Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The MD&A is intended to provide a narrative description of Encana's business from management's perspective. This MD&A should be read in conjunction with the unaudited interim Condensed Consolidated Financial Statements and accompanying notes for the period ended March 31, 2017 ("Consolidated Financial Statements"), which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the audited Consolidated Financial Statements and accompanying notes and MD&A for the year ended December 31, 2016, which are included in Items 8 and 7, respectively, of the 2016 Annual Report on Form 10-K. Common industry terms and abbreviations are used throughout this MD&A and are defined in the Definitions, Conversions and Conventions sections of this Quarterly Report on Form 10-Q. This MD&A includes the following sections:

Executive Overview

Strategy

Encana is a leading North American energy producer that is focused on developing its multi-basin portfolio of natural gas, oil and NGL producing plays. Encana is committed to growing long-term shareholder value through a disciplined focus on generating profitable growth. The Company is pursuing the key business objectives of exercising a disciplined capital allocation strategy by investing in a limited number of core assets, growing high margin liquids volumes, maximizing profitability through operating efficiencies and reducing costs, and preserving balance sheet strength.

In executing its strategy, Encana focuses on its core values of One, Agile and Driven, which guide the organization to be flexible, responsive, determined and motivated with a commitment to excellence and a passion to succeed as a unified team.

Encana continually reviews and evaluates its strategy and changing market conditions. In 2017, Encana will continue to focus on quality growth from high margin, scalable projects located in some of the best plays in North America, referred to as the "Core Assets", comprising Montney and Duvernay in Canada and Eagle Ford and Permian in the U.S. These world-class assets form a multi-basin portfolio enabling flexible and efficient investment of capital. The Company rapidly deploys successful ideas and practices across these assets, becoming more efficient as innovative and sustainable technical improvements are implemented.

For additional information on Encana's strategy, its reporting segments and the plays in which the Company operates, refer to Items 1 and 2 of the 2016 Annual Report on Form 10-K. In evaluating its operations, the Company reviews performance-based measures such as Non-GAAP Cash Flow and Corporate Margin, which are non-GAAP measures and do not have any standardized meaning under U.S. GAAP. These measures may not be similar to measures presented by other issuers and should not be viewed as a substitute for measures reported under U.S. GAAP. Further information regarding these measures, including reconciliations to the closest GAAP measure, can be found in the Non-GAAP Measures section of this MD&A.

Highlights

During the first quarter of 2017, Encana focused on executing its 2017 capital plan, maintaining operational efficiencies achieved in 2016 and seeking new ways to reduce costs. Higher benchmark prices during the first quarter of 2017 compared to the first quarter of 2016 contributed to increases in Encana's average realized natural gas, oil and NGLs prices of 57 percent, 78 percent and 106 percent, respectively, resulting in higher revenues. Encana remains committed to building a business model that allows the Company to adapt to fluctuating commodity prices.

Financial Results

- Reported net earnings of $431 million, including a before-tax amount for net gains on risk management of $338 million in revenues.
- Generated cash from operating activities of $106 million and Non-GAAP Cash Flow of $278 million.
- Achieved Corporate Margin of $9.72 per BOE.
- Recovered current taxes of approximately $42 million resulting from the successful resolution of certain tax items previously assessed.
- Paid dividends of $0.015 per common share.
- Held cash and cash equivalents of $523 million and had available credit facilities of $4.5 billion for total liquidity of $5.0 billion at March 31, 2017.

Capital Investment

- Commenced the Company's 2017 capital plan with $390 million, or 98 percent, of total capital spending directed to the Core Assets.
- Focused on highly efficient capital activity and short-cycle high margin projects providing flexibility to respond to fluctuations in commodity prices.

Production

- Produced average natural gas volumes of 1,241 MMcf/d which accounted for 65 percent of total production volumes.
- Produced average oil and NGL volumes of 110.9 Mbbls/d which accounted for 35 percent of total production volumes. Average oil and plant condensate production volumes of 87.9 Mbbls/d were 79 percent of total liquids production volumes.
- Reported Core Assets production of 237.3 MBOE/d, or 75 percent of total production volumes.

Operating Expenses

- Maintained operational efficiencies achieved in 2016, which continue to contribute to cost savings improvements. Including the impact of 2016 divestitures, the Company reduced transportation and processing expense by $57 million, or 21 percent, and reduced operating expense, excluding long-term incentive costs, by $40 million, or 24 percent, compared to the first quarter of 2016.

2017 Outlook

Industry Outlook

The oil and gas industry is cyclical and commodity prices are volatile. Oil prices during 2017 are expected to reflect global supply and demand dynamics as well as the geopolitical environment. OPEC is expected to meet in May to decide whether to extend an agreement among members and certain non-OPEC countries to cut crude oil production. The agreement, which was implemented in January 2017, has been generally supportive of oil prices; however, a decision to discontinue the production cuts could negatively impact prices. In addition, rapid increases in U.S. crude oil production or the continuation of elevated levels of U.S. oil storage inventories could also negatively impact prices.

Although winter temperatures in North America were not as cold as expected, natural gas prices improved compared to 2016 and are expected to continue improving as increases in exports and industrial demand may absorb the oversupply that depressed prices to multi-year lows in 2015 and 2016. After declining in 2016, natural gas production in the contiguous U.S. is not expected to increase significantly until additional pipeline infrastructure in the U.S. northeast is able to alleviate bottlenecks in that region.

Company Outlook

Encana has positioned itself to be flexible and to continue to achieve strong returns from the Core Assets through this evolving commodity price cycle. The Company is executing on its plan and Encana's Corporate Guidance remains unchanged from the guidance released on February 16, 2017. The details of Encana's Corporate Guidance can be accessed on the Company's website at www.encana.com.

Encana enters into commodity derivative financial instruments on a portion of its expected natural gas, oil and NGL production volumes to reduce volatility and help sustain revenues during periods of lower prices. As of April 26, 2017, Encana's 2017 commodity price mitigation program covers over 70 percent of expected total production for the remainder of the year.

Capital Investment

Encana is on track to meet its full year capital investment guidance of $1.6 billion to $1.8 billion. During the first quarter of 2017, the Company spent $399 million, of which 98 percent was invested in the Core Assets with 49 percent directed to Permian where the Company has drilled 34 net wells. Encana continually strives to improve well performance and lower drilling and completion costs through efficiency gains and lower service costs in its Core Assets.

Production

During the first quarter of 2017, average natural gas production volumes of 1,241 MMcf/d were slightly ahead of the full year 2017 guidance range of 1,150 MMcf/d to 1,200 MMcf/d, and liquids production volumes were on track to meet the full year guidance range of 125.0 Mbbls/d to 130.0 Mbbls/d. Encana expects the production mix to continue shifting throughout the year, especially in the second half of 2017 primarily due to growing Permian volumes and the anticipated completion of new facilities in Montney. Core Assets production of 237.3 MBOE/d held steady compared to the fourth quarter of 2016 and is expected to grow as Encana sees the anticipated benefit of its increased capital program with additional wells coming online in 2017. Total liquids production accounted for 35 percent of the Company's total production volumes, with the Core Assets contributing 103.2 Mbbls/d or 93 percent.

Operating Expenses

To date, efficiency improvements and lower service costs have been maintained and the Company continues to benefit from transportation contract renegotiations completed in 2016. The Company reported first quarter operating costs within the full year 2017 guidance ranges. Transportation and processing expense was $6.67 per BOE, while upstream operating expense and administrative expense, excluding long-term incentive costs, were $3.82 per BOE and $1.50 per BOE, respectively. Encana continues to offset any inflationary pressures with additional efficiency gains.

Results of Operations

Selected Financial Information

($ millions)	Three months ended March 31, 2017	2016
Product Revenues	**$ 738**	$ 519
Gains (Losses) on Risk Management, net	**338**	123
Market Optimization	**186**	87
Other	**35**	24
Total Revenues	**1,297**	753
Total Operating Expenses [(1)]	**800**	1,796
Operating Income (Loss)	**497**	(1,043)
Total Other (Income) Expenses	**63**	(363)
Net Earnings (Loss) Before Income Tax	**$ 434**	$ (680)
Net Earnings (Loss)	**$ 431**	$ (379)

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

Revenues

Encana's revenues are substantially derived from sales of natural gas, oil and NGL production. Increases or decreases in Encana's revenue, profitability and future production are highly dependent on the commodity prices the Company receives. Prices are market driven and fluctuate due to factors beyond the Company's control, such as supply and demand, seasonality and geopolitical and economic factors. Canadian Operations realized prices are closely linked to the AECO and Edmonton Condensate benchmark prices, except for production from Deep Panuke which is closely related to the Algonquin City Gate benchmark price due to the proximity of the offshore production platform to New England. The USA Operations realized prices generally reflect NYMEX and WTI benchmark prices. Realized NGL prices are significantly influenced by oil benchmark prices and the NGL production mix. Recent trends in benchmark prices relevant to Encana are shown in the table below:

Benchmark Prices

(average for the period)	Three months ended March 31, 2017	2016
Natural Gas		
NYMEX ($/MMBtu)	**$ 3.32**	$ 2.09
AECO (C$/Mcf)	**2.94**	2.11
Algonquin City Gate ($/MMBtu)	**4.47**	3.28
Oil & NGLs		
WTI ($/bbl)	**$ 51.91**	$ 33.45
Edmonton Condensate (C$/bbl)	**69.13**	47.25

Production Volumes and Realized Prices

Three months ended March 31,	Production Volumes [1] 2017	Production Volumes [1] 2016	Realized Prices [2] 2017	Realized Prices [2] 2016
Natural Gas (MMcf/d, $/Mcf)				
Canadian Operations	**885**	1,066	**$ 2.52**	$ 1.66
USA Operations	**356**	450	**3.23**	1.88
Total	**1,241**	1,516	**2.72**	1.73
Oil (Mbbls/d, $/bbl)				
Canadian Operations	**0.4**	3.2	**43.29**	29.58
USA Operations	**67.0**	77.3	**49.65**	27.77
Total	**67.4**	80.5	**49.61**	27.84
NGLs – Plant Condensate (Mbbls/d, $/bbl)				
Canadian Operations	**18.7**	16.5	**50.29**	32.32
USA Operations	**1.8**	2.6	**42.87**	22.45
Total	**20.5**	19.1	**49.63**	31.00
NGLs – Other (Mbbls/d, $/bbl)				
Canadian Operations	**5.0**	10.5	**22.62**	5.74
USA Operations	**18.0**	20.7	**20.11**	8.93
Total	**23.0**	31.2	**20.66**	7.86
Total NGLs (Mbbls/d, $/bbl)				
Canadian Operations	**23.7**	27.0	**44.40**	22.02
USA Operations	**19.8**	23.3	**22.22**	10.41
Total	**43.5**	50.3	**34.31**	16.63
Total Oil & NGLs (Mbbls/d, $/bbl)				
Canadian Operations	**24.1**	30.2	**44.38**	22.82
USA Operations	**86.8**	100.6	**43.36**	23.74
Total	**110.9**	130.8	**43.59**	23.53
Total Production (MBOE/d, $/BOE)				
Canadian Operations	**171.7**	207.9	**19.23**	11.84
USA Operations	**146.2**	175.5	**33.59**	18.42
Total	**317.9**	383.4	**25.82**	14.85
Production Mix (%)				
Natural Gas	**65**	66		
Oil & Plant Condensate	**28**	26		
NGLs – Other	**7**	8		
Total Oil & NGLs	**35**	34		
Core Assets Production				
Natural Gas (MMcf/d)	**804**	966		
Oil (Mbbls/d)	**62.3**	66.5		
NGLs – Plant Condensate (Mbbls/d)	**20.0**	17.7		
NGLs – Other (Mbbls/d)	**20.9**	23.9		
Total NGLs (Mbbls/d)	**40.9**	41.6		
Total Oil & NGLs (Mbbls/d)	**103.2**	108.1		
Total Production (MBOE/d)	**237.3**	269.1		
% of Total Encana Production	**75**	70		

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

Product Revenues

($ millions)	Three months ended March 31, Natural Gas	Oil	NGLs [1]	Total
2016 Product Revenues	**$ 240**	**$ 203**	**$ 76**	**$ 519**
Increase (decrease) due to:				
Sales prices	110	133	69	312
Production volumes	(46)	(36)	(11)	(93)
2017 Product Revenues	**$ 304**	**$ 300**	**$ 134**	**$ 738**

(1) Includes plant condensate.

Natural Gas Revenues

Three months ended March 31, 2017 versus March 31, 2016

Natural gas revenues increased $64 million compared to the first quarter of 2016 primarily due to:

- Higher average realized natural gas prices of $0.99 per Mcf, or 57 percent, increased revenues by $110 million. The increase reflected higher NYMEX, AECO and Algonquin City Gate benchmark prices which were up 59 percent, 39 percent and 36 percent, respectively;

partially offset by:

- Lower average natural gas production volumes of 275 MMcf/d decreased revenues by $46 million. Lower volumes were primarily due to the sales of the Gordondale (79 MMcf/d) and DJ Basin assets (47 MMcf/d) in the third quarter of 2016, lower natural gas volumes in Montney due to Encana’s focus on liquids rich wells in the play (94 MMcf/d) and natural declines in Piceance (43 MMcf/d).

Oil Revenues

Three months ended March 31, 2017 versus March 31, 2016

Oil revenues increased $97 million compared to the first quarter of 2016 primarily due to:

- Higher average realized oil prices of $21.77 per bbl, or 78 percent, increased revenues by $133 million. The increase reflected a higher WTI benchmark price which was up 55 percent. The increase was also due to higher utilization of pipelines to transport oil to more favourable markets to receive a higher net price, as well as improved regional pricing in the USA Operations;

partially offset by:

- Lower average oil production volumes of 13.1 Mbbls/d decreased revenues by $36 million. Lower volumes were primarily due to natural declines in Eagle Ford (9.3 Mbbls/d) and in the USA Other Upstream Operations (3.8 Mbbls/d) as well as the sales of the DJ Basin (4.9 Mbbls/d) and Gordondale assets (2.4 Mbbls/d) in the third quarter of 2016, partially offset by a successful drilling program in Permian (7.8 Mbbls/d).

NGL Revenues

Three months ended March 31, 2017 versus March 31, 2016

NGL revenues increased $58 million compared to the first quarter of 2016 primarily due to:

- Higher average realized NGL prices of $17.68 per bbl, or 106 percent, increased revenues by $69 million. The increase reflected higher WTI and Edmonton Condensate benchmark prices which were up 55 percent and 46 percent, respectively. The increase was also due to a shift in the NGL production mix to higher value condensate compared to 2016;

partially offset by:

- Lower average NGL production volumes of 6.8 Mbbls/d decreased revenues by $11 million. Lower volumes were primarily due to the sales of the Gordondale (5.7 Mbbls/d) and DJ Basin assets (4.9 Mbbls/d) in the third quarter of 2016 and natural declines in the USA Other Upstream Operations (1.3 Mbbls/d), partially offset by successful drilling programs in the Core Assets (5.7 Mbbls/d).

Gains (Losses) on Risk Management, Net

As a means of managing commodity price volatility, Encana enters into commodity derivative financial instruments on a portion of its expected natural gas, oil and NGL production volumes. The Company's commodity price mitigation program reduces volatility and helps sustain revenues during periods of lower prices. Further information on the Company's commodity price positions as at March 31, 2017 can be found in Note 19 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The following table provides the effects of Encana's risk management activities on revenues.

	$ millions		Per-Unit	
Three months ended March 31,	**2017**	2016	**2017**	2016
Realized Gains (Losses) on Risk Management				
Commodity Price				
Natural Gas ($/Mcf)	**$ (25)**	$ 62	**$ (0.22)**	$ 0.45
Oil ($/bbl)	**-**	114	**$ 0.05**	$ 15.54
NGLs [1] ($/bbl)	**(1)**	-	**$ (0.42)**	$ -
Other [2]	**2**	1	**$ -**	$ -
Total ($/BOE)	**(24)**	177	**$ (0.91)**	$ 5.04
Unrealized Gains (Losses) on Risk Management	**362**	(54)		
Total Gains (Losses) on Risk Management, Net	**$ 338**	$ 123		

(1) Includes plant condensate.
(2) Other includes realized gains or losses from other derivative contracts with no associated production volumes.

Encana recognizes fair value changes from its risk management activities each reporting period. The changes in fair value result from new positions and settlements that occur during each period, as well as the relationship between contract prices and the associated forward curves. Realized gains or losses on risk management activities related to commodity price mitigation are included in the Canadian Operations, USA Operations and Market Optimization revenues as the contracts are cash settled. Unrealized gains or losses on fair value changes of unsettled contracts are included in the Corporate and Other segment.

Market Optimization Revenues

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

Three months ended March 31, 2017 versus March 31, 2016

Market Optimization revenues increased $99 million compared to the first quarter of 2016 primarily due to:

- Higher commodity prices ($58 million) and higher sales of third-party purchased volumes used for optimization activities ($41 million).

Other Revenues

Other Revenues primarily includes amounts related to the sublease of office space in The Bow office building and interest income recorded in the Corporate and Other segment, as well as third party transportation and processing revenues with no associated volumes recorded in the Canadian and USA Operations segments. Further information on The Bow office sublease can be found in Note 10 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Operating Expenses

Production, Mineral and Other Taxes

Production, mineral and other taxes include production and property taxes. Production taxes are generally assessed as a percentage of oil and gas production revenues. Property taxes are generally assessed based on the value of the underlying assets.

	$ millions		$/BOE	
Three months ended March 31,	**2017**	2016	**2017**	2016
Canadian Operations	**$ 5**	$ 6	**$ 0.30**	$ 0.29
USA Operations	**24**	17	**$ 1.84**	$ 1.07
Total	**$ 29**	$ 23	**$ 1.01**	$ 0.65

Three months ended March 31, 2017 versus March 31, 2016

Production, mineral and other taxes increased $6 million compared to the first quarter of 2016 primarily due to:

- Higher commodity prices in the USA Operations and higher oil production volumes in Permian ($9 million);

partially offset by:

- The sale of the DJ Basin assets in the third quarter of 2016 ($2 million).

Transportation and Processing

Transportation and processing expense includes transportation costs incurred to move product from production points to sales points including gathering, compression, pipeline tariffs, trucking and storage costs. Encana also incurs costs related to processing provided by third parties or through ownership interests in processing facilities to bring raw production to sales-quality product.

	$ millions		$/BOE	
Three months ended March 31,	**2017**	2016	**2017**	2016
Canadian Operations	**$ 132**	$ 149	**$ 8.56**	$ 7.87
USA Operations	**59**	98	**$ 4.44**	$ 6.12
Upstream Transportation and Processing	**191**	247	**$ 6.67**	$ 7.07
Market Optimization	**21**	21		
Corporate and Other	**-**	1		
Total	**$ 212**	$ 269		

Three months ended March 31, 2017 versus March 31, 2016

Transportation and processing expense decreased $57 million compared to the first quarter of 2016 primarily due to:

- The renegotiation and expiration of certain transportation contracts ($34 million), the sales of the Gordondale and DJ Basin assets in the third quarter of 2016 ($21 million) and lower gas gathering and processing fees in Montney, Duvernay and the USA Other Operations ($16 million);

partially offset by:

- Higher volumes and prices in Permian ($7 million), the higher U.S./Canadian dollar exchange rate ($6 million) and increased downstream processing costs in Montney and Duvernay due to Encana’s focus on liquids rich wells in the plays ($5 million).

Operating

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

	$ millions				$/BOE			
Three months ended March 31,		**2017**		2016		**2017**		2016
Canadian Operations	**$**	**31**	$	40	**$**	**1.91**	$	2.06
USA Operations		**87**		113	**$**	**6.43**	$	7.06
Upstream Operating Expense (1)		**118**		153	**$**	**3.99**	$	4.35
Market Optimization		**9**		8				
Corporate and Other		**5**		5				
Total	**$**	**132**	$	166				

(1) Upstream Operating Expense per BOE for the first quarter of 2017 includes long-term incentive costs of $0.17/BOE (2016 – $0.04/BOE).

Three months ended March 31, 2017 versus March 31, 2016

Operating expense decreased $34 million compared to the first quarter of 2016 primarily due to:

- Cost-saving initiatives primarily in the USA Operations ($16 million), lower salaries and benefits due to a lower headcount ($11 million), the sales of the DJ Basin and Gordondale assets in the third quarter of 2016 ($9 million) and lower activity in the Canadian Operations ($5 million);

partially offset by:

- Higher long-term incentive costs resulting from the increase in Encana's share price ($6 million). Further information on Encana's long-term incentives can be found in Note 16 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Purchased Product

Purchased product expense includes purchases of natural gas, oil and NGLs from third parties that are used to provide operational flexibility and cost mitigation for transportation commitments, product type, delivery points and customer diversification.

	Three months ended March 31,			
($ millions)		**2017**		2016
Market Optimization	**$**	**171**	$	73

Three months ended March 31, 2017 versus March 31, 2016

Purchased product expense increased $98 million compared to the first quarter of 2016 primarily due to:

- Higher commodity prices ($53 million) and higher third-party volumes purchased for optimization activities ($45 million).

Depreciation, Depletion & Amortization

Proved properties within each country cost centre are depleted using the unit-of-production method based on proved reserves as discussed in Note 1 to the Consolidated Financial Statements included in Item 8 of the 2016 Annual Report on Form 10-K. Depletion rates are impacted by fluctuations in 12-month average trailing prices which can affect proved reserves volumes. Impairments, acquisitions, divestitures and foreign exchange rates can also impact the depletion rates. For additional information on Critical Accounting Estimates, refer to the MD&A included in Item 7 of the 2016 Annual Report on Form 10-K. Corporate assets are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets.

	$ millions		$/BOE	
Three months ended March 31,	**2017**	2016	**2017**	2016
Canadian Operations	**$ 64**	$ 82	**$ 4.11**	$ 4.32
USA Operations	**106**	159	**$ 8.09**	$ 9.99
Upstream DD&A	**170**	241	**$ 5.93**	$ 6.91
Corporate and Other	**17**	20		
Total	**$ 187**	$ 261		

Three months ended March 31, 2017 versus March 31, 2016

DD&A decreased $74 million compared to the first quarter of 2016 primarily due to:

- Lower production volumes ($42 million) and depletion rates ($33 million) in the Canadian and USA Operations.

The depletion rate decreased $0.98 per BOE compared to the first quarter of 2016 primarily due to:

- Ceiling test impairments recognized in the first six months of 2016 in the Canadian and USA Operations and the sale of the DJ Basin assets in the third quarter of 2016.

Impairments

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

	Three months ended March 31,	
($ millions)	**2017**	2016
Canadian Operations	**$ -**	$ 267
USA Operations	**-**	645
Total	**$ -**	$ 912

Ceiling test impairments in the first quarter of 2016 were primarily due to the decline in the 12-month average trailing prices, which reduced the Canadian and USA Operations proved reserves volumes and values as calculated under SEC requirements.

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 & NGLs	
	Henry Hub ($/MMBtu)	AECO (C$/MMBtu)	WTI ($/bbl)	Edmonton Condensate [2] (C$/bbl)
12-Month Average Trailing Reserves Pricing [1]				
March 31, 2017	**2.74**	**2.38**	**47.61**	**61.24**
December 31, 2016	2.49	2.17	42.75	55.39
March 31, 2016	2.39	2.47	46.26	59.54

(1) All prices were held constant in all future years when estimating net revenues and reserves.
(2) Edmonton Condensate benchmark price has replaced the previously disclosed Edmonton Light Sweet benchmark price to reflect the Company's shift to higher condensate production.

The Company believes that the discounted after-tax future net cash flows from proved reserves required to be used in the ceiling test calculation are not indicative of the fair market value of Encana's natural gas and oil properties or the future net cash flows expected to be generated from such properties. The discounted after-tax future net cash flows do not consider the fair market value of unamortized unproved properties, or probable or possible natural gas and liquids reserves. In addition, there is no consideration given to the effect of future changes in commodity prices. Encana manages its business using estimates of reserves and resources based on forecast prices and costs. Additional information on the ceiling test calculation can be found in the Critical Accounting Estimates section of the MD&A included in Item 7 of the 2016 Annual Report on Form 10-K.

Administrative

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

	Three months ended March 31,	
	2017	2016
Administrative ($ millions)	**$ 58**	$ 79
Administrative ($/BOE) [1]	**$ 2.04**	$ 2.27

(1) Administrative expense per BOE for the first quarter of 2017 includes long-term incentive costs of $0.54/BOE (2016 – long-term incentive costs of $0.15/BOE and restructuring costs of $0.89/BOE). There were no restructuring costs in the first quarter of 2017.

Three months ended March 31, 2017 versus March 31, 2016

Administrative expense in the first quarter of 2017 decreased $21 million from the first quarter of 2016 primarily due to lower restructuring costs ($31 million), partially offset by higher long-term incentive costs resulting from the increase in Encana's share price ($10 million). Administrative expense of $43 million, excluding restructuring costs and long-term incentive costs, was unchanged compared to the first quarter of 2016.

During the first quarter of 2016, Encana completed workforce reductions announced in February 2016 to better align staffing levels and the organizational structure with its reduced capital spending program as a result of the low commodity price environment. Encana incurred restructuring costs of $31 million during the first quarter of 2016. Further information on restructuring costs can be found in Note 15 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other (Income) Expenses

	Three months ended March 31,	
($ millions)	**2017**	2016
Interest	**$ 88**	$ 103
Foreign exchange (gain) loss, net	**(26)**	(379)
(Gain) loss on divestitures, net	**1**	-
Other (gains) losses, net	**-**	(87)
Total Other (Income) Expenses	**$ 63**	$ (363)

Interest

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

Interest expense in the first quarter of 2017 decreased $15 million from the first quarter of 2016 primarily due to the early retirement of long-term debt in March 2016 as discussed in the Liquidity and Capital Resources section of this MD&A.

Foreign Exchange (Gain) Loss, Net

Foreign exchange gains and losses result from the impact of fluctuations in the Canadian to U.S. dollar exchange rate. In the first quarter of 2017, the average U.S./Canadian dollar foreign exchange rate was 0.755 compared to 0.728 in the first quarter of 2016. In the first quarter of 2017, Encana recorded lower foreign exchange gains on the translation of U.S. dollar debt issued from Canada compared to the first quarter of 2016 ($303 million).

Other (Gains) Losses, Net

Other (gains) losses, net primarily includes other non-recurring revenues or expenses, reclamation charges relating to decommissioned assets and earnings/losses from equity investments.

Other gains in the first quarter of 2016 primarily includes a gain of $89 million on the early retirement of long-term debt as discussed in the Liquidity and Capital Resources section of this MD&A.

Income Tax

($ millions)	Three months ended March 31, 2017	2016
Current Income Tax Expense (Recovery)	**$ (39)**	$ 3
Deferred Income Tax Expense (Recovery)	**42**	(304)
Income Tax Expense (Recovery)	**$ 3**	$ (301)
Effective Tax Rate	**0.7%**	44.3%

Income Tax Expense (Recovery)

Three months ended March 31, 2017 versus March 31, 2016

In the first quarter of 2017, Encana recorded a total income tax expense compared to a tax recovery in the first quarter of 2016. The total income tax expense was primarily due to higher operating income and lower foreign exchange gains.

The current income tax recovery in the first quarter of 2017 was primarily due to the successful resolution of certain tax items previously assessed by the CRA relating to prior taxation years.

The deferred tax recovery in the first quarter of 2016 was primarily due to the recognition of ceiling test impairments.

Effective Tax Rate

Encana's interim income tax expense is determined using the estimated annual effective income tax rate applied to year-to-date net earnings before income tax plus the effect of legislative changes and amounts in respect of prior periods. The estimated annual effective income tax rate is impacted by expected annual earnings, income tax related to foreign operations, non-taxable capital gains and losses, tax differences on divestitures and transactions, and partnership tax allocations in excess of funding. These items, along with the CRA reassessment discussed above, resulted in an effective tax rate for the first quarter of 2017 that is lower than the Canadian statutory rate of 27 percent. The effective tax rate for the first quarter of 2016 exceeded the Canadian statutory tax rate of 27 percent primarily due to the impact of the foreign jurisdictional tax rates relative to the Canadian statutory tax rate applied to jurisdictional earnings.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As a result, there are tax matters under review for which the timing of resolution is uncertain. The Company believes that the provision for taxes is adequate.

Liquidity and Capital Resources

Sources of Liquidity

The Company has the flexibility to access cash equivalents and a range of funding alternatives at competitive rates through committed revolving bank credit facilities as well as debt and equity capital markets. Encana closely monitors the accessibility of cost-effective credit and ensures that sufficient liquidity is in place to fund capital expenditures and dividend payments. In addition, the Company may use cash and cash equivalents, cash from operating activities, or proceeds from asset divestitures and share issuances to fund its operations and service debt repayments. At March 31, 2017, $97 million in cash and cash equivalents was held by U.S. subsidiaries. The cash held by U.S. subsidiaries is accessible and may be subject to additional Canadian income taxes and U.S. withholding taxes if repatriated.

The Company's capital structure consists of total shareholders' equity plus long-term debt, including the current portion. The Company's objectives when managing its capital structure are to maintain financial flexibility to preserve Encana's access to capital markets and its ability to meet financial obligations and finance internally generated growth, as well as potential acquisitions. Encana has a long-standing practice of maintaining capital discipline and strategically managing its capital structure by adjusting capital spending, adjusting dividends paid to shareholders, issuing new shares, issuing new debt or repaying existing debt.

	As at March 31,	
($ millions, except as indicated)	**2017**	2016
Cash and Cash Equivalents	**$ 523**	$ 222
Available Credit Facility – Encana (1)	**3,000**	1,795
Available Credit Facility – U.S. Subsidiary (1)	**1,500**	1,500
Total Liquidity	**5,023**	3,517
Long-Term Debt	**4,198**	5,402
Total Shareholders' Equity	**6,525**	5,505
Debt to Capitalization (%) (2)	**39**	50
Debt to Adjusted Capitalization (%) (3)	**23**	29

(1) Collectively, the "Credit Facilities".
(2) Calculated as long-term debt, including the current portion, divided by shareholders' equity plus long-term debt, including the current portion.
(3) A non-GAAP measure which is defined in the Non-GAAP Measures section of this MD&A.

Encana is currently in compliance with, and expects that it will continue to be in compliance with, all financial covenants under the Credit Facilities. Management monitors Debt to Adjusted Capitalization, which is a non-GAAP measure defined in the Non-GAAP Measures section of this MD&A, as a proxy for Encana's financial covenant under the Credit Facilities, which requires debt to adjusted capitalization to be less than 60 percent. The definitions used in the covenant under the Credit Facilities adjust capitalization for cumulative historical ceiling test impairments that were recorded as at December 31, 2011 in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP. As shown in the table above, Debt to Adjusted Capitalization in the first quarter of 2017 decreased compared to the first quarter of 2016 as a result of Encana's efforts to strengthen its balance sheet through debt repayments. Additional information on financial covenants can be found in Note 13 to the Consolidated Financial Statements included in Item 8 of the 2016 Annual Report on Form 10-K.

Sources and Uses of Cash

In the first quarter of 2017, Encana primarily generated cash through operating activities. The following table summarizes the sources and uses of the Company's cash and cash equivalents.

		Three months ended March 31,	
($ millions)	Activity Type	**2017**	2016
Sources of Cash and Cash Equivalents			
Cash from operating activities	Operating	**$ 106**	$ 157
Proceeds from divestitures	Investing	**3**	6
Net issuance of revolving long-term debt	Financing	**-**	555
Other	Investing	**55**	12
		164	730
Uses of Cash and Cash Equivalents			
Capital expenditures	Investing	**399**	359
Acquisitions	Investing	**46**	1
Repayment of long-term debt	Financing	**-**	400
Dividends on common shares	Financing	**15**	13
Other	Financing	**16**	15
		476	788
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		**1**	9
Increase (Decrease) in Cash and Cash Equivalents		**$ (311)**	$ (49)

Operating Activities

Cash from operating activities can be significantly impacted by fluctuations in commodity prices, operating costs, and changes in production volumes. In the first quarter of 2017, cash from operating activities was primarily impacted by recovering commodity prices, the Company's efforts in maintaining cost efficiencies achieved in 2016, a current tax recovery and changes in non-cash working capital. Additional detail on changes in non-cash working capital can be found in Note 20 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. Encana expects it will continue to meet the payment terms of its suppliers.

Non-GAAP Cash Flow was $278 million in the first quarter of 2017 and was primarily impacted by the items affecting cash from operating activities which are discussed below and in the Results of Operations section of this MD&A. Non-GAAP Cash Flow excludes changes in non-cash working capital as disclosed in the Non-GAAP Measures section of this MD&A.

Three months ended March 31, 2017 versus March 31, 2016

Net cash from operating activities in the first quarter of 2017 decreased $51 million from the first quarter of 2016 primarily due to:

- Realized losses on risk management included in revenues in the first quarter of 2017 compared to realized gains in 2016 ($201 million), lower production volumes ($93 million) and changes in non-cash working capital ($219 million);

partially offset by:

- Higher realized commodity prices ($312 million), lower transportation and processing expense ($57 million), lower operating expense and administrative expense, excluding non-cash long-term incentive costs ($51 million), a current tax recovery in the first quarter of 2017 compared to an expense in 2016 ($42 million) and lower interest on long-term debt ($15 million).

Investing Activities

Net cash used in investing activities in the first quarter of 2017 was $387 million primarily due to capital expenditures. Capital expenditures in the first quarter of 2017 increased $40 million compared to the first quarter of 2016 due to an increase in the capital program for 2017. Capital expenditures in the Core Assets totaled $390 million, representing 98 percent of total capital expenditures, and increased $47 million compared to the first quarter of 2016, primarily in Eagle Ford ($30 million) and Montney ($25 million). Capital expenditures exceeded cash from operating activities by $293 million and the difference was funded using cash on hand.

Acquisitions in the first quarter of 2017 were $46 million, which included land purchases with oil and liquids rich potential.

Capital expenditures and acquisition and divestiture activity are summarized in Notes 3 and 4 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Financing Activities

Net cash used in financing activities in the first quarter of 2017 was $31 million compared to net cash from financing activities of $127 million in the first quarter of 2016. The change was primarily due to a net issuance of revolving long-term debt ($555 million) in the first quarter of 2016, partially offset by the repayment of long-term debt ($400 million) in the first quarter of 2016.

Encana’s long-term debt totaled $4,198 million at March 31, 2017 and December 31, 2016. There was no current portion outstanding at March 31, 2017 or December 31, 2016. At March 31, 2017, Encana has no long-term debt maturities until 2019 and over 73 percent of the Company’s debt is not due until 2030 and beyond.

In March 2016, the Company completed tender offers (collectively, the “Tender Offers”) for certain of the Company’s outstanding senior notes (collectively, the “Notes”) and accepted for purchase $489 million aggregate principal amount of Notes. 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, which resulted in the recognition of a net gain on the early debt retirement of $89 million, before tax. The Company used cash on hand and borrowings under the Credit Facilities to fund the Tender Offers. Further information on the Tender Offers can be found in Note 9 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The Company continues to have full access to the Credit Facilities, which remain committed through July 2020. The Credit Facilities provide financial flexibility and allow the Company to fund its operations, development activities or capital program. At March 31, 2017, Encana had no outstanding balance under the Credit Facilities.

Dividends

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

	Three months ended March 31,	
($ millions, except as indicated)	**2017**	2016
Dividend Payments	**$ 15**	$ 13
Dividend Payments ($/share)	**$ 0.015**	$ 0.015

On May 1, 2017, the Board of Directors declared a dividend of $0.015 per common share payable on June 30, 2017 to common shareholders of record as of June 15, 2017.

Off-Balance Sheet Arrangements

For information on off-balance sheet arrangements and transactions, refer to the Off-Balance Sheet Arrangements section of the MD&A included in Item 7 of the 2016 Annual Report on Form 10-K.

Commitments and Contingencies

For information on commitments and contingencies, refer to Note 21 to the Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Non-GAAP Measures

Certain measures in this document do not have any standardized meaning as prescribed by U.S. GAAP and, therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers and should not be viewed as a substitute for measures reported under U.S. GAAP. These measures are commonly used in the oil and gas industry and by Encana to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Non-GAAP measures include: Non-GAAP Cash Flow, Corporate Margin and Debt to Adjusted Capitalization. Management's use of these measures is discussed further below.

Non-GAAP Cash Flow and Corporate Margin

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

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

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

	Three Months Ended March 31,	
($ millions, except as indicated)	**2017**	2016
Cash From (Used in) Operating Activities	**$ 106**	$ 157
(Add back) deduct:		
Net change in other assets and liabilities	**(12)**	(4)
Net change in non-cash working capital	**(160)**	59
Current tax on sale of assets	**-**	-
Non-GAAP Cash Flow	**$ 278**	$ 102
Production Volumes (MMBOE)	**28.6**	34.9
Corporate Margin ($/BOE)	**$ 9.72**	$ 2.92

Debt to Adjusted Capitalization

Debt to Adjusted Capitalization is a non-GAAP measure which adjusts capitalization for historical ceiling test impairments that were recorded as at December 31, 2011. Management monitors Debt to Adjusted Capitalization as a proxy for Encana's financial covenant under the Credit Facilities which require debt to adjusted capitalization to be less than 60 percent. Adjusted Capitalization includes debt, total shareholders' equity and an equity adjustment for cumulative historical ceiling test impairments recorded as at December 31, 2011 in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP.

($ millions, except as indicated)	**March 31, 2017**	December 31, 2016
Debt	**$ 4,198**	$ 4,198
Total Shareholders' Equity	**6,525**	6,126
Equity Adjustment for Impairments at December 31, 2011	**7,746**	7,746
Adjusted Capitalization	**$ 18,469**	$ 18,070
Debt to Adjusted Capitalization	**23%**	23%

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about Encana's potential exposure to market risks. The term "market risk" refers to the Company's risk of loss arising from adverse changes in natural gas, oil and NGL prices, foreign currency exchange rates and interest rates. The following disclosures are not meant to be precise indicators of expected future losses but rather indicators of reasonably possible losses. The forward-looking information provides indicators of how the Company views and manages ongoing market risk exposures. The Company's policy is to not use derivative financial instruments for speculative purposes.

COMMODITY PRICE RISK

Commodity price risk arises from the effect fluctuations in future commodity prices, including natural gas, oil and NGLs, may have on future revenues, expenses and cash flows. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot market prices applicable to the Company's natural gas production. Pricing for oil and natural gas production has been volatile and unpredictable as discussed in Item 1A. "Risk Factors" of the 2016 Annual Report on Form 10-K. To partially mitigate exposure to commodity price risk, the Company may enter into various derivative financial instruments including futures, forwards, swaps, options and costless collars. The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors and may vary from year to year. Both exchange traded and over-the-counter traded derivative instruments may be subject to margin-deposit requirements, and the Company may be required from time to time to deposit cash or provide letters of credit with exchange brokers or counterparties to satisfy these margin requirements. For additional information relating to the Company's derivative and financial instruments, see Note 19 under Part I, Item 1 of this Quarterly Report on Form 10-Q.

The table below summarizes the sensitivity of the fair value of the Company's risk management positions to fluctuations in commodity prices, with all other variables held constant. The Company has used a 10 percent variability to assess the potential impact of commodity price changes. Fluctuations in commodity prices could have resulted in unrealized gains (losses) impacting pre-tax net earnings as follows:

	March 31, 2017	
(US$ millions)	10% Price Increase	10% Price Decrease
Natural gas price	$ (50)	$ 41
Crude oil price	(145)	143
NGL price	(6)	6

FOREIGN EXCHANGE RISK

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As Encana operates in Canada and the United States, fluctuations in the exchange rate between the U.S. and Canadian dollars can have a significant effect on the Company's reported results. Although Encana's financial results are consolidated in Canadian dollars, the Company reports its results in U.S. dollars as most of its revenues are closely tied to the U.S. dollar and to facilitate a more direct comparison to other North American oil and gas companies.

Foreign exchange gains and losses also arise when monetary assets and monetary liabilities denominated in foreign currencies are translated and settled, and primarily include:

- U.S. dollar denominated debt issued from Canada
- U.S. dollar denominated risk management assets and liabilities held in Canada
- U.S. dollar denominated cash and short-term investments held in Canada
- Foreign denominated intercompany loans

To partially mitigate the effect of foreign exchange fluctuations on future commodity revenues and expenses, the Company may enter into foreign currency derivative contracts. As at March 31, 2017, Encana had $405 million notional U.S. dollar denominated currency swaps at an average exchange rate of US$0.7502 to C$1. The notional contracts mature monthly throughout 2017.

As at March 31, 2017, Encana had $4.2 billion in U.S. dollar debt issued from Canada that was subject to foreign exchange exposure.

The table below summarizes the sensitivity to foreign exchange rate fluctuations, with all other variables held constant. The Company has used a 10 percent variability to assess the potential impact from Canadian to U.S. foreign currency exchange rate changes. Fluctuations in foreign currency exchange could have resulted in unrealized gains (losses) impacting pre-tax net earnings as follows:

	March 31, 2017	
(US$ millions)	10% Rate Increase	10% Rate Decrease
Foreign currency exchange	$ (365)	$ 446

INTEREST RATE RISK

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company may partially mitigate its exposure to interest rate changes by holding a mix of both fixed and floating rate debt and may also enter into interest rate derivatives to partially mitigate effects of fluctuations in market interest rates.

As at March 31, 2017, the Company had no floating rate debt and there were no interest rate derivatives outstanding.

Item 4: Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

Encana's Chief Executive Officer and Chief Financial Officer performed an evaluation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2017.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in Encana's internal control over financial reporting during the first quarter of 2017 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.