



Encana Corporation

Interim Condensed Consolidated Financial Statements
(unaudited)

For the period ended December 31, 2016

(U.S. Dollars)

Condensed Consolidated Statement of Earnings *(unaudited)*

(US\$ millions, except per share amounts)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Revenues	<i>(Note 3)</i>			
Product revenues	\$ 705	\$ 728	\$ 2,443	\$ 3,350
Gains (losses) on risk management, net	<i>(Note 19)</i> (164)	203	(275)	592
Market optimization	254	72	647	368
Other	27	28	103	112
Total Revenues	822	1,031	2,918	4,422
Operating Expenses	<i>(Note 3)</i>			
Production, mineral and other taxes	26	31	99	144
Transportation and processing	<i>(Note 19)</i> 186	298	901	1,252
Operating	152	171	598	723
Purchased product	237	63	586	323
Depreciation, depletion and amortization	184	276	859	1,488
Impairments	<i>(Note 8)</i> -	805	1,396	6,473
Accretion of asset retirement obligation	<i>(Note 11)</i> 13	11	51	45
Administrative	<i>(Note 15)</i> 78	58	309	275
Total Operating Expenses	876	1,713	4,799	10,723
Operating Income (Loss)	(54)	(682)	(1,881)	(6,301)
Other (Income) Expenses				
Interest	<i>(Note 5)</i> 88	106	397	614
Foreign exchange (gain) loss, net	<i>(Notes 6, 19)</i> 97	164	(210)	1,082
(Gain) loss on divestitures, net	<i>(Note 4)</i> 3	-	(390)	(14)
Other (gains) losses, net	<i>(Note 9)</i> 9	25	(58)	27
Total Other (Income) Expenses	197	295	(261)	1,709
Net Earnings (Loss) Before Income Tax	(251)	(977)	(1,620)	(8,010)
Income tax expense (recovery)	<i>(Note 7)</i> 30	(365)	(676)	(2,845)
Net Earnings (Loss)	\$ (281)	\$ (612)	\$ (944)	\$ (5,165)
Net Earnings (Loss) per Common Share				
Basic & Diluted	<i>(Note 12)</i> \$ (0.29)	\$ (0.72)	\$ (1.07)	\$ (6.28)
Dividends Declared per Common Share	<i>(Note 12)</i> \$ 0.015	\$ 0.07	\$ 0.06	\$ 0.28
Weighted Average Common Shares Outstanding (millions)				
Basic & Diluted	<i>(Note 12)</i> 972.4	846.5	882.6	822.1

Condensed Consolidated Statement of Comprehensive Income *(unaudited)*

(US\$ millions)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Net Earnings (Loss)	\$ (281)	\$ (612)	\$ (944)	\$ (5,165)
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustment	<i>(Note 13)</i> 37	68	(183)	668
Pension and other post-employment benefit plans	<i>(Notes 13, 17)</i> 4	31	3	33
Other Comprehensive Income (Loss)	41	99	(180)	701
Comprehensive Income (Loss)	\$ (240)	\$ (513)	\$ (1,124)	\$ (4,464)

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet *(unaudited)*

(US\$ millions)	As at December 31, 2016	As at December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 834	\$ 271
Accounts receivable and accrued revenues	663	645
Risk management <i>(Notes 18, 19)</i>	-	367
Income tax receivable	426	324
	1,923	1,607
Property, Plant and Equipment, at cost: <i>(Note 8)</i>		
Natural gas and oil properties, based on full cost accounting		
Proved properties	39,610	40,647
Unproved properties	5,198	5,616
Other	2,194	2,181
Property, plant and equipment	47,002	48,444
Less: Accumulated depreciation, depletion and amortization	(38,863)	(38,587)
Property, plant and equipment, net <i>(Note 3)</i>	8,139	9,857
Cash in Reserve	2	2
Other Assets	136	266
Risk Management <i>(Notes 18, 19)</i>	16	11
Deferred Income Taxes	1,658	1,081
Goodwill <i>(Notes 3, 4)</i>	2,779	2,790
	\$ 14,653	\$ 15,614
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,303	\$ 1,311
Income tax payable	5	6
Risk management <i>(Notes 18, 19)</i>	254	16
	1,562	1,333
Long-Term Debt <i>(Note 9)</i>	4,198	5,333
Other Liabilities and Provisions <i>(Note 10)</i>	2,047	1,975
Risk Management <i>(Notes 18, 19)</i>	35	9
Asset Retirement Obligation <i>(Note 11)</i>	654	773
Deferred Income Taxes	31	24
	8,527	9,447
Commitments and Contingencies <i>(Note 20)</i>		
Shareholders' Equity		
Share capital - authorized unlimited common shares		
2016 issued and outstanding: 973.0 million shares (2015: 849.8 million shares) <i>(Note 12)</i>	4,756	3,621
Paid in surplus	1,358	1,358
Retained earnings (Accumulated deficit)	(1,198)	(202)
Accumulated other comprehensive income <i>(Note 13)</i>	1,210	1,390
Total Shareholders' Equity	6,126	6,167
	\$ 14,653	\$ 15,614

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Shareholders' Equity *(unaudited)*

Twelve Months Ended December 31, 2016 (US\$ millions)	Share Capital	Paid in Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2015	\$ 3,621	\$ 1,358	\$ (202)	\$ 1,390	\$ 6,167
Net Earnings (Loss)	-	-	(944)	-	(944)
Dividends on Common Shares <i>(Note 12)</i>	-	-	(52)	-	(52)
Common Shares Issued <i>(Note 12)</i>	1,134	-	-	-	1,134
Common Shares Issued Under					
Dividend Reinvestment Plan <i>(Note 12)</i>	1	-	-	-	1
Other Comprehensive Income (Loss) <i>(Note 13)</i>	-	-	-	(180)	(180)
Balance, December 31, 2016	\$ 4,756	\$ 1,358	\$ (1,198)	\$ 1,210	\$ 6,126

Twelve Months Ended December 31, 2015 (US\$ millions)	Share Capital	Paid in Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2014	\$ 2,450	\$ 1,358	\$ 5,188	\$ 689	\$ 9,685
Net Earnings (Loss)	-	-	(5,165)	-	(5,165)
Dividends on Common Shares <i>(Note 12)</i>	-	-	(225)	-	(225)
Common Shares Issued <i>(Note 12)</i>	1,098	-	-	-	1,098
Common Shares Issued Under					
Dividend Reinvestment Plan <i>(Note 12)</i>	73	-	-	-	73
Other Comprehensive Income (Loss) <i>(Note 13)</i>	-	-	-	701	701
Balance, December 31, 2015	\$ 3,621	\$ 1,358	\$ (202)	\$ 1,390	\$ 6,167

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows *(unaudited)*

(US\$ millions)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Operating Activities				
Net earnings (loss)	\$ (281)	\$ (612)	\$ (944)	\$ (5,165)
Depreciation, depletion and amortization	184	276	859	1,488
Impairments <i>(Note 8)</i>	-	805	1,396	6,473
Accretion of asset retirement obligation <i>(Note 11)</i>	13	11	51	45
Deferred income taxes <i>(Note 7)</i>	85	(369)	(598)	(2,811)
Unrealized (gain) loss on risk management <i>(Note 19)</i>	149	90	614	331
Unrealized foreign exchange (gain) loss <i>(Note 6)</i>	83	132	(140)	687
Foreign exchange on settlements <i>(Note 6)</i>	21	21	(68)	358
(Gain) loss on divestitures, net <i>(Note 4)</i>	3	-	(390)	(14)
Other	45	29	58	38
Net change in other assets and liabilities	(11)	7	(26)	(11)
Net change in non-cash working capital	(92)	58	(187)	262
Cash From (Used in) Operating Activities	199	448	625	1,681
Investing Activities				
Capital expenditures <i>(Note 3)</i>	(353)	(280)	(1,132)	(2,232)
Acquisitions <i>(Note 4)</i>	(141)	(32)	(210)	(70)
Proceeds from divestitures <i>(Note 4)</i>	149	793	1,262	1,908
Cash in reserve	-	(1)	-	71
Net change in investments and other	100	(188)	51	(342)
Cash From (Used in) Investing Activities	(245)	292	(29)	(665)
Financing Activities				
Net issuance (repayment) of revolving long-term debt <i>(Note 9)</i>	-	(764)	(650)	(627)
Repayment of long-term debt <i>(Note 9)</i>	-	-	(400)	(1,302)
Issuance of common shares, net of offering costs <i>(Note 12)</i>	148	-	1,129	1,088
Dividends on common shares <i>(Note 12)</i>	(14)	(39)	(51)	(152)
Capital lease payments and other financing arrangements <i>(Note 10)</i>	(17)	(13)	(66)	(61)
Cash From (Used in) Financing Activities	117	(816)	(38)	(1,054)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency				
	(3)	(5)	5	(29)
Increase (Decrease) in Cash and Cash Equivalents	68	(81)	563	(67)
Cash and Cash Equivalents, Beginning of Period	766	352	271	338
Cash and Cash Equivalents, End of Period	\$ 834	\$ 271	\$ 834	\$ 271
Cash, End of Period	\$ 78	\$ 58	\$ 78	\$ 58
Cash Equivalents, End of Period	756	213	756	213
Cash and Cash Equivalents, End of Period	\$ 834	\$ 271	\$ 834	\$ 271

See accompanying Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

1. Basis of Presentation and Principles of Consolidation

Encana Corporation and its subsidiaries (“Encana” or “the Company”) are in the business of the exploration for, the development of, and the production and marketing of natural gas, oil and natural gas liquids (“NGLs”). The term liquids is used to represent Encana’s oil, NGLs and condensate.

The interim Condensed Consolidated Financial Statements include the accounts of Encana and are presented in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”).

The interim Condensed Consolidated Financial Statements include the accounts of Encana and entities in which it holds a controlling interest. All intercompany balances and transactions are eliminated on consolidation. Undivided interests in natural gas and oil exploration and production joint ventures and partnerships are consolidated on a proportionate basis. Investments in non-controlled entities over which Encana has the ability to exercise significant influence are accounted for using the equity method.

The interim Condensed Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual audited Consolidated Financial Statements for the year ended December 31, 2015, except as noted below in Note 2. The disclosures provided below are incremental to those included with the annual audited Consolidated Financial Statements. Certain information and disclosures normally required to be included in the notes to the annual audited Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, the interim Condensed Consolidated Financial Statements should be read in conjunction with the annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2015.

These unaudited interim Condensed Consolidated Financial Statements reflect, in the opinion of Management, all normal and recurring adjustments necessary to present fairly the financial position and results of the Company as at and for the periods presented.

2. Recent Accounting Pronouncements

Changes in Accounting Policies and Practices

On January 1, 2016, Encana adopted the following accounting standards updates (“ASU”) issued by the Financial Accounting Standards Board (“FASB”), which have not had a material impact on the Company’s interim Condensed Consolidated Financial Statements:

- ASU 2014-12, “Compensation - Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period”. The update requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. The amendments have been applied prospectively.
- ASU 2015-02, “Amendments to the Consolidation Analysis”. The update requires limited partnerships and similar entities to be evaluated under the variable interest and voting interest models, eliminate the presumption that a general partner should consolidate a limited partnership, and simplify the identification of variable interests and related effect on the primary beneficiary criterion when fees are paid to a decision maker. The amendments have been applied using a full retrospective approach.
- ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs” and ASU 2015-15, “Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements”. The updates require debt issuance costs to be presented on the balance sheet as a deduction from the carrying amount of the related liability. Previously, debt issuance costs were presented as a deferred charge within assets. The updates further clarify that regardless of whether there are outstanding borrowings, debt issuance costs arising from credit arrangements can be presented as an asset and subsequently amortized ratably over the term of the arrangement. These amendments have been applied

Notes to Condensed Consolidated Financial Statements (*unaudited*)

(All amounts in US\$ millions, unless otherwise specified)

retrospectively and resulted in a \$30 million decrease in Other Assets, with a corresponding \$30 million decrease in Long-Term Debt as at December 31, 2015.

New Standards Issued Not Yet Adopted

As of January 1, 2018, Encana will be required to adopt ASU 2014-09, “Revenue from Contracts with Customers” under Topic 606, which replaces Topic 605, “Revenue Recognition”, and other industry-specific guidance in the Accounting Standards Codification (“ASC”). The new standard is based on the principle that revenue is recognized on the transfer of promised goods or services to customers in an amount that reflects the consideration the company expects to be entitled to in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, “Deferral of Effective Date for Revenue from Contracts with Customers”, which deferred the effective date of ASU 2014-09, but permits early adoption using the original effective date of January 1, 2017. The standard can be applied using one of two retrospective application methods at the date of adoption. Although Encana has not yet completed the implementation, the Company currently believes the standard will not have a material impact on the Company’s Consolidated Financial Statements other than enhanced disclosures related to the disaggregation of revenues from contracts with customers, the Company’s performance obligations and significant judgments.

As of January 1, 2019, Encana will be required to adopt ASU 2016-02, “Leases” under Topic 842, which replaces Topic 840 “Leases”. The new standard will require lessees to recognize right-of-use assets and related lease liabilities for all leases, including leases classified as operating leases, on the Consolidated Balance Sheet. The dual classification model requiring leases recognized to be classified as either finance or operating leases was retained for the purpose of subsequent measurement and presentation in the Consolidated Statement of Earnings and Consolidated Statement of Cash Flows. The new standard also expands disclosures related to the amount, timing and uncertainty of cash flows arising from leases. The standard will be applied using a modified retrospective approach and provides for certain practical expedients. Encana is currently in the early stages of evaluating the standard, but expects that it will have a material impact on the Company’s Consolidated Financial Statements.

As of January 1, 2020, Encana will be required to adopt ASU 2017-04, “Simplifying the Test for Goodwill Impairment”. The amendment eliminates the second step of the goodwill impairment test which required the Company to measure the impairment based on the excess amount of the carrying value of the reporting unit’s goodwill over the implied fair value of its goodwill. Under this amendment, the goodwill impairment will be measured based on the excess amount of the reporting unit’s carrying value over its respective fair value. Encana is currently in the early stages of reviewing the amendment.

3. Segmented Information

Encana's reportable segments are determined based on the Company's operations and geographic locations as follows:

- **Canadian Operations** includes the exploration for, development of, and production of natural gas, oil and NGLs and other related activities within the Canadian cost centre.
- **USA Operations** includes the exploration for, development of, and production of natural gas, oil and NGLs and other related activities within the U.S. cost centre.
- **Market Optimization** is primarily responsible for the sale of the Company's proprietary production. These results are reported in the Canadian and USA Operations. Market optimization activities include third party purchases and sales of product to provide operational flexibility and cost mitigation for transportation commitments, product type, delivery points and customer diversification. These activities are reflected in the Market Optimization segment. Market Optimization sells substantially all of the Company's upstream production to third party customers. Transactions between segments are based on market values and are eliminated on consolidation.

Corporate and Other mainly includes unrealized gains or losses recorded on derivative financial instruments. Once the instruments are settled, the realized gains and losses are recorded in the reporting segment to which the derivative instruments relate.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

Results of Operations (For the three months ended December 31)

Segment and Geographic Information

	Canadian Operations		USA Operations		Market Optimization	
	2016	2015	2016	2015	2016	2015
Revenues						
Product revenues	\$ 288	\$ 278	\$ 417	\$ 450	\$ -	\$ -
Gains (losses) on risk management, net	(15)	129	19	162	(1)	-
Market optimization	-	-	-	-	254	72
Other	2	5	7	7	-	-
Total Revenues	275	412	443	619	253	72
Operating Expenses						
Production, mineral and other taxes	6	6	20	25	-	-
Transportation and processing	136	158	46	126	22	12
Operating	37	44	101	120	10	5
Purchased product	-	-	-	-	237	63
Depreciation, depletion and amortization	57	68	109	186	-	-
Impairments	-	-	-	805	-	-
Total Operating Expenses	236	276	276	1,262	269	80
Operating Income (Loss)	\$ 39	\$ 136	\$ 167	\$ (643)	\$ (16)	\$ (8)
			Corporate & Other		Consolidated	
			2016	2015	2016	2015
Revenues						
Product revenues			\$ -	\$ -	\$ 705	\$ 728
Gains (losses) on risk management, net			(167)	(88)	(164)	203
Market optimization			-	-	254	72
Other			18	16	27	28
Total Revenues			(149)	(72)	822	1,031
Operating Expenses						
Production, mineral and other taxes			-	-	26	31
Transportation and processing			(18)	2	186	298
Operating			4	2	152	171
Purchased product			-	-	237	63
Depreciation, depletion and amortization			18	22	184	276
Impairments			-	-	-	805
Accretion of asset retirement obligation			13	11	13	11
Administrative			78	58	78	58
Total Operating Expenses			95	95	876	1,713
Operating Income (Loss)			\$ (244)	\$ (167)	(54)	(682)
Other (Income) Expenses						
Interest					88	106
Foreign exchange (gain) loss, net					97	164
(Gain) loss on divestitures, net					3	-
Other (gains) losses, net					9	25
Total Other (Income) Expenses					197	295
Net Earnings (Loss) Before Income Tax					(251)	(977)
Income tax expense (recovery)					30	(365)
Net Earnings (Loss)					\$ (281)	\$ (612)

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

Results of Operations (For the twelve months ended December 31)

Segment and Geographic Information

	Canadian Operations		USA Operations		Market Optimization	
	2016	2015	2016	2015	2016	2015
Revenues						
Product revenues	\$ 952	\$ 1,309	\$ 1,491	\$ 2,041	\$ -	\$ -
Gains (losses) on risk management, net	107	495	255	425	(1)	(3)
Market optimization	-	-	-	-	647	368
Other	8	18	24	25	-	-
Total Revenues	1,067	1,822	1,770	2,491	646	365
Operating Expenses						
Production, mineral and other taxes	23	28	76	116	-	-
Transportation and processing	576	654	260	580	87	12
Operating	152	152	394	519	35	33
Purchased product	-	-	-	-	586	323
Depreciation, depletion and amortization	260	305	523	1,088	-	-
Impairments	493	-	903	6,473	-	-
Total Operating Expenses	1,504	1,139	2,156	8,776	708	368
Operating Income (Loss)	\$ (437)	\$ 683	\$ (386)	\$ (6,285)	\$ (62)	\$ (3)
			Corporate & Other		Consolidated	
			2016	2015	2016	2015
Revenues						
Product revenues			\$ -	\$ -	\$ 2,443	\$ 3,350
Gains (losses) on risk management, net			(636)	(325)	(275)	592
Market optimization			-	-	647	368
Other			71	69	103	112
Total Revenues			(565)	(256)	2,918	4,422
Operating Expenses						
Production, mineral and other taxes			-	-	99	144
Transportation and processing			(22)	6	901	1,252
Operating			17	19	598	723
Purchased product			-	-	586	323
Depreciation, depletion and amortization			76	95	859	1,488
Impairments			-	-	1,396	6,473
Accretion of asset retirement obligation			51	45	51	45
Administrative			309	275	309	275
Total Operating Expenses			431	440	4,799	10,723
Operating Income (Loss)			\$ (996)	\$ (696)	(1,881)	(6,301)
Other (Income) Expenses						
Interest					397	614
Foreign exchange (gain) loss, net					(210)	1,082
(Gain) loss on divestitures, net					(390)	(14)
Other (gains) losses, net					(58)	27
Total Other (Income) Expenses					(261)	1,709
Net Earnings (Loss) Before Income Tax					(1,620)	(8,010)
Income tax expense (recovery)					(676)	(2,845)
Net Earnings (Loss)					\$ (944)	\$ (5,165)

Notes to Condensed Consolidated Financial Statements (unaudited)

(All amounts in US\$ millions, unless otherwise specified)

Intersegment Information

	Market Optimization					
	Marketing Sales		Upstream Eliminations		Total	
	2016	2015	2016	2015	2016	2015
For the three months ended December 31						
Revenues	\$ 939	\$ 964	\$ (686)	\$ (892)	\$ 253	\$ 72
Operating Expenses						
Transportation and processing	60	87	(38)	(75)	22	12
Operating	10	5	-	-	10	5
Purchased product	885	880	(648)	(817)	237	63
Operating Income (Loss)	\$ (16)	\$ (8)	\$ -	\$ -	\$ (16)	\$ (8)

	Market Optimization					
	Marketing Sales		Upstream Eliminations		Total	
	2016	2015	2016	2015	2016	2015
For the twelve months ended December 31						
Revenues	\$ 3,304	\$ 4,309	\$ (2,658)	\$ (3,944)	\$ 646	\$ 365
Operating Expenses						
Transportation and processing	279	348	(192)	(336)	87	12
Operating	35	33	-	-	35	33
Purchased product	3,052	3,931	(2,466)	(3,608)	586	323
Operating Income (Loss)	\$ (62)	\$ (3)	\$ -	\$ -	\$ (62)	\$ (3)

Capital Expenditures

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Canadian Operations	\$ 83	\$ 39	\$ 256	\$ 380
USA Operations	268	242	873	1,847
Market Optimization	-	-	1	1
Corporate & Other	2	(1)	2	4
	\$ 353	\$ 280	\$ 1,132	\$ 2,232

Goodwill, Property, Plant and Equipment and Total Assets by Segment

	Goodwill		Property, Plant and Equipment		Total Assets ⁽¹⁾	
	As at		As at		As at	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Canadian Operation	\$ 650	\$ 661	\$ 602	\$ 1,100	\$ 1,542	\$ 2,036
USA Operations	2,129	2,129	6,050	7,249	9,535	10,405
Market Optimization	-	-	2	1	105	95
Corporate & Other	-	-	1,485	1,507	3,471	3,078
	\$ 2,779	\$ 2,790	\$ 8,139	\$ 9,857	\$ 14,653	\$ 15,614

⁽¹⁾ Total Assets for 2015 has been restated due to the adoption of ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", as described in Note 2.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

4. Acquisitions and Divestitures

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Acquisitions				
Canadian Operations	\$ -	\$ 8	\$ 1	\$ 9
USA Operations	141	24	209	27
Corporate & Other	-	-	-	34
Total Acquisitions	141	32	210	70
Divestitures				
Canadian Operations	1	(24)	(456)	(959)
USA Operations	(150)	(769)	(806)	(896)
Corporate & Other	-	-	-	(53)
Total Divestitures	(149)	(793)	(1,262)	(1,908)
Net Acquisitions & (Divestitures)	\$ (8)	\$ (761)	\$ (1,052)	\$ (1,838)

Acquisitions

During the twelve months ended December 31, 2016, acquisitions in the USA Operations primarily included the purchase of natural gas gathering and water handling assets in Piceance located in Colorado and the purchase of land and property in Eagle Ford with oil and liquids rich potential.

Divestitures

For the twelve months ended December 31, 2016, divestitures in the Canadian Operations were \$456 million, which primarily included the sale of the Gordondale assets in Montney located in northwestern Alberta for proceeds of approximately C\$600 million (\$455 million), after closing adjustments. For the three and twelve months ended December 31, 2015, divestitures in the Canadian Operations were \$24 million and \$959 million, respectively. Divestitures primarily included the sale of certain assets in Wheatland located in central and southern Alberta for proceeds of approximately C\$557 million (\$467 million), after closing adjustments, the sale of certain natural gas gathering and compression assets in Montney located in northeastern British Columbia for proceeds of approximately C\$450 million (\$355 million), after closing adjustments, and the sale of certain properties that did not complement Encana's existing portfolio of assets.

In the USA Operations, divestitures in the three months ended December 31, 2016 were \$150 million, which primarily included the sale of certain natural gas leasehold interests in Piceance located in Colorado for proceeds of approximately \$135 million. Divestitures in the twelve months ended December 31, 2016 were \$806 million and also included the DJ Basin assets located in northern Colorado for proceeds of approximately \$633 million, after closing and other adjustments. For the three and twelve months ended December 31, 2015, divestitures in the USA Operations were \$769 million and \$896 million, respectively. Divestitures primarily included the sale of the Haynesville natural gas assets located in northern Louisiana and the sale of certain properties that did not complement Encana's existing portfolio of assets.

Amounts received from the Company's divestiture transactions have been 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. For divestitures that result in a gain or loss and constitute a business, goodwill is allocated to the divestiture. Accordingly, for the twelve months ended December 31, 2016, Encana recognized a gain of approximately \$394 million, before tax, on the sale of the Gordondale assets in the Canadian cost centre and allocated goodwill of \$32 million.

For the twelve months ended December 31, 2015, Corporate and Other acquisitions and divestitures primarily included the purchase and subsequent sale of the Encana Place office building located in Calgary, which resulted in a gain on divestiture of approximately \$12 million.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

5. Interest

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Interest Expense on:				
Debt	\$ 67	\$ 77	\$ 296	\$ 497
The Bow office building	15	16	62	65
Capital leases	6	6	24	28
Other	-	7	15	24
	\$ 88	\$ 106	\$ 397	\$ 614

Interest Expense on Debt for the twelve months ended December 31, 2015 included a one-time interest payment of approximately \$165 million resulting from the April 2015 early redemption of the Company's \$700 million 5.90 percent notes due December 1, 2017 and C\$750 million 5.80 percent medium-term notes due January 18, 2018.

6. Foreign Exchange (Gain) Loss, Net

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Unrealized Foreign Exchange (Gain) Loss on:				
Translation of U.S. dollar debt issued from Canada	\$ 103	\$ 116	\$ (130)	\$ 754
Translation of U.S. dollar risk management contracts issued from Canada	(1)	(11)	4	(67)
Translation of intercompany notes	(19)	27	(14)	-
	83	132	(140)	687
Foreign Exchange on Settlements	21	21	(68)	358
Other Monetary Revaluations	(7)	11	(2)	37
	\$ 97	\$ 164	\$ (210)	\$ 1,082

7. Income Taxes

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Current Tax				
Canada	\$ (54)	\$ (1)	\$ (82)	\$ (25)
United States	-	2	-	(17)
Other Countries	(1)	3	4	8
Total Current Tax Expense (Recovery)	(55)	4	(78)	(34)
Deferred Tax				
Canada	41	300	(163)	(316)
United States	271	(385)	(435)	(2,495)
Other Countries	(227)	(284)	-	-
Total Deferred Tax Expense (Recovery)	85	(369)	(598)	(2,811)
Income Tax Expense (Recovery)	\$ 30	\$ (365)	\$ (676)	\$ (2,845)

Notes to Condensed Consolidated Financial Statements (unaudited)

(All amounts in US\$ millions, unless otherwise specified)

8. Property, Plant and Equipment, Net

	As at December 31, 2016			As at December 31, 2015		
	Cost	Accumulated DD&A ⁽¹⁾	Net	Cost	Accumulated DD&A ⁽¹⁾	Net
Canadian Operations						
Proved properties	\$ 13,159	\$ (12,896)	\$ 263	\$ 14,866	\$ (14,170)	\$ 696
Unproved properties	285	-	285	334	-	334
Other	54	-	54	70	-	70
	13,498	(12,896)	602	15,270	(14,170)	1,100
USA Operations						
Proved properties	26,393	(25,300)	1,093	25,723	(23,822)	1,901
Unproved properties	4,913	-	4,913	5,282	-	5,282
Other	44	-	44	66	-	66
	31,350	(25,300)	6,050	31,071	(23,822)	7,249
Market Optimization	6	(4)	2	5	(4)	1
Corporate & Other	2,148	(663)	1,485	2,098	(591)	1,507
	\$ 47,002	\$ (38,863)	\$ 8,139	\$ 48,444	\$ (38,587)	\$ 9,857

⁽¹⁾ Depreciation, depletion and amortization.

Canadian Operations and USA Operations property, plant and equipment include internal costs directly related to exploration, development and construction activities of \$161 million, which have been capitalized during the twelve months ended December 31, 2016 (2015 - \$217 million). Included in Corporate and Other are \$58 million (2015 - \$58 million) of international property costs, which have been fully impaired.

For the three months ended December 31, 2016, the Company did not recognize ceiling test impairments in the Canadian cost centre (2015 - nil) or in the U.S. cost centre (2015 - \$805 million before tax). For the twelve months ended December 31, 2016, the Company recognized before-tax ceiling test impairments of \$493 million (2015 - nil) in the Canadian cost centre and \$903 million (2015 - \$6,473 million) in the U.S. cost centre. The impairments are included with accumulated DD&A in the table above and resulted primarily from the decline in the 12-month average trailing prices which reduced proved reserves volumes and values.

The 12-month average trailing prices used in the ceiling test calculations were based on the benchmark prices below. The benchmark prices were adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

	Natural Gas		Oil	
	Henry Hub (\$/MMBtu)	AECO (C\$/MMBtu)	WTI (\$/bbl)	Edmonton Light Sweet (C\$/bbl)
12-Month Average Trailing Reserves Pricing				
December 31, 2016	2.49	2.17	42.75	52.21
December 31, 2015	2.58	2.69	50.28	58.82

Capital Lease Arrangements

The Company has several lease arrangements that are accounted for as capital leases including an office building and an offshore production platform.

As at December 31, 2016, the total carrying value of assets under capital lease was \$51 million (2015 - \$376 million), net of accumulated amortization of \$648 million (2015 - \$310 million). Liabilities for the capital lease arrangements are included in other liabilities and provisions in the Condensed Consolidated Balance Sheet and are disclosed in Note 10.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

Other Arrangement

As at December 31, 2016, Corporate and Other property, plant and equipment and total assets include a carrying value of \$1,194 million (2015 - \$1,179 million) related to The Bow office building, which is under a 25-year lease agreement. The Bow asset is being depreciated over the 60-year estimated life of the building. At the conclusion of the 25-year term in 2037, the remaining asset and corresponding liability are expected to be derecognized as disclosed in Note 10.

9. Long-Term Debt

	As at December 31, 2016	As at December 31, 2015
U.S Dollar Denominated Debt		
Revolving credit and term loan borrowings	\$ -	\$ 650
U.S. Unsecured Notes		
6.50% due May 15, 2019	500	500
3.90% due November 15, 2021	600	600
8.125% due September 15, 2030	300	300
7.20% due November 1, 2031	350	350
7.375% due November 1, 2031	500	500
6.50% due August 15, 2034	750	750
6.625% due August 15, 2037 ⁽¹⁾	462	500
6.50% due February 1, 2038 ⁽¹⁾	505	800
5.15% due November 15, 2041 ⁽¹⁾	244	400
Total Principal	4,211	5,350
Increase in Value of Debt Acquired	26	27
Unamortized Debt Discounts and Issuance Costs ⁽²⁾	(39)	(44)
Current Portion of Long-Term Debt	-	-
	\$ 4,198	\$ 5,333

⁽¹⁾ Notes accepted for purchase in the March 2016 Tender Offers.

⁽²⁾ Long-Term Debt for 2015 has been restated due to the adoption of ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", as described in Note 2.

As at December 31, 2016, total long-term debt had a carrying value of \$4,198 million and a fair value of \$4,553 million (2015 - carrying value of \$5,333 million and a fair value of \$4,630 million). The estimated fair value of long-term borrowings is categorized within Level 2 of the fair value hierarchy and has been determined based on market information, or by discounting future payments of interest and principal at interest rates expected to be available to the Company at period end.

On March 16, 2016, Encana announced tender offers (collectively, the "Tender Offers") for certain of the Company's outstanding senior notes (collectively, the "Notes"). The Tender Offers were for an aggregate purchase price of \$250 million, excluding accrued and unpaid interest. The consideration for each \$1,000 principal amount of Notes validly tendered and accepted for purchase included an early tender premium of \$30 per \$1,000 principal amount of Notes accepted for purchase, provided the Notes were validly tendered at or prior to the early tender date of March 29, 2016. All Notes validly tendered and accepted for purchase also received accrued and unpaid interest up to the settlement date.

On March 30, 2016, Encana announced an increase in the aggregate purchase price of the Tender Offers to \$400 million, excluding accrued and unpaid interest, and accepted for purchase: i) \$156 million aggregate principal amount of 5.15 percent notes due 2041; ii) \$295 million aggregate principal amount of 6.50 percent notes due 2038; and iii) \$38 million aggregate principal amount of 6.625 percent notes due 2037. The Company paid an aggregate amount of \$406 million, including accrued and unpaid interest of \$6 million and an early tender premium of \$14 million, for Notes accepted for purchase. The Company used cash on hand and borrowings under its revolving credit facility to fund the Tender Offers.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

Encana also recognized a gain on the early debt retirement of \$103 million, before tax, representing the difference between the carrying amount of the Notes accepted for purchase and the consideration paid. The gain on the early debt retirement net of the early tender premium totals \$89 million, which is included in other (gains) losses in the Condensed Consolidated Statement of Earnings.

10. Other Liabilities and Provisions

	As at December 31, 2016	As at December 31, 2015
The Bow Office Building	\$ 1,266	\$ 1,238
Capital Lease Obligations	304	353
Unrecognized Tax Benefits	193	189
Pensions and Other Post-Employment Benefits	124	115
Long-Term Incentive Costs (See Note 16)	120	23
Other Derivative Contracts (See Notes 18, 19)	14	23
Other	26	34
	\$ 2,047	\$ 1,975

The Bow Office Building

As described in Note 8, Encana has recognized the accumulated costs for The Bow office building, which is under a 25-year lease agreement. At the conclusion of the 25-year term, the remaining asset and corresponding liability are expected to be derecognized. Encana has also subleased part of The Bow office space to a subsidiary of Cenovus Energy Inc. ("Cenovus"). The total expected future principal and interest payments related to the 25-year lease agreement and the total undiscounted future amounts expected to be recovered from the Cenovus sublease are outlined below.

	2017	2018	2019	2020	2021	Thereafter	Total
Expected Future Lease Payments	\$ 71	\$ 71	\$ 72	\$ 72	\$ 73	1,282	\$ 1,641
Less: Amounts Representing Interest	61	60	60	59	59	807	1,106
Present Value of Expected Future Lease Payments	\$ 10	\$ 11	\$ 12	\$ 13	\$ 14	475	\$ 535
Sublease Recoveries (undiscounted)	\$ (34)	\$ (35)	\$ (35)	\$ (35)	\$ (35)	(632)	\$ (806)

Capital Lease Obligations

As described in Note 8, the Company has several lease arrangements that are accounted for as capital leases including an office building and the Deep Panuke offshore Production Field Centre ("PFC"). Variable interests related to the PFC are described in Note 14.

The total expected future lease payments related to the Company's capital lease obligations are outlined below.

	2017	2018	2019	2020	2021	Thereafter	Total
Expected Future Lease Payments	\$ 98	\$ 99	\$ 99	\$ 99	\$ 87	46	\$ 528
Less: Amounts Representing Interest	39	36	33	29	21	7	165
Present Value of Expected Future Lease Payments	\$ 59	\$ 63	\$ 66	\$ 70	\$ 66	39	\$ 363

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

11. Asset Retirement Obligation

	As at December 31, 2016	As at December 31, 2015
Asset Retirement Obligation, Beginning of Year	\$ 814	\$ 913
Liabilities Incurred and Acquired	18	19
Liabilities Settled and Divested	(107)	(217)
Change in Estimated Future Cash Outflows	(99)	115
Accretion Expense	51	45
Foreign Currency Translation	10	(61)
Asset Retirement Obligation, End of Year	\$ 687	\$ 814
Current Portion	\$ 33	\$ 41
Long-Term Portion	654	773
	\$ 687	\$ 814

12. Share Capital

Authorized

The Company is authorized to issue an unlimited number of no par value common shares and Class A Preferred Shares limited to a number equal to not more than 20 percent of the issued and outstanding number of common shares at the time of issuance. No Preferred Shares are outstanding.

Issued and Outstanding

	As at December 31, 2016		As at December 31, 2015	
	Number (millions)	Amount	Number (millions)	Amount
Common Shares Outstanding, Beginning of Year	849.8	\$ 3,621	741.2	\$ 2,450
Common Shares Issued	123.1	1,134	98.4	1,098
Common Shares Issued Under Dividend Reinvestment Plan	0.1	1	10.2	73
Common Shares Outstanding, End of Year	973.0	\$ 4,756	849.8	\$ 3,621

On September 19, 2016, Encana filed prospectus supplements (the “2016 Share Offering”) to the Company’s shelf prospectuses for the issuance of 107,000,000 common shares and granted an over-allotment option for up to an additional 16,050,000 common shares at a price of \$9.35 per common share, pursuant to an underwriting agreement. The aggregate gross proceeds from the 2016 Share Offering, including the exercise in full of the over-allotment option, were approximately \$1.15 billion. After deducting underwriters’ fees and costs of the 2016 Share Offering, the net cash proceeds received were approximately \$1.13 billion.

On March 5, 2015, Encana filed a prospectus supplement (the “2015 Share Offering”) to the Company’s shelf prospectus for the issuance of 85,616,500 common shares and granted an over-allotment option for up to an additional 12,842,475 common shares at a price of C\$14.60 per common share, pursuant to an underwriting agreement. The aggregate gross proceeds from the 2015 Share Offering, including the exercise in full of the over-allotment option, were approximately C\$1.44 billion (\$1.13 billion). After deducting underwriters’ fees and costs of the 2015 Share Offering, the net cash proceeds received were approximately C\$1.39 billion (\$1.09 billion).

During the twelve months ended December 31, 2016, Encana issued 121,249 common shares totaling \$1 million under the Company’s dividend reinvestment plan (“DRIP”) (2015 - issued 10,246,221 common shares totaling \$73 million under the DRIP).

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

Dividends

During the three months ended December 31, 2016, Encana paid dividends of \$0.015 per common share totaling \$14 million (2015 - \$0.07 per common share totaling \$59 million). During the twelve months ended December 31, 2016, Encana paid dividends of \$0.06 per common share totaling \$52 million (2015 - \$0.28 per common share totaling \$225 million). Common shares issued as part of the 2016 Share Offering and 2015 Share Offering described above were not eligible to receive the dividends paid on September 30, 2016 and March 31, 2015, respectively.

For the three and twelve months ended December 31, 2016, the dividends paid included \$0.2 million and \$1 million, respectively, in common shares issued in lieu of cash dividends under the DRIP (for the three and twelve months ended December 31, 2015 - \$20 million and \$73 million, respectively).

Earnings Per Common Share

The following table presents the computation of net earnings per common share:

(US\$ millions, except per share amounts)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Net Earnings (Loss)	\$ (281)	\$ (612)	\$ (944)	\$ (5,165)
Number of Common Shares:				
Weighted average common shares outstanding - Basic	972.4	846.5	882.6	822.1
Effect of dilutive securities	-	-	-	-
Weighted average common shares outstanding - Diluted	972.4	846.5	882.6	822.1
Net Earnings (Loss) per Common Share				
Basic & Diluted	\$ (0.29)	\$ (0.72)	\$ (1.07)	\$ (6.28)

Encana Stock Option Plan

Encana has share-based compensation plans that allow employees to purchase common shares of the Company. Option exercise prices are not less than the market value of the common shares on the date the options are granted. All options outstanding as at December 31, 2016 have associated Tandem Stock Appreciation Rights (“TSARs”) attached. In lieu of exercising the option, the associated TSARs give the option holder the right to receive a cash payment equal to the excess of the market price of Encana’s common shares at the time of the exercise over the original grant price.

In addition, certain stock options granted are performance-based whereby vesting is also subject to Encana attaining prescribed performance relative to predetermined key measures. Historically, most holders of options with TSARs have elected to exercise their stock options as a Stock Appreciation Right (“SAR”) in exchange for a cash payment. As a result, outstanding TSARs are not considered potentially dilutive securities.

Encana Restricted Share Units (“RSUs”)

Encana has a share-based compensation plan whereby eligible employees are granted RSUs. An RSU is a conditional grant to receive an Encana common share, or the cash equivalent, as determined by Encana, upon vesting of the RSUs and in accordance with the terms of the RSU Plan and Grant Agreement. The Company intends to settle vested RSUs in cash on the vesting date. As a result, RSUs are not considered potentially dilutive securities.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

13. Accumulated Other Comprehensive Income

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Foreign Currency Translation Adjustment				
Balance, Beginning of Period	\$ 1,163	\$ 1,315	\$ 1,383	\$ 715
Change in Foreign Currency Translation Adjustment	37	68	(183)	668
Balance, End of Period	\$ 1,200	\$ 1,383	\$ 1,200	\$ 1,383
Pension and Other Post-Employment Benefit Plans				
Balance, Beginning of Period	\$ 6	\$ (24)	\$ 7	\$ (26)
Net Actuarial Gains and (Losses) (See Note 17)	6	46	6	46
Income Taxes	(2)	(15)	(2)	(15)
Reclassification of Net Actuarial (Gains) and Losses to Net Earnings (See Note 17)	-	-	(1)	2
Income Taxes	-	-	-	-
Balance, End of Period	\$ 10	\$ 7	\$ 10	\$ 7
Total Accumulated Other Comprehensive Income	\$ 1,210	\$ 1,390	\$ 1,210	\$ 1,390

14. Variable Interest Entities

Production Field Centre

In 2008, Encana entered into a contract for the design, construction and operation of the PFC at its Deep Panuke facility. Upon commencement of operations in December 2013, Encana recognized the PFC as a capital lease asset. Under the lease contract, Encana has a purchase option and the option to extend the lease for 12 one-year terms at fixed prices after the initial lease term expires in 2021.

As a result of the purchase option and fixed price renewal options, Encana has determined it holds variable interests and that the related leasing entity qualifies as a variable interest entity ("VIE"). Encana is not the primary beneficiary of the VIE as the Company does not have the power to direct the activities that most significantly impact the VIE's economic performance. Encana is not required to provide any financial support or guarantees to the leasing entity or its affiliates, other than the contractual payments under the lease and operating agreements. Encana's maximum exposure is the expected lease payments over the initial contract term. As at December 31, 2016, Encana had a capital lease obligation of \$299 million (2015 - \$340 million) related to the PFC.

Veresen Midstream Limited Partnership

Veresen Midstream Limited Partnership ("VMLP") provides gathering, compression and processing services under various agreements related to the Company's development of natural gas and liquids production in the Montney play. As at December 31, 2016, VMLP provides approximately 623 MMcf/d of natural gas gathering and compression and 295 MMcf/d of natural gas processing under long-term service agreements with remaining terms ranging from up to 15 to 29 years and have various renewal terms providing up to a potential maximum of 10 years.

Encana has determined that VMLP is a VIE and that Encana holds variable interests in VMLP. Encana is not the primary beneficiary as the Company does not have the power to direct the activities that most significantly impact VMLP's economic performance. These key activities relate to the construction, operation, maintenance and marketing of the assets owned by VMLP. The variable interests arise from certain terms under the various long-term service agreements and include: i) a take or pay for volumes in certain agreements; ii) an operating fee of which a portion can be converted into a fixed fee once VMLP assumes operatorship of certain assets; and iii) a potential payout of minimum costs in certain agreements. The potential payout of minimum costs will be assessed in the eighth year of the assets' service period and is based on whether there is an overall shortfall of total system cash flows from natural gas gathered and compressed under certain agreements.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

The potential payout amount can be reduced in the event VMLP markets unutilized capacity to third party users. Encana is not required to provide any financial support or guarantees to VMLP.

As a result of Encana's involvement with VMLP, the maximum total exposure, which represents the potential exposure to Encana in the event the assets under the agreements are deemed worthless, is estimated to be \$1,628 million as at December 31, 2016. The estimate comprises the take or pay volume commitments and the potential payout of minimum costs. The take or pay volume commitments associated with certain gathering and processing assets are included in Note 20 under Transportation and Processing. The potential payout requirement is highly uncertain as the amount is contingent on future production estimates, pace of development and the amount of capacity contracted to third parties. As at December 31, 2016, there were no accounts payable and accrued liabilities outstanding related to the take or pay commitment.

15. Restructuring Charges

In February 2016, Encana announced workforce reductions to better align staffing levels and the organizational structure with the Company's reduced capital spending program as a result of the low commodity price environment. Encana incurred total restructuring charges of \$34 million, before tax, primarily related to severance costs, of which \$7 million remains accrued as at December 31, 2016. The majority of the remaining amounts accrued are expected to be paid in 2017.

During the first quarter of 2015, Encana revised its plans to align the organizational structure in continued support of the Company's strategy that was announced in 2013. During the twelve months ended December 31, 2015, transition and severance costs of \$64 million, before tax, were incurred.

Restructuring charges are included in administrative expense presented in the Corporate & Other segment in the Condensed Consolidated Statement of Earnings.

16. Compensation Plans

Encana has a number of compensation arrangements under which the Company awards various types of long-term incentive grants to eligible employees. They include TSARs, Performance TSARs, SARs, Performance Share Units ("PSUs"), Deferred Share Units ("DSUs") and RSUs. These compensation arrangements are share-based.

Encana accounts for TSARs, Performance TSARs, SARs, PSUs and RSUs held by employees as cash-settled share-based payment transactions and, accordingly, accrues compensation costs over the vesting period based on the fair value of the rights determined using the Black-Scholes-Merton and other fair value models.

The following weighted average assumptions were used to determine the fair value of the share units held by employees:

	As at December 31, 2016		As at December 31, 2015	
	US\$ Share Units	C\$ Share Units	US\$ Share Units	C\$ Share Units
Risk Free Interest Rate	0.75%	0.75%	0.48%	0.48%
Dividend Yield	0.51%	0.50%	1.18%	1.09%
Expected Volatility Rate ⁽¹⁾	57.18%	53.24%	39.16%	36.45%
Expected Term	1.9 yrs	1.9 yrs	1.4 yrs	1.5 yrs
Market Share Price	US\$11.74	C\$15.76	US\$5.09	C\$7.03

⁽¹⁾ Volatility was estimated using historical rates.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

The Company has recognized the following share-based compensation costs:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Total Compensation Costs of Transactions Classified as Cash-Settled	\$ 60	\$ (5)	\$ 174	\$ (29)
Less: Total Share-Based Compensation Costs Capitalized	(15)	1	(40)	10
Total Share-Based Compensation Expense	\$ 45	\$ (4)	\$ 134	\$ (19)
Recognized on the Condensed Consolidated Statement of Earnings in:				
Operating expense	\$ 17	\$ (1)	\$ 48	\$ (7)
Administrative expense	28	(3)	86	(12)
	\$ 45	\$ (4)	\$ 134	\$ (19)

As at December 31, 2016, the liability for share-based payment transactions totaled \$208 million (2015 - \$51 million), of which \$88 million (2015 - \$28 million) is recognized in accounts payable and accrued liabilities and \$120 million (2015 - \$23 million) is recognized in other liabilities and provisions in the Condensed Consolidated Balance Sheet.

	As at December 31, 2016	As at December 31, 2015
Liability for Cash-Settled Share-Based Payment Transactions:		
Unvested	\$ 171	\$ 47
Vested	37	4
	\$ 208	\$ 51

The following units were granted primarily in conjunction with the Company's March annual long-term incentive award. The TSARs and SARs were granted at the volume-weighted average trading price of Encana's common shares for the five days prior to the grant date.

Twelve Months Ended December 31, 2016 (thousands of units)

TSARs	4,277
SARs	1,453
PSUs	5,863
DSUs	188
RSUs	15,197

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

17. Pension and Other Post-Employment Benefits

The Company has recognized total benefit plans expense which includes pension benefits and other post-employment benefits (“OPEB”) for the twelve months ended December 31 as follows:

	Pension Benefits		OPEB		Total	
	2016	2015	2016	2015	2016	2015
Defined Periodic Benefit Plan Expense	\$ (1)	\$ 1	\$ 13	\$ 14	\$ 12	\$ 15
Defined Contribution Plan Expense	25	33	-	-	25	33
Total Benefit Plans Expense	\$ 24	\$ 34	\$ 13	\$ 14	\$ 37	\$ 48

Of the total benefit plans expense, \$28 million (2015 - \$39 million) was included in operating expense and \$9 million (2015 - \$9 million) was included in administrative expense.

The pension and OPEB periodic benefit costs for the twelve months ended December 31 are as follows:

	Pension Benefits		OPEB		Total	
	2016	2015	2016	2015	2016	2015
Current Service Cost	\$ 2	\$ 2	\$ 10	\$ 10	\$ 12	\$ 12
Interest Cost	8	9	4	4	12	13
Expected Return on Plan Assets	(11)	(12)	-	-	(11)	(12)
Amounts Reclassified from Accumulated Other Comprehensive Income:						
Amortization of net actuarial (gains) and losses	-	2	(1)	-	(1)	2
Total Defined Periodic Benefit Plan Expense	\$ (1)	\$ 1	\$ 13	\$ 14	\$ 12	\$ 15

The amounts recognized in other comprehensive income for the twelve months ended December 31 are as follows:

	Pension Benefits		OPEB		Total	
	2016	2015	2016	2015	2016	2015
Net Actuarial (Gains) Losses	\$ 8	\$ (22)	\$ (14)	\$ (24)	\$ (6)	\$ (46)
Amortization of Net Actuarial Gains and (Losses)	-	(2)	1	-	1	(2)
Total Amounts Recognized in Other Comprehensive (Income) Loss, Before Tax	\$ 8	\$ (24)	\$ (13)	\$ (24)	\$ (5)	\$ (48)
Total Amounts Recognized in Other Comprehensive (Income) Loss, After Tax	\$ 6	\$ (17)	\$ (9)	\$ (16)	\$ (3)	\$ (33)

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

18. Fair Value Measurements

The fair values of cash and cash equivalents, accounts receivable and accrued revenues, and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of cash in reserve approximates its carrying amount due to the nature of the instrument held.

Recurring fair value measurements are performed for risk management assets and liabilities and other derivative liabilities, as discussed further in Note 19. These items are carried at fair value in the Condensed Consolidated Balance Sheet and are classified within the three levels of the fair value hierarchy in the following tables. There have been no significant transfers between the hierarchy levels during the period.

Fair value changes and settlements for amounts related to risk management assets and liabilities are recognized in revenues, transportation and processing expense, and foreign exchange gains and losses according to their purpose.

As at December 31, 2016	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total Fair Value	Netting ⁽¹⁾	Carrying Amount
Risk Management						
Risk Management Assets						
Current	\$ -	\$ 11	\$ -	\$ 11	\$ (11)	\$ -
Long-Term	-	19	-	19	(3)	16
Risk Management Liabilities						
Current	-	229	36	265	(11)	254
Long-Term	-	38	-	38	(3)	35
Other Derivative Liabilities						
Current in accounts payable and accrued liabilities	\$ -	\$ 5	\$ -	\$ 5	\$ -	\$ 5
Long-term in other liabilities and provisions	-	14	-	14	-	14

As at December 31, 2015	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total Fair Value	Netting ⁽¹⁾	Carrying Amount
Risk Management						
Risk Management Assets						
Current	\$ 1	\$ 356	\$ 37	\$ 394	\$ (27)	\$ 367
Long-Term	-	11	-	11	-	11
Risk Management Liabilities						
Current	-	31	12	43	(27)	16
Long-Term	-	-	9	9	-	9
Other Derivative Liabilities						
Current in accounts payable and accrued liabilities	\$ -	\$ 6	\$ -	\$ 6	\$ -	\$ 6
Long-term in other liabilities and provisions	-	23	-	23	-	23

⁽¹⁾ Netting to offset derivative assets and liabilities where the legal right and intention to offset exists, or where counterparty master netting arrangements contain provisions for net settlement.

The Company's Level 1 and Level 2 risk management assets and liabilities consist of commodity fixed price contracts, NYMEX three-way options, NYMEX costless collars, NYMEX call options, WTI-based fixed price swaptions, foreign currency swaps and basis swaps with terms to 2022. Level 2 also includes other derivative liabilities as discussed in Note 19. The fair values of these contracts are based on a market approach and are estimated using inputs which are either directly or indirectly observable at the reporting date, such as exchange and other published prices, broker quotes and observable trading activity.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

Level 3 Fair Value Measurements

As at December 31, 2016, the Company's Level 3 risk management assets and liabilities consist of WTI three-way options and WTI costless collars with terms to 2017. The WTI three-way options are a combination of a sold call, bought put and a sold put. The WTI costless collars are a combination of a sold call and a bought put. These contracts allow the Company to participate in the upside of commodity prices to the ceiling of the call option and provide the Company with complete (collars) or partial (three-way) downside price protection through the put options. The fair values of the WTI three-way options and WTI costless collars are based on the income approach and are modelled using observable and unobservable inputs such as implied volatility. The unobservable inputs are obtained from third parties whenever possible and reviewed by the Company for reasonableness.

A summary of changes in Level 3 fair value measurements for the twelve months ended December 31 is presented below:

	Risk Management	
	2016	2015
Balance, Beginning of Year	\$ 16	\$ (18)
Total Gains (Losses)	(16)	18
Purchases, Sales, Issuances and Settlements:		
Purchases, sales and issuances	-	-
Settlements	(26)	16
Transfers Out of Level 3 ⁽¹⁾	(10)	-
Balance, End of Year	\$ (36)	\$ 16
Change in Unrealized Gains (Losses) Related to Assets and Liabilities Held at End of Year	\$ (27)	\$ 24

⁽¹⁾ The Company's policy is to recognize transfers out of Level 3 on the date of the event of change in circumstances that caused the transfer.

Quantitative information about unobservable inputs used in Level 3 fair value measurements is presented below:

	Valuation Technique	Unobservable Input	As at	As at
			December 31, 2016	December 31, 2015
Risk Management - WTI Options	Option Model	Implied Volatility	18% - 64%	33% - 64%

A 10 percent increase or decrease in implied volatility for the WTI options would cause a corresponding \$3 million (2015 - \$2 million) increase or decrease to net risk management assets and liabilities.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

19. Financial Instruments and Risk Management

A) Financial Instruments

Encana's financial assets and liabilities are recognized in cash and cash equivalents, accounts receivable and accrued revenues, cash in reserve, accounts payable and accrued liabilities, risk management assets and liabilities, other liabilities and provisions and long-term debt.

B) Risk Management Activities

Encana uses derivative financial instruments to manage its exposure to cash flow variability from commodity prices and fluctuating foreign currency exchange rates. The Company does not apply hedge accounting to any of its derivative financial instruments. As a result, gains and losses from changes in the fair value are recognized in net earnings.

Commodity Price Risk

Commodity price risk arises from the effect fluctuations in future commodity prices may have on future cash flows. To partially mitigate exposure to commodity price risk, the Company has entered into various derivative financial instruments. The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors. The Company's policy is to not use derivative financial instruments for speculative purposes.

Natural Gas - To partially mitigate natural gas commodity price risk, the Company uses NYMEX-based contracts such as fixed price contracts, options and costless collars. Encana also enters into basis swaps to manage against widening price differentials between various production areas and benchmark price points.

Crude Oil - To partially mitigate crude oil commodity price risk, the Company uses WTI-based contracts such as fixed price contracts, fixed price swaptions, options and costless collars. Encana also enters into basis swaps to manage against widening price differentials between various production areas and benchmark price points.

Foreign Exchange Risk

Foreign exchange risk arises from changes in foreign currency exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. 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 December 31, 2016, Encana has entered into \$300 million notional U.S. dollar denominated currency swaps at an average exchange rate of US\$0.7486 to C\$, which mature throughout 2017.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

Risk Management Positions as at December 31, 2016

	Notional Volumes	Term	Average Price	Fair Value
Natural Gas Contracts				
Fixed Price Contracts				
NYMEX Fixed Price	427 MMcf/d	2017	3.08 US\$/Mcf	\$ (86)
NYMEX Three-Way Options				
Sold call price	300 MMcf/d	2017	3.07 US\$/Mcf	(68)
Bought put price			2.75 US\$/Mcf	
Sold put price			2.27 US\$/Mcf	
NYMEX Costless Collars				
Sold call price	135 MMcf/d	2017	3.57 US\$/Mcf	(12)
Bought put price			2.99 US\$/Mcf	
NYMEX Call Options				
Sold call price	230 MMcf/d	2018	3.75 US\$/Mcf	(19)
Sold call price	230 MMcf/d	2019	3.75 US\$/Mcf	(13)
Basis Contracts ⁽¹⁾		2017 - 2022		23
Other Financial Positions				1
Natural Gas Fair Value Position				(174)
Crude Oil Contracts				
Fixed Price Contracts				
WTI Fixed Price	35.5 Mbbls/d	2017	52.17 US\$/bbl	(52)
	13.0 Mbbls/d	2018	55.27 US\$/bbl	(6)
WTI Fixed Price Swaptions ⁽²⁾				
	10.0 Mbbls/d	Q2 2017	50.86 US\$/bbl	(6)
WTI Three-Way Options				
Sold call price	25.0 Mbbls/d	2017	59.42 US\$/bbl	(15)
Bought put price			49.21 US\$/bbl	
Sold put price			38.41 US\$/bbl	
WTI Costless Collars				
Sold call price	30.0 Mbbls/d	Q3 - Q4 2017	56.05 US\$/bbl	(21)
Bought put price			46.22 US\$/bbl	
Basis Contracts ⁽³⁾		2017 - 2019		2
Crude Oil Fair Value Position				(98)
Other Derivative Contracts				
Fair Value Position				(19)
Foreign Currency Swaps				
Fair Value Position ⁽⁴⁾				(1)
Total Fair Value Position				\$ (292)

⁽¹⁾ Encana has entered into swaps to protect against widening natural gas price differentials between benchmark and regional sales prices.

⁽²⁾ WTI Fixed Price Swaptions give the counterparty the option to extend Q1 2017 fixed price swaps to June 30, 2017 at the strike price.

⁽³⁾ Encana has entered into swaps to protect against widening Midland differentials to WTI.

⁽⁴⁾ Encana has entered into U.S. dollar denominated fixed-for-floating average currency swaps to protect against widening fluctuations between the Canadian dollar and U.S. dollar.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

Earnings Impact of Realized and Unrealized Gains (Losses) on Risk Management Positions

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Realized Gain (Loss) on Risk Management				
Revenues	\$ 3	\$ 291	\$ 361	\$ 917
Transportation and processing	(4)	(4)	(8)	(16)
	\$ (1)	\$ 287	\$ 353	\$ 901
Unrealized Gain (Loss) on Risk Management				
Revenues	\$ (167)	\$ (88)	\$ (636)	\$ (325)
Transportation and processing	18	(2)	22	(6)
Foreign exchange	(1)	-	(1)	-
	\$ (150)	\$ (90)	\$ (615)	\$ (331)
Total Realized and Unrealized Gain (Loss) on Risk Management, net				
Revenues	\$ (164)	\$ 203	\$ (275)	\$ 592
Transportation and processing	14	(6)	14	(22)
Foreign exchange	(1)	-	(1)	-
	\$ (151)	\$ 197	\$ (262)	\$ 570

Reconciliation of Unrealized Risk Management Positions from January 1 to December 31

	2016		2015	
	Fair Value	Total Unrealized Gain (Loss)	Total Unrealized Gain (Loss)	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Year	\$ 324			
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Year	(262)	\$ (262)	\$ 570	
Foreign Exchange Translation Adjustment on Canadian Dollar Contracts	(1)			
Settlement of Acquired Crude Oil Contracts	(6)			
Settlement of Other Derivative Contracts	6			
Fair Value of Contracts Realized During the Year	(353)	(353)	(901)	
Fair Value of Contracts, End of Year	\$ (292)	\$ (615)	\$ (331)	

Risk management assets and liabilities arise from the use of derivative financial instruments and are measured at fair value. See Note 18 for a discussion of fair value measurements.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

Unrealized Risk Management Positions

	As at December 31, 2016	As at December 31, 2015
Risk Management Assets		
Current	\$ -	\$ 367
Long-term	16	11
	16	378
Risk Management Liabilities		
Current	254	16
Long-term	35	9
	289	25
Other Derivative Liabilities		
Current in accounts payable and accrued liabilities	5	6
Long-term in other liabilities and provisions	14	23
Net Risk Management Assets (Liabilities) and Other Derivative Liabilities	\$ (292)	\$ 324

C) Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. While exchange-traded contracts are subject to nominal credit risk due to the financial safeguards established by the New York Stock Exchange and Toronto Stock Exchange, over-the-counter traded contracts expose Encana to counterparty credit risk. This credit risk exposure is mitigated through the use of credit policies approved by the Board of Directors governing the Company's credit portfolio including credit practices that limit transactions according to counterparties' credit quality. Mitigation strategies may include master netting arrangements, requesting collateral and/or transacting credit derivatives. The Company executes commodity derivative financial instruments under master agreements that have netting provisions that provide for offsetting payables against receivables. As at December 31, 2016, the Company had no significant credit derivatives in place and held no collateral.

As at December 31, 2016, cash equivalents include high-grade, short-term securities, placed primarily with financial institutions and companies with strong investment grade ratings. Any foreign currency agreements entered into are with major financial institutions in Canada and the U.S. or with counterparties having investment grade credit ratings.

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2016, approximately 90 percent (2015 - 95 percent) of Encana's accounts receivable and financial derivative credit exposures were with investment grade counterparties.

As at December 31, 2016, Encana had one counterparty (2015 - two counterparties) whose net settlement position individually accounted for more than 10 percent of the fair value of the outstanding in-the-money net risk management contracts by counterparty. As at December 31, 2016, this counterparty accounted for 84 percent (2015 - 13 percent and 11 percent) of the fair value of the outstanding in-the-money net risk management contracts.

During 2015, Encana entered into agreements resulting from divestitures, which may require Encana to fulfill certain payment obligations on the take or pay volume commitments assumed by the purchaser. The circumstances that would require Encana to perform under the agreement include events where the purchaser fails to make payment to the guaranteed party and/or the purchaser is subject to an insolvency event. The agreements have remaining terms from four to eight years with a fair value recognized of \$19 million as at December 31, 2016 (2015 - \$29 million). The maximum potential amount of undiscounted future payments is \$368 million as at December 31, 2016, and is considered unlikely.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in US\$ millions, unless otherwise specified)

20. Commitments and Contingencies

Commitments

The following table outlines the Company's commitments as at December 31, 2016:

(undiscounted)	Expected Future Payments							Total
	2017	2018	2019	2020	2021	Thereafter		
Transportation and Processing	\$ 508	\$ 540	\$ 603	\$ 585	\$ 471	\$ 2,566	\$ 5,273	
Drilling and Field Services	159	66	33	18	7	-	283	
Operating Leases	25	24	11	3	3	16	82	
Total	\$ 692	\$ 630	\$ 647	\$ 606	\$ 481	\$ 2,582	\$ 5,638	

Included within transportation and processing in the table above are certain commitments associated with midstream service agreements with VMLP as described in Note 14. Divestiture transactions can reduce certain commitments disclosed above.

Contingencies

Encana is involved in various legal claims and actions arising in the normal course of the Company's operations. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on Encana's financial position, cash flows or results of operations. Management's assessment of these matters may change in the future as certain of these matters are in early stages or are subject to a number of uncertainties. For material matters that the Company believes an unfavourable outcome is reasonably possible, the Company discloses the nature and a range of potential exposures. If an unfavourable outcome were to occur, there exists the possibility of a material impact on the Company's consolidated net earnings or loss for the period in which the effect becomes reasonably estimable. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. Such accruals are based on the Company's information known about the matters, estimates of the outcomes of such matters and experience in handling similar matters.