

# DEVON ENERGY CORP /OK/

## FORM 10-Q (Quarterly Report)

Filed 11/09/95 for the Period Ending 09/30/95

Address	20 N BROADWAY STE 1500 OKLAHOMA CITY, OK 73102-8260
Telephone	4052353611
CIK	0000837330
SIC Code	1311 - Crude Petroleum and Natural Gas
Fiscal Year	12/31

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

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

(Mark One)

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

OR

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

For Quarter Ended September 30, 1995  
*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 North 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  No .

The number of shares outstanding of Registrant's common stock, par value \$.10, as of November 6, 1995, was 22,096,896.

1 of 71 total pages

(Exhibit Index is found at page 28)

**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 September 30, 1995 and 1994

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

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
Consolidated Balance Sheets

	September 30, 1995 (Unaudited)	December 31, 1994
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 11,103,702	8,336,371
Accounts receivable	15,111,303	15,626,799
Inventories	587,568	534,326
Prepaid expenses	544,532	564,371
Deferred income taxes	262,000	262,000
Total current assets	27,609,105	25,323,867
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties	566,974,139	523,941,141
Less: Accumulated depreciation, depletion and amortization	230,259,966	202,634,961
	336,714,173	321,306,180
Other assets	3,935,988	4,817,489
Total assets	\$368,259,266	351,447,536
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
<b>Accounts payable:</b>		
Trade	4,727,818	6,394,897
Revenues and royalties due to others	7,816,952	7,398,199
Accrued expenses	3,191,833	3,225,493
Total current liabilities	15,736,603	17,018,589
Revenues and royalties due to others	1,383,135	1,383,135
Other liabilities (Note 2)	6,472,082	-
Long-term debt	97,000,000	98,000,000
Deferred revenue	1,250,810	1,299,947
Deferred income taxes	31,245,000	27,340,000
<b>Stockholders' equity:</b>		
Preferred stock of \$1.00 par value.		
Authorized 3,000,000 shares; none issued	-	-
Common stock of \$.10 par value.		
Authorized 120,000,000 shares; issued 22,096,896 shares in 1995 and 22,050,996 in 1994	2,209,690	2,205,100
Additional paid-in capital	167,284,722	166,654,305
Retained earnings	45,677,224	37,546,460
Total stockholders' equity	215,171,636	206,405,865
Total liabilities and stockholders' equity	\$368,259,266	351,447,536

See accompanying notes to consolidated financial statements.

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

	Three Months		Nine Months	
	Ended September 30, 1995	1994	Ended September 30, 1995	1994
	(Note 2)			
Revenues:				
Gas sales	\$17,345,089	13,098,264	36,797,786	45,230,185
Oil sales	14,539,096	10,551,133	40,904,485	27,094,532
Natural gas liquids sales	1,704,834	1,404,841	4,738,282	3,460,870
Other	181,845	244,732	742,972	1,177,017
Total revenues	33,770,864	25,298,970	83,183,525	76,962,604
Costs and expenses:				
Production and operating expenses	8,784,236	8,179,221	25,336,598	23,365,841
Depreciation, depletion and amortization	9,490,448	9,234,941	28,549,892	25,544,446
General and administrative expenses	1,944,225	1,837,397	6,334,039	6,115,496
Interest expense	1,687,424	1,467,439	5,214,241	3,774,022
Total costs and expenses	21,906,333	20,718,998	65,434,770	58,799,805
Earnings before income taxes	11,864,531	4,579,972	17,748,755	18,162,799
Income tax expense:				
Current	3,492,000	197,000	3,727,000	744,000
Deferred	1,727,000	1,327,000	3,905,000	5,432,000
Total income tax expense	5,219,000	1,524,000	7,632,000	6,176,000
Net earnings	\$ 6,645,531	3,055,972	10,116,755	11,986,799
Net earnings per average common share outstanding	\$.30	.14	.46	.56
Weighted average common shares outstanding	22,092,783	22,049,065	22,065,462	21,386,685

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	1995	1994
	(Unaudited)	
Cash flows from operating activities:		
Net earnings	\$ 10,116,755	11,986,799
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	28,549,892	25,544,446
(Gain) loss on sale of assets	284,141	(6,157)
Deferred income taxes	3,905,000	5,432,000
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	306,002	3,561,243
Inventories	(53,242)	42,707
Prepaid expenses	19,839	(154,402)
Other assets	727,575	(948,550)
Increase (decrease) in:		
Accounts payable	1,713,342	(5,237,059)
Accrued expenses	(603,844)	(261,313)
Revenues and royalties due to others	-	(62,748)
Deferred revenue	(49,137)	(157,380)
Net cash provided by operating activities	44,916,323	39,739,586
Cash flows from investing activities:		
Proceeds from sale of property and equipment	6,826,719	2,883,954
Capital expenditures	(50,705,325)	(21,931,181)
Payments made for acquisition of business (Note 3)	(2,391,484)	(42,340,808)
Net cash provided by (used in) investing activities	(46,270,090)	(61,388,035)
Cash flows from financing activities:		
Proceeds from borrowings on revolving line of credit	6,000,000	29,500,000
Principal payments on revolving line of credit	(7,000,000)	(14,500,000)
Issuance of common stock	635,007	359,430
Dividends paid on common stock	(1,985,991)	(1,948,297)
Increase in long-term other liabilities (Note 2)	6,472,082	-
Net cash provided by financing activities	4,121,098	13,411,133
Net increase (decrease) in cash and cash equivalents	2,767,331	(8,237,316)
Cash and cash equivalents at beginning of period	8,336,371	19,550,288
Cash and cash equivalents at end of period	\$ 11,103,702	11,312,972

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 pursuant to such rules and regulations. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in Devon's 1994 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 September 30, 1995, and the results of their operations for the three month and nine month periods ended September 30, 1995 and 1994 and their cash flows for the nine month periods ended September 30, 1995 and 1994.

### 2. San Juan Basin Transaction

Effective January 1, 1995, Devon and an unrelated company entered into a transaction covering substantially all of Devon's San Juan Basin coal seam gas properties (the "San Juan Basin Transaction"). These coal seam gas properties represented Devon's largest oil and gas reserve position as of December 31, 1994. The properties' estimated reserves as of year-end 1994 were 199.2 billion cubic feet ("Bcf") of natural gas, or 31% of Devon's 633.2 equivalent Bcf of combined oil and natural gas reserves. In addition to the cash flow and earnings impact normally associated with oil and gas production, these properties also qualify as a "nonconventional fuel source" under Internal Revenue Service regulations. Consequently, gas produced from these properties through the year 2002 qualifies for Section 29 tax credits, which as of year-end 1994 were equal to \$0.99 per million Btu.

The San Juan Basin Transaction involves approximately 186.2 Bcf, or 93%, of the year-end 1994 coal seam gas reserves, and has four major parts associated with it. First, Devon conveyed to the unrelated party 179 Bcf of the properties' reserves. However, for financial reporting purposes, Devon retained all of such reserves and their future production and cash flow through a volumetric production payment and a repurchase option. Second, Devon conveyed outright to the unrelated party 7.2 Bcf of reserves for a sales price of \$5.2 million. The reserves and future cash flow associated with this conveyance were not retained by Devon. Third, and the source of the most significant impact of the transaction, Devon receives payments equal to 75% of the Section 29 tax credits generated by the properties. And fourth, Devon retained a 75% reversionary interest in any reserves in excess of the 186.2 Bcf estimated to exist as of December 31, 1994. Each of these parts of the San Juan Basin Transaction, and their effects on Devon's operations, are described in more detail in the following paragraphs.

The production payment retained by Devon is equal to 94.05% of the first 143.4 Bcf of gas produced from the properties, or 134.9 Bcf. As such, Devon will continue to record gas sales and associated production and operating expenses and reserves associated with the production payment. Production from the retained production payment is currently estimated to occur over a period of 12 years.

The conveyance of the properties which are not subject to the retained production payment or the repurchase option was accounted for as a sale of oil and gas properties. Accordingly, 7.2 Bcf of gas reserves were removed from total proved reserves, and the \$5.2 million of proceeds reduced the book value of oil and gas properties. The conveyance to the third party is limited exclusively to the existing wells drilled as of January 1, 1995. Wells to be drilled in the future, if any, are not included in this transaction.

In addition to receiving 94.05% of the properties' net cash flow through the retained production payment, Devon receives quarterly payments from the third party equal to 75% of the value of the Section 29 tax credits which are generated by production from such properties until the earlier of December 31, 2002, or until the option to repurchase is exercised. Based on the reserves estimated at January 1, 1995, Devon estimates that the total of such tax credit payments from 1995 through 2002 could range from \$75 million to \$95 million, depending on the rate of inflation between 1995 and 2002. For the nine months ended September 30, 1995, Devon received \$9.5 million related to the credits. Of this amount, \$8.6 million was recorded as additional gas sales, and \$0.9 million was recorded as an addition to liabilities as discussed in the following paragraph.

Devon has an option to repurchase the properties at any time. The purchase price of such option is equal to the fair market value of the properties at the time the option is exercised, as defined in the transaction agreement, less the production payment balance. At closing, Devon received \$5.6 million associated with reserves to be produced subsequent to the term of the production payment. Such amount is reflected as long-term "other liabilities" on the accompanying balance sheet. Since Devon expects to eventually exercise its option to repurchase the properties, the liability will be increased over time to reflect the option purchase price. As the purchase price increases, a portion of the tax credit payments received by Devon will be added to the liability. As stated above, for the nine months ended September 30, 1995, \$0.9 million of the total amount received for tax credit payments was added to the liability, which raised the liability balance to \$6.5 million.

Devon has retained a 75% reversionary interest in the properties' reserves in excess, if any, of the 186.2 Bcf of reserves estimated to exist at December 31, 1994. The terms of the transaction provide that the third party will pay 100% of the capital necessary to develop any such incremental reserves for its 25% interest in such reserves. Devon's repurchase option also includes the right to purchase this incremental 25%. However, the \$6.5 million of other liabilities recorded as of September 30, 1995, does not include any amount related to such reserves.

The San Juan Basin Transaction was initially subject to a material contingency, and thus the transaction's impact on Devon's operating statement was deferred pending the contingency's resolution. In October 1995, the contingency was favorably resolved, and therefore the transaction's cumulative effect for the first nine months of the year was recorded in the third quarter. Had the contingency not been in effect, and had the results of the transaction not been deferred, the following results would have been reported for the first, second and third quarters of 1995.

	First Quarter	Second Quarter	Third Quarter	Year-to- Date
Revenues:				
Gas sales	\$12,859,207	12,514,441	11,424,138	36,797,786
Oil sales	11,989,301	14,376,088	14,539,096	40,904,485
Natural gas liquids sales	1,630,262	1,403,186	1,704,834	4,738,282
Other	317,809	318,368	106,795	742,972
Total revenues	26,796,579	28,612,083	27,774,863	83,183,525
Costs and expenses:				
Production and operating expenses	8,408,386	8,081,350	8,846,862	25,336,598
Depreciation, depletion and amortization	9,242,570	9,398,067	9,909,255	28,549,892
General and administrative expenses	2,336,770	2,053,044	1,944,225	6,334,039
Interest expense	1,783,726	1,743,091	1,687,424	5,214,241
Total costs and expenses	21,771,452	21,275,552	22,387,766	65,434,770
Earnings before income taxes	5,025,127	7,336,531	5,387,097	17,748,755
Income tax expense:				
Current	1,055,000	1,541,000	1,131,000	3,727,000
Deferred	1,106,000	1,614,000	1,185,000	3,905,000
Total income tax expense	2,161,000	3,155,000	2,316,000	7,632,000
Net earnings	\$ 2,864,127	4,181,531	3,071,097	10,116,755
Net earnings per average common share outstanding	\$ .13	.19	.14	.46

### 3. Acquisition

On May 18, 1994, Devon acquired Alta Energy Corporation ("Alta") via a merger between the two companies (the "Merger"). The accompanying consolidated statements of cash flows include cash payments related to the Merger in both the nine month periods ended September 30, 1995 and 1994 of \$2.4 million and \$42.3 million, respectively. The \$42.3 million of cash payments in the first nine months of 1994 represent substantially all of the \$42.4 million paid in the year 1994 related to the Merger. In addition to these payments, Devon also issued approximately 1,168,000 shares of its common stock for the Merger.

Subsequently, in February 1995, Devon paid an additional \$2.4 million to the former Alta stockholders. This payment, in accordance with the Merger agreement, was based upon the evaluation of a well completed by Alta during the first half of 1994.

### 4. Interest Rate Swap Agreement

Devon entered into an interest rate swap agreement in June, 1995, to hedge the impact of interest rate changes on a portion of its long-term debt. The principal amount of the swap agreement is \$75 million, and the other party to the agreement is one of the lenders in Devon's credit lines (the "Lender"). The agreement terminates on June 16, 1998, unless the Lender exercises its right to extend the termination date to June 16, 2000. The terms of the agreement provide for quarterly payments either to or from Devon, determined by whether the three

month London Interbank Offered Rate ("LIBOR") in effect at the beginning of each quarterly calculation period is greater or less than 5.6%. The calculation periods begin on the sixteenth day of each March, June, September and December during the term of the agreement. If, on the date of the beginning of the quarterly calculation period, the three month LIBOR exceeds 5.6%, the Lender will owe Devon the quarterly amount of the excess rate applied to the \$75 million principal. Alternately, if the three month LIBOR on the applicable quarterly date is less than 5.6%, Devon will owe the Lender.

The swap agreement is accounted for as a hedge, with the amount which is either due to or from Devon recorded as a reduction or increase in interest expense. The three month LIBOR has exceeded 5.6% at the beginning of each of the first two calculation periods. Therefore, Devon has recognized \$72,000 and \$85,000 as reductions to interest expense in the third quarter of 1995 and the first nine months of 1995, respectively. Additional reductions to interest expense of \$45,000 have been deferred until the fourth quarter of 1995. The fair value of the interest rate swap as of September 30, 1995, was approximately \$0.2 million.

The swap agreement does not alter or affect any terms or conditions of Devon's lines of credit.

#### 5. Subsequent Event

On November 1, 1995, Devon entered into an agreement to purchase certain Wyoming oil and natural gas properties and a gas processing plant from an unrelated company for approximately \$50 million. Devon estimates the proved oil and natural gas reserves of the properties to be approximately 90 equivalent Bcf. Included in these estimates are certain proved undeveloped reserves, for which Devon expects to incur an additional \$9 million of future capital costs. Also, Devon expects to spend an additional \$4 million to \$5 million to expand the capacity of the gas plant by approximately 75%.

The transaction is expected to close in mid- December 1995. The purchase price is subject to certain adjustments, but these are not expected to be material. The acquisition is expected to be funded with cash on hand and additional borrowings under Devon's credit lines.

## **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 months and nine months ended September 30, 1995, compared to the three months and nine months ended September 30, 1994, and in financial condition since December 31, 1994. It is presumed that readers have read or have access to Devon's 1994 annual report on Form 10-K.

### **Overview**

The favorable resolution of the San Juan Basin Transaction contingency was the single largest event of the third quarter. The effects and details of the San Juan Basin Transaction are described in Note 2 to the accompanying consolidated financial statements, and in "Results of Operations" in this section of the 10-Q. Because the cumulative nine-month financial results of the transaction were all recorded in the third quarter, the San Juan Basin Transaction had a disproportionate impact on the quarter versus the impact on the nine months ended September 30, 1995.

Other significant factors affecting the third quarter and year-to-date results were:

Oil production was up 42% in the quarter and 37% in the year-to-date period. Devon's drilling efforts in the Grayburg-Jackson Field, which was acquired in a May 1994 merger, and the Sand Dunes Area both contributed greatly to the quarterly gain. Additionally, the May 1994 merger boosted the year-to-date production.

The May 1994 merger raised production and operating expenses, and depreciation, depletion and amortization expenses ("DD&A"), between the 1995 and 1994 year-to-date periods. The merger only affected the last four months of the 1994 period, but was effective for the entire nine months of 1995.

Lower gas prices at the wellhead reduced gas sales. However, this effect was offset by the increase in gas sales attributable to the San Juan Basin Transaction.

Higher interest rates in both the quarter and year-to-date periods of 1995 caused interest expense to increase.

The San Juan Basin Transaction caused the effective financial income tax rate to increase from 41% to 43%. It also caused the current (or cash) portion of financial income taxes to increase substantially.

## **Results of Operations**

The results of operations for the third quarter and first nine months of 1995 were significantly affected in a positive manner by the San Juan Basin Transaction. Because this transaction will be referred to numerous times in the following pages, it is described briefly below. (See Note 2 to the consolidated financial statements included elsewhere in this Form 10-Q for a more complete description.)

Effective January 1, 1995, Devon entered into a transaction covering most of its San Juan Basin properties. This transaction significantly increases the price Devon receives for its San Juan Basin gas. The transaction also slightly reduces Devon's San Juan Basin gas reserves, production volumes and the related costs of production.

Devon deferred recognition of the operating statement impact during the first six months of 1995 because the transaction was subject to a contingency. The contingency was resolved in October 1995. Accordingly, Devon recorded the transaction's impact for the entire first nine months in the three month period ended September 30, 1995. Therefore, Devon's 1995 third quarter results include an extra six months of the transaction's impact. The transaction generated revenues and net earnings attributable to these six months of \$6.0 million and \$3.6 million, respectively.

Combined oil, gas and NGL revenues increased by 34% for the third quarter of 1995, including the out-of period cumulative effect of the first six months of 1995 from the San Juan Basin Transaction. Excluding this out-of-period effect, combined revenues increased 10% in the third quarter of 1995. The relative contributions of production and price changes on the quarterly comparisons, both with and without the out-of-period effect, are shown in the tables below.

	Actual Reported Results (1)			Adjusted Results (2)		
	Three Months Ended			Three Months		
	September 30,			September 30,		
	1995	1994	Change	1995	1994	Change
<b>Production</b>						
Gas (Mcf)	8,199,085	10,019,455	-18%	8,820,535	10,019,455	-12%
Oil (Bbls)	895,315	630,130	+42%	895,315	630,130	+42%
<F3>						
NGL (Boe) <sup>3</sup>	164,439	143,923	+14%	164,439	143,923	+14%
Oil, Gas and						
<F3>						
NGL (Emcf) <sup>3</sup>	14,557,609	14,663,773	-1%	15,179,059	14,663,773	+4%
<b>Revenues</b>						
Gas	\$17,345,089	13,098,264	+32%	11,424,138	13,098,264	-13%
Oil	14,539,096	10,551,133	+38%	14,539,096	10,551,133	+38%
NGL	1,704,834	1,404,841	+21%	1,704,834	1,404,841	+21%
Combined	\$33,589,019	25,054,238	+34%	27,668,068	25,054,238	+10%
<b>Average Prices</b>						
Gas (Per Mcf)	\$2.12	1.31	+62%	1.30	1.31	-1%
Oil (Per Bbl)	\$16.24	16.74	-3%	16.24	16.74	-3%
<F3>						
NGL (Per Boe) <sup>3</sup>	\$10.37	9.76	+6%	10.37	9.76	+6%
Oil, Gas and NGL						
<F3>						
(Per Emcf) <sup>3</sup>	\$2.31	1.71	+35%	1.82	1.71	+6%

<F1>

1 The 1995 column in this table includes the cumulative effect of the San Juan Basin Transaction, from the January 1, 1995 effective date through September 30, 1995, all of which was recorded in the third quarter of 1995. These figures are consistent with the presentation in the consolidated financial statements.

<F2>

2 The 1995 column in this table excludes the cumulative effect of the San Juan Basin Transaction for the first six months of the year 1995. Therefore, these figures present the results for the third quarter which would have been reported if there had been no contingency at the time the transaction was executed.

<F3>

3 NGL is converted to barrels of oil equivalent ("Boe") at the rate of 42 gallons of liquids per barrel. Oil and NGL are converted to equivalent thousand cubic feet ("EMcf") at the rate of six Mcf per barrel of oil (or Boe of NGL). These conversions are based upon the approximate relative energy content of natural gas, oil and NGL. Such rate is not necessarily indicative of the relationship of oil, gas and NGL prices, which are affected by market and other factors in addition to relative energy content.

Combined oil, gas and NGL revenues increased by 9% for the first nine months of 1995. The relative contributions of production and price changes are shown below.

		Nine Months Ended		
		September 30,		
	1995	1994		Change
<b>Production</b>				
Gas (Mcf)	27,554,589	30,096,354		-8%
Oil (Bbls)	2,436,450	1,776,298		+37%
NGL (Boe)	436,320	369,116		+18%
Oil, Gas and NGL (Emcf)	44,791,209	42,968,838		+4%
<b>Revenues</b>				
Gas	\$36,797,786	45,230,185		-19%
Oil	40,904,485	27,094,532		+51%
NGL	4,738,282	3,460,870		+37%
Combined	82,440,553	75,785,587		+9%
<b>Average Prices</b>				
Gas (Per Mcf)	\$1.34	1.50		-11%
Oil (Per Bbl)	\$16.79	15.25		+10%
NGL (Per Boe)	\$10.86	9.38		+16%
Oil, Gas and NGL (Per EMcf)	\$1.84	1.76		+5%

**Gas Revenues.** Gas revenues increased by \$4.2 million, or 32%, in the third quarter of 1995, due to the effect of the San Juan Basin Transaction. The transaction's \$8.6 million cumulative effect on gas revenues which was recorded in the third quarter included \$5.9 million of gas sales related to the first six months of 1995, and \$2.7 million of gas sales related to the third quarter.

Excluding the cumulative effect of revenues related to the first half of the year from the San Juan Basin Transaction, the average price for all gas produced in the third quarter of 1995 was \$1.30, or 1%, less than the price for the third quarter of 1994. This price decline caused gas revenues to drop by \$0.1 million. Also excluding the cumulative effect of the San Juan Basin Transaction, production for the third quarter was 8.8 Bcf, which was 12% lower than in the third quarter of 1994. This production decline caused gas revenues to drop by \$1.6 million.

Coal seam gas averaged \$2.80 per Mcf in the third quarter of 1995, including the out-of-period revenues from the first half of the year. Excluding the out-of-period revenues, coal seam gas averaged \$1.25 per Mcf in the third quarter of 1995 compared to the average of \$1.03 for the third quarter of 1994. The \$1.25 average in the 1995 quarter includes a benefit of \$0.59 per Mcf from the third-quarter-only effect of the San Juan Basin Transaction. The average price for conventional gas production in the third quarter of 1995 was \$1.35 per Mcf, a 19% reduction from the \$1.67 per Mcf price realized in the third quarter of 1994.



Coal seam gas production in the third quarter of 1995 was 4.3 Bcf. Excluding the six-month out-of-period cumulative effect of the San Juan Basin Transaction, coal seam gas production in the third quarter of 1995 was 5.0 Bcf, which was 12% lower than the 5.7 Bcf of coal seam gas produced in the third quarter of 1994. The true third-quarter-only effect of the San Juan Basin Transaction accounted for approximately 0.3 Bcf of the reduction in 1995 volumes produced. Conventional gas production in the third quarter of 1995 was 3.9 Bcf, which was 9% lower than the 4.3 Bcf of conventional gas produced in the third quarter of 1994.

Gas revenues declined by \$8.4 million, or 19%, in the first nine months of 1995, primarily because the average price dropped by \$0.16 per Mcf, or 11%. This price decline accounted for \$4.6 million of the drop in gas revenues. Also, declines in production of 2.5 Bcf, or 8%, caused a \$3.8 million drop in gas revenues.

The San Juan Basin Transaction added \$8.6 million of gas revenues during the first nine months of 1995. This transaction boosted the average gas price of coal seam gas by \$0.59 per Mcf to a total for the nine months ended September 30, 1995, of \$1.30 per Mcf. This compares to the coal seam average price for the first nine months of 1994 of \$1.24 per Mcf. Conventional gas production averaged \$1.38 per Mcf for the first nine months of 1995, a 25% decline from the \$1.83 per Mcf average for the same period in 1994.

Coal seam gas production declined by 6% in the first nine months of 1995, from 16.7 Bcf in the 1994 period to 15.7 Bcf in the 1995 period. The San Juan Basin Transaction accounted for 0.9 Bcf of this 1.0 Bcf decline. Conventional gas production decreased by 12% from 13.4 Bcf in the first nine months of 1994 to 11.8 Bcf in the same period in 1995.

Oil Revenues. Oil revenues increased by 38% from \$10.6 million in the third quarter of 1994 to \$14.5 million in the third quarter of 1995. Production gains of 265,000 barrels, or 42%, added \$4.4 million of oil revenues in the 1995 quarter. The average oil price decreased by \$0.50 per barrel, or 3%, in the 1995 quarter, which offset \$0.5 million of the revenue gained from increased production.

Approximately 54% of the increased oil production was the result of added production from the properties acquired in the 1994 Merger (the "Merger Properties"). Oil production from these properties has steadily increased since the Merger. As a result, the Merger Properties produced 243,000 barrels in the third quarter of 1995, compared to 99,000 barrels in the third quarter of 1994. Devon's other oil properties also increased from 531,000 barrels in the third quarter of 1994 to 652,000 barrels in 1995's third quarter. This 23% increase was caused by production from new wells which were completed in 1995, and additional production from recompletions and workovers.

Oil revenues increased by 51% from \$27.1 million in the first nine months of 1994 to \$40.9 million in the first nine months of 1995. Production gains of 660,000 barrels, or 37%, added \$10.1 million of oil revenues in the 1995 period. Also, the average oil price increased by \$1.54 per barrel, or 10%, in the 1995 period, which added \$3.7 million of oil revenues compared to the 1994 period.

The Merger Properties added only four months of production to Devon's totals for the first nine months of 1994, compared to a full nine months in 1995. This fact, along with the properties' increase in production since the May 1994 Merger, caused production from the Merger Properties to increase from 137,000 barrels in the first nine months of 1994 to 582,000 barrels in the 1995 period. Production from Devon's other oil properties increased 215,000 barrels, or 13%, in the 1995 period.

NGL Revenues. NGL revenues increased by 21% from \$1.4 million in the third quarter of 1994 to \$1.7 million in the third quarter of 1995. Production increased in the 1995 quarter by 21,000 Boe, or 14%, which added \$0.2 million to NGL revenues. The Merger Properties accounted for 10,000 Boe of this increase. Also, the average price increased by \$0.61 per Boe, or 6%, in the 1995 quarter. This price increase added \$0.1 million to NGL revenues in the 1995 quarter.

NGL revenues increased by 37% from \$3.5 million in the first nine months of 1994 to \$4.7 million in the first nine months of 1995. Production increased in the 1995 period by 67,000 Boe, or 18%, which added \$0.6 million to NGL revenues. The Merger Properties accounted for 41,000 Boe of this increase. Also, the average price increased by \$1.48 per Boe, or 16%, in the first nine months of 1995. This price increase added \$0.6 million to NGL revenues in the 1995 period.

Production and Operating Expenses. Production and operating expenses in the third quarter and first nine months of 1995 varied compared to 1994 as shown in the tables below.

<F1>

<F2>

	Actual Reported Results (1)			Adjusted Results (2)		
	Three Months Ended			Three Months Ended		
	September 30,			September 30,		
	1995	1994	Change	1995	1994	Change
Absolute:						
Recurring operations and maintenance expenses	\$6,203,890	5,774,297	+7%	6,230,464	5,774,297	+8%
Well workover expenses	800,237	769,626	+4%	800,237	769,626	+4%
Production taxes	1,780,109	1,635,298	+9%	1,816,161	1,635,298	+11%
Production taxes	1,780,109	1,635,298	+9%	1,816,161	1,635,298	+11%
Total production and operating expenses	\$8,784,236	8,179,221	+7%	8,846,862	8,179,221	+8%
Per EMcf:						
Recurring operations and maintenance expenses	\$0.43	0.40	+7%	0.41	0.40	+2%
Well workover expenses	0.05	0.05	-	0.05	0.05	-
Production taxes	0.12	0.11	+9%	0.12	0.11	+9%
Total production and operating expenses	\$0.60	0.56	+7%	0.58	0.56	+4%
Nine Months Ended						
September 30,						
	1995	1994	Change			
Absolute:						
Recurring operations and maintenance expenses	\$17,372,701	16,078,902	+8%			
Well workover expenses	2,950,110	2,013,785	+46%			
Production taxes	5,013,787	5,273,154	-5%			
Total production and operating expenses	\$25,336,598	23,365,841	+8%			
Per EMcf:						
Recurring operations and maintenance expenses	\$0.39	0.37	+5%			
Well workover expenses	0.07	0.05	+40%			
Production taxes	0.11	0.12	-8%			
Total production and operating expenses	\$0.57	0.54	+6%			

<F1>

1 The 1995 column in this table includes the cumulative effect of the San Juan Basin Transaction, from the January 1, 1995 effective date through September 30, 1995, all of which was recorded in the third quarter of 1995. These figures are consistent with the presentation in the consolidated financial statements.

<F2>

2 The 1995 column in this table excludes the cumulative effect of the San Juan Basin Transaction for the first six months of the year 1995. Therefore, these figures present the results for the third quarter which would have been reported if there had been no contingency at the time the transaction was executed.

Recurring operations and maintenance expenses increased \$0.4 million, or 7%, in the third quarter of 1995 compared to the same quarter of 1994. Substantially all of the increase related to Devon's properties other than the San Juan Basin gas properties or the Merger Properties. However, \$0.2 million, or half, of the increase in the recurring expenses related to several miscellaneous expenses related to prior periods.

Recurring expenses of the Merger Properties were constant at \$0.9 million for both the third quarter of 1995 and 1994. However, on a per EMcf basis, the Merger Properties' recurring expenses were \$0.45 per EMcf in the 1995 quarter, a 51% decrease compared to their cost of \$0.91 per EMcf in the 1994 quarter.

The recurring expenses of the coal seam properties in the third quarter of 1995 were affected by the San Juan Basin Transaction. However, these properties have such a low operating cost that the effect of the transaction, including the cumulative effect of the first six months, had a minimal effect on the third quarter's total recurring expenses. Recurring operations and maintenance expenses in the third quarter were lowered by less than \$0.1 million due to the cumulative effect of the first six months which was recorded in the third quarter. The San Juan Basin Transaction had a more significant effect on Devon's overall expense per EMcf because of the production volumes which were reduced by the transaction. Without the cumulative six month effect from the transaction, Devon's total recurring operations and maintenance expenses per EMcf in 1995's third quarter would have been \$0.41 per EMcf, instead of the \$0.43 per EMcf which was actually reported.

Recurring expenses for the first nine months of 1995 were up \$1.3 million, or 8%, compared to the first nine months of 1994. The Merger Properties accounted for \$1.1 million of the increase, due to the fact that these properties were owned by Devon for the full nine months of the 1995 period, compared to only four months in the 1994 period. The Merger Properties' recurring expense per EMcf dropped significantly though, from \$0.87 per EMcf in the 1994 period to \$0.49 per EMcf in the 1995 period.

Depreciation, Depletion and Amortization Expenses ("DD&A"). Oil and gas property related DD&A increased \$0.2 million, or 2%, from \$8.9 million in the third quarter of 1994 to \$9.1 million in the same quarter of 1995. The increase was solely due to an increase in the DD&A rate per EMcf. The DD&A rate in 1994's third quarter was \$0.61 per EMcf, compared to 1995's third quarter rate of \$0.63 per EMcf. The impact of the higher DD&A rate in the third quarter of 1995 was partially negated by lower production due to the cumulative effect of the San Juan Basin Transaction on the first six months of the year which was recorded in the third quarter. DD&A in 1995's third quarter was lowered by \$0.4 million which was actually related to lower gas production in the first and second quarters of the year as a result of the San Juan Basin Transaction.

Oil and gas property related DD&A increased by \$2.9 million, or 12%, from \$24.6 million in the first nine months of 1994 to \$27.5 million in the first nine months of 1995. The DD&A rate increased from \$0.57 per EMcf in the 1994 period to \$0.61 per EMcf in the 1995 period, primarily due to the inclusion of the Merger Properties for a full nine months in 1995, compared to only four months in the 1994 period. This rate increase accounted for 64% of the increased DD&A, while the other 36% was caused by the increase in total production.

General and Administrative Expenses ("G&A"). G&A increased \$0.1 million, or 6%, in the third quarter of 1995 compared to the same period of 1994. There were no individual G&A items which accounted for a significant portion of the quarterly increase.

G&A increased \$0.2 million, or 4%, for the first nine months of 1995 compared to the same period of 1994. Personnel expenses, including salary, pension and insurance expenses, increased by \$0.5 million, while legal fees increased by \$0.3 million. These increases were partially offset by a \$0.6 million increase in G&A reimbursements received from joint interest owners in Devon-operated properties. Approximately \$0.2 million of the increase in reimbursements related to a change in the method used to calculate the reimbursements on certain properties, which change was retroactive to the prior two years.

Interest Expense. Interest expense increased \$0.2 million, or 15%, in the third quarter of 1995, due exclusively to higher rates. The annualized interest rate on the debt outstanding during 1995's quarter was 6.26%, compared to 5.37% during the third quarter of 1994. The overall average interest rate (including the effect of various fees paid to the banks and the amortization of certain loan costs) during the third quarter of 1995 was 7.01%, compared to 5.98% during the third quarter of 1994. The average debt balance outstanding during the third quarter of 1995 was \$95.6 million, or slightly lower than the \$98.1 million average balance during the third quarter of 1994.

Interest expense increased \$1.4 million, or 38%, in the first nine months of 1995. Higher interest rates caused \$1.3 million of the increase. The annualized rate on the debt outstanding during the 1995 period was 6.58%, compared to 4.84% during the first nine months of 1994. The overall average interest rate during the first nine months of 1995 was 7.36%, compared to 5.51% during the same period in 1994. An increase in the average debt balance caused interest expense to rise by \$0.1 million in the first nine months of 1995. The average balance increased 4% from \$91.3 million in the 1994 period to \$94.8 million in the 1995 period. The increase in the average balance was primarily caused by the timing of the borrowings used to fund a portion of the May 1994 merger.

Devon entered into an interest rate swap agreement in June, 1995, to hedge the impact of interest rate changes on a portion of its long-term debt. The principal amount of the swap agreement is \$75 million, and the other party to the agreement is one of the lenders of Devon's credit lines (the "Lender"). The agreement terminates on June 16, 1998, unless the Lender exercises its right to extend the termination date to June 16, 2000. The terms of the agreement provide for quarterly payments either to or from Devon, determined by whether the three month London Interbank Offered Rate ("LIBOR") in effect at the beginning of each quarterly calculation period is greater or less than 5.6%. The calculation periods begin on the sixteenth day of March, June, September and December. If, on the date of the beginning of the quarterly calculation period, the three month LIBOR exceeds 5.6%, the Lender will owe Devon the quarterly amount of the excess rate applied to the \$75 million principal. Alternately, if the three month LIBOR on the applicable quarterly date is less than 5.6%, Devon will owe the Lender.

The swap agreement is accounted for as a hedge, with the amount which is either due to or from Devon recorded as a reduction or increase in interest expense. The three month LIBOR has exceeded 5.6% at the beginning of each of the first two calculation periods. Therefore, Devon has recognized \$72,000 and \$85,000 as reductions to interest expense in the third quarter of 1995 and the first nine months of 1995, respectively. Additional reductions to interest expense of \$45,000 have been deferred until the fourth quarter of 1995.

The swap agreement does not alter or affect any terms or conditions of Devon's lines of credit.

**Income Taxes.** The effective tax rate for the third quarter of 1995 rose to 44% compared to the 41% which had been used for each of the first two quarters of 1995. The third quarter rate includes the cumulative "catch up" effect of revising the estimated rate for the year 1995 from 41% to 43%. Therefore, included in the \$5.2 million of income tax expense for the third quarter is \$0.1 million of additional taxes related to taxable earnings recorded during the first six months of 1995. The increase in the expected tax rate was due to certain tax attributes of the San Juan Basin Transaction. The effective tax rate utilized during the third quarter and first nine months of 1994 was 34%. The increase in the 1995 rates compared to those estimated in 1994 is primarily due to the effect of certain financial deductions for DD&A which are not allowed for income tax purposes due to the tax free nature of the May 1994 merger. Also, although the estimated 1994 income tax rate used in preparing the consolidated financial statements for the first nine months of 1994 was 34%, the rate for the entire year of 1994 was actually 36%. The effect of this change in the estimated tax rate was recorded in the fourth quarter of 1994.

While the San Juan Basin Transaction caused the financial effective tax rate for the first nine months of 1995 to increase by two percentage points to 43%, the transaction had a much more significant impact on the portion of financial taxes which are current versus deferred. Without the San Juan Basin Transaction, it was estimated that current federal and state taxes would equal approximately 12% of the expected total financial tax expense for the year. However, including the San Juan Basin Transaction in 1995's expected results causes the estimate of current income taxes to rise to almost half of the expected total financial tax expense for the year 1995.

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.

Approximately \$13.1 million of deferred tax assets were included in the net deferred tax liability as of September 30, 1995. Over 90% of such assets related to the tax benefits expected from the future utilization of net operating loss carryforwards, statutory depletion carryforwards, investment tax credit carryforwards and minimum tax credit carryforwards. To assess the likelihood of realizing tax benefits from the future utilization of these carryforwards, management considered four primary factors: (1) estimates of future yearly taxable income which Devon is expected to generate; (2) the level of future taxable income necessary to utilize the carryforwards; (3) the expiration dates, if any, of such carryforwards, and (4) certain limitations on the annual utilization of the carryforwards as set forth by federal tax regulations.

Based upon current estimates of future production and average prices, management believes that taxable income during the carryforward periods will be sufficient to utilize substantially all of the carryforwards currently available. The tax benefit from net operating loss and investment tax credit carryforwards, which totals approximately \$6.9 million, is expected to be realized between 1995 and 2002. This is well before the 2006 expiration date for the majority of such benefits. The remaining \$6.2 million of tax benefits consist primarily of statutory depletion and minimum tax credit carryforwards. These carryforwards do not have expiration dates, and are therefore available to reduce taxes in any future year. However, based upon limitations imposed on the utilization of certain of the depletion carryforwards acquired in the Merger, a \$100,000 valuation allowance was recorded at the time of the Merger. No changes in this valuation allowance have occurred through September 30, 1995.

Management's assessment of the future utilization of Devon's deferred tax assets is based upon current estimates of taxable income to be generated in 1995 and beyond. Significant changes in such estimates from variables such as future oil and gas prices or capital expenditures could alter the timing of the eventual utilization of such assets. There can be no assurance that Devon will generate any specific level of continuing taxable earnings.

### **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 131% from \$21.9 million in the first nine months of 1994 to \$50.7 million in the first nine months of 1995. Approximately \$48.4 million was spent in the 1995 period on exploration and development efforts, compared to \$21.2 million spent in the 1994 period for such efforts. Approximately \$23.3 million of 1995's total expenditures related to the drilling and development of the Grayburg-Jackson Field which was acquired in the May 1994 merger, compared to \$2.1 which was spent at Grayburg-Jackson following the merger through September 30, 1994.

Cash Used in the Merger with Alta Energy Corporation. This merger was consummated in the second quarter of 1994. Through September 30, 1994, Devon incurred costs of \$42.3 million related to the merger. Devon also incurred subsequent merger-related costs in the fourth quarter of 1994 and the first quarter of 1995. Approximately \$0.1 million of various costs were incurred in the fourth quarter of 1994. In February 1995, Devon paid an additional \$2.4 million to the former Alta stockholders. This payment, in accordance with the merger agreement, was based upon the evaluation of a well completed by Alta during the first half of 1994.

Capital Resources and Liquidity. Net cash provided by operating activities continued to be a primary source of capital and liquidity in the first nine months of 1995. Net cash provided by operating activities increased by 13% from \$39.7 million in the first nine months of 1994 to \$44.9 million in the first nine months of 1995. Included in 1995's net cash from operations was \$6.1 million related to the San Juan Basin Transaction. This additional cash flow consisted of \$8.6 million of additional gas revenues plus \$0.1 million of lower production and operating expenses, less \$2.6 million of additional income taxes paid to date.

The \$44.9 million of net cash provided by operating activities, along with \$6.8 million of proceeds from property sales and \$6.5 million of additional cash received from the San Juan Basin Transaction related to the repurchase option aspect of the transaction, allowed Devon to fund its capital expenditures and common stock dividends, and also retire \$1.0 million of long-term debt through the first nine months of 1995. As of September 30, 1995, Devon's credit lines totaled \$205 million, of which \$108 million was available for future borrowings after giving effect to the cancellation in October 1995 of a \$20 million letter of credit. In connection with the contingency which previously existed with the San Juan Basin Transaction, Devon had established a letter of credit which totaled \$20 million as of the end of the third quarter. However, when the contingency was resolved in October 1995, the letter of credit was canceled.

Subsequent Event - Property Acquisition. On November 1, 1995, Devon entered into an agreement to purchase certain Wyoming oil and natural gas properties and a gas processing plant from an unrelated company for approximately \$50 million. Devon estimates the proved oil and natural gas reserves of the properties to be approximately 90 equivalent Bcf. Included in these estimates are certain proved undeveloped reserves, for which Devon expects to incur an additional \$9 million of future capital costs. Also, Devon expects to spend an additional \$4 million to \$5 million to expand the capacity of the gas plant by approximately 75%.

The transaction is expected to close in mid- December 1995. The purchase price is subject to certain adjustments, but these are not expected to be material. The acquisition is expected to be funded with cash on hand and additional borrowings under Devon's credit lines.



**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**

None

**Item 5. Other Information**

None

**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 and Reorganization by and among Registrant and Devon Energy Corporation, a Delaware corporation, dated as of April 13, 1995 (incorporated by reference to Exhibit A to Registrant's definitive Proxy Statement for its 1995 Annual Meeting of Shareholders).

2.2 Agreement and Plan of Merger by and among Devon Energy Corporation, Devon Acquisition Corp. and Alta Energy Corporation dated February 18, 1994 [incorporated by reference to Exhibit 2.1 to Registrant's Registration Statement on Form S-4 (No. 33-76524)].

2.3 Amendment to Agreement and Plan of Merger by and among Devon Energy Corporation, Devon Acquisition Corp.

and Alta Energy Corporation dated April 13, 1994 [incorporated by reference to Exhibit 2.2 to Amendment No. One to Registrant's Registration Statement on Form S-4 (No. 33-76524)].

4.1 Registrant's Certificate of Incorporation (incorporated by reference to Exhibit B to Registrant's definitive Proxy Statement for its 1995 Annual Meeting of Shareholders).

4.2 Registrant's Bylaws (incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form 8-B).

4.3 Form of Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to Registrant's Registration Statement on Form 8-B).

4.4 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).

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).

10.1 Credit Agreement dated October 7, 1994, among Devon Energy Corporation (Nevada), as Borrower, the Registrant and Devon Energy Operating Corporation, as Guarantors, NationsBank of Texas, N.A., as Agent, and NationsBank of Texas, N.A., Bank One, Texas, N.A., Bank of Montreal, and First Union National Bank of North Carolina, as Lenders (incorporated herein by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994).

10.2 First Amendment, dated January 27, 1995, to Credit Agreement among Devon Energy Corporation (Nevada), as Borrower, the Registrant and Devon Energy Operating Corporation, as Guarantors, NationsBank of Texas, N.A., as Agent, and NationsBank of Texas, N.A., Bank One, Texas, N.A., Bank of Montreal and First Union National Bank of North Carolina, as Lenders (incorporated herein by reference to Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1994).

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

10.4 Devon Energy Corporation 1993 Stock Option Plan (incorporated herein by reference to Exhibit A to Registrant's Proxy Statement for the 1993 Annual Meeting of Shareholders).\*

10.5 Severance Agreement between Devon Energy Corporation (Nevada), Registrant and Mr. J. Larry Nichols, dated December 3, 1992 (incorporated herein 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 between Devon Energy Corporation (Nevada), Registrant and Mr. H. R. Sanders, Jr., dated December 3, 1992 (incorporated herein by reference to Exhibit 10.11 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).\*

10.7 Severance Agreement between Devon Energy Corporation (Nevada), Registrant and Mr. J. Michael Lacey, dated December 3, 1992 (incorporated herein 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).\*

10.8 Severance Agreement between Devon Energy Corporation (Nevada), Registrant and Mr. H. Allen Turner, dated December 3, 1992 (incorporated herein 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).\*

10.9 Severance Agreement between Devon Energy Corporation (Nevada), Registrant and Mr. Darryl G. Smette, dated December 3, 1992 (incorporated herein 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).\*

10.10 Severance Agreement between Devon Energy Corporation (Nevada), Registrant and Mr. William T. Vaughn, dated December 3, 1992 (incorporated herein 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).\*

10.11 Stock Purchase Agreement dated December 22, 1993, between Registrant and John R. Fitzgerald (incorporated herein by reference to Exhibit 1 to Registrant's Schedule 13D dated as of December 22, 1993).

10.12 Schedule identifying other Stock Purchase Agreements entered into by Registrant with certain holders of Alta Energy Corporation common stock (incorporated herein by reference to Exhibit 2 to Registrant's Schedule 13D dated as of December 22, 1993).

10.13 Stock Purchase Agreement dated January 14, 1994, between GSS Investments Corp. [a wholly-owned subsidiary of Registrant] and Princor Growth Fund, Inc. (incorporated herein by reference to Exhibit 3 to Amendment No. 2 to Registrant's Schedule 13D dated as of January 7, 1994).

10.14 Stock Purchase Agreement dated January 14, 1994, between Registrant and Andrew P. Carstensen, Jr. (incorporated herein by reference to Exhibit 4 to Amendment No. 2 to Registrant's Schedule 13D dated as of January 7, 1994).

10.15 Sale and Purchase Agreement relating to Registrant's San Juan Basin gas properties.

10.16 Second Restatement of and Amendment to Sale and Purchase Agreement relating to Registrant's San Juan Basin gas properties.

11 Computation of earnings per share

(b) Reports on Form 8-K

A Form 8-K was filed on July 12, 1995, regarding the reincorporation of Devon Energy Corporation from Delaware to Oklahoma.

\* Compensatory plans or arrangements.

## 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:*            *November 9, 1995*

*/s/William T. Vaughn*  
*William T. Vaughn*  
*Vice President - Finance*

## EXHIBIT INDEX

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- |      |  |   |
|------|--|---|
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## 11 Computation of earnings per share 71

\* Incorporated by reference.

DEVON ENERGY CORPORATION  
Computation of Earnings Per Share

	Three Months Ended Sept. 30, 1995	3,055,972 1994	10,116,755 1995	11,986,799 1994
PRIMARY EARNINGS PER SHARE				
Computation for Statement of Operations				
Net earnings per statement of operations	\$ 6,645,531	3,055,972	10,116,755	11,986,799
Weighted average common shares outstanding	22,092,783	22,049,065	22,065,462	21,386,685
Primary earnings per common share	\$0.30	0.14	0.46	0.56
Additional Primary Computation (A)				
Net earnings per statement of operations	\$ 6,645,531	3,055,972	10,116,755	11,986,799
Adjustment to weighted average common shares outstanding:				
Weighted average as shown above in primary computation	22,092,783	22,049,065	22,065,462	21,386,685
Add dilutive effect of outstanding stock options (as determined using the treasury stock method)	118,314	112,800	122,246	123,928
Weighted average common shares outstanding, as adjusted	22,211,097	22,161,865	22,187,708	21,510,613
Net earnings per common share, as adjusted	\$0.30	0.14	0.46	0.56
FULLY DILUTED EARNINGS PER SHARE (A)				
Net earnings per statement of operations	\$ 6,645,531	3,055,972	10,116,755	11,986,799
Weighted average common shares outstanding as shown in primary computation above	22,092,783	22,049,065	22,065,462	21,386,685
Add fully dilutive effect of outstanding stock options (as determined using the treasury stock method)	138,659	112,800	148,255	124,428
Weighted average common shares outstanding, as adjusted	22,231,442	22,161,865	22,213,717	21,511,113
Fully diluted earnings per common share	\$0.30	0.14	0.46	0.56

(A) These calculations are submitted in accordance with Regulation S-K item 601(b)(11) although not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because they result in dilution of less than 3%.



## ARTICLE 5

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD END	SEP 30 1995
CASH	11103702
SECURITIES	0
RECEIVABLES	15111303
ALLOWANCES	225000
INVENTORY	587568
CURRENT ASSETS	27609105
PP&E	566974139
DEPRECIATION	230259966
TOTAL ASSETS	368259266
CURRENT LIABILITIES	15736603
BONDS	97000000
COMMON	2209690
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	212961946
TOTAL LIABILITY AND EQUITY	368259266
SALES	82440553
TOTAL REVENUES	83183525
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	25336598
LOSS PROVISION	0
INTEREST EXPENSE	5214241
INCOME PRETAX	17748755
INCOME TAX	7632000
INCOME CONTINUING	10116755
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	10116755
EPS PRIMARY	0.46
EPS DILUTED	0.46

**SALE AND PURCHASE AGREEMENT**

**BY AND AMONG**

**DEVON ENERGY CORPORATION (NEVADA)**

**AND**

**NS GAS PROPERTIES, INC.**

**AND**

**DEVON ENERGY CORPORATION**

**AND**

**NORFOLK SOUTHERN CORPORATION**

**AND**

**NORFOLK SOUTHERN PROPERTIES, INC.**

**Effective January 1, 1995**

**SALE AND PURCHASE AGREEMENT  
BY AND AMONG  
DEVON ENERGY CORPORATION (NEVADA)  
AND  
NS GAS PROPERTIES, INC.  
AND  
DEVON ENERGY CORPORATION  
AND  
NORFOLK SOUTHERN CORPORATION  
AND  
NORFOLK SOUTHERN PROPERTIES, INC.**

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## DEFINED TERMS

The following terms are defined in the Sale and Purchase Agreement.

Terms	Page	Section
"Agreed Values"		1.4
"Assignment"		1.2
"Buyer"		Para.1
"Claim"		11.4(c)
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"Closing Payment"		1.4
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"Interests"		1.2
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"Mortgage"		6.2
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"Norfolk"		Para.1
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"Remaining Reserves"		6.5(b)(3)
"Seller"		Para.1

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## SALE AND PURCHASE AGREEMENT

THIS AGREEMENT is entered into effective January 1, 1995, by and among DEVON ENERGY CORPORATION (NEVADA), a Nevada corporation ("Seller"); NS GAS PROPERTIES, INC., a Virginia corporation ("Buyer"); DEVON ENERGY CORPORATION, a Delaware corporation ("Devon Delaware"); NORFOLK SOUTHERN CORPORATION, a Virginia corporation ("Norfolk"); and NORFOLK SOUTHERN PROPERTIES, INC., a Virginia corporation ("Properties").

In consideration of the mutual covenants contained herein and the benefits to be derived by each party hereunder, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

### 1. Agreement of Sale and Purchase Price.

1.1 Sale and Conveyance of the Interests. Subject to the terms and conditions herein set forth, Seller will, at the Closing provided for in Section 7 hereof (the "Closing"), sell, transfer, assign, convey and deliver to Buyer the Interests, and Buyer will purchase, receive, accept delivery of, and pay Seller for the Interests. The day appointed for the Closing in Section 7 is called the "Closing Date."

1.2 Interests Defined. As used herein, the term "Interests" means the aggregate of all right, title and interest owned by Seller in, to and under the following:

(a) The oil, gas and mineral leases and the operating rights, mineral interests, royalty interests, overriding royalty interests, payments out of production and interests in or under unit agreements described in Exhibit A, insofar and only insofar as the same cover and relate to the lands and depths also described in Exhibit A (the "Leases");

(b) All other contracts, agreements, leases, licenses, permits, easements and orders to the extent relating to the Leases, the operations conducted or to be conducted thereon, or the production, treatment, sale or disposal of hydrocarbons or water produced therefrom or attributable thereto (all of which, to the extent they are material, are represented by Seller to be identified and described on Schedule 3.9 hereto);

(c) All wells (including, without limitation, disposal, supply or injection wells), personal property, fixtures (including, without limitation, gathering systems, pipelines, compressors and dehydration and other treatment facilities, but excluding inventory and supplies), equipment and improvements as of the Effective Time (hereinafter defined) and as of the Closing Date to the extent used or obtained in connection with the Leases or with the operation or maintenance thereof, or with the production, treatment, sale or disposal of hydrocarbons or water produced therefrom or attributable thereto;

(d) All other rights and interests in, to or under or derived from the Leases, even though improperly described in or omitted from Exhibit A;

EXCEPTING and RESERVING unto Seller, however, the production payment (the "Production Payment") described in the Assignment, Conveyance and Bill of Sale (the "Assignment") attached as Exhibit C hereto, together with all interests in the subject matter of such Assignment, to the extent the same cover or relate to lands and depths not described in Exhibit A.

1.3 Effective Time. As used herein, the term "Effective Time" means 7:00 a.m., New Mexico time, on January 1, 1995.

1.4 Purchase Price. The purchase price for the Interests ("Purchase Price") shall be the total of (i) the sum of \$10,827,145 (the "Closing Payment"), plus (ii) all sums payable under the Production Payment, which are estimated to have a present value of \$153,463,018. The Purchase Price is therefore estimated by the parties to be \$164,290,163. The Purchase Price has been allocated by the parties among the various items of the Interests as set out in Exhibit B. The amounts so allocated shall be deemed to be the respective fair market values of such items of the Interests and are herein referred to as the "Agreed Values" of such items of the Interests.

## 2. Title.

2.1 Title Material. Seller acknowledges and understands that Buyer is relying on Seller's representations and warranties as to the adequacy and sufficiency of Seller's title to the Interests conveyed by Seller to Buyer, all of which representations and warranties are material to Buyer and the transactions contemplated herein. From and after the date hereof Seller shall provide Buyer, its agents and representatives full opportunity, at any time and from time to time during normal business hours, to examine, inspect and copy, at Buyer's expense, the books, records and files in the possession of Seller insofar as they pertain to the Interests, pertaining to the following:

(a) All title opinions and reports pertaining to the Interests;

(b) All abstracts of title and status reports pertaining to the Interests;

(c) All documents comprising the Interests, prior conveyances of interests therein or interests created thereby, unitization, communitization, pooling and operating agreements and division and transfer orders, together with all other contracts and documents affecting the title to or the value of the Interests;

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(d) All spacing, pooling, unitization, exception, allowable and other orders of any local, state or Federal court, agency, commission or other regulatory authority in any way relating to the Interests or the operation thereof;

(e) The payment of delay rentals, shut-in royalties, royalties and other payments due under the Interests;

(f) The payment of all ad valorem, property, production, severance and similar taxes and assessments based on or measured by the ownership of property or the production or removal of hydrocarbons or the receipt of proceeds therefrom attributable to the Interests;

(g) All ownership maps and surveys relating to the Interests and the lands affected thereby;

(h) All lease records, production records and data sheets relating to the Interests and to bonuses, delay rentals, shut-in royalties and royalties payable thereunder;

(i) All division and transfer orders and all purchase, sale, gathering, dehydration processing, exchange, transportation and similar agreements relating to the sale, dehydration, treatment, transportation or marketing of production from the Interests;

(j) All bonds, insurance policies, leases, permits, easements, licenses, salt water disposal agreements, gas balancing agreements, pumping or pumper's agreements and other agreements in any way relating to the Interests or the operation thereof;

(k) All records relating to the inventory of all personal property and fixtures included in the Interests;

(l) Records evidencing that all persons responsible for distributing proceeds of sale of production from the Interests are currently paying Seller for at least the net revenue interests referred to in Section 3.3 hereof without suspense or any indemnity other than the normal division order warranty of title;

(m) Records evidencing that all operators of the Interests are currently billing Seller for no more than the working interests referred to in Section 3.3 hereof and that Seller is current with all such operators for all costs and expenses;

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(n) All regulatory filings relating to the Interests, including, without limitation, all applications and determinations under the Natural Gas Policy Act of 1978 ("NGPA"); and

(o) All other available records, files, reports and documents pertaining to the Interests as Buyer reasonably may request.

2.2 Possession of Title Material. Seller and Buyer agree that, for as long as Seller shall continue to perform the services and duties as Buyer's agent as provided in the Management and Agency Agreement described in Section 6.3 hereof, the documents and items referred to in clauses (a) through (o) above shall remain in Seller's possession, subject to Buyer's right to examine, inspect and copy the same, at Buyer's expense. However, Seller agrees that it will, upon Buyer's reasonable request, promptly deliver to Buyer, at Buyer's expense, copies of any or all such documents and items as may be specified by Buyer, to the extent that the same relate to and are necessary to Buyer's quiet and continuing enjoyment of the Interests, and will make any original copies of such documents in Seller's possession available to Buyer at all reasonable times. Upon any termination of the Management and Agency Agreement for a reason other than Buyer's sale of all of the Interests to Seller, Seller promptly will provide to Buyer or its designee, at Buyer's expense, all of such documents and items as shall be specified by Buyer.

2.3 Title Standard. For the purposes of Seller's title warranty in Section 3.3, Seller's title shall be good and defensible (as distinguished from technically marketable); provided, no Permitted Encumbrance shall constitute a title defect. "Permitted Encumbrances" are, except as otherwise provided herein, comprised of (i) matters described without material omission in Schedule 3.5 or 3.9, (ii) royalties, overriding royalties, production payments and other burdens on production which do not reduce the interest in an item of the Interests to less than that warranted in Section 3.3, (iii) liens for taxes, labor and materials where payment is not due, (iv) regulatory authority of governmental agencies not presently or previously violated, easements, surface leases and rights, plat restrictions and similar encumbrances, provided that they do not detract from the value or increase the cost of operation of any item of the Interests, and (v) regulatory filings with and consents by regulatory authority if they are customarily obtained subsequent to the sale or conveyance. For purposes of this

Section 2.3, "good and defensible title" shall mean a title that is free from reasonable doubts or claims either as to matters of law or fact, such as are sufficient to form a basis of (or would reasonably subject Buyer to) litigation, or compel Buyer to resort to parol evidence, not afforded by the official public records (or to presumptions of fact that would probably, in the event of suit, become genuine issues of fact), to defend Buyer's title against such outstanding doubts or claims.

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3. Representations and Warranties of Seller. Seller represents and warrants to Buyer as of the Effective Time and as of the Closing Date, as follows:

3.1 Agreement Valid. Subject to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights, as well as to principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), this agreement constitutes, and all instruments required hereunder to be executed and delivered by Seller at the Closing will constitute, the valid and binding agreement of Seller enforceable against Seller in accordance with its terms.

3.2 Seller Status and Power to Sell. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada, and is duly qualified to carry on its business in each jurisdiction where any item of the Interests is located. The execution and performance of this agreement, the transactions contemplated hereby, and all things necessary or desirable in order to accomplish the same have been duly authorized by all necessary corporate action of Seller. Seller has all necessary authority under its charter, bylaws and other governing documents and otherwise has good right and lawful authority to carry on its business as presently conducted and to consummate all transactions contemplated by this agreement.

3.3 Title to the Interests.

(a) In accordance with the standards set out in Section 2.3, Seller owns the Interests.

(b) Each of the Interests is good, valid, subsisting and enforceable in accordance with its terms.

(c) Except as given effect in the LaRoche, Swindell & Associates engineering report to Seller, dated January 10, 1995 and covering the Interests (the "Initial Report"), Seller's interests in the Interests are not subject to being increased or reduced by virtue of reversionary interests owned by third parties or Seller.

(d) Seller has taken or caused to be taken all actions which are reasonable and customary in the oil and gas industry to assure that its title to the Interests is as warranted herein, including without limitation the diligent and thorough review of those of the items of the Interests which are not reflected by documents which are a part of official public records; inquiries to predecessors in interest and other knowledgeable parties concerning matters not disclosed by official public records; and the securing of title opinions from outside legal counsel, and Seller has either corrected, cured or satisfied each doubt, potential claim or requirement which resulted from such efforts.

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3.4 Compliance With Leases and Laws. All oil and gas leases which are a part of the Interests are valid, binding and enforceable in accordance with their terms, and in full force and effect. No default exists under any of the terms and provisions, express or implied, of any of such oil and

gas leases or under any of the terms and provisions of any agreement, contract, license, permit, easement, order or other instrument comprising the Interests or to which the Interests are subject, and Seller has not received notice of any claim of such default or notice of facts which could constitute a default. All rentals, shutin royalties and royalties due under the Interests and applicable law, rules and regulations of the Federal and state regulatory authorities having jurisdiction have been timely and properly paid and are not in suspense for any reason. There are no express provisions under any Interest or any agreement which require the drilling of additional wells or operations to earn or continue to hold any of the Interests. All wells on or attributable to the Interests have been drilled, completed and operated, and all production therefrom has been accounted for and paid to the persons entitled thereto, in compliance with all applicable Federal, state and local laws and applicable rules and regulations of the Federal, state and local regulatory authorities having jurisdiction thereof; all necessary regulatory filings have been properly made in connection with the ownership of and transfer to Buyer of the Interests, the transactions contemplated by this Agreement, and the drilling, completion and operation of such wells and all other operations on the Interests or the land associated therewith; and all production and sales of oil, gas and other hydrocarbons heretofore produced or sold from the Interests have not been in excess of any production allowable established by governmental authorities (plus permitted tolerances) or price established by the applicable regulatory authorities. There is no condition at, under or in connection with the lands associated with the Interests for which Seller has or Buyer could incur any liability, or have any remedial or reporting obligation, under any law or regulation in any manner concerning the protection of the environment or public health. No gas produced from the Interests is subject to the certificate and abandonment jurisdiction of the Federal Energy Regulatory Commission under the Natural Gas Act of 1974. There is no claim, action or proceeding under applicable environmental, public health or other laws pending or threatened against Seller relating to the Interests or the operation thereof.

3.5 Processing, Sale and Transportation of Production. Except as described in Schedule 3.5, Seller has not prior to the Effective Time produced or sold gas subject to

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balancing rights of third parties (including without limitation other owners of interests in the land and purchasers of production therefrom) or subject to balancing duties under governmental requirements, and Seller is not and Buyer will not be obligated by virtue of any prepayment made under any production sales contract or any other contract containing a take-or-pay clause, or under any similar arrangement, to deliver oil, gas or other minerals produced from or allocated to any of the Interests at any time after the Effective Time without receiving full payment therefor at the time of delivery. Prior to the Effective Time, Seller has not collected any proceeds from the sale of hydrocarbons produced from the Interests which are subject to refund. Proceeds from the sale of oil, gas and natural gas liquids from the Interests are being received by Seller in a timely manner and are not being held in suspense for any reason. Seller has described in Schedule 3.5 and furnished to Buyer true and complete copies (with all amendments) of all contracts and agreements (other than routine division orders terminable by Seller upon less than sixty (60) days' notice) pursuant to which hydrocarbons produced from the Interests are treated, dehydrated, compressed, sold, transported, processed or otherwise disposed of or marketed. The contracts and agreements comprising the Interests or identified in the Schedules hereto, do not contain nonstandard terms which could impose on Buyer risks or burdens that are not customarily assumed by owners of working interests. Except as disclosed in Schedule 3.5, no person has any call upon, option to purchase or similar rights with respect to the Interests or to the production therefrom. Except for the Northeast Blanco Unit No. 479R Well, each existing producing well listed on Exhibit A shall, as of the Effective Time and the Closing Date, be eligible for the nonconventional fuels income tax credit under Section 29 of the Internal Revenue Code of 1986, as amended (the "Code"). Upon consummation of the transactions contemplated hereby Buyer will have the right to market production from the Interests on terms no less favorable than the terms upon which Seller currently is marketing such production.

3.6 Taxes. All (i) ad valorem, property, production, severance and other taxes and assessments based on or measured by the ownership of property or the production or removal of hydrocarbons or the receipt of proceeds therefrom, and (ii) state and local gross receipts and sales and use taxes related to the Interests, have been timely paid.

3.7 Brokers and Finders. Seller has not incurred any liability, contingent or otherwise, for brokers or finders fees in respect of this transaction for which Buyer shall have any responsibility whatsoever.

3.8 Claims or Litigation. There is no claim, dispute, suit, action or other proceeding pending or threatened against Seller or any of the Interests or any third party which might result in the impairment or loss of Seller's title to any of the Interests or the value thereof, or otherwise affect the Interests or the cost of operation thereof, or result in any loss, damage or cost to or the imposition of any liability on Buyer.

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3.9 Contracts; Consents. Seller has described in Schedule 3.9 (i) all operating agreements currently in effect relating to the Interests, (ii) all partnership, joint venture, farmin/farmout, dry hole, bottom hole, acreage contribution, area of mutual interest and similar agreements and obligations of which any terms remain executory and which affect the Interests, (iii) all other executory contracts to which Seller is a party which materially affect any item of the Interests, and (iv) all governmental or court approvals and third party contractual consents required in order to consummate the transactions contemplated by this agreement, other than routine consents required in connection with transfers of Federal and state leases. All such agreements and contracts are valid, binding and enforceable in accordance with their terms and are in full force and effect, and there are no existing defaults thereunder or events that would constitute a default thereunder. Seller has furnished to Buyer true and correct copies (with all amendments) of all such agreements, contracts, approvals and consents.

3.10 Assignments Prior to Closing. Except as described in Schedule 3.5, Seller has not made any assignment, conveyance or encumbrance of the Interests, other than personal property replaced by equivalent property or consumed in the operation of the Interests in the ordinary course

of business.

3.11 Status of Wells. All wells included in the Interests, and all wells located on the lands affected thereby and not included in the Interests but with respect to which Seller has, or after the Closing Buyer may have, any liability to plug, either (i) are producing or capable of producing hydrocarbons in commercial quantities without the necessity of rework or recompletion operations, or (ii) are being utilized as pressure observation, injection, water supply or disposal wells and are fully equipped for such operations, or (iii) have been properly plugged and abandoned in accordance with all applicable rules and regulations of governmental authorities having jurisdiction with respect thereto.

3.12 Full Disclosure. No information furnished by Seller to Buyer and no representation or warranty of Seller under this agreement contains or will contain any untrue statement of a fact or omits or will omit any fact necessary to make the statements made therein or herein not misleading; provided, no representations of any kind are made by Seller relating to projected or estimated future production or reserves attributable to the Interests. Notwithstanding the foregoing provision, Seller is not aware of any facts or circumstances which could cause a prudent person in the oil and gas industry to believe that the assumptions and/or methodologies employed in the preparation of or reflected in the Initial Report are unusual, suspect or not customary in the industry, and none of such assumptions or methodologies are known by Seller or its representatives to be misleading or incorrect.

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3.13 Consummation of Transactions. Neither the execution hereof nor the consummation of the transactions contemplated hereby will constitute a violation or breach of, or an event of default under, any contract or agreement to which Seller is a party, or constitute the happening of a condition upon which any other party to such a contract may exercise any right or option which will adversely affect any of the Interests or Seller's or Buyer's rights therein or thereto; nor will the happening of such events result in any liability of Buyer to any person under the terms of any contracts of employment, consultancy or for services of any kind.

3.14 Tax Partnerships. No item of the Interests is treated for income tax purposes as being owned by a partnership.

3.15 Equipment. The Interests include all property, equipment, easements, rights and facilities necessary for the proper operation of the Interests. All equipment and property used in connection with the operation of the Interests is in good condition and repair, ordinary wear and tear excepted, and is adequate for the proper operation of the Interests.

3.16 Insurance. The insurance policies described in Schedule 3.17 are presently maintained in connection with the Interests and the operation thereof. Such policies are customary for the operation of the Interests. There are no pending or threatened claims, actions, suits or proceedings involving any insurance maintained in connection with the Interests.

3.17 No Consents. Except as provided in Section 3.9 hereof, the sale, assignment and conveyance of the Interests to Buyer is not subject to the consent or approval of, or the giving of any notice to, any other person (except for such consents or approvals as have been obtained and any notice which has been given) and will not violate or constitute a default under any of the Interests or any contract, agreement, permit, order or other instrument relating to the Interests.

3.18 Miscellaneous. For purposes of each representation, warranty or covenant in this Section 3 as to the non-existence of any matter, condition or thing (including, but not limited to any default, condition, suit, action, claim or proceeding), all references thereto shall be deemed also to include any event, condition or circumstance which, with the giving of notice or the lapse of time or both, would constitute such a matter, condition or thing.

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3.19 Ordinary Course. Since the Effective Time, Seller has caused the Interests to be maintained and operated in a good and workmanlike manner consistent with prudent oil and gas practices, maintained the insurance which was in force on the Closing Date, and timely paid or caused to be paid all costs and expenses incurred in connection therewith.

3.20 Restrictions on Operations. Since the Effective Time, no operations were conducted for the drilling of any new well or the reworking, recompleting or redrilling of any existing well, and Seller has not waived any rights or entered into any new agreements or commitments, has not made any expenditure attributable to any one project in excess of \$100,000 (except when bound to do so under provisions of existing joint operating agreements which do not require authority for expenditures), and has not abandoned any well or released or abandoned any portion of the Interests.

4. Representations and Warranties of Buyer. Buyer represents and warrants to Seller as of the Effective Time and as of the Closing Date as follows:

4.1 Organization. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia, and is duly qualified to carry out its business in New Mexico.

4.2 Agreement Authorized. This agreement has been duly authorized, executed and delivered by Buyer and all instruments required hereunder



to be delivered by Buyer at the Closing will be duly authorized, executed and delivered by Buyer and all requisite corporate action has or will have been taken to authorize the execution hereof, the transactions contemplated hereby and all things necessary or desirable in order to accomplish the purchase of the Interests, and Buyer has all necessary authority under its articles of incorporation, bylaws and other governing documents to consummate the same.

4.3 Valid Agreement. Subject to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights, as well as to principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), this agreement constitutes, and all instruments required hereunder to be executed and delivered by Buyer at Closing will constitute, the valid and binding agreement of Buyer enforceable against Buyer in accordance with its terms.

4.4 Authority to Purchase. Buyer has all necessary corporate power and authority to purchase and pay for the Interests as contemplated by this agreement.

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4.5 Brokers and Finders. Buyer has incurred no liability, contingent or otherwise, for brokers or finders fees in respect of this transaction for which Seller shall have any responsibility whatsoever.

## 5. Matters Relating to Operations.

5.1 Access of Buyer. Buyer shall have free access to the offices, properties, records, marketing agreements, files, unrestricted seismic data, engineering reports and evaluations, books of account, and all other information of Seller pertaining to the Interests, including all land material, for the investigation of the Interests, the status thereof and the title thereto, through Buyer's employees, attorneys, independent public accountants or outside consultants; provided, however, that such investigation shall be conducted during normal business hours and in a manner that does not unreasonably interfere with Seller's normal operations and employee relationships. Seller shall cause its personnel to assist Buyer in making such investigation and shall cause the counsel, accountants, employees and other representatives of Seller to be reasonably available to Buyer for such purposes. During such investigation, Buyer shall have the right to cause Seller to make copies, at Buyer's expense, of such records, files and other materials as Buyer may deem advisable.

5.2 Preparation of Description of Interests. Seller will, at its expense, prepare and furnish or cause to be prepared and furnished to Buyer as promptly as possible, the exhibit to be attached to the assignment and conveyance referred to in Section 9.1 hereof, which shall correctly set forth and describe each element of the Interests and the land applicable thereto as contemplated thereby in appropriate detail, together with the identification of each existing well associated therewith.

## 6. Additional Agreements of the Parties.

6.1 Further Assurances. From time to time (whether at or after Closing), as and when requested by Buyer or its successors or assigns, Seller will execute, acknowledge and deliver all such instruments and documents and take such other action as Buyer may reasonably deem necessary or desirable in order to more effectively consummate the transactions contemplated hereby and to transfer to Buyer the Interests; and Seller will assist Buyer in the collection or reduction to possession thereof.

6.2 Buyer's Mortgage. Attached hereto as Exhibit F is a form of Mortgage and forms of Financing Statements covering the Interests (together, the "Mortgage"), which Buyer agrees to execute and deliver to Seller at Closing.

6.3 Management and Agency Agreement. Attached hereto as Exhibit D is a form of Management and Agency Agreement covering the Interests (the "Management and Agency Agreement") which Seller and Buyer agree to execute and deliver to each other at Closing.

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## 6.4 Rights of Rescission.

(a) This agreement may be rescinded under the following conditions:

(i) By Buyer, provided notice of Buyer's election to rescind and the reason therefor is given to Seller prior to December 1, 1995, if the Internal Revenue Service fails or refuses to issue a private letter ruling holding that (A) Seller has not retained an economic interest in the Interests and has transferred all of Seller's economic interest in the Interests to Buyer, (B) the Production Payment is properly characterized for income tax purposes as a purchase money mortgage loan, and (C) any credit for producing fuel from a nonconventional source, pursuant to Section 29 of the Code, attributable to production from the Interests after the sale of the Interests to Buyer is properly allocable to Buyer; and

(ii) By Seller, provided notice of Seller's election to rescind and the reason therefor is given to Buyer prior to December 1, 1995, if the Internal Revenue Service fails or refuses to issue a private letter ruling holding that recognition of gain by Seller upon reacquisition of the Interests by exercise of the Repurchase Option granted in Section 6.5 hereof is determined pursuant to Section 1038 of the Code.

(b) If a condition for rescission exists and proper notice of rescission is given, the parties shall, prior to December 15, 1995, restore themselves to the relative positions each would have occupied had this agreement never been made, including without limitation (A) reconveyance by Buyer of the Interests to Seller, (B) payment by Seller to Buyer of an amount equal to all amounts paid by Buyer under this agreement and any agreement made pursuant hereto, and (C) payment by Buyer to Seller of an amount equal to all amounts received by Buyer under this agreement and any agreement made pursuant hereto. If rescission is properly elected, the failure of any party to take all steps necessary for a complete rescission prior to January 1, 1996, shall be a breach of this agreement and, in addition to other damages and remedies to which the aggrieved party may be entitled, the indemnity in Section 11.3 hereof shall apply to any third party claims arising from the breach.

(c) Seller agrees that it shall cause there to be issued to Buyer at closing, and that it shall cause there to be maintained in force a Letter of Credit in the form of that attached hereto as Exhibit E. Buyer shall notify the issuer of the Letter of Credit to terminate it upon the receipt by Buyer of (i) the private letter rulings described in Section 6.4(a)(i) hereof and a notice from Seller that it has received or waived the private letter ruling described in Section 6.4(a)(ii) hereof, or (ii) all payments from Seller due Buyer under Section 6.4(b), hereof.

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(d) In the event of a rescission hereunder, Seller shall agree to and shall indemnify, defend and hold Buyer, its affiliates and their respective officers, agents and employees harmless against all liabilities, losses, claims, damages, costs and expenses (known, unknown, contingent or otherwise) associated with, arising during or in connection with, or resulting from Buyer's ownership of the Interests.

#### 6.5 Preferential Right to Purchase and Repurchase Option.

(a) Preferential Right to Purchase. Seller shall have a preferential right to purchase the Interests subject to the Production Payment (the "Option Interests") or any part thereof, at any time prior to the "Termination Date," as defined in the Assignment. In the event Buyer, or any of Buyer's successors or assigns desire to sell all or any part of the Interests, it shall promptly give written notice of such fact to Seller, with full information concerning its proposed disposition, which shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal description sufficient to identify the property involved, a complete description of the Option Interests involved, and all other terms of the offer. Seller shall then have an optional prior right, for a period of forty-five (45) days after the notice is received by Seller, to purchase for the stated consideration pertaining to the third party offer on the same terms and conditions the Option Interests which are proposed to be sold. The preferential right to purchase described herein shall be applicable to any proposed disposition of the Option Interests or any part thereof, whether by purchase and sale, merger, reorganization or consolidation, and shall be applicable to any proposed transfer of Option Interests, whether to a third party, a subsidiary, a parent company or to a subsidiary of a parent company.

(b) Repurchase Option. Seller shall also have the option to purchase all or any undivided portion of the whole of the Option Interests or any individual oil and gas lease or leases which form the basis for undivided interests therein under the terms and conditions of this Section 6.5(b), at any time.

(1) Notice of Exercise. Seller shall exercise such option to purchase by giving Buyer written notice (the "Repurchase Notice") of its election to exercise the option at least 20 days prior to the date specified in the notice that the purchase is to be closed (the "Option Closing Date").

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(2) Contents of Notice. The Repurchase Notice shall (i) indicate that Seller is exercising its option under this Section 6.5(b), (ii) specify a place of closing (which shall be in the city of Seller's or Buyer's principal place of business), (iii) specify the time and date of closing which shall be on the last business day of a calendar month following the expiration of the notice period, (iv) identify the applicable part of the Option Interests being purchased, if less than the whole, (v) be accompanied by a schedule prepared by Seller calculating the purchase price according to the purchase price determination procedures set forth in Section 6.5(b)(3) below and (vi) be dated and signed by an officer of Seller.

(3) Determination of Purchase Price. The purchase price under the option shall be determined with reference to the gas reserve quantities attributed to the Option Interests in the Initial Report, a copy of which has been furnished to Buyer. The reserves for the Option Interests or the applicable part thereof estimated in the Initial Report to exist on the Option Closing Date shall be the basis for calculating Seller's purchase price under the option without regard to the actual reserves that may exist or be estimated to exist on the Option Closing Date. If the Option Closing Date under the option is to occur in a month other than December, the applicable remaining reserves attributed in the Initial Report to the calendar year of closing shall be reduced by a fraction, the numerator of which is the number of months of the year that have passed through and including the month of the Option Closing Date (even if on other than the last day of that month) and the denominator of which is 12. The applicable remaining gas reserve quantities so calculated shall hereinafter be referred to as the "Remaining Reserves." Seller's purchase price for the Option Interests or the applicable part thereof shall be their agreed upon market value which shall be calculated using the same cash flow and discounting procedures as were used in preparing the Initial Report; however, the agreed upon market value calculation shall use (i) the weighted average price received for the sale of gas from the Interests or the applicable part thereof during the twelve month period preceding the month in which the Option Closing Date is to occur, (ii) the production and ad valorem tax rates in effect on the date of the Repurchase Notice, (iii) operating expenses estimated in the Initial Report, adjusted for known changes, including the "Administration Fee" payable under the terms of the Management and Agency Agreement, (iv) future known capital expenditures not contemplated in the Initial Report and (v) a discount rate equal to One Hundred Twenty Percent (120%) of the national Prime Rate as quoted in The Wall Street Journal on the 10th business day preceding the date of the Repurchase Notice.

(4) Option Closing Procedure.

(i) On the Option Closing Date, Buyer shall sell, assign and convey the Interests or the applicable part

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thereof to Seller, pursuant to documents prepared by Seller and satisfactory to Buyer, without representation or warranty of any kind, except that Buyer shall represent to Seller that Buyer has not (except as permitted hereby) transferred, assigned or further encumbered the Interests (or such applicable part) since Buyer acquired the same from Seller. Buyer shall assign to Seller all prior rights in warranty to the extent such were received by Buyer from Seller. The foregoing sale, assignment and conveyance shall be subject to all necessary consents and approvals of third parties, if any, which burdened the Interests when the same were assigned and conveyed to Buyer, or which are subsequently approved by Seller, and Seller shall be responsible for obtaining and securing all necessary consents and approvals concerning the same.

(ii) On the Option Closing Date, Seller shall

(i) release the Mortgage contemplated by Section 6.6 hereof as to the Interests or the applicable part thereof, and (ii) pay Buyer the purchase price for the Interests or the applicable part thereof. Buyer shall also execute all necessary forms of assignment and transfer customary in the oil and gas industry or required by governmental authority, together with such transfer orders or letters in lieu thereof as Seller shall reasonably request (all of which shall be substantially similar to the documentation furnished by Seller to Buyer on the date hereof in connection with the conveyance of the Interests to Buyer), and Buyer shall deliver to Seller possession of the Interests or the applicable part thereof.

(5) Indemnification. As part of the closing of any purchase by Seller hereunder, Seller agrees to and shall indemnify, defend and hold Buyer, its affiliates and their respective officers, agents and employees, harmless from and against all liabilities, losses, claims, damage, costs and expenses (known, unknown, contingent or otherwise) associated with, arising during or in connection with, or resulting from Buyer's ownership of the Interests or the portion thereof purchased, regardless of cause save only the sole negligence of Buyer.

(c) Affect on Production Payment Termination Date. In the event less than the whole of the Option Interests are purchased or repurchased under the provisions of this Section 6.5, the parties shall execute and record an appropriate document clearly indicating a reduction in the volume of gas production necessary to reach the "Termination Date," as set forth in Section 1(b)(i) of the Assignment. The amount of such reduction shall be equal to ninety percent (90%) of the Remaining Reserves attributed in the Initial Report to the Option Interests or the applicable part thereof which are purchased or repurchased under the terms of this Section 6.5.

(d) Set-Off. In connection with any purchase by Seller hereunder, Seller shall be authorized to set-off any and all amounts due Seller under the Assignment and/or the Management and Agency Agreement, in determining the net amount to be paid by Seller to Buyer.

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(e) Taxation. This preferential right to purchase or repurchase the Option Interests or a part thereof shall, for federal income tax purposes, constitute a reacquisition of all or the applicable part of the Interests in satisfaction of all or the applicable part of the indebtedness represented by the Production Payment with payment of additional consideration to Buyer, the taxation of which shall be determined under Section 1038 of the Code.

6.6 Certain Federal Income Tax Matters. Unless otherwise finally determined by the Internal Revenue Service or a court:

(a) Buyer and Seller agree to treat the Production Payment as a purchase money debt instrument issued by Buyer to Seller as partial consideration for the Interests; and

(b) Buyer and Seller agree that the issue price of the Production Payment is determined under Section 1274(b)(3) of the Internal Revenue Code of 1986, as amended, and Treasury Regulation Sec. 1.1274-2(b)(3) to be equal to the excess of the agreed upon market value of the Interests (which is \$164,290,163) over the amount of the Closing Payment (which is \$10,827,145), or \$153,463,018, as determined by Schedule 6.7(b) attached hereto.

7. The Closing. The Closing is taking place simultaneously with the execution of this agreement, in the offices of McAfee & Taft A Professional Corporation, Tenth Floor, Two Leadership Square, Oklahoma City, Oklahoma.

8. Payment of Closing Payment and Interest. At Closing, Buyer shall pay to Seller the Closing Payment, together with interest thereon at eight and one-half percent (8.5%) for the applicable period of time from the Effective Time to Closing, by wire transfer into a bank account to be designated by Seller prior to Closing.

9. Execution and Delivery of Documents.

9.1 Assignment. Seller shall execute and deliver to Buyer the Assignment, conveying the Interests to Buyer. For the purposes of Section 2(b)(vii) of the Assignment, the term "Tax Credit Percentage" shall mean Eighty-Three and One-Third Percent (83 %). Seller shall also prepare, execute, acknowledge, and deliver all necessary forms of assignment and transfer required by governmental authority in connection with the

sale and purchase of the Interests.

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9.2 Management and Agency Agreement. At the Closing, Seller and Buyer shall execute and deliver to each other the Management and Agency Agreement.

9.3 The Mortgage. At the Closing, Buyer shall execute and deliver to Seller the Mortgage.

10. Possession. Seller shall deliver to Buyer at the Closing possession of the Interests.

11. Obligations After Closing. In addition to the other covenants contained in this agreement which are by their terms to be performed wholly or partly after the Closing Date, the parties agree as follows:

11.1 Sales and Use Taxes. It is understood that the Purchase Price does not include sales and use taxes imposed on account of the transactions contemplated hereby. Within the time permitted by applicable law to do so, Buyer shall pay and Seller shall collect and remit to the proper governmental authorities all applicable sales and use taxes, if any, within the time allowed by law for payment thereof and Buyer shall indemnify and agree to defend and hold harmless Seller in connection with any claim regarding the same.

11.2 Receipts and Disbursements. If Buyer receives any funds relating to items of the Interests which accrued to the owner of the Interests before the Effective Time, or if Seller receives any funds relating to items of the Interests which accrued to the owner of the Interests after the Effective Time, then the party receiving such funds shall account therefor and pay the same to the other party promptly after receipt thereof. Likewise, if Buyer shall pay any amount relating to items of the Interests which accrued to the owner of the Interests before the Effective Time, or if Seller shall pay any amount relating to items of the Interests which accrued to the owner of the Interests after the Effective Time, then the party making such payment shall invoice the other party for the amount of such payment and the party receiving such invoice promptly shall pay the same.

11.3 Indemnity.

(a) Buyer shall indemnify and save and hold harmless Seller against all third party claims, and all costs, expenses and liabilities with respect thereto to the extent the same arise out of or apply to Buyer's ownership, operation and management of the Interests arising out of events occurring after the Closing Date (but not including those incurred by Seller with respect to the sale of the Interests to Buyer or the negotiations leading to such sale and not including those that result from or are attributable to the acts, omissions, negligence or willful misconduct of Seller, its employees or agents with respect to the operation and maintenance of the Interests or from any representation of Seller contained herein being untrue or a breach of any warranty or covenant of Seller contained herein).

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(b) Seller shall indemnify and save and hold harmless Buyer against all third party claims, and all costs, expenses and liabilities with respect thereto to the extent the same arise out of or apply to (i) Seller's or any of Seller's predecessors in interest (by ownership or operation) ownership, operation and management of the Interests arising out of events occurring prior to the Closing Date (but not including those incurred by Buyer with respect to the purchase of the Interests by Buyer or the costs and expenses of negotiations leading to such purchase and not including those that result from or are attributable to any representation of Buyer contained herein being untrue or a breach of any warranty or covenant of Buyer contained herein); (ii) those which arise out of Seller's breach of its representations and warranties contained in Section 3.3 hereof; and (iii) other representations and warranties contained herein; however, nothing contained in (iii) above shall be applicable to any claim involving any agreement, contract, operation, event, relationship or other activity, obligation or circumstance in or with which neither Seller nor Seller's predecessor in interest (either by ownership or operation) were a direct participant or otherwise directly involved.

(c) Nothing herein or in Section 11.4(a) or

(b) below shall be deemed or construed or shall have the effect of granting, imputing or creating in favor of any third parties any rights, claims or benefits whatsoever, now or in the future, in or under this Agreement or against any party hereto, or their successors or assigns.

(d) Notwithstanding anything else in this Agreement, the indemnity granted by this Section 11.3(b), and the rights and remedies pursuant hereto, shall not be limited to, modified or affected in any manner whatsoever, and in no way relate to, the matters covered by Section 11.4(a) and (b) below.

(e) For the purposes of this Section 11.3, the indemnitee shall include the indemnitee, its affiliates and their respective officers, agents and employees.

(f) Each indemnified party hereunder agrees that within sixty (60) days after receiving actual notice of a matter (or later, if Seller is not prejudiced in any way by the delay) giving rise to a claim for indemnity under the provisions of this agreement, including receipt by it of notice of any demand, assertion, claim, action or proceeding, judicial or otherwise, by any third party (such third party actions being collectively referred to herein as a "Claim") with respect to any matter as to which it is entitled to indemnity under the provisions of this Section 11.3, it

will give notice thereof in writing to the indemnifying party together with a statement of such information respecting any of the foregoing as it shall then have. Such notice shall include a formal demand for indemnification under this agreement. The indemnifying party shall not be obligated to indemnify the indemnified party with respect to any Claim if the indemnified party fails to notify the indemnifying party thereof in accordance with the provisions of this Section 11.3.

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(g) The indemnifying party shall be entitled, at its cost and expense, to contest and defend by all appropriate legal proceedings any Claim with respect to which it has been called upon to indemnify the indemnified party under the provisions of this Section 11.3; provided, however, that notice of the intention so to contest shall be delivered by the indemnifying party to the indemnified party within twenty (20) days from the date of mailing to the indemnifying party of the notice by the indemnified party of the Claim. Any such contest may be conducted in the name and on behalf of the indemnifying party or the indemnified party, as may be appropriate. Such contest shall be conducted by attorneys employed by the indemnifying party, but the indemnified party shall have the right to participate in such proceedings and to be represented by attorneys of its own choosing at its cost and expense. If the indemnified party joins in any such contest, the indemnifying party shall have full authority to determine all action to be taken with respect thereto. If after proper notice from the indemnified party, the indemnifying party shall not elect to contest any such claim, the indemnifying party shall be bound by the result obtained with respect thereto by the indemnified party. At any time after the commencement of defense of any Claim, the indemnifying party may request the indemnified party to agree in writing to the abandonment of such contest or to the payment or compromise by the indemnifying party of such Claim, whereupon such action shall be taken unless the indemnified party determines that the contest should be continued and so notifies the indemnifying party in writing within fifteen

(15) days of such request from the indemnifying party. In the event that the indemnified party determines that the contest should be continued, the indemnifying party shall be liable to the indemnified party under the provisions of this Section 11.3 only to the extent of the lesser of (i) the amount which the other party to the contested Claim had agreed to accept in payment or compromise as of the time the indemnifying party made its request therefor to the indemnified party, or (ii) such amount for which the indemnifying party may be liable with respect to such Claim by reason of the provisions hereof.

#### 11.4 Damages for Breach of Warranty.

(a) The parties agree that their remedy, among themselves, with respect to any inaccuracy of representation or breach of warranty or covenant shall be limited to the recovery of actual damages, as provided herein, and that no incidental, indirect, consequential or other damages shall be recoverable therefor.

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(b) The amount of any actual damages resulting from any inaccuracy of representation or breach of warranty or covenant on the part of Seller hereunder shall be limited as follows.

(i) Except as provided in (ii) and (iii) below, where the value of an item of the Interests affected by any such inaccuracy or breach is less than its value would have been had all of Seller's representations and warranties been true and all covenants performed, then only the difference in value shall be deemed to be actual damages; and the maximum actual damages recoverable in connection with such item of the Interests shall be limited to the Agreed Value for such item of the Interests, less the portion of the Production Payment attributable thereto.

(ii) With regard to any breach by Seller of the representations and warranties set forth in Sections 3.3 concerning title, and those representations and warranties applicable to wells qualifying for tax credits under Section 29 of the Code as set forth in Section 3.5, Seller shall reimburse Buyer any amount of the tax credit payments made to Seller under Section 2(b)(vii) (and the applicable provisions of Section 4 dealing therewith) of the Assignment, but which are determined, by final order of a court of competent jurisdiction, not to be allowed as a proper credit against Buyer's tax liability for the sole reason that such facts and circumstances represented and warranted by Seller therein were untrue.

(iii) In the event any payment is made by Seller to Buyer under the provisions of (i) or (ii) above, Seller shall also pay to Buyer interest on the amount(s) involved, at the national Prime Rate of interest quoted day to day in The Wall Street Journal for the applicable period of time from the date such amount(s) were paid to Seller by Buyer to the date of repayment hereunder.

(c) No actual damage resulting from any inaccuracy or representation or breach of warranty or covenant hereunder shall be payable by the breaching party unless (i) such actual damage exceeds the sum of \$10,000 (in which case the full amount of such actual damage shall be payable by such breaching party), or (ii) the total of all such individual items of actual damages in amounts less than \$10,000 exceeds the sum of \$200,000 (in which case the full amount of such total and all other actual damages thereafter incurred shall be payable by the breaching party).

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## 12. Miscellaneous.

12.1 Notices. All communications required or permitted under this agreement shall be in writing, sent by facsimile or delivered personally or

by courier or sent by registered or certified mail, postage prepaid, addressed as set forth below.

(a) Notices to Seller and/or Devon Delaware:

Devon Energy Corporation (Nevada) 20 North Broadway, Suite 1500 Oklahoma City, Oklahoma 73102 Attention: Mr. H. R. Sanders, Jr.

Executive Vice President  
Fax No.: (405) 552-4550

(b) Notices to Buyer, Properties and/or Norfolk:

Norfolk Southern Corporation Three Commercial Place Norfolk, Virginia 23510 Attention: Mr. James A. Hixon Vice President Fax No.: (804) 629-2898

Any party may change its address for purposes of this Section by giving written notice of the change of address to the other parties in the manner herein provided for giving notice. Any notice or communication hereunder shall be deemed to have been given when (i) deposited in the United States mail, if by certified mail, and (ii) received, if delivered personally or by courier or by facsimile transmission.

12.2 Binding Effect. This agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, no assignment by any party shall relieve such party of any of its obligations hereunder. Seller shall not assign or delegate any of its rights or obligations hereunder, in the Mortgage, the Management and Agency Agreement, and in the Assignment, including but not limited to, the Production Payment, without the express written consent of Buyer, which consent shall not be unreasonably withheld.

12.3 Counterparts. This agreement may be executed in any number of counterparts, which taken together shall constitute one and the same instrument and each of which shall be considered an original for all purposes.

12.4 Expenses. Except as otherwise herein provided, each party hereto will bear and pay its own expenses of negotiating and consummating the transactions contemplated hereby, except for fees and expenses of KPMG Peat Marwick LLP which are issued in connection with obtaining the private letter ruling referred to in Section 6.4, which shall be shared equally by Buyer and Seller.

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12.5 Section Headings. The section headings contained in this agreement are for convenient reference only and shall not in any way affect the meaning or interpretation of this agreement.

12.6 Superseding Effect. This agreement supersedes any prior agreement and understanding between the parties with respect to the subject matter of this agreement.

12.7 Governing Law. This agreement shall be governed by and construed in accordance with the laws of the State of Oklahoma applicable to contracts made and performed entirely therein.

12.8 Waivers. No party's rights hereunder will be deemed waived except by a writing signed by such party. Without limitation, the occurrence of the Closing shall not be deemed a waiver of any party's rights except its right to refuse to close.

12.9 Exhibits and Schedules. The Exhibits and Schedules referred to herein are attached hereto and by this reference made a part hereof.

12.10 Announcements. Prior to the earlier of obtaining the private letter ruling described in Section 6.4(a) or December 31, 1995, Seller and Buyer shall consult with each other with regard to all press releases and contacts with journalists, broadcasters or other media concerning this agreement or the transactions contemplated hereby, and except as may be required by applicable laws or the applicable rules, regulations or guidelines of any governmental agency or stock exchange, neither Buyer nor Seller shall issue such press release or other publicity without prior notice of such intent to the other party.

12.11 Survival of Warranties. Nothing contained in the Assignment shall be deemed to limit the representations and warranties set forth herein with respect to Seller's title to the Interests. The covenants, representations and warranties of the parties in this agreement shall survive the Closing.

12.12 Joinder by Devon Delaware, Norfolk and Properties.

(a) Devon Delaware joins in the execution hereof solely for the purpose of guaranteeing, and Devon Delaware does hereby guarantee the performance of all of Seller's obligations hereunder.

(b) Properties joins in the execution hereof solely for the following purposes: (i) Properties represents and warrants that it is the owner of all issued and outstanding stock of Buyer; (ii) Properties agrees that it will not during the term of the Production Payment, without the prior written consent of Seller, transfer such ownership of such stock; (iii) Properties agrees to cause Buyer to comply with all of the provisions of Sections 6.4 and 6.5, in the event Seller exercises any of its rights of rescission, purchase or repurchase hereunder, and (iv) Properties shall guarantee, and Properties does hereby guarantee, all representations and warranties to be made by Buyer pursuant to Section 6.5(b)(4)(i) hereof.

(c) Norfolk joins in the execution hereof solely for the purpose of guaranteeing, and Norfolk does hereby guarantee the performance of all of Properties' obligations hereunder.

(d) Devon Delaware, Properties and Norfolk each waive, to the fullest extent permitted by law, all defenses given to sureties or guarantors at law or in equity, other than the defenses of performance or payment.

12.13 No Restrictions on Production. The parties agree that any curtailment of production from the Interests might cause reservoir damage. Accordingly, Buyer agrees not to initiate any avoidable action which might have the consequence of curtailing production from the Interests, during the term of the Production Payment, without first consulting with and receiving the written consent from Seller concerning such action, which consent shall not be unreasonably withheld.

12.14 Insurance. In the event the same is not carried on behalf of Buyer by the operator for any item of the Interests, Buyer shall procure and maintain insurance from companies of recognized responsibility in such amounts and with such coverages as Seller reasonably deems appropriate in respect to Buyer's ownership of and operations involving such item of the Interests, and Buyer shall, upon request by Seller, submit to Seller insurance certificates evidencing such coverage.

12.15 Production Payment Obligations -- Non- Recourse. Seller agrees that it may only look to its rights hereunder and under the Mortgage and the Management and Agency Agreement should Buyer fail to timely make the required payments under the Production Payment, and that Seller shall not be entitled to a personal or deficiency judgment.

**Executed this 31st day of January, 1995.**

**SELLER:**

**DEVON ENERGY CORPORATION (NEVADA)**

By:  
H. R. Sanders, Jr., Executive  
Vice President

**DEVON DELAWARE:**

**DEVON ENERGY CORPORATION**

By:  
H. R. Sanders, Jr., Executive  
Vice President

**NORFOLK:**

**NORFOLK SOUTHERN CORPORATION**

By:  
James A. Hixon  
Vice President

**BUYER:**

**NS GAS PROPERTIES, INC.**

By:

James A. Hixon  
Vice President

**PROPERTIES:**

**NORFOLK SOUTHERN PROPERTIES, INC.**

By:  
James A. Hixon  
Vice President



**SECOND RESTATEMENT OF AND AMENDMENT  
TO  
SALE AND PURCHASE AGREEMENT**

THIS AGREEMENT has been made and entered into this 8th day of September, 1995, by and among DEVON ENERGY CORPORATION (NEVADA), NS GAS PROPERTIES, INC., DEVON ENERGY CORPORATION, NORFOLK SOUTHERN CORPORATION and NORFOLK SOUTHERN PROPERTIES, INC. with reference to the following circumstances:

A. The parties entered into a Sale and Purchase Agreement (the "Sale Agreement") and a Restatement of and Amendment to Sale and Purchase Agreement (the "First Restatement"), each effective January 1, 1995 (together the "Agreement"). Words defined in the Agreement shall have the same meaning herein.

B. The transactions provided for under the Sale Agreement have closed and Buyer is currently the owner of the Interests. The Purchase Price for the Interests comprised three components of consideration; namely, (i) a \$10,827,145 cash payment at Closing, (ii) contingent cash payments measured by any nonconventional fuel income tax credits allowed under Section 29 of the Code with respect to production from the Interests, and (iii) a Production Payment reserved by Seller.

C. Under the Sale Agreement, the provision concerning the contingent cash payments measured by Section 29 tax credits was incorporated into the provisions of the Production Payment reserved by Seller in the Assignment (Exhibit C to the Agreement) pursuant to which Seller conveyed the Interests to Buyer. The parties believed that the credit payments were an economic component of the value of the gas to be produced from the Interests and therefore were appropriately included as part of the Assignment. Nevertheless, the parties intended that the Production Payment and the contingent cash payments measured by tax credits be independent, separate components of the Purchase Price for the Interests as illustrated by Schedule 6.7(b) to the Agreement. In order to make this intention clear, the parties agreed, in the First Restatement, to move the provisions for contingent cash payments from the Assignment to the Agreement. In the First Restatement, the parties also agreed to amend the Management and Agency Agreement in certain respects. For purposes of clarity and continuity, the parties restate herein the provisions of the First Restatement as amended by the terms hereof.

D. The parties have agreed to further amend the provisions of the Agreement, the Assignment, the Management and Agency Agreement and the Mortgage.

ACCORDINGLY, in order to accomplish the foregoing, the parties hereby restate and amend the Agreement as of the Effective Time as follows:

1. Interests Defined. Section 1.2(a) of the Sale Agreement is stricken in its entirety and the following substituted therefor:

"(a) The oil, gas and mineral leases and the operating rights, mineral interests, royalty interests, overriding royalty interests, payments out of production and interests in or under unit agreements described in Exhibit A, INsofar AND ONLY INsofar AS THE SAME COVER AND RELATE TO (i) the lands and depths also described in Exhibit A, and (ii) production from the specific wells listed in Exhibit A (the "Leases");"

Further, the un-numbered paragraph next following Section 1.2(d) of the Sale Agreement is stricken in its entirety and the following substituted therefor:

"EXCEPTING and RESERVING unto Seller, however, the production payment (the "Production Payment") and the possibility of reverter (the "Reversionary Interest") described in the Assignment, Conveyance and Bill of Sale (the "Assignment") attached as Exhibit C hereto, together with all interests in the subject matter of the Assignment, to the extent the same cover or relate to lands and depths not described in Exhibit A, or to the extent the same cover or relate to production from any well not specifically listed in Exhibit A."

2. Purchase Price. The first sentence of Section 1.4 of the Agreement is deleted in its entirety, and the following substituted therefor:

"The purchase price for the Interests ("Purchase Price") shall be the total of (a) the sum of \$10,827,145 (the "Closing Payment"), plus (b) the sum of (i) all amounts payable under the Production Payment, which is estimated to have a present value of \$89,970,095, and (ii) the Credit Obligation (defined below), which is estimated to have a present value of \$ 66,017,978."

3. Credit Obligation. There is added the following new section:

"1.5 Credit Obligation. Buyer's obligation under this Section 1.5 is herein referred to as the 'Credit Obligation.'

"(a) Buyer shall pay to Seller Seventy-Five Percent (75%) of all nonconventional fuel income tax credits under Section 29 of the Code allowed with respect to all production from the Interests from and after the Effective Date, save and except that production from the Northeast Blanco Unit No. 479R Well.

"(b) Amounts due under this Section 1.5 shall be determined as follows: not less than ten (10) days prior to March 31, June 30, September 30 and December 31 of each year ("Payment Dates"), Buyer shall make and provide to Seller a written estimate of the total amount of such tax credits attributable to gas expected to be produced from the Interests during the preceding three month period, beginning initially at the Effective Date, then thereafter beginning the day after the applicable one of the Payment Dates.

"(c) Buyer shall, on or before the Payment Dates, pay to Seller the amounts so estimated, by wire transfer as directed by Seller.

"(d) The amount due for any calendar year will initially be based upon the preceding year's Section 29 credit amount; but estimated amounts shall be adjusted when actual production becomes known and the Internal Revenue Service issues the Inflation Adjustment Factor for the applicable calendar year (the "Adjustment Date"). Each adjustment to estimated amounts shall be implemented by either Buyer paying the appropriate additional amount to Seller or Seller refunding the appropriate amount to Buyer, within ten (10) days after the first date such adjustment is capable of being made.

"(e) The present value of the Credit Obligation is estimated by the parties to be \$66,017,978 (the "Principal Balance"). The unpaid amount of the Principal Balance shall bear interest from the Effective Date at a rate equal to One Hundred Twenty Percent (120%) of the national Prime Rate of interest as quoted from day to day in The Wall Street Journal, compounded monthly. For such purposes, any credit payment received hereunder shall be applied first to the payment of any accrued unpaid interest and then to reduction of the unpaid amount of the Principal Balance.

"(f) In the event Section 29 tax credits are repealed for any period, such repeal shall not affect any amount due hereunder for production during any calendar year preceding the calendar year in which such action is taken; provided, however, a repeal of the Section 29 tax credits before the Adjustment Date of a particular calendar year shall affect all amounts payable hereunder attributable to production after the later of the effective date of such repeal or January 1 of the calendar year preceding the Adjustment Date; and in such event, all affected amounts shall be immediately refunded by Seller to Buyer."

4. Determination of Purchase Price. Section 6.5(b) (3) is stricken and the following substituted therefor:

"(3) Determination of Purchase Price. The purchase price under the option shall be determined with reference to the gas reserve quantities, adjusted out of first production to the extent possible for existing gas imbalances, if any, attributable to the Option Interests in the Annual Reserve Report (the "Applicable Report") that is required to be prepared and furnished to the parties for the December 31 preceding the date of the Repurchase Notice. The fair market value of the Option Interests, or the applicable part thereof, as of the date of the Applicable Report, shall be calculated by using the same cash flow and discounting procedures as were used in preparing the Initial Report; however, the calculation for the Applicable Report shall use (i) the weighted average price received for the sale of gas from the Interests or the applicable part thereof during the 12-month period ending on the date of the Applicable Report, (ii) the severance and ad valorem tax rates in effect on the date of the Applicable Report, (iii) current operating expenses, including the "Administration Fee" payable under the terms of the Management and Agency Agreement, (iv) Seller's reasonable estimate of future capital expenditures and (v) a discount rate equal to 120% of the national Prime Rate as quoted in The Wall Street Journal on the effective date of the Applicable Report. Seller's purchase price, which shall be paid in cash, for the Option Interests, or the application portion thereof, shall be the calculated fair market value thereof as of the date of the Applicable Report (the "Effective Date Amount"), reduced by an amount equal to Seller's obligation under Section 6.5(b)(5), if any, but not exceeding the Effective Date Amount and adjusted for operations from that date to the Option Closing Date as follows:

(a) The Effective Date Amount, as so reduced, shall be further reduced by the amount of any cash received by Buyer as revenue for production or proceeds resulting from casualty losses, the sale of surplus equipment and similar events occurring between the effective date of the Applicable Report and the Option Closing Date; and

(b) The Effective Date Amount, as so reduced, shall be increased by any expenses and capital costs paid by Buyer for maintaining and operating the Interests from the effective date of the Applicable Report to the Option Closing Date, including but not limited to normal operating expenses and ad valorem and severance taxes;"

5. Certain Federal Income Tax Matters. Section 6.6(b) is deleted in its entirety, and the following substituted therefor:

"(b) Buyer and Seller agree that the issue price of the Production Payment and the Credit Obligation is determined under Section 1274(b)(3) of the Code and Treasury Regulation Sec. 1.1274-2(b)(3) to be equal to the excess of the agreed upon market value of the Interests which is \$166,815,218) over the amount of the Closing Payment (which is \$10,827,145), or \$155,988,073, of which \$89,970,095 is attributed to the Production Payment and \$66,017,978 is allocated to the Credit Obligation, as determined by Schedule 6.6(b) attached hereto."

6. Annual Engineering Report. There is added the following new section:

"6.7 Annual Engineering Report. Seller and Buyer will each require an engineering report evaluating the gas reserve quantities attributable to the Interests as of their fiscal years ending December 31 (the "Annual Reserve Report"), Seller for the purpose of reporting the gas reserves attributable to the Production Payment and the Reversionary Interest, if any, in its SEC filings, and Buyer for reporting cost depletion for income tax purposes. Seller will cause LaRoche, Swindell & Associates, or any other independent, qualified petroleum engineering firm acceptable to Buyer, to prepare the Annual Reserve Report and to furnish it to both parties as promptly as possible after the end of each

calendar year. The expense of the Annual Reserve Report shall be borne by Seller and Buyer equally."

7. Assignment. Section 9.1 of the Sale Agreement is stricken in its entirety and the following substituted therefor:

"9.1 Assignment. Seller and Buyer shall execute, acknowledge and deliver such instrument or instruments which may be necessary to give effect to the provisions of Exhibit C, and to vest title to the Interests in Buyer, and to vest in Seller title to all rights, titles and interests excepted and reserved hereunder."

8. Production Payment Obligations. Section 12.15 is stricken in its entirety and the following substituted therefor:

"12.15 Seller's Use of Facilities and Equipment; Allocation of Costs and Expenses. Buyer hereby grants, bargains, sells, conveys and assigns unto Seller full, unrestricted easements for, access to and concurrent use of all facilities, equipment and other fixtures and personal property in which an interest is either acquired hereunder or which may be hereafter acquired by Buyer, including without limitation those of the Interests described in Section 1.2(c) hereof (except the wells listed in Exhibit A, while producing from the Fruitland Coal Formation), and any extension, replacement or improvement thereof (individually, a "Buyer Facility," or together, "Buyer's Facilities"), without cost to Seller except as hereinafter provided, for Seller's use in connection with Seller's production, transportation and marketing operations relating to the interests of Seller excepted and reserved hereunder. The cost of acquiring and maintaining any separate facility, equipment or operation necessary for Seller's use of Buyer's Facilities shall be borne solely by Seller. Each month, the parties shall determine the volumes of gas attributable to each party's interest which are served by a particular Buyer Facility, and the parties shall share routine operating expenses attributable thereto (including maintenance costs) proportionate with such volumes. The capital cost hereafter incurred by Buyer of any extension to or acquisition, replacement or improvement of each of Buyer's Facilities shall be borne by Buyer; however, applicable costs for a particular Buyer Facility shall be amortized over the useful life thereof and, for each month thereafter in which Seller utilizes such Buyer Facility for its own interests, Seller shall pay to Buyer a portion of the amortized costs applicable thereto for such month, determined by utilizing the allocation method used for operating expenses above."

9. Exhibit B. Exhibit B is amended by substituting therefor The Restated Exhibit B attached hereto.

10. Exhibit C. The Assignment, Conveyance and Bill of Sale attached as Exhibit C is amended as follows:

(a) The title of the document is amended to read "Restated Assignment, Conveyance and Bill of Sale" throughout the document.

(b) Paragraph (a) of the first WHEREAS clause of the Assignment is amended to read the same as the quoted paragraph (a) of paragraph 1 above; and the second WHEREAS clause of the Assignment is amended to insert immediately before the word "described" appearing in the fifth line of that clause "and the possibility of reverter (the 'Reversionary Interest')"; the reservation clause on page 2 of the Assignment is amended by inserting "and the Reversionary Interest" immediately following the words "Production Payment" appearing in the second line of the reservation clause and the heading to Section 1 of the Assignment is hereby changed to read "Reserved Production Payment and Reversionary Interest."

(c) In Section 1(b) of the Assignment, the phrase "167.608 billion cubic feet (Bcf)" is deleted, and the phrase "143,397,632 Mcf" is substituted therefore, and the phrase "Ninety Percent (90%)" is deleted and the phrase "Seventy-Seven Percent (77%)" is substituted therefor. Section 1 of the Assignment is amended to add a paragraph (c) thereto which shall read as follows:

"(c) The Reversionary Interest excepted and reserved unto Assignor hereunder shall be an interest equal to an undivided 75% of the Interests, which shall automatically revert to Assignor at Reversionary Payout, as hereinafter defined. 'Reversionary Payout' shall mean 7 o'clock a.m., local time, on the day after the day on which the cumulative amount of 186,230,691 Mcfs of gas have been produced from the Interests after the Effective Time. Promptly following Reversionary Payout, Assignee shall execute, acknowledge and deliver to Assignor an assignment in recordable form evidencing Reversionary Payout and confirming the reversion of the Reversionary Interest in Assignor. Assignee shall have no right to pledge, encumber or otherwise burden the Reversionary Interest and shall warrant in such assignment that the Reversionary Interest is free and clear of all liens, burdens, encumbrances and defects arising by, through or under Assignee, and shall defend Assignor against all persons claiming or to claim any interest in the Reversionary Interest by, through or under Assignee."

(d) In each of Sections 2(b)(i), (ii), (iii), (iv), (v) and (vi), and in Section 2(c) of the Assignment, the phrase "Ninety Percent (90%)" is deleted, and the phrase "94.049353%" substituted therefor. In Section 2(b)(i) the phrase "(the "Production Payment Gas")" is deleted.

(e) Section 2(b)(vii) is deleted in its entirety.

(f) Section 2(b)(viii) is renumbered as Section 2(b)(vii).

(g) The fourth from the last sentence of Section 4 is deleted in its entirety.

(h) There is added the following to the end of

Section 2(c)(i) of the Assignment:

"provided, however, expenditures for capital projects not anticipated in the Initial Report shall never be charged to the Production Payment Account."

(i) The \$153,463,018 amount set forth in the third from the last sentence of Section 4 is deleted, and \$89,970,095 substituted therefor.

(j) Section 4 is amended by adding at the end thereof the following:

"The Production Payment shall be payable solely from production from the gas produced from or attributable to the Interests and the proceeds thereof. Accordingly, the amount of any balance in the Production Payment Account at the end of a calendar month which cannot be paid out of the proceeds of production shall be carried over; however, such balance shall only be payable from the gas produced from or attributable to the Interests and the proceeds thereof, if any."

(k) The Assignment is amended to provide for a new paragraph 12 that reads, "Any interest created or to be received by either party thereunder, that has not vested or has failed to vest in such party within twenty-one years less one day after the death of the last surviving descendant of Joseph P. Kennedy (father of past President John F. Kennedy) living at the execution hereof, shall terminate."

(l) The Assignment is amended to provide for a new paragraph 13 that reads the same as the quoted Section 12.15 set forth in paragraph 8 hereof but substituting "Assignor" for "Seller" and "Assignee" for "Buyer" and substituting "paragraph c of the first WHEREAS clause" for "Section 1.2(c)."

11. Exhibit D. The Management and Agency Agreement attached as Exhibit D is amended as follows:

(a) The title of the document is amended to read "Restated Management and Agency Agreement," throughout the document.

(b) The second "WHEREAS" Clause is deleted in its entirety.

(c) The third "WHEREAS" Clause is deleted in its entirety, and the following substituted therefor:

"WHEREAS, the parties have agreed that the Company will assist Owner in its administration of the Interests and its fulfillment of obligations under the Purchase Agreement and the Assignment (collectively, the 'Operative Documents')."

(d) The following phrase is added to the end of Section 2(a):

"provided, however, that without the specific written authorization by Owner, the Company may not obligate Owner for any expenditure attributable to any one project in excess of \$90,000;"

(e) Sections 2(b), 2(d) and 2(f) are deleted in their entirety.

(f) The remaining subsections of Section 2, as amended, are appropriately relettered.

(g) The word "and" is inserted between the words "allocable" and "paid" in the eleventh line of Section 4(b)(i).

(h) Section 5 is amended by deleting the phrases "Ninety Percent (90%)" and "Ten Percent (10%)" and substituting therefor the phrases "94.049353%" and "5.950647," respectively, and by deleting the phrase "retained or" in the last sentence thereof.

(i) Section 6 is deleted in its entirety, and the following substituted therefor:

"6. Term and Termination. Without affecting the obligations of the parties which accrue during the term hereof (which shall continue in effect whether or not this Agreement is subsequently terminated), this Agreement may be terminated (a) by Owner, at any time upon 30 days prior written notice, and (b) by the Company, (i) at any time upon 30 days prior written notice, if either of the Operative Documents is terminated or cancelled, (ii) at any time, if Owner shall fail to pay any amount due and owing to the Company hereunder or under either of the Operative Documents, or (iii) on or after the Production Payment Termination Date."

(j) Section 8 is amended by adding the phrase ", but not to exceed the sum of \$90,000 during any calendar quarter" to the end of the third from the last sentence thereof, and by deleting the last two sentences thereof in their entirety and substituting the following in their stead:

"Advances may be recovered by the Company as a first payment when the Operating Account has a credit or positive balance; however, on March 31, June 30, September 30 and December 31 of each year, Owner shall repay to the Company all Advances not so recovered during the preceding calendar quarter, together with interest on the average daily balance of the unrecovered advances during such calendar quarter at the

national Prime Rate of interest quoted day to day in The Wall Street Journal for such calendar quarter."

(k) Section 10 is stricken in its entirety.

(l) Section 11 is stricken in its entirety, and the following substituted therefor:

"10. Distribution of revenues. All previously undistributed revenues in the possession of the Company, which are attributable to Owner's interest in the Properties shall be distributed by the Company to Owner on or before March 31, June 30, September 30 and December 31 of each year, to the extent received by the Company thirty (30) days or more prior to the date of distribution."

(m) The remaining sections are appropriately renumbered.

12. Exhibit F. The Mortgage is amended by striking Section 4.2 thereof in its entirety.

13. Schedule 6.7(b). Schedule 6.7(b) is amended by redesignating such schedule as Restated Schedule 6.6(b) and by substituting therefor the Restated Schedule 6.6(b) attached hereto.

14. General. Wherever in any Exhibit or Schedule reference is made to the Agreement, the same is amended to read "the Agreement, as herein restated and amended."

15. Legal Effect. The changes effected by this amendment are effective as of the Effective Time and with the same force and effect as if they had been included in the Agreement from inception. All other provisions of the Agreement shall remain in effect as previously written.

Executed as of the day and year first above written.

**DEVON ENERGY CORPORATION (NEVADA)**

By:  
William T. Vaughn  
Vice President

**DEVON ENERGY CORPORATION**

By:  
William T. Vaughn  
Vice President

**NORFOLK SOUTHERN CORPORATION**

By:  
James A. Hixon  
Vice President

**NS GAS PROPERTIES, INC.**

By:  
James A. Hixon  
Vice President

**NORFOLK SOUTHERN PROPERTIES, INC.**

By:  
James A. Hixon  
Vice President

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