

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

The MD&A is intended to provide a narrative description of the Company’s business from management’s perspective. This MD&A should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes for the period ended December 31, 2019 (“Consolidated Financial Statements”), which are included in Item 8 of this Annual Report on Form 10-K.

On January 24, 2020, Encana Corporation (“Encana”) completed a corporate reorganization, which included a Share Consolidation, as described in Items 1 and 2 of this Annual Report on Form 10-K, Note 1 of the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K and the Subsequent Event section of this MD&A. Subsequent to the corporate reorganization, Ovintiv Inc. and its subsidiaries (collectively, “Ovintiv”) continue to carry on the business which was previously conducted by Encana and its subsidiaries. References to the “Company” are to Encana Corporation and its subsidiaries prior to the completion of the Reorganization and to Ovintiv Inc. and its subsidiaries following the completion of the Reorganization.

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

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

Strategy

By executing on its strategy as outlined in Items 1 and 2 of this Annual Report on Form 10-K, Ovintiv focuses on enhancing long-term shareholder value and generating cash flow growth from high margin, scalable, top tier assets located in some of the best plays in North America, referred to as the “Core Assets”. As at December 31, 2019, the Core Assets comprised Permian and Anadarko in the U.S., and Montney in Canada. These top tier assets form a multi-basin portfolio of oil, NGLs and natural gas producing plays enabling flexible and efficient investment of capital that support sustainable cash flow generation. The Company’s other upstream assets, including Eagle Ford, Duvernay, Bakken (previously referred to as Williston) and Uinta, continue to deliver operating cash flows for the Company.

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.

For additional information on reporting segments and the plays in which the Company operates, refer to Items 1 and 2 of this Annual Report on Form 10-K. On February 13, 2019, the Company completed the acquisition of Newfield Exploration Company (“Newfield”); as such, the post-acquisition results of operations of Newfield are included in the Company’s consolidated results beginning February 14, 2019. For additional information on the business combination and segmented results, refer to Notes 8 and 2, respectively, to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

In evaluating its operations and assessing its leverage, Ovintiv reviews performance-based measures such as Non-GAAP Cash Flow, Non-GAAP Cash Flow Margin, Total Costs and debt-based metrics such as Debt to Adjusted Capitalization 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.

For the period ended December 31, 2019, the Company elected to exclude from this MD&A the discussion of the results of operations for the period ended December 31, 2017, being the earliest of the three years included in the Consolidated Financial Statements, as set forth in the SEC's amendment to Item 303 of Regulation S-K, which was effective May 2, 2019. For additional information on the Company's financial condition, changes in financial condition and results of operations for the period ended December 31, 2017, refer to Item 7 of the 2018 Annual Report on Form 10-K.

Highlights

During 2019, the Company met or exceeded all of the targets set in its full year 2019 guidance by executing its 2019 capital plan, generating cash from operating activities and returning capital to shareholders through dividends and share buybacks. Subsequent to the successful completion of the Newfield acquisition, the Company fully integrated the businesses and captured synergies that exceeded previously announced expectations. Higher upstream product revenues in 2019 compared to 2018 resulted from higher production volumes, partially offset by lower average realized prices, excluding the impact of risk management activities. Total production volumes increased 56 percent compared to 2018 primarily due to the Newfield acquisition and successful drilling programs. Decreases in average realized liquids and natural gas prices of 20 percent and 12 percent, respectively, were primarily due to lower benchmark prices. The Company continued to focus on optimizing realized prices from the diversification of the Company's downstream markets.

Significant Developments

- Completed the acquisition of all issued and outstanding shares of common stock of Newfield on February 13, 2019, whereby the Company issued approximately 543.4 million common shares, on a pre-Share Consolidation basis. The acquired operations are focused on the development of oil-rich properties primarily located in the Anadarko Basin in Oklahoma. Following the acquisition, Newfield's senior notes totaling \$2.45 billion remain outstanding.
- Purchased, for cancellation, approximately 196.7 million common shares, on a pre-Share Consolidation basis, for total consideration of approximately \$1,250 million, thereby fully executing the Company's previously announced NCIB and substantial issuer bid.
- Terminated the production sharing contract with China National Offshore Oil Corporation ("CNOOC"), which governed the Company's China Operations, effective July 31, 2019. Subsequently, the Company no longer has operations in China.
- Completed the sale of the Company's Arkoma natural gas assets on August 27, 2019, comprising approximately 140,000 net acres in Oklahoma, for proceeds of \$155 million, after closing adjustments.

Financial Results

- Reported net earnings of \$234 million, including a net loss on risk management in revenues of \$361 million, before tax, restructuring charges of \$138 million, before tax, net foreign exchange gains of \$119 million, before tax, and acquisition costs of \$33 million, before tax.
- Generated cash from operating activities of \$2,921 million, Non-GAAP Cash Flow of \$2,931 million and Non-GAAP Cash Flow Margin of \$14.21 per BOE. Cash from operating activities exceeded capital expenditures by \$295 million.
- Held cash and cash equivalents of \$190 million and had \$4.0 billion in available credit facilities, of which the Company's \$2.5 billion revolving credit facility supported the issuance of \$698 million of commercial paper at year end.
- Achieved Net Debt to Adjusted EBITDA of 2.0 times.
- Returned capital to shareholders through the purchase, for cancellation, of approximately 196.7 million common shares, on a pre-Share Consolidation basis. The Company also paid dividends of \$0.075 per common share, on a pre-Share Consolidation basis, totaling \$102 million.

Capital Investment

- Reported total capital spending of \$2,626 million which was within the full year 2019 guidance of \$2.55 billion to \$2.65 billion.
- Directed \$2,030 million, or 77 percent, of total capital spending to the Core Assets.
- Reduced well costs in Anadarko through the deployment of cube development by approximately \$1.9 million per well in 2019 compared to Newfield's 2018 well costs, exceeding the Company's previously announced expected savings of \$1 million per well.
- Focused on highly efficient capital activity and short-cycle high margin projects providing flexibility to respond to fluctuations in commodity prices.

Production

- Average liquids and natural gas production volumes exceeded the full year 2019 guidance ranges of 297.0 Mbbls/d to 301.0 Mbbls/d and 1,560 MMcf/d to 1,575 MMcf/d, respectively.
- Produced average liquids volumes of 301.9 Mbbls/d which accounted for 53 percent of total production volumes. Average oil and plant condensate production volumes of 217.3 Mbbls/d were 72 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,577 MMcf/d which accounted for 47 percent of total production volumes.

Revenues and Operating Expenses

- Focused on market diversification to optimize realized commodity prices and revenues through a combination of derivative financial instruments and physical transportation contracts.
- Continued to utilize pipeline transportation capacity to the Houston and Dawn markets, thereby benefiting from reduced exposure to Midland, Waha and AECO differentials.
- Incurred Total Costs of \$12.59 per BOE, a decrease compared to 2018 of \$0.41 per BOE, outperforming the expected full year 2019 guidance range of \$12.60 per BOE to \$12.90 per BOE. Total Costs includes production, mineral and other property taxes, upstream transportation and processing expense, upstream operating expense and administrative expense. Total Costs excludes the impact of long-term incentive and restructuring costs. Significant items impacting Total Costs in 2019 include:
 - Lower upstream transportation and processing expense in 2019 compared to 2018 of \$0.80 per BOE primarily due to the higher proportion of total production volumes from the USA Operations, which benefit from lower than average per BOE transportation and processing costs. Production volumes in the USA Operations were higher in 2019 compared to 2018 due to the Newfield acquisition; and
 - Higher administrative expense, excluding long-term incentive costs and restructuring costs, in 2019 compared to 2018 of \$0.16 per BOE primarily due to the change in accounting treatment for The Bow office building. Additional information on the adoption of ASC Topic 842 can be found in Notes 1 and 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.
- Reduced operating and administrative costs through workforce reductions and operating efficiencies by \$200 million on an annualized basis, compared to the combined costs of Newfield and the Company prior to the acquisition. These synergies surpass the Company's original estimate of \$125 million and exclude restructuring costs incurred in 2019. Total restructuring costs incurred were \$138 million.

Subsequent Event

On January 24, 2020, Encana completed a corporate reorganization, which included a plan of arrangement (the “Arrangement”) that involved, among other things, a share consolidation by Encana on the basis of one post-consolidation share for each five pre-consolidation shares (the “Share Consolidation”), and Ovintiv Inc. ultimately acquired all of the issued and outstanding common shares of Encana in exchange for shares of common stock of Ovintiv Inc. on a one-for-one basis. Following completion of the Arrangement, Ovintiv Inc. migrated from Canada and became a Delaware corporation, domiciled in the U.S. (the “U.S. Domestication”). The Arrangement and the U.S. Domestication together are referred to as the “Reorganization”. Ovintiv continues to carry on business previously conducted by Encana and its subsidiaries prior to the completion of the Reorganization. Additional information on the Reorganization can be found in Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

2020 Outlook

Industry Outlook

The oil and gas industry is cyclical and commodity prices are inherently volatile. Oil prices during 2020 are expected to reflect global supply and demand dynamics as well as the geopolitical and macroeconomic environment. At a meeting in December 2019, OPEC and certain non-OPEC countries (collectively “OPEC”) agreed to deepen and extend crude oil production cuts, originally instated in January 2019, through the first quarter of 2020 seeking to balance the global oil market in response to changing fundamentals. Risks to the global economy, including trade disputes, U.S. sanctions policy, U.S. production growth and potential oil supply outages in major producing countries resulting from geopolitical instability, could further contribute to price volatility in 2020. OPEC is scheduled to meet again in March 2020 to review production levels which could potentially result in other supply adjustments and contribute to price fluctuations.

Natural gas prices in 2020 will be affected by the timing of supply and demand growth and the effects of seasonal weather. Potential for improvement in longer-term U.S. natural gas prices remains limited as production growth continues to create additional downward pressure on U.S. natural gas prices. Despite a strengthening AECO price relative to NYMEX, natural gas prices in western Canada are expected to remain low due to the weak NYMEX price environment.

Company Outlook

Ovintiv is well positioned in the current price environment to balance liquids growth while generating cash flows in excess of capital expenditures. The Company enters into derivative financial instruments which mitigate price volatility and help sustain revenues during periods of lower prices. A portion of the Company’s production is sold at prevailing market prices which also allows Ovintiv to participate in potential price increases. As at December 31, 2019, the Company has hedged approximately 165 Mbbls/d of expected crude oil and condensate production and 1,188 MMcf/d of expected natural gas production for 2020. Additional information on the Company’s hedging program can be found in Note 25 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Markets for crude oil and natural gas are exposed to different price risks. While the market price for crude oil tends to move in the same direction as the global market, regional differentials may develop. Natural gas prices may vary between geographic regions depending on local supply and demand conditions. Ovintiv proactively utilizes transportation contracts to diversify the Company’s sales markets, thereby reducing significant exposure to any given market. Through a combination of derivative financial instruments and transportation capacity, Ovintiv continues to limit exposure to regional pricing in 2020.

Capital Investment

Total anticipated 2020 capital investment of approximately \$2.7 billion is expected to be funded from 2020 cash generated from operating activities. Capital investment is expected to be primarily allocated to the Core Assets with a focus on maximizing returns from high margin liquids and to other upstream assets to optimize operating free cash flows. In 2020, the Company expects to generate cash flows in excess of capital expenditures.

Ovintiv continually strives to improve well performance and lower costs through innovative techniques. The Company'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 continue growing cash flows.

Production

In 2020, Ovintiv expects liquids production volumes of 318.0 Mbbls/d to 332.0 Mbbls/d and natural gas production volumes of 1,520 MMcf/d to 1,580 MMcf/d.

Operating Expenses

For 2020, Ovintiv expects Total Costs of \$12.20 per BOE to \$12.50 per BOE which includes production, mineral and other taxes, upstream transportation and processing expense, upstream operating expense and administrative expense. Total Costs excludes the impact of long-term incentive costs. Ovintiv expects to continue pursuing innovative ways to reduce upstream operating and administrative expenses and expects efficiency improvements and effective supply chain management, including favorable price negotiations, to offset any inflationary pressures.

Additional information on Ovintiv's 2020 Corporate Guidance can be accessed on the Company's website at www.ovintiv.com.

Results of Operations

Selected Financial Information

(\$ millions)	2019		2018	
Product and Service Revenues				
Upstream product revenues	\$	5,847	\$	4,223
Market optimization		1,159		1,224
Service revenues		7		10
Total Product and Service Revenues		7,013		5,457
Gains (Losses) on Risk Management, Net		(361)		415
Sublease Revenues		74		67
Total Revenues		6,726		5,939
Total Operating Expenses ⁽¹⁾		6,128		4,245
Operating Income (Loss)		598		1,694
Total Other (Income) Expenses		283		531
Net Earnings (Loss) Before Income Tax		315		1,163
Income Tax Expense (Recovery)		81		94
Net Earnings (Loss)	\$	234	\$	1,069

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

Subsequent to the completion of the Newfield acquisition on February 13, 2019, the post-acquisition results of the operations of Newfield are included in the Company's consolidated results beginning February 14, 2019. As a result of the business combination and the addition of the Anadarko asset to the Company's portfolio, the Core Assets were redefined to include Permian and Anadarko in the U.S. and Montney in Canada. The 2018 Core Assets production presentation has been updated to align with the Company's 2019 Core Assets and reflects Permian and Montney.

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)	2019		2018	
Oil & NGLs				
WTI (\$/bbl)	\$	57.03	\$	64.77
Houston (\$/bbl)		62.12		69.00
Edmonton Condensate (C\$/bbl)		70.15		78.88
Natural Gas				
NYMEX (\$/MMBtu)	\$	2.63	\$	3.09
AECO (C\$/Mcf)		1.62		1.53
Dawn (C\$/MMBtu)		3.19		4.07

Production Volumes and Realized Prices

	Production Volumes ⁽¹⁾		Realized Prices ⁽²⁾	
	2019	2018	2019	2018
Oil (Mbbbls/d, \$/bbl)				
USA Operations	162.3	89.5	\$ 56.19	\$ 64.05
Canadian Operations	0.6	0.4	53.19	52.54
China Operations ⁽³⁾	1.5	-	66.37	-
Total	164.4	89.9	56.27	64.00
NGLs – Plant Condensate (Mbbbls/d, \$/bbl)				
USA Operations	10.5	3.8	44.05	52.33
Canadian Operations	42.4	35.2	51.79	56.31
Total	52.9	39.0	50.25	55.92
NGLs – Other (Mbbbls/d, \$/bbl)				
USA Operations	67.9	25.2	11.44	23.39
Canadian Operations	16.7	14.0	11.11	27.32
Total	84.6	39.2	11.37	24.79
Total Oil & NGLs (Mbbbls/d, \$/bbl)				
USA Operations	240.7	118.5	43.04	55.03
Canadian Operations	59.7	49.6	40.36	48.08
China Operations ⁽³⁾	1.5	-	66.37	-
Total	301.9	168.1	42.63	52.98
Natural Gas (MMcf/d, \$/Mcf)				
USA Operations	547	151	1.90	2.28
Canadian Operations	1,030	1,007	2.01	2.24
Total	1,577	1,158	1.97	2.25
Total Production (MBOE/d, \$/BOE)				
USA Operations	331.9	143.7	34.36	47.80
Canadian Operations	231.5	217.5	19.35	21.34
China Operations ⁽³⁾	1.5	-	66.37	-
Total	564.9	361.2	28.29	31.86
Production Mix (%)				
Oil & Plant Condensate	38	36		
NGLs – Other	15	11		
Total Oil & NGLs	53	47		
Natural Gas	47	53		
Production Growth – Year Over Year (%) ⁽⁴⁾				
Total Oil & NGLs	80	30		
Natural Gas	36	5		
Total Production	56	15		
Core Assets Production ⁽⁵⁾				
Oil (Mbbbls/d)	109.3	59.1		
NGLs – Plant Condensate (Mbbbls/d)	44.7	30.7		
NGLs – Other (Mbbbls/d)	73.8	30.0		
Total Oil & NGLs (Mbbbls/d)	227.8	119.8		
Natural Gas (MMcf/d)	1,353	980		
Total Production (MBOE/d)	453.5	283.0		
% of Total Production	80	78		

(1) Average daily.

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

(3) The Company acquired its China Operations as part of the Newfield business combination on February 13, 2019. Subsequently, the Company terminated its production sharing contract with CNOOC and exited its China Operations effective July 31, 2019. Production from China Operations is presented for the period from February 14, 2019 through July 31, 2019.

(4) Includes production impacts of acquisitions and divestitures.

(5) Core Assets production presentation aligns with the Company's 2019 Core Assets, which include Permian, Anadarko and Montney. Core Assets production for 2018 has been updated and reflects Permian and Montney.

Upstream Product Revenues

(\$ millions)	Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas	Total ⁽¹⁾
2018 Upstream Product Revenues	\$ 2,100	\$ 797	\$ 355	\$ 952	\$ 4,204
Increase (decrease) due to:					
Sales prices	(184)	(85)	(205)	(129)	(603)
Production volumes	1,460	259	201	313	2,233
2019 Upstream Product Revenues	\$ 3,376	\$ 971	\$ 351	\$ 1,136	\$ 5,834

(1) Revenues for 2019 exclude certain other revenue and royalty adjustments with no associated production volumes of \$13 million (2018 - royalty adjustments of \$19 million).

Oil Revenues

2019 versus 2018

Oil revenues increased \$1,276 million compared to 2018 primarily due to:

- Higher average oil production volumes of 74.5 Mbbls/d increased revenues by \$1,460 million. Higher volumes were primarily due to the Newfield acquisition (64.9 Mbbls/d) and successful drilling programs in Anadarko, Permian and Bakken (15.6 Mbbls/d), partially offset by natural declines in Eagle Ford (3.2 Mbbls/d) and the sale of the San Juan assets in the fourth quarter of 2018 (2.3 Mbbls/d); and
- Lower average realized oil prices of \$7.73 per bbl, or 12 percent, decreased revenues by \$184 million. The decrease reflected lower WTI and Houston benchmark prices which were down 12 percent and 10 percent, respectively, partially offset by strengthening regional pricing relative to the WTI benchmark price in the USA Operations.

NGL Revenues

2019 versus 2018

NGL revenues increased \$170 million compared to 2018 primarily due to:

- Higher average plant condensate production volumes of 13.9 Mbbls/d increased revenues by \$259 million. Higher volumes were primarily due to successful drilling programs in Montney and Anadarko (9.4 Mbbls/d) and the Newfield acquisition (4.9 Mbbls/d); and
- Higher average other NGL production volumes of 45.4 Mbbls/d increased revenues by \$201 million. Higher volumes were primarily due to the Newfield acquisition (31.3 Mbbls/d) and successful drilling programs in Anadarko, Montney and Permian (15.3 Mbbls/d);

partially offset by:

- Lower average realized other NGL prices of \$13.42 per bbl, or 54 percent, decreased revenues by \$205 million reflecting lower other NGL benchmark prices and lower regional pricing; and
- Lower average realized plant condensate prices of \$5.67 per bbl, or 10 percent, decreased revenues by \$85 million. The decrease reflected lower WTI and Edmonton Condensate benchmark prices which were down 12 percent and 11 percent, respectively, partially offset by fluctuations in regional pricing relative to the WTI and Edmonton Condensate benchmark prices.

Natural Gas Revenues

2019 versus 2018

Natural gas revenues increased \$184 million compared to 2018 primarily due to:

- Higher average natural gas production volumes of 419 MMcf/d increased revenues by \$313 million primarily due to the Newfield acquisition (368 MMcf/d) and successful drilling programs in Montney, Anadarko, Permian and Bakken (82 MMcf/d), partially offset by lower production in Other Upstream Operations primarily

due to natural declines (23 MMcf/d) and the sale of the San Juan assets in the fourth quarter of 2018 (8 MMcf/d); and

- Lower average realized natural gas prices of \$0.28 per Mcf, or 12 percent, decreased revenues by \$129 million reflecting lower Dawn and NYMEX benchmark prices which were down 22 percent and 15 percent, respectively, partially offset by a higher proportion of total production volumes in the USA Operations with higher regional pricing resulting from the Newfield acquisition and a higher AECO benchmark price which was up six percent.

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 December 31, 2019 can be found in Note 25 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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

	\$ millions		Per-Unit	
	2019	2018	2019	2018
Realized Gains (Losses) on Risk Management				
Commodity Price ⁽¹⁾				
Oil (\$/bbl)	\$ 68	\$ (235)	\$ 1.13	\$ (7.16)
NGLs - Plant Condensate (\$/bbl)	33	(91)	1.70	(6.36)
NGLs - Other (\$/bbl)	82	2	2.67	0.14
Natural Gas (\$/Mcf)	180	218	0.31	0.51
Other ⁽²⁾	6	2	-	-
Total (\$/BOE)	369	(104)	1.76	(0.80)
Unrealized Gains (Losses) on Risk Management	(730)	519		
Total Gains (Losses) on Risk Management, Net	\$ (361)	\$ 415		

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

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

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

Market Optimization Revenues

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

(\$ millions)	2019	2018
Market Optimization	\$ 1,159	\$ 1,224

2019 versus 2018

Market Optimization product revenues decreased \$65 million compared to 2018 primarily due to:

- Lower benchmark prices (\$232 million) and lower sales of third-party purchased natural gas volumes (\$44 million);

partially offset by:

- Higher sales of third-party purchased liquids volumes (\$211 million) due to:
 - Changing market conditions resulting in additional third-party purchases to meet sales commitments in the Canadian Operations in the first quarter of 2019; and
 - Price optimization activities and additional third-party purchases to meet sales commitments in the USA Operations in the third quarter of 2019.

Sublease Revenues

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

Operating Expenses

Production, Mineral and Other Taxes

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

	\$ millions		\$/BOE	
	2019	2018	2019	2018
USA Operations	\$ 238	\$ 131	\$ 1.96	\$ 2.50
Canadian Operations	16	16	0.19	0.20
Total	\$ 254	\$ 147	\$ 1.23	\$ 1.11

2019 versus 2018

Production, mineral and other taxes increased \$107 million compared to 2018 primarily due to:

- Higher production volumes and property values resulting from the Newfield acquisition (\$115 million) and higher production volumes and assessed property values in Permian (\$14 million);

partially offset by:

- Lower production tax mainly as a result of lower commodity prices (\$16 million) and the sale of the San Juan assets in the fourth quarter of 2018 (\$6 million).

Transportation and Processing

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

	\$ millions		\$/BOE	
	2019	2018	2019	2018
USA Operations	\$ 466	\$ 124	\$ 3.85	\$ 2.37
Canadian Operations	859	828	10.16	10.42
Upstream Transportation and Processing	1,325	952	6.42	7.22
Market Optimization	233	131		
Total	\$ 1,558	\$ 1,083		

2019 versus 2018

Transportation and processing expense increased \$475 million compared to 2018 primarily due to:

- Higher production volumes resulting from the Newfield acquisition and successful drilling in Anadarko and Bakken (\$341 million), rate escalation in certain transportation contracts relating to previously divested assets and incremental transportation costs associated with third-party purchased volumes (\$99 million), successful drilling in Montney and Permian (\$82 million) and higher costs relating to the diversification of the Company's downstream markets (\$21 million);

partially offset by:

- Lower commodity prices (\$21 million), lower U.S./Canadian dollar exchange rate (\$18 million) and lower activity in Deep Panuke where the Company ceased production in the second quarter of 2018 (\$11 million).

Upstream transportation and processing decreased \$0.80 per BOE compared to 2018 primarily due to a higher proportion of total production volumes in the USA Operations resulting from the Newfield acquisition.

Operating

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

	\$ millions		\$/BOE	
	2019	2018	2019	2018
USA Operations	\$ 566	\$ 305	\$ 4.65	\$ 5.80
Canadian Operations	125	118	\$ 1.46	\$ 1.45
China Operations ⁽¹⁾	16	-	\$ 27.79	\$ -
Upstream Operating Expense ⁽²⁾	707	423	\$ 3.41	\$ 3.18
Market Optimization	28	16		
Corporate & Other	(3)	15		
Total	\$ 732	\$ 454		

(1) The Company acquired its China Operations as part of the Newfield business combination on February 13, 2019. Subsequently, the Company terminated its production sharing contract with CNOOC and exited its China Operations effective July 31, 2019. Upstream Operating Expense for China Operations is presented for the period from February 14, 2019 through July 31, 2019.

(2) 2019 Upstream Operating Expense per BOE includes long-term incentive costs of \$0.06/BOE (2018 - recovery of long-term incentive costs of \$0.06/BOE).

2019 versus 2018

Operating expense increased \$278 million compared to 2018 primarily due to:

- The Newfield acquisition and successful drilling in Anadarko (\$249 million), the impact of changes in capital programs primarily in Montney and Other Upstream Operations (\$30 million), long-term incentive costs in 2019 compared to a recovery in 2018 resulting from a larger decrease in the share price in 2018 compared to 2019 (\$29 million) and higher activity in Permian (\$21 million);

partially offset by:

- Lower activity in Eagle Ford and Montney (\$15 million), lower salaries and benefits due to reduced headcount in Eagle Ford, Montney and Deep Panuke (\$10 million) and the sale of the San Juan assets in the fourth quarter of 2018 (\$10 million).

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

Purchased Product

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

(\$ millions)	2019		2018	
Market Optimization	\$	1,043	\$	1,100

2019 versus 2018

Purchased product expense decreased \$57 million compared to 2018 primarily due to:

- Lower benchmark prices (\$227 million) and lower third-party purchased natural gas volumes (\$41 million); partially offset by:
- Higher third-party purchased liquids volumes (\$211 million) due to:
 - Changing market conditions resulting in additional third-party purchases to meet sales commitments in the Canadian Operations in the first quarter of 2019; and
 - Price optimization activities and additional third-party purchases to meet sales commitments in the USA Operations in the third quarter of 2019.

Depreciation, Depletion & Amortization

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

In 2019, the 12-month average trailing prices have generally declined. Further declines in the 12-month average trailing commodity prices could reduce proved reserves values and result in the recognition of future ceiling test impairments. Future ceiling test impairments can also result from changes to reserves estimates, future development costs, capitalized costs and unproved property costs. Proceeds received from oil and natural gas divestitures are generally deducted from the Company's capitalized costs and can reduce the risk of ceiling test impairments.

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

	\$ millions		\$/BOE	
	2019	2018	2019	2018
USA Operations	\$ 1,593	\$ 860	\$ 13.15	\$ 16.39
Canadian Operations	383	361	4.53	4.55
Upstream DD&A	1,976	1,221	9.61	9.26
Market Optimization	-	1		
Corporate & Other	39	50		
Total	\$ 2,015	\$ 1,272		

2019 versus 2018

DD&A increased \$743 million compared to 2018 primarily due to:

- Higher production volumes in the USA and Canadian Operations (\$1,053 million and \$26 million, respectively), partially offset by lower depletion rates in the USA Operations (\$319 million).

The depletion rate in the USA Operations decreased \$3.24 per BOE compared to 2018 primarily due to higher reserve volumes mainly in Permian, as well as additional reserve volumes acquired with the Newfield acquisition.

Administrative

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

	\$ millions		\$/BOE	
	2019	2018	2019	2018
Administrative, excluding Long-Term Incentive and Restructuring Costs	\$ 328	\$ 190	\$ 1.59	\$ 1.43
Long-term incentive costs	23	(33)	0.11	(0.25)
Restructuring costs	138	-	0.67	-
Total Administrative ⁽¹⁾	\$ 489	\$ 157	\$ 2.37	\$ 1.18

(1) 2019 includes \$92 million of operating lease expense related to The Bow office building (2018 - nil).

2019 versus 2018

Administrative expense in 2019 increased \$332 million compared to 2018 primarily due to restructuring costs (\$138 million), the impact from adopting ASC Topic 842, "Leases", as discussed further below (\$116 million) and administrative costs associated with the Newfield acquisition (\$39 million), including non-recurring integration expenses of \$12 million and long-term incentive costs in 2019 compared to a recovery in 2018 resulting from a larger decrease in the share price in 2018 compared to 2019 (\$56 million).

During 2019, the Company completed workforce reductions in conjunction with the Newfield acquisition to better align staffing levels and the organizational structure. Additional information on restructuring charges can be found in Note 21 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

On January 1, 2019, the Company adopted ASC Topic 842 which requires all operating leases to be recognized on the balance sheet. As a result, The Bow office building was determined to be an operating lease with the lease payments recorded in administrative expense starting in 2019. Previously, payments related to The Bow office building were recognized as interest expense and principal repayment. Prior periods have not been restated and are reported in accordance with ASC Topic 840, "Leases". Additional information on the adoption of ASC Topic 842 can be found in Notes 1 and 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Other (Income) Expenses

(\$ millions)	2019	2018
Interest	\$ 382	\$ 351
Foreign exchange (gain) loss, net	(119)	168
(Gain) loss on divestitures, net	(3)	(5)
Other (gains) losses, net	23	17
Total Other (Income) Expenses	\$ 283	\$ 531

Interest

Interest expense primarily includes interest on the Company's long-term debt arising from U.S. dollar denominated unsecured notes. Additional information on changes in interest can be found in Note 4 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

2019 versus 2018

Interest expense increased \$31 million compared to 2018 primarily due to:

- Higher interest expense on long-term debt primarily relating to Newfield's outstanding senior notes and issuances under the Company's U.S. commercial paper ("U.S. CP") program (\$112 million), and an interest recovery due to the resolution of certain tax items relating to prior taxation years in 2018 (\$17 million);

partially offset by:

- The change in accounting treatment for The Bow office building as a result of the adoption of ASC Topic 842 (\$63 million), lower interest expense resulting from the repayment of the Company's \$500 million senior note in the second quarter of 2019 (\$20 million) and capitalized interest (\$10 million).

Additional information on the adoption of ASC Topic 842 can be found in Notes 1 and 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Foreign Exchange (Gain) Loss, Net

Foreign exchange gains and losses primarily result from the impact of fluctuations in the Canadian to U.S. dollar exchange rate. Additional information on changes in foreign exchange gains or losses can be found in Note 5 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Additional information on foreign exchange rates and the effects of foreign exchange rate changes can be found in Items 6 and 7A of this Annual Report on Form 10-K.

Following the completion of the Reorganization, including the U.S. Domestication, on January 24, 2020, as described in the Subsequent Event section of this MD&A, the U.S. dollar denominated unsecured notes issued by Encana Corporation were assumed by Orintiv 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, will no longer attract foreign exchange translation gains or losses.

2019 versus 2018

In 2019, the Company recorded a net foreign exchange gain of \$119 million compared to a loss in 2018 of \$168 million primarily due to:

- Unrealized foreign exchange gains on the translation of U.S. dollar financing debt and risk management contracts issued from Canada compared to losses in 2018 (\$601 million) and realized foreign exchange gains on the settlement of U.S. dollar financing debt issued from Canada compared to losses in 2018 (\$28 million);

partially offset by:

- Unrealized foreign exchange losses on the translation of intercompany notes compared to gains 2018 (\$345 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 and adjustments related to other assets.

2019

Other losses in 2019 primarily includes legal fees and transaction costs related to the Newfield acquisition of \$33 million, partially offset by interest income on short-term investments of \$10 million.

2018

Other losses in 2018 primarily included the write-down of long-term receivables relating to Other Upstream Operations of \$20 million, acquisition costs relating to the merger agreement with Newfield of \$7 million, and reclamation charges relating to decommissioned assets of \$4 million, partially offset by interest income on short-term investments of \$8 million and the recovery of sales taxes relating to previously divested investments of \$7 million.

Income Tax

(\$ millions)	2019		2018	
Current Income Tax Expense (Recovery)	\$	(13)	\$	(55)
Deferred Income Tax Expense (Recovery)		94		149
Income Tax Expense (Recovery)	\$	81	\$	94
Effective Tax Rate		25.7%		8.1%

Income Tax Expense (Recovery)

2019 versus 2018

Total income tax expense in 2019 decreased \$13 million compared to 2018, primarily due to lower net earnings before income tax of \$848 million in 2019 compared to 2018, partially offset by the impact of the foreign jurisdictional tax rates relative to the Canadian statutory tax rate applied to jurisdictional earnings, the impact of the Alberta corporate tax rate reduction discussed below and the current income tax recovery in 2018 of \$55 million resulting from the resolution of certain tax items relating to prior taxation years.

On June 28, 2019, Alberta Bill 3, the Job Creation Tax Cut (Alberta Corporate Tax Amendment) Act, was signed into law resulting in a reduction of the Alberta corporate tax rate from 12 percent to 11 percent effective July 1, 2019, with further one percent rate reductions to take effect every year on January 1 until the general corporate tax rate is eight percent on January 1, 2022. During 2019, the deferred tax expense of \$94 million includes an adjustment of \$55 million resulting from the re-measurement of the Company's deferred tax position due to the Alberta corporate tax rate reduction.

Effective Tax Rate

The Company's annual effective income tax rate is primarily impacted by earnings, income tax related to foreign operations, the effect of legislative changes, including the Alberta corporate tax rate reduction discussed above, non-taxable capital gains and losses, tax differences on divestitures and transactions, and partnership tax allocations in excess of funding. Additional information on income taxes can be found in Note 6 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Company's effective tax rate for 2019 of 25.7 percent is slightly lower than the Canadian statutory tax rate of 26.6 percent primarily due to partnership tax allocations in excess of funding, as well as the resolution of certain tax items relating to prior taxation years, partially offset by the remeasurement of the Company's deferred tax position resulting from the Alberta corporate tax rate reduction discussed above.

The effective tax rate for 2018 of 8.1 percent was lower than the Canadian statutory rate of 27 percent primarily due to the impact of the foreign jurisdictional tax rates relative to the Canadian statutory tax rate applied to jurisdictional earnings, partnership tax allocations in excess of funding and the successful resolution of certain tax items relating to prior taxation years.

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.

Following the U.S. Domestication, the applicable statutory rate will be the U.S. Federal income tax rate.

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. The Company closely monitors the accessibility of cost-effective credit and ensures that sufficient liquidity is in place to fund capital expenditures and dividend payments. In addition, the Company may use cash and cash equivalents, cash from operating activities, or proceeds from asset divestitures to fund its operations or to manage its capital structure as discussed below. At December 31, 2019, \$57 million in cash and cash equivalents was held by U.S. subsidiaries.

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

(\$ millions, except as indicated)	2019		2018	
Cash and Cash Equivalents	\$	190	\$	1,058
Available Credit Facility ⁽¹⁾		4,000		4,000
Issuance of U.S. Commercial Paper		(698)		-
Total Liquidity	\$	3,492	\$	5,058
Long-Term Debt, including current portion ⁽²⁾	\$	6,974	\$	4,198
Total Shareholders' Equity ⁽³⁾	\$	9,930	\$	7,447
Debt to Capitalization (%) ⁽⁴⁾		41		36
Debt to Adjusted Capitalization (%) ⁽⁵⁾		28		22

(1) Includes available credit facilities of \$2.5 billion in Canada and \$1.5 billion in the U.S. (collectively, the "Credit Facilities").

(2) Long-Term Debt as at December 31, 2019, includes outstanding U.S. CP totaling \$698 million and the senior notes acquired in conjunction with the Newfield business combination on February 13, 2019, totaling \$2,450 million.

(3) Shareholders' Equity reflects the common shares issued to Newfield shareholders on February 13, 2019, totaling \$3,478 million and the common shares purchased, for cancellation, under the Company's NCIB and substantial issuer bid programs.

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

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

As at December 31, 2019, the Company had \$698 million of commercial paper outstanding under its U.S. CP program to provide for short-term funding requirements, which is supported by the Company's \$2.5 billion revolving credit facility. Further details on the U.S. CP program can be found in the Sources and Uses of Cash section of this MD&A.

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 the Company's financial covenant under the Credit Facilities, which requires debt to adjusted capitalization to be less than 60 percent. As at December 31, 2019, the Company's Debt to Adjusted Capitalization was 28 percent. The definitions used in the covenant under the Credit Facilities adjust capitalization for cumulative historical ceiling test impairments recorded in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP. Additional information on financial covenants can be found in Note 15 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The Company's debt-based metrics have increased over the prior year due to the increase in long-term debt resulting from the Newfield acquisition. Further details on the Company's debt-based metrics can be found in the Non-GAAP Measures section of this MD&A.

Sources and Uses of Cash

During 2019, the Company primarily generated cash through operating activities. The following table summarizes the sources and uses of the Company's cash and cash equivalents.

(\$ millions)	Activity Type	2019	2018
Sources of Cash, Cash Equivalents and Restricted Cash			
Cash from operating activities	Operating	\$ 2,921	\$ 2,300
Proceeds from divestitures	Investing	197	493
Corporate acquisition, net of cash and restricted cash acquired	Investing	94	-
Net issuance of revolving long-term debt	Financing	698	-
		3,910	2,793
Uses of Cash and Cash Equivalents			
Capital expenditures	Investing	2,626	1,975
Acquisitions	Investing	65	17
Repayment of long-term debt	Financing	500	-
Purchase of common shares	Financing	1,250	250
Dividends on common shares	Financing	102	56
Other	Investing/Financing	240	146
		4,783	2,444
Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency		5	(10)
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash		\$ (868)	\$ 339

Operating Activities

Cash from operating activities in 2019 was \$2,921 million and was primarily a reflection of the impacts from the Newfield acquisition, increases in production volumes, the effects of the commodity price mitigation program and changes in non-cash working capital, partially offset by lower average realized commodity prices.

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

Non-GAAP Cash Flow in 2019 was \$2,931 million and was primarily impacted by the items affecting cash from operating activities which are discussed below and in the Results of Operations section of this MD&A.

2019 versus 2018

Net cash from operating activities increased \$621 million compared to 2018 primarily due to:

- Higher production volumes (\$2,233 million) and realized gains on risk management in revenues in 2019 compared to realized losses in 2018 (\$473 million);

partially offset by:

- Lower realized commodity prices (\$603 million), higher transportation and processing expense (\$475 million), higher operating and administrative expense, excluding non-cash long-term incentive costs (\$265 million and \$167 million, respectively), changes in non-cash working capital (\$158 million), restructuring costs (\$138 million), higher interest on long-term debt (\$118 million), higher production, mineral and other taxes (\$107 million), lower current tax recovery in 2019 compared to 2018 (\$42 million) and acquisition costs (\$33 million).

Investing Activities

Capital expenditures, divestitures and acquisitions have been the Company's primary investing activities over the past two years and are summarized in Notes 2, 8 and 9 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

2019 and 2018

Cash used in investing activities in 2019 was \$2,556 million primarily due to capital expenditures. Capital expenditures increased \$651 million compared to 2018 due to an increase in the Company's capital program for 2019 relating to the Anadarko asset acquired in the Newfield acquisition (\$712 million). Cash from operating activities exceeded capital expenditures by \$295 million.

Corporate acquisition in 2019 was \$94 million which reflected the net cash acquired upon the Newfield business combination.

Acquisitions in 2019 were \$65 million, which primarily included seismic purchases, water rights and property purchases with liquids-rich potential.

Acquisitions in 2018 were \$17 million, which primarily included property purchases with liquids-rich potential.

Divestitures in 2019 were \$197 million, which primarily included the sale of the Company's Arkoma natural gas assets in Oklahoma, comprising approximately 140,000 net acres. Proceeds from the sale of the Arkoma natural gas assets were used to reduce the Company's long-term debt.

Divestitures in 2018 were \$493 million, which primarily included the sale of the San Juan assets in New Mexico, comprising approximately 182,000 net acres.

Financing Activities

Net cash used in financing activities over the past two years has been impacted by the Company's strategy to enhance liquidity, strengthen its balance sheet and return value to shareholders through the purchase of common shares. The Company has paid dividends each of the past two years and increased its dividend in the first quarter of 2019.

2019 versus 2018

Net cash used in financing activities in 2019 increased \$842 million compared to 2018 primarily due to the purchase of common shares under a NCIB (\$787 million) and substantial issuer bid (\$213 million) as discussed below, repayment of long-term debt (\$500 million), as well as increased dividends paid (\$46 million) in 2019 compared to 2018, partially offset by the net issuance of commercial paper under the Company's U.S. CP program (\$698 million). Further detail on the Company's U.S. CP program can be found below.

The transactions affecting the changes in financing activities are discussed in more detail below.

2019 and 2018

The Company's long-term debt totaled \$6,974 million at December 31, 2019 (2018 - \$4,198 million). On May 15, 2019, the Company repaid the \$500 million 6.50 percent senior note using proceeds from the U.S. CP program.

Following the completion of the Newfield acquisition on February 13, 2019, Newfield's senior notes totaling \$2.45 billion remained outstanding as at December 31, 2019. These include a \$750 million 5.75 percent senior note due January 30, 2022, a \$1.0 billion 5.625 percent senior note due July 1, 2024 and a \$700 million 5.375 percent senior note due January 1, 2026. For additional information on long-term debt, refer to Note 15 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The increase in long-term debt resulting from the Newfield acquisition increased the Company's debt-based metrics. Further details on the Company's debt-based metrics can be found in the Non-GAAP Measures section of this MD&A.

At December 31, 2019, the Company had access to two credit facilities, one available in Canada for \$2.5 billion and one available in the U.S. for \$1.5 billion, totaling \$4.0 billion. At December 31, 2019, no amounts were outstanding under the Credit Facilities. The Credit Facilities provide financial flexibility and allow the Company to fund its operations, development activities or capital programs. Subsequent to the Reorganization as described in the Subsequent Event section of this MD&A, the Credit Facilities were replaced with committed revolving U.S. dollar denominated credit facilities totaling \$4.0 billion, which include a \$2.5 billion revolving credit facility for Ovintiv Inc. and a \$1.5 billion revolving credit facility for a Canadian subsidiary. These facilities mature in July 2024, and are fully revolving up to maturity.

At December 31, 2019, the Company had \$698 million of commercial paper outstanding under its U.S. CP program with an average term of 49 days and a weighted average interest rate of approximately 2.28 percent, which was supported by the Company's \$2.5 billion revolving credit facility. Subsequent to the Reorganization, Ovintiv has access to two U.S. commercial paper programs, which include a \$1.5 billion program for Ovintiv Inc. and a \$1.0 billion program for a Canadian subsidiary.

At December 31, 2019, the Credit Facilities, together with cash and cash equivalents less any outstanding commercial paper, provided the Company with total liquidity of \$3.5 billion. The Company also had approximately \$149 million in undrawn letters of credit issued in the normal course of business primarily as collateral security, to support future abandonment liabilities and for transportation arrangements.

At December 31, 2019, the Company had a U.S. shelf registration statement and a Canadian shelf prospectus under which the Company had the ability to issue from time to time, debt securities, common shares, Class A preferred shares, subscription receipts, warrants, units, share purchase contracts and share purchase units in the U.S. and/or Canada. At December 31, 2019, \$6.0 billion was accessible under the Canadian shelf prospectus. Following completion of the Reorganization, the Company intends to renew its U.S. shelf registration statement and Canadian shelf prospectus.

Dividends

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

(\$ millions, except as indicated)	2019		2018
Dividend Payments	\$	102	\$ 57
Dividend Payments (\$/share) ⁽¹⁾	\$	0.375	\$ 0.30

(1) Dividend payments per share reflect the Share Consolidation. Accordingly, the comparative period has been restated. On a pre-Share Consolidation basis, dividend payments were \$0.075 per common share for 2019 and \$0.06 per common share for 2018.

The Company increased its dividend by 25 percent in the first quarter of 2019 as part of the Company's commitment to returning capital to shareholders. Dividends paid in 2019 increased \$45 million compared to 2018 due to additional common shares issued as part of the Newfield acquisition, in addition to the 25 percent increase in the dividend per share, partially offset by common shares purchased, for cancellation, under the Company's substantial issuer bid and NCIB programs.

On February 19, 2020, the Board of Directors declared a dividend of \$0.09375 per Ovintiv common share payable on March 31, 2020 to common stockholders of record as of March 13, 2020.

The dividends paid in 2018 included \$1 million in common shares issued in lieu of cash dividends under the Company's Dividend Reinvestment Plan ("DRIP"). On February 28, 2019, the Company announced the suspension of its DRIP effective immediately and in conjunction with the Reorganization, the DRIP was terminated.

Substantial Issuer Bid

On August 29, 2019, the Company used cash on hand and issued commercial paper totaling approximately \$213 million to purchase, for cancellation, approximately 47.3 million of its outstanding common shares, on a pre-Share Consolidation basis or 9.5 million common shares on a post-Share Consolidation basis, under its previously announced substantial issuer bid.

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

Normal Course Issuer Bid

On February 27, 2019, the Company received approval from the TSX to purchase, for cancellation, up to approximately 149.4 million common shares, on a pre-Share Consolidation basis, pursuant to a NCIB over a 12-month period commencing March 4, 2019 and ending March 3, 2020. In 2019, the Company used cash on hand of approximately \$1,037 million to purchase, for cancellation, approximately 149.4 million common shares, on a pre-Share Consolidation basis or approximately 29.9 million common shares on a post-Share Consolidation basis.

In 2018, the Company used cash on hand of approximately \$250 million to purchase, for cancellation, approximately 20.7 million common shares, on a pre-Share Consolidation basis or approximately 4.1 million common shares on a post-Share Consolidation basis, under the previous NCIB which commenced on February 28, 2018 and expired on February 27, 2019.

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

Off-Balance Sheet Arrangements

The Company may enter into off-balance sheet arrangements and transactions that can give rise to material off-balance sheet obligations. The Company's material off-balance sheet arrangements include transportation and processing agreements, and short-term leases and non-lease components associated with drilling rigs and building leases, as outlined in the Contractual Obligations table below, as well as undrawn letters of credit and minimum volumes sales contracts, all of which are customary agreements in the oil and gas industry. Other than the items discussed above, there are no other transactions, arrangements, or relationships with unconsolidated entities or persons that are reasonably likely to materially affect the Company's liquidity or the availability of, or requirements for, capital resources.

Contractual Obligations

Contractual obligations arising from long-term debt, operating and finance leases, risk management liabilities and asset retirement obligations are recognized on the Company's Consolidated Balance Sheet. The following table outlines the Company's undiscounted obligations and commitments at December 31, 2019:

(\$ millions)	Expected Future Payments				Total
	2020	2021-2022	2023-2024	Thereafter	
Long-Term Debt	\$ -	\$ 2,048	\$ 1,000	\$ 3,811	\$ 6,859
Interest Payments on Long-Term Debt	377	709	610	2,179	3,875
Operating Leases ⁽¹⁾	133	218	174	1,101	1,626
Finance Leases ⁽²⁾	99	95	16	22	232
Risk Management Liabilities	114	53	13	5	185
Asset Retirement Obligation	192	113	74	1,514	1,893
Obligations	915	3,236	1,887	8,632	14,670
Transportation and Processing	734	1,321	947	2,163	5,165
Drilling and Field Services ⁽³⁾	90	6	-	-	96
Building Leases ⁽³⁾	14	26	14	8	62
Commitments	838	1,353	961	2,171	5,323
Total Contractual Obligations	\$ 1,753	\$ 4,589	\$ 2,848	\$ 10,803	\$ 19,993
Sublease Income	\$ (49)	\$ (95)	\$ (88)	\$ (546)	\$ (778)

(1) Includes The Bow office building.

(2) Includes interest payments totaling \$22 million.

(3) Includes short-term leases with terms less than 12 months and non-lease operating cost components.

Interest Payments on Long-Term Debt and Finance Leases represent scheduled cash payments on the respective obligations. Additional information can be found in Notes 15 and 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Operating leases include drilling rigs, compressors, marine vessels, camps, office and buildings, certain land easements and various equipment utilized in the development and production of oil, NGLs and natural gas. Upon transition to ASC Topic 842 on January 1, 2019, The Bow office building was determined to be an operating lease. The Company has subleased approximately 50 percent of The Bow office space under the lease agreement. The Bow Office Building Sublease Recoveries in the table above include the amounts expected to be recovered from the sublease. Additional information on the change in accounting treatment for The Bow office building upon transition to ASC Topic 842 and subleases can be found in Notes 1 and 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Finance Leases relates to an office building and the obligation related to the Deep Panuke Production Field Centre. Additional information can be found in Note 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Risk Management Liabilities represents Ovintiv's net liability position with counterparties. Additional information can be found in Note 25 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Asset Retirement Obligation represents estimated costs arising from the obligation to fund the disposal of long-lived assets upon their abandonment. The majority of Ovintiv's asset retirement obligations relate to the plugging of wells and related abandonment of oil and gas properties including an offshore production platform, processing plants and land or seabed restoration. Revisions to estimated retirement obligations can result from changes in regulatory requirements, changes in retirement cost estimates, revisions to estimated inflation rates and estimated timing of abandonment. Additional information can be found in Note 17 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Transportation and Processing commitments relate to contractual obligations for capacity rights with third-party pipelines and processing facilities. Drilling and Field Services commitments represent minimum future expenditures for drilling, well servicing and equipment commitment rights. Significant development commitments with joint venture partners are partially satisfied by Commitments included in the table above. Building Leases consist of various field and office building leases used in Ovintiv's daily operations. Drilling and Field Services, and Building Leases include short-term leases with terms less than 12 months and non-lease operating cost components. Additional information can be found in Notes 1 and 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Ovintiv has two minimum volume sales contracts related to its Uinta oil production in Utah. Under the terms of the agreements, the Company is committed to deliver approximately 15 Mbbls/d through May 2020 and approximately 20 Mbbls/d through August 2025. During 2019, the Company incurred deficiency fees of approximately \$24 million. Deficiency fees ranging from \$3.50 to \$6.50 per barrel may be incurred during the remaining term of the commitment periods. Based on forecasted production levels, \$15 million in deficiency fees are expected to be incurred related to these delivery commitments in 2020. For additional information on these commitments, refer to the Marketing Activities section included in Items 1 and 2 of this Annual Report on Form 10-K.

Further to the commitments disclosed above, Ovintiv also has various obligations that become payable if certain events occur including variable interests arising from gathering and compression agreements and guarantees on transportation commitments resulting from completed property divestitures as described in Notes 20, 25 and 27, respectively, to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

In addition, Ovintiv has purchase orders for the purchase of inventory and other goods and services, which typically represent authorization to purchase rather than binding agreements. The Company also has obligations to fund its defined benefit pension and other post-employment benefit plans, as well as unrecognized tax benefits where the settlement is not expected within the next 12 months as described in Notes 23 and 6, respectively, to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Ovintiv may have potential exposures related to previously divested properties where the purchasers typically assume all obligations to plug, abandon, and decommission the associated wells, structures, and facilities acquired. One or more of the counterparties in these transactions could, either as a result of the severe decline in oil and natural gas prices or other factors related to the historical or future operations of their respective businesses, face financial problems that may have a significant impact on their solvency and ability to continue as a going concern. If a purchaser becomes the subject of a proceeding under relevant insolvency laws or otherwise fails to perform required abandonment obligations, Ovintiv could be required to perform such actions under applicable federal laws and regulations. While the Company believes that the risk of such event occurring is low, the Company could be forced to use available cash to cover the costs of such liabilities and obligations should they arise.

Contingencies

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

Critical Accounting Estimates

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

Description	Judgments and Uncertainties
Upstream Assets and Reserve Estimates <p>As Ovintiv follows full cost accounting for oil, NGL and natural gas activities, reserves estimates are a key input to the Company's depletion, gain or loss on divestitures and ceiling test impairment calculations. In addition, these reserves are the basis for the Company's supplemental oil and gas disclosures.</p> <p>Ovintiv estimates its proved oil and gas reserves according to the definition of proved reserves provided by the SEC. The Company's estimates of proved reserves are made using available geological and reservoir data as well as production performance data and must demonstrate with reasonable certainty to be economically producible in future periods from known reservoirs under existing economic conditions, operating methods and government regulations. The estimation of reserves is a subjective process.</p> <p>Reserves are calculated using an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months, held flat for the life of the production, except where prices are defined by contractual arrangements.</p> <p>Ovintiv manages its business using estimates of reserves and resources based on forecast prices and costs as it gives consideration to probable and possible reserves and future changes in commodity prices.</p>	<p>Due to the inter-relationship of various judgments made to reserve estimates and the volatile nature of commodity prices, it is generally not possible to predict the timing or magnitude of ceiling test impairments.</p> <p>Revisions to reserve estimates are necessary due to changes in and among other things, development plans, projected future rates of production, the timing of future expenditures, reservoir performance, economic conditions, governmental restrictions as well as changes in the expected recovery associated with infill drilling, all of which are subject to numerous uncertainties and various interpretations. Downward revisions in proved reserve estimates due to changes in reserve estimates may increase depletion expense and may also result in a ceiling test impairment.</p> <p>Decreases in prices may result in reductions in certain proved reserves due to reaching economic limits at an earlier projected date and impact earnings through depletion expense and ceiling test impairments.</p> <p>Ovintiv believes that the discounted after-tax future net cash flows from proved reserves required to be used in the ceiling test calculation are not indicative of the fair market value of Ovintiv's oil and natural gas properties or the future net cash flows expected to be generated from such properties.</p>
Business Combinations <p>Ovintiv follows the acquisition method of accounting for business combinations. Assets acquired and liabilities assumed are recognized at the date of acquisition at their respective estimated fair values. Any excess of the purchase price over the fair value amounts assigned to assets and liabilities is recorded as goodwill. Any deficiency of the purchase price over the estimated fair values of the net assets acquired is recorded as a gain in net earnings.</p> <p>Fair value estimates are determined based on information that existed at the time of the acquisition, utilizing expectations and assumptions that would be available to and made by a market participant. When market-observable prices are not available to value assets and liabilities, the Company may use the cost, income, or market valuation approaches depending on the quality of information available to support management's assumptions.</p>	<p>The most significant assumptions relate to the estimated fair values assigned to proved and unproved oil and natural gas properties. The assumptions made in performing these valuations include discount rates, future commodity prices and costs, the timing of development activities, projections of oil and gas reserves, estimates to abandon and reclaim producing wells and tax amortization benefits available to a market participant. Changes in key assumptions may cause the acquisition accounting to be revised, including the recognition of additional goodwill or discount on acquisition. There is no assurance the underlying assumptions or estimates associated with the valuation will occur as initially expected.</p> <p>Estimated fair values assigned to assets acquired can have a significant effect on results of operations in the future through impairments of goodwill. In addition, differences between the future commodity prices when acquiring assets and the historical 12-month average trailing price to calculate ceiling test impairments of upstream assets may impact net earnings.</p>

Goodwill Impairments

Goodwill is assessed for impairment at least annually in December, at the reporting unit level which are Ovintiv's country cost centres. To assess whether goodwill is impaired, the carrying amount of each reporting unit is determined and compared to the fair value of the reporting unit. If the carrying amount of the reporting unit is higher than its related fair value, then goodwill is measured and written down to the reporting unit's implied fair value of goodwill. The implied fair value of goodwill is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit as if the reporting entity had been acquired in a business combination. Any excess of the carrying value of goodwill over the implied fair value of goodwill is recognized as an impairment and charged to net earnings.

Because quoted market prices for the Company's reporting units are not available, management applies judgment in determining the estimated fair value of reporting units for purposes of performing goodwill impairment tests. Ovintiv may use a combination of the income and the market valuation approaches.

The Company has assessed its goodwill for impairment at December 31, 2019 and no impairment was recognized. The reporting units' fair values were substantially in excess of the carrying values and as a result was not at risk of failing step one of the impairment test as at December 31, 2019.

Asset Retirement Obligation

Asset retirement obligations are those legal obligations where the Company will be required to retire tangible long-lived assets such as producing well sites, an offshore production platform, processing plants, and restoring land or seabed at the end of oil and gas production operations. The fair value of estimated asset retirement obligations is recognized on the Consolidated Balance Sheet when incurred and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation are recognized as a change in the asset retirement obligation and the related asset retirement cost. Actual expenditures incurred are charged against the accumulated asset retirement obligation. Accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value.

Derivative Financial Instruments

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

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

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

The most significant assumptions used to determine a reporting unit's fair value include estimations of oil and natural gas reserves, including both proved reserves and risk-adjusted unproved reserves, estimates of market prices considering forward commodity price curves as of the measurement date, market discount rates and estimates of operating, administrative, and capital costs adjusted for inflation. In addition, management may support fair value estimates determined with comparable companies that are actively traded in the public market, recent comparable asset transactions, and transaction premiums. This would require management to make certain judgments about the selection of comparable companies utilized.

Downward revisions of estimated reserves quantities, increases in future cost estimates, sustained decreases in oil or natural gas prices, or divestiture of a significant component of the reporting unit could reduce expected future cash flows and fair value estimates of the reporting units and possibly result in an impairment of goodwill in future periods.

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

Ovintiv's derivative financial instruments primarily relate to commodities including oil, NGLs and natural gas. The most significant assumptions used in determining the fair value to the Company's commodity derivatives financial instruments include estimates of future commodity prices, implied volatilities of commodity prices, discount rates and estimates of counterparty credit risk. These pricing and discounting variables are sensitive to the period of the contract and market volatility as well as regional price differentials. Changes in these estimates and assumptions can impact net earnings through decreased revenues or increased expenses.

Description**Income Taxes**

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

Deferred income tax assets are routinely assessed for realizability. If it is more likely than not that deferred tax assets will not be realized, a valuation allowance is recorded to reduce the deferred tax assets.

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

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

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

Contingent Liabilities

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

Judgments and Uncertainties

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

Ovintiv considers available positive and negative evidence when assessing the realizability of deferred tax assets, including historic and expected future taxable earnings, available tax planning strategies and carry forward periods. Numerous judgments and assumptions are inherent in the determination of future taxable income, including factors such as future operating conditions, particularly related to oil and gas prices. As a result, the assumptions used in determining expected future taxable earnings are consistent with those used in the goodwill impairment assessment.

The estimated annual effective income tax rate is impacted by expected annual earnings, statutory rate and other foreign differences, non-taxable capital gains and losses, tax differences on divestitures and transactions, and partnership tax allocations in excess of funding.

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

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

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

Recent Accounting Pronouncements

For recently issued accounting policies, refer to Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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.

(\$ millions, except as indicated)	2019		2018	
Cash From (Used in) Operating Activities	\$	2,921	\$	2,300
(Add back) deduct:				
Net change in other assets and liabilities		(97)		(60)
Net change in non-cash working capital		87		245
Current tax on sale of assets		-		-
Non-GAAP Cash Flow ⁽¹⁾	\$	2,931	\$	2,115
Production Volumes (MMBOE)		206.2		131.8
Non-GAAP Cash Flow Margin (\$/BOE)	\$	14.21	\$	16.05

(1) 2019 includes restructuring costs of \$138 million and acquisition costs of \$33 million.

Total Costs

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

(\$ millions, except as indicated)	2019		2018	
Production, Mineral and Other Taxes	\$	254	\$	147
Upstream Transportation and Processing		1,325		952
Upstream Operating		707		423
Administrative		489		157
Deduct (add back):				
Long-term incentive costs		35		(41)
Restructuring costs		138		-
Total Costs	\$	2,602	\$	1,720
Divided by:				
Production Volumes (MMBOE)		206.2		131.8
Total Costs (\$/BOE) ⁽¹⁾	\$	12.59	\$	13.00

(1) Calculated using whole dollars and volumes.

Debt to Adjusted Capitalization

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

(\$ millions, except as indicated)	December 31, 2019	December 31, 2018
Long-Term Debt, including current portion	\$ 6,974	\$ 4,198
Total Shareholders' Equity	9,930	7,447
Equity Adjustment for Impairments at December 31, 2011	7,746	7,746
Adjusted Capitalization	\$ 24,650	\$ 19,391
Debt to Adjusted Capitalization	28%	22%

The increase in Debt to Adjusted Capitalization is primarily due to the increase in long-term debt resulting from the Newfield acquisition.

Net Debt to Adjusted EBITDA

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

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

(\$ millions, except as indicated)	December 31, 2019	December 31, 2018
Long-Term Debt, including current portion	\$ 6,974	\$ 4,198
Less:		
Cash and cash equivalents	190	1,058
Net Debt	6,784	3,140
Net Earnings	234	1,069
Add back (deduct):		
Depreciation, depletion and amortization	2,015	1,272
Accretion of asset retirement obligation	37	32
Interest	382	351
Unrealized (gains) losses on risk management	730	(519)
Foreign exchange (gain) loss, net	(119)	168
(Gain) loss on divestitures, net	(3)	(5)
Other (gains) losses, net	23	17
Income tax expense (recovery)	81	94
Adjusted EBITDA	\$ 3,380	\$ 2,479
Net Debt to Adjusted EBITDA (times)	2.0	1.3

The increase in Net Debt is primarily due to the increase in long-term debt resulting from the Newfield acquisition, whereas Adjusted EBITDA only includes Newfield's results of operations for the post-acquisition period from February 14, 2019 to December 31, 2019.