



Encana Corporation

Non-GAAP Definitions and Reconciliations
(unaudited)

For the period ended June 30, 2018

(U.S. Dollars)

For the period ended June 30, 2018

(US\$ millions, except per share amounts or as indicated)

Non-GAAP Cash Flow, Non-GAAP Cash Flow Per Share (CFPS), Free Cash Flow and Non-GAAP Cash Flow Margin – Non-GAAP Cash Flow is 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 CFPS is Non-GAAP Cash Flow divided by the weighted average number of common shares outstanding. Free Cash Flow is defined as Non-GAAP Cash Flow in excess of capital expenditures, excluding net acquisitions and divestitures. Non-GAAP Cash Flow Margin is 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.

Non-GAAP Cash Flow	Q2 2018	YTD 2018
Cash from (used in) operating activities	\$ 475	\$ 856
Deduct (add back):		
Net change in other assets and liabilities	(5)	(16)
Net change in non-cash working capital	(106)	(114)
Current tax on sale of assets	-	-
Non-GAAP Cash Flow	\$ 586	\$ 986
Per share diluted	\$ 0.61	\$ 1.02
Free Cash Flow		
Non-GAAP Cash Flow	\$ 586	\$ 986
Less:		
Capital expenditures	595	1,103
Free Cash Flow	\$ (9)	\$ (117)
Non-GAAP Cash Flow Margin ⁽¹⁾		
Non-GAAP Cash Flow	\$ 586	\$ 986
Divided by:		
Production volumes (MMBOE)	30.7	59.9
Non-GAAP Cash Flow Margin (\$/BOE)	\$ 19.09	\$ 16.46

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

Non-GAAP Operating Earnings (Loss) – is defined as Net Earnings (Loss) excluding non-recurring or non-cash items that management believes reduces the comparability of the company's financial performance between periods. These items may include, but are not limited to, unrealized gains/losses on risk management, impairments, restructuring charges, non-operating foreign exchange gains/losses, gains/losses on divestitures and gains on debt retirement. Income taxes may include valuation allowances and the provision related to the pre-tax items listed, as well as income taxes related to divestitures and U.S. tax reform, and adjustments to normalize the effect of income taxes calculated using the estimated annual effective income tax rate.

Non-GAAP Operating Earnings (Loss)	Q2 2018	YTD 2018
Net earnings (loss)	\$ (151)	\$ -
Before-tax (addition) deduction:		
Unrealized gain (loss) on risk management	(326)	(258)
Non-operating foreign exchange gain (loss)	(32)	(132)
Gain (loss) on divestitures	1	4
	(357)	(386)
Income tax	8	32
After-tax (Addition) Deduction	(349)	(354)
Non-GAAP Operating Earnings (Loss)	\$ 198	\$ 354
Per share diluted	\$ 0.21	\$ 0.37

Debt to Capitalization – Debt is defined as long-term debt, including the current portion. Capitalization includes debt and total shareholders' equity. Debt to Capitalization is a non-GAAP measure monitored by management as an indicator of the company's overall financial strength.

Debt to Capitalization	YTD 2018
Long-term debt, including current portion	\$ 4,198
Total shareholders' equity	6,497
Capitalization	\$ 10,695
Debt to Capitalization	39%

Debt to Adjusted Capitalization – Debt to Adjusted Capitalization is a proxy for Encana's financial covenant under the Company's 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.

Debt to Adjusted Capitalization	YTD 2018
Long-term debt, including current portion	\$ 4,198
Total shareholders' equity	6,497
Equity adjustment for impairments at December 31, 2011	7,746
Adjusted Capitalization	\$ 18,441
Debt to Adjusted Capitalization	23%

Net Debt, Adjusted EBITDA and Net Debt to Adjusted EBITDA – Net Debt is defined as long-term debt, including the current portion, less cash and cash equivalents. 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. Net Debt to Adjusted EBITDA is a non-GAAP measure monitored by management as an indicator of the company's overall financial strength and as a measure considered comparable to peers in the industry.

Net Debt	YTD 2018
Long-term debt, including current portion	\$ 4,198
Less:	
Cash and cash equivalents	336
Net Debt	\$ 3,862

	YTD 2018
Net Debt	\$ 3,862
Net Earnings (Loss)	65
Add back (deduct):	
Depreciation, depletion and amortization	1,028
Impairments	-
Accretion of asset retirement obligation	32
Interest	369
Unrealized (gains) losses on risk management	288
Foreign exchange (gain) loss, net	(79)
(Gain) loss on divestitures, net	(409)
Other (gains) losses, net	(10)
Income tax expense (recovery)	543
Adjusted EBITDA (trailing 12-month)	\$ 1,827
Net Debt to Adjusted EBITDA (times)	2.1

Return on Capital Employed (ROCE) – ROCE is defined as Adjusted Operating Earnings divided by Capital Employed. Adjusted Operating Earnings is defined as trailing 12-month Non-GAAP Operating Earnings (Loss) plus after-tax interest expense. Capital Employed is defined as average debt plus average shareholders' equity.

Adjusted Non-GAAP Operating Earnings (Loss)	YTD 2018
Non-GAAP Operating Earnings (Loss)	\$ 492
Plus:	
Interest expense, after-tax @ 27%	269
Adjusted Non-GAAP Operating Earnings (trailing 12-month)	\$ 761

Capital Employed	YTD 2018
Average debt	\$ 4,198
Plus:	
Average shareholders' equity	6,640
Capital Employed	\$ 10,838

Return on Capital Employed (ROCE) 7.0%

Upstream Operating Cash Flow, excluding Risk Management – Upstream Operating Cash Flow, excluding Risk Management, is a measure that adjusts the Canadian and USA Operations revenues for production, mineral and other taxes, transportation and processing expense, operating expense and the impacts of realized risk management activities. Management monitors Upstream Operating Cash Flow, excluding Risk Management, as it reflects operating performance and measures the amount of cash generated from the company's upstream operations.

Upstream Operating Cash Flow, excluding Risk Management	Q2 2018	YTD 2018
Upstream Operating Cash Flow		
Canadian Operations	\$ 206	\$ 399
USA Operations	404	789
	\$ 610	\$ 1,188
(Add back) deduct:		
Realized Gain (Loss) on Risk Management		
Canadian Operations	\$ 73	\$ 85
USA Operations	(57)	(101)
	\$ 16	\$ (16)
Upstream Operating Cash Flow, excluding Risk Management		
Canadian Operations	\$ 133	\$ 314
USA Operations	461	890
	\$ 594	\$ 1,204

Cash Costs – are defined as the summation of production, mineral and other taxes, transportation and processing expense, operating expense, administrative expense and interest expense.

Cash Costs	Q2 2018	YTD 2018
Production, mineral and other taxes	\$ 35	\$ 64
Transportation and processing	272	521
Operating*	137	248
Administrative*	99	130
Interest	81	173
	\$ 624	\$ 1,136

* Includes long-term incentive costs

Corporate Costs – are defined as the summation of administrative expense and interest expense.

Corporate Costs	Q2 2018	YTD 2018
Administrative*	\$ 99	\$ 130
Interest	81	173
	<u>\$ 180</u>	<u>\$ 303</u>

* Includes long-term incentive costs

Normalized Interest – Interest expense on long-term debt, excluding one-time charges associated with the early retirement of long-term debt. Management believes Normalized Interest is a useful indicator of ongoing interest costs associated with long-term debt that is more comparable between periods as it eliminates certain one-time costs.

Normalized Administrative Expense – Administrative expense excluding long-term incentive and restructuring costs. Management believes Normalized Administrative Expense is a useful indicator of ongoing controllable base administrative costs that are more comparable between periods and against other companies in the industry as it eliminates certain one-time and non-cash impacts.

After-Tax Rate of Return (ATROR) – The discount rate at which the net present value of the after-tax cash flows is equal to zero. Encana uses nine percent as the discount rate for its standard investment decisions, which is intended to represent the company's long term cost of capital. For project evaluation, cost of capital includes land, drilling and completion costs (D&C), seismic, facilities and gathering. D&C costs include all capital outlay for activities related to drilling and completing the well in addition to permanent production equipment such as site compressors, separation equipment and liquid storage tanks.

Corporate Return – For project evaluation, Corporate Return is defined as the project's ATROR after incorporating a burden rate per BOE to cover corporate overhead costs, such as administrative and interest expenses. Corporate Return is used by management as an internal measure of the profitability of a play.

Operating Margin/Operating Cash Flow/Operating Netback – Product revenues less costs associated with delivering the product to market, including production, mineral and other taxes, transportation and processing and operating expenses. When presented on a per BOE basis, Operating Netback is defined as indicated divided by average barrels of oil equivalent sales volumes. Operating Margin/Operating Cash Flow/Operating Netback is used by management as an internal measure of the profitability of a play.

Free Operating Cash Flow – Operating Cash Flow in excess of capital investment, excluding net acquisitions and divestitures.

Income Margin – Operating Margin less finding and development costs, non-well capital costs and allocated overhead costs, such as administrative and interest expenses. When presented on a per BOE basis, Income Margin is defined as indicated divided by average barrels of oil equivalent production volumes. Income Margin is used by management as an internal measure of the profitability of a play.

Development Capital – Includes drilling, completion and facility costs, but excludes land and lease, seismic, appraisal and capitalized internal costs. Capitalized internal costs include salaries, benefits and other costs directly identifiable with acquisition, exploration and development activities.

Non-well Capital – All capital, excluding drilling, completions, equipment and tie-in capital.

Debt to Debt Adjusted Cash Flow (D/DACF) – A measure monitored by management as an indicator of the company's overall financial strength. DACF is defined as Non-GAAP Cash Flow on a trailing 12-month basis excluding interest expense before tax.

Netback Calculation

Netback is a common metric used in the oil and gas industry to measure operating performance on a per-unit basis and is considered a non-GAAP measure. The netbacks disclosed below do not meet the requirements outlined in National Instrument 51-101 and have been calculated on a BOE basis using upstream product revenues, excluding the impact of realized gains and losses on risk management, less costs associated with delivering the product to market, including production, mineral and other taxes, transportation and processing expense and operating expense.

Selected Financial Data ⁽¹⁾

(US\$ millions)	2018			2017				
	Year-to-date	Q2	Q1	Year	Q4	Q3	Q2	Q1
Canadian Operations								
Upstream Product Revenue ^(2,3)	765	374	391	1,150	363	226	264	297
Production, mineral and other taxes	8	4	4	20	4	6	5	5
Transportation and processing	397	207	190	578	175	138	133	132
Operating ⁽⁴⁾	63	35	28	119	33	35	21	30
	297	128	169	433	151	47	105	130
USA Operations								
Upstream Product Revenue ^(2,3)	1,162	607	555	1,849	524	420	464	441
Production, mineral and other taxes	56	31	25	92	28	21	19	24
Transportation and processing	58	31	27	164	23	31	51	59
Operating ⁽⁴⁾	158	84	74	325	78	81	82	84
	890	461	429	1,268	395	287	312	274
Total Operations								
Upstream Product Revenue ^(2,3)	1,927	981	946	2,999	887	646	728	738
Production, mineral and other taxes	64	35	29	112	32	27	24	29
Transportation and processing	455	238	217	742	198	169	184	191
Operating ⁽⁴⁾	221	119	102	444	111	116	103	114
	1,187	589	598	1,701	546	334	417	404

⁽¹⁾ Segmented financial information per the notes to Encana's financial statements.

⁽²⁾ Excludes the impact of realized gains and losses on risk management.

⁽³⁾ Excludes service revenues and royalty adjustments with no associated production volumes.

⁽⁴⁾ Excludes other operating expenses with no associated production volumes.

Sales Volumes ⁽¹⁾

(BOE)	2018			2017				
	Year-to-date	Q2	Q1	Year	Q4	Q3	Q2	Q1
Canadian Operations	35,797,999	18,301,738	17,496,180	61,765,665	18,190,608	13,850,324	14,258,699	15,466,320
USA Operations	24,173,455	12,464,452	11,709,000	52,599,785	12,647,700	12,287,704	14,543,893	13,120,290
Total	59,971,454	30,766,190	29,205,180	114,365,450	30,838,308	26,138,028	28,802,592	28,586,610

⁽¹⁾ Numbers may not add due to the calculation of volumes, which is based on sales volumes per day on a BOE basis times the number of days in the period.

Calculated Operating Netback, excluding the Impact of Realized Gains (Losses) on Risk Management ⁽¹⁾

(US\$/BOE)	2018			2017				
	Year-to-date	Q2	Q1	Year	Q4	Q3	Q2	Q1
Total - Canadian Operations								
Price	21.37	20.44	22.35	18.62	19.96	16.32	18.52	19.20
Production, mineral and other taxes	0.22	0.22	0.23	0.32	0.22	0.43	0.35	0.32
Transportation and processing	11.09	11.31	10.86	9.36	9.62	9.96	9.33	8.53
Operating	1.76	1.91	1.60	1.93	1.81	2.53	1.47	1.94
Netback	8.30	6.99	9.66	7.01	8.30	3.39	7.36	8.41
Total - USA Operations								
Price	48.07	48.70	47.40	35.15	41.43	34.18	31.90	33.61
Production, mineral and other taxes	2.32	2.49	2.14	1.75	2.21	1.71	1.31	1.83
Transportation and processing	2.40	2.49	2.31	3.12	1.82	2.52	3.51	4.50
Operating	6.54	6.74	6.32	6.18	6.17	6.59	5.64	6.40
Netback	36.82	36.99	36.64	24.11	31.23	23.36	21.45	20.88
Total Operations								
Price	32.13	31.89	32.39	26.22	28.76	24.71	25.28	25.82
Production, mineral and other taxes	1.07	1.14	0.99	0.98	1.04	1.03	0.83	1.01
Transportation and processing	7.59	7.74	7.43	6.49	6.42	6.47	6.39	6.68
Operating	3.69	3.87	3.49	3.88	3.60	4.44	3.58	3.99
Netback	19.79	19.14	20.48	14.87	17.71	12.78	14.48	14.13

⁽¹⁾ May not add due to rounding. Encana calculates reported netbacks using whole dollars and sales volumes. Accordingly, the calculations above may differ from the reported netbacks due to the effects of rounding both dollars and volumes.