First Quarter 2014
Earnings Call
May 7, 2014

Vince White – Senior Vice President, Communications & Investor Relations

Thank you, and welcome to Devon's first-quarter earnings call and webcast. Before we get started, I want to make sure that everyone is aware that we have prepared a handful of slides to supplement today's script. The slides are integrated with today's webcast and are also available for download in PDF form on Devon's homepage: devonenergy.com. For those that are not participating via webcast, we will make sure to refer to the slide number during our prepared remarks so that you can follow along.

Today's call will follow our usual format. I will cover a few preliminary items and then turn the call over to our President and CEO, John Richels for his comments. Then Dave Hager, our Chief Operating Officer, will provide the operations update…and we will wrap up our commentary with a financial review by our CFO, Tom Mitchell. After our financial discussion, we will have a Q&A session. We will conclude the call after one hour and a replay will be available later today on our website. The Investor Relations team will also be available this afternoon should you have any additional questions.

On the call today, we are going to update some of our forward-looking information. In addition to the updates that we are providing in the call, we will file a Form 8-K later today containing the details of our updated 2014 estimates. A copy of this updated 8-K will be available within the Investor Relations section of the Devon website.

The guidance we provide today includes plans, forecasts, expectations and estimates which are forward-looking statements under U.S. securities law. These are, of course, subject to a number of assumptions, risks and uncertainties; many of which are beyond our control. These statements are not guarantees of future performance. For a discussion of the risk factors relating to these estimates see our Form 10-K.

Also in today's call we will reference certain Non-GAAP performance measures. When we use these measures, we are required to provide specific related disclosures. These disclosures may also be found on Devon's website.

At this point, I will turn the call over to our President and CEO, John Richels.

John Richels – President & Chief Executive Officer

Thank you Vince and good morning everyone. Before we get to the business of the quarter, I want to welcome the latest addition to Devon's team of senior executives, Chief Financial Officer, Tom Mitchell. Tom brings a wealth of industry experience and considerable financial savvy to Devon and we are thrilled to have him on board. As

Vince mentioned, you'll hear from Tom later in the call. As you have the opportunity over the coming months to meet Tom, please join me in welcoming him to Devon.

The first quarter was another excellent one for Devon. As shown on **slide 3**, our disciplined focus on high-margin oil development opportunities led to another quarter of outstanding growth in oil production that drove significant operating margin improvements. Additionally, we made meaningful progress in our efforts to high-grade our go-forward asset portfolio. This progress was evidenced by the closing of our Eagle Ford acquisition, the completion of the EnLink Midstream combination, the exit from our conventional gas business in Canada, and our recently announced bolt-on acreage acquisition in Cana. In addition, we once again raised our dividend during the quarter.

Now let's take a look at some of these highlights in more detail…

In the first quarter, we achieved year over year oil production growth of 21% from our go-forward asset base, reaching an average daily rate of 176,000 barrels per day. As can be seen on **slide 4**, this growth was driven entirely by light sweet crude production from our retained U.S. assets, which increased an impressive 56% compared to the first quarter of 2013. With our success in growing high-margin production, we expect oil and natural gas liquids to approach nearly 60% of Devon's go-forward production mix by year end.

In addition to our robust growth in high-margin oil production, we benefitted from the sharp rise in natural gas pricing and improved Canadian heavy oil realizations. This drove first quarter upstream revenue up by 42% compared to the first quarter of 2013. As shown on **slide 5**, 67% of our upstream revenue came from liquids. Higher revenues coupled with our low cost structure drove operating margins up more than 50% year-over-year.

Another notable first-quarter financial highlight was a 9 percent increase in Devon's quarterly cash dividend to $0.24 per share. This is Devon's ninth dividend increase since 2004, representing an annual compound growth rate of 23 percent. Our dividend increase reflects Devon's long-term commitment to returning cash to our shareholders and ultimately underscores the confidence we have in our business.

Looking beyond our operating and financial results for the quarter…We did an outstanding job over the past few months executing on our portfolio transformation, which is now nearly complete. The first major milestone occurred on February 28th with the closing of our Eagle Ford acquisition. This acquisition of 82,000 net acres in the economic heart of the play adds a new light oil core area to Devon's portfolio, offering some of the highest rate-of-return drilling opportunities in North America. While we have only owned this position for a short time, the reservoir performance we have seen to date has been outstanding, fully supporting our production growth targets and double-digit accretion in cash flow per debt adjusted share.

One week later, on March 7th, we closed on our midstream combination with Crosstex to form EnLink Midstream. EnLink units are now trading on the New York Stock Exchange under the ticker symbols “ENLC” for the general partner and “ENLK” for the MLP. And while the assets we contributed were valued in the transaction at about $4.8 billion, the ownership interest in the EnLink securities that we received had a market value at yesterday’s close of more than $7.5 billion or approximately 27% of our current market capitalization. This valuable ownership was attained by contributing most of Devon’s U.S. midstream assets to EnLink. The contributed assets accounted for only 7% of Devon’s cash flow last year. Furthermore, the loss of this direct midstream cash flow is offset by our receipt of quarterly distribution payments from EnLink and EnLink’s assumption of the associated capital obligations. Looking beyond these immediate benefits, we are also excited about the attractive long-term growth prospects associated with this business. The stable fixed-fee structure, deep backlog of liquids-oriented projects, and future dropdown potential from both Devon and the general partner, provide a foundation for EnLink to deliver attractive distribution growth for many years.

We took another significant step forward in our transformation in early April by closing the sale of our Canadian conventional business for 3.125 billion Canadian dollars. This was our largest divestiture package and we attractively monetized these gas-weighted assets at nearly 7 times EBITDA, a substantial premium to Devon’s current trading multiple. After adjusting for currency exchange and taxes associated with the sale and repatriation of the funds to the U.S., we are receiving net proceeds of 2.7 billion U.S. dollars. For our remaining divestiture assets, which are all located in the U.S., we are putting the final touches on the data rooms with the expectation to complete the sale of all non-core assets by yearend.

And most recently, we opportunistically added to our core Cana Woodford position by acquiring an additional 50,000 net acres and 5,800 equivalent barrels per day of production. These assets directly overlap our existing core Cana position and expand our opportunity set with exposure to other western Oklahoma oil and gas plays. This move is consistent with our philosophy of building scale and scope in our core play areas. Later in the call, Dave will discuss recent positive developments at Cana that led to our decision to acquire the additional interests.

The bold steps we have recently taken to high-grade our asset base have positioned Devon with a formidable and balanced portfolio focused on fewer core areas in some of the most attractive basins in North America. Our retained asset base consists of three world-class oil development plays in the Permian Basin, Eagle Ford, and Canadian oil sands and two of the best liquids-rich gas areas in the U.S.: the Barnett Shale and the Anadarko Basin. Each of these core areas has the inventory to materially grow production and sufficient scale to generate substantial amounts of cash flow. Our capital budget for these <u>retained properties</u> in 2014 is around $5 billion and is concentrated in our three high-margin oil development plays. Looking at **slide 6**, companywide oil production is expect to grow by more than 30% year over year led by a 70% plus increase in U.S. oil production. This should drive growth of about 10% in top-line production on an energy equivalency basis or 20% higher on a 20:1 price equivalency basis. As evidenced by our solid first-quarter performance, we are well on our way to achieve these attractive growth targets.

In addition to the growth we are delivering in 2014, Devon is also positioned for significant high-margin oil growth in 2015 and beyond. Bringing your attention to **slide 7**, we expect Devon's retained asset base to generate organic oil production growth in excess of 20% in 2015. Let's look at the specific drivers of this oil growth…

- Our most significant growth next year will come from low-risk infill drilling in the Eagle Ford where we expect production to average well over 100,000 BOE per day. In addition to this exceptional volume growth trajectory, this highly profitable production will also deliver a powerful free cash flow stream that should exceed $1 billion based on current prices. So just to be clear, that is free cash flow in excess of our capital investments.
- Another driver of growth in 2015 will be the acceleration of drilling activity in the Delaware Basin, specifically within southeast New Mexico. Over the next year, we will accelerate development of our rapidly growing resource potential in the region. Dave will provide more details on our expanding inventory and resource potential of this prolific basin later in the call.
- And lastly, in Canada, the startup of our Jackfish 3 facility later this year will commence another leg of multi-year oil production growth from our thermal oil

business. In 2015, we expect net oil production from our Jackfish complex to increase to a range of 62,000 to 67,000 barrels per day, representing a year over year growth rate of approximately 30%. Furthermore, the completion of Jackfish 3 will lower Devon's overall capital intensity and begin an era of free cash flow from our Jackfish complex with the potential to generate up to $1 billion annually for many years. As seen on **slide 8**, this "wall of cash" provides a significant source of capital for E&P investment, debt reduction, dividends and share repurchases.

In summary, I have never been more excited about Devon's future than today. As outlined on **slide 9**, Devon has established itself as one of the largest oil producers among our North American onshore pure-play peers. When you combine the growth potential of our top-tier oil development projects with our high-quality natural gas optionality, we are well positioned for extremely competitive growth rates for years to come. What makes our growth story even more appealing is Devon's attractive valuation. Backing out the value of Devon's EnLink securities from our enterprise value and EBITDA, reveals that our E&P business is trading at just over 4 times EBITDA. As we continue to execute on our growth plan, Devon shares have the potential to benefit from not only improving margins and higher cash flow, but through multiple expansion as well.

And with that, I will turn the call over to Dave Hager for a more detailed operations review. Dave?

Dave Hager – Chief Operating Officer

Thanks John. Good morning everyone.

Let's begin with a quick recap of our first quarter **capital expenditures**. Exploration and development capital for the first quarter totaled $1.2 billion, just below the bottom end of our previous guidance range. Based on planned activity levels for the remaining three quarters of 2014, we remain on track with our full-year drilling and completions capital guidance range of $4.8 to $5.2 billion for our go-forward assets. As John indicated earlier, our focus on high-margin oil projects led to another quarter of outstanding growth in oil production. Let's take a closer look at some of the first-quarter operating highlights.

Beginning with the **Permian Basin**…first quarter production averaged a record 91,000 barrels of oil equivalent per day. This record was driven by robust growth in oil production which increased 36 percent compared to the first quarter of 2013 and was 9 percent higher than the previous quarter. Light oil production continues to account for 60% of our total Permian production.

In the **Delaware Basin**, our **Bone Spring** horizontal program is the most significant driver of our Permian oil growth. In the first quarter we brought 35 Bone Spring wells online with average 30-day IP rates approaching 700 barrels of oil equivalent per day, of which 80% was light oil. Also in the Delaware Basin, we commenced production on two high rate oil wells targeting the Delaware Sands in Lea County, New Mexico. Initial 30-day production from these two wells averaged in excess of 1,000 BOE per day and consisted of nearly 90 percent light oil.

The tremendous results we continue to see from our Delaware Basin drilling programs, coupled with our ongoing reservoir characterization work, has allowed us to substantially increase our risked inventory in the Delaware Basin. To help you more fully appreciate the scale and scope of our potential in the Delaware Basin, I want to turn your attention to **slide 10** which illustrates our acreage position by prospective formation. As you can see, the stacked-pay nature of our position in the Delaware Basin provides us with exposure not only to the Bone Spring and Delaware Sands, but also the Leonard Shale, Wolfcamp and several other oil zones. If you add up this leasehold by formation you can see we have approximately 500,000 net acres to appraise and develop.

Turning to **slide 11**, you can see this translates into a significant inventory of undrilled locations for Devon. Our largest and most economic opportunity is in the Bone Spring. We recently completed a comprehensive reservoir evaluation on a large portion of our Bone Spring acreage position. This work, combined with strong well performance and successful appraisal drilling in several step-out areas, has allowed us to add some 1,900 additional locations to our Bone Spring inventory. This boosts our undrilled Bone Spring inventory to 3,500 locations. Adding locations in the Delaware Sands, Leonard Shale, and several other oil formations brings our total risked inventory in the Delaware Basin to more than 5,000 undrilled locations. To put this in perspective, at our current activity levels this represents more than 25 years of drilling inventory in the Delaware Basin. Keep in mind, these are risked locations and do not include any locations for our Wolfcamp acreage which we are currently evaluating. We fully expect additional inventory increases over time as Devon and the industry continue to de-risk this world-class oil basin.

With this significant inventory in the Delaware Basin, I would like to provide some thoughts on how we will approach converting this resource into production and cash flow. Today we are running 12 rigs in the Delaware Basin…the appropriate level of activity given the availability in Southeast New Mexico of gas gathering and processing capacity, high-quality rigs, completion services and manpower. Our program in 2014 is focused almost entirely on our high rate of return and low-risk Bone Spring development opportunities. Over the next year we expect additional capacity build-out within this portion of the Permian to support additional activity to further exploit our rapidly growing resource inventory in the region. While we are not ready to provide specific plans, our preliminary view on 2015 is that we will have the opportunity to significantly increase our drilling activity next year. This will allow us to continue aggressively developing our highly profitable Bone Spring and accelerate the development and appraisal of our Delaware Sands, Leonard Shale, and Wolfcamp well inventories. Given our outlook for significant cash flow growth next year, we clearly have the means to fund a more robust level of activity. As John highlighted in his opening remarks, the acceleration of drilling activity in the Delaware Basin is a visible source of future light oil production in 2015 and will remain a cornerstone asset for Devon for many years to come.

Shifting to the **Southern Midland Basin**…we continue to see solid results from our oil development program in the **Wolfcamp Shale** where we have a joint venture partnership with Sumitomo. During the first quarter we tied-in 26 Wolfcamp Shale wells, increasing our average net production in the play to an average of 10,000 BOE per day. Compared to the first quarter of 2013, this represents production growth of 8,000 BOE per day.

Moving to the **Eagle Ford**…as John mentioned, we completed our acquisition of 82,000 net acres in the Eagle Ford on February 28th resulting in one month of production in our first quarter reported results. Although we have only owned these assets for a couple of months now, we couldn't be more pleased with their quality and with our joint venture relationship with BHP in DeWitt County. The well and reservoir performance that we have seen to date reinforces our previous forecast for average net daily production of 70,000 to 80,000 BOE per day for the 10 months we will own this asset this year. We are also on track to deliver well in excess of 100,000 BOE per day in 2015.

As many of you are aware through recent BHP disclosures, March production on our DeWitt county acreage was temporarily constrained by third-party gathering system downtime and the timing of well tie-ins. In the Eagle Ford, the production growth profile for most operators is somewhat lumpy due to the nature of pad drilling and the Devon/BHP partnership is no exception. With wells being brought on in groups of as many as 20 at a time, and the timing of bringing on necessary infrastructure to tie in the wells, the production growth will tend to come in step changes.

For March, our first month of ownership, our net Eagle Ford production averaged 49,000 barrels of oil equivalent per day. However, as shown on **slide 12**, an increase in well tie-ins at the end of March and in April has driven our net daily production up to 64,000 BOE per day currently. We expect to average between 65,000 and 70,000 BOE per day for the second quarter. And for the second half of the year, we expect our Eagle Ford production to increase to a range of 80,000 to 85,000 BOE per day. Our growth in the Eagle Ford in the second half of this year is being driven by a large number of well tie-ins during that period. Our Eagle Ford drilling program remains on plan and at quarter end we had an inventory of about 120 wells drilled but not yet producing. In the second half of the year, we expect this well inventory to trend downward as we catch-up on pad tie-ins and necessary transportation systems improvements are completed in DeWitt County. As I mentioned earlier, for the ten months we will own the asset in 2014, we are on track to achieve our previously announced guidance of an average of 70,000 to 80,000 BOE per day.

In addition to world-class oil development in DeWitt County, we are also excited about the emerging opportunities we see ahead of us on our 32,000 net acres in **Lavaca County.** As you can see on **slide 13**, recently announced well results by industry in this area, represented in blue, have included initial oil production rates of more than 1,000 barrels of oil per day. These results have far exceeded our expectations for the area and with less than 10 percent of the acquisition value assigned to our 32,000 net acres, we are extremely encouraged with the upside potential on this acreage. We expect to bring our first Lavaca County wells online in the second quarter and as previously disclosed expect to participate in roughly 30 gross wells for the full year.

And lastly, I want to briefly mention another potential upside opportunity we have identified across our position in the Eagle Ford. We have mapped our acreage position in Lavaca and DeWitt County and believe that most of our acreage is prospective for the upper Eagle Ford formation. Our belief is supported by recent industry results as noted in green on **slide 13**. We are evaluating these results and the timing of our first operated well to test the Upper Eagle Ford.

Moving now to our **thermal oil** projects in northeastern Alberta on **slide 14**…first quarter gross production from our two Jackfish projects averaged roughly 62,000 barrels of oil per day, or 52,000 barrels per day after royalties. At **Jackfish 1** gross production averaged 37,000 barrels per day or 29,000 barrels per day, net of royalties. The success of our ongoing efforts to improve steam efficiency and well productivity allowed us to exceed the facility's name plate capacity of 35,000 barrels a day during the quarter. Recently, we have seen excellent results from efficiency modifications to our steam generators, lowering steam chamber pressures, optimizing the temperature profile in the steam chamber and conducting well stimulations. Continued success from these and other efforts underway to lower our steam-oil-ratio, could result in continued growth in production above name plate capacity.

Construction of **Jackfish 3** is essentially complete and plant commissioning activities are well underway. We expect to begin injecting steam in the third quarter of this year. Delivery of first oil is scheduled to occur late this year with production ramping up throughout 2015.

At **Pike—**our thermal oil sands joint venture with BP—the approval process for the first phase of the Pike development remains on track. And, we expect to receive regulatory approval later this year. As a reminder, the Pike 1 development project will have ultimate gross production capacity of 105,000 barrels of oil per day. Devon operates Pike with a 50% working interest.

Shifting now to the Anadarko Basin in western Oklahoma, our liquids-rich **Cana-Woodford Shale** play averaged a record 60,000 BOE per day in the first quarter. As John mentioned, our recently announced transaction in the Cana-Woodford allows us to increase our scale and scope in one of our core liquids-rich gas plays, and at a cost of less than $2 per BOE for the roughly 150 million barrels of risked resource. The additional 50,000 net acres increases our core Cana position to approximately 300,000 net acres.

We were particularly excited to acquire this acreage after seeing some positive results from our recent technical work in the area. With the asset team's focus on managing base production, we discovered through reservoir engineering, including pressure transient analysis, that we had enhancement opportunities on many of our core area producing wells. We have now performed these enhancements on about 70 producing wells and the results have been outstanding. In most cases this inexpensive treatment took production per well from around 1 million cubic feet equivalent per day up to 3 million a day or more. We believe these efforts should increase EURs by about a BCF per well with a payback period of less than 3 months. We have identified more than 200 additional wells that can be treated in the core area, including wells on our new acreage.

In addition to this technical work, we continue to make improvements to our completion design. With our most recent wells, we have doubled the number of frac stages and increased the amount of proppant pumped to around 6 million pounds per well, a 70 percent increase over our previous jobs. The results from these completion improvements, as well as our down-hole work on existing producers, have been outstanding. Production performance from these wells are exceeding our type curve model and significantly enhancing our rate of return. These stronger returns have improved the competitiveness of our Cana drilling within our portfolio, which ultimately led us to take advantage of the opportunity to acquire additional acreage. We are evaluating the impact of the acquisition and the recent technical advancements at Cana on our capital allocation plan and will discuss any modifications during next quarter's call.

Looking at our **Mississippian-Woodford** trend position in north central Oklahoma…we brought 63 operated wells online during the quarter within the Sinopec joint-venture area with overall results supporting our type curve expectations. Solid performance from these wells helped drive our average first quarter production in the trend to 19,000 BOE per day, of which 50 percent was light oil. This represents a production growth rate of 35 percent compared to the fourth quarter of 2013. The focus of our activity this year is on the JV area where we have the benefit of the carry and are seeing the most consistent results.

And finally…our **Rockies** assets continue to deliver excellent results with net production averaging 20,000 BOE per day in the first quarter. Liquids production in the Rockies increased 21 percent compared to the first quarter of last year and accounted for nearly half of Devon's product mix in the region. Our activity was highlighted by two high rate oil wells brought online during the quarter. An Iberlin Ranch well targeting the Frontier formation was tied-in with initial 30-day production averaging 2,000 BOE per day, including more than 1,700 barrels of oil per day. We also commenced production on a well targeting the Parkman formation with a 30-day production rate averaging in excess of 1,100 BOE per day, of which 96 percent was light-oil.

Devon has 150,000 net acres in the Powder River Basin, prospective for multiple formations including the Parkman, Turner and Frontier. The company has identified approximately 1,000 risked locations across the Powder River Basin and expects its drilling inventory to increase as the company de-risks this oil opportunity.

So in **summary**, we had another strong quarter of execution across our entire North American onshore portfolio. The core focus areas that I discussed on the call today are delivering highly economic and robust production growth for Devon. And, with our growing inventory of opportunities, we are poised to deliver impressive oil growth in 2014 and beyond.

With that, I'll turn the call over to Tom for the financial review and outlook. Tom?

Tom Mitchell – Executive Vice President & Chief Financial Officer

Thank you, Dave and good morning everyone. Today I will take you through a brief review of our financial and operating results in the first quarter and, where called for, provide updated guidance.

Before I get started, I want to remind everyone of the changes in our first-quarter financial reporting resulting from the EnLink transaction. Now that Devon is the majority owner in EnLink, accounting rules require that 100% of EnLink's revenues, expenses, debt and capital are consolidated within our financial statements. The minority ownership interests from the portion that we do not own will be netted and deducted on a line item in our financials entitled “non-controlling interest”. Due to these accounting changes, the comparability of first quarter results to prior quarters from a trend analysis perspective is challenging. However, in our earnings release and in our upcoming SEC filings, we are providing supplemental schedules that will break out the results of our upstream business from that of EnLink.

Since John covered the first-quarter production highlights earlier in the call, I will begin with a quick review of our **outlook for production…**In the second quarter, we expect **our go-forward asset portfolio** to deliver total production of 609,000 to 631,000 BOE per day. This represents top-line growth from our retained assets of approximately 15% compared to the second quarter of 2013. Most importantly, this expected increase in production is underpinned by strong, high-margin oil growth. For our go-forward properties, we are forecasting oil **production** in the second quarter to increase by roughly 30% year over year to a range of between 200,000 and 210,000 barrels per day. This excellent growth in high-margin oil production is driven by a full quarter of Eagle Ford production and continued success from our Permian development programs.

For the full year, we remain comfortable with our previous guidance range. We are on track to produce between 579,000 and 622,000 BOE per day from our go-forward business, driven by a full-year oil growth rate in excess of 30%.

Moving to upstream revenue…

In the first quarter, improved price realizations for all products, combined with higher oil production, drove our E&P upstream revenue to $2.6 billion. This represents an increase in oil, gas and NGL sales of 42% compared to the year-ago quarter. The most notable improvements in regional pricing were attributable to our Canadian heavy oil production, strong gas realizations from our retained U.S. portfolio and a meaningful price uptick in Mid-Continent NGLs. In the first quarter, oil sales alone, excluding NGLs, accounted for more than 50% of our E&P revenue.

Turning now to our midstream business…

Once again, our midstream business delivered excellent results, generating $183 million of operating profit in the first quarter….a 47% increase compared to the first-quarter of last year and about 20% above the high end of our guidance range. Improved price realizations and effective cost management were the key drivers behind our first quarter outperformance. Our first quarter results did include 25 days of contribution from EnLink, which amounted to $50 million of operating profit. Based on our strong start to the year we are confident of our full year forecast for midstream operating profit of $685 to $755 million.

Moving to expenses…

Overall, our first-quarter pre-tax expenses were generally in line with our expectations, totaling $1.8 billion. Excluding the costs associated with the consolidation of EnLink Midstream, pre-tax expenses were 8 percent higher than the first quarter of 2013. The increase in unit cost is attributable to higher production taxes and operating expenses associated with the company's rapidly growing high-margin oil production. In addition, $22 million of non-recurring G&A transaction expenses associated with the EnLink and GeoSouthern transactions and a change in the timing of our annual stock-based compensation grant resulted in an increase in first quarter G&A. The stock based equity grants were previously made in Q4 of each year. However, to better link stock based compensation to the year's performance, the 2013 grant was delayed to Q1 of 2014, resulting in no grant during 2013.

In the upcoming quarter, we expect improvements in our unit cash costs. Looking specifically at our largest cash cost, lease operating expense, we expect second-quarter LOE to decline by about 5 percent sequentially to a range of $9.00 to $9.25 per BOE. This expected improvement in unit LOE costs is driven by our first full-quarter of production from our low-cost Eagle Ford assets and the sale of our high-cost Canadian conventional business that took effect at the beginning of April.

For those of you modeling Devon, it is also important to incorporate the change in our go-forward DD&A rates. In the second quarter, we expect DD&A expense to increase to a range of $13 to $14 per BOE. This increase in DD&A, which is of course a non-cash expense, is primarily attributable to a full quarter of depletion expense associated with our newly acquired Eagle Ford properties and the consolidation of EnLink. For the full-year our DD&A forecast remains unchanged at $12.50 to $14.50 per BOE.

Cutting to the **bottom line**…Our Non-GAAP earnings increased to $547 million or $1.34 per diluted share. This is more than double our earnings per share in the year-ago quarter and comfortably exceeded the Wall Street consensus expectations. This improved profitability translated into higher cash flows. First quarter operating cash flow totaled $1.4 billion, a 41% increase year over year.

Before we open the call to Q&A, I will conclude my remarks with a quick review of our **balance sheet and liquidity**…At the end of the first quarter, our financial positioning remained strong reflected in investment-grade credit ratings across the board. With cash balances of $2 billion we exited the quarter with a net debt balance of $13.5 billion. Of this amount, $1.5 billion of net debt is attributable to EnLink and is non-recourse to Devon. If you include the proceeds from the closing of our Canadian conventional divestiture package in early April, our net debt decreases to about $11 billion, or just over $9 billion if you exclude EnLink's net debt. Looking ahead, any proceeds from our U.S. divestiture process would be utilized to reduce debt, further strengthening our high-quality balance sheet.

So with that, I will turn the call back over to Vince for the Q&A. Vince?

Vince White – Senior Vice President, Communications & Investor Relations

Thanks, Tom. As a reminder, during the Q&A session we will ask each participant to limit his or her question to one initial inquiry and one follow-up. Operator, we are ready for the first question….

Q&A Session

John Richels - President & Chief Executive Officer

Well folks, I am showing the top of the hour but before signing off, I will leave you with a few key takeaways from today's call…

- First, we have done an excellent job of improving our portfolio in a short period of time.
- Devon emerges with a formidable portfolio that is on track to deliver multi-year oil production growth in excess of 20% while generating free cash flow.
- As evidenced by our Q1 results, our pursuit of high-margin production is significantly expanding our margins and profitability. And finally,
- The resource potential associated with our world-class Permian Basin continues to get better with time and is clearly a cornerstone growth asset for Devon.

As I look ahead, I never been more excited about the future prospects of Devon. Even with all the exciting changes over the last year, our approach to the business remains unchanged. We will continue to aggressively pursue our top strategic objective of maximizing shareholder returns by optimizing long-term growth in debt-adjusted cash flow per share.

So we will look forward to talking with you again at the next call, and thank you for joining us today.

This document includes "forward-looking statements" as defined by the Securities and Exchange Commission (SEC). Such statements are those concerning strategic plans, expectations and objectives for future operations. All statements, other than statements of historical facts, included in this press release that address activities, events or developments that the company expects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are *subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of the company. Statements regarding future drilling and production are subject to all of the risks and uncertainties normally incident to the exploration for and development and production of oil and gas. These risks include, but are not limited to, the volatility of oil, natural gas and NGL prices; uncertainties inherent in estimating oil, natural gas and NGL reserves; the extent to which we are successful in acquiring and discovering additional reserves; unforeseen changes in the rate of production from our oil and gas properties; uncertainties in future exploration and drilling results; uncertainties inherent in estimating the cost of drilling and completing wells; drilling risks; competition for leases, materials, people and capital; midstream capacity constraints and potential interruptions in production; risk related to our hedging activities; environmental risks; political or regulatory changes; and our limited control over third parties who operate our oil and gas properties. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. The forward-looking statements in this press release are made as of the date of this press release, even if subsequently made available by Devon on its website or otherwise. Devon does not undertake any obligation to update the forward-looking statements as a result of new information, future events or otherwise.*

The SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved, probable and possible reserves that meet the SEC's definitions for such terms, and price and cost sensitivities for such reserves, and prohibits disclosure of resources that do not constitute such reserves. This release may contain certain terms, such as resource potential and exploration target size. These estimates are by their nature more speculative than estimates of proved, probable and possible reserves and accordingly are subject to substantially greater risk of being actually realized. The SEC guidelines strictly prohibit us from including these estimates in filings with the SEC. U.S. investors are urged to consider closely the disclosure in our Form 10-K, available at www.devonenergy.com. You can also obtain this form from the SEC by calling 1-800-SEC-0330 or from the SEC's website at www.sec.gov.