



Encana Corporation

Non-GAAP Definitions and Reconciliations
(unaudited)

For the period ended December 31, 2016

(U.S. Dollars)

For the period ended December 31, 2016
(US\$ millions, except per share amounts or as indicated)

Non-GAAP Cash Flow, Non-GAAP Cash Flow Per Share (CFPS), Free Cash Flow and Corporate Margin – Non-GAAP Cash Flow is defined as cash from 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 investment, excluding net acquisitions and divestitures. Corporate 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 2016	YTD 2016
Cash from (used in) operating activities	199	625
Deduct (add back):		
Net change in other assets and liabilities	(11)	(26)
Net change in non-cash working capital	(92)	(187)
Current tax on sale of assets	-	-
Non-GAAP Cash Flow	302	838
Per share diluted	0.31	0.95
Free Cash Flow		
Non-GAAP Cash Flow	302	838
Less:		
Capital Investment	353	1,132
Free Cash Flow	(51)	(294)
Corporate Margin		
Non-GAAP Cash Flow	302	838
Divided by:		
Production Volumes (MMBOE)	29.58	129.09
Corporate Margin (\$/BOE)	10.21	6.49

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 adjustments to normalize the effect of income taxes calculated using the estimated annual effective income tax rate.

Non-GAAP Operating Earnings (Loss)	Q4 2016	YTD 2016
Net earnings (loss)	(281)	(944)
Before-tax (addition) deduction:		
Unrealized gain (loss) on risk management	(149)	(614)
Impairments	-	(1,396)
Restructuring charges	(1)	(34)
Non-operating foreign exchange gain (loss)	(104)	135
Gain (loss) on divestitures	(3)	390
Gain on debt retirement	-	89
	(257)	(1,430)
Income tax	(109)	410
After-tax (Addition) Deduction	(366)	(1,020)
Non-GAAP Operating Earnings (Loss)	85	76
Per share diluted	0.09	0.09

Net Debt – is defined as long-term debt, including the current portion, less cash and cash equivalents. Management uses this measure as a substitute for total long-term debt in certain internal debt metrics as a measure of the company’s ability to service debt obligations and as an indicator of the company’s overall financial strength.

Net Debt	Q4 2016	YTD 2016
Long-term debt, including current portion	4,198	4,198
Less:		
Cash and cash equivalents	834	834
Net Debt	3,364	3,364

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	Q4 2016	YTD 2016
Upstream Operating Cash Flow		
Canadian Operations	96	316
USA Operations	276	1,040
	372	1,356
(Add back) deduct:		
Realized Gain (Loss) on Risk Management		
Canadian Operations	(15)	107
USA Operations	19	255
	4	362
Upstream Operating Cash Flow, excluding Risk Management		
Canadian Operations	111	209
USA Operations	257	785
	368	994

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 2016	YTD 2016
Production, mineral and other taxes	26	99
Transportation and processing	186	901
Operating*	152	598
Administrative**	78	309
Interest	88	397
	530	2,304

* includes long-term incentive costs

** includes long-term incentive and restructuring costs

Normalized Interest – Normalized Interest is 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 – Normalized Administrative Expense is 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) – is defined as 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 – is defined as revenues, net of royalties, less production, mineral and other taxes, transportation and processing and operating expenses. When presented on a per BOE basis, Operating Margin is defined as indicated divided by average barrels of oil equivalent production volumes. Operating Margin is used by management as an internal measure of the profitability of a play.

Income Margin – is defined as 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 – is defined as all capital, excluding drilling, completions, equip and tie-in capital.

Normalized Interest – Normalized Interest is 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 – Normalized Administrative Expense is 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.

Debt to Debt Adjusted Cash Flow (D/DACF) – is a measure monitored by management as an indicator of the company's overall financial strength. DACF Flow is defined as 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. Netbacks are calculated on a BOE basis using product revenues 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)	2016					2015				
	Year	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Canadian Operations										
Product Revenue ⁽²⁾	952	288	244	196	224	1,309	278	274	284	473
Production, mineral and other taxes	23	6	5	6	6	28	6	6	8	8
Transportation and processing	576	136	136	155	149	654	158	151	170	175
Operating ⁽³⁾	149	36	37	37	39	150	43	33	38	36
	204	110	66	(2)	30	477	71	84	68	254
USA Operations										
Product Revenue ⁽²⁾	1,491	417	397	382	295	2,041	450	541	560	490
Production, mineral and other taxes	76	20	15	24	17	116	25	32	30	29
Transportation and processing	260	46	43	73	98	580	126	155	144	155
Operating ⁽³⁾	388	98	92	86	112	515	118	137	146	114
	767	253	247	199	68	830	181	217	240	192
Total Operations										
Product Revenue ⁽²⁾	2,443	705	641	578	519	3,350	728	815	844	963
Production, mineral and other taxes	99	26	20	30	23	144	31	38	38	37
Transportation and processing	836	182	179	228	247	1,234	284	306	314	330
Operating ⁽³⁾	537	134	129	123	151	665	161	170	184	150
	971	363	313	197	98	1,307	252	301	308	446

⁽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 other operating expenses with no associated production volumes.

Sales Volumes

(BOE)	2016					2015				
	Year	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Canadian Operations	68,866,560	15,886,560	16,576,652	17,485,832	18,917,353	69,453,295	18,316,004	15,932,008	15,764,021	19,441,440
USA Operations	60,204,804	13,688,220	14,515,576	16,028,285	15,972,957	78,721,375	19,109,780	20,714,076	19,609,408	19,287,990
Total	129,071,364	29,574,780	31,092,228	33,514,117	34,890,310	148,174,670	37,425,784	36,646,084	35,373,429	38,729,430

Calculated Operating Netback, excluding the Impact of Realized Gain (Loss) on Risk Management⁽¹⁾

(US\$/BOE)	2016					2015				
	Year	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Total - Canadian Operations										
Price	13.82	18.13	14.72	11.21	11.84	18.85	15.18	17.20	18.02	24.33
Production, mineral and other taxes	0.33	0.38	0.30	0.34	0.32	0.40	0.33	0.38	0.51	0.41
Transportation and processing	8.36	8.56	8.20	8.86	7.88	9.42	8.63	9.48	10.78	9.00
Operating	2.16	2.27	2.23	2.12	2.06	2.16	2.35	2.07	2.41	1.85
Netback	2.96	6.92	3.98	(0.11)	1.59	6.87	3.88	5.27	4.31	13.06
Total - USA Operations										
Price	24.77	30.46	27.35	23.83	18.47	25.93	23.55	26.12	28.56	25.40
Production, mineral and other taxes	1.26	1.46	1.03	1.50	1.06	1.47	1.31	1.54	1.53	1.50
Transportation and processing	4.32	3.36	2.96	4.55	6.14	7.37	6.59	7.48	7.34	8.04
Operating	6.44	7.16	6.34	5.37	7.01	6.54	6.17	6.61	7.45	5.91
Netback	12.74	18.48	17.02	12.42	4.26	10.54	9.47	10.48	12.24	9.95
Total Operations										
Price	18.93	23.84	20.62	17.25	14.88	22.61	19.45	22.24	23.86	24.86
Production, mineral and other taxes	0.77	0.88	0.64	0.90	0.66	0.97	0.83	1.04	1.07	0.96
Transportation and processing	6.48	6.15	5.76	6.80	7.08	8.33	7.59	8.35	8.88	8.52
Operating	4.16	4.53	4.15	3.67	4.33	4.49	4.30	4.64	5.20	3.87
Netback	7.52	12.27	10.07	5.88	2.81	8.82	6.73	8.21	8.71	11.52

⁽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.