

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 September 30, 2019 (“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, 2018, which are included in Items 8 and 7, respectively, of the 2018 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](#)
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- [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 combination of profitable growth and generating cash flows in excess of capital expenditures. The Company is pursuing the key business objectives of preserving balance sheet strength, maximizing profitability through operational and capital efficiencies, returning capital to shareholders through sustainable dividends, and driving cash flow through a disciplined capital allocation strategy by investing in a limited number of core assets with high margin liquids.

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 team. Encana rapidly deploys successful ideas and practices across its assets, becoming more efficient as innovative and sustainable improvements are implemented.

Encana continually reviews and evaluates its strategy and changing market conditions. In 2019, Encana is focusing on quality cash flow growth from high margin, scalable, top tier assets located in some of the best plays in North America, referred to as the “Core Assets”. As at September 30, 2019, these comprised Permian and Anadarko in the U.S., and Montney in Canada. These top tier assets form a multi-basin portfolio of oil, NGLs and natural gas producing plays enabling flexible and efficient investment of capital into high margin liquids plays that support sustainable cash flow generation. The Company’s other upstream assets, including Eagle Ford, Duvernay, Williston and Uinta continue to deliver operating cash flows for the Company.

For additional information on Encana’s strategy, its reporting segments and the plays in which the Company operates as at December 31, 2018, refer to Items 1 and 2 of the 2018 Annual Report on Form 10-K. On February 13, 2019, Encana completed the acquisition of Newfield; as such, the post-acquisition results of operations of Newfield are included in the Company’s interim consolidated results beginning February 14, 2019. For additional information on the business combination and segmented results, refer to Notes 8 and 3, respectively, to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. For additional information on the reserves volumes acquired with the Newfield acquisition, refer to Exhibit 99.4 in the Company’s Current Report on Form 8-K filed on February 28, 2019 regarding Supplemental Pro Forma Oil, Natural Gas Liquids and Natural Gas Reserves Information as of December 31, 2018.

In evaluating its operations and assessing its leverage, the Company reviews performance-based measures such as Non-GAAP Cash Flow, Non-GAAP Cash Flow Margin, Total Costs and debt-based metrics such as Debt to Adjusted Capitalization and Net Debt to Adjusted EBITDA, which are non-GAAP measures and do not have any standardized meaning under U.S. GAAP. These measures may not be similar to measures presented by other issuers and should not be viewed as a substitute for measures reported under U.S. GAAP. Additional information regarding these measures, including reconciliations to the closest GAAP measure, can be found in the Non-GAAP Measures section of this MD&A.

Highlights

During the first nine months of 2019, Encana focused on executing its 2019 capital plan, generating cash from operating activities and returning capital to shareholders through dividends and share buybacks. Since the completion of the Newfield acquisition in February, the Company has fully integrated the businesses and is on track to exceed the synergies previously announced from the strategic combination. Higher upstream product revenues in the first nine months of 2019 compared to 2018 resulted from higher production volumes, partially offset by lower average realized prices, excluding the impact of risk management activities. Total production volumes increased by 60 percent compared to 2018 primarily due to the Newfield acquisition and successful drilling programs. Decreases in average realized liquids and natural gas prices of 23 percent and nine percent, respectively, were primarily due to lower benchmark prices. Encana continues to focus on optimizing realized prices from the diversification of the Company's downstream markets.

Significant Developments

- Completed the acquisition of all issued and outstanding shares of common stock of Newfield whereby Encana issued approximately 543.4 million common shares on February 13, 2019. The acquired operations are focused on the development of oil-rich properties primarily located in the Anadarko Basin in Oklahoma. Following the acquisition, Newfield's senior notes totaling \$2.45 billion remain outstanding.
- Purchased, for cancellation, approximately 149.4 million common shares for total consideration of approximately \$1,037 million, thereby fully executing the Company's previously announced NCIB for up to 10 percent of Encana's public float of common shares.
- Purchased, for cancellation, approximately 47.3 million common shares for total consideration of approximately \$213 million, thereby fully executing the Company's previously announced substantial issuer bid.
- Terminated the Company's production sharing contract with the China National Offshore Oil Corporation ("CNOOC"), which governed Encana's China Operations, effective July 31, 2019. Subsequently, Encana no longer has operations in China.
- Completed the sale of the Company's Arkoma Basin natural gas assets on August 27, 2019, comprising approximately 140,000 net acres in Oklahoma, for proceeds of \$155 million, after closing adjustments.

Financial Results

Three months ended September 30, 2019

- Reported net earnings of \$149 million, including net gains on risk management in revenues of \$81 million, before tax, and a net foreign exchange loss of \$30 million, before tax.
- Generated cash from operating activities of \$756 million, Non-GAAP Cash Flow of \$817 million and Non-GAAP Cash Flow Margin of \$14.67 per BOE.
- Returned capital to shareholders through the purchase, for cancellation, of approximately 47.3 million common shares for total consideration of approximately \$213 million and paid dividends of \$0.01875 per common share totaling \$24 million.

Nine months ended September 30, 2019

- Reported net earnings of \$240 million, including restructuring charges of \$134 million, before tax, a net loss on risk management in revenues of \$84 million, before tax, a net foreign exchange gain of \$62 million, before tax, and acquisition costs of \$33 million, before tax.
- Generated cash from operating activities of \$2,191 million, Non-GAAP Cash Flow of \$2,116 million and Non-GAAP Cash Flow Margin of \$13.95 per BOE.
- Returned capital to shareholders through the purchase, for cancellation, of approximately 196.7 million common shares for total consideration of approximately \$1,250 million and paid dividends of \$0.05625 per common share totaling \$77 million.

- Held cash and cash equivalents of \$138 million and had \$4.0 billion in available credit facilities of which Encana's \$2.5 billion revolving credit facility supported the issuance of \$740 million of commercial paper as at September 30, 2019.

Capital Investment

- Directed \$467 million, or 83 percent, of total capital spending to Permian, Anadarko and Montney in the third quarter of 2019 and \$1,554 million, or 76 percent, during the first nine months of 2019.
- Focused on highly efficient capital activity and short-cycle high margin projects providing flexibility to respond to fluctuations in commodity prices.

Production

Three months ended September 30, 2019

- Produced average oil and NGL volumes of 329.2 Mbbls/d which accounted for 54 percent of total production volumes. Average oil and plant condensate production volumes of 237.3 Mbbls/d were 72 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,655 MMcf/d which accounted for 46 percent of total production volumes.

Nine months ended September 30, 2019

- Produced average oil and NGL volumes of 295.2 Mbbls/d which accounted for 53 percent of total production volumes. Average oil and plant condensate production volumes of 214.4 Mbbls/d were 73 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,562 MMcf/d which accounted for 47 percent of total production volumes.

Revenues and Operating Expenses

- Focused on market diversification to other downstream markets to optimize realized commodity prices and revenues through a combination of derivative financial instruments and transportation contracts.
- Continued to benefit from secured pipeline transportation capacity to the Dawn and Houston markets to protect against AECO and Midland differentials to NYMEX and WTI, respectively; maintained access to local markets through existing transportation contracts.
- Incurred Total Costs in the third quarter and the first nine months of 2019 of \$11.95 per BOE and \$12.66 per BOE, respectively, a decrease compared to 2018 of \$0.65 per BOE and \$0.57 per BOE, respectively. Total Costs includes production, mineral and other taxes, upstream transportation and processing expense, upstream operating expense and administrative expense. Total Costs excludes the impact of long-term incentive and restructuring costs. Significant items in the third quarter and the first nine months of 2019 impacting Total Costs include:
 - Lower upstream transportation and processing expense in the third quarter and the first nine months of 2019 compared to 2018 of \$1.00 per BOE and \$0.93 per BOE, respectively, primarily due to the higher proportion of total production volumes from the USA Operations, which benefit from lower than average per BOE transportation and processing costs. Production volumes in the USA Operations were higher in the third quarter and first nine months of 2019 compared to 2018 due to the Newfield acquisition; and
 - Higher administrative expense, excluding long-term incentive costs and restructuring costs, in the third quarter and the first nine months of 2019 compared to 2018 of \$0.21 per BOE and \$0.23 per BOE, respectively, primarily due to the change in accounting treatment for The Bow office building.
- Preserved operational efficiencies achieved in previous years and minimized the effect of inflationary costs.

Subsequent Event

On October 31, 2019, the Company announced its intention to complete a corporate reorganization (the “Reorganization”) which includes (i) a proposed plan of arrangement under the Canada Business Corporations Act involving, among others, Encana, Encana securityholders and a wholly-owned subsidiary of Encana to be named Ovintiv Inc. (“Ovintiv”), pursuant to which, among other things, Encana will complete a share consolidation on the basis of one post-consolidation share for each five pre-consolidation shares and Ovintiv will ultimately acquire all of the issued and outstanding Encana common shares in exchange for shares of Ovintiv on a one-for-one basis and become the parent company of Encana and its subsidiaries (collectively, the “Arrangement”), and (ii) as soon as practicable following the Arrangement, Ovintiv migrating out of Canada and becoming a Delaware corporation. Following completion of the Reorganization, Ovintiv and its subsidiaries will continue to carry on the business currently conducted by Encana and its subsidiaries. Subject to receipt of securityholder, stock exchange and court approvals, as well as the satisfaction of other conditions precedent, the Reorganization is expected to be completed in 2020.

2019 Outlook

Industry Outlook

The oil and gas industry is cyclical and commodity prices are inherently volatile. Oil prices during 2019 are expected to reflect global supply and demand dynamics as well as the geopolitical and macroeconomic environment. At a meeting in December 2018, OPEC and certain non-OPEC countries (collectively “OPEC”) agreed to reduce crude oil production, beginning in January 2019 for an initial period of six months, seeking to balance the global oil market in response to changing fundamentals. In July 2019, OPEC agreed to extend production cuts for an additional period of nine months from July 2019 to March 2020. Risks to the global economy, including trade disputes, U.S. sanctions policy, U.S. production growth, and potential oil supply outages in major producing countries resulting from geopolitical instability, could further contribute to price volatility in 2019. OPEC is scheduled to meet again in December 2019 to review production levels which could potentially result in other supply adjustments and contribute to price fluctuations.

Natural gas prices in 2019 will be affected by the timing of supply and demand growth and the effects of seasonal weather. Natural gas prices in western Canada have seen significant negative price pressure as strong supply continues to surpass regional demand and stress effective pipeline capacity. Despite initial price strength related to lower than normal storage in 2019, mild summer weather and continued production increases in both the northeast U.S. and associated gas production in the Permian Basin are putting downward pressure on U.S. natural gas prices. As a result, potential for improvement in longer-term U.S. natural gas prices remains limited.

Company Outlook

Encana is well positioned in the current price environment to balance moderate liquids growth with the generation of cash flows in excess of capital expenditures. The Company enters into derivative financial instruments which mitigate price volatility and help sustain revenues during periods of lower prices. A portion of the Company’s production is sold at prevailing market prices which also allows Encana to participate in potential price increases. As at September 30, 2019, the Company has hedged approximately 175.5 Mbbls/d of expected crude oil and condensate production and 864 MMcf/d of expected natural gas production for the remainder of the year. Additional information on Encana’s hedging program can be found in Note 22 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Markets for crude oil and natural gas are exposed to different price risks. While the market price for crude oil tends to move in the same direction as the global market, regional differentials may develop. Natural gas prices may vary between geographic regions depending on local supply and demand conditions. Encana proactively utilizes transportation contracts to diversify the Company’s downstream markets, reducing 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 2019. In addition, Encana continues to seek new markets to yield higher returns.

The Company’s full year 2019 guidance ranges discussed within Capital Investment, Production and Operating Expenses in this Outlook section reflect the Reportable Guidance ranges.

Capital Investment

Encana is on track to meet its updated full year 2019 capital investment guidance of \$2.55 billion to \$2.65 billion and expects to fund its capital program from 2019 cash generated from operating activities. During the first nine months of 2019, the Company spent \$2,052 million, of which \$728 million was directed to Permian with 84 net wells drilled, \$556 million was directed to Anadarko with 51 net wells drilled since the Newfield acquisition closed on February 13, 2019, and \$270 million was directed to Montney with 58 net wells drilled. Capital investment in the Core Assets is expected to be optimized by Encana's cube development approach to maximize returns and recovery. Capital investment for the remainder of 2019 is expected to be primarily allocated to the Core Assets with a focus on maximizing returns from high margin liquids and to other upstream assets to optimize operating free cash flows.

Encana continually strives to improve well performance and lower 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 deployment of cube development in Anadarko has reduced well costs by approximately \$1.4 million per well in 2019 compared to Newfield's 2018 well costs, exceeding the Company's previously announced expected savings of \$1 million per well. 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

Encana's shift to a more balanced portfolio has reduced the extent of exposure to commodity market volatility and positioned the Company to generate sustainable future cash flows. During the first nine months of 2019, average liquids production volumes were 295.2 Mbbls/d, or 53 percent of total production volumes, and average natural gas production volumes were 1,562 MMcf/d, or 47 percent of total production volumes. The Company has updated its full year 2019 production volume guidance ranges for liquids to 297.0 Mbbls/d to 301.0 Mbbls/d and for natural gas to 1,560 MMcf/d to 1,575 MMcf/d. Encana is on track to meet its updated full year 2019 production volume guidance ranges as the Company executes the remainder of its capital plans for its Core Assets.

Operating Expenses

For 2019, Encana lowered its guidance range for Total Costs to \$12.60 per BOE to \$12.90 per BOE and expects Total Costs for the year to be approximately \$12.75 per BOE. Total Costs includes production, mineral and other taxes, upstream transportation and processing expense, upstream operating expense and administrative expense. Total Costs excludes the impact of long-term incentive and restructuring costs. In the first nine months of 2019, Total Costs of \$12.66 per BOE were below the full year 2019 guidance range as integration synergies were realized. Upstream transportation and processing expense was \$6.46 per BOE, while upstream operating expense and administrative expense, excluding long-term incentive costs and restructuring costs, were \$3.40 per BOE and \$1.57 per BOE, respectively. Encana expects efficiency improvements and effective supply chain management, including favorable price negotiations, to offset any inflationary pressures.

Workforce reductions and operating efficiencies have reduced operating and administrative costs by \$100 million to date and are expected to be reduced by approximately \$200 million on an annualized basis, compared to the combined costs of Newfield and Encana prior to the acquisition. These synergies surpass the Company's original estimate of \$125 million and exclude expected restructuring costs incurred in 2019. To date, restructuring costs of \$134 million have been incurred.

Additional information on Encana's 2019 Corporate Guidance can be accessed on the Company's website in the Corporate Presentation at www.encana.com.

Results of Operations

Selected Financial Information

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Product and Service Revenues				
Upstream product revenues	\$ 1,476	\$ 1,166	\$ 4,315	\$ 3,107
Market optimization	294	317	870	909
Service revenues	1	5	6	9
Total Product and Service Revenues	1,771	1,488	5,191	4,025
Gains (Losses) on Risk Management, Net	81	(241)	(84)	(517)
Sublease Revenues	19	15	54	50
Total Revenues	1,871	1,262	5,161	3,558
Total Operating Expenses ⁽¹⁾	1,556	1,143	4,535	3,218
Operating Income (Loss)	315	119	626	340
Total Other (Income) Expenses	123	74	243	356
Net Earnings (Loss) Before Income Tax	192	45	383	(16)
Income Tax Expense (Recovery)	43	6	143	(55)
Net Earnings (Loss)	\$ 149	\$ 39	\$ 240	\$ 39

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

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

Revenues

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

Benchmark Prices

(average for the period)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Oil & NGLs				
WTI (\$/bbl)	\$ 56.45	\$ 69.50	\$ 57.06	\$ 66.75
Houston (\$/bbl)	61.14	73.51	62.84	70.16
Edmonton Condensate (C\$/bbl)	68.70	87.34	70.21	85.30
Natural Gas				
NYMEX (\$/MMBtu)	\$ 2.23	\$ 2.90	\$ 2.67	\$ 2.90
AECO (C\$/Mcf)	1.04	1.35	1.39	1.41
Dawn (C\$/MMBtu)	2.81	3.79	3.26	3.73

Production Volumes and Realized Prices

	Three months ended September 30,				Nine months ended September 30,			
	Production Volumes ⁽¹⁾		Realized Prices ⁽²⁾		Production Volumes ⁽¹⁾		Realized Prices ⁽²⁾	
	2019	2018	2019	2018	2019	2018	2019	2018
Oil (Mbbbls/d, \$/bbl)								
Canadian Operations	0.7	0.3	\$ 58.24	\$ 60.32	0.5	0.4	\$ 51.55	\$ 57.83
USA Operations	177.6	95.2	55.26	66.84	159.0	87.3	56.47	65.66
China Operations ⁽³⁾	0.5	-	60.35	-	2.0	-	66.37	-
Total	178.8	95.5	55.29	66.82	161.5	87.7	56.58	65.62
NGLs – Plant Condensate (Mbbbls/d, \$/bbl)								
Canadian Operations	45.9	36.3	50.73	64.82	42.9	31.2	51.74	64.61
USA Operations	12.6	4.7	41.70	55.23	10.0	3.8	43.93	55.12
Total	58.5	41.0	48.78	63.73	52.9	35.0	50.26	63.60
NGLs – Other (Mbbbls/d, \$/bbl)								
Canadian Operations	17.0	14.4	5.39	30.25	16.3	12.5	10.66	28.87
USA Operations	74.9	27.8	7.48	28.27	64.5	24.7	12.01	24.08
Total	91.9	42.2	7.09	28.95	80.8	37.2	11.74	25.69
Total Oil & NGLs (Mbbbls/d, \$/bbl)								
Canadian Operations	63.6	51.0	38.65	55.03	59.7	44.1	40.52	54.44
USA Operations	265.1	127.7	41.12	58.01	233.5	115.8	43.65	56.45
China Operations ⁽³⁾	0.5	-	60.35	-	2.0	-	66.37	-
Total	329.2	178.7	40.67	57.16	295.2	159.9	43.18	55.90
Natural Gas (MMcfd, \$/Mcf)								
Canadian Operations	1,038	1,038	1.54	1.96	1,027	975	1.95	2.09
USA Operations	617	159	1.67	2.19	535	148	1.89	2.25
Total	1,655	1,197	1.59	1.99	1,562	1,123	1.93	2.11
Total Production (MBOE/d, \$/BOE)								
Canadian Operations	236.7	224.1	17.12	21.62	230.8	206.5	19.14	21.46
USA Operations	367.9	154.1	32.43	50.30	322.8	140.5	34.72	48.90
China Operations ⁽³⁾	0.5	-	60.35	-	2.0	-	66.37	-
Total	605.1	378.2	26.46	33.30	555.6	347.0	28.36	32.57
Production Mix (%)								
Oil & Plant Condensate	39	36			39	35		
NGLs – Other	15	11			14	11		
Total Oil & NGLs	54	47			53	46		
Natural Gas	46	53			47	54		
Production Growth								
Year Over Year (%) ⁽⁴⁾								
Total Oil & NGLs	84				85			
Natural Gas	38				39			
Total Production	60				60			
Core Assets Production ⁽⁵⁾								
Oil (Mbbbls/d)	118.2	62.1			106.9	57.4		
NGLs – Plant Condensate (Mbbbls/d)	48.6	33.0			44.7	27.3		
NGLs – Other (Mbbbls/d)	80.2	32.7			70.5	28.4		
Total Oil & NGLs (Mbbbls/d)	247.0	127.8			222.1	113.1		
Natural Gas (MMcfd)	1,416	1,028			1,325	948		
Total Production (MBOE/d)	482.8	299.1			442.9	271.0		
% of Total Encana Production	80	79			80	78		

(1) Average daily.

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

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

(4) Includes production impacts of acquisitions and divestitures.

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

Upstream Product Revenues

Three months ended September 30,						
(\$ millions)	Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas ⁽¹⁾	Total	
2018 Upstream Product Revenues	\$ 587	\$ 241	\$ 113	\$ 219	\$ 1,160	
Increase (decrease) due to:						
Sales prices	(77)	(67)	(86)	(54)	(284)	
Production volumes	399	88	33	78	598	
2019 Upstream Product Revenues	\$ 909	\$ 262	\$ 60	\$ 243	\$ 1,474	

Nine months ended September 30,						
(\$ millions)	Oil	NGLs - Plant Condensate	NGLs - Other	Natural Gas ⁽¹⁾	Total	
2018 Upstream Product Revenues	\$ 1,572	\$ 607	\$ 261	\$ 647	\$ 3,087	
Increase (decrease) due to:						
Sales prices	(170)	(165)	(161)	(70)	(566)	
Production volumes	1,093	284	158	247	1,782	
2019 Upstream Product Revenues	\$ 2,495	\$ 726	\$ 258	\$ 824	\$ 4,303	

(1) Natural gas revenues for the third quarter and the first nine months of 2019 exclude certain other revenue and royalty adjustments with no associated production volumes of \$2 million and \$12 million, respectively (2018 - royalty adjustments of \$6 million and \$20 million, respectively).

Oil Revenues

Three months ended September 30, 2019 versus September 30, 2018

Oil revenues increased \$322 million compared to the third quarter of 2018 primarily due to:

- Higher average oil production volumes of 83.3 Mbbls/d increased revenues by \$399 million. Higher volumes were primarily due to the Newfield acquisition (72.7 Mbbls/d) and successful drilling programs in Anadarko, Williston and Permian (17.7 Mbbls/d), partially offset by natural declines in Eagle Ford (4.6 Mbbls/d); and
- Lower average realized oil prices of \$11.53 per bbl, or 17 percent, decreased revenues by \$77 million. The decrease reflected lower WTI and Houston benchmark prices which were down 19 percent and 17 percent, respectively, partially offset by strengthening regional pricing relative to the WTI benchmark price in the USA Operations.

Nine months ended September 30, 2019 versus September 30, 2018

Oil revenues increased \$923 million compared to the first nine months of 2018 primarily due to:

- Higher average oil production volumes of 73.8 Mbbls/d increased revenues by \$1,093 million. Higher volumes were primarily due to the Newfield acquisition (64.0 Mbbls/d) and successful drilling programs in Anadarko, Permian and Williston (15.5 Mbbls/d), partially offset by the sale of the San Juan assets in the fourth quarter of 2018 (2.2 Mbbls/d) and natural declines in Eagle Ford (2.2 Mbbls/d); and
- Lower average realized oil prices of \$9.04 per bbl, or 14 percent, decreased revenues by \$170 million. The decrease reflected lower WTI and Houston benchmark prices which were down 15 percent and 10 percent, respectively, partially offset by strengthening regional pricing relative to the WTI benchmark price in the USA Operations.

NGL Revenues

Three months ended September 30, 2019 versus September 30, 2018

NGL revenues decreased \$32 million compared to the third quarter of 2018 primarily due to:

- Lower average realized other NGL prices of \$21.86 per bbl, or 76 percent, decreased revenues by \$86 million reflecting lower other NGL benchmark prices and lower regional pricing; and
- Lower average realized plant condensate prices of \$14.95 per bbl, or 23 percent, decreased revenues by \$67 million. The decrease reflected lower Edmonton Condensate and WTI benchmark prices which were down 21 percent and 19 percent, respectively, as well as fluctuations in regional pricing relative to the Edmonton Condensate and WTI benchmark prices;

partially offset by:

- Higher average plant condensate production volumes of 17.5 Mbbls/d increased revenues by \$88 million. Higher volumes were primarily due to successful drilling programs in Montney, Anadarko and Duvernay (12.1 Mbbls/d) and the Newfield acquisition (5.6 Mbbls/d); and
- Higher average other NGL production volumes of 49.7 Mbbls/d increased revenues by \$33 million. Higher volumes were primarily due to the Newfield acquisition (35.6 Mbbls/d) and successful drilling programs in Anadarko, Permian and Montney (15.0 Mbbls/d).

Nine months ended September 30, 2019 versus September 30, 2018

NGL revenues increased \$116 million compared to the first nine months of 2018 primarily due to:

- Higher average plant condensate production volumes of 17.9 Mbbls/d increased revenues by \$284 million. Higher volumes were primarily due to successful drilling programs in Montney and Anadarko (12.8 Mbbls/d) and the Newfield acquisition (4.7 Mbbls/d); and
- Higher average other NGL production volumes of 43.6 Mbbls/d increased revenues by \$158 million. Higher volumes were primarily due to the Newfield acquisition (29.8 Mbbls/d) and successful drilling programs in Anadarko, Montney and Permian (15.5 Mbbls/d);

partially offset by:

- Lower average realized plant condensate prices of \$13.34 per bbl, or 21 percent, decreased revenues by \$165 million. The decrease reflected lower Edmonton Condensate and WTI benchmark prices which were down 18 percent and 15 percent, respectively, as well as fluctuations in regional pricing relative to the Edmonton Condensate and WTI benchmark prices; and
- Lower average realized other NGL prices of \$13.95 per bbl, or 54 percent, decreased revenues by \$161 million reflecting lower other NGL benchmark prices and lower regional pricing.

Natural Gas Revenues

Three months ended September 30, 2019 versus September 30, 2018

Natural gas revenues increased \$24 million compared to the third quarter of 2018 primarily due to:

- Higher average natural gas production volumes of 458 MMcf/d increased revenues by \$78 million primarily due to the Newfield acquisition (421 MMcf/d) and successful drilling programs in Anadarko, Montney and Permian (71 MMcf/d), partially offset by increased third-party plant downtime and pipeline restrictions in Montney (20 MMcf/d), lower production in Other Upstream Operations primarily due to natural declines (8 MMcf/d) and the sale of the San Juan assets in the fourth quarter of 2018 (7 MMcf/d); and
- Lower average realized natural gas prices of \$0.40 per Mcf, or 20 percent, decreased revenues by \$54 million reflecting lower Dawn, NYMEX and AECO benchmark prices which were down 26 percent, 23 percent and 23 percent, respectively, partially offset by a higher proportion of total production volumes in the USA Operations with higher regional pricing resulting from the Newfield acquisition.

Nine months ended September 30, 2019 versus September 30, 2018

Natural gas revenues increased \$177 million compared to the first nine months of 2018 primarily due to:

- Higher average natural gas production volumes of 439 MMcf/d increased revenues by \$247 million primarily due to the Newfield acquisition (369 MMcf/d) and successful drilling programs in Montney, Anadarko and Permian (101 MMcf/d), partially offset by lower production in Other Upstream Operations primarily due to natural declines (14 MMcf/d) and the sale of the San Juan assets in the fourth quarter of 2018 (7 MMcf/d); and
- Lower average realized natural gas prices of \$0.18 per Mcf, or nine percent, decreased revenues by \$70 million reflecting lower Dawn and NYMEX benchmark prices which were down 13 percent and eight percent, respectively, partially offset by a higher proportion of total production volumes in the USA Operations with higher regional pricing resulting from the Newfield acquisition.

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, NGL and natural gas production volumes. The Company's commodity price mitigation program reduces volatility and helps sustain revenues during periods of lower prices. Additional information on the Company's commodity price positions as at September 30, 2019 can be found in Note 22 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The following tables provide the effects of Encana's risk management activities on revenues.

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Realized Gains (Losses) on Risk Management				
Commodity Price ⁽¹⁾				
Oil	\$ 10	\$ (87)	\$ 56	\$ (208)
NGLs - Plant Condensate	9	(40)	24	(98)
NGLs - Other	28	(7)	61	(7)
Natural Gas	73	56	156	216
Other ⁽²⁾	2	1	4	2
Total	122	(77)	301	(95)
Unrealized Gains (Losses) on Risk Management	(41)	(164)	(385)	(422)
Total Gains (Losses) on Risk Management, Net	\$ 81	\$ (241)	\$ (84)	\$ (517)

(Per-unit)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Realized Gains (Losses) on Risk Management				
Commodity Price ⁽¹⁾				
Oil (\$/bbl)	\$ 0.63	\$ (9.77)	\$ 1.27	\$ (8.68)
NGLs - Plant Condensate (\$/bbl)	\$ 1.77	\$ (10.84)	\$ 1.66	\$ (10.31)
NGLs - Other (\$/bbl)	\$ 3.28	\$ (1.72)	\$ 2.76	\$ (0.63)
Natural Gas (\$/Mcf)	\$ 0.48	\$ 0.51	\$ 0.37	\$ 0.70
Total (\$/BOE)	\$ 2.17	\$ (2.23)	\$ 1.96	\$ (1.02)

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

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

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Market Optimization	\$ 294	\$ 317	\$ 870	\$ 909

Three months ended September 30, 2019 versus September 30, 2018

Market Optimization revenues decreased \$23 million compared to the third quarter of 2018 primarily due to:

- Lower benchmark prices (\$68 million) and lower sales of third-party purchased natural gas volumes (\$56 million); partially offset by:
- Higher sales of third-party purchased liquids volumes primarily relating to price optimization activities and additional third-party purchases to meet sales commitments in the USA Operations (\$101 million).

Nine months ended September 30, 2019 versus September 30, 2018

Market Optimization revenues decreased \$39 million compared to the first nine months of 2018 primarily due to:

- Lower sales of third-party purchased natural gas volumes (\$109 million) and lower benchmark prices (\$104 million); partially offset by:
- Higher sales of third-party purchased liquids volumes (\$174 million) due to:
 - Changing market conditions resulting in additional third-party purchases to meet sales commitments in the Canadian Operations in the first quarter of 2019; and
 - Price optimization activities and additional third-party purchases to meet sales commitments in the USA Operations in the third quarter of 2019.

Sublease Revenues

Sublease revenues primarily include amounts related to the sublease of office space in The Bow office building recorded in the Corporate and Other segment. Additional information on The Bow office sublease can be found in Notes 2 and 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)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Canadian Operations	\$ 3	\$ 4	\$ 11	\$ 12
USA Operations	63	41	176	97
Total	\$ 66	\$ 45	\$ 187	\$ 109

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Canadian Operations	\$ 0.15	\$ 0.20	\$ 0.18	\$ 0.22
USA Operations	\$ 1.85	\$ 2.91	\$ 1.99	\$ 2.53
Total	\$ 1.18	\$ 1.31	\$ 1.23	\$ 1.15

Three months ended September 30, 2019 versus September 30, 2018

Production, mineral and other taxes increased \$21 million compared to the third quarter of 2018 primarily due to:

- Higher production volumes as a result of the Newfield acquisition (\$31 million);
partially offset by:
 - Lower production tax mainly as a result of lower commodity prices (\$7 million) and the sale of the San Juan assets in the fourth quarter of 2018 (\$2 million).

Nine months ended September 30, 2019 versus September 30, 2018

Production, mineral and other taxes increased \$78 million compared to the first nine months of 2018 primarily due to:

- Higher production volumes and property values as a result of the Newfield acquisition (\$84 million) and higher production volumes, effective rates and assessed property values in Permian (\$17 million);
partially offset by:
 - Lower production tax mainly as a result of lower commodity prices (\$21 million) and the sale of the San Juan assets in the fourth quarter of 2018 (\$5 million).

Transportation and Processing

Transportation and processing expense includes transportation costs incurred to move product from production points to sales points including gathering, compression, pipeline tariffs, trucking and storage costs. 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)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Canadian Operations	\$ 211	\$ 211	\$ 640	\$ 608
USA Operations	125	34	340	92
Upstream Transportation and Processing	336	245	980	700
Market Optimization	62	33	168	99
Total	\$ 398	\$ 278	\$ 1,148	\$ 799

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Canadian Operations	\$ 9.68	\$ 10.26	\$ 10.15	\$ 10.78
USA Operations	\$ 3.72	\$ 2.38	\$ 3.86	\$ 2.39
Upstream Transportation and Processing	\$ 6.05	\$ 7.05	\$ 6.46	\$ 7.39

Three months ended September 30, 2019 versus September 30, 2018

Transportation and processing expense increased \$120 million compared to the third quarter of 2018 primarily due to:

- Higher production volumes as a result of the Newfield acquisition and successful drilling in Anadarko (\$93 million), and rate escalation in certain transportation contracts relating to previously divested assets and incremental transportation costs associated with third-party purchased volumes (\$27 million).

Upstream transportation and processing decreased \$1.00 per BOE compared to the third quarter of 2018 primarily due to a higher proportion of total production volumes in the USA Operations resulting from the Newfield acquisition.

Nine months ended September 30, 2019 versus September 30, 2018

Transportation and processing expense increased \$349 million compared to the first nine months of 2018 primarily due to:

- Higher production volumes as a result of the Newfield acquisition and successful drilling in Anadarko (\$251 million), growth in Montney and Permian (\$85 million), rate escalation in certain transportation contracts relating to previously divested assets and incremental transportation costs associated with third-party purchased volumes (\$64 million), and higher costs relating to the diversification of the Company's downstream markets (\$8 million);

partially offset by:

- Lower U.S./Canadian dollar exchange rate (\$18 million), lower commodity prices (\$16 million) and lower activity in Deep Panuke where the Company ceased production in the second quarter of 2018 (\$11 million).

Upstream transportation and processing decreased \$0.93 per BOE compared to the first nine months of 2018 primarily due to a higher proportion of total production volumes in the USA Operations resulting from the Newfield acquisition.

Operating

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

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Canadian Operations	\$ 32	\$ 34	\$ 96	\$ 98
USA Operations	151	80	414	238
China Operations ⁽¹⁾	4	-	16	-
Upstream Operating Expense	187	114	526	336
Market Optimization	6	8	21	25
Corporate & Other	-	2	(2)	11
Total	\$ 193	\$ 124	\$ 545	\$ 372

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Canadian Operations	\$ 1.45	\$ 1.61	\$ 1.51	\$ 1.70
USA Operations	\$ 4.48	\$ 5.56	\$ 4.70	\$ 6.16
China Operations ⁽¹⁾	\$ 66.11	\$ -	\$ 27.53	\$ -
Upstream Operating Expense ⁽²⁾	\$ 3.35	\$ 3.22	\$ 3.46	\$ 3.51

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

(2) Upstream Operating Expense per BOE for the third quarter and first nine months of 2019 includes long-term incentive costs of \$0.01/BOE and \$0.06/BOE, respectively (2018 - \$0.15/BOE and \$0.16/BOE, respectively).

Three months ended September 30, 2019 versus September 30, 2018

Operating expense increased \$69 million compared to the third quarter of 2018 primarily due to:

- The Newfield acquisition and growth in Anadarko, as well as higher activity in Permian (\$79 million); partially offset by:
- Lower long-term incentive costs resulting from a decrease in Encana's share price in the third quarter of 2019 (\$8 million), lower activity in Eagle Ford (\$5 million) and the sale of the San Juan assets in the fourth quarter of 2018 (\$3 million).

Nine months ended September 30, 2019 versus September 30, 2018

Operating expense increased \$173 million compared to the first nine months of 2018 primarily due to:

- The Newfield acquisition and growth in Anadarko, as well as higher activity in Permian (\$223 million); partially offset by:
- Lower long-term incentive costs resulting from a decrease in Encana's share price in the first nine months of 2019 (\$12 million), lower activity in Eagle Ford (\$11 million), the sale of the San Juan assets in the fourth quarter of 2018 (\$7 million) and lower salaries and benefits in the Canadian Operations (\$5 million).

Additional information on Encana's long-term incentives 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.

Purchased Product

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

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Market Optimization	\$ 264	\$ 282	\$ 784	\$ 803

Three months ended September 30, 2019 versus September 30, 2018

Purchased product expense decreased \$18 million compared to the third quarter of 2018 primarily due to:

- Lower benchmark prices (\$70 million) and lower third-party purchased natural gas volumes (\$49 million); partially offset by:
- Higher third-party purchased liquids volumes primarily relating to price optimization activities and additional third-party purchases to meet sales commitments in the USA Operations (\$101 million).

Nine months ended September 30, 2019 versus September 30, 2018

Purchased product expense decreased \$19 million compared to the first nine months of 2018 primarily due to:

- Lower benchmark prices (\$99 million) and lower third-party purchased natural gas volumes (\$94 million); partially offset by:
- Higher third-party purchased liquids volumes (\$174 million) due to:
 - Changing market conditions resulting in additional third-party purchases to meet sales commitments in the Canadian Operations in the first quarter of 2019; and
 - Price optimization activities and additional third-party purchases to meet sales commitments in the USA Operations in the third quarter of 2019.

Depreciation, Depletion & Amortization

Proved properties within each country cost centre are depleted using the unit-of-production method based on proved reserves as discussed in Note 1 to the Consolidated Financial Statements included in Item 8 of the 2018 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.

Under full cost accounting, the carrying amount of Encana's oil and natural gas properties within each country cost centre is subject to a ceiling test performed quarterly. Ceiling test impairments are recognized when the capitalized costs exceed the sum of the estimated after-tax future net cash flows from proved reserves as calculated under SEC requirements using the 12-month average trailing prices and discounted at 10 percent.

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

Additional information can be found in the Critical Accounting Estimates section of the MD&A included in Item 7 of the 2018 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)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Canadian Operations	\$ 100	\$ 95	\$ 287	\$ 257
USA Operations	438	241	1,141	628
Upstream DD&A	538	336	1,428	885
Market Optimization	-	-	-	1
Corporate & Other	7	13	26	38
Total	\$ 545	\$ 349	\$ 1,454	\$ 924

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Canadian Operations	\$ 4.61	\$ 4.57	\$ 4.56	\$ 4.55
USA Operations	\$ 12.93	\$ 17.05	\$ 12.95	\$ 16.39
Upstream DD&A	\$ 9.67	\$ 9.65	\$ 9.45	\$ 9.34

Three months ended September 30, 2019 versus September 30, 2018

DD&A increased \$196 million compared to the third quarter of 2018 primarily due to:

- Higher production volumes in the USA Operations (\$337 million), partially offset by lower depletion rates in the USA Operations (\$141 million).

The depletion rate in the USA Operations decreased \$4.12 per BOE compared to the third quarter of 2018 primarily due to higher reserve volumes primarily in Permian, as well as additional reserve volumes acquired with the Newfield acquisition.

Nine months ended September 30, 2019 versus September 30, 2018

DD&A increased \$530 million compared to the first nine months of 2018 primarily due to:

- Higher production volumes in the USA and Canadian Operations (\$760 million and \$32 million, respectively), partially offset by lower depletion rates in the USA Operations (\$248 million).

The depletion rate in the USA Operations decreased \$3.44 per BOE compared to the first nine months of 2018 primarily due to higher reserve volumes primarily in Permian, as well as additional reserve volumes acquired with the Newfield acquisition.

Administrative

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

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Administrative, excluding Long-Term Incentive and Restructuring Costs	\$ 76	\$ 40	\$ 237	\$ 126
Long-term incentive costs	1	17	18	61
Restructuring costs	4	-	134	-
Total Administrative	\$ 81	\$ 57	\$ 389	\$ 187

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Administrative, excluding Long-Term Incentive and Restructuring Costs	\$ 1.38	\$ 1.17	\$ 1.57	\$ 1.34
Long-term incentive costs	0.01	0.47	0.12	0.64
Restructuring costs	0.07	-	0.88	-
Total Administrative	\$ 1.46	\$ 1.64	\$ 2.57	\$ 1.98

Three months ended September 30, 2019 versus September 30, 2018

Administrative expense in the third quarter of 2019 increased \$24 million compared to the third quarter of 2018 primarily due to the impact from adopting ASC Topic 842, “Leases”, as discussed further below (\$30 million), costs related to the Newfield acquisition (\$8 million), and restructuring costs (\$4 million), partially offset by lower long-term incentive costs resulting from a larger change in Encana’s share price in the third quarter of 2019 compared to the change in the share price in the third quarter of 2018 (\$16 million).

Nine months ended September 30, 2019 versus September 30, 2018

Administrative expense in the first nine months of 2019 increased \$202 million compared to the first nine months of 2018 primarily due to restructuring costs (\$134 million), the impact from adopting ASC Topic 842, “Leases”, as discussed further below (\$86 million) and administrative costs associated with the Newfield acquisition (\$25 million), including non-recurring integration expenses of \$8 million, partially offset by lower long-term incentive costs resulting from a larger change in Encana’s share price in the first nine months of 2019 compared to the change in the share price in the first nine months of 2018 (\$43 million).

During the first nine months of 2019, Encana completed workforce reductions in conjunction with the Newfield acquisition to better align staffing levels and the organizational structure. Additional information on restructuring charges can be found in Note 18 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

On January 1, 2019, Encana adopted ASC Topic 842 which requires all operating leases to be recognized on the balance sheet. As a result, The Bow office building was determined to be an operating lease with the lease payments recorded in administrative expense starting in 2019. Previously, payments related to The Bow office building were recognized as interest expense and principal repayment. Prior periods have not been restated and are reported in accordance with ASC Topic 840, “Leases”. Additional information on the adoption of ASC Topic 842 can be found in Notes 2 and 11 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other (Income) Expenses

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest	\$ 99	\$ 92	\$ 285	\$ 265
Foreign exchange (gain) loss, net	30	(23)	(62)	93
(Gain) loss on divestitures, net	(5)	-	(4)	(4)
Other (gains) losses, net	(1)	5	24	2
Total Other (Income) Expenses	\$ 123	\$ 74	\$ 243	\$ 356

Interest

Interest expense primarily includes interest on Encana's long-term debt arising from U.S. dollar denominated unsecured notes. Additional information on changes in interest can be found in Note 5 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Interest expense in the third quarter of 2019 increased \$7 million compared to the third quarter of 2018 due to higher interest expense on long-term debt primarily relating to Newfield's outstanding senior notes and issuances under the Company's U.S. commercial paper ("U.S. CP") program (\$34 million), partially offset by the change in accounting treatment for The Bow office building as a result of the adoption of ASC Topic 842 (\$16 million) and lower interest expense resulting from the repayment of the Company's \$500 million senior note in the second quarter of 2019 (\$8 million).

Interest expense in the first nine months of 2019 increased \$20 million compared to the first nine months of 2018 due to higher interest expense on long-term debt primarily relating to Newfield's outstanding senior notes and issuances under the Company's U.S. CP program (\$80 million) and an interest recovery due to the resolution of certain tax items relating to prior taxation years in 2018 (\$11 million), partially offset by the change in accounting treatment for The Bow office building as a result of the adoption of ASC Topic 842 (\$48 million), lower interest expense resulting from the repayment of the Company's \$500 million senior note in the second quarter of 2019 (\$12 million) and capitalized interest (\$8 million).

Additional information on the adoption of ASC Topic 842 can be found in Notes 2 and 11 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Foreign Exchange (Gain) Loss, Net

Foreign exchange gains and losses primarily result from the impact of fluctuations in the Canadian to U.S. dollar exchange rate. Additional information on changes in foreign exchange gains or losses can be found in Note 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.

Three months ended September 30, 2019 versus September 30, 2018

In the third quarter of 2019, Encana recorded a net foreign exchange loss of \$30 million compared to a gain in 2018 of \$23 million primarily due to:

- Unrealized foreign exchange losses on the translation of U.S. dollar financing debt issued from Canada compared to gains in 2018 (\$142 million);

partially offset by:

- Unrealized foreign exchange gains on the translation of intercompany notes compared to losses in 2018 (\$78 million) and realized foreign exchange gains on the settlement of U.S. dollar financing debt issued from Canada in 2019 (\$10 million).

Nine months ended September 30, 2019 versus September 30, 2018

In the first nine months of 2019, Encana recorded a net foreign exchange gain of \$62 million compared to a loss in 2018 of \$93 million primarily due to:

- Unrealized foreign exchange gains on the translation of U.S. dollar financing debt issued from Canada compared to losses in 2018 (\$255 million), realized foreign exchange gains on the settlement of U.S. dollar financing debt issued from Canada compared to losses in 2018 (\$23 million) and unrealized foreign exchange gains on the translation of U.S. dollar risk management contracts issued from Canada compared to losses in 2018 (\$20 million);

partially offset by:

- Higher unrealized foreign exchange losses on the translation of intercompany notes compared to 2018 (\$108 million) and lower realized foreign exchange gains on the settlement of intercompany notes compared to 2018 (\$17 million).

Other (Gains) Losses, Net

Other (gains) losses, net, primarily includes other non-recurring revenues or expenses and may also include items such as interest income, interest received from tax authorities, reclamation charges relating to decommissioned assets and adjustments related to other assets.

Other losses in the first nine months of 2019 primarily includes legal fees and transaction costs related to the Newfield acquisition of \$33 million, partially offset by interest income of \$11 million.

Income Tax

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Current Income Tax Expense (Recovery)	\$ (1)	\$ -	\$ 3	\$ (61)
Deferred Income Tax Expense (Recovery)	44	6	140	6
Income Tax Expense (Recovery)	\$ 43	\$ 6	\$ 143	\$ (55)
Effective Tax Rate	22.4%	13.3%	37.3%	343.8%

Income Tax Expense (Recovery)

Three months ended September 30, 2019 versus September 30, 2018

In the third quarter of 2019, Encana recorded higher income tax expense of \$37 million compared to 2018 primarily due to net earnings of \$192 million before income tax for the three months ended September 30, 2019, compared to net earnings of \$45 million before income tax for the three months ended September 30, 2018.

Nine months ended September 30, 2019 versus September 30, 2018

In the first nine months of 2019, Encana recorded an income tax expense of \$143 million compared to an income tax recovery of \$55 million in 2018, primarily due to net earnings of \$383 million before income tax in the first nine months of 2019, compared to a net loss before income tax of \$16 million in 2018, the impact of the Alberta tax rate reduction discussed below and the tax impact resulting from the resolution of certain tax items relating to prior taxation years in 2018.

On June 28, 2019, Alberta Bill 3, the Job Creation Tax Cut (Alberta Corporate Tax Amendment) Act, was signed into law resulting in a reduction of the Alberta corporate tax rate from 12 percent to 11 percent effective July 1, 2019, with further one percent rate reductions to take effect every year on January 1 until the general corporate tax rate is eight percent on January 1, 2022. During the nine months ended September 30, 2019, the deferred tax expense of \$140 million includes an adjustment of \$55 million resulting from the re-measurement of the Company's deferred tax position due to the Alberta tax rate reduction.

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 primarily impacted by expected annual earnings, income tax related to foreign operations, the effect of legislative changes, 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 of 22.4 percent in the third quarter of 2019 is lower than the Canadian statutory tax rate of 26.6 percent primarily resulting from the impact of foreign jurisdictional tax rates relative to the Canadian statutory tax rate applied to jurisdictional earnings and partnership tax allocations in excess of funding. The Company's effective tax rate of 37.3 percent in the first nine months of 2019 is higher than the Canadian statutory tax rate primarily resulting from the re-measurement of the Company's deferred tax position due to the Alberta tax rate reduction discussed above, partially offset by the impact of foreign jurisdictional tax rates relative to the Canadian statutory tax rate applied to jurisdictional earnings and partnership tax allocations in excess of funding.

The determination of income and other tax liabilities of the Company and its subsidiaries requires interpretation of complex domestic and foreign tax laws and regulations, that are subject to change. The Company's interpretation of taxation laws may differ from the interpretation of the tax authorities. As a result, there are tax matters under review for which the timing of resolution is uncertain. The Company believes that the provision for income taxes is adequate.

Liquidity and Capital Resources

Sources of Liquidity

The Company has the flexibility to access cash equivalents and a range of funding alternatives at competitive rates through committed revolving credit facilities as well as debt and equity capital markets. 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 to fund its operations or to manage its capital structure as discussed below. At September 30, 2019, \$17 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, issuing new debt or repaying existing debt.

(\$ millions, except as indicated)	As at September 30,	
	2019	2018
Cash and Cash Equivalents	\$ 138	\$ 615
Available Credit Facility – Encana ⁽¹⁾	2,500	2,500
Available Credit Facility – U.S. Subsidiary ⁽¹⁾	1,500	1,500
Issuance of U.S. Commercial Paper	(740)	-
Total Liquidity	\$ 3,398	\$ 4,615
Long-Term Debt, including current portion ⁽²⁾	\$ 7,024	\$ 4,198
Total Shareholders' Equity ⁽³⁾	\$ 9,921	\$ 6,494
Debt to Capitalization (%) ⁽⁴⁾	41	39
Debt to Adjusted Capitalization (%) ⁽⁵⁾	28	23

(1) Collectively, the "Credit Facilities".

(2) Long-Term Debt as at September 30, 2019, includes outstanding U.S. CP totaling \$740 million and the senior notes acquired in conjunction with the Newfield business combination on February 13, 2019, totaling \$2,450 million.

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

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

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

As at September 30, 2019, the Company had \$740 million of commercial paper outstanding under its U.S. CP program to provide for short-term funding requirements, which is supported by Encana's \$2.5 billion revolving credit facility. Further details on the U.S. CP program can be found in the Sources and Uses of Cash section of this MD&A.

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. As at September 30, 2019, Debt to Adjusted Capitalization was 28 percent. The definitions used in the covenant under the Credit Facilities adjust capitalization for cumulative historical ceiling test impairments 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 13 to the Consolidated Financial Statements included in Item 8 of the 2018 Annual Report on Form 10-K.

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

Sources and Uses of Cash

In the third quarter and first nine months of 2019, 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 September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
Sources of Cash, Cash Equivalents and Restricted Cash					
Cash from operating activities	Operating	\$ 756	\$ 885	\$ 2,191	\$ 1,741
Proceeds from divestitures	Investing	171	24	177	89
Corporate acquisition, net of cash and restricted cash acquired	Investing	-	-	94	-
Net issuance of revolving long-term debt	Financing	-	-	740	-
Other	Investing	-	-	-	72
		927	909	3,202	1,902
Uses of Cash and Cash Equivalents					
Capital expenditures	Investing	566	523	2,052	1,626
Acquisitions	Investing	25	15	66	17
Net repayment of revolving long-term debt	Financing	21	-	-	-
Repayment of long-term debt	Financing	-	-	500	-
Purchase of common shares	Financing	213	50	1,250	250
Dividends on common shares	Financing	24	14	77	43
Other	Investing/Financing	164	31	181	68
		1,013	633	4,126	2,004
Foreign Exchange Gain (Loss) on Cash, Cash Equivalents and Restricted Cash Held in Foreign Currency		-	3	4	(2)
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash		\$ (86)	\$ 279	\$ (920)	\$ (104)

Operating Activities

Cash from operating activities in the third quarter and first nine months of 2019 was \$756 million and \$2,191 million, respectively, and was primarily a reflection of the impacts from the Newfield acquisition, increases in production volumes, the effects of the commodity price mitigation program and changes in non-cash working capital, partially offset by lower average realized commodity prices.

Additional detail on changes in non-cash working capital can be found in Note 23 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 third quarter and first nine months of 2019 was \$817 million and \$2,116 million, respectively, 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 September 30, 2019 versus September 30, 2018

Net cash from operating activities decreased \$129 million compared to the third quarter of 2018 primarily due to:

- Changes in non-cash working capital (\$345 million), lower realized commodity prices (\$284 million), higher transportation and processing expense (\$120 million), higher operating and administrative expense, excluding non-cash long-term incentive costs (\$76 million and \$35 million, respectively), higher interest on long-term debt (\$34 million) and higher production, mineral and other taxes (\$21 million);

partially offset by:

- Higher production volumes (\$598 million) and realized gains on risk management in revenues in the third quarter of 2019 compared to realized losses in 2018 (\$199 million).

Nine months ended September 30, 2019 versus September 30, 2018

Net cash from operating activities increased \$450 million compared to the first nine months of 2018 primarily due to:

- Higher production volumes (\$1,782 million) and realized gains on risk management in revenues in the first nine months of 2019 compared to realized losses in 2018 (\$396 million);

partially offset by:

- Lower realized commodity prices (\$566 million), higher transportation and processing expense (\$349 million), restructuring costs (\$134 million), higher operating and administrative expense, excluding non-cash long-term incentive costs (\$201 million and \$140 million, respectively), higher interest on long-term debt (\$86 million), higher production, mineral and other taxes (\$78 million), changes in non-cash working capital (\$69 million), current tax expense in 2019 compared to a recovery in 2018 (\$64 million) and acquisition costs (\$33 million).

Investing Activities

Cash used in investing activities in the first nine months of 2019 was \$1,965 million primarily due to capital expenditures. Capital expenditures increased \$426 million compared to the first nine months of 2018 due to an increase in the Company's capital program for 2019 relating to the Anadarko asset acquired in the Newfield acquisition (\$556 million). Cash from operating activities exceeded capital expenditures by \$139 million.

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

Acquisitions in the first nine months of 2019 were \$66 million which included seismic purchases, water rights and purchases with oil and liquids rich potential.

Divestitures in the first nine months of 2019 were \$177 million, which primarily included the sale of the Company's Arkoma Basin natural gas assets in Oklahoma, comprising approximately 140,000 net acres. Proceeds from the sale of the Arkoma Basin natural gas assets were used to reduce the Company's long-term debt. Divestitures in the first nine months of 2018 were \$89 million, which primarily included the sale of certain Pipestone assets in Alberta.

Capital expenditures and acquisition and divestiture activity are summarized in Notes 3, 8 and 9 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Financing Activities

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

Net cash used in financing activities in the first nine months of 2019 increased \$789 million compared to the first nine months of 2018 primarily due to the purchase of common shares under a NCIB (\$787 million) and substantial issuer bid (\$213 million) as discussed below, repayment of long-term debt (\$500 million), as well as increased dividends paid (\$34 million) in the first nine months of 2019 compared to the first nine months of 2018, partially offset by the net issuance of commercial paper under the Company's U.S. CP program (\$740 million). Further detail on Encana's U.S. CP program can be found below.

Encana's long-term debt totaled \$7,024 million at September 30, 2019 and \$4,198 million at December 31, 2018. On May 15, 2019, the Company repaid the \$500 million 6.50 percent senior note using proceeds from the U.S. CP program.

Following the completion of the Newfield acquisition on February 13, 2019, Newfield's senior notes totaling \$2.45 billion remained outstanding as at September 30, 2019. These include a \$750 million 5.75 percent senior note due January 30, 2022, a \$1.0 billion 5.625 percent senior note due July 1, 2024 and a \$700 million 5.375 percent senior note due January 1, 2026. For additional information on long-term debt, refer to Note 12 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. The increase in long-term debt resulting from the Newfield acquisition increased the Company's debt-based metrics. Further details on the Company's debt-based metrics can be found in the Non-GAAP Measures section of this MD&A.

The Company has access to two credit facilities totaling \$4.0 billion, which remain committed through July 2022. The Credit Facilities provide financial flexibility and allow the Company to fund its operations, development activities or capital programs. At September 30, 2019, no amounts were outstanding under the Credit Facilities. During the first nine months of 2019, the Company utilized its U.S. CP program which is supported by Encana's \$2.5 billion revolving credit facility. At September 30, 2019, Encana had \$740 million of commercial paper outstanding under its U.S. CP program with an average term of 48 days and a weighted average interest rate of approximately 2.63 percent.

The Credit Facilities, together with cash and cash equivalents less any outstanding commercial paper, provide Encana with total liquidity of \$3.4 billion. At September 30, 2019, Encana also had approximately \$153 million in undrawn letters of credit issued in the normal course of business primarily as collateral security, to support future abandonment liabilities and for transportation arrangements.

Encana has filed a Canadian shelf prospectus and a U.S. shelf registration statement, under which the Company may issue from time to time, debt securities, common shares, Class A preferred shares, subscription receipts, warrants, units, share purchase contracts and share purchase units in Canada and/or the U.S. At September 30, 2019, \$6.0 billion remained accessible under the Canadian shelf prospectus. The ability to issue securities under the Canadian shelf prospectus or U.S. shelf registration statement is dependent upon market conditions and securities law requirements.

Dividends

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

(\$ millions, except as indicated)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Dividend Payments ⁽¹⁾	\$ 24	\$ 14	\$ 77	\$ 43
Dividend Payments (\$/share)	\$ 0.01875	\$ 0.015	\$ 0.05625	\$ 0.045

(1) 2018 includes common shares issued in lieu of cash dividends under Encana's Dividend Reinvestment Plan ("DRIP"). On February 28, 2019, the Company announced the suspension of its DRIP effective immediately.

As previously announced, the Company increased its dividend by 25 percent in the first quarter of 2019 as part of Encana's commitment to returning capital to shareholders. Dividends paid in the first nine months of 2019 increased \$34 million compared to the first nine months of 2018 due to additional common shares issued as part of the Newfield acquisition, in addition to the 25 percent increase in the dividend per share, partially offset by common shares purchased, for cancellation, pursuant to the Company's previously announced substantial issuer bid and NCIB.

On October 30, 2019, the Board of Directors declared a dividend of \$0.01875 per common share payable on December 31, 2019 to common shareholders of record as of December 13, 2019.

Substantial Issuer Bid

On August 29, 2019, the Company used cash on hand and issued commercial paper to purchase, for cancellation, approximately 47.3 million of its outstanding common shares for total consideration of approximately \$213 million under its previously announced substantial issuer bid.

For additional information on the substantial issuer bid, refer to Note 15 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Normal Course Issuer Bid

On February 27, 2019, the Company announced it received approval from the TSX to purchase up to approximately 149.4 million common shares, for cancellation, pursuant to a NCIB over a 12-month period commencing March 4, 2019 and ending March 3, 2020. In first nine months of 2019, the Company used cash on hand to purchase, for cancellation, approximately 149.4 million common shares for total consideration of approximately \$1,037 million.

In the third quarter and first nine months of 2018, the Company used cash on hand to purchase, for cancellation, approximately 3.9 million and 20.7 million common shares, respectively, for total consideration of approximately \$50 million and \$250 million, respectively, under the previous NCIB which commenced on February 28, 2018 and expired on February 27, 2019.

For additional information on the NCIB, refer to Note 15 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 2018 Annual Report on Form 10-K.

Commitments and Contingencies

For information on commitments and contingencies, refer to Note 24 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, Total Costs, Debt to Adjusted Capitalization and Net Debt to Adjusted EBITDA. Management's use of these measures is discussed further below.

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

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

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

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

(\$ millions, except as indicated)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cash From (Used in) Operating Activities	\$ 756	\$ 885	\$ 2,191	\$ 1,741
(Add back) deduct:				
Net change in other assets and liabilities	(29)	(17)	(55)	(33)
Net change in non-cash working capital	(32)	313	130	199
Current tax on sale of assets	-	-	-	-
Non-GAAP Cash Flow ⁽¹⁾	\$ 817	\$ 589	\$ 2,116	\$ 1,575
Production Volumes (MMBOE)	55.7	34.8	151.7	94.7
Non-GAAP Cash Flow Margin (\$/BOE)	\$ 14.67	\$ 16.93	\$ 13.95	\$ 16.63

(1) The third quarter and first nine months of 2019 include restructuring costs of \$4 million and \$134 million, respectively, and acquisition costs of nil and \$33 million, respectively.

Total Costs

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

(\$ millions, except as indicated)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Production, Mineral and Other Taxes	\$ 66	\$ 45	\$ 187	\$ 109
Upstream Transportation and Processing	336	245	980	700
Upstream Operating	187	114	526	336
Administrative	81	57	389	187
Deduct (add back):				
Long-term incentive costs	1	22	27	76
Restructuring costs	4	-	134	-
Total Costs	\$ 665	\$ 439	\$ 1,921	\$ 1,256
Divided by:				
Production Volumes (MMBOE)	55.7	34.8	151.7	94.7
Total Costs (\$/BOE) ⁽¹⁾	\$ 11.95	\$ 12.60	\$ 12.66	\$ 13.23

(1) Calculated using whole dollars and volumes.

Debt to Adjusted Capitalization

Debt to Adjusted Capitalization is a non-GAAP measure which adjusts capitalization for historical ceiling test impairments that were recorded as at December 31, 2011. Management monitors Debt to Adjusted Capitalization as a proxy for 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)	September 30, 2019	December 31, 2018
Long-Term Debt, including current portion	\$ 7,024	\$ 4,198
Total Shareholders' Equity	9,921	7,447
Equity Adjustment for Impairments at December 31, 2011	7,746	7,746
Adjusted Capitalization	\$ 24,691	\$ 19,391
Debt to Adjusted Capitalization	28%	22%

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

Net Debt to Adjusted EBITDA

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

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

(\$ millions, except as indicated)	September 30, 2019	December 31, 2018
Long-Term Debt, including current portion	\$ 7,024	\$ 4,198
Less:		
Cash and cash equivalents	138	1,058
Net Debt	6,886	3,140
Net Earnings (Loss)	1,270	1,069
Add back (deduct):		
Depreciation, depletion and amortization	1,802	1,272
Impairments	-	-
Accretion of asset retirement obligation	36	32
Interest	371	351
Unrealized (gains) losses on risk management	(556)	(519)
Foreign exchange (gain) loss, net	13	168
(Gain) loss on divestitures, net	(5)	(5)
Other (gains) losses, net	39	17
Income tax expense (recovery)	292	94
Adjusted EBITDA (trailing 12-month)	\$ 3,262	\$ 2,479
Net Debt to Adjusted EBITDA (times)	2.1	1.3

The increase in Net Debt is primarily due to the increase in long-term debt resulting from the Newfield acquisition, whereas Adjusted EBITDA only includes Newfield's results of operations for the post-acquisition period from February 14, 2019 to September 30, 2019. The Company expects Net Debt to Adjusted EBITDA to trend downward through the remainder of 2019.

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 2018 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 22 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:

(US\$ millions)	September 30, 2019	
	10% Price Increase	10% Price Decrease
Crude oil price	\$ (198)	\$ 194
NGL price	(3)	3
Natural gas price	(63)	55

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 primarily 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 when compared to the same periods in 2018.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	\$ millions	\$/BOE	\$ millions	\$/BOE
Increase (Decrease) in:				
Capital Investment	\$ (2)		\$ (18)	
Transportation and Processing Expense ⁽¹⁾	(2)	\$ (0.04)	(18)	\$ (0.12)
Operating Expense ⁽¹⁾	-	-	(3)	(0.02)
Administrative Expense	-	-	(4)	(0.03)
Depreciation, Depletion and Amortization ⁽¹⁾	(1)	(0.02)	(8)	(0.05)

(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 September 30, 2019, Encana has entered into \$250 million notional U.S. dollar denominated currency swaps at an average exchange rate of US\$0.7516 to C\$1, which mature monthly through the remainder of 2019 and \$425 million notional U.S. dollar denominated currency swaps at an average exchange rate of US\$0.7483 to C\$1, which mature monthly throughout 2020.

As at September 30, 2019, Encana had \$4.5 billion in U.S. dollar long-term debt and \$181 million in U.S. dollar finance lease obligations 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:

(US\$ millions)	September 30, 2019	
	10% Rate Increase	10% Rate Decrease
Foreign currency exchange	\$ (214)	\$ 261

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 September 30, 2019, the Company had floating rate debt of \$740 million. Accordingly, the sensitivity in net earnings for each one percent change in interest rates on floating rate debt was \$5 million (2018 - nil).

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 September 30, 2019.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

For the nine months ended September 30, 2019, management's assessment of, and conclusion on, the effectiveness of internal control over financial reporting did not include the internal controls of the entities acquired in the Newfield acquisition on February 13, 2019. Newfield's total assets and total revenues represented approximately 26 percent of the Company's consolidated total assets at September 30, 2019 and approximately 29 percent and 29 percent of the Company's consolidated total revenues for the three and nine months ended September 30, 2019, respectively. Under guidelines established by the SEC, companies are permitted to exclude acquisitions from their assessment of internal control over financial reporting for a period of up to one year following an acquisition while integrating the acquired company. The Company is in the process of integrating Newfield's and the Company's internal controls over financial reporting. As a result of these integration activities, certain controls will be evaluated and may be changed. Except as noted above, there were no changes in the Company's internal control over financial reporting that occurred during the third quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.