# UNITED STATES SECURITIES AND EXCHANGE COMMISSION
## Washington, D.C. 20549
## FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2021**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 001-39191**


# Ovintiv Inc.

(Exact name of registrant as specified in its charter)

| **Delaware** | **84-4427672** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**Suite 1700, 370 17th Street, Denver, Colorado, 80202, U.S.A.**
(Address of principal executive offices)

Registrant's telephone number, including area code **(303) 623-2300**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Shares | OVV | New York Stock Exchange |

Number of registrant's shares of common stock outstanding as of July 23, 2021 261,084,425

**OVINTIV INC.**
**FORM 10-Q**
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## PART I



## PART II

## DEFINITIONS

Unless the context otherwise indicates, references to "us," "we," "our," "ours," "Ovintiv," and the "Company," refer to Ovintiv Inc. and its consolidated subsidiaries for periods after January 24, 2020 and to Encana Corporation and its consolidated subsidiaries for periods before January 24, 2020. In addition, the following are other abbreviations and definitions of certain terms used within this Quarterly Report on Form 10-Q:

"AECO" means Alberta Energy Company and is the Canadian benchmark price for natural gas.

"ASU" means Accounting Standards Update.

"bbl" or "bbls" means barrel or barrels.

"BOE" means barrels of oil equivalent.

"Btu" means British thermal units, a measure of heating value.

"DD&A" means depreciation, depletion and amortization expenses.

"FASB" means Financial Accounting Standards Board.

"Mbbls/d" means thousand barrels per day.

"MBOE/d" means thousand barrels of oil equivalent per day.

"Mcf" means thousand cubic feet.

"MD&A" means Management's Discussion and Analysis of Financial Condition and Results of Operations.

"MMBOE" means million barrels of oil equivalent.

"MMBtu" means million Btu.

"MMcf/d" means million cubic feet per day.

"NCIB" means normal course issuer bid.

"NGL" or "NGLs" means natural gas liquids.

"NYMEX" means New York Mercantile Exchange.

"NYSE" means New York Stock Exchange.

"OPEC" means Organization of the Petroleum Exporting Countries.

"SEC" means United States Securities and Exchange Commission.

"SIB" means substantial issuer bid.

"TSX" means Toronto Stock Exchange.

"U.S.", "United States" or "USA" means United States of America.

"U.S. GAAP" means U.S. Generally Accepted Accounting Principles.

"WTI" means West Texas Intermediate.

## CONVERSIONS

In this Quarterly Report on Form 10-Q, a conversion of natural gas volumes to BOE is on the basis of six Mcf to one bbl. BOE is based on a generic energy equivalency conversion method primarily applicable at the burner tip and does not represent economic value equivalency at the wellhead. Given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value, particularly if used in isolation.

## CONVENTIONS

Unless otherwise specified, all dollar amounts are expressed in U.S. dollars, all references to "dollars", "$" or "US$" are to U.S. dollars and all references to "C$" are to Canadian dollars. All amounts are provided on a before tax basis, unless otherwise stated. In addition, all information provided herein is presented on an after royalties basis.

The term "liquids" is used to represent oil, NGLs and condensate. The term "liquids rich" is used to represent natural gas streams with associated liquids volumes. The term "play" is used to describe an area in which hydrocarbon accumulations or prospects of a given type occur. Ovintiv's focus of development is on hydrocarbon accumulations known to exist over a large areal expanse and/or thick vertical section and are developed using hydraulic fracturing. This type of development typically has a lower geological and/or commercial development risk and lower average decline rate, when compared to conventional development.

The term "core asset" refers to plays that are the focus of the Company's current capital investment and development plan. The Company continually reviews funding for development of its plays based on strategic fit, profitability and portfolio diversity and, as such, the composition of plays identified as a core asset may change over time.

References to information contained on the Company's website at www.ovintiv.com are not incorporated by reference into, and does not constitute a part of, this Quarterly Report on Form 10-Q.

## FORWARD-LOOKING STATEMENTS AND RISK

This Quarterly Report on Form 10-Q contains certain forward-looking statements or information (collectively, "forward-looking statements") within the meaning of applicable securities legislation, including the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements include: composition of the Company's core assets, including allocation of capital and focus of development plans; growth in long-term shareholder value; vision of being a leading North American energy producer; statements with respect to the Company's strategic objectives, including capital allocation strategy, focus of investment, return of capital to stockholders, growth of high margin liquids volumes, operating and capital efficiencies and ability to preserve balance sheet strength; statements regarding the benefits of the Company's multi-basin portfolio; statements regarding the Company's capital plan; statements regarding the Company's application of excess cash flows to reduce long-term debt; ability to maximize cash flow through a disciplined capital allocation strategy; anticipated cost savings, capital efficiency and sustainability thereof; ability to repeat and deploy successful practices across the Company's multi-basin portfolio; anticipated commodity prices; anticipated success of and benefits from technology and innovation, including cube development approach and advanced completion designs; ability to optimize well and completion designs; future well inventory; anticipated drilling, number of drilling rigs and the success thereof; anticipated drilling costs and cycle times; anticipated proceeds and future benefits from various joint venture, partnership and other agreements; estimates of reserves and resources and potential for negative price related reserve revisions; expected production and product types; anticipated access to cash, cash equivalents and other methods of funding; anticipated hedging and outcomes of risk management program, including exposure to certain commodity prices and foreign exchange fluctuations, amount of hedged production, market access and physical sales locations; impact of changes in laws and regulations; compliance with environmental legislation and claims related to the purported causes and impact of climate change, and the costs therefrom; adequacy of provisions for abandonment and site reclamation costs; statements regarding the Company's operational and financial flexibility, discipline and ability to respond to evolving market conditions; ability to meet financial obligations, manage debt and financial ratios, finance growth and comply with financial covenants; impact to the Company as a result of a reduction of its credit rating; access to the Company's credit facilities; planned dividend and the declaration and payment of future dividends, if any; planned redemption of outstanding senior notes; expectations with respect to the Company's restructuring initiative, including anticipated transition and severance costs and the timing thereof; adequacy of the Company's provision for taxes and legal claims; projections and statements in respect of funding; ability to manage cost inflation and expected cost structures, including expected operating, transportation and processing and administrative expenses; competitiveness and pace of growth of the Company's assets within North America and against its peers; global oil inventories and global demand for oil; outlook of oil and gas industry generally and impact of geopolitical environment; expected future interest expense; the Company's commitments and contingencies and anticipated payments thereunder; and the possible impact of accounting pronouncements, rule changes and standards.

Readers are cautioned against unduly relying on forward-looking statements which, by their nature, involve numerous assumptions, risks and uncertainties that may cause such statements not to occur, or results to differ materially from those expressed or implied. These assumptions include: future commodity prices and differentials; foreign exchange rates; ability to access credit facilities and shelf prospectuses; data contained in key modeling statistics; availability of attractive hedges and enforceability of risk management program; effectiveness of the Company's drive to productivity and efficiencies; results from innovations; expectation that counterparties will fulfill their obligations under the gathering, midstream and marketing agreements; access to transportation and processing facilities where Ovintiv operates; assumed tax, royalty and regulatory regimes; assumptions contained herein and expectations and projections made in light of, and generally consistent with,

Ovintiv's historical experience and its perception of historical trends, including with respect to the pace of technological development, benefits achieved and general industry expectations.

Risks and uncertainties that may affect these business outcomes include: suspension of or changes to guidance, and associated impact to production; ability to generate sufficient cash flow to meet obligations; market and commodity price volatility and associated impact to the Company's stock price, credit rating, financial condition, reserves and access to liquidity; the impact of COVID-19 on oil prices and to the Company's operations, including maintaining ordinary staffing levels, securing operational inputs, executing on portions of its business and managing cyber-security risks associated with remote work; ability to secure adequate transportation; potential curtailments of refinery operations, including resulting storage constraints or widening price differentials; variability and discretion of Ovintiv's board of directors (the "Board of Directors") to declare and pay dividends, if any; timing and costs of well, facilities and pipeline construction; business interruption, property and casualty losses or unexpected technical difficulties, including impact of weather; risks associated with decommissioning activities, including timing and costs thereof; counterparty and credit risk; impact of changes in credit rating and access to liquidity, including costs thereof; fluctuations in currency and interest rates; failure to achieve cost and efficiency initiatives; risks inherent in marketing operations; risks associated with technology, including electronic, cyber and physical security breaches; changes in or interpretation of royalty, tax, environmental, greenhouse gas, carbon, accounting and other laws or regulations; the Company's ability to utilize U.S. net operating loss carryforwards and other tax attributes; risks associated with existing and potential lawsuits and regulatory actions made against the Company; impact of disputes arising with its partners, including suspension of certain obligations and inability to dispose of assets or interests in certain arrangements; the Company's ability to acquire or find additional reserves; imprecision of reserves estimates and estimates of recoverable quantities, including future net revenue estimates; risks associated with past and future acquisitions or divestitures of certain assets or other transactions or receipt of amounts contemplated under the transaction agreements (such transactions may include third-party capital investments, farm-outs or partnerships, which Ovintiv may refer to from time to time as "partnerships" or "joint ventures" and the funds received in respect thereof which Ovintiv may refer to from time to time as "proceeds", "deferred purchase price" and/or "carry capital", regardless of the legal form) as a result of various conditions not being met; and other risks described in Item 1A. Risk Factors of the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the "2020 Annual Report on Form 10-K") and in this Quarterly Report on Form 10-Q, and risks and uncertainties impacting Ovintiv's business as described from time to time in the Company's other periodic filings with the SEC.

Although the Company believes the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the assumptions, risks and uncertainties referenced above are not exhaustive. Forward-looking statements are made as of the date of this document and, except as required by law, the Company undertakes no obligation to update publicly or revise any forward-looking statements. The forward-looking statements contained in this Quarterly Report on Form 10-Q are expressly qualified by these cautionary statements.

The reader should read carefully the risk factors described in Item 1A. Risk Factors of the 2020 Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q for a description of certain risks that could, among other things, cause actual results to differ from these forward-looking statements.

**PART I**

**Item 1. Financial Statements**

## Condensed Consolidated Statement of Earnings *(unaudited)*

| (US$ millions, except per share amounts) | | Three Months Ended June 30, 2021 | Three Months Ended June 30, 2020 | Six Months Ended June 30, 2021 | Six Months Ended June 30, 2020 |
|---|---|---|---|---|---|
| **Revenues** | *(Note 2)* | | | | |
| Product and service revenues | *(Note 3)* | **$ 2,473** | $ 1,023 | **$ 4,720** | $ 2,593 |
| Gains (losses) on risk management, net | *(Note 19)* | **(799)** | (314) | **(1,226)** | 741 |
| Sublease revenues | *(Note 9)* | **18** | 17 | **36** | 35 |
| Total Revenues | | **1,692** | 726 | **3,530** | 3,369 |
| **Operating Expenses** | *(Note 2)* | | | | |
| Production, mineral and other taxes | | **73** | 27 | **133** | 79 |
| Transportation and processing | | **418** | 368 | **797** | 764 |
| Operating | *(Notes 16, 17)* | **149** | 154 | **313** | 319 |
| Purchased product | | **733** | 319 | **1,337** | 717 |
| Depreciation, depletion and amortization | | **311** | 493 | **619** | 1,027 |
| Impairments | *(Note 8)* | **-** | 3,250 | **-** | 3,527 |
| Accretion of asset retirement obligation | | **6** | 9 | **12** | 18 |
| Administrative | *(Notes 15, 16, 17)* | **123** | 165 | **245** | 218 |
| Total Operating Expenses | | **1,813** | 4,785 | **3,456** | 6,669 |
| **Operating Income (Loss)** | | **(121)** | (4,059) | **74** | (3,300) |
| **Other (Income) Expenses** | | | | | |
| Interest | *(Notes 4, 10)* | **99** | 86 | **186** | 182 |
| Foreign exchange (gain) loss, net | *(Notes 5, 19)* | **(8)** | (40) | **(15)** | 76 |
| Other (gains) losses, net | *(Notes 6, 10, 17)* | **(7)** | (16) | **(25)** | (30) |
| Total Other (Income) Expenses | | **84** | 30 | **146** | 228 |
| **Net Earnings (Loss) Before Income Tax** | | **(205)** | (4,089) | **(72)** | (3,528) |
| Income tax expense (recovery) | *(Note 6)* | **-** | 294 | **(176)** | 434 |
| **Net Earnings (Loss)** | | **$ (205)** | $ (4,383) | **$ 104** | $ (3,962) |
| **Net Earnings (Loss) per Share of Common Stock** | *(Note 12)* | | | | |
| Basic | | **$ (0.79)** | $ (16.87) | **$ 0.40** | $ (15.25) |
| Diluted | | **(0.79)** | (16.87) | **0.39** | (15.25) |
| **Weighted Average Shares of Common Stock Outstanding (millions)** | *(Note 12)* | | | | |
| Basic | | **261.1** | 259.8 | **260.6** | 259.8 |
| Diluted | | **261.1** | 259.8 | **265.9** | 259.8 |

## Condensed Consolidated Statement of Comprehensive Income *(unaudited)*

| (US$ millions) | | Three Months Ended June 30, 2021 | Three Months Ended June 30, 2020 | Six Months Ended June 30, 2021 | Six Months Ended June 30, 2020 |
|---|---|---|---|---|---|
| **Net Earnings (Loss)** | | **$ (205)** | $ (4,383) | **$ 104** | $ (3,962) |
| **Other Comprehensive Income (Loss), Net of Tax** | | | | | |
| Foreign currency translation adjustment | *(Note 13)* | **25** | 87 | **44** | (47) |
| Pension and other post-employment benefit plans | *(Notes 13, 17)* | **(2)** | 3 | **(3)** | 1 |
| **Other Comprehensive Income (Loss)** | | **23** | 90 | **41** | (46) |
| **Comprehensive Income (Loss)** | | **$ (182)** | $ (4,293) | **$ 145** | $ (4,008) |

*See accompanying Notes to Condensed Consolidated Financial Statements*

# Condensed Consolidated Balance Sheet *(unaudited)*

| (US$ millions) | | As at June 30, 2021 | As at December 31, 2020 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Cash and cash equivalents | | **$ 122** | $ 10 |
| Accounts receivable and accrued revenues (net of allowances of $3 million (2020: $4 million)) | *(Note 3)* | **1,222** | 928 |
| Risk management | *(Notes 18, 19)* | **3** | 37 |
| Income tax receivable | *(Note 6)* | **96** | 272 |
| | | **1,443** | 1,247 |
| Property, Plant and Equipment, at cost: | *(Note 8)* | | |
| Oil and natural gas properties, based on full cost accounting | | | |
| Proved properties | | **54,525** | 53,883 |
| Unproved properties | | **2,444** | 2,962 |
| Other | | **918** | 911 |
| Property, plant and equipment | | **57,887** | 57,756 |
| Less: Accumulated depreciation, depletion and amortization | | **(49,352)** | (48,306) |
| Property, plant and equipment, net | *(Note 2)* | **8,535** | 9,450 |
| Other Assets | | **1,146** | 1,143 |
| Risk Management | *(Notes 18, 19)* | **-** | 4 |
| Goodwill | *(Note 2)* | **2,643** | 2,625 |
| | *(Note 2)* | **$ 13,767** | $ 14,469 |
| **Liabilities and Shareholders' Equity** | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | | **$ 1,880** | $ 1,704 |
| Current portion of operating lease liabilities | | **74** | 68 |
| Income tax payable | | **2** | 3 |
| Risk management | *(Notes 18, 19)* | **892** | 130 |
| Current portion of long-term debt | *(Note 10)* | **518** | 518 |
| | | **3,366** | 2,423 |
| Long-Term Debt | *(Note 10)* | **4,796** | 6,367 |
| Operating Lease Liabilities | | **938** | 938 |
| Other Liabilities and Provisions | *(Note 11)* | **206** | 358 |
| Risk Management | *(Notes 18, 19)* | **183** | 125 |
| Asset Retirement Obligation | | **344** | 401 |
| Deferred Income Taxes | | **-** | 20 |
| | | **9,833** | 10,632 |
| Commitments and Contingencies | *(Note 21)* | | |
| Shareholders' Equity | | | |
| Share capital - authorized 775 million shares of stock | | | |
| 2021 issued and outstanding: 261.1 million shares (2020: 259.8 million shares) | *(Note 12)* | **3** | 3 |
| Paid in surplus | *(Note 12)* | **8,532** | 8,531 |
| Retained earnings (Accumulated deficit) | | **(5,718)** | (5,773) |
| Accumulated other comprehensive income | *(Note 13)* | **1,117** | 1,076 |
| Total Shareholders' Equity | | **3,934** | 3,837 |
| | | **$ 13,767** | $ 14,469 |

*See accompanying Notes to Condensed Consolidated Financial Statements*

## Condensed Consolidated Statement of Changes in Shareholders' Equity *(unaudited)*

| Three Months Ended June 30, 2021 (US$ millions) | | Share Capital | Paid in Surplus | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance, March 31, 2021 | | **$ 3** | **$ 8,525** | **$ (5,488)** | **$ 1,094** | **$ 4,134** |
| Net Earnings (Loss) | | **-** | **-** | **(205)** | **-** | **(205)** |
| Dividends on Shares of Common Stock ($0.09375 per share) | *(Note 12)* | **-** | **-** | **(25)** | **-** | **(25)** |
| Equity-Settled Compensation Costs | | **-** | **7** | **-** | **-** | **7** |
| Other Comprehensive Income (Loss) | *(Note 13)* | **-** | **-** | **-** | **23** | **23** |
| Balance, June 30, 2021 | | **$ 3** | **$ 8,532** | **$ (5,718)** | **$ 1,117** | **$ 3,934** |

| Three Months Ended June 30, 2020 (US$ millions) | | Share Capital | Paid in Surplus | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance, March 31, 2020 | | $ 3 | $ 8,460 | $ 818 | $ 910 | $ 10,191 |
| Net Earnings (Loss) | | - | - | (4,383) | - | (4,383) |
| Dividends on Shares of Common Stock ($0.09375 per share) | *(Note 12)* | - | - | (25) | - | (25) |
| Other Comprehensive Income (Loss) | *(Note 13)* | - | - | - | 90 | 90 |
| Balance, June 30, 2020 | | $ 3 | $ 8,460 | $ (3,590) | $ 1,000 | $ 5,873 |

*See accompanying Notes to Condensed Consolidated Financial Statements*

## Condensed Consolidated Statement of Changes in Shareholders' Equity *(unaudited)*

| Six Months Ended June 30, 2021 (US$ millions) | | Share Capital | Paid in Surplus | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2020 | | **$ 3** | **$ 8,531** | **$ (5,773)** | **$ 1,076** | **$ 3,837** |
| Net Earnings (Loss) | | **-** | **-** | **104** | **-** | **104** |
| Dividends on Shares of Common Stock ($0.1875 per share) | *(Note 12)* | **-** | **-** | **(49)** | **-** | **(49)** |
| Equity-Settled Compensation Costs | | **-** | **1** | **-** | **-** | **1** |
| Other Comprehensive Income (Loss) | *(Note 13)* | **-** | **-** | **-** | **41** | **41** |
| Balance, June 30, 2021 | | **$ 3** | **$ 8,532** | **$ (5,718)** | **$ 1,117** | **$ 3,934** |

| Six Months Ended June 30, 2020 (US$ millions) | | Share Capital | Paid in Surplus | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2019 | | $ 7,061 | $ 1,402 | $ 421 | $ 1,046 | $ 9,930 |
| Net Earnings (Loss) | | - | - | (3,962) | - | (3,962) |
| Dividends on Shares of Common Stock ($0.1875 per share) | *(Note 12)* | - | - | (49) | - | (49) |
| Other Comprehensive Income (Loss) | *(Note 13)* | - | - | - | (46) | (46) |
| Reclassification of Share Capital | *(Note 12)* | (7,058) | 7,058 | - | - | - |
| Balance, June 30, 2020 | | $ 3 | $ 8,460 | $ (3,590) | $ 1,000 | $ 5,873 |

*See accompanying Notes to Condensed Consolidated Financial Statements*

# Condensed Consolidated Statement of Cash Flows *(unaudited)*

| (US$ millions) | | Three Months Ended June 30, 2021 | Three Months Ended June 30, 2020 | Six Months Ended June 30, 2021 | Six Months Ended June 30, 2020 |
|---|---|---|---|---|---|
| **Operating Activities** | | | | | |
| Net earnings (loss) | | **$ (205)** | $ (4,383) | **$ 104** | $ (3,962) |
| Depreciation, depletion and amortization | | **311** | 493 | **619** | 1,027 |
| Impairments | *(Note 8)* | **-** | 3,250 | **-** | 3,527 |
| Accretion of asset retirement obligation | | **6** | 9 | **12** | 18 |
| Deferred income taxes | *(Note 6)* | **-** | 295 | **(20)** | 435 |
| Unrealized (gain) loss on risk management | *(Note 19)* | **576** | 679 | **847** | (225) |
| Unrealized foreign exchange (gain) loss | *(Note 5)* | **4** | (50) | **6** | 51 |
| Foreign exchange on settlements | *(Note 5)* | **(3)** | - | **(9)** | 20 |
| Other | | **44** | 11 | **64** | (52) |
| Net change in other assets and liabilities | | **(5)** | (68) | **(11)** | (120) |
| Net change in non-cash working capital | *(Note 20)* | **22** | (119) | **(35)** | (36) |
| Cash From (Used in) Operating Activities | | **750** | 117 | **1,577** | 683 |
| **Investing Activities** | | | | | |
| Capital expenditures | *(Note 2)* | **(383)** | (252) | **(733)** | (1,042) |
| Acquisitions | *(Note 7)* | **(2)** | (1) | **(3)** | (18) |
| Proceeds from divestitures | *(Note 7)* | **1,023** | 8 | **1,025** | 30 |
| Net change in investments and other | | **(70)** | (272) | **(42)** | (142) |
| Cash From (Used in) Investing Activities | | **568** | (517) | **247** | (1,172) |
| **Financing Activities** | | | | | |
| Net issuance (repayment) of revolving long-term debt | *(Note 10)* | **(490)** | 408 | **(950)** | 552 |
| Repayment of long-term debt | *(Note 10)* | **(619)** | (26) | **(619)** | (115) |
| Dividends on shares of common stock | *(Note 12)* | **(25)** | (25) | **(49)** | (49) |
| Finance lease payments and other | | **(73)** | (22) | **(96)** | (44) |
| Cash From (Used in) Financing Activities | | **(1,207)** | 335 | **(1,714)** | 344 |
| **Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency** | | **2** | 1 | **2** | (6) |
| **Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash** | | **113** | (64) | **112** | (151) |
| **Cash, Cash Equivalents and Restricted Cash, Beginning of Period** | | **9** | 103 | **10** | 190 |
| **Cash, Cash Equivalents and Restricted Cash, End of Period** | | **$ 122** | $ 39 | **$ 122** | $ 39 |
| **Cash, End of Period** | | **$ 67** | $ 29 | **$ 67** | $ 29 |
| **Cash Equivalents, End of Period** | | **55** | 10 | **55** | 10 |
| **Restricted Cash, End of Period** | | **-** | - | **-** | - |
| **Cash, Cash Equivalents and Restricted Cash, End of Period** | | **$ 122** | $ 39 | **$ 122** | $ 39 |

Supplementary Cash Flow Information *(Note 20)*

*See accompanying Notes to Condensed Consolidated Financial Statements*

## 1. Basis of Presentation and Principles of Consolidation

Ovintiv is in the business of the exploration for, the development of, and the production and marketing of oil, NGLs and natural gas.

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

The interim Condensed Consolidated Financial Statements are prepared in conformity with U.S. GAAP and the rules and regulations of the SEC. Pursuant to these rules and regulations, certain information and disclosures normally required under U.S. GAAP have been condensed or have been disclosed on an annual basis only. Accordingly, the interim Condensed Consolidated Financial Statements should be read in conjunction with the annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2020, which are included in Item 8 of Ovintiv's 2020 Annual Report on Form 10-K.

The interim Condensed Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual audited Consolidated Financial Statements for the year ended December 31, 2020.

These unaudited interim Condensed Consolidated Financial Statements reflect, in the opinion of Management, all normal and recurring adjustments necessary to present fairly the financial position and results of the Company as at and for the periods presented. Interim condensed consolidated financial results are not necessarily indicative of consolidated financial results expected for the fiscal year.

## 2. Segmented Information

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

- **USA Operations** includes the exploration for, development of, and production of oil, NGLs and natural gas and other related activities within the U.S. cost center.
- **Canadian Operations** includes the exploration for, development of, and production of oil, NGLs and natural gas and other related activities within the Canadian cost center.
- **Market Optimization** is primarily responsible for the sale of the Company's proprietary production. These results are reported in the USA and Canadian Operations. Market optimization activities include third-party purchases and sales of product to provide operational flexibility and cost mitigation for transportation commitments, product type, delivery points and customer diversification. These activities are reflected in the Market Optimization segment. Market Optimization sells substantially all of the Company's upstream production to third-party customers. Transactions between segments are based on market values and are eliminated on consolidation.

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

## Results of Operations (For the three months ended June 30)

## Segment and Geographic Information

| | USA Operations | | Canadian Operations | | Market Optimization | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Revenues** | | | | | | |
| Product and service revenues | **$ 1,155** | $ 430 | **$ 570** | $ 245 | **$ 748** | $ 348 |
| Gains (losses) on risk management, net | **(188)** | 260 | **(35)** | 103 | **-** | 2 |
| Sublease revenues | **-** | - | **-** | - | **-** | - |
| Total Revenues | **967** | 690 | **535** | 348 | **748** | 350 |
| **Operating Expenses** | | | | | | |
| Production, mineral and other taxes | **69** | 24 | **4** | 3 | **-** | - |
| Transportation and processing | **126** | 115 | **248** | 198 | **44** | 55 |
| Operating | **117** | 121 | **25** | 25 | **7** | 8 |
| Purchased product | **-** | - | **-** | - | **733** | 319 |
| Depreciation, depletion and amortization | **220** | 375 | **89** | 111 | **-** | - |
| Impairments | **-** | 3,250 | **-** | - | **-** | - |
| Total Operating Expenses | **532** | 3,885 | **366** | 337 | **784** | 382 |
| **Operating Income (Loss)** | **$ 435** | $ (3,195) | **$ 169** | $ 11 | **$ (36)** | $ (32) |

| | Corporate & Other | | Consolidated | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Revenues** | | | | |
| Product and service revenues | **$ -** | $ - | **$ 2,473** | $ 1,023 |
| Gains (losses) on risk management, net | **(576)** | (679) | **(799)** | (314) |
| Sublease revenues | **18** | 17 | **18** | 17 |
| Total Revenues | **(558)** | (662) | **1,692** | 726 |
| **Operating Expenses** | | | | |
| Production, mineral and other taxes | **-** | - | **73** | 27 |
| Transportation and processing | **-** | - | **418** | 368 |
| Operating | **-** | - | **149** | 154 |
| Purchased product | **-** | - | **733** | 319 |
| Depreciation, depletion and amortization | **2** | 7 | **311** | 493 |
| Impairments | **-** | - | **-** | 3,250 |
| Accretion of asset retirement obligation | **6** | 9 | **6** | 9 |
| Administrative | **123** | 165 | **123** | 165 |
| Total Operating Expenses | **131** | 181 | **1,813** | 4,785 |
| **Operating Income (Loss)** | **$ (689)** | $ (843) | **(121)** | (4,059) |
| **Other (Income) Expenses** | | | | |
| Interest | | | **99** | 86 |
| Foreign exchange (gain) loss, net | | | **(8)** | (40) |
| Other (gains) losses, net | | | **(7)** | (16) |
| Total Other (Income) Expenses | | | **84** | 30 |
| **Net Earnings (Loss) Before Income Tax** | | | **(205)** | (4,089) |
| Income tax expense (recovery) | | | **-** | 294 |
| **Net Earnings (Loss)** | | | **$ (205)** | $ (4,383) |

## Results of Operations (For the six months ended June 30)

## Segment and Geographic Information

| | USA Operations | | Canadian Operations | | Market Optimization | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Revenues** | | | | | | |
| Product and service revenues | **$ 2,173** | $ 1,230 | **$ 1,147** | $ 596 | **$ 1,400** | $ 767 |
| Gains (losses) on risk management, net | **(324)** | 374 | **(57)** | 139 | **2** | 3 |
| Sublease revenues | **-** | - | **-** | - | **-** | - |
| Total Revenues | **1,849** | 1,604 | **1,090** | 735 | **1,402** | 770 |
| **Operating Expenses** | | | | | | |
| Production, mineral and other taxes | **124** | 72 | **9** | 7 | **-** | - |
| Transportation and processing | **239** | 236 | **472** | 411 | **86** | 117 |
| Operating | **246** | 260 | **53** | 51 | **14** | 10 |
| Purchased product | **-** | - | **-** | - | **1,337** | 717 |
| Depreciation, depletion and amortization | **428** | 793 | **182** | 220 | **-** | - |
| Impairments | **-** | 3,527 | **-** | - | **-** | - |
| Total Operating Expenses | **1,037** | 4,888 | **716** | 689 | **1,437** | 844 |
| **Operating Income (Loss)** | **$ 812** | $ (3,284) | **$ 374** | $ 46 | **$ (35)** | $ (74) |

| | Corporate & Other | | Consolidated | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Revenues** | | | | |
| Product and service revenues | **$ -** | $ - | **$ 4,720** | $ 2,593 |
| Gains (losses) on risk management, net | **(847)** | 225 | **(1,226)** | 741 |
| Sublease revenues | **36** | 35 | **36** | 35 |
| Total Revenues | **(811)** | 260 | **3,530** | 3,369 |
| **Operating Expenses** | | | | |
| Production, mineral and other taxes | **-** | - | **133** | 79 |
| Transportation and processing | **-** | - | **797** | 764 |
| Operating | **-** | (2) | **313** | 319 |
| Purchased product | **-** | - | **1,337** | 717 |
| Depreciation, depletion and amortization | **9** | 14 | **619** | 1,027 |
| Impairments | **-** | - | **-** | 3,527 |
| Accretion of asset retirement obligation | **12** | 18 | **12** | 18 |
| Administrative | **245** | 218 | **245** | 218 |
| Total Operating Expenses | **266** | 248 | **3,456** | 6,669 |
| **Operating Income (Loss)** | **$ (1,077)** | $ 12 | **74** | (3,300) |
| **Other (Income) Expenses** | | | | |
| Interest | | | **186** | 182 |
| Foreign exchange (gain) loss, net | | | **(15)** | 76 |
| Other (gains) losses, net | | | **(25)** | (30) |
| Total Other (Income) Expenses | | | **146** | 228 |
| **Net Earnings (Loss) Before Income Tax** | | | **(72)** | (3,528) |
| Income tax expense (recovery) | | | **(176)** | 434 |
| **Net Earnings (Loss)** | | | **$ 104** | $ (3,962) |

## Intersegment Information

| | Marketing Sales | | Market Optimization Upstream Eliminations | | Total | |
|---|---|---|---|---|---|---|
| For the three months ended June 30, | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Revenues** | **$ 2,613** | $ 1,047 | **$ (1,865)** | $ (697) | **$ 748** | $ 350 |
| **Operating Expenses** | | | | | | |
| Transportation and processing | **149** | 152 | **(105)** | (97) | **44** | 55 |
| Operating | **7** | 8 | **-** | - | **7** | 8 |
| Purchased product | **2,492** | 919 | **(1,759)** | (600) | **733** | 319 |
| **Operating Income (Loss)** | **$ (35)** | $ (32) | **$ (1)** | $ - | **$ (36)** | $ (32) |

| | Marketing Sales | | Market Optimization Upstream Eliminations | | Total | |
|---|---|---|---|---|---|---|
| For the six months ended June 30, | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Revenues** | **$ 4,781** | $ 3,142 | **$ (3,379)** | $ (2,372) | **$ 1,402** | $ 770 |
| **Operating Expenses** | | | | | | |
| Transportation and processing | **286** | 320 | **(200)** | (203) | **86** | 117 |
| Operating | **14** | 10 | **-** | - | **14** | 10 |
| Purchased product | **4,515** | 2,886 | **(3,178)** | (2,169) | **1,337** | 717 |
| **Operating Income (Loss)** | **$ (34)** | $ (74) | **$ (1)** | $ - | **$ (35)** | $ (74) |

## Capital Expenditures

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| USA Operations | **$ 279** | $ 218 | **$ 540** | $ 846 |
| Canadian Operations | **103** | 33 | **192** | 194 |
| Corporate & Other | **1** | 1 | **1** | 2 |
| | **$ 383** | $ 252 | **$ 733** | $ 1,042 |

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

| | Goodwill As at | | Property, Plant and Equipment As at | | Total Assets As at | |
|---|---|---|---|---|---|---|
| | **June 30, 2021** | December 31, 2020 | **June 30, 2021** | December 31, 2020 | **June 30, 2021** | December 31, 2020 |
| USA Operations | **$ 1,938** | $ 1,938 | **$ 7,408** | $ 8,103 | **$ 10,066** | $ 10,646 |
| Canadian Operations | **705** | 687 | **927** | 1,142 | **1,911** | 2,031 |
| Market Optimization | **-** | - | **-** | 2 | **336** | 233 |
| Corporate & Other | **-** | - | **200** | 203 | **1,454** | 1,559 |
| | **$ 2,643** | $ 2,625 | **$ 8,535** | $ 9,450 | **$ 13,767** | $ 14,469 |

## 3. Revenues from Contracts with Customers

The following tables summarize Ovintiv's revenues from contracts with customers.

### Revenues (For the three months ended June 30)

| | USA Operations | | Canadian Operations | | Market Optimization | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Revenues from Customers** | | | | | | |
| Product revenues [1] | | | | | | |
| Oil | **$ 861** | $ 307 | **$ 1** | $ 2 | **$ 602** | $ 159 |
| NGLs | **179** | 60 | **285** | 88 | **11** | 2 |
| Natural gas | **118** | 65 | **286** | 157 | **128** | 181 |
| Service revenues | | | | | | |
| Gathering and processing | **-** | 1 | **2** | 1 | **-** | - |
| Product and Service Revenues | **$ 1,158** | $ 433 | **$ 574** | $ 248 | **$ 741** | $ 342 |

| | Corporate & Other | | Consolidated | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Revenues from Customers** | | | | |
| Product revenues [1] | | | | |
| Oil | **$ -** | $ - | **$ 1,464** | $ 468 |
| NGLs | **-** | - | **475** | 150 |
| Natural gas | **-** | - | **532** | 403 |
| Service revenues | | | | |
| Gathering and processing | **-** | - | **2** | 2 |
| Product and Service Revenues | **$ -** | $ - | **$ 2,473** | $ 1,023 |

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

### Revenues (For the six months ended June 30)

| | USA Operations | | Canadian Operations | | Market Optimization | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Revenues from Customers** | | | | | | |
| Product revenues [1] | | | | | | |
| Oil | **$ 1,602** | $ 949 | **$ 6** | $ 4 | **$ 987** | $ 369 |
| NGLs | **337** | 146 | **541** | 267 | **26** | 4 |
| Natural gas | **241** | 137 | **603** | 329 | **369** | 386 |
| Service revenues | | | | | | |
| Gathering and processing | **-** | 1 | **3** | 1 | **5** | - |
| Product and Service Revenues | **$ 2,180** | $ 1,233 | **$ 1,153** | $ 601 | **$ 1,387** | $ 759 |

| | Corporate & Other | | Consolidated | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Revenues from Customers** | | | | |
| Product revenues [1] | | | | |
| Oil | **$ -** | $ - | **$ 2,595** | $ 1,322 |
| NGLs | **-** | - | **904** | 417 |
| Natural gas | **-** | - | **1,213** | 852 |
| Service revenues | | | | |
| Gathering and processing | **-** | - | **8** | 2 |
| Product and Service Revenues | **$ -** | $ - | **$ 4,720** | $ 2,593 |

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

The Company's revenues from contracts with customers consists of product sales including oil, NGLs and natural gas, as well as the provision of gathering and processing services to third parties. Ovintiv had no contract asset or liability balances during the periods presented. As at June 30, 2021, receivables and accrued revenues from contracts with customers were $1,105 million ($814 million as at December 31, 2020).

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

The Company's gathering and processing services are provided on an interruptible basis with transaction prices that are for fixed prices and/or variable consideration. Variable consideration received is related to recovery of plant operating costs or escalation of the fixed price based on a consumer price index. As the service contracts are interruptible, with service provided on an "as available" basis, there are no unsatisfied performance obligations remaining at June 30, 2021.

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

## 4. Interest

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Interest Expense on: | | | | |
| Debt | **$ 93** | $ 82 | **$ 177** | $ 171 |
| Finance leases | **-** | 2 | **2** | 5 |
| Other | **6** | 2 | **7** | 6 |
| | **$ 99** | $ 86 | **$ 186** | $ 182 |

Interest expense on debt for the three and six months ended June 30, 2021 includes a one-time make-whole interest payment of $19 million resulting from the June 2021 early redemption of the Company's $600 million, 5.75 percent senior notes due January 30, 2022 as discussed in Note 10.

## 5. Foreign Exchange (Gain) Loss, Net

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Unrealized Foreign Exchange (Gain) Loss on: | | | | |
| Translation of U.S. dollar financing debt issued from Canada | **$ -** | $ (14) | **$ 1** | $ 62 |
| Translation of U.S. dollar risk management contracts issued from Canada | **4** | (36) | **5** | 16 |
| Translation of intercompany notes | **-** | - | **-** | (27) |
| | **4** | (50) | **6** | 51 |
| Foreign Exchange (Gain) Loss on Settlements of: | | | | |
| U.S. dollar financing debt issued from Canada | **(3)** | - | **(9)** | 17 |
| U.S. dollar risk management contracts issued from Canada | **(11)** | 6 | **(18)** | 9 |
| Intercompany notes | **-** | - | **-** | 3 |
| Other Monetary Revaluations | **2** | 4 | **6** | (4) |
| | **$ (8)** | $ (40) | **$ (15)** | $ 76 |

Following the completion of the corporate reorganization and U.S. domestication in 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.

## 6. Income Taxes

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Current Tax | | | | |
| United States | **$ -** | $ (1) | **$ -** | $ (1) |
| Canada | **-** | - | **(156)** | - |
| Total Current Tax Expense (Recovery) | **-** | (1) | **(156)** | (1) |
| Deferred Tax | | | | |
| United States | **-** | (267) | **-** | (139) |
| Canada | **-** | 563 | **(20)** | 573 |
| Other Countries | **-** | (1) | **-** | 1 |
| Total Deferred Tax Expense (Recovery) | **-** | 295 | **(20)** | 435 |
| Income Tax Expense (Recovery) | **$ -** | $ 294 | **$ (176)** | $ 434 |
| Effective Tax Rate | **0.0%** | (7.2%) | **244.4%** | (12.3%) |

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, income tax related to foreign operations, state tax, the effect of legislative changes, non-taxable capital gains and losses, and tax differences on divestitures and transactions, which can produce interim effective tax rate fluctuations.

During the six months ended June 30, 2021, the current income tax recovery was primarily due to the resolution of prior year tax items. The resolution, along with other items, resulted in a $222 million reduction of unrecognized tax benefits, offset by a $66 million reduction in valuation allowance. The Company also recognized related interest income of $12 million in other (gains) losses, net. During the six months ended June 30, 2021, the deferred tax recovery was primarily due to the change in valuation allowances recorded relating to the current year net loss before tax and from the resolution of prior year tax items. During the six months ended June 30, 2020, the deferred tax expense was primarily due to the recognition of a valuation allowance to reduce the associated deferred tax assets in the United States and Canada.

The effective tax rate of 244.4 percent for the six months ended June 30, 2021 is higher 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 change in valuation

allowances recorded relating to the current year net loss before tax. The effective tax rate of (12.3) percent for the six months ended June 30, 2020 was lower than the U.S. federal statutory tax rate of 21 percent primarily due to valuation allowances recorded due to net losses arising from ceiling test impairments and an increase in the valuation allowance of $568 million in Canada related to prior years' deferred tax assets which was recorded as a discrete item. See Note 8 for further discussion related to the ceiling test impairments.

## 7. Acquisitions and Divestitures

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Acquisitions** | | | | |
| USA Operations | **$ 2** | $ 1 | **$ 3** | $ 18 |
| Total Acquisitions | **2** | 1 | **3** | 18 |
| **Divestitures** | | | | |
| USA Operations | **(773)** | (6) | **(774)** | (27) |
| Canadian Operations | **(250)** | (2) | **(251)** | (3) |
| Total Divestitures | **(1,023)** | (8) | **(1,025)** | (30) |
| **Net Acquisitions & (Divestitures)** | **$ (1,021)** | $ (7) | **$ (1,022)** | $ (12) |

### Acquisitions

For the six months ended June 30, 2020, acquisitions in the USA Operations were $18 million, which primarily included property purchases with oil and liquids rich potential.

### Divestitures

For the three and six months ended June 30, 2021, divestitures in the USA Operations were $773 million and $774 million, respectively, which primarily included the sale of the Eagle Ford assets located in south Texas for proceeds of approximately $771 million, after closing and other adjustments. For the six months ended June 30, 2020, divestitures in the USA Operations were $27 million, which primarily included the sale of certain properties that did not complement Ovintiv's existing portfolio of assets.

For the three and six months ended June 30, 2021, divestitures in the Canadian Operations were $250 million and $251 million, respectively, which primarily included the sale of the Duvernay assets located in west central Alberta for proceeds of approximately $239 million, after closing and other adjustments.

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

As part of the Duvernay asset divestiture, the Company agreed to a contingent consideration arrangement, which is payable to Ovintiv in the amount of C$5 million at the end of 2021 and an additional C$10 million at the end of 2022, if the annual average of the WTI reference price for each calendar year is greater than $56 per barrel and $62 per barrel, respectively. The contingent consideration was determined to be an embedded derivative and accordingly, the Company recorded the contingent consideration at its fair value of $6 million on the closing date. Subsequent changes in the fair value of the contingent consideration are recognized as a gain or loss and presented in gains (losses) on risk management, net in the Condensed Consolidated Statement of Earnings. The fair value is presented in accounts receivable and accrued revenues, and other assets in the Condensed Consolidated Balance Sheet. See Notes 18 and 19 for further information on the contingent consideration.

## 8. Property, Plant and Equipment, Net

| | As at June 30, 2021 | | | As at December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated DD&A | Net | Cost | Accumulated DD&A | Net |
| USA Operations | | | | | | |
| Proved properties | $ 38,029 | $ (33,010) | $ 5,019 | $ 37,875 | $ (32,581) | $ 5,294 |
| Unproved properties | 2,374 | - | 2,374 | 2,785 | - | 2,785 |
| Other | 15 | - | 15 | 24 | - | 24 |
| | 40,418 | (33,010) | 7,408 | 40,684 | (32,581) | 8,103 |
| Canadian Operations | | | | | | |
| Proved properties | 16,496 | (15,650) | 846 | 16,008 | (15,056) | 952 |
| Unproved properties | 70 | - | 70 | 177 | - | 177 |
| Other | 11 | - | 11 | 13 | - | 13 |
| | 16,577 | (15,650) | 927 | 16,198 | (15,056) | 1,142 |
| Market Optimization | 7 | (7) | - | 9 | (7) | 2 |
| Corporate & Other | 885 | (685) | 200 | 865 | (662) | 203 |
| | $ 57,887 | $ (49,352) | $ 8,535 | $ 57,756 | $ (48,306) | $ 9,450 |

USA and Canadian Operations' property, plant and equipment include internal costs directly related to exploration, development and construction activities of $82 million, which have been capitalized during the six months ended June 30, 2021 (2020 - $96 million).

For the three and six months ended June 30, 2021, Ovintiv did not recognize ceiling test impairments in the USA Operations (2020 - $3,250 million and $3,527 million before tax, respectively) or Canadian Operations (2020 - nil, respectively). The non-cash ceiling test impairments recognized in the USA Operations in 2020 are included with accumulated DD&A in the table above and primarily resulted from the decline in the 12-month average trailing prices, which reduced proved reserves.

The 12-month average trailing prices used in the ceiling test calculations were based on the benchmark prices presented 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] | | | | |
| **June 30, 2021** | **$ 49.78** | **$ 62.73** | **$ 2.43** | **$ 2.60** |
| December 31, 2020 | 39.62 | 49.77 | 1.98 | 2.13 |
| June 30, 2020 | 47.47 | 58.46 | 2.07 | 1.70 |

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

## 9. Leases

The following table outlines Ovintiv's estimated future sublease income as at June 30, 2021. All subleases are classified as operating leases.

| (undiscounted) | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Sublease Income | $ 27 | $ 49 | $ 47 | $ 47 | $ 47 | $ 535 | **$ 752** |

For the three and six months ended June 30, 2021, operating lease income was $14 million and $27 million, respectively (2020 - $13 million and $26 million, respectively), and variable lease income was $4 million and $9 million, respectively (2020 - $4 million and $9 million, respectively).

## 10. Long-Term Debt

| | As at June 30, 2021 | As at December 31, 2020 |
|---|---|---|
| U.S. Dollar Denominated Debt | | |
| Revolving credit and term loan borrowings | $ - | $ 950 |
| U.S. Unsecured Notes: | | |
| 3.90% due November 15, 2021 | 518 | 518 |
| 5.75% due January 30, 2022 | - | 600 |
| 5.625% due July 1, 2024 | 1,000 | 1,000 |
| 5.375% due January 1, 2026 | 688 | 688 |
| 8.125% due September 15, 2030 | 300 | 300 |
| 7.20% due November 1, 2031 | 350 | 350 |
| 7.375% due November 1, 2031 | 500 | 500 |
| 6.50% due August 15, 2034 | 750 | 750 |
| 6.625% due August 15, 2037 | 462 | 462 |
| 6.50% due February 1, 2038 | 488 | 488 |
| 5.15% due November 15, 2041 | 203 | 203 |
| Total Principal | 5,259 | 6,809 |
| Increase in Value of Debt Acquired | 88 | 111 |
| Unamortized Debt Discounts and Issuance Costs | (33) | (35) |
| Total Long-Term Debt | $ 5,314 | $ 6,885 |
| Current Portion | $ 518 | $ 518 |
| Long-Term Portion | 4,796 | 6,367 |
| | $ 5,314 | $ 6,885 |

On May 19, 2021, Ovintiv announced its intention to redeem the Company's $600 million, 5.75 percent senior notes due January 30, 2022. On June 18, 2021, the Company used a portion of the net proceeds from its Eagle Ford and Duvernay asset sales, as discussed in Note 7, to complete the senior note redemptions. Ovintiv paid approximately $632 million in cash including accrued and unpaid interest of $13 million and a one-time make-whole payment of $19 million, which is included in interest expense as discussed in Note 4.

During the three and six months ended June 30, 2020, the Company repurchased in the open market approximately $37 million and $137 million, respectively, in principal amount of its senior notes. The aggregate cash payments related to the note repurchases were $26 million and $115 million, respectively, plus accrued interest, and net gains of approximately $11 million and $22 million, respectively, were recognized in other (gains) losses, net in the Condensed Consolidated Statement of Earnings.

As at June 30, 2021, total long-term debt had a carrying value of $5,314 million and a fair value of $6,409 million (as at December 31, 2020 - carrying value of $6,885 million and a fair value of $7,379 million). The estimated fair value of long-term borrowings is categorized within Level 2 of the fair value hierarchy and has been determined based on market information of long-term debt with similar terms and maturity, or by discounting future payments of interest and principal at interest rates expected to be available to the Company at period end.

## 11. Other Liabilities and Provisions

| | As at June 30, 2021 | As at December 31, 2020 |
|---|---|---|
| Finance Lease Obligations | $ 36 | $ 39 |
| Unrecognized Tax Benefits (See Note 6) | - | 158 |
| Pensions and Other Post-Employment Benefits | 128 | 129 |
| Long-Term Incentive Costs (See Note 16) | 21 | 9 |
| Other Derivative Contracts (See Notes 18, 19) | 5 | 7 |
| Other | 16 | 16 |
| | $ 206 | $ 358 |

## 12. Share Capital

### Authorized

Ovintiv is authorized to issue 750 million shares of common stock, par value $0.01 per share, and 25 million shares of preferred stock, par value $0.01 per share. No shares of preferred stock are outstanding.

### Issued and Outstanding

| | As at June 30, 2021 | | As at December 31, 2020 | |
|---|---|---|---|---|
| | Number (millions) | Amount | Number (millions) | Amount |
| Shares of Common Stock Outstanding, Beginning of Year | 259.8 | $ 3 | 259.8 | $ 7,061 |
| Shares of Common Stock Issued (See Note 16) | 1.3 | - | - | - |
| Reclassification of Share Capital | - | - | - | (7,058) |
| Shares of Common Stock Outstanding, End of Period | 261.1 | $ 3 | 259.8 | $ 3 |

In conjunction with the corporate reorganization and U.S. domestication completed in 2020, the amount recognized in share capital in excess of Ovintiv's established par value of $0.01 per share was reclassified to paid in surplus. Accordingly, approximately $7,058 million was reclassified.

### Dividends

During the three months ended June 30, 2021, the Company declared and paid dividends of $0.09375 per share of Ovintiv common stock totaling $25 million (2020 - $0.09375 per share of Ovintiv common stock totaling $25 million).

During the six months ended June 30, 2021, the Company declared and paid dividends of $0.1875 per share of Ovintiv common stock totaling $49 million (2020 - $0.1875 per share of Ovintiv common stock totaling $49 million).

On July 27, 2021, the Board of Directors declared a dividend of $0.14 per share of Ovintiv common stock payable on September 30, 2021 to stockholders of record as of September 15, 2021.

### Earnings Per Share of Common Stock

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

| (US$ millions, except per share amounts) | Three Months Ended June 30, 2021 | Three Months Ended June 30, 2020 | Six Months Ended June 30, 2021 | Six Months Ended June 30, 2020 |
|---|---|---|---|---|
| Net Earnings (Loss) | **$ (205)** | $ (4,383) | **$ 104** | $ (3,962) |
| Number of Shares of Common Stock: | | | | |
| Weighted average shares of common stock outstanding - Basic | **261.1** | 259.8 | **260.6** | 259.8 |
| Effect of dilutive securities [1] [2] | **-** | - | **5.3** | - |
| Weighted Average Shares of Common Stock Outstanding - Diluted | **261.1** | 259.8 | **265.9** | 259.8 |
| Net Earnings (Loss) per Share of Common Stock | | | | |
| Basic | **$ (0.79)** | $ (16.87) | **$ 0.40** | $ (15.25) |
| Diluted [1] [2] | **(0.79)** | (16.87) | **0.39** | (15.25) |

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

(2) For the three months ended June 30, 2021, all of Ovintiv's equity-settled awards were determined to be antidilutive and therefore are excluded from the calculation of fully diluted net earnings (loss) per share of common stock.

Shares issued as a result of awards granted from stock-based compensation plans are generally funded out of the common stock authorized for issuance as approved by the Company's shareholders.

### Stock-Based Compensation Plans

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

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

## 13. Accumulated Other Comprehensive Income

| | Three Months Ended June 30, 2021 | Three Months Ended June 30, 2020 | Six Months Ended June 30, 2021 | Six Months Ended June 30, 2020 |
|---|---|---|---|---|
| **Foreign Currency Translation Adjustment** | | | | |
| Balance, Beginning of Period | **$ 1,061** | $ 870 | **$ 1,042** | $ 1,004 |
| Change in Foreign Currency Translation Adjustment | **25** | 87 | **44** | (47) |
| Balance, End of Period | **$ 1,086** | $ 957 | **$ 1,086** | $ 957 |
| **Pension and Other Post-Employment Benefit Plans** | | | | |
| Balance, Beginning of Period | **$ 33** | $ 40 | **$ 34** | $ 42 |
| Amounts Reclassified from Other Comprehensive Income: | | | | |
| Reclassification of net actuarial (gains) and losses to net earnings (See Note 17) | **(3)** | (2) | **(4)** | (4) |
| Income taxes | **1** | 1 | **1** | 1 |
| Curtailment in net defined periodic benefit cost (See Note 17) | **-** | 5 | **-** | 5 |
| Income taxes | **-** | (1) | **-** | (1) |
| Balance, End of Period | **$ 31** | $ 43 | **$ 31** | $ 43 |
| **Total Accumulated Other Comprehensive Income** | **$ 1,117** | $ 1,000 | **$ 1,117** | $ 1,000 |

## 14. Variable Interest Entities

**Veresen Midstream Limited Partnership**

Veresen Midstream Limited Partnership ("VMLP") provides gathering, compression and processing services under various agreements related to the Company's development of liquids and natural gas production in the Montney play. As at June 30, 2021, VMLP provides approximately 1,167 MMcf/d of natural gas gathering and compression and 925 MMcf/d of natural gas processing under long-term service agreements with remaining terms ranging from 10 to 24 years and have various renewal terms providing up to a potential maximum of 10 years.

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

As a result of Ovintiv's involvement with VMLP, the maximum total exposure to loss related to the commitments under the agreements is estimated to be $1,883 million as at June 30, 2021. The estimate comprises the take or pay volume commitments and the potential payout of minimum costs. The take or pay volume commitments associated with certain gathering and processing assets are included in Note 21 under Transportation and Processing. The potential payout requirement is highly uncertain as the amount is contingent on future production estimates, pace of development and the amount of capacity contracted to third parties. As at June 30, 2021, accounts payable and accrued liabilities included $0.1 million related to the take or pay commitment.

## 15. Restructuring Charges

In June 2020, Ovintiv undertook a plan to reduce its workforce by approximately 25 percent as part of a company-wide reorganization in response to the low commodity price environment resulting from the global pandemic and the Company's planned reductions in capital spending. During the three and six months ended June 30, 2021, the Company incurred restructuring charges of $5 million and $11 million, respectively (2020 - $81 million, respectively), before tax, primarily related to severance costs. Of the $101 million in restructuring charges incurred to date, $5 million remains accrued as at June 30, 2021 ($14 million as at December 31, 2020). The majority of the remaining amounts accrued are expected to be paid in 2021 and total transition and severance costs are expected to be approximately $104 million, before tax.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Severance and Benefits | **$ 5** | $ 80 | **$ 11** | $ 80 |
| Outplacement, Moving and Other Expenses | **-** | 1 | **-** | 1 |
| Restructuring Expenses | **$ 5** | $ 81 | **$ 11** | $ 81 |

| | **As at June 30, 2021** | As at December 31, 2020 |
|---|---|---|
| Outstanding Restructuring Accrual, Beginning of Year | **$ 14** | $ 8 |
| Restructuring Expenses Incurred | **11** | 90 |
| Restructuring Costs Paid | **(20)** | (84) |
| Outstanding Restructuring Accrual, End of Period [1] | **$ 5** | $ 14 |

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

## 16. Compensation Plans

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

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

During the fourth quarter of 2020, Ovintiv's Board of Directors resolved to settle certain PSU awards and RSU awards with the issuance of the Company's common stock. Historically, the Company settled PSU and RSU awards in cash. As a result, the respective awards were modified and reclassified as equity-settled share-based payment transactions at the modification date. The modified awards accrue compensation expense using the modification date fair value of the awards over the remaining vesting period. Common stock used to settle the PSU and RSU awards will be issued from Ovintiv's common stock authorized and held in reserve for issuance under the Company's stock-based compensation plans.

The following weighted average assumptions were used to determine the fair value of TSAR and SAR units outstanding:

| | **As at June 30, 2021** | | As at June 30, 2020 | |
|---|---|---|---|---|
| | **US$ SAR Share Units** | **C$ TSAR Share Units** | US$ SAR Share Units | C$ TSAR Share Units |
| Risk Free Interest Rate | **0.44%** | **0.44%** | 0.25% | 0.25% |
| Dividend Yield | **1.19%** | **1.20%** | 3.93% | 3.97% |
| Expected Volatility Rate [(1)] | **105.96%** | **104.94%** | 100.88% | 100.34% |
| Expected Term | **1.7 yrs** | **1.7 yrs** | 2.8 yrs | 2.3 yrs |
| Market Share Price | **US$31.47** | **C$39.07** | US$9.55 | C$12.91 |
| Weighted Average Grant Date Fair Value | **US$36.98** | **C$50.16** | US$38.11 | C$48.28 |

(1) Volatility was estimated using historical rates.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Total Compensation Costs of Transactions Classified as Cash-Settled | **$ 42** | $ 35 | **$ 82** | $ (16) |
| Total Compensation Costs of Transactions Classified as Equity-Settled | **7** | - | **18** | - |
| Less: Total Share-Based Compensation Costs Capitalized | **(9)** | (8) | **(16)** | 5 |
| Total Share-Based Compensation Expense (Recovery) | **$ 40** | $ 27 | **$ 84** | $ (11) |
| Recognized in the Condensed Consolidated Statement of Earnings in: | | | | |
| Operating | **$ 9** | $ 8 | **$ 18** | $ (4) |
| Administrative | **31** | 19 | **66** | (7) |
| | **$ 40** | $ 27 | **$ 84** | $ (11) |

As at June 30, 2021, the liability for cash-settled share-based payment transactions totaled $91 million ($34 million as at December 31, 2020), of which $70 million ($25 million as at December 31, 2020) is recognized in accounts payable and accrued liabilities and $21 million ($9 million as at December 31, 2020) is recognized in other liabilities and provisions in the Condensed Consolidated Balance Sheet.

The following units were granted primarily in conjunction with the Company's annual grant of long-term incentive awards. The PSUs and RSUs were granted at the volume-weighted average trading price of shares of Ovintiv common stock for the five days prior to the grant date.

| Six Months Ended June 30, 2021 (thousands of units) | |
|---|---|
| RSUs | 2,642 |
| PSUs | 855 |
| DSUs | 11 |

## 17. Pension and Other Post-Employment Benefits

The Company has recognized total benefit plans expense which includes pension benefits and other post-employment benefits ("OPEB") for the six months ended June 30 as follows:

| | Pension Benefits | | OPEB | | Total | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| Net Defined Periodic Benefit Cost | **$ -** | $ - | **$ (1)** | $ 3 | **$ (1)** | $ 3 |
| Defined Contribution Plan Expense | **13** | 16 | **-** | - | **13** | 16 |
| Total Benefit Plans Expense | **$ 13** | $ 16 | **$ (1)** | $ 3 | **$ 12** | $ 19 |

Of the total benefit plans expense, $12 million (2020 - $15 million) was included in operating expense and $3 million (2020 - $3 million) was included in administrative expense. Excluding service costs, net defined periodic benefit gains of $3 million (2020 - costs of $1 million) were recorded in other (gains) losses, net.

The net defined periodic benefit cost for the six months ended June 30 is as follows:

| | Defined Benefits | | OPEB | | Total | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| Service Cost | **$ -** | $ - | **$ 2** | $ 2 | **$ 2** | $ 2 |
| Interest Cost | **3** | 3 | **1** | 1 | **4** | 4 |
| Expected Return on Plan Assets | **(3)** | (3) | **-** | - | **(3)** | (3) |
| Amounts Reclassified from Accumulated Other Comprehensive Income: | | | | | | |
| Amortization of net actuarial (gains) and losses | **-** | - | **(4)** | (4) | **(4)** | (4) |
| Curtailment from net prior service costs | **-** | - | **-** | 5 | **-** | 5 |
| Curtailment | **-** | - | **-** | (1) | **-** | (1) |
| Total Net Defined Periodic Benefit Cost [(1)] | **$ -** | $ - | **$ (1)** | $ 3 | **$ (1)** | $ 3 |

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

## 18. Fair Value Measurements

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

Recurring fair value measurements are performed for risk management assets and liabilities and other derivative contracts, as discussed further in Note 19. These items are carried at fair value in the Condensed Consolidated Balance Sheet and are classified within the three levels of the fair value hierarchy in the following tables.

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

| As at June 30, 2021 | Level 1 Quoted Prices in Active Markets | Level 2 Other Observable Inputs | Level 3 Significant Unobservable Inputs | Total Fair Value | Netting [1] | Carrying Amount |
|---|---|---|---|---|---|---|
| **Risk Management Assets** | | | | | | |
| Commodity Derivatives: | | | | | | |
| Current assets | **$ -** | **$ 12** | **$ -** | **$ 12** | **$ (12)** | **$ -** |
| Long-term assets | **-** | **3** | **-** | **3** | **(3)** | **-** |
| Foreign Currency Derivatives: | | | | | | |
| Current assets | **-** | **18** | **-** | **18** | **(15)** | **3** |
| **Risk Management Liabilities** | | | | | | |
| Commodity Derivatives: | | | | | | |
| Current liabilities | **$ -** | **$ 519** | **$ 400** | **$ 919** | **$ (12)** | **$ 907** |
| Long-term liabilities | **-** | **156** | **30** | **186** | **(3)** | **183** |
| Foreign Currency Derivatives: | | | | | | |
| Current liabilities | **-** | **-** | **-** | **-** | **(15)** | **(15)** |
| **Other Derivative Contracts [2]** | | | | | | |
| Current in accounts receivable and accrued revenues | **$ -** | **$ -** | **$ 3** | **$ 3** | **$ -** | **$ 3** |
| Long-term in other assets | **-** | **-** | **5** | **5** | **-** | **5** |
| Current in accounts payable and accrued liabilities | **-** | **1** | **-** | **1** | **-** | **1** |
| Long-term in other liabilities and provisions | **-** | **5** | **-** | **5** | **-** | **5** |

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

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

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

The Company's Level 1 and Level 2 risk management assets and liabilities consist of commodity fixed price contracts, NYMEX fixed price swaptions, NYMEX three-way options, NYMEX costless collars, NYMEX call options, foreign currency swaps and basis swaps with terms to 2025. Level 2 also includes financial guarantee contracts as discussed in Note 19. The fair values of these contracts are estimated using inputs which are either directly or indirectly observable from active markets, such as exchange and other published prices, broker quotes and observable trading activity throughout the term of the instruments.

**Level 3 Fair Value Measurements**

As at June 30, 2021, the Company's Level 3 risk management assets and liabilities consist of WTI three-way options, WTI costless collars and contingent consideration derivative contracts tied to WTI with terms to 2022. The WTI three-way options are a combination of a sold call, bought put and a sold put. The WTI costless collars are a combination of a sold call and a bought put. These contracts allow the Company to participate in the upside of commodity prices to the ceiling of the call option and provide the Company with complete (collars) or partial (three-way) downside price protection through the put options. The fair values of these contracts are determined using an option pricing model using observable and unobservable inputs such as implied volatility. The unobservable inputs are obtained from third parties whenever possible and reviewed by the Company for reasonableness.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2021** | 2020 |
| Balance, Beginning of Year | **$ (74)** | $ (52) |
| Total Gains (Losses) | **(569)** | 204 |
| Purchases, Sales, Issuances and Settlements: | | |
| Purchases, sales and issuances [1] | **6** | - |
| Settlements | **215** | (71) |
| Transfers Out of Level 3 | **-** | - |
| Balance, End of Period | **$ (422)** | $ 81 |
| Change in Unrealized Gains (Losses) During the Period Included in Net Earnings (Loss) | **$ (354)** | $ 133 |

(1) Relates to the contingent consideration associated with the Duvernay divestiture discussed in Note 7.

Quantitative information about unobservable inputs used in Level 3 fair value measurements is presented below as at June 30, 2021:

| | Valuation Technique | Unobservable Input | Range | Weighted Average [1] |
|---|---|---|---|---|
| Risk Management - WTI Options | Option Model | Implied Volatility | 28% - 106% | 46% |

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

A 10 percent increase or decrease in implied volatility for the WTI options would cause an approximate corresponding $16 million ($6 million as at December 31, 2020) increase or decrease to net risk management assets and liabilities.

## 19. Financial Instruments and Risk Management

### A) Financial Instruments

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

### B) Risk Management Activities

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

**Commodity Price Risk**

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

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

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

**Foreign Exchange Risk**

Foreign exchange risk arises from changes in foreign currency exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. To partially mitigate the effect of foreign exchange fluctuations on future commodity revenues and expenses, the Company may enter into foreign currency derivative contracts. As at June 30, 2021, the Company has entered into $175 million notional U.S. dollar denominated currency swaps at an average exchange rate of C$1.3720 to US$1, which mature monthly through the remainder of 2021.

## Risk Management Positions as at June 30, 2021

| | Notional Volumes | Term | Average Price | Fair Value |
|---|---|---|---|---|
| **Crude Oil and NGL Contracts** | | | **US$/bbl** | |
| Fixed Price Contracts | | | | |
| WTI Fixed Price | 30.0 Mbbls/d | 2021 | 46.37 | **$ (136)** |
| WTI Fixed Price | 5.0 Mbbls/d | 2022 | 60.16 | **(10)** |
| Ethane Fixed Price | 8.0 Mbbls/d | 2021 | 10.38 | **(2)** |
| Propane Fixed Price | 12.0 Mbbls/d | 2021 | 25.78 | **(43)** |
| Butane Fixed Price | 5.0 Mbbls/d | 2021 | 24.83 | **(25)** |
| WTI Three-Way Options | | | | |
| Sold call / bought put / sold put | 85.0 Mbbls/d | 2021 | 53.92 / 44.66 / 34.79 | **(283)** |
| Sold call / bought put / sold put | 65.0 Mbbls/d | 2022 | 70.10 / 60.17 / 48.46 | **(76)** |
| WTI Costless Collars | | | | |
| Sold call / bought put | 15.0 Mbbls/d | 2021 | 45.84 / 35.00 | **(71)** |
| Basis Contracts [1] | | 2021 | | **(3)** |
| Other Crude Financial Positions | | | | **-** |
| Crude Oil and NGLs Fair Value Position | | | | **(649)** |
| **Natural Gas Contracts** | | | **US$/Mcf** | |
| Fixed Price Contracts | | | | |
| NYMEX Fixed Price | 165 MMcf/d | 2021 | 2.51 | **(34)** |
| NYMEX Fixed Price | 200 MMcf/d | 2022 | 2.67 | **(36)** |
| NYMEX Fixed Price Swaptions [2] | 165 MMcf/d | 2022 | 2.51 | **(41)** |
| NYMEX Three-Way Options | | | | |
| Sold call / bought put / sold put | 1,005 MMcf/d | 2021 | 3.36 / 2.88 / 2.50 | **(72)** |
| Sold call / bought put / sold put | 398 MMcf/d | 2022 | 3.02 / 2.75 / 2.00 | **(39)** |
| NYMEX Costless Collars | | | | |
| Sold call / bought put | 200 MMcf/d | 2022 | 2.85 / 2.55 | **(30)** |
| NYMEX Call Options | | | | |
| Sold call | 330 MMcf/d | 2022 | 2.38 | **(101)** |
| Basis Contracts [3] | | 2021 | | **(22)** |
| | | 2022 | | **(30)** |
| | | 2023 - 2025 | | **(37)** |
| Other Financial Positions | | | | **1** |
| Natural Gas Fair Value Position | | | | **(441)** |
| **Other Derivative Contracts** | | | | |
| Fair Value Position [4] | | | | **2** |
| **Foreign Currency Contracts** | | | | |
| Fair Value Position [5] | | 2021 | | **18** |
| Total Fair Value Position | | | | **$ (1,070)** |

(1) Ovintiv has entered into crude and NGL differential swaps associated with Canadian condensate and WTI.
(2) NYMEX Fixed Price Swaptions give the counterparty the option to extend certain 2021 Fixed Price swaps to 2022.
(3) Ovintiv has entered into natural gas basis swaps associated with AECO, Dawn, Malin, Waha, Houston Ship Channel and NYMEX.
(4) Includes credit derivatives and contingent consideration associated with certain previous and current year divestitures, respectively.
(5) Ovintiv has entered into U.S. dollar denominated fixed-for-floating average currency swaps to protect against fluctuations between the Canadian and U.S. dollars.

## Earnings Impact of Realized and Unrealized Gains (Losses) on Risk Management Positions

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Realized Gains (Losses) on Risk Management** | | | | |
| Commodity and Other Derivatives: | | | | |
| Revenues [1] | **$ (223)** | $ 365 | **$ (379)** | $ 516 |
| Foreign Currency Derivatives: | | | | |
| Foreign exchange | **11** | (6) | **18** | (9) |
| | **$ (212)** | $ 359 | **$ (361)** | $ 507 |
| **Unrealized Gains (Losses) on Risk Management** | | | | |
| Commodity and Other Derivatives: | | | | |
| Revenues [2] | **$ (576)** | $ (679) | **$ (847)** | $ 225 |
| Foreign Currency Derivatives: | | | | |
| Foreign exchange | **(6)** | 36 | **(8)** | (16) |
| | **$ (582)** | $ (643) | **$ (855)** | $ 209 |
| **Total Realized and Unrealized Gains (Losses) on Risk Management, net** | | | | |
| Commodity and Other Derivatives: | | | | |
| Revenues [1] [2] | **$ (799)** | $ (314) | **$ (1,226)** | $ 741 |
| Foreign Currency Derivatives: | | | | |
| Foreign exchange | **5** | 30 | **10** | (25) |
| | **$ (794)** | $ (284) | **$ (1,216)** | $ 716 |

(1) Includes realized gains of $1 million for the three and six months ended June 30, 2021, respectively (2020 - gains of $1 million and $2 million, respectively), related to other derivative contracts.

(2) Includes unrealized gains of $1 million and $3 million for the three and six months ended June 30, 2021, respectively (2020 - gain of $13 million and loss of $4 million, respectively), related to other derivative contracts.

## Reconciliation of Unrealized Risk Management Positions from January 1 to June 30

| | **2021** | | 2020 |
|---|---|---|---|
| | **Fair Value** | **Total Unrealized Gain (Loss)** | Total Unrealized Gain (Loss) |
| Fair Value of Contracts, Beginning of Year | **$ (222)** | | |
| Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Period | **(1,216)** | **$ (1,216)** | $ 716 |
| Settlement of Other Derivative Contracts | **1** | | |
| Fair Value of Other Derivative Contract Assets Entered into During the Period (See Note 7) | **6** | | |
| Fair Value of Contracts Realized During the Period | **361** | **361** | (507) |
| Fair Value of Contracts, End of Period | **$ (1,070)** | **$ (855)** | $ 209 |

Risk management assets and liabilities arise from the use of derivative financial instruments and are measured at fair value. See Note 18 for a discussion of fair value measurements.

**Unrealized Risk Management Positions**

| | As at June 30, 2021 | As at December 31, 2020 |
|---|---|---|
| Risk Management Assets | | |
| Current | **$ 3** | $ 37 |
| Long-term | **-** | 4 |
| | **3** | 41 |
| Risk Management Liabilities | | |
| Current | **892** | 130 |
| Long-term | **183** | 125 |
| | **1,075** | 255 |
| Other Derivative Contract Assets | | |
| Current in accounts receivable and accrued revenues | **3** | - |
| Long-term in other assets | **5** | - |
| | **8** | - |
| Other Derivative Contract Liabilities | | |
| Current in accounts payable and accrued liabilities | **1** | 1 |
| Long-term in other liabilities and provisions | **5** | 7 |
| | **6** | 8 |
| Net Risk Management Assets (Liabilities) and Other Derivative Contracts | **$ (1,070)** | $ (222) |

## C) Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. While exchange-traded contracts are subject to nominal credit risk due to the financial safeguards established by the NYSE and the TSX, over-the-counter traded contracts expose Ovintiv to counterparty credit risk. Counterparties to the Company's derivative financial instruments consist primarily of major financial institutions and companies within the energy industry. This credit risk exposure is mitigated through the use of credit policies approved by the Board of Directors governing the Company's credit portfolio including credit practices that limit transactions according to counterparties' credit quality. Mitigation strategies may include master netting arrangements, requesting collateral, purchasing credit insurance and/or transacting credit derivatives. The Company executes commodity derivative financial instruments under master agreements that have netting provisions that provide for offsetting payables against receivables. Ovintiv actively evaluates the creditworthiness of its counterparties, assigns appropriate credit limits and monitors credit exposures against those assigned limits. As at June 30, 2021, Ovintiv's maximum exposure of loss due to credit risk from derivative financial instrument assets on a gross and net fair value basis was $41 million and $11 million, respectively, as disclosed in Note 18. The Company had no significant credit derivatives in place and held no collateral at June 30, 2021.

As at June 30, 2021, cash equivalents include high-grade, short-term securities, placed primarily with financial institutions with strong investment grade ratings. Any foreign currency agreements entered into are with major financial institutions that have investment grade credit ratings.

A substantial portion of the Company's accounts receivable are with customers and working interest owners in the oil and gas industry and are subject to normal industry credit risks. As at June 30, 2021, approximately 90 percent (89 percent as at December 31, 2020) of Ovintiv's accounts receivable and financial derivative credit exposures were with investment grade counterparties.

During 2015 and 2017, the Company entered into agreements resulting from divestitures, which may require Ovintiv to fulfill certain payment obligations on the take or pay volume commitments assumed by the purchasers. The circumstances that would require Ovintiv to perform under the agreements include events where a purchaser fails to make payment to the guaranteed party and/or a purchaser is subject to an insolvency event. The agreements have remaining terms of up to three years with a fair value recognized of $6 million as at June 30, 2021 ($8 million as at December 31, 2020). The maximum potential amount of undiscounted future payments is $69 million as at June 30, 2021, and is considered unlikely.

## 20. Supplementary Information

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

### A) Net Change in Non-Cash Working Capital

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Operating Activities | | | | |
| Accounts receivable and accrued revenues | **$ (96)** | $ 90 | **$ (262)** | $ 211 |
| Accounts payable and accrued liabilities | **76** | (223) | **198** | (254) |
| Current portion of operating lease liabilities | **(1)** | (5) | **4** | (6) |
| Income tax receivable and payable | **43** | 19 | **25** | 13 |
| | **$ 22** | $ (119) | **$ (35)** | $ (36) |

### B) Non-Cash Activities

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Non-Cash Operating Activities | | | | |
| ROU operating lease assets and liabilities | **$ (5)** | $ - | **$ (18)** | $ (1) |
| Non-Cash Investing Activities | | | | |
| Asset retirement obligation incurred | **$ -** | $ 2 | **$ -** | $ 9 |
| Asset retirement obligation change in estimated future cash outflows | **-** | - | **-** | 22 |
| Property, plant and equipment accruals | **(67)** | (280) | **(37)** | (130) |
| Capitalized long-term incentives | **7** | 8 | **7** | (9) |
| Property additions/dispositions (swaps) | **2** | 13 | **6** | 17 |
| Contingent consideration (See Note 7) | **6** | - | **6** | - |

## 21. Commitments and Contingencies

### Commitments

The following table outlines the Company's commitments as at June 30, 2021:

| | Expected Future Payments | | | | | | |
|---|---|---|---|---|---|---|---|
| (undiscounted) | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter | Total |
| Transportation and Processing | $ 367 | $ 753 | $ 693 | $ 497 | $ 435 | $ 2,384 | **$ 5,129** |
| Drilling and Field Services | 52 | 1 | - | - | - | - | **53** |
| Building Leases | 6 | 10 | 6 | 6 | 6 | 2 | **36** |
| Total | $ 425 | $ 764 | $ 699 | $ 503 | $ 441 | $ 2,386 | **$ 5,218** |

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

Included within transportation and processing in the table above are certain commitments associated with midstream service agreements with VMLP as described in Note 14. Divestiture transactions can reduce certain commitments disclosed above.

**Contingencies**

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

**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 June 30, 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 is targeting a long-term debt balance, less cash and cash equivalents held, of approximately $3.0 billion by the end of 2023.

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 ("ESG") 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 June 30, 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 six months 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 six months of 2021 compared to 2020 resulted from higher average realized prices, excluding the impact of risk management activities. Increases in average realized liquids and natural gas prices of 92 percent and 79 percent, respectively, were primarily due to higher benchmark prices. Ovintiv continues to focus on optimizing realized prices from the diversification of the Company's downstream markets.

The Company continued to deliver significant cash from operating activities while reducing its total long-term debt balance. Cash from operating activities of $1,577 million included a net realized loss of $379 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 $1,571 million in the first six months of 2021.

### Significant Developments

- On April 28, 2021, the Company closed the sale of its previously announced Duvernay assets and recognized proceeds of approximately $239 million, after closing and other adjustments. The transaction had an effective date of January 1, 2021.
- On May 19, 2021, the Company closed the sale of its previously announced Eagle Ford assets and received proceeds of approximately $771 million, after closing and other adjustments. The transaction had an effective date of January 1, 2021.
- On May 19, 2021, the Company announced its intention to redeem the Company's $600 million, 5.75 percent senior notes due January 30, 2022, and its $518 million, 3.90 percent senior notes due November 15, 2021. The 2022 senior notes were redeemed on June 18, 2021. On July 15, 2021, the Company announced it expects to redeem the 2021 senior notes on August 16, 2021. The combined redemptions represent approximately $1.1 billion of debt repayments, resulting in expected annualized interest savings of over $50 million.
- On July 27, 2021, Ovintiv announced an increase of about 50 percent to its quarterly dividend payment representing an annualized dividend of $0.56 per share of common stock as part of the Company's commitment to returning capital to shareholders.

### Financial Results

*Three months ended June 30, 2021*

- Reported net loss of $205 million, including net losses on risk management in revenues of $799 million, before tax.
- Generated cash from operating activities of $750 million, Non-GAAP Cash Flow of $733 million and Non-GAAP Cash Flow Margin of $14.51 per BOE.
- Paid dividends of $0.09375 per share of common stock totaling $25 million.
- Reduced total long-term debt by $1,104 million.

*Six months ended June 30, 2021*

- Reported net earnings of $104 million, including net losses on risk management in revenues of $1,226 million, before tax and a current income tax recovery of $156 million.

- Generated cash from operating activities of $1,577 million, Non-GAAP Cash Flow of $1,623 million and Non-GAAP Cash Flow Margin of $16.41 per BOE.
- Paid dividends of $0.1875 per share of common stock totaling $49 million.
- Had $4.4 billion in total liquidity as at June 30, 2021, which included available credit facilities of $4.0 billion, available uncommitted demand lines of $281 million, and cash and cash equivalents of $122 million.
- Reduced total long-term debt by $1,571 million.
- Reported Net Debt to Adjusted EBITDA of 1.9 times.

### Capital Investment

- Continued to execute the Company's 2021 capital plan with expenditures totaling $733 million of which $690 million, or 94 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 June 30, 2021*

- Produced average liquids volumes of 286.7 Mbbls/d, which accounted for 52 percent of total production volumes. Average oil and plant condensate volumes of 200.8 Mbbls/d, represented 70 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,607 MMcf/d, which accounted for 48 percent of total production volumes.

*Six months ended June 30, 2021*

- Produced average liquids volumes of 281.2 Mbbls/d, which accounted for 51 percent of total production volumes. Average oil and plant condensate volumes of 199.4 Mbbls/d, represented 71 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,591 MMcf/d, which accounted for 49 percent of total production volumes.

### Operating Expenses

- Incurred Total Costs in the first six months of 2021 of $1,277 million, or $12.92 per BOE, an increase of $95 million and an increase of $1.20 per BOE compared to the first six months of 2020. Total Costs is defined in the Non-GAAP Measures section of this MD&A. Significant items in the first six months of 2021 compared to 2020 impacting Total Costs include:
    - Higher upstream transportation and processing expenses of $64 million, primarily due to higher production volumes in Montney and a higher U.S./Canadian dollar exchange rate;
    - Higher production, mineral and other taxes of $54 million, primarily due to higher commodity prices;
    - Higher administrative expenses, excluding long-term incentive, restructuring and legal costs, and current expected credit losses of $7 million, primarily due to higher consulting costs; and
    - Lower upstream operating expenses, excluding long-term incentive costs of $30 million, primarily due to durable cost savings including workforce reductions in 2020.
- Total Operating Expenses in the first six months of 2021 of $3,456 million decreased by $3,213 million, primarily due to the non-cash ceiling test impairment of $3,527 million recognized in the first six months of 2020.

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

## 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 accelerating distribution of COVID-19 vaccines continues to drive optimism and oil demand as countries reopen their economies. Upward pressures on oil prices and the tightening of global oil inventories during the first six months of 2021 were mainly caused by ongoing OPEC+ production cuts and increased global demand for oil.

As announced in the OPEC+ April 2021 meeting, May and June production levels were adjusted, allowing for gradual increases in production output and in June, OPEC+ reaffirmed commitments to adjust July production levels for similar increases. In July, OPEC+ announced monthly production increases starting from August until December 2021. OPEC+ will assess market developments in December and continue 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 may threaten the reopening of economies in certain countries while the gradual easing of OPEC+ oil production cuts and the potential for higher U.S. oil production could contribute 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. In combination, these factors contributed to increased drawdowns of natural gas inventory and generally supported natural gas prices in the first six months 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 export 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 expenses and expects to benefit from durable cost savings and efficiencies to maximize cash flows.

Markets for crude oil and natural gas are exposed to different price risks and are inherently volatile. While the market price for crude oil tends to move in the same direction as the global market, regional differentials may develop. Natural gas prices may vary between geographic regions depending on local supply and demand conditions. To mitigate price volatility and help sustain revenues, particularly during periods of low commodity prices, the Company enters into derivative financial instruments. As at July 15, 2021, the Company has hedged approximately 130.0 Mbbls/d of expected crude oil and condensate production and 1,170 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 continues to execute 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 six months of 2021, the Company spent $733 million, of which $344 million was directed to Permian, $193 million was directed to Montney, $153 million was directed to Anadarko and the remainder was primarily directed to other upstream assets. Ovintiv will continue to evaluate its capital investment 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 environment to maintain a flat liquids production profile while generating significant cash flows in excess of capital expenditures. During the first six months 2021, average liquids production volumes were 281.2 Mbbls/d, or 51 percent of total production volumes, and average oil and plant condensate production volumes were 199.4 Mbbls/d, or 71 percent of total liquids production volumes. Average natural gas production volumes were 1,591 MMcf/d, or 49 percent of total production volumes. During the second quarter of 2021, the Company updated its full year 2021 guidance for oil and plant condensate production volumes to approximately 190.0 Mbbls/d to 195.0 Mbbls/d, other NGLs production volumes to approximately 80.0 Mbbls/d to 85.0 Mbbls/d and natural gas production volumes to approximately 1,550 MMcf/d to 1,575 MMcf/d. The updated guidance reflects the recently completed divestitures.

*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. With rising activity in the oil and gas industry and the recovery of commodity prices, service and supply costs are expected to increase. The Company strives to minimize any inflationary pressures with efficiency improvements and effective supply chain management.

For 2021, Ovintiv has revised its expectation of Total Costs to approximately $12.95 per BOE to $13.20 per BOE to reflect higher than expected changes in foreign exchange rates and increased production taxes resulting from higher than expected commodity prices. Total Costs were $12.92 per BOE in the first six months of 2021. Total Costs is defined in the Non-GAAP Measures section of this MD&A.

*Long-Term Debt Reduction*

Ovintiv remains focused on strengthening its balance sheet. Since the second quarter of 2020, the Company has allocated $2,052 million in excess cash flows to reduce its total long-term debt balance, which included proceeds from the Duvernay and Eagle Ford asset divestitures. The Company is targeting a long-term debt balance, less cash and cash equivalents held, of approximately $3.0 billion by the end of 2023. The Company expects lower interest expense as it reaches its debt reduction target.

In June 2021, the Company redeemed its $600 million, 5.75 percent senior notes due January 30, 2022. The Company also expects to redeem its $518 million, 3.90 percent senior notes due November 15, 2021 in mid-August. The combined redemptions represent approximately $1.1 billion of debt repayments, resulting in expected annualized interest savings of over $50 million.

As at June 30, 2021, the Company had no outstanding balances under its revolving credit facilities and U.S. dollar commercial paper programs.

Additional information on Ovintiv's long-term debt and liquidity position can be found in Note 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 which has been tied to its annual incentive compensation program for all employees beginning in 2021. Ovintiv is on track to meet the reduction target by the end of 2021.

Additional information on Ovintiv's ESG 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 June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| Product and Service Revenues | | | | |
| Upstream product revenues | **$ 1,723** | $ 673 | **$ 3,317** | $ 1,824 |
| Market optimization | **748** | 348 | **1,400** | 767 |
| Service revenues [1] | **2** | 2 | **3** | 2 |
| Total Product and Service Revenues | **2,473** | 1,023 | **4,720** | 2,593 |
| Gains (Losses) on Risk Management, Net | **(799)** | (314) | **(1,226)** | 741 |
| Sublease Revenues | **18** | 17 | **36** | 35 |
| Total Revenues | **1,692** | 726 | **3,530** | 3,369 |
| Total Operating Expenses [2] | **1,813** | 4,785 | **3,456** | 6,669 |
| Operating Income (Loss) | **(121)** | (4,059) | **74** | (3,300) |
| Total Other (Income) Expenses | **84** | 30 | **146** | 228 |
| Net Earnings (Loss) Before Income Tax | **(205)** | (4,089) | **(72)** | (3,528) |
| Income Tax Expense (Recovery) | **-** | 294 | **(176)** | 434 |
| Net Earnings (Loss) | **$ (205)** | $ (4,383) | **$ 104** | $ (3,962) |

(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 June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| **Oil & NGLs** | | | | |
| WTI ($/bbl) | **$ 66.07** | $ 27.85 | **$ 61.96** | $ 37.01 |
| Houston ($/bbl) | **67.02** | 29.43 | **63.19** | 39.46 |
| Edmonton Condensate (C$/bbl) | **81.52** | 30.71 | **77.50** | 46.22 |
| **Natural Gas** | | | | |
| NYMEX ($/MMBtu) | **$ 2.83** | $ 1.72 | **$ 2.76** | $ 1.83 |
| AECO (C$/Mcf) | **2.85** | 1.91 | **2.89** | 2.03 |
| Dawn (C$/MMBtu) | **3.42** | 2.25 | **3.70** | 2.32 |

## Production Volumes and Realized Prices

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | Production Volumes [1] | | Realized Prices [2] | | Production Volumes [1] | | Realized Prices [2] | |
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Oil** (Mbbls/d, $/bbl) | | | | | | | | |
| USA Operations | **148.2** | 146.0 | **$ 63.65** | $ 22.95 | **146.9** | 153.9 | **$ 60.04** | $ 33.74 |
| Canadian Operations | **0.3** | 0.5 | **60.68** | 11.90 | **0.6** | 0.6 | **54.58** | 28.38 |
| Total | **148.5** | 146.5 | **63.65** | 22.91 | **147.5** | 154.5 | **60.02** | 33.72 |
| **NGLs – Plant Condensate** (Mbbls/d, $/bbl) | | | | | | | | |
| USA Operations | **10.5** | 11.0 | **55.54** | 12.47 | **10.1** | 10.9 | **53.44** | 23.51 |
| Canadian Operations | **41.8** | 40.8 | **64.85** | 20.48 | **41.8** | 41.3 | **61.07** | 32.36 |
| Total | **52.3** | 51.8 | **62.98** | 18.79 | **51.9** | 52.2 | **59.58** | 30.51 |
| **NGLs – Other** (Mbbls/d, $/bbl) | | | | | | | | |
| USA Operations | **69.2** | 67.2 | **20.10** | 7.83 | **65.2** | 72.4 | **20.31** | 7.56 |
| Canadian Operations | **16.7** | 12.9 | **23.88** | 9.56 | **16.6** | 15.0 | **25.33** | 8.08 |
| Total | **85.9** | 80.1 | **20.83** | 8.11 | **81.8** | 87.4 | **21.34** | 7.65 |
| **Total Oil & NGLs** (Mbbls/d, $/bbl) | | | | | | | | |
| USA Operations | **227.9** | 224.2 | **50.05** | 17.91 | **222.2** | 237.2 | **48.09** | 25.28 |
| Canadian Operations | **58.8** | 54.2 | **53.19** | 17.79 | **59.0** | 56.9 | **50.91** | 25.91 |
| Total | **286.7** | 278.4 | **50.70** | 17.88 | **281.2** | 294.1 | **48.68** | 25.40 |
| **Natural Gas** (MMcf/d, $/Mcf) | | | | | | | | |
| USA Operations | **497** | 536 | **2.60** | 1.33 | **478** | 552 | **2.78** | 1.37 |
| Canadian Operations | **1,110** | 1,014 | **2.81** | 1.69 | **1,113** | 1,007 | **2.96** | 1.78 |
| Total | **1,607** | 1,550 | **2.75** | 1.57 | **1,591** | 1,559 | **2.91** | 1.63 |
| **Total Production** (MBOE/d, $/BOE) | | | | | | | | |
| USA Operations | **310.8** | 313.4 | **40.87** | 15.09 | **301.8** | 329.2 | **39.80** | 20.52 |
| Canadian Operations | **243.8** | 223.2 | **25.67** | 11.99 | **244.7** | 224.8 | **25.79** | 14.50 |
| Total | **554.6** | 536.6 | **34.20** | 13.80 | **546.5** | 554.0 | **33.54** | 18.08 |
| **Production Mix** (%) | | | | | | | | |
| Oil & Plant Condensate | **36** | 37 | | | **36** | 37 | | |
| NGLs – Other | **16** | 15 | | | **15** | 16 | | |
| Total Oil & NGLs | **52** | 52 | | | **51** | 53 | | |
| Natural Gas | **48** | 48 | | | **49** | 47 | | |
| **Production Change Year Over Year** (%) [3] | | | | | | | | |
| Total Oil & NGLs | **3** | (14) | | | **(4)** | 6 | | |
| Natural Gas | **4** | (4) | | | **2** | 3 | | |
| Total Production | **3** | (9) | | | **(1)** | 4 | | |
| **Core Assets Production** | | | | | | | | |
| Oil (Mbbls/d) | **115.9** | 107.9 | | | **108.8** | 109.6 | | |
| NGLs – Plant Condensate (Mbbls/d) | **50.1** | 45.9 | | | **48.9** | 46.0 | | |
| NGLs – Other (Mbbls/d) | **78.5** | 71.8 | | | **73.8** | 77.7 | | |
| Total Oil & NGLs (Mbbls/d) | **244.5** | 225.6 | | | **231.5** | 233.3 | | |
| Natural Gas (MMcf/d) | **1,500** | 1,392 | | | **1,467** | 1,399 | | |
| Total Production (MBOE/d) | **494.5** | 457.6 | | | **475.9** | 466.4 | | |
| % of Total Production | **89** | 85 | | | **87** | 84 | | |

(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 June 30, | | | | |
|---|---|---|---|---|---|
| | **Oil** | **NGLs - Plant Condensate** | **NGLs - Other** | **Natural Gas** | **Total** |
| **2020 Upstream Product Revenues** [1] | **$ 306** | **$ 89** | **$ 58** | **$ 220** | **$ 673** |
| Increase (decrease) due to: | | | | | |
| Sales prices | 549 | 210 | 99 | 172 | 1,030 |
| Production volumes | 4 | 1 | 5 | 9 | 19 |
| **2021 Upstream Product Revenues** | **$ 859** | **$ 300** | **$ 162** | **$ 401** | **$ 1,722** |

| ($ millions) | Six months ended June 30, | | | | |
|---|---|---|---|---|---|
| | **Oil** | **NGLs - Plant Condensate** | **NGLs - Other** | **Natural Gas** | **Total** |
| **2020 Upstream Product Revenues** [1] | **$ 949** | **$ 290** | **$ 121** | **$ 464** | **$ 1,824** |
| Increase (decrease) due to: | | | | | |
| Sales prices | 701 | 271 | 202 | 363 | 1,537 |
| Production volumes | (48) | (2) | (8) | 11 | (47) |
| **2021 Upstream Product Revenues** | **$ 1,602** | **$ 559** | **$ 315** | **$ 838** | **$ 3,314** |

(1) Revenues for the second quarter and first six months of 2021 exclude certain other revenue and royalty adjustments with no associated production volumes of $1 million and $3 million, respectively.

## Oil Revenues

*Three months ended June 30, 2021 versus June 30, 2020*

Oil revenues increased $553 million compared to the second quarter of 2020 primarily due to:

- Higher average realized oil prices of $40.74 per bbl, or 178 percent, increased revenues by $549 million. The increase reflected higher WTI and Houston benchmark prices which were up 137 percent and 128 percent, respectively, and the strengthening of regional pricing relative to the WTI benchmark price in the USA Operations; and
- Higher average oil production volumes of 2.0 Mbbls/d increased revenues by $4 million. Higher volumes were primarily due to successful drilling in Permian (9.9 Mbbls/d), production shut-ins due to the economic downturn in 2020 (9.0 Mbbls/d) and third-party gathering capacity constraints in 2020 (3.3 Mbbls/d), partially offset by natural declines surpassing incremental production in Anadarko, Eagle Ford and Bakken (13.9 Mbbls/d), and the sale of the Eagle Ford assets in the second quarter of 2021 (6.6 Mbbls/d).

*Six months ended June 30, 2021 versus June 30, 2020*

Oil revenues increased $653 million compared to the first six months of 2020 primarily due to:

- Higher average realized oil prices of $26.30 per bbl, or 78 percent, increased revenues by $701 million. The increase reflected higher WTI and Houston benchmark prices which were up 67 percent and 60 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 7.0 Mbbls/d decreased revenues by $48 million. Lower volumes were primarily due to natural declines surpassing incremental production in Anadarko, Bakken and Eagle Ford (12.7 Mbbls/d), severe winter weather conditions in Permian and Anadarko (3.4 Mbbls/d) and the sale of the Eagle Ford assets in the second quarter of 2021 (3.3 Mbbls/d), partially offset by successful drilling in Permian (5.7 Mbbls/d), production shut-ins due to the economic downturn in 2020 (4.4 Mbbls/d) and third-party gathering capacity constraints (1.7 Mbbls/d).

## NGL Revenues

*Three months ended June 30, 2021 versus June 30, 2020*

NGL revenues increased $315 million compared to the second quarter of 2020 primarily due to:

- Higher average realized plant condensate prices of $44.19 per bbl, or 235 percent, increased revenues by $210 million. The increase reflected higher Edmonton Condensate and WTI benchmark prices which were up 165 percent and 137 percent, respectively, as well as higher regional pricing relative to the WTI benchmark price in the Canadian Operations;
- Higher average realized other NGL prices of $12.72 per bbl, or 157 percent, increased revenues by $99 million reflecting higher other NGL benchmark prices and higher regional pricing;
- Higher average other NGL production volumes of 5.8 Mbbls/d increased revenues by $5 million. Higher volumes were primarily due to successful drilling in Montney, Permian and Bakken (8.5 Mbbls/d) and production shut-ins due to the economic downturn in 2020 (3.1 Mbbls/d), partially offset by natural declines in Anadarko, Eagle Ford and Duvernay (4.5 Mbbls/d), and the sale of the Eagle Ford assets in the second quarter of 2021 (1.7 Mbbls/d); and
- Higher average plant condensate production volumes of 0.5 Mbbls/d increased revenues by $1 million. Higher volumes were primarily due to production shut-ins due to the economic downturn in 2020 (2.8 Mbbls/d) and successful drilling in Montney (2.6 Mbbls/d), partially offset by natural declines in Duvernay and Anadarko (2.9 Mbbls/d), and the sale of the Duvernay assets in the second quarter of 2021 (1.8 Mbbls/d).

*Six months ended June 30, 2021 versus June 30, 2020*

NGL revenues increased $463 million compared to the first six months of 2020 primarily due to:

- Higher average realized plant condensate prices of $29.07 per bbl, or 95 percent, increased revenues by $271 million. The increase reflected higher Edmonton Condensate and WTI benchmark prices which were up 68 percent and 67 percent, respectively, as well as higher regional pricing relative to the WTI benchmark price;
- Higher average realized other NGL prices of $13.69 per bbl, or 179 percent, increased revenues by $202 million reflecting higher other NGL benchmark prices and higher regional pricing;
- Lower average other NGL production volumes of 5.6 Mbbls/d decreased revenues by $8 million. Lower volumes were primarily due to natural declines in Anadarko, Eagle Ford and Duvernay (8.5 Mbbls/d), severe winter weather conditions in Anadarko and Permian (2.3 Mbbls/d) and the sale of the Eagle Ford assets in the second quarter of 2021 (0.9 Mbbls/d), partially offset by successful drilling in Montney and Bakken (3.6 Mbbls/d); and
- Lower average plant condensate production volumes of 0.3 Mbbls/d decreased revenues by $2 million. Lower volumes were primarily due to natural declines in Duvernay and Anadarko (3.0 Mbbls/d), and the sale of the Duvernay assets in the second quarter of 2021 (0.9 Mbbls/d), partially offset by successful drilling in Montney (2.7 Mbbls/d).

## Natural Gas Revenues

*Three months ended June 30, 2021 versus June 30, 2020*

Natural gas revenues increased $181 million compared to the second quarter of 2020 primarily due to:

- Higher average realized natural gas prices of $1.18 per Mcf, or 75 percent, increased revenues by $172 million. The increase reflected higher NYMEX, Dawn and AECO benchmark prices which were up 65 percent, 52 percent and 49 percent, respectively, and higher regional pricing; and
- Higher average natural gas production volumes of 57 MMcf/d increased revenues by $9 million primarily due to successful drilling in Montney (151 MMcf/d) and production shut-ins due to the economic downturn in 2020 (27 MMcf/d), partially offset by natural declines in Anadarko and Duvernay (72 MMcf/d), the sales of the Duvernay and Eagle Ford assets in the second quarter of 2021 (34 MMcf/d), and third-party plant issues in Montney (14 MMcf/d).

*Six months ended June 30, 2021 versus June 30, 2020*

Natural gas revenues increased $374 million compared to the first six months of 2020 primarily due to:

- Higher average realized natural gas prices of $1.28 per Mcf, or 79 percent, increased revenues by $363 million. The increase reflected higher Dawn, NYMEX and AECO benchmark prices which were up 59 percent, 51 percent and 42 percent, respectively, and higher regional pricing; and
- Higher average natural gas production volumes of 32 MMcf/d increased revenues by $11 million primarily due to successful drilling in Montney (154 MMcf/d) and production shut-ins due to the economic downturn in 2020 (14 MMcf/d), partially offset by natural declines in Anadarko, Duvernay and Eagle Ford (85 MMcf/d), the sales of the Duvernay and Eagle Ford assets in the second quarter of 2021 (17 MMcf/d), severe winter weather conditions in Anadarko and Permian (15 MMcf/d), and third-party plant issues in Montney (14 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 June 30, 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions) | **2021** | 2020 | **2021** | 2020 |
| Realized Gains (Losses) on Risk Management | | | | |
| Commodity Price [1] | | | | |
| Oil | **$ (167)** | $ 223 | **$ (284)** | $ 305 |
| NGLs - Plant Condensate | **(35)** | 59 | **(60)** | 82 |
| NGLs - Other | **(20)** | 7 | **(39)** | 12 |
| Natural Gas | **(2)** | 73 | **1** | 112 |
| Other [2] | **1** | 3 | **3** | 5 |
| Total | **(223)** | 365 | **(379)** | 516 |
| Unrealized Gains (Losses) on Risk Management | **(576)** | (679) | **(847)** | 225 |
| Total Gains (Losses) on Risk Management, Net | **$ (799)** | $ (314) | **$ (1,226)** | $ 741 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (Per-unit) | **2021** | 2020 | **2021** | 2020 |
| Realized Gains (Losses) on Risk Management | | | | |
| Commodity Price [1] | | | | |
| Oil ($/bbl) | **$ (12.38)** | $ 16.79 | **$ (10.64)** | $ 10.86 |
| NGLs - Plant Condensate ($/bbl) | **$ (7.39)** | $ 12.58 | **$ (6.43)** | $ 8.65 |
| NGLs - Other ($/bbl) | **$ (2.46)** | $ 0.90 | **$ (2.60)** | $ 0.75 |
| Natural Gas ($/Mcf) | **$ (0.01)** | $ 0.52 | **$ -** | $ 0.39 |
| Total ($/BOE) | **$ (4.44)** | $ 7.41 | **$ (3.86)** | $ 5.07 |

(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.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions) | **2021** | 2020 | **2021** | 2020 |
| Market Optimization | **$ 748** | $ 348 | **$ 1,400** | $ 767 |

*Three months ended June 30, 2021 versus June 30, 2020*

Market Optimization product revenues increased $400 million compared to the second quarter of 2020 primarily due to:

- Higher oil and natural gas benchmark prices ($449 million) and higher sales of third-party purchased liquids volumes primarily relating to price optimization activities in the USA Operations ($55 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).

*Six months ended June 30, 2021 versus June 30, 2020*

Market Optimization product revenues increased $633 million compared to the first six months of 2020 primarily due to:

- Higher oil and natural gas benchmark prices ($691 million) and higher sales of third-party purchased liquids volumes primarily relating to price optimization activities in the USA Operations ($150 million);

partially offset by:

- Lower sales of third-party purchased natural gas volumes primarily relating to marketing arrangements for assets divested in prior years ($208 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.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions) | **2021** | 2020 | **2021** | 2020 |
| USA Operations | **$ 69** | $ 24 | **$ 124** | $ 72 |
| Canadian Operations | **4** | 3 | **9** | 7 |
| Total | **$ 73** | $ 27 | **$ 133** | $ 79 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($/BOE) | **2021** | 2020 | **2021** | 2020 |
| USA Operations | **$ 2.43** | $ 0.82 | **$ 2.27** | $ 1.20 |
| Canadian Operations | **$ 0.17** | $ 0.17 | **$ 0.19** | $ 0.18 |
| Production, Mineral and Other Taxes | **$ 1.44** | $ 0.55 | **$ 1.34** | $ 0.79 |

*Three months ended June 30, 2021 versus June 30, 2020*

Production, mineral and other taxes increased $46 million compared to the second quarter of 2020 primarily due to:

- Higher production tax in USA Operations due to higher commodity prices ($44 million).

*Six months ended June 30, 2021 versus June 30, 2020*

Production, mineral and other taxes increased $54 million compared to the first six months of 2020 primarily due to:

- Higher production tax in USA Operations due to higher commodity prices ($59 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.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions) | **2021** | 2020 | **2021** | 2020 |
| USA Operations | **$ 126** | $ 115 | **$ 239** | $ 236 |
| Canadian Operations | **248** | 198 | **472** | 411 |
| Upstream Transportation and Processing | **374** | 313 | **711** | 647 |
| Market Optimization | **44** | 55 | **86** | 117 |
| Total | **$ 418** | $ 368 | **$ 797** | $ 764 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($/BOE) | **2021** | 2020 | **2021** | 2020 |
| USA Operations | **$ 4.44** | $ 4.07 | **$ 4.38** | $ 3.95 |
| Canadian Operations | **$ 11.24** | $ 9.75 | **$ 10.68** | $ 10.02 |
| Upstream Transportation and Processing | **$ 7.42** | $ 6.44 | **$ 7.20** | $ 6.42 |

*Three months ended June 30, 2021 versus June 30, 2020*

Transportation and processing expense increased $50 million compared to the second quarter of 2020 primarily due to:

- Higher volumes in Montney ($29 million), a higher U.S./Canadian dollar exchange rate ($26 million) and higher natural gas rates in Permian, Anadarko and Uinta ($10 million);

partially offset by:

- Expired contracts relating to previously divested assets and the decommissioning of Deep Panuke ($22 million).

*Six months ended June 30, 2021 versus June 30, 2020*

Transportation and processing expense increased $33 million compared to the first six months of 2020 primarily due to:

- Higher volumes in Montney ($48 million), a higher U.S./Canadian dollar exchange rate ($38 million), higher natural gas rates in Permian ($11 million) and higher costs relating to the diversification of the Company's downstream markets ($11 million);

partially offset by:

- The expiration of certain transportation contracts in the USA Operations as well as expired contracts relating to previously divested assets ($42 million), the decommissioning of Deep Panuke ($15 million), lower natural gas volumes in Anadarko ($11 million) and recoveries of amounts related to certain transportation contracts ($7 million).

## Operating

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions) | **2021** | 2020 | **2021** | 2020 |
| USA Operations | **$ 117** | $ 121 | **$ 246** | $ 260 |
| Canadian Operations | **25** | 25 | **53** | 51 |
| Upstream Operating Expense | **142** | 146 | **299** | 311 |
| Market Optimization | **7** | 8 | **14** | 10 |
| Corporate & Other | **-** | - | **-** | (2) |
| Total | **$ 149** | $ 154 | **$ 313** | $ 319 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($/BOE) | **2021** | 2020 | **2021** | 2020 |
| USA Operations | **$ 4.16** | $ 4.22 | **$ 4.51** | $ 4.33 |
| Canadian Operations | **$ 1.11** | $ 1.20 | **$ 1.17** | $ 1.23 |
| Upstream Operating Expense [(1)] | **$ 2.82** | $ 2.97 | **$ 3.02** | $ 3.07 |

(1) Upstream Operating Expense per BOE for the second quarter and first six months of 2021 include long-term incentive costs of $0.14/BOE and $0.15/BOE, respectively (2020 - long-term incentive costs of $0.11/BOE and a recovery of long-term incentive costs of $0.03/BOE, respectively).

*Three months ended June 30, 2021 versus June 30, 2020*

Operating expense decreased $5 million compared to the second quarter of 2020 primarily due to:

- Lower salaries and benefits due to decreased headcount resulting from workforce reductions in the second quarter of 2020 ($16 million), and the sales of the Eagle Ford and Duvernay assets in the second quarter of 2021 ($8 million);

partially offset by:

- Increased activity resulting from improved commodity prices ($10 million) and lower capitalization of overhead costs ($10 million).

*Six months ended June 30, 2021 versus June 30, 2020*

Operating expense decreased $6 million compared to the first six months of 2020 primarily due to:

- Lower salaries and benefits due to decreased headcount resulting from workforce reductions in the second quarter of 2020 ($41 million), cost saving initiatives implemented at the end of the first quarter of 2020 ($13 million) and the sales of the Eagle Ford and Duvernay assets in the second quarter of 2021 ($8 million);

partially offset by:

- Lower capitalization of overhead costs ($31 million) and higher long-term incentive costs resulting from an increase in the Company's share price in the first six months of 2021 compared to a decrease in 2020 ($22 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.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions) | **2021** | 2020 | **2021** | 2020 |
| Market Optimization | **$ 733** | $ 319 | **$ 1,337** | $ 717 |

*Three months ended June 30, 2021 versus June 30, 2020*

Purchased product expense increased $414 million compared to the second quarter of 2020 primarily due to:

- Higher oil and natural gas benchmark prices ($453 million) and higher third-party purchased liquids volumes primarily relating to price optimization activities in the USA Operations ($53 million);

partially offset by:

- Lower third-party purchased natural gas volumes primarily relating to marketing arrangements for assets divested in prior years ($92 million).

*Six months ended June 30, 2021 versus June 30, 2020*

Purchased product expense increased $620 million compared to the first six months of 2020 primarily due to:

- Higher oil and natural gas benchmark prices ($656 million) and higher third-party purchased liquids volumes primarily relating to price optimization activities in the USA Operations ($150 million);

partially offset by:

- Lower third-party purchased natural gas volumes primarily relating to marketing arrangements for assets divested in prior years ($186 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.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions) | **2021** | 2020 | **2021** | 2020 |
| USA Operations | **$ 220** | $ 375 | **$ 428** | $ 793 |
| Canadian Operations | **89** | 111 | **182** | 220 |
| Upstream DD&A | **309** | 486 | **610** | 1,013 |
| Corporate & Other | **2** | 7 | **9** | 14 |
| Total | **$ 311** | $ 493 | **$ 619** | $ 1,027 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($/BOE) | **2021** | 2020 | **2021** | 2020 |
| USA Operations | **$ 7.79** | $ 13.18 | **$ 7.84** | $ 13.24 |
| Canadian Operations | **$ 4.01** | $ 5.41 | **$ 4.12** | $ 5.35 |
| Upstream DD&A | **$ 6.13** | $ 9.94 | **$ 6.17** | $ 10.03 |

*Three months ended June 30, 2021 versus June 30, 2020*

DD&A decreased $182 million compared to the second quarter of 2020 primarily due to:

- Lower depletion rates in the USA and Canadian Operations ($152 million and $46 million, respectively), partially offset by a higher U.S./Canadian dollar exchange rate ($14 million) and higher production volumes in the Canadian Operations ($11 million).

The depletion rate in the USA Operations decreased $5.39 per BOE compared to the second quarter of 2020 primarily due to the ceiling test impairments recognized in 2020. The depletion rate in the Canadian Operations decreased $1.40 per BOE compared to the second quarter of 2020 primarily due to a lower depletable base.

*Six months ended June 30, 2021 versus June 30, 2020*

DD&A decreased $408 million compared to the first six months of 2020 primarily due to:

- Lower depletion rates and production volumes in the USA Operations ($295 million and $70 million, respectively) and lower depletion rates in the Canadian Operations ($76 million), partially offset by a higher U.S./Canadian dollar exchange rate ($21 million) and higher production volumes in the Canadian Operations ($18 million).

The depletion rate in the USA Operations decreased $5.40 per BOE compared to the first six months of 2020 primarily due to the ceiling test impairments recognized in 2020. The depletion rate in the Canadian Operations decreased $1.23 per BOE compared to the first six months 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 second quarter and first six months of 2021, the Company did not recognize ceiling test impairments (2020 - $3,250 million before tax, and $3,527 million before tax, respectively, 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)] | | | | |
| **June 30, 2021** | **49.78** | **62.73** | **2.43** | **2.60** |
| December 31, 2020 | 39.62 | 49.77 | 1.98 | 2.13 |
| June 30, 2020 | 47.47 | 58.46 | 2.07 | 1.70 |

(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) | Three months ended June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| Administrative, excluding Long-Term Incentive, Restructuring and Legal Costs, and Current Expected Credit Losses [1] | **$ 68** | $ 68 | **$ 149** | $ 142 |
| Long-term incentive costs | **31** | 19 | **66** | (7) |
| Restructuring and legal costs | **25** | 81 | **31** | 81 |
| Current expected credit losses | **(1)** | (3) | **(1)** | 2 |
| Total Administrative [2] | **$ 123** | $ 165 | **$ 245** | $ 218 |

| ($/BOE) | Three months ended June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| Administrative, excluding Long-Term Incentive, Restructuring and Legal Costs, and Current Expected Credit Losses [1] | **$ 1.36** | $ 1.38 | **$ 1.51** | $ 1.41 |
| Long-term incentive costs | **0.61** | 0.40 | **0.67** | (0.07) |
| Restructuring and legal costs | **0.48** | 1.66 | **0.31** | 0.80 |
| Current expected credit losses | **(0.01)** | (0.06) | **(0.01)** | 0.02 |
| Total Administrative | **$ 2.44** | $ 3.38 | **$ 2.48** | $ 2.16 |

(1) The second quarter and first six months of 2021 include costs related to The Bow office lease of $29 million and $58 million, respectively, (2020 - $26 million and $54 million, respectively), half of which is recovered from sublease revenues.

(2) The second quarter and first six months of 2021 reflect a higher U.S./Canadian dollar exchange rate of $8 million and $10 million, respectively.

*Three months ended June 30, 2021 versus June 30, 2020*

Administrative expense in the second quarter of 2021 decreased $42 million compared to the second quarter of 2020 primarily due to a decrease in restructuring costs related to workforce reductions in 2020 ($76 million), partially offset by higher legal costs ($20 million) and higher long-term incentive costs resulting from an increase in the Company's share price in the second quarter of 2021 compared to 2020 ($12 million).

*Six months ended June 30, 2021 versus June 30, 2020*

Administrative expense in the first six months of 2021 increased $27 million compared to the first six months of 2020 primarily due to higher long-term incentive costs resulting from an increase in the Company's share price in the first six months of 2021 compared to a decrease in 2020 ($73 million), higher legal and consulting costs ($31 million), partially offset by a decrease in restructuring costs and lower salaries and benefits related to workforce reductions in 2020 ($70 million and $5 million, respectively).

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

| ($ millions) | Three months ended June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| Interest | **$ 99** | $ 86 | **$ 186** | $ 182 |
| Foreign exchange (gain) loss, net | **(8)** | (40) | **(15)** | 76 |
| Other (gains) losses, net | **(7)** | (16) | **(25)** | (30) |
| Total Other (Income) Expenses | **$ 84** | $ 30 | **$ 146** | $ 228 |

## 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 June 30, 2021 versus June 30, 2020*

Interest expense increased $13 million compared to the second quarter of 2020 primarily due to a one-time make-whole interest payment of $19 million resulting from the June 2021 early redemption of the Company's $600 million, 5.75 percent senior notes due January 30, 2022, partially offset by open market repurchases of long-term debt completed in 2020 and decreased amounts drawn from the Company's credit facilities ($8 million).

*Six months ended June 30, 2021 versus June 30, 2020*

Interest expense increased $4 million compared to the first six months of 2020 primarily due to a one-time make-whole interest payment of $19 million resulting from the June 2021 early redemption of the Company's $600 million, 5.75 percent senior notes due January 30, 2022, partially offset by open market repurchases of long-term debt completed in 2020 and decreased amounts drawn from the Company's credit facilities ($13 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 June 30, 2021 versus June 30, 2020*

Net foreign exchange gain decreased $32 million compared to the second quarter of 2020 primarily due to:

- Unrealized foreign exchange losses on the translation of U.S. dollar risk management contracts and financing debt issued from Canada compared to gains in 2020 ($40 million and $14 million, respectively);

partially offset by:

- Realized foreign exchange gains on the settlement of U.S. dollar risk management contracts issued from Canada compared to losses in 2020 ($17 million).

*Six months ended June 30, 2021 versus June 30, 2020*

Net foreign exchange gain of $15 million compared to a loss of $76 million in the first six months 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 ($61 million and $11 million, respectively) and realized foreign exchange gains on the settlement of U.S. dollar risk management contracts and financing debt issued from Canada compared to losses in 2020 ($27 million and $26 million, respectively);

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 six months of 2021 includes interest income of $13 million primarily associated with the resolution of prior year tax items.

Other gains in the second quarter and first six months of 2020 primarily included a gain of $11 million and $22 million, respectively, relating to the repurchase of the Company's fixed long-term debt on the open market.

## Income Tax

| ($ millions) | Three months ended June 30, 2021 | Three months ended June 30, 2020 | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|---|---|
| Current Income Tax Expense (Recovery) | **$ -** | $ (1) | **$ (156)** | $ (1) |
| Deferred Income Tax Expense (Recovery) | **-** | 295 | **(20)** | 435 |
| Income Tax Expense (Recovery) | **$ -** | $ 294 | **$ (176)** | $ 434 |
| Effective Tax Rate | **0.0%** | (7.2%) | **244.4%** | (12.3%) |

### Income Tax Expense (Recovery)

*Three months ended June 30, 2021 versus June 30, 2020*

In the second quarter of 2021, Ovintiv recorded an income tax expense of nil compared to an income tax expense of $294 million in 2020, primarily due to the change in valuation allowances.

*Six months ended June 30, 2021 versus June 30, 2020*

In the first six months of 2021, Ovintiv recorded an income tax recovery of $176 million compared to an income tax expense of $434 million in 2020, primarily due to the resolution of certain tax items relating to prior taxation years and the change in valuation allowances.

### 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 zero percent for the second quarter of 2021, which is lower than the U.S. federal statutory tax rate of 21 percent primarily due to the change in valuation allowances recorded relating to the current year net loss before tax.

The Company's effective tax rate was 244.4 percent for the first six months of 2021, which is higher 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 change in valuation allowances recorded relating to the current year net loss before tax.

The Company's effective tax rate was (7.2) percent for the second quarter and (12.3) percent for the first six months of 2020, which were lower than the U.S. statutory tax rate of 21 percent primarily due to valuation allowances recorded due to net losses arising from ceiling test impairments and an increase in the valuation allowance of $568 million in Canada related to prior year's deferred tax assets, which was recorded as a discrete item.

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 June 30, 2021, $117 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 execute its strategy. 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.

| ($ millions, except as indicated) | As at June 30, **2021** | 2020 |
|---|---|---|
| Cash and Cash Equivalents | **$ 122** | $ 39 |
| Available Credit Facilities [1] | **4,000** | 2,750 |
| Available Uncommitted Demand Lines [2] | **281** | 183 |
| Total Liquidity | **$ 4,403** | $ 2,972 |
| Long-Term Debt, including current portion | **$ 5,314** | $ 7,366 |
| Total Shareholders' Equity | **$ 3,934** | $ 5,873 |
| Debt to Capitalization (%) [3] | **57** | 56 |
| Debt to Adjusted Capitalization (%) [4] | **31** | 35 |

(1) Includes available credit facilities of $2.5 billion (2020 - $1.505 billion) in the U.S. and $1.5 billion (2020 - $1.245 billion) in Canada as at June 30, 2021 (collectively, the "Credit Facilities").
(2) Includes three uncommitted demand lines totaling $342 million, net of $61 million in related undrawn letters of credit (2020 - $320 million and $137 million, respectively).
(3) Calculated as long-term debt, including the current portion, divided by shareholders' equity plus long-term debt, including the current portion.
(4) 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 June 30, 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. commercial paper ("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 June 30, 2021, the Company had no commercial paper outstanding under its U.S. CP programs.

The Credit Facilities, uncommitted demand lines, and cash and cash equivalents provide Ovintiv with total liquidity of approximately $4.4 billion. At June 30, 2021, Ovintiv also had approximately $62 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 June 30, 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 June 30, 2021, the Company's Debt to Adjusted Capitalization was 31 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 second quarter and first six months of 2021, Ovintiv primarily generated cash through operating activities and divestitures. The following table summarizes the sources and uses of the Company's cash and cash equivalents.

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| ($ millions) | Activity Type | **2021** | 2020 | **2021** | 2020 |
| Sources of Cash, Cash Equivalents and Restricted Cash | | | | | |
| Cash from operating activities | Operating | **$ 750** | $ 117 | **$ 1,577** | $ 683 |
| Proceeds from divestitures | Investing | **1,023** | 8 | **1,025** | 30 |
| Net issuance of revolving long-term debt | Financing | **-** | 408 | **-** | 552 |
| | | **1,773** | 533 | **2,602** | 1,265 |
| Uses of Cash and Cash Equivalents | | | | | |
| Capital expenditures | Investing | **383** | 252 | **733** | 1,042 |
| Acquisitions | Investing | **2** | 1 | **3** | 18 |
| Net repayment of revolving long-term debt | Financing | **490** | - | **950** | - |
| Repayment of long-term debt [(1)] | Financing | **619** | 26 | **619** | 115 |
| Dividends on shares of common stock | Financing | **25** | 25 | **49** | 49 |
| Other | Financing/Investing | **143** | 294 | **138** | 186 |
| | | **1,662** | 598 | **2,492** | 1,410 |
| Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency | | **2** | 1 | **2** | (6) |
| Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash | | **$ 113** | $ (64) | **$ 112** | $ (151) |

(1) Includes open market repurchases in 2020.

### Operating Activities

Net cash from operating activities in the second quarter and first six months of 2021 was $750 million and $1,577 million, respectively, 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 second quarter and first six months of 2021 was $733 million and $1,623 million, respectively, and was primarily impacted by the items affecting cash from operating activities which are discussed below and in the Results of Operations section of this MD&A.

*Three months ended June 30, 2021 versus June 30, 2020*

Net cash from operating activities increased $633 million compared to the second quarter of 2020 primarily due to:

- Higher realized commodity prices ($1,030 million), changes in non-cash working capital ($141 million), lower decommissioning payments primarily related to Deep Panuke ($59 million), lower administrative expenses, excluding non-cash long-term incentive costs and current expected credit losses ($55 million), higher production volumes ($19 million), and lower operating expense, excluding non-cash long-term incentive costs ($7 million);

partially offset by:

- Realized losses on risk management in revenues compared to gains in 2020 ($588 million), higher transportation and processing expense ($50 million) and higher production, mineral and other taxes ($46 million).

*Six months ended June 30, 2021 versus June 30, 2020*

Net cash from operating activities increased $894 million compared to the first six months of 2020 primarily due to:

- Higher realized commodity prices ($1,537 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 ($97 million), lower administrative expenses, excluding non-cash long-term incentive costs and current expected credit losses ($35 million), lower operating expense, excluding non-cash long-term incentive costs ($28 million) and higher interest income ($9 million);

partially offset by:

- Realized losses on risk management in revenues compared to gains in 2020 ($895 million), higher production, mineral and other taxes ($54 million), lower production volumes ($47 million) and higher transportation and processing expense ($33 million).

**Investing Activities**

Cash from investing activities in the first six months of 2021 was $247 million primarily due to proceeds from divestitures, partially offset by capital expenditures. Capital expenditures decreased $309 million compared to the first six months of 2020 due to the Company's reduced capital program in response to the volatile market conditions in 2020.

Acquisitions in the first six months of 2021 were $3 million (2020 - $18 million), which primarily included property purchases with oil and liquids rich potential.

Divestitures in the first six months of 2021 were $1,025 million (2020 - $30 million), which primarily included the sale of the Eagle Ford assets in south Texas and Duvernay assets in west central Alberta, as well as 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 six months of 2021 was $1,714 million compared to net cash from financing activities of $344 million in 2020. The change was primarily due to a net repayment of revolving long-term debt in 2021 of $950 million compared to a net issuance in 2020 of $552 million and higher repayment of long-term debt ($504 million) associated with the early redemption of the Company's 2022 senior notes 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 $518 million, totaled $5,314 million at June 30, 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 June 30, 2021, over 90 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 $2,052 million in excess cash flows to reduce its total long-term debt balances, which included proceeds from the Duvernay and Eagle Ford asset divestitures. The Company is targeting a long-term debt balance, less cash and cash equivalents held, of approximately $3.0 billion by the end of 2023.

In June 2021, the Company redeemed its $600 million, 5.75 percent senior notes due January 30, 2022. The Company also expects to redeem its $518 million, 3.90 percent senior notes due November 15, 2021 in mid-August. The combined redemptions represent approximately $1.1 billion of debt repayments, resulting in expected annualized interest savings of over $50 million.

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.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions, except as indicated) | **2021** | 2020 | **2021** | 2020 |
| Dividend Payments | **$ 25** | $ 25 | **$ 49** | $ 49 |
| Dividend Payments ($/share) | **$ 0.09375** | $ 0.09375 | **$ 0.1875** | $ 0.1875 |

On July 27, 2021, the Board of Directors declared a dividend of $0.14 per share of common stock payable on September 30, 2021 to common stockholders of record as of September 15, 2021. This represents an increase of about 50 percent to the annualized dividend payment.

## 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions, except as indicated) | **2021** | 2020 | **2021** | 2020 |
| Cash From (Used in) Operating Activities | **$ 750** | $ 117 | **$ 1,577** | $ 683 |
| (Add back) deduct: | | | | |
| Net change in other assets and liabilities | **(5)** | (68) | **(11)** | (120) |
| Net change in non-cash working capital | **22** | (119) | **(35)** | (36) |
| Current tax on sale of assets | **-** | - | **-** | - |
| Non-GAAP Cash Flow [(1)] | **$ 733** | $ 304 | **$ 1,623** | $ 839 |
| Divided by: | | | | |
| Production Volumes (MMBOE) | **50.5** | 48.8 | **98.9** | 100.8 |
| Non-GAAP Cash Flow Margin ($/BOE) | **$ 14.51** | $ 6.23 | **$ 16.41** | $ 8.32 |

(1) The second quarter and first six months of 2021 include restructuring costs of $5 million and $11 million, respectively (2020 - $81 million and $81 million, respectively).

## Total Costs

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions, except as indicated) | **2021** | 2020 | **2021** | 2020 |
| Total Operating Expenses | **$ 1,813** | $ 4,785 | **$ 3,456** | $ 6,669 |
| Deduct (add back): | | | | |
| Market optimization operating expenses | **784** | 382 | **1,437** | 844 |
| Corporate & other operating expenses | **-** | - | **-** | (2) |
| Depreciation, depletion and amortization | **311** | 493 | **619** | 1,027 |
| Impairments | **-** | 3,250 | **-** | 3,527 |
| Accretion of asset retirement obligation | **6** | 9 | **12** | 18 |
| Long-term incentive costs | **39** | 25 | **81** | (10) |
| Restructuring and legal costs | **25** | 81 | **31** | 81 |
| Current expected credit losses | **(1)** | (3) | **(1)** | 2 |
| Total Costs | **$ 649** | $ 548 | **$ 1,277** | $ 1,182 |
| Divided by: | | | | |
| Production Volumes (MMBOE) | **50.5** | 48.8 | **98.9** | 100.8 |
| Total Costs ($/BOE) [1] | **$ 12.90** | $ 11.23 | **$ 12.92** | $ 11.72 |

(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) | **June 30, 2021** | December 31, 2020 |
|---|---|---|
| Long-Term Debt, including current portion | **$ 5,314** | $ 6,885 |
| Total Shareholders' Equity | **3,934** | 3,837 |
| Equity Adjustment for Impairments at December 31, 2011 | **7,746** | 7,746 |
| Adjusted Capitalization | **$ 16,994** | $ 18,468 |
| Debt to Adjusted Capitalization | **31%** | 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) | | **June 30, 2021** | | December 31, 2020 |
|---|---|---|---|---|
| Long-Term Debt, including current portion | **$** | **5,314** | $ | 6,885 |
| Less: | | | | |
| Cash and cash equivalents | | **122** | | 10 |
| Net Debt | | **5,192** | | 6,875 |
| Net Earnings (Loss) | | **(2,031)** | | (6,097) |
| Add back (deduct): | | | | |
| Depreciation, depletion and amortization | | **1,426** | | 1,834 |
| Impairments | | **2,053** | | 5,580 |
| Accretion of asset retirement obligation | | **23** | | 29 |
| Interest | | **375** | | 371 |
| Unrealized (gains) losses on risk management | | **1,276** | | 204 |
| Foreign exchange (gain) loss, net | | **(74)** | | 17 |
| (Gain) loss on divestitures, net | | **-** | | - |
| Other (gains) losses, net | | **(50)** | | (55) |
| Income tax expense (recovery) | | **(243)** | | 367 |
| Adjusted EBITDA (trailing 12-month) | **$** | **2,755** | $ | 2,250 |
| Net Debt to Adjusted EBITDA (times) | | **1.9** | | 3.1 |

**Item 3: Quantitative and Qualitative Disclosures About Market Risk**

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about Ovintiv's potential exposure to market risks. The term "market risk" refers to the Company's risk of loss arising from adverse changes in oil, NGL and natural gas prices, foreign currency exchange rates and interest rates. The following disclosures are not meant to be precise indicators of expected future losses but rather indicators of reasonably possible losses. The forward-looking information provides indicators of how the Company views and manages ongoing market risk exposures.

## COMMODITY PRICE RISK

Commodity price risk arises from the effect fluctuations in future commodity prices, including oil, NGLs and natural gas, may have on future revenues, expenses and cash flows. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot market prices applicable to the Company's natural gas production. Pricing for oil, NGLs and natural gas production is volatile and unpredictable as discussed in Part 1, Item 2 of this Quarterly Report on Form 10-Q in the Executive Overview section in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Item 1A. "Risk Factors" of the 2020 Annual Report on Form 10-K. To partially mitigate exposure to commodity price risk, the Company may enter into various derivative financial instruments including futures, forwards, swaps, options and costless collars. The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors and may vary from time to time. Both exchange traded and over-the-counter traded derivative instruments may be subject to margin-deposit requirements, and the Company may be required from time to time to deposit cash or provide letters of credit with exchange brokers or counterparties to satisfy these margin requirements. For additional information relating to the Company's derivative and financial instruments, see Note 19 under Part I, Item 1 of this Quarterly Report on Form 10-Q.

The table below summarizes the sensitivity of the fair value of the Company's risk management positions to fluctuations in commodity prices, with all other variables held constant. The Company has used a 10 percent variability to assess the potential impact of commodity price changes. Fluctuations in commodity prices could have resulted in unrealized gains (losses) impacting pre-tax net earnings as follows:

| | June 30, 2021 | |
|---|---|---|
| (US$ millions) | 10% Price Increase | 10% Price Decrease |
| Crude oil price | $ (288) | $ 269 |
| NGL price | (16) | 16 |
| Natural gas price | (195) | 176 |

## FOREIGN EXCHANGE RISK

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As Ovintiv operates primarily in the United States and Canada, fluctuations in the exchange rate between the U.S. and Canadian dollars can have a significant effect on the Company's reported results.

The table below summarizes selected foreign exchange impacts on Ovintiv's financial results when compared to the same periods in 2020.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | $ millions | $/BOE | $ millions | $/BOE |
| Increase (Decrease) in: | | | | |
| Capital Investment | $ 5 | | $ 14 | |
| Transportation and Processing Expense [1] | 26 | $ 0.52 | 38 | $ 0.39 |
| Operating Expense [1] | 4 | 0.06 | 5 | 0.05 |
| Administrative Expense | 8 | 0.17 | 10 | 0.10 |
| Depreciation, Depletion and Amortization [1] | 14 | 0.28 | 21 | 0.21 |

(1) Reflects upstream operations.

Foreign exchange gains and losses also arise when monetary assets and monetary liabilities denominated in foreign currencies are translated and settled, and primarily include:

- U.S. dollar denominated financing debt issued from Canada
- U.S. dollar denominated risk management assets and liabilities held in Canada
- U.S. dollar denominated cash and short-term investments held in Canada
- Foreign denominated intercompany loans

To partially mitigate the effect of foreign exchange fluctuations on future commodity revenues and expenses, the Company may enter into foreign currency derivative contracts. As at June 30, 2021, Ovintiv has entered into $175 million notional U.S. dollar denominated currency swaps at an average exchange rate of C$1.3720 to US$1, which mature monthly through the remainder of 2021.

As at June 30, 2021, Ovintiv did not have any U.S. dollar denominated long-term debt or finance lease obligations issued from Canada that were subject to foreign exchange exposure.

The table below summarizes the sensitivity to foreign exchange rate fluctuations, with all other variables held constant. The Company has used a 10 percent variability to assess the potential impact from Canadian to U.S. foreign currency exchange rate changes. Fluctuations in foreign currency exchange rates could have resulted in unrealized gains (losses) impacting pre-tax net earnings as follows:

| | June 30, 2021 | |
|---|---|---|
| (US$ millions) | 10% Rate Increase | 10% Rate Decrease |
| Foreign currency exchange | $ (30) | $ 37 |

## INTEREST RATE RISK

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company may partially mitigate its exposure to interest rate changes by holding a mix of both fixed and floating rate debt and may also enter into interest rate derivatives to partially mitigate effects of fluctuations in market interest rates.

As at June 30, 2021, the Company had no floating rate debt and there were no interest rate derivatives outstanding.

**Item 4: Controls and Procedures**

**DISCLOSURE CONTROLS AND PROCEDURES**

Ovintiv's Chief Executive Officer and Chief Financial Officer performed an evaluation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2021.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in Ovintiv's internal control over financial reporting during the second quarter of 2021 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings

Please refer to Item 3 of the 2020 Annual Report on Form 10-K and Note 21 of Ovintiv's Condensed Consolidated Financial Statements under Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors in the 2020 Annual Report on Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

### Item 6. Exhibits

| Exhibit No | Description |
|---|---|
| 10.1* | Letter Agreement between Ovintiv Inc. and Brendan M. McCracken dated June 8, 2021 (incorporated by reference to Exhibit 10.1 to Ovintiv's Current Report on Form 8-K filed on June 11, 2021, SEC File No. 001-39191). |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |
| 101.INS | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Schema Document. |
| 101.CAL | Inline XBRL Calculation Linkbase Document. |
| 101.DEF | Inline XBRL Definition Linkbase Document. |
| 101.LAB | Inline XBRL Label Linkbase Document. |
| 101.PRE | Inline XBRL Presentation Linkbase Document. |
| 104 | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, has been formatted in Inline XBRL. |

* Management contract or compensatory arrangement

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Ovintiv Inc.

By: /s/ Corey D. Code

Name: Corey D. Code
Title: Executive Vice-President & Chief Financial Officer

Dated: July 29, 2021