

APACHE CORP  
Form 10-Q  
August 04, 2017  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-4300

APACHE CORPORATION  
(exact name of registrant as specified in its charter)

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Delaware 41-0747868  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)  
One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400  
(Address of principal executive offices)  
Registrant's Telephone Number, Including Area Code: (713) 296-6000

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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  (Do not check if a smaller reporting company) 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 Exchange Act). Yes  No

Number of shares of registrant's common stock outstanding as of July 31, 2017 380,934,131

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### Forward-Looking Statements and Risk

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs, and plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements are based on our examination of historical operating trends, the information that was used to prepare our estimate of proved reserves as of December 31, 2016, and other data in our possession or available from third parties. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “could,” “expect,” “intend,” “project,” “estimate,” “anticipate,” “plan,” “believe,” or “continue” or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, our assumptions about:

- the market prices of oil, natural gas, natural gas liquids (NGLs), and other products or services;
- our commodity hedging arrangements;
- the supply and demand for oil, natural gas, NGLs, and other products or services;
- production and reserve levels;
- drilling risks;
- economic and competitive conditions;
- the availability of capital resources;
- capital expenditure and other contractual obligations;
- currency exchange rates;
- weather conditions;
- inflation rates;
- the availability of goods and services;
- legislative, regulatory, or policy changes;
- terrorism or cyber-attacks;
- occurrence of property acquisitions or divestitures;
- the integration of acquisitions;
- the securities or capital markets and related risks such as general credit, liquidity, market, and interest-rate risks; and
- other factors disclosed under Items 1 and 2—Business and Properties—Estimated Proved Reserves and Future Net Cash Flows, Item 1A—Risk Factors, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of

Operations, Item 7A—Quantitative and Qualitative Disclosures About Market Risk and elsewhere in our most recently filed Annual Report on Form 10-K, other risks and uncertainties in our second-quarter 2017 earnings release, other factors disclosed under Part II, Item 1A—Risk Factors of this Quarterly Report on Form 10-Q, and other filings that we make with the Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

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PART I – FINANCIAL INFORMATION  
ITEM 1 – FINANCIAL STATEMENTS  
APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED OPERATIONS  
(Unaudited)

|  | For the Quarter<br>Ended June 30,           |           | For the Six<br>Months Ended<br>June 30, |           |
|--|---|-----------|---|-----------|
|  | 2017  | 2016      | 2017                                    | 2016      |
|  | (In millions, except per common share data) |           |   |           |
| <b>REVENUES AND OTHER:</b>                                       |   |           |   |           |
| Oil and gas production revenues                                  |   |           |   |           |
| Oil revenues   | \$1,050                                     | \$1,118   | \$2,222                                 | \$1,940   |
| Gas revenues   | 233   | 209       | 488                                     | 432       |
| Natural gas liquids revenues                                     | 63  | 59        | 148                                     | 101       |
|  | 1,346                                       | 1,386     | 2,858                                   | 2,473     |
| Other  | 59  | (21 )     | 84                                      | (24 )     |
| Gain (loss) on divestitures                                      | (21 )                                       | 17        | 320                                     | 16        |
|  | 1,384                                       | 1,382     | 3,262                                   | 2,465     |
| <b>OPERATING EXPENSES:</b>                                       |   |           |   |           |
| Lease operating expenses   | 372   | 359       | 708                                     | 737       |
| Gathering and transportation                                     | 48  | 52        | 105                                     | 104       |
| Taxes other than income  | 29  | 65        | 71                                      | 76        |
| Exploration  | 108   | 91        | 200                                     | 186       |
| General and administrative                                       | 106   | 103       | 209                                     | 196       |
| Transaction, reorganization, and separation                      | 4   | 9         | (6 )                                    | 24        |
| Depreciation, depletion, and amortization:                       |   |           |   |           |
| Oil and gas property and equipment                               | 536   | 629       | 1,074                                   | 1,265     |
| Other assets   | 36  | 40        | 74                                      | 82        |
| Asset retirement obligation accretion                            | 37  | 38        | 73                                      | 76        |
| Impairments  | —   | 173       | 8                                       | 173       |
| Financing costs, net   | 99  | 104       | 199                                     | 209       |
|  | 1,375                                       | 1,663     | 2,715                                   | 3,128     |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>                     | 9   | (281 )    | 547                                     | (663 )    |
| Current income tax provision                                     | 126   | 144       | 314                                     | 134       |
| Deferred income tax benefit                                      | (730 )                                      | (225 )    | (647 )                                  | (226 )    |
| <b>NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST</b>       | 613   | (200 )    | 880                                     | (571 )    |
| Net income attributable to noncontrolling interest               | 41  | 44        | 95                                      | 45        |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK</b>            | \$572                                       | \$(244 )  | \$785                                   | \$(616 )  |
| <b>NET INCOME (LOSS) PER COMMON SHARE:</b>                       |   |           |   |           |
| Basic  | \$1.50                                      | \$(0.65 ) | \$2.06                                  | \$(1.63 ) |
| Diluted  | \$1.50                                      | \$(0.65 ) | \$2.05                                  | \$(1.63 ) |
| <b>WEIGHTED-AVERAGE NUMBER OF COMMON SHARES<br/>OUTSTANDING:</b> |   |           |   |           |
| Basic  | 381   | 379       | 380                                     | 379       |
| Diluted  | 383   | 379       | 383                                     | 379       |
| <b>DIVIDENDS DECLARED PER COMMON SHARE</b>                       | \$0.25                                      | \$0.25    | \$0.50                                  | \$0.50    |
| The accompanying notes to consolidated financial statements      |   |           |   |           |

are an integral part of this statement.

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APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED CASH FLOWS  
(Unaudited)

|  | For the Six<br>Months Ended<br>June 30, |                |
|--|---|----------------|
|  | 2017                                    | 2016           |
|  | (In millions)                           |                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |   |                |
| Net income (loss) including noncontrolling interest                                      | \$880                                   | \$(571 )       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |   |                |
| Gain on divestitures   | (320 )                                  | (16 )          |
| Exploratory dry hole expense and unproved leasehold impairments                          | 152                                     | 139            |
| Depreciation, depletion, and amortization  | 1,148                                   | 1,347          |
| Asset retirement obligation accretion  | 73                                      | 76             |
| Impairments  | 8                                       | 173            |
| Deferred income tax benefit  | (647 )                                  | (226 )         |
| Other  | 39                                      | 91             |
| Changes in operating assets and liabilities:   |   |                |
| Receivables  | 62                                      | 237            |
| Inventories  | 20                                      | 1              |
| Drilling advances  | (20 )                                   | (30 )          |
| Deferred charges and other   | (90 )                                   | (65 )          |
| Accounts payable   | (37 )                                   | (118 )         |
| Accrued expenses   | (86 )                                   | (57 )          |
| Deferred credits and noncurrent liabilities  | 24                                      | 2              |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <b>1,206</b>                            | <b>983</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |   |                |
| Additions to oil and gas property  | (883 )                                  | (925 )         |
| Leasehold and property acquisitions  | (67 )                                   | (118 )         |
| Additions to gas gathering, transmission, and processing facilities                      | (274 )                                  | —              |
| Proceeds from sale of Midale and House Mountain  | 228                                     | —              |
| Proceeds from sale of oil and gas properties   | 483                                     | 48             |
| Other, net   | (16 )                                   | 29             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(529 )</b>                           | <b>(966 )</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |   |                |
| Payments on fixed-rate debt  | (70 )                                   | —              |
| Distributions to noncontrolling interest   | (170 )                                  | (93 )          |
| Dividends paid   | (190 )                                  | (189 )         |
| Other  | 43                                      | (1 )           |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>   | <b>(387 )</b>                           | <b>(283 )</b>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                              | <b>290</b>                              | <b>(266 )</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                    | <b>1,377</b>                            | <b>1,467</b>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>  | <b>\$1,667</b>                          | <b>\$1,201</b> |

**SUPPLEMENTARY CASH FLOW DATA:**

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|  |       |       |
|--|-------|-------|
| Interest paid, net of capitalized interest | \$202 | \$206 |
| Income taxes paid, net of refunds          | 163   | 201   |

The accompanying notes to consolidated financial statements  
are an integral part of this statement.

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APACHE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(Unaudited)

|   | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
|   | (In millions)    |                      |
| <b>ASSETS</b>   |                  |                      |
| <b>CURRENT ASSETS:</b>  |                  |                      |
| Cash and cash equivalents   | \$1,667          | \$ 1,377             |
| Receivables, net of allowance   | 1,015            | 1,128                |
| Inventories   | 416              | 476                  |
| Drilling advances   | 99               | 81                   |
| Assets held for sale  | 1,231            | —                    |
| Prepaid assets and other  | 219              | 179                  |
|   | 4,647            | 3,241                |
| <b>PROPERTY AND EQUIPMENT:</b>  |                  |                      |
| Oil and gas, on the basis of successful efforts accounting:   |                  |                      |
| Proved properties   | 38,118           | 42,693               |
| Unproved properties and properties under development  | 1,796            | 1,969                |
| Gathering, transmission and processing facilities   | 1,254            | 976                  |
| Other   | 998              | 1,111                |
|   | 42,166           | 46,749               |
| Less: Accumulated depreciation, depletion, and amortization   | (24,615 )        | (27,882 )            |
|   | 17,551           | 18,867               |
| <b>OTHER ASSETS:</b>  |                  |                      |
| Deferred charges and other  | 404              | 411                  |
|   | \$22,602         | \$ 22,519            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                  |                      |
| <b>CURRENT LIABILITIES:</b>   |                  |                      |
| Accounts payable  | \$533            | \$ 585               |
| Liabilities held for sale   | 939              | —                    |
| Other current liabilities (Note 5)  | 1,401            | 1,258                |
|   | 2,873            | 1,843                |
| <b>LONG-TERM DEBT</b>   |                  |                      |
|   | 8,329            | 8,544                |
| <b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b>   |                  |                      |
| Income taxes  | 1,058            | 1,710                |
| Asset retirement obligation   | 1,811            | 2,432                |
| Other   | 266              | 311                  |
|   | 3,135            | 4,453                |
| <b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>   |                  |                      |
| <b>EQUITY:</b>  |                  |                      |
| Common stock, \$0.625 par, 860,000,000 shares authorized, 414,099,033 and 412,612,102 shares issued, respectively | 259              | 258                  |
| Paid-in capital   | 12,246           | 12,364               |
| Accumulated deficit   | (2,607 )         | (3,385 )             |
| Treasury stock, at cost, 33,171,015 and 33,172,426 shares, respectively   | (2,887 )         | (2,887 )             |
| Accumulated other comprehensive loss  | (112 )           | (112 )               |
| <b>APACHE SHAREHOLDERS' EQUITY</b>  | <b>6,899</b>     | <b>6,238</b>         |
| Noncontrolling interest   | 1,366            | 1,441                |

|              |          |           |
|--------------|----------|-----------|
| TOTAL EQUITY | 8,265    | 7,679     |
|              | \$22,602 | \$ 22,519 |

The accompanying notes to consolidated financial statements are an integral part of this statement.

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APACHE CORPORATION AND SUBSIDIARIES  
 STATEMENT OF CONSOLIDATED CHANGES IN EQUITY  
 (Unaudited)

|   | Common<br>Stock | Paid-In<br>Capital | Accumulated<br>Deficit | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | APACHE<br>SHAREHOLDERS'<br>EQUITY | Noncontrolling<br>Interest | TOTAL<br>EQUITY |
|---|-----------------|--------------------|------------------------|-------------------|---|-----------------------------------|----------------------------|-----------------|
| (In millions)                               |                 |                    |                        |                   |   |                                   |                            |                 |
| BALANCE AT<br>DECEMBER 31, 2015             | \$257           | \$12,619           | \$ (1,980 )            | \$ (2,889)        | \$ (119 )                                     | \$ 7,888                          | \$ 1,602                   | \$9,490         |
| Net income (loss)                           | —               | —                  | (616 )                 | —                 | —   | (616 )                            | 45                         | (571 )          |
| Distributions to<br>noncontrolling interest | —               | —                  | —                      | —                 | —   | —                                 | (93 )                      | (93 )           |
| Common dividends (\$0.50<br>per share)      | —               | (189 )             | —                      | —                 | —   | (189 )                            | —                          | (189 )          |
| Other                                       | 1               | 57                 | —                      | 1                 | —   | 59                                | —                          | 59              |
| BALANCE AT JUNE 30,<br>2016                 | \$258           | \$12,487           | \$ (2,596 )            | \$ (2,888)        | \$ (119 )                                     | \$ 7,142                          | \$ 1,554                   | \$8,696         |
| BALANCE AT<br>DECEMBER 31, 2016             | \$258           | \$12,364           | \$ (3,385 )            | \$ (2,887)        | \$ (112 )                                     | \$ 6,238                          | \$ 1,441                   | \$7,679         |
| Net income                                  | —               | —                  | 785                    | —                 | —   | 785                               | 95                         | 880             |
| Distributions to<br>noncontrolling interest | —               | —                  | —                      | —                 | —   | —                                 | (170 )                     | (170 )          |
| Common dividends (\$0.50<br>per share)      | —               | (190 )             | —                      | —                 | —   | (190 )                            | —                          | (190 )          |
| Other                                       | 1               | 72                 | (7 )                   | —                 | —   | 66                                | —                          | 66              |
| BALANCE AT JUNE 30,<br>2017                 | \$259           | \$12,246           | \$ (2,607 )            | \$ (2,887)        | \$ (112 )                                     | \$ 6,899                          | \$ 1,366                   | \$8,265         |

The accompanying notes to consolidated financial statements  
 are an integral part of this statement.

APACHE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

These consolidated financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). They reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. This Quarterly Report on Form 10-Q should be read along with Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which contains a summary of the Company's significant accounting policies and other disclosures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of June 30, 2017, Apache's significant accounting policies are consistent with those discussed in Note 1—Summary of Significant Accounting Policies of its consolidated financial statements contained in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, with the exception of Accounting Standards Update (ASU) 2016-09, "Improvements to Employee Share-Based Payment Accounting" (see "Recently Adopted Accounting Pronouncement" section in this Note 1 below).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates with regard to these financial statements include the fair value determination of acquired assets and liabilities, the estimate of proved oil and gas reserves and related present value estimates of future net cash flows therefrom, the assessment of asset retirement obligations, the estimates of fair value for long-lived assets and goodwill, and the estimate of income taxes. Actual results could differ from those estimates.

Fair Value Measurements

Certain assets and liabilities are reported at fair value on a recurring basis in Apache's consolidated balance sheet. Accounting Standards Codification (ASC) 820-10-35, "Fair Value Measurement" (ASC 820), provides a hierarchy that prioritizes and defines the types of inputs used to measure fair value. The fair value hierarchy gives the highest priority to Level 1 inputs, which consist of unadjusted quoted prices for identical instruments in active markets. Level 2 inputs consist of quoted prices for similar instruments. Level 3 valuations are derived from inputs that are significant and unobservable; hence, these valuations have the lowest priority.

The valuation techniques that may be used to measure fair value include a market approach, an income approach, and a cost approach. A market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. An income approach uses valuation techniques to convert future amounts to a single present amount based on current market expectations, including present value techniques, option-pricing models, and the excess earnings method. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Apache also uses fair value measurements on a nonrecurring basis when certain qualitative assessments of its assets indicate a potential impairment. The Company recorded no asset impairments in connection with fair value assessments in the second quarter of 2017. For the six-month period ended June 30, 2017, the Company recorded asset impairments totaling \$8 million in connection with fair value assessments.

In 2016, the U.K. government enacted Finance Bill 2016, providing tax relief to exploration and production (E&P) companies operating in the U.K. North Sea. Under the enacted legislation, the U.K. PRT rate was reduced to zero from the previously enacted 35 percent rate in effect from January 1, 2016. PRT expense ceased prospectively from that date. During the first quarter of 2017, the Company fully impaired the aggregate remaining value of the recoverable PRT decommissioning asset of \$8 million that would have been realized from future abandonment

activities. The recoverable value of the PRT decommissioning asset was estimated using the income approach. The expected future cash flows used in the determination were based on anticipated spending and timing of planned future abandonment activities for applicable fields, considering all available information at the date of review. Apache has classified this fair value measurement as Level 3 in the fair value hierarchy.

For the second quarter and six-month periods ended June 30, 2016, the Company recorded asset impairments totaling \$173 million in connection with fair value assessments. Impairments totaling \$68 million were recorded for proved oil and gas properties in the U.S. and Canada, as discussed in further detail below in “Oil and Gas Property.” Also, for the second quarter and six-month periods ended June 30, 2016, the Company recorded \$105 million for the impairment of certain gas gathering, transmission, and processing (GTP) assets, which were written down to their fair values of \$175 million.

#### Oil and Gas Property

The Company follows the successful efforts method of accounting for its oil and gas property. Under this method of accounting, exploration costs such as exploratory geological and geophysical costs, delay rentals, and exploration overhead are expensed as incurred. All costs related to production, general corporate overhead, and similar activities are expensed as incurred. If an exploratory well provides evidence to justify potential development of reserves, drilling costs associated with the well are initially capitalized, or suspended, pending a determination as to whether a commercially sufficient quantity of proved reserves can be attributed to the area as a result of drilling. This determination may take longer than one year in certain areas depending on, among other things, the amount of hydrocarbons discovered, the outcome of planned geological and engineering studies, the need for additional appraisal drilling activities to determine whether the discovery is sufficient to support an economic development plan, and government sanctioning of development activities in certain international locations. At the end of each quarter, management reviews the status of all suspended exploratory well costs in light of ongoing exploration activities; in particular, whether the Company is making sufficient progress in its ongoing exploration and appraisal efforts or, in the case of discoveries requiring government sanctioning, whether development negotiations are underway and proceeding as planned. If management determines that future appraisal drilling or development activities are unlikely to occur, associated suspended exploratory well costs are expensed.

Acquisition costs of unproved properties are assessed for impairment at least annually and are transferred to proved oil and gas properties to the extent the costs are associated with successful exploration activities. Significant undeveloped leases are assessed individually for impairment based on the Company’s current exploration plans. Unproved oil and gas properties with individually insignificant lease acquisition costs are amortized on a group basis over the average lease term at rates that provide for full amortization of unsuccessful leases upon lease expiration or abandonment. Costs of expired or abandoned leases are charged to exploration expense, while costs of productive leases are transferred to proved oil and gas properties. Costs of maintaining and retaining unproved properties, as well as amortization of individually insignificant leases and impairment of unsuccessful leases, are included in exploration costs in the statement of consolidated operations.

Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of crude oil and natural gas, are capitalized. Depreciation of the cost of proved oil and gas properties is calculated using the unit-of-production (UOP) method. The UOP calculation multiplies the percentage of estimated proved reserves produced each quarter by the carrying value of those reserves. The reserve base used to calculate depreciation for leasehold acquisition costs and the cost to acquire proved properties is the sum of proved developed reserves and proved undeveloped reserves. The reserve base to calculate the depreciation for capitalized costs of exploratory wells and development costs is the sum of proved developed reserves only. Estimated future dismantlement, restoration and abandonment costs, net of salvage values, are included in the depreciable cost. Oil and gas properties are grouped for depreciation in accordance with ASC 932, “Extractive Activities - Oil and Gas.” The basis for grouping is a reasonable aggregation of properties with a common geological structural feature or stratigraphic condition, such as a reservoir or field.

When circumstances indicate that proved oil and gas properties may be impaired, the Company compares unamortized capitalized costs to the expected undiscounted pre-tax future cash flows for the associated assets grouped at the lowest level for which identifiable cash flows are independent of cash flows of other assets. If the expected undiscounted pre-tax future cash flows, based on Apache’s estimate of future crude oil and natural gas prices, operating costs, anticipated production from proved reserves and other relevant data, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is generally estimated using the income approach described in the ASC 820. If applicable, the Company utilizes prices and other relevant information generated by market

transactions involving assets and liabilities that are identical or comparable to the item being measured as the basis for determining fair value. The expected future cash flows used for impairment reviews and related fair value calculations are typically based on judgmental assessments of future production volumes, commodity prices, operating costs, and capital investment plans, considering all available information at the date of review. These assumptions are applied to develop future cash flow projections that are then discounted to estimated fair value, using a discount rate believed to be consistent with those applied by market participants. Apache has classified these fair value measurements as Level 3 in the fair value hierarchy.

The following table represents non-cash impairments of the carrying value of the Company's proved and unproved property and equipment for the second quarters and first six months of 2017 and 2016:

| Quarter Six |          |
|-------------|----------|
| Ended       | Months   |
| June        | Ended    |
| 30,         | June 30, |
| 2017        | 2016     |
| 2017        | 2016     |

(In millions)

Oil and Gas Property:

|          |       |       |
|----------|-------|-------|
| Proved   | \$-68 | \$-68 |
| Unproved | 3966  | 54108 |

Proved properties impaired during the quarter ended June 30, 2016 had an aggregate fair value of \$143 million.

On the statement of consolidated operations, unproved impairments are recorded in exploration expense, and proved impairments are recorded in impairments.

Recently Adopted Accounting Pronouncement

In March 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies several aspects of accounting for share-based payment transactions including income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The guidance was effective for fiscal years beginning after December 15, 2016. The Company adopted ASU 2016-09 effective January 1, 2017.

Upon adoption, the Company elected to account for forfeitures as they occur rather than estimate expected forfeitures using a modified retrospective transition method. As a result of this election, the Company recorded a cumulative-effect adjustment of \$11 million, representing an increase in accumulated deficit, with the offset to paid-in capital. During the first quarter of 2017, the Company recorded a \$4 million deferred tax asset related to this adjustment, with the offset to accumulated deficit.

ASU 2016-09 requires excess tax benefits and deficiencies to be recognized prospectively as part of the provision for income taxes rather than paid-in capital. The adoption did not have a material impact on the Company's accounting of provision for income taxes. ASU 2016-09 also requires excess tax benefits to be presented as a component of operating cash flows rather than financing cash flows. The Company has adopted this requirement prospectively and accordingly, prior periods have not been adjusted. Excess tax benefits were not material for all periods presented. Additionally, ASU 2016-09 requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the consolidated statements of cash flows, which is how the Company has historically classified these amounts.

New Pronouncements Issued But Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," requiring lessees to recognize lease assets and lease liabilities for most leases classified as operating leases under previous U.S. GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. As part of the assessment to date, the Company has formed an implementation work team, is reviewing software solutions, and began the process of evaluating contracts to determine the impact this ASU will have on its consolidated financial statements. At this time, the Company cannot reasonably estimate the financial impact this will have on its consolidated financial statements; however, the Company believes adoption and implementation of this ASU will significantly impact its balance sheet, resulting in an increase in both assets and liabilities relating to its leasing activities.

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued a joint revenue recognition standard, ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The new standard removes inconsistencies in existing standards, changes the way companies recognize revenue from contracts with customers, and increases disclosure requirements. The codification was amended through additional ASUs and, as amended, requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that



reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance is effective for annual and interim periods beginning after December 15, 2017. The standard is required to be adopted using either the full retrospective approach, with all prior periods presented adjusted, or the modified retrospective approach, with a cumulative adjustment to retained earnings on the opening balance sheet. Upon preliminary evaluation of contracts in each of the Company's revenue streams, the Company does not expect the adoption of this

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ASU to have a material impact on net earnings, however, the Company is analyzing whether the classification of certain items in revenue and expense will be impacted. The Company continues to evaluate the disclosure requirements, develop accounting policies, and assess changes to the relevant business processes and the control activities within them as a result of the provisions of this ASU. The Company will adopt the new standard on January 1, 2018, utilizing the modified retrospective approach.

## 2. ACQUISITIONS AND DIVESTITURES

### 2017 Activity

#### Canada Divestitures

In July 2017, Apache announced three separate transactions to sell its subsidiary Apache Canada Ltd. (ACL) and its Canadian operations for aggregate cash proceeds of approximately \$713 million, subject to foreign exchange movements and customary closing adjustments. The sale of assets at Midale and House Mountain, located in Saskatchewan and Alberta, closed on June 30, 2017. The Company recognized a \$52 million loss in association with this sale. The two remaining transactions to sell ACL and Provost assets in Alberta are expected to close in August 2017.

As a result of the agreements to sell these assets, the remaining ACL assets and liabilities qualified as held for sale as of June 30, 2017. A summary of the associated assets and liabilities classified as held for sale on Apache's consolidated balance sheet as of June 30, 2017, is detailed below:

|  | June 30,<br>2017<br>(In<br>millions) |
|--|--------------------------------------|
| <b>ASSETS</b>  |                                      |
| Current assets   | \$ 105                               |
| Property, plant & equipment                                | 1,126                                |
| Assets held for sale                                       | \$ 1,231                             |
| <b>LIABILITIES</b>   |                                      |
| Current liabilities, excluding asset retirement obligation | \$ 112                               |
| Asset retirement obligation                                | 779                                  |
| Other long-term liabilities                                | 48                                   |
| Liabilities held for sale                                  | \$ 939                               |

In connection with classifying these assets as held for sale, a separate impairment analysis was performed for each of the assets within the disposal group. The analyses were based on the agreed-upon proceeds less costs to sell for the two transactions related to ACL and Provost assets, a Level 1 fair value measurement. The net carrying value of the assets held for sale in the impairment calculation included consideration of the currency translation loss of \$109 million, which is recorded in "Accumulated Other Comprehensive Loss" on the Company's consolidated balance sheet. The currency translation loss will be recognized as a component of the expected net gain on sale during the third quarter of 2017 upon closing of the transactions. The fair value of the net assets held for sale exceeded the underlying equity value of ACL and the carrying amount of Provost assets at the balance sheet date, and no impairment was recognized. ACL recorded pretax losses of \$93 million and \$129 million for the second quarter and first six months of 2017, respectively, compared to pretax losses of \$62 million and \$161 million, respectively, for the comparable periods in 2016. The Company expects to recognize a small gain upon closing of the transactions during the third quarter of 2017.

#### U.S. Divestitures

During the first half of 2017, Apache completed the sale of certain non-core assets, primarily in the Permian and Midcontinent/Gulf Coast regions, in multiple transactions for cash proceeds of \$522 million, subject to customary closing adjustments. A refundable deposit of \$40 million was received in the fourth quarter of 2016 in connection with

certain of these transactions. The Company recognized gains of approximately \$372 million during the first half of 2017 in connection with these transactions.

#### North Sea GTP Divestiture

During the fourth quarter of 2016, Apache entered into an agreement to sell its 30.28 percent interest in the Scottish Area Gas Evacuation system (SAGE) and its 60.56 percent interest in the Beryl pipeline in the North Sea to Ancala Midstream Acquisitions Limited (Ancala). The transaction is subject to regulatory and third-party approvals, which are ongoing in 2017. The Company received a refundable deposit in connection with this transaction, which is recorded in "Other current liabilities" on the consolidated balance sheet. The refundable deposit was \$142 million as of June 30, 2017.

#### Leasehold and Property Acquisitions

During the second quarter and first six months of 2017, Apache completed \$18 million and \$67 million, respectively, of leasehold and property acquisitions primarily in its North America onshore regions.

#### 2016 Activity

##### Leasehold and Property Acquisitions

During the second quarter and first six months of 2016, Apache completed \$99 million and \$118 million, respectively, of leasehold and property acquisitions primarily in its North America onshore regions and Egypt.

### 3. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

#### Objectives and Strategies

The Company is exposed to fluctuations in crude oil and natural gas prices on the majority of its worldwide production. Apache manages the variability in its cash flows by occasionally entering into derivative transactions on a portion of its crude oil and natural gas production. The Company utilizes various types of derivative financial instruments to manage fluctuations in cash flows resulting from changes in commodity prices.

#### Counterparty Risk

The use of derivative instruments exposes the Company to credit loss in the event of nonperformance by the counterparty. To reduce the concentration of exposure to any individual counterparty, Apache utilizes a diversified group of investment-grade rated counterparties, primarily financial institutions, for its derivative transactions. As of June 30, 2017, Apache had derivative positions with 12 counterparties. The Company monitors counterparty creditworthiness on an ongoing basis; however, it cannot predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, the Company may be limited in its ability to mitigate an increase in counterparty credit risk. Should one of these counterparties not perform, Apache may not realize the benefit of some of its derivative instruments resulting from lower commodity prices.

#### Derivative Instruments

As of June 30, 2017, Apache had the following open crude oil derivative positions:

| Production Period    | Settlement Index | Put Options <sup>(1)</sup> |                               |
|----------------------|------------------|----------------------------|-------------------------------|
|                      |                  | Mbbls                      | Weighted Average Strike Price |
| July - December 2017 | NYMEX WTI        | 16,928                     | \$50.00                       |
| July - December 2017 | Dated Brent      | 15,272                     | \$51.00                       |

(1) Apache paid a total premium of \$100 million for these put option contracts, averaging \$3.09 per barrel.

As of June 30, 2017, Apache had the following open natural gas derivative positions:

| Production Period    | Fixed-Price Swaps   |  |
|----------------------|---------------------|--|
|                      | MMBtu<br>(in 000's) | Weighted Average Fixed Price <sup>(1)(2)</sup> |
| July - December 2017 | 4,370               | \$3.46   |
| January - March 2018 | 2,700               | \$3.60   |

(1) U.S. natural gas prices represent a weighted-average of several contracts entered into on a per-million British thermal units (MMBtu) basis and are settled primarily against NYMEX Henry Hub.

Subsequent to June 30, 2017, Apache entered into fixed-price natural gas contracts settling against Nymex Henry (2)Hub totaling 20,000 MMBtu/d at a weighted average price of \$3.13 for the fourth quarter of 2017 and 120,000 MMBtu/d at a weighted average price of \$3.33 for the first quarter of 2018.

Apache elected not to designate any of these derivatives as cash flow hedges. Changes in the fair value of these derivatives are recorded in "Other" under "Revenues and Other" in the Company's statement of consolidated operations. Total unrealized gain in the second quarter and first six months of 2017 was \$41 million.

Unrealized gains and losses for derivative activity recorded in the statement of consolidated operations is reflected in the statement of consolidated cash flows as a component of "Other" in "Adjustments to reconcile net income to net cash provided by operating activities."

#### Fair Value Measurements

Apache's commodity derivative instruments consist of put options and fixed-price swaps. The fair values of the Company's derivatives are not actively quoted in the open market. The Company uses a market approach to estimate the fair values of its derivative instruments on a recurring basis, utilizing commodity futures pricing for the underlying commodities provided by a reputable third party, a Level 2 fair value measurement. The fair value of the Company's derivative assets at June 30, 2017, was \$141 million and is reflected in "Prepaid assets and other" in the Company's consolidated balance sheet.

#### 4. CAPITALIZED EXPLORATORY WELL COSTS

The Company's capitalized exploratory well costs were \$274 million and \$264 million at June 30, 2017 and December 31, 2016, respectively. The increase is primarily attributable to additional drilling activities during the period, partially offset by successful transfers and dry hole write-offs. No suspended exploratory well costs previously capitalized for greater than one year at December 31, 2016 were charged to dry hole expense during the six months ended June 30, 2017. Projects with suspended exploratory well costs capitalized for a period greater than one year since the completion of drilling are those identified by management as exhibiting sufficient quantities of hydrocarbons to justify potential development. Management is actively pursuing efforts to assess whether reserves can be attributed to these projects.

#### 5. OTHER CURRENT LIABILITIES

The following table provides detail of the Company's other current liabilities as of June 30, 2017 and December 31, 2016:

|                                     | June<br>30,<br>2017 | December<br>31, 2016 |
|-------------------------------------|---------------------|----------------------|
|                                     | (In millions)       |                      |
| Accrued operating expenses          | \$76                | \$ 110               |
| Accrued exploration and development | 608                 | 463                  |
| Accrued compensation and benefits   | 76                  | 201                  |
| Accrued interest                    | 146                 | 145                  |
| Accrued income taxes                | 77                  | 22                   |
| Current debt                        | 150                 | —                    |
| Current asset retirement obligation | 35                  | 66                   |
| Refundable deposits                 | 142                 | 174                  |
| Other                               | 91                  | 77                   |
| Total other current liabilities     | \$1,401             | \$ 1,258             |

#### 6. ASSET RETIREMENT OBLIGATION

The following table describes changes to the Company's asset retirement obligation (ARO) liability for the six-month period ended June 30, 2017:

|  | (In millions) |
|--|---------------|
| Asset retirement obligation at December 31, 2016 | \$ 2,498      |
| Liabilities incurred                             | 38            |
| Liabilities divested                             | (29 )         |
| Liabilities settled                              | (21 )         |
| Accretion expense                                | 73            |
| Revisions in estimated liabilities               | 66            |
| Liabilities held for sale                        | (779 )        |
| Asset retirement obligation at June 30, 2017     | 1,846         |
| Less current portion                             | 35            |
| Asset retirement obligation, long-term           | \$ 1,811      |

## 7. INCOME TAXES

The Company estimates its annual effective income tax rate for continuing operations in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates. Non-cash impairments of the carrying value of the Company's oil and gas properties, gains and losses on the sale of assets, statutory tax rate changes, and other significant or unusual items are recognized as discrete items in the quarter in which they occur.

In July 2017, Apache announced the sale of ACL and classified its investment in the subsidiary as held for sale as of June 30, 2017. For more information regarding this transaction, please refer to Note 2—Acquisitions and Divestitures. As a result of this transaction, Apache recorded a deferred tax asset associated with its investment in ACL and decreased its deferred tax liability associated with its investment in other foreign subsidiaries. This resulted in the Company recording a \$674 million deferred income tax benefit in the second quarter of 2017.

Also during the second quarter of 2017, Apache's effective income tax rate was primarily impacted by gains on the sale of oil and gas properties and an increase in the amount of valuation allowance on Canadian deferred tax assets. During the second quarter of 2016, Apache's effective income tax rate was primarily impacted by an increase in the valuation allowance on Canadian deferred tax assets.

Apache's 2017 year-to-date effective income tax rate is primarily impacted by the decrease in deferred taxes associated with its investments in foreign subsidiaries, gains on the sale of oil and gas properties, non-cash impairments of the Company's PRT decommissioning asset, and an increase in the amount of valuation allowance on Canadian deferred tax assets. Apache's 2016 year-to-date effective tax rate was primarily impacted by an increase in the valuation allowance on Canadian deferred tax assets.

Apache and its subsidiaries are subject to U.S. federal income tax as well as income or capital taxes in various state and foreign jurisdictions. The Company's tax reserves are related to tax years that may be subject to examination by the relevant taxing authority. In April 2017, the Internal Revenue Service (IRS) began their audit of the Company's 2014 income tax year. The Company is also under audit in various states and in most of the Company's foreign jurisdictions as part of its normal course of business.

## 8. DEBT AND FINANCING COSTS

The following table presents the carrying amounts and estimated fair values of the Company's outstanding debt as of June 30, 2017 and December 31, 2016:

|  | June 30, 2017   |            | December 31, 2016 |            |
|--|-----------------|------------|-------------------|------------|
|  | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
|  | (In millions)   |            |                   |            |
| Commercial paper and committed bank facilities | \$—             | \$—        | \$—               | \$—        |
| Notes and debentures                           | 8,479           | 9,094      | 8,544             | 9,183      |
| Total Debt                                     | \$8,479         | \$9,094    | \$8,544           | \$9,183    |

The Company's debt is recorded at the carrying amount, net of related unamortized discount and debt issuance costs, on its consolidated balance sheet. When recorded, the carrying amount of the Company's commercial paper, committed bank facilities, and uncommitted bank lines approximates fair value because the interest rates are variable and reflective of market rates. Apache uses a market approach to determine the fair value of its notes and debentures using estimates provided by an independent investment financial data services firm (a Level 2 fair value measurement).

The following table presents the carrying value of the Company's debt as of June 30, 2017 and December 31, 2016:

|  | June 30, December 31, |          |
|--|-----------------------|----------|
|  | 2017                  | 2016     |
|  | (In millions)         |          |
| Debt before unamortized discount and debt issuance costs | \$8,580               | \$ 8,650 |
| Unamortized discount                                     | (49 )                 | (50 )    |
| Debt issuance costs                                      | (52 )                 | (56 )    |
| Total debt   | 8,479                 | 8,544    |
| Current maturities                                       | (150 )                | —        |
| Long-term debt   | \$8,329               | \$ 8,544 |

As of June 30, 2017, current debt included \$150 million of 7.0% senior notes due February 1, 2018.

As of June 30, 2017, the Company had a revolving credit facility that matures in June 2020, subject to Apache's two, one-year extension options. The facility provides for aggregate commitments of \$3.5 billion (including a \$750 million letter of credit subfacility), with rights to increase commitments up to an aggregate \$4.5 billion. Proceeds from borrowings may be used for general corporate purposes. Apache's available borrowing capacity under this facility supports its \$3.5 billion commercial paper program. The commercial paper program, which is subject to market availability, facilitates Apache borrowing funds for up to 270 days at competitive interest rates. As of June 30, 2017, the Company had no commercial paper or borrowings under committed bank facilities or uncommitted bank lines outstanding.

As of June 30, 2017, the Company had a letter of credit facility, which provides for £900 million in commitments and rights to increase commitments to £1.075 billion. This facility matures in February 2020. The facility is available for letters of credit and loans to cash collateralize letters of credit or obligations to provide letters of credit, in each case, to the extent letters of credit are unavailable under the facility. As of June 30, 2017, three letters of credit aggregating approximately £147.5 million and no borrowings were outstanding under this facility.

In November 2016, the Company initiated a program to purchase in the open market up to \$250 million in aggregate principal amount of senior notes issued under its indentures. In the fourth quarter of 2016, the Company purchased and canceled \$181 million aggregate principal amount of its senior notes through open market repurchases for \$182 million in cash, including accrued interest and \$0.5 million of premium.

In January 2017, the Company purchased and canceled an additional \$69 million aggregate principal amount of senior notes for \$71 million in cash, including accrued interest and \$1 million of premium, which completed the open market repurchase program. These repurchases resulted in a \$1 million net loss on extinguishment of debt, which is included in "Financing costs, net" in the Company's consolidated statement of operations. The net loss includes an acceleration of related discount and deferred financing costs.

#### Financing Costs, Net

The following table presents the components of Apache's financing costs, net:

|                                     | For the       |       | For the Six |       |
|-------------------------------------|---------------|-------|-------------|-------|
|                                     | Quarter       |       | Months      |       |
|                                     | Ended June    |       | Ended June  |       |
|                                     | 30,           | 30,   | 30,         | 30,   |
|                                     | 2017          | 2016  | 2017        | 2016  |
|                                     | (In millions) |       |             |       |
| Interest expense                    | \$115         | \$116 | \$231       | \$232 |
| Amortization of deferred loan costs | 2             | 2     | 4           | 3     |
| Capitalized interest                | (13 )         | (12 ) | (27 )       | (23 ) |



|                                |      |       |       |       |
|--------------------------------|------|-------|-------|-------|
| Loss on extinguishment of debt | —    | —     | 1     | —     |
| Interest income                | (5 ) | (2 )  | (10 ) | (3 )  |
| Financing costs, net           | \$99 | \$104 | \$199 | \$209 |

## 9. COMMITMENTS AND CONTINGENCIES

### Legal Matters

Apache is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. As of June 30, 2017, the Company has an accrued liability of approximately \$26 million for all legal contingencies that are deemed to be probable of occurring and can be reasonably estimated. Apache's estimates are based on information known about the matters and its experience in contesting, litigating, and settling similar matters. Although actual amounts could differ from management's estimate, none of the actions are believed by management to involve future amounts that would be material to Apache's financial position, results of operations, or liquidity after consideration of recorded accruals. For material matters that Apache believes an unfavorable outcome is reasonably possible, the Company has disclosed the nature of the matter and a range of potential exposure, unless an estimate cannot be made at this time. It is management's opinion that the loss for any other litigation matters and claims that are reasonably possible to occur will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

For additional information on each of the Legal Matters described below, please see Note 10—Commitments and Contingencies to the consolidated financial statements contained in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

### Argentine Environmental Claims and Argentina Tariff

No material change in the status of the YPF Sociedad Anónima and Pioneer Natural Resources Company indemnities matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

### Louisiana Restoration

As more fully described in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, numerous surface owners have filed claims or sent demand letters to various oil and gas companies, including Apache, claiming that, under either express or implied lease terms or Louisiana law, the companies are liable for damage measured by the cost of restoration of leased premises to their original condition as well as damages for contamination and cleanup.

On July 24, 2013, a lawsuit captioned Board of Commissioners of the Southeast Louisiana Flood Protection Authority – East v. Tennessee Gas Pipeline Company et al., Case No. 2013-6911 was filed in the Civil District Court for the Parish of Orleans, State of Louisiana, in which plaintiff on behalf of itself and as the board governing the levee districts of Orleans, Lake Borgne Basin, and East Jefferson alleged that Louisiana coastal lands have been damaged as a result of oil and gas industry activity, including a network of canals for access and pipelines. The defendants removed the case from state court to federal court and, on February 13, 2015, the federal court entered judgment in favor of defendants dismissing all of plaintiff's claims with prejudice. Plaintiff appealed the lower court's dismissal to the 5<sup>th</sup> Circuit Court of Appeals and additionally challenged the defendants' right to remove the case to federal court. On March 3, 2017, the 5<sup>th</sup> Circuit Court of Appeals affirmed the propriety of federal jurisdiction based in part on Apache's argument that plaintiff's state-based claims required a resolution of substantial questions of federal law and also affirmed the dismissal of the action. The Plaintiff has now filed a Petition for a Writ of Certiorari with the United States Supreme Court.

Starting in November of 2013 and continuing into 2017, several Parishes in Louisiana have pending lawsuits against many oil and gas producers, including Apache. These cases are pending in federal and state courts in Louisiana. In these cases, the Parishes, as plaintiffs, allege that defendants' oil and gas exploration, production, and transportation operations in specified fields were conducted in violation of the State and Local Coastal Resources Management Act of 1978, as amended, and applicable regulations, rules, orders, and ordinances promulgated or adopted thereunder by the Parish or the State of Louisiana. Plaintiffs allege that defendants caused substantial damage to land and water bodies located in the coastal zone of Louisiana. Plaintiffs seek, among other things, unspecified damages for alleged violations of applicable state law within the coastal zone, the payment of costs necessary to clear, re-vegetate, detoxify, and otherwise restore the subject coastal zone as near as practicable to its original condition, and actual restoration of the coastal zone to its original condition. While an adverse judgment against Apache might be possible, Apache intends to vigorously oppose these claims.

No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

#### Apollo Exploration Lawsuit

In a fourth amended petition filed on March 21, 2016, in a case captioned Apollo Exploration, LLC, Cogent Exploration, Ltd. Co. & SellmoCo, LLC v. Apache Corporation, Cause No. CV50538 in the 385th Judicial District Court, Midland County, Texas, plaintiffs have reduced their alleged damages to approximately \$500 million (having previously claimed in excess of \$1.1 billion) relating to certain purchase and sale agreements, mineral leases, and areas of mutual interest agreements concerning properties located in Hartley, Moore, Potter, and Oldham Counties, Texas. Apache believes that plaintiffs' claims lack merit, and further that plaintiffs' alleged damages, even as amended, are grossly inflated. Apache will vigorously oppose the claims. No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

#### Escheat Audits

There has been no material change with respect to the review of the books and records of the Company and its subsidiaries and related entities by the State of Delaware, Department of Finance (Unclaimed Property), to determine compliance with the Delaware Escheat Laws, since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

#### Environmental Matters

As of June 30, 2017, the Company had an undiscounted reserve for environmental remediation of approximately \$45 million, of which \$41 million relates to Canadian operations classified as held for sale. The Company is not aware of any environmental claims existing as of June 30, 2017, that have not been provided for or would otherwise have a material impact on its financial position, results of operations, or liquidity. There can be no assurance, however, that current regulatory requirements will not change or past non-compliance with environmental laws will not be discovered on the Company's properties.

ACL reported a produced water release from a water injection pipeline in a remote area of the Belloy Field that occurred on or about May 4, 2016 and a hydrogen sulfide and oil emulsion leak in the Zama area on or about September 17, 2016. The affected areas have been or are currently being remediated. The Company does not expect the economic impact of any of these incidents to have a material effect on the Company's financial position, results of operations, or liquidity. No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

In addition to the matters for which we have already accrued, on July 17, 2017, in three separate actions, San Mateo County, California, Marin County, California, and the City of Imperial Beach, California, all filed suit individually and on behalf of the people of the state of California against over 30 oil, gas, and coal companies alleging damages as a result of global warming. Plaintiffs seek unspecified damages and abatement under various tort theories. Apache believes that the claims made against it are baseless and intends to vigorously defend these lawsuits.

#### Australian Operations Divestiture Dispute

By a Sale and Purchase Agreement dated April 9, 2015 (SPA), the Company and its subsidiaries divested their remaining Australian operations to Viraciti Energy Pty Ltd, which has since been renamed Quadrant Energy Pty Ltd (Quadrant). Closing occurred on June 5, 2015. By letter dated June 6, 2016, Quadrant provided the Company with a one-year placeholder notice of claim under the SPA concerning tax and other issues totaling approximately \$200 million in the aggregate. The Company is in the process of reviewing the issues raised by Quadrant and believes at this time that these matters will not have a material adverse effect on the Company's financial position, results of operation, or liquidity.

## 10. CAPITAL STOCK

## Net Income (Loss) per Common Share

A reconciliation of the components of basic and diluted net income (loss) per common share for the quarters ended June 30, 2017 and 2016, is presented in the table below.

|  | For the Quarter Ended June 30,          |        |           |         |        |           |
|--|---|--------|-----------|---------|--------|-----------|
|  | 2017                                    |        | 2016      |         |        |           |
|  | Income                                  | Shares | Per Share | Loss    | Shares | Per Share |
|  | (In millions, except per share amounts) |        |           |         |        |           |
| Basic:                                     |   |        |           |         |        |           |
| Income (loss) attributable to common stock | \$572                                   | 381    | \$ 1.50   | \$(244) | 379    | \$(0.65 ) |
| Effect of Dilutive Securities:             |   |        |           |         |        |           |
| Stock options and other                    | \$—                                     | 2      | \$ —      | \$—     | —      | \$ —      |
| Diluted:                                   |   |        |           |         |        |           |
| Income (loss) attributable to common stock | \$572                                   | 383    | \$ 1.50   | \$(244) | 379    | \$(0.65 ) |
|  | For the Six Months Ended June 30,       |        |           |         |        |           |
|  | 2017                                    |        | 2016      |         |        |           |
|  | Income                                  | Shares | Per Share | Loss    | Shares | Per Share |
|  | (In millions, except per share amounts) |        |           |         |        |           |
| Basic:                                     |   |        |           |         |        |           |
| Income (loss) attributable to common stock | \$785                                   | 380    | \$ 2.06   | \$(616) | 379    | \$(1.63 ) |
| Effect of Dilutive Securities:             |   |        |           |         |        |           |
| Stock options and other                    | \$—                                     | 3      | \$(0.01 ) | \$—     | —      | \$ —      |
| Diluted:                                   |   |        |           |         |        |           |
| Income (loss) attributable to common stock | \$785                                   | 383    | \$ 2.05   | \$(616) | 379    | \$(1.63 ) |

The diluted earnings per share calculation excludes options and restricted stock units that were anti-dilutive totaling 8.5 million and 6.3 million for the quarters ended June 30, 2017 and 2016, respectively, and 8.6 million and 7.4 million for the six months ended June 30, 2017 and 2016, respectively.

## Common Stock Dividends

For each of the quarters ended June 30, 2017, and 2016, Apache paid \$95 million in dividends on its common stock. For the six months ended June 30, 2017 and 2016, the Company paid \$190 million and \$189 million, respectively.

## Stock Repurchase Program

Apache's Board of Directors has authorized the purchase of up to 40 million shares of the Company's common stock. Shares may be purchased either in the open market or through privately negotiated transactions. The Company initiated the buyback program on June 10, 2013, and through June 30, 2017, had repurchased a total of 32.2 million shares at an average price of \$88.96 per share. The Company is not obligated to acquire any specific number of shares and has not purchased any shares during 2017.

## 11. BUSINESS SEGMENT INFORMATION

Apache is engaged in a single line of business. Both domestically and internationally, the Company explores for, develops, and produces natural gas, crude oil, and natural gas liquids. At June 30, 2017, the Company had production in four reporting segments: the United States, Canada, Egypt, and offshore the United Kingdom in the North Sea (North Sea). Apache also has exploration interests in Suriname that may, over time, result in a reportable discovery and development opportunity. Financial information for each area is presented below:

|   | United<br>States | Canada  | Egypt <sup>(1)</sup> | North Sea | Other<br>International | Total    |
|---|------------------|---------|----------------------|-----------|------------------------|----------|
| (In millions)                               |                  |         |                      |           |                        |          |
| For the Quarter Ended June 30, 2017         |                  |         |                      |           |                        |          |
| Oil and Gas Production Revenues             | \$491            | \$93    | \$521                | \$241     | \$—                    | \$1,346  |
| Operating Income (Loss) <sup>(2)</sup>      | \$(17)           | \$(18)  | \$213                | \$4       | \$(2)                  | \$180    |
| Other Income (Expense):                     |                  |         |                      |           |                        |          |
| Loss on divestitures, net                   |                  |         |                      |           |                        | (21)     |
| Other                                       |                  |         |                      |           |                        | 59       |
| General and administrative                  |                  |         |                      |           |                        | (106)    |
| Transaction, reorganization, and separation |                  |         |                      |           |                        | (4)      |
| Financing costs, net                        |                  |         |                      |           |                        | (99)     |
| Income Before Income Taxes                  |                  |         |                      |           |                        | \$9      |
| For the Six Months Ended June 30, 2017      |                  |         |                      |           |                        |          |
| Oil and Gas Production Revenues             | \$1,043          | \$195   | \$1,112              | \$508     | \$—                    | \$2,858  |
| Operating Income (Loss) <sup>(2)</sup>      | \$43             | \$(31)  | \$514                | \$42      | \$(23)                 | \$545    |
| Other Income (Expense):                     |                  |         |                      |           |                        |          |
| Gain on divestitures, net                   |                  |         |                      |           |                        | 320      |
| Other                                       |                  |         |                      |           |                        | 84       |
| General and administrative                  |                  |         |                      |           |                        | (209)    |
| Transaction, reorganization, and separation |                  |         |                      |           |                        | 6        |
| Financing costs, net                        |                  |         |                      |           |                        | (199)    |
| Income Before Income Taxes                  |                  |         |                      |           |                        | \$547    |
| Total Assets                                | \$12,530         | \$1,476 | \$4,778              | \$3,772   | \$46                   | \$22,602 |

|   | United<br>States | Canada   | Egypt <sup>(1)</sup> | North Sea | Other<br>International | Total     |
|---|------------------|----------|----------------------|-----------|------------------------|-----------|
| (In millions)                               |                  |          |                      |           |                        |           |
| For the Quarter Ended June 30, 2016         |                  |          |                      |           |                        |           |
| Oil and Gas Production Revenues             | \$ 520           | \$ 73    | \$ 542               | \$ 251    | \$ —                   | \$ 1,386  |
| Operating Income (Loss) <sup>(3)</sup>      | \$(109 )         | \$(57 )  | \$ 220               | \$(115 )  | \$ —                   | \$(61 )   |
| Other Income (Expense):                     |                  |          |                      |           |                        |           |
| Gain on divestitures, net                   |                  |          |                      |           |                        | 17        |
| Other                                       |                  |          |                      |           |                        | (21 )     |
| General and administrative                  |                  |          |                      |           |                        | (103 )    |
| Transaction, reorganization, and separation |                  |          |                      |           |                        | (9 )      |
| Financing costs, net                        |                  |          |                      |           |                        | (104 )    |
| Loss Before Income Taxes                    |                  |          |                      |           |                        | \$(281 )  |
| For the Six Months Ended June 30, 2016      |                  |          |                      |           |                        |           |
| Oil and Gas Production Revenues             | \$ 929           | \$ 156   | \$ 934               | \$ 454    | \$ —                   | \$ 2,473  |
| Operating Income (Loss) <sup>(3)</sup>      | \$(267 )         | \$(118 ) | \$ 261               | \$(101 )  | \$ (1 )                | \$(226 )  |
| Other Income (Expense):                     |                  |          |                      |           |                        |           |
| Gain on divestitures, net                   |                  |          |                      |           |                        | 16        |
| Other                                       |                  |          |                      |           |                        | (24 )     |
| General and administrative                  |                  |          |                      |           |                        | (196 )    |
| Transaction, reorganization, and separation |                  |          |                      |           |                        | (24 )     |
| Financing costs, net                        |                  |          |                      |           |                        | (209 )    |
| Loss Before Income Taxes                    |                  |          |                      |           |                        | \$(663 )  |
| Total Assets                                | \$ 12,383        | \$ 2,070 | \$ 5,520             | \$ 4,326  | \$ 47                  | \$ 24,346 |

(1) Includes a noncontrolling interest in Egypt.

Operating income (loss) consists of oil and gas production revenues less lease operating expenses, gathering and transportation costs, taxes other than income, exploration costs, depreciation, depletion, and amortization, asset retirement obligation accretion, and impairments. The operating income (loss) of U.S. and Canada includes (2) leasehold impairments totaling \$38 million and \$1 million, respectively, for the second quarter of 2017. The operating income (loss) of U.S., Canada, and North Sea includes leasehold and other asset impairments totaling \$52 million, \$2 million, and \$8 million, respectively, for the first six months of 2017.

The operating income (loss) of U.S., Canada, and North Sea includes leasehold, property, and other asset (3) impairments totaling \$125 million, \$9 million, and \$105 million, respectively, for the second quarter of 2016. The operating income (loss) of U.S., Canada, and North Sea includes leasehold, property, and other asset impairments totaling \$166 million, \$10 million, and \$105 million, respectively, for the first six months of 2016.

12. SUPPLEMENTAL GUARANTOR INFORMATION

In December 1999, Apache Finance Canada issued approximately \$300 million of publicly-traded notes due in 2029. The notes are fully and unconditionally guaranteed by Apache. The following condensed consolidating financial statements are provided as an alternative to filing separate financial statements.

Apache Finance Canada is 100 percent owned by Apache Corporation. As such, these condensed consolidating financial statements should be read in conjunction with Apache's consolidated financial statements and the notes thereto, of which this note is an integral part.



APACHE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
 For the Quarter Ended June 30, 2017

|  | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|--|-----------------------|-----------------------------|---|--|--------------|
|  | (In millions)         |                             |   |  |              |
| <b>REVENUES AND OTHER:</b>                                 |                       |                             |   |  |              |
| Oil and gas production revenues                            | \$248                 | \$ —                        | \$ 1,098  | \$ —                                   | \$ 1,346     |
| Equity in net income (loss) of affiliates                  | (34 )                 | (26 )                       | —   | 60                                     | —            |
| Other  | 62                    | 8                           | (11 )   | —                                      | 59           |
| Gain (loss) on divestiture                                 | 34                    | —                           | (55 )   | —                                      | (21 )        |
|  | 310                   | (18 )                       | 1,032   | 60                                     | 1,384        |
| <b>OPERATING EXPENSES:</b>                                 |                       |                             |   |  |              |
| Lease operating expenses                                   | 79                    | —                           | 293   | —                                      | 372          |
| Gathering and transportation                               | 7                     | —                           | 41  | —                                      | 48           |
| Taxes other than income                                    | 24                    | —                           | 5   | —                                      | 29           |
| Exploration  | 54                    | —                           | 54  | —                                      | 108          |
| General and administrative                                 | 91                    | —                           | 15  | —                                      | 106          |
| Transaction, reorganization, and separation                | 4                     | —                           | —   | —                                      | 4            |
| Depreciation, depletion, and amortization                  | 130                   | —                           | 442   | —                                      | 572          |
| Asset retirement obligation accretion                      | 5                     | —                           | 32  | —                                      | 37           |
| Financing costs, net                                       | 60                    | 6                           | 33  | —                                      | 99           |
|  | 454                   | 6                           | 915   | —                                      | 1,375        |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>               | (144 )                | (24 )                       | 117   | 60                                     | 9            |
| Provision (benefit) for income taxes                       | (716 )                | 2                           | 110   | —                                      | (604 )       |
| <b>NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST</b> | 572                   | (26 )                       | 7   | 60                                     | 613          |
| Net income attributable to noncontrolling interest         | —                     | —                           | 41  | —                                      | 41           |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK</b>      | \$572                 | \$ (26 )                    | \$ (34 )  | \$ 60                                  | \$ 572       |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
For the Quarter Ended June 30, 2016

|  | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|--|-----------------------|-----------------------------|---|--|--------------|
|  | (In millions)         |                             |   |  |              |
| <b>REVENUES AND OTHER:</b>                                 |                       |                             |   |  |              |
| Oil and gas production revenues                            | \$270                 | \$ —                        | \$ 1,116  | \$ —                                   | \$ 1,386     |
| Equity in net income (loss) of affiliates                  | (76 )                 | 6                           | —   | 70                                     | —            |
| Other  | (22 )                 | 9                           | (8 )  | —                                      | (21 )        |
| Gain (loss) on divestiture                                 | (1 )                  | —                           | 18  | —                                      | 17           |
|  | 171                   | 15                          | 1,126   | 70                                     | 1,382        |
| <b>OPERATING EXPENSES:</b>                                 |                       |                             |   |  |              |
| Lease operating expenses                                   | 66                    | —                           | 293   | —                                      | 359          |
| Gathering and transportation                               | 10                    | —                           | 42  | —                                      | 52           |
| Taxes other than income                                    | 22                    | —                           | 43  | —                                      | 65           |
| Exploration  | 76                    | —                           | 15  | —                                      | 91           |
| General and administrative                                 | 86                    | —                           | 17  | —                                      | 103          |
| Transaction, reorganization, and separation                | 9                     | —                           | —   | —                                      | 9            |
| Depreciation, depletion, and amortization                  | 159                   | —                           | 510   | —                                      | 669          |
| Asset retirement obligation accretion                      | 5                     | —                           | 33  | —                                      | 38           |
| Impairments  | 61                    | —                           | 112   | —                                      | 173          |
| Financing costs, net                                       | 64                    | 7                           | 33  | —                                      | 104          |
|  | 558                   | 7                           | 1,098   | —                                      | 1,663        |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>               | (387 )                | 8                           | 28  | 70                                     | (281 )       |
| Provision (benefit) for income taxes                       | (143 )                | 2                           | 60  | —                                      | (81 )        |
| <b>NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST</b> | (244 )                | 6                           | (32 )   | 70                                     | (200 )       |
| Net income attributable to noncontrolling interest         | —                     | —                           | 44  | —                                      | 44           |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK</b>      | \$(244)               | \$ 6                        | \$ (76 )  | \$ 70                                  | \$ (244 )    |

APACHE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
 For the Six Months Ended June 30, 2017

|  | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|--|-----------------------|-----------------------------|---|--|--------------|
|  | (In millions)         |                             |   |  |              |
| <b>REVENUES AND OTHER:</b>                                 |                       |                             |   |  |              |
| Oil and gas production revenues                            | \$532                 | \$—                         | \$ 2,326  | \$ —                                   | \$ 2,858     |
| Equity in net income (loss) of affiliates                  | 188                   | (27 )                       | —   | (161 )                                 | —            |
| Other  | 70                    | 16                          | (2 )  | —                                      | 84           |
| Gain on divestitures                                       | 175                   | —                           | 145   | —                                      | 320          |
|  | 965                   | (11 )                       | 2,469   | (161 )                                 | 3,262        |
| <b>OPERATING EXPENSES:</b>                                 |                       |                             |   |  |              |
| Lease operating expenses                                   | 160                   | —                           | 548   | —                                      | 708          |
| Gathering and transportation                               | 14                    | —                           | 91  | —                                      | 105          |
| Taxes other than income                                    | 47                    | —                           | 24  | —                                      | 71           |
| Exploration  | 82                    | —                           | 118   | —                                      | 200          |
| General and administrative                                 | 181                   | —                           | 28  | —                                      | 209          |
| Transaction, reorganization, and separation                | (6 )                  | —                           | —   | —                                      | (6 )         |
| Depreciation, depletion, and amortization                  | 265                   | —                           | 883   | —                                      | 1,148        |
| Asset retirement obligation accretion                      | 11                    | —                           | 62  | —                                      | 73           |
| Impairments  | —                     | —                           | 8   | —                                      | 8            |
| Financing costs, net                                       | 120                   | 12                          | 67  | —                                      | 199          |
|  | 874                   | 12                          | 1,829   | —                                      | 2,715        |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>               | 91                    | (23 )                       | 640   | (161 )                                 | 547          |
| Provision (benefit) for income taxes                       | (694 )                | 4                           | 357   | —                                      | (333 )       |
| <b>NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST</b> | 785                   | (27 )                       | 283   | (161 )                                 | 880          |
| Net income attributable to noncontrolling interest         | —                     | —                           | 95  | —                                      | 95           |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK</b>      | \$785                 | \$(27 )                     | \$ 188  | \$ (161 )                              | \$ 785       |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
For the Six Months Ended June 30, 2016

|  | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|--|-----------------------|-----------------------------|---|--|--------------|
|  | (In millions)         |                             |   |  |              |
| <b>REVENUES AND OTHER:</b>                                 |                       |                             |   |  |              |
| Oil and gas production revenues                            | \$487                 | \$ —                        | \$ 1,986  | \$ —                                   | \$ 2,473     |
| Equity in net income (loss) of affiliates                  | (184 )                | (20 )                       | —   | 204                                    | —            |
| Other  | 6                     | 21                          | (51 )   | —                                      | (24 )        |
| Gain (loss) on divestitures                                | (2 )                  | —                           | 18  | —                                      | 16           |
|  | 307                   | 1                           | 1,953   | 204                                    | 2,465        |
| <b>OPERATING EXPENSES:</b>                                 |                       |                             |   |  |              |
| Lease operating expenses                                   | 144                   | —                           | 593   | —                                      | 737          |
| Gathering and transportation                               | 19                    | —                           | 85  | —                                      | 104          |
| Taxes other than income                                    | 43                    | —                           | 33  | —                                      | 76           |
| Exploration  | 126                   | —                           | 60  | —                                      | 186          |
| General and administrative                                 | 163                   | —                           | 33  | —                                      | 196          |
| Transaction, reorganization, and separation                | 24                    | —                           | —   | —                                      | 24           |
| Depreciation, depletion, and amortization                  | 315                   | —                           | 1,032   | —                                      | 1,347        |
| Asset retirement obligation accretion                      | 9                     | —                           | 67  | —                                      | 76           |
| Impairments  | 61                    | —                           | 112   | —                                      | 173          |
| Financing costs, net                                       | 125                   | 17                          | 67  | —                                      | 209          |
|  | 1,029                 | 17                          | 2,082   | —                                      | 3,128        |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>               | (722 )                | (16 )                       | (129 )  | 204                                    | (663 )       |
| Provision (benefit) for income taxes                       | (106 )                | 4                           | 10  | —                                      | (92 )        |
| <b>NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST</b> | (616 )                | (20 )                       | (139 )  | 204                                    | (571 )       |
| Net income attributable to noncontrolling interest         | —                     | —                           | 45  | —                                      | 45           |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK</b>      | \$(616)               | \$(20 )                     | \$(184 )  | \$ 204                                 | \$(616 )     |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
For the Six Months Ended June 30, 2017

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|--|--------------|
|   | (In millions)         |                             |   |  |              |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES                     | \$ (280)              | \$ (13 )                    | \$ 1,499  | \$ —                                   | \$ 1,206     |
| CASH FLOWS FROM INVESTING ACTIVITIES:                               |                       |                             |   |  |              |
| Additions to oil and gas property                                   | (235 )                | —                           | (648 )  | —                                      | (883 )       |
| Leasehold and property acquisitions                                 | (58 )                 | —                           | (9 )  | —                                      | (67 )        |
| Additions to gas gathering, transmission, and processing facilities | —                     | —                           | (274 )  | —                                      | (274 )       |
| Proceeds from sale of Midale and House Mountain                     | —                     | —                           | 228   | —                                      | 228          |
| Proceeds from sale of oil and gas properties                        | —                     | —                           | 483   | —                                      | 483          |
| Investment in subsidiaries, net                                     | 668                   | —                           | —   | (668 )                                 | —            |
| Other   | (9 )                  | —                           | (7 )  | —                                      | (16 )        |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES                 | 366                   | —                           | (227 )  | (668 )                                 | (529 )       |
| CASH FLOWS FROM FINANCING ACTIVITIES:                               |                       |                             |   |  |              |
| Intercompany borrowings   | —                     | 259                         | (927 )  | 668                                    | —            |
| Payment of fixed-rate debt  | (70 )                 | —                           | —   | —                                      | (70 )        |
| Distributions to noncontrolling interest                            | —                     | —                           | (170 )  | —                                      | (170 )       |
| Common stock activity, net  | —                     | —                           | —   | —                                      | —            |
| Dividends paid  | (190 )                | —                           | —   | —                                      | (190 )       |
| Other   | —                     | —                           | 43  | —                                      | 43           |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES                 | (260 )                | 259                         | (1,054 )  | 668                                    | (387 )       |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                | (174 )                | 246                         | 218   | —                                      | 290          |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                      | 344                   | —                           | 1,033   | —                                      | 1,377        |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                          | \$ 170                | \$ 246                      | \$ 1,251  | \$ —                                   | \$ 1,667     |

APACHE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
 For the Six Months Ended June 30, 2016

|  | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|--|-----------------------|-----------------------------|---|--|--------------|
|  | (In millions)         |                             |   |  |              |
| CASH PROVIDED BY OPERATING ACTIVITIES                  | \$ 110                | \$ —                        | \$ 873  | \$ —                                   | \$ 983       |
| CASH FLOWS FROM INVESTING ACTIVITIES:                  |                       |                             |   |  |              |
| Additions to oil and gas property                      | (53 )                 | —                           | (872 )  | —                                      | (925 )       |
| Leasehold and property acquisitions                    | (53 )                 | —                           | (65 )   | —                                      | (118 )       |
| Investment in subsidiaries, net                        | (39 )                 | —                           | —   | 39                                     | —            |
| Other  | (3 )                  | —                           | 80  | —                                      | 77           |
| NET CASH PROVIDED BY (USED IN) INVESTING<br>ACTIVITIES | (148 )                | —                           | (857 )  | 39                                     | (966 )       |
| CASH FLOWS FROM FINANCING ACTIVITIES:                  |                       |                             |   |  |              |
| Intercompany borrowings                                | —                     | 1                           | 38  | (39 )                                  | —            |
| Distributions to noncontrolling interest               | —                     | —                           | (93 )   | —                                      | (93 )        |
| Dividends paid   | (189 )                | —                           | —   | —                                      | (189 )       |
| Other  | 1                     | (1 )                        | (1 )  | —                                      | (1 )         |
| NET CASH USED IN FINANCING ACTIVITIES                  | (188 )                | —                           | (56 )   | (39 )                                  | (283 )       |
| NET DECREASE IN CASH AND CASH EQUIVALENTS              | (226 )                | —                           | (40 )   | —                                      | (266 )       |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF<br>YEAR      | 378                   | —                           | 1,089   | —                                      | 1,467        |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD             | \$ 152                | \$ —                        | \$ 1,049  | \$ —                                   | \$ 1,201     |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING BALANCE SHEET  
June 30, 2017

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>& Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|-------------------------------------|--------------|
|   | (In millions)         |                             |   |                                     |              |
| <b>ASSETS</b>   |                       |                             |   |                                     |              |
| <b>CURRENT ASSETS:</b>                                    |                       |                             |   |                                     |              |
| Cash and cash equivalents                                 | \$ 170                | \$ 246                      | \$ 1,251  | \$ —                                | \$ 1,667     |
| Receivables, net of allowance                             | 300                   | —                           | 715   | —                                   | 1,015        |
| Inventories   | 24                    | —                           | 392   | —                                   | 416          |
| Drilling advances   | 5                     | —                           | 94  | —                                   | 99           |
| Assets held for sale                                      | —                     | —                           | 1,231   | —                                   | 1,231        |
| Prepaid assets and other                                  | 178                   | —                           | 41  | —                                   | 219          |
| Intercompany receivable                                   | 5,453                 | —                           | —   | (5,453)                             | ) —          |
|   | 6,130                 | 246                         | 3,724   | (5,453)                             | ) 4,647      |
| <b>PROPERTY AND EQUIPMENT, NET</b>                        | 7,232                 | —                           | 10,319  | —                                   | 17,551       |
| <b>OTHER ASSETS:</b>                                      |                       |                             |   |                                     |              |
| Intercompany receivable                                   | —                     | —                           | 12,876  | (12,876)                            | ) —          |
| Equity in affiliates                                      | 15,705                | (1,252)                     | 691   | (15,144)                            | ) —          |
| Deferred charges and other                                | 105                   | 1,000                       | 299   | (1,000)                             | ) 404        |
|   | \$ 29,172             | \$ (6 )                     | \$ 27,909   | \$ (34,473)                         | ) \$ 22,602  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>               |                       |                             |   |                                     |              |
| <b>CURRENT LIABILITIES:</b>                               |                       |                             |   |                                     |              |
| Accounts payable  | \$ 371                | \$ —                        | \$ 162  | \$ —                                | \$ 533       |
| Liabilities held for sale                                 | —                     | —                           | 939   | —                                   | 939          |
| Other current liabilities                                 | 699                   | 4                           | 698   | —                                   | 1,401        |
| Intercompany payable                                      | —                     | 247                         | 5,206   | (5,453)                             | ) —          |
|   | 1,070                 | 251                         | 7,005   | (5,453)                             | ) 2,873      |
| <b>LONG-TERM DEBT</b>                                     | 8,032                 | 297                         | —   | —                                   | 8,329        |
| <b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b> |                       |                             |   |                                     |              |
| Intercompany payable                                      | 12,876                | —                           | —   | (12,876)                            | ) —          |
| Income taxes  | (968)                 | ) 5                         | 2,021   | —                                   | 1,058        |
| Asset retirement obligation                               | 355                   | —                           | 1,456   | —                                   | 1,811        |
| Other   | 908                   | 2                           | 356   | (1,000)                             | ) 266        |
|   | 13,171                | 7                           | 3,833   | (13,876)                            | ) 3,135      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                      |                       |                             |   |                                     |              |
| <b>APACHE SHAREHOLDERS' EQUITY</b>                        |                       |                             |   |                                     |              |
| Noncontrolling interest                                   | —                     | —                           | 1,366   | —                                   | 1,366        |
| <b>TOTAL EQUITY</b>                                       | 6,899                 | (561)                       | 17,071  | (15,144)                            | ) 8,265      |
|   | \$ 29,172             | \$ (6 )                     | \$ 27,909   | \$ (34,473)                         | ) \$ 22,602  |

APACHE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATING BALANCE SHEET  
 December 31, 2016

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>& Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|-------------------------------------|--------------|
|   | (In millions)         |                             |   |                                     |              |
| <b>ASSETS</b>   |                       |                             |   |                                     |              |
| <b>CURRENT ASSETS:</b>                                    |                       |                             |   |                                     |              |
| Cash and cash equivalents                                 | \$344                 | \$—                         | \$ 1,033  | \$ —                                | \$ 1,377     |
| Receivables, net of allowance                             | 358                   | —                           | 770   | —                                   | 1,128        |
| Inventories   | 29                    | —                           | 447   | —                                   | 476          |
| Drilling advances   | 4                     | —                           | 77  | —                                   | 81           |
| Prepaid assets and other                                  | 134                   | —                           | 45  | —                                   | 179          |
| Intercompany receivable                                   | 5,038                 | —                           | —   | (5,038)                             | —            |
|   | 5,907                 | —                           | 2,372   | (5,038)                             | 3,241        |
| <b>PROPERTY AND EQUIPMENT, NET</b>                        | 7,014                 | —                           | 11,853  | —                                   | 18,867       |
| <b>OTHER ASSETS:</b>                                      |                       |                             |   |                                     |              |
| Intercompany receivable                                   | —                     | —                           | 12,152  | (12,152)                            | —            |
| Equity in affiliates                                      | 15,517                | (1,240)                     | 706   | (14,983)                            | —            |
| Deferred charges and other                                | 97                    | 1,000                       | 314   | (1,000)                             | 411          |
|   | \$28,535              | \$(240)                     | \$ 27,397   | \$ (33,173)                         | \$ 22,519    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>               |                       |                             |   |                                     |              |
| <b>CURRENT LIABILITIES:</b>                               |                       |                             |   |                                     |              |
| Accounts payable  | \$371                 | \$(12)                      | \$ 226  | \$ —                                | \$ 585       |
| Other current liabilities                                 | 653                   | 3                           | 602   | —                                   | 1,258        |
| Intercompany payable                                      | —                     | —                           | 5,038   | (5,038)                             | —            |
|   | 1,024                 | (9)                         | 5,866   | (5,038)                             | 1,843        |
| <b>LONG-TERM DEBT</b>                                     | 8,247                 | 297                         | —   | —                                   | 8,544        |
| <b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b> |                       |                             |   |                                     |              |
| Intercompany payable                                      | 12,152                | —                           | —   | (12,152)                            | —            |
| Income taxes  | (271)                 | ) 5                         | 1,976   | —                                   | 1,710        |
| Asset retirement obligation                               | 257                   | —                           | 2,175   | —                                   | 2,432        |
| Other   | 888                   | 1                           | 422   | (1,000)                             | 311          |
|   | 13,026                | 6                           | 4,573   | (13,152)                            | 4,453        |
| <b>COMMITMENTS AND CONTINGENCIES</b>                      |                       |                             |   |                                     |              |
| <b>APACHE SHAREHOLDERS' EQUITY</b>                        | 6,238                 | (534)                       | 15,517  | (14,983)                            | 6,238        |
| Noncontrolling interest                                   | —                     | —                           | 1,441   | —                                   | 1,441        |
| <b>TOTAL EQUITY</b>                                       | 6,238                 | (534)                       | 16,958  | (14,983)                            | 7,679        |
|   | \$28,535              | \$(240)                     | \$ 27,397   | \$ (33,173)                         | \$ 22,519    |



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to Apache Corporation and its consolidated subsidiaries and should be read in conjunction with the Company's consolidated financial statements and accompanying notes included under Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q, as well as the Company's consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

### Overview

Apache Corporation, a Delaware corporation formed in 1954, is an independent energy company that explores for, develops, and produces natural gas, crude oil, and natural gas liquids. The Company has exploration and production operations in four geographic areas: the United States (U.S.), Canada, Egypt, and offshore the United Kingdom (U.K.) in the North Sea (North Sea). Apache also has exploration interests in Suriname that may, over time, result in a reportable discovery and development opportunity.

Over the past several years, Apache has structured its business to adapt and thrive in a lower-for-longer price environment. The Company reacted quickly to the changing dynamics in commodity markets, stressing the importance of properly aligning cost structure with commodity prices, as well as achieving and maintaining cash flow neutrality. Apache completed a series of transactions that simplified its portfolio, reduced operating costs, overhead, and capital commitments, and strengthened its balance sheet. Apache entered 2017 with an asset base, an organization, and a strategic focus expected to deliver highly competitive, returns-focused organic growth for many years to come.

Apache has transitioned away from a longer-cycle, internationally focused investment program and expanded and enhanced its organic, unconventional acreage footprint and technical capabilities. This positioned the Company to execute its strategy of driving returns-focused growth in the U.S. while delivering strong and sustainable cash flow from its core businesses in Egypt and the North Sea.

Apache reported second quarter net income of \$572 million, or \$1.50 per common share, compared to a loss of \$244 million, or \$0.65 per common share, in the second quarter of 2016. The increase in net income compared to the prior-year quarter is primarily the result of income tax benefits related to the sale of our operations in Canada, as well as impairment charges incurred in the prior period. Revenue gains from significant increases in realized commodity prices mitigated the impact of production declines. Daily production in the second quarter of 2017 averaged 460 thousand barrels of oil equivalent per day (Mboe/d), a decrease of 14 percent from the comparative prior-year quarter due to natural decline. This decline is a result of Apache's decision to curtail drilling activity over the past two years until costs aligned with lower commodity prices, as well as the Company's significant allocation of capital investments toward the Alpine High development and associated infrastructure, which achieved first production in May 2017. The Company generated \$1.2 billion in cash from operating activities during the first six months of 2017, a 23 percent increase from the comparative prior-year period. In addition, the Company generated \$711 million of cash proceeds from non-core asset divestments, with an additional \$485 million of proceeds from our announced Canadian divestitures expected in the third quarter. Apache ended the quarter with \$1.7 billion of cash, an increase of \$290 million from year-end 2016. Apache also has \$3.5 billion in available committed borrowing capacity. This financial capacity provides for a capital program commensurate with prevailing commodity prices and a focus on long-term returns without stressing the balance sheet or diluting shareholders.

### Operating Highlights

Significant operating activities for the quarter include the following:

#### North America

North America equivalent production was down 16 percent for the quarter relative to the 2016 period, in line with our expectations given the significant reduction in capital investments over the past two years.

Second-quarter equivalent production from the Permian Basin region, which accounts for more than half of Apache's total North American production, decreased 12 percent from the second quarter of 2016 as a result of fewer wells placed on production during the previous two years. Second-quarter production was relatively flat with the prior sequential quarter, a reflection of increased activity during 2017.

- Drilling and infrastructure development activities continue at Alpine High; specifically:

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First production from the Alpine High play was achieved in early May 2017, with net gas production now exceeding 60 million cubic feet of natural gas per day (MMcf/d), which is projected to increase to more than 100 MMcf/d by the end of September.

During the first half of 2017, Apache invested \$270 million in midstream facilities at Alpine High, with development ongoing.

Well optimization work and appraisal drilling continued during the quarter. The Company drilled 4 appraisal wells in the oil window of the Wolfcamp/Bone Springs formations, where we continue to expand our inventory of drilling locations.

In July 2017, Apache announced three separate transactions to sell its subsidiary Apache Canada Ltd. (ACL) and its Canadian operations for aggregate cash proceeds of approximately \$713 million, subject to foreign exchange movements and customary closing adjustments. The sale of assets at Midale and House Mountain, located in Saskatchewan and Alberta, closed on June 30, 2017 for \$228 million of cash proceeds, with the two remaining transactions to sell ACL and Provost assets in Alberta expected to close in August 2017. The sale of Apache's Canadian operations further streamlines our portfolio, enables us to allocate a higher percentage of capital to the Permian Basin, and eliminates approximately \$800 million of asset retirement obligations from the Company's balance sheet.

#### International

The Egypt region averaged 13 rigs and drilled and completed 25 gross operated wells during the second quarter of 2017 including two high-rate exploration wells in the Matruh Basin, de-risking additional exploration prospects in the area. Net equivalent production decreased 8 percent from the second quarter of 2016 despite a decline of only 4 percent in gross production, a result of tax barrel impacts as a function of the Company's production sharing contracts. The North Sea region average daily production decreased 23 percent from the second quarter of 2016, primarily the result of scheduled maintenance activities commencing during the second quarter of 2017 and natural well decline in the Forties and Bacchus fields. The Callater discovery came online in late May 2017, with facilities tieback ahead of schedule and additional drilling activities and well testing ongoing.

## Results of Operations

## Oil and Gas Revenues

The table below presents revenues by geographic region and each region's percent contribution to revenues for 2017 and 2016.

|  | For the Quarter Ended June 30, |              |         |              |         |              | For the Six Months Ended June 30, |              |       |              |       |              |
|--|--------------------------------|--------------|---------|--------------|---------|--------------|-----------------------------------|--------------|-------|--------------|-------|--------------|
|  | 2017                           |              | 2016    |              | 2017    |              | 2016                              |              | 2017  |              | 2016  |              |
|  | \$                             | %            | \$      | %            | \$      | %            | \$                                | %            | \$    | %            | \$    | %            |
|  | Value                          | Contribution | Value   | Contribution | Value   | Contribution | Value                             | Contribution | Value | Contribution | Value | Contribution |
|  | (\$ in millions)               |              |         |              |         |              |                                   |              |       |              |       |              |
| <b>Total Oil Revenues:</b>                       |                                |              |         |              |         |              |                                   |              |       |              |       |              |
| United States                                    | \$355                          | 34 %         | \$409   | 37 %         | \$752   | 34 %         | \$722                             | 37 %         |       |              |       |              |
| Canada   | 47                             | 4 %          | 46      | 4 %          | 96      | 4 %          | 85                                | 5 %          |       |              |       |              |
| North America                                    | 402                            | 38 %         | 455     | 41 %         | 848     | 38 %         | 807                               | 42 %         |       |              |       |              |
| Egypt <sup>(1)</sup>                             | 423                            | 40 %         | 437     | 39 %         | 909     | 41 %         | 733                               | 38 %         |       |              |       |              |
| North Sea  | 225                            | 22 %         | 226     | 20 %         | 465     | 21 %         | 400                               | 20 %         |       |              |       |              |
| International <sup>(1)</sup>                     | 648                            | 62 %         | 663     | 59 %         | 1,374   | 62 %         | 1,133                             | 58 %         |       |              |       |              |
| Total <sup>(1)</sup>                             | \$1,050                        | 100 %        | \$1,118 | 100 %        | \$2,222 | 100 %        | \$1,940                           | 100 %        |       |              |       |              |
| <b>Total Natural Gas Revenues:</b>               |                                |              |         |              |         |              |                                   |              |       |              |       |              |
| United States                                    | \$84                           | 36 %         | \$62    | 30 %         | \$169   | 35 %         | \$124                             | 29 %         |       |              |       |              |
| Canada   | 40                             | 17 %         | 23      | 11 %         | 85      | 17 %         | 64                                | 15 %         |       |              |       |              |
| North America                                    | 124                            | 53 %         | 85      | 41 %         | 254     | 52 %         | 188                               | 44 %         |       |              |       |              |
| Egypt <sup>(1)</sup>                             | 95                             | 41 %         | 102     | 49 %         | 197     | 40 %         | 195                               | 45 %         |       |              |       |              |
| North Sea  | 14                             | 6 %          | 22      | 10 %         | 37      | 8 %          | 49                                | 11 %         |       |              |       |              |
| International <sup>(1)</sup>                     | 109                            | 47 %         | 124     | 59 %         | 234     | 48 %         | 244                               | 56 %         |       |              |       |              |
| Total <sup>(1)</sup>                             | \$233                          | 100 %        | \$209   | 100 %        | \$488   | 100 %        | \$432                             | 100 %        |       |              |       |              |
| <b>Total Natural Gas Liquids (NGL) Revenues:</b> |                                |              |         |              |         |              |                                   |              |       |              |       |              |
| United States                                    | \$52                           | 83 %         | \$49    | 83 %         | \$122   | 82 %         | \$83                              | 82 %         |       |              |       |              |
| Canada   | 6                              | 9 %          | 4       | 7 %          | 14      | 10 %         | 7                                 | 7 %          |       |              |       |              |
| North America                                    | 58                             | 92 %         | 53      | 90 %         | 136     | 92 %         | 90                                | 89 %         |       |              |       |              |
| Egypt <sup>(1)</sup>                             | 3                              | 5 %          | 3       | 5 %          | 6       | 4 %          | 6                                 | 6 %          |       |              |       |              |
| North Sea  | 2                              | 3 %          | 3       | 5 %          | 6       | 4 %          | 5                                 | 5 %          |       |              |       |              |
| International <sup>(1)</sup>                     | 5                              | 8 %          | 6       | 10 %         | 12      | 8 %          | 11                                | 11 %         |       |              |       |              |
| Total <sup>(1)</sup>                             | \$63                           | 100 %        | \$59    | 100 %        | \$148   | 100 %        | \$101                             | 100 %        |       |              |       |              |
| <b>Total Oil and Gas Revenues:</b>               |                                |              |         |              |         |              |                                   |              |       |              |       |              |
| United States                                    | \$491                          | 36 %         | \$520   | 38 %         | \$1,043 | 36 %         | \$929                             | 38 %         |       |              |       |              |
| Canada   | 93                             | 7 %          | 73      | 5 %          | 195     | 7 %          | 156                               | 6 %          |       |              |       |              |
| North America                                    | 584                            | 43 %         | 593     | 43 %         | 1,238   | 43 %         | 1,085                             | 44 %         |       |              |       |              |
| Egypt <sup>(1)</sup>                             | 521                            | 39 %         | 542     | 39 %         | 1,112   | 39 %         | 934                               | 38 %         |       |              |       |              |
| North Sea  | 241                            | 18 %         | 251     | 18 %         | 508     | 18 %         | 454                               | 18 %         |       |              |       |              |
| International <sup>(1)</sup>                     | 762                            | 57 %         | 793     | 57 %         | 1,620   | 57 %         | 1,388                             | 56 %         |       |              |       |              |
| Total <sup>(1)</sup>                             | \$1,346                        | 100 %        | \$1,386 | 100 %        | \$2,858 | 100 %        | \$2,473                           | 100 %        |       |              |       |              |

(1) Includes revenues attributable to a noncontrolling interest in Egypt.



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Production

The table below presents the second-quarter and year-to-date 2017 and 2016 production and the relative increase or decrease from the prior period.

|                                   | For the Quarter Ended June 30, |                     |           | For the Six Months Ended June 30, |                     |           |
|-----------------------------------|--------------------------------|---------------------|-----------|-----------------------------------|---------------------|-----------|
|                                   | 2017                           | Increase (Decrease) | 2016      | 2017                              | Increase (Decrease) | 2016      |
| <b>Oil Volume – b/d</b>           |                                |                     |           |                                   |                     |           |
| United States                     | 86,071                         | (19 )%              | 106,741   | 88,386                            | (21 )%              | 111,300   |
| Canada                            | 11,638                         | (10 )%              | 12,917    | 11,647                            | (15 )%              | 13,690    |
| North America                     | 97,709                         | (18 )%              | 119,658   | 100,033                           | (20 )%              | 124,990   |
| Egypt <sup>(1)(2)</sup>           | 96,961                         | (9 )%               | 106,223   | 99,327                            | (3 )%               | 102,241   |
| North Sea                         | 48,091                         | (19 )%              | 59,124    | 48,933                            | (16 )%              | 58,043    |
| International                     | 145,052                        | (12 )%              | 165,347   | 148,260                           | (8 )%               | 160,284   |
| Total                             | 242,761                        | (15 )%              | 285,005   | 248,293                           | (13 )%              | 285,274   |
| <b>Natural Gas Volume – Mcf/d</b> |                                |                     |           |                                   |                     |           |
| United States                     | 364,052                        | (11 )%              | 408,126   | 365,481                           | (11 )%              | 408,943   |
| Canada                            | 205,408                        | (17 )%              | 246,830   | 210,484                           | (18 )%              | 256,635   |
| North America                     | 569,460                        | (13 )%              | 654,956   | 575,965                           | (13 )%              | 665,578   |
| Egypt <sup>(1)(2)</sup>           | 383,296                        | (6 )%               | 408,013   | 395,179                           | (2 )%               | 402,806   |
| North Sea                         | 34,348                         | (43 )%              | 60,318    | 39,111                            | (40 )%              | 65,556    |
| International                     | 417,644                        | (11 )%              | 468,331   | 434,290                           | (7 )%               | 468,362   |
| Total                             | 987,104                        | (12 )%              | 1,123,287 | 1,010,255                         | (11 )%              | 1,133,940 |
| <b>NGL Volume – b/d</b>           |                                |                     |           |                                   |                     |           |
| United States                     | 47,029                         | (15 )%              | 55,632    | 47,511                            | (15 )%              | 55,666    |
| Canada                            | 4,365                          | (14 )%              | 5,092     | 4,592                             | (21 )%              | 5,797     |
| North America                     | 51,394                         | (15 )%              | 60,724    | 52,103                            | (15 )%              | 61,463    |
| Egypt <sup>(1)(2)</sup>           | 880                            | (7 )%               | 950       | 917                               | (18 )%              | 1,119     |
| North Sea                         | 741                            | (53 )%              | 1,563     | 955                               | (36 )%              | 1,486     |
| International                     | 1,621                          | (35 )%              | 2,513     | 1,872                             | (28 )%              | 2,605     |
| Total                             | 53,015                         | (16 )%              | 63,237    | 53,975                            | (16 )%              | 64,068    |
| <b>BOE per day<sup>(3)</sup></b>  |                                |                     |           |                                   |                     |           |
| United States                     | 193,775                        | (16 )%              | 230,393   | 196,811                           | (16 )%              | 235,123   |
| Canada                            | 50,238                         | (15 )%              | 59,148    | 51,319                            | (18 )%              | 62,260    |
| North America                     | 244,013                        | (16 )%              | 289,541   | 248,130                           | (17 )%              | 297,383   |
| Egypt <sup>(2)</sup>              | 161,724                        | (8 )%               | 175,175   | 166,107                           | (3 )%               | 170,494   |
| North Sea <sup>(4)</sup>          | 54,556                         | (23 )%              | 70,740    | 56,407                            | (20 )%              | 70,455    |
| International                     | 216,280                        | (12 )%              | 245,915   | 222,514                           | (8 )%               | 240,949   |
| Total                             | 460,293                        | (14 )%              | 535,456   | 470,644                           | (13 )%              | 538,332   |

(1) Gross oil, natural gas, and NGL production in Egypt for the second quarter and six-month period of 2017 and 2016 were as follows:

|                     | For the Quarter Ended June 30, |         | For the Six Months Ended June 30, |         |
|---------------------|--------------------------------|---------|-----------------------------------|---------|
|                     | 2017                           | 2016    | 2017                              | 2016    |
| Oil (b/d)           | 195,293                        | 212,218 | 194,559                           | 211,032 |
| Natural Gas (Mcf/d) | 825,947                        | 814,283 | 811,608                           | 830,165 |
| NGL (b/d)           | 1,545                          | 1,757   | 1,509                             | 1,951   |

(2) Includes production volumes per day attributable to a noncontrolling interest in Egypt for the second quarter and six-month period of 2017 and 2016 of:

|                     | For the Quarter |         | For the Six  |         |
|---------------------|-----------------|---------|--------------|---------|
|                     | Ended June 30,  |         | Months Ended |         |
|                     | 2017            | 2016    | 2017         | 2016    |
| Oil (b/d)           | 32,562          | 35,357  | 33,232       | 34,017  |
| Natural Gas (Mcf/d) | 128,696         | 136,029 | 132,197      | 134,266 |
| NGL (b/d)           | 293             | 317     | 306          | 373     |

The table shows production on a barrel of oil equivalent basis (boe) in which natural gas is converted to an equivalent barrel of oil based on a 6:1 energy equivalent ratio. This ratio is not reflective of the price ratio between the two products.

Average sales volumes from the North Sea for the second quarter and first six months of 2017 was 57,905 boe/d and 58,347 boe/d, respectively. Sales volumes may vary from production volumes as a result of the timing of liftings in the Beryl field.

## Pricing

The table below presents second-quarter and year-to-date 2017 and 2016 pricing and the relative increase or decrease from the prior period.

|  | For the Quarter Ended<br>June 30, |                        |         | For the Six Months Ended<br>June 30, |                        |         |
|--|-----------------------------------|------------------------|---------|--------------------------------------|------------------------|---------|
|  | 2017                              | Increase<br>(Decrease) | 2016    | 2017                                 | Increase<br>(Decrease) | 2016    |
| <b>Average Oil Price - Per barrel</b>      |                                   |                        |         |                                      |                        |         |
| United States                              | \$45.18                           | 8 %                    | \$41.95 | \$46.99                              | 32 %                   | \$35.61 |
| Canada                                     | 44.52                             | 13 %                   | 39.39   | 45.70                                | 34 %                   | 34.11   |
| North America                              | 45.10                             | 9 %                    | 41.45   | 46.84                                | 33 %                   | 35.34   |
| Egypt                                      | 47.98                             | 6 %                    | 45.42   | 50.57                                | 28 %                   | 39.47   |
| North Sea                                  | 48.21                             | 6 %                    | 45.56   | 50.51                                | 27 %                   | 39.64   |
| International                              | 48.06                             | 6 %                    | 45.47   | 50.55                                | 28 %                   | 39.53   |
| Total                                      | 46.89                             | 9 %                    | 43.14   | 49.06                                | 31 %                   | 37.37   |
| <b>Average Natural Gas Price - Per Mcf</b> |                                   |                        |         |                                      |                        |         |
| United States                              | \$2.53                            | 49 %                   | \$1.70  | \$2.55                               | 53 %                   | \$1.67  |
| Canada                                     | 2.14                              | 112 %                  | 1.01    | 2.24                                 | 65 %                   | 1.36    |
| North America                              | 2.39                              | 66 %                   | 1.44    | 2.44                                 | 57 %                   | 1.55    |
| Egypt                                      | 2.73                              | —                      | 2.72    | 2.75                                 | 4 %                    | 2.65    |
| North Sea                                  | 4.54                              | 15 %                   | 3.95    | 5.27                                 | 28 %                   | 4.11    |
| International                              | 2.88                              | —                      | 2.88    | 2.98                                 | 4 %                    | 2.86    |
| Total                                      | 2.60                              | 27 %                   | 2.04    | 2.67                                 | 28 %                   | 2.09    |
| <b>Average NGL Price - Per barrel</b>      |                                   |                        |         |                                      |                        |         |
| United States                              | \$12.26                           | 26 %                   | \$9.74  | \$14.21                              | 74 %                   | \$8.17  |
| Canada                                     | 15.99                             | 87 %                   | 8.54    | 16.53                                | 140 %                  | 6.88    |
| North America                              | 12.58                             | 30 %                   | 9.64    | 14.42                                | 79 %                   | 8.05    |
| Egypt                                      | 31.11                             | 12 %                   | 27.68   | 35.74                                | 31 %                   | 27.24   |
| North Sea                                  | 22.92                             | 3 %                    | 22.25   | 32.85                                | 62 %                   | 20.29   |
| International                              | 27.37                             | 13 %                   | 24.30   | 34.26                                | 47 %                   | 23.28   |
| Total                                      | 13.03                             | 27 %                   | 10.22   | 15.10                                | 74 %                   | 8.67    |

## Second-Quarter 2017 compared to Second-Quarter 2016

**Crude Oil Revenues** Crude oil revenues for the second quarter of 2017 totaled \$1.1 billion, a \$68 million decrease from the comparative 2016 quarter. A 15 percent decrease in average daily production reduced second-quarter 2017 revenues by \$147 million compared to the prior-year quarter, while 9 percent higher average realized prices increased revenues by \$79 million. Crude oil accounted for 78 percent of oil and gas production revenues and 53 percent of worldwide production in the second quarter of 2017. Crude oil prices realized in the second quarter of 2017 averaged \$46.89 per barrel, compared with \$43.14 per barrel in the comparative prior-year quarter.

Worldwide oil production decreased 42.2 Mb/d to 242.8 Mb/d in the second quarter of 2017 from the comparative prior-year period, primarily the result of natural decline in all regions and reduced drilling activity in response to commodity price weakness.

**Natural Gas Revenues** Gas revenues for the second quarter of 2017 totaled \$233 million, a \$24 million increase from the comparative 2016 quarter. A 12 percent decrease in average daily production reduced second-quarter revenues by \$32 million compared to the prior-year quarter, while 27 percent higher average realized prices increased revenues by \$56 million. Natural gas accounted for 17 percent of Apache's oil and gas production revenues and 36 percent of its equivalent production during the second quarter of 2017.





Worldwide natural gas production decreased 136 MMcf/d to 987 MMcf/d in the second quarter of 2017 from the comparative prior-year period, primarily the result of natural decline in all regions and maintenance activity in the North Sea.

**NGL Revenues** NGL revenues for the second quarter of 2017 totaled \$63 million, a \$4 million increase from the comparative 2016 quarter. A 16 percent decrease in average daily production reduced second-quarter 2017 revenues by approximately \$12 million, while 27 percent higher average realized prices increased revenues by \$16 million. NGLs accounted for 5 percent of Apache's oil and gas production revenues and 11 percent of its equivalent production during the second quarter of 2017.

Worldwide production of NGLs decreased 10.2 Mb/d to 53.0 Mb/d in the second quarter of 2017 from the comparative prior-year period, primarily the result of natural decline in all regions.

**Year-to-Date 2017 compared to Year-to-Date 2016**

**Crude Oil Revenues** Crude oil revenues for the first six months of 2017 totaled \$2.2 billion, a \$282 million increase from the comparative 2016 period. A 13 percent decrease in average daily production reduced 2017 oil revenues by \$305 million compared to the prior-year period, while 31 percent higher average realized prices increased revenues by \$587 million. Crude oil accounted for 78 percent of oil and gas production revenues and 53 percent of worldwide production for the first six months of 2017, compared to 79 percent and 53 percent, respectively, for the 2016 period. Crude oil prices realized in the first six months of 2017 averaged \$49.06 per barrel, compared with \$37.37 per barrel in the comparative prior-year period.

Worldwide production decreased 37.0 Mb/d to 248.3 Mb/d in the first six months of 2017 from the comparative prior-year period, primarily the result of natural decline in all regions and reduced drilling activity in response to commodity price weakness.

**Natural Gas Revenues** Gas revenues for the first six months of 2017 totaled \$488 million, a \$56 million increase from the comparative 2016 period. An 11 percent decrease in average daily production reduced 2017 natural gas revenues by \$63 million compared to the prior-year period, while 28 percent higher average realized prices increased revenues by \$119 million. Natural gas accounted for 17 percent of Apache's oil and gas production revenues and 36 percent of its equivalent production during the first six months of 2017, compared to 17 percent and 35 percent, respectively, for the 2016 period.

Our worldwide natural gas production decreased 124 MMcf/d to 1,010 MMcf/d in the first six months of 2017 from the comparative prior-year period, primarily the result of natural decline in all regions.

**NGL Revenues** NGL revenues for the first six months of 2017 totaled \$148 million, a \$47 million increase from the comparative 2016 period. A 16 percent decrease in average production reduced 2017 NGL revenues by \$28 million compared to the prior-year period, while 74 percent higher average realized prices increased revenues by \$75 million. NGLs accounted for 5 percent of Apache's oil and gas production revenues and 11 percent of its equivalent production for the first six months of 2017, compared to 4 percent and 12 percent, respectively, for the 2016 period.

Worldwide production of NGLs decreased 10.1 Mb/d to 54.0 Mb/d in the first six months of 2017 from the comparative prior-year period, primarily the result of natural decline in all regions.

## Operating Expenses

The table below presents a comparison of Apache's expenses on an absolute dollar basis and a boe basis. Apache's discussion may reference expenses on a boe basis, on an absolute dollar basis or both, depending on their relevance. Operating expenses include costs attributable to a noncontrolling interest in Egypt.

|   | For the Quarter Ended |       |           |        | For the Six Months Ended |       |           |        |
|---|-----------------------|-------|-----------|--------|--------------------------|-------|-----------|--------|
|   | June 30,              |       | June 30,  |        | June 30,                 |       | June 30,  |        |
|   | 2017                  | 2016  | 2017      | 2016   | 2017                     | 2016  | 2017      | 2016   |
|   | (In millions)         |       | (Per boe) |        | (In millions)            |       | (Per boe) |        |
| Lease operating expenses <sup>(1)</sup>           | \$372                 | \$359 | \$8.81    | \$7.38 | \$708                    | \$737 | \$8.27    | \$7.52 |
| Gathering and transportation <sup>(1)</sup>       | 48                    | 52    | 1.19      | 1.05   | 105                      | 104   | 1.24      | 1.06   |
| Taxes other than income                           | 29                    | 65    | 0.68      | 1.33   | 71                       | 76    | 0.83      | 0.78   |
| Exploration                                       | 108                   | 91    | 2.58      | 1.87   | 200                      | 186   | 2.35      | 1.90   |
| General and administrative                        | 106                   | 103   | 2.53      | 2.10   | 209                      | 196   | 2.45      | 2.00   |
| Transaction, reorganization, and separation       | 4                     | 9     | 0.08      | 0.17   | (6)                      | 24    | (0.07)    | 0.24   |
| Depreciation, depletion, and amortization:        |                       |       |           |        |                          |       |           |        |
| Oil and gas property and equipment <sup>(1)</sup> | 536                   | 629   | 12.72     | 12.92  | 1,074                    | 1,265 | 12.56     | 12.91  |
| Other assets                                      | 36                    | 40    | 0.86      | 0.83   | 74                       | 82    | 0.87      | 0.84   |
| Asset retirement obligation accretion             | 37                    | 38    | 0.87      | 0.78   | 73                       | 76    | 0.85      | 0.77   |
| Impairments                                       | —                     | 173   | —         | 3.56   | 8                        | 173   | 0.09      | 1.77   |
| Financing costs, net                              | 99                    | 104   | 2.37      | 2.15   | 199                      | 209   | 2.34      | 2.13   |

(1) For expenses impacted by the timing of 2017 liftings in the North Sea, per-boe calculations are based on sales volumes rather than production volumes.

**Lease Operating Expenses (LOE)** LOE increased \$13 million, or 4 percent, for the second quarter of 2017, and decreased \$29 million, or 4 percent for the first six months of 2017, on an absolute dollar basis relative to the comparable periods of 2016. On a per-unit basis, LOE increased 19 percent to \$8.81 per boe for the second quarter of 2017, and 10 percent to \$8.27 per boe for the first six months of 2017, as compared to the prior-year periods. The per barrel increase for both comparative periods is primarily the result of workovers in North America and planned maintenance in the North Sea during the second quarter of 2017.

**Gathering and Transportation** Gathering and transportation costs totaled \$48 million and \$105 million in the second quarter and first six months of 2017, respectively, a decrease of \$4 million from the second quarter of 2016 and an increase of \$1 million from the first six months of 2016.

**Taxes other than Income** Taxes other than income totaled \$29 million and \$71 million for the second quarter and first six months of 2017, respectively, a decrease of \$36 million and \$5 million from the second quarter and first six months of 2016, respectively. The North Sea Petroleum Revenue Tax (PRT) rate, historically assessed on qualifying fields in the U.K. North Sea, was reduced to zero during 2016, driving the reduction for the second quarter and first six months of 2017. Severance tax expense and ad valorem tax expense increased \$1 million and \$2 million, respectively, on higher commodity prices during the second quarter compared to the prior year quarter. For the first six months of 2017, severance tax expense and ad valorem tax expense increased \$9 million and \$3 million, respectively, compared to the first six months of 2016.

Exploration Expense Exploration expense includes unproved leasehold impairments, exploration dry hole expense, geological and geophysical expenses, and the costs of maintaining and retaining unproved leasehold properties. Exploration expenses in the second quarter and first six months of 2017 increased \$17 million and \$14 million compared to the prior-year periods.

The following table presents a summary of exploration expense:

|                                    | For the<br>Quarter<br>Ended<br>June 30,<br>2017 |      | For the Six<br>Months<br>Ended June<br>30,<br>2016 |       |
|------------------------------------|---|------|--|-------|
|                                    | 2017  | 2016 | 2017   | 2016  |
|                                    | (In millions)                                   |      |  |       |
| Unproved leasehold impairments     | \$39  | \$66 | \$54   | \$108 |
| Dry hole expense                   | 46  | 2    | 98   | 31    |
| Geological and geophysical expense | 6   | 4    | 12   | 9     |
| Exploration overhead and other     | 17  | 19   | 36   | 38    |
|                                    | \$108   | \$91 | \$200  | \$186 |

Unproved leasehold impairments in the second quarter and first six months of 2017 decreased \$27 million and \$54 million, respectively, from the comparative prior-year periods, primarily a result of stabilizing commodity and leasehold prices. Dry hole expense increased \$44 million and \$67 million for the second quarter and first six months of 2017, respectively, from the comparative prior-year periods on activity primarily in the U.S., North Sea, and Suriname.

General and Administrative (G&A) Expenses G&A expense for the second quarter and first six months of 2017 were \$3 million and \$13 million higher, respectively, than the comparative 2016 periods. The increase in G&A expense was primarily related to non-cash stock-based compensation expense and other corporate costs.

Transaction, Reorganization, and Separation (TRS) Costs The Company recorded TRS expense of \$4 million during the second quarter of 2017, but recorded a total net benefit of \$6 million for the first six months of 2017. The net benefit was primarily a result of a decrease in the market value of stock awards outstanding for former employees. During 2016, the Company recorded an expense of \$9 million and \$24 million in the second quarter and first six months of 2016, respectively, in connection with employee separation, the consolidation of office space, and other reorganization efforts.

Depreciation, Depletion, and Amortization (DD&A) Oil and gas property DD&A expense of \$536 million in the second quarter of 2017 decreased \$93 million compared to the second quarter of 2016. For the first six months of 2017, oil and gas property DD&A expense decreased \$191 million compared to the prior-year period. The Company's oil and gas property DD&A rate decreased \$0.20 per boe and \$0.35 per boe in the second quarter and first six months of 2017, respectively, compared to the comparable prior-year periods. The primary factor driving lower absolute dollar expense was a decrease in production volumes from the comparative prior-year periods.

Impairments The Company did not record any asset impairments in connection with fair value assessments in the second quarter of 2017. During the first quarter of 2017, the Company recorded asset impairments in connection with fair value assessments totaling \$8 million for a U.K. PRT decommissioning asset that is no longer expected to be realizable from future abandonment activities in the North Sea. During each of the second quarter and first six months of 2016, the Company recorded \$173 million of impairments in connection with fair value assessments. For more information regarding asset impairments, please refer to "Fair Value Measurements" within Note 1—Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Financing Costs, Net Financing costs incurred during the period comprised the following:

|                                     | For the<br>Quarter<br>Ended June<br>30,<br>2017 |       | For the Six<br>Months<br>Ended June<br>30,<br>2016 |       |
|-------------------------------------|---|-------|--|-------|
|                                     | 2017  | 2016  | 2017   | 2016  |
|                                     | (In millions)                                   |       |  |       |
| Interest expense                    | \$115   | \$116 | \$231  | \$232 |
| Amortization of deferred loan costs | 2   | 2     | 4  | 3     |
| Capitalized interest                | (13 )   | (12 ) | (27 )  | (23 ) |
| Loss on extinguishment of debt      | —   | —     | 1  | —     |
| Interest income                     | (5 )  | (2 )  | (10 )  | (3 )  |
| Financing costs, net                | \$99  | \$104 | \$199  | \$209 |

Net financing costs decreased \$5 million and \$10 million in the second quarter and first six months of 2017, respectively, compared to the same prior-year periods on higher capitalized interest and interest income.

**Provision for Income Taxes** The Company estimates its annual effective income tax rate for continuing operations in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates.

Non-cash impairments of the carrying value of the Company's oil and gas properties, gains and losses on the sale of assets, statutory tax rate changes, and other significant or unusual items are recognized as discrete items in the quarter in which they occur.

In July 2017, Apache announced the sale of ACL and classified its investment in the subsidiary as held for sale as of June 30, 2017. For more information regarding this transaction, please refer to Note 2—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q. As a result of this transaction, Apache recorded a deferred tax asset associated with its investment in ACL and decreased its deferred tax liability associated with its investment in other foreign subsidiaries. This resulted in the Company recording a \$674 million deferred income tax benefit in the second quarter of 2017.

Also during the second quarter of 2017, Apache's effective income tax rate was primarily impacted by gains on the sale of oil and gas properties and an increase in the amount of valuation allowance on Canadian deferred tax assets. During the second quarter of 2016, Apache's effective income tax rate was primarily impacted by an increase in the valuation allowance on Canadian deferred tax assets.

Apache's 2017 year-to-date effective income tax rate is primarily impacted by the decrease in deferred taxes associated with its investments in foreign subsidiaries, gains on the sale of oil and gas properties, non-cash impairments of the Company's PRT decommissioning asset, and an increase in the amount of valuation allowance on Canadian deferred tax assets. Apache's 2016 year-to-date effective tax rate was primarily impacted by an increase in the valuation allowance on Canadian deferred tax assets.

Apache and its subsidiaries are subject to U.S. federal income tax as well as income or capital taxes in various state and foreign jurisdictions. The Company's tax reserves are related to tax years that may be subject to examination by the relevant taxing authority. In April 2017, the Internal Revenue Service (IRS) began their audit of the Company's 2014 income tax year. The Company is also under audit in various states and in most of the Company's foreign jurisdictions as part of its normal course of business.

### Capital Resources and Liquidity

Operating cash flows are the Company's primary source of liquidity. The Company may also elect to use available cash on hand, available committed borrowing capacity, access to both debt and equity capital markets, or proceeds from the sale of nonstrategic assets for all other liquidity and capital resource needs.

Apache's operating cash flows, both in the short term and the long term, are impacted by highly volatile oil and natural gas prices, as well as costs and sales volumes. Significant changes in commodity prices impact Apache's revenues, earnings, and cash flows. These changes potentially impact Apache's liquidity if costs do not trend with changes in commodity prices. Historically, costs have trended with commodity prices, albeit with a lag. Sales volumes also impact cash flows; however, they have a less volatile impact in the short term.

Apache's long-term operating cash flows are dependent on reserve replacement and the level of costs required for ongoing operations. Cash investments are required to fund activity necessary to offset the inherent declines in production and proved crude oil and natural gas reserves. Future success in maintaining and growing reserves and production is highly dependent on the success of Apache's drilling program and its ability to add reserves economically. Changes in commodity prices also impact estimated quantities of proved reserves. In the first six months of 2017, Apache recognized positive reserve revisions of approximately 2 percent of its year-end 2016 estimated proved reserves as a result of higher prices.

Apache believes the liquidity and capital resource alternatives available to Apache, combined with proactive measures to adjust its capital budget to reflect volatile commodity prices and anticipated operating cash flows, will be adequate to fund short-term and long-term operations, including Apache's capital spending program, repayment of debt maturities, payment of dividends, and any amount that may ultimately be paid in connection with commitments and contingencies.

For additional information, please see Part I, Items 1 and 2, "Business and Properties," and Item 1A, "Risk Factors," in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

### Sources and Uses of Cash

The following table presents the sources and uses of the Company's cash and cash equivalents for the periods presented.

|  | For the Six<br>Months Ended<br>June 30,<br>2017 2016<br>(In millions) |         |
|--|---|---------|
| Sources of Cash and Cash Equivalents:            |   |         |
| Net cash provided by operating activities        | \$1,206   | \$983   |
| Proceeds from sale of oil and gas properties     | 711   | 48      |
| Other  | 27  | 28      |
|  | 1,944   | 1,059   |
| Uses of Cash and Cash Equivalents:               |   |         |
| Capital expenditures <sup>(1)</sup>              | \$1,157   | \$925   |
| Leasehold and property acquisitions              | 67  | 118     |
| Payments on fixed-rate debt                      | 70  | —       |
| Dividends paid                                   | 190   | 189     |
| Distributions to noncontrolling interest         | 170   | 93      |
|  | 1,654   | 1,325   |
| Increase (decrease) in cash and cash equivalents | \$290   | \$(266) |

(1) The table presents capital expenditures on a cash basis; therefore, the amounts may differ from those discussed elsewhere in this document, which include accruals.

Net Cash Provided by Operating Activities Operating cash flows are Apache's primary source of capital and liquidity and are impacted, both in the short term and the long term, by volatile oil and natural gas prices. The factors that determine operating cash flow are largely the same as those that affect net earnings, with the exception of non-cash expenses such as DD&A, exploratory dry hole expense, asset impairments, asset retirement obligation (ARO) accretion, and deferred income tax expense, which affect earnings but do not affect cash flows.

Net cash provided by operating activities for the first six months of 2017 totaled \$1.2 billion, an increase of \$223 million from the first six months of 2016. The increase primarily reflects higher commodity prices compared to the prior-year period.

For a detailed discussion of commodity prices, production, and expenses, refer to the “Results of Operations” of this Item 2. For additional detail on the changes in operating assets and liabilities and the non-cash expenses that do not impact net cash provided by operating activities, please see the statement of consolidated cash flows in Item 1, Financial Statements of this Quarterly Report on Form 10-Q.

**Asset Divestitures** The Company recorded proceeds from asset divestitures totaling \$711 million and \$48 million in the first six months of 2017 and 2016, respectively. For more information regarding the Company’s acquisitions and divestitures, please see Note 2—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

**Capital Expenditures** Worldwide exploration and development (E&D) cash expenditures for the first six months of 2017 totaled \$883 million, compared to \$925 million for the first six months of 2016. Apache operated an average of 34 drilling rigs during the second quarter of 2017.

Apache also completed leasehold and property acquisitions totaling \$67 million and \$118 million during the first six months of 2017 and 2016, respectively.

Apache’s investment in gas gathering, transmission, and processing (GTP) facilities totaled \$274 million in the first six months of 2017. Expenditures in 2017 primarily comprise investments in infrastructure for the Alpine High play. No meaningful GTP expenses were incurred during 2016.

**Dividends** For the six-month periods ended June 30, 2017 and 2016, the Company paid \$190 million and \$189 million, respectively, in dividends on its common stock.

#### Liquidity

The following table presents a summary of the Company’s key financial indicators at the dates presented:

|  | June<br>30,<br>2017 | December<br>31, 2016 |
|--|---------------------|----------------------|
|  | (In millions)       |                      |
| Cash and cash equivalents              | \$1,667             | \$ 1,377             |
| Total debt                             | 8,479               | 8,544                |
| Equity                                 | 8,265               | 7,679                |
| Available committed borrowing capacity | 3,500               | 3,500                |

**Cash and cash equivalents** The Company had \$1.7 billion in cash and cash equivalents as of June 30, 2017, compared to \$1.4 billion at December 31, 2016. At June 30, 2017, approximately \$1.5 billion of the cash was held by foreign subsidiaries. The cash held by foreign subsidiaries should not be subject to additional U.S. income taxes if repatriated. The majority of the cash is invested in highly liquid, investment grade securities with maturities of three months or less at the time of purchase.

**Debt** As of June 30, 2017, outstanding debt, which consisted of notes and debentures, totaled \$8.5 billion. Current debt as of June 30, 2017, included \$150 million of 7.0% senior notes due February 1, 2018.

In November 2016, the Company initiated a program to purchase in the open market up to \$250 million in aggregate principal amount of senior notes issued under its indentures. In the fourth quarter of 2016, the Company purchased and canceled \$181 million aggregate principal amount of its senior notes through open market repurchases for \$182 million in cash, including accrued interest and \$0.5 million of premium.

In January 2017, the Company purchased and canceled an additional \$69 million aggregate principal amount of senior notes for \$71 million in cash, including accrued interest and \$1 million of premium, which completed the open market repurchase program. These repurchases resulted in a \$1 million net loss on extinguishment of debt, which is included in “Financing costs, net” in the Company’s consolidated statement of operations. The net loss includes an acceleration of related discount and deferred financing costs.





Available committed borrowing capacity In June 2015, the Company entered into a five-year revolving credit facility which matures in June 2020, subject to Apache's two, one-year extension options. The facility provides for aggregate commitments of \$3.5 billion (including a \$750 million letter of credit subfacility) and rights to increase commitments to \$4.5 billion. Proceeds from borrowings may be used for general corporate purposes. Apache's available borrowing capacity under this facility supports its commercial paper program, currently \$3.5 billion. The commercial paper program, which is subject to market availability, facilitates Apache borrowing funds for up to 270 days at competitive interest rates. As of June 30, 2017, the Company had no commercial paper or borrowings under committed bank facilities or uncommitted bank lines outstanding.

In February 2016, the Company entered into a letter of credit facility providing £900 million in commitments and rights to increase commitments to £1.075 billion. This facility matures in February 2020 and is available for the Company's letter of credit needs, particularly those which may arise in respect of abandonment obligations assumed in various North Sea acquisitions. The facility also is available for loans to cash collateralize letters of credit or obligations to provide letters of credit, in each case, to the extent letters of credit are unavailable under the facility. As of June 30, 2017, three letters of credit aggregating approximately £147.5 million and no borrowings were outstanding under this facility.

The Company was in compliance with the terms of these credit facilities as of June 30, 2017.

## ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Commodity Risk

The Company's revenues, earnings, cash flow, capital investments and, ultimately, future rate of growth are highly dependent on the prices the Company receives for its crude oil, natural gas, and NGLs, which have historically been very volatile because of unpredictable events such as economic growth or retraction, weather, political climate, and global supply and demand. The Company's average crude oil realizations have increased 9 percent to \$46.89 per barrel in the second quarter of 2017 from \$43.14 per barrel in the comparable period of 2016. The Company's average natural gas price realizations have increased 27 percent to \$2.60 per Mcf in the second quarter of 2017 from \$2.04 per Mcf in the comparable period of 2016. Based on average daily production for the second quarter of 2017, a \$1.00 per barrel change in the weighted average realized oil price would have increased or decreased revenues for the quarter by approximately \$22 million, and a \$0.10 per Mcf change in the weighted average realized price of natural gas would have increased or decreased revenues for the quarter by approximately \$9 million.

Apache periodically enters into derivative positions on a portion of its projected oil and natural gas production through a variety of financial and physical arrangements intended to manage fluctuations in cash flows resulting from changes in commodity prices. Apache periodically uses futures contracts, swaps, and options to mitigate commodity price risk. Apache does not hold or issue derivative instruments for trading purposes. As of June 30, 2017, the Company had open natural gas derivatives not designated as cash flow hedges in an asset position with a fair value of \$2 million. A 10 percent increase in gas prices would decrease the asset by approximately \$2 million, while a 10 percent decrease in prices would increase the asset by approximately \$2 million. As of June 30, 2017, the Company had open oil derivatives not designated as cash flow hedges in an asset position with a fair value of \$139 million. A 10 percent increase in oil prices would decrease the asset by approximately \$76 million, while a 10 percent decrease in prices would increase the asset by approximately \$117 million. These fair value changes assume volatility based on prevailing market parameters at June 30, 2017. See Note 3—Derivative Instruments and Hedging Activities of the Notes to Consolidated Financial Statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q for notional volumes and terms associated with the Company's derivative contracts.

## Foreign Currency Risk

The Company's cash flow stream relating to certain international operations is based on the U.S. dollar equivalent of cash flows measured in foreign currencies. In Canada, oil and gas prices and costs, such as equipment rentals and services, are generally denominated in Canadian dollars but heavily influenced by U.S. markets. The Company's North Sea production is sold under U.S. dollar contracts, and the majority of costs incurred are paid in British pounds. In Egypt, all oil and gas production is sold under U.S. dollar contracts, and the majority of the costs incurred are denominated in U.S. dollars. Revenue and disbursement transactions denominated in Canadian dollars and British pounds are converted to U.S. dollar equivalents based on average exchange rates during the period.

Foreign currency gains and losses also arise when monetary assets and monetary liabilities denominated in foreign currencies are translated at the end of each month. Currency gains and losses are included as either a component of "Other" under "Revenues and Other" or, as is the case when the Company re-measures its foreign tax liabilities, as a component of the Company's provision for income tax expense on the statement of consolidated operations. A foreign currency net gain or loss of \$85 million would result from a 10 percent weakening or strengthening, respectively, in the Canadian dollar and British pound as of June 30, 2017.

#### ITEM 4 – CONTROLS AND PROCEDURES

##### Disclosure Controls and Procedures

John J. Christmann IV, the Company's Chief Executive Officer and President, in his capacity as principal executive officer, and Stephen J. Riney, the Company's Executive Vice President and Chief Financial Officer, in his capacity as principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017, the end of the period covered by this report. Based on that evaluation and as of the date of that evaluation, these officers concluded that the Company's disclosure controls and procedures were effective, providing effective means to ensure that information we are required to disclose under applicable laws and regulations is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

We periodically review the design and effectiveness of our disclosure controls, including compliance with various laws and regulations that apply to our operations both inside and outside the United States. We make modifications to improve the design and effectiveness of our disclosure controls, and may take other corrective action, if our reviews identify deficiencies or weaknesses in our controls.

##### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2017 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

Please refer to Part I, Item 3 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (filed with the SEC on February 24, 2017) and Note 9—Commitments and Contingencies in the notes to the consolidated financial statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a description of material legal proceedings.

### ITEM 1A. RISK FACTORS

Please refer to Part I, Item 1A—Risk Factors of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, and Part I, Item 3—Quantitative and Qualitative Disclosures About Market Risk of this Quarterly Report on Form 10-Q. There have been no material changes to our risk factors since our annual report on Form 10-K for the fiscal year ended December 31, 2016.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Apache's Board of Directors has authorized the purchase of up to 40 million shares of the Company's common stock. Shares may be purchased either in the open market or through privately negotiated transactions. The Company initiated the buyback program on June 10, 2013, and through June 30, 2017, had repurchased a total of 32.2 million shares at an average price of \$88.96 per share. The Company is not obligated to acquire any specific number of shares and has not purchased any additional shares during 2017.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. MINE SAFETY DISCLOSURES

None

### ITEM 5. OTHER INFORMATION

None

### ITEM 6. EXHIBITS

- 3.1 Restated Certificate of Incorporation of Registrant, dated September 19, 2013, as filed with the Secretary of State of Delaware on September 19, 2013 (incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K filed September 20, 2013, SEC File No. 001-4300).
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation of Registrant, dated May 14, 2015, as filed with the Secretary of State of Delaware on May 14, 2015 (incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K filed May 20, 2015, SEC File No. 001-4300).
- 3.3 Bylaws of Registrant, as amended May 11, 2017 (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed May 16, 2017, SEC File No. 001-4300).
- \*10.1 Apache Corporation Non-Employee Directors' Compensation Plan, as amended and restated July 13, 2017.
- \*31.1 Certification (pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act) by Principal Executive Officer.
- \*31.2 Certification (pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act) by Principal Financial Officer.
- \*32.1 Section 1350 Certification (pursuant to Sarbanes-Oxley Section 906) by Principal Executive Officer and Principal Financial Officer.
- \*101.INS XBRL Instance Document.
- \*101.SCH XBRL Taxonomy Schema Document.
- \*101.CAL XBRL Calculation Linkbase Document.

- \*101.DEF XBRL Definition Linkbase Document.
- \*101.LAB XBRL Label Linkbase Document.
- \*101.PRE XBRL Presentation Linkbase Document.
- \* Filed herewith

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 hereunto duly authorized.

APACHE CORPORATION

Dated: August 3, 2017 /s/ STEPHEN J. RINEY  
Stephen J. Riney  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Dated: August 3, 2017 /s/ REBECCA A. HOYT  
Rebecca A. Hoyt  
Senior Vice President, Chief Accounting Officer, and Controller  
(Principal Accounting Officer)