

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, 2018 ("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, 2017, which are included in Items 8 and 7, respectively, of the 2017 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](#)
- [Results of Operations](#)
- [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 disciplined focus on generating profitable growth. The Company is pursuing the key business objectives of exercising a disciplined capital allocation strategy by investing in a limited number of core assets, growing high margin liquids volumes, maximizing profitability through operating efficiencies and reducing costs, and preserving balance sheet strength.

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 unified team.

Encana continually reviews and evaluates its strategy and changing market conditions. In 2018, Encana continues to focus on quality growth from high margin, scalable projects located in some of the best plays in North America, referred to as the "Core Assets", comprising Montney and Duvernay in Canada and Eagle Ford and Permian in the U.S. These world-class assets form a multi-basin portfolio enabling flexible and efficient investment of capital. The Company rapidly deploys successful ideas and practices across these assets, becoming more efficient as innovative and sustainable technical improvements are implemented.

For additional information on Encana's strategy, its reporting segments and the plays in which the Company operates, refer to Items 1 and 2 of the 2017 Annual Report on Form 10-K. In evaluating its operations and assessing its leverage, the Company reviews performance-based measures such as Non-GAAP Cash Flow and Non-GAAP Cash Flow Margin 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. Further 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 2018, Encana focused on executing its 2018 capital plan, maintaining operational efficiencies achieved in 2017 and minimizing the effect of inflationary costs. Higher revenues in the first nine months of 2018 compared to 2017 resulting from higher liquids benchmark prices and production volumes. Higher oil and NGL benchmark prices contributed to increases in Encana's average realized oil and NGL prices of 40 percent and 35 percent, respectively. Liquids production volumes increased by 32 percent compared to 2017. Encana is also focused on the diversification of the Company's downstream markets to capture higher realized prices. Encana remains committed to delivering a business model that allows the Company to adapt to fluctuating commodity prices.

Significant Developments

- Received approval from the TSX to purchase, for cancellation, up to 35 million common shares pursuant to a NCIB over a 12-month period from February 28, 2018 to February 27, 2019. As of September 30, 2018, the Company has purchased approximately 20.7 million common shares for total consideration of approximately \$250 million.
- Completed the sale of the Company's Pipestone liquids hub in Alberta to Keyera Partnership, a subsidiary of Keyera Corp., announced on April 2, 2018. In conjunction with the sale, Keyera will own and construct a natural gas processing facility and provide Encana with processing services under a competitive fee-for-service arrangement in support of the Company's liquids growth plans in Montney.

Financial Results

Three months ended September 30, 2018

- Reported net earnings of \$39 million, including a net loss on risk management in revenues of \$241 million, before tax.
- Generated cash from operating activities of \$885 million, Non-GAAP Cash Flow of \$589 million and Non-GAAP Cash Flow Margin of \$16.93 per BOE.
- Paid dividends of \$0.015 per common share.

Nine months ended September 30, 2018

- Reported net earnings of \$39 million, including a net loss on risk management in revenues of \$517 million, before tax, and a net foreign exchange loss of \$93 million, before tax.
- Recovered current taxes of approximately \$61 million and interest of \$11 million primarily resulting from the resolution of certain tax items relating to prior taxation years.
- Generated cash from operating activities of \$1,741 million, Non-GAAP Cash Flow of \$1,575 million and Non-GAAP Cash Flow Margin of \$16.63 per BOE, including the tax items noted above.
- Paid dividends of \$0.045 per common share.
- Held cash and cash equivalents of \$615 million and had available credit facilities of \$4.0 billion for total liquidity of \$4.6 billion at September 30, 2018.

Capital Investment

- Directed \$350 million, or 67 percent, of total capital spending to Permian and Montney in the third quarter of 2018 and \$1,163 million, or 72 percent, during the first nine months of 2018.
- 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, 2018

- Produced average oil and NGL volumes of 178.7 Mbbls/d which accounted for 47 percent of total production volumes. Average oil and plant condensate production volumes of 136.5 Mbbls/d were 76 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,197 MMcf/d which accounted for 53 percent of total production volumes.

Nine months ended September 30, 2018

- Produced average oil and NGL volumes of 159.9 Mbbls/d which accounted for 46 percent of total production volumes. Average oil and plant condensate production volumes of 122.7 Mbbls/d were 77 percent of total liquids production volumes.
- Produced average natural gas volumes of 1,123 MMcf/d which accounted for 54 percent of total production volumes.

Revenues and Operating Expenses

- Focused on market diversification to other downstream markets to maximize 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 weakening AECO and Midland differentials to NYMEX and WTI, respectively; maintained access to local markets through existing transportation contracts.
- Preserved operational efficiencies achieved in previous years and minimized the effect of inflationary costs.
- Incurred higher transportation and processing expense in the third quarter and the first nine months of 2018 of \$79 million, or 40 percent, and \$182 million, or 29 percent, respectively, compared to the same periods in 2017 primarily due to higher volumes in Montney and Permian, and additional costs incurred in conjunction with the diversification of other downstream markets to capture higher realized prices.

Subsequent Events

On November 1, 2018, Encana announced that it has entered into a definitive merger agreement to acquire all of the issued and outstanding shares of common stock of Newfield Exploration Company (“Newfield”) in an all-stock transaction. Under the terms of the merger agreement, Newfield shareholders will receive 2.6719 common shares of Encana for each share of Newfield common stock. The transaction has been unanimously approved by the Board of Directors of both Encana and Newfield and is subject to the terms and conditions set forth in the merger agreement. The transaction is expected to close in the first quarter of 2019.

On October 1, 2018, Encana announced an agreement to sell its San Juan assets, comprising approximately 182,000 net acres in New Mexico, to DJR Energy, LLC for total consideration of approximately \$480 million. The transaction is expected to close in the fourth quarter of 2018, with an effective date of April 1, 2018, and is subject to the satisfaction of normal closing conditions and customary closing adjustments.

2018 Outlook

Industry Outlook

The oil and gas industry is cyclical and commodity prices are inherently volatile. Oil prices for the remainder of 2018 are expected to reflect global supply and demand dynamics as well as the geopolitical environment. The original OPEC agreement implemented in 2017 to limit output and the drawdowns of oil storage inventory levels were generally supportive of oil prices in the first half of 2018. Trade disputes and oil supply outages in recent months resulting from geopolitical instability in major producing countries has created additional uncertainty for oil and gas supply which could impact prices for the remainder of the year. As well, prices could be impacted as a result of decisions made by OPEC and certain non-OPEC countries to increase future oil production. OPEC and certain non-OPEC countries are expected to meet again in December 2018 to review production levels and decide on a framework for permanent cooperation with allied producers to seek a balanced and sustainable global oil market. The result of this meeting could further contribute to price fluctuations in 2019.

Natural gas prices in 2018 will be affected by the timing of supply and demand growth and the effects of weather. Natural gas prices in western Canada have seen significant negative price pressure as supply reached multi-year highs, surpassing regional demand and stressing effective pipeline capacity. Relatively strong condensate prices may also lend support to activity levels resulting in continued downward pressure on natural gas prices for the remainder of 2018. Potential for improvement in U.S. natural gas prices remains limited due to continued substantial production increases in Northeast U.S. and associated gas production in the Permian Basin.

Company Outlook

Encana is positioned to be flexible in the current price environment in order to continue to achieve strong returns. 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, 2018, the Company has hedged approximately 137 Mbbls/d of expected oil and condensate production and 1,017 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 19 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, the Permian Basin is experiencing wider differentials due to temporary local export capacity constraints. 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 and reduce 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 2018 and 2019. In addition, Encana continues to seek new markets to yield higher returns.

The Company released updated Corporate Guidance on November 1, 2018, revising its guidance range downward for transportation and processing expense from \$7.40 to \$7.75 per BOE to \$7.20 to \$7.40 per BOE to reflect lower cost structures than anticipated. The Company also updated its full year capital investment guidance to approximately \$2.0 billion from the previous guidance range of \$1.8 to \$1.9 billion reflecting higher costs associated with diesel fuel, steel tariffs and delays in sourcing local sand in Eagle Ford. The updated full year capital investment guidance of approximately \$2.0 billion includes current year expenditures on the Pipestone liquids hub and the San Juan assets totaling approximately \$55 million. The liquids hub divestiture and previously announced sale of the San Juan assets are expected to generate proceeds totaling approximately \$515 million.

Encana's updated 2018 Corporate Guidance can be accessed on the Company's website at www.encana.com.

Capital Investment

Encana is on track to meet its updated full year capital investment guidance of approximately \$2.0 billion. During the first nine months of 2018, the Company spent \$1.6 billion, of which \$718 million was directed to Permian where the Company has drilled 81 net wells and \$445 million was directed to Montney with 108 net wells drilled. Capital investment in Permian is expected to be optimized by Encana's cube development approach to maximize returns and recovery. Capital investment in Montney is allocated to both Cutbank Ridge and Pipestone with a focus on growing condensate volumes. The remainder of the capital investment, primarily directed to Eagle Ford and Duvernay, is expected to optimize production and margins.

Encana continually strives to improve well performance by lowering drilling and completion 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 impact of Encana's disciplined capital program and continuous innovation create flexibility and opportunity to grow cash flows and production volumes going forward.

Production

As part of the Company's long-term growth strategy, Encana has significantly shifted its production mix to a more balanced portfolio in the recent years, thereby reducing the extent of exposure to market volatility of a particular commodity. During the first nine months of 2018, average liquids production volumes were 159.9 Mbbls/d and average natural gas production volumes were 1,123 MMcf/d. The Company expects to deliver substantial liquids growth for the remainder of the year. The Company is on track to meet the full year 2018 guidance ranges for liquids production volumes of 165.0 Mbbls/d to 175.0 Mbbls/d and natural gas production volumes of 1,150 MMcf/d to 1,250 MMcf/d by year end as a result of the Company's growth plans for Montney. Encana's growth plans for Montney are supported by third party processing plants commissioned in 2017 and the second quarter of 2018, as well as the completion of the Pipestone liquids hub at the end of the third quarter.

Operating Expenses

Efficiency improvements and lower service costs are expected to be maintained through the support of the Company's culture of innovation and its focus on continuous improvement in operational execution. As activity in the industry accelerates, Encana expects to continue pursuing innovative ways to reduce upstream operating and administrative expenses. Operating costs in the first nine months of 2018 are on track to meet the full year updated 2018 guidance ranges. Transportation and processing expense was \$7.39 per BOE, while upstream operating expense and administrative expense, excluding long-term incentive costs, were \$3.35 per BOE and \$1.34 per BOE, respectively.

Service costs are expected to increase with higher activity in the oil and gas industry and the recovery of liquids prices. Encana strives to offset any inflationary pressures with efficiency improvements and effective supply chain management, including favorable price negotiations.

Results of Operations

Selected Financial Information

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017 ⁽¹⁾	2018	2017 ⁽¹⁾
Product and Service Revenues				
Upstream product revenues	\$ 1,166	\$ 652	\$ 3,107	\$ 2,119
Market optimization	317	224	909	614
Service revenues	5	4	9	18
Total Product and Service Revenues	1,488	880	4,025	2,751
Gains (Losses) on Risk Management, Net	(241)	(35)	(517)	432
Sublease Revenues	15	16	50	50
Total Revenues	1,262	861	3,558	3,233
Total Operating Expenses ⁽²⁾	1,143	865	3,218	2,427
Operating Income (Loss)	119	(4)	340	806
Total Other (Income) Expenses	74	(526)	356	(477)
Net Earnings (Loss) Before Income Tax	45	522	(16)	1,283
Income Tax Expense (Recovery)	6	228	(55)	227
Net Earnings (Loss)	\$ 39	\$ 294	\$ 39	\$ 1,056

- (1) 2017 revenues have been realigned to conform with the January 1, 2018 adoption of ASU 2014-09 "Revenue from Contracts with Customers", as described in Note 2 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.
- (2) Total Operating Expenses include non-cash items such as DD&A, accretion of asset retirement obligations and long-term incentive costs.

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. 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. The other downstream benchmarks reflect the diversification of the Company's markets. Realized NGL prices are significantly influenced by oil 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,	
	2018	2017	2018	2017
Oil & NGLs				
WTI (\$/bbl)	\$ 69.50	\$ 48.21	\$ 66.75	\$ 49.47
Edmonton Condensate (C\$/bbl)	\$ 87.34	\$ 59.59	\$ 85.30	\$ 64.62
Natural Gas				
NYMEX (\$/MMBtu)	\$ 2.90	\$ 3.00	\$ 2.90	\$ 3.17
AECO (C\$/Mcf)	\$ 1.35	\$ 2.04	\$ 1.41	\$ 2.58
Dawn (C\$/MMBtu)	\$ 3.79	\$ 3.62	\$ 3.73	\$ 4.01

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⁾	
	2018	2017	2018	2017	2018	2017	2018	2017
Oil (Mbbbls/d, \$/bbl)								
Canadian Operations	0.3	0.6	\$ 60.32	\$ 31.66	0.4	0.5	\$ 57.83	\$ 37.25
USA Operations	95.2	74.6	66.84	45.78	87.3	72.9	65.66	47.07
Total	95.5	75.2	66.82	45.66	87.7	73.4	65.62	47.01
NGLs – Plant Condensate (Mbbbls/d, \$/bbl)								
Canadian Operations	36.3	22.8	64.82	46.41	31.2	20.7	64.61	47.74
USA Operations	4.7	5.1	55.23	36.63	3.8	3.1	55.12	38.95
Total	41.0	27.9	63.73	44.61	35.0	23.8	63.60	46.59
NGLs – Other (Mbbbls/d, \$/bbl)								
Canadian Operations	14.4	4.5	30.25	22.68	12.5	4.7	28.87	21.47
USA Operations	27.8	19.9	28.27	18.37	24.7	19.3	24.08	18.11
Total	42.2	24.4	28.95	19.16	37.2	24.0	25.69	18.77
Total NGLs (Mbbbls/d, \$/bbl)								
Canadian Operations	50.7	27.3	54.99	42.52	43.7	25.4	54.41	42.84
USA Operations	32.5	25.0	32.15	22.13	28.5	22.4	28.16	21.01
Total	83.2	52.3	46.07	32.75	72.2	47.8	44.07	32.61
Total Oil & NGLs (Mbbbls/d, \$/bbl)								
Canadian Operations	51.0	27.9	55.03	42.28	44.1	25.9	54.44	42.74
USA Operations	127.7	99.6	58.01	39.83	115.8	95.3	56.45	40.95
Total	178.7	127.5	57.16	40.37	159.9	121.2	55.90	41.33
Natural Gas (MMcfd, \$/Mcf)								
Canadian Operations	1,038	736	1.96	1.73	975	802	2.09	2.21
USA Operations	159	203	2.19	2.90	148	306	2.25	3.10
Total	1,197	939	1.99	1.98	1,123	1,108	2.11	2.46
Total Production (MBOE/d, \$/BOE)								
Canadian Operations	224.1	150.4	21.62	16.29	206.5	159.5	21.46	18.06
USA Operations	154.1	133.6	50.30	34.13	140.5	146.3	48.90	33.15
Total	378.2	284.0	33.30	24.67	347.0	305.8	32.57	25.28
Production Mix (%)								
Oil & Plant Condensate	36	36			35	32		
NGLs – Other	11	9			11	8		
Total Oil & NGLs	47	45			46	40		
Natural Gas	53	55			54	60		
Core Assets Production								
Oil (Mbbbls/d)	93.5	71.9			85.5	69.3		
NGLs – Plant Condensate (Mbbbls/d)	40.8	27.4			34.9	23.2		
NGLs – Other (Mbbbls/d)	41.1	22.9			36.0	22.3		
Total NGLs (Mbbbls/d)	81.9	50.3			70.9	45.5		
Total Oil & NGLs (Mbbbls/d)	175.4	122.2			156.4	114.8		
Natural Gas (MMcfd)	1,138	754			1,054	775		
Total Production (MBOE/d)	364.9	248.0			332.0	244.0		
% of Total Encana Production	96	87			96	80		

(1) Average daily.

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

Upstream Product Revenues

(\$ millions)	Three months ended September 30,				Nine months ended September 30,			
	Oil	NGLs ⁽¹⁾	Natural Gas ⁽²⁾	Total	Oil	NGLs ⁽¹⁾	Natural Gas ⁽²⁾	Total
2017 Upstream Product Revenues	\$ 317	\$ 156	\$ 173	\$ 646	\$ 942	\$ 425	\$ 745	\$ 2,112
Increase (decrease) due to:								
Sales prices	184	92	10	286	445	195	(59)	581
Production volumes	86	106	36	228	185	248	(39)	394
2018 Upstream Product Revenues	\$ 587	\$ 354	\$ 219	\$ 1,160	\$ 1,572	\$ 868	\$ 647	\$ 3,087

(1) Includes plant condensate.

(2) Natural gas revenues for the third quarter and the first nine months of 2018 exclude a royalty adjustment with no associated production volumes of \$6 million and \$20 million, respectively (2017 - \$6 million and \$7 million, respectively).

Oil Revenues

Three months ended September 30, 2018 versus September 30, 2017

Oil revenues increased \$270 million compared to the third quarter of 2017 primarily due to:

- Higher average realized oil prices of \$21.16 per bbl, or 46 percent, increased revenues by \$184 million. The increase reflected a higher WTI benchmark price which was up 44 percent and exposure to other downstream benchmark prices in 2018 resulting from the diversification of the Company's markets, partially offset by weakening regional pricing in USA Operations; and
- Higher average oil production volumes of 20.3 Mbbls/d increased revenues by \$86 million. Higher volumes were primarily due to a successful drilling program in Permian (24.3 Mbbls/d), partially offset by natural declines in Eagle Ford (3.0 Mbbls/d).

Nine months ended September 30, 2018 versus September 30, 2017

Oil revenues increased \$630 million compared to the first nine months of 2017 primarily due to:

- Higher average realized oil prices of \$18.61 per bbl, or 40 percent, increased revenues by \$445 million. The increase reflected a higher WTI benchmark price which was up 35 percent and exposure to other downstream benchmark prices in 2018 resulting from the diversification of the Company's markets; and
- Higher average oil production volumes of 14.3 Mbbls/d increased revenues by \$185 million. Higher volumes were primarily due to a successful drilling program in Permian (20.5 Mbbls/d), partially offset by natural declines in Eagle Ford (3.8 Mbbls/d) and asset sales (1.2 Mbbls/d), which mainly include the Tuscaloosa Marine Shale assets in the second quarter of 2017 and the Piceance natural gas assets in the third quarter of 2017.

NGL Revenues

Three months ended September 30, 2018 versus September 30, 2017

NGL revenues increased \$198 million compared to the third quarter of 2017 primarily due to:

- Higher average realized NGL prices of \$13.32 per bbl, or 41 percent, increased revenues by \$92 million. The increase reflected higher WTI and Edmonton Condensate benchmark prices which were up 44 percent and 47 percent, respectively, as well as benchmark prices for other NGLs; and
- Higher average NGL production volumes of 30.9 Mbbls/d increased revenues by \$106 million. Higher volumes were due to successful drilling programs in Montney and Permian (36.1 Mbbls/d), partially offset by natural declines in Duvernay and Eagle Ford (3.6 Mbbls/d).

Nine months ended September 30, 2018 versus September 30, 2017

NGL revenues increased \$443 million compared to the first nine months of 2017 primarily due to:

- Higher average realized NGL prices of \$11.46 per bbl, or 35 percent, increased revenues by \$195 million. The increase reflected higher WTI and Edmonton Condensate benchmark prices which were up 35 percent and 32 percent, respectively, as well as benchmark prices for other NGLs; and
- Higher average NGL production volumes of 24.4 Mbbls/d increased revenues by \$248 million. Higher volumes were primarily due to successful drilling programs in Montney and Permian (29.7 Mbbls/d), partially offset by natural declines in Duvernay (2.1 Mbbls/d), increased downtime resulting from scheduled plant maintenance for processing liquids rich volumes in Montney (1.2 Mbbls/d) and asset sales (1.1 Mbbls/d), which mainly include the Piceance natural gas assets in the third quarter of 2017 and certain assets in Wheatland in the fourth quarter of 2017.

Natural Gas Revenues

Three months ended September 30, 2018 versus September 30, 2017

Natural gas revenues increased \$46 million compared to the third quarter of 2017 primarily due to:

- Slightly higher average realized natural gas prices of \$0.01 per Mcf, or one percent, increased revenues by \$10 million. The increase reflected exposure to other downstream benchmark prices in 2018 resulting from the diversification of the Company's markets, partially offset by lower NYMEX and AECO benchmark prices which were down three percent and 34 percent, respectively, and lower regional pricing in USA Operations; and
- Higher average natural gas production volumes of 258 MMcf/d increased revenues by \$36 million. Higher volumes were due to successful drilling programs in Montney and Permian (347 MMcf/d) and decreased downtime primarily resulting from scheduled plant maintenance in Montney in 2017 (54 MMcf/d), partially offset by asset sales (121 MMcf/d), which mainly included certain assets in Wheatland in the fourth quarter of 2017 and the Piceance natural gas assets in the third quarter of 2017, and natural declines in Duvernay (12 MMcf/d) and in Other Upstream Operations (11 MMcf/d) in the third quarter of 2018.

Nine months ended September 30, 2018 versus September 30, 2017

Natural gas revenues decreased \$98 million compared to the first nine months of 2017 primarily due to:

- Lower average realized natural gas prices of \$0.35 per Mcf, or 14 percent, decreased revenues by \$59 million. The decrease reflected lower NYMEX and AECO benchmark prices which were down nine percent and 45 percent, respectively, as well as lower regional pricing in USA Operations, partially offset by exposure to other downstream benchmark prices in 2018 resulting from the diversification of the Company's markets; and
- Production volume changes decreased revenues by \$39 million resulting from:
 - Lower production volumes in the USA Operations (158 MMcf/d) decreased revenues by \$134 million primarily due to the sale of the Piceance natural gas assets in the third quarter of 2017 (173 MMcf/d), partially offset by a successful drilling program in Permian in 2018 (25 MMcf/d).
 - Higher production volumes in Canadian Operations (173 MMcf/d) increased revenues by \$95 million resulting from a successful drilling program in Montney (242 MMcf/d) and decreased downtime resulting from scheduled plant maintenance in Montney in 2017 (27 MMcf/d), partially offset by asset sales (66 MMcf/d), which mainly include certain assets in Wheatland in the fourth quarter of 2017, and lower volumes in Other Upstream Operations (30 MMcf/d).

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. Further information on the Company's commodity

price positions as at September 30, 2018 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.

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,	
	2018	2017	2018	2017
Realized Gains (Losses) on Risk Management				
Commodity Price ⁽¹⁾				
Oil	\$ (87)	\$ 14	\$ (208)	\$ 30
NGLs ⁽²⁾	(47)	4	(105)	5
Natural Gas	56	21	216	(4)
Other ⁽³⁾	1	2	2	5
Total	(77)	41	(95)	36
Unrealized Gains (Losses) on Risk Management	(164)	(76)	(422)	396
Total Gains (Losses) on Risk Management, Net	\$ (241)	\$ (35)	\$ (517)	\$ 432

(Per-unit)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Realized Gains (Losses) on Risk Management				
Commodity Price ⁽¹⁾				
Oil (\$/bbl)	\$ (9.77)	\$ 2.12	\$ (8.68)	\$ 1.51
NGLs (\$/bbl) ⁽²⁾	(6.21)	0.58	(5.32)	0.33
Natural Gas (\$/Mcf)	0.51	0.25	0.70	(0.01)
Total (\$/BOE)	(2.23)	1.50	(1.02)	0.37

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

(2) Includes plant condensate.

(3) 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 revenues relate to activities that provide operational flexibility and cost mitigation for transportation commitments, product type, delivery points and customer diversification.

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Market Optimization	\$ 317	\$ 224	\$ 909	\$ 614

Three months ended September 30, 2018 versus September 30, 2017

Market Optimization revenues increased \$93 million compared to the third quarter of 2017 primarily due to:

- Higher sales of third-party purchased volumes, primarily related to natural gas, used for optimization activities and long-term marketing arrangements associated with the Company's previous divestitures (\$137 million), partially offset by lower natural gas benchmark prices (\$44 million).

Nine months ended September 30, 2018 versus September 30, 2017

Market Optimization revenues increased \$295 million compared to the first nine months of 2017 primarily due to:

- Higher sales of third-party purchased volumes, primarily related to natural gas, used for optimization activities and long-term marketing arrangements associated with the Company's previous divestitures (\$472 million), partially offset by lower natural gas benchmark prices (\$177 million).

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. Further information on The Bow office sublease can be found in Note 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,	
	2018	2017	2018	2017
Canadian Operations	\$ 4	\$ 6	\$ 12	\$ 16
USA Operations	41	21	97	64
Total	\$ 45	\$ 27	\$ 109	\$ 80

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Canadian Operations	\$ 0.20	\$ 0.42	\$ 0.22	\$ 0.37
USA Operations	\$ 2.91	\$ 1.69	\$ 2.53	\$ 1.59
Total	\$ 1.31	\$ 1.01	\$ 1.15	\$ 0.95

Three months ended September 30, 2018 versus September 30, 2017

Production, mineral and other taxes increased \$18 million compared to the third quarter of 2017 primarily due to:

- Higher liquids prices in Permian and Eagle Ford and higher production volumes in Permian (\$19 million) and lower production taxes in 2017 from tax recoveries in the USA Operations (\$4 million);

partially offset by:

- Asset sales (\$3 million), which mainly include certain assets in Wheatland in the fourth quarter of 2017 and the Piceance natural gas assets in the third quarter of 2017 and lower natural gas prices (\$2 million).

Nine months ended September 30, 2018 versus September 30, 2017

Production, mineral and other taxes increased \$29 million compared to the first nine months of 2017 primarily due to:

- Higher liquids prices in Permian and Eagle Ford and higher production volumes in Permian (\$36 million) and lower production taxes in 2017 from tax recoveries in the USA Operations (\$6 million);

partially offset by:

- Asset sales (\$14 million), which mainly include certain assets in Wheatland in the fourth quarter of 2017 and the Piceance natural gas assets in the third quarter of 2017.

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,	
	2018	2017	2018	2017
Canadian Operations	\$ 211	\$ 138	\$ 608	\$ 403
USA Operations	34	31	92	141
Upstream Transportation and Processing	245	169	700	544
Market Optimization	33	30	99	73
Total	\$ 278	\$ 199	\$ 799	\$ 617

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Canadian Operations	\$ 10.26	\$ 10.00	\$ 10.78	\$ 9.26
USA Operations	2.38	2.55	2.39	3.53
Upstream Transportation and Processing	7.05	6.50	7.39	6.52

Three months ended September 30, 2018 versus September 30, 2017

Transportation and processing expense increased \$79 million compared to the third quarter of 2017 primarily due to:

- Higher volumes and gathering and processing fees in Montney and Permian (\$51 million), higher downstream processing and transportation costs due to higher volumes primarily in Montney and Permian and costs relating to the diversification of the Company's downstream markets (\$48 million);

partially offset by:

- Asset sales (\$11 million), which mainly include the Piceance natural gas assets in the third quarter of 2017 and certain assets in Wheatland in the fourth quarter of 2017 and the lower U.S./Canadian dollar exchange rate (\$6 million).

Nine months ended September 30, 2018 versus September 30, 2017

Transportation and processing expense increased \$182 million compared to the first nine months of 2017 primarily due to:

- Higher volumes and gathering and processing fees in Montney and Permian (\$125 million), higher downstream processing and transportation costs due to higher volumes primarily in Montney and Permian and costs relating to the diversification of the Company's downstream markets (\$139 million) and the higher U.S./Canadian dollar exchange rate (\$6 million);

partially offset by:

- Asset sales (\$71 million), which mainly include the Piceance natural gas assets in the third quarter of 2017 and certain assets in Wheatland in the fourth quarter of 2017 and lower volumes in Other Upstream Operations (\$16 million).

Operating

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

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Canadian Operations	\$ 34	\$ 36	\$ 98	\$ 89
USA Operations	80	81	238	252
Upstream Operating Expense	114	117	336	341
Market Optimization	8	11	25	23
Corporate & Other	2	4	11	13
Total	\$ 124	\$ 132	\$ 372	\$ 377

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Canadian Operations	\$ 1.61	\$ 2.50	\$ 1.70	\$ 1.97
USA Operations	\$ 5.56	\$ 6.57	\$ 6.16	\$ 6.17
Upstream Operating Expense ⁽¹⁾	\$ 3.22	\$ 4.41	\$ 3.51	\$ 3.98

(1) Upstream Operating Expense per BOE for the third quarter and first nine months of 2018 includes long-term incentive costs of \$0.15/BOE and \$0.16/BOE, respectively (2017 - \$0.45/BOE and \$0.13/BOE, respectively).

Three months ended September 30, 2018 versus September 30, 2017

Operating expense decreased \$8 million compared to the third quarter of 2017 primarily due to:

- Lower long-term incentive costs in 2018 resulting from the smaller change in Encana's share price in the third quarter of 2018 compared to 2017 (\$10 million) and asset sales (\$8 million), which mainly include the Piceance natural gas assets in the third quarter of 2017 and certain assets in Wheatland in the fourth quarter of 2017;

partially offset by:

- Higher activity in Montney and Permian (\$13 million).

Nine months ended September 30, 2018 versus September 30, 2017

Operating expense decreased \$5 million compared to the first nine months of 2017 primarily due to:

- Asset sales (\$43 million), which mainly include the Piceance natural gas assets in the third quarter of 2017 and certain assets in Wheatland in the fourth quarter of 2017;

partially offset by:

- Higher activity in Montney and Permian (\$35 million) and higher long-term incentive costs resulting from the increase in Encana's share price in the first nine months of 2018 (\$6 million).

Further information on Encana's long-term incentives can be found in Note 16 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.

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Market Optimization	\$ 282	\$ 202	\$ 803	\$ 565

Three months ended September 30, 2018 versus September 30, 2017

Purchased product expense increased \$80 million compared to the third quarter of 2017 primarily due to:

- Higher third-party volumes purchased, primarily related to natural gas, for optimization activities and long-term marketing arrangements associated with the Company's previous divestitures (\$131 million), partially offset by lower natural gas benchmark prices (\$51 million).

Nine months ended September 30, 2018 versus September 30, 2017

Purchased product expense increased \$238 million compared to the first nine months of 2017 primarily due to:

- Higher third-party volumes purchased, primarily related to natural gas, for optimization activities and long-term marketing arrangements associated with the Company's previous divestitures (\$444 million), partially offset by lower natural gas benchmark prices (\$206 million).

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 2017 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. Additional information can be found in the Critical Accounting Estimates section of the MD&A included in Item 7 of the 2017 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,	
	2018	2017	2018	2017
Canadian Operations	\$ 95	\$ 53	\$ 257	\$ 170
USA Operations	241	139	628	368
Upstream DD&A	336	192	885	538
Market Optimization	-	1	1	1
Corporate & Other	13	17	38	51
Total	\$ 349	\$ 210	\$ 924	\$ 590

(\$/BOE)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Canadian Operations	\$ 4.57	\$ 3.84	\$ 4.55	\$ 3.89
USA Operations	\$ 17.05	\$ 11.31	\$ 16.39	\$ 9.22
Upstream DD&A	\$ 9.65	\$ 7.35	\$ 9.34	\$ 6.44

Three months ended September 30, 2018 versus September 30, 2017

DD&A increased \$139 million compared to the third quarter of 2017 primarily due to:

- Higher depletion rates in the USA and Canadian Operations (\$79 million and \$23 million, respectively) and higher volumes in the USA and Canadian Operations (\$24 million and \$22 million, respectively).

The depletion rates in the Canadian and USA Operations increased \$0.73 per BOE and \$5.74 per BOE, respectively, compared to the third quarter of 2017 primarily due to:

- Higher capital spending resulting from an increased capital program in 2018 and transfers of unproved property costs of previously acquired assets which have been evaluated for proved reserves.

Nine months ended September 30, 2018 versus September 30, 2017

DD&A increased \$334 million compared to the first nine months of 2017 primarily due to:

- Higher depletion rates in the USA and Canadian Operations (\$265 million and \$42 million, respectively) and higher volumes in the Canadian Operations (\$42 million).

The depletion rates in the Canadian and USA Operations increased \$0.66 per BOE and \$7.17 per BOE, respectively, compared to the first nine months of 2017 primarily due to:

- Higher capital spending resulting from an increased capital program in 2018, transfers of unproved property costs of previously acquired assets which have been evaluated for proved reserves and lower reserve volumes from the sale of the Piceance natural gas assets in the USA Operations in the third quarter of 2017.

Administrative

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Administrative (\$ millions)	\$ 57	\$ 86	\$ 187	\$ 168
Administrative (\$/BOE) ⁽¹⁾	\$ 1.64	\$ 3.31	\$ 1.98	\$ 2.02

(1) Administrative expense per BOE for the third quarter and first nine months of 2018 includes long-term incentive costs of \$0.47/BOE and \$0.64/BOE, respectively (2017 - \$1.68/BOE and \$0.44/BOE, respectively).

Three months ended September 30, 2018 versus September 30, 2017

Administrative expense in the third quarter of 2018 decreased \$29 million compared to the third quarter of 2017 primarily due to lower long-term incentive costs in 2018 resulting from the smaller change in Encana's share price in the third quarter of 2018 compared to 2017 (\$26 million).

Nine months ended September 30, 2018 versus September 30, 2017

Administrative expense in the first nine months of 2018 increased \$19 million compared to the first nine months of 2017 primarily due to higher long-term incentive costs resulting from the increase in Encana's share price in the first nine months of 2018 (\$25 million), partially offset by legal costs incurred in 2017 (\$5 million).

Other (Income) Expenses

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest	\$ 92	\$ 101	\$ 265	\$ 268
Foreign exchange (gain) loss, net	(23)	(210)	93	(294)
(Gain) loss on divestitures, net	-	(406)	(4)	(405)
Other (gains) losses, net	5	(11)	2	(46)
Total Other (Income) Expenses	\$ 74	\$ (526)	\$ 356	\$ (477)

Interest

Interest expense primarily includes interest on Encana's long-term debt arising from U.S. dollar denominated unsecured notes. Encana also incurs interest on the Company's long-term obligation for The Bow office building and capital leases. Further details 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.

Foreign Exchange (Gain) Loss, Net

Foreign exchange gains and losses result from the impact of fluctuations in the Canadian to U.S. dollar exchange rate. Further details 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.

In the third quarter of 2018, Encana recorded a lower net foreign exchange gain compared to 2017 (\$187 million). The change was primarily due to lower unrealized foreign exchange gains on the translation of U.S. dollar financing debt issued from Canada compared to 2017 (\$113 million) and unrealized foreign exchange losses on the translation of intercompany notes compared to gains in 2017 (\$64 million).

In the first nine months of 2018, Encana recorded a net foreign exchange loss compared to a net gain in 2017 (\$387 million). The change was primarily due to unrealized foreign exchange losses on the translation of U.S. dollar financing debt issued from Canada compared to gains in 2017 (\$403 million) and losses on the translation of U.S. dollar risk management contracts issued from Canada compared to gains in 2017 (\$60 million), partially offset by realized foreign exchange gains on the settlement of intercompany notes compared to losses in 2017 (\$65 million).

(Gain) Loss on Divestitures, Net

Amounts received from the Company's divestiture transactions are deducted from the respective Canadian and U.S. full cost pools, except for divestitures that result in a significant alteration between capitalized costs and proved reserves in a country cost centre, in which case a gain or loss is recognized. Additional information on gains on divestitures can be found in Note 8 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Gain on divestitures in the third quarter and first nine months of 2017 primarily includes the before tax gain on the sale of the Piceance natural gas assets. Further information on divestitures can be found in the Liquidity and Capital Resources section of this MD&A.

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 on short-term investments, interest received from tax authorities, reclamation charges relating to decommissioned assets and adjustments related to other assets.

Other gains in the first nine months of 2017 primarily includes interest received of \$33 million resulting from the successful resolution of certain tax items previously assessed by the tax authorities relating to prior taxation years.

Income Tax

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Current Income Tax Expense (Recovery)	\$ -	\$ 1	\$ (61)	\$ (56)
Deferred Income Tax Expense (Recovery)	6	227	6	283
Income Tax Expense (Recovery)	\$ 6	\$ 228	\$ (55)	\$ 227
Effective Tax Rate	13.3%	43.7%	343.8%	17.7%

Income Tax Expense (Recovery)

Three months ended September 30, 2018 versus September 30, 2017

In the third quarter of 2018, Encana recorded a lower income tax expense compared to 2017 primarily due to a lower deferred tax expense as a result of:

- Lower net earnings before income tax in 2018 compared to 2017;
- A reduction in the U.S. federal corporate tax rate to 21 percent from 35 percent resulting from U.S. Tax Reform; and
- Changes in the estimated annual effective income tax rate in 2017 arising from gains recognized on foreign exchange and divestitures, including allocated goodwill.

Nine months ended September 30, 2018 versus September 30, 2017

In the first nine months of 2018, Encana recorded a lower deferred income tax expense compared to 2017 primarily due to lower net earnings before income tax compared to 2017 and U.S. Tax Reform, as discussed above. The deferred tax expense in the first nine months of 2017 was primarily due to changes in the estimated annual effective income tax rate as discussed above.

There has been no change in 2018 to the provisional tax adjustment recognized in December 2017 resulting from the re-measurement of the Company's tax position due to a reduction of the U.S. federal corporate tax rate under U.S. Tax Reform. Additional information on U.S. Tax Reform can be found in Note 7 to the Consolidated Financial Statements included in Item 8 of the 2017 Annual Report on Form 10-K.

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 impacted by expected annual earnings, income tax related to foreign operations, the effect of legislative changes including U.S. Tax Reform, non-taxable capital gains and losses, tax differences on divestitures and transactions, and partnership tax allocations in excess of funding. These items resulted in an effective tax rate for the third quarter of 2018 which is lower than the Canadian statutory rate of 27 percent and an effective tax rate for the first nine months of 2018 that is above the Canadian statutory rate.

Tax interpretations, regulations and legislation, including U.S. Tax Reform and potential Treasury Department regulations and guidance, in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. 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 bank 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 and share issuances to fund its operations or to manage its capital structure as discussed below. At September 30, 2018, \$229 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 through a NCIB, issuing new debt or repaying existing debt.

(\$ millions, except as indicated)	As at September 30,	
	2018	2017
Cash and Cash Equivalents	\$ 615	\$ 889
Available Credit Facility – Encana ⁽¹⁾	2,500	3,000
Available Credit Facility – U.S. Subsidiary ⁽¹⁾	1,500	1,500
Total Liquidity	\$ 4,615	\$ 5,389
Long-Term Debt, including current portion	\$ 4,198	\$ 4,197
Total Shareholders' Equity	\$ 6,494	\$ 6,965
Debt to Capitalization (%) ⁽²⁾	39	38
Debt to Adjusted Capitalization (%) ⁽³⁾	23	22

(1) Collectively, the "Credit Facilities".

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

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

In the first quarter of 2018, the Company amended the capacity of its Encana Credit Facility from \$3.0 billion to \$2.5 billion and extended the maturity for both Credit Facilities to July 2022.

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. 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 12 to the Consolidated Financial Statements included in Item 8 of the 2017 Annual Report on Form 10-K.

Sources and Uses of Cash

In the third quarter and first nine months of 2018, 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,	
		2018	2017	2018	2017
Sources of Cash and Cash Equivalents					
Cash from operating activities	Operating	\$ 885	\$ 357	\$ 1,741	\$ 681
Proceeds from divestitures	Investing	24	625	89	710
Other	Investing	-	14	72	93
		909	996	1,902	1,484
Uses of Cash and Cash Equivalents					
Capital expenditures	Investing	523	473	1,626	1,287
Acquisitions	Investing	15	2	17	50
Purchase of common shares	Financing	50	-	250	-
Dividends on common shares	Financing	14	14	43	43
Other	Investing/Financing	31	21	68	61
		633	510	2,004	1,441
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		3	8	(2)	12
Increase (Decrease) in Cash and Cash Equivalents		\$ 279	\$ 494	\$ (104)	\$ 55

Operating Activities

Cash from operating activities in the third quarter and first nine months of 2018 was \$885 million and \$1,741 million, respectively, and was primarily a reflection of recovering liquids prices, increases in production volumes, the Company's efforts in maintaining cost efficiencies achieved in previous years and changes in non-cash working capital. Additional detail on changes in non-cash working capital can be found in Note 20 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 2018 was \$589 million and \$1,575 million, respectively. Non-GAAP Cash Flow 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, 2018 versus September 30, 2017

Net cash from operating activities increased \$528 million compared to the third quarter of 2017 primarily due to:

- Higher realized commodity prices (\$286 million), higher production volumes (\$228 million) and changes in non-cash working capital (\$215 million);

partially offset by:

- Realized losses on risk management in revenues in the third quarter of 2018 compared to realized gains in 2017 (\$118 million) and higher transportation and processing expense (\$79 million).

Nine months ended September 30, 2018 versus September 30, 2017

Net cash from operating activities increased \$1,060 million compared to the first nine months of 2017 primarily due to:

- Higher realized commodity prices (\$581 million), higher production volumes (\$394 million) and changes in non-cash working capital (\$390 million);

partially offset by:

- Higher transportation and processing expense (\$182 million), realized losses on risk management in revenues in the first nine months of 2018 compared to realized gains in 2017 (\$131 million) and lower interest income recorded in other gains (\$27 million).

Investing Activities

Cash used in investing activities in the first nine months of 2018 was \$1,482 million primarily due to capital expenditures. Capital expenditures in the first nine months of 2018 increased \$339 million compared to 2017 due to an increase in the Company's capital program for 2018. This increase was primarily in Montney (\$221 million) and Eagle Ford (\$70 million).

Divestitures in the first nine months of 2018 were \$89 million, which primarily included the sale of the Pipestone midstream assets in Alberta. Divestitures in the first nine months of 2017 were \$710 million, which primarily included the sale of the Piceance natural gas assets in northwestern Colorado and the sale of the Tuscaloosa Marine Shale assets in Mississippi and Louisiana. Divestitures also included the sale of certain properties that did not complement Encana's existing portfolio of assets.

Acquisitions in the first nine months of 2018 and 2017 were \$17 million and \$50 million, respectively, which primarily included purchases with oil and liquids rich potential.

Capital expenditures and acquisition and divestiture activity are summarized in Notes 3 and 8 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 in the first nine months of 2018 increased \$257 million compared to the first nine months of 2017. The change was primarily due to the purchase of common shares under a NCIB in the first nine months of 2018 (\$250 million) as discussed below.

Encana's long-term debt, including the current portion of \$500 million which is due May 2019, totaled \$4,198 million at September 30, 2018 and \$4,197 million at December 31, 2017. There was no current portion of long-term debt outstanding at December 31, 2017. As at September 30, 2018, over 73 percent of the Company's debt is not due until 2030 and beyond.

The Company continues to have full access to the Credit Facilities, which remain committed through July 2022. The Credit Facilities provide financial flexibility and allow the Company to fund its operations, development activities or capital program. At September 30, 2018, Encana had no outstanding balance under the Credit Facilities and \$144 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 renewed its Canadian shelf prospectus in August 2018 and has access to a U.S. shelf registration statement filed in 2017, whereby 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, 2018, \$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.

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,	
	2018	2017	2018	2017
Dividend Payments	\$ 14	\$ 15	\$ 43	\$ 44
Dividend Payments (\$/share)	\$ 0.015	\$ 0.015	\$ 0.045	\$ 0.045

On October 31, 2018, the Board of Directors declared a dividend of \$0.015 per common share payable on December 31, 2018 to common shareholders of record as of December 14, 2018.

Normal Course Issuer Bid

On February 26, 2018, Encana received approval from the TSX to commence a NCIB that enables the Company to purchase, for cancellation, up to 35 million common shares over a 12-month period from February 28, 2018 to February 27, 2019. The number of shares authorized for purchase represents approximately 3.6 percent of Encana's issued and outstanding common shares as at February 20, 2018. The Company has authorization from its Board to spend up to \$400 million on the NCIB. For

the third quarter and first nine months of 2018, the Company used cash on hand to purchase approximately 3.9 million and 20.7 million common shares, respectively, for total consideration of approximately \$50 million and \$250 million, respectively.

For additional information on NCIB, refer to Note 13 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 2017 Annual Report on Form 10-K.

Commitments and Contingencies

For information on commitments and contingencies, refer to Note 21 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, 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,	
	2018	2017	2018	2017
Cash From (Used in) Operating Activities	\$ 885	\$ 357	\$ 1,741	\$ 681
(Add back) deduct:				
Net change in other assets and liabilities	(17)	(11)	(33)	(27)
Net change in non-cash working capital	313	98	199	(191)
Current tax on sale of assets	-	-	-	-
Non-GAAP Cash Flow	\$ 589	\$ 270	\$ 1,575	\$ 899
Production Volumes (MMBOE)	34.8	26.1	94.7	83.5
Non-GAAP Cash Flow Margin (\$/BOE) ⁽¹⁾	\$ 16.93	\$ 10.34	\$ 16.63	\$ 10.77

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

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, 2018	December 31, 2017
Long-Term Debt, including current portion	\$ 4,198	\$ 4,197
Total Shareholders' Equity	6,494	6,728
Equity Adjustment for Impairments at December 31, 2011	7,746	7,746
Adjusted Capitalization	\$ 18,438	\$ 18,671
Debt to Adjusted Capitalization	23%	22%

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, the Company's ability to service its debt and other financial obligations, and as a measure considered comparable to other companies in the industry. 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, 2018	December 31, 2017
Long-Term Debt, including current portion	\$ 4,198	\$ 4,197
Less:		
Cash and cash equivalents	615	719
Net Debt	3,583	3,478
Net Earnings (Loss)	(190)	827
Add back (deduct):		
Depreciation, depletion and amortization	1,167	833
Impairments	-	-
Accretion of asset retirement obligation	31	37
Interest	360	363
Unrealized (gains) losses on risk management	376	(442)
Foreign exchange (gain) loss, net	108	(279)
(Gain) loss on divestitures, net	(3)	(404)
Other (gains) losses, net	6	(42)
Income tax expense (recovery)	321	603
Adjusted EBITDA (trailing 12-month)	\$ 2,176	\$ 1,496
Net Debt to Adjusted EBITDA (times)	1.6	2.3

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 2017 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 19 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, 2018	
	10% Price Increase	10% Price Decrease
Crude oil price	\$ (307)	\$ 286
NGL price	(20)	20
Natural gas price	(47)	41

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 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 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	\$ millions	\$/BOE	\$ millions	\$/BOE
Increase (Decrease) in:				
Capital Investment	\$ (6)		\$ 2	
Transportation and Processing Expense ⁽¹⁾	(6)	\$ (0.17)	6	\$ 0.06
Operating Expense ⁽¹⁾	(1)	(0.04)	1	0.01
Administrative Expense	(3)	(0.07)	-	-
Depreciation, Depletion and Amortization ⁽¹⁾	(2)	(0.06)	3	0.03

(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, 2018, Encana has entered into \$179 million notional U.S. dollar denominated currency swaps at an average exchange rate of US\$0.7606 to C\$1, which mature monthly through the remainder of 2018 and \$350 million notional U.S. dollar denominated currency swaps at an average exchange rate of US\$0.7579 to C\$1, which mature monthly throughout 2019.

As at September 30, 2018, Encana had \$4.2 billion in U.S. dollar long-term debt and \$259 million in U.S. dollar capital leases 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, 2018	
	10% Rate Increase	10% Rate Decrease
Foreign currency exchange	\$ (106)	\$ 129

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, 2018, the Company had no floating rate debt and there were no interest rate derivatives outstanding.

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, 2018.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in Encana's internal control over financial reporting during the second quarter of 2018 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.