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

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

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

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

Executive Overview

Strategy

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

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

Ovintiv continually reviews and evaluates its strategy and changing market conditions. In 2020, Ovintiv continues to focus on sustainable cash flow generation from high margin, scalable, top tier assets located in some of the best plays in North America, referred to as the "Core Assets". In response to the current low commodity price environment resulting predominantly from the global coronavirus ("COVID-19") pandemic, coupled with excess oil production from Saudi Arabia and Russia, the Company has revised its capital program for the remainder of 2020 to focus on production from the Core Assets generating the highest returns and/or with the lowest costs, while choosing to cease operating rigs and shut-in production in certain areas. As at March 31, 2020, the Core Assets comprised Permian and Anadarko in the U.S., and Montney in Canada. These top tier assets form a multi-basin portfolio of oil, NGLs and natural gas producing plays enabling flexible and efficient investment of capital that support the Company's strategy.

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

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

Highlights

During the first quarter of 2020, the Company focused on executing its 2020 capital plan, generating cash from operating activities and maximizing profitability through operational and capital efficiencies. Lower upstream product revenues in the first quarter of 2020 compared to 2019 resulted from lower average realized prices, excluding the impact of risk management activities, partially offset by higher production volumes. Decreases in average realized liquids and natural gas prices of 27 percent and 33 percent, respectively, were primarily due to lower benchmark prices. Total production volumes increased by 22 percent compared to the first quarter of 2019 primarily due to the Newfield acquisition, which was completed on February 13, 2019, and from successful drilling programs. Ovintiv continues to focus on optimizing realized prices from the diversification of the Company's downstream markets.

Significant Developments

- On January 24, 2020, Encana completed a corporate reorganization, which included a plan of arrangement (the "Arrangement") that involved, among other things, a share consolidation by Encana on the basis of one post-consolidation share for each five pre-consolidation shares (the "Share Consolidation"), and Ovintiv Inc. ultimately acquired all of the issued and outstanding common shares of Encana in exchange for shares of common stock of Ovintiv Inc. on a one-for-one basis. Following completion of the Arrangement, Ovintiv Inc. migrated from Canada and became a Delaware corporation, domiciled in the U.S. (the "U.S. Domestication"). The Arrangement and the U.S. Domestication together are referred to as the "Reorganization". Additional information on the Reorganization can be found in Note 1 of the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Financial Results

- Reported net earnings of $421 million, including net gains on risk management in revenues of $1,055 million, before tax, and a non-cash ceiling test impairment of $277 million, before tax.
- Generated cash from operating activities of $566 million, Non-GAAP Cash Flow of $535 million and Non-GAAP Cash Flow Margin of $10.29 per BOE.
- Paid dividends of $0.09375 per common share totaling $24 million.
- Repurchased in the open market $90 million and $10 million in principal amount of the Company's senior notes with fixed rates of 5.75 percent and 3.90 percent, respectively, resulting in a gain of $11 million.
- Held cash and cash equivalents of $82 million and had $3.5 billion in available credit facilities which supported the Company's outstanding commercial paper balance of $357 million as at March 31, 2020.
- Achieved Net Debt to Adjusted EBITDA of 2.0 times.

Capital Investment

- Commenced the Company's 2020 capital plan with expenditures totaling $790 million of which $632 million, or 80 percent, was directed to the Core Assets.
- Focused on highly efficient capital activity and short-cycle high margin and/or low cost projects providing flexibility to respond to fluctuations in commodity prices.

Production

- Produced average liquids volumes of 309.8 Mbbls/d, which accounted for 54 percent of total production volumes. Average oil and plant condensate production volumes of 215.2 Mbbls/d were 69 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,569 MMcf/d, which accounted for 46 percent of total production volumes.

Revenues and Operating Expenses

- Focused on market diversification to optimize realized commodity prices and revenues through a combination of derivative financial instruments and physical transportation contracts.
- Incurred Total Costs in the first quarter of 2020 of $12.17 per BOE, a decrease compared to the first quarter of 2019 of $1.27 per BOE. Total Costs includes production, mineral and other taxes, upstream transportation and processing expense, upstream operating expense and administrative expense. Total Costs excludes the impact of long-term incentive costs, restructuring costs and current expected credit losses. Significant items in the first quarter of 2020 impacting Total Costs include:
    - Lower upstream transportation and processing expense in the first quarter of 2020 compared to 2019 of $0.50 per BOE primarily due to the higher proportion of total production volumes from the USA Operations, which benefit from lower than average per BOE transportation and processing costs. Production volumes in the USA Operations were higher in the first quarter of 2020 compared to 2019 primarily due to the Newfield acquisition on February 13, 2019; and
    - Lower administrative expenses, excluding long-term incentive costs, restructuring costs and current expected credit losses, of $0.50 per BOE and lower upstream operating expenses, excluding long-term incentive costs, of $0.14 per BOE in the first quarter of 2020 compared to 2019 primarily due to synergies achieved in 2019 through workforce reductions and operating efficiencies.
- Preserved operational and administrative synergies achieved in 2019 and enhanced efficiencies through leveraging technology, innovation and scale.

2020 Outlook

Industry Outlook

Oil Markets

The oil and gas industry is cyclical and commodity prices are inherently volatile. Oil prices during 2020 are expected to reflect global supply and demand dynamics as well as the geopolitical and macroeconomic environment. In March 2020, during the midst of the global COVID-19 pandemic, Saudi Arabia and Russia failed to reach an agreement on production cuts, which intensified the oversupply of oil and contributed to a dramatic decline in oil prices. In April 2020, OPEC and a group of twenty nations (collectively, "OPEC+") agreed to cut oil production to address the existing imbalance of global supply and demand. OPEC+ is expected to meet again in June to discuss additional measures that may need to be taken to rebalance the global oil market.

Global crude oil demand fell significantly as governments worldwide took action to contain the effects of the COVID-19 pandemic. Oil and product storage facilities are filling up at an unprecedented rate as supply materially exceeds demand. As the gap between supply and demand in oil markets has grown increasingly pronounced, the oil and gas industry has responded by reducing capital spending and implementing both coordinated and market-based supply shut-ins, leading to increased price volatility. The re-balancing of global supply and demand and the industry's return to a more stable commodity price environment is highly dependent on the successful global containment of the virus and the pace of economic recovery.

With significant uncertainty amid a highly volatile market environment, oil prices for the remainder of 2020 are expected to fluctuate depending on changes to production cuts amongst OPEC+, as well as the COVID-19 pandemic response efforts and actions taken to stimulate the global economy.

Natural Gas Markets

Natural gas prices in 2020 will be affected by changes in both supply and demand and the effects of seasonal weather. Higher-than-average inventory levels and warmer than normal temperatures during the winter months continued to put downward pressure on U.S. natural gas prices, which remains volatile in Canada and the U.S. from additional demand concerns stemming from the COVID-19 pandemic. Natural gas prices could experience a modest recovery by the end of the second quarter of 2020 due to declines in North American oil production resulting from low oil prices and lower associated natural gas production.

Company Outlook

Despite the current low commodity price environment, Ovintiv is well positioned to deliver on its updated capital plan while generating positive cash flows. In response to the rapid decline in crude oil prices witnessed in early March, the Company took immediate action to reduce its second quarter 2020 capital investments by $300 million. As the effects of the COVID-19 pandemic expanded globally and oil prices continued to decline through the latter half of March, the Company responded by reducing its second quarter capital plans by an additional $200 million, bringing total capital spending reductions to $500 million. Ovintiv has ceased operating ten drilling rigs and intends to cut an additional six rigs in May 2020. The Company will exercise discretion and disciplined capital allocation to adjust its capital spending beyond the second quarter as the current price environment evolves. As the Company expects the current price environment to remain dynamic and volatile in the near-term, the Company will also assess the option to shut-in low-margin production in certain resource plays in response to a prolonged period of low prices. Due to ongoing uncertainty and continued market volatility, the Company has suspended its previously issued 2020 guidance.

The Company enters into derivative financial instruments which mitigate price volatility and help sustain revenues, particularly during periods of lower prices. Accordingly, Ovintiv restructured its remaining 2020 crude oil hedges to provide additional downside price protection. As at April 30, 2020, the Company has hedged approximately 185.0 Mbbls/d, or 94 percent, of expected crude oil and condensate production and 1,196 MMcf/d, or 75 percent, of expected natural gas production for the remainder of the year. Additional information on Ovintiv's hedging program can be found in Note 22 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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

In conjunction with the $500 million reduction in capital investment noted above, Ovintiv also announced its plans to reduce costs by $200 million, an increase over the previously announced $100 million in cost savings. The Company expects that operating costs will be reduced by approximately $115 million and approximately $85 million will come from other cost savings.

Capital Investment

During the first quarter of 2020, the Company spent $790 million, of which $242 million was directed to Permian with 32 net wells drilled, $235 million was directed to Anadarko with 37 net wells drilled and $155 million was directed to Montney with 28 net wells drilled. Ovintiv reduced its second quarter 2020 capital investment by $500 million and expects capital spending to be primarily allocated to the Core Assets with a focus on maximizing returns from high margin liquids, while suspending capital programs in Eagle Ford, Bakken, Uinta and Duvernay. Ovintiv plans to fund the remainder of its 2020 capital investment using cash from operations, cash on hand and funds available from the Company's credit facilities. As the Company monitors the global economic environment, Ovintiv will continue to evaluate its capital investment plans.

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

Production

During the first quarter of 2020, average liquids production volumes were 309.8 Mbbls/d, or 54 percent of total production volumes, and average natural gas production volumes were 1,569 MMcf/d, or 46 percent of total production volumes. Full year production volumes are expected to reflect the Company's reduced capital investment plans and shut-in strategy, which are highly dependent on market conditions.

Operating Expenses

In the first quarter of 2020, Ovintiv announced its commitment to reducing full year 2020 costs by $200 million in response to the low commodity price environment. These cost savings primarily include reductions to operating expenses reflected in Total Costs, as well as a reduction to other expenses discussed below.

In the first quarter of 2020, Total Costs was $12.17 per BOE and is expected to trend downward as activity levels decrease and significant cost saving measures are realized through operational flexibility in response to the low commodity price environment. Total Costs includes production, mineral and other taxes, upstream transportation and processing expense, upstream operating expense and administrative expense, excluding the impact of long-term incentive costs, restructuring costs and current expected credit losses. Upstream transportation and processing expense was $6.40 per BOE, while upstream operating expense and administrative expense, excluding long-term incentive costs, restructuring costs and current expected credit losses, were $3.34 per BOE and $1.42 per BOE, respectively. Ovintiv expects to continue pursuing innovative ways to reduce upstream operating and administrative expenses and expects efficiency improvements and effective supply chain management to maximize cash flows.

Other Expenses and Impairments

The remaining full year cost savings are expected to include reductions to cash outflows and other expenses, such as interest expense. Following the open market repurchase of $100 million in principal of Ovintiv's fixed rate senior notes, the Company expects to incur lower interest expense of approximately $3 million on an annualized basis as a result of reduced long-term debt balances and approximately $13 million resulting from lower expected average interest rates on the Company's Credit Facilities.

Additional information on Ovintiv's long-term debt and liquidity position can be found in Note 12 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the Liquidity and Capital Resources section of this MD&A, respectively.

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

Results of Operations

Selected Financial Information

($ millions)	Three months ended March 31, 2020	2019 [(1)]
Product and Service Revenues		
Upstream product revenues	**$ 1,151**	$ 1,245
Market optimization	**419**	326
Service revenues	**-**	1
Total Product and Service Revenues	**1,570**	1,572
Gains (Losses) on Risk Management, Net	**1,055**	(355)
Sublease Revenues	**18**	18
Total Revenues	**2,643**	1,235
Total Operating Expenses [(2)]	**1,884**	1,462
Operating Income (Loss)	**759**	(227)
Total Other (Income) Expenses	**198**	79
Net Earnings (Loss) Before Income Tax	**561**	(306)
Income Tax Expense (Recovery)	**140**	(61)
Net Earnings (Loss)	**$ 421**	$ (245)

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

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

Revenues

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

Benchmark Prices

(average for the period)	Three months ended March 31, 2020	2019
Oil & NGLs		
WTI ($/bbl)	**$ 46.17**	$ 54.90
Houston ($/bbl)	**49.48**	60.82
Edmonton Condensate (C$/bbl)	**61.73**	67.21
Natural Gas		
NYMEX ($/MMBtu)	**$ 1.95**	$ 3.15
AECO (C$/Mcf)	**2.14**	1.94
Dawn (C$/MMBtu)	**2.39**	3.85

Production Volumes and Realized Prices

	Three months ended March 31,			
	Production Volumes (1)		Realized Prices (2)	
	2020	2019	**2020**	2019
Oil (Mbbls/d, $/bbl)				
USA Operations	**161.7**	123.2	**$ 43.49**	$ 54.42
Canadian Operations	**0.8**	0.3	**38.95**	37.31
China Operations (3)	**-**	2.3	**-**	65.62
Total	**162.5**	125.8	**43.47**	54.57
NGLs – Plant Condensate (Mbbls/d, $/bbl)				
USA Operations	**11.0**	6.2	**34.54**	43.62
Canadian Operations	**41.7**	38.7	**43.99**	49.61
Total	**52.7**	44.9	**42.02**	48.79
NGLs – Other (Mbbls/d, $/bbl)				
USA Operations	**77.5**	44.6	**7.33**	17.81
Canadian Operations	**17.1**	16.1	**6.97**	20.11
Total	**94.6**	60.7	**7.27**	18.41
Total Oil & NGLs (Mbbls/d, $/bbl)				
USA Operations	**250.2**	174.0	**31.90**	44.64
Canadian Operations	**59.6**	55.1	**33.29**	40.95
China Operations (3)	**-**	2.3	**-**	65.62
Total	**309.8**	231.4	**32.16**	43.97
Natural Gas (MMcf/d, $/Mcf)				
USA Operations	**568**	367	**1.41**	2.31
Canadian Operations	**1,001**	1,054	**1.86**	2.60
Total	**1,569**	1,421	**1.70**	2.53
Total Production (MBOE/d, $/BOE)				
USA Operations	**344.8**	235.2	**25.46**	36.63
Canadian Operations	**226.5**	230.7	**16.98**	21.67
China Operations (3)	**-**	2.3	**-**	65.62
Total	**571.3**	468.2	**22.10**	29.39
Production Mix (%)				
Oil & Plant Condensate	**38**	36		
NGLs – Other	**16**	13		
Total Oil & NGLs	**54**	49		
Natural Gas	**46**	51		
Production Growth – Year Over Year (%) (4)				
Total Oil & NGLs	**34**	59		
Natural Gas	**10**	32		
Total Production	**22**	44		
Core Assets Production				
Oil (Mbbls/d)	**111.2**	83.2		
NGLs – Plant Condensate (Mbbls/d)	**46.2**	37.9		
NGLs – Other (Mbbls/d)	**83.6**	51.7		
Total Oil & NGLs (Mbbls/d)	**241.0**	172.8		
Natural Gas (MMcf/d)	**1,405**	1,210		
Total Production (MBOE/d)	**475.3**	374.4		
% of Total Production	**83**	80		

(1) Average daily.
(2) Average per-unit prices, excluding the impact of risk management activities.
(3) The Company terminated its production sharing contract with China National Offshore Oil Corporation ("CNOOC") and exited its China Operations effective July 31, 2019. Production from China Operations is presented for the period from February 14, 2019 through July 31, 2019.
(4) Includes production impacts of acquisitions and divestitures.

Upstream Product Revenues

($ millions)	Three months ended March 31, Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas	Total
2019 Upstream Product Revenues [(1)]	**$ 618**	**$ 198**	**$ 100**	**$ 323**	**$ 1,239**
Increase (decrease) due to:					
Sales prices	(155)	(33)	(96)	(116)	(400)
Production volumes	180	36	59	37	312
2020 Upstream Product Revenues	**$ 643**	**$ 201**	**$ 63**	**$ 244**	**$ 1,151**

(1) Revenues for the first quarter of 2019 exclude certain other revenue and royalty adjustments with no associated production volumes of $6 million.

Oil Revenues

Three months ended March 31, 2020 versus March 31, 2019

Oil revenues increased $25 million compared to the first quarter of 2019 primarily due to:

- Higher average oil production volumes of 36.7 Mbbls/d increased revenues by $180 million. Higher volumes were primarily due to the Newfield acquisition on February 13, 2019 (36.8 Mbbls/d) and successful drilling programs in Bakken and Permian (11.4 Mbbls/d), partially offset by natural declines surpassing new production in Eagle Ford and Uinta (10.5 Mbbls/d) and the termination of the Company's production sharing contract in its China Operations in the third quarter of 2019 (2.3 Mbbls/d); and
- Lower average realized oil prices of $11.10 per bbl, or 20 percent, decreased revenues by $155 million. The decrease reflected lower Houston and WTI benchmark prices which were down 19 percent and 16 percent, respectively, and weakening regional pricing relative to the WTI benchmark price in the USA Operations.

NGL Revenues

Three months ended March 31, 2020 versus March 31, 2019

NGL revenues decreased $34 million compared to the first quarter of 2019 primarily due to:

- Lower average realized other NGL prices of $11.14 per bbl, or 61 percent, decreased revenues by $96 million reflecting lower other NGL benchmark prices in the USA Operations and lower regional pricing; and
- Lower average realized plant condensate prices of $6.77 per bbl, or 14 percent, decreased revenues by $33 million. The decrease reflected lower WTI and Edmonton Condensate benchmark prices which were down 16 percent and eight percent, respectively, as well as declines in regional pricing relative to the Edmonton Condensate and WTI benchmark prices;

partially offset by:

- Higher average other NGL production volumes of 33.9 Mbbls/d increased revenues by $59 million. Higher volumes were primarily due to the Newfield acquisition on February 13, 2019 (18.0 Mbbls/d) and successful drilling programs in Anadarko and Permian (15.3 Mbbls/d); and
- Higher average plant condensate production volumes of 7.8 Mbbls/d increased revenues by $36 million. Higher volumes were primarily due to successful drilling programs in Montney and Anadarko (4.6 Mbbls/d) and the Newfield acquisition on February 13, 2019 (2.8 Mbbls/d).

Natural Gas Revenues

Three months ended March 31, 2020 versus March 31, 2019

Natural gas revenues decreased $79 million compared to the first quarter of 2019 primarily due to:

- Lower average realized natural gas prices of $0.83 per Mcf, or 33 percent, decreased revenues by $116 million. The decrease reflected lower Dawn and NYMEX benchmark prices which were both down 38 percent, partially offset by a higher proportion of total production volumes in the USA Operations with higher regional pricing resulting from the Newfield acquisition on February 13, 2019 and a higher AECO benchmark price which was up 10 percent; and
- Higher average natural gas production volumes of 148 MMcf/d increased revenues by $37 million primarily due to the Newfield acquisition on February 13, 2019 (191 MMcf/d), successful drilling programs in Permian and Anadarko (64 MMcf/d) and decreased third-party plant downtime and pipeline restrictions in Montney (11 MMcf/d), partially offset by lower gas production due to wells drilled with higher liquids content in Montney (52 MMcf/d), the sale of the Arkoma natural gas assets in the third quarter of 2019 (39 MMcf/d) and natural declines surpassing new production in Duvernay and Eagle Ford (25 MMcf/d).

Gains (Losses) on Risk Management, Net

As a means of managing commodity price volatility, Ovintiv enters into commodity derivative financial instruments on a portion of its expected oil, NGL and natural gas production volumes. The Company's commodity price mitigation program reduces volatility and helps sustain revenues during periods of lower prices. Additional information on the Company's commodity price positions as at March 31, 2020 can be found in Note 22 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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

	Three months ended March 31,	
($ millions)	**2020**	2019
Realized Gains (Losses) on Risk Management		
Commodity Price [(1)]		
Oil	**$ 82**	$ 31
NGLs - Plant Condensate	**23**	12
NGLs - Other	**5**	11
Natural Gas	**39**	16
Other [(2)]	**2**	2
Total	**151**	72
Unrealized Gains (Losses) on Risk Management	**904**	(427)
Total Gains (Losses) on Risk Management, Net	**$ 1,055**	$ (355)

	Three months ended March 31,	
(Per-unit)	**2020**	2019
Realized Gains (Losses) on Risk Management		
Commodity Price [(1)]		
Oil ($/bbl)	**$ 5.52**	$ 2.77
NGLs - Plant Condensate ($/bbl)	**$ 4.78**	$ 2.92
NGLs - Other ($/bbl)	**$ 0.62**	$ 2.12
Natural Gas ($/Mcf)	**$ 0.27**	$ 0.13
Total ($/BOE)	**$ 2.86**	$ 1.68

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

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

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

Market Optimization Revenues

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

	Three months ended March 31,	
($ millions)	**2020**	2019
Market Optimization	**$ 419**	$ 326

Three months ended March 31, 2020 versus March 31, 2019

Market Optimization product revenues increased $93 million compared to the first quarter of 2019 primarily due to:

- Higher sales of third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations ($156 million) and higher sales of third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years ($34 million);

partially offset by:

- Lower natural gas and oil benchmark prices ($97 million).

Sublease Revenues

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

Operating Expenses

Production, Mineral and Other Taxes

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

	$ millions		$/BOE	
Three months ended March 31,	**2020**	2019	**2020**	2019
USA Operations	**$ 48**	$ 44	**$ 1.55**	$ 2.08
Canadian Operations	**4**	4	**$ 0.19**	$ 0.18
Total	**$ 52**	$ 48	**$ 1.01**	$ 1.14

Three months ended March 31, 2020 versus March 31, 2019

Production, mineral and other taxes increased $4 million compared to the first quarter of 2019 primarily due to:

- Higher production volumes as a result of the Newfield acquisition on February 13, 2019 ($8 million);

partially offset by:

- Lower production tax in Other Upstream Operations as a result of lower production volumes and commodity prices ($4 million).

Transportation and Processing

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

	$ millions				$/BOE			
Three months ended March 31,		**2020**		2019		**2020**		2019
USA Operations	**$**	**121**	$	79	**$**	**3.84**	$	3.74
Canadian Operations		**213**		212	**$**	**10.29**	$	10.20
Upstream Transportation and Processing		**334**		291	**$**	**6.40**	$	6.90
Market Optimization		**62**		47				
Total	**$**	**396**	$	338				

Three months ended March 31, 2020 versus March 31, 2019

Transportation and processing expense increased $58 million compared to the first quarter of 2019 primarily due to:

- Higher production volumes as a result of the Newfield acquisition on February 13, 2019 and successful drilling in Anadarko ($36 million), rate escalation in certain transportation contracts relating to previously divested assets ($21 million), production volumes from successful drilling in Montney and Permian ($7 million) and higher downstream processing and transportation costs in Montney due to third-party adjustments ($4 million);

partially offset by:

- The sale of the Arkoma natural gas assets in the third quarter of 2019 ($6 million) and the expiration of certain transportation contracts relating to decommissioned and previously divested assets ($4 million).

Upstream transportation and processing decreased $0.50 per BOE compared to the first quarter of 2019 primarily due to a higher proportion of total production volumes in the USA Operations resulting from the Newfield acquisition, which benefit from lower than average per BOE transportation and processing costs.

Operating

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

	$ millions				$/BOE			
Three months ended March 31,		**2020**		2019		**2020**		2019
USA Operations	**$**	**139**	$	115	**$**	**4.42**	$	5.44
Canadian Operations		**26**		37	**$**	**1.26**	$	1.80
China Operations [(1)]		**-**		4	**$**	**-**	$	17.93
Upstream Operating Expense [(2)]		**165**		156	**$**	**3.17**	$	3.70
Market Optimization		**2**		10				
Corporate & Other		**(2)**		(1)				
Total	**$**	**165**	$	165				

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

(2) Upstream Operating Expense per BOE for the first quarter of 2020 includes a recovery of long-term incentive costs of $0.17/BOE (2019 - long-term incentive costs of $0.22/BOE).

Three months ended March 31, 2020 versus March 31, 2019

Operating expense was unchanged compared to the first quarter of 2019. Impacts to operating expense in the first quarter of 2020 compared to 2019 include:

- The Newfield acquisition on February 13, 2019 and increased activity in Bakken, Anadarko and Uinta ($23 million), as well as lower capitalization of overhead costs, primarily in Permian, Montney, Eagle Ford and Duvernay ($11 million);

partially offset by:

- A recovery of long-term incentive costs resulting from a decrease in the Company's share price in the first quarter of 2020 compared to long-term incentive costs resulting from an increase in the share price in the first quarter of 2019 ($26 million), as well as the sale of the Arkoma natural gas assets and the termination of the Company's production sharing contract in its China Operations in the third quarter of 2019 ($7 million).

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

Purchased Product

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

	Three months ended March 31,	
($ millions)	**2020**	2019
Market Optimization	**$ 398**	$ 298

Three months ended March 31, 2020 versus March 31, 2019

Purchased product expense increased $100 million compared to the first quarter of 2019 primarily due to:

- Higher third-party purchased liquid volumes primarily relating to price optimization activities in the USA Operations ($158 million) and higher third-party purchased natural gas volumes primarily relating to long-term marketing arrangements for assets divested in prior years ($32 million);

partially offset by:

- Lower natural gas and oil benchmark prices ($90 million).

Depreciation, Depletion & Amortization

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

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

	$ millions		$/BOE	
Three months ended March 31,	**2020**	2019	**2020**	2019
USA Operations	**$ 418**	$ 274	**$ 13.30**	$ 12.96
Canadian Operations	**109**	92	**$ 5.28**	$ 4.42
Upstream DD&A	**527**	366	**$ 10.12**	$ 8.73
Corporate & Other	**7**	11		
Total	**$ 534**	$ 377		

Three months ended March 31, 2020 versus March 31, 2019

DD&A increased $157 million compared to the first quarter of 2019 primarily due to:

- Higher production volumes in the USA Operations ($132 million) and higher depletion rates in the Canadian and USA Operations ($19 million and $11 million, respectively).

The depletion rate in the Canadian and USA Operations increased $0.86 per BOE and $0.34 per BOE, respectively, compared to the first quarter of 2019 primarily due to higher capital spending in Anadarko and Montney, and higher transfers of unproved property costs, partially offset by higher reserves volumes.

Impairments

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

In the first quarter of 2020, the Company recognized a before-tax non-cash ceiling test impairment of $277 million in the USA Operations. The non-cash ceiling test impairment primarily resulted from the decline in the 12-month average trailing prices related to NGLs and natural gas, which reduced proved reserves values.

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)]				
March 31, 2020	**56.06**	**70.32**	**2.30**	**1.48**
December 31, 2019	55.93	68.80	2.58	1.76
March 31, 2019	62.99	75.86	3.07	1.69

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

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

The Company has calculated the estimated effects that certain price changes would have had on its ceiling test impairment for the three months ended March 31, 2020. Using commodity futures prices as at March 31, 2020 for the three months ending June 30, 2020, the estimated 12-month average trailing prices for the period ended March 31, 2020 would have been $47.36 per bbl for WTI, C$58.15 per bbl for Edmonton Condensate, $2.08 per MMBtu for Henry Hub and C$1.64 per MMBtu for AECO. Based on these estimated prices, while holding all other inputs and assumptions constant, an additional before-tax ceiling test impairment of $3.7 billion for the USA Operations would have been recognized for the three months ended March 31, 2020. If a low commodity price environment is sustained during the remainder of 2020, further ceiling test impairments and related allowances on deferred tax assets may be recognized.

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

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

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

Administrative

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

	($ millions)		$/BOE	
Three months ended March 31,	**2020**	2019	**2020**	2019
Administrative, excluding Long-Term Incentive Costs, Restructuring Costs and Current Expected Credit Losses	**$ 74**	$ 82	**$ 1.42**	$ 1.92
Long-term incentive costs	**(26)**	32	**(0.51)**	0.76
Restructuring costs	**-**	113	**-**	2.70
Current expected credit losses (1)	**5**	-	**0.11**	-
Total Administrative	**$ 53**	$ 227	**$ 1.02**	$ 5.38

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

Three months ended March 31, 2020 versus March 31, 2019

Administrative expense in the first quarter of 2020 decreased $174 million compared to the first quarter of 2019 primarily due to restructuring costs incurred in 2019 ($113 million) and a recovery of long-term incentive costs resulting from a decrease in the Company's share price in the first quarter of 2020 compared to long-term incentive costs resulting from an increase in the share price in the first quarter of 2019 ($58 million).

During 2019, the Company completed workforce reductions in conjunction with the Newfield acquisition to better align staffing levels and the organizational structure. Additional information on restructuring charges can be found in Note 18 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other (Income) Expenses

	Three months ended March 31,	
($ millions)	**2020**	2019
Interest	**$ 96**	$ 87
Foreign exchange (gain) loss, net	**116**	(37)
(Gain) loss on divestitures, net	**-**	1
Other (gains) losses, net	**(14)**	28
Total Other (Income) Expenses	**$ 198**	$ 79

Interest

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

Three months ended March 31, 2020 versus March 31, 2019

Interest expense increased $9 million compared to the first quarter of 2019 due to:

- Higher interest expense on long-term debt primarily relating to the assumption of Newfield's outstanding senior notes, interest expense relating to amounts drawn on the Company's credit facilities and issuances under the Company's U.S. commercial paper ("U.S. CP") program ($15 million);

partially offset by:

- Lower interest expense resulting from the repayment of the Company's $500 million senior note in the second quarter of 2019 ($8 million).

Foreign Exchange (Gain) Loss, Net

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

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

Three months ended March 31, 2020 versus March 31, 2019

In the first quarter of 2020, Ovintiv recorded a net foreign exchange loss of $116 million compared to a gain in 2019 of $37 million primarily due to:

- Unrealized foreign exchange losses on the translation of U.S. dollar financing debt and risk management contracts issued from Canada compared to gains in 2019 ($169 million and $63 million, respectively) and realized foreign exchange losses on the translation of U.S. dollar financing debt issued from Canada compared to gains in 2019 ($18 million);

partially offset by:

- Unrealized foreign exchange gains on the translation of intercompany notes compared to losses in 2019 ($106 million).

Other (Gains) Losses, Net

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

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

Other losses in the first quarter of 2019 primarily included legal fees and transaction costs related to the Newfield acquisition of $31 million, partially offset by interest income on short-term investments of $6 million.

Income Tax

($ millions)	Three months ended March 31, 2020		2019
Current Income Tax Expense (Recovery)	$ -	$	1
Deferred Income Tax Expense (Recovery)	140		(62)
Income Tax Expense (Recovery)	$ 140	$	(61)
Effective Tax Rate	25.0%		19.9%

Income Tax Expense (Recovery)

Three months ended March 31, 2020 versus March 31, 2019

In the first quarter of 2020, Ovintiv recorded an income tax expense of $140 million compared to an income tax recovery of $61 million in 2019, primarily due to net earnings of $561 million before income tax in the first quarter of 2020, compared to a net loss before income tax of $306 million in 2019.

Effective Tax Rate

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

Following the U.S. Domestication as described in the Highlights section of this MD&A, the applicable statutory rate became the U.S. federal income tax rate. The Company's effective tax rate of 25 percent in the first quarter of 2020 is higher than the U.S. federal statutory tax rate of 21 percent primarily due to state taxes and foreign jurisdictional tax rates relative to the U.S. federal statutory tax rate applied to jurisdictional earnings.

During the three months ended March 31, 2020 and as part of the U.S. Domestication, Ovintiv recognized a capital loss and recorded a deferred income tax benefit in the amount of $1.2 billion for Canadian income tax purposes due to the decline in the Company's share value compared to the historical tax basis of its properties that were transferred as part of the Reorganization. Ovintiv assessed the realizability of these capital losses against capital gains and concluded that it is more likely than not that the deferred tax asset will not be realizable. Therefore, Ovintiv has recorded a corresponding valuation allowance against the deferred tax asset. If it is determined that the capital loss can be utilized at a future date, a reduction in the valuation allowance will be recorded.

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

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

Liquidity and Capital Resources

Sources of Liquidity

The Company has the flexibility to access cash equivalents and a range of funding alternatives at competitive rates through committed revolving credit facilities as well as debt and equity capital markets. Ovintiv closely monitors the accessibility of cost-effective credit and ensures that sufficient liquidity is in place to fund capital expenditures and dividend payments. In addition, the Company may use cash and cash equivalents, cash from operating activities, or proceeds from asset divestitures to fund its operations or to manage its capital structure as discussed below. At March 31, 2020, $65 million in cash and cash equivalents was held by Canadian subsidiaries. The cash held by Canadian subsidiaries is accessible and may be subject to additional U.S. income taxes and Canadian withholding taxes if repatriated.

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

	As at March 31,			
($ millions, except as indicated)		**2020**		2019
Cash and Cash Equivalents	**$**	**82**	$	479
Available Credit Facilities [(1)]		**3,515**		4,000
Available Uncommitted Demand Lines [(2)]		**190**		183
Issuance of U.S. Commercial Paper		**(357)**		-
Total Liquidity	**$**	**3,430**	$	4,662
Long-Term Debt, including current portion [(3)]	**$**	**7,006**	$	6,799
Total Shareholders' Equity [(4)]	**$**	**10,191**	$	10,360
Debt to Capitalization (%) [(5)]		**41**		40
Debt to Adjusted Capitalization (%) [(6)]		**28**		27

(1) Includes available credit facilities of $2.165 billion (2019 - $1.5 billion) in the U.S. and $1.35 billion (2019 - $2.5 billion) in Canada as at March 31, 2020 (collectively, the "Credit Facilities").
(2) Includes three uncommitted demand lines totaling $313 million, net of $123 million in undrawn letters of credit (2019 - $326 million and $143 million, respectively).
(3) Long-Term Debt as at March 31, 2020, includes outstanding U.S. CP totaling $357 million and $485 million drawn on the Credit Facilities.
(4) Shareholders' Equity reflects the common shares purchased, for cancellation, under the Company's 2019 NCIB and substantial issuer bid programs.
(5) Calculated as long-term debt, including the current portion, divided by shareholders' equity plus long-term debt, including the current portion.
(6) A non-GAAP measure which is defined in the Non-GAAP Measures section of this MD&A.

The Company has access to two committed revolving U.S. dollar denominated credit facilities totaling $4.0 billion, which include a $2.5 billion revolving credit facility for Ovintiv Inc. and a $1.5 billion revolving credit facility for a Canadian subsidiary. These facilities mature in July 2024, and are fully revolving up to maturity. The Credit Facilities provide financial flexibility and allow the Company to fund its operations, development activities or capital programs. At March 31, 2020, $335 million and $150 million were outstanding under the revolving credit facility for Ovintiv Inc. and for the Canadian subsidiary, respectively.

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

As at March 31, 2020, the Company had $357 million of commercial paper outstanding under its U.S. CP programs with an average remaining term of approximately 11 days and a weighted average interest rate of approximately 2.00 percent, which is supported by the Company's Credit Facilities. Ovintiv's access to its U.S. CP programs is market-driven and in the current low commodity price environment, market access is not available. As the Company's outstanding commercial paper comes due in the second quarter of 2020, it is expected to be repaid using advances from the Company's Credit Facilities. Depending on the Company's credit rating and market demand, the Company may regain access to its two U.S. CP programs, which include a $1.5 billion program for Ovintiv Inc. and a $1.0 billion program for a Canadian subsidiary.

The Credit Facilities and uncommitted demand lines, together with cash and cash equivalents less any outstanding commercial paper, provide Ovintiv with total liquidity of $3.4 billion. At March 31, 2020, Ovintiv also had approximately $123 million in undrawn letters of credit issued in the normal course of business primarily as collateral security, related to transportation arrangements and to support future abandonment liabilities. Further downgrades in the Company's credit ratings could trigger additional collateral requirements to support existing agreements and such amounts could be material.

In the first 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 March 31, 2020, $6.0 billion remained accessible under the Canadian shelf prospectus. The ability to issue securities under the U.S. shelf registration statement or Canadian shelf prospectus is dependent upon market conditions and securities law requirements.

Ovintiv is currently in compliance with, and expects that it will continue to be in compliance with, all financial covenants under the Credit Facilities. Management monitors Debt to Adjusted Capitalization, which is a non-GAAP measure defined in the Non-GAAP Measures section of this MD&A, as a proxy for Ovintiv's financial covenant under the Credit Facilities, which requires Debt to Adjusted Capitalization to be less than 60 percent. As at March 31, 2020, the Company's Debt to Adjusted Capitalization was 28 percent. The definitions used in the covenant under the Credit Facilities adjust capitalization for cumulative historical ceiling test impairments recorded in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP. Ovintiv does not expect the current COVID-19 pandemic to impact the Company's ability to remain in compliance with its financial covenants under the Credit Facilities. Additional information on financial covenants can be found in Note 15 to the Consolidated Financial Statements included in Item 8 of the 2019 Annual Report on Form 10-K.

Sources and Uses of Cash

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

($ millions)	Activity Type	Three months ended March 31, 2020	2019
Sources of Cash, Cash Equivalents and Restricted Cash			
Cash from operating activities	Operating	**$ 566**	$ 529
Proceeds from divestitures	Investing	**22**	2
Corporate acquisition, net of cash and restricted cash acquired	Investing	**-**	94
Net issuance of revolving long-term debt	Financing	**144**	-
Other	Investing	**130**	54
		862	679
Uses of Cash and Cash Equivalents			
Capital expenditures	Investing	**790**	736
Acquisitions	Investing	**17**	22
Repayment of long-term debt [(1)]	Financing	**89**	-
Purchase of shares of common stock	Financing	**-**	400
Dividends on shares of common stock	Financing	**24**	28
Other	Financing	**22**	20
		942	1,206
Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency		**(7)**	3
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash		**$ (87)**	$ (524)

(1) Includes open market repurchases.

Operating Activities

Cash from operating activities in the first quarter of 2020 was $566 million and was primarily a reflection of the impacts from lower average realized commodity prices, partially offset by increases in production volumes, the Newfield acquisition, the effects of the commodity price mitigation program and changes in non-cash working capital.

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

Non-GAAP Cash Flow in the first quarter of 2020 was $535 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.

Three months ended March 31, 2020 versus March 31, 2019

Net cash from operating activities increased $37 million compared to the first quarter of 2019 primarily due to:

- Higher production volumes ($312 million), restructuring costs incurred in 2019 ($113 million), higher realized gains on risk management in revenues ($79 million), lower administrative expense, excluding non-cash long-term incentive costs and current expected credit losses ($66 million) and acquisition costs incurred in 2019 ($31 million);

partially offset by:

- Lower realized commodity prices ($400 million), higher transportation and processing expense ($58 million), changes in non-cash working capital ($35 million), decommissioning costs ($31 million) and higher interest on long-term debt ($13 million).

Investing Activities

Cash used in investing activities in the first quarter of 2020 was $655 million primarily due to capital expenditures. Capital expenditures increased $54 million compared to the first quarter of 2019 due to the timing of the Company's capital program, including higher capital expenditures relating to the Anadarko asset acquired in the Newfield acquisition ($88 million).

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

Acquisitions in the first quarter of 2020 were $17 million, which primarily included property purchases with liquids-rich potential. Acquisitions in the first quarter of 2019 were $22 million which primarily included seismic purchases.

Divestitures in the first quarter of 2020 and 2019 were $22 million and $2 million, respectively, which primarily included the sale of certain properties that did not complement Ovintiv's existing portfolio of assets.

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

Financing Activities

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

Net cash from financing activities in the first quarter of 2020 was $9 million compared to net cash used of $448 million in 2019. The change was primarily due to the purchase of common shares under a NCIB ($400 million) in the first quarter of 2019 as discussed in more detail below and the net issuance of revolving long-term debt in the first quarter of 2020 ($144 million), partially offset by the open market repurchase of long-term debt in the first quarter of 2020 ($89 million) as discussed below.

From time to time, Ovintiv may seek to retire or purchase the Company's outstanding debt through cash purchases and/or exchanges for other debt or equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. In the first quarter of 2020, the Company repurchased, in the open market, approximately $90 million in principal amount of its 5.75 percent senior notes due January 2022 and approximately $10 million in principal amount of its 3.90 percent senior notes due in November 2021 for an aggregate cash payment of $89 million, plus accrued interest, and recognized a net gain of approximately $11 million. The Company utilized cash on hand and cash from implementing cost savings initiatives to complete these open market repurchases.

The Company's long-term debt totaled $7,006 million at March 31, 2020 and $6,974 million at December 31, 2019. There was no current portion outstanding at March 31, 2020 or December 31, 2019. Ovintiv has no long-term debt maturities until November 2021 and, as at March 31, 2020, over 80 percent of the Company's debt is not due until 2024 and beyond. For additional information on long-term debt, refer to Note 12 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Dividends

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

	Three months ended March 31,	
($ millions, except as indicated)	**2020**	2019
Dividend Payments	**$ 24**	$ 28
Dividend Payments ($/share) (1)	**$ 0.09375**	$ 0.09375

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

Dividends paid in the first quarter of 2020 decreased $4 million compared to the first quarter of 2019 due to common shares purchased, for cancellation, under the Company's substantial issuer bid and NCIB programs.

On May 7, 2020, the Board of Directors declared a dividend of $0.09375 per share of Ovintiv common stock payable on June 30, 2020 to stockholders of record as of June 15, 2020.

Normal Course Issuer Bid

In the first quarter of 2019, the Company used cash on hand of approximately $400 million to purchase, for cancellation, approximately 55.9 million common shares, on a pre-Share Consolidation basis or approximately 11.2 million common shares on a post-Share Consolidation basis. For additional information on the NCIB, refer to Note 15 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

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

Commitments and Contingencies

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

Non-GAAP Measures

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

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

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

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

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

	Three months ended March 31,			
($ millions, except as indicated)		**2020**		2019
Cash From (Used in) Operating Activities	**$**	**566**	$	529
(Add back) deduct:				
Net change in other assets and liabilities		**(52)**		(11)
Net change in non-cash working capital		**83**		118
Current tax on sale of assets		**-**		-
Non-GAAP Cash Flow [1]	**$**	**535**	$	422
Production Volumes (MMBOE)		**52.0**		42.1
Non-GAAP Cash Flow Margin ($/BOE)	**$**	**10.29**	$	10.02

(1) The first quarter of 2019 includes restructuring costs of $113 million and acquisition costs of $31 million.

Total Costs

Total Costs is a non-GAAP measure defined as the summation of production, mineral and other taxes, upstream transportation and processing expense, upstream operating expense and administrative expense, excluding the impact of long-term incentive costs, restructuring costs and current expected credit losses. Management believes this measure is useful to the Company and its investors as a measure of operational efficiency across periods.

	Three months ended March 31,			
($ millions, except as indicated)		**2020**		2019
Production, Mineral and Other Taxes	**$**	**52**	$	48
Upstream Transportation and Processing		**334**		291
Upstream Operating		**165**		156
Administrative		**53**		227
Deduct (add back):				
Long-term incentive costs		**(35)**		41
Restructuring costs		**-**		113
Current expected credit losses		**5**		-
Total Costs	**$**	**634**	$	568
Divided by:				
Production Volumes (MMBOE)		**52.0**		42.1
Total Costs ($/BOE) [1]	**$**	**12.17**	$	13.44

(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)		March 31, 2020		December 31, 2019
Long-Term Debt, including current portion	$	**7,006**	$	6,974
Total Shareholders' Equity		**10,191**		9,930
Equity Adjustment for Impairments at December 31, 2011		**7,746**		7,746
Adjusted Capitalization	$	**24,943**	$	24,650
Debt to Adjusted Capitalization		**28%**		28%

Net Debt to Adjusted EBITDA

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

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

($ millions, except as indicated)		March 31, 2020		December 31, 2019
Long-Term Debt, including current portion	$	**7,006**	$	6,974
Less:				
Cash and cash equivalents		**82**		190
Net Debt		**6,924**		6,784
Net Earnings		**900**		234
Add back (deduct):				
Depreciation, depletion and amortization		**2,172**		2,015
Impairments		**277**		-
Accretion of asset retirement obligation		**37**		37
Interest		**391**		382
Unrealized (gains) losses on risk management		**(601)**		730
Foreign exchange (gain) loss, net		**34**		(119)
(Gain) loss on divestitures, net		**(4)**		(3)
Other (gains) losses, net		**(19)**		23
Income tax expense (recovery)		**282**		81
Adjusted EBITDA (trailing 12-month) (1)	$	**3,469**	$	3,380
Net Debt to Adjusted EBITDA (times)		**2.0**		2.0

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