

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

The MD&A is intended to provide a narrative description of the Company’s business from management’s perspective. This MD&A should be read in conjunction with the unaudited interim Condensed Consolidated Financial Statements and accompanying notes for the period ended June 30, 2020 (“Consolidated Financial Statements”), which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the audited Consolidated Financial Statements and accompanying notes and MD&A for the year ended December 31, 2019, which are included in Items 8 and 7, respectively, of the 2019 Annual Report on Form 10-K.

On January 24, 2020, Encana Corporation (“Encana”) completed a corporate reorganization, which included a Share Consolidation, as described in Note 1 of the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the Highlights section of this MD&A. Subsequent to the corporate reorganization, Ovintiv Inc. and its subsidiaries (collectively, “Ovintiv”) continue to carry on the business which was previously conducted by Encana and its subsidiaries. References to the “Company” are to Encana Corporation and its subsidiaries prior to the completion of the Reorganization and to Ovintiv Inc. and its subsidiaries following the completion of the Reorganization.

Common industry terms and abbreviations are used throughout this MD&A and are defined in the Definitions, Conversions and Conventions sections of this Quarterly Report on Form 10-Q. This MD&A includes the following sections:

- [Executive Overview](#)
- [Results of Operations](#)
- [Liquidity and Capital Resources](#)
- [Non-GAAP Measures](#)

Executive Overview

Strategy

Ovintiv is a leading North American energy producer that is focused on developing its multi-basin portfolio of oil, NGLs and natural gas producing plays. Ovintiv is committed to growing long-term stockholder value through a combination of profitable growth and generating cash flows. The Company is pursuing the key business objectives of preserving balance sheet strength, maximizing profitability through operational and capital efficiencies, returning capital to stockholders through sustainable dividends, and driving cash flow through a disciplined capital allocation strategy by investing in a limited number of core assets with high margin liquids.

In executing its strategy, Ovintiv focuses on its core values of One, Agile and Driven, which guide the organization to be flexible, responsive, innovative and determined. The Company is committed to excellence with a passion to drive corporate financial performance and succeed as a team. Ovintiv rapidly deploys successful ideas and practices across its assets, becoming more efficient as innovative and sustainable improvements are implemented.

Ovintiv continually reviews and evaluates its strategy and changing market conditions. In 2020, Ovintiv continues to focus on maximizing cash flow generation from high margin, scalable, top tier assets located in some of the best plays in North America, referred to as the “Core Assets”. In response to the current low commodity price environment resulting predominantly from the global coronavirus (“COVID-19”) pandemic, coupled with excess oil production from Saudi Arabia and Russia in the first quarter of 2020, the Company revised its capital program for the remainder of the year to focus on production from the Core Assets generating the highest returns and/or with the lowest costs, while choosing to cease operating rigs and shut-in production in certain areas. As at June 30, 2020, the Core Assets comprised Permian and Anadarko in the U.S., and Montney in Canada. These Core Assets form a multi-basin portfolio of oil, NGLs and natural gas producing plays enabling flexible and efficient investment of capital that support the Company’s strategy.

For additional information on Ovintiv’s strategy, its reporting segments and the plays in which the Company operates, refer to Items 1 and 2 of the 2019 Annual Report on Form 10-K.

In evaluating its operations and assessing its leverage, Ovintiv reviews performance-based measures such as Non-GAAP Cash Flow, Non-GAAP Cash Flow Margin, Total Costs and debt-based metrics such as Debt to Adjusted Capitalization and Net Debt to Adjusted EBITDA, which are non-GAAP measures and do not have any standardized meaning under U.S. GAAP. These measures may not be similar to measures presented by other issuers and should not be viewed as a substitute for measures reported under U.S. GAAP. Additional information regarding these measures, including reconciliations to the closest GAAP measure, can be found in the Non-GAAP Measures section of this MD&A.

Highlights

During the first six months of 2020, the Company focused on executing its reduced second quarter 2020 capital plan, generating cash from operating activities and maximizing profitability through operational and capital efficiencies. Lower upstream product revenues in the first six months of 2020 compared to 2019 resulted from lower average realized prices, excluding the impact of risk management activities, partially offset by higher production volumes. Decreases in average realized liquids and natural gas prices of 43 percent and 23 percent, respectively, were primarily due to lower benchmark prices. Total production volumes increased by four percent compared to the first six months of 2019 primarily due to successful drilling programs and from the Newfield acquisition, which was completed on February 13, 2019. Ovintiv continues to focus on optimizing realized prices from the diversification of the Company's downstream markets.

Significant Developments

- On January 24, 2020, Encana completed a corporate reorganization, which included a plan of arrangement (the "Arrangement") that involved, among other things, a share consolidation by Encana on the basis of one post-consolidation share for each five pre-consolidation shares (the "Share Consolidation"), and Ovintiv Inc. ultimately acquired all of the issued and outstanding common shares of Encana in exchange for shares of common stock of Ovintiv Inc. on a one-for-one basis. Following completion of the Arrangement, Ovintiv Inc. migrated from Canada and became a Delaware corporation, domiciled in the U.S. (the "U.S. Domestication"). The Arrangement and the U.S. Domestication together are referred to as the "Reorganization". Additional information on the Reorganization can be found in Note 1 of the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.
- In June 2020, Ovintiv undertook a plan to reduce its workforce by approximately 25 percent as part of a company-wide reorganization to better align staffing levels and organizational structure with the Company's planned activity levels. The Company incurred restructuring charges of \$81 million.

Financial Results

Three months ended June 30, 2020

- Reported net loss of \$4,383 million, including a non-cash ceiling test impairment of \$3,250 million, before tax, net losses on risk management in revenues of \$314 million, before tax, restructuring costs of \$81 million, before tax, as well as a deferred income tax valuation allowance of \$568 million.
- Generated cash from operating activities of \$117 million, Non-GAAP Cash Flow of \$304 million and Non-GAAP Cash Flow Margin of \$6.23 per BOE.
- Paid dividends of \$0.09375 per common share totaling \$25 million.
- Repurchased in the open market \$37 million in principal amount of the Company's senior notes resulting in a gain of \$11 million.

Six months ended June 30, 2020

- Reported net loss of \$3,962 million, including a non-cash ceiling test impairment of \$3,527 million, before tax, net gains on risk management in revenues of \$741 million, before tax, restructuring costs of \$81 million, before tax, as well as a deferred income tax valuation allowance of \$568 million.
- Generated cash from operating activities of \$683 million, Non-GAAP Cash Flow of \$839 million and Non-GAAP Cash Flow Margin of \$8.32 per BOE.
- Paid dividends of \$0.1875 per common share totaling \$49 million.
- Repurchased in the open market \$137 million in principal amount of the Company's senior notes resulting in a gain of \$22 million.
- Held cash and cash equivalents of \$39 million and had \$2.75 billion in available credit facilities.
- Reported Net Debt to Adjusted EBITDA of 2.6 times.

Capital Investment

- Directed \$213 million, or 85 percent, of total capital spending to the Core Assets in the second quarter of 2020 and \$845 million, or 81 percent, during the first six months of 2020.
- Focused on highly efficient capital activity and short-cycle high margin and/or low cost projects providing flexibility to respond to fluctuations in commodity prices.

Production

Three months ended June 30, 2020

- Produced average liquids volumes of 278.4 Mbbls/d, which accounted for 52 percent of total production volumes. Average oil and plant condensate production volumes of 198.3 Mbbls/d were 71 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,550 MMcf/d, which accounted for 48 percent of total production volumes.

Six months ended June 30, 2020

- Produced average liquids volumes of 294.1 Mbbls/d, which accounted for 53 percent of total production volumes. Average oil and plant condensate production volumes of 206.7 Mbbls/d were 70 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,559 MMcf/d, which accounted for 47 percent of total production volumes.

Revenues and Operating Expenses

- Focused on market diversification to optimize realized commodity prices and revenues through a combination of derivative financial instruments and physical transportation contracts.
- Incurred Total Costs in the second quarter and first six months of 2020 of \$11.23 per BOE and \$11.72 per BOE, respectively, a decrease compared to 2019 of \$1.55 per BOE and \$1.34 per BOE, respectively. Total Costs is defined in the Non-GAAP Measures section of this MD&A. Significant items in the second quarter and first six months of 2020 impacting Total Costs include:
 - Lower production, mineral and other taxes, in the second quarter and first six months of 2020 compared to 2019, of \$0.81 per BOE and \$0.47 per BOE, respectively, primarily due to lower commodity prices. In the second quarter of 2020, production, mineral and other taxes was also lower due to lower production volumes;

- Lower upstream operating expenses, excluding long-term incentive costs, in the second quarter and first six months of 2020 compared to 2019, of \$0.54 per BOE and \$0.33 per BOE, respectively, primarily due to synergies achieved in 2019 through operating efficiencies, as well as lower activity resulting from the economic downturn and cost saving initiatives;
- Lower upstream transportation and processing expense in the second quarter and first six months of 2020 compared to 2019 of \$0.10 per BOE and \$0.28 per BOE, respectively. The decrease in the first six months of 2020 was primarily due to the higher proportion of total production volumes from the USA Operations relating to the Newfield acquisition, which benefit from lower than average per BOE transportation and processing costs; and
- Lower administrative expenses, excluding long-term incentive costs, restructuring costs and current expected credit losses in the second quarter and first six months of 2020 compared to 2019, of \$0.10 per BOE and \$0.26 per BOE, respectively, primarily due to synergies achieved in 2019 through workforce reductions.
- Preserved operational and administrative synergies achieved in 2019 and enhanced efficiencies through leveraging technology, innovation and scale.

2020 Outlook

Industry Outlook

Oil Markets

The oil and gas industry is cyclical and commodity prices are inherently volatile. Oil prices during 2020 are expected to reflect global supply and demand dynamics as well as the geopolitical and macroeconomic environment. In March 2020, during the midst of the global COVID-19 pandemic, Saudi Arabia and Russia failed to reach an agreement on production cuts, resulting in a price war which intensified the oversupply of oil and contributed to a dramatic decline in oil prices. In April 2020, OPEC and a group of 10 non-OPEC member nations (collectively, “OPEC+”) agreed to cut oil production through April 2022 to address the existing imbalance of global supply and demand, with the deepest cuts in May and June 2020. The production cuts, along with an increase in demand as a result of the gradual reopening of global economies, generally supported oil prices in the second quarter of 2020. At a meeting on June 6, 2020, OPEC+ reaffirmed the April agreement and extended the production cuts through July 2020. OPEC+ is expected to meet once a month thereafter until the end of the year to review market conditions, which could potentially result in other supply adjustments and contribute to price fluctuations.

Global crude oil demand fell significantly in early 2020 as governments worldwide took action to contain the effects of the COVID-19 pandemic. Oil and product storage facilities were filling up at an unprecedented rate as supply materially exceeded demand. As the gap between supply and demand in oil markets grew increasingly pronounced, the oil and gas industry responded by reducing capital spending and implementing market-based supply shut-ins, leading to increased price volatility. As global restrictions began to ease in the latter half of the second quarter, demand for oil steadily increased, supporting a modest recovery of oil prices. The full impact of the increase in demand has yet to be reflected in oil prices as excess inventories accumulated due to the oversupply are gradually being drawn down. The re-balancing of global supply and demand, and the commodity price environment is highly dependent on the global containment of the virus, pace of economic recovery, as well as changes to OPEC+ production levels. With significant uncertainty amid a highly volatile market environment, oil prices for the remainder of 2020 are expected to fluctuate.

Natural Gas Markets

Natural gas prices in 2020 will be affected by changes in both supply and demand and the effects of seasonal weather. Higher-than-average inventory levels from oversupply in early 2020 and warmer than normal temperatures during the winter months continued to put downward pressure on natural gas prices, which remains volatile in both Canada and the U.S. from demand concerns stemming from the COVID-19 pandemic. Natural gas prices in the second half of 2020 are expected to be impacted by lower associated natural gas production resulting from declines in North American oil production due to low oil prices, as well as increases in demand from the gradual reopening of global economies and seasonal fluctuations.

Company Outlook

Despite the current low commodity price environment, Ovintiv is well positioned to deliver on its updated capital plan while generating positive cash flows. In response to the rapid decline in crude oil prices witnessed in early March, the Company took immediate action to reduce its second quarter 2020 capital investments by \$500 million and ceased operating 16 drilling rigs by the end of the second quarter. The Company has also shut-in and curtailed total production of 32 MBOE/d in the second quarter of 2020. During June 2020, Ovintiv undertook a plan to reduce its workforce to better align staffing levels and organizational structure with the Company's planned activity levels. The Company will exercise discretion and disciplined capital allocation to adjust its capital spending beyond the third quarter as the current demand and price environment evolves. As the Company expects the current price environment to remain dynamic and volatile in the near-term, the Company will continue to assess the economics of production shut-ins to align with fluctuating demand. Due to ongoing uncertainty and continued market volatility, the Company has suspended its previously issued 2020 guidance.

The Company enters into derivative financial instruments which mitigate price volatility and help sustain revenues, particularly during periods of lower prices. Accordingly, during the first six months of 2020, Ovintiv restructured its remaining 2020 crude oil hedges to provide additional downside price protection. As at July 27, 2020, the Company has hedged approximately 177.5 Mbbls/d, or 94 percent, of expected crude oil and condensate production and 1,267 MMcf/d, or 80 percent, of expected natural gas production for the remainder of the year. Additional information on Ovintiv's hedging program can be found in Note 22 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Markets for crude oil and natural gas are exposed to different price risks and are inherently volatile. While the market price for crude oil tends to move in the same direction as the global market, regional differentials may develop. Natural gas prices may vary between geographic regions depending on local supply and demand conditions. Ovintiv proactively utilizes transportation contracts to diversify the Company's sales markets, thereby reducing significant exposure to any given market. Through a combination of derivative financial instruments and transportation capacity, Ovintiv attempts to limit exposure to regional pricing.

In conjunction with the reduction in capital investment noted above, Ovintiv also announced its plans to reduce costs by \$200 million. As of June 30, 2020, the Company expects to exceed \$200 million in cost savings and has realized approximately \$92 million to date. The Company expects that operating cost reductions, excluding long-term incentive costs, will exceed \$115 million and more than \$85 million will come from other cost savings.

Capital Investment

During the first six months of 2020, the Company spent \$1,042 million, of which \$363 million was directed to Permian, \$294 million was directed to Anadarko and \$188 million was directed to Montney. Ovintiv reduced its second quarter 2020 capital investment by \$500 million and expects capital spending to be primarily allocated to the Core Assets with a focus on maximizing returns from high margin liquids, while suspending capital programs in Eagle Ford, Bakken, Uinta and Duvernay. Ovintiv expects full year 2020 capital investment to be approximately \$1.8 billion and plans to fund the remainder of its 2020 capital program using cash from operations and funds available from the Company's credit facilities. As the Company monitors the global economic environment, Ovintiv will continue to evaluate its capital investment plans.

Ovintiv continually strives to improve well performance and lower costs through innovative techniques. Ovintiv's large-scale cube development model utilizes multi-well pads and advanced completion designs to maximize returns and resource recovery from its reservoirs. The impact of Ovintiv's disciplined capital program and continuous innovation create flexibility to allocate capital in changing commodity markets and to maximize cash flows while preserving the long-term value of the Company's multi-basin portfolio.

Production

During the first six months of 2020, average liquids production volumes were 294.1 Mbbls/d, or 53 percent of total production volumes, and average natural gas production volumes were 1,559 MMcf/d, or 47 percent of total production volumes. For the fourth quarter of 2020, the Company expects to maintain average oil and condensate production volumes of approximately 200 Mbbls/d. Full year production volumes are expected to reflect the Company's reduced capital investment plans and shut-in strategy, which are highly dependent on market conditions.

Operating Expenses

In the first quarter of 2020, Ovintiv announced its commitment to reducing full year 2020 costs by \$200 million in response to the low commodity price environment. These cost savings primarily include reductions to operating expenses reflected in Total Costs, as well as a reduction to other expenses discussed below. As a result of the workforce reduction completed in June 2020, Ovintiv expects to exceed \$200 million in cost savings, reflecting the Company's lower staffing levels.

In the first six months of 2020, Total Costs was \$11.72 per BOE, and is expected to remain relatively flat for the balance of the year as activity levels normalize and cost saving measures are realized through operational flexibility in response to the low commodity price environment. Upstream transportation and processing expense was \$6.42 per BOE, while upstream operating expense and administrative expense, excluding long-term incentive costs, restructuring costs and current expected credit losses, were \$3.10 per BOE and \$1.41 per BOE, respectively. Ovintiv expects to continue pursuing innovative ways to reduce upstream operating and administrative expenses and expects efficiency improvements and effective supply chain management to maximize cash flows.

Other Expenses and Impairments

The remaining full year cost savings are expected to include reductions to cash outflows and other expenses, such as interest expense. Following the open market repurchases of \$137 million in principal amount of Ovintiv's fixed rate senior notes, the Company expects to incur lower interest expense of approximately \$6 million on an annualized basis on the reduced fixed long-term debt balances.

In conjunction with Ovintiv's focus on strengthening its liquidity position, the Company plans to allocate all excess cash flows to reduce long-term debt over the next six quarters. Additional information on Ovintiv's long-term debt and liquidity position can be found in Note 12 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the Liquidity and Capital Resources section of this MD&A, respectively.

If the current low oil price environment persists for an extended period of time, Ovintiv may be subject to additional impairments of its oil and natural gas properties and other long-term assets. Additional information on the Company's ceiling test impairment can be found in the Results of Operations section of this MD&A.

Results of Operations

Selected Financial Information

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019 ⁽¹⁾	2020	2019 ⁽¹⁾
Product and Service Revenues				
Upstream product revenues	\$ 673	\$ 1,594	\$ 1,824	\$ 2,839
Market optimization	348	250	767	576
Service revenues	2	4	2	5
Total Product and Service Revenues	1,023	1,848	2,593	3,420
Gains (Losses) on Risk Management, Net	(314)	190	741	(165)
Sublease Revenues	17	17	35	35
Total Revenues	726	2,055	3,369	3,290
Total Operating Expenses ⁽²⁾	4,785	1,517	6,669	2,979
Operating Income (Loss)	(4,059)	538	(3,300)	311
Total Other (Income) Expenses	30	41	228	120
Net Earnings (Loss) Before Income Tax	(4,089)	497	(3,528)	191
Income Tax Expense (Recovery)	294	161	434	100
Net Earnings (Loss)	\$ (4,383)	\$ 336	\$ (3,962)	\$ 91

(1) Subsequent to the completion of the Newfield acquisition on February 13, 2019, the post-acquisition results of the operations of Newfield are included in the Company's interim consolidated results beginning February 14, 2019.

(2) Total Operating Expenses include non-cash items such as DD&A, impairments, accretion of asset retirement obligations and long-term incentive costs.

Revenues

Ovintiv's revenues are substantially derived from sales of oil, NGLs and natural gas production. Increases or decreases in Ovintiv's revenue, profitability and future production are highly dependent on the commodity prices the Company receives. Prices are market driven and fluctuate due to factors beyond the Company's control, such as supply and demand, seasonality and geopolitical and economic factors. The USA Operations realized prices generally reflect WTI and NYMEX benchmark prices, as well as other downstream oil benchmarks, including Houston. The Canadian Operations realized prices are linked to Edmonton Condensate and AECO, as well as other downstream natural gas benchmarks, including Dawn. The other downstream benchmarks reflect the diversification of the Company's markets. Recent trends in benchmark prices relevant to the Company are shown in the table below.

Benchmark Prices

(average for the period)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Oil & NGLs				
WTI (\$/bbl)	\$ 27.85	\$ 59.82	\$ 37.01	\$ 57.36
Houston (\$/bbl)	29.43	66.57	39.46	63.69
Edmonton Condensate (C\$/bbl)	30.71	74.73	46.22	70.97
Natural Gas				
NYMEX (\$/MMBtu)	\$ 1.72	\$ 2.64	\$ 1.83	\$ 2.89
AECO (C\$/Mcf)	1.91	1.17	2.03	1.56
Dawn (C\$/MMBtu)	2.25	3.13	2.32	3.49

Production Volumes and Realized Prices

	Three months ended June 30,				Six months ended June 30,			
	Production Volumes ⁽¹⁾		Realized Prices ⁽²⁾		Production Volumes ⁽¹⁾		Realized Prices ⁽²⁾	
	2020	2019	2020	2019	2020	2019	2020	2019
Oil (Mbbbls/d, \$/bbl)								
USA Operations	146.0	175.7	\$ 22.95	\$ 59.12	153.9	149.6	\$ 33.74	\$ 57.19
Canadian Operations	0.5	0.2	11.90	53.31	0.6	0.3	28.38	44.20
China Operations ⁽³⁾	-	3.4	-	67.84	-	2.8	-	66.96
Total	146.5	179.3	22.91	59.27	154.5	152.7	33.72	57.35
NGLs – Plant Condensate (Mbbbls/d, \$/bbl)								
USA Operations	11.0	11.2	12.47	46.65	10.9	8.7	23.51	45.57
Canadian Operations	40.8	44.1	20.48	54.66	41.3	41.4	32.36	52.31
Total	51.8	55.3	18.79	53.04	52.2	50.1	30.51	51.14
NGLs – Other (Mbbbls/d, \$/bbl)								
USA Operations	67.2	73.6	7.83	13.19	72.4	59.2	7.56	14.92
Canadian Operations	12.9	15.8	9.56	6.95	15.0	15.9	8.08	13.54
Total	80.1	89.4	8.11	12.09	87.4	75.1	7.65	14.63
Total Oil & NGLs (Mbbbls/d, \$/bbl)								
USA Operations	224.2	260.5	17.91	45.60	237.2	217.5	25.28	45.22
Canadian Operations	54.2	60.1	17.79	42.12	56.9	57.6	25.91	41.57
China Operations ⁽³⁾	-	3.4	-	67.84	-	2.8	-	66.96
Total	278.4	324.0	17.88	45.19	294.1	277.9	25.40	44.68
Natural Gas (MMcf/d, \$/Mcf)								
USA Operations	536	619	1.33	1.87	552	494	1.37	2.03
Canadian Operations	1,014	988	1.69	1.70	1,007	1,020	1.78	2.16
Total	1,550	1,607	1.57	1.76	1,559	1,514	1.63	2.12
Total Production (MBOE/d, \$/BOE)								
USA Operations	313.4	363.6	15.09	35.85	329.2	299.8	20.52	36.15
Canadian Operations	223.2	224.8	11.99	18.72	224.8	227.8	14.50	20.20
China Operations ⁽³⁾	-	3.4	-	67.84	-	2.8	-	66.96
Total	536.6	591.8	13.80	29.52	554.0	530.4	18.08	29.46
Production Mix (%)								
Oil & Plant Condensate	37	40			37	38		
NGLs – Other	15	15			16	14		
Total Oil & NGLs	52	55			53	52		
Natural Gas	48	45			47	48		
Production Change								
Year Over Year (%) ⁽⁴⁾								
Total Oil & NGLs	(14)	109			6	85		
Natural Gas	(4)	47			3	40		
Total Production	(9)	75			4	60		
Core Assets Production								
Oil (Mbbbls/d)	107.9	118.9			109.6	101.2		
NGLs – Plant Condensate (Mbbbls/d)	45.9	47.6			46.0	42.7		
NGLs – Other (Mbbbls/d)	71.8	79.1			77.7	65.5		
Total Oil & NGLs (Mbbbls/d)	225.6	245.6			233.3	209.4		
Natural Gas (MMcf/d)	1,392	1,348			1,399	1,280		
Total Production (MBOE/d)	457.6	470.3			466.4	422.6		
% of Total Production	85	79			84	80		

(1) Average daily.

(2) Average per-unit prices, excluding the impact of risk management activities.

(3) The Company terminated its production sharing contract with China National Offshore Oil Corporation (“CNOOC”) and exited its China Operations effective July 31, 2019. Production from China Operations is presented for the period from February 14, 2019 through July 31, 2019.

(4) Includes production impacts from acquisitions and divestitures.

Upstream Product Revenues

Three months ended June 30,					
(\$ millions)	Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas	Total
2019 Upstream Product Revenues ⁽¹⁾	\$ 968	\$ 266	\$ 98	\$ 258	\$ 1,590
Increase (decrease) due to:					
Sales prices	(483)	(160)	(30)	(29)	(702)
Production volumes	(179)	(17)	(10)	(9)	(215)
2020 Upstream Product Revenues	\$ 306	\$ 89	\$ 58	\$ 220	\$ 673

Six months ended June 30,					
(\$ millions)	Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas	Total
2019 Upstream Product Revenues ⁽¹⁾	\$ 1,586	\$ 464	\$ 198	\$ 581	\$ 2,829
Increase (decrease) due to:					
Sales prices	(652)	(195)	(112)	(137)	(1,096)
Production volumes	15	21	35	20	91
2020 Upstream Product Revenues	\$ 949	\$ 290	\$ 121	\$ 464	\$ 1,824

(1) Revenues for the second quarter and the first six months of 2019 exclude certain other revenue and royalty adjustments with no associated production volumes of \$4 million and \$10 million, respectively.

Oil Revenues

Three months ended June 30, 2020 versus June 30, 2019

Oil revenues decreased \$662 million compared to the second quarter of 2019 primarily due to:

- Lower average realized oil prices of \$36.36 per bbl, or 61 percent, decreased revenues by \$483 million. The decrease reflected lower Houston and WTI benchmark prices which were down 56 percent and 53 percent, respectively, and weakening regional pricing relative to the WTI benchmark price in the USA Operations; and
- Lower average oil production volumes of 32.8 Mbbls/d decreased revenues by \$179 million. Lower volumes were primarily due to natural declines in USA Operations, with reduced drilling programs in Core Assets, and suspended capital spending in Eagle Ford and Uinta (18.3 Mbbls/d), production shut-ins due to the economic downturn (9.2 Mbbls/d), the termination of the Company's production sharing contract in its China Operations in the third quarter of 2019 (3.4 Mbbls/d) and third-party gathering capacity constraints (3.3 Mbbls/d).

Six months ended June 30, 2020 versus June 30, 2019

Oil revenues decreased \$637 million compared to the first six months of 2019 primarily due to:

- Lower average realized oil prices of \$23.63 per bbl, or 41 percent, decreased revenues by \$652 million. The decrease reflected lower Houston and WTI benchmark prices which were down 38 percent and 35 percent, respectively, and weakening regional pricing relative to the WTI benchmark price in the USA Operations; and
- Higher average oil production volumes of 1.8 Mbbls/d increased revenues by \$15 million. Higher volumes were primarily due to the Newfield acquisition on February 13, 2019 (17.5 Mbbls/d) and successful drilling programs in Bakken and Permian (6.4 Mbbls/d), partially offset by natural declines surpassing new production in Eagle Ford, Uinta and Anadarko (13.1 Mbbls/d), production shut-ins due to the economic downturn (4.6 Mbbls/d), the termination of the Company's production sharing contract in its China Operations in the third quarter of 2019 (2.8 Mbbls/d) and third-party gathering capacity constraints (1.7 Mbbls/d).

NGL Revenues

Three months ended June 30, 2020 versus June 30, 2019

NGL revenues decreased \$217 million compared to the second quarter of 2019 primarily due to:

- Lower average realized plant condensate prices of \$34.25 per bbl, or 65 percent, decreased revenues by \$160 million. The decrease reflected lower Edmonton Condensate and WTI benchmark prices which were down 59 percent and 53 percent, respectively, as well as declines in regional pricing relative to the Edmonton Condensate and WTI benchmark prices;
- Lower average realized other NGL prices of \$3.98 per bbl, or 33 percent, decreased revenues by \$30 million reflecting lower other NGL benchmark prices in the USA Operations and lower regional pricing;
- Lower average plant condensate production volumes of 3.5 Mbbls/d decreased revenues by \$17 million. Lower volumes were primarily due to natural declines in the Canadian Operations (3.9 Mbbls/d); and
- Lower average other NGL production volumes of 9.3 Mbbls/d decreased revenues by \$10 million. Lower volumes were primarily due to natural declines in Anadarko, Montney and Eagle Ford (9.9 Mbbls/d) and production shut-ins due to the economic downturn (3.1 Mbbls/d), partially offset by successful drilling programs in Permian (2.5 Mbbls/d).

Six months ended June 30, 2020 versus June 30, 2019

NGL revenues decreased \$251 million compared to the first six months of 2019 primarily due to:

- Lower average realized plant condensate prices of \$20.63 per bbl, or 40 percent, decreased revenues by \$195 million. The decrease reflected lower WTI and Edmonton Condensate benchmark prices which were both down 35 percent, as well as declines in regional pricing relative to the Edmonton Condensate and WTI benchmark prices;
- Lower average realized other NGL prices of \$6.98 per bbl, or 48 percent, decreased revenues by \$112 million reflecting lower other NGL benchmark prices in the USA Operations and lower regional pricing; and
- Higher average other NGL production volumes of 12.3 Mbbls/d increased revenues by \$35 million. Higher volumes were primarily due to the Newfield acquisition on February 13, 2019 (8.6 Mbbls/d) and successful drilling programs in Permian and Anadarko (6.8 Mbbls/d), partially offset by natural declines in Montney and Eagle Ford (3.3 Mbbls/d); and
- Higher average plant condensate production volumes of 2.1 Mbbls/d increased revenues by \$21 million. Higher volumes were primarily due to successful drilling programs in Anadarko, Montney and Permian (1.9 Mbbls/d) and the Newfield acquisition on February 13, 2019 (1.3 Mbbls/d), partially offset by natural declines in Duvernay (1.1 Mbbls/d).

Natural Gas Revenues

Three months ended June 30, 2020 versus June 30, 2019

Natural gas revenues decreased \$38 million compared to the second quarter of 2019 primarily due to:

- Lower average realized natural gas prices of \$0.19 per Mcf, or 11 percent, decreased revenues by \$29 million. The decrease reflected lower NYMEX and Dawn benchmark prices which were down 35 percent and 28 percent, respectively, partially offset by a higher AECO benchmark price which was up 63 percent; and
- Lower average natural gas production volumes of 57 MMcf/d decreased revenues by \$9 million primarily due to the sale of the Arkoma natural gas assets in the third quarter of 2019 (78 MMcf/d), production shut-ins due to the economic downturn (27 MMcf/d) and natural declines surpassing new production in Duvernay and Eagle Ford (17 MMcf/d), partially offset by successful drilling programs in Permian, Montney and Anadarko (36 MMcf/d), decreased pipeline restrictions in Montney (18 MMcf/d) and decreased third-party plant downtime (11 MMcf/d).

Six months ended June 30, 2020 versus June 30, 2019

Natural gas revenues decreased \$117 million compared to the first six months of 2019 primarily due to:

- Lower average realized natural gas prices of \$0.49 per Mcf, or 23 percent, decreased revenues by \$137 million. The decrease reflected lower NYMEX and Dawn benchmark prices which were down 37 percent and 34 percent, respectively, partially offset by a higher proportion of total production volumes in the USA Operations with higher regional pricing resulting from the Newfield acquisition on February 13, 2019, and a higher AECO benchmark price which was up 30 percent; and
- Higher average natural gas production volumes of 45 MMcf/d increased revenues by \$20 million primarily due to the Newfield acquisition on February 13, 2019 (91 MMcf/d), successful drilling programs in Permian and Anadarko (49 MMcf/d), decreased pipeline restrictions in Montney (12 MMcf/d) and decreased third-party plant downtime (7 MMcf/d), partially offset by the sale of the Arkoma natural gas assets in the third quarter of 2019 (59 MMcf/d), natural declines surpassing new production in Montney, Duvernay and Eagle Ford (43 MMcf/d) and production shut-ins due to the economic downturn (14 MMcf/d).

Gains (Losses) on Risk Management, Net

As a means of managing commodity price volatility, Ovintiv enters into commodity derivative financial instruments on a portion of its expected oil, NGL and natural gas production volumes. The Company's commodity price mitigation program reduces volatility and helps sustain revenues during periods of lower prices. Additional information on the Company's commodity price positions as at June 30, 2020 can be found in Note 22 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The following tables provide the effects of the Company's risk management activities on revenues.

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Realized Gains (Losses) on Risk Management				
Commodity Price ⁽¹⁾				
Oil	\$ 223	\$ 15	\$ 305	\$ 46
NGLs - Plant Condensate	59	3	82	15
NGLs - Other	7	22	12	33
Natural Gas	73	67	112	83
Other ⁽²⁾	3	-	5	2
Total	365	107	516	179
Unrealized Gains (Losses) on Risk Management	(679)	83	225	(344)
Total Gains (Losses) on Risk Management, Net	\$ (314)	\$ 190	\$ 741	\$ (165)

(Per-unit)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Realized Gains (Losses) on Risk Management				
Commodity Price ⁽¹⁾				
Oil (\$/bbl)	\$ 16.79	\$ 0.87	\$ 10.86	\$ 1.65
NGLs - Plant Condensate (\$/bbl)	\$ 12.58	\$ 0.53	\$ 8.65	\$ 1.60
NGLs - Other (\$/bbl)	\$ 0.90	\$ 2.66	\$ 0.75	\$ 2.44
Natural Gas (\$/Mcf)	\$ 0.52	\$ 0.46	\$ 0.39	\$ 0.30
Total (\$/BOE)	\$ 7.41	\$ 1.96	\$ 5.07	\$ 1.84

(1) Includes realized gains and losses related to the USA and Canadian Operations.

(2) Other primarily includes realized gains or losses from Market Optimization and other derivative contracts with no associated production volumes.

Ovintiv recognizes fair value changes from its risk management activities each reporting period. The changes in fair value result from new positions and settlements that occur during each period, as well as the relationship between contract prices and the associated forward curves. Realized gains or losses on risk management activities related to commodity price mitigation are included in the USA Operations, Canadian Operations and Market Optimization revenues as the contracts are cash settled. Unrealized gains or losses on fair value changes of unsettled contracts are included in the Corporate and Other segment.

Market Optimization Revenues

Market Optimization product revenues relate to activities that provide operational flexibility and cost mitigation for transportation commitments, product type, delivery points and customer diversification. The Company also purchases and sells third-party volumes under long-term marketing arrangements associated with the Company's previous divestitures.

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Market Optimization	\$ 348	\$ 250	\$ 767	\$ 576

Three months ended June 30, 2020 versus June 30, 2019

Market Optimization product revenues increased \$98 million compared to the second quarter of 2019 primarily due to:

- Higher sales of third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations (\$399 million) and higher sales of third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years (\$24 million);

partially offset by:

- Lower oil and natural gas benchmark prices (\$325 million).

Six months ended June 30, 2020 versus June 30, 2019

Market Optimization product revenues increased \$191 million compared to the first six months of 2019 primarily due to:

- Higher sales of third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations (\$555 million) and higher sales of third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years (\$58 million);

partially offset by:

- Lower oil and natural gas benchmark prices (\$422 million).

Sublease Revenues

Sublease revenues primarily include amounts related to the sublease of office space in The Bow office building recorded in the Corporate and Other segment. Additional information on office sublease income can be found in Note 11 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Operating Expenses

Production, Mineral and Other Taxes

Production, mineral and other taxes include production and property taxes. Production taxes are generally assessed as a percentage of oil, NGLs and natural gas production revenues. Property taxes are generally assessed based on the value of the underlying assets.

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
USA Operations	\$ 24	\$ 69	\$ 72	\$ 113
Canadian Operations	3	4	7	8
Total	\$ 27	\$ 73	\$ 79	\$ 121

(\$/BOE)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
USA Operations	\$ 0.82	\$ 2.07	\$ 1.20	\$ 2.08
Canadian Operations	\$ 0.17	\$ 0.22	\$ 0.18	\$ 0.20
Production, Mineral and Other Taxes	\$ 0.55	\$ 1.36	\$ 0.79	\$ 1.26

Three months ended June 30, 2020 versus June 30, 2019

Production, mineral and other taxes decreased \$46 million compared to the second quarter of 2019 primarily due to:

- Lower production tax in USA Operations due to lower commodity prices and production volumes (\$40 million), as well as the sale of the Arkoma natural gas assets and the termination of the Company's production sharing contract in its China Operations in the third quarter of 2019 (\$1 million).

Six months ended June 30, 2020 versus June 30, 2019

Production, mineral and other taxes decreased \$42 million compared to the first six months of 2019 primarily due to:

- Lower production tax in USA Operations due to lower commodity prices (\$38 million), as well as the sale of the Arkoma natural gas assets and the termination of the Company's production sharing contract in its China Operations in the third quarter of 2019 (\$1 million).

Transportation and Processing

Transportation and processing expense includes transportation costs incurred to move product from production points to sales points including gathering, compression, pipeline tariffs, trucking and storage costs. Ovintiv also incurs costs related to processing provided by third parties or through ownership interests in processing facilities.

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
USA Operations	\$ 115	\$ 136	\$ 236	\$ 215
Canadian Operations	198	217	411	429
Upstream Transportation and Processing	313	353	647	644
Market Optimization	55	59	117	106
Total	\$ 368	\$ 412	\$ 764	\$ 750

(\$/BOE)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
USA Operations	\$ 4.07	\$ 4.09	\$ 3.95	\$ 3.95
Canadian Operations	\$ 9.75	\$ 10.60	\$ 10.02	\$ 10.40
Upstream Transportation and Processing	\$ 6.44	\$ 6.54	\$ 6.42	\$ 6.70

Three months ended June 30, 2020 versus June 30, 2019

Transportation and processing expense decreased \$44 million compared to the second quarter of 2019 primarily due to:

- Lower U.S./Canadian dollar exchange rate, lower flow-through operating costs due to a third-party plant turnaround in Montney in 2019, the sale of the Arkoma natural gas assets in the third quarter of 2019 and the expiration of certain transportation contracts relating to decommissioned and previously divested assets;

partially offset by:

- Production volume increases under existing transportation contracts.

Six months ended June 30, 2020 versus June 30, 2019

Transportation and processing expense increased \$14 million compared to the first six months of 2019 primarily due to:

- Higher production volumes as a result of the Newfield acquisition on February 13, 2019, rate escalation in certain transportation contracts relating to previously divested assets, higher production volumes and rates in Permian, production volume increases under existing transportation contracts and higher downstream transportation costs in Montney due to third-party adjustments;

partially offset by:

- The sale of the Arkoma natural gas assets in the third quarter of 2019, the expiration of certain transportation contracts relating to decommissioned and previously divested assets, lower U.S./Canadian dollar exchange rate, and lower flow-through operating costs due to a third-party plant turnaround in Montney in 2019.

Upstream transportation and processing decreased \$0.28 per BOE compared to the first six months of 2019 primarily due to a higher proportion of total production volumes in the USA Operations resulting from the Newfield acquisition, which benefit from lower than average per BOE transportation and processing costs.

Operating

Operating expense includes costs paid by the Company, net of amounts capitalized, to operate oil and natural gas properties in which the Company has a working interest. These costs primarily include labor, service contract fees, chemicals, fuel, water hauling, electricity and workovers.

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
USA Operations	\$ 121	\$ 148	\$ 260	\$ 263
Canadian Operations	25	27	51	64
China Operations ⁽¹⁾	-	8	-	12
Upstream Operating Expense	146	183	311	339
Market Optimization	8	5	10	15
Corporate & Other	-	(1)	(2)	(2)
Total	\$ 154	\$ 187	\$ 319	\$ 352

(\$/BOE)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
USA Operations	\$ 4.22	\$ 4.46	\$ 4.33	\$ 4.84
Canadian Operations	\$ 1.20	\$ 1.27	\$ 1.23	\$ 1.54
China Operations ⁽¹⁾	\$ -	\$ 27.68	\$ -	\$ 23.80
Upstream Operating Expense ⁽²⁾	\$ 2.97	\$ 3.39	\$ 3.07	\$ 3.52

(1) The Company terminated its production sharing contract with CNOOC and exited its China Operations effective July 31, 2019. Upstream Operating Expense from China Operations is presented for the period from February 14, 2019 through July 31, 2019.

(2) Upstream Operating Expense per BOE for the second quarter and first six months of 2020 includes long-term incentive costs of \$0.11/BOE and a recovery of long-term incentive costs of \$0.03/BOE, respectively (2019 – a recovery of long-term incentive costs of \$0.01/BOE and long-term incentive costs of \$0.09/BOE, respectively).

Three months ended June 30, 2020 versus June 30, 2019

Operating expense decreased \$33 million compared to the second quarter of 2019 primarily due to:

- Decreased activity mainly as a result of the economic downturn and cost saving initiatives (\$41 million), as well as the sale of the Arkoma natural gas assets and the termination of the Company's production sharing contract in its China Operations in the third quarter of 2019 (\$14 million);

partially offset by:

- Lower capitalization of overhead costs, primarily in Permian, Montney, Eagle Ford and Duvernay (\$10 million), and an increase in long-term incentive costs resulting from an increase in the Company's share price in the second quarter of 2020 compared to long-term incentive recovery resulting from a decrease in the share price in 2019 (\$10 million).

Six months ended June 30, 2020 versus June 30, 2019

Operating expense decreased \$33 million compared to the first six months of 2019 primarily due to:

- Decreased activity mainly as a result of the economic downturn and cost saving initiatives (\$25 million), the sale of the Arkoma natural gas assets and the termination of the Company's production sharing contract in its China Operations in the third quarter of 2019 (\$20 million), as well as a recovery of long-term incentive costs resulting from a decrease in the Company's share price in the first six months of 2020 compared to long-term incentive costs resulting from an increase in the share price in the first six months of 2019 (\$16 million);

partially offset by:

- Lower capitalization of overhead costs, primarily in Permian, Montney, Eagle Ford and Duvernay (\$21 million) and the Newfield acquisition on February 13, 2019 (\$11 million).

Additional information on the Company's long-term incentives can be found in Note 19 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Purchased Product

Purchased product expense includes purchases of oil, NGLs and natural gas from third parties that are used to provide operational flexibility and cost mitigation for transportation commitments, product type, delivery points and customer diversification. The Company also purchases and sells third-party volumes under long-term marketing arrangements associated with the Company's previous divestitures.

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Market Optimization	\$ 319	\$ 222	\$ 717	\$ 520

Three months ended June 30, 2020 versus June 30, 2019

Purchased product expense increased \$97 million compared to the second quarter of 2019 primarily due to:

- Higher third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations (\$397 million) and higher third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years (\$22 million);

partially offset by:

- Lower oil and natural gas benchmark prices (\$322 million).

Six months ended June 30, 2020 versus June 30, 2019

Purchased product expense increased \$197 million compared to the first six months of 2019 primarily due to:

- Higher third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations (\$555 million) and higher third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years (\$54 million);

partially offset by:

- Lower oil and natural gas benchmark prices (\$412 million).

Depreciation, Depletion & Amortization

Proved properties within each country cost centre are depleted using the unit-of-production method based on proved reserves as discussed in Note 1 to the Consolidated Financial Statements included in Item 8 of the 2019 Annual Report on Form 10-K. Depletion rates are impacted by impairments, acquisitions, divestitures and foreign exchange rates, as well as fluctuations in 12-month average trailing prices which affect proved reserves volumes. Corporate assets are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets.

Additional information can be found under Upstream Assets and Reserve Estimates in the Critical Accounting Estimates section of the MD&A included in Item 7 of the 2019 Annual Report on Form 10-K.

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
USA Operations	\$ 375	\$ 429	\$ 793	\$ 703
Canadian Operations	111	95	220	187
Upstream DD&A	486	524	1,013	890
Corporate & Other	7	8	14	19
Total	\$ 493	\$ 532	\$ 1,027	\$ 909

(\$/BOE)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
USA Operations	\$ 13.18	\$ 12.96	\$ 13.24	\$ 12.96
Canadian Operations	\$ 5.41	\$ 4.64	\$ 5.35	\$ 4.53
Upstream DD&A	\$ 9.94	\$ 9.78	\$ 10.03	\$ 9.32

Three months ended June 30, 2020 versus June 30, 2019

DD&A decreased \$39 million compared to the second quarter of 2019 primarily due to:

- Lower production volumes in the USA Operations (\$59 million) partially offset by higher depletion rates in the Canadian and USA Operations (\$20 million and \$6 million, respectively).

The depletion rate in the Canadian and USA Operations increased \$0.77 per BOE and \$0.22 per BOE, respectively, compared to the second quarter of 2019 primarily due to a higher depletable base.

Six months ended June 30, 2020 versus June 30, 2019

DD&A increased \$118 million compared to the first six months of 2019 primarily due to:

- Higher production volumes in the USA Operations (\$73 million) and higher depletion rates in the Canadian and USA Operations (\$39 million and \$17 million, respectively).

The depletion rate in the Canadian and USA Operations increased \$0.82 per BOE and \$0.28 per BOE, respectively, compared to the first six months of 2019 primarily due to a higher depletable base.

Impairments

Under full cost accounting, the carrying amount of Ovintiv's oil and natural gas properties within each country cost centre is subject to a ceiling test performed quarterly. Ceiling test impairments are recognized when the capitalized costs, net of accumulated depletion and the related deferred income taxes, exceed the sum of the estimated after-tax future net cash flows from proved reserves as calculated under SEC requirements using the 12-month average trailing prices and discounted at 10 percent. The 12-month average trailing price is calculated as the average of the price on the first day of each month within the trailing 12-month period.

In the second quarter and first six months of 2020, the Company recognized a before-tax non-cash ceiling test impairment of \$3,250 million and \$3,527 million, respectively, in the USA Operations. The non-cash ceiling test impairments primarily resulted from the decline in the 12-month average trailing prices, which reduced proved reserves.

The 12-month average trailing prices used in the ceiling test calculations were based on the benchmark prices below. The benchmark prices were adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

	Oil & NGLs		Natural Gas	
	WTI (\$/bbl)	Edmonton Condensate (C\$/bbl)	Henry Hub (\$/MMBtu)	AECO (C\$/MMBtu)
12-Month Average Trailing Reserves Pricing ⁽¹⁾				
June 30, 2020	47.47	58.46	2.07	1.70
December 31, 2019	55.93	68.80	2.58	1.76
June 30, 2019	61.38	72.91	3.02	1.61

(1) All prices were held constant in all future years when estimating net revenues and reserves.

Due to the recent low commodity price environment, further declines in the 12-month average trailing prices are expected and could reduce proved reserves volumes and values and result in the recognition of future ceiling test impairments. However, future ceiling test impairments are difficult to reasonably predict and depend on commodity prices, as well as changes to reserves estimates, future development costs, capitalized costs, unproved property costs transferred to the depletable base of the full cost pool, as well as proceeds received from upstream divestitures which are generally deducted from the Company's capitalized costs and can reduce the likelihood of ceiling test impairments.

The Company has calculated the estimated effects that certain price changes would have had on its ceiling test impairment for the six months ended June 30, 2020. Using commodity futures prices as at June 30, 2020 for the three months ending September 30, 2020, the estimated 12-month average trailing prices for the period ended June 30, 2020 would have been \$43.35 per bbl for WTI, C\$53.25 per bbl for Edmonton Condensate, \$1.93 per MMBtu for Henry Hub and C\$1.94 per MMBtu for AECO. Based on these estimated prices, while holding all other inputs and assumptions constant, an additional before-tax ceiling test impairment of approximately \$1.3 billion for the USA Operations would have been recognized for the six months ended June 30, 2020. If a low commodity price environment is sustained during the remainder of 2020, further ceiling test impairments and related allowances on deferred tax assets may be recognized.

The additional estimated before-tax ceiling test impairment is partly a result of a 13 percent decrease in proved undeveloped reserves for the USA Operations as certain locations would not be economic at these revised estimated prices. This estimate strictly isolates the potential impact of commodity prices on the Company's proved reserves volumes and values. If the low commodity price environment continues, further negative price related reserve revisions during the remainder of 2020 may occur, the magnitude of which could be significant.

Due to uncertainties in estimating proved reserves, the additional before-tax ceiling test impairment described and resulting implications may not be indicative of Ovintiv's future development plans, operating or financial results.

The Company believes that the discounted after-tax future net cash flows from proved reserves required to be used in the ceiling test calculation are not indicative of the fair market value of Orintiv's oil and natural gas properties or the future net cash flows expected to be generated from such properties. The discounted after-tax future net cash flows do not consider the fair market value of unamortized unproved properties, or probable or possible liquids and natural gas reserves. In addition, there is no consideration given to the effect of future changes in commodity prices. Orintiv manages its business using estimates of reserves and resources based on forecast prices and costs. Additional information on the ceiling test calculation can be found in Note 10 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Administrative

Administrative expense represents costs associated with corporate functions provided by Orintiv staff. Costs primarily include salaries and benefits, general office, information technology, restructuring and long-term incentive costs.

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Administrative, excluding Long-Term Incentive Costs,				
Restructuring Costs and Current Expected Credit Losses	\$ 68	\$ 79	\$ 142	\$ 161
Long-term incentive costs	19	(15)	(7)	17
Restructuring costs	81	17	81	130
Current expected credit losses ⁽¹⁾	(3)	-	2	-
Total Administrative	\$ 165	\$ 81	\$ 218	\$ 308

(\$/BOE)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Administrative, excluding Long-Term Incentive Costs,				
Restructuring Costs and Current Expected Credit Losses	\$ 1.38	\$ 1.48	\$ 1.41	\$ 1.67
Long-term incentive costs	0.40	(0.28)	(0.07)	0.18
Restructuring costs	1.66	0.31	0.80	1.36
Current expected credit losses ⁽¹⁾	(0.06)	-	0.02	-
Total Administrative	\$ 3.38	\$ 1.51	\$ 2.16	\$ 3.21

(1) On January 1, 2020, Orintiv adopted ASU 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments" under Topic 326. Further details on the adoption of ASU 2016-13 can be found in Note 2 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Three months ended June 30, 2020 versus June 30, 2019

Administrative expense in the second quarter of 2020 increased \$84 million compared to the second quarter of 2019 primarily due to higher restructuring costs incurred in 2020 (\$64 million) and long-term incentive costs resulting from an increase in the Company's share price in the second quarter of 2020 compared to a recovery of long-term incentive costs in the second quarter of 2019 resulting from a decrease in the share price in 2019 (\$34 million), partially offset by lower non-recurring integration expenses of \$4 million relating to the Newfield acquisition in 2019.

Six months ended June 30, 2020 versus June 30, 2019

Administrative expense in the first six months of 2020 decreased \$90 million compared to the first six months of 2019 primarily due to lower restructuring costs incurred in 2020 (\$49 million) and a recovery of long-term incentive costs resulting from a decrease in the Company's share price in the first six months of 2020 compared to long-term incentive costs resulting from an increase in the share price in the first six months of 2019 (\$24 million) and lower non-recurring integration expenses of \$8 million relating to the Newfield acquisition in 2019.

During 2019, the Company completed workforce reductions in conjunction with the Newfield acquisition to better align staffing levels and the organizational structure. In June 2020, the Company completed further workforce reductions as part of a company-wide reorganization to better align with the Company's planned activity levels. Additional information on restructuring charges can be found in Note 18 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other (Income) Expenses

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Interest	\$ 86	\$ 99	\$ 182	\$ 186
Foreign exchange (gain) loss, net	(40)	(55)	76	(92)
(Gain) loss on divestitures, net	-	-	-	1
Other (gains) losses, net	(16)	(3)	(30)	25
Total Other (Income) Expenses	\$ 30	\$ 41	\$ 228	\$ 120

Interest

Interest expense primarily includes interest on Ovintiv's long-term debt arising from U.S. dollar denominated unsecured notes. Additional information on changes in interest can be found in Note 5 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Three months ended June 30, 2020 versus June 30, 2019

Interest expense decreased \$13 million compared to the second quarter of 2019 primarily due to:

- Lower interest expense resulting from the repayment of the Company's \$500 million senior note in the second quarter of 2019 (\$4 million) and interest savings related to open market repurchases in 2020 (\$6 million).

Six months ended June 30, 2020 versus June 30, 2019

Interest expense decreased \$4 million compared to the first six months of 2019 primarily due to:

- Lower interest expense resulting from the repayment of the Company's \$500 million senior note in the second quarter of 2019 (\$13 million) and interest savings related to open market repurchases in 2020 (\$6 million);

partially offset by:

- Higher interest expense on long-term debt primarily relating to the assumption of Newfield's outstanding senior notes, interest expense relating to amounts drawn on the Company's credit facilities and issuances under the Company's U.S. commercial paper ("U.S. CP") program (\$16 million).

Foreign Exchange (Gain) Loss, Net

Foreign exchange gains and losses primarily result from the impact of fluctuations in the Canadian to U.S. dollar exchange rate. Additional information on changes in foreign exchange gains or losses can be found in Note 6 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Following the completion of the Reorganization, including the U.S. Domestication, on January 24, 2020, as described in the Highlights section of this MD&A, the U.S. dollar denominated unsecured notes issued by Encana Corporation from Canada were assumed by Ovintiv Inc., a company incorporated in Delaware with a U.S. dollar functional currency. Accordingly, these U.S. dollar denominated unsecured notes, along with certain intercompany notes, no longer attract foreign exchange translation gains or losses.

Three months ended June 30, 2020 versus June 30, 2019

Net foreign exchange gain decreased by \$15 million compared to the second quarter of 2019 primarily due to:

- Lower unrealized foreign exchange gains on the translation of U.S. dollar financing debt issued from Canada compared to 2019 (\$78 million) and lower realized foreign exchange gains on the settlement of U.S. dollar financing debt issued from Canada and intercompany notes (\$22 million);

partially offset by:

- Lower unrealized foreign exchange losses on the translation of intercompany notes (\$64 million) and higher unrealized foreign exchange gains on the translation of U.S. dollar risk management contracts issued from Canada (\$29 million).

Six months ended June 30, 2020 versus June 30, 2019

Net foreign exchange loss of \$76 million compared to a gain of \$92 million in the first six months of 2019 was primarily due to:

- Unrealized foreign exchange losses on the translation of U.S. dollar financing debt and risk management contracts issued from Canada compared to gains in 2019 (\$247 million and \$34 million, respectively) and realized foreign exchange losses on the translation of U.S. dollar financing debt issued from Canada and intercompany notes compared to gains in 2019 (\$29 million and \$26 million, respectively);

partially offset by:

- Unrealized foreign exchange gains on the translation of intercompany notes compared to losses in 2019 (\$170 million).

Other (Gains) Losses, Net

Other (gains) losses, net, primarily includes other non-recurring revenues or expenses and may also include items such as interest income, interest received from tax authorities, transaction costs relating to acquisitions, reclamation charges relating to decommissioned assets, gains on debt repurchases and adjustments related to other assets.

Other gains in the second quarter and first six months of 2020 primarily includes gains of \$11 million and \$22 million, respectively, relating to the repurchase of the Company's fixed long-term debt on the open market as discussed in the Liquidity and Capital Resources section of this MD&A.

Other losses in the first six months of 2019 primarily included legal fees and transaction costs related to the Newfield acquisition of \$33 million, partially offset by interest income on short-term investments of \$8 million.

Income Tax

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Current Income Tax Expense (Recovery)	\$ (1)	\$ 3	\$ (1)	\$ 4
Deferred Income Tax Expense (Recovery)	295	158	435	96
Income Tax Expense (Recovery)	\$ 294	\$ 161	\$ 434	\$ 100
Effective Tax Rate	(7.2%)	32.4%	(12.3%)	52.4%

Income Tax Expense (Recovery)

In the second quarter and first six months of 2020, income tax expense increased \$133 million and \$334 million, respectively, compared to 2019, primarily due to current year losses arising from non-cash ceiling test impairments and an increase in the valuation allowance of \$568 million in Canada related to prior years' deferred tax assets, which was recorded as a discrete item.

Deferred income tax assets are routinely assessed for realizability. During the six months ended June 30, 2020, the Company determined, after weighing both positive and negative evidence, that a valuation allowance should be recorded to reduce the associated deferred tax assets in the United States and in Canada. The Company is in a cumulative three-year loss position as of June 30, 2020 and is expected to be in a cumulative three-year loss position by the end of the current fiscal year in both the United States and Canada. The cumulative losses, as well as increased uncertainty in the timing as to when the realization of deferred tax assets will occur, is significant negative evidence to overcome, and consequently, it is more likely than not that the deferred tax assets will not be realizable. If it is determined that the deferred tax assets are realized in the future, a reduction in the valuation allowance will be recorded. Additional information on the determination of the valuation allowance can be found in Note 7 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

As part of the U.S. Domestication, Ovintiv recognized a capital loss and recorded a deferred income tax benefit in the amount of \$1.2 billion for Canadian income tax purposes due to the decline in the Company's share value compared to the historical tax basis of its properties that were transferred as part of the Reorganization. Ovintiv assessed the realizability of these capital losses against capital gains and concluded that it is more likely than not that the deferred tax asset will not be realizable. Therefore, Ovintiv has recorded a corresponding valuation allowance against the deferred tax asset. If it is determined the capital loss can be utilized at a future date, a reduction in the valuation allowance will be recorded.

Effective Tax Rate

Ovintiv's interim income tax expense is determined using the estimated annual effective income tax rate applied to year-to-date net earnings before income tax plus the effect of legislative changes and amounts in respect of prior periods. The estimated annual effective income tax rate is impacted by expected annual earnings, valuation allowances related to current year losses, income tax related to foreign operations, state tax, the effect of legislative changes, non-taxable capital gains and losses, and tax differences on divestitures and transactions, which can produce interim effective tax rate fluctuations.

Following the U.S. Domestication as described in the Highlights section of this MD&A, the applicable statutory rate became the U.S. federal income tax rate. The Company's effective tax rate was (7.2) percent for the second quarter and (12.3) percent for the first six months of 2020, which are lower than the U.S. federal statutory tax rate of 21 percent primarily due to valuation allowances recorded due to current year losses arising from ceiling test impairments, and an increase in the valuation allowance of \$568 million in Canada related to prior years' deferred tax assets, which was recorded as a discrete item.

The effective tax rate of 52.4 percent for the six months ended June 30, 2019, was higher than the Canadian statutory tax rate of 26.6 percent primarily due to the re-measurement of the Company's deferred tax position resulting from the Alberta tax rate reduction. On June 28, 2019, Alberta Bill 3, the Job Creation Tax Cut (Alberta Corporate Tax Amendment) Act, was signed into law resulting in a reduction of the Alberta corporate tax rate from 12 percent to 11 percent effective July 1, 2019, with further one percent rate reductions to take effect every year on January 1 until the general corporate tax rate is eight percent on January 1, 2022. During the three months ended June 30, 2019, the deferred tax expense of \$158 million included an adjustment of \$55 million resulting from the re-measurement of the Company's deferred tax position due to the Alberta tax rate reduction.

On June 29, 2020 Alberta announced the previously scheduled rate reduction will be accelerated with the Alberta rate reducing to eight percent effective July 1, 2020. This new legislation is not yet enacted and the impact resulting from this announcement is not expected to be material for the Company's tax position.

The tax impacts of the various stimulus and fiscal measures announced in the U.S. and Canada in response to the COVID-19 pandemic, including the U.S. Coronavirus Aid, Relief and Economic Security ("CARES") Act and the Canada Emergency Wage Subsidy ("CEWS") legislation are currently not expected to be material on the Company's tax or financial position.

The determination of income and other tax liabilities of the Company and its subsidiaries requires interpretation of complex domestic and foreign tax laws and regulations, that are subject to change. The Company's interpretation of taxation laws may differ from the interpretation of the tax authorities. As a result, there are tax matters under review for which the timing of resolution is uncertain. The Company believes that the provision for income taxes is adequate.

Liquidity and Capital Resources

Sources of Liquidity

The Company has the flexibility to access cash equivalents and a range of funding alternatives at competitive rates through committed revolving credit facilities as well as debt and equity capital markets. Ovintiv closely monitors the accessibility of cost-effective credit and ensures that sufficient liquidity is in place to fund capital expenditures and dividend payments. In addition, the Company may use cash and cash equivalents, cash from operating activities, or proceeds from asset divestitures to fund its operations or to manage its capital structure as discussed below. At June 30, 2020, \$22 million in cash and cash equivalents was held by Canadian subsidiaries. The cash held by Canadian subsidiaries is accessible and may be subject to additional U.S. income taxes and Canadian withholding taxes if repatriated.

The Company's capital structure consists of total shareholders' equity plus long-term debt, including any current portion. The Company's objectives when managing its capital structure are to maintain financial flexibility to preserve Ovintiv's access to capital markets and its ability to meet financial obligations and finance internally generated growth, as well as potential acquisitions. Ovintiv has a practice of maintaining capital discipline and strategically managing its capital structure by adjusting capital spending, adjusting dividends paid to shareholders, issuing new shares, purchasing shares for cancellation, issuing new debt, repaying or repurchasing existing debt.

(\$ millions, except as indicated)	As at June 30,	
	2020	2019
Cash and Cash Equivalents	\$ 39	\$ 167
Available Credit Facilities ⁽¹⁾	2,750	4,000
Available Uncommitted Demand Lines ⁽²⁾	183	192
Issuance of U.S. Commercial Paper	-	(761)
Total Liquidity	\$ 2,972	\$ 3,598
Long-Term Debt, including current portion ⁽³⁾	\$ 7,366	\$ 7,052
Total Shareholders' Equity ⁽⁴⁾	\$ 5,873	\$ 10,015
Debt to Capitalization (%) ⁽⁵⁾	56	41
Debt to Adjusted Capitalization (%) ⁽⁶⁾	35	28

(1) Includes available credit facilities of \$1.505 billion (2019 - \$1.5 billion) in the U.S. and \$1.245 billion (2019 - \$2.5 billion) in Canada as at June 30, 2020 (collectively, the "Credit Facilities").

(2) Includes three uncommitted demand lines totaling \$320 million, net of \$137 million in undrawn letters of credit (2019 - \$330 million and \$138 million, respectively).

(3) Long-Term Debt as at June 30, 2020, includes \$1,250 million drawn on the Credit Facilities.

(4) Shareholders' Equity reflects the common shares purchased, for cancellation, under the Company's 2019 NCIB and substantial issuer bid programs.

(5) Calculated as long-term debt, including the current portion, divided by shareholders' equity plus long-term debt, including the current portion.

(6) A non-GAAP measure which is defined in the Non-GAAP Measures section of this MD&A.

The Company has access to two committed revolving U.S. dollar denominated credit facilities totaling \$4.0 billion, which include a \$2.5 billion revolving credit facility for Ovintiv Inc. and a \$1.5 billion revolving credit facility for a Canadian subsidiary. These facilities mature in July 2024 and are fully revolving up to maturity. The Credit Facilities provide financial flexibility and allow the Company to fund its operations, development activities or capital programs. At June 30, 2020, \$995 million and \$255 million were outstanding under the revolving credit facility for Ovintiv Inc. and for the Canadian subsidiary, respectively.

During the first six months of 2020, as a result of the recent economic downturn from the COVID-19 pandemic and falling oil prices, Ovintiv received updates to its credit ratings. Ovintiv remains investment grade which reflects the Company's strong liquidity position within a volatile and low commodity price environment. Ovintiv has full access to its Credit Facilities and the credit rating updates have not impacted the Company's ability to fund its operations, development activities or its reduced capital program. While Ovintiv currently maintains an investment grade credit rating, further reductions in the Company's credit ratings could increase the cost of short-term borrowings on the existing Credit Facilities or other sources of liquidity. A prolonged period of low commodity prices and the global impact of the COVID-19 pandemic could impact the Company's credit ratings in the future.

As at June 30, 2020, the Company had no amounts outstanding under its U.S. CP programs. Outstanding commercial paper balances due in the second quarter of 2020, were repaid using advances from the Company's Credit Facilities. Ovintiv's access to its U.S. CP programs is market-driven, and as a result of the current low commodity price environment and the Company's current debt rating, the Company's access to commercial paper is limited and on less favorable terms. Depending on the Company's credit rating and market demand, the Company may issue from its two U.S. CP programs, which include a \$1.5 billion program for Ovintiv Inc. and a \$1.0 billion program for a Canadian subsidiary.

The Credit Facilities, uncommitted demand lines, and cash and cash equivalents provide Ovintiv with total liquidity of approximately \$3.0 billion. At June 30, 2020, Ovintiv also had approximately \$137 million in undrawn letters of credit issued in the normal course of business primarily as collateral security, related to transportation arrangements and to support future abandonment liabilities. Further downgrades in the Company's credit ratings could trigger additional collateral requirements to support existing agreements and such amounts could be material.

In the first six months of 2020, Ovintiv filed a U.S. shelf registration statement and a Canadian shelf prospectus, under which the Company may issue from time to time, debt securities, common stock, preferred stock, warrants, units, share purchase contracts and share purchase units in the U.S. and/or Canada. At June 30, 2020, \$6.0 billion remained accessible under the Canadian shelf prospectus. The ability to issue securities under the U.S. shelf registration statement or Canadian shelf prospectus is dependent upon market conditions and securities law requirements.

Ovintiv is currently in compliance with, and expects that it will continue to be in compliance with, all financial covenants under the Credit Facilities. Management monitors Debt to Adjusted Capitalization, which is a non-GAAP measure defined in the Non-GAAP Measures section of this MD&A, as a proxy for Ovintiv's financial covenant under the Credit Facilities, which requires Debt to Adjusted Capitalization to be less than 60 percent. As at June 30, 2020, the Company's Debt to Adjusted Capitalization was 35 percent. The definitions used in the covenant under the Credit Facilities adjust capitalization for cumulative historical ceiling test impairments recorded in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP. Ovintiv does not expect the current COVID-19 pandemic to impact the Company's ability to remain in compliance with its financial covenants under the Credit Facilities. Additional information on financial covenants can be found in Note 15 to the Consolidated Financial Statements included in Item 8 of the 2019 Annual Report on Form 10-K.

Sources and Uses of Cash

In the second quarter and first six months of 2020, Ovintiv primarily generated cash through operating activities. The following table summarizes the sources and uses of the Company's cash and cash equivalents.

(\$ millions)	Activity Type	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Sources of Cash, Cash Equivalents and Restricted Cash					
Cash from operating activities	Operating	\$ 117	\$ 906	\$ 683	\$ 1,435
Proceeds from divestitures	Investing	8	4	30	6
Corporate acquisition, net of cash and restricted cash acquired	Investing	-	-	-	94
Net issuance of revolving long-term debt	Financing	408	761	552	761
Other	Investing	-	-	-	24
		533	1,671	1,265	2,320
Uses of Cash and Cash Equivalents					
Capital expenditures	Investing	252	750	1,042	1,486
Acquisitions	Investing	1	19	18	41
Repayment of long-term debt ⁽¹⁾	Financing	26	500	115	500
Purchase of shares of common stock	Financing	-	637	-	1,037
Dividends on shares of common stock	Financing	25	25	49	53
Other	Investing/Financing	294	51	186	41
		598	1,982	1,410	3,158
Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency		1	1	(6)	4
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash		\$ (64)	\$ (310)	\$ (151)	\$ (834)

(1) Includes open market repurchases.

Operating Activities

Cash from operating activities in the second quarter and first six months of 2020 was \$117 million and \$683 million, respectively, and was primarily a reflection of the impacts from lower average realized commodity prices, partially offset by the Newfield acquisition, the effects of the commodity price mitigation program and changes in non-cash working capital.

Additional detail on changes in non-cash working capital can be found in Note 23 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. Ovintiv expects it will continue to meet the payment terms of its suppliers.

Non-GAAP Cash Flow in the second quarter and first six months of 2020 was \$304 million and \$839 million, respectively, and was primarily impacted by the items affecting cash from operating activities which are discussed below and in the Results of Operations section of this MD&A.

Three months ended June 30, 2020 versus June 30, 2019

Net cash from operating activities decreased \$789 million compared to the second quarter of 2019 primarily due to:

- Lower realized commodity prices (\$702 million), lower production volumes (\$215 million), changes in non-cash working capital (\$163 million), higher restructuring costs (\$64 million) and higher decommissioning costs primarily related to Deep Panuke (\$51 million);

partially offset by:

- Higher realized gains on risk management in revenues (\$258 million), lower production, mineral and other taxes (\$46 million), lower transportation and processing expense (\$44 million), lower operating expense, excluding non-cash long-term incentive costs (\$43 million).

Six months ended June 30, 2020 versus June 30, 2019

Net cash from operating activities decreased \$752 million compared to the first six months of 2019 primarily due to:

- Lower realized commodity prices (\$1,096 million), changes in non-cash working capital (\$198 million), higher decommissioning costs primarily related to Deep Panuke (\$82 million) and acquisition costs incurred in 2019 (\$33 million);

partially offset by:

- Higher realized gains on risk management in revenues (\$337 million), lower administrative expense, excluding non-cash long-term incentive costs and current expected credit losses (\$127 million), which includes restructuring costs of \$49 million, higher production volumes (\$91 million), lower operating expenses, excluding non-cash long-term incentive costs (\$48 million), and lower production, mineral and other taxes (\$42 million).

Investing Activities

Cash used in investing activities in the first six months of 2020 was \$1,172 million primarily due to capital expenditures. Capital expenditures decreased \$444 million compared to the first six months of 2019 due to the Company's reduced capital program in response to the volatile market conditions in 2020, as discussed in the 2020 Outlook section of this MD&A.

Corporate acquisition in the first six months of 2019 was \$94 million, which reflected the net cash acquired upon the Newfield business combination.

Acquisitions in the first six months of 2020 were \$18 million, which primarily included property purchases with liquids-rich potential. Acquisitions in the first six months of 2019 were \$41 million which primarily included seismic purchases and water rights.

Divestitures in the first six months of 2020 and 2019 were \$30 million and \$6 million, respectively, which primarily included the sale of certain properties that did not complement Ovintiv's existing portfolio of assets.

Capital expenditures and acquisition and divestiture activity are summarized in Notes 3, 8 and 9 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Financing Activities

Net cash used in financing activities has been impacted by the Company's strategy to enhance liquidity, strengthen its balance sheet and return value to stockholders through the purchase of shares of common stock.

Net cash from financing activities in the first six months of 2020 was \$344 million compared to net cash used of \$870 million in 2019. The change was primarily due to the purchase of common shares under a NCIB (\$1,037 million) in 2019 as discussed in more detail below and repayment of long-term debt in 2019 (\$500 million) partially offset by a decrease in net issuance of revolving long-term debt in 2020 (\$209 million) and the open market repurchase of long-term debt in 2020 (\$115 million) as discussed below.

From time to time, Ovintiv may seek to retire or purchase the Company's outstanding debt through cash purchases and/or exchanges for other debt or equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. In the first six months of 2020, the Company repurchased \$137 million in principal amount of its senior notes in the open market, which included approximately \$90 million in principal amount of its 5.75 percent senior notes due in January 2022, approximately \$17 million in principal amount of its 6.5 percent senior notes due in February 2038, approximately \$12 million in principal amount of its 5.375 percent senior notes due in January 2026, approximately \$10 million in principal amount of its 3.9 percent senior notes due in November 2021, and approximately \$8 million in principal amount of its 5.15 percent senior notes due in November 2041 for an aggregate cash payment of approximately \$115 million, plus accrued interest, and recognized a net gain of approximately \$22 million. Ovintiv utilized funds available from the Company's credit facilities, cash on hand and cash from implementing cost savings initiatives to complete these open market repurchases.

The Company's long-term debt totaled \$7,366 million at June 30, 2020 and \$6,974 million at December 31, 2019. There was no current portion outstanding at June 30, 2020 or December 31, 2019. Ovintiv has no long-term debt maturities until November 2021 and, as at June 30, 2020, over 79 percent of the Company's fixed rate long-term debt is not due until 2024 and beyond. For additional information on long-term debt, refer to Note 12 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Dividends

Ovintiv pays quarterly dividends to stockholders at the discretion of the Board of Directors.

(\$ millions, except as indicated)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Dividend Payments	\$ 25	\$ 25	\$ 49	\$ 53
Dividend Payments (\$/share) ⁽¹⁾	\$ 0.09375	\$ 0.09375	\$ 0.1875	\$ 0.1875

(1) Dividend payments per share reflect the Share Consolidation. Accordingly, the comparative period has been restated.

On July 28, 2020, the Board of Directors declared a dividend of \$0.09375 per share of Ovintiv common stock payable on September 30, 2020 to stockholders of record as of September 15, 2020.

Normal Course Issuer Bid

In the second quarter and first six months of 2019, the Company used cash on hand of approximately \$637 million and \$1,037 million, respectively, to purchase, for cancellation, approximately 93.5 million and 149.4 million common shares, respectively, on a pre-Share Consolidation basis or approximately 18.7 million and 29.9 million common shares, respectively, on a post-Share Consolidation basis. For additional information on the NCIB, refer to Note 15 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

For information on off-balance sheet arrangements and transactions, refer to the Off-Balance Sheet Arrangements section of the MD&A included in Item 7 of the 2019 Annual Report on Form 10-K.

Commitments and Contingencies

For information on commitments and contingencies, refer to Notes 8 and 24 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Non-GAAP Measures

Certain measures in this document do not have any standardized meaning as prescribed by U.S. GAAP and, therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers and should not be viewed as a substitute for measures reported under U.S. GAAP. These measures are commonly used in the oil and gas industry and by Ovintiv to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Non-GAAP measures include: Non-GAAP Cash Flow, Non-GAAP Cash Flow Margin, Total Costs, Debt to Adjusted Capitalization and Net Debt to Adjusted EBITDA. Management's use of these measures is discussed further below.

Non-GAAP Cash Flow and Non-GAAP Cash Flow Margin

Non-GAAP Cash Flow is a non-GAAP measure defined as cash from (used in) operating activities excluding net change in other assets and liabilities, net change in non-cash working capital and current tax on sale of assets.

Non-GAAP Cash Flow Margin is a non-GAAP measure defined as Non-GAAP Cash Flow per BOE of production.

Management believes these measures are useful to the Company and its investors as a measure of operating and financial performance across periods and against other companies in the industry, and are an indication of the Company's ability to generate cash to finance capital programs, to service debt and to meet other financial obligations. These measures are used, along with other measures, in the calculation of certain performance targets for the Company's management and employees.

(\$ millions, except as indicated)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash From (Used in) Operating Activities	\$ 117	\$ 906	\$ 683	\$ 1,435
(Add back) deduct:				
Net change in other assets and liabilities	(68)	(15)	(120)	(26)
Net change in non-cash working capital	(119)	44	(36)	162
Current tax on sale of assets	-	-	-	-
Non-GAAP Cash Flow ⁽¹⁾	\$ 304	\$ 877	\$ 839	\$ 1,299
Divided by:				
Production Volumes (MMBOE)	48.8	53.9	100.8	96.0
Non-GAAP Cash Flow Margin (\$/BOE)	\$ 6.23	\$ 16.27	\$ 8.32	\$ 13.53

- (1) The second quarter and first six months of 2020 include restructuring costs of \$81 million and \$81 million, respectively. The second quarter and first six months of 2019 include restructuring costs of \$17 million and \$130 million, respectively, and acquisition costs of \$2 million and \$33 million, respectively.

Total Costs

Total Costs is a non-GAAP measure which includes the summation of production, mineral and other taxes, upstream transportation and processing expense, upstream operating expense and administrative expense, excluding the impact of long-term incentive costs, restructuring costs and current expected credit losses. It is calculated as total operating expenses excluding non-upstream operating costs and non-cash items which include operating expenses from the Market Optimization and Corporate and Other segments, depreciation, depletion and amortization, impairments, accretion of asset retirement obligation, long-term incentive costs, restructuring costs and current expected credit losses. When presented on a per BOE basis, Total Costs is divided by production volumes. Management believes this measure is useful to the Company and its investors as a measure of operational efficiency across periods.

(\$ millions, except as indicated)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Total Operating Expenses	\$ 4,785	\$ 1,517	\$ 6,669	\$ 2,979
Deduct (add back):				
Market optimization operating expenses	382	286	844	641
Corporate & other operating expenses	-	(1)	(2)	(2)
Depreciation, depletion and amortization	493	532	1,027	909
Impairments	3,250	-	3,527	-
Accretion of asset retirement obligation	9	10	18	19
Long-term incentive costs	25	(15)	(10)	26
Restructuring costs	81	17	81	130
Current expected credit losses	(3)	-	2	-
Total Costs	\$ 548	\$ 688	\$ 1,182	\$ 1,256
Divided by:				
Production Volumes (MMBOE)	48.8	53.9	100.8	96.0
Total Costs (\$/BOE) ⁽¹⁾	\$ 11.23	\$ 12.78	\$ 11.72	\$ 13.06

(1) Calculated using whole dollars and volumes.

Debt to Adjusted Capitalization

Debt to Adjusted Capitalization is a non-GAAP measure which adjusts capitalization for historical ceiling test impairments that were recorded as at December 31, 2011. Management monitors Debt to Adjusted Capitalization as a proxy for the Company's financial covenant under the Credit Facilities which require debt to adjusted capitalization to be less than 60 percent. Adjusted Capitalization includes debt, total shareholders' equity and an equity adjustment for cumulative historical ceiling test impairments recorded as at December 31, 2011 in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP.

(\$ millions, except as indicated)	June 30, 2020	December 31, 2019
Long-Term Debt, including current portion	\$ 7,366	\$ 6,974
Total Shareholders' Equity	5,873	9,930
Equity Adjustment for Impairments at December 31, 2011	7,746	7,746
Adjusted Capitalization	\$ 20,985	\$ 24,650
Debt to Adjusted Capitalization	35%	28%

Net Debt to Adjusted EBITDA

Net Debt to Adjusted EBITDA is a non-GAAP measure whereby Net Debt is defined as long-term debt, including the current portion, less cash and cash equivalents and Adjusted EBITDA is defined as trailing 12-month net earnings (loss) before income taxes, DD&A, impairments, accretion of asset retirement obligation, interest, unrealized gains/losses on risk management, foreign exchange gains/losses, gains/losses on divestitures and other gains/losses.

Management believes this measure is useful to the Company and its investors as a measure of financial leverage and the Company's ability to service its debt and other financial obligations. This measure is used, along with other measures, in the calculation of certain financial performance targets for the Company's management and employees.

(\$ millions, except as indicated)	June 30, 2020	December 31, 2019
Long-Term Debt, including current portion	\$ 7,366	\$ 6,974
Less:		
Cash and cash equivalents	39	190
Net Debt	7,327	6,784
Net Earnings (Loss)	(3,819)	234
Add back (deduct):		
Depreciation, depletion and amortization	2,133	2,015
Impairments	3,527	-
Accretion of asset retirement obligation	36	37
Interest	378	382
Unrealized (gains) losses on risk management	161	730
Foreign exchange (gain) loss, net	49	(119)
(Gain) loss on divestitures, net	(4)	(3)
Other (gains) losses, net	(32)	23
Income tax expense (recovery)	415	81
Adjusted EBITDA (trailing 12-month) ⁽¹⁾	\$ 2,844	\$ 3,380
Net Debt to Adjusted EBITDA (times)	2.6	2.0

(1) Adjusted EBITDA for 2019 only includes Newfield's results of operations for the post-acquisition period from February 14, 2019 to December 31, 2019.