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, 2021 ("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, 2020, which are included in Items 8 and 7, respectively, 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 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 financial strength, maximizing profitability through operational and capital efficiencies, paying sustainable dividends, and generating cash flows through a disciplined capital allocation strategy by investing in a limited number of core assets with high margin liquids. To support the Company's business objectives, Ovintiv actively monitors and manages market volatility through the diversification of price risks, and market access risks to enhance returns and maintain a consistent cash flow stream. In conjunction with Ovintiv's focus on preserving financial strength, the Company plans to allocate all excess cash flows to reduce its total long-term debt balance to $4.5 billion by the first half of 2022.

Ovintiv is also committed to 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 decreasing emissions intensity. The Company's annual Sustainability Report outlining its key metrics and progress achieved relating to environmental, social and governance practices can be found on the Company's website.

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 continually reviews and evaluates its strategy and changing market conditions in order to maximize cash flow generation from its top tier assets located in some of the best plays in North America, referred to as the "Core Assets". As at March 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.

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 2020 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 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 the first quarter of 2021 compared to 2020 resulted from higher average realized prices, excluding the impact of risk management activities, partially offset by lower total liquids production volumes. Increases in average realized natural gas and liquids prices of 81 percent and 45 percent, respectively, were primarily due to higher benchmark prices. Total liquids production volumes decreased by 11 percent compared to the first quarter of 2020 primarily due to lower activity resulting from the impacts of the pandemic which commenced at the end of the first quarter of 2020 and impacts from severe winter weather conditions in the USA Operations. Ovintiv continues to focus on optimizing realized prices from the diversification of the Company's downstream markets.

The Company delivered significant cash from operating activities while reducing its total long-term debt balance. Cash from operating activities of $827 million included a net realized loss of $156 million on settlement of risk management positions and a current income tax recovery of $156 million primarily due to the resolution of certain tax items relating to prior taxation years. The Company used excess cash flows to reduce its total long-term debt balance by $467 million in the first quarter of 2021.

Significant Developments

- On February 17, 2021, the Company agreed to sell its Duvernay assets for approximately $263 million, which included about $12 million in contingency payments based on future commodity prices. The sale closed on April 28, 2021, and the Company received proceeds of approximately $232 million, after closing and other adjustments. The transaction had an effective date of January 1, 2021.
- On March 24, 2021, the Company agreed to sell its Eagle Ford assets for approximately $880 million. The sale is subject to ordinary closing conditions, regulatory approvals and other adjustments, and is expected to close in the second quarter of 2021.

Financial Results

Three months ended March 31, 2021

- Reported net earnings of $309 million, including net losses on risk management in revenues of $427 million, before tax and an income tax recovery of $176 million.
- Generated cash from operating activities of $827 million, Non-GAAP Cash Flow of $890 million and Non-GAAP Cash Flow Margin of $18.39 per BOE.
- Paid dividends of $0.09375 per share of common stock totaling $24 million.
- Had $3.8 billion in total liquidity as at March 31, 2021, which included available credit facilities of $4.0 billion, available uncommitted demand lines of $279 million, and cash and cash equivalents of $9 million, net of outstanding commercial paper of $490 million.
- Reduced total long-term debt by $467 million.
- Reported Net Debt to Adjusted EBITDA of 2.7 times.

Capital Investment

- Commenced the Company's 2021 capital plan with expenditures totaling $350 million of which $332 million, or 95 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

Three months ended March 31, 2021

- Produced average liquids volumes of 275.6 Mbbls/d, which accounted for 51 percent of total production volumes. Average oil and plant condensate volumes of 197.9 Mbbls/d, represented 72 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,576 MMcf/d, which accounted for 49 percent of total production volumes.

Operating Expenses

- Incurred Total Costs in the first quarter of 2021 of $628 million, or $12.93 per BOE, a decrease of $6 million and an increase of $0.76 per BOE compared to the first quarter of 2020. Total Costs is defined in the Non-GAAP Measures section of this MD&A. Significant items in the first quarter of 2021 impacting Total Costs include:
    - Lower upstream operating expenses, excluding long-term incentive costs, in the first quarter of 2021 compared to 2020 of $24 million, primarily due to lower activity as of result of the impacts of the pandemic which commenced at the end of the first quarter of 2020, severe winter weather in the USA Operations during the first quarter of 2021 and durable cost savings including workforce reductions, as well as operating efficiencies implemented in 2020;
    - Higher production, mineral and other taxes, in the first quarter of 2021 compared to 2020 of $8 million, primarily due to higher commodity prices; and
    - Higher administrative expenses, excluding long-term incentive costs, restructuring costs and current expected credit losses, in the first quarter of 2021 compared to 2020 of $7 million, primarily due to higher consulting costs.
- Total Operating Expenses in the first quarter of 2021 of $1,643 million decreased by $241 million.

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

2021 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.

Oil prices during 2021 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. The distribution of COVID-19 vaccines continues to drive economic optimism and oil demand as countries cautiously reopen their economies. Upward pressures on oil prices and the tightening of global oil inventories during the first quarter were mainly caused by ongoing OPEC+ production cuts, as well as severe winter weather conditions in Texas and Oklahoma in February, causing power outages and halting supply chains which impacted production volumes and natural gas prices. In March 2021, OPEC+ agreed to substantially extend current production cut levels to the end of April. In April, OPEC+ decided to adjust production levels for the months of May, June and July, allowing for gradual

increases in production output. OPEC+ continues to meet regularly to review the state of global oil supply, demand and inventory levels.

Despite signs of economic recovery centered on the COVID-19 vaccine rollouts and OPEC+ production cuts, oil markets remain volatile. The emergence of COVID-19 variants, changes in consumption behavior and the gradual easing of OPEC+ oil production cuts are contributing to commodity market uncertainty.

Natural Gas Markets

Natural gas prices are primarily affected by structural changes in supply and demand as well as deviations from seasonally normal weather. As a result of severe winter weather impacts in the U.S., demand increased while supply decreased in the first quarter of 2021. In combination, these factors contributed to increased drawdowns of natural gas inventory and generally supported natural gas prices in the first quarter of 2021. Natural gas prices for the remainder of 2021 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 and changes in exports levels of liquified natural gas.

Company Outlook

The Company continues to exercise discretion and discipline to optimize capital allocation throughout 2021 as oil demand recovers and the commodity price environment evolves. Ovintiv pursues innovative ways to reduce upstream operating and administrative expense 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 April 19, 2021, the Company has hedged approximately 131.7 Mbbls/d of expected crude oil and condensate production and 1,143 MMcf/d of expected natural gas production for the remainder of the year. In addition, Ovintiv 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 Ovintiv's hedging program 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.

Capital Investment

The Company has commenced its $1.5 billion 2021 capital investment program, the majority of which is allocated to the Core Assets with a focus on maximizing returns from high margin liquids to optimize cash flows. During the first quarter of 2021, the Company spent $350 million, of which $179 million was directed to Permian, $64 million was directed to Anadarko, $89 million was directed to Montney and the remainder was directed to other upstream assets. Ovintiv will continue to evaluate its capital investments plans as the global economic environment evolves.

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

Production

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. During the first quarter of 2021, average liquids production volumes were 275.6 Mbbls/d, or 51 percent of total production volumes, and average oil and plant condensate production volumes were 197.9 Mbbls/d, or 72 percent of total liquids production volumes. Average natural gas production volumes were 1,576 MMcf/d, or 49 percent of total production volumes. As a result of the recently announced divestitures, the Company updated its full year 2021 guidance for oil and plant condensate production volumes to approximately 190.0 Mbbls/d from the original guidance of 200.0 Mbbls/d. The Company is on track to maintaining average other NGLs production volumes of approximately 80.0 Mbbls/d and natural gas production volumes of approximately 1,550 MMcf/d throughout 2021.

Operating Expenses

The Company will continue to benefit from cost savings measures implemented in 2020 which included workforce reductions and operating efficiencies. Ovintiv continues to pursue innovative ways to reduce upstream operating and administrative expenses and expects efficiency improvements and effective supply chain management to maximize cash flows.

For 2021, Ovintiv expects Total Costs of approximately $12.25 per BOE to $12.50 per BOE. Total Costs was $12.93 per BOE in the first quarter of 2021 which was higher than 2021 guidance, primarily due to a higher than expected change in the foreign exchange rates and higher production taxes resulting from higher than expected commodity prices. The Company expects Total Costs to trend downward for the remainder of the year. 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 and liquidity position. Since the second quarter of 2020, the Company has allocated $948 million in excess cash flows to reduce its total long-term debt balance. The proceeds from the recently announced divestitures will also be allocated towards its total long-term debt reduction target. The Company expects its total long-term debt balance to be $4.5 billion by the first half of 2022. The Company expects lower interest expense as it reaches its total long-term debt reduction target. Additional information on Ovintiv's long-term debt and liquidity position 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 and the Liquidity and Capital Resources section of this MD&A, respectively.

Additional information on Ovintiv's 2021 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 targeted a 33 percent reduction in methane intensity to be achieved by the end of 2025 and this target has been tied to its annual incentive compensation program for all employees beginning in 2021.

On February 17, 2021, the Company announced enhanced corporate governance, compensation and environmental initiatives to further align with its corporate approach on delivering strong business outcomes and shareholder returns. The initiatives incentivize continuous improvement and value-creation throughout the Company. Reflecting its commitment to diversity and inclusion, the Board adopted a Diversity in Board Recruitment Policy, which requires that diverse candidates be identified and included in the Board's director search processes. The 2021 executive compensation program incorporates updated debt reduction targets and peer group metrics related to long-term incentives and performance programs. In addition, a methane emissions intensity target was added as noted above.

Additional information on Ovintiv's environmental, social and governance practices can be found in Ovintiv's annual Sustainability Report on the Company's website.

Results of Operations

Selected Financial Information

($ millions)	Three months ended March 31, 2021	2020
Product and Service Revenues		
Upstream product revenues	**$ 1,594**	$ 1,151
Market optimization	**652**	419
Service revenues [1]	**1**	-
Total Product and Service Revenues	**2,247**	1,570
Gains (Losses) on Risk Management, Net	**(427)**	1,055
Sublease Revenues	**18**	18
Total Revenues	**1,838**	2,643
Total Operating Expenses [2]	**1,643**	1,884
Operating Income (Loss)	**195**	759
Total Other (Income) Expenses	**62**	198
Net Earnings (Loss) Before Income Tax	**133**	561
Income Tax Expense (Recovery)	**(176)**	140
Net Earnings (Loss)	**$ 309**	$ 421

(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)	Three months ended March 31, 2021	2020
Oil & NGLs		
WTI ($/bbl)	**$ 57.84**	$ 46.17
Houston ($/bbl)	**59.36**	49.48
Edmonton Condensate (C$/bbl)	**73.48**	61.73
Natural Gas		
NYMEX ($/MMBtu)	**$ 2.69**	$ 1.95
AECO (C$/Mcf)	**2.93**	2.14
Dawn (C$/MMBtu)	**3.98**	2.39

Production Volumes and Realized Prices

	Three months ended March 31,			
	Production Volumes [1]		Realized Prices [2]	
	2021	2020	**2021**	2020
Oil (Mbbls/d, $/bbl)				
USA Operations	**145.6**	161.7	**$ 56.32**	$ 43.49
Canadian Operations	**0.9**	0.8	**52.84**	38.95
Total	**146.5**	162.5	**56.30**	43.47
NGLs – Plant Condensate (Mbbls/d, $/bbl)				
USA Operations	**9.7**	11.0	**51.14**	34.54
Canadian Operations	**41.7**	41.7	**57.24**	43.99
Total	**51.4**	52.7	**56.09**	42.02
NGLs – Other (Mbbls/d, $/bbl)				
USA Operations	**61.0**	77.5	**20.56**	7.33
Canadian Operations	**16.7**	17.1	**26.79**	6.97
Total	**77.7**	94.6	**21.90**	7.27
Total Oil & NGLs (Mbbls/d, $/bbl)				
USA Operations	**216.3**	250.2	**45.99**	31.90
Canadian Operations	**59.3**	59.6	**48.62**	33.29
Total	**275.6**	309.8	**46.56**	32.16
Natural Gas (MMcf/d, $/Mcf)				
USA Operations	**459**	568	**2.98**	1.41
Canadian Operations	**1,117**	1,001	**3.12**	1.86
Total	**1,576**	1,569	**3.08**	1.70
Total Production (MBOE/d, $/BOE)				
USA Operations	**292.8**	344.8	**38.66**	25.46
Canadian Operations	**245.5**	226.5	**25.92**	16.98
Total	**538.3**	571.3	**32.85**	22.10
Production Mix (%)				
Oil & Plant Condensate	**37**	38		
NGLs – Other	**14**	16		
Total Oil & NGLs	**51**	54		
Natural Gas	**49**	46		
Production Change Year Over Year (%) [3]				
Total Oil & NGLs	**(11)**	34		
Natural Gas	**-**	10		
Total Production	**(6)**	22		
Core Assets Production				
Oil (Mbbls/d)	**101.6**	111.2		
NGLs – Plant Condensate (Mbbls/d)	**47.6**	46.2		
NGLs – Other (Mbbls/d)	**69.2**	83.6		
Total Oil & NGLs (Mbbls/d)	**218.4**	241.0		
Natural Gas (MMcf/d)	**1,433**	1,405		
Total Production (MBOE/d)	**457.2**	475.3		
% of Total Production	**85**	83		

(1) Average daily.
(2) Average per-unit prices, excluding the impact of risk management activities.
(3) Includes production impacts from acquisitions and divestitures.

Upstream Product Revenues

($ millions)	Three months ended March 31,				
	Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas	Total
2020 Upstream Product Revenues [1]	**$ 643**	**$ 201**	**$ 63**	**$ 244**	**$ 1,151**
Increase (decrease) due to:					
Sales prices	171	64	101	191	527
Production volumes	(71)	(6)	(11)	2	(86)
2021 Upstream Product Revenues	**$ 743**	**$ 259**	**$ 153**	**$ 437**	**$ 1,592**

(1) Revenues for the first quarter 2021 exclude certain other revenue and royalty adjustments with no associated production volumes of $2 million (2020 - nil).

Oil Revenues

Three months ended March 31, 2021 versus March 31, 2020

Oil revenues increased $100 million compared to the first quarter of 2020 primarily due to:

- Higher average realized oil prices of $12.83 per bbl, or 30 percent, increased revenues by $171 million. The increase reflected higher WTI and Houston benchmark prices which were up 25 percent and 20 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 16.0 Mbbls/d decreased revenues by $71 million. Lower volumes were primarily due to the impacts of the pandemic which commenced at the end of the first quarter of 2020 and natural declines surpassing incremental production in Bakken, Anadarko and Eagle Ford (11.4 Mbbls/d), and severe winter weather conditions in Permian, Anadarko and Eagle Ford (7.7 Mbbls/d), partially offset by successful drilling in Uinta and Permian (3.8 Mbbls/d).

NGL Revenues

Three months ended March 31, 2021 versus March 31, 2020

NGL revenues increased $148 million compared to the first quarter of 2020 primarily due to:

- Higher average realized other NGL prices of $14.63 per bbl, or 201 percent, increased revenues by $101 million reflecting higher other NGL benchmark prices and higher regional pricing;
- Higher average realized plant condensate prices of $14.07 per bbl, or 33 percent, increased revenues by $64 million. The increase reflected higher WTI and Edmonton Condensate benchmark prices which were up 25 percent and 19 percent, respectively, as well as higher regional pricing relative to the WTI benchmark price;
- Lower average other NGL production volumes of 16.9 Mbbls/d decreased revenues by $11 million. Lower volumes were primarily due to the impacts of the pandemic which commenced at the end of the first quarter of 2020 and natural declines in Anadarko, Duvernay, Eagle Ford and Permian (13.6 Mbbls/d), and severe weather conditions in Anadarko and Permian (4.7 Mbbls/d); and
- Lower average plant condensate production volumes of 1.3 Mbbls/d decreased revenues by $6 million. Lower volumes were primarily due to the impacts of the pandemic which commenced at the end of the first quarter of 2020 and natural declines in Duvernay (2.4 Mbbls/d), and severe winter weather conditions in Permian and Anadarko (1.1 Mbbls/d), partially offset by successful drilling Montney (2.9 Mbbls/d).

Natural Gas Revenues

Three months ended March 31, 2021 versus March 31, 2020

Natural gas revenues increased $193 million compared to the first quarter of 2020 primarily due to:

- Higher average realized natural gas prices of $1.38 per Mcf, or 81 percent, increased revenues by $191 million. The increase reflected higher Dawn, NYMEX and AECO benchmark prices which were up 67 percent, 38 percent and 37 percent, respectively, and higher regional pricing; and
- Higher average natural gas production volumes of 7 MMcf/d increased revenues by $2 million primarily due to successful drilling in Montney (142 MMcf/d), partially offset by the impacts of the pandemic which commenced at the end of the first quarter of 2020, and natural declines and severe winter weather conditions in Anadarko and Permian (111 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, 2021 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.

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

	Three months ended March 31,	
($ millions)	**2021**	2020
Realized Gains (Losses) on Risk Management		
Commodity Price [1]		
Oil	**$ (117)**	$ 82
NGLs - Plant Condensate	**(25)**	23
NGLs - Other	**(19)**	5
Natural Gas	**3**	39
Other [2]	**2**	2
Total	**(156)**	151
Unrealized Gains (Losses) on Risk Management	**(271)**	904
Total Gains (Losses) on Risk Management, Net	**$ (427)**	$ 1,055

	Three months ended March 31,	
(Per-unit)	**2021**	2020
Realized Gains (Losses) on Risk Management		
Commodity Price [1]		
Oil ($/bbl)	**$ (8.86)**	$ 5.52
NGLs - Plant Condensate ($/bbl)	**$ (5.44)**	$ 4.78
NGLs - Other ($/bbl)	**$ (2.76)**	$ 0.62
Natural Gas ($/Mcf)	**$ 0.02**	$ 0.27
Total ($/BOE)	**$ (3.27)**	$ 2.86

(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. Ovintiv also purchases and sells third-party volumes under marketing arrangements associated with the Company's previous divestitures.

($ millions)	Three months ended March 31, 2021	2020
Market Optimization	**$ 652**	$ 419

Three months ended March 31, 2021 versus March 31, 2020

Market Optimization product revenues increased $233 million compared to the first quarter of 2020 primarily due to:

- Higher natural gas and oil benchmark prices ($242 million) and higher sales of third-party purchased liquids volumes primarily relating to price optimization activities in the USA Operations ($95 million);

partially offset by:

- Lower sales of third-party purchased natural gas volumes primarily relating to marketing arrangements for assets divested in prior years ($104 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 9 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		$/BOE	
Three months ended March 31,	**2021**	2020	**2021**	2020
USA Operations	**$ 55**	$ 48	**$ 2.09**	$ 1.55
Canadian Operations	**5**	4	**$ 0.21**	$ 0.19
Total	**$ 60**	$ 52	**$ 1.23**	$ 1.01

Three months ended March 31, 2021 versus March 31, 2020

Production, mineral and other taxes increased $8 million compared to the first quarter of 2020 primarily due to:

- Higher production tax in USA Operations due to higher commodity prices ($11 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		$/BOE	
Three months ended March 31,	**2021**	2020	**2021**	2020
USA Operations	**$ 113**	$ 121	**$ 4.31**	$ 3.84
Canadian Operations	**224**	213	**$ 10.12**	$ 10.29
Upstream Transportation and Processing	**337**	334	**$ 6.96**	$ 6.40
Market Optimization	**42**	62		
Total	**$ 379**	$ 396		

Three months ended March 31, 2021 versus March 31, 2020

Transportation and processing expense decreased $17 million compared to the first quarter of 2020 primarily due to:

- The expiration of certain transportation contracts in the USA Operations as well as expired contracts relating to previously divested assets, the decommissioning of Deep Panuke and recoveries of amounts related to certain transportation contracts;

partially offset by:

- Higher volumes in Montney, higher U.S/Canadian dollar exchange rate and higher costs relating to the diversification of the Company's downstream markets.

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		$/BOE	
Three months ended March 31,	**2021**	2020	**2021**	2020
USA Operations	**$ 129**	$ 139	**$ 4.89**	$ 4.42
Canadian Operations	**28**	26	**$ 1.23**	$ 1.26
Upstream Operating Expense [(1)]	**157**	165	**$ 3.22**	$ 3.17
Market Optimization	**7**	2		
Corporate & Other	**-**	(2)		
Total	**$ 164**	$ 165		

(1) Upstream Operating Expense per BOE for the first quarter of 2021 includes long-term incentive costs of $0.15/BOE (2020 - recovery of long-term incentive costs of $0.17/BOE).

Three months ended March 31, 2021 versus March 31, 2020

Operating expense decreased $1 million compared to the first quarter of 2020 primarily due to:

- Lower salaries and benefits due to decreased headcount resulting from workforce reductions in the second quarter of 2020 ($33 million) and decreased activity mainly as a result of the impacts of the pandemic which commenced at the end of the first quarter of 2020, the severe winter weather conditions in the USA Operations and cost saving initiatives implemented at the end of the first quarter of 2020 ($19 million);

partially offset by:

- Lower capitalization of overhead costs ($22 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).

Additional information on the Company's long-term incentives can be found in Note 16 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 marketing arrangements associated with the Company's previous divestitures.

($ millions)	Three months ended March 31, **2021**	2020
Market Optimization	**$ 604**	$ 398

Three months ended March 31, 2021 versus March 31, 2020

Purchased product expense increased $206 million compared to the first quarter of 2020 primarily due to:

- Higher natural gas and oil benchmark prices ($203 million) and higher third-party purchased liquids volumes primarily relating to price optimization activities in the USA Operations ($97 million);

partially offset by:

- Lower third-party purchased natural gas volumes primarily relating to marketing arrangements for assets divested in prior years ($94 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 2020 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 2020 Annual Report on Form 10-K.

	$ millions		$/BOE	
Three months ended March 31,	**2021**	2020	**2021**	2020
USA Operations	**$ 208**	$ 418	**$ 7.88**	$ 13.30
Canadian Operations	**93**	109	**$ 4.23**	$ 5.28
Upstream DD&A	**301**	527	**$ 6.22**	$ 10.12
Corporate & Other	**7**	7		
Total	**$ 308**	$ 534		

Three months ended March 31, 2021 versus March 31, 2020

DD&A decreased $226 million compared to the first quarter of 2020 primarily due to:

- Lower depletion rates and production volumes in the USA Operations ($143 million and $67 million, respectively) and lower depletion rates in the Canadian Operations ($29 million), partially offset by higher production volumes in the Canadian Operations ($8 million) and higher U.S/Canadian dollar exchange rate ($7 million).

The depletion rate in the USA Operations decreased $5.42 per BOE, compared to the first quarter of 2020 primarily due to the ceiling test impairments recognized in 2020, resulting in a lower depletable base. The depletion rate in the Canadian Operations decreased $1.05 per BOE, compared to the first quarter of 2020 primarily due to a lower depletable base.

Impairments

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

In the first quarter of 2021, the Company did not recognize ceiling test impairments (2020 - $277 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)]				
March 31, 2021	**40.01**	**49.68**	**2.16**	**2.36**
December 31, 2020	39.62	49.77	1.98	2.13
March 31, 2020	56.06	70.32	2.30	1.48

(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 8 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, operating lease, office, information technology, restructuring and long-term incentive costs.

	($ millions)		$/BOE	
Three months ended March 31,	**2021**	2020	**2021**	2020
Administrative, excluding Long-Term Incentive Costs, Restructuring Costs and Current Expected Credit Losses [1]	**$ 81**	$ 74	**$ 1.67**	$ 1.42
Long-term incentive costs	**35**	(26)	**0.72**	(0.51)
Restructuring costs	**6**	-	**0.13**	-
Current expected credit losses	**-**	5	**-**	0.11
Total Administrative	**$ 122**	$ 53	**$ 2.52**	$ 1.02

(1) Includes $29 million related to The Bow office lease, half of which is recovered from sublease revenues (2020 - $28 million).

Three months ended March 31, 2021 versus March 31, 2020

Administrative expense in the first quarter of 2021 increased $69 million compared to the first quarter of 2020 primarily due to higher long-term incentive costs resulting from an increase in Ovintiv's share price in the first quarter of 2021 compared to a decrease in 2020 ($61 million), higher consulting costs ($7 million), and restructuring costs related to workforce reductions ($6 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 can be found in Note 15 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)	**2021**	2020
Interest	**$ 87**	$ 96
Foreign exchange (gain) loss, net	**(7)**	116
Other (gains) losses, net	**(18)**	(14)
Total Other (Income) Expenses	**$ 62**	$ 198

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 Part I, Item 1 of this Quarterly Report on Form 10-Q.

Three months ended March 31, 2021 versus March 31, 2020

Interest expense decreased $9 million compared to the first quarter of 2020 primarily due to interest savings related to open market repurchases of long-term debt completed in 2020 ($5 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 5 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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 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, 2021 versus March 31, 2020

Net foreign exchange gain of $7 million compared to a loss of $116 million in the first quarter of 2020 primarily due to:

- Lower unrealized foreign exchange losses on the translation of U.S. dollar financing debt and risk management contracts issued from Canada compared to 2020 ($75 million and $51 million, respectively) and realized foreign exchange gains on the settlement of U.S. dollar financing debt issued from Canada compared to losses in 2020 ($23 million);

partially offset by:

- 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 the first quarter of 2021 primarily includes interest income of $12 million associated with the resolution of prior year tax items.

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.

Income Tax

($ millions)	Three months ended March 31, 2021	2020
Current Income Tax Expense (Recovery)	**$ (156)**	$ -
Deferred Income Tax Expense (Recovery)	**(20)**	140
Income Tax Expense (Recovery)	**$ (176)**	$ 140
Effective Tax Rate	**(132.3%)**	25.0%

Income Tax Expense (Recovery)

Three months ended March 31, 2021 versus March 31, 2020

In the first quarter of 2021, Ovintiv recorded an income tax recovery of $176 million compared to an income tax expense of $140 million in 2020, primarily due to the resolution of certain tax items relating to prior taxation years and the reduction in valuation allowances resulting from current year net earnings before tax.

Effective Tax Rate

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

The Company's effective tax rate was (132.3) percent in the first quarter of 2021, which is lower than the U.S. federal statutory tax rate of 21 percent primarily due to the resolution of certain tax items relating to prior taxation years and the reduction in valuation allowances recorded relating to current year net earnings before tax.

The Company's effective tax rate of 25 percent in the first quarter of 2020, is higher than the U.S. 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.

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.

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 stockholders, issuing new shares of common stock, purchasing shares of common stock for cancellation, issuing new debt and repaying or repurchasing existing debt.

	As at March 31,	
($ millions, except as indicated)	**2021**	2020
Cash and Cash Equivalents	**$ 9**	$ 82
Available Credit Facilities [1]	**4,000**	3,515
Available Uncommitted Demand Lines [2]	**279**	190
Issuance of U.S. Commercial Paper	**(490)**	(357)
Total Liquidity	**$ 3,798**	$ 3,430
Long-Term Debt, including current portion [3]	**$ 6,418**	$ 7,006
Total Shareholders' Equity	**$ 4,134**	$ 10,191
Debt to Capitalization (%) [4]	**61**	41
Debt to Adjusted Capitalization (%) [5]	**35**	28

(1) Includes available credit facilities of $2.5 billion (2020 - $2.165 billion) in the U.S. and $1.5 billion (2020 - $1.35 billion) in Canada as at March 31, 2021 (collectively, the "Credit Facilities").
(2) Includes three uncommitted demand lines totaling $339 million, net of $60 million in related undrawn letters of credit (2020 - $313 million and $123 million, respectively).
(3) Long-Term Debt as at March 31, 2021, includes outstanding U.S. CP totaling $490 million.
(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 March 31, 2021, there were no outstanding amounts under the revolving credit facility for Ovintiv Inc. and for the Canadian subsidiary.

Ovintiv currently has both investment and non-investment grade credit ratings and has full access to its Credit Facilities and U.S. CP programs. Reductions in the Company's credit ratings could increase the cost of short-term borrowings on the existing Credit Facilities or other sources of liquidity and limit access to the Company's commercial paper program.

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 March 31, 2021, the Company had approximately $490 million of commercial paper outstanding under its U.S. CP programs with an average remaining term of approximately 45 days and a weighted average interest rate of approximately 1.03 percent, which is supported by the Company's Credit Facilities.

The Credit Facilities, uncommitted demand lines, and cash and cash equivalents provide Ovintiv with total liquidity of approximately $3.8 billion. At March 31, 2021, Ovintiv also had approximately $61 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. Reductions in the Company's credit ratings could trigger additional collateral requirements to support existing agreements and such amounts could be material.

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 March 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 March 31, 2021, the Company's Debt to Adjusted Capitalization was 35 percent. The definitions used in the covenant under the Credit Facilities adjust capitalization for cumulative historical ceiling test impairments recorded in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP. Ovintiv does not expect the current COVID-19 pandemic to impact the Company's ability to remain in compliance with its financial covenants under the Credit Facilities. Additional information on financial covenants can be found in Note 15 to the Consolidated Financial Statements included in Item 8 of the 2020 Annual Report on Form 10-K.

Sources and Uses of Cash

In the first quarter of 2021, Ovintiv primarily generated cash through operating activities. The following table summarizes the sources and uses of the Company's cash and cash equivalents.

		Three months ended March 31,	
($ millions)	Activity Type	**2021**	2020
Sources of Cash, Cash Equivalents and Restricted Cash			
Cash from operating activities	Operating	**$ 827**	$ 566
Proceeds from divestitures	Investing	**2**	22
Net issuance of revolving long-term debt	Financing	**-**	144
Other	Investing	**28**	130
		857	862
Uses of Cash and Cash Equivalents			
Capital expenditures	Investing	**350**	790
Acquisitions	Investing	**1**	17
Net repayment of revolving long-term debt	Financing	**460**	-
Repayment of long-term debt [(1)]	Financing	**-**	89
Dividends on shares of common stock	Financing	**24**	24
Other	Financing	**23**	22
		858	942
Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency		**-**	(7)
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash		**$ (1)**	$ (87)

(1) Includes open market repurchases in 2020.

Operating Activities

Net cash from operating activities in the first quarter of 2021 was $827 million and was primarily a reflection of the impacts from higher average realized commodity prices, partially offset by 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 20 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 2021 was $890 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, 2021 versus March 31, 2020

Net cash from operating activities increased $261 million compared to the first quarter of 2020 primarily due to:

- Higher realized commodity prices ($527 million), a current income tax recovery mainly due to the resolution of certain tax items relating to prior taxation years ($156 million), lower decommissioning payments primarily related to Deep Panuke ($38 million), lower operating expense, excluding non-cash long-term incentive costs ($21 million), lower transportation and processing expense ($17 million) and higher interest income ($10 million);

partially offset by:

- Realized losses on risk management in revenues compared to gains in 2020 ($307 million), changes in non-cash working capital ($140 million), lower production volumes ($86 million) and higher administrative expenses, excluding non-cash long-term incentive costs and current expected credit losses ($20 million), which includes restructuring costs of $6 million.

Investing Activities

Cash used in investing activities in the first quarter of 2021 was $321 million primarily due to capital expenditures. Capital expenditures decreased $440 million compared to the first quarter of 2020 due to the Company's reduced capital program in response to the volatile market conditions in 2020.

Acquisitions in the first quarter of 2021 were $1 million (2020 - $17 million), which primarily included property purchases with oil and liquids rich potential.

Divestitures in the first quarter of 2021 were $2 million (2020 - $22 million), 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 2 and 7 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 by repaying or repurchasing existing debt, and returning value to stockholders by paying dividends.

Net cash used in financing activities in the first quarter of 2021 was $507 million compared to net cash from financing activities of $9 million in 2020. The change was primarily due to a net repayment of revolving long-term debt in 2021 ($460 million) compared to a net issuance in 2020 ($144 million), partially offset by open market repurchases of long-term debt in 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, the Company's liquidity requirements, contractual restrictions and other factors.

The Company's long-term debt, including the current portion of $1,118 million, totaled $6,418 million at March 31, 2021. The Company's long-term debt at December 31, 2020 totaled $6,885 million, which included the current portion of $518 million. As at March 31, 2021, over 80 percent of the Company's fixed rate long-term debt is not due until 2024 and beyond. Since the second quarter of 2020, the Company has allocated $948 million in excess cash flows to reduce its total long-term debt balance. The proceeds from the recently announced divestitures will also be allocated towards its total long-term debt reduction target. The Company expects its total long-term debt balance to be $4.5 billion by the first half of 2022. Total long-term debt includes revolving credit facilities and commercial paper balances. For additional information on long-term debt, refer to Note 10 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 common stockholders at the discretion of the Board of Directors.

($ millions, except as indicated)	Three months ended March 31, **2021**	2020
Dividend Payments	**$ 24**	$ 24
Dividend Payments ($/share)	**$ 0.09375**	$ 0.09375

On April 28, 2021, the Board of Directors declared a dividend of $0.09375 per share of common stock payable on June 30, 2021 to common stockholders of record as of June 15, 2021.

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 2020 Annual Report on Form 10-K.

Commitments and Contingencies

For information on commitments and contingencies, refer to Note 21 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)	**2021**	2020
Cash From (Used in) Operating Activities	**$ 827**	$ 566
(Add back) deduct:		
Net change in other assets and liabilities	**(6)**	(52)
Net change in non-cash working capital	**(57)**	83
Current tax on sale of assets	**-**	-
Non-GAAP Cash Flow [(1)]	**$ 890**	$ 535
Divided by:		
Production Volumes (MMBOE)	**48.4**	52.0
Non-GAAP Cash Flow Margin ($/BOE)	**$ 18.39**	$ 10.29

(1) The first quarter of 2021 include restructuring costs of $6 million (2020 – nil).

Total Costs

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

($ millions, except as indicated)	Three months ended March 31, **2021**	2020
Total Operating Expenses	**$ 1,643**	$ 1,884
Deduct (add back):		
Market optimization operating expenses	**653**	462
Corporate & other operating expenses	**-**	(2)
Depreciation, depletion and amortization	**308**	534
Impairments	**-**	277
Accretion of asset retirement obligation	**6**	9
Long-term incentive costs	**42**	(35)
Restructuring costs	**6**	-
Current expected credit losses	**-**	5
Total Costs	**$ 628**	$ 634
Divided by:		
Production Volumes (MMBOE)	**48.4**	52.0
Total Costs ($/BOE) [1]	**$ 12.93**	$ 12.17

(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, 2021**	December 31, 2020
Long-Term Debt, including current portion	**$ 6,418**	$ 6,885
Total Shareholders' Equity	**4,134**	3,837
Equity Adjustment for Impairments at December 31, 2011	**7,746**	7,746
Adjusted Capitalization	**$ 18,298**	$ 18,468
Debt to Adjusted Capitalization	**35%**	37%

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, 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 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, 2021**		December 31, 2020
Long-Term Debt, including current portion	**$**	**6,418**	$	6,885
Less:				
Cash and cash equivalents		**9**		10
Net Debt		**6,409**		6,875
Net Earnings (Loss)		**(6,209)**		(6,097)
Add back (deduct):				
Depreciation, depletion and amortization		**1,608**		1,834
Impairments		**5,303**		5,580
Accretion of asset retirement obligation		**26**		29
Interest		**362**		371
Unrealized (gains) losses on risk management		**1,379**		204
Foreign exchange (gain) loss, net		**(106)**		17
(Gain) loss on divestitures, net		**-**		-
Other (gains) losses, net		**(59)**		(55)
Income tax expense (recovery)		**51**		367
Adjusted EBITDA (trailing 12-month)	**$**	**2,355**	$	2,250
Net Debt to Adjusted EBITDA (times)		**2.7**		3.1