



Encana Corporation

Non-GAAP Definitions and Reconciliations  
*(unaudited)*

For the period ended March 31, 2017

(U.S. Dollars)

For the period ended March 31, 2017  
*(US\$ millions, except per share amounts or as indicated)*

**Non-GAAP Cash Flow, Non-GAAP Cash Flow Per Share (CFPS), Free Cash Flow and Corporate Margin** – Non-GAAP Cash Flow is defined as cash from operating activities excluding net change in other assets and liabilities, net change in non-cash working capital and current tax on sale of assets. Non-GAAP CFPS is Non-GAAP Cash Flow divided by the weighted average number of common shares outstanding. Free Cash Flow is defined as Non-GAAP Cash Flow in excess of capital expenditures, excluding net acquisitions and divestitures. Corporate Margin is Non-GAAP Cash Flow per BOE of production. Management believes these measures are useful to the company and its investors as a measure of operating and financial performance across periods and against other companies in the industry, and are an indication of the company's ability to generate cash to finance capital programs, to service debt and to meet other financial obligations. These measures are used, along with other measures, in the calculation of certain performance targets for the company's management and employees.

<b>Non-GAAP Cash Flow</b>	<b>YTD 2017</b>
<b>Cash from (used in) operating activities</b>	\$ 106
Deduct (add back):	
Net change in other assets and liabilities	(12)
Net change in non-cash working capital	(160)
Current tax on sale of assets	-
<b>Non-GAAP Cash Flow</b>	<b>\$ 278</b>
Per share diluted	\$ 0.29
<b>Free Cash Flow</b>	
Non-GAAP Cash Flow	\$ 278
Less:	
Capital Expenditures	399
<b>Free Cash Flow</b>	<b>\$ (121)</b>
<b>Corporate Margin</b>	
Non-GAAP Cash Flow	\$ 278
Divided by:	
Production Volumes (MMBOE)	28.61
<b>Corporate Margin (\$/BOE)</b>	<b>\$ 9.72</b>

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

<b>Non-GAAP Operating Earnings (Loss)</b>	<b>YTD 2017</b>
<b>Net earnings (loss)</b>	\$ 431
Before-tax (addition) deduction:	
Unrealized gain (loss) on risk management	362
Non-operating foreign exchange gain (loss)	34
Gain (loss) on divestitures	(1)
	395
Income tax	(68)
After-tax (Addition) Deduction	327
<b>Non-GAAP Operating Earnings (Loss)</b>	<b>\$ 104</b>
Per share diluted	\$ 0.11

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

<b>Net Debt</b>	<b>YTD 2017</b>
Long-term debt, including current portion	\$ 4,198
Less:	
Cash and cash equivalents	523
<b>Net Debt</b>	<b>\$ 3,675</b>

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

<b>Upstream Operating Cash Flow, excluding Risk Management</b>	<b>YTD 2017</b>
Upstream Operating Cash Flow	
Canadian Operations	\$ 112
USA Operations	274
	<b>\$ 386</b>
(Add back) deduct:	
Realized Gain (Loss) on Risk Management	
Canadian Operations	\$ (21)
USA Operations	(3)
	<b>\$ (24)</b>
<b>Upstream Operating Cash Flow, excluding Risk Management</b>	
Canadian Operations	\$ 133
USA Operations	277
	<b>\$ 410</b>

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

<b>Cash Costs</b>	<b>YTD 2017</b>
Production, mineral and other taxes	\$ 29
Transportation and processing	212
Operating*	132
Administrative*	58
Interest	88
	<b>\$ 519</b>

\* Includes long-term incentive costs

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

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

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

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

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

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

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

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

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

## Netback Calculation

Netback is a common metric used in the oil and gas industry to measure operating performance. Netbacks are calculated on a BOE basis using product revenues less costs associated with delivering the product to market, including production, mineral and other taxes, transportation and processing expense and operating expense.

### Selected Financial Data <sup>(1)</sup>

(US\$ millions)	2017		2016			
	Q1	Year	Q4	Q3	Q2	Q1
Canadian Operations						
Product Revenue <sup>(2)</sup>	297	952	288	244	196	224
Production, mineral and other taxes	5	23	6	5	6	6
Transportation and processing	132	576	136	136	155	149
Operating <sup>(3)</sup>	30	149	36	37	37	39
	130	204	110	66	(2)	30
USA Operations						
Product Revenue <sup>(2)</sup>	441	1,491	417	397	382	295
Production, mineral and other taxes	24	76	20	15	24	17
Transportation and processing	59	260	46	43	73	98
Operating <sup>(3)</sup>	84	388	98	92	86	112
	274	767	253	247	199	68
Total Operations						
Product Revenue <sup>(2)</sup>	738	2,443	705	641	578	519
Production, mineral and other taxes	29	99	26	20	30	23
Transportation and processing	191	836	182	179	228	247
Operating <sup>(3)</sup>	114	537	134	129	123	151
	404	971	363	313	197	98

<sup>(1)</sup> Segmented financial information per the notes to Encana's financial statements.

<sup>(2)</sup> Excludes the impact of realized gains and losses on risk management.

<sup>(3)</sup> Excludes other operating expenses with no associated production volumes.

### Sales Volumes

(BOE)	2017		2016			
	Q1	Year	Q4	Q3	Q2	Q1
Canadian Operations	15,466,320	68,866,560	15,886,560	16,576,652	17,485,832	18,917,353
USA Operations	13,120,290	60,204,804	13,688,220	14,515,576	16,028,285	15,972,957
Total	28,586,610	129,071,364	29,574,780	31,092,228	33,514,117	34,890,310

### Calculated Operating Netback, excluding the Impact of Realized Gain (Loss) on Risk Management <sup>(1)</sup>

(US\$/BOE)	2017		2016			
	Q1	Year	Q4	Q3	Q2	Q1
Total - Canadian Operations						
Price	19.20	13.82	18.13	14.72	11.21	11.84
Production, mineral and other taxes	0.32	0.33	0.38	0.30	0.34	0.32
Transportation and processing	8.53	8.36	8.56	8.20	8.86	7.88
Operating	1.94	2.16	2.27	2.23	2.12	2.06
Netback	8.41	2.96	6.92	3.98	(0.11)	1.59
Total - USA Operations						
Price	33.61	24.77	30.46	27.35	23.83	18.47
Production, mineral and other taxes	1.83	1.26	1.46	1.03	1.50	1.06
Transportation and processing	4.50	4.32	3.36	2.96	4.55	6.14
Operating	6.40	6.44	7.16	6.34	5.37	7.01
Netback	20.88	12.74	18.48	17.02	12.42	4.26
Total Operations						
Price	25.82	18.93	23.84	20.62	17.25	14.88
Production, mineral and other taxes	1.01	0.77	0.88	0.64	0.90	0.66
Transportation and processing	6.68	6.48	6.15	5.76	6.80	7.08
Operating	3.99	4.16	4.53	4.15	3.67	4.33
Netback	14.13	7.52	12.27	10.07	5.88	2.81

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