



Encana Corporation

Non-GAAP Definitions and Reconciliations
(unaudited)

For the period ended December 31, 2018

(U.S. Dollars)

For the period ended December 31, 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	Q4 2018	YTD 2018
Cash from (used in) operating activities	\$ 559	\$ 2,300
Deduct (add back):		
Net change in other assets and liabilities	(27)	(60)
Net change in non-cash working capital	46	245
Current tax on sale of assets	-	-
Non-GAAP Cash Flow	\$ 540	\$ 2,115
Per share - basic and diluted	\$ 0.57	\$ 2.20
Free Cash Flow		
Non-GAAP Cash Flow	\$ 540	\$ 2,115
Deduct:		
Capital expenditures	349	1,975
Free Cash Flow	\$ 191	\$ 140
Net (acquisitions) and divestitures	404	476
Free Cash Flow (including A&D)	\$ 595	\$ 616
Non-GAAP Cash Flow Margin		
Non-GAAP Cash Flow	\$ 540	\$ 2,115
Divided by:		
Production volumes (MMBOE)	37.1	131.8
Non-GAAP Cash Flow Margin (\$/BOE)	\$ 14.56	\$ 16.05

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)	Q4 2018	YTD 2018
Net earnings (loss)	\$ 1,030	\$ 1,069
Before-tax (addition) deduction:		
Unrealized gain (loss) on risk management	941	519
Non-operating foreign exchange gain (loss)	(76)	(184)
Gain (loss) on divestitures	1	5
	866	340
Income tax	(141)	(93)
After-tax (Addition) Deduction	725	247
Non-GAAP Operating Earnings (Loss)	\$ 305	\$ 822
Per share - basic and diluted	\$ 0.32	\$ 0.86

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	7,447
Capitalization	\$ 11,645
Debt to Capitalization	36%

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	7,447
Equity adjustment for impairments at December 31, 2011	7,746
Adjusted Capitalization	\$ 19,391
Debt to Adjusted Capitalization	22%

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.

Net Debt	YTD 2018
Long-term debt, including current portion	\$ 4,198
Less:	
Cash and cash equivalents	1,058
Net Debt	\$ 3,140

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	YTD 2018
Net Debt				\$	3,140
Net Earnings (Loss)	\$ 151	\$ (151)	\$ 39	\$ 1,030	1,069
Add back (deduct):					
Depreciation, depletion and amortization	275	300	349	348	1,272
Impairments	-	-	-	-	-
Accretion of asset retirement obligation	8	8	8	8	32
Interest	92	81	92	86	351
Unrealized (gains) losses on risk management	(68)	326	164	(941)	(519)
Foreign exchange (gain) loss, net	91	25	(23)	75	168
(Gain) loss on divestitures, net	(3)	(1)	-	(1)	(5)
Other (gains) losses, net	(3)	-	5	15	17
Income tax expense (recovery)	9	(70)	6	149	94
Adjusted EBITDA	\$ 552	\$ 518	\$ 640	\$ 769	\$ 2,479
Net Debt to Adjusted EBITDA (times)					1.3

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)	\$	822
Plus:		
Interest expense, after-tax @ 27%		256
Adjusted Non-GAAP Operating Earnings (trailing 12-month)	\$	1,078
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Capital Employed	YTD 2018	
Average debt	\$	4,198
Plus:		
Average shareholders' equity		7,088
Capital Employed	\$	11,286
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Return on Capital Employed (ROCE)		9.6%

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, including/excluding Risk Management	Q4 2018		YTD 2018	
Upstream Operating Cash Flow, including Risk Management				
Canadian Operations	\$	248	\$	859
USA Operations		485		1,753
	\$	733	\$	2,612
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(Add back) deduct:				
Realized Gain (Loss) on Risk Management				
Canadian Operations	\$	7	\$	100
USA Operations		(14)		(199)
	\$	(7)	\$	(99)
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Upstream Operating Cash Flow, excluding Risk Management				
Canadian Operations	\$	241	\$	759
USA Operations		499		1,952
	\$	740	\$	2,711

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	Q4 2018		YTD 2018	
Production, mineral and other taxes	\$	38	\$	147
Transportation and processing		284		1,083
Operating*		82		454
Administrative*		(30)		157
Interest		86		351
	\$	460	\$	2,192

* Includes long-term incentive costs

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

Corporate Costs	Q4 2018	YTD 2018
Administrative*	\$ (30)	\$ 157
Interest	86	351
	<u>\$ 56</u>	<u>\$ 508</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	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Canadian Operations										
Upstream Product Revenue ^(2,3)	1,696	485	446	374	391	1,150	363	226	264	297
Production, mineral and other taxes	16	4	4	4	4	20	4	6	5	5
Transportation and processing	828	220	211	207	190	578	175	138	133	132
Operating ⁽⁴⁾	116	20	33	35	28	119	33	35	21	30
	736	241	198	128	169	433	151	47	105	130
USA Operations										
Upstream Product Revenue ^(2,3)	2,508	632	714	607	555	1,849	524	420	464	441
Production, mineral and other taxes	131	34	41	31	25	92	28	21	19	24
Transportation and processing	124	32	34	31	27	164	23	31	51	59
Operating ⁽⁴⁾	304	67	79	84	74	325	78	81	82	84
	1,949	499	560	461	429	1,268	395	287	312	274
Total Operations										
Upstream Product Revenue ^(2,3)	4,204	1,117	1,160	981	946	2,999	887	646	728	738
Production, mineral and other taxes	147	38	45	35	29	112	32	27	24	29
Transportation and processing	952	252	245	238	217	742	198	169	184	191
Operating ⁽⁴⁾	420	87	112	119	102	444	111	116	103	114
	2,685	740	758	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	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Canadian Operations	79,450,645	23,026,588	20,625,848	18,301,738	17,496,180	61,765,665	18,190,608	13,850,324	14,258,699	15,466,320
USA Operations	52,457,435	14,103,784	14,180,328	12,464,452	11,709,000	52,599,785	12,647,700	12,287,704	14,543,893	13,120,290
Total	131,908,080	37,130,372	34,806,176	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	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Total Canadian Operations										
Price	21.35	21.06	21.62	20.44	22.35	18.62	19.96	16.32	18.52	19.20
Production, mineral and other taxes	0.20	0.17	0.19	0.22	0.23	0.32	0.22	0.43	0.35	0.32
Transportation and processing	10.42	9.55	10.23	11.31	10.86	9.36	9.62	9.96	9.33	8.53
Operating	1.46	0.87	1.60	1.91	1.60	1.93	1.81	2.53	1.47	1.94
Netback	9.26	10.47	9.60	6.99	9.66	7.01	8.30	3.39	7.36	8.41
Total USA Operations										
Price	47.81	44.81	50.35	48.70	47.40	35.15	41.43	34.18	31.90	33.61
Production, mineral and other taxes	2.50	2.41	2.89	2.49	2.14	1.75	2.21	1.71	1.31	1.83
Transportation and processing	2.36	2.27	2.40	2.49	2.31	3.12	1.82	2.52	3.51	4.50
Operating	5.80	4.75	5.57	6.74	6.32	6.18	6.17	6.59	5.64	6.40
Netback	37.15	35.38	39.49	36.99	36.64	24.11	31.23	23.36	21.45	20.88
Total Operations										
Price	31.87	30.08	33.33	31.89	32.39	26.22	28.76	24.71	25.28	25.82
Production, mineral and other taxes	1.11	1.02	1.29	1.14	0.99	0.98	1.04	1.03	0.83	1.01
Transportation and processing	7.22	6.79	7.04	7.74	7.43	6.49	6.42	6.47	6.39	6.68
Operating	3.18	2.34	3.22	3.87	3.49	3.88	3.60	4.44	3.58	3.99
Netback	20.36	19.93	21.78	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.