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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

or

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

Commission File Number 001-32318

DEVON ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**73-1567067**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification No.)**
333 West Sheridan Avenue, Oklahoma City, Oklahoma	**73102-5015**
(Address of principal executive offices)	**(Zip code)**

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.10 per share	DVN	The New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

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

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

On October 25, 2023, 640.7 million shares of common stock were outstanding.

DEVON ENERGY CORPORATION

FORM 10-Q

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DEFINITIONS

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

“AFSI” means adjusted financial statement income.

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

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

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

“CAMT” means corporate alternative minimum tax.

“Catalyst” means Catalyst Midstream Partners, LLC.

“CDM” means Cotton Draw Midstream, L.L.C.

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

“ESG” means environmental, social and governance.

“G&A” means general and administrative expenses.

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

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

“IRA” refers to the Inflation Reduction Act of 2022.

“LOE” means lease operating expenses.

“Matterhorn” refers to Matterhorn Express Pipeline, LLC and, as applicable, its direct parent, MXP Parent, LLC.

“MBbls” means thousand barrels.

“MBoe” means thousand Boe.

“Mcf” means thousand cubic feet.

“Merger” means the merger of East Merger Sub, Inc., a wholly-owned subsidiary of the Company (“Merger Sub”) with and into WPX, with WPX continuing as the surviving corporation and a wholly-owned subsidiary of the Company, pursuant to the terms of that certain Agreement and Plan of Merger, dated September 26, 2020, by and among the Company, Merger Sub and WPX.

“MMBoe” means million Boe.

“MMBtu” means million Btu.

“MMcf” means million cubic feet.

“N/M” means not meaningful.

“NCI” means noncontrolling interests.

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

“NYMEX” means New York Mercantile Exchange.

“SEC” means United States Securities and Exchange Commission.

“2018 Senior Credit Facility” means Devon’s syndicated unsecured revolving line of credit, effective as of October 5, 2018.

“2023 Senior Credit Facility” means Devon’s syndicated unsecured revolving line of credit, effective as of March 24, 2023.

“TSR” means total shareholder return.

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

“VIE” means variable interest entity.

“Water JV” means NDB Midstream L.L.C.

“WPX” means WPX Energy, Inc.

“WTI” means West Texas Intermediate.

“/Bbl” means per barrel.

“/d” means per day.

“/MMBtu” means per MMBtu.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” as defined by the SEC. Such statements include those concerning strategic plans, our expectations and objectives for future operations, as well as other future events or conditions, and are often identified by use of the words and phrases “expects,” “believes,” “will,” “would,” “could,” “continue,” “may,” “aims,” “likely to be,” “intends,” “forecasts,” “projections,” “estimates,” “plans,” “expectations,” “targets,” “opportunities,” “potential,” “anticipates,” “outlook” and other similar terminology. All statements, other than statements of historical facts, included in this report that address activities, events or developments that Devon expects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. Consequently, actual future results could differ materially and adversely from our expectations due to a number of factors, including, but not limited to:

- the volatility of oil, gas and NGL prices;
- uncertainties inherent in estimating oil, gas and NGL reserves;
- the extent to which we are successful in acquiring and discovering additional reserves;
- the uncertainties, costs and risks involved in our operations;
- risks related to our hedging activities;
- our limited control over third parties who operate some of our oil and gas properties;
- midstream capacity constraints and potential interruptions in production, including from limits to the build out of midstream infrastructure;
- competition for assets, materials, people and capital;
- regulatory restrictions, compliance costs and other risks relating to governmental regulation, including with respect to federal lands, environmental matters and seismicity;
- risks related to regulatory, social and market efforts to address climate change;
- governmental interventions in energy markets;
- risks relating to the COVID-19 pandemic or other future pandemics;
- counterparty credit risks;
- risks relating to our indebtedness;
- cyberattack risks;
- the extent to which insurance covers any losses we may experience;
- risks related to stockholder activism;
- our ability to successfully complete mergers, acquisitions and divestitures;
- our ability to pay dividends and make share repurchases; and
- any of the other risks and uncertainties discussed in this report, our 2022 Annual Report on Form 10-K and our other filings with the SEC.

The forward-looking statements included in this filing speak only as of the date of this report, represent management’s current reasonable expectations as of the date of this filing and are subject to the risks and uncertainties identified above as well as those described elsewhere in this report and in other documents we file from time to time with the SEC. We cannot guarantee the accuracy of our forward-looking statements, and readers are urged to carefully review and consider the various disclosures made in this report and in other documents we file from time to time with the SEC. All subsequent written and oral forward-looking statements attributable to Devon, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements above. We do not undertake, and expressly disclaim, any duty to update or revise our forward-looking statements based on new information, future events or otherwise.

Part I. Financial Information

Item 1. Financial Statements

DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Unaudited)			
Oil, gas and NGL sales	$ 2,882	$ 3,668	$ 8,054	$ 10,943
Oil, gas and NGL derivatives	(194)	248	(206)	(605)
Marketing and midstream revenues	1,148	1,516	3,265	4,532
Total revenues	3,836	5,432	11,113	14,870
Production expenses	757	735	2,169	2,082
Exploration expenses	3	4	16	16
Marketing and midstream expenses	1,160	1,525	3,316	4,549
Depreciation, depletion and amortization	651	581	1,904	1,598
Asset dispositions	—	—	(41)	(15)
General and administrative expenses	99	95	297	273
Financing costs, net	81	67	231	236
Other, net	13	(40)	28	(91)
Total expenses	2,764	2,967	7,920	8,648
Earnings before income taxes	1,072	2,465	3,193	6,222
Income tax expense	152	565	572	1,389
Net earnings	920	1,900	2,621	4,833
Net earnings attributable to noncontrolling interests	10	7	26	19
Net earnings attributable to Devon	$ 910	$ 1,893	$ 2,595	$ 4,814
Net earnings per share:				
Basic net earnings per share	$ 1.43	$ 2.89	$ 4.05	$ 7.30
Diluted net earnings per share	$ 1.42	$ 2.88	$ 4.03	$ 7.28
Comprehensive earnings:				
Net earnings	$ 920	$ 1,900	$ 2,621	$ 4,833
Other comprehensive earnings, net of tax:				
Pension and postretirement plans	1	1	3	3
Other comprehensive earnings, net of tax	1	1	3	3
Comprehensive earnings:	921	1,901	2,624	4,836
Comprehensive earnings attributable to noncontrolling interests	10	7	26	19
Comprehensive earnings attributable to Devon	$ 911	$ 1,894	$ 2,598	$ 4,817

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Current assets:		
Cash, cash equivalents and restricted cash	$ 761	$ 1,454
Accounts receivable	1,853	1,767
Inventory	233	201
Other current assets	365	469
Total current assets	3,212	3,891
Oil and gas property and equipment, based on successful efforts accounting, net	17,563	16,567
Other property and equipment, net ($124 million and $109 million related to CDM in 2023 and 2022, respectively)	1,468	1,539
Total property and equipment, net	19,031	18,106
Goodwill	753	753
Right-of-use assets	261	224
Investments	671	440
Other long-term assets	313	307
Total assets	$ 24,241	$ 23,721
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 812	$ 859
Revenues and royalties payable	1,434	1,506
Short-term debt	487	251
Other current liabilities	597	489
Total current liabilities	3,330	3,105
Long-term debt	5,675	6,189
Lease liabilities	290	257
Asset retirement obligations	641	511
Other long-term liabilities	850	900
Deferred income taxes	1,676	1,463
Stockholders' equity:		
Common stock, $0.10 par value. Authorized 1.0 billion shares; issued 641 million and 653 million shares in 2023 and 2022, respectively	64	65
Additional paid-in capital	6,153	6,921
Retained earnings	5,535	4,297
Accumulated other comprehensive loss	(113)	(116)
Total stockholders’ equity attributable to Devon	11,639	11,167
Noncontrolling interests	140	129
Total equity	11,779	11,296
Total liabilities and equity	$ 24,241	$ 23,721

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Unaudited)			
Cash flows from operating activities:				
Net earnings	$ 920	$ 1,900	$ 2,621	$ 4,833
Adjustments to reconcile net earnings to net cash from operating activities:				
Depreciation, depletion and amortization	651	581	1,904	1,598
Leasehold impairments	1	2	4	10
Amortization of liabilities	(2)	(8)	(17)	(23)
Total (gains) losses on commodity derivatives	194	(248)	206	605
Cash settlements on commodity derivatives	(11)	(363)	39	(1,179)
Gains on asset dispositions	—	—	(41)	(15)
Deferred income tax expense	13	445	212	914
Share-based compensation	22	22	70	65
Other	(2)	8	(2)	(9)
Changes in assets and liabilities, net	(61)	(235)	(189)	(180)
Net cash from operating activities	1,725	2,104	4,807	6,619
Cash flows from investing activities:				
Capital expenditures	(882)	(628)	(2,973)	(1,738)
Acquisitions of property and equipment	(23)	(2,465)	(54)	(2,566)
Divestitures of property and equipment	1	4	23	39
Distributions from investments	7	7	24	30
Contributions to investments and other	—	(16)	(52)	(59)
Net cash from investing activities	(897)	(3,098)	(3,032)	(4,294)
Cash flows from financing activities:				
Repayments of long-term debt	(242)	—	(242)	—
Repurchases of common stock	—	(126)	(745)	(661)
Dividends paid on common stock	(312)	(1,007)	(1,370)	(2,504)
Contributions from noncontrolling interests	10	—	18	—
Distributions to noncontrolling interests	(9)	(9)	(33)	(22)
Shares exchanged for tax withholdings and other	—	(1)	(96)	(86)
Net cash from financing activities	(553)	(1,143)	(2,468)	(3,273)
Effect of exchange rate changes on cash	(2)	(10)	—	(13)
Net change in cash, cash equivalents and restricted cash	273	(2,147)	(693)	(961)
Cash, cash equivalents and restricted cash at beginning of period	488	3,457	1,454	2,271
Cash, cash equivalents and restricted cash at end of period	$ 761	$ 1,310	$ 761	$ 1,310
Reconciliation of cash, cash equivalents and restricted cash:				
Cash and cash equivalents	$ 654	$ 1,166	$ 654	$ 1,166
Restricted cash	107	144	107	144
Total cash, cash equivalents and restricted cash	$ 761	$ 1,310	$ 761	$ 1,310

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock		Additional	Retained	Other Comprehensive	Treasury	Noncontrolling	Total
	Shares	Amount	Paid-In Capital	Earnings	Earnings (Loss)	Stock	Interests	Equity
				(Unaudited)				
Three Months Ended September 30, 2023								
Balance as of June 30, 2023	641	$ 64	$ 6,131	$ 4,940	$ (114)	$ —	$ 129	$ 11,150
Net earnings	—	—	—	910	—	—	10	920
Other comprehensive earnings, net of tax	—	—	—	—	1	—	—	1
Common stock dividends	—	—	—	(315)	—	—	—	(315)
Share-based compensation	—	—	22	—	—	—	—	22
Contributions from noncontrolling interests	—	—	—	—	—	—	10	10
Distributions to noncontrolling interests	—	—	—	—	—	—	(9)	(9)
Balance as of September 30, 2023	641	$ 64	$ 6,153	$ 5,535	$ (113)	$ —	$ 140	$ 11,779
Three Months Ended September 30, 2022								
Balance as of June 30, 2022	656	$ 66	$ 7,060	$ 3,107	$ (130)	$ (13)	$ 136	$ 10,226
Net earnings	—	—	—	1,893	—	—	7	1,900
Other comprehensive earnings, net of tax	—	—	—	—	1	—	—	1
Restricted stock grants, net of cancellations	—	—	1	—	—	—	—	1
Common stock repurchased	—	—	—	—	—	(115)	—	(115)
Common stock retired	(2)	(1)	(127)	—	—	128	—	—
Common stock dividends	—	—	—	(1,019)	—	—	—	(1,019)
Share-based compensation	—	—	22	—	—	—	—	22
Distributions to noncontrolling interests	—	—	—	—	—	—	(9)	(9)
Balance as of September 30, 2022	654	$ 65	$ 6,956	$ 3,981	$ (129)	$ —	$ 134	$ 11,007
Nine Months Ended September 30, 2023								
Balance as of December 31, 2022	653	$ 65	$ 6,921	$ 4,297	$ (116)	$ —	$ 129	$ 11,296
Net earnings	—	—	—	2,595	—	—	26	2,621
Other comprehensive earnings, net of tax	—	—	—	—	3	—	—	3
Restricted stock grants, net of cancellations	2	—	—	—	—	—	—	—
Common stock repurchased	—	—	(6)	—	—	(833)	—	(839)
Common stock retired	(15)	(1)	(832)	—	—	833	—	—
Common stock dividends	—	—	—	(1,357)	—	—	—	(1,357)
Share-based compensation	1	—	70	—	—	—	—	70
Contributions from noncontrolling interests	—	—	—	—	—	—	18	18
Distributions to noncontrolling interests	—	—	—	—	—	—	(33)	(33)
Balance as of September 30, 2023	641	$ 64	$ 6,153	$ 5,535	$ (113)	$ —	$ 140	$ 11,779
Nine Months Ended September 30, 2022								
Balance as of December 31, 2021	663	$ 66	$ 7,636	$ 1,692	$ (132)	$ —	$ 137	$ 9,399
Net earnings	—	—	—	4,814	—	—	19	4,833
Other comprehensive earnings, net of tax	—	—	—	—	3	—	—	3
Restricted stock grants, net of cancellations	2	1	2	—	—	—	—	3
Common stock repurchased	—	—	—	—	—	(749)	—	(749)
Common stock retired	(12)	(2)	(747)	—	—	749	—	—
Common stock dividends	—	—	—	(2,525)	—	—	—	(2,525)
Share-based compensation	1	—	65	—	—	—	—	65
Distributions to noncontrolling interests	—	—	—	—	—	—	(22)	(22)
Balance as of September 30, 2022	654	$ 65	$ 6,956	$ 3,981	$ (129)	$ —	$ 134	$ 11,007

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

The accompanying unaudited interim financial statements and notes of Devon have been prepared pursuant to the rules and regulations of the SEC. Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted. The accompanying unaudited interim financial statements and notes should be read in conjunction with the financial statements and notes included in Devon's 2022 Annual Report on Form 10-K. The accompanying unaudited interim financial statements in this report reflect all adjustments that are, in the opinion of management, necessary for a fair statement of Devon's results of operations and cash flows for the three-month and nine-month periods ended September 30, 2023 and 2022 and Devon's financial position as of September 30, 2023.

Restricted Cash

As of September 30, 2023, approximately $107 million of cash on the consolidated balance sheets is presented as restricted cash for obligations primarily related to an abandoned Canadian firm transportation agreement.

Variable Interest Entity

CDM is a joint venture entity formed by Devon and an affiliate of QL Capital Partners, LP. CDM provides gathering, compression and dehydration services for natural gas production in the Cotton Draw area of the Delaware Basin. Devon holds a controlling interest in CDM and the portions of CDM's net earnings and equity not attributable to Devon's controlling interest are shown separately as noncontrolling interests in the accompanying consolidated statements of comprehensive earnings and consolidated balance sheets. CDM is considered a VIE to Devon. The assets of CDM cannot be used by Devon for general corporate purposes and are included in, and disclosed parenthetically, on Devon's consolidated balance sheets. The carrying amount of liabilities related to CDM for which the creditors do not have recourse to Devon's assets are also included in, and disclosed parenthetically, if material, on Devon's consolidated balance sheets.

Investments

The following table presents Devon's investments.

		Carrying Amount	
Investments	**% Interest**	**September 30, 2023**	**December 31, 2022**
Catalyst	50%	$ 317	$ 339
Water JV	30%	214	—
Matterhorn	12.5%	90	54
Other	Various	50	47
Total		$ 671	$ 440

Devon has an interest in Catalyst, which is a joint venture with an affiliate of Howard Energy Partners, LLC ("HEP") and certain other investors, to develop oil gathering and natural gas processing infrastructure in the Stateline area of the Delaware Basin. Under the terms of the arrangement, Devon and a holding company owned by the other joint venture investors each have a 50% voting interest in the joint venture legal entity, and HEP serves as the operator. Through 2038, Devon's production from 50,000 net acres in the Stateline area of the Delaware Basin has been dedicated to Catalyst subject to fixed-fee oil gathering and natural gas processing agreements. Devon accounts for the investment in Catalyst as an equity method investment. Devon's investment in Catalyst is shown within investments on the consolidated balance sheets and Devon's share of Catalyst earnings are reflected as a component of other, net in the accompanying consolidated statements of comprehensive earnings.

In the second quarter of 2023, Devon made an investment in the Water JV, a joint venture entity formed with an affiliate of WaterBridge NDB LLC ("WaterBridge"), for the purpose of providing increased capacity and flexibility in disposing of produced water in the Delaware Basin and Eagle Ford. Under terms of the arrangement, Devon contributed water infrastructure assets and committed to a water gathering and disposal dedication to the Water JV through 2038, in exchange for a 30% voting interest in the joint venture legal entity. WaterBridge contributed water infrastructure assets to the Water JV, in exchange for a 70% voting interest in the joint venture legal entity and will serve as the operator. At closing of the Water JV, Devon recognized a $64 million gain in asset dispositions in the consolidated statements of comprehensive earnings, which represented the excess of the estimated fair value of Devon's interest in the Water JV over the carrying value of the water infrastructure assets Devon contributed to the Water JV. Devon accounts for the investment in the Water JV as an equity method investment. Devon's investment in the Water JV is shown within investments on the consolidated balance sheets and Devon's share of the Water JV earnings are reflected as a component of other, net in the accompanying consolidated statements of comprehensive earnings.

During 2023 and 2022, Devon made investments in Matterhorn. Matterhorn is a joint venture entity and was formed for the purpose of constructing a natural gas pipeline that will transport natural gas from the Permian Basin to the Katy, Texas area. Devon's investment in Matterhorn does not give it the ability to exercise significant influence over Matterhorn.

Disaggregation of Revenue

The following table presents revenue from contracts with customers that are disaggregated based on the type of good or service.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Oil	$ 2,377	$ 2,515	$ 6,626	$ 7,891
Gas	189	666	524	1,530
NGL	316	487	904	1,522
Oil, gas and NGL sales	2,882	3,668	8,054	10,943
Oil	795	787	2,260	2,515
Gas	153	387	428	918
NGL	200	342	577	1,099
Marketing and midstream revenues	1,148	1,516	3,265	4,532
Total revenues from contracts with customers	$ 4,030	$ 5,184	$ 11,319	$ 15,475

2. Acquisitions and Divestitures

Acquisitions

In September 2022, Devon completed its acquisition of producing properties and leasehold interests located in the Eagle Ford for cash consideration of approximately $1.7 billion, net of purchase price adjustments. Additionally, in July 2022, Devon completed its acquisition of producing properties and leasehold interests located in the Williston Basin for cash consideration of approximately $830 million, net of purchase price adjustments. The total estimated proved reserves associated with these Eagle Ford and Williston Basin assets were approximately 87 MMBoe and 66 MMBoe, respectively. Each of these acquisitions were accounted for as asset acquisitions as substantially all of the fair value was concentrated in a group of similar assets. Each of the acquisitions resulted in the purchase of producing properties and leasehold interests in a defined geographical and geological area, and substantially all of the assets have similar risk characteristics.

Contingent Earnout Payments

Devon is entitled to contingent earnout payments associated with the sale of its Barnett Shale assets in 2020 with upside participation beginning at a $2.75 Henry Hub natural gas price or a $50 WTI oil price. The contingent payment period commenced on January 1, 2021 and has a term of four years. Devon received $65 million in contingent earnout payments related to this transaction in the first quarter of 2023 and 2022 and could receive up to an additional $130 million in contingent earnout payments for the remaining performance periods depending on future commodity prices. The valuation of the future contingent earnout payments included within other current assets and other long-term assets in the September 30, 2023 consolidated balance sheet was approximately $20 million and $45 million, respectively. These values were derived utilizing a Monte Carlo valuation model and qualify as a level 3 fair value measurement.

Devon also received $4 million in contingent earnout payments in the first quarter of 2023 and 2022 related to the sale of non-core assets in the Rockies.

3. Derivative Financial Instruments

Objectives and Strategies

Devon enters into derivative financial instruments with respect to a portion of its oil, gas and NGL production to hedge future prices received. Additionally, Devon periodically enters into derivative financial instruments with respect to a portion of its oil, gas and NGL marketing activities. These commodity derivative financial instruments include financial price swaps, basis swaps and costless price collars.

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

Counterparty Credit Risk

By using derivative financial instruments, Devon is exposed to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. To mitigate this risk, the hedging instruments are placed with a number of counterparties whom Devon believes are acceptable credit risks. It is Devon's policy to enter into derivative contracts only with investment-grade rated counterparties deemed by management to be competent and competitive market makers. Additionally, Devon's derivative contracts generally contain provisions that provide for collateral payments if Devon's or its counterparty's credit rating falls below certain credit rating levels. As of September 30, 2023, Devon neither held cash collateral of its counterparties nor posted cash collateral to its counterparties. Given Devon's current credit ratings and the terms of the underlying contracts, Devon is not currently required to post collateral to its counterparties with respect to its open derivative positions, and we would not be required to post any such collateral as a result of any change to the amount of Devon's net liability for such positions.

Commodity Derivatives

As of September 30, 2023, Devon had the following open oil derivative positions. The first table presents Devon's oil derivatives that settle against the average of the prompt month NYMEX WTI futures price. The second table presents Devon's oil derivatives that settle against the respective indices noted within the table.

	Price Swaps		Price Collars		
Period	Volume (Bbls/d)	Weighted Average Price ($/Bbl)	Volume (Bbls/d)	Weighted Average Floor Price ($/Bbl)	Weighted Average Ceiling Price ($/Bbl)
Q4 2023	23,000	$ 73.38	81,000	$ 69.63	$ 94.29
Q1-Q4 2024	27,486	$ 77.74	59,486	$ 65.61	$ 84.85

	Oil Basis Swaps		
Period	Index	Volume (Bbls/d)	Weighted Average Differential to WTI ($/Bbl)
Q4 2023	Midland Sweet	66,500	$ 1.11
Q1-Q4 2024	Midland Sweet	62,500	$ 1.17
Q1-Q4 2024	NYMEX Roll	24,000	$ 0.81
Q1-Q4 2025	Midland Sweet	53,000	$ 0.97

As of September 30, 2023, Devon had the following open natural gas derivative positions. The first table presents Devon's natural gas derivatives that settle against the Inside FERC first of the month Henry Hub index. The second table presents Devon's natural gas derivatives that settle against the respective indices noted within the table.

	Price Swaps		Price Collars		
Period	Volume (MMBtu/d)	Weighted Average Price ($/MMBtu)	Volume (MMBtu/d)	Weighted Average Floor Price ($/MMBtu)	Weighted Average Ceiling Price ($/MMBtu)
Q4 2023	161,000	$ 3.36	147,000	$ 3.67	$ 7.62
Q1-Q4 2024	147,426	$ 3.37	40,527	$ 3.78	$ 7.05
Q1-Q4 2025	13,068	$ 3.49	—	$ —	$ —

	Natural Gas Basis Swaps		
Period	Index	Volume (MMBtu/d)	Weighted Average Differential to Henry Hub ($/MMBtu)
Q4 2023	El Paso Natural Gas	145,000	$ (1.58)
Q4 2023	Houston Ship Channel	140,000	$ (0.19)
Q4 2023	WAHA	70,000	$ (0.51)
Q1-Q4 2024	El Paso Natural Gas	34,863	$ (0.91)
Q1-Q4 2024	Houston Ship Channel	110,000	$ (0.24)
Q1-Q4 2024	WAHA	44,973	$ (0.58)

As of September 30, 2023, Devon had the following open NGL derivative positions. Devon's NGL positions settle against the average of the prompt month OPIS Mont Belvieu, Texas index.

		Price Swaps	
Period	Product	Volume (Bbls/d)	Weighted Average Price ($/Bbl)
Q1-Q4 2024	Natural Gasoline	3,000	$ 69.11
Q1-Q4 2024	Normal Butane	3,350	$ 37.58
Q1-Q4 2024	Propane	3,000	$ 32.20

Financial Statement Presentation

All derivative financial instruments are recognized at their current fair value as either assets or liabilities in the consolidated balance sheets. Amounts related to contracts allowed to be netted upon payment subject to a master netting arrangement with the same counterparty are reported on a net basis in the consolidated balance sheets. The tables below present a summary of these positions as of September 30, 2023 and December 31, 2022.

	September 30, 2023			December 31, 2022			
	Gross Fair Value	Amounts Netted	Net Fair Value	Gross Fair Value	Amounts Netted	Net Fair Value	Balance Sheet Classification
Commodity derivatives:							
Short-term derivative asset	$ 47	$ (13)	$ 34	$ 138	$ (19)	$ 119	Other current assets
Long-term derivative asset	10	(6)	4	12	—	12	Other long-term assets
Short-term derivative liability	(152)	13	(139)	(22)	19	(3)	Other current liabilities
Long-term derivative liability	(22)	6	(16)	—	—	—	Other long-term liabilities
Total derivative asset (liability)	$ (117)	$ —	$ (117)	$ 128	$ —	$ 128	

4. Share-Based Compensation

The table below presents the share-based compensation expense included in Devon’s accompanying consolidated statements of comprehensive earnings.

	Nine Months Ended September 30,	
	2023	2022
G&A	$ 70	$ 64
Exploration expenses	—	1
Total	$ 70	$ 65
Related income tax benefit	$ 31	$ 31

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

	Restricted Stock Awards & Units		Performance Share Units	
	Awards/Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
	(Thousands, except fair value data)			
Unvested at 12/31/22	5,788	$ 29.11	1,841	$ 31.33
Granted	1,295	$ 62.27	743	$ 51.38
Vested	(2,914)	$ 25.19	(1,037)	$ 27.89
Forfeited	(117)	$ 43.55	—	$ —
Unvested at 9/30/23	4,052	$ 42.10	1,547 (1)	$ 43.25

(1) A maximum of 3.1 million common shares could be awarded based upon Devon's final TSR ranking.

The following table presents the assumptions related to the performance share units granted in 2023, as indicated in the previous summary table. The grants in the previous summary table also include the impacts of performance share units granted in a prior year that vested higher than 100% of target due to Devon's TSR performance compared to our peers.

	2023
Grant-date fair value	$ 81.70
Risk-free interest rate	4.15 %
Volatility factor	61.43 %
Contractual term (years)	2.89

The following table presents a summary of the unrecognized compensation cost and the related weighted average recognition period associated with unvested awards and units as of September 30, 2023.

	Restricted Stock Awards/Units	Performance Share Units
Unrecognized compensation cost	$ 107	$ 24
Weighted average period for recognition (years)	2.6	1.8

5. Restructuring

The following table summarizes Devon's restructuring liabilities. The remaining liabilities primarily relate to an abandoned Canadian firm transportation agreement.

	Other Current Liabilities	Other Long-term Liabilities	Total
Balance as of December 31, 2022	$ 34	$ 81	$ 115
Changes related to prior years' restructurings	(20)	(7)	(27)
Balance as of September 30, 2023	$ 14	$ 74	$ 88
Balance as of December 31, 2021	$ 38	$ 111	$ 149
Changes related to prior years' restructurings	(11)	(18)	(29)
Balance as of September 30, 2022	$ 27	$ 93	$ 120

6. Other, Net

The following table summarizes Devon's other expenses (income) presented in the accompanying consolidated comprehensive statements of earnings.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Estimated future obligation under a performance guarantee	$ —	$ (44)	$ —	$ (140)
Ukraine charitable pledge	—	—	—	20
Asset retirement obligation accretion	7	5	21	18
Other	6	(1)	7	11
Total	$ 13	$ (40)	$ 28	$ (91)

Devon has guaranteed performance through 2026 for a minimum volume commitment associated with assets divested in 2018. Due to improved commodity prices, market conditions, and performance by the purchaser of the assets, the purchaser was able to fully satisfy the performance obligation due in the first quarter of 2023 and 2022, as well as reimburse Devon for shortfall payments previously made on the purchasers' behalf in 2021 and 2020. Additionally, at March 31, 2022, Devon reduced the estimated future exposure of the performance guarantee. The effect of these cash collections and liability revisions resulted in a $140 million benefit in the first nine months of 2022.

The first nine months of 2022 includes a $20 million pledge for humanitarian relief for the Ukrainian people and surrounding countries supporting refugees.

7. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Earnings before income taxes	$ 1,072	$ 2,465	$ 3,193	$ 6,222
Current income tax expense	$ 139	$ 120	$ 360	$ 475
Deferred income tax expense	13	445	212	914
Total income tax expense	$ 152	$ 565	$ 572	$ 1,389
U.S. statutory income tax rate	21 %	21 %	21 %	21 %
State income taxes	1 %	2 %	1 %	1 %
Income tax credits	(8 %)	0 %	(4 %)	0 %
Effective income tax rate	14 %	23 %	18 %	22 %

On August 16, 2022, the IRA was signed into law and included various income tax related provisions with effective dates generally beginning in 2023. Among the enacted provisions are a 15% CAMT on AFSI and several new and expanded clean energy credits and incentives. Devon believes it is subject to the CAMT as Devon has an average annual AFSI that exceeds $1 billion for the three-year period ended December 31, 2022. Devon continues to assess the potential incremental cash tax that could be incurred, depending on actual operating results, as well as ongoing U.S. Treasury guidance.

In the third quarter and the nine months ended 2023, Devon recognized income tax credits associated with its qualified research activities. This includes actual credits generated in the 2018-2022 tax years as well as estimated credits for the 2023 tax year.

8. Net Earnings Per Share

The following table reconciles net earnings available to common shareholders and weighted-average common shares outstanding used in the calculations of basic and diluted net earnings per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net earnings available to common shareholders - basic and diluted	$ 910	$ 1,876	$ 2,595	$ 4,764
Common shares:				
Average common shares outstanding - basic	637	649	640	652
Dilutive effect of potential common shares issuable	2	2	3	2
Average common shares outstanding - diluted	639	651	643	654
Net earnings per share available to common shareholders:				
Basic	$ 1.43	$ 2.89	$ 4.05	$ 7.30
Diluted	$ 1.42	$ 2.88	$ 4.03	$ 7.28

9. Other Comprehensive Earnings (Loss)

Components of other comprehensive earnings (loss) consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Pension and postretirement benefit plans:				
Beginning accumulated pension and postretirement benefits	$ (114)	$ (130)	$ (116)	$ (132)
Recognition of net actuarial loss and prior service cost in earnings (1)	1	1	4	4
Income tax expense	—	—	(1)	(1)
Accumulated other comprehensive loss, net of tax	$ (113)	$ (129)	$ (113)	$ (129)

(1) Recognition of net actuarial loss and prior service cost are included in the computation of net periodic benefit cost, which is a component of other, net in the accompanying consolidated statements of comprehensive earnings.

10. Supplemental Information to Statements of Cash Flows

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Changes in assets and liabilities, net:				
Accounts receivable	$ (334)	$ 364	$ (86)	$ (439)
Other current assets	27	(84)	31	(105)
Other long-term assets	(31)	9	(13)	84
Accounts payable and revenues and royalties payable	194	(313)	(36)	474
Other current liabilities	88	(208)	(53)	(107)
Other long-term liabilities	(5)	(3)	(32)	(87)
Total	$ (61)	$ (235)	$ (189)	$ (180)
Supplementary cash flow data:				
Interest paid	$ 77	$ 100	$ 266	$ 285
Income taxes paid	$ 50	$ 253	$ 309	$ 363

Devon's non-cash investing activities for the nine months ended September 30, 2023, included approximately $150 million of contributions of other property and equipment for the formation of the Water JV.

11. Accounts Receivable

Components of accounts receivable include the following:

	September 30, 2023	December 31, 2022
Oil, gas and NGL sales	$ 1,151	$ 1,153
Joint interest billings	234	162
Marketing and midstream revenues	447	428
Other	28	33
Gross accounts receivable	1,860	1,776
Allowance for doubtful accounts	(7)	(9)
Net accounts receivable	$ 1,853	$ 1,767

12. Property, Plant and Equipment

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

	September 30, 2023	December 31, 2022
Property and equipment:		
Proved	$ 45,518	$ 42,734
Unproved and properties under development	1,594	1,548
Total oil and gas	47,112	44,282
Less accumulated DD&A	(29,549)	(27,715)
Oil and gas property and equipment, net	17,563	16,567
Other property and equipment	2,244	2,280
Less accumulated DD&A	(776)	(741)
Other property and equipment, net (1)	1,468	1,539
Property and equipment, net	$ 19,031	$ 18,106

(1) $124 million and $109 million related to CDM in 2023 and 2022, respectively.

13. Debt and Related Expenses

See below for a summary of debt instruments and balances. The notes and debentures are senior, unsecured obligations of Devon.

	September 30, 2023	December 31, 2022
8.25% due August 1, 2023	$ —	$ 242
5.25% due September 15, 2024	472	472
5.85% due December 15, 2025	485	485
7.50% due September 15, 2027	73	73
5.25% due October 15, 2027	390	390
5.875% due June 15, 2028	325	325
4.50% due January 15, 2030	585	585
7.875% due September 30, 2031	675	675
7.95% due April 15, 2032	366	366
5.60% due July 15, 2041	1,250	1,250
4.75% due May 15, 2042	750	750
5.00% due June 15, 2045	750	750
Net premium on debentures and notes	72	103
Debt issuance costs	(31)	(26)
Total debt	$ 6,162	$ 6,440
Less amount classified as short-term debt	487	251
Total long-term debt	$ 5,675	$ 6,189

Retirement of Senior Notes

On August 1, 2023, Devon repaid the $242 million of 8.25% senior notes at maturity.

Credit Lines

On March 24, 2023, Devon amended and restated its 2018 Senior Credit Facility to provide for a new $3.0 billion revolving 2023 Senior Credit Facility with a financial covenant and other terms similar to the 2018 Senior Credit Facility. The 2023 Senior Credit Facility matures on March 24, 2028, with the option to extend the maturity date by three additional one-year periods, subject to lender consent. As of September 30, 2023, Devon had no outstanding borrowings under the 2023 Senior Credit Facility and had issued $3 million in outstanding letters of credit under this facility. The 2023 Senior Credit Facility contains only one material financial covenant. This covenant requires Devon's ratio of total funded debt to total capitalization, as defined in the credit agreement, to be no greater than 65%. Under the terms of the credit agreement, total capitalization is adjusted to add back non-cash financial write-downs such as impairments. As of September 30, 2023, Devon was in compliance with this covenant with a debt-to-capitalization ratio of 21.9%.

Net Financing Costs

The following schedule includes the components of net financing costs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest based on debt outstanding	$ 93	$ 92	$ 282	$ 277
Interest income	(11)	(19)	(43)	(22)
Other	(1)	(6)	(8)	(19)
Total net financing costs	$ 81	$ 67	$ 231	$ 236

14. Leases

The following table presents Devon's right-of-use assets and lease liabilities as of September 30, 2023 and December 31, 2022.

	September 30, 2023			December 31, 2022		
	Finance	Operating	Total	Finance	Operating	Total
Right-of-use assets	$ 249	$ 12	$ 261	$ 203	$ 21	$ 224
Lease liabilities:						
Current lease liabilities (1)	$ 21	$ 9	$ 30	$ 8	$ 13	$ 21
Long-term lease liabilities	287	3	290	249	8	257
Total lease liabilities	$ 308	$ 12	$ 320	$ 257	$ 21	$ 278

(1) Current lease liabilities are included in other current liabilities on the consolidated balance sheets.

Devon's operating lease right-of-use assets relate to real estate, drilling rigs and other equipment for the exploration, development and production of oil and gas. Devon's financing lease right-of-use assets relate to real estate. During 2023, Devon's financing lease right-of-use assets and the associated liabilities increased primarily from an amendment of lease terms.

15. Asset Retirement Obligations

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

	Nine Months Ended September 30,	
	2023	2022
Asset retirement obligations as of beginning of period	$ 529	$ 485
Liabilities incurred	104	62
Liabilities settled and divested	(24)	(13)
Revision of estimated obligation	27	(35)
Accretion expense on discounted obligation	21	18
Asset retirement obligations as of end of period	657	517
Less current portion	16	19
Asset retirement obligations, long-term	$ 641	$ 498

Devon's asset retirement obligations recorded during the first nine months of 2023 include a potential obligation to decommission two California offshore oil and gas production platforms and related facilities pursuant to an order of the Department of the Interior, Bureau of Safety and Environmental Enforcement. For additional information, see Note 17.

Devon also increased its asset retirement obligations during the first nine months of 2023 by approximately $27 million primarily due to inflation-driven increases in current cost estimates. During the first nine months of 2022, Devon increased its asset retirement obligations by approximately $38 million due to asset acquisitions in the Eagle Ford and Williston Basin. During this same time period Devon reduced its asset retirement obligations by $35 million primarily due to extended retirement dates for oil and gas assets, partially offset by inflation-driven increases to current settlement costs.

16. Stockholders' Equity

Share Repurchases

In November 2021, Devon authorized a share repurchase program of $1.0 billion with a December 31, 2022 expiration date. In 2022, the Board of Directors authorized expansions of the share repurchase program ultimately to $2.0 billion and extended the expiration date to May 4, 2023. In May 2023, the Board of Directors authorized a further expansion to $3.0 billion and extended the expiration date to December 31, 2024. The table below provides information regarding purchases of Devon's common stock under the $3.0 billion share repurchase program (shares in thousands).

$3.0 Billion Plan	Total Number of Shares Purchased	Dollar Value of Shares Purchased	Average Price Paid per Share
2021:			
Fourth quarter	13,983	$ 589	$ 42.15
2022:			
First quarter	3,979	230	$ 57.74
Second quarter	5,052	318	$ 63.07
Third quarter	1,875	113	$ 59.99
Fourth quarter	802	57	$ 71.69
2023:			
First quarter	10,090	545	$ 53.96
Second quarter	3,795	200	$ 52.70
Total plan	39,576	$ 2,052	$ 51.86

Dividends

Devon pays a quarterly dividend which is comprised of a fixed dividend and a variable dividend. The variable dividend is dependent on quarterly cash flows, among other factors. Devon raised its fixed dividend multiple times over the past two calendar years from $0.16 per share in the first quarter of 2022 to $0.20 per share beginning in the first quarter of 2023. The following table summarizes Devon's fixed and variable dividends for the first nine months of 2023 and 2022, respectively.

	Fixed	Variable	Total	Rate Per Share
2023:				
First quarter	$ 133	$ 463	$ 596	$ 0.89
Second quarter	128	334	462	$ 0.72
Third quarter	127	185	312	$ 0.49
Total year-to-date	$ 388	$ 982	$ 1,370	
2022:				
First quarter	$ 109	$ 558	$ 667	$ 1.00
Second quarter	105	725	830	$ 1.27
Third quarter	117	890	1,007	$ 1.55
Total year-to-date	$ 331	$ 2,173	$ 2,504	

In November 2023, Devon announced a cash dividend in the amount of $0.77 per share payable in the fourth quarter of 2023. The dividend consists of a $0.20 per share fixed quarterly dividend and a $0.57 per share variable quarterly dividend and will total approximately $492 million.

Noncontrolling Interests

The noncontrolling interests' share of CDM's net earnings and the contributions from and distributions to the noncontrolling interests are presented as components of equity.

17. Commitments and Contingencies

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

Royalty Matters

Numerous oil and natural gas producers and related parties, including Devon, have been named in various lawsuits alleging royalty underpayments. Devon is currently named as a defendant in a number of such lawsuits, including some lawsuits in which the plaintiffs seek to certify classes of similarly situated plaintiffs. Among the allegations typically asserted in these suits are claims that Devon used below-market prices, made improper deductions, paid royalty proceeds in an untimely manner without including required interest, used improper measurement techniques and entered into gas purchase and processing arrangements with affiliates that resulted in underpayment of royalties in connection with oil, natural gas and NGLs produced and sold. Devon is also involved in governmental agency proceedings and royalty audits and is subject to related contracts and regulatory controls in the ordinary course of business, some that may lead to additional royalty claims.

Environmental and Climate Change Matters

Devon's business is subject to numerous federal, state, tribal and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal fines and penalties, as well as remediation costs. Although Devon believes that it is in substantial compliance with applicable environmental laws and regulations and that continued compliance with existing requirements will not have a material adverse impact on its business, there can be no assurance that this will continue in the future.

Beginning in 2013, various parishes in Louisiana filed suit against numerous oil and gas companies, including Devon, alleging that the companies' operations and activities in certain fields violated the State and Local Coastal Resource Management Act of 1978, as amended, and caused substantial environmental contamination, subsidence and other environmental damages to land and water bodies located in the coastal zone of Louisiana. The plaintiffs' claims against Devon relate primarily to the operations of several of Devon's corporate predecessors. The plaintiffs seek, among other things, payment of the costs necessary to clear, re-vegetate and otherwise restore the allegedly impacted areas. Although Devon cannot predict the ultimate outcome of these matters, Devon denies the allegations in these lawsuits and intends to vigorously defend against these claims.

The State of Delaware and various municipalities and other governmental and private parties in California have filed legal proceedings against numerous oil and gas companies, including Devon, seeking relief to abate alleged impacts of climate change. These proceedings include far-reaching claims for monetary damages and injunctive relief. Although Devon cannot predict the ultimate outcome of these matters, Devon denies all allegations asserted in these lawsuits and intends to vigorously defend against these claims.

Other Indemnifications and Legacy Matters

Pursuant to various sale agreements relating to divested businesses and assets, Devon has indemnified various purchasers against liabilities that they may incur with respect to the businesses and assets acquired from Devon. Additionally, federal, state and other laws in areas of former operations may require previous operators (including corporate successors of previous operators) to perform or make payments in certain circumstances where the current operator may no longer be able to satisfy the applicable obligation. Such obligations may include plugging and abandoning wells, removing production facilities or performing requirements under surface agreements in existence at the time of disposition.

In November 2020, the Department of the Interior, Bureau of Safety and Environmental Enforcement ordered several oil and gas operators, including Devon, to perform decommissioning and reclamation activities on two California offshore oil and gas production platforms and related facilities. The current operator and owner of the platforms contends that it does not have the financial ability to perform these obligations and relinquished the related federal lease in October 2020. In response to the apparent insolvency of the current operator, the government has ordered the former operators and alleged former lease record title owners to decommission the platforms and related facilities. The government contends that an alleged corporate predecessor of Devon owned a partial interest in the subject lease and platforms. Devon denies any obligation to decommission the subject platforms and has appealed the order. In the third quarter of 2023, Devon settled certain defense and indemnity claims against a third party related to these potential decommissioning obligations. Pursuant to that settlement agreement, Devon is entitled to receive a settlement payment in the fourth quarter of 2023 that Devon believes will offset any potential decommissioning liability it may incur related to the subject platforms. Although Devon continues to pursue its appeal of the government's order and deny any obligation to decommission the subject platforms, in conjunction with the third-party settlement, Devon recorded an increase to its asset retirement obligations and a corresponding increase to accounts receivable in other current assets as of September 30, 2023.

18. Fair Value Measurements

The following table provides carrying value and fair value measurement information for certain of Devon’s financial assets and liabilities. The carrying values of cash, accounts receivable, other current receivables, accounts payable, other current payables, accrued expenses and lease liabilities included in the accompanying consolidated balance sheets approximated fair value at September 30, 2023 and December 31, 2022, as applicable. Therefore, such financial assets and liabilities are not presented in the following table.

			Fair Value Measurements Using:		
	Carrying Amount	Total Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
September 30, 2023 assets (liabilities):					
Cash equivalents	$ 101	$ 101	$ 101	$ —	$ —
Commodity derivatives	$ 38	$ 38	$ —	$ 38	$ —
Commodity derivatives	$ (155)	$ (155)	$ —	$ (155)	$ —
Debt	$ (6,162)	$ (5,706)	$ —	$ (5,706)	$ —
Contingent earnout payments	$ 65	$ 65	$ —	$ —	$ 65
December 31, 2022 assets (liabilities):					
Cash equivalents	$ 708	$ 708	$ 708	$ —	$ —
Commodity derivatives	$ 131	$ 131	$ —	$ 131	$ —
Commodity derivatives	$ (3)	$ (3)	$ —	$ (3)	$ —
Debt	$ (6,440)	$ (6,231)	$ —	$ (6,231)	$ —
Contingent earnout payments	$ 157	$ 157	$ —	$ —	$ 157

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

Level 1 Fair Value Measurements

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

Level 2 Fair Value Measurements

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

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

Level 3 Fair Value Measurements

Contingent Earnout Payments – Devon has the right to receive contingent consideration related to the Barnett asset divestiture based on future oil and gas prices. These values were derived using a Monte Carlo valuation model and qualify as a level 3 fair value measurement. For additional information, see Note 2.

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

The following discussion and analysis addresses material changes in our results of operations for the three-month and nine-month periods ended September 30, 2023 compared to previous periods and in our financial condition and liquidity since December 31, 2022. For information regarding our critical accounting policies and estimates, see our 2022 Annual Report on Form 10-K under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Executive Overview

We are a leading independent oil and natural gas exploration and production company whose operations are focused onshore in the United States. Our operations are currently focused in five core areas: the Delaware Basin, Eagle Ford, Anadarko Basin, Williston Basin and Powder River Basin. Our asset base is underpinned by premium acreage in the economic core of the Delaware Basin and our diverse, top-tier resource plays provide a deep inventory of opportunities for years to come. In the third quarter of 2022, we acquired additional producing properties and leasehold interests in both the Williston Basin and Eagle Ford that were complementary to our existing acreage, offered operational synergies and added additional high-quality inventory to our portfolio.

We remain focused on building economic value by executing on our strategic priorities of moderating production growth, emphasizing capital and operational efficiencies, optimizing reinvestment rates to maximize free cash flow, maintaining low leverage, delivering cash returns to our shareholders and pursuing ESG excellence. Our recent performance highlights for these priorities include the following items:

- Third quarter oil production totaled 321 MBbls/d, which is a 9% increase year over year.
- As of September 30, 2023, completed approximately 68% of our authorized $3.0 billion share repurchase program, with approximately 39.6 million of our common shares repurchased for approximately $2.1 billion, or $51.86 per share since inception of the plan.
- Retired $242 million of senior notes in the third quarter.
- Exited the third quarter with $3.8 billion of liquidity, including $0.8 billion of cash.
- Generated $1.7 billion of operating cash flow in the third quarter of 2023 and $6.7 billion for the past twelve trailing months.
- Including variable dividends, paid dividends of $312 million in the third quarter of 2023 and have declared approximately $492 million of dividends to be paid in the fourth quarter of 2023.
- Third quarter earnings attributable to Devon were $910 million, or $1.42 per diluted share.
- Third quarter core earnings (Non-GAAP) were $1.1 billion, or $1.65 per diluted share.

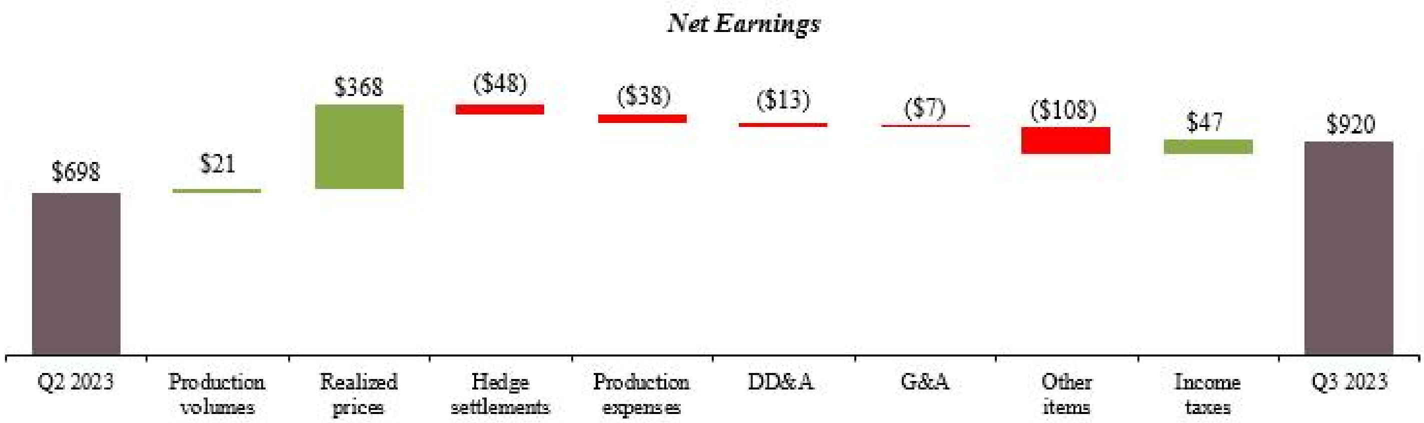
We remain committed to capital discipline and delivering the objectives that underpin our current plan. Those objectives prioritize value creation through moderated capital investment and production growth, particularly with a view of the volatility in commodity prices, supply chain constraints and the economic uncertainty arising from inflation and geopolitical events. Our cash-return objectives remain focused on opportunistic share repurchases, funding our fixed and variable dividends, repaying debt at upcoming maturities and building cash balances.

Results of Operations

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

Q3 2023 vs. Q2 2023

Our third quarter 2023 and second quarter 2023 net earnings were $920 million and $698 million, respectively. The graph below shows the change in net earnings from the second quarter of 2023 to the third quarter of 2023. The material changes are further discussed by category on the following pages.



Production Volumes

	Q3 2023	% of Total	Q2 2023	Change
Oil (MBbls/d)				
Delaware Basin	215	67 %	209	3 %
Eagle Ford	40	13 %	45	-10 %
Anadarko Basin	14	4 %	15	-11 %
Williston Basin	35	11 %	36	-2 %
Powder River Basin	13	4 %	14	-3 %
Other	4	1 %	4	-1 %
Total	321	100 %	323	-1 %

	Q3 2023	% of Total	Q2 2023	Change
Gas (MMcf/d)				
Delaware Basin	680	64 %	636	7 %
Eagle Ford	78	7 %	86	-9 %
Anadarko Basin	235	22 %	254	-7 %
Williston Basin	58	5 %	59	-2 %
Powder River Basin	18	2 %	18	0 %
Other	1	0 %	1	1 %
Total	1,070	100 %	1,054	2 %

	Q3 2023	% of Total	Q2 2023	Change
NGLs (MBbls/d)				
Delaware Basin	112	67 %	105	6 %
Eagle Ford	15	9 %	16	-6 %
Anadarko Basin	27	16 %	31	-12 %
Williston Basin	9	6 %	9	0 %
Powder River Basin	2	1 %	2	3 %
Other	1	1 %	1	-14 %
Total	166	100 %	164	1 %

	Q3 2023	% of Total	Q2 2023	Change
Combined (MBoe/d)				
Delaware Basin	440	66 %	420	5 %
Eagle Ford	68	10 %	74	-9 %
Anadarko Basin	80	12 %	89	-10 %
Williston Basin	54	8 %	56	-2 %
Powder River Basin	19	3 %	19	-2 %
Other	4	1 %	4	1 %
Total	665	100 %	662	0 %

From the second quarter of 2023 to the third quarter of 2023, the change in volumes contributed to a $21 million increase to earnings. The slight increase in volumes was primarily due to new well activity in the Delaware Basin which was partially offset by natural well declines in the Anadarko Basin and Eagle Ford.

Realized Prices

	Q3 2023	Realization	Q2 2023	Change
Oil (per Bbl)				
WTI index	$ 82.06		$ 73.76	11 %
Realized price, unhedged	$ 80.48	98%	$ 71.74	12 %
Cash settlements	$ (0.67)		$ —	
Realized price, with hedges	$ 79.81	97%	$ 71.74	11 %

	Q3 2023	Realization	Q2 2023	Change
Gas (per Mcf)				
Henry Hub index	$ 2.54		$ 2.09	22 %
Realized price, unhedged	$ 1.92	76%	$ 1.27	52 %
Cash settlements	$ 0.09		$ 0.39	
Realized price, with hedges	$ 2.01	79%	$ 1.66	21 %

	Q3 2023	Realization	Q2 2023	Change
NGLs (per Bbl)				
WTI index	$ 82.06		$ 73.76	11 %
Realized price, unhedged	$ 20.72	25%	$ 17.79	16 %
Cash settlements	$ —		$ —	
Realized price, with hedges	$ 20.72	25%	$ 17.79	16 %

	Q3 2023	Q2 2023	Change
Combined (per Boe)			
Realized price, unhedged	$ 47.10	$ 41.39	14 %
Cash settlements	$ (0.18)	$ 0.61	
Realized price, with hedges	$ 46.92	$ 42.00	12 %

From the second quarter of 2023 to the third quarter of 2023, realized prices contributed to a $368 million increase in earnings. Unhedged realized oil, gas and NGL prices increased primarily due to higher WTI, Henry Hub and Mont Belvieu index prices. The increase in index prices was partially offset by hedge cash settlement payments related to oil commodities.

We currently have hedged approximately 35% and 30% of our remaining anticipated 2023 oil and gas production, respectively. For 2024, we currently have hedged approximately 30% and 20% of our anticipated oil and gas production, respectively.

Hedge Settlements

	Q3 2023	Q2 2023	Change
Oil	$ (20)	$ —	N/M
Natural gas	9	37	-76 %
Total cash settlements [(1)]	$ (11)	$ 37	-130 %

(1) Included as a component of oil, gas and NGL derivatives on the consolidated statements of comprehensive earnings.

Cash settlements as presented in the tables above represent realized gains or losses related to the instruments described in Note 3 in "Part I. Financial Information – Item 1. Financial Statements" in this report.

Production Expenses

	Q3 2023		Q2 2023		Change
LOE	$	367	$	353	4 %
Gathering, processing & transportation		178		177	1 %
Production taxes		191		165	16 %
Property taxes		21		24	-13 %
Total	$	757	$	719	5 %
Per Boe:					
LOE	$	6.00	$	5.86	2 %
Gathering, processing & transportation	$	2.91	$	2.94	-1 %
Percent of oil, gas and NGL sales:					
Production taxes		6.6 %		6.6 %	0 %

Production expenses increased in the third quarter of 2023 primarily due to an increase in production taxes which resulted from higher commodity prices. Additionally, LOE increased primarily due to an increase in activity in the Delaware Basin.

Field-Level Cash Margin

The table below presents the field-level cash margin for each of our operating areas. Field-level cash margin is computed as oil, gas and NGL sales less production expenses and is not a measure defined by GAAP. A reconciliation to the comparable GAAP measures is found in "Non-GAAP Measures" in this Item 2. The changes in production volumes, realized prices and production expenses, shown above, had the following impact on our field-level cash margins by asset.

	Q3 2023		$ per BOE		Q2 2023		$ per BOE	
Field-level cash margin (Non-GAAP)								
Delaware Basin	$	1,479	$	36.54	$	1,196	$	31.28
Eagle Ford		269	$	43.38		263	$	38.87
Anadarko Basin		125	$	16.98		111	$	13.72
Williston Basin		161	$	32.16		128	$	25.54
Powder River Basin		75	$	43.29		63	$	36.54
Other		16		N/M		13		N/M
Total	$	2,125	$	34.73	$	1,774	$	29.45

DD&A

	Q3 2023		Q2 2023		Change
Oil and gas per Boe	$	10.27	$	10.22	0 %
Oil and gas	$	629	$	616	2 %
Other property and equipment		22		22	-1 %
Total	$	651	$	638	2 %

G&A

	Q3 2023		Q2 2023		Change
G&A per Boe	$	1.60	$	1.52	5 %
Labor and benefits	$	51	$	50	3 %
Non-labor		48		42	12 %
Total	$	99	$	92	7 %

G&A increased marginally in the third quarter of 2023 primarily due to higher non-labor costs.

Other Items

	Q3 2023	Q2 2023	Change in earnings
Commodity hedge valuation changes [1]	$ (183)	$ (113)	$ (70)
Marketing and midstream operations	(12)	(14)	2
Exploration expenses	3	10	7
Asset dispositions	—	(41)	(41)
Net financing costs	81	78	(3)
Other, net	13	10	(3)
			$ (108)

(1) Included as a component of oil, gas and NGL derivatives on the consolidated statements of comprehensive earnings.

We recognize fair value changes on our oil, gas and NGL derivative instruments in each reporting period. The changes in fair value resulted from new positions and settlements that occurred during each period, as well as the relationship between contract prices and the associated forward curves. For additional information, see Note 3 in "Part I. Financial Information – Item 1. Financial Statements" in this report.

In the second quarter of 2023, we recorded a $64 million gain within asset dispositions related to the difference between the fair market value and book value of assets contributed to the Water JV. For additional information, see Note 1 in "Part I. Financial Information – Item 1. Financial Statements" in this report.

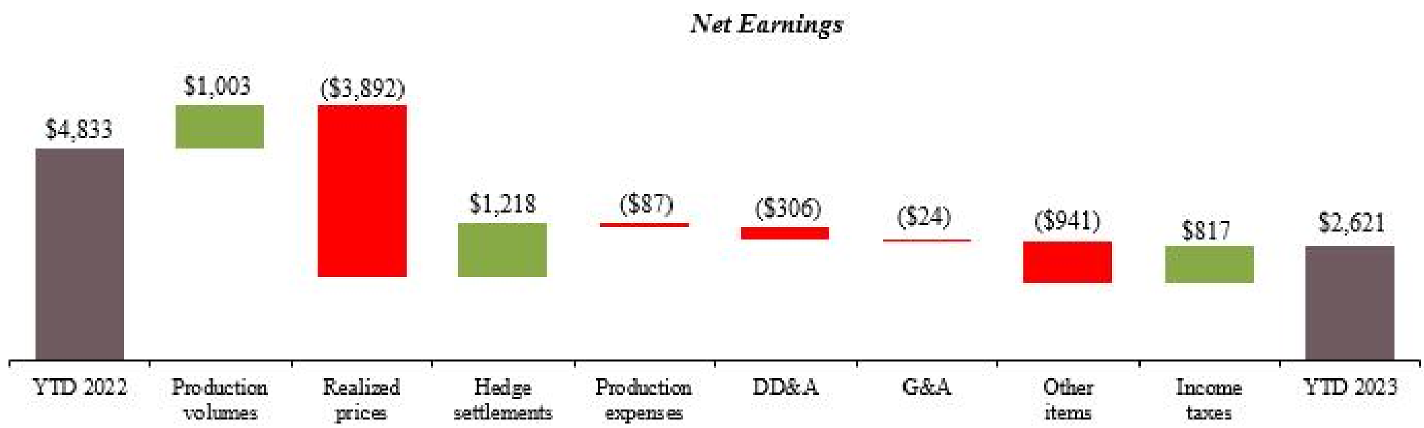
Income Taxes

	Q3 2023	Q2 2023
Current expense	$ 139	$ 80
Deferred expense	13	119
Total expense	$ 152	$ 199
Current tax rate	13 %	9 %
Deferred tax rate	1 %	13 %
Effective income tax rate	14 %	22 %

We continue to analyze the new CAMT and its effects on our tax planning. Our current rate is trending below the 15% stated rate in the CAMT primarily due to utilization of tax credits. For further discussion on income taxes, see Note 7 in "Part I. Financial Information – Item 1. Financial Statements" in this report.

September 30, 2023 YTD vs. September 30, 2022 YTD

Our nine months ended September 30, 2023 net earnings were $2.6 billion, compared to net earnings of $4.8 billion for the first nine months ended September 30, 2022. The graph below shows the change in net earnings from the nine months ended September 30, 2022 to the nine months ended September 30, 2023. The material changes are further discussed by category on the following pages.



Production Volumes

	Nine Months Ended September 30,			
	2023	% of Total	2022	Change
Oil (MBbls/d)				
Delaware Basin	211	66 %	214	-1 %
Eagle Ford	41	13 %	18	129 %
Anadarko Basin	15	5 %	14	7 %
Williston Basin	36	11 %	31	14 %
Powder River Basin	14	4 %	13	6 %
Other	4	1 %	4	-7 %
Total	321	100 %	294	9 %

	Nine Months Ended September 30,			
	2023	% of Total	2022	Change
Gas (MMcf/d)				
Delaware Basin	652	62 %	601	9 %
Eagle Ford	82	8 %	62	32 %
Anadarko Basin	242	23 %	215	12 %
Williston Basin	57	5 %	59	-4 %
Powder River Basin	18	2 %	18	-4 %
Other	1	0 %	1	30 %
Total	1,052	100 %	956	10 %

	Nine Months Ended September 30,			
	2023	% of Total	2022	Change
NGLs (MBbls/d)				
Delaware Basin	105	66 %	104	1 %
Eagle Ford	15	9 %	9	62 %
Anadarko Basin	28	18 %	26	10 %
Williston Basin	9	6 %	8	8 %
Powder River Basin	2	1 %	2	-1 %
Other	1	0 %	—	N/M
Total	160	100 %	149	7 %

	Nine Months Ended September 30,			
	2023	% of Total	2022	Change
Combined (MBoe/d)				
Delaware Basin	425	65 %	417	2 %
Eagle Ford	70	10 %	38	87 %
Anadarko Basin	83	13 %	75	11 %
Williston Basin	54	8 %	50	9 %
Powder River Basin	19	3 %	18	3 %
Other	5	1 %	4	2 %
Total	656	100 %	602	9 %

From the nine months ended 2022 to the nine months ended 2023, the change in volumes contributed to a $1.0 billion increase in earnings. Volumes increased primarily due to acquisitions in the Eagle Ford and Williston Basin which both closed in the third quarter of 2022. Volumes also increased due to new well activity in the Delaware Basin and Anadarko Basin.

Realized Prices

	Nine Months Ended September 30,			
	2023	Realization	2022	Change
Oil (per Bbl)				
WTI index	$ 77.33		$ 98.34	-21 %
Realized price, unhedged	$ 75.53	98%	$ 98.39	-23 %
Cash settlements	$ (0.26)		$ (11.02)	
Realized price, with hedges	$ 75.27	97%	$ 87.37	-14 %

	Nine Months Ended September 30,			
	2023	Realization	2022	Change
Gas (per Mcf)				
Henry Hub index	$ 2.69		$ 6.78	-60 %
Realized price, unhedged	$ 1.82	68%	$ 5.86	-69 %
Cash settlements	$ 0.22		$ (1.12)	
Realized price, with hedges	$ 2.04	76%	$ 4.74	-57 %

	Nine Months Ended September 30,			
	2023	Realization	2022	Change
NGLs (per Bbl)				
WTI index	$ 77.33		$ 98.34	-21 %
Realized price, unhedged	$ 20.76	27%	$ 37.48	-45 %
Cash settlements	$ —		$ —	
Realized price, with hedges	$ 20.76	27%	$ 37.48	-45 %

	Nine Months Ended September 30,		
	2023	2022	Change
Combined (per Boe)			
Realized price, unhedged	$ 44.96	$ 66.60	-32 %
Cash settlements	$ 0.22	$ (7.17)	
Realized price, with hedges	$ 45.18	$ 59.43	-24 %

From the nine months ended 2022 to the nine months ended 2023, realized prices contributed to a $3.9 billion decrease in earnings. Unhedged realized oil, gas and NGL prices decreased primarily due to lower WTI, Henry Hub and Mont Belvieu index prices. The decrease in index prices was partially offset by improved hedge cash settlements related to oil and gas commodities.

Hedge Settlements

	Nine Months Ended September 30,		
	2023	2022	Change
Oil	$ (23)	$ (884)	97 %
Natural gas	62	(295)	121 %
Total cash settlements (1)	$ 39	$ (1,179)	103 %

(1) Included as a component of oil, gas and NGL derivatives on the consolidated statements of comprehensive earnings.

Cash settlements as presented in the tables above represent realized gains or losses related to the instruments described in Note 3 in "Part I. Financial Information – Item 1. Financial Statements" in this report.

Production Expenses

	Nine Months Ended September 30,		
	2023	2022	Change
LOE	$ 1,047	$ 763	37 %
Gathering, processing & transportation	521	515	1 %
Production taxes	531	744	-29 %
Property taxes	70	60	16 %
Total	$ 2,169	$ 2,082	4 %
Per Boe:			
LOE	$ 5.84	$ 4.65	26 %
Gathering, processing & transportation	$ 2.91	$ 3.13	-7 %
Percent of oil, gas and NGL sales:			
Production taxes	6.6 %	6.8 %	-3 %

LOE expenses and LOE per Boe increased for the nine months ended 2023 primarily due to acquisitions in the Eagle Ford and Williston Basin as well as cost inflation. Production taxes decreased due to lower commodity prices.

Field-Level Cash Margin

The table below presents the field-level cash margin for each of our operating areas. Field-level cash margin is computed as oil, gas and NGL sales less production expenses and is not a measure defined by GAAP. A reconciliation to the comparable GAAP measures is found in "Non-GAAP Measures" in this Item 2. The changes in production volumes, realized prices and production expenses, shown above, had the following impact on our field-level cash margins by asset.

	Nine Months Ended September 30,			
	2023	$ per BOE	2022	$ per BOE
Field-level cash margin (Non-GAAP)				
Delaware Basin	$ 4,009	$ 34.54	$ 6,488	$ 57.01
Eagle Ford	789	$ 41.26	549	$ 53.56
Anadarko Basin	390	$ 17.14	765	$ 37.24
Williston Basin	445	$ 30.06	673	$ 49.87
Powder River Basin	208	$ 40.41	302	$ 60.65
Other	44	N/M	84	N/M
Total	$ 5,885	$ 32.86	$ 8,861	$ 53.93

DD&A

	Nine Months Ended September 30,		
	2023	2022	Change
Oil and gas per Boe	$ 10.25	$ 9.30	10 %
Oil and gas	$ 1,836	$ 1,528	20 %
Other property and equipment	68	70	-3 %
Total	$ 1,904	$ 1,598	19 %

DD&A and our oil and gas per Boe rate both increased for the nine months ended 2023 primarily due to acquisitions in the Eagle Ford and Williston Basin which both closed in the third quarter of 2022.

G&A

	Nine Months Ended September 30,		
	2023	2022	Change
G&A per Boe	$ 1.66	$ 1.67	-1 %
Labor and benefits	$ 157	$ 156	1 %
Non-labor	140	117	19 %
Total	$ 297	$ 273	8 %

G&A increased for the nine months ended 2023 primarily due to an increase in non-labor costs.

Other Items

	Nine Months Ended September 30,		
	2023	2022	Change in earnings
Commodity hedge valuation changes (1)	$ (245)	$ 574	$ (819)
Marketing and midstream operations	(51)	(17)	(34)
Exploration expenses	16	16	-
Asset dispositions	(41)	(15)	26
Net financing costs	231	236	5
Other, net	28	(91)	(119)
			$ (941)

(1) Included as a component of oil, gas and NGL derivatives on the consolidated statements of comprehensive earnings.

We recognize fair value changes on our oil, gas and NGL derivative instruments in each reporting period. The changes in fair value resulted from new positions and settlements that occurred during each period, as well as the relationship between contract prices and the associated forward curves. For additional information, see Note 3 in "Part I. Financial Information – Item 1. Financial Statements" in this report.

In the second quarter of 2023, we recorded a $64 million gain within asset dispositions related to the difference between the fair market value and book value of assets contributed to the Water JV. For additional information, see Note 1 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

For discussion on other, net, see Note 6 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

Income Taxes

	Nine Months Ended September 30,	
	2023	2022
Current expense	$ 360	$ 475
Deferred expense	212	914
Total expense	$ 572	$ 1,389
Current tax rate	11 %	7 %
Deferred tax rate	7 %	15 %
Effective income tax rate	18 %	22 %

We continue to analyze the new CAMT and its effects on our tax planning. Our current rate is trending below the 15% stated rate in the CAMT primarily due to utilization of tax credits. For further discussion on income taxes, see Note 7 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

Capital Resources, Uses and Liquidity

Sources and Uses of Cash

The following table presents the major changes in cash and cash equivalents for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating cash flow	$ 1,725	$ 2,104	$ 4,807	$ 6,619
Capital expenditures	(882)	(628)	(2,973)	(1,738)
Acquisitions of property and equipment	(23)	(2,465)	(54)	(2,566)
Divestitures of property and equipment	1	4	23	39
Investment activity, net	7	(9)	(28)	(29)
Debt activity, net	(242)	—	(242)	—
Repurchases of common stock	—	(126)	(745)	(661)
Common stock dividends	(312)	(1,007)	(1,370)	(2,504)
Noncontrolling interest activity, net	1	(9)	(15)	(22)
Shares traded for taxes and other	(2)	(11)	(96)	(99)
Net change in cash, cash equivalents and restricted cash	$ 273	$ (2,147)	$ (693)	$ (961)
Cash, cash equivalents and restricted cash at end of period	$ 761	$ 1,310	$ 761	$ 1,310

Operating Cash Flow

As presented in the table above, net cash provided by operating activities continued to be a significant source of capital and liquidity. Operating cash flow funded all of our capital expenditures, and we continued to return value to our shareholders by utilizing cash flow and cash balances for dividends, share repurchases and debt repayments.

Capital Expenditures

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Delaware Basin	$ 507	$ 409	$ 1,735	$ 1,216
Eagle Ford	183	36	573	95
Anadarko Basin	22	50	163	92
Williston Basin	82	48	264	87
Powder River Basin	46	52	125	113
Other	2	2	4	8
Total oil and gas	842	597	2,864	1,611
Midstream	17	17	51	74
Other	23	14	58	53
Total capital expenditures	$ 882	$ 628	$ 2,973	$ 1,738

Capital expenditures consist primarily of amounts related to our oil and gas exploration and development operations, midstream operations and other corporate activities. Our capital investment program is driven by a disciplined allocation process focused on moderating our production growth and maximizing our returns. As such, our capital expenditures for the first nine months of 2023 represented approximately 62% of our operating cash flow. Capital expenditures increased due to acquisitions, general inflation trends and expanded development in the Delaware and Anadarko Basins.

Acquisitions of Property and Equipment

During the first nine months of 2022, we paid $2.6 billion toward acquisitions of production properties and leasehold interests located in the Eagle Ford and Williston Basin, which were completed in the third quarter of 2022. For additional information, please see Note 2 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

Divestitures of Property and Equipment

During the first nine months of 2023 and 2022, we received contingent earnout payments related to assets previously sold. For additional information, please see Note 2 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

Investment Activity

During the first nine months of both 2023 and 2022, Devon received distributions from our investments of $24 million and $30 million, respectively. Devon contributed $52 million and $59 million to our investments during the first nine months of 2023 and 2022, respectively.

Debt Activity

During 2023, we repaid $242 million of senior notes at maturity.

Shareholder Distributions and Stock Activity

We repurchased approximately 13.9 million shares of common stock for $745 million and approximately 11 million shares of common stock for $661 million, under the share repurchase program authorized by our Board of Directors, in the first nine months of 2023 and 2022, respectively. For additional information, see Note 16 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

The following table summarizes our common stock dividends during the third quarter and total for the first nine months of 2023 and 2022. Devon has raised its fixed dividend multiple times over the past two calendar years to $0.20 per share beginning in the first quarter of 2023. In addition to the fixed quarterly dividend, we paid a variable dividend in the first, second and third quarters of 2023 and 2022.

	Fixed	Variable	Total	Rate Per Share
2023:				
First quarter	$ 133	$ 463	$ 596	$ 0.89
Second quarter	128	334	462	$ 0.72
Third quarter	127	185	312	$ 0.49
Total year-to-date	$ 388	$ 982	$ 1,370	
2022:				
First quarter	$ 109	$ 558	$ 667	$ 1.00
Second quarter	105	725	830	$ 1.27
Third quarter	117	890	1,007	$ 1.55
Total year-to-date	$ 331	$ 2,173	$ 2,504	

Noncontrolling Interest Activity, net

During the first nine months of 2023 and 2022, we distributed $33 million and $22 million, respectively, to our noncontrolling interests in CDM. During the first nine months of 2023, we received contributions from our noncontrolling interests of $18 million.

Liquidity

The business of exploring for, developing and producing oil and natural gas is capital intensive. Because oil, natural gas and NGL reserves are a depleting resource, we, like all upstream operators, must continually make capital investments to grow and even sustain production. Generally, our capital investments are focused on drilling and completing new wells and maintaining production from existing wells. At opportunistic times, we also acquire operations and properties from other operators or landowners to enhance our existing portfolio of assets.

Historically, our primary sources of capital funding and liquidity have been our operating cash flow, cash on hand and asset divestiture proceeds. Additionally, we maintain a commercial paper program, supported by our revolving line of credit, which can be accessed as needed to supplement operating cash flow and cash balances. If needed, we can also issue debt and equity securities, including through transactions under our shelf registration statement filed with the SEC. We estimate the combination of our sources of capital will continue to be adequate to fund our planned capital requirements as discussed in this section as well as accelerate our cash-return business model.

Operating Cash Flow

Key inputs into determining our planned capital investment are the amount of cash we hold and operating cash flow we expect to generate over the next one to three or more years. At the end of the third quarter of 2023, we held approximately $0.8 billion of cash. Our operating cash flow forecasts are sensitive to many variables and include a measure of uncertainty as actual results may differ from our expectations.

Commodity Prices – The most uncertain and volatile variables for our operating cash flow are the prices of the oil, gas and NGLs we produce and sell. Prices are determined primarily by prevailing market conditions. Regional and worldwide economic activity, weather and other highly variable factors influence market conditions for these products. These factors, which are difficult to predict, create volatility in prices and are beyond our control.

To mitigate some of the risk inherent in prices, we utilize various derivative financial instruments to protect a portion of our production against downside price risk. The key terms to our oil, gas and NGL derivative financial instruments as of September 30, 2023 are presented in Note 3 in “Part I. Financial Information – Item 1. Financial Statements” of this report.

Further, when considering the current commodity price environment and our current hedge position, we expect to achieve our capital investment priorities. Additionally, we remain committed to capital discipline and focused on delivering the objectives that underpin our capital plan for 2023. The currently elevated level of cost inflation has eroded, and could continue to erode, the cost efficiencies gained over previous years and further pressure our margins for the remainder of 2023 and into 2024. Despite this, we expect to continue generating material amounts of free cash flow at current commodity price levels due to our strategy of spending within cash flow.

Operating Expenses – Commodity prices can also affect our operating cash flow through an indirect effect on operating expenses. Significant commodity price decreases can lead to a decrease in drilling and development activities. As a result, the demand and cost for people, services, equipment and materials may also decrease, causing a positive impact on our cash flow as the prices paid for services and equipment decline. However, the inverse is also generally true during periods of rising commodity prices. We expect to mitigate the impact of cost inflation through efficiencies gained from the scale of our operations as well as by leveraging our long-standing relationships with our suppliers.

Credit Losses – Our operating cash flow is also exposed to credit risk in a variety of ways. This includes the credit risk related to customers who purchase our oil, gas and NGL production, the collection of receivables from our joint interest owners for their proportionate share of expenditures made on projects we operate and counterparties to our derivative financial contracts. We utilize a variety of mechanisms to limit our exposure to the credit risks of our customers, joint interest owners and counterparties. Such mechanisms include, under certain conditions, requiring letters of credit, prepayments or cash collateral postings.

Credit Availability

As of September 30, 2023, we had approximately $3.0 billion of available borrowing capacity under our 2023 Senior Credit Facility. This credit facility supports our $3.0 billion of short-term credit under our commercial paper program. At September 30, 2023, there were no borrowings under our commercial paper program, and we were in compliance with the Senior Credit Facility's financial covenant.

Debt Ratings

We receive debt ratings from the major ratings agencies in the U.S. In determining our debt ratings, the agencies consider a number of qualitative and quantitative items including, but not limited to, commodity pricing levels, our liquidity, asset quality, reserve mix, debt levels, cost structure, planned asset sales and the size and scale of our production. Our credit rating from Standard and Poor's Financial Services is BBB with a stable outlook. Our credit rating from Fitch is BBB+ with a stable outlook. Our credit rating from Moody's Investor Service is Baa2 with a stable outlook. Any rating downgrades may result in additional letters of credit or cash collateral being posted under certain contractual arrangements.

There are no "rating triggers" in any of our contractual debt obligations that would accelerate scheduled maturities should our debt rating fall below a specified level. However, a downgrade could adversely impact our interest rate on any credit facility borrowings and the ability to economically access debt markets in the future.

Fixed Plus Variable Dividend

We have a "fixed plus variable" dividend strategy. Our Board of Directors will consider a number of factors when setting the quarterly dividend, if any, including a general target of paying out approximately 10% of operating cash flow through the fixed dividend. Our Board of Directors increased our quarterly fixed dividend rate by 11% to $0.20 per share beginning in February 2023. In addition to the fixed quarterly dividend, we may pay a variable dividend of up to 50% of our excess free cash flow, which is a non-GAAP measure. Each quarter's excess free cash flow is computed as operating cash flow (a GAAP measure) before balance sheet changes, less capital expenditures and the fixed dividend. The declaration and payment of any future dividend, whether fixed or variable, will remain at the full discretion of our Board of Directors and will depend on our financial results, cash requirements, future prospects and other factors deemed relevant by the Board.

In November 2023, Devon announced a cash dividend in the amount of $0.77 per share payable in the fourth quarter of 2023. The dividend consists of a $0.20 per share fixed quarterly dividend and a $0.57 per share variable quarterly dividend and will total approximately $492 million.

Share Repurchases

In May 2023, our Board of Directors increased our share repurchase program by $1.0 billion to a total authorized amount of $3.0 billion and extended the expiration date to December 31, 2024. Through October 2023, we had executed $2.1 billion of the authorized program.

Capital Expenditures

Our capital expenditures budget for the remainder of 2023 is expected to be approximately $900 million.

Critical Accounting Estimates

Income Taxes

The amount of income taxes recorded requires interpretations of complex rules and regulations of federal, state, provincial and foreign tax jurisdictions. We recognize current tax expense based on estimated taxable income for the current period and the applicable statutory tax rates. We routinely assess potential uncertain tax positions and, if required, estimate and establish accruals for such amounts. We have recognized deferred tax assets and liabilities for temporary differences, operating losses and other tax carryforwards. We routinely assess our deferred tax assets and reduce such assets by a valuation allowance if we deem it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Further, in the event we were to undergo an "ownership change" (as defined in Section 382 of the Internal Revenue Code of 1986, as amended), our ability to use net operating losses and tax credits generated prior to the ownership change may be limited. Generally, an "ownership change" occurs if one or more shareholders, each of whom owns five percent or more in value of a corporation's stock, increase their aggregate percentage ownership by more than 50 percent over the lowest percentage of stock owned by those shareholders at any time during the preceding three-year period. Based on currently available information, we do not believe an ownership change has occurred during the first nine months of 2023 for Devon, but the Merger did cause an ownership change for WPX and increased the likelihood Devon could experience an ownership change over the next year.

On August 16, 2022, the IRA was signed into law and included various income tax related provisions with an effective date beginning in 2023. Among the enacted provisions are a 15% CAMT and several new and expanded clean energy credits and incentives. Devon believes it is subject to the CAMT as Devon has an average annual AFSI that exceeds $1 billion for the three-year period ended December 31, 2022. Devon continues to assess the potential incremental cash tax that could be incurred, depending on actual operating results, as well as ongoing U.S. Treasury guidance.

For additional information regarding our critical accounting policies and estimates, see our 2022 Annual Report on Form 10-K.

Non-GAAP Measures

We utilize "core earnings attributable to Devon" and "core earnings per share attributable to Devon" that are not required by or presented in accordance with GAAP. These non-GAAP measures are not alternatives to GAAP measures and should not be considered in isolation or as a substitute for analysis of our results reported under GAAP. Core earnings attributable to Devon, as well as the per share amount, represent net earnings excluding certain non-cash and other items that are typically excluded by securities analysts in their published estimates of our financial results. Our non-GAAP measures are typically used as a quarterly performance measure. Amounts excluded relate to asset dispositions, noncash asset impairments (including unproved asset impairments), deferred tax asset valuation allowance and fair value changes in derivative financial instruments.

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Before Tax	After Tax	After NCI	Per Diluted Share	Before Tax	After Tax	After NCI	Per Diluted Share
2023								
Earnings attributable to Devon (GAAP)	$ 1,072	$ 920	$ 910	$ 1.42	$ 3,193	$ 2,621	$ 2,595	$ 4.03
Adjustments:								
Asset dispositions	—	—	—	—	(41)	(31)	(31)	(0.05)
Asset and exploration impairments	—	—	—	—	3	2	2	0.01
Deferred tax asset valuation allowance	—	3	3	—	—	10	10	0.02
Fair value changes in financial instruments	186	145	145	0.23	245	189	189	0.29
Core earnings attributable to Devon (Non-GAAP)	$ 1,258	$ 1,068	$ 1,058	$ 1.65	$ 3,400	$ 2,791	$ 2,765	$ 4.30
2022								
Earnings attributable to Devon (GAAP)	$ 2,465	$ 1,900	$ 1,893	$ 2.88	$ 6,222	$ 4,833	$ 4,814	$ 7.28
Adjustments:								
Asset dispositions	—	—	—	—	(15)	(12)	(12)	(0.02)
Asset and exploration impairments	1	1	1	—	9	7	7	0.01
Deferred tax asset valuation allowance	—	(1)	(1)	—	—	15	15	0.02
Fair value changes in financial instruments	(604)	(464)	(464)	(0.70)	(565)	(433)	(433)	(0.65)
Core earnings attributable to Devon (Non-GAAP)	$ 1,862	$ 1,436	$ 1,429	$ 2.18	$ 5,651	$ 4,410	$ 4,391	$ 6.64

EBITDAX and Field-Level Cash Margin

To assess the performance of our assets, we use EBITDAX and Field-Level Cash Margin. We compute EBITDAX as net earnings before income tax expense; financing costs, net; exploration expenses; DD&A; asset impairments; asset disposition gains and losses; non-cash share-based compensation; non-cash valuation changes for derivatives and financial instruments; restructuring and transaction costs; accretion on discounted liabilities; and other items not related to our normal operations. Field-Level Cash Margin is computed as oil, gas and NGL sales less production expenses. Production expenses consist of lease operating, gathering, processing and transportation expenses, as well as production and property taxes.

We exclude financing costs from EBITDAX to assess our operating results without regard to our financing methods or capital structure. Exploration expenses and asset disposition gains and losses are excluded from EBITDAX because they generally are not indicators of operating efficiency for a given reporting period. DD&A and impairments are excluded from EBITDAX because capital expenditures are evaluated at the time capital costs are incurred. We exclude share-based compensation, valuation changes, restructuring and transaction costs, accretion on discounted liabilities and other items from EBITDAX because they are not considered a measure of asset operating performance.

We believe EBITDAX and Field-Level Cash Margin provide information useful in assessing our operating and financial performance across periods. EBITDAX and Field-Level Cash Margin as defined by Devon may not be comparable to similarly titled measures used by other companies and should be considered in conjunction with net earnings from operations.

Below are reconciliations of net earnings to EBITDAX and a further reconciliation to Field-Level Cash Margin.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net earnings (GAAP)	$ 920	$ 1,900	$ 2,621	$ 4,833
Financing costs, net	81	67	231	236
Income tax expense	152	565	572	1,389
Exploration expenses	3	4	16	16
Depreciation, depletion and amortization	651	581	1,904	1,598
Asset dispositions	—	—	(41)	(15)
Share-based compensation	22	22	70	64
Derivative and financial instrument non-cash valuation changes	183	(613)	245	(576)
Accretion on discounted liabilities and other	13	(38)	28	(89)
EBITDAX (Non-GAAP)	2,025	2,488	5,646	7,456
Marketing and midstream revenues and expenses, net	12	9	51	17
Commodity derivative cash settlements	11	363	(39)	1,179
General and administrative expenses, cash-based	77	73	227	209
Field-level cash margin (Non-GAAP)	$ 2,125	$ 2,933	$ 5,885	$ 8,861

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

Commodity Price Risk

As of September 30, 2023, we have commodity derivatives that pertain to a portion of our estimated production for the last three months of 2023, as well as for 2024 and 2025. The key terms to our open oil, gas and NGL derivative financial instruments are presented in Note 3 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

The fair values of our commodity derivatives are largely determined by the forward curves of the relevant price indices. At September 30, 2023, a 10% change in the forward curves associated with our commodity derivative instruments would have changed our net positions by approximately $290 million.

Interest Rate Risk

As of September 30, 2023, we had total debt of $6.2 billion. All of our debt is based on fixed interest rates averaging 5.7%.

Foreign Currency Risk

We had no material foreign currency risk at September 30, 2023.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

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

Based on their evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective as of September 30, 2023 to ensure that the information required to be disclosed by Devon in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

Changes in Internal Control Over Financial Reporting

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

PART II. Other Information

Item 1. *Legal Proceedings*

We are involved in various legal proceedings incidental to our business. However, to our knowledge as of the date of this report and subject to the environmental matters noted in Part I, Item 3. Legal Proceedings of our 2022 Annual Report on Form 10-K, as updated by our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023, there were no material pending legal proceedings to which we are a party or to which any of our property is subject. For more information on our legal contingencies, see Note 17 in "Part I. Financial Information – Item 1. Financial Statements" of this report.

Please see our 2022 Annual Report on Form 10-K and other SEC filings for additional information.

Item 1A. *Risk Factors*

There have been no material changes to the information included in Item 1A. "Risk Factors" in our 2022 Annual Report on Form 10-K.

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

The following table provides information regarding purchases of our common stock that were made by us during the third quarter of 2023 (shares in thousands).

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
July 1 - July 31	0	$ 49.19	—	$ 948
August 1 - August 31	2	$ 50.06	—	$ 948
September 1 - September 30	1	$ 50.06	—	$ 948
Total	3	$ 50.01	—	

(1) These amounts include approximately 3 thousand shares received by us from employees for the payment of personal income tax withholdings on vesting transactions.

(2) On November 2, 2021, we announced a $1.0 billion share repurchase program with an expiration date of December 31, 2022. In 2022, we announced expansions of this program ultimately to $2.0 billion and extended the expiration date to May 4, 2023. In May 2023, we announced a further expansion to $3.0 billion and extended the expiration date to December 31, 2024. In the third quarter of 2023, we did not repurchase any common shares, under this share repurchase program. For additional information, see Note 16 in "Part I. Financial Information – Item 1. Financial Statements" in this report.

Item 3. *Defaults Upon Senior Securities*

Not applicable.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

During the three months ended September 30, 2023, none of the Company's directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted, terminated or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

Item 6. *Exhibits*

Exhibit Number	Description
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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 8, 2023

/s/ Jeremy D. Humphers

Jeremy D. Humphers

Senior Vice President and Chief Accounting Officer