

KEY OPERATING STATISTICS BY REGION

| | Quarter Ended September 30, 2012 | | |
|-----------------------------------|----------------------------------|--|------------------------|
| | Avg. Production (MBOED) | Operated Rigs at September 30, 2012 | Gross Wells Drilled |
| Barnett Shale | 233.6 | 10 | 65 |
| Canadian Oilsands—Jackfish / Pike | 44.3 | — | 9 |
| Cana-Woodford Shale | 47.2 | 7 | 41 |
| Granite Wash | 18.5 | 3 | 11 |
| Gulf Coast / East Texas | 60.5 | 4 | 18 |
| Lloydminster | 37.1 | 1 | 47 |
| Permian Basin | 65.1 | 20 | 54 |
| Rocky Mountains | 57.1 | 4 | 8 |
| Other | 114.8 | 20 | 24 |
| Total | <u>678.2</u> | <u>69</u> | <u>277</u> |

CAPITAL EXPENDITURES (in millions)

| | Quarter Ended September 30, 2012 | | |
|-------------------------------------|----------------------------------|--------|------------------------|
| | United States | Canada | Total |
| Exploration | \$ 304 | 17 | \$ 321 |
| Development | 1,026 | 310 | 1,336 |
| Exploration and development capital | \$ 1,330 | 327 | \$ 1,657 |
| Capitalized G&A and interest | | | 108 |
| Midstream capital | | | 137 |
| Other capital | | | 66 |
| Total Continuing Operations | | | \$ 1,968 |
| Discontinued operations | | | — |
| Total Operations | | | <u>\$ 1,968</u> |

CAPITAL EXPENDITURES (in millions)

| | Nine Months Ended September 30, 2012 | | |
|-------------------------------------|--------------------------------------|--------|------------------------|
| | United States | Canada | Total |
| Exploration | \$ 1,217 | 221 | \$ 1,438 |
| Development | 3,015 | 888 | 3,903 |
| Exploration and development capital | \$ 4,232 | 1,109 | \$ 5,341 |
| Capitalized G&A and interest | | | 308 |
| Midstream capital | | | 364 |
| Other capital | | | 270 |
| Total Continuing Operations | | | \$ 6,283 |
| Discontinued operations | | | 13 |
| Total Operations | | | <u>\$ 6,296</u> |

DEVON ENERGY CORPORATION
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NON-GAAP FINANCIAL MEASURES

The United States Securities and Exchange Commission has adopted disclosure requirements for public companies such as Devon concerning Non-GAAP financial measures. (GAAP refers to generally accepted accounting principles). The company must reconcile the Non-GAAP financial measure to related GAAP information. Devon believes that using net debt for the calculation of “net debt to adjusted capitalization” provides a better measure than using debt. Devon defines net debt as debt less cash, cash equivalents and short-term investments. Devon believes that netting these sources of cash against debt provides a clearer picture of the future demands on cash to repay debt.

RECONCILIATION TO GAAP INFORMATION

(in millions)

| | September 30, | |
|------------------------------------|-----------------|-----------------|
| | 2012 | 2011 |
| Total debt (GAAP) | \$11,235 | \$ 9,257 |
| Adjustments: | | |
| Cash and short-term investments | 7,502 | 6,849 |
| Net debt (Non-GAAP) | <u>\$ 3,733</u> | <u>\$ 2,408</u> |
| Total debt | \$11,235 | \$ 9,257 |
| Stockholders' equity | 21,781 | 21,102 |
| Total capitalization (GAAP) | <u>\$33,016</u> | <u>\$30,359</u> |
| Net debt | \$ 3,733 | \$ 2,408 |
| Stockholders' equity | 21,781 | 21,102 |
| Adjusted capitalization (Non-GAAP) | <u>\$25,514</u> | <u>\$23,510</u> |