

## 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 September 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 conjunction with Ovintiv's focus on preserving balance sheet strength, the Company plans to allocate all excess cash flows to reduce long-term debt over the next five quarters.

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". As at September 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

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In early 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 in response to the low commodity price environment resulting from the global coronavirus (“COVID-19”) pandemic, coupled with excess oil production from Saudi Arabia and Russia.

During the first nine months of 2020, the Company focused on executing its reduced 2020 capital plan, generating cash from operating activities and maximizing profitability through operational and capital efficiencies. Lower upstream product revenues in the first nine months of 2020 compared to 2019 resulted from lower average realized prices, excluding the impact of risk management activities, and lower total production volumes. Decreases in average realized liquids and natural gas prices of 38 percent and 12 percent, respectively, were primarily due to lower WTI and NYMEX benchmark prices. Total production volumes decreased by three percent compared to the first nine months of 2019 primarily due to natural declines, reduced capital investment and curtailed production. 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 \$88 million and expects total restructuring charges to be approximately \$93 million.
- On September 1, 2020, Ovintiv closed an agreement with PetroChina Canada Ltd. (“PCC”) to terminate its joint venture with PCC and transfer the ownership and operation of certain Duvernay shale assets in west-central Alberta. Ovintiv and PCC have agreed to partition the Duvernay acreage and associated infrastructure as each company will independently own and operate their respective interests in the future. There were no penalties or fees associated with the transaction.
- On October 13, 2020, Ovintiv announced the start-up of the Pipestone processing facility, a natural gas processing and liquids stabilization plant owned by Keyera Partnership. Under a “fee-for-service” midstream agreement, the facility will provide Ovintiv with additional net processing capacity to support the Company’s condensate-rich Montney development.

## Financial Results

### *Three months ended September 30, 2020*

- Reported net loss of \$1,521 million, including a non-cash ceiling test impairment of \$1,336 million, before tax, and net losses on risk management in revenues of \$154 million, before tax.
- Generated cash from operating activities of \$493 million, Non-GAAP Cash Flow of \$398 million and Non-GAAP Cash Flow Margin of \$8.49 per BOE.
- Paid dividends of \$0.09375 per common share totaling \$24 million.
- Repurchased in the open market \$115 million in principal amount of the Company's senior notes resulting in gains of \$6 million.

### *Nine months ended September 30, 2020*

- Reported net loss of \$5,483 million, including a non-cash ceiling test impairment of \$4,863 million, before tax, net gains on risk management in revenues of \$587 million, before tax, restructuring costs of \$88 million, before tax, as well as a deferred income tax valuation allowance of \$568 million.
- Generated cash from operating activities of \$1,176 million, Non-GAAP Cash Flow of \$1,237 million and Non-GAAP Cash Flow Margin of \$8.37 per BOE.
- Paid dividends of \$0.28125 per common share totaling \$73 million.
- Repurchased in the open market \$252 million in principal amount of the Company's senior notes resulting in gains of \$28 million.
- Had \$3.1 billion in total liquidity as at September 30, 2020, which included available credit facilities of \$3.0 billion, available uncommitted demand lines of \$186 million, and cash and cash equivalents of \$32 million, net of outstanding commercial paper of \$140 million.
- Reported Net Debt to Adjusted EBITDA of 2.9 times.

## Capital Investment

- Invested \$351 million in the third quarter of 2020 and \$1,393 million during the first nine months of 2020.
- Directed \$293 million, or 83 percent, of total capital spending to the Core Assets in the third quarter of 2020 and \$1,138 million, or 82 percent, during the first nine 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 September 30, 2020*

- Produced average oil and plant condensate volumes of 186.1 Mbbls/d, which accounted for 69 percent of total liquids production volumes. Average liquids volumes of 269.9 Mbbls/d were 53 percent of total production volumes.
- Produced average natural gas volumes of 1,442 MMcf/d, which accounted for 47 percent of total production volumes.

### *Nine months ended September 30, 2020*

- Produced average oil and plant condensate volumes of 199.8 Mbbls/d, which accounted for 70 percent of total liquids production volumes. Average liquids volumes of 286.0 Mbbls/d were 53 percent of total production volumes.
- Produced average natural gas volumes of 1,520 MMcf/d, which accounted for 47 percent of total production volumes.

## Revenues and Operating Expenses

- Incurred Total Costs in the first nine months of 2020 of \$1,740 million, or \$11.77 per BOE, a decrease of \$181 million or \$0.89 per BOE compared to the first nine months of 2019. Total Costs is defined in the Non-GAAP Measures section of this MD&A. Significant items in the first nine months of 2020 impacting Total Costs include:
  - Lower upstream operating expenses, excluding long-term incentive costs, in the first nine months of 2020 compared to 2019 of \$76 million, primarily due to lower activity as a result of the economic downturn and cost saving initiatives including workforce reductions, as well as operating efficiencies achieved in 2020;
  - Lower production, mineral and other taxes, in the first nine months of 2020 compared to 2019 of \$61 million, primarily due to lower commodity prices;
  - Lower administrative expenses, excluding long-term incentive costs, restructuring costs and current expected credit losses, in the first nine months of 2020 compared to 2019 of \$23 million, primarily due to cost saving initiatives including the 2020 workforce reduction and synergies achieved in 2020; and
  - Lower upstream transportation and processing expenses in the first nine months of 2020 compared to 2019 of \$21 million, primarily due to the sale of the Arkoma natural gas assets.
- Total Operating Expenses in the first nine months of 2020 of \$9,365 million increased by \$4,830 million, due to the non-cash ceiling test impairments of \$4,863 million.

Further detailed analysis on Total Costs items and Total Operating Expenses above can be found in the Results of Operations section of this MD&A.

## 2020 Outlook

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### Industry Outlook

#### *Oil Markets*

The oil and gas industry is cyclical and commodity prices are inherently volatile. Oil prices during the remainder of 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 the gradual increases in demand from the reopening of global economies and the steady draw down of excess inventories accumulated during the first half of the year, generally supported stable oil prices in the third quarter of 2020. In July, OPEC+ agreed to extend the production cuts through to December 2020 and plans to meet regularly to discuss the state of global oil supply, demand and inventory levels.

In early 2020, governments worldwide took action to contain the effects of the COVID-19 pandemic by partially closing economies. As a result, global crude oil demand fell significantly while product storage facilities filled up at unprecedented rates with supply materially exceeding 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. 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 modest price recovery has led to a steady increase in oil production over the summer months as operators brought wells back online. However, overall production is expected to remain relatively flat for the remainder of 2020, as crude oil demand is not expected to return to pre-pandemic levels by the end of the year. Certain economic sectors are still restricted and concerns of further lockdowns due to a resurgence of COVID-19 in some countries are impacting oil demand, resulting in a slow recovery.

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. As a result, oil prices for the remainder of 2020 are expected to fluctuate.

### *Natural Gas Markets*

Natural gas prices are primarily 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 remain volatile in both Canada and the U.S. from demand concerns stemming from the COVID-19 pandemic. Natural gas prices for the remainder 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 a slow demand recovery and seasonal fluctuations.

### *Company Outlook*

Despite the low commodity price environment experienced in the first half of the year and modest third quarter recovery, Ovintiv is well positioned to deliver on its updated full year capital plan while generating positive cash flows. In response to the rapid decline in crude oil prices witnessed in early 2020, the Company took action to reduce its full year 2020 capital investments by \$500 million and suspended its previously issued 2020 guidance. By the end of the second quarter, the Company had ceased operating 16 drilling rigs, and had shut in total production of 32 MBOE/d, which further reduced the Company's expected 2020 capital investment profile. As of September 30, 2020, the majority of the previously shut-in and curtailed production is now back on-line.

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 continues to exercise discretion and disciplined capital allocation in adjusting its capital spending beyond the fourth quarter as the current demand and price environment evolves.

The Company enters into derivative financial instruments which mitigate price volatility and help sustain revenues, particularly during periods of lower prices. As at October 16, 2020, the Company has hedged approximately 180.0 Mbbls/d, or 87 percent, of expected crude oil and condensate production and 1,178 MMcf/d, or 70 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 which have been substantially achieved to date.

### *Capital Investment*

During the first nine months of 2020, the Company spent \$1,393 million, of which \$484 million was directed to Permian, \$362 million was directed to Anadarko and \$292 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. 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 nine months of 2020, average oil and plant condensate production volumes were 199.8 Mbbls/d, or 70 percent of total liquids production volumes. Average liquids production volumes were 286.0 Mbbls/d, or 53 percent of total production volumes, and average natural gas production volumes were 1,520 MMcf/d, or 47 percent of total production volumes. For the fourth quarter of 2020, the Company expects to maintain average oil and plant condensate production volumes of approximately 200 Mbbls/d. Full year production volumes are expected to reflect the Company's reduced capital investment plans, 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. With lower staffing levels as a result of the workforce reduction completed in June 2020 and other Company initiatives, Ovintiv expects to achieve more than \$200 million in cost savings.

In the first nine months of 2020, Total Costs was \$11.77 per BOE, and is expected to remain relatively flat for the balance of the year as activity levels normalize and cost saving measures continue. Upstream transportation and processing expense was \$6.48 per BOE, while upstream operating expense and administrative expense, excluding long-term incentive costs, restructuring costs and current expected credit losses, were \$2.98 per BOE and \$1.46 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 \$252 million in principal amount of Ovintiv's fixed rate senior notes, the Company expects to incur lower interest expense of approximately \$10 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 five 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 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 September 30,		Nine months ended September 30,	
	2020	2019 <sup>(1)</sup>	2020	2019 <sup>(1)</sup>
Product and Service Revenues				
Upstream product revenues	\$ 980	\$ 1,476	\$ 2,804	\$ 4,315
Market optimization	346	294	1,113	870
Service revenues	-	1	2	6
Total Product and Service Revenues	1,326	1,771	3,919	5,191
Gains (Losses) on Risk Management, Net	(154)	81	587	(84)
Sublease Revenues	18	19	53	54
Total Revenues	1,190	1,871	4,559	5,161
Total Operating Expenses <sup>(2)</sup>	2,696	1,556	9,365	4,535
Operating Income (Loss)	(1,506)	315	(4,806)	626
Total Other (Income) Expenses	54	123	282	243
Net Earnings (Loss) Before Income Tax	(1,560)	192	(5,088)	383
Income Tax Expense (Recovery)	(39)	43	395	143
Net Earnings (Loss)	\$ (1,521)	\$ 149	\$ (5,483)	\$ 240

(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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Oil &amp; NGLs</b>				
WTI (\$/bbl)	\$ 40.93	\$ 56.45	\$ 38.32	\$ 57.06
Houston (\$/bbl)	41.89	61.14	40.27	62.84
Edmonton Condensate (C\$/bbl)	50.00	68.70	47.48	70.21
<b>Natural Gas</b>				
NYMEX (\$/MMBtu)	\$ 1.98	\$ 2.23	\$ 1.88	\$ 2.67
AECO (C\$/Mcf)	2.15	1.04	2.07	1.39
Dawn (C\$/MMBtu)	2.42	2.81	2.35	3.26



## Production Volumes and Realized Prices

	Three months ended September 30,				Nine months ended September 30,			
	Production Volumes <sup>(1)</sup>		Realized Prices <sup>(2)</sup>		Production Volumes <sup>(1)</sup>		Realized Prices <sup>(2)</sup>	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Oil (Mbbbls/d, \$/bbl)</b>								
USA Operations	138.5	177.6	\$ 39.41	\$ 55.26	148.7	159.0	\$ 35.51	\$ 56.47
Canadian Operations	0.4	0.7	34.38	58.24	0.6	0.5	29.79	51.55
China Operations <sup>(3)</sup>	-	0.5	-	60.35	-	2.0	-	66.37
Total	138.9	178.8	39.40	55.29	149.3	161.5	35.49	56.58
<b>NGLs – Plant Condensate (Mbbbls/d, \$/bbl)</b>								
USA Operations	11.4	12.6	27.98	41.70	11.1	10.0	25.05	43.93
Canadian Operations	35.8	45.9	36.71	50.73	39.4	42.9	33.69	51.74
Total	47.2	58.5	34.60	48.78	50.5	52.9	31.79	50.26
<b>NGLs – Other (Mbbbls/d, \$/bbl)</b>								
USA Operations	70.2	74.9	10.47	7.48	71.7	64.5	8.52	12.01
Canadian Operations	13.6	17.0	13.16	5.39	14.5	16.3	9.68	10.66
Total	83.8	91.9	10.91	7.09	86.2	80.8	8.72	11.74
<b>Total Oil &amp; NGLs (Mbbbls/d, \$/bbl)</b>								
USA Operations	220.1	265.1	29.59	41.12	231.5	233.5	26.66	43.65
Canadian Operations	49.8	63.6	30.27	38.65	54.5	59.7	27.24	40.52
China Operations <sup>(3)</sup>	-	0.5	-	60.35	-	2.0	-	66.37
Total	269.9	329.2	29.72	40.67	286.0	295.2	26.77	43.18
<b>Natural Gas (MMcf/d, \$/Mcf)</b>								
USA Operations	507	617	1.52	1.67	537	535	1.42	1.89
Canadian Operations	935	1,038	1.96	1.54	983	1,027	1.83	1.95
Total	1,442	1,655	1.81	1.59	1,520	1,562	1.69	1.93
<b>Total Production (MBOE/d, \$/BOE)</b>								
USA Operations	304.6	367.9	23.91	32.43	320.9	322.8	21.60	34.72
Canadian Operations	205.6	236.7	16.22	17.12	218.4	230.8	15.05	19.14
China Operations <sup>(3)</sup>	-	0.5	-	60.35	-	2.0	-	66.37
Total	510.2	605.1	20.81	26.46	539.3	555.6	18.94	28.36
<b>Production Mix (%)</b>								
Oil & Plant Condensate	37	39			37	39		
NGLs – Other	16	15			16	14		
Total Oil & NGLs	53	54			53	53		
Natural Gas	47	46			47	47		
<b>Production Change</b>								
<b>Year Over Year (%) <sup>(4)</sup></b>								
Total Oil & NGLs	(18)	84			(3)	85		
Natural Gas	(13)	38			(3)	39		
Total Production	(16)	60			(3)	60		
<b>Core Assets Production</b>								
Oil (Mbbbls/d)	99.4	118.2			106.2	106.9		
NGLs – Plant Condensate (Mbbbls/d)	41.5	48.6			44.5	44.7		
NGLs – Other (Mbbbls/d)	75.0	80.2			76.8	70.5		
Total Oil & NGLs (Mbbbls/d)	215.9	247.0			227.5	222.1		
Natural Gas (MMcf/d)	1,291	1,416			1,362	1,325		
Total Production (MBOE/d)	431.1	482.8			454.6	442.9		
% of Total Production	84	80			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 September 30,					
(\$ millions)	Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas	Total
<b>2019 Upstream Product Revenues <sup>(1)</sup></b>	<b>\$ 909</b>	<b>\$ 262</b>	<b>\$ 60</b>	<b>\$ 243</b>	<b>\$ 1,474</b>
Increase (decrease) due to:					
Sales prices	(203)	(59)	29	29	(204)
Production volumes	(203)	(52)	(5)	(31)	(291)
<b>2020 Upstream Product Revenues</b>	<b>\$ 503</b>	<b>\$ 151</b>	<b>\$ 84</b>	<b>\$ 241</b>	<b>\$ 979</b>

Nine months ended September 30,					
(\$ millions)	Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas	Total
<b>2019 Upstream Product Revenues <sup>(1)</sup></b>	<b>\$ 2,495</b>	<b>\$ 726</b>	<b>\$ 258</b>	<b>\$ 824</b>	<b>\$ 4,303</b>
Increase (decrease) due to:					
Sales prices	(850)	(251)	(72)	(99)	(1,272)
Production volumes	(193)	(34)	19	(20)	(228)
<b>2020 Upstream Product Revenues</b>	<b>\$ 1,452</b>	<b>\$ 441</b>	<b>\$ 205</b>	<b>\$ 705</b>	<b>\$ 2,803</b>

(1) Revenues for the third quarter and the first nine months of 2020 exclude certain other revenue and royalty adjustments with no associated production volumes of \$1 million and \$1 million, respectively (2019 - \$2 million and \$12 million, respectively).

## Oil Revenues

### Three months ended September 30, 2020 versus September 30, 2019

Oil revenues decreased \$406 million compared to the third quarter of 2019 primarily due to:

- Lower average realized oil prices of \$15.89 per bbl, or 29 percent, decreased revenues by \$203 million. The decrease reflected lower Houston and WTI benchmark prices which were down 31 percent and 27 percent, respectively, and weakening regional pricing relative to the WTI benchmark price in the USA Operations; and
- Lower average oil production volumes of 39.9 Mbbls/d decreased revenues by \$203 million. Lower volumes were primarily due to natural declines in USA Operations, reduced drilling operations in Core Assets and suspended capital spending in Other Upstream Operations (37.2 Mbbls/d).

### Nine months ended September 30, 2020 versus September 30, 2019

Oil revenues decreased \$1,043 million compared to the first nine months of 2019 primarily due to:

- Lower average realized oil prices of \$21.09 per bbl, or 37 percent, decreased revenues by \$850 million. The decrease reflected lower Houston and WTI benchmark prices which were down 36 percent and 33 percent, respectively, and weakening regional pricing relative to the WTI benchmark price in the USA Operations; and
- Lower average oil production volumes of 12.2 Mbbls/d decreased revenues by \$193 million. Lower volumes were primarily due to natural declines in Eagle Ford, Anadarko and Uinta (17.5 Mbbls/d), production shut-ins due to the economic downturn (3.7 Mbbls/d) and the termination of the Company's production sharing contract in its China Operations in the third quarter of 2019 (2.0 Mbbls/d), partially offset by the Newfield acquisition in 2019 (11.6 Mbbls/d).

## NGL Revenues

### *Three months ended September 30, 2020 versus September 30, 2019*

NGL revenues decreased \$87 million compared to the third quarter of 2019 primarily due to:

- Lower average realized plant condensate prices of \$14.18 per bbl, or 29 percent, decreased revenues by \$59 million. The decrease reflected lower WTI and Edmonton Condensate benchmark prices which were both down 27 percent;
- Lower average plant condensate production volumes of 11.3 Mbbls/d decreased revenues by \$52 million. Lower volumes were primarily due to natural declines in the Canadian Operations and Anadarko (9.7 Mbbls/d) and third-party plant downtime in Montney (1.4 Mbbls/d);
- Lower average other NGL production volumes of 8.1 Mbbls/d decreased revenues by \$5 million. Lower volumes were primarily due to natural declines in Anadarko, Montney, Eagle Ford and Duvernay (9.2 Mbbls/d); and
- Higher average realized other NGL prices of \$3.82 per bbl, or 54 percent, increased revenues by \$29 million reflecting higher other NGL benchmark prices primarily in the USA Operations and higher regional pricing.

### *Nine months ended September 30, 2020 versus September 30, 2019*

NGL revenues decreased \$338 million compared to the first nine months of 2019 primarily due to:

- Lower average realized plant condensate prices of \$18.47 per bbl, or 37 percent, decreased revenues by \$251 million. The decrease reflected lower WTI and Edmonton Condensate benchmark prices which were down 33 percent and 32 percent, respectively, as well as declines in regional pricing relative to the WTI and Edmonton Condensate benchmark prices;
- Lower average realized other NGL prices of \$3.02 per bbl, or 26 percent, decreased revenues by \$72 million reflecting lower other NGL benchmark prices primarily in the USA Operations and lower regional pricing;
- Lower average plant condensate production volumes of 2.4 Mbbls/d decreased revenues by \$34 million. Lower volumes were primarily due to natural declines in the Canadian Operations (2.8 Mbbls/d); and
- Higher average other NGL production volumes of 5.4 Mbbls/d increased revenues by \$19 million. Higher volumes were primarily due to the Newfield acquisition in 2019 (5.7 Mbbls/d).

## Natural Gas Revenues

### *Three months ended September 30, 2020 versus September 30, 2019*

Natural gas revenues decreased \$2 million compared to the third quarter of 2019 primarily due to:

- Lower average natural gas production volumes of 213 MMcf/d decreased revenues by \$31 million primarily due to natural declines in Montney, Anadarko, Duvernay and Eagle Ford (135 MMcf/d), the sale of the Arkoma natural gas assets in the third quarter of 2019 (48 MMcf/d) and third-party plant downtime in Montney (38 MMcf/d); and
- Higher average realized natural gas prices of \$0.22 per Mcf, or 14 percent, increased revenues by \$29 million. The increase reflected a higher AECO benchmark price which was up 107 percent, partially offset by lower Dawn and NYMEX benchmark prices which were down 14 percent and 11 percent, respectively.

## Nine months ended September 30, 2020 versus September 30, 2019

Natural gas revenues decreased \$119 million compared to the first nine months of 2019 primarily due to:

- Lower average realized natural gas prices of \$0.24 per Mcf, or 12 percent, decreased revenues by \$99 million. The decrease reflected lower NYMEX and Dawn benchmark prices which were down 30 percent and 28 percent, respectively, partially offset by a higher AECO benchmark price which was up 49 percent; and
- Lower average natural gas production volumes of 42 MMcf/d decreased revenues by \$20 million primarily due to natural declines in Montney, Duvernay and Eagle Ford (56 MMcf/d), the sale of the Arkoma natural gas assets in the third quarter of 2019 (47 MMcf/d), increased third-party plant downtime in Montney (11 MMcf/d) and production shut-ins due to the economic downturn (11 MMcf/d), partially offset by the Newfield acquisition in 2019 (60 MMcf/d), and a successful drilling program in Permian (22 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 September 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Realized Gains (Losses) on Risk Management				
Commodity Price <sup>(1)</sup>				
Oil	\$ 26	\$ 10	\$ 331	\$ 56
NGLs - Plant Condensate	23	9	105	24
NGLs - Other	(7)	28	5	61
Natural Gas	45	73	157	156
Other <sup>(2)</sup>	2	2	7	4
Total	89	122	605	301
Unrealized Gains (Losses) on Risk Management	(243)	(41)	(18)	(385)
Total Gains (Losses) on Risk Management, Net	\$ (154)	\$ 81	\$ 587	\$ (84)

(Per-unit)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Realized Gains (Losses) on Risk Management				
Commodity Price <sup>(1)</sup>				
Oil (\$/bbl)	\$ 1.99	\$ 0.63	\$ 8.09	\$ 1.27
NGLs - Plant Condensate (\$/bbl)	\$ 5.39	\$ 1.77	\$ 7.62	\$ 1.66
NGLs - Other (\$/bbl)	\$ (0.92)	\$ 3.28	\$ 0.20	\$ 2.76
Natural Gas (\$/Mcf)	\$ 0.34	\$ 0.48	\$ 0.38	\$ 0.37
Total (\$/BOE)	\$ 1.85	\$ 2.17	\$ 4.04	\$ 1.96

(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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Market Optimization	\$ 346	\$ 294	\$ 1,113	\$ 870

### *Three months ended September 30, 2020 versus September 30, 2019*

Market Optimization product revenues increased \$52 million compared to the third quarter of 2019 primarily due to:

- Higher sales of third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations (\$45 million) and higher sales of third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years (\$38 million);

partially offset by:

- Lower oil and NYMEX benchmark prices, as well as lower regional natural gas pricing (\$31 million).

### *Nine months ended September 30, 2020 versus September 30, 2019*

Market Optimization product revenues increased \$243 million compared to the first nine months of 2019 primarily due to:

- Higher sales of third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations (\$600 million) and higher sales of third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years (\$96 million);

partially offset by:

- Lower oil and NYMEX benchmark prices, as well as lower regional natural gas pricing (\$453 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
USA Operations	\$ 43	\$ 63	\$ 115	\$ 176
Canadian Operations	4	3	11	11
Total	\$ 47	\$ 66	\$ 126	\$ 187

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
USA Operations	\$ 1.54	\$ 1.85	\$ 1.31	\$ 1.99
Canadian Operations	\$ 0.18	\$ 0.15	\$ 0.18	\$ 0.18
Production, Mineral and Other Taxes	\$ 0.99	\$ 1.18	\$ 0.85	\$ 1.23

#### Three months ended September 30, 2020 versus September 30, 2019

Production, mineral and other taxes decreased \$19 million compared to the third quarter of 2019 primarily due to:

- Lower production tax in USA Operations due to lower commodity prices and oil production volumes (\$20 million).

#### Nine months ended September 30, 2020 versus September 30, 2019

Production, mineral and other taxes decreased \$61 million compared to the first nine months of 2019 primarily due to:

- Lower production tax in USA Operations due to lower commodity prices (\$58 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 (\$2 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
USA Operations	\$ 109	\$ 125	\$ 345	\$ 340
Canadian Operations	203	211	614	640
Upstream Transportation and Processing	312	336	959	980
Market Optimization	53	62	170	168
Total	\$ 365	\$ 398	\$ 1,129	\$ 1,148

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
USA Operations	\$ 3.85	\$ 3.72	\$ 3.92	\$ 3.86
Canadian Operations	\$ 10.71	\$ 9.68	\$ 10.24	\$ 10.15
Upstream Transportation and Processing	\$ 6.62	\$ 6.05	\$ 6.48	\$ 6.46

### Three months ended September 30, 2020 versus September 30, 2019

Transportation and processing expense decreased \$33 million compared to the third quarter of 2019 primarily due to:

- Lower production volumes, 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, and lower U.S./Canadian dollar exchange rate;

partially offset by:

- Higher costs relating to the diversification of the Company's downstream markets.

### Nine months ended September 30, 2020 versus September 30, 2019

Transportation and processing expense decreased \$19 million compared to the first nine months of 2019 primarily due to:

- 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;

partially offset by:

- Higher costs from increased production volumes relating to the Newfield acquisition in 2019, rate escalation in certain transportation contracts due to previously divested assets, higher costs relating to the diversification of the Company's downstream markets and higher downstream transportation costs in Montney due to third-party adjustments.

## Operating

Operating expense includes costs paid by the Company, net of amounts capitalized, on 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
USA Operations	\$ 104	\$ 151	\$ 364	\$ 414
Canadian Operations	24	32	75	96
China Operations <sup>(1)</sup>	-	4	-	16
Upstream Operating Expense	128	187	439	526
Market Optimization	5	6	15	21
Corporate & Other	-	-	(2)	(2)
Total	\$ 133	\$ 193	\$ 452	\$ 545

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
USA Operations	\$ 3.73	\$ 4.48	\$ 4.14	\$ 4.70
Canadian Operations	\$ 1.22	\$ 1.45	\$ 1.23	\$ 1.51
China Operations <sup>(1)</sup>	\$ -	\$ 66.11	\$ -	\$ 27.53
Upstream Operating Expense <sup>(2)</sup>	\$ 2.72	\$ 3.35	\$ 2.96	\$ 3.46

- (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 third quarter and first nine months of 2020 includes long-term incentive costs of \$0.03/BOE and a recovery of long-term incentive costs of \$0.02/BOE, respectively (2019 – long-term incentive costs of \$0.01/BOE and \$0.06/BOE, respectively).

### *Three months ended September 30, 2020 versus September 30, 2019*

Operating expense decreased \$60 million compared to the third quarter of 2019 primarily due to:

- Decreased activity mainly as a result of the economic downturn and cost saving initiatives (\$46 million), lower salaries and benefits due to decreased headcount (\$18 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 (\$7 million);

partially offset by:

- Lower capitalization of overhead costs (\$19 million).

### *Nine months ended September 30, 2020 versus September 30, 2019*

Operating expense decreased \$93 million compared to the first nine months of 2019 primarily due to:

- Decreased activity mainly as a result of the economic downturn and cost saving initiatives (\$80 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 (\$27 million), lower salaries and benefits due to decreased headcount (\$18 million), as well as a recovery of long-term incentive costs resulting from a decrease in the Company's share price in the first nine months of 2020 compared to long-term incentive costs resulting from an increase in the share price in the first nine months of 2019 (\$15 million);

partially offset by:

- Lower capitalization of overhead costs (\$40 million) and the Newfield acquisition in 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Market Optimization	\$ 322	\$ 264	\$ 1,039	\$ 784

### *Three months ended September 30, 2020 versus September 30, 2019*

Purchased product expense increased \$58 million compared to the third quarter of 2019 primarily due to:

- Higher third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations (\$45 million) and higher third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years (\$32 million);

partially offset by:

- Lower oil and NYMEX benchmark prices, as well as lower regional natural gas pricing (\$19 million).



### *Nine months ended September 30, 2020 versus September 30, 2019*

Purchased product expense increased \$255 million compared to the first nine months of 2019 primarily due to:

- Higher third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations (\$600 million) and higher third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years (\$86 million);

partially offset by:

- Lower oil and NYMEX benchmark prices, as well as lower regional natural gas pricing (\$431 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
USA Operations	\$ 299	\$ 438	\$ 1,092	\$ 1,141
Canadian Operations	99	100	319	287
Upstream DD&A	398	538	1,411	1,428
Corporate & Other	8	7	22	26
Total	\$ 406	\$ 545	\$ 1,433	\$ 1,454

  

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
USA Operations	\$ 10.66	\$ 12.93	\$ 12.42	\$ 12.95
Canadian Operations	\$ 5.23	\$ 4.61	\$ 5.31	\$ 4.56
Upstream DD&A	\$ 8.47	\$ 9.67	\$ 9.54	\$ 9.45

### *Three months ended September 30, 2020 versus September 30, 2019*

DD&A decreased \$139 million compared to the third quarter of 2019 primarily due to:

- Lower production volumes and depletion rates in the USA Operations (\$75 million and \$64 million, respectively) and lower production volumes in the Canadian Operations (\$13 million), partially offset by higher depletion rates in the Canadian Operations (\$13 million).

The depletion rate in the USA Operations decreased \$2.27 per BOE, compared to the third quarter of 2019 primarily due to the ceiling test impairments recognized in the second quarter of 2020. The depletion rate in the Canadian Operations increased \$0.62 per BOE, compared to the third quarter of 2019 primarily due to a higher depletable base.

## Nine months ended September 30, 2020 versus September 30, 2019

DD&A decreased \$21 million compared to the first nine months of 2019 primarily due to:

- Lower depletion rates in the USA Operations (\$46 million), lower production volumes in the Canadian Operations (\$14 million), and lower U.S./Canadian dollar exchange rate (\$5 million), partially offset by higher depletion rates in the Canadian Operations (\$51 million).

The depletion rate in the USA Operations decreased \$0.53 per BOE, compared to the first nine months of 2019 primarily due to the ceiling test impairments recognized in the second quarter of 2020. The depletion rate in the Canadian Operations increased \$0.75 per BOE, compared to 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 third quarter and first nine months of 2020, the Company recognized a before-tax non-cash ceiling test impairment of \$1,336 million and \$4,863 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)
<b>12-Month Average Trailing Reserves Pricing <sup>(1)</sup></b>				
<b>September 30, 2020</b>	<b>43.69</b>	<b>53.93</b>	<b>1.97</b>	<b>2.01</b>
December 31, 2019	55.93	68.80	2.58	1.76
September 30, 2019	57.76	67.81	2.87	1.52

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

Due to the 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 nine months ended September 30, 2020. Using commodity futures prices as at September 30, 2020, for the three months ending December 31, 2020, the estimated 12-month average trailing prices for the period ended September 30, 2020 would have been \$39.55 per bbl for WTI, C\$49.02 per bbl for Edmonton Condensate, \$1.91 per MMBtu for Henry Hub and C\$2.05 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 nine months ended September 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 an eight 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 and in 2021 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 Ovintiv'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. Ovintiv 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 Ovintiv staff. Costs primarily include salaries and benefits, general office, information technology, restructuring and long-term incentive costs.

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Administrative, excluding Long-Term Incentive Costs,				
Restructuring Costs and Current Expected Credit Losses	\$ 72	\$ 76	\$ 214	\$ 237
Long-term incentive costs	1	1	(6)	18
Restructuring costs	7	4	88	134
Current expected credit losses <sup>(1)</sup>	(1)	-	1	-
<b>Total Administrative</b>	<b>\$ 79</b>	<b>\$ 81</b>	<b>\$ 297</b>	<b>\$ 389</b>

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Administrative, excluding Long-Term Incentive Costs,				
Restructuring Costs and Current Expected Credit Losses	\$ 1.55	\$ 1.38	\$ 1.46	\$ 1.57
Long-term incentive costs	0.02	0.01	(0.04)	0.12
Restructuring costs	0.14	0.07	0.59	0.88
Current expected credit losses <sup>(1)</sup>	(0.03)	-	-	-
<b>Total Administrative</b>	<b>\$ 1.68</b>	<b>\$ 1.46</b>	<b>\$ 2.01</b>	<b>\$ 2.57</b>

(1) On January 1, 2020, Ovintiv 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 September 30, 2020 versus September 30, 2019

Administrative expense in the third quarter of 2020 decreased \$2 million compared to the third quarter of 2019 primarily due to lower salaries and benefits due to decreased headcount (\$2 million) and lower non-recurring administrative expenses related to the Newfield acquisition in 2019 (\$2 million), partially offset by higher restructuring costs incurred in 2020 (\$3 million).

### *Nine months ended September 30, 2020 versus September 30, 2019*

Administrative expense in the first nine months of 2020 decreased \$92 million compared to the first nine months of 2019 primarily due to lower restructuring costs incurred in 2020 (\$46 million) and a recovery of long-term incentive costs resulting from a decrease in the Company's share price in the first nine months of 2020 compared to long-term incentive costs resulting from an increase in the share price in the first nine months of 2019 (\$24 million), lower non-recurring integration and administrative expenses relating to the Newfield acquisition in 2019 (\$10 million) and lower salaries and benefits (\$8 million).

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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest	\$ 97	\$ 99	\$ 279	\$ 285
Foreign exchange (gain) loss, net	(25)	30	51	(62)
(Gain) loss on divestitures, net	-	(5)	-	(4)
Other (gains) losses, net	(18)	(1)	(48)	24
Total Other (Income) Expenses	\$ 54	\$ 123	\$ 282	\$ 243

## **Interest**

Interest expense primarily includes interest on Ovintiv's long-term debt. 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 September 30, 2020 versus September 30, 2019*

Interest expense decreased \$2 million compared to the third quarter of 2019 primarily due to:

- Interest savings related to open market repurchases in 2020 (\$3 million).

### *Nine months ended September 30, 2020 versus September 30, 2019*

Interest expense decreased \$6 million compared to the first nine 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 (\$9 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 Oviniv 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 September 30, 2020 versus September 30, 2019*

Net foreign exchange gain of \$25 million compared to a loss of \$30 million in the third quarter of 2019 primarily due to:

- Unrealized foreign exchange gains on the translation of U.S. dollar financing debt issued and risk management contracts issued from Canada compared to losses in 2019 (\$74 million and \$20 million, respectively);

partially offset by:

- Lower unrealized foreign exchange gains on the translation of intercompany notes (\$24 million) and realized foreign exchange losses on the settlement of U.S. dollar financing debt issued from Canada and intercompany notes compared to 2019 (\$8 million and \$8 million, respectively).

### *Nine months ended September 30, 2020 versus September 30, 2019*

Net foreign exchange loss of \$51 million compared to a gain of \$62 million in the first nine 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 (\$173 million and \$14 million, respectively) and realized foreign exchange losses on the settlement of U.S. dollar financing debt issued from Canada and intercompany notes compared to gains in 2019 (\$37 million and \$34 million, respectively);

partially offset by:

- Unrealized foreign exchange gains on the translation of intercompany notes compared to losses in 2019 (\$146 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, government stimulus programs and adjustments related to other assets.

Other gains in the third quarter and first nine months of 2020 primarily includes gains of \$6 million and \$28 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 nine 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 \$9 million.

## Income Tax

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Current Income Tax Expense (Recovery)	\$ 3	\$ (1)	\$ 2	\$ 3
Deferred Income Tax Expense (Recovery)	(42)	44	393	140
Income Tax Expense (Recovery)	\$ (39)	\$ 43	\$ 395	\$ 143
Effective Tax Rate	2.5%	22.4%	(7.8%)	37.3%

### Income Tax Expense (Recovery)

#### *Three months ended September 30, 2020 versus September 30, 2019*

In the third quarter of 2020, Ovintiv recorded an income tax recovery of \$39 million compared to an income tax expense of \$43 million in 2019, primarily due to the tax benefit resulting from current year losses arising from non-cash ceiling test impairments and a lower effective tax rate due to the related valuation allowance discussed below.

#### *Nine months ended September 30, 2020 versus September 30, 2019*

In the first nine months of 2020, income tax expense increased \$252 million compared to 2019, which included 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 in the second quarter of 2020, partially offset by the tax benefit resulting from current year losses arising from non-cash ceiling test impairments and a lower effective tax rate due to the current year valuation allowance discussed below.

Deferred income tax assets are routinely assessed for realizability. During the nine months ended September 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 continues to be in a cumulative three-year loss position as of September 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 realizable 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 U.S. Domestication. 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 2.5 percent for the third quarter and (7.8) percent for the first nine 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 37.3 percent for the nine months ended September 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 nine months ended September 30, 2019, the deferred tax expense of \$140 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 legislation is not yet enacted and the impact is not expected to be material for the Company's tax position.

The Company continues to evaluate the various stimulus and fiscal measures announced in the U.S. and Canada in response to the COVID-19 pandemic. The tax impact of these measures is reflected in the Company's tax and 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 September 30, 2020, \$19 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 September 30,	
	2020	2019
Cash and Cash Equivalents	\$ 32	\$ 138
Available Credit Facilities <sup>(1)</sup>	2,990	4,000
Available Uncommitted Demand Lines <sup>(2)</sup>	186	174
Issuance of U.S. Commercial Paper	(140)	(740)
Total Liquidity	\$ 3,068	\$ 3,572
Long-Term Debt, including current portion <sup>(3)</sup>	\$ 7,142	\$ 7,024
Total Shareholders' Equity <sup>(4)</sup>	\$ 4,352	\$ 9,921
Debt to Capitalization (%) <sup>(5)</sup>	62	41
Debt to Adjusted Capitalization (%) <sup>(6)</sup>	37	28

(1) Includes available credit facilities of \$1.77 billion (2019 - \$1.5 billion) in the U.S. and \$1.22 billion (2019 - \$2.5 billion) in Canada as at September 30, 2020 (collectively, the "Credit Facilities").

(2) Includes three uncommitted demand lines totaling \$325 million, net of \$139 million in related undrawn letters of credit (2019 - \$327 million and \$153 million, respectively).

(3) Long-Term Debt as at September 30, 2020, includes outstanding U.S. CP totaling \$140 million and \$1.01 billion 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, both maturing in July 2024. The Credit Facilities provide financial flexibility and allow the Company to fund its operations or capital program. At September 30, 2020, \$730 million and \$280 million were outstanding under the revolving credit facility for Ovintiv Inc. and for the Canadian subsidiary, respectively.

During the first nine months of 2020, Ovintiv's credit rating was downgraded to below investment grade by one of its credit rating agencies following updates to commodity price assumptions used by the rating agency. As a result of the downgrade, the cost of short-term borrowing on the revolving credit facility for Ovintiv Inc. has increased marginally. Ovintiv continues to have full access to its Credit Facilities and the credit rating downgrade has not impacted the Company's ability to fund its operations or capital program. While Ovintiv currently has both investment and non-investment grade credit ratings, 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 and limit access to the Company's commercial paper program. A prolonged period of low commodity prices and the global impact of the COVID-19 pandemic could affect the Company's credit ratings in the future.

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. As at September 30, 2020, the Company had approximately \$140 million of commercial paper outstanding under its U.S. CP programs with an average remaining term of approximately 29 days and a weighted average interest rate of approximately 0.87 percent, which is supported by the Company's Credit Facilities. As a result of the Company's recent credit rating downgrade, the Company's access to commercial paper is limited. If future access to the U.S. CP programs is unavailable when the outstanding commercial paper comes due, the Company intends to repay any maturing balances using advances from the Company's Credit Facilities or available cash on hand.

The Credit Facilities, uncommitted demand lines, and cash and cash equivalents provide Ovintiv with total liquidity of approximately \$3.1 billion. At September 30, 2020, Ovintiv also had approximately \$140 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 nine 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 September 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 September 30, 2020, the Company's Debt to Adjusted Capitalization was 37 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 third quarter and first nine 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 September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Sources of Cash, Cash Equivalents and Restricted Cash					
Cash from operating activities	Operating	\$ 493	\$ 756	\$ 1,176	\$ 2,191
Proceeds from divestitures	Investing	39	171	69	177
Corporate acquisition, net of cash and restricted cash acquired	Investing	-	-	-	94
Net issuance of revolving long-term debt	Financing	-	-	452	740
Other	Investing	68	-	-	-
		600	927	1,697	3,202
Uses of Cash and Cash Equivalents					
Capital expenditures	Investing	351	566	1,393	2,052
Acquisitions	Investing	1	25	19	66
Net repayment of revolving long-term debt	Financing	100	21	-	-
Repayment of long-term debt <sup>(1)</sup>	Financing	109	-	224	500
Purchase of shares of common stock	Financing	-	213	-	1,250
Dividends on shares of common stock	Financing	24	24	73	77
Other	Investing/Financing	23	164	141	181
		608	1,013	1,850	4,126
Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency					
		1	-	(5)	4
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash		\$ (7)	\$ (86)	\$ (158)	\$ (920)

(1) Includes open market repurchases.

## Operating Activities

Cash from operating activities in the third quarter and first nine months of 2020 was \$493 million and \$1,176 million, respectively, and was primarily a reflection of the impacts from lower average realized commodity prices, partially offset by the Newfield acquisition in 2019, 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 third quarter and first nine months of 2020 was \$398 million and \$1,237 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 September 30, 2020 versus September 30, 2019

Net cash from operating activities decreased \$263 million compared to the third quarter of 2019 primarily due to:

- Lower production volumes (\$291 million), lower realized commodity prices (\$204 million), lower realized gains on risk management in revenues (\$33 million) and higher decommissioning payments primarily related to Deep Panuke (\$25 million);

partially offset by:

- Changes in non-cash working capital (\$174 million), lower operating expense, excluding non-cash long-term incentive costs (\$60 million), lower transportation and processing expense (\$33 million), and lower production, mineral and other taxes (\$19 million).

### *Nine months ended September 30, 2020 versus September 30, 2019*

Net cash from operating activities decreased \$1,015 million compared to the first nine months of 2019 primarily due to:

- Lower realized commodity prices (\$1,272 million), lower production volumes (\$228 million), higher decommissioning payments primarily related to Deep Panuke (\$105 million) and changes in non-cash working capital (\$24 million);

partially offset by:

- Higher realized gains on risk management in revenues (\$304 million), lower administrative expense, excluding non-cash long-term incentive costs and current expected credit losses (\$127 million), which includes restructuring costs of \$46 million, lower operating expenses, excluding non-cash long-term incentive costs (\$108 million), lower production, mineral and other taxes (\$61 million), and acquisition costs incurred in 2019 (\$33 million).

### **Investing Activities**

Cash used in investing activities in the first nine months of 2020 was \$1,417 million primarily due to capital expenditures. Capital expenditures decreased \$659 million compared to the first nine 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 nine months of 2019 was \$94 million, which reflected the net cash acquired upon the Newfield business combination.

Acquisitions in the first nine months of 2020 were \$19 million, which primarily included property purchases with oil and liquids rich potential. Acquisitions in the first nine months of 2019 were \$66 million, which primarily included seismic purchases, water rights and purchase with oil and liquids rich potential.

Divestitures in the first nine months of 2020 were \$69 million, which primarily included the sale of certain properties that did not complement Ovintiv's existing portfolio of assets. Divestitures in the first nine months of 2019 were \$177 million, which primarily included the sale of the Company's Arkoma natural gas 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 and strengthen its balance sheet by repaying or repurchasing existing debt, and returning value to stockholders through the purchase of shares of common stock and paying dividends.

Net cash from financing activities in the first nine months of 2020 was \$88 million compared to net cash used of \$1,150 million in 2019. The change was primarily due to the purchase of common shares under a NCIB in 2019 (\$1,037 million) as discussed in more detail below, repayment of long-term debt in 2019 (\$500 million) and purchase of common shares under a substantial issuer bid (\$213 million), partially offset by a decrease in net issuance of revolving long-term debt in 2020 (\$288 million) and the open market repurchases of long-term debt in 2020 (\$224 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 nine months of 2020, the Company repurchased \$252 million in principal amount of its senior notes in the open market for an aggregate cash payment of approximately \$224 million, plus accrued interest, and recognized gains of approximately \$28 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. For additional information on the open market repurchases, refer to Note 12 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The Company's long-term debt totaled \$7,142 million at September 30, 2020 and \$6,974 million at December 31, 2019. There was no current portion outstanding at September 30, 2020 or December 31, 2019. Ovintiv has no long-term debt maturities until November 2021 and, as at September 30, 2020, over 80 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Dividend Payments	\$ 24	\$ 24	\$ 73	\$ 77
Dividend Payments (\$/share) <sup>(1)</sup>	\$ 0.09375	\$ 0.09375	\$ 0.28125	\$ 0.28125

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

On October 28, 2020, the Board of Directors declared a dividend of \$0.09375 per share of Ovintiv common stock payable on December 31, 2020 to stockholders of record as of December 15, 2020.

### *Substantial Issuer Bid*

In the third quarter of 2019, the Company used cash on hand and issued commercial paper to purchase, for cancellation, approximately 47.3 million of its outstanding common shares, on a pre-Share Consolidation basis, or approximately 9.5 million common shares, on a post-Share Consolidation basis for total consideration of approximately \$213 million under its previously announced substantial issuer bid. For additional information on the substantial issuer bid, refer to Note 15 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### *Normal Course Issuer Bid*

In the first nine months of 2019, the Company used cash on hand to purchase, for cancellation, approximately 149.4 million common shares, on a pre-Share Consolidation basis or approximately 29.9 million common shares, on a post-Share Consolidation basis, for total consideration of approximately \$1,037 million under its previous NCIB program. 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Cash From (Used in) Operating Activities	\$ 493	\$ 756	\$ 1,176	\$ 2,191
(Add back) deduct:				
Net change in other assets and liabilities	(47)	(29)	(167)	(55)
Net change in non-cash working capital	142	(32)	106	130
Current tax on sale of assets	-	-	-	-
Non-GAAP Cash Flow <sup>(1)</sup>	\$ 398	\$ 817	\$ 1,237	\$ 2,116
Divided by:				
Production Volumes (MMBOE)	46.9	55.7	147.8	151.7
Non-GAAP Cash Flow Margin (\$/BOE)	\$ 8.49	\$ 14.67	\$ 8.37	\$ 13.95

- (1) The third quarter and first nine months of 2020 include restructuring costs of \$7 million and \$88 million, respectively. The third quarter and first nine months of 2019 include restructuring costs of \$4 million and \$134 million, respectively, and acquisition costs of nil 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Total Operating Expenses	\$ 2,696	\$ 1,556	\$ 9,365	\$ 4,535
Deduct (add back):				
Market optimization operating expenses	380	332	1,224	973
Corporate & other operating expenses	-	-	(2)	(2)
Depreciation, depletion and amortization	406	545	1,433	1,454
Impairments	1,336	-	4,863	-
Accretion of asset retirement obligation	8	9	26	28
Long-term incentive costs	2	1	(8)	27
Restructuring costs	7	4	88	134
Current expected credit losses	(1)	-	1	-
Total Costs	\$ 558	\$ 665	\$ 1,740	\$ 1,921
Divided by:				
Production Volumes (MMBOE)	46.9	55.7	147.8	151.7
Total Costs (\$/BOE) <sup>(1)</sup>	\$ 11.85	\$ 11.95	\$ 11.77	\$ 12.66

(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)	September 30, 2020	December 31, 2019
Long-Term Debt, including current portion	\$ 7,142	\$ 6,974
Total Shareholders' Equity	4,352	9,930
Equity Adjustment for Impairments at December 31, 2011	7,746	7,746
Adjusted Capitalization	\$ 19,240	\$ 24,650
Debt to Adjusted Capitalization	37%	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)	September 30, 2020	December 31, 2019
Long-Term Debt, including current portion	\$ 7,142	\$ 6,974
Less:		
Cash and cash equivalents	32	190
Net Debt	7,110	6,784
Net Earnings (Loss)	(5,489)	234
Add back (deduct):		
Depreciation, depletion and amortization	1,994	2,015
Impairments	4,863	-
Accretion of asset retirement obligation	35	37
Interest	376	382
Unrealized (gains) losses on risk management	363	730
Foreign exchange (gain) loss, net	(6)	(119)
(Gain) loss on divestitures, net	1	(3)
Other (gains) losses, net	(49)	23
Income tax expense (recovery)	333	81
Adjusted EBITDA (trailing 12-month) <sup>(1)</sup>	\$ 2,421	\$ 3,380
Net Debt to Adjusted EBITDA (times)	2.9	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.