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

The MD&A is intended to provide a narrative description of Encana's business from management's perspective. This MD&A should be read in conjunction with the unaudited interim Condensed Consolidated Financial Statements and accompanying notes for the period ended March 31, 2018 ("Consolidated Financial Statements"), which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the audited Consolidated Financial Statements and accompanying notes and MD&A for the year ended December 31, 2017, which are included in Items 8 and 7, respectively, of the 2017 Annual Report on Form 10-K. Common industry terms and abbreviations are used throughout this MD&A and are defined in the Definitions, Conversions and Conventions sections of this Quarterly Report on Form 10-Q. This MD&A includes the following sections:

- Executive Overview
- Results of Operations
- Liquidity and Capital Resources
- Non-GAAP Measures

Executive Overview

Strategy

Encana is a leading North American energy producer that is focused on developing its multi-basin portfolio of oil, NGLs and natural gas producing plays. Encana is committed to growing long-term shareholder value through a disciplined focus on generating profitable growth. The Company is pursuing the key business objectives of exercising a disciplined capital allocation strategy by investing in a limited number of core assets, growing high margin liquids volumes, maximizing profitability through operating efficiencies and reducing costs, and preserving balance sheet strength.

In executing its strategy, Encana focuses on its core values of One, Agile and Driven, which guide the organization to be flexible, responsive, determined and motivated with a commitment to excellence and a passion to succeed as a unified team.

Encana continually reviews and evaluates its strategy and changing market conditions. In 2018, Encana continues to focus on quality growth from high margin, scalable projects located in some of the best plays in North America, referred to as the "Core Assets", comprising Montney and Duvernay in Canada and Eagle Ford and Permian in the U.S. These world-class assets form a multi-basin portfolio enabling flexible and efficient investment of capital. The Company rapidly deploys successful ideas and practices across these assets, becoming more efficient as innovative and sustainable technical improvements are implemented.

For additional information on Encana's strategy, its reporting segments and the plays in which the Company operates, refer to Items 1 and 2 of the 2017 Annual Report on Form 10-K. In evaluating its operations and assessing its leverage, the Company reviews performance-based measures such as Non-GAAP Cash Flow and Non-GAAP Cash Flow Margin 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. Further information regarding these measures, including reconciliations to the closest GAAP measure, can be found in the Non-GAAP Measures section of this MD&A.

Highlights

During the first quarter of 2018, Encana focused on executing its 2018 capital plan, maintaining operational efficiencies achieved in 2017 and minimizing the effect of inflationary costs. Higher oil and NGL benchmark prices during the first quarter of 2018 compared to 2017 contributed to increases in Encana's average realized oil and NGL prices of 28 percent and 21 percent, respectively, resulting in higher revenues. Encana is also focused on the diversification of the Company's downstream markets to capture higher realized prices. Encana remains committed to delivering a business model that allows the Company to adapt to fluctuating commodity prices.

Significant Developments

- Received approval from the TSX to purchase, for cancellation, up to 35 million common shares pursuant to a NCIB over a 12-month period from February 28, 2018 to February 27, 2019. As of March 31, 2018, the Company has purchased 10 million common shares for total consideration of approximately $111 million.

Financial Results

- Reported net earnings of $151 million, including a net foreign exchange loss of $91 million, before tax, and net gains on risk management in revenues of $36 million, before tax.
- Generated cash from operating activities of $381 million, Non-GAAP Cash Flow of $400 million and Non-GAAP Cash Flow Margin of $13.70 per BOE.
- Paid dividends of $0.015 per common share.
- Held cash and cash equivalents of $433 million and had available credit facilities of $4.0 billion for total liquidity of $4.4 billion at March 31, 2018.

Capital Investment

- Commenced the Company's 2018 capital plan with expenditures totaling $508 million of which $393 million, or 77 percent, was directed to the Permian and Montney.
- Focused on highly efficient capital activity and short-cycle high margin projects providing flexibility to respond to fluctuations in commodity prices.

Production

- Produced average oil and NGL volumes of 145.2 Mbbls/d which accounted for 45 percent of total production volumes. Average oil and plant condensate production volumes of 113.2 Mbbls/d were 78 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,075 MMcf/d which accounted for 55 percent of total production volumes.

Operating Expenses

- Focused on maintaining operational efficiencies achieved in previous years and minimizing the effect of inflationary costs.
- Increased transportation and processing expense by $37 million, or 17 percent, primarily due to higher volumes in Montney and additional costs incurred in conjunction with the diversification of downstream markets to capture higher realized prices.

2018 Outlook

Industry Outlook

The oil and gas industry is cyclical and commodity prices are inherently volatile. Oil prices during 2018 are expected to reflect global supply and demand dynamics as well as the geopolitical environment. At a meeting in November 2017, OPEC and certain non-OPEC countries agreed to further extend an agreement to voluntarily cut crude oil production through the end of 2018. The agreement and recent drawdowns of oil storage inventory levels were generally supportive of oil prices in the first quarter of 2018; however, production growth in other countries continues to partially offset the expected benefit of the OPEC agreement. OPEC is scheduled to meet again in June 2018 to review production levels and a decision to discontinue or reduce the production cuts could negatively impact oil prices in 2018.

Natural gas prices in 2018 will be affected by the timing of supply and demand growth. Natural gas prices in western Canada have seen significant negative price pressure as supply reached multi-year highs, surpassing regional demand and stressing effective pipeline capacity. Stronger condensate prices may also lend support to activity levels resulting in additional downward pressure on natural gas prices in 2018. Natural gas prices in the U.S. have remained flat. Potential for improvement in U.S. natural gas prices remains limited due to continued substantial production increases in Northeast U.S. and associated gas production in the Permian Basin.

Company Outlook

Encana is positioned to be flexible in the current price environment in order to continue to achieve strong returns. 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 Encana to participate in potential price increases. As at March 31, 2018, the Company has hedged approximately 120 Mbbls/d of expected oil and condensate production and 1,026 MMcf/d of expected natural gas production for the remainder of 2018 using a variety of structures at average prices of $55.52 per bbl and $3.02 per Mcf, respectively.

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, natural gas may vary between geographic regions depending on local supply and demand conditions. Encana proactively utilizes transportation contracts to diversify the Company’s downstream markets and reduce significant exposure to any given market. Through a combination of derivative financial instruments and transportation capacity, Encana has mitigated the majority of its exposure to Midland and AECO pricing in 2018 and 2019. In addition, Encana continues to seek new markets to yield higher returns.

Capital Investment

Encana is on track to meet its full year capital investment guidance of $1.8 billion to $1.9 billion. During the first quarter of 2018, the Company spent $508 million, of which $238 million was directed to Permian where the Company has drilled 26 net wells and $155 million was directed to Montney with 40 net wells drilled. Capital investment in Permian is expected to be optimized by Encana’s cube development approach to maximize returns and recovery. Capital investment in Montney is expected to be allocated to both Cutbank Ridge and Pipestone with a focus on growing condensate volumes.

Encana continually strives to improve well performance by lowering drilling and completion costs through innovative techniques. Encana's large-scale cube development model utilizes multi-well pads and advanced completion designs to access stacked pay resource to maximize returns and resource recovery from its reservoirs. The impact of Encana’s disciplined capital program and continuous innovation create flexibility and opportunity to grow cash flows and production volumes going forward.

Production

As part of the Company’s long-term growth strategy, Encana has significantly shifted its production mix to a more balanced portfolio in the recent years, thereby reducing the extent of exposure to market volatility of a particular commodity. During the first quarter of 2018, average liquids production volumes were 145.2 Mbbls/d and average natural gas production volumes were 1,075 MMcf/d. The Company expects to deliver substantial liquids growth in the second half of 2018. The Company is on track to meet the full year 2018 guidance ranges for liquids production volumes of 165.0 Mbbls/d to 175.0 Mbbls/d and natural gas production volumes of 1,150 MMcf/d to 1,250 MMcf/d by year end as a result of the Company’s growth plans for

Montney. Encana's growth plans for Montney are supported by third party processing plants commissioned in 2017 and two additional facilities expected to be completed in the second half of 2018, including the planned completion of the Pipestone liquids hub in the fourth quarter.

Operating Expenses

Efficiency improvements and lower service costs are expected to be maintained through the support of the Company's culture of innovation and its focus on continuous improvement in operational execution. As activity in the industry accelerates, Encana expects to continue pursuing innovative ways to reduce upstream operating and administrative expenses. Operating costs in the first quarter of 2018 are on track to meet the full year 2018 guidance ranges. Transportation and processing expense was $7.42 per BOE, while upstream operating expense and administrative expense, excluding long-term incentive costs, were $3.60 per BOE and $1.49 per BOE, respectively.

Service costs are expected to increase with higher activity in the oil and gas industry and the recovery of commodity prices. Encana continues to offset any inflationary pressures with efficiency improvements and effective supply chain management, including favorable price negotiations.

Further information on Encana's 2018 Corporate Guidance can be accessed on the Company's website at www.encana.com.

Results of Operations

Selected Financial Information

($ millions)	Three months ended March 31, 2018	2017 [(1)]
Product and Service Revenues		
Upstream product revenues	**$ 957**	$ 738
Market optimization	**301**	186
Service revenues	**2**	10
Total Product and Service Revenues	**1,260**	934
Gains (Losses) on Risk Management, Net	**36**	338
Sublease Revenues	**17**	17
Total Revenues	**1,313**	1,289
Total Operating Expenses [(2)]	**976**	800
Operating Income (Loss)	**337**	489
Total Other (Income) Expenses	**177**	55
Net Earnings (Loss) Before Income Tax	**$ 160**	$ 434
Net Earnings (Loss)	**$ 151**	$ 431

(1) Corporate interest income of $8 million previously reported in revenues and operating income (loss) in Q1 2017 has been reclassified to other (gains) losses, net. The remaining Q1 2017 revenues have been realigned to conform with the current year presentation.
(2) Total Operating Expenses include non-cash items such as DD&A, impairments, accretion of asset retirement obligations and long-term incentive costs.

Revenues

Encana's revenues are substantially derived from sales of oil, NGLs and natural gas production. Increases or decreases in Encana'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. Canadian Operations realized prices are linked to Edmonton Condensate and AECO, as well as other downstream natural gas benchmarks, including Dawn, which reflect the diversification of the Company's markets. The USA Operations realized prices generally reflect WTI and NYMEX benchmark prices. Realized NGL prices are significantly influenced by oil benchmark prices and the NGL production mix. Recent trends in benchmark prices relevant to Encana are shown in the table below.

Benchmark Prices

	Three months ended March 31,	
(average for the period)	**2018**	2017
Oil & NGLs		
WTI ($/bbl)	**$ 62.87**	$ 51.91
Edmonton Condensate (C$/bbl)	**79.72**	69.13
Natural Gas		
NYMEX ($/MMBtu)	**$ 3.00**	$ 3.32
AECO (C$/Mcf)	**1.85**	2.94
Dawn (C$/MMBtu)	**3.82**	4.23

Production Volumes and Realized Prices

Three months ended March 31,	Production Volumes (1) 2018	Production Volumes (1) 2017	Realized Prices (2) 2018	Realized Prices (2) 2017
Oil (Mbbls/d, $/bbl)				
Canadian Operations	**0.4**	0.4	**$ 55.47**	$ 43.29
USA Operations	**82.6**	67.0	**63.33**	49.65
Total	**83.0**	67.4	**63.29**	49.61
NGLs – Plant Condensate (Mbbls/d, $/bbl)				
Canadian Operations	**27.5**	18.7	**61.10**	50.29
USA Operations	**2.7**	1.8	**51.94**	42.87
Total	**30.2**	20.5	**60.28**	49.63
NGLs – Other (Mbbls/d, $/bbl)				
Canadian Operations	**10.4**	5.0	**30.08**	22.62
USA Operations	**21.6**	18.0	**20.53**	20.11
Total	**32.0**	23.0	**23.64**	20.66
Total NGLs (Mbbls/d, $/bbl)				
Canadian Operations	**37.9**	23.7	**52.55**	44.40
USA Operations	**24.3**	19.8	**24.01**	22.22
Total	**62.2**	43.5	**41.40**	34.31
Total Oil & NGLs (Mbbls/d, $/bbl)				
Canadian Operations	**38.3**	24.1	**52.58**	44.38
USA Operations	**106.9**	86.8	**54.39**	43.36
Total	**145.2**	110.9	**53.91**	43.59
Natural Gas (MMcf/d, $/Mcf)				
Canadian Operations	**936**	885	**2.48**	2.52
USA Operations	**139**	356	**2.52**	3.23
Total	**1,075**	1,241	**2.48**	2.72
Total Production (MBOE/d, $/BOE)				
Canadian Operations	**194.3**	171.7	**22.29**	19.23
USA Operations	**130.1**	146.2	**47.39**	33.59
Total	**324.4**	317.9	**32.35**	25.82
Production Mix (%)				
Oil & Plant Condensate	**35**	28		
NGLs – Other	**10**	7		
Total Oil & NGLs	**45**	35		
Natural Gas	**55**	65		
Core Assets Production				
Oil (Mbbls/d)	**80.4**	62.3		
NGLs – Plant Condensate (Mbbls/d)	**30.2**	20.0		
NGLs – Other (Mbbls/d)	**30.9**	20.9		
Total NGLs (Mbbls/d)	**61.1**	40.9		
Total Oil & NGLs (Mbbls/d)	**141.5**	103.2		
Natural Gas (MMcf/d)	**996**	804		
Total Production (MBOE/d)	**307.5**	237.3		
% of Total Encana Production	**95**	75		

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

Upstream Product Revenues

($ millions)	Three months ended March 31, Oil	NGLs (1)	Natural Gas (2)	Total
2017 Upstream Product Revenues	**$ 300**	**$ 134**	**$ 304**	**$ 738**
Increase (decrease) due to:				
Sales prices	102	32	(5)	129
Production volumes	72	65	(58)	79
2018 Upstream Product Revenues	**$ 474**	**$ 231**	**$ 241**	**$ 946**

(1) Includes plant condensate.
(2) Natural gas revenues exclude a royalty adjustment of $11 million (2017 - nil) with no associated production volumes.

Oil Revenues

Three months ended March 31, 2018 versus March 31, 2017

Oil revenues increased $174 million compared to the first quarter of 2017 primarily due to:

- Higher average realized oil prices of $13.68 per bbl, or 28 percent, increased revenues by $102 million. The increase reflected a higher WTI benchmark price which was up 21 percent. The increase was also due to improved regional pricing in the USA Operations; and
- Higher average oil production volumes of 15.6 Mbbls/d increased revenues by $72 million. Higher volumes were primarily due to a successful drilling program in Permian (18.9 Mbbls/d), partially offset by asset sales (2.4 Mbbls/d), which mainly include the Tuscaloosa Marine Shale assets in the second quarter of 2017.

NGL Revenues

Three months ended March 31, 2018 versus March 31, 2017

NGL revenues increased $97 million compared to the first quarter of 2017 primarily due to:

- Higher average realized NGL prices of $7.09 per bbl, or 21 percent, increased revenues by $32 million. The increase reflected higher Edmonton Condensate and WTI benchmark prices which were up 15 percent and 21 percent, respectively, as well as improved regional pricing; and
- Higher average NGL production volumes of 18.7 Mbbls/d increased revenues by $65 million. Higher volumes were primarily due to successful drilling programs in Montney and Permian (21.0 Mbbls/d), partially offset by asset sales (1.6 Mbbls/d), which mainly include the Piceance natural gas assets in the third quarter of 2017.

Natural Gas Revenues

Three months ended March 31, 2018 versus March 31, 2017

Natural gas revenues decreased $63 million compared to the first quarter of 2017 primarily due to:

- Lower average realized natural gas prices of $0.24 per Mcf, or nine percent, decreased revenues by $5 million. The decrease reflected lower NYMEX and AECO benchmark prices which were down 10 percent and 37 percent, respectively, partially offset by relatively higher other downstream benchmark prices in 2018 resulting from the diversification of the Company’s markets; and
- Lower average natural gas production volumes of 166 MMcf/d decreased revenues by $58 million. Lower volumes were primarily due to asset sales (305 MMcf/d), which mainly include the Piceance natural gas assets in the third quarter of 2017 and certain assets in Wheatland in the fourth quarter of 2017, and lower activity in Other Upstream Operations (74 MMcf/d), partially offset by successful drilling in Montney and Permian (199 MMcf/d).

Gains (Losses) on Risk Management, Net

As a means of managing commodity price volatility, Encana enters into commodity derivative financial instruments on a portion of its expected oil, NGLs and natural gas production volumes. The Company’s commodity price mitigation program reduces volatility and helps sustain revenues during periods of lower prices. Further information on the Company’s commodity price positions as at March 31, 2018 can be found in Note 19 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The following table provides the effects of Encana’s risk management activities on revenues.

	$ millions		Per-Unit	
Three months ended March 31,	**2018**	2017	**2018**	2017
Realized Gains (Losses) on Risk Management				
Commodity Price				
Oil ($/bbl)	**$ (56)**	$ -	**$ (7.55)**	$ 0.05
NGLs ($/bbl) [(1)]	**(21)**	(1)	**$ (3.77)**	$ (0.42)
Natural Gas ($/Mcf)	**44**	(25)	**$ 0.46**	$ (0.22)
Other [(2)]	**1**	2	**$ -**	$ -
Total ($/BOE)	**(32)**	(24)	**$ (1.13)**	$ (0.91)
Unrealized Gains (Losses) on Risk Management	**68**	362		
Total Gains (Losses) on Risk Management, Net	**$ 36**	$ 338		

(1) Includes plant condensate.
(2) Other includes realized gains or losses from other derivative contracts with no associated production volumes.

Encana 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 Canadian Operations, USA 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 revenues relate to activities that provide operational flexibility and cost mitigation for transportation commitments, product type, delivery points and customer diversification.

	Three months ended March 31,	
($ millions)	**2018**	2017
Market Optimization	**$ 301**	$ 186

Three months ended March 31, 2018 versus March 31, 2017

Market Optimization revenues increased $115 million compared to the first quarter of 2017 primarily due to:

- Higher sales of third-party purchased volumes, primarily related to natural gas, used for optimization activities and long-term marketing arrangements associated with the Company’s previous divestitures ($168 million), partially offset by lower natural gas commodity prices ($53 million).

Sublease Revenues

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

Operating Expenses

Production, Mineral and Other Taxes

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

	$ millions		$/BOE	
Three months ended March 31,	**2018**	2017	**2018**	2017
Canadian Operations	**$ 4**	$ 5	**$ 0.23**	$ 0.30
USA Operations	**25**	24	**$ 2.12**	$ 1.84
Total	**$ 29**	$ 29	**$ 0.99**	$ 1.01

Three months ended March 31, 2018 versus March 31, 2017

Production, mineral and other taxes were flat compared to the first quarter of 2017 primarily due to:

- Higher oil prices and production volumes in Permian ($7 million);

partially offset by:

- Asset sales ($6 million), which mainly include the Piceance natural gas assets in the third quarter of 2017 and certain assets in Wheatland in the fourth quarter of 2017.

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. Encana 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		$/BOE	
Three months ended March 31,	**2018**	2017	**2018**	2017
Canadian Operations	**$ 190**	$ 132	**$ 10.87**	$ 8.56
USA Operations	**27**	59	**$ 2.26**	$ 4.44
Upstream Transportation and Processing	**217**	191	**$ 7.42**	$ 6.67
Market Optimization	**32**	21		
Corporate and Other	**-**	-		
Total	**$ 249**	$ 212		

Three months ended March 31, 2018 versus March 31, 2017

Transportation and processing expense increased $37 million compared to the first quarter of 2017 primarily due to:

- Higher downstream processing and transportation costs mainly in Montney and Duvernay due to Encana's focus on liquids rich wells in the plays and costs relating to the diversification of the Company's downstream markets ($39 million), higher volumes and gathering and processing fees in Montney ($28 million), higher volumes in Permian ($6 million) and the higher U.S./Canadian dollar exchange rate ($6 million);

partially offset by:

- Asset sales ($30 million), which mainly include the Piceance natural gas assets in the third quarter of 2017 and lower activity in Other Upstream Operations ($10 million).

Operating

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

Three months ended March 31,	$ millions 2018	$ millions 2017	$/BOE 2018	$/BOE 2017
Canadian Operations	**$ 29**	$ 31	**$ 1.59**	$ 1.91
USA Operations	**74**	87	**$ 6.28**	$ 6.43
Upstream Operating Expense (1)	**103**	118	**$ 3.47**	$ 3.99
Market Optimization	**4**	9		
Corporate and Other	**4**	5		
Total	**$ 111**	$ 132		

(1) Upstream Operating Expense per BOE for the first quarter of 2018 includes a recovery of long-term incentive costs of $0.13/BOE (2017 - long-term incentive costs of $0.17/BOE).

Three months ended March 31, 2018 versus March 31, 2017

Operating expense decreased $21 million compared to the first quarter of 2017 primarily due to:

- Asset sales ($24 million), which mainly include the Piceance natural gas assets in the third quarter of 2017 and certain assets in Wheatland in the fourth quarter of 2017, and a recovery of long-term incentive costs resulting from the decrease in Encana's share price in the first quarter of 2018 ($14 million). Further information on Encana's long-term incentives can be found in Note 16 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

partially offset by:

- Higher activity in Permian and Montney ($12 million).

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.

($ millions)	Three months ended March 31, 2018	Three months ended March 31, 2017
Market Optimization	**$ 273**	$ 171

Three months ended March 31, 2018 versus March 31, 2017

Purchased product expense increased $102 million compared to the first quarter of 2017 primarily due to:

- Higher third-party volumes purchased, primarily related to natural gas, for optimization activities and long-term marketing arrangements associated with the Company's previous divestitures ($163 million), partially offset by lower natural gas commodity prices ($61 million).

Depreciation, Depletion & Amortization

Proved properties within each country cost centre are depleted using the unit-of-production method based on proved reserves as discussed in Note 1 to the Consolidated Financial Statements included in Item 8 of the 2017 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. Additional information can be found in the Critical Accounting Estimates section of the MD&A included in Item 7 of the 2017 Annual Report on Form 10-K. Corporate assets are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets.

	$ millions		$/BOE	
Three months ended March 31,	**2018**	2017	**2018**	2017
Canadian Operations	**$ 77**	$ 64	**$ 4.39**	$ 4.11
USA Operations	**185**	106	**$ 15.84**	$ 8.09
Upstream DD&A	**262**	170	**$ 8.98**	$ 5.93
Corporate and Other	**13**	17		
Total	**$ 275**	$ 187		

Three months ended March 31, 2018 versus March 31, 2017

DD&A increased $88 million compared to the first quarter of 2017 primarily due to:

- Higher depletion rates primarily in the USA Operations ($91 million).

The depletion rate increased $3.05 per BOE compared to the first quarter of 2017 primarily due to:

- Lower reserve volumes from the sale of the Piceance natural gas assets in the third quarter of 2017.

Administrative

Administrative expense represents costs associated with corporate functions provided by Encana staff in the Calgary and Denver offices. Costs primarily include salaries and benefits, general office, information technology and long-term incentive costs.

	Three months ended March 31,	
	2018	2017
Administrative ($ millions)	**$ 31**	$ 58
Administrative ($/BOE) (1)	**$ 1.08**	$ 2.04

(1) Administrative expense per BOE for the first quarter of 2018 includes a recovery of long-term incentive costs of $0.41/BOE (2017 - long-term incentive costs of $0.54/BOE).

Three months ended March 31, 2018 versus March 31, 2017

Administrative expense in the first quarter of 2018 decreased $27 million compared to the first quarter of 2017 primarily due to a recovery of long-term incentive costs resulting from the decrease in Encana's share price ($27 million).

Other (Income) Expenses

($ millions)	Three months ended March 31, 2018	2017
Interest	**$ 92**	$ 88
Foreign exchange (gain) loss, net	**91**	(26)
(Gain) loss on divestitures, net	**(3)**	1
Other (gains) losses, net	**(3)**	(8)
Total Other (Income) Expenses	**$ 177**	$ 55

Foreign Exchange (Gain) Loss, Net

Foreign exchange gains and losses result from the impact of fluctuations in the Canadian to U.S. dollar exchange rate. Further details on changes in foreign exchange gains or losses can be found in Note 6 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. Additional information on foreign exchange rates and the effects of foreign exchange rate changes can be found in Item 3 of this Quarterly Report on Form 10-Q.

In the first quarter of 2018, Encana recorded a net foreign exchange loss compared to a net gain in 2017 ($117 million). The change was primarily due to unrealized foreign exchange losses on the translation of U.S. dollar financing debt issued from Canada compared to gains in 2017 ($155 million) and higher unrealized foreign exchange losses on the translation of intercompany notes ($18 million), partially offset by foreign exchange gains on the settlement of intercompany notes compared to losses in 2017 ($52 million).

Income Tax

($ millions)	Three months ended March 31, 2018	2017
Current Income Tax Expense (Recovery)	**$ 3**	$ (39)
Deferred Income Tax Expense (Recovery)	**6**	42
Income Tax Expense (Recovery)	**$ 9**	$ 3
Effective Tax Rate	**5.6%**	0.7%

Income Tax Expense

Three months ended March 31, 2018 versus March 31, 2017

Current income tax in the first quarter of 2018 was an expense of $3 million compared to a recovery of $39 million in 2017. The current income tax recovery in 2017 resulted from the successful resolution of certain tax items previously assessed by the taxing authorities relating to prior taxation years.

Deferred income tax in the first quarter of 2018 was $36 million lower than 2017 primarily due to:

- Lower net earnings before income tax in 2018 compared to 2017; and
- A reduction in the U.S. federal corporate tax rate to 21 percent from 35 percent resulting from U.S. Tax Reform as enacted on December 22, 2017. Additional information on U.S. Tax Reform can be found in Note 6 to the Consolidated Financial Statements included in Item 8 of the 2017 Annual Report on Form 10-K.

There has been no change in the first quarter of 2018 to the provisional tax adjustment recognized in December 2017 resulting from the re-measurement of the Company's tax position due to a reduction of the U.S. federal corporate tax rate under U.S. Tax Reform.

Effective Tax Rate

Encana's interim income tax expense is determined using the estimated annual effective income tax rate applied to year-to-date net earnings before income tax plus the effect of legislative changes and amounts in respect of prior periods. The estimated annual effective income tax rate is impacted by expected annual earnings, income tax related to foreign operations, the effect of legislative changes including U.S. Tax Reform, non-taxable capital gains and losses, tax differences on divestitures and transactions, and partnership tax allocations in excess of funding. The Company's effective tax rate was 5.6 percent for the first quarter of 2018, which is 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 as well as the items discussed above.

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 a result, there are tax matters under review for which the timing of resolution is uncertain. The Company believes that the provision for income taxes is adequate.

Liquidity and Capital Resources

Sources of Liquidity

The Company has the flexibility to access cash equivalents and a range of funding alternatives at competitive rates through committed revolving bank credit facilities as well as debt and equity capital markets. Encana 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 and share issuances to fund its operations or to manage its capital structure as discussed below. At March 31, 2018, $303 million in cash and cash equivalents was held by U.S. subsidiaries. The cash held by U.S. subsidiaries is accessible and may be subject to additional Canadian income taxes and U.S. withholding taxes if repatriated.

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 Encana's access to capital markets and its ability to meet financial obligations and finance internally generated growth, as well as potential acquisitions. Encana 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 through a NCIB, issuing new debt or repaying existing debt.

	As at March 31,	
($ millions, except as indicated)	**2018**	2017
Cash and Cash Equivalents	**$ 433**	$ 523
Available Credit Facility – Encana (1)	**2,500**	3,000
Available Credit Facility – U.S. Subsidiary (1)	**1,500**	1,500
Total Liquidity	**4,433**	5,023
Long-Term Debt	**4,198**	4,198
Total Shareholders' Equity	**6,776**	6,525
Debt to Capitalization (%) (2)	**38**	39
Debt to Adjusted Capitalization (%) (3)	**22**	23

(1) Collectively, the "Credit Facilities".
(2) Calculated as long-term debt, including the current portion, divided by shareholders' equity plus long-term debt, including the current portion.
(3) A non-GAAP measure which is defined in the Non-GAAP Measures section of this MD&A.

In the first quarter of 2018, the Company amended the capacity of its Encana Credit Facility from $3.0 billion to $2.5 billion and extended the maturity for both Credit Facilities to July 2022.

Encana 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 Encana's financial covenant under the Credit Facilities, which requires debt to adjusted capitalization to be less than 60 percent. The definitions used in the covenant under the Credit Facilities adjust capitalization for cumulative historical ceiling test impairments that were recorded as at December 31, 2011 in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP. Additional information on financial covenants can be found in Note 12 to the Consolidated Financial Statements included in Item 8 of the 2017 Annual Report on Form 10-K.

Sources and Uses of Cash

In the first quarter of 2018, Encana primarily generated cash through operating activities. The following table summarizes the sources and uses of the Company's cash and cash equivalents.

($ millions)	Activity Type	Three months ended March 31, 2018	2017
Sources of Cash and Cash Equivalents			
Cash from operating activities	Operating	**$ 381**	$ 106
Proceeds from divestitures	Investing	**19**	3
Other	Investing	**-**	55
		400	164
Uses of Cash and Cash Equivalents			
Capital expenditures	Investing	**508**	399
Acquisitions	Investing	**2**	46
Purchase of common shares	Financing	**111**	-
Dividends on common shares	Financing	**15**	15
Other	Investing/Financing	**47**	16
		683	476
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		**(3)**	1
Increase (Decrease) in Cash and Cash Equivalents		**$ (286)**	$ (311)

Operating Activities

Cash from operating activities in the first quarter of 2018 was $381 million and was primarily a reflection of recovering commodity prices, the Company's efforts in maintaining cost efficiencies achieved in previous years, changes in production volumes and changes in non-cash working capital. Additional detail on changes in non-cash working capital can be found in Note 20 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. Encana expects it will continue to meet the payment terms of its suppliers.

Non-GAAP Cash Flow in the first quarter of 2018 was $400 million and was primarily impacted by the items affecting cash from operating activities which are discussed below and in the Results of Operations section of this MD&A.

Three months ended March 31, 2018 versus March 31, 2017

Net cash from operating activities in the first quarter of 2018 increased $275 million compared to the first quarter of 2017 primarily due to:

- Changes in non-cash working capital ($152 million), higher realized commodity prices ($129 million) and higher production volumes ($79 million).

partially offset by:

- A current tax expense in the first quarter of 2018 compared to a recovery in 2017 ($42 million), and higher transportation and processing expense ($37 million).

Investing Activities

Cash used in investing activities in the first quarter of 2018 was $516 million primarily due to capital expenditures. Capital expenditures totaled $508 million, which increased $109 million compared to the first quarter of 2017 due to an increase in Encana's capital program for 2018. This increase was primarily in Montney ($94 million) and Permian ($41 million). Capital expenditures exceeded cash from operating activities by $127 million and the difference was funded using cash on hand.

Divestitures in the first quarter of 2018 and 2017 were $19 million and $3 million, respectively, which primarily included the sale of certain properties that did not complement Encana's existing portfolio of assets.

Acquisitions in the first quarter of 2018 and 2017 were $2 million and $46 million, respectively, which primarily included land purchases with oil and liquids rich potential.

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

On April 2, 2018, Encana announced an agreement with Keyera Partnership, a subsidiary of Keyera Corp., to sell the Company's Pipestone liquids hub in Alberta. In conjunction with the sale, Keyera will own and construct a natural gas processing facility and provide Encana with processing services under a competitive fee-for-service arrangement in support of the Company's liquids growth plans in Montney. The effective date of the agreement is March 1, 2018.

Financing Activities

Net cash used in financing activities in the first quarter of 2018 increased $117 million compared to the first quarter of 2017. The change was primarily due to the purchase of common shares under a NCIB in the first quarter of 2018 ($111 million) as discussed below.

Encana's long-term debt totaled $4,198 million at March 31, 2018 and $4,197 million at December 31, 2017. There was no current portion outstanding at March 31, 2018 or December 31, 2017. Encana has no long-term debt maturities until May 2019 and, as at March 31, 2018, over 73 percent of the Company's debt is not due until 2030 and beyond.

The Company continues to have full access to the Credit Facilities, which remain committed through July 2022. The Credit Facilities provide financial flexibility and allow the Company to fund its operations, development activities or capital program. At March 31, 2018, Encana had no outstanding balance under the Credit Facilities.

Dividends

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

	Three months ended March 31,	
($ millions, except as indicated)	**2018**	2017
Dividend Payments	**$ 15**	$ 15
Dividend Payments ($/share)	**$ 0.015**	$ 0.015

On April 30, 2018, the Board of Directors declared a dividend of $0.015 per common share payable on June 29, 2018 to common shareholders of record as of June 15, 2018.

Normal Course Issuer Bid

On February 26, 2018, Encana received approval from the TSX to commence a NCIB that enables the Company to purchase, for cancellation, up to 35 million common shares over a 12-month period from February 28, 2018 to February 27, 2019. The number of shares authorized for purchase represents approximately 3.6 percent of Encana's issued and outstanding common shares as at February 20, 2018. The Company has authorization from its Board to spend up to $400 million on the NCIB. In the first quarter of 2018, the Company purchased 10 million common shares for total consideration of approximately $111 million. The Company plans to fund the NCIB with cash on hand.

For additional information on NCIB, refer to Note 13 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

For information on off-balance sheet arrangements and transactions, refer to the Off-Balance Sheet Arrangements section of the MD&A included in Item 7 of the 2017 Annual Report on Form 10-K.

Commitments and Contingencies

For information on commitments and contingencies, refer to Note 21 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Non-GAAP Measures

Certain measures in this document do not have any standardized meaning as prescribed by U.S. GAAP and, therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers and should not be viewed as a substitute for measures reported under U.S. GAAP. These measures are commonly used in the oil and gas industry and by Encana 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, Debt to Adjusted Capitalization and Net Debt to Adjusted EBITDA. Management's use of these measures is discussed further below.

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

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

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

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

	Three months ended March 31,	
($ millions, except as indicated)	**2018**	2017
Cash From (Used in) Operating Activities	**$ 381**	$ 106
(Add back) deduct:		
Net change in other assets and liabilities	**(11)**	(12)
Net change in non-cash working capital	**(8)**	(160)
Current tax on sale of assets	**-**	-
Non-GAAP Cash Flow	**$ 400**	$ 278
Production Volumes (MMBOE)	**29.2**	28.6
Non-GAAP Cash Flow Margin ($/BOE) (1)	**$ 13.70**	$ 9.72

(1) Non-GAAP Cash Flow Margin was previously presented as Corporate Margin.

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

($ millions, except as indicated)	**March 31, 2018**	December 31, 2017
Debt	**$ 4,198**	$ 4,197
Total Shareholders' Equity	**6,776**	6,728
Equity Adjustment for Impairments at December 31, 2011	**7,746**	7,746
Adjusted Capitalization	**$ 18,720**	$ 18,671
Debt to Adjusted Capitalization	**22%**	22%

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, the Company's ability to service its debt and other financial obligations, and as a measure considered comparable to other companies in the industry. This measure is used, along with other measures, in the calculation of certain financial performance targets for the Company's management and employees.

($ millions, except as indicated)	**March 31, 2018**	December 31, 2017
Long-Term Debt, including current portion	**$ 4,198**	$ 4,197
Less:		
Cash and cash equivalents	**433**	719
Net Debt	**3,765**	3,478
Net Earnings (Loss)	**547**	827
Add back (deduct):		
Depreciation, depletion and amortization	**921**	833
Impairments	**-**	-
Accretion of asset retirement obligation	**34**	37
Interest	**367**	363
Unrealized (gains) losses on risk management	**(148)**	(442)
Foreign exchange (gain) loss, net	**(162)**	(279)
(Gain) loss on divestitures, net	**(408)**	(404)
Other (gains) losses, net	**(37)**	(42)
Income tax expense (recovery)	**609**	603
Adjusted EBITDA	**$ 1,723**	$ 1,496
Net Debt to Adjusted EBITDA (times)	**2.2**	2.3

Item 3: Quantitative and Qualitative Disclosures About Market Risk

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

COMMODITY PRICE RISK

Commodity price risk arises from the effect fluctuations in future commodity prices, including oil, NGLs and natural gas, may have on future revenues, expenses and cash flows. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot market prices applicable to the Company's natural gas production. Pricing for oil and natural gas production has been volatile and unpredictable as discussed in Item 1A. "Risk Factors" of the 2017 Annual Report on Form 10-K. To partially mitigate exposure to commodity price risk, the Company may enter into various derivative financial instruments including futures, forwards, swaps, options and costless collars. The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors and may vary from time to time. Both exchange traded and over-the-counter traded derivative instruments may be subject to margin-deposit requirements, and the Company may be required from time to time to deposit cash or provide letters of credit with exchange brokers or counterparties to satisfy these margin requirements. For additional information relating to the Company's derivative and financial instruments, see Note 19 under Part I, Item 1 of this Quarterly Report on Form 10-Q.

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

	March 31, 2018			
(US$ millions)		10% Price Increase		10% Price Decrease
Crude oil price	$	(303)	$	293
Natural gas price		24		(31)

FOREIGN EXCHANGE RISK

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As Encana operates in Canada and the United States, fluctuations in the exchange rate between the U.S. and Canadian dollars can have a significant effect on the Company's reported results. Although Encana's financial results are consolidated in Canadian dollars, the Company reports its results in U.S. dollars as most of its revenues are closely tied to the U.S. dollar and to facilitate a more direct comparison to other North American oil and gas companies.

The table below summarizes selected foreign exchange impacts on Encana's financial results in the first quarter of 2018 compared to the same period in 2017.

		$ millions		$/BOE
Increase (Decrease) in:				
Capital Investment	$	4		
Transportation and Processing Expense (1)		6	$	0.21
Operating Expense (1)		1		0.05
Administrative Expense		2		0.06
Depreciation, Depletion and Amortization (1)		3		0.10

(1) Reflects upstream operations.

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

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

To partially mitigate the effect of foreign exchange fluctuations on future commodity revenues and expenses, the Company may enter into foreign currency derivative contracts. As at March 31, 2018, Encana has entered into $538 million notional U.S. dollar denominated currency swaps at an average exchange rate of US$0.7606 to C$1, which mature monthly through the remainder of 2018.

As at March 31, 2018, Encana had $4.2 billion in U.S. dollar long-term debt and $296 million in U.S. dollar capital leases issued from Canada that were subject to foreign exchange exposure.

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

	March 31, 2018	
(US$ millions)	10% Rate Increase	10% Rate Decrease
Foreign currency exchange	$ (394)	$ 482

INTEREST RATE RISK

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

As at March 31, 2018, the Company had no floating rate debt and there were no interest rate derivatives outstanding.

Item 4: Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

Encana's Chief Executive Officer and Chief Financial Officer performed an evaluation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2018.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in Encana's internal control over financial reporting during the first quarter of 2018 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.