

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The MD&A is intended to provide a narrative description of the Company's business from management's perspective which includes an overview of Ovintiv's consolidated 2021 results and year-over-year comparisons between 2021 and 2020 results. This MD&A should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes for the year ended December 31, 2021 ("Consolidated Financial Statements"), which are included in Item 8 of this Annual Report on Form 10-K. Discussion and analysis of 2019 results and year-over-year comparisons between 2020 and 2019 results that are not included in this Form 10-K, and can be found in Item 7 of the 2020 Annual Report on Form 10-K.

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

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

Executive Overview

Strategy

Ovintiv is a leading North American energy producer that is focused on developing its multi-basin portfolio of oil, NGLs and natural gas producing plays as part of its strategy outlined in Items 1 and 2 of this Annual Report on Form 10-K. Ovintiv is committed to growing long-term shareholder value by delivering on its strategic priorities through execution excellence, disciplined capital allocation, commercial acumen and risk management, while driving environmental, social and governance progress. The Company's strategy is founded on its multi-basin portfolio of top tier assets, financial strength, as well as its core and foundational values.

In support of the Company's commitment to growing shareholder value, Ovintiv implemented a capital allocation framework in 2021 that outlines increasing returns to shareholders as well as continuing the Company's progress on debt reduction.

Ovintiv is delivering results in a socially and environmentally responsible manner. Thoughtfully developed best practices are deployed across its assets, allowing the Company to capitalize on operational efficiencies and decrease emissions intensity. The Company's sustainability reporting, which outlines its key metrics and progress achieved relating to ESG practices can be found on the Company's website.

Ovintiv continually reviews and evaluates its strategy and changing market conditions in order to maximize cash flow generation from its Core Assets located in some of the best plays in North America. As at December 31, 2021, the Core Assets comprised Permian and Anadarko in the U.S., and Montney in Canada. These Core Assets form a multi-basin portfolio of oil, NGLs and natural gas producing plays enabling flexible and efficient investment of capital that support the Company's strategy.

Underpinning Ovintiv's strategy are core values of one, agile, innovative and driven, which guide the organization to be collaborative, responsive, flexible and determined. The Company is committed to excellence with a passion to drive corporate financial performance and succeed as a team.

For additional information on reporting segments and the plays in which the Company operates, refer to Items 1 and 2 of this Annual Report on Form 10-K. For additional information on the segmented results, refer to Note 2 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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

Highlights

During 2021, the Company focused on executing its 2021 capital plan aimed at maximizing profitability through operational and capital efficiencies, delivering cash from operating activities and using excess cash flows to reduce total long-term debt. Higher upstream product revenues in 2021 compared to 2020 resulted from higher average realized prices, excluding the impact of risk management activities. Increases in average realized natural gas and liquids prices of 91 percent and 90 percent, respectively, were primarily due to higher benchmark prices. Ovintiv continues to focus on optimizing realized prices from the diversification of the Company's downstream markets.

The Company continued to deliver significant cash from operating activities while reducing its total long-term debt balance. Cash from operating activities of \$3,129 million included a net realized loss of \$1,362 million on the settlement of commodity and foreign exchange risk management positions and a current income tax recovery of \$156 million primarily due to the resolution of prior years' tax items. The Company used excess cash flows to reduce its total long-term debt balance by \$2.1 billion in 2021.

Significant Developments

- On April 28, 2021, the Company closed the sale of its previously announced Duvernay assets and received proceeds of approximately \$238 million, after closing and other adjustments. The transaction had an effective date of January 1, 2021.
- On May 19, 2021, the Company closed the sale of its previously announced Eagle Ford assets and received proceeds of approximately \$764 million, after closing and other adjustments. The transaction had an effective date of January 1, 2021.
- On May 19, 2021, the Company announced its intention to redeem the Company's \$600 million, 5.75 percent senior notes due January 30, 2022, and its \$518 million, 3.90 percent senior notes due November 15, 2021. The senior notes were redeemed on June 18, 2021 and August 16, 2021, respectively. The combined debt redemptions will result in annualized interest savings of over \$50 million.
- On July 27, 2021, Ovintiv announced an increase of about 50 percent to its quarterly dividend payment representing an annualized dividend of \$0.56 per share of common stock as part of the Company's commitment to returning capital to shareholders.
- On September 9, 2021, Ovintiv announced a new capital allocation framework to support the Company's strategy of increasing shareholder returns as well as reducing Net Debt.
- On September 28, 2021, in conjunction with the new capital allocation framework, 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 2021, Ovintiv purchased for cancellation, approximately 3.1 million shares of common stock at an average price of \$36.18 per share, for total consideration of approximately \$111 million.
- On October 6, 2021, Ovintiv launched its sustainability website, which highlights the Company's progress on its key ESG metrics and initiatives, and announced several sustainability milestones related to emission reductions, social responsibility, and corporate governance. As of December 31, 2021, the Company exceeded its 33 percent methane emissions intensity reduction target, four years ahead of schedule and reduced its GHG emissions intensity by greater than 20 percent compared to 2019 levels. On February 24, 2022, the Company announced a further GHG emissions intensity reduction target of 50 percent compared to 2019 levels, to be achieved by 2030.

- On February 24, 2022, Orintiv announced an increase of about 43 percent to its quarterly dividend payment representing an annualized dividend of \$0.80 per share of common stock as part of the Company's commitment to returning capital to shareholders.

Financial Results

- Reported net earnings of \$1,416 million, including net losses on risk management in revenues of \$1,883 million, before tax and a current income tax recovery of \$156 million.
- Generated cash from operating activities of \$3,129 million, Non-GAAP Cash Flow of \$3,209 million and Non-GAAP Cash Flow Margin of \$16.46 per BOE. Cash from operating activities exceeded capital expenditures by \$1,610 million.
- Paid dividends of \$0.4675 per share of common stock totaling \$122 million.
- Had \$4.5 billion in total liquidity as at December 31, 2021, which included available credit facilities of \$4.0 billion, available uncommitted demand lines of \$300 million, and cash and cash equivalents of \$195 million.
- Reduced total long-term debt by \$2.1 billion.
- Reported Net Debt to Adjusted EBITDA of 1.4 times.

Capital Investment

- Reported total capital spending of \$1,519 million, which was in line with the full year 2021 investment plan of \$1.5 billion.
- Directed \$1,362 million, or 90 percent, of total capital spending to the Core Assets.
- Focused on highly efficient capital activity and short-cycle high margin projects providing flexibility to respond to fluctuations in commodity prices.

Production

- Produced average liquids volumes of 274.5 Mbbls/d which accounted for 51 percent of total production volumes. Average oil and plant condensate volumes of 191.2 Mbbls/d, or 70 percent of total liquids production volumes, was in line with full year 2021 updated guidance of 191.0 Mbbls/d to 194.0 Mbbls/d.
- Produced average natural gas volumes of 1,556 MMcf/d which accounted for 49 percent of total production volumes and was in line with full year 2021 updated guidance of 1,555 MMcf/d to 1,570 MMcf/d.

Operating Expenses

- Incurred Total Costs in 2021 of \$2,613 million, or \$13.42 per BOE, an increase of \$300 million or \$1.82 per BOE compared to 2020. Total Costs is defined in the Non-GAAP Measures section of this MD&A. Significant items in 2021 compared to 2020 impacting Total Costs include:
 - Higher upstream transportation and processing expenses of \$162 million, primarily due to higher production volumes in Montney (\$95 million) and a higher U.S./Canadian dollar exchange rate (\$55 million); and
 - Higher production, mineral and other taxes of \$120 million, primarily due to higher commodity prices.
- Total Operating Expenses in 2021 of \$7,139 million decreased by \$4,345 million primarily due to the non-cash ceiling test impairments of \$5,580 million recognized in 2020.

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

2022 Outlook

Industry Outlook

Oil Markets

The oil and gas industry is cyclical and commodity prices are inherently volatile. Oil prices reflect global supply and demand dynamics as well as the geopolitical and macroeconomic environment.

In 2021, OPEC+ production cuts and increased global demand for oil resulted in upward pressures on oil prices and the tightening of global oil inventories. Oil prices during 2022 will continue to be impacted by the global containment of the coronavirus (“COVID-19”), pace of economic recovery, OPEC+ production levels, and the potential for higher U.S. production.

COVID-19 vaccine rollout/uptake continues to drive optimism, however, emerging COVID-19 variants may impact economic progress while the gradual easing of OPEC+ oil production cuts, the potential for higher U.S. oil production, and macroeconomic risks could contribute to commodity market uncertainty. Since the second quarter of 2021, OPEC+ has gradually increased production in response to increases in oil demand. OPEC+ continues to meet regularly to review the state of global oil supply, demand and inventory levels, and is expected to continue with its planned production increases in 2022.

Natural Gas Markets

Natural gas prices are primarily affected by structural changes in supply and demand as well as deviations from seasonally normal weather. In 2021, supportive weather conditions, limited supply growth from U.S. producers and increased electricity usage contributed to increased drawdowns of natural gas inventory and higher natural gas prices. Natural gas prices in 2022 are expected to be impacted by the interplay between gas production and associated gas from oil production, as well as changes in demand from the power generation sector, changes in export levels of liquified natural gas and impacts from seasonal weather.

Company Outlook

The Company continues to exercise discretion and discipline to optimize capital allocation throughout 2022 as oil demand recovers and the commodity price environment evolves. Oviniv pursues innovative ways to reduce upstream operating and administrative expenses and expects to benefit from durable cost savings and efficiencies to maximize cash flows.

Markets for crude oil and natural gas are exposed to different price risks and are inherently volatile. While the market price for crude oil tends to move in the same direction as the global market, regional differentials may develop. Natural gas prices may vary between geographic regions depending on local supply and demand conditions. To mitigate price volatility and help sustain revenues, particularly during periods of low commodity prices, the Company enters into derivative financial instruments. As at December 31, 2021, the Company has hedged approximately 80.0 Mbbls/d of expected oil and condensate production and 1,293 MMcf/d of expected natural gas production for 2022. In addition, Oviniv proactively utilizes transportation contracts to diversify the Company’s sales markets, thereby reducing significant exposure to any given market and regional pricing.

Additional information on Oviniv’s hedging program can be found in Note 25 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Capital Investment

The Company plans to spend approximately \$1.5 billion on its 2022 capital investment program. The majority of this capital program is expected to be allocated to the Core Assets with a focus on maximizing returns from high margin liquids. In 2022, the Company expects to generate cash flows in excess of capital expenditures.

Oviniv continually strives to improve well performance and lower costs through innovative techniques. Initiatives such as applying Simul-Frac techniques, a process of fracking pairs of wells at the same time instead of a single well, increases operational efficiencies and contributes to well cost savings. Oviniv's large-scale cube development model

utilizes multi-well pads and advanced completion designs to maximize returns and resource recovery from its reservoirs. Ovintiv's disciplined capital program and continuous innovation create flexibility to allocate capital in changing commodity markets and to maximize cash flows while preserving the long-term value of the Company's multi-basin portfolio.

Production

Ovintiv is strategically positioned in the current economic environment to maintain a flat liquids production profile while generating cash flows in excess of capital expenditures.

In 2022, the Company expects average oil and plant condensate production volumes of approximately 180.0 Mbbls/d to 190.0 Mbbls/d, other NGLs production volumes of approximately 78.0 Mbbls/d to 82.0 Mbbls/d and natural gas production volumes of approximately 1,450 MMcf/d to 1,500 MMcf/d.

Operating Expenses

The Company continues to benefit from cost savings measures implemented in 2020 which included workforce reductions and operating efficiencies. With rising activity in the oil and gas industry and the recovery of commodity prices, service and supply costs are expected to increase. Ovintiv continues to pursue innovative ways to reduce upstream operating and administrative expenses, and strives to minimize any inflationary pressures with efficiency improvements and effective supply chain management.

Total Costs per BOE is expected to increase for 2022 primarily due to higher production taxes resulting from expected strengthening of commodity prices and higher transportation and processing costs. For 2022, Ovintiv expects Total Costs of approximately \$14.75 per BOE to \$15.25 per BOE. Total Costs is defined in the Non-GAAP Measures section of this MD&A.

Long-Term Debt Reduction

Ovintiv remains focused on strengthening its balance sheet. Since the second quarter of 2020, the Company has allocated \$2,580 million in excess cash flows to reduce its total long-term debt balance, which included proceeds from the Duvernay and Eagle Ford asset divestitures. The Company expects to achieve its Net Debt balance of \$3.0 billion in the second half of 2022, assuming commodity prices of \$85.00 per barrel for WTI oil and \$4.50 per MMBtu for NYMEX natural gas.

In June 2021, the Company redeemed its \$600 million, 5.75 percent senior notes due January 30, 2022, and in August 2021, redeemed its \$518 million, 3.90 percent senior notes due November 15, 2021. The combined debt redemptions will result in annualized interest savings of over \$50 million.

As at December 31, 2021, the Company had no outstanding balances under its revolving credit facilities and U.S. dollar commercial paper programs.

Additional information on Ovintiv's long-term debt and liquidity position can be found in Note 15 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K and the Liquidity and Capital Resources section of this MD&A, respectively.

Additional information on Ovintiv's 2022 Corporate Guidance can be accessed on the Company's website at www.ovintiv.com.

Environmental, Social and Governance

Ovintiv recognizes the importance of reducing its environmental footprint and voluntarily participates in emission reduction programs. The Company has adopted a range of strategies to help reduce emissions from its operations. These strategies include incorporating new and proven technologies and optimizing processes in its drilling and completions operations, and working closely with third-party providers to develop best practices. The Company continues to look for innovative techniques and efficiencies to help maintain its commitment to emission reductions.

As of September 1, 2021, the Company is in alignment with the World Bank Zero Routine Flaring initiative, nine years ahead of the World Bank's target date of 2030. Oviniv does not engage in routine flaring by ensuring natural gas gathering infrastructure is in place for all of its producing wells.

As of December 31, 2021, the Company exceeded its targeted 33 percent reduction in methane emissions intensity four years ahead of schedule and achieved a greater than 20 percent reduction in Scope 1 and 2 GHG emissions intensity compared to 2019 levels. In 2022, the Company announced a further GHG emissions intensity reduction target of 50 percent compared to 2019 levels, to be achieved by 2030. This new emissions reduction target is also tied to its annual compensation program for all employees.

Oviniv is committed to diversity, equity and inclusion. In 2021, the Company developed a new social commitment framework, which is rooted in the Company's foundational values of integrity, safety, sustainability, trust and respect. The framework focuses on respecting stakeholders, strengthening communities and fostering a culture of inclusion.

Oviniv remains committed to protecting the health and safety of its workforce. Safety is a foundational value at Oviniv and plays a critical role in the Company's belief that a safe workplace is a strong indicator of a well-managed business. This safety-oriented mindset enables the Company to quickly respond to emergencies and minimize any impacts to employees and business continuity. From the onset of the COVID-19 pandemic, Oviniv established a Pandemic Response Team to continually assess the impact of COVID-19 and develop protocols and procedures to maintain a safe working environment for its staff. Despite the challenges presented by COVID-19, the Company reported its eighth consecutive safest year in 2021.

Additional information on Oviniv's ESG practices are outlined in Items 1 and 2 of this Annual Report on Form 10-K, and on the Company's sustainability website at <https://sustainability.ovintiv.com>.

Results of Operations

Selected Financial Information

(\$ millions)	2021	2020
Product and Service Revenues		
Upstream product revenues	\$ 7,420	\$ 4,044
Market optimization	3,043	1,459
Service revenues ⁽¹⁾	5	6
Total Product and Service Revenues	10,468	5,509
Gains (Losses) on Risk Management, Net	(1,883)	507
Sublease Revenues	73	71
Total Revenues	8,658	6,087
Total Operating Expenses ⁽²⁾	7,139	11,484
Operating Income (Loss)	1,519	(5,397)
Total Other (Income) Expenses	280	333
Net Earnings (Loss) Before Income Tax	1,239	(5,730)
Income Tax Expense (Recovery)	(177)	367
Net Earnings (Loss)	\$ 1,416	\$ (6,097)

(1) Service revenues include amounts related to the USA and Canadian Operations.

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

Revenues

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

Benchmark Prices

(average for the period)	2021	2020
Oil & NGLs		
WTI (\$/bbl)	\$ 67.91	\$ 39.40
Houston (\$/bbl)	68.85	41.05
Edmonton Condensate (C\$/bbl)	85.48	49.45
Natural Gas		
NYMEX (\$/MMBtu)	\$ 3.84	\$ 2.08
AECO (C\$/Mcf)	3.56	2.24
Dawn (C\$/MMBtu)	4.60	2.50

Production Volumes and Realized Prices

	Production Volumes ⁽¹⁾		Realized Prices ⁽²⁾	
	2021	2020	2021	2020
Oil (Mbbbls/d, \$/bbl)				
USA Operations	140.0	150.9	\$ 65.69	\$ 36.84
Canadian Operations	0.3	0.6	56.71	32.58
Total	140.3	151.5	65.67	36.83
NGLs – Plant Condensate (Mbbbls/d, \$/bbl)				
USA Operations	10.5	11.1	60.18	26.68
Canadian Operations	40.4	41.0	67.11	35.87
Total	50.9	52.1	65.68	33.92
NGLs – Other (Mbbbls/d, \$/bbl)				
USA Operations	67.5	70.3	25.66	9.52
Canadian Operations	15.8	15.0	29.45	11.53
Total	83.3	85.3	26.38	9.87
Total Oil & NGLs (Mbbbls/d, \$/bbl)				
USA Operations	218.0	232.3	53.04	28.09
Canadian Operations	56.5	56.6	56.48	29.40
Total	274.5	288.9	53.75	28.34
Natural Gas (MMcf/d, \$/Mcf)				
USA Operations	490	529	3.71	1.60
Canadian Operations	1,066	1,000	3.52	2.01
Total	1,556	1,529	3.58	1.87
Total Production (MBOE/d, \$/BOE)				
USA Operations	299.7	320.5	44.65	23.00
Canadian Operations	234.2	223.3	29.66	16.42
Total	533.9	543.8	38.08	20.30
Production Mix (%)				
Oil & Plant Condensate	36	37		
NGLs – Other	15	16		
Total Oil & NGLs	51	53		
Natural Gas	49	47		
Production Change – Year Over Year (%) ⁽³⁾				
Total Oil & NGLs	(5)	(4)		
Natural Gas	2	(3)		
Total Production	(2)	(4)		
Core Assets Production				
Oil (Mbbbls/d)	108.1	106.3		
NGLs – Plant Condensate (Mbbbls/d)	48.8	46.3		
NGLs – Other (Mbbbls/d)	76.2	75.8		
Total Oil & NGLs (Mbbbls/d)	233.1	228.4		
Natural Gas (MMcf/d)	1,453	1,373		
Total Production (MBOE/d)	475.2	457.2		
% of Total Production	89	84		

(1) Average daily.

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

(3) Includes production impacts of acquisitions and divestitures.

Upstream Product Revenues

(\$ millions)		Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas	Total
2020 Upstream Product Revenues	\$	2,042	\$ 647	\$ 308	\$ 1,047	\$ 4,044
Increase (decrease) due to:						
Sales prices		1,477	588	501	966	3,532
Production volumes		(155)	(17)	(7)	19	(160)
2021 Upstream Product Revenues ⁽¹⁾	\$	3,364	\$ 1,218	\$ 802	\$ 2,032	\$ 7,416

(1) Revenues for 2021 exclude certain other revenue and royalty adjustments with no associated production volumes of \$4 million.

Oil Revenues

2021 versus 2020

Oil revenues increased \$1,322 million compared to 2020 primarily due to:

- Higher average realized oil prices of \$28.84 per bbl, or 78 percent, increased revenues by \$1,477 million. The increase reflected higher WTI and Houston benchmark prices which were up 72 percent and 68 percent, respectively, and the strengthening of regional pricing relative to the WTI benchmark price in the USA Operations; and
- Lower average oil production volumes of 11.2 Mbbls/d decreased revenues by \$155 million. Lower volumes were primarily due to natural declines surpassing incremental production in Eagle Ford, Anadarko and Bakken (11.3 Mbbls/d) and the sale of the Eagle Ford assets in the second quarter of 2021 (8.5 Mbbls/d), partially offset by successful drilling in Permian (5.4 Mbbls/d) and production shut-ins due to the economic downturn in 2020 (2.9 Mbbls/d).

NGL Revenues

2021 versus 2020

NGL revenues increased \$1,065 million compared to 2020 primarily due to:

- Higher average realized plant condensate prices of \$31.76 per bbl, or 94 percent, increased revenues by \$588 million. The increase reflected higher Edmonton Condensate and WTI benchmark prices which were up 73 percent and 72 percent, respectively, as well as higher regional pricing relative to the WTI benchmark price;
- Higher average realized other NGL prices of \$16.51 per bbl, or 167 percent, increased revenues by \$501 million reflecting higher other NGL benchmark prices and higher regional pricing;
- Lower average plant condensate production volumes of 1.2 Mbbls/d decreased revenues by \$17 million. Lower volumes were primarily due to the sales of the Duvernay and Eagle Ford assets in the second quarter of 2021 (2.3 Mbbls/d) and natural declines in Duvernay and Anadarko (2.0 Mbbls/d), partially offset by successful drilling in Montney and Permian (3.0 Mbbls/d); and
- Lower average other NGL production volumes of 2.0 Mbbls/d decreased revenues by \$7 million. Lower volumes were primarily due to natural declines in Anadarko and Eagle Ford (4.3 Mbbls/d) and the sale of the Eagle Ford assets in the second quarter of 2021 (2.2 Mbbls/d), partially offset by successful drilling in Montney and Permian (4.0 Mbbls/d).

Natural Gas Revenues

2021 versus 2020

Natural gas revenues increased \$985 million compared to 2020 primarily due to:

- Higher average realized natural gas prices of \$1.71 per Mcf, or 91 percent, increased revenues by \$966 million. The increase reflected higher NYMEX, Dawn and AECO benchmark prices which were up 85 percent, 84 percent and 59 percent, respectively, and higher regional pricing; and
- Higher average natural gas production volumes of 27 MMcf/d increased revenues by \$19 million primarily due to successful drilling in Montney (119 MMcf/d), partially offset by natural declines in Anadarko and Duvernay (43 MMcf/d), the sales of the Duvernay and Eagle Ford assets in the second quarter of 2021 (36 MMcf/d) and increased third-party plant down-time in Montney (10 MMcf/d).

Gains (Losses) on Risk Management, Net

As a means of managing commodity price volatility, Ovintiv enters into commodity derivative financial instruments on a portion of its expected oil, NGLs and natural gas production volumes. The Company's commodity price mitigation program reduces volatility and helps sustain revenues during periods of lower prices. Additional information on the Company's commodity price positions as at December 31, 2021 can be found in Note 25 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The following table provides the effects of the Company's risk management activities on revenues.

	\$ millions		Per-Unit	
	2021	2020	2021	2020
Realized Gains (Losses) on Risk Management				
Commodity Price ⁽¹⁾				
Oil (\$/bbl)	\$ (737)	\$ 435	\$ (14.39)	\$ 7.85
NGLs - Plant Condensate (\$/bbl)	(155)	133	(8.35)	6.97
NGLs - Other (\$/bbl)	(131)	(14)	(4.31)	(0.46)
Natural Gas (\$/Mcf)	(373)	148	(0.66)	0.26
Other ⁽²⁾	1	9	-	-
Total (\$/BOE)	(1,395)	711	(7.17)	3.52
Unrealized Gains (Losses) on Risk Management	(488)	(204)		
Total Gains (Losses) on Risk Management, Net	\$ (1,883)	\$ 507		

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

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

Ovintiv recognizes fair value changes from its risk management activities each reporting period. The changes in fair value result from new positions and settlements that occur during each period, as well as the relationship between contract prices and the associated forward curves. Realized gains or losses on risk management activities related to commodity price mitigation are included in the USA Operations, Canadian Operations and Market Optimization revenues as the contracts are cash settled. Unrealized gains or losses on fair value changes of unsettled contracts are included in the Corporate and Other segment. Additional information on fair value changes can be found in Note 24 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Market Optimization Revenues

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

(\$ millions)	2021	2020
Market Optimization	\$ 3,043	\$ 1,459

2021 versus 2020

Market Optimization product revenues increased \$1,584 million compared to 2020 primarily due to:

- Higher oil and natural gas benchmark prices (\$1,490 million) and higher sales of third-party purchased liquids volumes primarily relating to price optimization activities in the USA Operations (\$555 million);

partially offset by:

- Lower sales of third-party purchased natural gas volumes primarily relating to marketing arrangements for assets divested in prior years (\$461 million).

Sublease Revenues

Sublease revenues primarily include amounts related to the sublease of office space in The Bow office building recorded in the Corporate and Other segment. Additional information on office sublease income can be found in Note 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Operating Expenses

Production, Mineral and Other Taxes

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

	\$ millions		\$/BOE	
	2021	2020	2021	2020
USA Operations	\$ 278	\$ 158	\$ 2.54	\$ 1.34
Canadian Operations	15	15	0.18	0.18
Total	\$ 293	\$ 173	\$ 1.51	\$ 0.87

2021 versus 2020

Production, mineral and other taxes increased \$120 million compared to 2020 primarily due to:

- Higher production tax in USA Operations due to higher commodity prices (\$144 million), partially offset by the sale of the Eagle Ford assets in the second quarter of 2021 (\$15 million).

Transportation and Processing

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

	\$ millions		\$ /BOE	
	2021	2020	2021	2020
USA Operations	\$ 507	\$ 453	\$ 4.64	\$ 3.86
Canadian Operations	937	829	10.97	10.12
Upstream Transportation and Processing	1,444	1,282	7.42	6.44
Market Optimization	172	220		
Total	\$ 1,616	\$ 1,502		

2021 versus 2020

Transportation and processing expense increased \$114 million compared to 2020 primarily due to:

- Higher volumes in Montney (\$95 million), a higher U.S./Canadian dollar exchange rate (\$57 million), higher variable rates in Permian and Anadarko due to higher natural gas prices (\$57 million) and higher costs relating to the diversification of the Company's downstream markets (\$18 million);

partially offset by:

- The expiration of certain transportation contracts in the USA Operations as well as expired contracts relating to previously divested assets (\$51 million), the sales of the Eagle Ford and Duvernay assets in the second quarter of 2021 (\$40 million), the decommissioning of Deep Panuke (\$24 million), lower natural gas volumes in Anadarko (\$16 million) and recoveries of amounts related to certain transportation contracts (\$7 million).

Operating

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

	\$ millions		\$ /BOE	
	2021	2020	2021	2020
USA Operations	\$ 490	\$ 485	\$ 4.48	\$ 4.12
Canadian Operations	111	100	1.27	1.21
Upstream Operating Expense ⁽¹⁾	601	585	3.07	2.92
Market Optimization	25	22		
Corporate & Other	(1)	(2)		
Total	\$ 625	\$ 605		

(1) Upstream Operating Expense per BOE for 2021 includes long-term incentive costs of \$0.13/BOE (2020 - long-term incentive costs of \$0.04/BOE).

2021 versus 2020

Operating expense increased \$20 million compared to 2020 primarily due to:

- Increased activity resulting from higher production in Permian and improved commodity prices (\$32 million), lower capitalization of directly attributable internal costs (\$26 million), higher long-term incentive costs resulting from an increase in the Company's share price in 2021 compared to a decrease in 2020 (\$21 million) and a higher U.S./Canadian dollar exchange rate (\$7 million);

partially offset by:

- The sales of the Eagle Ford and Duvernay assets in the second quarter of 2021 (\$43 million) and lower salaries and benefits due to decreased headcount resulting from workforce reductions in the second quarter of 2020 (\$23 million).

Additional information on the Company's long-term incentive costs can be found in Note 22 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Purchased Product

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

(\$ millions)	2021	2020
Market Optimization	\$ 2,951	\$ 1,366

2021 versus 2020

Purchased product expense increased \$1,585 million compared to 2020 primarily due to:

- Higher oil and natural gas benchmark prices (\$1,451 million) and higher third-party purchased liquids volumes primarily relating to price optimization activities in the USA Operations (\$556 million);

partially offset by:

- Lower third-party purchased natural gas volumes primarily relating to marketing arrangements for assets divested in prior years (\$422 million).

Depreciation, Depletion & Amortization

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

Additional information can be found under Upstream Assets and Reserve Estimates in the Critical Accounting Estimates section of this MD&A.

	\$ millions		\$ /BOE	
	2021	2020	2021	2020
USA Operations	\$ 837	\$ 1,378	\$ 7.65	\$ 11.75
Canadian Operations	332	427	\$ 3.89	\$ 5.21
Upstream DD&A	1,169	1,805	\$ 6.00	\$ 9.06
Corporate & Other	21	29		
Total	\$ 1,190	\$ 1,834		

DD&A decreased \$644 million compared to 2020 primarily due to:

- Lower depletion rates in the USA and Canadian Operations (\$448 million and \$144 million, respectively) and lower production volumes in USA Operations (\$93 million), partially offset by higher U.S./Canadian dollar exchange rate (\$32 million) and higher production volumes in the Canadian Operations (\$19 million).

The depletion rate in the USA Operations decreased \$4.10 per BOE compared to 2020 primarily due to the ceiling test impairments recognized in 2020 and the sale of the Eagle Ford assets in the second quarter of 2021. The depletion rate in the Canadian Operations decreased \$1.32 per BOE compared to 2020 primarily due to the sale of the Duvernay assets in the second quarter of 2021.

Impairments

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

In 2021, the Company did not recognize ceiling test impairments (2020 - \$5,580 million before tax, in the USA Operations). The non-cash ceiling test impairments in 2020 primarily resulted from the decline in the 12-month average trailing prices, which reduced proved reserves.

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

	Oil & NGLs		Natural Gas	
	WTI (\$/bbl)	Edmonton Condensate (C\$/bbl)	Henry Hub (\$/MMBtu)	AECO (C\$/MMBtu)
12-Month Average Trailing Reserves Pricing ⁽¹⁾				
2021	66.56	83.69	3.60	3.26
2020	39.62	49.77	1.98	2.13

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

The Company believes that the discounted after-tax future net cash flows from proved reserves required to be used in the ceiling test calculation are not indicative of the fair market value of Ovintiv's oil and natural gas properties or the future net cash flows expected to be generated from such properties. The discounted after-tax future net cash flows do not consider the fair market value of unamortized unproved properties, or probable or possible liquids and natural gas reserves. In addition, there is no consideration given to the effect of future changes in commodity prices. Ovintiv manages its business using estimates of reserves and resources based on forecast prices and costs. Additional information on the ceiling test calculation can be found in Note 10 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Administrative

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

	\$ millions		\$/BOE	
	2021	2020	2021	2020
Administrative, excluding Long-Term Incentive Costs, Restructuring and Legal Costs, and Current Expected Credit Losses ⁽¹⁾	\$ 300	\$ 281	\$ 1.55	\$ 1.41
Long-term incentive costs	107	23	0.55	0.12
Restructuring and legal costs	34	90	0.17	0.45
Current expected credit losses	1	1	-	-
Total Administrative ⁽²⁾	\$ 442	\$ 395	\$ 2.27	\$ 1.98

(1) Includes costs related to The Bow office lease of \$117 million (2020 - \$110 million), half of which is recovered from sublease revenues.

(2) Total Administrative costs for 2021 reflects a higher U.S./Canadian dollar exchange rate of \$13 million.

2021 versus 2020

Administrative expense increased \$47 million compared to 2020 primarily due to:

- Higher long-term incentive costs resulting from an increase in the Company's share price in 2021 compared to a decrease in 2020 (\$84 million) and higher legal and consulting costs (\$28 million);

partially offset by:

- A decrease in restructuring costs related to workforce reductions in 2020 (\$76 million).

During 2020, the Company completed workforce reductions 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. Additional information on restructuring charges and long-term incentive costs can be found in Notes 21 and 22, respectively, to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Other (Income) Expenses

(\$ millions)	2021	2020
Interest	\$ 340	\$ 371
Foreign exchange (gain) loss, net	(23)	17
Other (gains) losses, net	(37)	(55)
Total Other (Income) Expenses	\$ 280	\$ 333

Interest

Interest expense primarily includes interest on Ovintiv's long-term debt. Additional information on changes in interest can be found in Note 4 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

2021 versus 2020

Interest expense decreased \$31 million compared to 2020 primarily due to:

- The redemption of the Company's 2021 and 2022 senior notes (\$25 million), and open market repurchases of long-term debt completed in 2020 and decreased amounts drawn from the Company's credit facilities (\$21 million);

partially offset by:

- 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.

Foreign Exchange (Gain) Loss, Net

Foreign exchange gains and losses primarily result from the impact of fluctuations in the Canadian to U.S. dollar exchange rate. Additional information on changes in foreign exchange gains or losses can be found in Note 5 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Additional information on foreign exchange rates and the effects of foreign exchange rate changes can be found in Item 7A of this Annual Report on Form 10-K.

Following the completion of the corporate reorganization and U.S. domestication in the first quarter of 2020, the U.S. dollar denominated unsecured notes issued by Encana Corporation from Canada were assumed by Oviniv Inc., a company incorporated in Delaware with a U.S. dollar functional currency. Accordingly, these U.S. dollar denominated unsecured notes, along with certain intercompany notes, no longer attract foreign exchange translation gains or losses.

2021 versus 2020

Net foreign exchange gain was \$23 million compared to a loss of \$17 million in 2020 primarily due to:

- Lower unrealized foreign exchange losses on the translation of U.S. dollar financing debt issued from Canada compared to 2020 (\$50 million), realized foreign exchange gains on the settlement of U.S. dollar risk management contracts and financing debt issued from Canada compared to losses in 2020 (\$34 million and \$9 million, respectively) and realized foreign exchange gains on the settlement of intercompany notes compared to losses in 2020 (\$8 million);

partially offset by:

- Unrealized foreign exchange losses on the translation of U.S. dollar risk management contracts issued from Canada compared to gains in 2020 (\$33 million) and lower unrealized foreign exchange gains on the translation of intercompany notes (\$27 million).

Other (Gains) Losses, Net

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

Other gains in 2021 includes interest income of \$14 million primarily associated with the resolution of prior years' tax items.

Other gains in 2020 primarily included gains of \$30 million relating to the repurchase of the Company's fixed long-term debt on the open market and interest income of \$5 million.

Income Tax

(\$ millions)	2021	2020
Current Income Tax Expense (Recovery)	\$ (156)	\$ (14)
Deferred Income Tax Expense (Recovery)	(21)	381
Income Tax Expense (Recovery)	\$ (177)	\$ 367
Effective Tax Rate	(14.3%)	(6.4%)

Income Tax Expense (Recovery)

2021 versus 2020

In 2021, Ovintiv recorded an income tax recovery of \$177 million compared to an income tax expense of \$367 million in 2020, primarily due to the resolution of prior years' tax items and the change in valuation allowances.

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. However, if market conditions continue to improve, it is possible that a portion of the valuation allowance in Canada may be reversed within the next 12 months.

Effective Tax Rate

The Company's annual effective income tax rate is primarily impacted by earnings, changes in valuation allowances, amounts in respect of prior periods, state taxes, income tax related to foreign operations, the effect of legislative changes, and tax differences on divestitures and transactions.

The Company's effective tax rate was (14.3) percent for 2021, which 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.

The Company's effective tax rate was (6.4) percent for 2020, which is lower than the U.S. federal statutory tax rate of 21 percent primarily due to valuation allowances recorded relating 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.

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

Additional information on income taxes can be found in Note 6 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Liquidity and Capital Resources

Sources of Liquidity

The Company has the flexibility to access cash equivalents and a range of funding alternatives at competitive rates through committed revolving credit facilities as well as debt and equity capital markets. Ovintiv closely monitors the accessibility of cost-effective credit and ensures that sufficient liquidity is in place to fund capital expenditures and dividend payments. In addition, the Company may use cash and cash equivalents, cash from operating activities, or proceeds from asset divestitures to fund its operations or to manage its capital structure as discussed below. At December 31, 2021, \$188 million in cash and cash equivalents was held by Canadian subsidiaries. The cash held by Canadian subsidiaries is accessible and may be subject to additional U.S. income taxes and Canadian withholding taxes if repatriated.

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

(\$ millions, except as indicated)	2021	2020
Cash and Cash Equivalents	\$ 195	\$ 10
Available Credit Facilities ⁽¹⁾	4,000	3,402
Available Uncommitted Demand Lines ⁽²⁾	300	269
Issuance of U.S. Commercial Paper	-	(352)
Total Liquidity	\$ 4,495	\$ 3,329
Long-Term Debt, including current portion	\$ 4,786	\$ 6,885
Total Shareholders' Equity ⁽³⁾	\$ 5,074	\$ 3,837
Debt to Capitalization (%) ⁽⁴⁾	49	64
Debt to Adjusted Capitalization (%) ⁽⁵⁾	27	37

(1) Includes available credit facilities of \$2.5 billion (2020 - \$2.1 billion) in the U.S. and \$1.5 billion (2020 - \$1.3 billion) in Canada as at December 31, 2021 (collectively, the "Credit Facilities").

(2) Includes three uncommitted demand lines totaling \$336 million, net of \$36 million in related undrawn letters of credit (2020 - \$336 million and \$67 million, respectively).

(3) Shareholders' Equity reflects the shares of common stock purchased, for cancellation, under the Company's 2021 NCIB program.

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

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

The Company has access to two committed revolving U.S. dollar denominated credit facilities totaling \$4.0 billion, which include a \$2.5 billion revolving credit facility for Ovintiv Inc. and a \$1.5 billion revolving credit facility for a Canadian subsidiary, both maturing in July 2024. The Credit Facilities provide financial flexibility and allow the Company to fund its operations or capital program. At December 31, 2021, there were no outstanding amounts under the revolving Credit Facilities and the Company continues to have full access to its Credit Facilities.

During the fourth quarter of 2021, Ovintiv's credit rating was upgraded to investment grade by one of its credit rating agencies driven by Ovintiv's significant debt reductions and improved commodity price assumptions used by the rating agency. As a result of the upgrade, most of Ovintiv's credit ratings are investment grade.

Depending on the Company's credit rating and market demand, the Company may issue from its two U.S. CP programs, which include a \$1.5 billion program for Ovintiv Inc. and a \$1.0 billion program for a Canadian subsidiary. As at December 31, 2021, the Company had no commercial paper outstanding under its U.S. CP programs and continues to have full access to its U.S. CP programs.

The Credit Facilities, uncommitted demand lines, and cash and cash equivalents provide Ovintiv with total liquidity of approximately \$4.5 billion. At December 31, 2021, Ovintiv also had approximately \$36 million in undrawn letters

of credit issued in the normal course of business primarily as collateral security, related to transportation arrangements and to support future abandonment liabilities.

Ovintiv has 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 remained accessible under the Canadian shelf prospectus. The ability to issue securities under the U.S. shelf registration statement or Canadian shelf prospectus is dependent upon market conditions and securities law requirements.

Ovintiv is currently in compliance with, and expects that it will continue to be in compliance with, all financial covenants under the Credit Facilities. Management monitors Debt to Adjusted Capitalization, which is a non-GAAP measure defined in the Non-GAAP Measures section of this MD&A, as a proxy for Ovintiv's financial covenant under the Credit Facilities, which requires Debt to Adjusted capitalization to be less than 60 percent. As at December 31, 2021, the Company's Debt to Adjusted Capitalization was 27 percent. The definitions used in the covenant under the Credit Facilities adjust capitalization for cumulative historical ceiling test impairments recorded in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP. Ovintiv does not expect the current COVID-19 pandemic to impact the Company's ability to remain in compliance with its financial covenants under the Credit Facilities. Additional information on financial covenants can be found in Note 15 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Sources and Uses of Cash

During 2021, the Company primarily generated cash through operating activities and divestitures. The following table summarizes the sources and uses of the Company's cash and cash equivalents.

(\$ millions)	Activity Type	2021	2020
Sources of Cash, Cash Equivalents and Restricted Cash			
Cash from operating activities	Operating	\$ 3,129	\$ 1,895
Proceeds from divestitures	Investing	1,025	89
Net issuance of revolving long-term debt	Financing	-	252
		4,154	2,236
Uses of Cash and Cash Equivalents			
Capital expenditures	Investing	1,519	1,736
Acquisitions	Investing	11	19
Net repayment of revolving long-term debt	Financing	950	-
Repayment of long-term debt ⁽¹⁾	Financing	1,137	272
Purchase of shares of common stock	Financing	111	-
Dividends on shares of common stock	Financing	122	97
Other	Financing/Investing	119	287
		3,969	2,411
Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency		-	(5)
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash		\$ 185	\$ (180)

(1) Includes open market repurchases in 2020.

Operating Activities

Net cash from operating activities in 2021 was \$3,129 million and was primarily a reflection of the impacts from higher average realized commodity prices, partially offset by the effects of the Company's commodity price mitigation program and changes in non-cash working capital.

Additional detail on changes in non-cash working capital can be found in Note 26 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Oviniv expects it will continue to meet the payment terms of its suppliers.

Non-GAAP Cash Flow in 2021 was \$3,209 million and was primarily impacted by the items affecting cash from operating activities which are discussed below and in the Results of Operations section of this MD&A.

2021 versus 2020

Net cash from operating activities increased \$1,234 million compared to 2020 primarily due to:

- Higher realized commodity prices (\$3,532 million), a current income tax recovery mainly due to the resolution of prior years' tax items (\$156 million), lower decommissioning payments primarily related to Deep Panuke (\$123 million), lower administrative expenses, excluding non-cash long-term incentive costs and current expected credit losses (\$25 million) and higher interest income (\$9 million);

partially offset by:

- Realized losses on risk management in revenues compared to gains in 2020 (\$2,106 million), changes in non-cash working capital (\$180 million), lower production volumes (\$160 million), higher production, mineral and other taxes (\$120 million) and higher transportation and processing expense (\$114 million).

Investing Activities

The Company's primary investing activities are capital expenditures, divestitures and acquisitions, and are summarized in Notes 2 and 9 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

2021 and 2020

Net cash used in investing activities in 2021 was \$525 million primarily due to capital expenditures, partially offset by proceeds from divestitures. Capital expenditures decreased \$217 million compared to 2020 due to the Company's reduced capital program in response to the volatile market conditions that commenced at the end of the first quarter of 2020 as well as the Company's drive to maintain capital discipline while maximizing efficiency gains.

Acquisitions in 2021 were \$11 million (2020 - \$19 million), which primarily included property purchases with oil and liquids rich potential.

Divestitures in 2021 were \$1,025 million, which primarily included the sale of the Eagle Ford assets in south Texas and Duvernay assets in west central Alberta, totaling approximately \$1.0 billion, after closing and other adjustments, as well as certain properties that did not complement Ovintiv's existing portfolio of assets. Divestitures in 2020 were \$89 million, which primarily included the sale of certain properties that did not complement Ovintiv's existing portfolio of assets.

Financing Activities

Net cash used in financing activities has been impacted by the Company's strategy to enhance liquidity, strengthen its balance sheet by repaying or repurchasing existing debt, and returning value to shareholders through the purchase of shares of common stock and paying dividends.

2021 versus 2020

Net cash used in financing activities in 2021 increased \$2,213 million compared to 2020. The increase was primarily due to a net repayment of revolving long-term debt in 2021 of \$950 million compared to a net issuance in 2020 of \$252 million, higher repayment of long-term debt associated with the early redemption of the Company's senior notes (\$865 million) and shares of common stock purchased under the 2021 NCIB (\$111 million) as discussed below.

From time to time, Ovintiv may seek to retire or purchase the Company's outstanding debt through cash purchases and/or exchanges for other debt or equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors.

The Company's long-term debt totaled \$4,786 million at December 31, 2021. There was no current portion of long-term debt outstanding at December 31, 2021. The Company's long-term debt at December 31, 2020 totaled \$6,885 million, which included the current portion of \$518 million. In June 2021, the Company redeemed its \$600 million, 5.75 percent senior notes due January 30, 2022, and in August 2021, redeemed its \$518 million, 3.90 percent senior notes due November 15, 2021. The combined debt redemptions will result in annualized interest savings of over \$50 million. As at December 31, 2021, the Company has no fixed rate long-term debt due until 2024 and beyond.

Since the second quarter of 2020, the Company has allocated \$2,580 million in excess cash flows to reduce its total long-term debt balance, which includes proceeds from the Duvernay and Eagle Ford asset divestitures. The Company expects to achieve its Net Debt balance of \$3.0 billion in the second half of 2022, assuming commodity prices of \$85.00 per barrel for WTI oil and \$4.50 per MMBtu for NYMEX natural gas.

In support of the Company's commitment to growing shareholder value, Ovintiv announced a new capital allocation framework in the third quarter that outlines increasing returns to shareholders as well as continuing the Company's progress on debt reduction.

For additional information on long-term debt, refer to Note 15 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Dividends

The Company pays quarterly dividends to common shareholders at the discretion of the Board of Directors.

(\$ millions, except as indicated)	2021		2020
Dividend Payments	\$	122	\$ 97
Dividend Payments (\$/share)	\$	0.4675	\$ 0.375

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. This represents an increase of about 43 percent to the annualized dividend payment.

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. The number of shares authorized for purchase represent approximately 10 percent of Ovintiv's issued and outstanding shares of common stock as at September 20, 2021. The Company is funding the NCIB through its new capital allocation framework as discussed above. In 2021, the Company purchased for cancellation, approximately 3.1 million shares of common stock for total consideration of approximately \$111 million.

For additional information on the NCIB, refer to Note 18 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Material Cash Requirements

Ovintiv's material cash requirements include various contractual obligations arising from long-term debt, operating leases, risk management liabilities and asset retirement obligations which are recognized on the Company's Consolidated Balance Sheet. The Company expects to fund long term material cash requirements primarily with cash from operating activities.

Interest payments include scheduled cash payments on long-term debt, finance leases and other obligations. Additional information can be found in Notes 15 and 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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, as well as The Bow building. The Company has subleased approximately 50 percent of The Bow office space under the lease agreement. Additional information on leases can be found in Note 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Risk management liabilities represent Ovintiv's net liability positions with counterparties. The majority of the Company's risk management positions are expected to be settled by the end of 2022. Additional information can be found in Note 25 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Contractual commitments relating to transportation and processing commitments, and drilling and field services can be found in Notes 14 and 27 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Further to the commitments discussed above, Ovintiv also has various obligations that become payable if certain future events occur relating to take or pay arrangements and guarantees on transportation commitments resulting from completed property divestitures as described in Notes 20, 25 and 27, respectively, to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

In addition, the Company has obligations to fund its defined benefit pension and other post-employment benefit plans, as well as obligations to fund the disposal of long-lived assets upon their abandonment as described in Notes 23 and 17, respectively, to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Other than the items discussed above, there are no other transactions, arrangements, or relationships with unconsolidated entities or persons that are reasonably likely to materially affect the Company's liquidity or the availability of, or requirements for, capital resources.

Contingencies

For information on contingencies, refer to Note 27 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Accounting Policies and Estimates

Critical Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make informed judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. For a discussion of the Company's significant accounting policies refer to Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Changes in facts and circumstances or additional information may result in revised estimates, and actual results may differ from these estimates. Management considers the following to be its most critical accounting estimates that involve judgment. The following discussion outlines the accounting policies and practices involving the use of estimates that are critical to determining Ovintiv's financial results. Changes in the estimates and assumptions discussed below could materially affect the amount or timing of the financial results of the Company.

Description	Judgments and Uncertainties
Upstream Assets and Reserve Estimates <p>As Ovintiv follows full cost accounting for oil, NGLs and natural gas activities, reserves estimates are a key input to the Company's depletion, gain or loss on divestitures and ceiling test impairment calculations. In addition, these reserves are the basis for the Company's supplemental oil and gas disclosures.</p> <p>Ovintiv estimates its proved oil and natural gas reserves according to the definition of proved reserves provided by the SEC. The Company's estimates of proved reserves are made using available geological and reservoir data as well as production performance data and must demonstrate with reasonable certainty to be economically producible in future periods from known reservoirs under existing economic conditions, operating methods and government regulations. The estimation of reserves is a subjective process.</p> <p>Reserves are calculated using an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months, held flat for the life of the production, except where prices are defined by contractual arrangements.</p> <p>Ovintiv manages its business using estimates of reserves and resources based on forecast prices and costs as it gives consideration to probable and possible reserves and future changes in commodity prices.</p>	<p>Due to the inter-relationship of various judgments made to reserve estimates and the volatile nature of commodity prices, it is generally not possible to predict the timing or magnitude of ceiling test impairments.</p> <p>Revisions to reserve estimates are necessary due to changes in and among other things, development plans, projected future rates of production, the timing of future expenditures, reservoir performance, economic conditions, governmental restrictions as well as changes in the expected recovery associated with infill drilling, all of which are subject to numerous uncertainties and various interpretations. Downward revisions in proved reserve estimates due to changes in reserve estimates may increase depletion expense and may also result in a ceiling test impairment.</p> <p>Decreases in prices may result in reductions in certain proved reserves due to reaching economic limits at an earlier projected date and impact earnings through depletion expense and ceiling test impairments.</p> <p>Ovintiv believes that the discounted after-tax future net cash flows from proved reserves required to be used in the ceiling test calculation are not indicative of the fair market value of Ovintiv's oil and natural gas properties or the future net cash flows expected to be generated from such properties.</p>
Goodwill Impairments <p>Goodwill is assessed for impairment at least annually in December, at the reporting unit level which are Ovintiv's country cost centres. 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.</p> <p>Because quoted market prices for the Company's reporting units are not available, management applies judgment in determining the estimated fair value of reporting units for purposes of performing goodwill impairment tests. Ovintiv may use a combination of the income and the market valuation approaches.</p>	<p>The most significant assumptions used to determine a reporting unit's fair value include estimations of oil and natural gas reserves, including both proved reserves and risk-adjusted unproved reserves, estimates of market prices considering forward commodity price curves as of the measurement date, market discount rates and estimates of operating, administrative, and capital costs adjusted for inflation. In addition, management may support fair value estimates determined with comparable companies that are actively traded in the public market, recent comparable asset transactions, and transaction premiums. This would require management to make certain judgments about the selection of comparable companies utilized.</p> <p>Downward revisions of estimated reserves quantities, increases in future cost estimates, sustained decreases in oil or natural gas prices, or divestiture of a significant component of the reporting unit could reduce expected future cash flows and fair value estimates of the reporting units and possibly result in an impairment of goodwill in future periods.</p>

Description**Judgments and Uncertainties****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 natural gas production operations. The fair value of estimated asset retirement obligations is recognized on the Consolidated Balance Sheet when incurred and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation are recognized as a change in the asset retirement obligation and the related asset retirement cost. Actual expenditures incurred are charged against the accumulated asset retirement obligation. Accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value.

Derivative Financial Instruments

Ovintiv uses derivative financial instruments to manage its exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. The Company's policy is not to utilize derivative financial instruments for speculative purposes. Realized gains or losses from financial derivatives are recognized in net earnings as the contracts are settled. Unrealized gains and losses are recognized in net earnings at the end of each respective reporting period based on the changes in fair value of the contracts.

Derivative financial instruments are measured at fair value with changes in fair value recognized in net earnings. Fair value estimates are determined using quoted prices in active markets, inferred based on market prices of similar assets and liabilities or valued using internally developed estimates. The Company may use various valuation techniques including the discounted cash flow or option valuation models.

As Ovintiv has chosen not to elect hedge accounting treatment for the Company's derivative financial instruments, changes in the fair values of derivative financial instruments can have a significant impact on Ovintiv's results of operations. Generally, changes in fair values of derivative financial instruments do not impact the Company's liquidity or capital resources. Settlements of derivative financial instruments do have an impact on the Company's liquidity and results of operation.

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.

Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety, and public relations considerations. The asset retirement obligation is estimated by discounting the expected future cash flows of the settlement. The discounted cash flows are based on estimates of such factors as reserves lives, retirement costs, timing of settlements, credit-adjusted risk-free rates and inflation rates. Changes in these estimates impact net earnings through accretion of the asset retirement obligation in addition to depletion of the asset retirement cost included in property, plant and equipment.

Ovintiv's derivative financial instruments primarily relate to commodities including oil, NGLs and natural gas. The most significant assumptions used in determining the fair value to the Company's commodity derivatives financial instruments include estimates of future commodity prices, implied volatilities of commodity prices, discount rates and estimates of counterparty credit risk. These pricing and discounting variables are sensitive to the period of the contract and market volatility as well as regional price differentials. These inputs may also be observable and corroborated by market data or unobservable and sourced from limited market activity, internally generated estimates or corroborated by third parties. Changes in these estimates and assumptions can impact net earnings, revenues and expenses.

Tax interpretations, regulations, legislation and potential Treasury Department guidance, in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty and the interpretations can impact net earnings through the income tax expense arising from the changes in deferred income tax assets or liabilities.

Description

Deferred income tax assets are routinely assessed 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's interim income tax expense is determined using an estimated annual effective income tax rate applied to year-to-date net earnings before income tax plus the effect of legislative changes and amounts in respect of prior periods.

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.

The Company's unremitted earnings from its foreign subsidiaries are considered to be permanently reinvested, as a result the Company does not calculate a deferred tax liability for domestic income taxes on these foreign earnings.

Contingent Liabilities

Ovintiv is subject to various legal proceedings, environmental remediation, commercial and regulatory claims and liabilities that arise in the ordinary course of business. The Company accrues losses when such losses are probable and reasonably estimable, except for contingencies acquired in a business combination which are recorded at fair value at the time of the acquisition. If a loss is probable but the Company cannot estimate a specific amount for that loss, the best estimate within the range is accrued and if no amount is better within the range, the minimum amount is accrued.

Judgments and Uncertainties

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. Numerous judgments and assumptions are inherent in the determination of future taxable income, including factors such as future operating conditions, particularly related to oil and gas prices. As a result, the assumptions used in determining expected future taxable earnings are consistent with those used in the goodwill impairment assessment.

The estimated annual effective income tax rate is impacted by expected annual earnings, changes in valuation allowances, state taxes, income tax related to foreign operations, the effect of legislative changes, and tax differences on divestitures and transactions.

The Company routinely assesses potential uncertain tax positions and, if required, establishes accruals for such amounts. The accruals are adjusted based on changes in facts and circumstances. Material changes to Ovintiv's income tax accruals may occur in the future based on the progress of ongoing audits, changes in legislation or resolution of pending matters.

Determination of unrecognized deferred income tax liabilities is not practicable due to the significant uncertainty in assumptions that would be required including determining the nature of any future remittances, that could be distributions in the form of non-taxable returns of capital or taxable earnings and associated withholding taxes, or determining the tax rates on any future remittances that could vary significantly depending on the available approaches to repatriate the earnings.

The establishment and evaluation of a contingent loss is based on advice from legal counsel, advisors or consultants and management's judgement. Actual costs can vary from such estimates for various reasons including: i) differing interpretation of the law, opinions on responsibility and assessments on the amount of damages; ii) changes in status of litigation or claims and information available; iii) differing interpretation of regulations by regulators or the courts; iv) changes in laws and regulations; and v) additional or developing information relating to extent and nature of environmental remediation and technology improvements. The Company continually monitors known and potential legal, environmental and other claims or contingencies based on available information. Future changes in facts and circumstances not currently foreseeable could result in the actual liabilities recorded exceeding the estimated amounts accrued.

Non-GAAP Measures

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

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

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

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

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

(\$ millions, except as indicated)	2021	2020
Cash From (Used in) Operating Activities	\$ 3,129	\$ 1,895
(Add back) deduct:		
Net change in other assets and liabilities	(39)	(173)
Net change in non-cash working capital	(41)	139
Current tax on sale of assets	-	-
Non-GAAP Cash Flow ⁽¹⁾	\$ 3,209	\$ 1,929
Divided by:		
Production Volumes (MMBOE)	194.9	199.0
Non-GAAP Cash Flow Margin (\$/BOE)	\$ 16.46	\$ 9.69

(1) 2021 includes restructuring costs of \$14 million (2020 - \$90 million).

Total Costs

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

(\$ millions, except as indicated)	2021	2020
Total Operating Expenses	\$ 7,139	\$ 11,484
Deduct (add back):		
Market optimization operating expenses	3,148	1,608
Corporate & other operating expenses	(1)	(2)
Depreciation, depletion and amortization	1,190	1,834
Impairments	-	5,580
Accretion of asset retirement obligation	22	29
Long-term incentive costs	132	31
Restructuring and legal costs	34	90
Current expected credit losses	1	1
Total Costs	\$ 2,613	\$ 2,313
Divided by:		
Production Volumes (MMBOE)	194.9	199.0
Total Costs (\$/BOE) ⁽¹⁾	\$ 13.42	\$ 11.60

(1) Calculated using whole dollars and volumes.

Debt to Adjusted Capitalization

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

(\$ millions, except as indicated)	December 31, 2021	December 31, 2020
Long-Term Debt, including current portion	\$ 4,786	\$ 6,885
Total Shareholders' Equity	5,074	3,837
Equity Adjustment for Impairments at December 31, 2011	7,746	7,746
Adjusted Capitalization	\$ 17,606	\$ 18,468
Debt to Adjusted Capitalization	27%	37%

Net Debt and Net Debt to Adjusted EBITDA

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

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

(\$ millions, except as indicated)	December 31, 2021	December 31, 2020
Long-Term Debt, including current portion	\$ 4,786	\$ 6,885
Less:		
Cash and cash equivalents	195	10
Net Debt	4,591	6,875
Net Earnings (Loss)	1,416	(6,097)
Add back (deduct):		
Depreciation, depletion and amortization	1,190	1,834
Impairments	-	5,580
Accretion of asset retirement obligation	22	29
Interest	340	371
Unrealized (gains) losses on risk management	488	204
Foreign exchange (gain) loss, net	(23)	17
(Gain) loss on divestitures, net	-	-
Other (gains) losses, net	(37)	(55)
Income tax expense (recovery)	(177)	367
Adjusted EBITDA	\$ 3,219	\$ 2,250
Net Debt to Adjusted EBITDA (times)	1.4	3.1