

DEVON ENERGY CORP /OK/

FORM 10-Q (Quarterly Report)

Filed 08/06/98 for the Period Ending 06/30/98

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SIC Code	1311 - Crude Petroleum and Natural Gas
Fiscal Year	12/31

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Filed 8/6/1998 For Period Ending 6/30/1998

Address	20 N BROADWAY STE 1500 OKLAHOMA CITY, Oklahoma 73102-8260
Telephone	405-235-3611
CIK	0000837330
Fiscal Year	12/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 1998

OR

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

Commission File No. 1-10067

DEVON ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Oklahoma	73-1474008
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
20 N. Broadway, Suite 1500	
Oklahoma City, Oklahoma	73102
(Address of Principal Executive Offices)	(Zip Code)

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

Not applicable

Former name, former address and former fiscal year, if changed
from last report.

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 X No .

The number of shares outstanding of Registrant's common stock, par value \$.10, as of July 31, 1998, was 32,319,894.

1 of 87 total pages

(Exhibit Index is found at page 27)

DEVON ENERGY CORPORATION

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to the Securities and Exchange Commission

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DEVON ENERGY CORPORATION

Part I. Financial Information

Item 1. Consolidated Financial Statements June 30, 1998 and 1997

(Forming a part of Form 10-Q Quarterly Report to the Securities and Exchange Commission)

DEVON ENERGY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 1998 (Unaudited)	December 31, 1997
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,094,585	42,064,344
Accounts receivable	42,360,675	47,507,805
Inventories	2,288,025	2,422,822
Prepaid expenses	1,748,998	799,923
Deferred income taxes	434,000	434,000
Total current assets	69,926,283	93,228,894
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties	1,189,645,968	1,103,320,502
Less: Accumulated depreciation, depletion and amortization	409,471,337	365,517,722
	780,174,631	737,802,780
Other assets	13,055,803	15,371,368
Total assets	\$ 863,156,717	846,403,042
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable:		
Trade	12,395,635	9,628,890
Revenues and royalties due to others	9,659,195	11,531,296
Income taxes payable	-	4,901,940
Accrued expenses	2,423,959	4,750,699
Total current liabilities	24,478,789	30,812,825
Revenues and royalties due to others	2,926,406	2,862,794
Other liabilities	23,765,849	18,177,130
Deferred income taxes	105,935,000	101,474,000
Company-obligated mandatorily redeemable convertible preferred securities of subsidiary trust holding solely 6.5% convertible junior subordinated debentures of Devon Energy Corporation	149,500,000	149,500,000
Stockholders' equity:		
Preferred stock of \$1.00 par value.		
Authorized 3,000,000 shares; none issued	-	-
Common stock of \$.10 par value.		
Authorized 400,000,000 shares; issued		
32,319,894 in 1998 and 32,318,895 in 1997	3,231,990	3,231,890
Additional paid-in capital	392,937,092	392,919,170
Retained earnings	164,470,563	149,946,232
Accumulated other comprehensive earnings (loss) - foreign currency translation adjustments	(4,088,972)	(2,520,999)
Total stockholders' equity	556,550,673	543,576,293
Total liabilities and stockholders' equity	\$ 863,156,717	846,403,042

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Revenues				
Oil sales	\$21,104,046	32,060,026	45,564,146	69,590,006
Gas sales	35,763,986	30,175,836	70,278,561	73,413,977
Natural gas liquids sales	4,000,937	5,523,964	7,988,409	11,327,885
Other	1,683,762	1,891,956	3,603,058	3,219,560
Total revenues	62,552,731	69,651,782	127,434,174	157,551,428
Costs and expenses				
Lease operating expenses	18,487,446	14,528,284	37,112,069	30,340,921
Production taxes	3,515,684	3,745,547	6,539,199	9,055,391
Depreciation, depletion and amortization	23,350,705	20,597,744	45,023,733	40,142,296
General and administrative expenses	3,465,456	3,606,610	6,740,412	6,236,495
Interest expense	40,042	28,231	50,739	159,038
Distributions on preferred securities of subsidiary trust	2,429,376	2,429,376	4,858,751	4,858,751
Total costs and expenses	51,288,709	44,935,792	100,324,903	90,792,892
Earnings before income taxes	11,264,022	24,715,990	27,109,271	66,758,536
Income tax expense				
Current	1,943,000	3,500,000	4,636,000	8,545,000
Deferred	1,706,000	6,386,000	4,717,000	18,158,000
Total income tax expense	3,649,000	9,886,000	9,353,000	26,703,000
Net earnings	\$ 7,615,022	14,829,990	17,756,271	40,055,536
Net earnings per average common share outstanding (Note 2):				
Basic	\$0.24	0.46	0.55	1.25
Diluted	0.24	0.44	0.55	1.15
Weighted average common shares outstanding				
	32,319,828	32,165,904	32,319,364	32,153,667

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Net earnings	\$ 7,615,022	14,829,990	17,756,271	40,055,536
Other comprehensive earnings (loss) - foreign currency translation adjustments (Note 1)	(2,025,183)	152,363	(1,567,973)	(450,798)
Comprehensive earnings	\$ 5,589,839	14,982,353	16,188,298	39,604,738

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	1998	1997
Cash flows from operating activities		
Net earnings	\$ 17,756,271	40,055,536
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	45,023,733	40,142,296
(Gain) loss on sale of assets	(80,198)	(26,681)
Deferred income taxes	4,717,000	18,158,000
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	5,267,203	(9,798,563)
Inventories	119,173	17,285
Prepaid expenses	(1,184,068)	(1,228,235)
Other assets	928,522	(42,005)
Increase (decrease) in:		
Accounts payable	2,246,387	9,900,406
Income taxes payable	(5,150,940)	(1,962,110)
Accrued expenses	(2,321,978)	(1,517,493)
Revenues and royalties due to others	63,612	(214,378)
Long-term other liabilities	233,370	268,798
Net cash provided by operating activities	67,618,087	93,752,856
Cash flows from investing activities		
Proceeds from sale of property and equipment	457,373	1,307,310
Capital expenditures	(89,234,770)	(51,895,414)
Decrease in other assets	31,345	-
Net cash used in investing activities	(88,746,052)	(50,588,104)
Cash flows from financing activities		
Proceeds from borrowings on revolving lines of credit	-	1,847,750
Principal payments on revolving line of credit	-	(9,843,750)
Issuance of common stock	18,022	843,418
Dividends paid on common stock	(3,231,940)	(3,215,995)
Increase in long-term other liabilities	5,584,334	680,377
Net cash provided (used) by financing activities	2,370,416	(9,688,200)
Effect of exchange rate changes on cash	(212,210)	(32,998)
Net increase (decrease) in cash and cash equivalents	(18,969,759)	33,443,554
Cash and cash equivalents at beginning of period	42,064,344	9,401,350
Cash and cash equivalents at end of period	\$ 23,094,585	42,844,904

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements and notes thereto have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in Devon's 1997 annual report on Form 10-K.

In the opinion of Devon's management, all adjustments (all of which are normal and recurring) have been made which are necessary to fairly state the consolidated financial position of Devon and its subsidiaries as of June 30, 1998, and the results of their operations and their cash flows for the three month and six month periods ended June 30, 1998 and 1997.

Comprehensive Earnings (Loss) - Foreign Currency Translation Adjustments

Devon adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," on January 1, 1998. SFAS No. 130 was effective for fiscal years beginning after December 15, 1997. SFAS No. 130 established standards for reporting and display of "comprehensive income" and its components in a set of financial statements. It requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Devon has included such a statement in the accompanying consolidated financial statements.

Devon owns certain oil and gas properties in Canada. For purposes of foreign currency translation, the Canadian dollar is the functional currency for Devon's Canadian operations. Translation adjustments resulting from translating the Canadian subsidiary's foreign currency financial statements into U.S. dollar equivalents are reported separately in the consolidated statements of comprehensive operations, and accumulated in a separate component of stockholders' equity in the consolidated balance sheets. The amounts reported have no related income tax expense or benefit.

Reclassifications

Certain items in the 1997 consolidated statement of cash flows have been reclassified to correspond with the 1998 presentation.

2. Earnings Per Share

The following tables reconcile the net earnings and common shares outstanding used in the calculations of basic and diluted earnings per share for the three month and six month periods ended June 30, 1998 and 1997.

	Net Earnings	Common Shares Outstanding	Net Earnings Per Share
Three Months Ended June 30, 1998:			
Basic earnings per share	\$ 7,615,022	32,319,828	\$ 0.24
Dilutive effect of:			
Potential common shares issuable upon the conversion of Trust Convertible Preferred securities (the increase in net earnings is net of income tax expense of \$963,000)	1,506,489	4,901,507	
Potential common shares issuable upon the exercise of outstanding stock options	-	355,554	
Diluted earnings per share	\$ 9,121,511	37,576,889	\$ 0.24
Three Months Ended June 30, 1997:			
Basic earnings per share	\$ 14,829,990	32,165,904	\$ 0.46
Dilutive effect of:			
Potential common shares issuable upon the conversion of Trust Convertible Preferred securities (the increase in net earnings			

is net of income tax expense of \$963,000)	1,506,489	4,901,507	
Potential common shares issuable upon the exercise of outstanding stock options	-	359,855	
Diluted earnings per share	\$ 16,336,479	37,427,266	\$ 0.44
Six Months Ended June 30, 1998:			
Basic earnings per share	\$ 17,756,271	32,319,364	\$ 0.55
Dilutive effect of:			
Potential common shares issuable upon the conversion of Trust Convertible Preferred securities (the increase in net earnings is net of income tax expense of \$1,926,000)	3,012,978	4,901,507	
Potential common shares issuable upon the exercise of outstanding stock options	-	350,153	
Diluted earnings per share	\$ 20,769,249	37,571,024	\$ 0.55
Six Months Ended June 30, 1997:			
Basic earnings per share	\$ 40,055,536	32,153,667	\$ 1.25
Dilutive effect of:			
Potential common shares issuable upon the conversion of Trust Convertible Preferred securities (the increase in net earnings is net of income tax expense of \$1,926,000)	3,012,977	4,901,507	
Potential common shares issuable upon the exercise of outstanding stock options	-	360,124	
Diluted earnings per share	\$ 43,068,513	37,415,298	\$ 1.15

3. Full Cost Ceiling Test

Under the full cost method of accounting, the net book value of oil and gas properties, less related deferred income taxes, may not exceed a calculated "ceiling." The ceiling limitation is the discounted estimated after-tax future net revenues from proved oil and gas properties. The ceiling is imposed separately by country. In calculating future net revenues, current prices and costs are generally held constant indefinitely. The net book value, less deferred tax liabilities, is compared to the ceiling on a quarterly and annual basis. Any excess of the net book value, less deferred taxes, is generally written off as an expense. Under the Securities and Exchange Commission rules and regulations, the excess above the ceiling is not written off if, subsequent to the end of the quarter or year, but prior to the release of the financial results, prices increase sufficiently such that an excess above the ceiling would not have existed if the increased prices were used in the calculations.

At December 31, 1997, Devon's net book value of oil and gas properties less deferred taxes was well below the calculated ceiling. This excess "cushion" was \$146 million for Devon's U.S. properties and \$18 million for its Canadian properties. From December 31, 1997, to June 30, 1998, the Texas Gulf Coast gas price decreased approximately 17% and the price of West Texas Intermediate crude oil decreased approximately 26%. As a result, as of June 30, 1998, the book value of Devon's U.S. properties, less deferred taxes, exceeded the full cost ceiling by approximately \$24 million. (Devon's Canadian properties had a full cost cushion of approximately \$4 million at June 30, 1998.) However, prices in the U.S. improved sufficiently subsequent to June 30, 1998, but before Devon's second quarter financial statements were released, to restore the U.S. cushion to approximately \$17 million. As a result, Devon was not required to record a reduction of its oil and gas properties under the U.S. full cost method of accounting in the second quarter of 1998. Had Devon been required to record the reduction using June 30, 1998, prices, the reduction would have been approximately \$39 million, offset by approximately \$15 million of deferred income tax benefit.

4. Pending Merger

On June 29, 1998, Devon announced its intention to issue approximately 15.5 million common shares in a merger with Northstar Energy Corporation ("Northstar"), a Canadian independent oil and gas producer. The merger is subject to approval by the shareholders of both companies as well as certain regulatory and court approvals. If approved, the merger is expected to be consummated late in the third quarter or early in the fourth quarter of 1998. The merger is anticipated to be accounted for under the pooling-of-interests method of accounting for business combinations. Therefore, upon consummation of the merger, Devon's previously reported financial results will be adjusted to combine its results with those of Northstar and its predecessors.

Northstar's proved oil and gas reserves, all of which are located in Canada, totaled 128 million barrels of oil equivalent at December 31, 1997. These barrels included 6 million barrels of oil equivalent owned through Northstar's share of an entity accounted for under the equity method of accounting.

On July 8, 1998, Devon filed a Form 8-K concerning this pending merger. The Form 8-K contains further disclosures regarding the merger and

certain financial data concerning both companies.

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

The following discussion addresses material changes in results of operations for the three month and six month periods ended June 30, 1998, compared to the three month and six month periods ended June 30, 1997, and in financial condition since December 31, 1997. It is presumed that readers have read or have access to Devon's 1997 annual report on Form 10-K.

Overview

Production for the second quarter of 1998 totaled 5.2 million barrels of oil equivalent ("Boe") of oil, natural gas and natural gas liquids ("NGL"). This was an increase of 3% above 1997's second quarter production total. However, due to lower oil and NGL prices, 1998's second quarter revenues of \$62.6 million were down 10% compared to the comparable 1997 total of \$69.7 million. The reduction in second quarter revenues also led

[FN]

to lower net earnings and cash margin¹. Net earnings for the second quarter of 1998 of \$7.6 million were 49% below 1997's second quarter net earnings of \$14.8 million. Basic net earnings per share in the 1998 quarter were \$0.24 per share compared to \$0.46 per share in the 1997 quarter. Cash margin in the second quarter of 1998 of \$32.7 million was 22% below the second quarter of 1997's cash margin of \$41.8 million.

Production for the first six months of 1998 totaled 10.3 million Boe. This was an increase of 3% above 1997's first half production total. However, average oil, gas and NGL prices for the first half of 1998 were significantly lower than in the first half of 1997. These lower prices led to reductions in revenues, net earnings and cash margin in the 1998 period. Total revenues in the 1998 period of \$127.4 million were 19% below the comparable 1997 total of \$157.6 million. Net earnings for the first half of 1998 of \$17.8 million were 56% below 1997's first half net earnings of \$40.1 million. Basic net earnings per share in the first six months of 1998 were \$0.55 per share compared to \$1.25 per share in the comparable 1997 period. Cash margin in the first half of 1998 of \$67.5 million was 31% below the total of \$98.4 million for the first half of 1997.

[FN]

¹ "Cash margin" equals Devon's total revenues less cash expenses. Cash expenses are all expenses other than the non-cash expenses of depreciation, depletion and amortization and deferred income tax expense. Cash margin is an indicator which is commonly used in the oil and gas industry. This margin measures the net cash which is generated by a company's operations during a give period, without regard to the period such cash is actually physically received or spent by the company. This margin ignores the non-operations effects on a company's activities as an operator of oil and gas wells. Such activities produce net increases or decreases in temporary cash funds held by the operator which have no effect on net earnings of the company. Cash margin should be used as a supplement to, and not as a substitute for, net earnings and net cash provided by operating activities determined in accordance with generally accepted accounting principles in analyzing Devon's results of operations and liquidity.

Results of Operations

Total revenues decreased \$7.1 million, or 10%, in the second quarter of 1998, and \$30.1 million, or 19%, in the first half of 1998. These decreases were caused by reductions in the average prices of oil, gas and NGLs. Oil, gas and NGL revenues were down \$6.9 million, or 10%, in the second quarter of 1998, and \$30.5 million, or 20%, in the first half of 1998. The relative contributions of production and price changes to the quarterly comparisons of revenues are shown in the tables below. (Note:

Unless otherwise stated, all references in this report to dollar amounts regarding Devon's Canadian operations are expressed in U.S. dollars.)

	Three Months Ended			Total		
	1998	June 30, 1997	Change	1998	Six Months Ended June 30, 1997	Change
Production						
Oil (Bbls)	1,672,934	1,738,187	-4%	3,397,044	3,493,452	-3%
Gas (Mcf)	18,621,648	17,314,448	+8%	36,617,951	34,332,323	+7%
NGL (Bbls)	412,359	432,393	-5%	802,498	800,498	- %
Oil, Gas and NGL (Boe) ¹	5,188,901	5,056,321	+3%	10,302,534	10,016,004	+3%
Revenues						
Oil	\$21,104,046	32,060,026	-34%	45,564,146	69,590,006	-35%
Gas	35,763,986	30,175,836	+19%	70,278,561	73,413,977	-4%
NGL	4,000,937	5,523,964	-28%	7,988,409	11,327,885	-29%
Combined	\$60,868,969	67,759,826	-10%	123,831,116	154,331,868	-20%
Average Prices						
Oil (Per Bbl)	\$12.61	18.44	-32%	13.41	19.92	-33%
Gas (Per Mcf)	\$ 1.92	1.74	+10%	1.92	2.14	-10%
NGL (Per Bbl)	\$ 9.70	12.78	-24%	9.95	14.15	-30%
Oil, Gas and NGL						

(Per Boe) ¹	\$11.73	13.40	-12%	12.02	15.41	-22%
Domestic						
	Three Months Ended June 30,			Six Months Ended June 30,		
	1998	1997	Change	1998	1997	Change
Production						
Oil (Bbls)	1,421,338	1,503,440	-5%	2,906,482	3,017,022	-4%
Gas (Mcf)	16,666,329	15,198,083	+10%	32,600,865	30,098,825	+8%
NGL (Bbls)	377,683	385,379	-2%	731,479	718,994	+2%
Oil, Gas and NGL (Boe) ¹	4,576,743	4,421,833	+4%	9,071,439	8,752,487	+4%
Revenues						
Oil	\$17,958,664	27,761,317	-35%	39,066,565	60,216,142	-35%
Gas	33,096,925	27,708,475	+19%	65,077,468	67,319,351	-3%
NGL	3,454,550	4,790,391	-28%	6,999,673	9,981,159	-30%
Combined	\$54,510,139	60,260,183	-10%	111,143,706	137,516,652	-19%
Average Prices						
Oil (Per Bbl)	\$12.64	18.47	-32%	13.44	19.96	-33%
Gas (Per Mcf)	\$ 1.99	1.82	+9%	2.00	2.24	-11%
NGL (Per Bbl)	\$ 9.15	12.43	-26%	9.57	13.88	-31%
Oil, Gas and NGL (Per Boe) ¹	\$11.91	13.63	-13%	12.25	15.71	-22%
Canada						
	Three Months Ended June 30,			Six Months Ended June 30,		
	1998	1997	Change	1998	1997	Change
Production						
Oil (Bbls)	251,596	234,747	+7%	490,562	476,430	+3%
Gas (Mcf)	1,955,319	2,116,365	-8%	4,017,086	4,233,498	-5%
NGL (Bbls)	34,676	47,014	-26%	71,019	81,504	-13%
Oil, Gas and NGL (Boe) ¹	612,158	634,488	-4%	1,231,095	1,263,517	-3%
Revenues						
Oil	\$3,145,382	4,298,709	-27%	6,497,581	9,373,864	-31%
Gas	2,667,061	2,467,361	+8%	5,201,093	6,094,626	-15%
NGL	546,387	733,573	-26%	988,736	1,346,726	-27%
Combined	\$ 6,358,830	7,499,643	-15%	12,687,410	16,815,216	-25%
Average Prices						
Oil (Per Bbl)	\$12.50	18.31	-32%	13.25	19.68	-33%
Gas (Per Mcf)	\$ 1.36	1.17	+16%	1.29	1.44	-10%
NGL (Per Bbl)	\$15.76	15.60	+1%	13.92	16.52	-16%
Oil, Gas and NGL (Per Boe) ¹	\$10.39	11.82	-12%	10.31	13.31	-23%

¹ Gas is converted to barrels of oil equivalent ("Boe") at the rate of six Mcf per barrel of oil, based upon the approximate relative energy content of natural gas and oil, which rate is not necessarily indicative of the relationship of oil, gas and NGL prices. The respective prices of these products are affected by market and other factors in addition to relative energy content.

Oil Revenues. Oil revenues decreased \$11.0 million, or 34%, in the second quarter of 1998. A decrease in the average price of \$5.83 per barrel, or 32%, reduced oil revenues by \$9.8 million. The remaining \$1.2 million reduction in oil revenues was caused by a 65,000 barrel, or 4%, decrease in production.

Oil revenues decreased \$24.0 million, or 35%, in the first half of 1998. A decrease in the average price of \$6.51 per barrel, or 33%, reduced oil revenues by \$22.1 million. The remaining \$1.9 million reduction in oil revenues was caused by a 96,000 barrel, or 3%, decrease in production.

Gas Revenues. Gas revenues increased \$5.6 million, or 19%, in the second quarter of 1998. An increase in the average price of \$0.18 per Mcf, or 10%, increased gas revenues by \$3.3 million. The remaining \$2.3 million of increased gas sales was caused by a 1.3 Bcf, or 8%, increase in gas production.

Devon's coal seam gas properties produced 5.1 Bcf of gas in the second quarter of 1998 compared to 4.5 Bcf in the second quarter of 1997. During the last two years, Devon has conducted a program of mechanical improvements at the Northeast Blanco Unit coal seam gas property. Such program has resulted in the majority of the quarterly and year-to-date gains in coal seam gas production during 1998. Devon's other

domestic properties produced 11.6 Bcf in 1998's second quarter compared to 10.7 Bcf produced in 1997's second quarter. This increase was primarily due to new wells drilled since the middle of 1997.

The coal seam gas properties averaged \$1.76 per Mcf in 1998's second quarter compared to the average of \$1.74 per Mcf in 1997's second quarter. Devon's other domestic gas properties averaged \$2.09 per Mcf in the 1998 quarter compared to \$1.86 per Mcf in the 1997 quarter.

Gas revenues decreased \$3.1 million, or 4%, in the first half of 1998. A decrease in the average price of \$0.22 per Mcf, or 10%, reduced gas revenues by \$8.0 million. A 2.3 Bcf, or 7%, increase in gas production offset \$4.9 million of the reduction caused by lower prices.

Devon's coal seam gas properties produced 10.1 Bcf of gas in the first half of 1998 compared to 8.6 Bcf in the first half of 1997. Devon's other domestic properties produced 22.5 Bcf in 1998's first six months compared to 21.5 Bcf produced in 1997's first six months. The coal seam gas properties averaged \$1.79 per Mcf in 1998's first six months compared to the average of \$2.06 per Mcf in 1997's first half. Devon's other domestic gas properties averaged \$2.09 per Mcf in the first half of 1998 compared to \$2.31 per Mcf in the first half of 1997.

NGL Revenues. NGL revenues decreased \$1.5 million, or 28%, in the second quarter of 1998. A decrease in the average price of \$3.08 per barrel, or 24%, reduced NGL revenues by \$1.3 million. A 20,000 barrel, or 5%, decline in production caused the remaining \$0.2 million of decrease in NGL revenues.

NGL revenues decreased \$3.3 million, or 29%, in the first half of 1998. A decrease in the average price of \$4.20 per barrel, or 30%, reduced NGL revenues by \$3.3 million. A 2,000 barrel increase in production had only a minimal impact on revenues.

Other Revenues. Other revenues decreased \$0.2 million, or 11%, in the second quarter of 1998. This was primarily caused by a \$0.3 million decrease in third party processing income. Other revenues increased \$0.4 million, or 12%, in the first half of 1998, primarily due to a \$0.5 million increase in interest income.

Production and Operating Expenses. Components of production and operating expenses in the second quarter and first half of 1998 increased or decreased compared to 1997 as shown in the tables below.

	Three Months Ended			Total		
	1998	June 30, 1997	Change	1998	Six Months Ended June 30, 1997	Change
Expenses						
Recurring operations and maintenance expenses	\$17,145,655	13,713,587	+25%	34,495,782	28,574,806	+21%
Well workover expenses	1,341,791	814,697	+65%	2,616,287	1,766,115	+48%
Production taxes	3,515,684	3,745,547	-6%	6,539,199	9,055,391	-28%
Total production and operating expenses	\$22,003,130	18,273,831	+20%	43,651,268	39,396,312	+11%
Expenses Per Boe						
Recurring operations and maintenance expenses	\$3.30	2.71	+22%	3.35	2.85	+18%
Well workover expenses	0.26	0.16	+63%	0.25	0.18	+39%
Production taxes	0.68	0.74	-8%	0.64	0.90	-29%
Total production and operating expenses	\$4.24	3.61	+17%	4.24	3.93	+8%

	Three Months Ended			Domestic		
	1998	June 30, 1997	Change	1998	Six Months Ended June 30, 1997	Change
Expenses						
Recurring operations and maintenance expenses	\$15,394,018	12,453,033	+24%	30,878,495	25,664,160	+20%
Well workover expenses	1,297,485	642,130	+102%	2,485,257	1,560,690	+59%
Production taxes	3,449,313	3,743,006	-8%	6,405,693	8,918,077	-28%
Total production and operating expenses	\$20,140,816	16,838,169	+20%	39,769,445	36,142,927	+10%
Expenses Per Boe						
Recurring operations and maintenance expenses	\$3.36	2.82	+19%	3.40	2.93	+16%
Well workover expenses	0.28	0.14	+100%	0.27	0.18	+50%
Production taxes	0.76	0.85	-11%	0.71	1.02	-30%
Total production and operating expenses	\$4.40	3.81	+15%	4.38	4.13	+6%

	Canada					
	Three Months Ended			Six Months Ended		
	1998	June 30, 1997	Change	1998	June 30, 1997	Change
Expenses						
Recurring operations and maintenance expenses	\$1,751,637	1,260,554	+39%	3,617,287	2,910,646	+24%
Well workover expenses	44,306	172,567	-74%	131,030	205,425	-36%
Production taxes	66,371	2,541	NM	133,506	137,314	-3%
Total production and operating expenses	\$1,862,314	1,435,662	+30%	3,881,823	3,253,385	+19%
Expenses Per Boe						
Recurring operations and maintenance expenses	\$2.86	1.99	+44%	2.94	2.30	+28%
Well workover expenses	0.07	0.27	-74%	0.10	0.16	-38%
Production taxes	0.11	-	NM	0.11	0.11	- %
Total production and operating expenses	\$3.04	2.26	+35%	3.15	2.57	+23%

NM - Not a meaningful figure.

Recurring operations and maintenance expenses increased \$3.4 million, or 25%, in the second quarter of 1998. Expenses incurred on new wells and property acquisitions added since the second quarter of 1997 accounted for \$2.0 million of the increase. Also, the quarterly portion of estimated annual ad valorem taxes increased \$0.4 million in the 1998 quarter. However, approximately \$0.3 million of this increase is due to timing differences between the periods, as 1997's annual ad valorem taxes were underestimated during the first three quarters of 1997. The remaining \$1.0 million of increased expenses in the second quarter were evenly split between the U.S. and Canada. The \$0.5 million increase in the U.S. was primarily the result of vendor and wage increases since the middle of 1997. The \$0.5 million increase in Canada was primarily caused by accounting adjustments in the 1997 quarter that reduced that period's expense to an amount that was unusually low.

Production taxes decreased \$0.2 million, or 6%, in the second quarter of 1998. The majority of this decrease was related to the 10% decrease in total oil, gas and NGL revenues in the 1998 quarter.

Recurring operations and maintenance expenses increased \$5.9 million, or 21%, in the first half of 1998. Expenses incurred on new wells and property acquisitions added since the middle of 1997 accounted for \$3.6 million of the increase. Also, the quarterly portion of estimated annual ad valorem taxes increased \$1.5 million in the first six months of 1998. However, approximately \$1.2 million of this increase is due to timing differences between the periods, as 1997's annual ad valorem taxes were underestimated during the first three quarters of 1997.

Production taxes decreased \$2.5 million, or 28%, in the first half of 1998. The majority of this decrease was related to the 20% decrease in total oil, gas and NGL revenues in the 1998 period. Additionally, production taxes dropped in the 1998 period due to the benefit of lower rates on certain Texas and Wyoming properties that qualified for either lower production tax rates or as tax-exempt properties.

Depreciation, Depletion and Amortization Expense ("DD&A"). Oil and gas property related DD&A increased \$2.7 million, or 14%, from \$19.9 million in the second quarter of 1997 to \$22.6 million in the second quarter of 1998. An increase in the DD&A rate from \$3.94 per Boe in 1997's second quarter to \$4.36 per Boe in 1998's second quarter accounted for \$2.2 million of the increase in DD&A expense. The remaining \$0.5 million of increase was caused by the 133,000 Boe, or 3%, increase in total oil, gas and NGL production in the 1998 quarter.

Oil and gas property related DD&A increased \$4.8 million, or 12%, from \$38.8 million in the first half of 1997 to \$43.6 million in the first half of 1998. An increase in the DD&A rate from \$3.87 per Boe in 1997's first six months to \$4.23 per Boe in 1998's first six months accounted for \$3.7 million of the increase in DD&A expense. The remaining \$1.1 million of increase was caused by the 287,000 Boe, or 3%, increase in total oil, gas and NGL production in the 1998 period.

General and Administrative Expenses ("G&A"). G&A decreased \$0.1 million, or 4%, in the second quarter of 1998. Employee salaries and related overhead costs, including insurance and pension expense, increased \$0.9 million in the 1998 quarter. This increase was due to a combination of compensation increases and an increase in the number of personnel in Devon's Oklahoma City and Calgary offices. The increase in salaries and related overhead was partially offset by an increase in the amount of such costs that were capitalized pursuant to the full cost method of accounting. Approximately \$1.6 million of costs were capitalized in the second quarter of 1998 compared to \$0.9 million in the second quarter of 1997.

Net G&A was reduced by an increase in Devon's overhead reimbursements. As the operator of a property, Devon receives these reimbursements from the property's working interest owners. Devon records the reimbursements as reductions to G&A. In the second quarter of 1998, these reimbursements increased \$0.5 million compared to the second quarter of 1997.

G&A increased \$0.5 million, or 8%, in the first six months of 1998. Employee salaries and related overhead costs, including insurance and pension expense, increased \$1.8 million in the 1998 period. This increase was due to a combination of compensation increases and an increase in the number of personnel in Devon's Oklahoma City and Calgary offices. The increase in salaries and related overhead was partially offset by an increase in the amount of such costs that were capitalized pursuant to the full cost method of accounting. Approximately \$2.9 million of

costs were capitalized in the first half of 1998 compared to \$1.8 million in the first half of 1997. Other G&A items that incurred significant increases in the 1998 quarter were costs of leasing various office equipment and data related to exploration activities, which were up \$0.2 million, and costs of abandoned acquisitions, which were also up \$0.2 million.

Net G&A in 1998's first six months was reduced by a \$0.8 million increase in Devon's overhead reimbursements received in the 1998 period.

Interest Expense. Interest expense incurred in the second quarters of 1998 and 1997 were comparable and were immaterial to the overall financial results of each period. Interest expense decreased \$0.1 million, or 68%, in the first half of 1998. The average debt balance decreased from \$1.5 million in the first half of 1997 to zero in the first half of 1998. Interest expense recorded in the 1998 period consists primarily of facility and agency fees paid under the terms of Devon's long-term credit facilities, offset by \$0.2 million of gain recognized from a 1996 termination of an interest rate swap. As of June 30, 1998, all of such gain has been recognized and the 1996 termination will not affect future periods.

See "Capital Expenditures, Capital Resources and Liquidity - Capital Resources and Liquidity" elsewhere herein for a discussion of changes in Devon's long-term credit facilities during 1998's second quarter.

Distributions on Preferred Securities of Subsidiary Trust. Devon issued \$149.5 million of 6.5% Trust Convertible Preferred Securities ("TCP Securities") in July, 1996. The proceeds from this issuance were used to substantially retire Devon's long-term bank debt. Distributions on the TCP Securities accrue and are paid at the rate of 1.625% per quarter.

Income Taxes. During interim periods, income tax expense is based on the estimated effective income tax rate that is expected for the entire fiscal year. The estimated effective tax rates in the second quarter and first half of 1998 were 32.4% and 34.5%, respectively, compared to 40% estimated in the second quarter and first half of 1997. (However, the eventual actual tax rate for the year 1997 was reduced to 38%.) The lower rate in 1998's second quarter includes the effect of Devon lowering its estimated tax rate for the year 1998 from 36% estimated as of the end of the first quarter to a revised estimate of 34.5%.

Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement 109"), requires that the tax benefit of available tax carryforwards be recorded as an asset to the extent that management assesses the utilization of such carryforwards to be "more likely than not". When the future utilization of some portion of the carryforwards is determined not to be "more likely than not", Statement 109 requires that a valuation allowance be provided to reduce the recorded tax benefits from such assets.

Included as deferred tax assets at June 30, 1998, were approximately \$2.9 million of net operating loss carryforwards. The carryforwards include federal net operating loss carryforwards, the majority of which do not begin to expire until 2007, and state net operating loss carryforwards that expire primarily between 1999 and 2011. Devon expects the tax benefits from the net operating loss carryforwards to be utilized between 1998 and 2001. Such expectation is based upon current estimates of taxable income during this period, considering limitations on the annual utilization of these benefits as set forth by federal tax regulations. Significant changes in such estimates caused by variables such as future oil and gas prices or capital expenditures could alter the timing of the eventual utilization of such carryforwards. There can be no assurance that Devon will generate any specific level of continuing taxable earnings. However, management believes that Devon's future taxable income will more likely than not be sufficient to utilize substantially all of its tax carryforwards prior to their expiration.

Capital Expenditures, Capital Resources and Liquidity

The following discussion of capital expenditures, capital resources and liquidity should be read in conjunction with the consolidated statements of cash flows included in Part 1, Item 1 elsewhere herein.

Capital Expenditures. Cash used for capital expenditures increased 72% from \$51.9 million in the first half of 1997 to \$89.2 million in the first half of 1998. Approximately \$87.2 million was spent in the 1998 period on acquisitions, exploration and development efforts, compared to \$50.0 million spent in the first six months of 1997.

Capital Resources and Liquidity. Net cash provided by operating activities ("operating cash flow") continued to be the primary source of capital and liquidity in the first half of 1998. Operating cash flow in the first half of 1998 was \$67.6 million, compared to \$93.8 million in the first half of 1997. Lower revenues caused by average price declines, as discussed earlier, were the primary cause for the reduction in operating cash flow in 1998.

Devon's operating and financing cash flow in the first half of 1998, combined with cash on hand, was more than sufficient to fund the period's capital expenditures and dividend requirements. Therefore, Devon did not utilize its credit lines during the period. On May 15, 1998, Devon entered into a new long-term credit facility with its lenders. The new facility is an unsecured "balance sheet" facility that replaced the previous unsecured "borrowing base" facility. The amount of credit available under the new facility as of June 30, 1998, was \$208 million, which was unchanged from the previous facility. If so desired, Devon believes its lenders would increase its credit lines to at least \$450 million to \$500 million. Also, Devon had a demand facility for its Canadian operations which totalled \$12.5 million in Canadian dollars. All of this Canadian facility also was available for future use.

Impact of Recently Issued Accounting Standards Not Yet Adopted. In February, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No.

132 revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer as useful as they previously were. SFAS No. 132 is effective for fiscal years beginning after December 15, 1997. Devon will adopt the new disclosure requirements in its annual financial statements for the year ending December 31, 1998.

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in the fair value of a derivative (that is gains and losses) depends on the intended use of the derivative and the resulting designation. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. It is expected that Devon will adopt the provision of SFAS No. 133 as of January 1, 2000. If the provisions of SFAS No. 133 were to be applied as of June 30, 1998, it would not have a material effect on Devon's financial position as of such date, or the results of operations for the six month period then ended.

Pending Merger. On June 29, 1998, Devon announced its intention to issue approximately 15.5 million common shares in a merger with Northstar Energy Corporation ("Northstar"), a Canadian independent oil and gas producer. The merger is subject to approval by the shareholders of both companies as well as certain regulatory and court approvals. If approved, the merger is expected to be consummated late in the third quarter or early in the fourth quarter of 1998. The merger is anticipated to be accounted for under the pooling-of-interests method of accounting for business combinations. Therefore, upon consummation of the merger, Devon's previously reported financial results will be adjusted to combine its results with those of Northstar and its predecessors.

Northstar's proved oil and gas reserves, all of which are located in Canada, totaled 128 million barrels of oil equivalent at December 31, 1997. These barrels included 6 million barrels of oil equivalent owned through Northstar's share of an entity accounted for under the equity method of accounting.

On July 8, 1998, Devon filed a Form 8-K concerning this pending merger. The Form 8-K contains further disclosures regarding the merger and certain financial data concerning both companies.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Part II. Other Information

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Company's annual meeting of shareholders was held in Oklahoma City, Oklahoma at 11:00 a.m. local time, on Wednesday, May 20, 1998.

(b) Proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended. There was no solicitation in

opposition to the nominees for election as directors as listed in the proxy statement and all nominees were elected.

(c) Out of a total of 32,317,169 shares of the Company's common stock outstanding and entitled to vote, 30,069,225 shares were present at the meeting in person or by proxy, representing approximately 93

percent of the total outstanding. The only matter voted upon at the meeting was the election of three directors to serve on the Company's board of directors until the 2001 annual meeting of shareholders. The vote tabulation with respect to each nominee was as follows:

Nominee	For	Authority Withheld
David M. Gavrin	29,953,681	115,544
Tom J. McDaniel	29,953,193	116,032
John W. Nichols	29,947,399	121,826

Item 5. Other Information

Discretionary Voting of Proxies at Annual Meeting. Devon will exercise discretionary authority to vote proxies at Devon's next annual meeting of shareholders on any shareholder proposal for which the shareholder has not requested inclusion in Devon's proxy statement unless the shareholder notifies Devon of the proposal and the shareholder's intention to present the proposal from the floor of the meeting not later than February 13, 1999.

Item 6. Exhibits and Reports on Form 8-K

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

Exhibit
No.

2.1 Agreement and Plan of Merger among Registrant, Devon Energy Corporation (Nevada), Kerr-McGee Corporation, Kerr-McGee North American Onshore Corporation and Kerr-McGee Canada Onshore Ltd., dated October 17, 1996 (incorporated by reference to Addendum A to Registrant's definitive proxy statement for a special meeting of shareholders, filed on November 6, 1996).

3.1 Registrant's Certificate of Incorporation, as amended (incorporated by reference to Exhibit B to Registrant's definitive Proxy Statement for its 1995 Annual Meeting of Shareholders filed on April

21, 1995).

3.2 Registrant's Certificate of Amendment of
Certificate of Incorporation (incorporated by

reference to Exhibit 2 to Registrant's Current Report on Form 8-K dated December 31, 1996).

3.3 Registrant's Bylaws (incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form 8-B filed on June 7, 1995).

4.1 Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form 8-B filed on June 7, 1995).

4.2 Rights Agreement between Registrant and The First National Bank of Boston (incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form 8-B filed on June 7, 1995).

4.3 First Amendment to Rights Agreement between Registrant and The First National Bank of Boston dated October 16, 1996 (incorporated by reference to Exhibit H-1 to Addendum A to Registrant's definitive proxy statement for a special meeting of shareholders, filed on November 6, 1996).

4.4 Second Amendment to Rights Agreement between Registrant and the First National Bank of Boston, dated December 31, 1996 (incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K dated December 31, 1996).

4.5 Certificate of Designations of Series A Junior Participating Preferred Stock of Registrant (incorporated by reference to Exhibit 3.3 to Registrant's Registration Statement on Form 8-B filed on June 7, 1995).

4.6 Certificate of Trust of Devon Financing Trust
[incorporated by reference to Exhibit 4.5 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

4.7 Amended and Restated Declaration of Trust of Devon Financing Trust dated as of July 3, 1996, by J. Larry Nichols, H. Allen Turner, William T. Vaughn, The Bank of New York (Delaware) and The Bank of New York as Trustees and the Registrant as Sponsor
[incorporated by reference to Exhibit 4.6 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

4.8 Indenture dated as of July 3, 1996, between the Registrant and The Bank of New York [incorporated by reference to Exhibit 4.7 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

4.9 First Supplemental Indenture dated as of July 3, 1996, between the Registrant and The Bank of New York [incorporated by reference to Exhibit 4.8 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

4.10 Form of 6 1/2% Preferred Convertible Securities (included as Exhibit A-1 to Exhibit 4.7 above).

4.11 Form of 6 1/2% Convertible Junior Subordinated Debentures (included in Exhibit 4.7 above).

4.12 Preferred Securities Guarantee Agreement dated July 3, 1996, between Registrant, as Guarantor, and The Bank of New York, as Preferred Guarantee Trustee [incorporated by reference to Exhibit 4.11 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

4.13 Stock Rights and Restrictions Agreement dated as of December 31, 1996, between Registrant and Kerr- McGee Corporation (incorporated by reference to Exhibit 4.3 to Registrant's Current Report on Form 8-K dated December 31, 1996).

4.14 Registration Rights Agreement, dated December 31, 1996, by and between Registrant and Kerr-McGee

Corporation (incorporated by reference to Exhibit
4.4 to Registrant's Current Report on Form 8-K
dated December 31, 1996).

10.1 Credit Agreement, dated May 15, 1998, among the Registrant and Devon Energy Corporation (Nevada), as Borrowers, NationsBank, N.A., as Agent, and NationsBank, N.A., Bank One, Texas, N.A., Bank of Montreal and First Union National Bank, as Lenders.

10.2 Devon Energy Corporation 1988 Stock Option Plan
[incorporated by reference to Exhibit 10.4 to Registrant's Registration Statement on Form S-4 (No. 33-23564)].*

10.3 Devon Energy Corporation 1993 Stock Option Plan (incorporated by reference to Exhibit A to Registrant's Proxy Statement for the 1993

Annual Meeting of Shareholders filed on May 6, 1993).*

10.4 Devon Energy Corporation 1997 Stock
Option Plan (incorporated by reference to Exhibit
A to Registrant's Proxy Statement for the 1997
Annual Meeting of Shareholders filed on April 3,
1997).*

10.5 Severance Agreement among Devon Energy Corporation (Nevada), Registrant and Mr. J. Larry Nichols, dated December 3, 1992 (incorporated by reference to Exhibit 10.10 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).*

10.6 Severance Agreement among Devon Energy Corporation (Nevada), Registrant and Mr. J. Michael Lacey, dated December 3, 1992 (incorporated by reference to Exhibit 10.12 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).*

10.7 Severance Agreement among Devon Energy Corporation (Nevada), Registrant and Mr. H. Allen Turner, dated December 3, 1992 (incorporated by reference to Exhibit 10.13 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).*

10.8 Severance Agreement among Devon Energy Corporation (Nevada), Registrant and Mr. Darryl G. Smette, dated December 3, 1992 (incorporated by reference to Exhibit 10.14 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).*

10.9 Severance Agreement among Devon Energy Corporation (Nevada), Registrant and Mr. William T. Vaughn, dated December 3, 1992 (incorporated by reference to Exhibit 10.15 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).*

10.10 Severance Agreement among Devon Energy Corporation (Nevada), Registrant and Duke R. Ligon dated March 26, 1997 (incorporated by reference to Exhibit 10.11 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).*

10.11 Employment Agreement between Devon Energy Corporation (Nevada), Registrant and Duke R. Ligon, dated February 7, 1997 (incorporated by reference to Exhibit 10.12 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).*

10.12 Supplemental Retirement Income Agreement among Devon Energy Corporation (Nevada), Registrant and John W. Nichols, dated March 26, 1997 (incorporated by reference to Exhibit 10.13 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).*

10.13 Sale and Purchase Agreement relating to Registrant's San Juan Basin gas properties (incorporated by reference to Exhibit 10.15 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).

10.14 Second Restatement of and Amendment to Sale and Purchase Agreement relating to Registrant's San Juan Basin gas properties (incorporated by reference to Exhibit 10.16 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).

10.15 Registration Rights Agreement dated July 3, 1996, by and among the Registrant, Devon Financing Trust and Morgan Stanley & Co. Incorporated [incorporated by reference to Exhibit 10.1 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

* Compensatory plans or arrangements.

(b) Reports on Form 8-K - No reports on Form 8-K were filed during the three months ended June 30, 1998. A report on Form 8-K was filed on July 8, 1998, regarding Devon's pending merger with Northstar Energy Corporation.

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 5, 1998

*/s/Danny J. Heatly
Danny J. Heatly
Controller*

INDEX TO EXHIBITS

Page

2.1 Agreement and Plan of Merger and Reorganization by and # among Registrant and Devon Energy Corporation, a Delaware corporation, dated as of April 13, 1995

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3.2 Registrant's Certificate of Amendment of Certificate of # Incorporation

3.3 Registrant's Bylaws #

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Incorporated by reference.

ARTICLE 5

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	JUN 30 1998
CASH	23094585
SECURITIES	0
RECEIVABLES	42360675
ALLOWANCES	0
INVENTORY	2288025
CURRENT ASSETS	69926283
PP&E	1189645968
DEPRECIATION	409471337
TOTAL ASSETS	863156717
CURRENT LIABILITIES	24478789
BONDS	0
PREFERRED MANDATORY	3231990
PREFERRED	0
COMMON	0
OTHER SE	553318683
TOTAL LIABILITY AND EQUITY	863156717
SALES	123831116
TOTAL REVENUES	127434174
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	43651268
LOSS PROVISION	0
INTEREST EXPENSE	50739
INCOME PRETAX	27109271
INCOME TAX	9353000
INCOME CONTINUING	17756271
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	17756271
EPS PRIMARY	0.55
EPS DILUTED	0.55

CREDIT AGREEMENT

DEVON ENERGY CORPORATION

and

DEVON ENERGY CORPORATION (NEVADA),

as Borrowers,

NATIONSBANK, N.A.

as Agent,

and

CERTAIN FINANCIAL INSTITUTIONS

as Lenders

\$200,000,000 (U.S.)

May 15, 1998

CREDIT AGREEMENT

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- Exhibit G -- Letter of Credit Application and Agreement

CREDIT AGREEMENT

THIS CREDIT AGREEMENT is made as of the 15th day of May, 1998, by and among Devon Energy Corporation, an Oklahoma corporation ("Parent"), and Devon Energy Corporation (Nevada), a Nevada corporation ("Devon Nevada"), as Borrowers (Parent and Devon Nevada each individually a "Borrower", and collectively, "Borrowers"), NationsBank, N.A., a national banking association, as Agent ("Agent"), and the financial institutions named below, as Lenders ("Lenders"). In consideration of the mutual covenants and agreements contained herein the parties hereto agree as follows:

ARTICLE I -- Definitions and References

Section 1.1. Defined Terms. As used in this Agreement, each of the following terms has the meaning given it in this Section 1.1 or in the sections and subsections referred to below:

"Adjusted Eurodollar Rate" means, with respect to each particular Eurodollar Portion of a Loan and the associated Eurodollar Rate and Reserve Percentage, the rate per annum calculated by Agent (rounded upwards, if necessary, to the next higher 0.01%) determined on a daily basis pursuant to the following formula:

Adjusted Eurodollar Rate =

Eurodollar Rate + Euro Margin 100.0% - Reserve Percentage

Such Adjusted Eurodollar Rate shall change as the Euro Margin and the associated Reserve Percentage change.

"Advance" means an advance under Section 2.1 or 2.7(a).

"Affiliate" means, as to any Person, each other Person that directly or indirectly (through one or more intermediaries or otherwise) controls, is controlled by, or is under common control with, such Person.

"Agent" means NationsBank, N.A., as Agent hereunder and as issuer of Letters of Credit hereunder, and its successors in such capacity.

"Agreement" means this Credit Agreement.

"Authorized Officer" means, with respect to any act to be performed or duty to be discharged by or on behalf of any Person who is not an individual, any officer, agent or representative thereof who is at the time in question authorized to perform such act or discharge such duty on behalf of such Person.

"Borrower's Rating" means from time to time the rating set forth in the fourth column of the following table, based upon the rating (or its then equivalent) at such time given by at least two Rating Agencies as set forth in the first three columns below, to Borrower's non-credit enhanced, senior unsecured long-term debt securities:

S&P Rating	Moody's Rating	Duff & Phelps Rating	Borrower's Rating
BBB+ or higher	Baa1 or higher	BBB+ or higher	BBB+/Baa1
BBB or higher	Baa2 or higher	BBB or higher	BBB/Baa2
BBB- or higher	Baa3 or higher	BBB- or higher	BBB-/Baa3
lower than BBB-	lower than Baa3	lower than BBB-	Non-Investment

"Base Rate" means the per annum rate of interest equal to Agent's Prime Rate. As used in this paragraph, Agent's "Prime Rate" means the rate of interest established by Agent from time to time as its "prime rate". Such rate is set by Agent as a general reference rate of interest, taking into account such factors as it may deem appropriate, it being understood that many of Agent's commercial or other loans are priced in relation to such rate, that it is not necessarily the lowest or the best rate actually charged to any customer, that it may not correspond with further increases or decreases in interest rates charged by other lenders or market rates in general and that Agent may make various commercial or other loans at rates of interest having no relationship to such rate. If Agent's Prime Rate changes after the date hereof the Base Rate shall be automatically increased or decreased, as the case may be, without notice to Borrower from time to time as of the effective time of each change in Agent's Prime Rate.

"Base Rate Portion" means that portion of the unpaid principal balance of any Loan which is not made up of Fixed Rate Portions.

"Basis Point" means one one-hundredth of one percent (0.01%)

"Borrower" means each of Parent and Devon Nevada, and "Borrowers" means, collectively, each Borrower.

"Business Day" means a day on which commercial banks are open for business with the public in Dallas, Texas. Any Business Day in any way relating to Eurodollar Portions (such as the day on which a Eurodollar Interest Period begins or ends) must also be a day on which, in the judgment of Agent, significant transactions in dollars are carried out in the interbank eurocurrency market.

"Canadian Facility" means an unsecured revolving credit facility, between Devon Canada as borrower and one or more lenders in an aggregate amount not to exceed U.S. \$50,000,000, and any unsecured guaranty by Borrowers and/or Guarantors, guaranteeing such facility.

"Commitment Period" means the period from and including the date on which the Notes are delivered and accepted as contemplated in Section 2.4 until and including April 30, 2003 (or any date on which the Notes otherwise become due and payable in full as provided in the Loan Documents).

"Consolidated" refers to the consolidation of any Person, in accordance with GAAP, with its properly consolidated subsidiaries. References herein to a Person's Consolidated financial statements, financial position, financial condition, liabilities, etc. refer to the consolidated financial statements, financial position, financial condition, liabilities, etc. of such Person and its properly consolidated subsidiaries.

"DBC" means DBC, Inc., an Oklahoma corporation.

"Debt" means, as to any Person, all indebtedness, liabilities and obligations of such Person, whether matured or unmatured, liquidated or unliquidated, primary or secondary, direct or indirect, absolute, fixed or contingent, and whether or not required to be considered pursuant to GAAP.

"Default" means any Event of Default and any default, event or condition which would, with the giving of any requisite notices and the passage of any requisite periods of time, constitute an Event of Default.

"Devon Canada" means Devon Energy Canada Corporation and Devon Energy Canada Holding Corporation, each a Canadian corporation organized under the laws of Alberta.

"Devon Nevada" means Devon Energy Corporation (Nevada), a Nevada corporation.

"Devon Trust" means Devon Financing Trust, a statutory business trust formed under the laws of the State of Delaware.

"Devon Trust Securities" means those certain Trust Convertible Preferred Securities, issued by Devon Trust in an amount of 2,990,000.

"Disclosure Schedule" means (a) Schedule 1 hereto and (b) any documents listed on such schedule and expressly incorporated therein by reference, so long as Borrower has heretofore delivered true and correct copies of such documents to Agent and each Lender. Insofar as any representations and warranties made herein are incorporated by reference or otherwise remade in Loan Documents delivered as of a date after the date hereof, the term "Disclosure Schedule" shall in such representations and warranties be deemed to refer as well to (i) all documents which Borrower has at the time in question delivered to Agent and each Lender under Sections 5.1(b), (c), or (d), and (ii) all other documents which Borrower has at the time in question delivered to Agent and each Lender and which expressly refer to the Disclosure Schedule and state that they are given to supplement or amend it.

"Drawing Amount" means, with respect to each Letter of Credit at the time in question, the maximum amount which Agent would be called upon to advance under such Letter of Credit if such Letter of Credit were then drawn upon in full. If any Letter of Credit provides that the amount which may be drawn upon thereunder shall increase or decrease according to a schedule set forth therein, the Drawing Amount for such Letter of Credit shall increase or decrease in accordance with such schedule.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, together with all rules and regulations promulgated with respect thereto.

"ERISA Plan" means any pension benefit plan subject to Title IV of ERISA maintained by any Related Person or any Affiliate thereof to which any Related Person has a fixed or contingent liability.

"Euro Margin" means the Euro Margin per annum set forth in the following table in accordance with Borrower's Rating (as defined herein) from time to time:

Borrower's Rating	Euro Margin per annum
BBB+/Baa1	20 Basis Points
BBB/Baa2	22.5 Basis Points
BBB-/Baa3	25 Basis Points
Non-Investment	45 Basis Points

"Eurodollar Interest Period" means, with respect to each particular Eurodollar Portion of a Loan, a period of 1, 2, or 3 months, as specified in the Rate Election applicable thereto, beginning on and including the date specified in such Rate Election (which must be a Business Day), and

ending on but not including the same day of the month as the day on which it began (e.g., a period beginning on the third day of one month shall end on but not include the third day of another month), provided that each Eurodollar Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day (unless such next succeeding Business Day is the first Business Day of a calendar month, in which case such Eurodollar Interest Period shall end on the immediately preceding Business Day). No Eurodollar Interest Period may be elected which would extend past the date on which the associated Note is due and payable in full.

"Eurodollar Portion" means any portion of the unpaid principal balance of a Loan which Borrower designates as such in a Rate Election.

"Eurodollar Rate" means, with respect to each particular Eurodollar Portion within a Tranche and with respect to the related Interest Period, the rate of interest per annum determined by Agent in accordance with its customary general practices to be representative of the rates at which deposits of dollars are offered to Agent at approximately 9:00 a.m. Dallas, Texas time two Business Days prior to the first day of such Interest Period (by prime banks in the interbank eurocurrency market which have been selected by Agent in accordance with its customary general practices) for delivery on the first day of such Interest Period in an amount equal or comparable to the amount of Agent's Eurodollar Portion within such Tranche and for a period of time equal or comparable to the length of such Interest Period. The Eurodollar Rate determined by Agent with respect to a particular Eurodollar Portion shall be fixed at such rate for the duration of the associated Interest Period. If Agent is unable so to determine the Eurodollar Rate for any Eurodollar Portion, Borrower shall be deemed not to have elected such Eurodollar Portion.

"Event of Default" has the meaning given it in Section 7.1. "Fiscal Quarter" means a three-month period ending on March 31, June 30, September 30 or December 31 of any year.

"Fiscal Year" means a twelve-month period ending on December 31 of any year.

"Fixed Rate" means, with respect to any Fixed Rate Portion, the related Adjusted Eurodollar Rate or Offered Rate.

"Fixed Rate Portion" means any Eurodollar Portion or Offered Rate Portion.

"GAAP" means those generally accepted accounting principles and practices which are recognized as such by the Financial Accounting Standards Board (or any generally recognized successor) and which, in the case of Parent and its Consolidated subsidiaries, (i) are applied for all periods after the date hereof in a manner consistent with the manner in which such principles and practices were applied to the audited Initial Financial Statements of Parent, and (ii) are consistently applied for all periods after the date hereof so as to properly reflect the financial condition, and the results of operations and cash flows, of Parent and, on a Consolidated basis, of Parent and its Consolidated subsidiaries. If any change in any accounting principle or practice is required by the Financial Accounting Standards Board (or any such successor) in order for such principle or practice to continue as a generally accepted accounting principle or practice, all reports, financial statements and calculations required hereunder may be prepared in accordance with such change only after notice of such change is given to Agent and after Borrower and Majority Lenders agree to such change and to any appropriate corresponding changes to the provisions hereof.

"Grace Period" has the meaning given it in Section 7.1.

"Guarantor" means any Person who has guaranteed some or all of the Obligations and who has been accepted by Agent as a Guarantor, or any Subsidiary of Parent which now or hereafter executes and delivers a guaranty to Agent pursuant to Section 6.2. DBC is hereby recognized as a Guarantor.

"Initial Financial Statements" means the audited annual Consolidated financial statements of Parent dated as of December 31, 1997 and the unaudited consolidating financial statements of Parent dated as of December 31, 1997, copies of which financial statements have heretofore been delivered to Agent and each Lender.

"Interest Period" means, with respect to any Fixed Rate Portion, the related Eurodollar Interest Period or Offered Rate Interest Period.

"Late Payment Rate" means at the time in question four percent (4.0%) per annum plus the Base Rate then in effect; provided that, with respect to any Fixed Rate Portion of a Loan with an Interest Period extending beyond the date such Fixed Rate Portion becomes due and payable, "Late Payment Rate" shall mean four percent (4.0%) per annum plus the related Fixed Rate.

"LC Application" means any application for a letter of credit hereafter made by Borrower to Agent.

"LC Collateral" has the meaning given it in Section 2A.6(a).

"LC Obligations" means at the time in question, the sum of the Matured LC Obligations plus the Maximum Drawing Amount. A "Lender's LC Obligations" means at the time in question, the sum of (i) the portion of the Maximum Drawing Amount for which such Lender is liable to purchase participations under Section 2A.3(c), plus (ii) the Matured LC Obligations which have been funded by such Lender under such section.

"Lenders" means each signatory hereto (other than Borrowers), including NationsBank, N.A. in its capacity as a Lender hereunder rather than as Agent or LC Issuer, and their respective successors and assigns. "Lender" means any of the Lenders.

"Letter of Credit Rate" means one-half percent (0.5%) per annum.

"Letters of Credit" means any letter of credit issued hereunder by Agent at the application of Borrower.

"Lien" means, with respect to any property or assets, any right or interest therein of a creditor to secure Debt owed to such creditor or any other arrangement with such creditor which provides for the payment of such Debt out of such property or assets or which allows him to have such Debt satisfied out of such property or assets prior to the general creditors of any owner thereof, including any lien, mortgage, security interest, pledge, deposit, production payment, rights of a vendor under any title retention or conditional sale agreement or lease substantially equivalent thereto, tax lien, mechanic's or materialman's lien, or any other charge or encumbrance for security purposes, whether arising by law or agreement or otherwise, but excluding any right of offset which arises in the ordinary course of business.

"Loan" has the meaning given it in Section 2.1.

"Loan Balance" means, at the time in question, the sum of the outstanding principal balances of the Loans at such time plus the LC Obligations at such time.

"Loan Documents" means this Agreement, the Notes, the LC Applications, the Letters of Credit, any Guaranties, and all other agreements, certificates, legal opinions and other documents, instruments and writings heretofore or hereafter delivered in connection herewith or therewith (exclusive of commitment letters, term sheets, and similar documents used in the negotiation hereof, except to the extent the same contain information about Borrowers or their Affiliates, properties, businesses or prospects).

"Majority Lenders" means Agent and Lenders whose aggregate Percentage Shares equal or exceed ninety percent (90%), provided that whenever the Loan Balance is less than \$150,000,000 and Lenders have been requested to give a waiver (as opposed to a permanent amendment) of one or more provisions of Section 5.2(d), such waiver shall be deemed to have been given by "Majority Lenders" when given by Agent and Lenders whose aggregate Percentage Shares equal or exceed sixty-six percent (66%).

"Matured LC Obligations" means all amounts paid by Agent on drafts or demands for payment drawn or made under or purported to be under any Letter of Credit (or under or in connection with any LC Application) which have not been repaid to Agent by or on behalf of Borrower (with the proceeds of an Advance or otherwise, but excluding payments made by Lenders on account of their participation interests hereunder).

"Maximum Drawing Amount" means at the time in question the sum of all Drawing Amounts at such time for all Letters of Credit then outstanding.

"Maximum Loan Amount" means, with respect to each Lender, the amount set forth opposite its name on the signature pages hereto, and "Maximum Loan Amounts" means the sum of all such amounts.

"Note" has the meaning given it in Section 2.1.

"Obligations" means all Debt from time to time owing by any of the Related Persons to Agent or any Lender under or pursuant to any of the Loan Documents, including all LC Obligations. "Obligation" means any part of the Obligations.

"Offered Rate" has the meaning given it in Section 2.7.

"Offered Rate Portion" has the meaning given it in Section 2.7.

"Old Agreement" has the meaning given it in Section 2.4.

"Parent" means Devon Energy Corporation, an Oklahoma corporation.

"Percentage Share" means, with respect to any Lender (a) when used in Sections 2.1, 2.3, 2.8, Article II-A, or in any Request for Advances (other than a Request for Advances constituting an Offered Rate Portion) or when no Default exists or when the Loan Balance equals zero, the percentage obtained by dividing (i) such Lender's Maximum Loan Amount, by (ii) the aggregate amount of all Lenders' Maximum Loan Amounts, and (b) when used when a Default exists and the Loan Balance at such time is greater than zero, the percentage obtained by dividing (i) the sum of (A) the unpaid principal balance of such Lender's Loans at the time in question plus (B) such Lender's LC Obligations at such time, by (ii) the Loan Balance at such time.

"Person" means an individual, corporation, partnership, association, joint stock company, trust or trustee thereof, estate or executor thereof, unincorporated organization or joint venture, court or governmental unit or any agency or subdivision thereof, or any other legally recognizable entity.

"Prohibited Lien" means any Lien not expressly allowed under Section 5.2(b).

"Rate Election" has the meaning given it in Section 2.6.

"Rating Agency" means any of Standard & Poor's Ratings Group (a division of McGraw Hill, Inc.) ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Duff & Phelps Credit Rating Co. ("Duff & Phelps"), or their respective successors at the time in question.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect.

"Related Person" means any of Borrowers, Guarantors, and the Subsidiaries of Borrowers; provided, the following Subsidiaries of Parent shall not be deemed to be Related Persons:

- (a) BN Co. A Limited Partnership, a New Mexico limited partnership;
- (b) BN Coal, L.L.C., a New Mexico limited liability company;
- (c) BN Non-Coal, L.L.C., a New Mexico limited liability company; and
- (d) Devon-Blanco Company, an Oklahoma general partnership.

"Request for Advances" means a written or telephonic request, or a written confirmation, made by Borrower which meets the requirements of Section 2.2.

"Reserve Percentage" means, in relation to each particular Eurodollar Portion in a Tranche, the maximum reserve requirement, as determined by Agent (including without limitation any basic, supplemental, marginal, emergency or similar reserves), expressed as a percentage and rounded to the next higher 0.01%, which would apply to Agent under Regulation D on the first day of the associated Interest Period with respect to "Eurocurrency liabilities" (as such term is defined in Regulation D) equal in amount to Agent's Eurodollar Portion in such Tranche, were Agent to have any such "Eurocurrency liabilities".

"Restricted Debt" means all Debt of any Person:

- (a) for borrowed money,
- (b) constituting an obligation to pay the deferred purchase price of property, other than customary payment terms taken in the ordinary course of such Person's business,
- (c) evidenced by bonds, debentures, notes or similar instruments,
- (d) upon which interest or finance charges are customarily paid,
- (e) arising under conditional sales or other title retention agreements or under leases serving as a source of financing or otherwise capitalized in accordance with GAAP, but excluding customary oil, gas or mineral leases,
- (f) under direct or indirect guaranties of Debt of any Person or constituting obligations to purchase or acquire or to otherwise protect or insure a creditor against loss in respect of Debt of any Person (such as obligations under working capital maintenance agreements, agreements to keep-well, or agreements to purchase Debt, assets, goods, securities or services, but excluding endorsements in the ordinary course of business of negotiable instruments in the course of collection),
- (g) with respect to letters of credit or applications or reimbursement agreements therefor, or
- (h) with respect to payments received in consideration of oil, gas, or other minerals yet to be produced at the time of payment (including without limitation obligations under "take-or-pay" contracts to deliver gas in return for payments already received and the undischarged balance of any production payment created by such Person or for the creation of which such Person directly or indirectly received payment) or with respect to other obligations to deliver goods or services in consideration of advance payments therefor; provided, however, that the term "Restricted Debt" shall not include Debt which is thirty days or less past due that was incurred on ordinary trade terms and is owed by the Person incurring the same to vendors, suppliers, or other Persons providing goods and services for use by such Person in the ordinary course of its business. Any Restricted Debt owed by a partnership shall be deemed Restricted Debt of any partner in such partnership to the extent such partner has any liability of any kind therefor.

"Restricted Person" means any Related Person which is not an Unrestricted Subsidiary.

"Subordinated Parent Debentures" means those certain Convertible Junior Subordinated Debentures issued by Parent to Devon Trust pursuant to the Subordinated Parent Indenture and subordinated to the Obligations, in the aggregate principal amount of approximately \$154,500,000.

"Subordinated Parent Guarantee" means that certain Guarantee dated July 1, 1996, by Parent in favor of the holders of the Devon Trust Securities pursuant to the Subordinated Parent Indenture and subordinated to the Obligations, guaranteeing certain payments to be made by Devon Trust pursuant to the Devon Trust Securities.

"Subordinated Parent Indenture" means that certain Trust Indenture dated July 1, 1996, between Parent and The Bank of New York, as indenture trustee.

"Subsidiary" means, with respect to any Person, any corporation, association, partnership, joint venture, or other business or corporate entity, enterprise or organization which is directly or indirectly (through one or more intermediaries) controlled by or owned fifty percent or more by such Person, provided that associations, joint ventures or other relationships

(a) which are established pursuant to a standard form operating agreement or similar agreement or which are partnerships for purposes of federal income taxation only, (b) which are not corporations or partnerships (or subject to the Uniform Partnership Act) under applicable state law, and (c) whose businesses are limited to the exploration, development and operation of oil, gas or mineral properties and interests owned directly by the parties in such associations, joint ventures or relationships, shall not be deemed to be "Subsidiaries" of such Person.

"Termination Event" means (a) the occurrence with respect to any ERISA Plan of (i) a reportable event described in Sections 4043(b)(5) or (6) of ERISA or (ii) any other reportable event described in Section 4043(b) of ERISA other than a reportable event not subject to the provision for 30-day notice to the Pension Benefit Guaranty Corporation pursuant to a waiver by such corporation under Section 4043(a) of ERISA, or (b) the withdrawal of any Related Person or of any Affiliate of any Related Person from an ERISA Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA, or (c) the filing of a notice of intent to terminate any ERISA Plan or the treatment of any ERISA Plan amendment as a termination under Section 4041 of ERISA, or (d) the institution of proceedings to terminate any ERISA Plan by the Pension Benefit Guaranty Corporation under Section 4042 of ERISA, or (e) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any ERISA Plan.

"Tranche" has the meaning given it in Section 2.6.

"Unrestricted Subsidiary" means any corporation or limited partnership in which Parent does not presently own an interest (directly or indirectly) which hereafter becomes a Subsidiary of Parent and which, within 90 days thereafter, is designated as an Unrestricted Subsidiary by Parent to Agent, provided that Parent may not designate as an Unrestricted Subsidiary any Subsidiary in which it has invested more than \$25,000,000 (directly or indirectly) by any means other than newly issued stock or treasury stock of Parent, which may be invested in Unrestricted Subsidiaries without limit; provided further, that in the event the book value of the assets of any Unrestricted Subsidiary at any time exceeds \$25,000,000, such Subsidiary shall cease to be an Unrestricted Subsidiary and shall automatically become a Restricted Person.

Section 1.2. Exhibits and Schedules; Additional Definitions. All Exhibits and Schedules attached to this Agreement are a part hereof for all purposes.

Section 1.3. Amendment of Defined Instruments. Unless the context otherwise requires or unless otherwise provided herein the terms defined in this Agreement which refer to a particular agreement, instrument or document also refer to and include all renewals, extensions, modifications, amendments and restatements of such agreement, instrument or document, provided that nothing contained in this section shall be construed to authorize any such renewal, extension, modification, amendment or restatement.

Section 1.4. References and Titles. All references in this Agreement to Exhibits, Schedules, articles, sections, subsections and other subdivisions refer to the Exhibits, Schedules, articles, sections, subsections and other subdivisions of this Agreement unless expressly provided otherwise. Titles appearing at the beginning of any subdivisions are for convenience only and do not constitute any part of such subdivisions and shall be disregarded in construing the language contained in such subdivisions. The words "this Agreement", "this instrument", "herein", "hereof", "hereby", "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The phrases "this section" and "this subsection" and similar phrases refer only to the sections or subsections hereof in which such phrases occur. The word "or" is not exclusive, and the word "including" (in its various forms) means "including without limitation". Pronouns in masculine, feminine and neuter genders shall be construed to include any other gender, and words in the singular form shall be construed to include the plural and vice versa, unless the context otherwise requires.

Section 1.5. Calculations and Determinations. All calculations under the Loan Documents of interest chargeable with respect to Fixed Rate Portions and of fees shall be on the basis of actual days elapsed (including the first day but excluding the last) and a year of 360 days. All other calculations of interest made under the Loan Documents shall be made on the basis of actual days elapsed (including the first day but excluding the last) and a year of 365 or 366 days, as appropriate. Each determination by Agent or a Lender of amounts to be paid under Sections 2.15 through 2.18 or any other matters which are to be determined hereunder by Agent or any Lender (such as any Adjusted Eurodollar Rate, Eurodollar Rate, Business Day, Interest Period, or Reserve Percentage) shall, in the absence of manifest error, be conclusive and binding. Unless otherwise expressly provided herein or unless Majority Lenders otherwise consent all financial statements and financial reports furnished to Agent or any Lender hereunder shall be prepared and all financial computations and financial determinations pursuant hereto shall be made in accordance with GAAP.

ARTICLE II -- The Loans

Section 2.1. Loans. Subject to the terms and conditions hereof, each Lender agrees to make Advances to Borrower from time to time during the Commitment Period so long as (i) the aggregate outstanding amount of such Lender's Advances under this Section 2.1, plus (ii) such Lender's LC Obligations, does not exceed such Lender's Maximum Loan Amount, all determined as of the date on which the requested Advances under this Section 2.1 are to be made. The aggregate amount of such Advances under this Section 2.1 requested of all Lenders in any Request for Advances under this Section 2.1 must be an integral multiple of \$100,000 which equals or exceeds \$200,000 or must equal the unadvanced

portion of the aggregate amount of all Lenders' Maximum Loan Amounts. The obligation of Borrower to repay to each Lender the aggregate amount of all Advances (whether under this Section 2.1 or Section 2.7(a)) made by such Lender (herein called such Lender's "Loan"), together with interest accruing in connection therewith, shall be evidenced by a single promissory note (herein called such Lender's "Note") made by Borrower payable to the order of such Lender in the form of Exhibit A with appropriate insertions. The amount of principal owing on any Lender's Note at any given time shall be the aggregate amount of all Advances (whether under this Section 2.1 or Section 2.7(a)) theretofore made by such Lender minus all payments of principal theretofore received by such Lender on such Note. Interest on each Note shall accrue and be due and payable as provided herein and therein. Subject to the terms and conditions hereof, Borrower may borrow, repay, and reborrow under the Notes.

Section 2.2. Requests for Advances. Prior to 11:00 a.m. Dallas time, on the date requested by Borrowers for the making of any Advances, Borrowers must give to Agent written notice, or telephonic notice promptly confirmed in writing, of such request, after which Agent shall give each Lender prompt notice thereof. Each such written request or confirmation must be made in the form and substance of the "Request for Advances" attached hereto as Exhibit B, duly completed and signed by an Authorized Officer of Borrowers. Each such telephonic request shall be deemed a representation, warranty, acknowledgment and agreement by Borrowers as to the matters which are required to be set out in such written confirmation. If all conditions precedent to such Advances have been met, each Lender will promptly remit to Agent in favor of Borrowers the amount of such Lender's Advance in immediately available funds, and upon receipt of such funds, unless to its actual knowledge any conditions precedent to such Advances have neither been met nor waived by Lenders as provided herein, Agent shall promptly make the Advances available to Borrowers in immediately available funds at Agent's office in Dallas, Texas. Each Request for Advances shall be irrevocable and binding on Borrowers. Unless Agent shall have received prompt notice from a Lender that such Lender will not make available to Agent such Lender's Advance, Agent may in its discretion assume that such Lender has made such Advance available to Agent in accordance with this section and Agent may if it chooses, in reliance upon such assumption, make such Advance available to Borrowers. If and to the extent such Lender shall not so make its Advance available to Agent, such Lender and Borrowers severally agree to pay or repay to Agent within three days after demand the amount of such Advance together with interest thereon, for each day from the date such amount is made available to Borrowers until the date such amount is paid or repaid to Agent, at the interest rate applicable at the time to the other Advances made on such date. The failure of any Lender to make any Advance to be made by it hereunder shall not relieve any other Lender of its obligation hereunder, if any, to make its Advance, but no Lender shall be responsible for the failure of any other Lender to make any Advance to be made by such other Lender.

Section 2.3. Proportionate and Disproportionate Loans.

(a) So long as no Offered Rate Portions or disproportionate Advances made pursuant to Section 2.3(b) below are outstanding, all Advances (other than Advances constituting Offered Rate Portions under Section 2.7(a)) requested by Borrowers shall be made pro rata by each Lender in proportion to the Lenders' respective Percentage Shares.

(b) If any Offered Rate Portions or disproportionate Advances previously made pursuant to this Section 2.3(b) are outstanding, all Advances (other than Advances constituting Offered Rate Portions under Section 2.7(a)) requested by Borrowers shall be made disproportionately by each Lender according to such Lender's Adjusted Advance Amount. Furthermore, any such Advance consisting of Fixed Rate Portions shall be for an Interest Period ending on the latest termination date of all outstanding Offered Rate Portions at such time, such date to be designated a "Reconciliation Date", provided, however, that in the event a Reconciliation Date has been previously designated pursuant to this Section 2.3 (b), such Interest Period shall end on such previously designated Reconciliation Date.

For purposes of this Section 2.3(b), the following terms shall be defined as follows:

"Advance Amount" means, with respect to each Lender at the time in question, the remainder (if positive or negative) of:

- (i) such Lender's Percentage Share times the Loan Balance (including requested Advances) minus
- (ii) the aggregate amount of such Lender's outstanding Loan.

"Advancing Lender" means, with respect to any requested Advance (other than an Advance constituting an Offered Rate Portion under Section 2.7(a)), any Lender whose Advance Amount is greater than zero.

"Non-Advancing Lender" means, with respect to any requested Advance (other than an Advance constituting an Offered Rate Portion under Section 2.7(a)), any Lender whose Advance Amount is less than or equal to zero.

"Adjusted Advance Amount" means, with respect to each Lender at the time in question:

- (i) if each Lender is an Advancing Lender, such Lender's Advance Amount; or
- (ii) if any Lender is a Non-Advancing Lender:
 - (A) if such Lender is a Non-Advancing Lender, zero, and

(B) if such Lender is an Advancing Lender,

(I) such Lender's Percentage Share divided by the sum of all Advancing Lenders' Percentage Shares times

(II) the amount of the requested Advance.

(c) At the termination of any Offered Rate Interest Period, the related Offered Rate Portion of such Lender's Loan shall automatically terminate and become part of the Base Rate Portion of such Lender's Loan, provided that Borrowers may (i) request Advances under Section 2.1 and/or Section 2.7(a), if all conditions to Advances have been met, or (ii) prepay such Lender's Loan in an amount equal to the terminating Offered Rate Portion, or (iii) take such other action allowed hereunder as may be necessary to cause the Loans to be held pro rata by Lenders in accordance with their respective Percentage Shares, after giving effect to any outstanding Offered Rate Portions.

(d) Notwithstanding anything in this section to the contrary, no Lender may make any Advance under any Note which would cause the aggregate outstanding principal balance of such Note to exceed the stated maximum principal balance of such Note, nor may any Lender make any Advance which would cause the Loan Balance to exceed the aggregate amount of Lenders' Maximum Loan Amounts.

Section 2.4. Cancellation of Old Agreement. Borrower has heretofore been indebted to one or more Lenders under a Credit Agreement dated as of August 30, 1996 (as heretofore amended, herein called the "Old Agreement") originally entered into by Borrowers, Devon Energy Operating Corporation, Agent and Lenders. As of the date hereof, no "Loans" (as such term is defined in the Old Agreement) are outstanding under the Old Agreement. Upon the execution and delivery of this Agreement by each of the parties hereto:

(a) Any letters of credit issued under the Old Agreement and outstanding as of the date hereof shall be deemed Letters of Credit issued hereunder as of the date hereof and shall be subject to the terms and conditions hereof, including without limitation Borrower's reimbursement obligations under Section 2A.3(a) and Lenders' participation obligations under Section 2A.3(c); and

(b) Borrower shall be deemed to have terminated the Old Agreement as provided in Section 9.7 thereof.

Section 2.5. Use of Proceeds. Borrower shall use all funds from Advances (a) as provided in Section 2.4, (b) to refinance its Matured LC Obligations, (c) to finance the acquisition of oil and gas properties, (d) to finance working capital and capital expenditures that are standard in the oil and gas industry, and

(e) for other general corporate purposes. Borrower shall use all Letters of Credit for its general corporate purposes. In no event shall the funds from any Advance or any Letter of Credit be used directly or indirectly for the purpose, whether immediate, incidental or ultimate, of purchasing, acquiring or carrying any "margin stock" or any "margin securities" (as such terms are defined respectively in Regulation U and Regulation G promulgated by the Board of Governors of the Federal Reserve System) or to extend credit to others directly or indirectly for the purpose of purchasing or carrying any such margin stock or margin securities. Borrower represents and warrants to Lenders that Borrower is not engaged principally, or as one of its important activities, in the business of extending credit to others for the purpose of purchasing or carrying such margin stock or margin securities.

Section 2.6. Rate Elections. Borrowers may from time to time designate all or any portions of the Loans (including any yet to be made Advances which are to be made prior to or at the beginning of the designated Interest Period but excluding any portions of the Loans which are required to be repaid prior to the end of the designated Interest Period) as a "Tranche", which term refers to a set of Eurodollar Portions of the same type with identical Interest Periods. The amounts of Lenders' Eurodollar Portions within a Tranche shall be in proportion to their respective Percentage Shares, subject to the provisions of

Section 2.3. Borrowers may make no such election during the continuance of a Default, and Borrowers may make such an election with respect to already existing Fixed Rate Portions only if such election will take effect at or after the termination of the Interest Period applicable to such already existing Fixed Rate Portions. Each election by Borrowers of a Tranche shall:

(a) Be made by written notice to Agent or by telephonic notice to Agent promptly confirmed in writing, in the form and substance of the "Rate Election" attached hereto as Exhibit C, duly completed and signed by an Authorized Officer of Borrowers.

(b) Specify the aggregate amount of the Loans which Borrowers desire to designate as such Tranche, the first day of the Interest Period which is to apply thereto, and the length of such Interest Period; and

(c) Be received by Agent not later than 9:00 a.m., Dallas time, on the second Business Day preceding the first day of the specified Interest Period.

Promptly after receiving any such election (herein called a "Rate Election") which meets the requirements of this section, Agent shall notify each Lender of the contents thereof. Each Rate Election shall be irrevocable. Borrowers may make no Rate Election which does not specify an Interest Period complying with the definition of "Eurodollar Interest Period" in Section 1.1, and the aggregate amount of each Tranche elected in any Rate Election must be \$1,000,000 or a higher integral multiple of \$500,000. Upon the termination of each Interest Period the portion of each Loan theretofore constituting the related Fixed Rate Portion shall, unless the subject of a new Rate Election then taking effect, automatically become a part of the Base Rate Portion of such Loan and become subject to all provisions of the Loan Documents governing such Base Rate Portion. Borrowers shall have no more than six Tranches or Offered Rate Portions in effect at any time.

Section 2.7. Advances Constituting Offered Rate Portions.

(a) Borrowers may from time to time request each Lender to quote an interest rate for a specified interest period (identifying the days on which such interest period is to begin and end) and a specified portion of the unpaid principal balance of (or amounts available for borrowing under) such Lender's Note; provided that no such request may be made with respect to an already existing Fixed Rate Portion unless it is to take effect at or after the termination of the Interest Period applicable to such already existing Fixed Rate Portion. Any amounts so requested by Borrowers must be \$1,000,000 or a multiple thereof. Each such request must be made to all Lenders and may be made no later than 9:00 a.m. (Dallas time) on the day such interest period is to begin. No Lender has any obligation to make any such quotation and may do so or decline to do so (and may make quotations for interest periods and amounts different from those specified by Borrowers) in its sole and absolute discretion. Any Lender which makes such a quotation, however, must do so by telecopy or telex (or by telephone notice promptly confirmed by telecopy or telex) to Borrowers no later than 10:15 a.m. (Dallas time) on the day such interest period is to begin, specifying an interest rate, the amount to which such interest rate is to apply, and the days on which the related interest period is to begin and end. The rate (if any) quoted by such Lender is herein called an "Offered Rate"; the amount of the Loan to which such Offered Rate is to apply is herein called an "Offered Rate Portion" of such Loan; and the period during which such rate is to apply is herein called the related "Offered Rate Interest Period". Borrowers may choose to accept or reject any such quotation in its sole and absolute discretion; to accept any such quotation Borrowers must, by 11:30 a.m. (Dallas time) on the same day, give written notice (or telephonic notice promptly confirmed by telecopy, telex or letter) to the Lender making such quotation. After accepting any such quotation from a Lender, Borrowers may not revoke its acceptance without the consent of such Lender, and such Lender shall in accordance with Section 2.7(d) make an Advance constituting such Offered Rate Portion. After accepting or rejecting any such quotation from any Lender, Borrowers shall on the same day notify all Lenders of the terms of the quotations, if any, made by each.

(b) Notwithstanding anything in this section to the contrary, Borrowers may not, without the consent of all Lenders:

(i) agree with any Lender on any Offered Rate Interest Period which is longer than three months, (ii) agree with any Lender for any Offered Rate Portion when any Default is continuing, or (iii) have more than six Offered Rate Portions outstanding at the same time.

(c) For the purposes of Section 2.17 hereof, any agreement as to an Offered Rate Portion shall be deemed a "Rate Election".

(d) Prior to or concurrently with any such Advance constituting an Offered Rate Portion under Section 2.7(a), Borrowers shall deliver a Request for Advances, modified to specify the Lender who is making such Advance, and otherwise comply with the requirements of Section 2.2.

Section 2.8. Fees.

(a) Facility Fee. In consideration of each Lender's commitment to make Advances, Borrowers will pay to Agent for the account of each Lender a facility fee, determined on a daily basis, equal to the Rate Per Annum set forth in the following table, in accordance with Borrower's Rating (as defined herein) from time to time, times such Lender's Percentage Share of the Maximum Loan Amount:

Borrower's Rating	Rate Per Annum
BBB+/Baa1	10 Basis Points
BBB/Baa2	12.5 Basis Points
BBB-/Baa3	20 Basis Points
Non-Investment	30 Basis Points

The facility fee shall be due and payable in arrears on the last day of each August, November, February and May, beginning May 31, 1998, and at the termination of the Commitment Period.

(b) Agency Fee. In addition to all other amounts due to Agent under the Loan Documents, Borrowers will pay to Agent an annual agency fee pursuant to a letter agreement of even date herewith between Agent and Borrower.

Section 2.9. Optional Prepayments. Borrowers may, upon concurrent notice to Agent (which shall give each Lender prompt notice thereof), from time to time and without premium or penalty prepay the Loans, in whole or in part, so long as all partial prepayments of principal concurrently paid on the Loans are in increments of \$100,000 and in an aggregate amount greater than or equal to \$200,000 and so long as Borrowers do not prepay any Fixed Rate Portion. Each prepayment of principal under this section shall be accompanied by all interest then accrued and unpaid on the principal so prepaid. Any principal or interest prepaid pursuant to this section shall be in addition to, and not in lieu of, all payments otherwise required to be paid under the Loan Documents at the time of such prepayment.

Section 2.10. Mandatory Prepayments. If the Loan Balance ever exceeds the Maximum Loan Amount, Borrower shall immediately prepay the principal of the Loans in an amount at least equal to such excess. Each prepayment of principal under this section shall be accompanied by all interest then accrued and unpaid on the principal so prepaid. Any principal or interest prepaid pursuant to this section shall be in addition to, and not in lieu of, all payments otherwise required to be paid under the Loan Documents at the time of such prepayment.

Section 2.11. Payments to Lenders. Borrowers will make each payment which they owe under the Loan Documents to Agent for the account of the Lender to whom such payment is owed. Each such payment must be received by Agent not later than 11:00 a.m. Dallas, Texas time, on the date such payment becomes due and payable, in lawful money of the United States of America and in immediately available funds. Any

payment received by Agent after such time will be deemed to have been made on the next following Business Day. Agent will promptly remit each such payment to such Lender. Should any such payment become due and payable on a day other than a Business Day, the maturity of such payment shall be extended to the next succeeding Business Day, and, in the case of a payment of principal or past due interest, interest shall accrue and be payable thereon for the period of such extension as provided in the Loan Document under which such payment is due. Each payment under a Loan Document shall be due and payable at the place provided therein and, if no specific place of payment is provided, shall be due and payable at Agent's office at NationsBank Plaza, 901 Main Street, Dallas, Dallas County, Texas. When Agent collects or receives money on account of the Obligations, Agent shall distribute all money so collected or received, and Lenders shall apply all such money they receive from Agent, as follows:

- (a) first, to the payment of all Obligations which are then due (and if such money is insufficient to pay all such Obligations, first to any reimbursements due Agent under Section 5.1(i) or (j) and then to the partial payment of all other Obligations then due in proportion to the amounts thereof, or as Lenders shall otherwise agree);
- (b) then to the prepayment of amounts owing under the Loan Documents (other than principal on the Notes) if so specified by Borrower;
- (c) then to the prepayment of principal on the Notes, together with accrued and unpaid interest on the principal so prepaid; and
- (d) last, to the payment or prepayment of any other Obligations.

All payments applied to principal or interest on any Note shall be applied first to any interest then due and payable, then to principal then due and payable, and last to any prepayment of principal and interest in compliance with Sections 2.9 and 2.10. All distributions of amounts described in any of subsections (b), (c), or (d) above shall be made by Agent pro rata to Agent and each Lender then owed Obligations described in such subsection in proportion to all amounts owed to Agent and all Lenders which are described in such subsection; provided that if any Lender then owes payments to Agent for the purchase of a participation under Section 2A.3(c), any amounts otherwise distributable under this section to such Lender shall be deemed to belong to Agent, to the extent of such unpaid payments, and Agent shall apply such amounts to make such unpaid payments rather than distribute such amounts to such Lender.

Section 2.12. Increased Cost of Fixed Rate Portions. If any applicable domestic or foreign law, treaty, rule or regulation (whether now in effect or hereinafter enacted or promulgated, including Regulation D) or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law):

- (a) shall change the basis of taxation of payments to Agent or any Lender of any principal, interest, or other amounts attributable to any Fixed Rate Portion or otherwise due under this Agreement in respect of any Fixed Rate Portion or Letter of Credit (other than taxes imposed on the overall net income of Agent or such Lender or any lending office of Agent or such Lender by any jurisdiction in which Agent or such Lender or any such lending office is located); or
- (b) shall change, impose, modify, apply or deem applicable any insurance fees or premiums or any reserve, special deposit or similar requirements in respect of any Fixed Rate Portion or Letter of Credit (excluding those for which there is full compensation pursuant to adjustments made in the definition of Adjusted Eurodollar Rate) or against assets of, deposits with or for the account of, or credit extended by, Agent or any Lender; or
- (c) shall impose on Agent or any Lender or the interbank eurocurrency deposit market any other condition affecting any Fixed Rate Portion or Letter of Credit, the result of which is to increase the cost to Agent or any Lender of funding or maintaining any Fixed Rate Portion or of issuing any Letter of Credit or to reduce the amount of any sum receivable by Agent or any Lender in respect of any Fixed Rate Portion or Letter of Credit by an amount deemed by Agent or such Lender to be material,

then Agent or such Lender shall promptly notify Borrowers in writing (with a copy to Agent) of the happening of such event and

- (1) Borrowers shall upon demand pay to Agent for the account of Agent or such Lender such additional amount or amounts as will compensate Agent or such Lender for such event and (2) Borrowers may elect, by giving to Agent and such Lender not less than three Business Days' notice, to convert all (but not less than all) of any such Fixed Rate Portion into a part of the Base Rate Portion.

Section 2.13. Change of Law. If any change in applicable laws, treaties, rules or regulations or in the interpretation or administration thereof or in any jurisdiction whatsoever, domestic or foreign, shall make it unlawful or impracticable for any Lender to fund or maintain Fixed Rate Portions, or shall materially restrict the authority of Agent or any Lender to purchase, sell or take offshore deposits of dollars (i.e., "eurodollars") or to issue or participate in Letters of Credit, then Borrowers' right to elect Fixed Rate Portions or to apply for Letters of Credit shall be suspended to the extent and for the duration of such illegality, impracticability or restriction and all Fixed Rate Portions (or portions thereof) which are then outstanding or are then the subject of any Rate Election and which cannot lawfully or practicably be maintained or funded shall immediately become or remain part of the Base Rate Portion of the related Loan. Borrowers agree to indemnify Agent and any such Lender and hold it harmless against all costs, expenses, claims, penalties, liabilities and damages which actually result from any such change in law, treaty, rule, regulation, interpretation or administration.

Section 2.14. Funding Losses. Borrowers will indemnify Agent and each Lender against, and reimburse Agent and each Lender on demand for,

any loss or expense incurred or sustained by Agent or such Lender (including without limitation any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund or maintain Fixed Rate Portions or Advances hereunder), as a result of (a) any payment or prepayment (whether authorized or required hereunder or otherwise) of all or a portion of a Fixed Rate Portion on a day other than the day on which the applicable Interest Period ends, (b) any payment or prepayment, whether required hereunder or otherwise, of a Loan made after the delivery, but before the effective date, of a Rate Election, if such payment or prepayment prevents such Rate Election from becoming fully effective, (c) the failure of any Advance to be made hereunder or of any Rate Election to become effective due to any condition precedent to such Advance not being satisfied or due to any other action or inaction of any Related Person, or (d) any conversion (whether authorized or required hereunder or otherwise) of all or any portion of any Fixed Rate Portion into a Base Rate Portion or into a different Fixed Rate Portion on a day other than the day on which the applicable Interest Period ends.

Section 2.15. Reimbursable Taxes; Capital Adequacy. Borrowers covenant and agree that, whether or not any Fixed Rate Portion is ever elected:

(a) Borrowers will reimburse Agent and each Lender on demand, on an after-tax basis, for all present and future income, stamp and other taxes, levies, costs and charges whatsoever actually paid by Agent or such Lender (or required to be withheld and paid on account of Agent or such Lender) in respect of any Fixed Rate Portions or Letters of Credit, excluding, however, any thereof imposed on or measured by the overall net income of Agent or any Lender or any lending office of Agent or any Lender by any jurisdiction in which Agent or any Lender or any such lending office is located (all such non-excluded taxes, levies, costs and charges being collectively called "Reimbursable Taxes" in this section), and Borrowers will pay directly to the appropriate authority any Reimbursable Taxes which Borrowers are required to withhold and pay. Promptly after the date on which payment of any such Reimbursable Tax to be paid directly by Borrowers is due or claimed to be due, Borrowers will, at the request of Agent or any Lender, furnish to Agent and such Lender evidence in form and substance satisfactory to Agent and such Lender that Borrowers have met their obligations under this section.

(b) Borrowers will indemnify Agent and each Lender against any loss, liability, claim or expense, including interest, penalties and legal fees, that Agent or such Lender may incur at any time arising out of or in connection with the failure of Borrower to make any reimbursement required under subsection (a) above or to make any payment, when due or claimed to be due, of Reimbursable Taxes to be withheld and paid directly by Borrowers.

(c) All payments on account of the principal of, and interest on, the Loans and the Notes, and all other amounts payable by Borrowers to Agent or any Lender hereunder shall be made free and clear of and without reduction by reason of any Reimbursable Taxes, all of which will be for the account of Borrowers and reimbursed or paid by Borrowers.

(d) If Borrowers are ever required to reimburse or pay any Reimbursable Tax with respect to any Fixed Rate Portion, Borrowers may elect, by giving to Agent and each Lender not less than three Business Days' notice, to convert all (but not less than all) of any such Fixed Rate Portion into a part of the Base Rate Portion of the related Loan, but such election shall not diminish Borrowers' obligation to pay all Reimbursable Taxes.

(e) If at any time after the date hereof, and from time to time, Agent or any Lender determines that the adoption or modification of any applicable law, rule or regulation regarding taxation, Agent's or such Lender's required levels of reserves, deposits, insurance or capital (including any allocation of capital requirements or conditions), or similar requirements, or any interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation, administration or compliance of Agent or such Lender with any of such requirements (including any interpretation at any time made with respect to any Letter of Credit, whether on, before or after the date hereof, that requires Agent or any Lender to allocate capital, maintain reserves, or take any other action or incur any cost based on an amount higher than the Drawing Amount from time to time in effect under such Letter of Credit), has or would have the effect of (a) increasing Agent's or such Lender's costs relating to the Obligations or the Letters of Credit, or (b) reducing the yield or rate of return of Agent or such Lender on the Obligations or the Letters of Credit, to a level below that which Agent or such Lender could have achieved but for such adoption, modification, interpretation or application, then Borrowers shall, within 15 days after any request by Agent or such Lender, pay to Agent or such Lender such additional amounts as (in Agent's or such Lender's sole judgment, after reasonable computation) will compensate Agent or such Lender for such increase in costs or reduction in yield or rate of return. No failure by Agent or any Lender to immediately demand payment of any additional amounts payable hereunder shall constitute a waiver of Agent's or such Lender's right to demand payment of such amounts at any subsequent time. Nothing herein contained shall be construed or so operate as to require Borrower to pay any interest, fees, costs or charges not permitted by Section 9.6.

ARTICLE II-A -- Letters of Credit

Section 2A.1. Letters of Credit. Subject to the terms and conditions hereof, Borrowers may during the Commitment Period request Agent to issue one or more Letters of Credit, provided that, after taking such Letter of Credit into account:

(a) the sum of the aggregate amount of Advances outstanding at such time plus the aggregate amount of LC Obligations at such time does not exceed the Available Borrowing Base at such time; and

(b) the aggregate amount of LC Obligations at such time does not exceed \$30,000,000; and

(c) the expiration date of such Letter of Credit is prior to the end of the Commitment Period;

and further provided that:

(d) such Letter of Credit is to be used for general corporate purposes of Borrowers;

(e) such Letter of Credit is not directly or indirectly used to assure payment of or otherwise support any Person's Restricted Debt other than Restricted Debt permitted under Section 5.2(a)(vi);

(f) the issuance of such Letter of Credit will be in compliance with all applicable governmental restrictions, policies, and guidelines and will not subject Agent to any cost not anticipated on the date hereof;

(g) the form and terms of such Letter of Credit are acceptable to Agent in its sole and absolute discretion; and

(h) all other conditions in this Agreement to the issuance of such Letter of Credit have been satisfied.

Agent will honor any such request if the foregoing conditions (a) through (h) (in the following Section 2A.2 called the "LC Conditions") have been met as of the date of issuance of such Letter of Credit.

Section 2A.2. Requesting Letters of Credit. Borrowers must make written application for any Letter of Credit at least three Business Days before the date on which Borrowers desire for Agent to issue such Letter of Credit. By making any such written application Borrowers shall be deemed to have represented and warranted that the LC Conditions described in Section 2A.1 will be met as of the date of issuance of such Letter of Credit. Each such written application for a Standby Letter of Credit must be made in writing in the form and substance of Exhibit G, the terms and provisions of which are hereby incorporated herein by reference (or in such other form as may mutually be agreed upon by Agent and Borrowers). Three Business Days after the LC Conditions for a Letter of Credit have been met as described in Section 2A.1 (or if Agent otherwise desires to issue such Letter of Credit), Agent will issue such Letter of Credit at Agent's office in Dallas, Texas. If any provisions of any LC Application conflict with any provisions of this Agreement, the provisions of this Agreement shall govern and control.

Section 2A.3. Reimbursement and Participations.

(a) **Reimbursement by Borrowers.** Each Matured LC Obligation shall constitute a loan by Agent to Borrowers. Borrowers hereby promise to pay to Agent, or to Agent's order, on demand, the full amount of each Matured LC Obligation, together with interest thereon at the Late Payment Rate.

(b) **Letter of Credit Advances.** If the beneficiary of any Letter of Credit presents a draft or other demand for payment thereunder then Borrowers may, during the interval between the presentation thereof and the honoring thereof by Agent, request Lenders to make Advances to Borrowers in the amount of such draft or demand, which Advances shall be made concurrently with Agent's payment of such draft or demand and shall be immediately used by Agent to repay the amount of the resulting Matured LC Obligation. Such a request by Borrowers shall be made in compliance with all of the provisions hereof, provided that for the purposes of the first sentence of Section 2.1 the amount of such Advances shall be considered but the amount of the Matured LC Obligation to be concurrently paid by such Advances shall not be considered.

(c) **Participation by Lenders.** Agent irrevocably agrees to grant and hereby grants to each Lender, and -- to induce Agent to issue Letters of Credit hereunder -- each Lender irrevocably agrees to accept and purchase and hereby accepts and purchases from Agent, on the terms and conditions hereinafter stated and for such Lender's own account and risk, an undivided interest equal to such Lender's Percentage Share of Agent's obligations and rights under each Letter of Credit issued hereunder and the amount of each Matured LC Obligation paid by Agent thereunder. Each Lender unconditionally and irrevocably agrees with Agent that, if a Matured LC Obligation is paid under any Letter of Credit for which Agent is not reimbursed in full by Borrower in accordance with the terms of this Agreement and the related LC Application (including any reimbursement by means of concurrent Advances or by the application of LC Collateral), such Lender shall (in all circumstances and without set-off or counterclaim) pay to Agent on demand, in immediately available funds at Agent's address for notices hereunder, such Lender's Percentage Share of such Matured LC Obligation (or any portion thereof which has not been reimbursed by Borrower). Each Lender's obligation to pay Agent pursuant to the terms of this subsection is irrevocable and unconditional. If any amount required to be paid by any Lender to Agent pursuant to this subsection is paid by such Lender to Agent within three Business Days after the date such payment is due, Agent shall in addition to such amount be entitled to recover from such Lender, on demand, interest thereon calculated from such due date at the Base Rate. If any amount required to be paid by any Lender to Agent pursuant to this subsection is not paid by such Lender to Agent within three Business Days after the date such payment is due, Agent shall in addition to such amount be entitled to recover from such Lender, on demand, interest thereon calculated from such due date at the Late Payment Rate.

(d) **Distributions to Participants.** Whenever Agent has in accordance with this section received from any Lender payment of such Lender's Percentage Share of any Matured LC Obligation, if Agent thereafter receives any payment of such Matured LC Obligation or any payment of interest thereon (whether directly from Borrowers or by application of LC Collateral or otherwise, and excluding only interest for any period prior to Agent's demand that such Lender make such payment of its Percentage Share), Agent will distribute to such Lender its Percentage Share of the amounts so received by Agent; provided, however, that if any such payment received by Agent must thereafter be returned by Agent, such Lender shall return to Agent the portion thereof which Agent has previously distributed to it.

(e) **Calculations.** A written advice setting forth in reasonable detail the amounts owing under this section, submitted by Agent to Borrowers or

any Lender from time to time, shall be conclusive, absent manifest error, as to the amounts thereof.

Section 2A.4. Letter of Credit Fees. In consideration of Agent's issuance of any Letter of Credit and each other Lender's agreement to purchase a risk participation therein, Borrowers agree to pay a letter of credit fee to Agent (for the account of the Lenders) for each Letter of Credit in the amount of the Letter of Credit Rate times the Drawing Amount for such Letter of Credit. Each letter of credit fee will be calculated on a daily basis (on the basis of a year of 360 days) based on the Drawing Amount of such Letter of Credit and the applicable Letter of Credit Rate in effect on each day and shall be payable quarterly in arrears and at the expiration or termination of such Letter of Credit. Upon receipt of such letter of credit fee for each Letter of Credit, Agent will pay to each Lender such Lender's Percentage Share of such fee. In addition, Borrowers agree to pay a fronting fee to Agent (for its own account) for each Letter of Credit, in an amount to be agreed on by Borrowers and Agent for each separate Letter of Credit. Each such fronting fee will be for the account of Agent alone, and no other Lender shall have any right or interest therein.

Section 2A.5. No Duty to Inquire.

(a) **Drafts and Demands.** Agent is authorized and instructed to accept and pay drafts and demands for payment under any Letter of Credit without requiring, and without responsibility for, any determination as to the existence of any event giving rise to said draft, either at the time of acceptance of payment or thereafter. Agent and Lenders are under no duty to determine the proper identity of anyone presenting such a draft or making such a demand (whether by tested telex or otherwise) as the officer, representative or agent of any beneficiary under any Letter of Credit, and payment by Agent to any such beneficiary when requested by any such purported officer, representative or agent is hereby authorized and approved. Borrowers agree to hold Agent and each Lender harmless and indemnified against any liability or claim in connection with or arising out of the subject matter of this section, WHICH INDEMNITY SHALL APPLY WHETHER OR NOT ANY SUCH LIABILITY OR CLAIM IS IN ANY WAY OR TO ANY EXTENT CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY AGENT OR ANY LENDER, provided only that neither Agent nor any Lender shall be entitled to indemnification for that portion, if any, of any liability or claim which is proximately caused by its own individual gross negligence or willful misconduct, as determined in a final judgment.

(b) **Extension of Maturity.** If the maturity of any Letter of Credit is extended by its terms or by law or governmental action, if any extension of the maturity or time for presentation of drafts or any other modification of the terms of any Letter of Credit is made at the request of any Related Person, or if the amount of any Letter of Credit is increased at the request of any Related Person, the Loan Documents shall be binding upon all Related Persons with respect to such Letter of Credit as so extended, increased or otherwise modified, with respect to drafts and property covered thereby, and with respect to any action taken by Agent or any of Agent's correspondents in accordance with such extension, increase or other modification.

(c) **Transferees of Letters of Credit.** If any Letter of Credit provides that it is transferable, Agent shall have no duty to determine the proper identity of anyone appearing as transferee of such Letter of Credit, nor shall Agent be charged with responsibility of any nature or character for the validity or correctness of any transfer or successive transfers, and payment by Agent to any purported transferee or transferees as determined by Agent is hereby authorized and approved, and Borrowers further agree to hold Agent and each Lender harmless and indemnified against any liability or claim in connection with or arising out of the foregoing, WHICH INDEMNITY SHALL APPLY WHETHER OR NOT ANY SUCH LIABILITY OR CLAIM IS IN ANY WAY OR TO ANY EXTENT CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY AGENT OR ANY LENDER, provided only that neither Agent nor any Lender shall be entitled to indemnification for that portion, if any, of any liability or claim which is proximately caused by its own individual gross negligence or willful misconduct, as determined in a final judgment.

Section 2A.6. LC Collateral.

(a) **LC Obligations in Excess of Maximum Loan Amount.**

Section 2.10 requires Borrower to make certain mandatory prepayments if the Loan Balance shall exceed the Maximum Loan Amount. These payments shall be applied to the payment of the Loans and any Matured LC Obligations before being held as LC Collateral as provided below. If, however, such excess is greater than the unpaid balance of the Loans and any Matured LC Obligations and, after the Loans are paid in full, the remaining outstanding LC Obligations will exceed the Maximum Loan Amount, then Borrowers will continue to make such payments and Agent will hold the same as security for the remaining LC Obligations (all such amounts held as security for LC Obligations being herein collectively called "LC Collateral") until such LC Obligations become Matured LC Obligations, at which time such LC Collateral may be applied to such Matured LC Obligations. Neither this subsection nor the following subsection shall, however, limit or impair any rights which Agent may have under any other document or agreement relating to any Letter of Credit or LC Obligation, including any LC Application, or any rights which Agent or Lenders may have to otherwise apply any payments by Borrowers and any LC Collateral under Section 2.11.

(b) **Acceleration of LC Obligations.** If the Obligations or any part thereof become immediately due and payable pursuant to Section 7.1 then, unless Majority Lenders otherwise specifically elect to the contrary (which election may thereafter be retracted by Majority Lenders at any time), all LC Obligations shall become immediately due and payable without regard to whether or not actual drawings or payments on the Letters of Credit have occurred, and Borrowers shall be obligated to pay to Agent immediately an amount equal to the aggregate LC Obligations which are then outstanding. All amounts so paid shall first be applied to Matured LC Obligations and then held by Agent as LC Collateral until the remaining LC Obligations become Matured LC Obligations, at which time such LC Collateral shall be applied to such Matured LC Obligations.

(c) **Investment of LC Collateral.** Pending application thereof, all LC Collateral shall be invested by Agent in such investments as Agent may choose in its sole discretion. All interest on such investments shall be reinvested or applied to Matured LC Obligations and other past due

Obligations. When all Obligations have been satisfied in full, including all LC Obligations, all Letters of Credit have expired or been terminated, and all of Borrowers' reimbursement obligations in connection therewith have been satisfied in full, Agent shall release any remaining LC Collateral. Borrowers hereby assign and grant to Agent a continuing security interest in all LC Collateral at any time held by Agent, all investments purchased with such LC Collateral, and all proceeds thereof to secure its Matured LC Obligations and its Obligations under this Agreement, the Note, and the other Loan Documents. Borrowers further agree that Agent shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as adopted in the State of Texas with respect to such security interest and that an Event of Default under this Agreement shall constitute a default for purposes of such security interest.

(d) Payment of LC Collateral. When Borrowers are required to provide LC Collateral for any reason and fails to do so on the day required, Agent may without notice to Borrowers or any other Related Person provide such LC Collateral (whether by application of proceeds of other Collateral, by transfers from other accounts maintained with Agent, or otherwise) using any available funds of Borrowers or any other Person also liable to make such payments. Any such amounts which are required to be provided as LC Collateral and which are not provided on the date required shall be considered past due Obligations owing hereunder, and Agent and Lenders are hereby authorized to exercise their respective rights to obtain such amounts.

ARTICLE III -- Conditions Precedent to Lending

Section 3.1. Documents to be Delivered. No Lender has any obligation to make its first Advance unless Agent shall have received all of the following, at Agent's office in Dallas, Texas, duly executed and delivered and in form, substance and date satisfactory to Agent:

(a) Each Note.

(b) An "Omnibus Certificate" of the Secretary or Assistant Secretary and of the Chairman of the Board, President, or Vice President-Finance of each Borrower, which shall contain the names and signatures of the officers of Borrowers authorized to execute Loan Documents and which shall certify to the truth, correctness and completeness of the following exhibits attached thereto: (i) copies of resolutions duly adopted by the Boards of Directors of Borrowers and in full force and effect at the time this Agreement is entered into, authorizing the execution of this Agreement and the other Loan Documents delivered or to be delivered in connection herewith and the consummation of the transactions contemplated herein and therein, (ii) a copy of the charters of Borrowers and all amendments thereto, certified by the appropriate officials of the States of Nevada and Oklahoma, and (iii) copies of the bylaws of Borrowers.

(c) A certificate (or certificates) of the due organization, valid existence and good standing of Parent in the State of Oklahoma and Devon Nevada in the State of Nevada, issued by the appropriate officials of such States.

(d) A "Compliance Certificate" of the Chairman of the Board or President and of the Vice President-Finance of Borrowers, of even date with such first Advance, in which such officers certify to the satisfaction of the conditions set out in subsections (a),

(b) and (c) of Section 3.2.

(e) A favorable opinion of McAfee & Taft, A Professional Corporation, counsel for Borrowers and DBC, substantially in the form set forth in Exhibit E.

(f) Documents similar to those specified in subsections (b) and (c) of this section with respect to each Guarantor, and the execution by it of its guaranty of Borrowers' Obligations.

(g) A Notice of Final Agreement in the form of the attached Exhibit F.

Section 3.2. Additional Conditions Precedent. No Lender has any obligation to make any Advance (including its first) and Agent has no obligation to issue any Letter of Credit (whether or not otherwise agreed to by Agent) unless the following conditions precedent have been satisfied:

(a) All representations and warranties made by any Related Person in any Loan Document shall be true on and as of the date of such Advance or the date of issuance of such Letter of Credit (except to the extent that the facts upon which such representations are based have been changed by the transactions herein contemplated) as if such representations and warranties had been made as of the date of such Advance or the date of issuance of such Letter of Credit.

(b) No Default shall exist at the date of such Advance or the date of issuance of such Letter of Credit.

(c) Each Related Person shall have performed and complied with all agreements and conditions required in the Loan Documents to be performed or complied with by it on or prior to the date of such Advance or the date of issuance of such Letter of Credit.

(d) The making of such Advance or the issuance of such Letter of Credit shall not be prohibited by any law or any regulation or order of any court or governmental agency or authority and shall not subject Agent or any Lender to any penalty or other onerous condition under or pursuant to any such law, regulation or order.

(e) Agent shall have received all documents and instruments which Agent has then reasonably requested, in addition to those described in Section 3.1 (including opinions of legal counsel for the Related Persons and Agent; corporate documents and records; documents evidencing governmental authorizations, consents, approvals, licenses and exemptions; and certificates of public officials and of officers and representatives of the Related Persons and other Persons), as to (i) the accuracy and validity of or compliance with all representations, warranties and covenants made by any of the Related Persons in this Agreement and the other Loan Documents, (ii) the satisfaction of all conditions contained herein or therein, and (iii) all other matters pertaining hereto and thereto. All such additional documents and instruments shall be satisfactory to Agent in form, substance and date.

(f) All legal matters relating to the Loan Documents and the consummation of the transactions contemplated thereby shall be satisfactory to Thompson & Knight, a Professional Corporation, counsel to Agent.

ARTICLE IV -- Representations and Warranties

Section 4.1. Borrowers' Representations and Warranties. To induce Agent and Lenders to enter into this Agreement and to make the Loans, Borrowers jointly and severally represent and warrant to Agent and each Lender that:

(a) No Default. No Restricted Person is in default in the performance of any of the covenants and agreements contained herein. No event has occurred and is continuing which constitutes a Default.

(b) Organization and Good Standing. Each Restricted Person which is a corporation, partnership or business trust is duly organized, validly existing and in good standing under the laws of its state of organization or formation, having all corporate, partnership or business trust powers required to carry on its business and enter into and carry out the transactions contemplated hereby. Each such Person is duly qualified, in good standing, and authorized to do business in all other jurisdictions within the United States wherein the character of the properties owned or held by it or the nature of the business transacted by it makes such qualification necessary. Each such Person has taken all actions and procedures customarily taken in order to enter, for the purpose of conducting business or owning property, each jurisdiction outside the United States wherein the character of the properties owned or held by it or the nature of the business transacted by it makes such actions and procedures desirable.

(c) Authorization. Each Restricted Person which is a corporation or partnership has duly taken all corporate or partnership action necessary to authorize the execution and delivery by it of the Loan Documents to which it is a party and to authorize the consummation of the transactions contemplated thereby and the performance of its obligations thereunder. Borrowers are duly authorized to borrow funds hereunder.

(d) No Conflicts or Consents. The execution and delivery by the various Related Persons of the Loan Documents to which each is a party, the performance by each of its obligations under such Loan Documents, and the consummation of the transactions contemplated by the various Loan Documents, do not and will not

(i) conflict with any provision of (A) any domestic or foreign law, statute, rule or regulation, (B) the articles or certificate of incorporation, bylaws, charter, or partnership agreement or certificate of any Related Person, or (C) any agreement, judgment, license, order or permit applicable to or binding upon any Related Person, (ii) result in the acceleration of any Debt owed by any Related Person, or (iii) result in or require the creation of any Lien upon any assets or properties of any Related Person except as expressly contemplated in the Loan Documents. Except as expressly contemplated in the Loan Documents no consent, approval, authorization or order of, and no notice to or filing with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by any Related Person of any Loan Document or to consummate any transactions contemplated by the Loan Documents.

(e) Enforceable Obligations. This Agreement is, and the other Loan Documents when duly executed and delivered will be, legal and binding obligations of each Related Person which is a party hereto or thereto, enforceable in accordance with their respective terms except as limited by bankruptcy, insolvency, moratorium, fraudulent conveyance, or similar laws of general application relating to the enforcement of creditors' rights and as limited by general equitable principles.

(f) Initial Financial Statements. The Initial Financial Statements fairly present the Consolidated financial position at the respective dates thereof and the Consolidated results of operations and the changes in Consolidated financial position for the respective periods thereof for each entity for which Initial Financial Statements have been provided. Since the date of such audited annual Initial Financial Statements no material adverse change has occurred in the financial condition or businesses or in Consolidated financial condition or businesses of such entity, except as reflected in the Disclosure Schedule. All Initial Financial Statements were prepared in accordance with GAAP.

(g) Other Obligations. No Related Person has any outstanding Debt of any kind (including contingent obligations, tax assessments, and unusual forward or long-term commitments) which is, in the aggregate, material with respect to Borrowers' Consolidated financial condition and not shown in the Initial Financial Statements or disclosed in the Disclosure Schedule.

(h) Full Disclosure. No certificate, statement or other information delivered herewith or heretofore by any Related Person to Agent or any Lender in connection with the negotiation of this Agreement or in connection with any transaction contemplated hereby contains any untrue statement of a material fact or omits to state any material fact known to any Related Person (other than industry risks normally associated with the types of businesses conducted by the Related Persons) necessary to make the statements contained herein or therein not misleading as of the date made or deemed made. There is no fact known to any Related Person (other than industry risks normally associated with the types of businesses conducted by the Related Persons) that has not been disclosed to Agent and each Lender in writing which could materially and adversely affect Borrowers' Consolidated properties, business, prospects or condition (financial or otherwise). Borrowers have heretofore

delivered to Agent and each Lender true, correct and complete copies of any letters and documents listed in the Disclosure Schedule.

(i) **Litigation.** Except as disclosed in the Initial Financial Statements or in the Disclosure Schedule: (i) there are no actions, suits or legal, equitable, arbitrative or administrative proceedings pending, or to the knowledge of any Related Person threatened, against any Related Person before any federal, state, municipal or other court, department, commission, body, board, bureau, agency, or instrumentality, domestic or foreign, and there are no outstanding judgments, injunctions, writs, rulings or orders by any such governmental entity against any Related Person or any Related Person's stockholders, partners, directors or officers, which do or may materially and adversely affect any Borrower individually or on a Consolidated basis any Borrower and its Consolidated Subsidiaries, their ownership or use of any of their assets or properties, their businesses or financial condition or prospects, or the right or ability of any Related Person to enter into the Loan Documents to which it is a party or to consummate the transactions contemplated thereby or to perform its obligations thereunder.

(j) **ERISA Liability.** Except as disclosed in the Initial Financial Statements or in the Disclosure Schedule, no Termination Event has occurred with respect to any ERISA Plan and the Related Persons are in compliance with ERISA in all material respects. No Related Person is required to contribute to, or has any other absolute or contingent liability in respect of, any "multiemployer plan" as defined in Section 4001 of ERISA.

(k) **Names and Places of Business.** No Borrower has, during the preceding five years, been known by or used any other corporate, partnership or fictitious name, except as disclosed in the Disclosure Schedule. Except as otherwise indicated in the Disclosure Schedule, the chief executive office and principal place of business of Borrowers are located at the address of Borrowers set out in Section 9.3 hereof.

(l) **Subsidiaries.** No Borrower (i) has any Subsidiary which has assets of \$1,000,000 or more, or (ii) owns any stock in any other corporation or association which is not a Subsidiary, except as listed in the Disclosure Schedule. No Related Person is a member of any general or limited partnership, joint venture or association of any type whatsoever except those listed in the Disclosure Schedule and associations, joint ventures or other relationships (a) which are established pursuant to a standard form operating agreement or similar agreement or which are partnerships for purposes of federal income taxation only, (b) which are not corporations or partnerships (or subject to the Uniform Partnership Act) under applicable state law, and (c) whose businesses are limited to the exploration, development and operation of oil, gas or mineral properties and interests owned directly by the parties in such associations, joint ventures or relationships. As of the date hereof each Borrower owns, directly or indirectly, the equity interest in each of its Subsidiaries which is indicated in the Disclosure Schedule.

(m) **Title to Properties.** Each Restricted Person has defensible title to all of its properties and assets, free and clear of all Prohibited Liens and of all impediments to the use of such properties and assets in such Restricted Person's business, except that no representation or warranty is made with respect to any oil, gas or mineral property or interest to which no proved oil or gas reserves are properly attributed.

(n) **Year 2000 Compliance.** Borrowers have (i) initiated a review and assessment of all areas within their and each of their Subsidiaries' business and operations (including those affected by suppliers and vendors) that could be adversely affected by the "Year 2000 Problem" (that is, the risk that computer applications used by Borrowers and their Subsidiaries may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date after December 31, 1999, (ii) developed a plan and timeline for addressing the Year 2000 Problem on a timely basis, and (iii) to date, implemented that plan in accordance with that timetable. Borrowers reasonably believe that all computer applications (including those of its suppliers and vendors) that are material to their or any of their Subsidiaries' business and operations will on a timely basis be able to perform properly date-sensitive functions for all dates before and after January 1, 2000 (that is, be "Year 2000 compliant"), except to the extent that a failure to do so could not reasonably be expected to materially and adversely affect Borrowers on a Consolidated basis.

Section 4.2. Representation by Lenders. Each Lender hereby represents that it will acquire its Note for its own account in the ordinary course of its commercial lending business; however, the disposition of such Lender's property shall at all times be and remain within its control and, in particular and without limitation, such Lender may sell or otherwise transfer its Note, any participation interest or other interest in its Note, or any of its other rights and obligations under the Loan Documents.

ARTICLE V -- Covenants of Borrowers

Section 5.1. Affirmative Covenants. Each Borrower jointly and severally warrants, covenants and agrees that until the full and final payment of the Obligations and the termination of this Agreement, unless Majority Lenders have previously agreed otherwise in writing:

(a) **Payment and Performance.** Each Borrower will pay all amounts owed by it under the Loan Documents in accordance with the terms thereof and will observe, perform and comply with every covenant, term and condition expressed or implied in the Loan Documents. Each Borrower will cause the other Related Persons to observe, perform and comply with every such term, covenant and condition.

(b) **Books, Financial Statements and Reports.** Each Related Person will at all times maintain full and accurate books of account and records. Borrowers will maintain and will cause their respective Subsidiaries to maintain a standard system of accounting and will furnish the following statements and reports to Agent and each Lender at Borrowers' expense:

(i) As soon as available, and in any event within 105 days after the end of each Fiscal Year, complete Consolidated financial statements of Parent, together with all notes thereto, prepared in reasonable detail in accordance with GAAP, together with an opinion, based on an audit using generally accepted auditing standards, by KPMG Peat Marwick, or other independent certified public accountants selected by Parent and acceptable to Agent, stating that such Consolidated financial statements have been so prepared. These Consolidated financial statements shall contain a Consolidated balance sheet as of the end of such Fiscal Year and Consolidated statements of earnings, of cash flows, and of changes in stockholders' equity for such Fiscal Year, each setting forth in comparative form the corresponding figures for the preceding Fiscal Year. In

addition, within 105 days after the end of each Fiscal Year Borrowers will furnish to Agent and each Lender a certificate in the form of Exhibit D signed by the President or Vice President-Finance of Borrowers, stating that such financial statements are accurate and complete, stating that he has reviewed the Loan Documents, containing all calculations required to be made to show compliance or non-compliance with the provisions of Sections 5.2(g)(i) and (ii), and further stating that there is no condition or event at the end of such Fiscal Year or at the time of such certificate which constitutes a Default or specifying the nature and period of existence of any such condition or event.

(ii) As soon as available, and in any event within 50 days after the end of each Fiscal Quarter:

(A) a Consolidated and consolidating balance sheet and income statement of Parent, as at the end of such Fiscal Quarter and for the period from the beginning of the then current Fiscal Year to the end of such Fiscal Quarter, all in reasonable detail and prepared in accordance with GAAP, subject to changes resulting from normal year-end adjustments;

(B) a Consolidated statement of cash flows of Parent for the period from the beginning of the then current Fiscal year to the end of such Fiscal Quarter, in reasonable detail and prepared in accordance with GAAP, subject to changes resulting from normal year-end adjustments; and

(C) a certificate in the form of Exhibit D signed by the President or Vice President-Finance of Borrowers, stating that such financial statements are accurate and complete, stating that he has reviewed the Loan Documents, containing all calculations required to be made by Borrowers to show compliance or non-compliance with the provisions of Sections 5.2(g)(i) and (ii), and further stating that there is no condition or event at the end of such Fiscal Quarter or at the time of such certificate which constitutes a Default or specifying the nature and period of existence of any such condition or event.

(iii) Promptly upon their becoming available, copies of all financial statements, reports, notices and proxy statements sent by any Restricted Person to its stockholders or partners and all registration statements, periodic reports and other statements and schedules filed by any Restricted Person with any securities exchange, the Securities and Exchange Commission or any similar governmental authority, including any information or estimates with respect to Parent's oil and gas business (including its exploration, development and production activities) which are required to be furnished in Parent's annual report pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended.

(c) Other Information and Inspections. Borrowers will, and will cause each Restricted Person to, furnish to Agent any information which Agent may from time to time request concerning any covenant, provision or condition of the Loan Documents or any matter in connection with the Restricted Persons' businesses and operations. Each Restricted Person will permit representatives appointed by Agent, including independent accountants, agents, attorneys, appraisers and any other persons, to visit and inspect any of such Restricted Person's property during normal office hours, including its books of account, other books and records, and any facilities or other business assets, and to make extra copies therefrom and photocopies and photographs thereof, and to write down and record any information such representatives obtain, and each Restricted Person shall permit Agent or its representatives to investigate and verify the accuracy of the information furnished to Agent in connection with the Loan Documents and to discuss all such matters with its officers, employees and representatives. Each of Agent and Lenders agrees that it will take all reasonable steps to keep confidential any information given to it by any Restricted Person, provided, however, that this restriction shall not apply to information which (i) has at the time in question entered the public domain, (ii) is required to be disclosed by law or by any order, rule or regulation (whether valid or invalid) of any court or governmental agency or authority, (iii) is disclosed to Agent or any Lender or any of their respective examiners, Affiliates, auditors, attorneys or agents (which Affiliates, auditors, attorneys, and agents shall be deemed bound by the restrictions of this sentence), (iv) is furnished to prospective successor Agents or to purchasers or prospective purchasers of participations or interests in the Loans or the Notes (provided that any such Persons who are not Affiliates of a Lender have agreed to be bound by the restrictions of this sentence), or (v) is disclosed in connection with enforcement of the Loan Documents during the continuance of a Default.

(d) Notice of Material Events and Change of Address. Borrowers will promptly notify Agent and each Lender (i) of any material adverse change in any Borrower's individual financial condition or in Parent's Consolidated financial condition, (ii) of the occurrence of any Default, (iii) of the acceleration of the maturity of any Debt owed by any Related Person or of any default by any Related Person under any indenture, mortgage, agreement, contract or other instrument to which any of them is a party or by which any of them or any of their properties is bound, if such acceleration or default might have a material adverse effect upon any Borrower's individual financial condition or upon Parent's Consolidated financial condition, (iv) of any material adverse claim (or any claim of \$5,000,000 or more) asserted against any Related Person or with respect to any Related Person's properties, (v) of the occurrence of any Termination Event, and (vi) of the filing of any suit or proceeding against any Related Person in which an adverse decision could have a material adverse effect upon any Borrower's individual financial condition, business, or operations or upon Parent's Consolidated financial condition, business or operations. Upon the occurrence of any of the foregoing the Restricted Persons will take all necessary or appropriate steps to remedy promptly any such material adverse change, Default or default, to protect against any such adverse claim, to defend any such suit or proceeding, and to resolve all controversies on account of any of the foregoing. Borrowers will also notify Agent in writing at least twenty Business Days prior to the date that any Related Person which is a party to any Loan Document changes its name or the location of its chief executive office.

(e) Maintenance of Properties. Each Restricted Person will maintain, preserve, protect, and keep all property used or useful in the conduct of its business in good condition and in compliance with all applicable laws, rules and regulations, and will from time to time make all repairs, renewals and replacements needed to enable the business and operations carried on in connection therewith to be promptly and advantageously conducted at all times.

(f) Maintenance of Existence and Qualifications. Each Restricted Person which is a corporation, partnership or business trust will maintain and

preserve its corporate, partnership or business trust existence and its rights and franchises in full force and effect and will qualify to do business as a foreign corporation, partnership or business trust in all states or jurisdictions where required by applicable law.

(g) Payment of Trade Debt, Taxes, etc. Each Restricted Person will (i) timely file all required tax returns; (ii) timely pay all taxes, assessments, and other governmental charges or levies imposed upon it or upon its income, profits or property; (iii) within thirty days after the same becomes due pay all Debt owed by it on ordinary trade terms to vendors, suppliers and other Persons providing goods and services used by it in the ordinary course of its business; (iv) pay and discharge when due all other Debt now or hereafter owed by it; and (v) maintain appropriate accruals and reserves for all of the foregoing Debt in accordance with GAAP. Each Restricted Person may, however, delay paying or discharging any such Debt so long as it is in good faith contesting the validity thereof by appropriate proceedings and it has set aside on its books adequate reserves therefor to the extent required by GAAP.

(h) Insurance. Each Restricted Person will keep or cause to be kept adequately insured by financially sound and reputable insurers, its surface equipment and other property of a character usually insured by similar Persons engaged in the same or similar businesses. Each Restricted Person shall at all times maintain (1) adequate insurance against fire, casualty and any other hazards normally insured against, and (2) adequate insurance against its liability for injury to persons or property, which insurance shall be by financially sound and reputable insurers.

(i) Payment of Expenses. Whether or not the transactions contemplated by this Agreement are consummated, Borrowers will pay all reasonable costs and expenses (including attorneys' fees but excluding normal overhead) (i) of Agent in connection with the preparation, execution and delivery of the Loan Documents, and any and all consents, waivers or other documents or instruments relating thereto, (ii) of any Person in connection with the filing, recording, re-filing and re-recording of any Loan Documents and any other documents or instruments or further assurances required to be filed or recorded or refiled or re-recorded by the terms of any Loan Document, (iii) of Agent in connection with the borrowings hereunder and other action reasonably required in the course of administration hereof, and (iv) of Agent or any Lender in connection with the defense at any time of the Loan Documents and the Obligations, or, after the occurrence of a Default, in connection with the enforcement of the Loan Documents and the Obligations or the defense of Agent's or such Lender's exercise of its rights in respect thereof.

(j) Performance on Restricted Person's Behalf. If any Restricted Person fails to pay any taxes, insurance premiums, expenses, fees, or other amounts it is required to pay under any Loan Document, Agent may pay the same, and shall use its best efforts to notify Borrowers prior to making any such payment; provided, however, that any failure by Agent to so notify Borrowers shall not limit or otherwise impair Agent's ability to make any such payment. Borrowers shall immediately reimburse Agent for any such payments and each amount paid by Agent shall constitute an Obligation owed hereunder and shall bear interest at the Late Payment Rate from the date such amount is paid by Agent until the date such amount is repaid to Agent.

(k) Compliance with Agreements and Law. Each Restricted Person will perform all material obligations it is required to perform under the terms of each indenture, mortgage, deed of trust, security agreement, lease, franchise, agreement, contract or other instrument or obligation to which it is a party or by which it or any of its properties is bound. Each Restricted Person will conduct its business and affairs in compliance with all laws, regulations, and orders applicable thereto (including those relating to pollution and other environmental matters).

(l) Evidence of Compliance. Each Restricted Person will furnish to Agent and each Lender at such Restricted Person's or Borrowers' expense all evidence which Agent or Majority Lenders from time to time reasonably request, including the forms of evidence and assurance described in Section 3.2(e), as to the accuracy and validity of or compliance with all representations, warranties and covenants made by any Related Person in the Loan Documents, the satisfaction of all conditions contained therein, and all other matters pertaining thereto.

(m) Year 2000 Compliance. Borrower will promptly notify Agent in the event Borrowers discover or determine that any computer application (including those of their suppliers and vendors) that is material to their or any of their Subsidiaries' business and operations will not be Year 2000 compliant on timely basis, except to the extent that such failure could not reasonably be expected to have a material and adverse effect on Borrowers on a Consolidated basis.

Section 5.2. Negative Covenants. Borrowers jointly and severally warrant, covenant and agree that until the full and final payment of the Obligations and the termination of this Agreement, unless Majority Lenders have previously agreed otherwise in writing:

(a) Limitation on Debt. No Restricted Person will in any manner owe or be liable for Restricted Debt except:

(i) the Obligations;

(ii) capital lease obligations (excluding oil, gas or mineral leases) entered into in the ordinary course of the Restricted Persons' businesses in arm's length transactions at competitive market rates under competitive terms and conditions in all respects, provided that the obligations required to be paid in any Fiscal Year under any such capital leases do not in the aggregate exceed \$20,000,000 for all Restricted Persons;

(iii) unsecured Debt owed among Restricted Persons;

(iv) Debt which, at the time incurred, is at prevailing market rates of interest and contains covenants and conditions and events of default no more onerous to Restricted Persons than the terms of this Agreement; provided that no Default or Event of Default will result from the

incurrence of such Debt and be continuing;

(v) guaranties by one Restricted Person of Debt owed by another Restricted Person, if such Debt either (1) is not Restricted Debt, or (2) is allowed under subsections (i), (ii), (iii) or (iv) of this subsection 5.2(a);

(vi) Debt of the Restricted Persons for plugging and abandonment bonds or for letters of credit issued by any Lender in place thereof which are required by regulatory authorities in the area of operations, and Debt of the Restricted Persons for other bonds or letters of credit issued by any Lender which are required by such regulatory authorities with respect to other normal oil and gas operations;

(vii) obligations under the Subordinated Parent Indenture, the Subordinated Parent Debentures and the Subordinated Parent Guarantee;

(viii) non-recourse Restricted Debt as to which no Restricted Person (A) provides any guaranty or credit support of any kind (including any undertaking, guarantee, indemnity, agreement or instrument that would constitute Restricted Debt) or (B) is directly or indirectly liable (as a guarantor or otherwise); provided, that after giving effect to such Restricted Debt outstanding from time to time, Borrowers are not in violation of Sections 5.2(g)(i) and (ii);

(ix) Debt arising under forward, future, swap or hedging contracts permitted pursuant to Section 5.2(i); and

(x) the Canadian Facility.

(b) Limitation on Liens. No Restricted Person will create, assume or permit to exist any Lien upon any of the properties or assets which it now owns or hereafter acquires, except:

(i) operators' liens under customary operating agreements, statutory Liens for taxes, statutory mechanics' and materialmen's Liens, and other similar statutory Liens, provided such Liens secure only Debt which is not delinquent or which is being contested as provided in Section 5.1(g);

(ii) Liens on any oil and gas properties which neither have developed reserves (producing or non-producing) properly attributable thereto nor are otherwise held under lease by production of other reserves;

(iii) Liens on the Restricted Persons' office facilities;

(iv) Liens to secure the Obligations;

(v) Liens on property securing Debt permitted under Section 5.2(a)(viii) incurred to finance the purchase price of such property and not secured by other property (except for such property and receivables, contract rights and similar intangibles related thereto and the proceeds thereof); and

(vi) Liens described in Section 5.2(i)(i)(B) to secure Debt arising under forward, future, swap or hedging contracts permitted pursuant to Section 5.2(i)(i).

No Restricted Person will allow the filing or continued existence of any financing statement describing as collateral any assets or property of such Restricted Person, other than financing statements which describe only collateral subject to a Lien permitted under this section and which name as secured party or lessor only the holder of such Lien.

(c) Limitation On Intercompany Transfers. No Restricted Person will engage in any transaction with any other Restricted Person or Unrestricted Subsidiary which involves the transfer of assets by a Restricted Person in any manner (whether by loan, purchase, dividend, capital contribution, or otherwise) except (to the extent not otherwise prohibited hereunder or under the other Loan Documents) as follows:

(i) Provided no Default exists immediately before or immediately after such transaction: (A) Restricted Persons (other than Devon Canada) may make loans among one another, any Subsidiary may pay dividends to Borrowers or any Guarantor, and Restricted Persons may make capital contributions to or purchase additional shares of capital stock in Restricted Persons (other than Devon Canada), all without limit, and (B) Restricted Persons may make loans or capital contributions to or purchase additional shares of capital stock in Devon Canada, provided that the aggregate amount of all such loans, capital contributions, purchases of shares, and other provisions of funds to Devon Canada made after the date hereof shall not exceed \$25,000,000;

(ii) So long as no Default exists immediately before or immediately after such transaction, Restricted Persons may make loans or capital contributions to, purchase shares of common stock from, or otherwise provide funds to Unrestricted Subsidiaries, provided that (A) the aggregate amount of all such loans and capital contributions (excluding any such loans which have at the time in question been repaid) may at no time in the aggregate with respect to all such Unrestricted Subsidiaries exceed in any Fiscal Year (I) \$50,000,000 minus (II) the aggregate amount of any dividends made by Parent in such Fiscal Year as permitted pursuant to Section 5.2(d), and (B) in the event the book value of the assets of any Unrestricted Subsidiary at any time exceeds \$25,000,000, such Subsidiary shall cease to be an Unrestricted Subsidiary and shall automatically become a Restricted Person and a Guarantor, to the extent provided in

Section 6.2;

(iii) Any Restricted Person other than Parent may pay dividends to its shareholders so long as the full amount of such dividends is received (either directly or through a series of concurrent transactions) by any or all of Borrowers or Guarantors;

(iv) The Restricted Persons may sell (and pay for) goods and services to each other, at fair prices obtainable in arm's-length transactions with third parties, in transactions which do not involve the payment of cash or cash equivalents by Borrowers to any Person other than each other; and

(v) Parent may pay quarterly interest payments on the Subordinated Parent Debentures to Devon Trust, pursuant to the express terms thereof, and Devon Trust may pay quarterly cash dividends to the holders of the Devon Trust Securities pursuant to the express terms thereof, provided that both immediately before and immediately after any such proposed interest payment and dividend payment, Parent is in compliance with Section 5.2(g)(i) and (ii) and no Default under Section 7.1(a), 7.1(f) or 7.1(h) is continuing.

In addition to the foregoing, Borrowers and Guarantors may, without regard to the \$50,000,000 limit referred to in subsection (ii) of this section, acquire interests from unaffiliated third parties in corporations or limited partnerships who thereby become (or already are) Subsidiaries of Parent, provided that (1) no such corporation or limited partnership may be designated as an Unrestricted Subsidiary, (2) Borrowers or Guarantors must acquire directly more than 50% (by vote) of the voting stock of any corporation so acquired, and (3) Borrowers or Guarantors must acquire directly 100% of the general partner interests in any limited partnership so acquired.

(d) Limitation on Distributions and Repurchases; Dividends and Redemptions; Investments. Except as permitted in Section 5.2(c) or in the last sentence of this subsection, no Restricted Person will otherwise declare or pay any dividends on, or make any distribution or other payment in respect of, any class of its capital stock or any partnership or other interests in it, nor will any Restricted Person directly or indirectly make, cause or permit any capital contribution to or purchase, redeem, acquire or retire any shares of the capital stock of or partnership interests or other interests in any Related Person (whether such interests are now or hereafter issued, outstanding or created), or cause or permit any reduction or retirement of the capital stock of any Related Person, or agree to do any of the foregoing. Each Restricted Person may declare and pay to any Persons dividends payable only in its common or preferred stock, so long as Parent's direct or indirect interest in any of its Subsidiaries is not thereby reduced. In addition to the foregoing, Parent may declare and pay to any Persons dividends or distributions on, or purchase, redeem, acquire or otherwise retire shares of, the capital stock of Parent in an aggregate amount not to exceed in any Fiscal Year (I) \$50,000,000 minus

(II) the aggregate amount of any loans or capital contributions made to Unrestricted Subsidiaries by Restricted Persons in such Fiscal Year as permitted pursuant to Section 5.2(c)(ii), provided that both immediately before and immediately after any such proposed dividend, distribution or repurchase, no Default is continuing. Notwithstanding the foregoing, so long as no Default is continuing, Restricted Persons may make:

(A) investments in direct obligations of, or obligations guaranteed by the full faith and credit of, the United States of America, maturing in twelve months or less from the date of acquisition thereof by such Restricted Person,

(B) demand deposits, and time deposits (including certificates of deposit) maturing within one year from the date of deposit thereof, with a domestic office (1) of Agent or any Lender, or (2) of any bank or trust company organized under the laws of the United States of America or any State therein, provided that (a) the full amount of each such deposit in such bank or trust company is insured by the Federal Deposit Insurance Corporation or (b) such bank or trust company has capital, surplus and undivided profits aggregating at least \$50,000,000,

(C) investments in (1) publicly traded debt securities with an original term of 270 days or less or (2) interest bearing securities issued to the public by banks, associated entities or similar institutions, which can be put to the issuer at the investor's unconditional option within one month after acquisition, so long as in each case such securities have a credit rating of at least A-1 from Standard & Poor's Corporation or P-1 from Moody's Investors Service, Inc.

(e) Limitation on Mergers, Issuances of Securities. No Restricted Person will merge or consolidate with or into any other Person, except that (i) any Related Person which is a Subsidiary of Parent may be consolidated with Borrowers or any other Guarantor so long as Borrowers or a Guarantor is the surviving entity and (ii) any Subsidiaries of Parent may merge or consolidate with or into each other so long as the surviving entity is a Guarantor. No Restricted Person (other than Parent and Devon Trust) will issue any additional shares of its capital stock, additional partnership interests or other securities or any options, warrants or other rights to acquire such additional shares, partnership interests or other securities except to a Restricted Person of which such issuer is already directly or indirectly a Subsidiary and only to the extent not otherwise forbidden under the terms hereof. Devon Trust will not issue any securities except common securities to Parent and the Devon Trust Securities. Devon Nevada and each Guarantor will at all times remain wholly-owned direct or indirect Subsidiaries of Parent, Parent will at all times own all of the outstanding common securities of Devon Trust, and no Restricted Person will allow any diminution of Borrowers' or any Guarantor's interest (direct or indirect) therein. Parent will not issue or have outstanding any securities other than its common or preferred stock and the Subordinated Parent Debentures.

(f) Fiscal Year. No Related Person will change its fiscal year.

(g) Financial Covenants.

(i) Funded Debt to Total Capitalization. The ratio of Parent's Consolidated Total Funded Debt to Parent's Total Capitalization will never exceed

65%. As used herein, "Total Funded Debt" means (A) Restricted Debt referred to in clauses (a), (b), (c), (d), (e) and (h) of the definition of "Restricted Debt" plus (B) 30% of the outstanding balance of the Devon Trust Securities, and "Total Capitalization" means the sum (without duplication) of (I) Parent's Consolidated Total Funded Debt plus (II) Parent's Consolidated shareholder's equity plus (III) 70% of the outstanding balance of the Devon Trust Securities.

(ii) Funded Debt to EBITDA. The ratio of Parent's Consolidated Total Funded Debt (as defined in clause (i) above) to EBITDA, on a rolling four-quarter basis, will never exceed 3.75 to 1. As used herein, "EBITDA" means, for any period, the sum of the amount for such period of Consolidated net income, Consolidated Interest Expense, depreciation expense, depletion expense, amortization expense, federal and state income taxes, exploitation and abandonment expense and other non-cash charges and expenses, and "Consolidated Interest Expense" means, for any period, total interest expense (including distributions on the Devon Trust Securities treated as interest expense), whether paid or accrued, including without limitation all commissions, discounts and other fees and charges owed with respect to Letters of Credit.

(h) Devon Trust; Devon Trust Securities. Devon Trust shall exist for the exclusive purposes of (A) issuing the Devon Trust Securities, (B) investing the gross proceeds of the Devon Trust Securities in the Subordinated Parent Debentures and (C) engaging in only those other activities necessary or incidental thereto. Parent shall exercise its option to defer interest payments on the Subordinated Parent Debentures rather than default on such interest payments. Devon Trust shall not be dissolved without prior written notice by Parent to Majority Lenders. Devon Trust shall not redeem the Devon Trust Securities prior to their stated maturity, and Parent shall not prepay or redeem the Subordinated Parent Debentures prior to their stated maturity, unless both immediately before and immediately after any such proposed prepayment or redemption, Parent is in compliance with Section 5.2(g) and no Default under Section 7.1(a), 7.1(f) or 7.1(h) is continuing.

(i) Hedging Contracts. No Restricted Person will be a party to or in any manner be liable on any forward, future, swap or hedging contract, unless such contracts qualify under GAAP as a hedge of oil and gas production, floating rate Debt or foreign currency needs (and not as a speculative investment), such contracts are entered into in the ordinary course of the Restricted Persons' businesses, and

(i) if such contracts are entered into with the purpose and effect of fixing prices on oil or gas expected to be produced by the Restricted Persons:

(A) such contracts for any single month (determined, in the case of contracts that are not settled on a monthly basis, by a monthly proration acceptable to Agent) do not, in the aggregate, cover amounts greater than seventy-five percent (75%) of the Related Persons' aggregate Projected Oil and Gas Production anticipated to be sold in the ordinary course of the Restricted Persons' businesses for such month;

(B) such contracts do not require any Related Person to provide any Lien to secure Borrower's obligations thereunder, other than Liens on cash or cash equivalents in an aggregate amount not more than \$25,000,000; and

(C) each such contract is with a counterparty or has a guarantor of the obligation of the counterparty who (unless such counterparty is Agent, any Lender or any of their Affiliates) at the time the contract is made has long-term obligations rated AA or better by S&P or Aa2 or better by Moody's or is an investment grade- rated industry participant.

As used in this subsection (i), the term "Projected Oil and Gas Production" means the projected production of oil or gas

(measured by volume unit or BTU equivalent, not sales price)

for the term of the contracts or a particular month, as applicable, from properties and interests owned by any Restricted Person which have attributable to them proved oil or gas reserves.

(ii) if such contracts are entered into with the purpose and effect of fixing interest rates on a principal amount of indebtedness of such Restricted Person that is accruing interest at a variable rate, the aggregate notional amount of such contracts never exceeds the anticipated outstanding principal balance of the indebtedness to be hedged by such contracts or an average of such principal balances calculated using a generally accepted method of matching interest swap contracts to declining principal balances, and the floating rate index of each such contract generally matches the index used to determine the floating rates of interest on the corresponding indebtedness to be hedged by such contract.

ARTICLE VI -- Guaranties and Offset

Section 6.1. Bank Accounts; Offset. To secure the repayment of the Obligations, Borrowers and Guarantors hereby grant to Agent and each Lender a security interest, a lien, and a right of offset, each of which shall be upon and against all right, title, and interest of any Restricted Person in (a) any and all moneys, securities or other property (and the proceeds therefrom) of Borrowers and Guarantors now or hereafter held or received by or in transit to Agent or such Lender from or for the account of Borrowers or Guarantors, whether for safekeeping, custody, pledge, transmission, collection or otherwise, (b) any and all deposits (general or special, time or demand, provisional or final) of Borrowers or Guarantors with Agent or such Lender, and (c) any other credits and claims of Borrowers or Guarantors at any time existing against Agent or such Lender, including claims under certificates of deposit. Upon the occurrence of any Default, each of Agent and Lenders is hereby authorized to foreclose upon, offset, appropriate, and apply, at any time and from time to time, without notice to Borrowers or Guarantors, any and all items hereinabove referred to against the Obligations (whether or not such Obligations are then due and payable). To the extent that Borrowers or Guarantors have accounts designated as royalty or joint interest owner accounts, the foregoing security interest, lien and right of offset shall not extend to funds in such accounts which belong to, or otherwise arise from payments to Borrowers or Guarantors for the account of, third party royalty or joint interest owners.

Section 6.2. Guaranties of Subsidiaries. Each Related Person (other than Borrowers and Devon Trust) which is now existing or is created, acquired or comes into existence after the date hereof and which after the date hereof has assets with a book value of \$25,000,000 or more shall be designated a Restricted Person and, except as to Devon Canada, shall promptly execute and deliver to Agent for the benefit of Agent and

Lenders an absolute and unconditional guaranty of the timely repayment of the Obligations and the due and punctual performance of the obligations of Borrowers hereunder, which guaranty shall be satisfactory to Agent in form and substance. Borrowers and Guarantors will cause each such Related Person to deliver to Agent, simultaneously with its delivery of such a guaranty, written evidence satisfactory to Agent and its counsel that such Related Person has taken all corporate or partnership action necessary to duly approve and authorize its execution, delivery and performance of such guaranty and any other documents which it is required to execute. Notwithstanding the foregoing, if any Related Person not wholly owned (directly or indirectly) by Parent would violate a duty to its minority interest owners by becoming a Guarantor, such Related Person need not become a Guarantor and Parent will instead, if requested by Agent, give (or cause to be given) a first security interest (under documents in form and substance acceptable to Agent) in its entire ownership interest in such Related Person to Agent for the benefit of Lenders.

Section 6.3. Guarantors' Right of Setoff. Insofar as any Guarantor and Borrowers are concerned, any payment by any such Guarantor under its guaranty of the Obligations shall be deemed to be a repayment of, and shall be set off against any intercompany loans made by Borrowers to such Guarantor.

ARTICLE VII -- Events of Default and Remedies

Section 7.1. Events of Default. Each of the following events constitutes an Event of Default under this Agreement:

- (a) Any Related Person fails to pay any Obligation when due and payable, whether at a date for the payment of a fixed installment or contingent or other payment to Agent or a Lender or as a result of acceleration or otherwise;
- (b) Any "default", "event of default", "Default" or "Event of Default" occurs under any Loan Document (other than this Agreement) which defines any such term, and the same is not remedied within the applicable period of grace (if any) provided in such Loan Document;
- (c) Any Related Person fails (other than as referred to in subsections (a) and (b) above) to duly observe, perform or comply with any covenant, agreement, condition or provision of any Loan Document, and such failure is not remedied within the applicable Grace Period;
- (d) Any representation or warranty previously, presently or hereafter made in or in writing by or on behalf of any Related Person in connection with any Loan Document shall prove to have been false or incorrect in any material respect on any date on or as of which made, and the represented or warranted facts do not become true and correct within the applicable Grace Period;
- (e) Any Restricted Person fails to duly observe, perform or comply with any agreement with any Person or any term or condition of any instrument, if such agreement or instrument is materially significant to Borrowers on a Consolidated basis, and such failure is not remedied within the applicable period of grace (if any) provided in such agreement or instrument;
- (f) Any Related Person (i) fails to duly pay any Debt constituting principal or interest owed by it with respect to borrowed money or money otherwise owed under any note, bond, or similar instrument, including without limitation the Subordinated Parent Debentures, the Subordinated Parent Indenture, the Subordinated Parent Guarantee and the Devon Trust Securities, or (ii) fails to pay when the same becomes due and payable any other Debt in excess of \$1,000,000 (other than trade payables outstanding in compliance with Section 5.1(g)(iii)), or (iii) breaches or defaults in the performance of any agreement or instrument by which any Debt described in the preceding clauses (i) or (ii) is issued, evidenced, governed, or secured, and any such failure, breach or default continues beyond any applicable period of grace provided therefor;
- (g) Either (i) any "accumulated funding deficiency" (as defined in Section 412(a) of the Internal Revenue Code of 1986, as amended) in excess of \$1,000,000 exists with respect to any ERISA Plan, whether or not waived by the Secretary of the Treasury or his delegate, provided, pursuant to Section 412(c)(10) of the Internal Revenue Code of 1986, as amended, any contribution for an ERISA Plan year made during the period set forth in Section 412(c)(10) shall be deemed to have been made on the last day of such ERISA Plan year, or (ii) any Termination Event occurs with respect to any ERISA Plan and the then current value of such ERISA Plan's benefit liabilities exceeds the then current value of such ERISA Plan's assets available for the payment of such benefit liabilities by more than \$1,000,000 (or in the case of a Termination Event involving the withdrawal of a substantial employer, the withdrawing employer's proportionate share of such excess exceeds such amount);
- (h) Any Related Person:
 - (i) suffers the entry against it of a judgment, decree or order for relief by a court of competent jurisdiction in an involuntary case commenced under any applicable bankruptcy, insolvency or other similar law of any jurisdiction now or hereafter in effect, including the federal Bankruptcy Code, as from time to time amended, or has any such case commenced against it which remains undismissed for a period of thirty days; or
 - (ii) commences a voluntary case under any applicable bankruptcy, insolvency or similar law now or hereafter in effect, including the federal Bankruptcy Code, as from time to time amended; or applies for or consents to the entry of an order for relief in an involuntary case under any such law; or makes a general assignment for the benefit of creditors; or fails generally to pay its debts as such debts become due; or takes corporate or other action to authorize any of the foregoing; or

(iii) suffers the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of all or any substantial part of its property in a proceeding brought against or initiated by it, and such appointment or taking possession is neither made ineffective nor discharged within thirty days after the making thereof, or such appointment or taking possession is consented to, requested by, or acquiesced to by it; or

(iv) suffers the entry against it of a final judgment for the payment of money in excess of \$5,000,000, unless the same is discharged within thirty days after the date of entry thereof or an appeal or appropriate proceeding for review thereof is taken within said period and a stay of execution pending such appeal is obtained; or

(v) suffers a writ or warrant of attachment or any similar process to be issued by any court against all or any substantial part of its property, and such writ or warrant of attachment or any similar process is not stayed or released within thirty days after the entry or levy thereof or after any stay is vacated or set aside;

(j) any Person (or syndicate or group of Persons which is deemed a "person" for the purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) acquires more than thirty percent (30%) of the outstanding stock of Parent having ordinary voting power (disregarding changes in voting power based on the occurrence of contingencies) for the election of directors, or during any period of twelve successive months a majority of the Persons who were directors of Parent at the beginning of such period cease to be directors of Parent; and

Upon the occurrence of an Event of Default described in subsection (h)(i), (h)(ii) or (h)(iii) of this section with respect to Borrowers, all of the Obligations shall thereupon become immediately due and payable, without presentment, demand, protest, notice of protest, declaration or notice of acceleration or intention to accelerate, or other notice or declaration of any kind, all of which are hereby expressly waived by Borrowers and each Restricted Person who at any time guaranties, ratifies or approves this Agreement. During the continuance of any other Event of Default, and with the consent of Majority Lenders, Agent may at any time and from time to time (unless all Defaults have theretofore been remedied) without notice to Borrowers or any Guarantor declare any or all of the Obligations immediately due and payable, and all such Obligations shall thereupon be immediately due and payable, without presentment, demand, protest, notice of protest, declaration or notice of acceleration or intention to accelerate, or other notice or declaration of any kind, all of which are hereby expressly waived by Borrowers and each Restricted Person who at any time guaranties, ratifies or approves this Agreement. After any such acceleration neither Agent nor any Lender shall have any obligation to make any further Advances or Loans of any kind under any agreement with any Restricted Person. The term "Grace Period" as used herein with respect to an Event of Default for which a Grace Period is specifically provided shall mean the period beginning on the date of the related Default and ending thirty days after written notice of such Default is given by Agent to Borrowers, provided that such period shall be reduced to two days if Borrowers have not previously given written notice of such Default to Agent and Lenders as required in Section 5.1(d).

Section 7.2. Remedies. If any Default shall occur and be continuing, Agent and Lenders may protect and enforce their rights under the Loan Documents by any appropriate proceedings, including proceedings for specific performance of any covenant or agreement contained in any Loan Document, and Agent and Lenders may enforce the payment of any Obligations due or enforce any other legal or equitable right. All rights, remedies and powers conferred upon Agent or Lenders under any Loan Document shall be deemed cumulative and not exclusive of any other rights, remedies or powers available under the other Loan Documents or at law or in equity.

ARTICLE VIII -- Agent

Section 8.1. Appointment and Authority. Each Lender hereby irrevocably authorizes Agent, and Agent hereby undertakes, to receive payments of principal, interest and other amounts due hereunder as specified herein and to take all other actions and to exercise such powers under the Loan Documents as are specifically delegated to Agent by the terms hereof or thereof, together with all other powers reasonably incidental thereto. The relationship of Agent to Lenders is only that of one commercial bank acting as administrative agent for others, and nothing in the Loan Documents shall be construed to constitute Agent a trustee or other fiduciary for any holder of any of the Notes or of any participation therein nor to impose on Agent duties and obligations other than those expressly provided for in the Loan Documents. With respect to any matters not expressly provided for in the Loan Documents and any matters which the Loan Documents place within the discretion of Agent, Agent shall not be required to exercise any discretion or take any action, and it may request instructions from Lenders with respect to any such matter, in which case it shall be required to act or to refrain from acting (and shall be fully protected and free from liability to all Lenders in so acting or refraining from acting) upon the instructions of Majority Lenders (including itself), provided, however, that Agent shall not be required to take any action which exposes it to a risk of personal liability that it considers unreasonable or which is contrary to the Loan Documents or to applicable law. Upon receipt by Agent from Borrowers of any communication calling for action on the part of Lenders or upon notice from any Lender to Agent of any Default or Event of Default, Agent shall promptly notify each Lender thereof.

Section 8.2. Agent's Reliance, Etc. Neither Agent nor any of its directors, officers, agents, attorneys, or employees shall be liable for any action taken or omitted to be taken by any of them under or in connection with the Loan Documents, including their negligence of any kind, except that each shall be liable for its own gross negligence or willful misconduct. Without limiting the generality of the foregoing, Agent (a) may treat the payee of any Note as the holder thereof until Agent receives written notice of the assignment or transfer thereof in accordance with this Agreement, signed by such payee and in form satisfactory to Agent; (b) may consult with legal counsel (including counsel for Borrowers), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with the Loan Documents; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of the Loan Documents on the part of any Related Person or to inspect the property (including the books and records) of any Related Person; (e) shall not

be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Loan Document or any instrument or document furnished in connection therewith; (f) may rely upon the representations and warranties of the Related Persons and the Lenders in exercising its powers hereunder; and (g) shall incur no liability under or in respect of the Loan Documents by acting upon any notice, consent, certificate or other instrument or writing (including any telecopy, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper Person or Persons.

Section 8.3. Lenders' Credit Decisions. Each Lender acknowledges that it has, independently and without reliance upon Agent or any other Lender, made its own analysis of Borrowers and the transactions contemplated hereby and its own independent decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents.

Section 8.4. Indemnification. Each Lender agrees to indemnify Agent (to the extent not reimbursed by Borrowers within ten (10) days after demand) from and against such Lender's Percentage Share of any and all liabilities, obligations, claims, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements (including reasonable fees of attorneys, accountants, experts, and advisors) of any kind or nature whatsoever (in this section collectively called "liabilities and costs") which to any extent (in whole or in part) may be imposed on, incurred by, or asserted against Agent growing out of, resulting from or in any other way associated with any of the Loan Documents and the transactions and events (including the enforcement thereof) at any time associated therewith or contemplated therein. The foregoing indemnification shall apply whether or not such liabilities and costs are in any way or to any extent caused, in whole or in part, by any negligent act or omission of any kind by Agent or any of its officers, agents, attorneys, employees or representatives, provided only that no Lender shall be obligated under this section to indemnify Agent for that portion, if any, of any liabilities and costs which is proximately caused by (and attributed under any applicable principles of comparative fault to) Agent's own individual gross negligence or willful misconduct, as determined in a final judgment. Without limitation of the foregoing, each Lender agrees to reimburse Agent promptly upon demand for such Lender's Percentage Share of any out-of-pocket expenses (including without limitation fees of attorneys, accountants, and other experts and advisors) incurred by Agent in connection with the preparation, execution, administration, or enforcement of, or advice in respect of rights and responsibilities under, the Loan Documents, all as reasonably allocated by Agent, to the extent that Agent is not reimbursed for such expenses by Borrowers as provided in such section. As used in this section the term "Agent" shall refer not only to the Person designated as such in Section 1.1 but also to each director, officer, agent, attorney, employee, representative and Affiliate of such Person.

Section 8.5. Rights as Lender. In its capacity as a Lender, Agent shall have the same rights and obligations as any Lender and may exercise such rights as though it were not Agent. Agent may accept deposits from, lend money to, act as Trustee under indentures of, and generally engage in any kind of business with any of the Related Persons or their Affiliates, all as if it were not Agent hereunder and without any duty to account therefor to any other Lender.

Section 8.6. Sharing of Set-Offs and Other Payments. Each of Agent and Lender agrees that if it shall, whether through the exercise of rights of banker's lien, set off, or counterclaim against Borrowers or otherwise, obtain payment of a portion of the aggregate Obligations owed to it which, taking into account all distributions made by Agent under Section 2.11, causes Agent or such Lender to have received more than it would have received had such payment been received by Agent and distributed pursuant to Section 2.11, then (i) it shall be deemed to have simultaneously purchased and shall be obligated to purchase interests in the Obligations as necessary to cause Agent and all Lenders to share all payments as provided for in Section 2.11, and (ii) such other adjustments shall be made from time to time as shall be equitable to ensure that Agent and all Lenders share all payments of Obligations as provided in Section 2.11; provided, however, that nothing herein contained shall in any way affect the right of Agent or any Lender to obtain payment (whether by exercise of rights of banker's lien, set-off or counterclaim or otherwise) of indebtedness other than the Obligations. Borrowers expressly consent to the foregoing arrangements and agrees that any holder of any such interest or other participation in the Obligations, whether or not acquired pursuant to the foregoing arrangements, may to the fullest extent permitted by law exercise any and all rights of banker's lien, set-off, or counterclaim as fully as if such holder were a holder of the Obligations in the amount of such interest or other participation. If all or any part of any funds transferred pursuant to this section is thereafter recovered from the seller under this section which received the same, the purchase provided for in this section shall be deemed to have been rescinded to the extent of such recovery together with interest, if any, if interest is required pursuant to court order to be paid on account of the possession of such funds prior to such recovery. Notwithstanding anything herein to the contrary, no Lender shall be obligated to take any action described in this section which would cause such Lender to purchase a participation in any Offered Rate Portion of a second Lender's Loan or which would otherwise obligate such first Lender to share in any loss or delay caused by an Offered Rate Portion of a second Lender's Loan not being paid when due.

Section 8.7. Investments. Whenever Agent in good faith determines that it is uncertain about how to distribute to Lenders any funds which it has received, or whenever Agent in good faith determines that there is any dispute among Lenders about how such funds should be distributed, Agent may choose to defer distribution of the funds which are the subject of such uncertainty or dispute. If Agent in good faith believes that the uncertainty or dispute will not be promptly resolved, or if Agent is otherwise required to invest funds pending distribution to Lenders, Agent shall invest such funds pending distribution; all interest on any such investment shall be distributed upon the distribution of such investment and in the same proportion and to the same Persons as such investment. All moneys received by Agent for distribution to Lenders (other than to the Person who is Agent in its separate capacity as a Lender) shall be held by Agent pending such distribution solely as Agent for such Lenders, and Agent shall have no equitable title to any portion thereof.

Section 8.8. Benefit of Article VIII. The provisions of Sections 8.1 through 8.7 are intended solely for the benefit of Agent and Lenders, and no Related Person shall be entitled to rely on any such provision or assert any such provision in a claim or defense against Agent or any Lender. Agent and Lenders may amend such provisions as they desire without the consent of Borrowers.

Section 8.9. Resignation. Agent may resign at any time by giving written notice thereof to Lenders and Borrowers. Each such notice shall set forth the date of such resignation. Upon any such resignation Borrowers may, with the written concurrence of Lenders whose aggregate Percentage Shares equal or exceed fifty percent (50%), designate a successor Agent. If within fifteen days after the date of such resignation Borrower makes no such designation or such written concurrence is not given, Majority Lenders shall have the right to appoint a successor Agent. A successor must be appointed for any retiring Agent, and such Agent's resignation shall become effective when such successor accepts such appointment. If, within thirty days after the date of the retiring Agent's resignation, no successor Agent has been appointed and has accepted such appointment, then the retiring Agent may appoint a successor Agent, which shall be a commercial bank organized or licensed to conduct a banking or trust business under the laws of the United States of America or of any state thereof. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, the retiring Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Documents. After any retiring Agent's resignation hereunder the provisions of this Article VIII shall continue to inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under the Loan Documents.

ARTICLE IX -- Miscellaneous

Section 9.1. Waivers and Amendments; Acknowledgements.

(a) Waivers and Amendments. No failure or delay by Agent or any Lender in exercising any right, power or remedy which Agent or such Lender may have under any of the Loan Documents shall operate as a waiver thereof or of any other right, power or remedy, nor shall any single or partial exercise by Agent or such Lender of any such right, power or remedy preclude any other or further exercise thereof or of any other right, power or remedy. No waiver of any provision of any Loan Document and no consent to any departure therefrom shall ever be effective unless it is in writing and signed as provided below in this section, and then such waiver or consent shall be effective only in the specific instances and for the purposes for which given and to the extent specified in such writing. No notice to or demand on any Related Person shall in any case of itself entitle any Related Person to any other or further notice or demand in similar or other circumstances. This Agreement and the other Loan Documents set forth the entire understanding between the parties hereto with respect to the transactions contemplated herein and therein and supersede all prior discussions and understandings with respect to the subject matter hereof and thereof, and no waiver, consent, release, modification or amendment or supplement to this Agreement or the other Loan Documents shall be valid or effective against any party hereto unless the same is in writing and signed: (i) if such party is Borrowers, by such party, (ii) if such party is Agent, by Agent, and (iii) if such party is a Lender, by such Lender or by Agent on behalf of Lenders with the written consent of Majority Lenders (or without further consent than that already provided herein in the circumstances provided in Section 9.7). Notwithstanding the foregoing or anything to the contrary herein, Agent shall not, without the prior consent of all Lenders, execute and deliver on behalf of Lenders any waiver or amendment which would: (i) waive any of the conditions specified in Article III (provided that Agent may in its discretion withdraw any request it has made under Section 3.2(e)), (ii) increase the Maximum Loan Amount of any Lender or subject any Lender to any additional obligations, (iii) reduce any fees hereunder, or the principal of, or interest on, the Notes, (iv) postpone any date fixed for any payment of any fees hereunder, or principal of, or interest on, the Notes, (v) amend the definition herein of "Majority Lenders" or otherwise change the aggregate amount of Percentage Shares which is required for Agent, Lenders or any of them to take any particular action under the Loan Documents, or (vi) release Borrowers from its obligation to pay the Notes or any Guarantor from its guaranty of such payment.

(b) Acknowledgements and Admissions. Borrowers hereby represent, warrant, acknowledge and admit that (i) they have been advised by counsel in the negotiation, execution and delivery of the Loan Documents to which they are a party, (ii) they have made an independent decision to enter into this Agreement and the other Loan Documents to which they are a party, without reliance on any representation, warranty, covenant or undertaking by Agent or any Lender, whether written, oral or implicit, other than as expressly set out in this Agreement, (iii) neither Agent nor any Lender has made any such representation, covenant or undertaking to Borrowers pursuant to any such Loan Document, (iv) there are no representations, warranties, covenants, undertakings or agreements by Agent or any Lender as to the Loan Documents except as expressly set out herein or therein, (v) neither Agent nor any Lender has any fiduciary obligation toward Borrowers with respect to any Loan Document or the transactions contemplated thereby, (vi) the relationship pursuant to the Loan Documents between Borrowers, on one hand, and Agent and each Lender, on the other hand, is and shall be solely that of debtor and creditor, respectively, (vii) no partnership or joint venture exists with respect to the Loan Documents between any of Borrowers, Agent and Lenders, (viii) Agent is not Borrowers' agent, but Agent for Lenders, (ix) should an Event of Default or Default occur or exist Agent and each Lender will determine in its sole discretion and for its own reasons what remedies and actions it will or will not exercise or take at that time, (x) without limiting any of the foregoing, Borrowers are not relying upon any representation by Agent or any Lender, or any representative thereof, and no such representation has been made, that Agent or any Lender will, at the time of an Event of Default or Default, or at any other time, waive, negotiate, discuss, or take or refrain from taking any action with respect to any such Event of Default or Default or any other term of the Loan Documents, and (xi) Agent and all Lenders have relied upon the truthfulness of the foregoing acknowledgements in deciding to execute and deliver this Agreement and to accept the Notes.

Section 9.2. Survival of Agreements; Cumulative Nature. All of the Related Persons' various representations, warranties, covenants and agreements in the Loan Documents shall survive the execution and delivery of this Agreement and the other Loan Documents and the performance hereof and thereof, including the making or granting of the Loans and the delivery of the Notes and the other Loan Documents, and shall further survive until all of the Obligations are paid in full to Lenders and all of Lenders' obligations to Borrowers are terminated. All statements and agreements contained in any certificate or other instrument delivered by any Related Person to Agent or Lenders under any Loan Document shall be deemed representations and warranties by Borrowers or agreements and covenants of Borrowers under this Agreement. The representations, warranties, indemnities, and covenants made by the Related Persons in the Loan Documents, and the rights, powers, and privileges granted to Agent and Lenders in the Loan Documents, are cumulative, and, except for express waivers and consents, no Loan Document shall be construed in the context of another to diminish, nullify, or otherwise reduce the benefit to Agent or any Lender of any such representation, warranty, indemnity, covenant, right, power or privilege. In particular and without limitation, no exception set out in this Agreement to any representation, warranty, indemnity, or covenant herein contained shall apply to any similar representation, warranty,

indemnity, or covenant contained in any other Loan Document, and each such similar representation, warranty, indemnity, or covenant shall be subject only to those exceptions which are expressly made applicable to it by the terms of the various Loan Documents.

Section 9.3. Notices. All notices, requests, consents, demands and other communications required or permitted under any Loan Document shall be in writing, unless otherwise specifically provided in such Loan Document (provided that Agent may give telephonic notices to Lenders), and shall be deemed sufficiently given or furnished if delivered by personal delivery, by teletype or telex, by expedited delivery service with proof of delivery, or by registered or certified mail, postage prepaid, to Borrowers and the Related Persons at the address of Borrowers specified on the signature pages hereto and to Agent and the other Lenders at their addresses specified on the signature pages hereto (unless changed by similar notice in writing given by the particular Person whose address is to be changed). Any such notice or communication shall be deemed to have been given (a) in the case of expedited personal delivery or delivery service, as of the date of first attempted delivery at the address provided herein, (b) in the case of teletype or telex, upon receipt, or (c) in the case of registered or certified mail, three days after deposit in the mail; provided, however, that no Request for Advances or Rate Election shall become effective until actually received by Agent.

Section 9.4. Joint and Several Liability; Parties in Interest; Purchases of Notes. All Obligations which are incurred by two or more Related Persons shall be their joint and several obligations and liabilities. All grants, covenants and agreements contained in the Loan Documents shall bind and inure to the benefit of the parties thereto and their respective successors and assigns; provided, however, that no Related Person may assign or transfer any of its rights or delegate any of its duties or obligations under any Loan Document without the prior written consent of Majority Lenders. Neither Borrowers nor any Affiliates of Borrowers shall directly or indirectly purchase or otherwise retire any Obligations owed to any Lender, nor will any Lender accept any offer to do so, unless each Lender shall have received substantially the same offer with respect to the same Percentage Share of the Obligations owed to it. If Borrowers or any Affiliate of Borrowers at any time purchases some but less than all of the Obligations owed to Agent and all Lenders, such purchaser shall not be entitled to any rights of Agent or a Lender under the Loan Documents unless and until Borrower or its Affiliates have purchased all of the Obligations.

SECTION 9.5. GOVERNING LAW; WAIVER OF JURY TRIAL; ETC. THE LOAN DOCUMENTS SHALL BE DEEMED CONTRACTS AND INSTRUMENTS

MADE UNDER THE LAWS OF THE STATE OF TEXAS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS (WITHOUT REGARD TO CONFLICTS OF LAW RULES) AND THE LAWS OF THE UNITED STATES OF AMERICA, EXCEPT TO THE EXTENT THAT THE LAW OF ANOTHER JURISDICTION IS EXPRESSLY ELECTED IN A LOAN DOCUMENT. CHAPTER 15 OF TEXAS REVISED CIVIL STATUTES ANNOTATED ARTICLE 5069 (WHICH REGULATES CERTAIN REVOLVING CREDIT LOAN ACCOUNTS AND REVOLVING TRI-PARTY ACCOUNTS) SHALL NOT APPLY TO THIS AGREEMENT OR TO THE NOTES. BORROWERS HEREBY IRREVOCABLY SUBMIT THEMSELVES AND EACH OTHER RESTRICTED PERSON TO THE NON-EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS OF THE STATE OF TEXAS AND AGREES AND CONSENTS THAT SERVICE OF PROCESS MAY BE MADE UPON THEM OR ANY OF THE RESTRICTED PERSONS IN ANY LEGAL PROCEEDING RELATING TO THE LOAN DOCUMENTS OR THE OBLIGATIONS IN ACCORDANCE WITH ANY APPLICABLE PROVISIONS OF TEXAS LAW GOVERNING SERVICE OF PROCESS. EACH OF BORROWERS, AGENT AND LENDERS HEREBY (A) IRREVOCABLY WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY AT ANY TIME ARISING OUT OF, UNDER OR IN CONNECTION WITH THE LOAN DOCUMENTS OR ANY TRANSACTION CONTEMPLATED THEREBY OR ASSOCIATED THEREWITH, BEFORE OR AFTER MATURITY; (B) IRREVOCABLY WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES, OR DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES, PROVIDED, HOWEVER, THAT THE FOREGOING SHALL NOT APPLY TO ANY TRANSACTION SUBJECT TO THE TEXAS DECEPTIVE TRADE PRACTICE ACT OR GOVERNED BY CHAPTER 6, 6A OR 7 OF THE TEXAS CONSUMER CREDIT CODE; (C) CERTIFIES THAT NEITHER AGENT NOR ANY LENDER NOR ANY REPRESENTATIVE OR AGENT OR COUNSEL FOR ANY OF THEM HAS REPRESENTED, EXPRESSLY OR OTHERWISE, OR IMPLIED THAT AGENT AND LENDERS WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS, AND (D) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS SECTION.

Section 9.6. Limitation on Interest. Agent, Lenders, the Related Persons and the other parties to the Loan Documents intend to contract in strict compliance with applicable usury law from time to time in effect. In furtherance thereof such Persons stipulate and agree that none of the terms and provisions contained in the Loan Documents shall ever be construed to create a contract to pay, for the use, forbearance or detention of money, interest in excess of the maximum amount of interest permitted to be charged by applicable law from time to time in effect. Neither any Related Person nor any present or future guarantors, endorsers, or other Persons hereafter becoming liable for payment of any Obligation shall ever be liable for unearned interest thereon or shall ever be required to pay interest thereon in excess of the maximum amount that may be lawfully charged under applicable law from time to time in effect, and the provisions of this section shall control over all other provisions of the Loan Documents which may be in conflict or apparent conflict herewith. Agent and Lenders expressly disavow any intention to charge or collect excessive unearned interest or finance charges in the event the maturity of any Obligation is accelerated. If (a) the maturity of any Obligation is accelerated for any reason, (b) any Obligation is prepaid and as a result any amounts held to constitute interest are determined to be in excess of the legal maximum, or (c) Agent or any Lender or any other holder of any or all of the Obligations shall otherwise collect moneys which are determined to constitute interest which would otherwise increase the interest on any or all of the Obligations to an amount in excess of that permitted to be charged by applicable law then in effect, then all such sums determined to constitute interest in excess of such legal limit shall, without penalty, be promptly applied to reduce the then outstanding principal of the related Obligations or, at Agent's or such

Lender's or holder's option, promptly returned to Borrowers or the other payor thereof upon such determination. In determining whether or not the interest paid or payable, under any specific circumstance, exceeds the maximum amount permitted under applicable law, Agent, Lenders and the Related Persons (and any other payors thereof) shall to the greatest extent permitted under applicable law, (i) characterize any non-principal payment as an expense, fee or premium rather than as interest, (ii) exclude voluntary prepayments and the effects thereof, and (iii) amortize, prorate, allocate, and spread the total amount of interest throughout the entire contemplated term of the instruments evidencing the Obligations in accordance with the amounts outstanding from time to time thereunder and the maximum legal rate of interest from time to time in effect under applicable law in order to lawfully charge the maximum amount of interest permitted under applicable law. In the event applicable law provides for an interest ceiling under Chapter 303 of the Texas Finance Code (the "Texas Finance Code") and Chapter 1D of Title 79, Tex. Rev. Civ. Stats. 1925 ("Chapter 1D"), as amended, respectively, that ceiling shall be the "indicated rate ceiling" or "weekly ceiling" as defined in the Texas Finance Code and Chapter 1D and shall be used when appropriate in determining the maximum legal rate of interest. As used in this section the term "applicable law" means the laws of the State of Texas or the laws of the United States of America, whichever laws allow the greater interest, as such laws now exist or may be changed or amended or come into effect in the future.

Section 9.7. Optional Termination. In its sole and absolute discretion Borrowers may -- at any time that no Obligations are owing hereunder -- elect in a written notice delivered to Agent to terminate this Agreement. Upon receipt by Agent of such a notice, if such requirements are then satisfied, this Agreement and all other Loan Documents shall thereupon be terminated and the parties thereto released from all prospective obligations thereunder, provided that any waivers made in the Loan Documents, any Obligations under Sections 2.15 through 2.18 and any obligations which any Person may have to indemnify or compensate Agent or any Lender shall survive such termination. At the request and expense of Borrowers, Agent and Lenders shall prepare and execute all necessary instruments to reflect and effect such termination of the Loan Documents. Agent is hereby authorized to execute all such instruments on behalf of all Lenders, without the joinder of or further action by any Lender.

Section 9.8. Severability. If any term or provision of any Loan Document shall be determined to be illegal or unenforceable all other terms and provisions of the Loan Documents shall nevertheless remain effective and shall be enforced to the fullest extent permitted by applicable law.

Section 9.9. Counterparts. This Agreement may be separately executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to constitute one and the same Agreement.

IN WITNESS WHEREOF, this Agreement is executed as of the date first written above.

DEVON ENERGY CORPORATION,
an Oklahoma corporation

By:
William T. Vaughn, Vice President-
Finance

DEVON ENERGY CORPORATION (NEVADA),
a Nevada corporation

By:
William T. Vaughn, Vice President-
Finance

Address:

20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102
Attention: Vice President-Finance

Telephone: (405) 235-3611
Telecopy: (405) 552-4505

Maximum
Loan Amount

NATIONSBANK, N.A.,
Agent and Lender

\$80,000,000

By:
Dale T. Wilson, Vice President

Address:

303 West Wall Street
Midland, Texas 79702
Attention: Energy Finance Division

Telephone: (915) 685-2193
Telecopy: (915) 685-2009

With a copy to:

NationsBank Plaza

901 Main St., 64th Floor
Dallas, Texas 75202
Attention: Energy Finance Division

Telephone: (214) 508-1254
Telecopy: (214) 508-1285
Telex: 163542

Maximum
Loan Amount

BANK ONE, TEXAS, N.A., Lender

\$48,000,000

By:
John A. Clark, Asst. Vice President

Address:

400 Bank One Center
1717 Main Street
Dallas, Texas 75201
Attention: Energy Group

Telephone: (214) 290-3097
Telecopy: (214) 290-2332
Telex: 163102

Maximum
Loan Amount

BANK OF MONTREAL, Lender

\$48,000,000

By:
Michael P. Stuckey, Director

Address:

700 Louisiana, Suite 4400
Houston, Texas 77002

Telephone: (713) 546-9771
Telecopy: (713) 223-4007

Maximum
Loan Amount

FIRST UNION NATIONAL BANK, Lender

\$24,000,000

By:
Robert Wetteroff, Senior Vice
President

Address:

1001 Fannin, Suite 2255
Houston, Texas 77002

Telephone: (713) 650-8764
Telecopy: (713) 650-6354

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