

Item 8: Financial Statements and Supplementary Data

Management Report

Management's Responsibility for Consolidated Financial Statements

The accompanying Consolidated Financial Statements of the Company are the responsibility of Management. The Consolidated Financial Statements have been prepared by Management in United States dollars in accordance with generally accepted accounting principles in the United States and include certain estimates that reflect Management's best judgments.

Ovintiv's Board of Directors has approved the information contained in the Consolidated Financial Statements. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate that complies with the requirements of United States and Canadian securities legislation and the Audit Committee guidelines of the New York Stock Exchange. The Audit Committee meets at least on a quarterly basis.

Management's Assessment of Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's Management regarding the preparation and presentation of the Consolidated Financial Statements.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the design and effectiveness of the Company's internal control over financial reporting as at December 31, 2021. In making its assessment, Management has used the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal control over financial reporting. Based on our evaluation, Management has concluded that the Company's internal control over financial reporting was effective as at that date.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, was appointed by a vote of shareholders at the Company's last annual meeting to audit and provide independent opinions on both the Consolidated Financial Statements and the Company's internal control over financial reporting as at December 31, 2021, as stated in their Auditor's Report. PricewaterhouseCoopers LLP has provided such opinions.

/s/ Brendan M. McCracken
Brendan M. McCracken
President & Chief Executive Officer

February 25, 2022

/s/ Corey D. Code
Corey D. Code
Executive Vice-President &
Chief Financial Officer

Auditor's Report

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Ovintiv Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Ovintiv Inc. and its subsidiaries (together, the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the "Consolidated Financial Statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these Consolidated Financial Statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's Consolidated Financial Statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the Consolidated Financial Statements included performing procedures to assess the risks of material misstatement of the Consolidated Financial Statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the Consolidated Financial Statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly

reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the Consolidated Financial Statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the Consolidated Financial Statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the Consolidated Financial Statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

The impact of estimates of proved oil, natural gas liquids ("NGL"), and natural gas reserves on net oil and natural gas proved properties

As described in Notes 1 and 10 to the Consolidated Financial Statements, the Company has a net oil and natural gas proved properties balance of \$6,607 million as of December 31, 2021 and depreciation, depletion, and amortization ("DD&A") expense of \$1,190 million for the year ended December 31, 2021. The Company uses the full cost method of accounting for its acquisition, exploration, and development activities. Capitalized costs accumulated within each cost centre are depleted using the unit-of-production method based on proved oil, NGL and natural gas reserves. Proved oil, NGL and natural gas reserve estimates are key inputs to the Company's depletion and ceiling test impairment calculations. A ceiling test impairment is recognized in net earnings when the carrying amount of a country cost centre exceeds the country cost centre ceiling. Management estimates its proved oil, NGL and natural gas reserves according to the definition of proved reserves provided by the SEC. Management's estimates of proved oil, NGL and natural gas reserves are made using available geological and reservoir data as well as production performance data. Proved oil, NGL and natural gas reserves are those quantities of oil and natural gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible in future periods from known reservoirs under existing economic conditions, operating methods and government regulations. The assumptions used by management to determine estimates of the proved oil, NGL and natural gas reserves and the ceiling test impairment calculation include the average beginning-of-the-month prices during the 12-month period for the year, future production estimates, future production and development costs and estimates for abandonment and dismantlement costs associated with asset retirement obligations. The estimation of reserves is a subjective process. In determining the estimates of the proved oil, NGL and natural gas reserves, management utilizes the services of specialists, specifically petroleum engineers.

The principal considerations for our determination that performing procedures relating to the impact of estimates of proved oil, NGL and natural gas reserves on net oil and natural gas proved properties is a critical audit matter are (i) significant judgment used by management, including the use of specialists, when developing the estimates of the proved oil, NGL and natural gas reserves and performing the ceiling test impairment calculation and (ii) a high degree of auditor judgment, effort and subjectivity in performing procedures to evaluate the significant assumptions used in developing those estimates including the average beginning-of-the-month prices during the 12-month period for the year, future production estimates, future production and development costs, and estimates for abandonment and dismantlement costs associated with asset retirement obligations.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the Consolidated Financial Statements. These procedures included testing the effectiveness of controls relating to management's estimates of proved oil, NGL and natural gas reserves, the calculation of the full

cost ceiling test and the calculation of DD&A expense. These procedures also included, among others, evaluating management's ceiling test impairment calculation and testing the unit-of-production depletion rate used to calculate depletion expense, testing the completeness, accuracy and relevance of underlying data and evaluating the appropriateness of the significant assumptions used by management in developing these estimates, including assumptions related to the average beginning-of-the-month prices during the 12-month period for the year, future production estimates, future production and development costs, and estimates for abandonment and dismantlement costs associated with asset retirement obligations. The work of management's specialists was used in performing procedures to evaluate the reasonableness of the estimates of proved oil, NGL and natural gas reserves. As a basis for using this work, the specialists' qualifications were understood and the Company's relationship with the specialists was assessed. The procedures performed also included evaluation of the methods and assumptions used by the specialists, tests of the data used by the specialists, and an evaluation of the specialists' findings. Evaluating the significant assumptions also involved evaluating whether the assumptions used were reasonable considering the past performance of the Company and whether they were consistent with evidence obtained in other areas of the audit.

/s/ PricewaterhouseCoopers LLP
Chartered Professional Accountants
Calgary, Canada

February 25, 2022

We have served as the Company's or its predecessors' auditor since 1958.

Consolidated Statement of Earnings

For the years ended December 31 (US\$ millions, except per share amounts)		2021	2020	2019
Revenues	(Note 2)			
Product and service revenues	(Note 3)	\$ 10,468	\$ 5,509	\$ 7,013
Gains (losses) on risk management, net	(Note 25)	(1,883)	507	(361)
Sublease revenues	(Note 14)	73	71	74
Total Revenues		8,658	6,087	6,726
Operating Expenses	(Note 2)			
Production, mineral and other taxes		293	173	254
Transportation and processing		1,616	1,502	1,558
Operating	(Notes 14, 22, 23)	625	605	732
Purchased product		2,951	1,366	1,043
Depreciation, depletion and amortization		1,190	1,834	2,015
Impairments	(Note 10)	-	5,580	-
Accretion of asset retirement obligation	(Note 17)	22	29	37
Administrative	(Notes 14, 21, 22, 23)	442	395	489
Total Operating Expenses		7,139	11,484	6,128
Operating Income (Loss)		1,519	(5,397)	598
Other (Income) Expenses				
Interest	(Notes 4, 15)	340	371	382
Foreign exchange (gain) loss, net	(Notes 5, 25)	(23)	17	(119)
(Gain) loss on divestitures, net		-	-	(3)
Other (gains) losses, net	(Notes 6, 8, 15, 23)	(37)	(55)	23
Total Other (Income) Expenses		280	333	283
Net Earnings (Loss) Before Income Tax		1,239	(5,730)	315
Income tax expense (recovery)	(Note 6)	(177)	367	81
Net Earnings (Loss)		\$ 1,416	\$ (6,097)	\$ 234
Net Earnings (Loss) per Share of Common Stock	(Note 18)			
Basic		\$ 5.44	\$ (23.47)	\$ 0.90
Diluted		5.32	(23.47)	0.90
Weighted Average Shares of Common Stock Outstanding (millions)	(Note 18)			
Basic		260.4	259.8	261.2
Diluted		266.4	259.8	261.2

Consolidated Statement of Comprehensive Income

For the years ended December 31 (US\$ millions)		2021	2020	2019
Net Earnings (Loss)		\$ 1,416	\$ (6,097)	\$ 234
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustment	(Note 19)	2	38	28
Pension and other post-employment benefit plans	(Notes 19, 23)	14	(8)	20
Other Comprehensive Income (Loss)		16	30	48
Comprehensive Income (Loss)		\$ 1,432	\$ (6,067)	\$ 282

See accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheet

As at December 31 (US\$ millions)		2021	2020
Assets			
Current Assets			
Cash and cash equivalents		\$ 195	\$ 10
Accounts receivable and accrued revenues (net of allowances of \$5 million (2020: \$4 million))	(Notes 3, 7)	1,294	928
Risk management	(Notes 24, 25)	1	37
Income tax receivable	(Note 6)	97	272
		1,587	1,247
Property, Plant and Equipment, at cost:	(Note 10)		
Oil and natural gas properties, based on full cost accounting			
Proved properties		55,475	53,883
Unproved properties		1,944	2,962
Other		903	911
Property, plant and equipment		58,322	57,756
Less: Accumulated depreciation, depletion and amortization		(49,561)	(48,306)
Property, plant and equipment, net	(Note 2)	8,761	9,450
Other Assets	(Notes 11, 14)	1,079	1,143
Risk Management	(Notes 24, 25)	-	4
Goodwill	(Notes 2, 8, 12)	2,628	2,625
	(Note 2)	\$ 14,055	\$ 14,469
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	(Note 13)	\$ 1,979	\$ 1,704
Current portion of operating lease liabilities	(Note 14)	62	68
Income tax payable		4	3
Risk management	(Notes 24, 25)	703	130
Current portion of long-term debt	(Note 15)	-	518
		2,748	2,423
Long-Term Debt	(Note 15)	4,786	6,367
Operating Lease Liabilities	(Note 14)	889	938
Other Liabilities and Provisions	(Notes 14, 16)	190	358
Risk Management	(Notes 24, 25)	25	125
Asset Retirement Obligation	(Note 17)	339	401
Deferred Income Taxes	(Note 6)	4	20
		8,981	10,632
Commitments and Contingencies	(Note 27)		
Shareholders' Equity			
Share capital - authorized 775 million shares of stock			
2021 issued and outstanding: 258.0 million shares (2020: 259.8 million shares)	(Note 18)	3	3
Paid in surplus	(Note 18)	8,458	8,531
Retained earnings (Accumulated deficit)		(4,479)	(5,773)
Accumulated other comprehensive income	(Note 19)	1,092	1,076
Total Shareholders' Equity		5,074	3,837
		\$ 14,055	\$ 14,469

See accompanying Notes to Consolidated Financial Statements

Approved by the Board of Directors

/s/ Peter A. Dea
Peter A. Dea
 Director

/s/ Bruce G. Waterman
Bruce G. Waterman
 Director

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31, 2021 (US\$ millions)	Share Capital	Paid in Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2020	\$ 3	\$ 8,531	\$ (5,773)	\$ 1,076	\$ 3,837
Net Earnings (Loss)	-	-	1,416	-	1,416
Dividends on Shares of Common Stock (\$0.4675 per share) (Note 18)	-	-	(122)	-	(122)
Shares of Common Stock Purchased under Normal Course Issuer Bid (Note 18)	-	(111)	-	-	(111)
Equity-Settled Compensation Costs	-	38	-	-	38
Other Comprehensive Income (Loss) (Note 19)	-	-	-	16	16
Balance, December 31, 2021	\$ 3	\$ 8,458	\$ (4,479)	\$ 1,092	\$ 5,074

For the year ended December 31, 2020 (US\$ millions)	Share Capital	Paid in Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2019	\$ 7,061	\$ 1,402	\$ 421	\$ 1,046	\$ 9,930
Net Earnings (Loss)	-	-	(6,097)	-	(6,097)
Dividends on Shares of Common Stock (\$0.375 per share) (Note 18)	-	-	(97)	-	(97)
Equity-Settled Compensation Costs	-	71	-	-	71
Other Comprehensive Income (Loss) (Note 19)	-	-	-	30	30
Reclassification of Share Capital due to the Reorganization (Note 18)	(7,058)	7,058	-	-	-
Balance, December 31, 2020	\$ 3	\$ 8,531	\$ (5,773)	\$ 1,076	\$ 3,837

For the year ended December 31, 2019 (US\$ millions)	Share Capital	Paid in Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2018	\$ 4,656	\$ 1,358	\$ 435	\$ 998	\$ 7,447
Net Earnings (Loss)	-	-	234	-	234
Dividends on Common Shares (\$0.375 per share) (Note 18)	-	-	(102)	-	(102)
Common Shares Purchased under Substantial Issuer Bid (Note 18)	(257)	44	-	-	(213)
Common Shares Purchased under Normal Course Issuer Bid (Note 18)	(816)	-	(221)	-	(1,037)
Common Shares Issued (Notes 8, 18)	3,478	-	-	-	3,478
Other Comprehensive Income (Loss) (Note 19)	-	-	-	48	48
Impact of Adoption of Topic 842, Leases	-	-	75	-	75
Balance, December 31, 2019	\$ 7,061	\$ 1,402	\$ 421	\$ 1,046	\$ 9,930

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

For the years ended December 31 (US\$ millions)

		2021	2020	2019
Operating Activities				
Net earnings (loss)		\$ 1,416	\$ (6,097)	\$ 234
Depreciation, depletion and amortization		1,190	1,834	2,015
Impairments	(Note 10)	-	5,580	-
Accretion of asset retirement obligation	(Note 17)	22	29	37
Deferred income taxes	(Note 6)	(21)	381	94
Unrealized (gain) loss on risk management	(Note 25)	488	204	730
Unrealized foreign exchange (gain) loss	(Note 5)	21	11	(23)
Foreign exchange on settlements	(Note 5)	(11)	6	(96)
(Gain) loss on divestitures, net		-	-	(3)
Other		104	(19)	(57)
Net change in other assets and liabilities		(39)	(173)	(97)
Net change in non-cash working capital	(Note 26)	(41)	139	87
Cash From (Used in) Operating Activities		3,129	1,895	2,921
Investing Activities				
Capital expenditures	(Note 2)	(1,519)	(1,736)	(2,626)
Acquisitions	(Note 9)	(11)	(19)	(65)
Corporate acquisition, net of cash and restricted cash acquired	(Note 8)	-	-	94
Proceeds from divestitures	(Note 9)	1,025	89	197
Net change in investments and other		(20)	(198)	(156)
Cash From (Used in) Investing Activities		(525)	(1,864)	(2,556)
Financing Activities				
Net issuance (repayment) of revolving long-term debt	(Note 15)	(950)	252	698
Repayment of long-term debt	(Note 15)	(1,137)	(272)	(500)
Purchase of shares of common stock	(Note 18)	(111)	-	(1,250)
Dividends on shares of common stock	(Note 18)	(122)	(97)	(102)
Finance lease payments and other	(Note 14)	(99)	(89)	(84)
Cash From (Used in) Financing Activities		(2,419)	(206)	(1,238)
Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency		-	(5)	5
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash		185	(180)	(868)
Cash, Cash Equivalents and Restricted Cash, Beginning of Year		10	190	1,058
Cash, Cash Equivalents and Restricted Cash, End of Year		\$ 195	\$ 10	\$ 190
Cash, End of Year		\$ 26	\$ 9	\$ 44
Cash Equivalents, End of Year		169	1	146
Restricted Cash, End of Year		-	-	-
Cash, Cash Equivalents and Restricted Cash, End of Year		\$ 195	\$ 10	\$ 190

Supplementary Cash Flow Information

(Note 26)

See accompanying Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

A) NATURE OF OPERATIONS

On January 24, 2020, Encana Corporation (“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”. Ovintiv Inc. and its subsidiaries (collectively, “Ovintiv”) continue to carry on the business of the exploration for, the development of, and the production and marketing of oil, NGLs and natural gas, which was previously conducted by Encana and its subsidiaries prior to the completion of the Reorganization.

B) BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Ovintiv and are presented in conformity with U.S. GAAP and the rules and regulations of the SEC.

In these Consolidated Financial Statements, unless otherwise indicated, all dollar amounts are expressed in U.S. dollars. Following the U.S. Domestication on January 24, 2020, the functional currency of Ovintiv Inc. became U.S. dollars, and accordingly, the financial results herein are consolidated and reported in U.S. dollars. All references to US\$ or to \$ are to United States dollars and references to C\$ are to Canadian dollars.

The Arrangement, as described above, was accounted for as a reorganization of entities under common control. Accordingly, the resulting transactions were recognized using historical carrying amounts. On January 24, 2020, Ovintiv became the reporting entity upon completion of the Reorganization.

In accordance with the Share Consolidation, all shares of common stock and per-share amounts disclosed herein reflect the post-Share Consolidation shares unless otherwise specified. References to shares of common stock refer to the shares of common stock of Ovintiv Inc. for any periods after the completion of the Arrangement, and to the common shares of Encana Corporation for any periods before January 24, 2020.

C) PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of Ovintiv and entities in which it holds a controlling interest. All intercompany balances and transactions are eliminated on consolidation. Undivided interests in oil and natural gas exploration and production joint ventures and partnerships are consolidated on a proportionate basis. Investments in non-controlled entities over which Ovintiv has the ability to exercise significant influence are accounted for using the equity method.

D) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Any gains or losses are recorded in the Consolidated Statement of Earnings. Foreign currency revenues and expenses are translated at the rates of exchange in effect at the time of the transaction.

Assets and liabilities of foreign operations are translated at period end exchange rates, while the related revenues and expenses are translated using average rates during the period. Translation gains and losses relating to foreign operations are included in accumulated other comprehensive income (“AOCI”). Recognition of Ovintiv’s accumulated translation gains and losses into net earnings occurs upon complete or substantially complete liquidation of the Company’s investment in the foreign operation.

E) USE OF ESTIMATES

Preparation of the Consolidated Financial Statements in conformity with U.S. GAAP requires Management to make informed estimates and assumptions and use judgments that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the Consolidated Financial Statements. Accordingly, actual results may differ from estimated amounts as future events occur.

Significant items subject to estimates and assumptions are:

- Estimates of proved reserves used for depletion and ceiling test impairment calculations
- Estimated fair value of long-term assets used for impairment calculations
- Fair value of reporting units used for the assessment of goodwill
- Estimates of future taxable earnings used to assess the realizable value of deferred tax assets
- Estimates of incremental borrowing rates and lease terms used in the measurement of right-of-use (“ROU”) assets and lease liabilities
- Fair value of asset retirement costs and related obligations
- Fair value of derivative instruments
- Fair value attributed to assets acquired and liabilities assumed in business combinations
- Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate
- Accruals for long-term performance-based compensation arrangements, including whether or not the performance criteria will be met and measurement of the ultimate payout amount
- Recognized values of pension assets and obligations, as well as the pension costs charged to net earnings, depend on certain actuarial and economic assumptions
- Accruals for legal claims, environmental risks and exposures

F) REVENUES FROM CONTRACTS WITH CUSTOMERS

Revenues from contracts with customers associated with Ovintiv’s oil, NGLs and natural gas and third-party processing and gathering are recognized when control of the good or service is transferred to the customer, and title or risk of loss transfers to the customer. Transaction prices are determined at inception of the contract and allocated to the performance obligations identified. Variable consideration is estimated and included in the transaction price, unless the variable consideration is constrained.

For product sales, the performance obligations are satisfied at a point in time when the product is delivered to the customer and control is transferred. Payment from the customer is due when the product is delivered to the custody point. Revenues for product sales are presented on an after-royalties basis. For arrangements to gather and process natural gas for third parties, performance obligations are satisfied over time as the service is provided to the customer. Payment from the customer is due when the customer receives the benefit of the service and the product is delivered to the custody point or plant tailgate. Revenues associated with services provided where Ovintiv acts as agent are recorded on a net basis.

G) PRODUCTION, MINERAL AND OTHER TAXES

Costs paid by Ovintiv for taxes based on production or revenues from oil, NGLs and natural gas are recognized when the product is produced. Costs paid by Ovintiv for taxes on the valuation of upstream assets and reserves are recognized when incurred.

H) TRANSPORTATION AND PROCESSING

Costs paid by Ovintiv for the transportation and processing of oil, NGLs and natural gas are recognized when the product is delivered and the services made available or provided.

I) OPERATING

Operating costs paid by Ovintiv, net of amounts capitalized, are recognized for oil and natural gas properties in which the Company has a working interest.

J) EMPLOYEE BENEFIT PLANS

The Company sponsors defined contribution and defined benefit plans, providing pension and other post-employment benefits to its employees in Canada and the U.S. As of January 1, 2003, the defined benefit pension plan was closed to new entrants.

Pension expense for the defined contribution pension plan is recorded as the benefits are earned by the employees covered by the plans. Ovintiv accrues for its obligations under its employee defined benefit plans, net of plan assets. The cost of defined benefit pensions and other post-employment benefits is actuarially determined using the projected benefit method based on length of service and reflects Management's best estimate of salary escalation, mortality rates, retirement ages of employees and expected future health care costs. The expected return on plan assets is based on historical and projected rates of return for assets in the investment plan portfolio. The actual return is based on the fair value of plan assets. The projected benefit obligation is discounted using the market interest rate on high-quality corporate debt instruments as at the measurement date.

Defined benefit pension plan expenses include the cost of pension benefits earned during the current year, the interest cost on pension obligations, the expected return on pension plan assets, the amortization of adjustments arising from pension plan amendments, the amortization of net prior service costs, and the amortization of the excess of the net actuarial gains or losses over 10 percent of the greater of the benefit obligation and the fair value of plan assets. Amortization is on a straight-line basis over a period covering the expected average remaining service lives of employees covered by the plans. All components of the net defined periodic benefit cost, excluding the service cost component, are included in other (gains) losses, net.

K) INCOME TAXES

Ovintiv follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability, using the enacted income tax rates and laws expected to apply when the assets are realized and liabilities are settled. Current income taxes are measured at the amount expected to be recoverable from or payable to the taxing authorities based on the income tax rates and laws enacted at the end of the reporting period. The effect of a change in the enacted tax rates or laws is recognized in net earnings in the period of enactment. Income taxes are recognized in net earnings except to the extent that they relate to items recognized directly in shareholders' equity, in which case the income taxes are recognized directly in shareholders' equity.

Deferred income tax assets are assessed routinely for realizability. If it is more likely than not that deferred tax assets will not be realized, a valuation allowance is recorded to reduce the deferred tax assets. Ovintiv considers available positive and negative evidence when assessing the realizability of deferred tax assets including historic and expected future taxable earnings, available tax planning strategies and carry forward periods. The assumptions used in determining expected future taxable earnings are consistent with those used in the goodwill impairment assessment.

Ovintiv recognizes the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by a taxing authority. A recognized tax position is initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority. Liabilities for unrecognized tax benefits that are not expected to be settled within the next 12 months are included in other liabilities and provisions. Interest related to unrecognized tax benefits is recognized in interest expense.

L) EARNINGS PER SHARE AMOUNTS

Basic net earnings per share of common stock is computed by dividing the net earnings by the weighted average number of shares of common stock outstanding during the period. Diluted net earnings per share of common stock is calculated giving effect to the potential dilution that would occur if stock options were exercised or other contracts to issue shares of common stock were exercised, fully vested, or converted to shares of common stock. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury

stock method assumes that proceeds received from the exercise of in-the-money stock options and other dilutive instruments are used to repurchase shares of common stock at the average market price.

M) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and short-term investments, such as money market deposits or similar type instruments, with a maturity of three months or less when purchased. Outstanding disbursements issued in excess of applicable bank account balances are excluded from cash and cash equivalents and are recorded in accounts payable and accrued liabilities.

N) PROPERTY, PLANT AND EQUIPMENT

UPSTREAM

Ovintiv uses the full cost method of accounting for its acquisition, exploration and development activities. Accordingly, all costs directly associated with the acquisition of, the exploration for, and the development of oil, NGLs and natural gas reserves, including costs of undeveloped leaseholds, dry holes and related equipment, are capitalized on a country-by-country cost center basis. Capitalized costs exclude costs relating to production, general overhead or similar activities.

Capitalized costs accumulated within each cost center are depleted using the unit-of-production method based on proved reserves. Depletion is calculated using the capitalized costs, including estimated retirement costs, plus the undiscounted future expenditures, based on current costs, to be incurred in developing proved reserves.

Costs associated with unproved properties are excluded from the depletion calculation until it is determined that proved reserves are attributable or impairment has occurred. Unproved properties are assessed separately for impairment on a quarterly basis. Costs that have been impaired are included in the costs subject to depletion within the full cost pool.

Under the full cost method of accounting, the carrying amount of Ovintiv's oil and natural gas properties within each country cost center is subject to a ceiling test at the end of each quarter. A ceiling test impairment is recognized in net earnings when the carrying amount of a country cost center exceeds the country cost center ceiling. The carrying amount of a cost center includes capitalized costs of proved oil and natural gas properties, net of accumulated depletion and the related deferred income taxes.

The cost center ceiling is the sum of the estimated after-tax future net cash flows from proved reserves, using the 12-month average trailing prices and unescalated future development and production costs, discounted at 10 percent, plus unproved property costs. 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. Any excess of the carrying amount over the calculated ceiling amount is recognized as an impairment in net earnings.

Proceeds from the divestiture of properties are normally deducted from the full cost pool without recognition of a gain or loss unless the deduction significantly alters the relationship between capitalized costs and proved reserves in the cost center, in which case a gain or loss is recognized in net earnings. Generally, a gain or loss on a divestiture would be recognized when 25 percent or more of the Company's proved reserves quantities are sold in a particular country cost center. For divestitures that result in the recognition of a gain or loss on the sale and constitute a business, goodwill is allocated to the divestiture.

CORPORATE

Costs associated with office furniture, fixtures, leasehold improvements, information technology and aircraft are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from three to 25 years. Assets under construction are not subject to depreciation until put into use. Land is carried at cost.

O) CAPITALIZATION OF COSTS

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred. Interest on borrowings associated with major development projects is capitalized during the construction phase.

P) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at fair value at the date of acquisition. Deferred taxes are recognized for any differences between the fair value of net assets acquired and the related tax bases. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

Q) GOODWILL

Goodwill represents the excess of purchase price over fair value of net assets acquired and is assessed for impairment at least annually at December 31. Goodwill and all other assets and liabilities are allocated to reporting units, which are Orintiv's country cost centers. To assess impairment, the carrying amount of each reporting unit is determined and compared to the fair value of each respective reporting unit. Any excess of the carrying value of the reporting unit, including goodwill, over its fair value is recognized as an impairment and charged to net earnings. The impairment charge measured is limited to the total amount of goodwill allocated to that reporting unit. Subsequent measurement of goodwill is at cost less any accumulated impairments.

R) IMPAIRMENT OF LONG-TERM ASSETS

The carrying value of long-term assets, excluding goodwill and upstream assets included in property, plant and equipment, is assessed for impairment when indicators suggest that the carrying value of an asset or asset group may not be recoverable. Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cashflows that are largely independent of the cashflows of other groups of assets. If the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the continued use and eventual disposition of the asset or asset group, an impairment is recognized for the excess of the carrying amount over its estimated fair value.

S) ASSET RETIREMENT OBLIGATION

Asset retirement obligations are those legal obligations where the Company will be required to retire tangible long-lived assets such as producing well sites, processing plants, and restoring land at the end of oil and gas production operations. The asset retirement obligation is initially measured at its fair value and recorded as a liability with an offsetting retirement cost that is capitalized as part of the related long-lived asset in the Consolidated Balance Sheet. The estimated fair value is measured by reference to the expected future cash flows required to satisfy the obligation, discounted at the Company's credit-adjusted risk-free rate. Changes in the estimated obligation resulting from revisions to estimated timing or amount of future cash flows are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Amortization of asset retirement costs are included in depreciation, depletion and amortization in the Consolidated Statement of Earnings. Increases in the asset retirement obligations resulting from the passage of time are recorded as accretion of asset retirement obligation in the Consolidated Statement of Earnings.

Actual expenditures incurred are charged against the accumulated asset retirement obligation.

T) STOCK-BASED COMPENSATION

Stock-based compensation arrangements are accounted for at fair value. Fair values are determined using observable share prices and/or pricing models such as the Black-Scholes-Merton option-pricing model. For equity-settled stock-based compensation plans, fair values are determined at the grant date and are recognized over the vesting period as compensation costs with a corresponding credit to shareholders' equity. For cash-settled stock-based compensation plans, fair values are determined at each reporting date and periodic changes are recognized as compensation costs, with a corresponding change to liabilities. Compensation costs are recognized over the vesting period using the accelerated attribution method for awards with a graded vesting feature. Forfeitures are estimated based on the Company's historical turnover rates.

U) LEASES

Leases for the right to use an asset are classified as either an operating or finance lease. Upon commencement of the lease, a ROU asset and corresponding lease liability are recognized in the Consolidated Balance Sheet for all operating and finance leases. Ovintiv has elected the short-term lease exemption, which does not require a ROU asset or lease liability to be recognized in the Consolidated Balance Sheet when the lease term is 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

Upon commencement of the lease, ROU assets are recognized based on the initial measurement of the lease liability and adjusted for any lease payments made before commencement date of the lease, less any lease incentives and including any initial direct costs incurred. Lease liabilities are initially measured at the present value of future minimum lease payments over the lease term. The discount rate used to determine the present value is the rate implicit in the lease unless that rate cannot be determined, in which case Ovintiv's incremental borrowing rate is used.

Rights to extend or terminate a lease are included in the lease term when there is reasonable certainty the right will be exercised. Factors used to assess reasonable certainty of rights to extend or terminate a lease include current and forecasted drilling plans, anticipated changes in development strategies, historical practice in extending similar contracts and current market conditions.

Operating lease ROU assets and liabilities are subsequently measured at the present value of the lease payments not yet paid and discounted at the initial discount rate at commencement of the lease, less any impairments to the ROU asset. Operating lease expense and revenue from subleases are recognized in the Consolidated Statement of Earnings on a straight-line basis over the lease term. Finance lease ROU assets are amortized on a straight-line basis over the estimated useful life of the asset if the lessee is reasonably certain to exercise a purchase option or ownership of the leased asset transfers at the end of the lease term, otherwise the leased assets are amortized over the lease term. Amortization of finance lease ROU assets is included in depreciation, depletion and amortization in the Consolidated Statement of Earnings.

Variable lease payments include changes in index rates, mobilization and demobilization costs related to oil and gas equipment and certain costs associated with office and building leases. Variable lease payments are recognized when incurred. Lease and non-lease components are accounted for as a single lease component for compression, coolers and office subleases.

On January 1, 2019, the Company adopted ASC Topic 842, Leases ("Topic 842") and related amendments, using the modified retrospective approach recognizing a cumulative effect adjustment at the beginning of the reporting period in which Topic 842 was applied. The adoption of Topic 842 did not have a material impact on the Company's Consolidated Statements of Earnings or Cash Flows. The effect of the January 1, 2019 adoption of Topic 842 on the Company's Consolidated Balance Sheet can be found in Note 1 to the Company's Consolidated Financial Statements included in Part II, Item 8 of Ovintiv's 2019 Annual Report on Form 10-K.

V) FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques include the market, income and cost approach. The market approach uses information generated by market transactions involving identical or comparable assets or liabilities; the income approach converts estimated future amounts to a present value; the cost approach is based on the amount that currently would be required to replace an asset.

Inputs used in determining fair value are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable. The three input levels of the fair value hierarchy are as follows:

- Level 1 - Inputs represent quoted prices in active markets for identical assets or liabilities, such as exchange-traded commodity derivatives.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted market prices for similar assets or liabilities in active markets or other market corroborated inputs.
- Level 3 - Inputs that are not observable from objective sources, such as forward prices supported by little or no market activity or internally developed estimates of future cash flows used in a present value model.

In determining fair value, the Company utilizes the most observable inputs available. If a fair value measurement reflects inputs at multiple levels within the hierarchy, the fair value measurement is characterized based on the lowest level of input that is significant to the fair value measurement.

The carrying amount of cash and cash equivalents, accounts receivable and accrued revenues, and accounts payable and accrued liabilities reported in the Consolidated Balance Sheet approximates fair value. The fair value of long-term debt is disclosed in Note 15. Fair value information related to pension plan assets is included in Note 23. Recurring fair value measurements are performed for risk management assets and liabilities and other derivative contracts as discussed in Note 24.

Certain non-financial assets and liabilities are initially measured at fair value, such as asset retirement obligations and assets and liabilities acquired in business combinations or certain non-monetary exchange transactions.

W) RISK MANAGEMENT ASSETS AND LIABILITIES

Risk management assets and liabilities are derivative financial instruments used by Ovintiv to manage economic exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors.

Derivative instruments that do not qualify for the normal purchases and sales exemption are measured at fair value with changes in fair value recognized in net earnings. The fair values recorded in the Consolidated Balance Sheet reflect netting the asset and liability positions where counterparty master netting arrangements contain provisions for net settlement.

Realized gains or losses from financial derivatives related to oil, NGLs and natural gas commodity prices are presented in revenues as the contracts are settled. Realized gains or losses from foreign currency exchange swaps are presented in foreign exchange (gain) loss as the contracts are settled. Realized gains or losses recognized from other derivative contracts are presented in revenues as the obligations are settled.

Unrealized gains and losses are recognized based on the changes in fair value of the contracts and are presented in revenues and foreign exchange (gain) loss.

X) COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, environmental and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted as additional information becomes available or circumstances change.

2. Segmented Information

Ovintiv's reportable segments are determined based on the following operations and geographic locations:

- **USA Operations** includes the exploration for, development of, and production of oil, NGLs and natural gas and other related activities within the U.S. cost center.
- **Canadian Operations** includes the exploration for, development of, and production of oil, NGLs and natural gas and other related activities within the Canadian cost center.
- **China Operations** included the production of oil and other related activities within the China cost center. Effective July 31, 2019, the production sharing contract with China National Offshore Oil Corporation ("CNOOC") was terminated and the Company exited its China Operations.
- **Market Optimization** is primarily responsible for the sale of the Company's proprietary production. These results are reported in the USA and Canadian Operations. Market optimization activities include third-party purchases and sales of product to provide operational flexibility and cost mitigation for transportation commitments, product type, delivery points and customer diversification. These activities are reflected in the Market Optimization segment. Market Optimization sells substantially all of the Company's upstream production to third-party customers. Transactions between segments are based on market values and are eliminated on consolidation.

Corporate and Other mainly includes unrealized gains or losses recorded on derivative financial instruments. Once the instruments are settled, the realized gains and losses are recorded in the reporting segment to which the derivative instruments relate. Corporate and Other also includes amounts related to sublease rentals.

Results of Operations

Segment Information

	USA Operations			Canadian Operations			China Operations ⁽¹⁾		
For the years ended December 31	2021	2020	2019	2021	2020	2019	2021	2020	2019
Revenues									
Product and service revenues	\$ 4,883	\$ 2,701	\$ 4,163	\$ 2,542	\$ 1,349	\$ 1,654	\$ -	\$ -	\$ 37
Gains (losses) on risk management, net	(982)	497	158	(413)	207	211	-	-	-
Sublease revenues	-	-	-	-	-	-	-	-	-
Total Revenues	3,901	3,198	4,321	2,129	1,556	1,865	-	-	37
Operating Expenses									
Production, mineral and other taxes	278	158	238	15	15	16	-	-	-
Transportation and processing	507	453	466	937	829	859	-	-	-
Operating	490	485	566	111	100	125	-	-	16
Depreciation, depletion and amortization	837	1,378	1,593	332	427	383	-	-	-
Impairments	-	5,580	-	-	-	-	-	-	-
Total Operating Expenses	2,112	8,054	2,863	1,395	1,371	1,383	-	-	16
Operating Income (Loss)	\$ 1,789	\$ (4,856)	\$ 1,458	\$ 734	\$ 185	\$ 482	\$ -	\$ -	\$ 21
	Market Optimization			Corporate & Other			Consolidated		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Revenues									
Product and service revenues	\$ 3,043	\$ 1,459	\$ 1,159	\$ -	\$ -	\$ -	\$ 10,468	\$ 5,509	\$ 7,013
Gains (losses) on risk management, net	-	7	-	(488)	(204)	(730)	(1,883)	507	(361)
Sublease revenues	-	-	-	73	71	74	73	71	74
Total Revenues	3,043	1,466	1,159	(415)	(133)	(656)	8,658	6,087	6,726
Operating Expenses									
Production, mineral and other taxes	-	-	-	-	-	-	293	173	254
Transportation and processing	172	220	233	-	-	-	1,616	1,502	1,558
Operating	25	22	28	(1)	(2)	(3)	625	605	732
Purchased product	2,951	1,366	1,043	-	-	-	2,951	1,366	1,043
Depreciation, depletion and amortization	-	-	-	21	29	39	1,190	1,834	2,015
Impairments	-	-	-	-	-	-	-	5,580	-
Accretion of asset retirement obligation	-	-	-	22	29	37	22	29	37
Administrative	-	-	-	442	395	489	442	395	489
Total Operating Expenses	3,148	1,608	1,304	484	451	562	7,139	11,484	6,128
Operating Income (Loss)	\$ (105)	\$ (142)	\$ (145)	\$ (899)	\$ (584)	\$ (1,218)	1,519	(5,397)	598
Other (Income) Expenses									
Interest							340	371	382
Foreign exchange (gain) loss, net							(23)	17	(119)
(Gain) loss on divestitures, net							-	-	(3)
Other (gains) losses, net							(37)	(55)	23
Total Other (Income) Expenses							280	333	283
Net Earnings (Loss) Before Income Tax							1,239	(5,730)	315
Income tax expense (recovery)							(177)	367	81
Net Earnings (Loss)							\$ 1,416	\$ (6,097)	\$ 234

(1) Effective July 31, 2019, the production sharing contract with CNOOC was terminated and the Company exited its China Operations.

Intersegment Information

For the years ended December 31	Marketing Sales			Market Optimization			Total		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Revenues	\$ 10,630	\$ 6,108	\$ 7,489	\$ (7,587)	\$ (4,642)	\$ (6,330)	\$ 3,043	\$ 1,466	\$ 1,159
Operating Expenses									
Transportation and processing	571	616	635	(399)	(396)	(402)	172	220	233
Operating	25	22	28	-	-	-	25	22	28
Purchased product	10,140	5,612	6,973	(7,189)	(4,246)	(5,930)	2,951	1,366	1,043
Operating Income (Loss)	\$ (106)	\$ (142)	\$ (147)	\$ 1	\$ -	\$ 2	\$ (105)	\$ (142)	\$ (145)

Revenues by Geographic Region

For the years ended December 31	United States			Canada		
	2021	2020	2019	2021	2020	2019
Revenues						
Product revenues ⁽¹⁾						
Oil	\$ 3,357	\$ 2,035	\$ 3,329	\$ 7	\$ 7	\$ 10
NGLs	862	353	452	1,158	602	870
Natural gas	664	310	380	1,368	737	756
Other revenues ⁽²⁾	2,771	1,296	966	354	240	287
Gains (losses) on risk management, net	(1,160)	406	(142)	(723)	101	(219)
Total Revenues	\$ 6,494	\$ 4,400	\$ 4,985	\$ 2,164	\$ 1,687	\$ 1,704

	China ⁽³⁾			Total		
	2021	2020	2019	2021	2020	2019
Revenues						
Product revenues ⁽¹⁾						
Oil	\$ -	\$ -	\$ 37	\$ 3,364	\$ 2,042	\$ 3,376
NGLs	-	-	-	2,020	955	1,322
Natural gas	-	-	-	2,032	1,047	1,136
Other revenues ⁽²⁾	-	-	-	3,125	1,536	1,253
Gains (losses) on risk management, net	-	-	-	(1,883)	507	(361)
Total Revenues	\$ -	\$ -	\$ 37	\$ 8,658	\$ 6,087	\$ 6,726

(1) Includes intercompany marketing fees transacted between the Company's operating segments.

(2) Includes market optimization and other revenues such as purchased product sold to third parties, sublease revenues and gathering and processing services provided to third parties.

(3) Effective July 31, 2019, the production sharing contract with CNOOC was terminated and the Company exited its China Operations.

Major Customers

In connection with the marketing and sale of Ovintiv's own and purchased oil, NGLs and natural gas for the year ended December 31, 2021, the Company had one customer which individually accounted for more than 10 percent of Ovintiv's product revenues. Sales to this customer, secured by a financial institution with an investment grade credit rating, totaled approximately \$1,573 million which comprised \$1,565 million in the United States and \$8 million in Canada (2020 - one customer with sales of approximately \$834 million; 2019 - one customer with sales of approximately \$866 million).

Capital Expenditures by Segment

For the years ended December 31	2021	2020	2019
USA Operations	\$ 1,125	\$ 1,353	\$ 2,134
Canadian Operations	391	380	480
Market Optimization	-	-	2
Corporate & Other	3	3	10
	\$ 1,519	\$ 1,736	\$ 2,626

Goodwill, Property, Plant and Equipment and Total Assets by Segment

As at December 31	Goodwill		Property, Plant and Equipment		Total Assets	
	2021	2020	2021	2020	2021	2020
USA Operations	\$ 1,938	\$ 1,938	\$ 7,623	\$ 8,103	\$ 10,345	\$ 10,646
Canadian Operations	690	687	951	1,142	1,932	2,031
Market Optimization	-	-	-	2	300	233
Corporate & Other	-	-	187	203	1,478	1,559
	\$ 2,628	\$ 2,625	\$ 8,761	\$ 9,450	\$ 14,055	\$ 14,469

Goodwill, Property, Plant and Equipment and Total Assets by Geographic Region

As at December 31	Goodwill		Property, Plant and Equipment		Total Assets	
	2021	2020	2021	2020	2021	2020
United States	\$ 1,938	\$ 1,938	\$ 7,673	\$ 8,159	\$ 10,715	\$ 10,925
Canada	690	687	1,088	1,291	3,337	3,540
Other Countries	-	-	-	-	3	4
	\$ 2,628	\$ 2,625	\$ 8,761	\$ 9,450	\$ 14,055	\$ 14,469

3. Revenues from Contracts with Customers

The following table summarizes Ovintiv's revenues from contracts with customers.

Revenues

	USA Operations			Canadian Operations			China Operations ⁽¹⁾		
For the years ended December 31	2021	2020	2019	2021	2020	2019	2021	2020	2019
Revenues from Customers									
Product revenues ⁽²⁾									
Oil	\$ 3,369	\$ 2,045	\$ 3,341	\$ 7	\$ 7	\$ 10	\$ -	\$ -	\$ 37
NGLs	864	354	454	1,163	606	878	-	-	-
Natural gas	664	309	379	1,377	743	774	-	-	-
Service revenues									
Gathering and processing	-	3	2	5	3	5	-	-	-
Product and Service Revenues	\$ 4,897	\$ 2,711	\$ 4,176	\$ 2,552	\$ 1,359	\$ 1,667	\$ -	\$ -	\$ 37

	Market Optimization			Corporate & Other			Consolidated		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Revenues from Customers									
Product revenues ⁽²⁾									
Oil	\$ 2,268	\$ 616	\$ 249	\$ -	\$ -	\$ -	\$ 5,644	\$ 2,668	\$ 3,637
NGLs	42	10	7	-	-	-	2,069	970	1,339
Natural gas	704	813	877	-	-	-	2,745	1,865	2,030
Service revenues									
Gathering and processing	5	-	-	-	-	-	10	6	7
Product and Service Revenues	\$ 3,019	\$ 1,439	\$ 1,133	\$ -	\$ -	\$ -	\$ 10,468	\$ 5,509	\$ 7,013

(1) Effective July 31, 2019, the production sharing contract with CNOOC was terminated and the Company exited its China Operations.

(2) Includes revenues from production and revenues of product purchased from third parties, but excludes intercompany marketing fees transacted between the Company's operating segments.

The Company's revenues from contracts with customers consists of product sales including oil, NGLs and natural gas, as well as the provision of gathering and processing services to third parties. Ovintiv had no contract asset or liability balances during the periods presented. As at December 31, 2021, receivables and accrued revenues from contracts with customers were \$1,070 million (2020 - \$724 million).

Ovintiv's product sales are sold under short-term contracts with terms that are less than one year at either fixed or market index prices or under long-term contracts exceeding one year at market index prices.

The Company's gathering and processing services are provided on an interruptible basis with transaction prices that are for fixed prices and/or variable consideration. Variable consideration received is related to recovery of plant operating costs or escalation of the fixed price based on a consumer price index. As the service contracts are interruptible, with service provided on an "as available" basis, there are no unsatisfied performance obligations remaining at December 31, 2021.

As at December 31, 2021, all remaining performance obligations are priced at market index prices or are variable volume delivery contracts. As such, the variable consideration is allocated entirely to the wholly unsatisfied performance obligation or promise to deliver units of production, and revenue is recognized at the amount for which the Company has the right to invoice the product delivered. As the period between when the product sales are transferred and Ovintiv receives payments is generally 30 to 60 days, there is no financing element associated with customer contracts. In addition, Ovintiv does not disclose unsatisfied performance obligations for customer contracts with terms less than 12 months or for variable consideration related to unsatisfied performance obligations.

4. Interest

For the years ended December 31	2021	2020	2019
Interest Expense on:			
Debt	\$ 323	\$ 350	\$ 359
Finance leases (See Note 14)	3	9	13
Other	14	12	10
	\$ 340	\$ 371	\$ 382

Interest expense on debt for the year ended December 31, 2021 includes a one-time make-whole interest payment of \$19 million resulting from the June 2021 early redemption of the Company's \$600 million, 5.75 percent senior notes due January 30, 2022 as discussed in Note 15.

5. Foreign Exchange (Gain) Loss, Net

For the years ended December 31	2021	2020	2019
Unrealized Foreign Exchange (Gain) Loss on:			
Translation of U.S. dollar financing debt issued from Canada	\$ 1	\$ 51	\$ (207)
Translation of U.S. dollar risk management contracts issued from Canada	20	(13)	(12)
Translation of intercompany notes	-	(27)	196
	21	11	(23)
Foreign Exchange (Gain) Loss on Settlements of:			
U.S. dollar financing debt issued from Canada	(8)	1	(25)
U.S. dollar risk management contracts issued from Canada	(33)	1	(3)
Intercompany notes	(3)	5	(71)
Other Monetary Revaluations	-	(1)	3
	\$ (23)	\$ 17	\$ (119)

Following the completion of the Reorganization, including the U.S. Domestication, on January 24, 2020 as described in Note 1, the U.S. dollar denominated unsecured notes issued by Encana Corporation from Canada were assumed by Ovintiv Inc., a company incorporated in Delaware with a U.S. dollar functional currency. Accordingly, these U.S. dollar denominated unsecured notes, along with certain intercompany notes, no longer attract foreign exchange translation gains or losses.

6. Income Taxes

The provision for income taxes is as follows:

For the years ended December 31	2021	2020	2019
Current Tax			
United States	\$ -	\$ (12)	\$ 3
Canada	(156)	(2)	(16)
Total Current Tax Expense (Recovery)	(156)	(14)	(13)
Deferred Tax			
United States	1	(187)	147
Canada	(22)	568	(53)
Total Deferred Tax Expense (Recovery)	(21)	381	94
Income Tax Expense (Recovery)	\$ (177)	\$ 367	\$ 81

During the year ended December 31, 2021, the current income tax recovery was primarily due to the resolution of prior years' tax items. The resolution, along with other items, resulted in a \$222 million reduction of unrecognized tax benefits, offset by a \$66 million reduction in valuation allowance. The Company also recognized related interest income of \$12 million in other (gains) losses, net. During the year ended December 31, 2020, the current income tax recovery was primarily due to certain current year losses being carried back to prior years. During the year ended December 31, 2019, the current income tax recovery was primarily due to the resolution of prior year tax items.

Deferred income tax assets are routinely assessed for realizability. During the year ended December 31, 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 U.S. and in Canada. Accordingly, a valuation allowance of \$568 million was recognized in Canada related to prior years' deferred tax assets during the year ended December 31, 2020. As at December 31, 2021, the Company continues to be in a cumulative three-year loss position in both the U.S. and Canada and as such, continues to recognize the valuation allowance against net deferred tax assets. The cumulative three-year losses and 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.

On June 28, 2019, Alberta Bill 3, the Job Creation Tax Cut (Alberta Corporate Tax Amendment) Act, was signed into law resulting in a phased in reduction of the Alberta corporate tax rate from 12 percent to eight percent over a period of four years. During the year ended December 31, 2019, the deferred tax expense of \$94 million included an adjustment of \$55 million resulting from the re-measurement of the Company's deferred tax position due to the Alberta corporate tax rate reduction.

The following table reconciles income taxes calculated at the applicable statutory rate with the actual income taxes:

For the years ended December 31	2021	2020	2019
Net Earnings (Loss) Before Income Tax	\$ 1,239	\$ (5,730)	\$ 315
United States Federal Statutory Rate	21.0%	21.0%	21.0%
Expected Income Tax Expense (Recovery)	260	(1,203)	66
Effect on Taxes Resulting From:			
State tax difference	43	(147)	18
Income tax related to foreign operations	9	(2)	(7)
Effect of legislative changes	-	2	55
Non-taxable capital (gains) losses	-	3	(11)
Realized capital loss resulting from U.S. Domestication	-	(1,238)	-
Partnership tax allocations in excess of funding	-	-	(20)
Amounts in respect of prior periods	60	36	(23)
Change in valuation allowance	(558)	2,900	(7)
Other	9	16	10
	\$ (177)	\$ 367	\$ 81
Effective Tax Rate	(14.3%)	(6.4%)	25.7%

As part of the U.S. Domestication, in the first quarter of 2020 Ovintiv recognized a capital loss and recorded a deferred income tax benefit in the amount of \$1.2 billion for Canadian income tax purposes. 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 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.

The effective tax rate of (14.3) percent for the year ended December 31, 2021 is lower than the U.S. federal statutory tax rate of 21 percent primarily due to the resolution of prior years' tax items and the change in valuation allowances.

For the year ended December 31, 2020, the effective tax rate of (6.4) percent was lower than the U.S. federal statutory tax rate of 21 percent primarily due to valuation allowances recorded due to net 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. See Note 10 for further discussion related to the ceiling test impairments. For the year ended December 31, 2019, the effective tax rate of 25.7 percent was higher than the U.S. federal statutory tax rate of 21 percent primarily due to state taxes and the re-measurement of the Company's deferred tax position resulting from the Alberta corporate tax rate reduction discussed above, partially offset by partnership tax allocations in excess of funding in Canada as well as the resolution of prior year tax items.

The net deferred income tax asset (liability) consists of:

As at December 31	2021	2020
Deferred Income Tax Assets		
Property, plant and equipment	\$ 36	\$ 107
Risk management	171	48
Compensation plans	67	49
Interest and other deferred deductions	19	27
Net operating and net capital losses carried forward	2,727	2,917
Foreign tax credits	119	165
Other	7	8
Less: valuation allowance	(2,733)	(3,273)
Deferred Income Tax Liabilities		
Property, plant and equipment	(381)	(24)
Unrealized foreign exchange gains	-	(21)
Other	(36)	(23)
Net Deferred Income Tax Asset (Liability)	\$ (4)	\$ (20)

As at December 31, 2021, Ovintiv has recorded a valuation allowance against U.S. federal and state losses, U.S. foreign tax credits and U.S. charitable donations in the amount of \$1,044 million (2020 - \$1,310 million) and Canadian net operating losses, net capital losses and other tax basis in the amount of \$1,689 million (2020 - \$1,963 million) as it is more likely than not that these benefits will not be realized based on expected future taxable earnings as determined in accordance with the Company's accounting policies.

The net deferred income tax asset (liability) for the following jurisdictions is reflected in the Consolidated Balance Sheet as follows:

As at December 31	2021	2020
Deferred Income Tax Assets		
United States	\$ -	\$ -
Canada	-	-
Deferred Income Tax Liabilities		
United States	(4)	-
Canada	-	(20)
Net Deferred Income Tax Asset (Liability)	\$ (4)	\$ (20)

Tax basis, loss carryforwards, charitable donations and tax credits available are as follows:

As at December 31	2021	Expiration Date
United States		
Tax basis	\$ 5,676	Indefinite
Net operating losses (Federal)	5,340	2022 - 2038 ⁽¹⁾
Foreign tax credits	111	2022 - 2024
Charitable donations	1	2022 - 2024
Canada		
Tax basis	\$ 1,035	Indefinite
Net capital losses	5,716	Indefinite
Net operating losses	807	2027 - 2041
Charitable donations	3	2022

(1) Includes net operating losses of \$1,339 million which have an indefinite expiration date.

As at December 31, 2021, approximately \$468 million (2020 - nil) of Ovintiv's unremitted earnings from its foreign subsidiaries were considered to be permanently reinvested and, accordingly, Ovintiv has not recognized a deferred income tax liability in respect of such earnings. If such earnings were to be remitted, Ovintiv may be subject to income taxes and foreign withholding taxes. However, determination of any potential amount of unrecognized deferred income tax liabilities is not practicable.

The following table presents changes in the balance of Ovintiv's unrecognized tax benefits excluding interest:

For the years ended December 31	2021	2020
Balance, Beginning of Year	\$ (232)	\$ (222)
Additions for tax positions taken in the current year	(2)	(4)
Additions for tax positions of prior years	(29)	(1)
Settlements	257	-
Foreign currency translation	(4)	(5)
Balance, End of Year	\$ (10)	\$ (232)

The unrecognized tax benefit is reflected in the Consolidated Balance Sheet as follows:

As at December 31	2021	2020
Income Tax Receivable	\$ (1)	\$ -
Other Liabilities and Provisions (See Note 16)	-	(158)
Deferred Income Tax Asset ⁽¹⁾	(9)	(74)
Balance, End of Year	\$ (10)	\$ (232)

(1) As at December 31, 2021 and 2020, the unrealized tax benefit was offset against the valuation allowance recognized in Canada.

If recognized, all of Ovintiv's unrecognized tax benefits as at December 31, 2021 would affect Ovintiv's effective income tax rate. The nature of the unrecognized tax benefits is highly uncertain. As at December 31, 2021, Ovintiv does not anticipate that the amount of unrecognized tax benefits will significantly change during the next 12 months.

Ovintiv may recognize interest accrued in respect of unrecognized tax benefits in interest expense. During 2021, Ovintiv recognized an expense of nil (2020 - nil; 2019 - nil) in interest expense. As at December 31, 2021, Ovintiv had a liability of nil (2020 - \$5 million) for interest accrued in respect of unrecognized tax benefits.

Included below is a summary of the tax years, by jurisdiction, that remain statutorily open for examination by the taxing authorities.

Jurisdiction	Taxation Year
United States - Federal	2018 - 2021
United States - State	2017 - 2021
Canada - Federal	2015 - 2021
Canada - Provincial	2015 - 2021
Other	2021

Ovintiv and its subsidiaries file income tax returns primarily in the United States and Canada. Issues in dispute for audited years and audits for subsequent years are ongoing and in various stages of completion.

7. Accounts Receivable and Accrued Revenues

As at December 31	2021	2020
Trade Receivables and Accrued Revenues		
Production accruals	\$ 832	\$ 547
Market optimization	238	177
Joint interest and trade receivables	102	87
Derivative financial instruments	9	23
Corporate and other	23	37
Total Trade Receivables and Accrued Revenues	1,204	871
Prepays	28	23
Deposits and Other	67	38
	1,299	932
Expected Credit Loss Allowance	(5)	(4)
	\$ 1,294	\$ 928

Ovintiv's trade receivables and accrued revenues primarily consist of production sales of oil, NGLs and natural gas, product optimization from marketing and recoveries from joint working interest partners. The Company's receivables are short dated with payments generally due within 30 to 60 days, with no financing element.

Trade receivables and accrued revenues are subject to credit risk which is the risk of loss from the potential of a counterparty failing to meet its obligation in accordance with agreed terms. Ovintiv's credit exposure related to product sales and derivative financial instruments are mitigated through the use of credit policies approved by the Board of Directors which govern credit practices that limit transactions according to counterparties' credit quality, and regular monitoring and review of counterparties' credit worthiness. The Company may also request collateral support, including standby letters of credit, from customers that purchase production. Receivables due from joint working

interest partners include numerous counterparties ranging from large public companies to small private companies within the oil and gas industry. In the event of non-payment, Ovintiv may be able to mitigate losses through requiring prepayment of future costs and netting outstanding receivables against associated revenue payables to the interest owner. The Company monitors ongoing credit exposure through active review of counterparty balances against contract terms and due dates, timely dispute resolution, payment confirmation, consideration of the customers' financial condition and general industry market conditions.

Ovintiv's estimated credit loss allowance is estimated using historical loss information, current industry conditions and payment practices, as well as reasonable and supportable forecasts of future economic conditions. Credit risk is assessed based on days outstanding and utilizes both internal credit assessments and publicly available credit information. As at December 31, 2021, the current period expected credit loss allowance was \$5 million (2020 - \$4 million). See Note 25 for more information on credit risk exposures.

8. Business Combination

Newfield Exploration Company Acquisition

On February 13, 2019, the business combination with Newfield Exploration Company, a Delaware corporation ("Newfield") was completed pursuant to an Agreement and Plan of Merger with Newfield (the "Merger"). As a result of the Merger, Newfield shareholders received 2.6719 Encana common shares, on a pre-Share Consolidation basis, for each share of Newfield common stock that was issued and outstanding immediately prior to the effective date of the Merger. The Company issued approximately 543.4 million Encana common shares, on a pre-Share Consolidation basis, representing a value of \$3.5 billion and paid approximately \$5 million in cash in respect of Newfield's cash-settled incentive awards. Following the acquisition, Newfield's senior notes totaling \$2.45 billion were outstanding. For the year ended December 31, 2019, transaction costs of approximately \$33 million were included in other (gains) losses, net.

Newfield's operations focused on the exploration and development of oil and gas properties located in Anadarko and Arkoma in Oklahoma, Bakken in North Dakota and Uinta in Utah, as well as offshore oil assets located in China. The results of Newfield's operations have been included in the Company's Consolidated Financial Statements as of February 14, 2019.

Purchase Price Allocation

The transaction was accounted for under the acquisition method, which requires that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date, with any excess of the purchase price over the estimated fair value of identified net assets acquired recorded as goodwill. The purchase price allocation represents the consideration paid and the fair values of the assets acquired, and liabilities assumed as of the acquisition date.

Purchase Price Allocation

Consideration:	
Fair value of Encana's common shares issued ⁽¹⁾	\$ 3,478
Fair value of Newfield liability awards paid in cash ⁽²⁾	5
Total Consideration	\$ 3,483
Assets Acquired:	
Cash and cash equivalents	\$ 46
Accounts receivable and accrued revenues	486
Other current assets	50
Proved properties	5,903
Unproved properties	838
Other property, plant and equipment	22
Restricted cash	53
Other assets	105
Goodwill	25
Liabilities Assumed:	
Accounts payable and accrued liabilities ⁽³⁾	(795)
Long-term debt	(2,603)
Operating lease liabilities	(76)
Other long-term liabilities	(65)
Asset retirement obligation	(184)
Deferred income taxes	(322)
Total Purchase Price	\$ 3,483

- (1) The fair value was based on the NYSE closing price of the pre-Share Consolidation Encana common shares of \$6.40 on February 13, 2019.
- (2) The fair value was based on a price of \$6.50 per notional unit which was determined using a volume-weighted average of the trading price of pre-Share Consolidation Encana common shares on the NYSE on each of the five consecutive trading days ending on the trading day that was three trading days prior to February 13, 2019.
- (3) In conjunction with the acquisition, various legal claims and actions arising in the normal course of Newfield's operations were assumed by Orintiv. On March 29, 2019, Newfield and its wholly-owned subsidiary entered into an Agreement and Mutual Release with Sapura Energy Berhad, formerly known as SapuraKencana Petroleum Berhad, and Sapura Exploration and Production Inc., formerly known as SapuraKencana Energy Inc. (collectively, "Sapura"), and agreed to settle arbitration claims in the amount of \$22.5 million arising from Sapura's purchase of Newfield's Malaysian business in February 2014. The settlement amount including legal fees was included in the purchase price allocation as part of the current liabilities assumed at the acquisition date. Although the outcome of any remaining legal claims and actions assumed following the acquisition of Newfield cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on Orintiv's financial position, cash flows or results of operations.

The income approach valuation technique was used for the fair value of assets acquired and liabilities assumed. The carrying amounts of cash and cash equivalents, accounts receivable and accrued revenues, restricted cash, other current assets, and accounts payable and accrued liabilities approximate their fair values due to their nature and/or the short-term maturity of the instruments. The fair values of long-term debt, ROU assets and operating lease liabilities were categorized within Level 2 of the fair value hierarchy and were determined using quoted prices and rates from an available pricing source. The fair values of the proved and unproved properties, other property, plant and equipment, other assets, other long-term liabilities and asset retirement obligation were categorized within Level 3 and were determined using relevant market assumptions, including discount rates, future commodity prices and costs, timing of development activities, projections of oil and gas reserves, and estimates for abandonment and reclamation.

Goodwill arose from the Newfield acquisition primarily from the requirement to recognize deferred taxes on the difference between the fair value of the assets acquired and liabilities assumed and the respective carry-over tax basis. Goodwill is not amortized and is not deductible for tax purposes.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information combines the historical financial results of the Company with Newfield and has been prepared as though the acquisition had occurred on January 1, 2019. The pro forma information is not intended to reflect the actual results of operations that would have occurred if the business combination had been completed at the date indicated. In addition, the pro forma information is not intended to be a projection of the Company's results of operations for any future period.

Additionally, pro forma earnings were adjusted to exclude transaction-related costs incurred of approximately \$71 million and severance payments made to employees which totaled \$138 million for the year ended December 31, 2019. The pro forma financial information does not include any cost savings or other synergies from the Merger or any estimated costs that have been incurred to integrate the assets. Ovintiv's consolidated results for the years ended December 31, 2021 and 2020 include the results from Newfield.

For the year ended December 31 (US\$ millions, except per share amounts)		2019
Revenues	\$	7,005
Net Earnings (Loss)	\$	376
Net Earnings (Loss) per Share		
Basic & Diluted	\$	1.44

9. Acquisitions and Divestitures

For the years ended December 31	2021	2020	2019
Acquisitions			
USA Operations	\$ 11	\$ 19	\$ 65
Total Acquisitions	11	19	65
Divestitures			
USA Operations	(772)	(78)	(196)
Canadian Operations	(253)	(11)	(1)
Total Divestitures	(1,025)	(89)	(197)
Net Acquisitions & (Divestitures)	\$ (1,014)	\$ (70)	\$ (132)

ACQUISITIONS

Acquisitions in the USA Operations in 2021 and 2020 primarily included property purchases with oil and liquids rich potential. Acquisitions in 2019 in the USA Operations primarily included seismic purchases, water rights and property purchases with oil and liquids rich potential.

DIVESTITURES

In 2021, amounts received from the sale of assets were \$1,025 million (2020 - \$89 million; 2019 - \$197 million).

Amounts received from the Company's divestiture transactions have been deducted from the respective U.S. and Canadian full cost pools.

USA Operations

In 2021, divestitures in the USA Operations primarily included the sale of the Eagle Ford assets located in south Texas for proceeds of approximately \$764 million, after closing and other adjustments.

In 2020, divestitures in the USA Operations primarily included the sale of certain properties that did not complement Ovintiv's existing portfolio of assets.

In 2019, divestitures in the USA Operations primarily included the sale of the Arkoma natural gas assets located in Oklahoma.

Canadian Operations

In 2021, divestitures in the Canadian Operations primarily included the sale of the Duvernay assets located in west central Alberta for proceeds of approximately \$238 million, after closing and other adjustments.

As part of the Duvernay asset divestiture, the Company agreed to a contingent consideration arrangement, which is payable to Ovintiv in the amount of C\$5 million at the end of 2021 and an additional C\$10 million at the end of 2022, if the annual average of the WTI reference price for each calendar year is greater than \$56 per barrel and \$62 per barrel, respectively. The contingent consideration was determined to be an embedded derivative and accordingly, the Company recorded the contingent consideration at its fair value of \$6 million on the closing date. Subsequent changes in the fair value of the contingent consideration are recognized as a gain or loss and presented in gains (losses) on risk management, net in the Consolidated Statement of Earnings. The fair value is presented in accounts receivable and accrued revenues in the Consolidated Balance Sheet. See Notes 24 and 25 for further information on the contingent consideration.

In 2020, divestitures in the Canadian Operations primarily included the sale of certain properties that did not complement Ovintiv's existing portfolio of assets.

10. Property, Plant and Equipment, Net

As at December 31				2021			2020		
	Cost	Accumulated DD&A	Net	Cost	Accumulated DD&A	Net			
USA Operations									
Proved properties	\$ 39,145	\$ (33,418)	\$ 5,727	\$ 37,875	\$ (32,581)	\$ 5,294			
Unproved properties	1,884	-	1,884	2,785	-	2,785			
Other	12	-	12	24	-	24			
	41,041	(33,418)	7,623	40,684	(32,581)	8,103			
Canadian Operations									
Proved properties	16,330	(15,450)	880	16,008	(15,056)	952			
Unproved properties	60	-	60	177	-	177			
Other	11	-	11	13	-	13			
	16,401	(15,450)	951	16,198	(15,056)	1,142			
Market Optimization	7	(7)	-	9	(7)	2			
Corporate & Other	873	(686)	187	865	(662)	203			
	\$ 58,322	\$ (49,561)	\$ 8,761	\$ 57,756	\$ (48,306)	\$ 9,450			

USA and Canadian Operations' property, plant and equipment include internal costs directly related to exploration, development and construction activities of \$172 million, which have been capitalized during the year ended December 31, 2021 (2020 - \$180 million).

For the year ended December 31, 2021, Ovintiv did not recognize ceiling test impairments in the USA Operations (2020 - \$5,580 million; 2019 - nil) or in the Canadian Operations (2020 - nil; 2019 - nil). The non-cash ceiling test impairments recognized in the USA Operations in 2020 are included with accumulated DD&A in the table above and 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 reflect benchmark prices adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality. The benchmark prices are disclosed in Note 28.

11. Other Assets

As at December 31	2021	2020
Operating Lease ROU Assets (See Note 14)	\$ 929	\$ 991
Long-Term Investments	27	30
Long-Term Receivables	64	64
Deferred Charges	42	45
Other	17	13
	\$ 1,079	\$ 1,143

12. Goodwill

As at December 31	2021	2020
United States		
Balance, beginning and end of year	\$ 1,938	\$ 1,938
Canada		
Balance, beginning of year	687	673
Foreign currency translation adjustment	3	14
Balance, end of year	690	687
Total Goodwill	\$ 2,628	\$ 2,625

The Company had no additions or dispositions relating to goodwill during 2021 or 2020. The change in the Canada goodwill balance reflects movement due to foreign currency translation.

Goodwill was assessed for impairment as at December 31, 2021 and December 31, 2020. The fair values of the United States and Canada reporting units were determined to be greater than the respective carrying values of the reporting units. Accordingly, no goodwill impairments were recognized. The Company has not recognized any historical cumulative goodwill impairments.

13. Accounts Payable and Accrued Liabilities

As at December 31	2021	2020
Trade Payables	\$ 328	\$ 306
Capital Accruals	161	166
Royalty and Production Accruals	643	463
Market Optimization Accruals	292	196
Outstanding Disbursements	32	87
Payroll & Other Accruals	285	215
Interest Payable	108	125
Current Portion of Long-Term Incentive Costs (See Note 22)	78	25
Current Portion of Finance Lease Obligations (See Note 14)	6	82
Current Portion of Asset Retirement Obligation (See Note 17)	46	39
	\$ 1,979	\$ 1,704

Payables and accruals are non-interest bearing. Interest payable represents amounts accrued related to Ovintiv's unsecured notes as disclosed in Note 15.

14. Leases

Operating leases include drilling rigs, compressors, office and buildings, certain land easements and various equipment utilized in the development and production of oil, NGLs and natural gas. The Company has an office building that is accounted for as a finance lease. Subleases relate to office and building leases.

The tables below summarize Ovintiv's operating and finance lease costs and include ROU assets and lease liabilities, amounts recognized in net earnings (loss) during the year and other lease information.

As at December 31 (US\$ millions, unless otherwise specified)	2021	2020
Consolidated Balance Sheet ⁽¹⁾:		
Operating Lease ROU Assets, in Other Assets	\$ 929	\$ 991
Finance Lease ROU Assets, in Other Property Plant and Equipment	27	32
Operating Lease Liabilities:		
Current	62	68
Long-term	889	938
Finance Lease Liabilities:		
Current, in accounts payable and accrued liabilities	6	82
Long-term, in other liabilities and provisions	33	39
Weighted Average Discount Rate		
Operating leases	5.44%	5.44%
Finance leases	6.11%	6.00%
Weighted Average Remaining Lease Term		
Operating leases	15.3 years	15.9 years
Finance leases	5.5 years	3.0 years

(1) Total ROU assets and liabilities are recorded at the gross contractual amount. A portion of the future lease payments will be recovered from other working interest owners based on their proportionate share when incurred.

For the years ended December 31	2021	2020
Lease Costs ⁽¹⁾:		
Operating Lease Costs, Excluding Short-Term Leases	\$ 145	\$ 152
Finance Lease Costs:		
Amortization of ROU assets	5	5
Interest on lease liabilities	3	9
Total Finance Lease Costs	8	14
Short-Term Lease Costs	206	339
Variable Lease Costs	12	11
Sublease Income:		
Operating lease income	55	53
Variable lease income	18	18
Other Information ⁽²⁾:		
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating cash outflows from operating leases	197	215
Investing cash outflows from operating leases	147	269
Operating cash outflows from finance leases	3	9
Financing cash outflows from finance leases	82	89
Supplemental Non-Cash Information:		
New ROU operating lease assets and liabilities	23	10

(1) Lease costs include amounts capitalized into property, plant and equipment in the Consolidated Balance Sheet and lease expense recognized in the Consolidated Statement of Earnings.

(2) Rights to extend or terminate a lease are included in the lease term when there is reasonable certainty the right will be exercised. Lease contracts include rights to extend leases after the initial term, ranging from month-to-month to less than 10 years.

Operating lease expense is reflected in the Consolidated Statement of Earnings as follows:

For the years ended December 31	2021	2020
Operating Lease Expense		
Transportation and processing	\$ 3	\$ 2
Operating	81	106
Administrative	120	114
Total Operating Lease Expense	\$ 204	\$ 222

The following table outlines the Company's future lease payments and lease liabilities related to the Company's operating and finance leases as at December 31, 2021:

	2022	2023	2024	2025	2026	Thereafter	Total
Operating Leases ⁽¹⁾							
Expected Future Lease Payments	\$ 113	\$ 94	\$ 90	\$ 89	\$ 83	\$ 957	\$ 1,426
Less: Discounting							475
Present Value of Future Operating Lease Payments							\$ 951
Sublease Income (undiscounted)	\$ (40)	\$ (39)	\$ (39)	\$ (39)	\$ (39)	\$ (474)	\$ (670)
Finance Leases							
Expected Future Lease Payments	\$ 8	\$ 8	\$ 8	\$ 9	\$ 9	\$ 4	\$ 46
Less: Discounting							7
Present Value of Future Finance Lease Payments							\$ 39
Sublease Income (undiscounted) ⁽²⁾	\$ (8)	\$ (8)	\$ (7)	\$ (7)	\$ (7)	\$ (3)	\$ (40)

(1) Lease payments are presented based on the gross contractual amount. A portion of the future lease payments will be recovered from other working interest owners based on their proportionate share when incurred.

(2) Classified as operating lease.

There are no material commitments for leases with terms greater than one year that have not yet commenced at December 31, 2021.

15. Long-Term Debt

As at December 31	Note	2021	2020
U.S. Dollar Denominated Debt			
Revolving credit and term loan borrowings	A	\$ -	\$ 950
U.S. Unsecured Notes:	B		
3.90% due November 15, 2021		-	518
5.75% due January 30, 2022		-	600
5.625% due July 1, 2024		1,000	1,000
5.375% due January 1, 2026		688	688
8.125% due September 15, 2030		300	300
7.20% due November 1, 2031		350	350
7.375% due November 1, 2031		500	500
6.50% due August 15, 2034		750	750
6.625% due August 15, 2037		462	462
6.50% due February 1, 2038		488	488
5.15% due November 15, 2041		203	203
Total Principal	F	4,741	6,809
Increase in Value of Debt Acquired	C	77	111
Unamortized Debt Discounts and Issuance Costs	D	(32)	(35)
Total Long-Term Debt		\$ 4,786	\$ 6,885
Current Portion	E	\$ -	\$ 518
Long-Term Portion		4,786	6,367
		\$ 4,786	\$ 6,885

A) REVOLVING CREDIT AND TERM LOAN BORROWINGS

At December 31, 2021, Ovintiv had in place committed revolving U.S. dollar denominated bank credit facilities totaling \$4.0 billion which included \$2.5 billion on a revolving bank credit facility for Ovintiv Inc. and \$1.5 billion on a revolving bank credit facility for a Canadian subsidiary. The facilities are extendible from time to time, but not more than once per year, for a period not longer than five years plus 90 days from the date of the extension request, at the option of the lenders and upon notice from Ovintiv. The facilities mature in July 2024, and are fully revolving up to maturity.

The Ovintiv Inc. facility, which remained unused as at December 31, 2021, is unsecured and bears interest at either the lenders' U.S. base rate or LIBOR, plus applicable margins. The Canadian subsidiary facility, which remained unused as at December 31, 2021, bears interest at the lenders' rates for Canadian prime, U.S. base rate, Bankers' Acceptances or LIBOR, plus applicable margins.

Ovintiv is subject to a financial covenant in its credit facility agreements whereby financing debt to adjusted capitalization cannot exceed 60 percent. Financing debt primarily includes total long-term debt and finance lease obligations. Adjusted capitalization is calculated as the sum of total financing debt, shareholders' equity and a \$7.7 billion equity adjustment for cumulative historical ceiling test impairments recorded in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP. As at December 31, 2021, the Company is in compliance with all financial covenants.

Standby fees paid in 2021 relating to revolving credit and term loan agreements were approximately \$10 million (2020 - \$8 million; 2019 - \$11 million) and were included in interest expense in the Consolidated Statement of Earnings.

B) UNSECURED NOTES

Shelf Prospectuses

In the first quarter 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 December 31, 2021, \$6.0 billion was 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 security law requirements.

U.S. Unsecured Notes

Unsecured notes include medium-term notes and senior notes that are issued from time to time under trust indentures and have equal priority with respect to the payment of both principal and interest.

On June 18, 2021, the Company completed the redemption of its \$600 million, 5.75 percent senior notes due January 30, 2022. Ovintiv paid approximately \$632 million in cash including accrued and unpaid interest of \$13 million and a one-time make-whole payment of \$19 million, which is included in interest expense as discussed in Note 4.

On August 16, 2021, the Company completed the redemption of its \$518 million, 3.90 percent senior notes due November 15, 2021. The Company redeemed the notes at par and paid approximately \$523 million in cash including accrued and unpaid interest of \$5 million.

The Company used the net proceeds from its Eagle Ford and Duvernay asset sales, as discussed in Note 9, and cash on hand to complete the senior note redemptions.

During the year ended December 31, 2020, Ovintiv repurchased approximately \$302 million in principal amount of its senior notes in the open market. The aggregate cash payments related to the note repurchases were \$272 million, plus accrued interest, and a net gain of approximately \$30 million was recognized in other (gains) losses, net in the Consolidated Statement of Earnings.

C) INCREASE IN VALUE OF DEBT ACQUIRED

Certain of the notes and debentures of the Company were acquired in business combinations and were accounted for at their fair value at the dates of acquisition. The difference between the fair value and the principal amount of the debt is being amortized over the remaining life of the outstanding debt acquired, which has a weighted average remaining life of approximately five years.

D) UNAMORTIZED DEBT DISCOUNTS AND ISSUANCE COSTS

Long-term debt premiums and discounts are capitalized within long-term debt and are being amortized using the effective interest method. During 2021, no debt premiums or discounts were capitalized. During 2020, \$4 million in issuance costs were capitalized related to the renewal of the Company's credit facilities. Issuance costs are amortized over the term of the related debt.

E) CURRENT PORTION OF LONG-TERM DEBT

As at December 31, 2021, the current portion of long-term debt was nil (2020 - \$518 million).

F) MANDATORY DEBT PAYMENTS

As at December 31	Principal Amount	Interest Amount
2022	\$ -	\$ 301
2023	-	301
2024	1,000	301
2025	-	245
2026	688	227
Thereafter	3,053	1,657
Total	\$ 4,741	\$ 3,032

As at December 31, 2021, total long-term debt had a carrying value of \$4,786 million and a fair value of \$5,804 million (2020 - carrying value of \$6,885 million and a fair value of \$7,379 million). The estimated fair value of long-term borrowings is categorized within Level 2 of the fair value hierarchy and has been determined based on market information of long-term debt with similar terms and maturity, or by discounting future payments of interest and principal at interest rates expected to be available to the Company at period end.

16. Other Liabilities and Provisions

As at December 31	2021	2020
Finance Lease Obligations (See Note 14)	\$ 33	\$ 39
Unrecognized Tax Benefits (See Note 6)	-	158
Pensions and Other Post-Employment Benefits (See Note 23)	104	129
Long-Term Incentive Costs (See Note 22)	36	9
Other Derivative Contracts (See Notes 24, 25)	5	7
Other	12	16
	\$ 190	\$ 358

17. Asset Retirement Obligation

As at December 31	2021	2020
Asset Retirement Obligation, Beginning of Year	\$ 440	\$ 614
Liabilities Incurred and Acquired	8	7
Liabilities Settled and Divested	(91)	(160)
Change in Estimated Future Cash Outflows	5	(49)
Accretion Expense	22	29
Foreign Currency Translation	1	(1)
Asset Retirement Obligation, End of Year	\$ 385	\$ 440
Current Portion (See Note 13)	\$ 46	\$ 39
Long-Term Portion	339	401
	\$ 385	\$ 440

18. Share Capital

AUTHORIZED

Subsequent to the Reorganization as described in Note 1 and as at December 31, 2021, Ovintiv is authorized to issue 750 million shares of common stock, par value \$0.01 per share, and 25 million shares of preferred stock, par value \$0.01 per share. No shares of preferred stock are outstanding.

ISSUED AND OUTSTANDING

As at December 31	2021		2020		2019	
	Number (millions)	Amount	Number (millions)	Amount	Number (millions)	Amount
Shares of Common Stock Outstanding, Beginning of Year	259.8	\$ 3	259.8	\$ 7,061	190.5	\$ 4,656
Shares of Common Stock Purchased	(3.1)	-	-	-	(39.4)	(1,073)
Shares of Common Stock Issued	1.3	-	-	-	108.7	3,478
Reclassification of Share Capital due to the Reorganization (See Note 1)	-	-	-	(7,058)	-	-
Shares of Common Stock Outstanding, End of Year	258.0	\$ 3	259.8	\$ 3	259.8	\$ 7,061

In conjunction with the Reorganization, the amount recognized in share capital in excess of Ovintiv's established par value of \$0.01 per share was reclassified to paid in surplus. Accordingly, approximately \$7,058 million was reclassified.

On February 13, 2019, the Company completed the acquisition of all the issued and outstanding shares of common stock of Newfield whereby Encana issued approximately 543.4 million common shares, on a pre-Share Consolidation basis, to Newfield shareholders (approximately 108.7 million post-Share Consolidation shares), representing a pre-Share Consolidation exchange ratio of 2.6719 Encana common shares for each share of Newfield common stock held. See Note 8 for further information on the business combination.

NORMAL COURSE ISSUER BID

On September 28, 2021, Ovintiv announced it received regulatory approval to commence a NCIB that enables the Company to purchase, for cancellation, up to approximately 26 million shares of common stock over a 12-month period from October 1, 2021 to September 30, 2022.

During the year ended December 31, 2021, the Company purchased approximately 3.1 million shares under the current NCIB for total consideration of approximately \$111 million. Of the amount paid, \$28 thousand was charged to share capital and \$111 million was charged to paid in surplus.

All purchases were made in accordance with the 2021 NCIB at prevailing market prices plus brokerage fees, with consideration allocated to share capital up to the par value of the shares, with any excess allocated to paid in surplus.

For the year ended December 31, 2019, the Company purchased the equivalent of approximately 29.9 million post-Share Consolidation shares under the previous NCIB which was in place from March 4, 2019 to March 3, 2020 for total consideration of approximately \$1,037 million. Of the amount paid, \$816 million was charged to share capital and \$221 million was charged to retained earnings.

All purchases were made in accordance with the 2019 NCIB at prevailing market prices plus brokerage fees, with consideration allocated to share capital up to the average carrying amount of the shares, with any excess allocated to retained earnings.

SUBSTANTIAL ISSUER BID

On June 10, 2019, the Company announced its intention to purchase, for cancellation, up to \$213 million of its common shares through a substantial issuer bid (“SIB”) which commenced on July 8, 2019. On August 29, 2019, the Company purchased the equivalent of approximately 9.5 million post-Share Consolidation shares at a converted price of \$22.50 per share, for an aggregate purchase price of approximately \$213 million, of which \$257 million was charged to share capital and \$44 million was credited to paid in surplus.

The purchase was made in accordance with the terms and conditions of the SIB, with consideration allocated to share capital equivalent to the average carrying amount of the shares, with the excess of the carrying amount over the purchase consideration credited to paid in surplus.

DIVIDENDS

During the year ended December 31, 2021, the Company declared and paid dividends of \$0.4675 per share of common stock, totaling \$122 million (2020 - \$0.375 per share of common stock, totaling \$97 million; 2019 - \$0.375 per common share on a post-Share Consolidation basis, totaling \$102 million).

Ovintiv’s quarterly dividend payment in 2021 was \$0.09375 per share of common stock for each of the first two quarters and \$0.14 per share of common stock for the third and fourth quarters. The quarterly dividend payment in 2020 was \$0.09375 per share of common stock. On a post-Share Consolidation basis, the Company’s quarterly dividend payment was \$0.09375 per common share in 2019.

On February 24, 2022, the Board of Directors declared a dividend of \$0.20 per share of common stock payable on March 31, 2022 to common shareholders of record as of March 15, 2022.

EARNINGS PER SHARE OF COMMON STOCK

The following table presents the computation of net earnings (loss) per share of common stock:

For the years ended December 31 (US\$ millions, except per share amounts)	2021	2020	2019
Net Earnings (Loss)	\$ 1,416	\$ (6,097)	\$ 234
Number of Shares of Common Stock:			
Weighted average shares of common stock outstanding - Basic	260.4	259.8	261.2
Effect of dilutive securities ⁽¹⁾⁽²⁾	6.0	-	-
Weighted Average Shares of Common Stock Outstanding - Diluted	266.4	259.8	261.2
Net Earnings (Loss) per Share of Common Stock			
Basic	\$ 5.44	\$ (23.47)	\$ 0.90
Diluted ⁽¹⁾⁽²⁾	5.32	(23.47)	0.90

(1) During the fourth quarter of 2020, Ovintiv’s Board of Directors resolved to settle certain Performance Share Units (“PSUs”) and Restricted Share Units (“RSUs”) with the issuance of the Company’s common stock. As a result, the stock-based compensation awards were modified and reclassified as equity-settled awards. See Note 22 for further information.

(2) As at December 31, 2020, all of Ovintiv’s equity-settled awards were determined to be antidilutive and therefore are excluded from the calculation of fully diluted net earnings (loss) per share of common stock. See Note 22 for further information.

STOCK-BASED COMPENSATION PLANS

Ovintiv's PSU and RSU stock-based compensation plans allow the Company to settle the awards either in cash or in the Company's common stock. The PSUs and RSUs are classified as equity-settled if the Company has sufficient common stock held in reserve for issuance. These awards are included in the computation of diluted net earnings (loss) per share of common stock if dilutive.

Ovintiv's stock options with associated Tandem Stock Appreciation Rights ("TSARs") give the employee the right to purchase shares of common stock of the Company or receive cash. Historically, most holders of options have elected to exercise their TSARs in exchange for a cash payment. As a result, outstanding options are not considered potentially dilutive securities.

An aggregate of 7.4 million shares of common stock is authorized and held in reserve for issuance. At December 31, 2021, 5.2 million shares of common stock remained available for issuance under the Company's stock-based compensation plans. Shares issued as a result of awards granted from stock-based compensation plans are generally funded out of the common stock authorized for issuance as approved by the Company's shareholders.

See Note 22 for further information on Ovintiv's outstanding and exercisable TSARs, PSUs and RSUs.

19. Accumulated Other Comprehensive Income

For the years ended December 31	2021	2020	2019
Foreign Currency Translation Adjustment			
Balance, Beginning of Year	\$ 1,042	\$ 1,004	\$ 976
Change in Foreign Currency Translation Adjustment	2	38	28
Balance, End of Year	\$ 1,044	\$ 1,042	\$ 1,004
Pension and Other Post-Employment Benefit Plans			
Balance, Beginning of Year	\$ 34	\$ 42	\$ 22
Other Comprehensive Income Before Reclassifications:			
Net actuarial gains and (losses) (See Note 23)	14	(10)	58
Income taxes	(4)	2	(12)
Net prior service costs from plan amendment (See Note 23)	11	-	(31)
Income taxes	(2)	-	6
Amounts Reclassified from Other Comprehensive Income:			
Reclassification of net actuarial (gains) and losses to net earnings (See Note 23)	(8)	(9)	(2)
Income taxes	2	2	-
Reclassification of net prior service costs to net earnings (See Note 23)	1	2	1
Income taxes	-	-	-
Curtailment in net defined periodic benefit cost (See Note 23)	-	5	-
Income taxes	-	(1)	-
Settlement in net defined periodic benefit cost (See Note 23)	-	2	-
Income taxes	-	(1)	-
Balance, End of Year	\$ 48	\$ 34	\$ 42
Total Accumulated Other Comprehensive Income	\$ 1,092	\$ 1,076	\$ 1,046

During the year ended December 31, 2019, the Company amended the other post-employment benefits arrangements in conjunction with the integration of the Newfield business acquired. The plan amendment resulted in an increase to pension liabilities with a corresponding loss recognized in other comprehensive income.

20. Variable Interest Entities

Veresen Midstream Limited Partnership

Veresen Midstream Limited Partnership (“VMLP”) provides gathering, compression and processing services under various agreements related to the Company’s development of liquids and natural gas production in the Montney play. As at December 31, 2021, VMLP provides approximately 1,169 MMcf/d of natural gas gathering and compression and 925 MMcf/d of natural gas processing under long-term service agreements with remaining terms ranging from 10 to 24 years and have various renewal terms providing up to a potential maximum of 10 years.

Ovintiv has determined that VMLP is a variable interest entity and that Ovintiv holds variable interests in VMLP. Ovintiv is not the primary beneficiary as the Company does not have the power to direct the activities that most significantly impact VMLP’s economic performance. These key activities relate to the construction, operation, maintenance and marketing of the assets owned by VMLP. The variable interests arise from certain terms under the various long-term service agreements and include: i) a take or pay for volumes in certain agreements; ii) an operating fee of which a portion can be converted into a fixed fee once VMLP assumes operatorship of certain assets; and iii) a potential payout of minimum costs in certain agreements. The potential payout of minimum costs will be assessed in the eighth year of the assets’ service period and is based on whether there is an overall shortfall of total system cash flows from natural gas gathered and compressed under certain agreements. The potential payout amount can be reduced in the event VMLP markets unutilized capacity to third-party users. Ovintiv is not required to provide any financial support or guarantees to VMLP.

As a result of Ovintiv’s involvement with VMLP, the maximum total exposure to loss related to the commitments under the agreements is estimated to be \$1,738 million as at December 31, 2021. The estimate comprises the take or pay volume commitments and the potential payout of minimum costs. The take or pay volume commitments associated with certain gathering and processing assets are included in Note 27 under Transportation and Processing. The potential payout requirement is highly uncertain as the amount is contingent on future production estimates, pace of development and the amount of capacity contracted to third parties. As at December 31, 2021, accounts payable and accrued liabilities included \$0.2 million related to the take or pay commitment.

21. Restructuring Charges

In February 2019, in conjunction with the Newfield business combination as described in Note 8, the Company announced workforce reductions to better align staffing levels and organizational structure with the Company’s strategy. During 2019, the Company incurred total restructuring charges of \$138 million, before tax, primarily related to severance costs.

In June 2020, Ovintiv undertook a plan to reduce its workforce by approximately 25 percent as part of a company-wide reorganization in response to the low commodity price environment resulting from the global pandemic and the Company’s planned reductions in capital spending. During 2021, the Company incurred total restructuring charges of \$14 million (2020 - \$90 million), before tax, primarily related to severance costs. Of the \$104 million in restructuring charges incurred, \$3 million remains accrued as at December 31, 2021. The remaining amounts accrued are expected to be paid in 2022.

Restructuring charges are included in administrative expense presented in the Corporate and Other segment in the Consolidated Statement of Earnings.

For the years ended December 31	2021	2020	2019
Severance and Benefits	\$ 14	\$ 88	\$ 133
Outplacement, Moving and Other Expenses	-	2	5
Restructuring Expenses	\$ 14	\$ 90	\$ 138

As at December 31	2021	2020	2019
Outstanding Restructuring Accrual, Beginning of Year	\$ 14	\$ 8	\$ -
Restructuring Expenses Incurred	14	90	138
Restructuring Costs Paid	(25)	(84)	(130)
Outstanding Restructuring Accrual, End of Year ⁽¹⁾	\$ 3	\$ 14	\$ 8

(1) Included in accounts payable and accrued liabilities in the Consolidated Balance Sheet.

22. Compensation Plans

Ovintiv has a number of compensation arrangements under which the Company awards various types of long-term incentive grants to eligible employees and Directors. They may include TSARs, Stock Appreciation Rights (“SARs”), PSUs, Deferred Share Units (“DSUs”) and RSUs.

Ovintiv accounts for PSUs and RSUs as equity-settled stock-based payment transactions provided there is sufficient common stock held in reserve for issuance. TSARs, SARs and DSUs are accounted for as cash-settled stock-based payment transactions. The Company accrues compensation costs over the vesting period based on the fair value of the rights determined using the Black-Scholes-Merton or other appropriate fair value models.

During the fourth quarter of 2020, Ovintiv’s Board of Directors resolved to settle certain PSU awards and RSU awards with the issuance of the Company’s common stock. Historically, the Company settled PSU and RSU awards in cash. As a result, the respective awards were modified and reclassified as equity-settled share-based payment transactions at the modification date. The modified awards accrue compensation expense using the modification date fair value of the awards over the remaining vesting period. The modification impacted all employees and there was no incremental compensation cost recognized at the modification date.

The Company has recognized the following share-based compensation costs:

For the years ended December 31	2021	2020	2019
Total Compensation Costs of Transactions Classified as Cash-Settled	\$ 118	\$ 42	\$ 59
Total Compensation Costs of Transactions Classified as Equity-Settled	47	3	-
Less: Total Share-Based Compensation Costs Capitalized	(27)	(12)	(20)
Total Share-Based Compensation Expense (Recovery)	\$ 138	\$ 33	\$ 39
Recognized in the Consolidated Statement of Earnings in:			
Operating	\$ 31	\$ 10	\$ 16
Administrative	107	23	23
	\$ 138	\$ 33	\$ 39

As at December 31, 2021, the liability for cash-settled share-based payment transactions totaled \$114 million (2020 - \$34 million), of which \$78 million (2020 - \$25 million) is recognized in accounts payable and accrued liabilities and \$36 million (2020 - \$9 million) is recognized in other liabilities and provisions in the Consolidated Balance Sheet.

The following sections outline certain information related to Ovintiv’s compensation plans as at December 31, 2021.

A) TANDEM STOCK APPRECIATION RIGHTS

All options to purchase shares of common stock issued to eligible Canadian-based employees under Ovintiv’s Stock Option Plan have associated TSARs attached. In lieu of exercising the option, the associated TSARs give the option holder the right to purchase shares of common stock of the Company or receive a cash payment equal to the excess of the market price of Ovintiv’s shares of common stock at the time of exercise over the original grant price. TSARs granted vest and are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years, are fully exercisable after three years and expire seven years after the date granted. TSARs are classified as a liability and remeasured at the end of each reporting period.

The following tables summarize information related to the TSARs:

As at December 31	2021			2020		
(thousands of units)	Outstanding TSARs	Weighted Average Exercise Price (C\$)	Weighted Average Remaining Contractual Life (Years)	Outstanding TSARs	Weighted Average Exercise Price (C\$)	Weighted Average Remaining Contractual Life (Years)
Outstanding, Beginning of Year	1,586	48.28	2.8	1,606	48.65	
Granted	-	-		-	-	
Exercised - SARs ⁽¹⁾	(136)	28.01		-	-	
Exercised - Options ⁽¹⁾	-	-		-	-	
Forfeited	(717)	46.11		-	-	
Expired	-	-		(20)	78.47	
Outstanding, End of Year ⁽²⁾	733	54.17	2.2	1,586	48.28	2.8
Vested and Exercisable, End of Year ⁽³⁾	642	55.38	1.9	1,348	47.71	2.4
Expected to Vest ⁽⁴⁾	91	45.64	4.3	238	51.52	5.0

(1) The intrinsic value of option awards exercised and cash-settled during 2021 was \$2 million (2020 - nil; 2019 - nil).

(2) The intrinsic value of option awards outstanding during 2021 was \$10 million (2020 - \$6 million).

(3) The intrinsic value of option awards vested and exercisable during 2021 was \$9 million (2020 - \$6 million).

(4) The intrinsic value of option awards expected to vest during 2021 was \$1 million (2020 - nil).

The following weighted average assumptions were used to determine the fair value of TSARs outstanding:

As at December 31	C\$ Share Units		
	2021	2020	2019
Risk Free Interest Rate	0.94%	0.20%	1.69%
Dividend Yield	1.65%	2.75%	1.64%
Expected Volatility Rate ⁽¹⁾	104.80%	103.64%	43.61%
Expected Term	1.4 yrs	1.8 yrs	2.4 yrs
Market Share Price	C\$42.56	C\$18.29	C\$30.40
Weighted Average Grant Date Fair Value	C\$54.17	C\$48.28	C\$48.65

(1) Volatility was estimated using historical rates.

As at December 31, 2021, there was approximately \$0.1 million of unrecognized compensation costs (2020 - \$0.1 million) related to unvested TSARs. The costs are expected to be recognized over a weighted average period of 0.2 years.

B) STOCK APPRECIATION RIGHTS

U.S. dollar denominated SARs are granted to eligible U.S.-based employees, which entitle the employee to receive a cash payment equal to the excess of the market price of Oventiv's shares of common stock at the time of exercise over the original grant price of the right. SARs granted vest and are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years, are fully exercisable after three years and expire seven years after the date granted. SARs are classified as a liability and remeasured at the end of each reporting period.

The following tables summarize information related to the U.S. dollar denominated SARs:

As at December 31	2021			2020		
(thousands of units)	Outstanding SARs	Weighted Average Exercise Price (US\$)	Weighted Average Remaining Contractual Life (Years)	Outstanding SARs	Weighted Average Exercise Price (US\$)	Weighted Average Remaining Contractual Life (Years)
Outstanding, Beginning of Year	660	38.03	3.7	789	39.84	
Granted	682	35.11		-	-	
Exercised ⁽¹⁾	(177)	20.50		-	-	
Forfeited	(15)	45.35		(86)	38.89	
Expired	-	-		(43)	69.35	
Outstanding, End of Year ⁽²⁾	1,150	38.89	2.2	660	38.03	3.7
Vested and Exercisable, End of Year ⁽³⁾	1,021	39.54	1.9	423	39.22	2.9
Expected to Vest ⁽⁴⁾	129	33.77	4.3	237	35.89	5.2

(1) The intrinsic value of option awards exercised and cash-settled during 2021 was \$2 million (2020 - nil; 2019 - nil).

(2) The intrinsic value of option awards outstanding during 2021 was \$15 million (2020 - \$3 million).

(3) The intrinsic value of option awards vested and exercisable during 2021 was \$14 million (2020 - \$3 million).

(4) The intrinsic value of option awards expected to vest during 2021 was \$1 million (2020 - nil).

The following weighted average assumptions were used to determine the fair value of SARs outstanding:

As at December 31	US\$ Share Units		
	2021	2020	2019
Risk Free Interest Rate	0.94%	0.20%	1.69%
Dividend Yield	1.66%	2.61%	1.60%
Expected Volatility Rate ⁽¹⁾	106.20%	104.53%	44.98%
Expected Term	1.4 yrs	2.3 yrs	2.8 yrs
Market Share Price	US\$33.70	US\$14.36	US\$23.45
Weighted Average Grant Date Fair Value	US\$38.89	US\$38.03	US\$39.84

(1) Volatility was estimated using historical rates.

As at December 31, 2021, there was approximately \$0.2 million of unrecognized compensation costs (2020 - \$0.2 million) related to unvested SARs. The costs are expected to be recognized over a weighted average period of 0.3 years.

C) PERFORMANCE SHARE UNITS

PSUs are granted to eligible employees, which entitle the employee to receive, upon vesting, one share of Ovintiv common stock for each PSU held or a cash equivalent, at the discretion of the Company. PSUs vest three years from the date granted, provided the employee remains actively employed with Ovintiv on the vesting date. Based on the performance assessment, up to a maximum of two times the original PSU grant may be eligible to vest in respect of the year being measured.

The ultimate value of the PSUs will depend upon Ovintiv's performance relative to predetermined strategic milestones as well as the performance of a specified peer group over a three-year period.

The following tables summarize information related to the PSUs:

As at December 31	2021		2020 ⁽¹⁾	
U.S. Dollar Denominated Outstanding PSUs	Units (thousands)	Weighted Average Grant Date Fair Value (US\$)	Units (thousands)	Weighted Average Grant Date Fair Value (US\$)
Unvested and Outstanding, Beginning of Year	1,886	21.80	773	42.66
Granted	833	25.80	1,317	13.66
Vested and Released ⁽²⁾	(177)	54.65	(155)	58.75
Units, in Lieu of Dividends	37	20.04	125	21.80
Forfeited	(152)	32.96	(174)	20.05
Unvested and Outstanding, End of Year	2,427	20.04	1,886	21.80

As at December 31	2021		2020 ⁽¹⁾	
Canadian Dollar Denominated Outstanding PSUs	Units (thousands)	Weighted Average Grant Date Fair Value (C\$)	Units (thousands)	Weighted Average Grant Date Fair Value (C\$)
Unvested and Outstanding, Beginning of Year	1,308	34.43	810	62.62
Granted	293	29.34	796	21.08
Vested and Released ⁽²⁾	(137)	68.80	(291)	77.08
Units, in Lieu of Dividends	20	26.66	84	34.62
Forfeited	(261)	46.13	(91)	32.40
Unvested and Outstanding, End of Year	1,223	26.75	1,308	34.43

(1) During the fourth quarter of 2020, Ovintiv's Board of Directors resolved to settle the PSUs with the issuance of the Company's common stock. As a result, the awards were modified and reclassified as equity-settled awards. The weighted average modification date fair value of the awards was US\$14.85 per share and C\$18.83 per share for the U.S. dollar denominated and Canadian dollar denominated PSUs, respectively.

(2) During the year ended December 31, 2021, performance shares that vested and were cash-settled resulted in payments of \$3 million (2020 - \$6 million; 2019 - \$64 million).

As at December 31, 2021, there was approximately \$42 million of unrecognized compensation costs (2020 - \$27 million) related to unvested PSUs. The costs are expected to be recognized over a weighted average period of 1.1 years.

D) DEFERRED SHARE UNITS

The Company has in place a program whereby Directors and certain key employees are issued DSUs, which vest immediately, are equivalent in value to a share of Ovintiv common stock and are settled in cash. DSUs are classified as a liability and remeasured at the end of each reporting period based on the change in fair value of the Company's common stock.

Under the DSU Plan, employees have the option to convert either 25 or 50 percent of their annual bonus award into DSUs. The number of DSUs converted is based on the value of the award divided by the closing value of Ovintiv's share price at the end of the performance period of the bonus award.

For both Directors and employees, DSUs can only be redeemed following departure from Ovintiv in accordance with the terms of the respective DSU Plan and must be redeemed prior to December 15th of the year following the departure from Ovintiv.

The following table summarizes information related to the DSUs:

(thousands of units) As at December 31	U.S. Dollar Denominated Outstanding DSUs		Canadian Dollar Denominated Outstanding DSUs	
	2021	2020	2021	2020
Vested and Outstanding, Beginning of Year	-	-	211	217
Granted	5	-	8	51
Converted from bonus awards	-	-	-	-
Units, in Lieu of Dividends	-	-	4	15
Redeemed	-	-	(17)	(72)
Vested and Outstanding, End of Year	5	-	206	211

E) RESTRICTED SHARE UNITS

RSUs are granted to eligible employees and Directors. An RSU is a conditional grant to receive a share of Ovintiv common stock or a cash equivalent at the Company's discretion upon vesting of the RSUs and in accordance with the terms and conditions of the RSU Plans and grant agreements.

RSUs issued to employees before February 2020 vest three years from the date granted, provided the employee remains actively employed with Ovintiv on the vesting date. Beginning with the RSUs issued in February 2020, all RSU awards issued to employees will vest over their three-year service period. RSUs issued to Directors fully vest on the grant date and have no required term of service. The RSUs issued to Directors are settled three years from the date granted or following the Director's departure from Ovintiv, whichever is earlier.

The following table summarizes information related to the RSUs:

As at December 31	2021 ⁽¹⁾		2020 ⁽²⁾	
	Units (thousands)	Weighted Average Grant Date Fair Value (US\$)	Units (thousands)	Weighted Average Grant Date Fair Value (US\$)
U.S. Dollar Denominated Outstanding RSUs				
Unvested and Outstanding, Beginning of Year	5,486	21.26	2,270	43.44
Granted	1,952	23.57	4,165	12.72
Units, in Lieu of Dividends	83	20.93	384	21.48
Vested and Released ⁽³⁾	(1,720)	24.74	(449)	54.68
Forfeited	(400)	21.99	(884)	21.11
Unvested and Outstanding, End of Year	5,401	20.92	5,486	21.26

As at December 31	2021 ⁽¹⁾		2020 ⁽²⁾	
	Units (thousands)	Weighted Average Grant Date Fair Value (C\$)	Units (thousands)	Weighted Average Grant Date Fair Value (C\$)
Canadian Dollar Denominated Outstanding RSUs				
Unvested and Outstanding, Beginning of Year	2,912	31.76	1,669	61.35
Granted	953	29.30	2,029	17.06
Units, in Lieu of Dividends	41	28.11	206	32.01
Vested and Released ⁽³⁾	(1,035)	37.63	(433)	76.82
Forfeited	(250)	34.43	(559)	32.00
Unvested and Outstanding, End of Year	2,621	28.23	2,912	31.76

- (1) During the third quarter of 2021, the 2021 annual awards were modified and reclassified as equity-settled awards. The weighted average modification date fair value of the awards was US\$25.66 per share and C\$32.07 per share for the U.S. dollar denominated and Canadian dollar denominated RSUs, respectively.
- (2) During the fourth quarter of 2020, Ovintiv's Board of Directors resolved to settle the RSUs with the issuance of the Company's common stock. As a result, the awards were modified and reclassified as equity-settled awards. The weighted average modification date fair value of the awards was US\$14.85 per share and C\$18.83 per share for the U.S. dollar denominated and Canadian dollar denominated RSUs, respectively.
- (3) During the year ended December 31, 2021, restricted shares that vested and were cash-settled resulted in payments of \$23 million (2020 - \$10 million; 2019 - \$85 million).

As at December 31, 2021, there was approximately \$43 million of unrecognized compensation costs (2020 - \$43 million) related to unvested RSUs. The costs are expected to be recognized over a weighted average period of 0.7 years.

23. Pension and Other Post-Employment Benefits

Ovintiv sponsors defined benefit and defined contribution plans, providing pension and other post-employment benefits (“OPEB”) to its employees in the U.S. and Canada. As of January 1, 2003, the defined benefit pension plan was closed to new entrants. The average remaining service period of active employees participating in the defined benefit pension plan is five years and the average remaining life expectancy of inactive employees is 13 years. The average remaining service period of the active employees participating in the OPEB plan is nine years.

The Company is required to file an actuarial valuation of its pension plans with the provincial regulator at least every three years, or more frequently if directed by the regulator. The most recent filing was dated December 31, 2019 and the next required filing is expected to be as at December 31, 2022.

The following tables set forth changes in the benefit obligations and fair value of plan assets for the Company’s defined benefit pension and other post-employment benefit plans for the years ended December 31, 2021 and 2020, as well as the funded status of the plans and amounts recognized in the Consolidated Financial Statements as at December 31, 2021 and 2020.

As at December 31	Defined Benefits		OPEB	
	2021	2020	2021	2020
Change in Benefit Obligations				
Projected Benefit Obligation, Beginning of Year	\$ 211	\$ 209	\$ 89	\$ 87
Service Cost	-	1	3	4
Interest Cost	5	6	2	2
Actuarial (Gains) Losses	(9)	16	(8)	4
Exchange Differences	1	4	-	1
Employee Contributions	-	-	2	1
Benefits Paid	(17)	(17)	(10)	(9)
Plan Amendment	-	-	(11)	-
Settlement	-	(8)	-	-
Curtailment	-	-	-	(1)
Projected Benefit Obligation, End of Year	\$ 191	\$ 211	\$ 67	\$ 89
Change in Plan Assets				
Fair Value of Plan Assets, Beginning of Year	\$ 193	\$ 200	\$ -	\$ -
Actual Return on Plan Assets	3	17	-	-
Exchange Differences	1	3	-	-
Employee Contributions	-	-	2	1
Employer Contributions	-	-	8	8
Benefits Paid	(17)	(17)	(10)	(9)
Transfers to Defined Contribution Plan	(4)	(2)	-	-
Settlement	-	(8)	-	-
Fair Value of Plan Assets, End of Year	\$ 176	\$ 193	\$ -	\$ -
Funded Status of Plan Assets, End of Year	\$ (15)	\$ (18)	\$ (67)	\$ (89)
Total Recognized Amounts in the Consolidated Balance Sheet Consist of:				
Other Assets	\$ 10	\$ 11	\$ -	\$ -
Current Liabilities	-	-	(8)	(10)
Non-Current Liabilities	(25)	(29)	(59)	(79)
Total	\$ (15)	\$ (18)	\$ (67)	\$ (89)
Total Recognized Amounts in Accumulated Other Comprehensive Income Consist of:				
Net Actuarial (Gains) Losses	\$ 19	\$ 26	\$ (82)	\$ (83)
Net Prior Service Costs	(7)	(7)	7	19
Total Recognized in Accumulated Other Comprehensive Income, Before Tax	\$ 12	\$ 19	\$ (75)	\$ (64)

The accumulated defined benefit obligation for all defined benefit plans was \$258 million as at December 31, 2021 (2020 - \$299 million).

The following table sets forth the defined benefit plans with accumulated benefit obligation and projected benefit obligation in excess of the fair value of the plan assets:

As at December 31	Defined Benefits		OPEB	
	2021	2020	2021	2020
Projected Benefit Obligation	\$ (63)	\$ (69)	\$ (67)	\$ (89)
Accumulated Benefit Obligation	(63)	(69)	(67)	(89)
Fair Value of Plan Assets ⁽¹⁾	38	40	-	-

(1) The Company does not aggregate benefit plans.

Following are the weighted average assumptions used by the Company in determining the defined benefit pension and other post-employment benefit obligations:

As at December 31	Defined Benefits		OPEB	
	2021	2020	2021	2020
Discount Rate	2.80%	2.25%	2.54%	2.09%
Rates of Increase in Compensation Levels	3.13%	3.11%	6.18%	6.28%

The following sets forth total benefit plans expense recognized by the Company:

For the years ended December 31	Pension Benefits			OPEB		
	2021	2020	2019	2021	2020	2019
Net Defined Periodic Benefit Cost	\$ -	\$ 3	\$ 2	\$ (3)	\$ 2	\$ 16
Defined Contribution Plan Expense	24	28	29	-	-	-
Total Benefit Plans Expense	\$ 24	\$ 31	\$ 31	\$ (3)	\$ 2	\$ 16

Of the total benefit plans expense, \$22 million (2020 - \$27 million; 2019 - \$31 million) was included in operating expense and \$5 million (2020 - \$6 million; 2019 - \$9 million) was included in administrative expense. Excluding service costs, net defined periodic benefit gains of \$6 million (2020 - nil; 2019 - costs of \$7 million) were recorded in other (gains) losses, net.

The net defined periodic benefit cost is as follows:

For the years ended December 31	Defined Benefits			OPEB		
	2021	2020	2019	2021	2020	2019
Service Cost	\$ -	\$ 1	\$ 1	\$ 3	\$ 4	\$ 10
Interest Cost	5	6	7	2	2	4
Expected Return on Plan Assets	(6)	(7)	(7)	-	-	-
Amounts Reclassified from Accumulated Other Comprehensive Income:						
Amortization of net actuarial (gains) and losses	1	1	1	(9)	(10)	(3)
Amortization of net prior service costs	-	-	-	1	2	1
Curtailment of net prior service costs	-	-	-	-	5	-
Settlement from net prior service costs	-	2	-	-	-	-
Curtailment	-	-	-	-	(1)	4
Total Net Defined Periodic Benefit Cost ⁽¹⁾	\$ -	\$ 3	\$ 2	\$ (3)	\$ 2	\$ 16

(1) The components of total net defined periodic benefit cost, excluding the service cost component, are included in other (gains) losses, net.

Actuarial gains related to changes in the projected benefit obligations were due to an increase in the discount rate used to measure the obligations.

The amounts recognized in other comprehensive income are as follows:

For the years ended December 31	Defined Benefits			OPEB		
	2021	2020	2019	2021	2020	2019
Net Actuarial (Gains) Losses	\$ (6)	\$ 6	\$ (6)	\$ (8)	\$ 4	\$ (52)
Net Prior Service Costs from Plan Amendment	-	-	-	(11)	-	31
Amortization of Net Actuarial Gains and (Losses)	(1)	(1)	(1)	9	10	3
Amortization of Net Prior Service Costs	-	-	-	(1)	(2)	(1)
Curtailment of Net Prior Service Costs	-	-	-	-	(5)	-
Settlement from Net Prior Service Costs	-	(2)	-	-	-	-
Total Amounts Recognized in Other Comprehensive (Income) Loss, Before Tax	\$ (7)	\$ 3	\$ (7)	\$ (11)	\$ 7	\$ (19)
Total Amounts Recognized in Other Comprehensive (Income) Loss, After Tax	\$ (5)	\$ 3	\$ (5)	\$ (9)	\$ 5	\$ (15)

Following are the weighted average assumptions used by the Company in determining the net periodic pension and other post-retirement benefit costs:

For the years ended December 31	Defined Benefits			OPEB		
	2021	2020	2019	2021	2020	2019
Discount Rate	2.25%	3.00%	3.50%	2.08%	2.90%	4.16%
Long-Term Rate of Return on Plan Assets	3.00%	3.75%	4.00%	-	-	-
Rates of Increase in Compensation Levels	3.13%	3.12%	3.12%	6.33%	5.92%	6.53%

The Company's assumed health care cost trend rates are as follows:

For the years ended December 31	2021	2020	2019
Health Care Cost Trend Rate for Next Year	6.15%	6.42%	6.61%
Rate to Which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate)	5.00%	5.00%	5.00%
Year that the Rate Reaches the Ultimate Trend Rate	2026	2026	2026

The Company does not expect to contribute to its defined benefit pension plans in 2022. The Company's OPEB plans are funded on an as required basis.

The following provides an estimate of benefit payments for the next 10 years. These estimates reflect benefit increases due to continuing employee service.

	Defined Benefit Pension Payments	Other Benefit Payments
2022	\$ 14	\$ 8
2023	14	7
2024	14	7
2025	13	6
2026	13	5
2027 - 2031	59	20

The Company's registered and other defined benefit pension plan assets are presented by investment asset category and input level within the fair value hierarchy as follows:

As at December 31		2021			
		Level 1	Level 2	Level 3	Total
Investments:					
Cash and Cash Equivalents	\$	19	\$ 1	\$ -	\$ 20
Fixed Income		-	94	-	94
Equity		-	62	-	62
Fair Value of Plan Assets, End of Year	\$	19	\$ 157	\$ -	\$ 176

As at December 31		2020			
		Level 1	Level 2	Level 3	Total
Investments:					
Cash and Cash Equivalents	\$	25	\$ 1	\$ -	\$ 26
Fixed Income		-	107	-	107
Equity		-	60	-	60
Fair Value of Plan Assets, End of Year	\$	25	\$ 168	\$ -	\$ 193

Fixed Income investments consist of Canadian bonds issued by investment grade companies. Equity investments consist of international securities and securities held in the U.S. The fair values of these securities are based on dealer quotes, quoted market prices and net asset values.

Registered pension plan assets were invested by the Company in the following as at December 31, 2021: 67 percent Bonds (2020 - 69 percent), and 33 percent U.S. and Foreign Equity (2020 - 31 percent). The expected long-term rate of return is 3.50 percent. The expected rate of return on pension plan assets is based on historical and projected rates of return for each asset class in the plan investment portfolio. The actual return on plan assets was \$3 million (2020 - \$17 million). The asset allocation structure is subject to diversification requirements and constraints, which reduce risk by limiting exposure to individual equity investment, credit rating categories and foreign currency exposure.

24. Fair Value Measurements

The fair values of cash and cash equivalents, accounts receivable and accrued revenues, and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturity of those instruments. The fair values of restricted cash and marketable securities included in other assets approximate their carrying amounts due to the nature of the instruments held. Fair value information related to pension plan assets is included in Note 23.

Recurring fair value measurements are performed for risk management assets and liabilities and other derivative contracts, as discussed further in Note 25. These items are carried at fair value in the Consolidated Balance Sheet and are classified within the three levels of the fair value hierarchy in the following tables.

Fair value changes and settlements for amounts related to risk management assets and liabilities are recognized in revenues and foreign exchange gains and losses according to their purpose.

	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total Fair Value	Netting ⁽¹⁾	Carrying Amount
As at December 31, 2021						
Risk Management Assets						
Commodity Derivatives:						
Current assets	\$ -	\$ 10	\$ -	\$ 10	\$ (10)	\$ -
Long-term assets	-	1	-	1	(1)	-
Foreign Currency Derivatives:						
Current assets	-	5	-	5	(4)	1
Risk Management Liabilities						
Commodity Derivatives:						
Current liabilities	\$ -	\$ 536	\$ 181	\$ 717	\$ (10)	\$ 707
Long-term liabilities	-	26	-	26	(1)	25
Foreign Currency Derivatives:						
Current liabilities	-	-	-	-	(4)	(4)
Other Derivative Contracts ⁽²⁾						
Current in accounts receivable and accrued revenues	\$ -	\$ -	\$ 9	\$ 9	\$ -	\$ 9
Current in accounts payable and accrued liabilities	-	1	-	1	-	1
Long-term in other liabilities and provisions	-	5	-	5	-	5

	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total Fair Value	Netting ⁽¹⁾	Carrying Amount
As at December 31, 2020						
Risk Management Assets						
Commodity Derivatives:						
Current assets	\$ -	\$ 70	\$ -	\$ 70	\$ (59)	\$ 11
Long-term assets	-	7	-	7	(3)	4
Foreign Currency Derivatives:						
Current assets	-	26	-	26	-	26
Risk Management Liabilities						
Commodity Derivatives:						
Current liabilities	\$ 1	\$ 114	\$ 74	\$ 189	\$ (59)	\$ 130
Long-term liabilities	-	128	-	128	(3)	125
Other Derivative Contracts ⁽²⁾						
Current in accounts payable and accrued liabilities	\$ -	\$ 1	\$ -	\$ 1	\$ -	\$ 1
Long-term in other liabilities and provisions	-	7	-	7	-	7

(1) Netting to offset derivative assets and liabilities where the legal right and intention to offset exists, or where counterparty master netting arrangements contain provisions for net settlement.

(2) Includes credit derivatives and contingent consideration associated with certain previous and current year divestitures, respectively.

The Company's Level 1 and Level 2 risk management assets and liabilities consist of commodity fixed price contracts, NYMEX three-way options, NYMEX costless collars, NYMEX call options, foreign currency swaps and basis swaps with terms to 2025. Level 2 also includes financial guarantee contracts as discussed in Note 25. The fair values of these contracts are estimated using inputs which are either directly or indirectly observable from active markets, such as exchange and other published prices, broker quotes and observable trading activity throughout the term of the instruments.

Level 3 Fair Value Measurements

As at December 31, 2021, the Company's Level 3 risk management assets and liabilities consist of WTI three-way options and contingent consideration derivative contracts tied to WTI with terms to 2022. The WTI three-way options are a combination of a sold call, bought put and a sold put. These contracts allow the Company to participate in the upside of commodity prices to the ceiling of the call option and provide the Company with partial downside price protection through the put options. The fair values of these contracts are determined using an option pricing model using observable and unobservable inputs such as implied volatility. The unobservable inputs are obtained from third parties whenever possible and reviewed by the Company for reasonableness.

A summary of changes in Level 3 fair value measurements for risk management positions is presented below:

	Risk Management	
	2021	2020
Balance, Beginning of Year	\$ (74)	\$ (52)
Total Gains (Losses)	(708)	131
Purchases, Sales, Issuances and Settlements:		
Purchases, sales and issuances ⁽¹⁾	6	-
Settlements	604	(153)
Transfers Out of Level 3	-	-
Balance, End of Year	\$ (172)	\$ (74)
Change in Unrealized Gains (Losses) During the Year Included in Net Earnings (Loss)	\$ (104)	\$ (22)

(1) Relates to the contingent consideration associated with the Duvernay divestiture discussed in Note 9.

Quantitative information about unobservable inputs used in Level 3 fair value measurements is presented below as at December 31, 2021:

	Valuation Technique	Unobservable Input	Range	Weighted Average ⁽¹⁾
Risk Management - WTI Options	Option Model	Implied Volatility	40% - 67%	48%

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

A 10 percent increase or decrease in implied volatility for the WTI options would cause an approximate corresponding \$15 million (2020 - \$6 million) increase or decrease to net risk management assets and liabilities.

25. Financial Instruments and Risk Management

A) FINANCIAL INSTRUMENTS

Ovintiv's financial assets and liabilities are recognized in cash and cash equivalents, accounts receivable and accrued revenues, other assets, accounts payable and accrued liabilities, risk management assets and liabilities, long-term debt, and other liabilities and provisions.

B) RISK MANAGEMENT ACTIVITIES

Ovintiv uses derivative financial instruments to manage its exposure to cash flow variability from commodity prices and fluctuating foreign currency exchange rates. The Company does not apply hedge accounting to any of its derivative financial instruments. As a result, gains and losses from changes in the fair value are recognized in net earnings (loss).

COMMODITY PRICE RISK

Commodity price risk arises from the effect that fluctuations in future commodity prices may have on future cash flows. To partially mitigate exposure to commodity price risk, the Company has entered into various derivative financial instruments. The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors.

Oil and NGLs - To partially mitigate oil and NGL commodity price risk, the Company uses WTI- and NGL-based contracts such as fixed price contracts and options. Ovintiv has also entered into basis swaps to manage against widening price differentials between various production areas, products and price points.

Natural Gas - To partially mitigate natural gas commodity price risk, the Company uses NYMEX-based contracts such as fixed price contracts, options and costless collars. Ovintiv has also entered into basis swaps to manage against widening price differentials between various production areas and benchmark price points.

FOREIGN EXCHANGE RISK

Foreign exchange risk arises from changes in foreign currency exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. To partially mitigate the effect of foreign exchange fluctuations on future commodity revenues and expenses, the Company may enter into foreign currency derivative contracts. As at December 31, 2021, Ovintiv has entered into \$400 million notional U.S. dollar denominated currency swaps at an average exchange rate of C\$1.2848 to US\$1, which mature monthly throughout 2022.

RISK MANAGEMENT POSITIONS AS AT DECEMBER 31, 2021

	Notional Volumes	Term	Average Price	Fair Value
Oil and NGL Contracts			US\$/bbl	
Fixed Price Contracts				
WTI Fixed Price	5.0 Mbbls/d	2022	60.16	\$ (22)
WTI Three-Way Options				
Sold call / bought put / sold put	75.0 Mbbls/d	2022	70.79 / 60.82 / 49.33	(181)
Basis Contracts ⁽¹⁾		2022		-
Oil and NGLs Fair Value Position				(203)
Natural Gas Contracts			US\$/Mcf	
Fixed Price Contracts				
NYMEX Fixed Price	365 MMcf/d	2022	2.60	(144)
NYMEX Three-Way Options				
Sold call / bought put / sold put	398 MMcf/d	2022	3.02 / 2.75 / 2.00	(105)
NYMEX Costless Collars				
Sold call / bought put	200 MMcf/d	2022	2.85 / 2.55	(64)
NYMEX Call Options				
Sold call	330 MMcf/d	2022	2.38	(159)
Basis Contracts ⁽²⁾		2022		(33)
		2023		(13)
		2024 - 2025		(12)
Other Financial Positions				1
Natural Gas Fair Value Position				(529)
Other Derivative Contracts				
Fair Value Position ⁽³⁾				3
Foreign Currency Contracts				
Fair Value Position ⁽⁴⁾				
		2022		5
Total Fair Value Position				\$ (724)

(1) Oviniv has entered into oil differential swaps associated with Canadian condensate and WTI.

(2) Oviniv has entered into natural gas basis swaps associated with AECO, Dawn, Malin, Waha, Houston Ship Channel and NYMEX.

(3) Includes credit derivatives and contingent consideration associated with certain previous and current year divestitures, respectively.

(4) Oviniv has entered into U.S. dollar denominated fixed-for-floating average currency swaps to protect against fluctuations between the Canadian and U.S. dollars.

EARNINGS IMPACT OF REALIZED AND UNREALIZED GAINS (LOSSES) ON RISK MANAGEMENT POSITIONS

For the years ended December 31	2021	2020	2019
Realized Gains (Losses) on Risk Management			
Commodity and Other Derivatives:			
Revenues ⁽¹⁾	\$ (1,395)	\$ 711	\$ 369
Foreign Currency Derivatives:			
Foreign exchange	33	(1)	3
	\$ (1,362)	\$ 710	\$ 372
Unrealized Gains (Losses) on Risk Management			
Commodity and Other Derivatives:			
Revenues ⁽²⁾	\$ (488)	\$ (204)	\$ (730)
Foreign Currency Derivatives:			
Foreign exchange	(21)	13	34
	\$ (509)	\$ (191)	\$ (696)
Total Realized and Unrealized Gains (Losses) on Risk Management, net			
Commodity and Other Derivatives:			
Revenues ^{(1) (2)}	\$ (1,883)	\$ 507	\$ (361)
Foreign Currency Derivatives:			
Foreign exchange	12	12	37
	\$ (1,871)	\$ 519	\$ (324)

(1) Includes a realized gain of \$1 million for the year ended December 31, 2021 (2020 - gain of \$2 million; 2019 - gain of \$6 million) related to other derivative contracts.

(2) Includes an unrealized gain of \$4 million for the year ended December 31, 2021 (2020 - loss of \$1 million; 2019 - loss of \$1 million) related to other derivative contracts.

RECONCILIATION OF UNREALIZED RISK MANAGEMENT POSITIONS FROM JANUARY 1 TO DECEMBER 31

	2021		2020	2019
	Fair Value	Total Unrealized Gain (Loss)	Total Unrealized Gain (Loss)	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Year	\$ (222)			
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Year	(1,871)	\$ (1,871)	\$ 519	\$ (324)
Settlement of Other Derivative Contracts	1			
Fair Value of Other Derivative Contract Assets Entered into During the Year (See Note 9)	6			
Fair Value of Contracts Realized During the Year	1,362	1,362	(710)	(372)
Fair Value of Contracts Outstanding, End of Year	\$ (724)	\$ (509)	\$ (191)	\$ (696)

Risk management assets and liabilities arise from the use of derivative financial instruments and are measured at fair value. See Note 24 for a discussion of fair value measurements.

UNREALIZED RISK MANAGEMENT POSITIONS

As at December 31	2021	2020
Risk Management Assets		
Current	\$ 1	\$ 37
Long-term	-	4
	1	41
Risk Management Liabilities		
Current	703	130
Long-term	25	125
	728	255
Other Derivative Contract Assets		
Current in accounts receivable and accrued revenues	9	-
	9	-
Other Derivative Contract Liabilities		
Current in accounts payable and accrued liabilities	1	1
Long-term in other liabilities and provisions	5	7
	6	8
Net Risk Management Assets (Liabilities) and Other Derivative Contracts	\$ (724)	\$ (222)

C) CREDIT RISK

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. While exchange-traded contracts are subject to nominal credit risk due to the financial safeguards established by the exchanges and clearing agencies, over-the-counter traded contracts expose Ovintiv to counterparty credit risk. Counterparties to the Company's derivative financial instruments consist primarily of major financial institutions and companies within the energy industry. This credit risk exposure is mitigated through the use of credit policies approved by the Board of Directors governing the Company's credit portfolio including credit practices that limit transactions according to counterparties' credit quality. Mitigation strategies may include master netting arrangements, requesting collateral, purchasing credit insurance, and/or transacting credit derivatives. The Company executes commodity derivative financial instruments under master agreements that have netting provisions that provide for offsetting payables against receivables. Ovintiv actively evaluates the creditworthiness of its counterparties, assigns appropriate credit limits and monitors credit exposures against those assigned limits. As at December 31, 2021, Ovintiv's maximum exposure of loss due to credit risk from derivative financial instrument assets on a gross and net fair value basis was \$25 million and \$10 million, respectively, as disclosed in Note 24. The Company had no significant credit derivatives in place and held no collateral at December 31, 2021.

As at December 31, 2021, cash equivalents include high-grade, short-term securities, placed primarily with financial institutions with strong investment grade ratings. Any foreign currency agreements entered into are with major financial institutions that have investment grade credit ratings.

A substantial portion of the Company's accounts receivable are with customers and working interest owners in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2021, approximately 90 percent (2020 - 89 percent) of Ovintiv's accounts receivable and financial derivative credit exposures were with investment grade counterparties.

During 2015 and 2017, the Company entered into agreements resulting from divestitures, which may require Ovintiv to fulfill certain payment obligations on the take or pay volume commitments assumed by the purchasers. The circumstances that would require Ovintiv to perform under the agreements include events where a purchaser fails to make payment to the guaranteed party and/or a purchaser is subject to an insolvency event. The agreements expire in June 2024 with a fair value recognized of \$6 million as at December 31, 2021 (2020 - \$8 million). The maximum potential amount of undiscounted future payments is \$57 million as at December 31, 2021, and is considered unlikely.

26. Supplementary Information

Supplemental disclosures to the Consolidated Statement of Cash Flows are presented below:

A) NET CHANGE IN NON-CASH WORKING CAPITAL

For the years ended December 31	2021	2020	2019
Operating Activities			
Accounts receivable and accrued revenues	\$ (333)	\$ 146	\$ 109
Accounts payable and accrued liabilities	275	(26)	(44)
Current portion of operating lease liabilities	(7)	(11)	49
Income tax receivable and payable	24	30	(27)
	\$ (41)	\$ 139	\$ 87

B) NON-CASH ACTIVITIES

For the years ended December 31	2021	2020	2019
Non-Cash Operating Activities			
ROU operating lease assets and liabilities (See Note 14)	\$ (23)	\$ (10)	\$ (20)
Non-Cash Investing Activities			
Asset retirement obligation incurred (See Note 17)	\$ 8	\$ 7	\$ 15
Asset retirement obligation change in estimated future cash outflows (See Note 17)	5	(49)	47
Property, plant and equipment accruals	(9)	(175)	(78)
Capitalized long-term incentives	8	(16)	(27)
Property additions/dispositions (swaps)	34	229	159
Contingent consideration (See Note 9)	6	-	-
Non-Cash Financing Activities			
Common shares issued in conjunction with the Newfield business combination (See Note 8)	\$ -	\$ -	\$ (3,478)

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. In connection with the closing, Ovintiv and PCC agreed to partition the Duvernay acreage and associated infrastructure. For the year ended December 31, 2020, property additions/dispositions (swaps) included a \$203 million non-cash swap related to the Duvernay partition.

C) SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31	2021	2020	2019
Interest Paid	\$ 370	\$ 385	\$ 415
Income Taxes (Recovered), net of Amounts Paid	\$ (176)	\$ (52)	\$ (22)

27. Commitments and Contingencies

COMMITMENTS

The following table outlines the Company's commitments as at December 31, 2021:

(undiscounted)	Expected Future Payments							Total
	2022	2023	2024	2025	2026	Thereafter		
Transportation and Processing	\$ 750	\$ 736	\$ 581	\$ 436	\$ 422	\$ 1,926	\$	4,851
Drilling and Field Services	87	-	-	-	-	-		87
Building Leases	10	9	8	8	2	-		37
Total	\$ 847	\$ 745	\$ 589	\$ 444	\$ 424	\$ 1,926	\$	4,975

Operating leases with terms greater than one year are not included in the commitments table above. The table above includes short-term leases with contract terms less than 12 months, such as drilling rigs and field office leases, as well as non-lease operating cost components associated with building leases. See Note 14 for additional disclosures on leases.

Included within transportation and processing in the table above are certain commitments associated with midstream service agreements with VMLP as described in Note 20. Divestiture transactions can reduce certain commitments disclosed above.

CONTINGENCIES

Ovintiv is involved in various legal claims and actions arising in the normal course of the Company's operations. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on Ovintiv's financial position, cash flows or results of operations. Management's assessment of these matters may change in the future as certain of these matters are in early stages or are subject to a number of uncertainties. For material matters that the Company believes an unfavorable outcome is reasonably possible, the Company discloses the nature and a range of potential exposures. If an unfavorable outcome were to occur, there exists the possibility of a material impact on the Company's consolidated net earnings or loss for the period in which the effect becomes reasonably estimable. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. Such accruals are based on the Company's information known about the matters, estimates of the outcomes of such matters and experience in handling similar matters.

28. Supplementary Oil and Gas Information (unaudited)

The unaudited supplementary information on oil and natural gas exploration and production activities for 2021, 2020 and 2019 has been presented in accordance with the FASB's ASC Topic 932, "Extractive Activities - Oil and Gas" and the SEC's final rule, "Modernization of Oil and Gas Reporting". Disclosures by geographic area include the United States and Canada.

Proved Oil and Natural Gas Reserves

The following reserves disclosures reflect estimates of proved reserves, proved developed reserves, and proved undeveloped reserves, net of third-party royalty interests of oil, NGLs and natural gas owned at each year end and changes in proved reserves during each of the last three years.

The Company's estimates of proved reserves are made using available geological and reservoir data as well as production performance data. These estimates are reviewed annually by internal reservoir engineers and revised, either upward or downward, as warranted by additional data. The results of infill drilling are treated as positive revisions due to increases to expected recovery. Other revisions are due to changes in, among other things, development plans, reservoir performance, commodity prices, economic conditions, and government restrictions. Estimates of proved reserves are inherently imprecise and are continually subject to revision based on production history, results of additional exploration and development, price changes and other factors.

The following reference prices were utilized in the determination of reserves and future net revenue:

	Oil & NGLs		Natural Gas	
	WTI (\$/bbl)	Edmonton Condensate (C\$/bbl)	Henry Hub (\$/MMBtu)	AECO (C\$/MMBtu)
Reserves Pricing ⁽¹⁾				
2021	\$ 66.56	\$ 83.69	\$ 3.60	\$ 3.26
2020	39.62	49.77	1.98	2.13
2019	55.93	68.80	2.58	1.76

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

PROVED RESERVES ⁽¹⁾
(12-MONTH AVERAGE TRAILING PRICES)

	Oil (MMbbls)			NGLs (MMbbls)			Natural Gas (Bcf)			Total (MMBOE)
	United States	Canada	Total	United States	Canada	Total	United States	Canada	Total	
2019										
Beginning of year	351.5	0.2	351.8	122.3	158.5	280.8	598	2,901	3,499	1,215.7
Revisions and improved recovery ⁽²⁾	(56.4)	0.8	(55.6)	3.1	(20.2)	(17.1)	(31)	(484)	(515)	(158.7)
Extensions and discoveries	230.2	0.4	230.6	96.0	62.4	158.4	521	777	1,298	605.3
Purchase of reserves in place	262.0	-	262.0	217.2	-	217.2	1,904	-	1,904	796.6
Sale of reserves in place	(5.1)	-	(5.1)	(0.5)	-	(0.5)	(351)	-	(351)	(64.1)
Production	(59.8)	(0.2)	(60.0)	(28.6)	(21.6)	(50.2)	(200)	(376)	(576)	(206.2)
End of year	722.4	1.3	723.7	409.4	179.1	588.5	2,441	2,818	5,259	2,188.8
Developed	291.0	1.2	292.2	211.3	68.4	279.8	1,375	1,439	2,815	1,041.1
Undeveloped	431.4	0.1	431.5	198.1	110.7	308.8	1,066	1,378	2,444	1,147.7
Total	722.4	1.3	723.7	409.4	179.1	588.5	2,441	2,818	5,259	2,188.8
2020										
Beginning of year	722.4	1.3	723.7	409.4	179.1	588.5	2,441	2,818	5,259	2,188.8
Revisions and improved recovery ⁽²⁾	(221.5)	(0.5)	(222.0)	(29.1)	(33.1)	(62.2)	(323)	(161)	(484)	(364.9)
Extensions and discoveries	144.3	0.1	144.4	78.1	27.7	105.8	392	372	764	377.5
Purchase of reserves in place	9.9	1.0	10.9	8.4	11.6	20.0	47	94	140	54.3
Sale of reserves in place	(9.3)	-	(9.3)	(7.9)	(13.4)	(21.4)	(95)	(106)	(201)	(64.1)
Production	(55.2)	(0.2)	(55.4)	(29.8)	(20.5)	(50.3)	(194)	(366)	(560)	(199.0)
End of year	590.5	1.7	592.3	429.1	151.4	580.5	2,268	2,650	4,918	1,992.5
Developed	279.1	1.7	280.9	242.3	76.9	319.3	1,327	1,740	3,067	1,111.3
Undeveloped	311.4	-	311.4	186.7	74.5	261.2	941	910	1,851	881.1
Total	590.5	1.7	592.3	429.1	151.4	580.5	2,268	2,650	4,918	1,992.5
2021										
Beginning of year	590.5	1.7	592.3	429.1	151.4	580.5	2,268	2,650	4,918	1,992.5
Revisions and improved recovery ⁽²⁾	(78.7)	0.7	(78.0)	(30.0)	(20.3)	(50.3)	61	302	363	(67.8)
Extensions and discoveries	121.2	0.3	121.5	75.1	66.9	142.0	428	1,538	1,966	591.2
Purchase of reserves in place	2.6	-	2.6	1.6	0.9	2.5	7	6	13	7.3
Sale of reserves in place	(27.0)	(1.6)	(28.6)	(12.6)	(8.4)	(21.0)	(50)	(73)	(123)	(70.2)
Production	(51.1)	(0.1)	(51.2)	(28.5)	(20.5)	(49.0)	(179)	(389)	(568)	(194.9)
End of year	557.5	1.1	558.6	434.7	170.0	604.7	2,536	4,033	6,570	2,258.2
Developed	291.0	0.7	291.7	264.3	84.5	348.8	1,621	2,490	4,111	1,325.7
Undeveloped	266.6	0.3	266.9	170.5	85.4	255.9	915	1,543	2,458	932.5
Total	557.5	1.1	558.6	434.7	170.0	604.7	2,536	4,033	6,570	2,258.2

(1) Numbers may not add due to rounding.

(2) Changes in reserve estimates resulting from application of improved recovery techniques are included in revisions of previous estimates.

Definitions:

- “Proved” oil and gas reserves are those quantities of oil and gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations.
- “Developed” oil and gas reserves are reserves of any category that are expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.
- “Undeveloped” oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

Total Proved reserves increased 265.7 MMBOE including production of 194.9 MMBOE in 2021 due to the following:

- Revisions and improved recovery of oil, NGLs and natural gas were negative primarily due to changes in the approved development plan of 396.1 MMBOE, partially offset by positive performance revisions of 160.6 MMBOE, higher 12-month average trailing prices of 144.5 MMBOE and 23.2 MMBOE from infill drilling locations.
- Extensions and discoveries of oil, NGLs and natural gas increased proved reserves by 591.2 MMBOE due to successful drilling and technical delineation, as well as new proved undeveloped locations resulting from updated development plans in the Montney, Permian and Anadarko assets.
- Purchases of 7.3 MMBOE were primarily in the Permian asset and a result of acreage trades.
- Sale of reserves in place decreased proved developed reserves by 70.2 MMBOE primarily due to the divestitures of the Eagle Ford assets located in south Texas and the Duvernay assets located in west central Alberta.

Total Proved reserves decreased 196.3 MMBOE including production of 199.0 MMBOE in 2020 due to the following:

- Revisions and improved recovery of oil, NGLs and natural gas were negative primarily due to changes in the approved development plan of 382.2 MMBOE and lower 12-month average trailing prices of 167.1 MMBOE, partially offset by positive revisions from well performance and development strategy changes of 182.0 MMBOE and from infill drilling locations of 2.4 MMBOE.
- Extensions and discoveries of oil, NGLs and natural gas increased proved reserves by 377.5 MMBOE due to successful drilling and technical delineation, as well as new proved undeveloped locations resulting from development plan changes in the Permian, Montney, Anadarko and Uinta assets.
- Purchases of 54.3 MMBOE were primarily in the Permian asset and a result of the partition of certain Duvernay shale assets between Ovintiv and PCC.
- Sale of reserves in place decreased proved developed reserves by 64.1 MMBOE primarily due to divestitures in the Anadarko and Permian assets, and the partition of certain Duvernay shale assets between Ovintiv and PCC.

Total Proved reserves increased 973.1 MMBOE including production of 206.2 MMBOE in 2019 due to the following:

- Revisions and improved recovery of oil, NGLs and natural gas were negative primarily due to changes in the approved development plan of 97.5 MMBOE and lower 12-month average trailing oil and NGL prices of 118.4 MMBOE, partially offset by positive performance revisions of 57.3 MMBOE resulting from well performance and development strategy.
- Extensions and discoveries of oil, NGLs and natural gas increased proved reserves by 605.3 MMBOE due to the extension of proved acreage primarily from successful drilling and delineation in the Permian, Anadarko, Montney, Eagle Ford, Bakken and Duvernay assets.
- Purchases of 796.6 MMBOE were primarily in the acquisition of Newfield Exploration.
- Sale of reserves in place decreased proved developed reserves by 64.1 MMBOE primarily due to the divestiture of the Arkoma asset located in Oklahoma.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

In calculating the standardized measure of discounted future net cash flows, constant price and cost assumptions were applied to Orintiv's annual future production from proved reserves to determine cash inflows. Estimates of future net cash flows from proved reserves are computed based on the average beginning-of-the-month prices during the 12-month period for the year. Future production and development costs include estimates for abandonment and dismantlement costs associated with asset retirement obligations and assume the continuation of existing economic, operating and regulatory conditions. Future income taxes are calculated by applying statutory income tax rates to future pre-tax cash flows after provision for the tax cost of the oil and natural gas properties based upon existing laws and regulations. The effect of tax credits is also considered in determining the income tax expense. The discount was computed by application of a 10 percent discount factor to the future net cash flows.

Orintiv cautions that the discounted future net cash flows relating to proved oil and gas reserves are an indication of neither the fair market value of Orintiv's oil and gas properties, nor the future net cash flows expected to be generated from such properties. The discounted future net cash flows do not include the fair market value of exploratory properties and probable or possible oil and gas reserves, nor is consideration given to the effect of anticipated future changes in oil and natural gas prices, development, asset retirement and production costs, and possible changes to tax and royalty regulations. The prescribed discount rate of 10 percent may not appropriately reflect future interest rates.

	United States			Canada		
	2021	2020	2019	2021	2020	2019
Future Cash Inflows	\$ 51,473	\$ 26,093	\$ 46,076	\$ 18,312	\$ 7,156	\$ 10,404
Less Future:						
Production costs	12,272	8,864	13,064	7,679	4,202	4,791
Development costs	5,767	6,187	10,795	2,061	1,859	3,024
Income taxes	5,480	74	2,262	1,695	-	-
Future Net Cash Flows	27,954	10,968	19,955	6,877	1,095	2,589
Less 10% annual discount for estimated timing of cash flows	13,663	5,895	9,914	2,393	246	1,014
Discounted Future Net Cash Flows	\$ 14,291	\$ 5,073	\$ 10,041	\$ 4,484	\$ 849	\$ 1,575

	Total		
	2021	2020	2019
Future Cash Inflows	\$ 69,785	\$ 33,249	\$ 56,480
Less Future:			
Production costs	19,951	13,066	17,855
Development costs	7,828	8,046	13,819
Income taxes	7,175	74	2,262
Future Net Cash Flows	34,831	12,063	22,544
Less 10% annual discount for estimated timing of cash flows	16,056	6,141	10,928
Discounted Future Net Cash Flows	\$ 18,775	\$ 5,922	\$ 11,616

CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

	United States			Canada		
	2021	2020	2019	2021	2020	2019
Balance, Beginning of Year	\$ 5,073	\$ 10,041	\$ 6,950	\$ 849	\$ 1,575	\$ 2,654
Changes Resulting From:						
Sales of oil and gas produced during the year	(3,608)	(1,605)	(2,893)	(1,479)	(405)	(654)
Discoveries and extensions, net of related costs	3,102	1,080	2,893	2,119	140	544
Purchases of proved reserves in place	63	98	5,581	13	44	-
Sales and transfers of proved reserves in place	(199)	(255)	(931)	(38)	(97)	-
Net change in prices and production costs	10,702	(7,119)	(2,629)	3,266	(1,563)	(1,219)
Revisions to quantity estimates	(407)	(2,346)	(850)	201	(188)	(550)
Accretion of discount	508	1,064	749	85	158	297
Development costs incurred during the year	1,139	1,341	2,115	397	535	545
Changes in estimated future development costs	(83)	2,183	(885)	41	652	(364)
Other	1	-	-	-	(2)	1
Net change in income taxes	(2,000)	591	(59)	(970)	-	321
Balance, End of Year	\$ 14,291	\$ 5,073	\$ 10,041	\$ 4,484	\$ 849	\$ 1,575

	Total		
	2021	2020	2019
Balance, Beginning of Year	\$ 5,922	\$ 11,616	\$ 9,604
Changes Resulting From:			
Sales of oil and gas produced during the year	(5,087)	(2,010)	(3,547)
Discoveries and extensions, net of related costs	5,221	1,220	3,437
Purchases of proved reserves in place	76	142	5,581
Sales and transfers of proved reserves in place	(237)	(352)	(931)
Net change in prices and production costs	13,968	(8,682)	(3,848)
Revisions to quantity estimates	(206)	(2,534)	(1,400)
Accretion of discount	593	1,222	1,046
Development costs incurred during the year	1,536	1,876	2,660
Changes in estimated future development costs	(42)	2,835	(1,249)
Other	1	(2)	1
Net change in income taxes	(2,970)	591	262
Balance, End of Year	\$ 18,775	\$ 5,922	\$ 11,616

RESULTS OF OPERATIONS

The following table sets forth revenue and direct cost information relating to the Company's oil and gas exploration and production activities.

	United States			Canada		
	2021	2020	2019	2021	2020	2019
Oil, NGL and Natural Gas Revenues ⁽¹⁾	\$ 4,883	\$ 2,701	\$ 4,163	\$ 2,542	\$ 1,349	\$ 1,654
Less:						
Production, mineral and other taxes	278	158	238	15	15	16
Transportation and processing	507	453	466	937	829	859
Operating	490	485	566	111	100	125
Depreciation, depletion and amortization	837	1,378	1,593	332	427	383
Impairments	-	5,580	-	-	-	-
Accretion of asset retirement obligation	11	13	15	11	16	21
Operating Income (Loss)	2,760	(5,366)	1,285	1,136	(38)	250
Income Taxes	673	(1,309)	313	272	(9)	60
Results of Operations	\$ 2,087	\$ (4,057)	\$ 972	\$ 864	\$ (29)	\$ 190

	China ⁽²⁾			Total		
	2021	2020	2019	2021	2020	2019
Oil, NGL and Natural Gas Revenues ⁽¹⁾	\$ -	\$ -	\$ 37	\$ 7,425	\$ 4,050	\$ 5,854
Less:						
Production, mineral and other taxes	-	-	-	293	173	254
Transportation and processing	-	-	-	1,444	1,282	1,325
Operating	-	-	16	601	585	707
Depreciation, depletion and amortization	-	-	-	1,169	1,805	1,976
Impairments	-	-	-	-	5,580	-
Accretion of asset retirement obligation	-	-	1	22	29	37
Operating Income (Loss)	-	-	20	3,896	(5,404)	1,555
Income Taxes	-	-	4	945	(1,318)	377
Results of Operations	\$ -	\$ -	\$ 16	\$ 2,951	\$ (4,086)	\$ 1,178

(1) Excludes gains (losses) on risk management.

(2) Effective July 31, 2019, the production sharing contract with CNOOC was terminated and the Company exited its China Operations.

CAPITALIZED COSTS

Capitalized costs include the cost of properties, equipment and facilities for oil and natural gas producing activities. Capitalized costs for proved properties include costs for oil and natural gas leaseholds where proved reserves have been identified, development wells and related equipment and facilities, including development wells in progress. Capitalized costs for unproved properties include costs for acquiring oil and natural gas leaseholds where no proved reserves have been identified.

	United States			Canada		
	2021	2020	2019	2021	2020	2019
Proved Oil and Gas Properties	\$ 39,145	\$ 37,875	\$ 35,870	\$ 16,330	\$ 16,008	\$ 15,284
Unproved Oil and Gas Properties	1,884	2,785	3,491	60	177	223
Total Capital Cost	41,029	40,660	39,361	16,390	16,185	15,507
Accumulated DD&A	33,418	32,581	25,623	15,450	15,056	14,320
Net Capitalized Costs	\$ 7,611	\$ 8,079	\$ 13,738	\$ 940	\$ 1,129	\$ 1,187

	Other			Total		
	2021	2020	2019	2021	2020	2019
Proved Oil and Gas Properties	\$ -	\$ -	\$ 56	\$ 55,475	\$ 53,883	\$ 51,210
Unproved Oil and Gas Properties	-	-	-	1,944	2,962	3,714
Total Capital Cost	-	-	56	57,419	56,845	54,924
Accumulated DD&A	-	-	56	48,868	47,637	39,999
Net Capitalized Costs	\$ -	\$ -	\$ -	\$ 8,551	\$ 9,208	\$ 14,925

COSTS INCURRED

Costs incurred includes both capitalized costs and costs charged to expense when incurred. Costs incurred also includes internal costs directly related to acquisition, exploration, and development activities, new asset retirement costs established in the current year as well as increases or decreases to the asset retirement obligations resulting from changes to cost estimates during the year.

	United States			Canada		
	2021	2020	2019	2021	2020	2019
Acquisition Costs						
Unproved	\$ 2	\$ 16	\$ 843	\$ -	\$ -	\$ -
Proved	9	3	5,963	-	-	-
Total Acquisition Costs	11	19	6,806	-	-	-
Exploration Costs	10	12	5	5	-	-
Development Costs	1,148	1,352	2,129	388	353	480
Total Costs Incurred	\$ 1,169	\$ 1,383	\$ 8,940	\$ 393	\$ 353	\$ 480

	Total		
	2021	2020	2019
Acquisition Costs			
Unproved	\$ 2	\$ 16	\$ 843
Proved	9	3	5,963
Total Acquisition Costs	11	19	6,806
Exploration Costs	15	12	5
Development Costs	1,536	1,705	2,609
Total Costs Incurred	\$ 1,562	\$ 1,736	\$ 9,420

COSTS NOT SUBJECT TO DEPLETION OR AMORTIZATION

Upstream costs in respect of significant unproved properties are excluded from the country cost center's depletable base as follows:

As at December 31	2021	2020
United States	\$ 1,884	\$ 2,785
Canada	60	177
	\$ 1,944	\$ 2,962

The following is a summary of the costs related to Orintiv's unproved properties as at December 31, 2021:

	2021	2020	2019	Prior to 2019	Total
Acquisition Costs	\$ 2	\$ 22	\$ 810	\$ 954	\$ 1,788
Exploration Costs	11	7	3	135	156
	\$ 13	\$ 29	\$ 813	\$ 1,089	\$ 1,944

Acquisition costs primarily include costs incurred to acquire or lease properties. Exploration costs primarily include costs related to geological and geophysical studies and unevaluated costs associated with drilling and equipping exploratory wells. Ultimate recoverability of these costs and the timing of inclusion within the applicable country cost center's depletable base is dependent upon either the finding of proved oil, NGL and natural gas reserves, expiration of leases or recognition of impairments.

The \$1.9 billion of oil and natural gas properties not subject to depletion or amortization primarily includes leasehold and mineral costs related to the acquisition of Permian, Anadarko and Bakken. These acquisition costs are associated with acquired acreage for which proved reserves have yet to be assigned from future development. The Company continually assesses the development timeline of the acquired acreage. The timing and amount of the transfer of property acquisition costs into the depletable base are based on several factors and may be subject to changes over time from drilling plans, drilling results, availability of capital, project economics and other assessments of the property. The inclusion of these acquisition costs in the depletable base is expected to occur within two to three years. The remaining costs excluded from depletion are related to properties which are not individually significant.