



## AUDIT COMMITTEE MANDATE

Last updated December 13, 2016

### I. PURPOSE

The Audit Committee (the "Committee") is appointed by the Board of Directors (the "Board") of Encana Corporation (the "Corporation") to assist the Board in fulfilling its oversight responsibilities.

The Committee's primary duties and responsibilities are to:

- Review management's identification of principal financial risks and monitor the process to manage such risks.
- Oversee and monitor the Corporation's compliance with legal and regulatory requirements, including providing a report by the Committee in the Corporation's annual proxy statement.
- Receive and review the reports of the Committee of any subsidiary of the Corporation with public securities.
- Oversee and monitor the integrity of the Corporation's accounting and financial reporting processes, financial statements and system of internal controls regarding accounting and financial reporting and accounting compliance.
- Oversee audits of the Corporation's financial statements.
- Oversee and monitor the qualifications, independence and performance of the Corporation's external auditors and internal auditing department.
- Provide an avenue of communication among the external auditors, management, the internal audit department, and the Board.
- Report to the Board regularly.

The Committee has the authority to conduct any review or investigation appropriate to fulfilling its responsibilities. The Committee shall have unrestricted access to the Corporation's personnel and information, and any resources necessary to carry out its responsibilities. In this regard, the Committee may direct the Corporation's internal audit personnel to particular areas of examination.

### II. COMPOSITION AND MEETINGS

#### Committee Member's Duties in addition to those of a Director

The duties and responsibilities of a member of the Committee are in addition to those duties set out for a member of the Board.

#### Composition

The Committee shall consist of not less than three and not more than five directors as determined by the Board, all of whom shall qualify as independent directors pursuant to National Instrument 52-110 *Audit Committees* (as implemented by the Canadian

Securities Administrators and as amended from time to time) (“NI 52-110”), , Section 303A of the New York Stock Exchange’s Listed Company Manual and Rule 10A-3 of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”).

All members of the Committee shall be financially literate, as defined in NI 52-110, and at least one member shall be an “audit committee financial expert” as defined by the U.S. Securities and Exchange Commission (“SEC”). In particular, at least one member shall have, through (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions; (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions; (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or (iv) other relevant experience:

- An understanding of generally accepted accounting principles and financial statements;
- The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and provisions;
- Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation’s financial statements, or experience actively supervising one or more persons engaged in such activities;
- An understanding of internal controls and procedures for financial reporting; and
- An understanding of audit committee functions.

Committee members may not, other than in their respective capacities as members of the Committee, the Board or any other committee of the Board, accept directly or indirectly any consulting, advisory or other compensatory fee from the Corporation or any subsidiary of the Corporation, or be an “affiliated person” (as such term is defined in the Exchange Act and the rules adopted by the SEC thereunder) of the Corporation or any subsidiary of the Corporation. For greater certainty, directors’ fees and fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation that are not contingent on continued service should be the only compensation a Committee member receives from the Corporation.

At least one Committee member shall have experience in the oil and gas industry.

Committee members shall not simultaneously serve on the audit committees of more than two other public companies, unless the Board first determines that such simultaneous service will not impair the ability of the relevant members to effectively serve on the Committee, and required public disclosure is made.

The non-executive Board Chair shall be a non-voting member of the Committee. See Quorum for further details.

**Appointment of Members**

Committee members shall be appointed at a meeting of the Board, effective after the election of directors at the annual meeting of shareholders, provided that any member may be removed or replaced at any time by the Board and shall, in any event, cease to be a member of the Committee upon ceasing to be a member of the Board.

The Nominating and Corporate Governance Committee will recommend for approval to the Board an independent Director to act as Chair of the Committee. The Board shall appoint the Chair of the Committee.

If the Chair of the Committee is unavailable or unable to attend a meeting of the Committee, the Chair shall ask another member to chair the meeting, failing which a member of the Committee present at the meeting shall be chosen to preside over the meeting by a majority of the members of the Committee present at such meeting.

The Chair of the Committee presiding at any meeting of the Committee shall not have a casting vote.

The items pertaining to the Chair in this section should be read in conjunction with the Committee Chair section of the *Chair of the Board of Directors and Committee Chair General Guidelines*.

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board.

The Corporate Secretary or one of the Assistant Corporate Secretaries of the Corporation or such other person as the Corporate Secretary of the Corporation shall designate from time to time shall be the Secretary of the Committee and shall keep minutes of the meetings of the Committee.

**Meetings**

Committee meetings may, by agreement of the Chair of the Committee, be held in person, by video conference, by means of telephone or by a combination of any of the foregoing.

The Committee shall meet at least quarterly. The Chair of the Committee may call additional meetings as required. In addition, a meeting may be called by the non-executive Board Chair, the President & Chief Executive Officer, or any member of the Committee or by the external auditors.

The Committee shall have the right to determine who shall, and who shall not, be present at any time during a meeting of the Committee.

Directors, who are not members of the Committee, may attend Committee meetings, on an ad hoc basis, upon prior consultation and approval by the Committee Chair or by a majority of the members of the Committee.

The Committee may, by specific invitation, have other resource persons in attendance.

The President & Chief Executive Officer, the Executive Vice-President & Chief Financial Officer, the Vice-President, Finance & Comptroller, the Vice-President, Financial Compliance, Governance, and Risk or any vice-president holding a similar role in accounting, risk, compliance and/or audit are expected to be available to attend the Committee's meetings or portions thereof.

### **Notice of Meeting**

Notice of the time and place of each Committee meeting may be given orally, or in writing, or by facsimile, or by electronic means to each member of the Committee at least 48 hours prior to the time fixed for such meeting. Notice of each meeting shall also be given to the external auditors of the Corporation.

A member and the external auditors may, in any manner, waive notice of the Committee meeting. Attendance of a member at a meeting shall constitute waiver of notice of the meeting except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

### **Quorum**

A majority of Committee members, present in person, by video conference, by telephone, or by a combination thereof, shall constitute a quorum. In addition, if an ex officio, non-voting member's presence is required to attain a quorum of the Committee, then the said member shall be allowed to cast a vote at the meeting.

### **Minutes**

Minutes of each Committee meeting should be succinct yet comprehensive in describing substantive issues discussed by the Committee. However, they should clearly identify those items of responsibilities scheduled by the Committee for the meeting that have been discharged by the Committee and those items of responsibilities that are outstanding.

Minutes of Committee meetings shall be sent to all Committee members and to the external auditors.

The entire Board shall be kept informed of the Committee's activities by a report delivered by the Chair of the Committee following each Committee meeting.

## **III. RESPONSIBILITIES**

### **Review Procedures**

Review and update the Committee's mandate annually, or sooner, where the Committee deems it appropriate to do so. Provide a summary of the Committee's composition and responsibilities for inclusion in the Corporation's applicable public disclosure documents.

Provide a summary of all approvals by the Committee of the provision of audit, audit-related, tax and other services by the external auditors for inclusion in the Corporation's annual report filed with the SEC.

**Annual Financial Information**

1. Discuss and review with management and the external auditors the Corporation's and any subsidiary with public securities annual financial information included in the Corporation's annual report and other related documents prior to their filing or distribution. Such review to include:
  - a. The annual financial statements and related footnotes including significant issues regarding accounting principles, practices and significant management estimates and judgments, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy of the Corporation's internal controls and any special steps adopted in light of material control deficiencies.
  - b. Management's Discussion and Analysis.
  - c. A review of the use of off-balance sheet financing including management's risk assessment and adequacy of disclosure.
  - d. A review of the external auditors' audit examination of the financial statements and their report thereon.
  - e. Review of any significant changes required in the external auditors' audit plan.
  - f. A review of any serious difficulties or disputes with management encountered during the course of the audit, including any restrictions on the scope of the external auditors' work or access to required information.
  - g. A review of other matters related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards.
  - h. Other financial information included within the Corporation's annual report and proxy statement.
2. Review and formally recommend approval to the Board of the Corporation's:
  - a. Year-end audited financial statements. Such review shall include discussions with management and the external auditors as to:
    - (i) The accounting policies of the Corporation and any changes thereto.
    - (ii) The effect of significant judgments, accruals and estimates.
    - (iii) The manner of presentation of significant accounting items.
    - (iv) The consistency of disclosure.
  - b. Management's Discussion and Analysis.
  - c. Other financial information included within the Corporation's annual report and proxy statement.

The review shall include a report from the external auditors about the quality of the most critical accounting principles upon which the Corporation's financial status depends, and which involve the most complex, subjective or significant judgmental decisions or assessments.

3. Provide a report by the Committee in the Corporation's annual proxy statement.

#### **Quarterly Financial Information**

4. Review with management and the external auditors and either approve (such approval to include the authorization for public release) in the Corporation's quarterly reports or formally recommend for approval to the Board the Corporation's:
  - a. Quarterly unaudited financial statements and related documents, including Management's Discussion and Analysis.
  - b. Any significant changes to the Corporation's accounting principles.

Review quarterly unaudited financial statements of any subsidiary of the Corporation with public securities prior to their distribution.

#### **Other Financial Filings and Public Documents**

5. Review and discuss with management financial information, including annual and interim earnings press releases, the use of "pro forma" or non-GAAP financial information and earnings guidance, contained in any filings with the securities regulators or news releases related thereto (or provided to analysts or rating agencies). Consideration should be given as to whether the information is consistent with the information contained in the financial statements of the Corporation or any subsidiary with public securities. Such review and discussion should occur before public disclosure and may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

#### **Internal Control Environment**

6. Ensure that management, the external auditors, and the internal auditors provide to the Committee an annual report on the Corporation's control environment as it pertains to the Corporation's financial reporting process and controls.
7. Review and discuss significant financial risks or exposures and assess the steps management has taken to monitor, control, report and mitigate such risk to the Corporation.
8. Review significant findings prepared by the external auditors and the internal auditing department together with management's responses.
9. Review in consultation with the internal auditors and the external auditors the degree of coordination in the audit plans of the internal auditors and the external auditors and enquire as to the extent the planned scope can be relied upon to detect weaknesses in internal controls, fraud, or other illegal acts. The Committee will assess the coordination of audit effort to assure completeness of coverage and the effective use of audit resources. Any significant recommendations made by the auditors for the strengthening of internal controls shall be reviewed and discussed with management.

**Other Review Items**

10. Review policies and procedures with respect to officers' and directors' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the internal auditor or the external auditors.
11. Review all related party transactions between the Corporation and any officers or directors, including affiliations of any officers or directors.
12. Review with the Executive Vice-President & General Counsel, the head of internal audit and the external auditors the results of their review of the Corporation's monitoring compliance with the Corporation's Business Code of Conduct and applicable legal requirements.
13. Review legal and regulatory matters, including correspondence with regulators and governmental agencies, that may have a material impact on the interim or annual financial statements, related corporation compliance policies, and programs and reports received from regulators or governmental agencies. Members from the Legal Service and Tax departments should be at the meeting in person to deliver their reports.
14. Review policies and practices with respect to off-balance sheet transactions and trading and hedging activities, and consider the results of any review of these areas by the internal auditors or the external auditors.
15. Review management's processes in place to prevent and detect fraud.
16. Review procedures for the receipt, retention and treatment of complaints received by the Corporation, including confidential, anonymous submissions by employees of the Corporation, regarding accounting, internal accounting controls, or auditing matters.
17. Review with the President & Chief Executive Officer, the Executive Vice-President & Chief Financial Officer of the Corporation and the external auditors: (i) all significant deficiencies and material weaknesses in the design or operation of the Corporation's internal controls and procedures for financial reporting which could adversely affect the Corporation's ability to record, process, summarize and report financial information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act or applicable Canadian federal and provincial legislation and regulations within the required time periods, and (ii) any fraud, whether or not material, that involves management of the Corporation or other employees who have a significant role in the Corporation's internal controls and procedures for financial reporting.
18. Meet on a periodic basis separately with management.

**External Auditors**

19. Be directly responsible, in the Committee's capacity as a committee of the Board and subject to the rights of shareholders and applicable law, for the appointment, compensation, retention and oversight of the work of the external auditors (including

resolution of disagreements between management and the external auditors regarding financial reporting) for the purpose of preparing or issuing an audit report, or performing other audit, review or attest services for the Corporation. The external auditors shall report directly to the Committee.

20. Meet on a regular basis with the external auditors (without management present) and have the external auditors be available to attend Committee meetings or portions thereof at the request of the Chair of the Committee or by a majority of the members of the Committee.
21. Review and discuss a report from the external auditors at least quarterly regarding:
  - a. All critical accounting policies and practices to be used;
  - b. All alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; and
  - c. Other material written communications between the external auditors and management, such as any management letter or schedule of unadjusted differences.
22. Obtain and review a report from the external auditors at least annually regarding:
  - a. The external auditors' internal quality-control procedures;
  - b. Any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with those issues; and
  - c. To the extent contemplated in the following paragraph, all relationships between the external auditors and the Corporation.
23. Review and discuss with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to determine the external auditors' independence, including, without limitation, (i) receiving and reviewing, as part of the report described in the preceding paragraph, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation and its affiliates, (ii) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors, and (iii) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence.

24. Review and evaluate:
  - a. The external auditors' and the lead partner of the external auditors' team's performance, and make a recommendation to the Board regarding the reappointment of the external auditors at the annual meeting of the Corporation's shareholders or regarding the discharge of such external auditors;
  - b. The terms of engagement of the external auditors together with their proposed fees;
  - c. External audit plans and results;
  - d. Any other related audit engagement matters; and
  - e. The engagement of the external auditors to perform non-audit services, together with the fees therefor, and the impact thereof, on the independence of the external auditors.
25. Upon reviewing and discussing the information provided to the Committee in accordance with paragraphs 21 through 24, evaluate the external auditors' qualifications, performance and independence, including whether or not the external auditors' quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining auditor independence, taking into account the opinions of management and the head of internal audit. The Committee shall present its conclusions with respect to the external auditors to the Board.
26. Ensure the rotation of partners on the audit engagement team in accordance with applicable law. Consider whether, in order to assure continuing external auditor independence, it is appropriate to adopt a policy of rotating the external auditing firm on a regular basis.
27. Set clear hiring policies for the Corporation's hiring of employees or former employees of the external auditors.
28. Consider with management and the external auditors the rationale for employing audit firms other than the principal external auditors.
29. Consider and review with the external auditors, management and the head of internal audit:
  - a. Significant findings during the year and management's responses and follow-up thereto;
  - b. Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information, and management's response;
  - c. Any significant disagreements between the external auditors or internal auditors and management;

- d. Any changes required in the planned scope of their audit plan;
- e. The resources, budget, reporting relationships, responsibilities and planned activities of the internal auditors;
- f. The internal audit department mandate; and
- g. Internal audit's compliance with the Institute of Internal Auditors' standards.

### **Internal Audit Department and Independence**

- 30. Meet on a periodic basis separately with the Corporation's head of internal audit.
- 31. Review and concur in the appointment, compensation, replacement, reassignment, or dismissal of the head of internal audit.
- 32. Confirm and assure, annually, the independence of the internal audit department and the external auditors.

### **Approval of Audit and Non-Audit Services**

- 33. Review and, where appropriate, approve the provision of all permitted non-audit services (including the fees and terms thereof) in advance of the provision of those services by the external auditors (subject to *de minimus* exceptions for non-audit services described, in NI 52-110, the rules and forms under the Exchange Act, SEC Regulation S-X or other applicable Canadian or United States federal, provincial and state legislation and regulations, which services are approved by the Committee prior to the completion of the audit).
- 34. Review and, where appropriate and permitted, approve the provision of all audit services (including the fees and terms thereof) in advance of the provision of those services by the external auditors.
- 35. If the pre-approvals contemplated in paragraphs 33 and 34 are not obtained, approve, where appropriate and permitted, the provision of all audit and non-audit services promptly after the Committee or a member of the Committee to whom authority is delegated becomes aware of the provision of those services.
- 36. Delegate, if the Committee deems necessary or desirable, to subcommittees consisting of one or more members of the Committee, the authority to grant the pre-approvals and approvals described in paragraphs 33 through 35. The decision of any such subcommittee to grant pre-approval shall be presented to the full Committee at the next scheduled Committee meeting.
- 37. The Committee may establish policies and procedures for the pre-approvals described in paragraphs 33 and 34, so long as such policies and procedures are detailed as to the particular service, the Committee is informed of each service and such policies and procedures do not include delegation of the Committee's responsibilities under the Exchange Act or applicable Canadian federal and provincial legislation and regulations to management.

**Other Matters**

38. Review and concur in the appointment, replacement, reassignment, or dismissal of the Corporation's Executive Vice-President & Chief Financial Officer.
39. Upon a majority vote of the Committee outside resources may be engaged where and if deemed advisable.
40. Report Committee actions to the Board with such recommendations, as the Committee may deem appropriate.
41. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain, obtain advice or otherwise receive assistance from independent counsel, accountants, or others to assist it in the conduct of any investigation as it deems necessary and the carrying out of its duties.
42. The Corporation shall provide for appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for payment (i) of compensation to the external auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation, (ii) of compensation to any advisors employed by the Committee and (iii) of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
43. Obtain assurance from the external auditors that disclosure to the Committee is not required pursuant to the provisions of the Exchange Act regarding the discovery of illegal acts by the external auditors.
44. The Committee shall review and reassess the adequacy of this Mandate annually and recommend any proposed changes to the Board for approval.
45. The Committee's performance shall be evaluated annually by the Nominating and Corporate Governance Committee of the Board.
46. Perform such other functions as required by law, the Corporation's mandate or bylaws, or the Board.
47. Consider any other matters referred to it by the Board.