

PART I

Item 1. Financial Statements

Condensed Consolidated Statement of Earnings *(unaudited)*

(US\$ millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	<i>(Note 3)</i>			
Product revenues	\$ 728	\$ 578	\$ 1,466	\$ 1,097
Gains (losses) on risk management, net	129	(330)	467	(207)
Market optimization	204	91	390	178
Other	22	25	49	49
Total Revenues	1,083	364	2,372	1,117
Operating Expenses	<i>(Note 3)</i>			
Production, mineral and other taxes	24	30	53	53
Transportation and processing	206	244	418	513
Operating	113	135	245	301
Purchased product	192	79	363	152
Depreciation, depletion and amortization	193	230	380	491
Impairments	-	484	-	1,396
Accretion of asset retirement obligation	10	13	21	26
Administrative	24	61	82	140
Total Operating Expenses	762	1,276	1,562	3,072
Operating Income (Loss)	321	(912)	810	(1,955)
Other (Income) Expenses				
Interest	79	107	167	210
Foreign exchange (gain) loss, net	(58)	23	(84)	(356)
(Gain) loss on divestitures, net	-	2	1	2
Other (gains) losses, net	(27)	24	(35)	(63)
Total Other (Income) Expenses	(6)	156	49	(207)
Net Earnings (Loss) Before Income Tax	327	(1,068)	761	(1,748)
Income tax expense (recovery)	(4)	(467)	(1)	(768)
Net Earnings (Loss)	\$ 331	\$ (601)	\$ 762	\$ (980)
Net Earnings (Loss) per Common Share				
Basic & Diluted	\$ 0.34	\$ (0.71)	\$ 0.78	\$ (1.15)
Dividends Declared per Common Share	\$ 0.015	\$ 0.015	\$ 0.03	\$ 0.03
Weighted Average Common Shares Outstanding (millions)				
Basic & Diluted	973.0	849.9	973.0	849.9

Condensed Consolidated Statement of Comprehensive Income *(unaudited)*

(US\$ millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Earnings (Loss)	\$ 331	\$ (601)	\$ 762	\$ (980)
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustment	(59)	14	(75)	(256)
Pension and other post-employment benefit plans	-	-	(1)	-
Other Comprehensive Income (Loss)	(59)	14	(76)	(256)
Comprehensive Income (Loss)	\$ 272	\$ (587)	\$ 686	\$ (1,236)

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet *(unaudited)*

(US\$ millions)	As at June 30, 2017	As at December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 395	\$ 834
Accounts receivable and accrued revenues	603	663
Risk management	(Notes 18, 19) 145	-
Income tax receivable	627	426
	1,770	1,923
Property, Plant and Equipment, at cost:	(Note 8)	
Oil and natural gas properties, based on full cost accounting		
Proved properties	41,221	39,610
Unproved properties	4,796	5,198
Other	2,243	2,194
Property, plant and equipment	48,260	47,002
Less: Accumulated depreciation, depletion and amortization	(39,715)	(38,863)
Property, plant and equipment, net	(Note 3) 8,545	8,139
Other Assets	132	138
Risk Management	(Notes 18, 19) 135	16
Deferred Income Taxes	1,625	1,658
Goodwill	(Note 3) 2,802	2,779
	(Note 3) \$ 15,009	\$ 14,653
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,271	\$ 1,303
Income tax payable	5	5
Risk management	(Notes 18, 19) 42	254
	1,318	1,562
Long-Term Debt	(Note 9) 4,198	4,198
Other Liabilities and Provisions	(Note 10) 2,061	2,047
Risk Management	(Notes 18, 19) 13	35
Asset Retirement Obligation	(Note 11) 604	654
Deferred Income Taxes	32	31
	8,226	8,527
Commitments and Contingencies	(Note 21)	
Shareholders' Equity		
Share capital - authorized unlimited common shares		
2017 issued and outstanding: 973.0 million shares (2016: 973.0 million shares)	(Note 12) 4,756	4,756
Paid in surplus	1,358	1,358
Accumulated deficit	(465)	(1,198)
Accumulated other comprehensive income	(Note 13) 1,134	1,210
Total Shareholders' Equity	6,783	6,126
	\$ 15,009	\$ 14,653

See accompanying Notes to Condensed Consolidated Financial Statements

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

Six Months Ended June 30, 2017 (US\$ millions)	Share Capital	Paid in Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2016	\$ 4,756	\$ 1,358	\$ (1,198)	\$ 1,210	\$ 6,126
Net Earnings (Loss)	-	-	762	-	762
Dividends on Common Shares <i>(Note 12)</i>	-	-	(29)	-	(29)
Common Shares Issued Under Dividend Reinvestment Plan <i>(Note 12)</i>	-	-	-	-	-
Other Comprehensive Income (Loss) <i>(Note 13)</i>	-	-	-	(76)	(76)
Balance, June 30, 2017	\$ 4,756	\$ 1,358	\$ (465)	\$ 1,134	\$ 6,783

Six Months Ended June 30, 2016 (US\$ millions)	Share Capital	Paid in Surplus	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)	-	-	(980)	-	(980)
Dividends on Common Shares <i>(Note 12)</i>	-	-	(25)	-	(25)
Common Shares Issued Under Dividend Reinvestment Plan <i>(Note 12)</i>	1	-	-	-	1
Other Comprehensive Income (Loss) <i>(Note 13)</i>	-	-	-	(256)	(256)
Balance, June 30, 2016	\$ 3,622	\$ 1,358	\$ (1,207)	\$ 1,134	\$ 4,907

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows *(unaudited)*

(US\$ millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Activities				
Net earnings (loss)	\$ 331	\$ (601)	\$ 762	\$ (980)
Depreciation, depletion and amortization	193	230	380	491
Impairments <i>(Note 8)</i>	-	484	-	1,396
Accretion of asset retirement obligation <i>(Note 11)</i>	10	13	21	26
Deferred income taxes <i>(Note 7)</i>	14	(455)	56	(759)
Unrealized (gain) loss on risk management <i>(Note 19)</i>	(110)	451	(472)	506
Unrealized foreign exchange (gain) loss <i>(Note 6)</i>	(63)	73	(99)	(270)
Foreign exchange on settlements <i>(Note 6)</i>	7	(53)	9	(85)
(Gain) loss on divestitures, net	-	2	1	2
Other	(31)	38	(29)	(43)
Net change in other assets and liabilities	(4)	(5)	(16)	(9)
Net change in non-cash working capital <i>(Note 20)</i>	(129)	(94)	(289)	(35)
Cash From (Used in) Operating Activities	218	83	324	240
Investing Activities				
Capital expenditures <i>(Note 3)</i>	(415)	(215)	(814)	(574)
Acquisitions <i>(Note 4)</i>	(2)	(1)	(48)	(2)
Proceeds from divestitures <i>(Note 4)</i>	82	-	85	6
Net change in investments and other	24	(56)	79	(44)
Cash From (Used in) Investing Activities	(311)	(272)	(698)	(614)
Financing Activities				
Net issuance (repayment) of revolving long-term debt	-	288	-	843
Repayment of long-term debt <i>(Note 9)</i>	-	-	-	(400)
Dividends on common shares <i>(Note 12)</i>	(14)	(11)	(29)	(24)
Capital lease payments and other financing arrangements <i>(Note 10)</i>	(24)	(17)	(40)	(32)
Cash From (Used in) Financing Activities	(38)	260	(69)	387
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency	3	-	4	9
Increase (Decrease) in Cash and Cash Equivalents	(128)	71	(439)	22
Cash and Cash Equivalents, Beginning of Period	523	222	834	271
Cash and Cash Equivalents, End of Period	\$ 395	\$ 293	\$ 395	\$ 293
Cash, End of Period	\$ 112	\$ 31	\$ 112	\$ 31
Cash Equivalents, End of Period	283	262	283	262
Cash and Cash Equivalents, End of Period	\$ 395	\$ 293	\$ 395	\$ 293

See accompanying Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Principles of Consolidation

Encana is in the business of the exploration for, the development of, and the production and marketing of oil, NGLs and natural gas.

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 oil and natural gas 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 are prepared in conformity with U.S. GAAP and the rules and regulations of the SEC. Pursuant to these rules and regulations, certain information and disclosures normally required under U.S. GAAP 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, 2016, which are included in Item 8 of Encana's 2016 Annual Report on Form 10-K.

These unaudited interim Condensed Consolidated Financial Statements reflect, in the opinion of Management, all normal and recurring adjustments, with the exception of an out-of-period adjustment as described in Note 6, which are necessary to present fairly the financial position and results of the Company as at and for the periods presented. Interim condensed consolidated financial results are not necessarily indicative of consolidated financial results expected for the fiscal year.

2. Recent Accounting Pronouncements

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 and the related subsequent updates and clarifications issued, which will replace Topic 605, "Revenue Recognition", and other industry-specific guidance in the Accounting Standards Codification. 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. The standard can be applied using either the full retrospective approach or a modified retrospective approach at the date of adoption. Encana has substantially completed evaluating the impact of ASU 2014-09 and currently expects that 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 any significant judgments. Encana intends to adopt the new standard using the modified retrospective method at the date of adoption.

As of January 1, 2018, Encana will be required to adopt ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The amendment requires the service cost component to be presented with the related employee compensation costs, while the other components of net benefit costs are required to be presented separately from the service cost component and outside the subtotal of income from operations. In addition, the amendment allows only the service cost to be eligible for capitalization. The amendment will be applied retrospectively and provides certain practical expedients for the presentation of net periodic pension costs and net periodic postretirement benefit cost, while the capitalization of the service cost component will be applied prospectively, at the date of adoption. Encana does not expect the amendment to have a material impact on the Company's Consolidated Financial Statements.

As of January 1, 2019, Encana will be required to adopt ASU 2016-02, “Leases” under Topic 842, which will replace 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 was retained for the purpose of subsequent measurement and presentation of leases 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 at the date of adoption. Encana is currently identifying, gathering and analyzing contracts impacted by the adoption of the new standard, as well as evaluating the system requirements for implementation. Although Encana is not able to reasonably estimate the financial impact of ASU 2016-02 at this time, the Company anticipates there will be a material impact on the Company’s Consolidated Financial Statements resulting from the recognition of assets and liabilities related to operating lease activities.

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 requires 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. The amendment will be applied prospectively at the date of adoption. Encana is currently in the early stages of reviewing the amendment, but does not expect the amendment to have a material impact on the Company’s Consolidated Financial Statements.

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 oil, NGLs and natural gas and other related activities within the Canadian cost centre.
- **USA Operations** includes the exploration for, development of, and production of oil, NGLs and natural gas 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.

Results of Operations (For the three months ended June 30)

Segment and Geographic Information

	Canadian Operations		USA Operations		Market Optimization	
	2017	2016	2017	2016	2017	2016
Revenues						
Product revenues	\$ 264	\$ 196	\$ 464	\$ 382	\$ -	\$ -
Gains (losses) on risk management, net	2	55	17	71	-	1
Market optimization	-	-	-	-	204	91
Other	1	1	4	7	-	-
Total Revenues	267	252	485	460	204	92
Operating Expenses						
Production, mineral and other taxes	5	6	19	24	-	-
Transportation and processing	133	155	51	73	22	22
Operating	22	37	84	87	3	6
Purchased product	-	-	-	-	192	79
Depreciation, depletion and amortization	53	67	123	143	-	-
Impairments	-	226	-	258	-	-
Total Operating Expenses	213	491	277	585	217	107
Operating Income (Loss)	\$ 54	\$ (239)	\$ 208	\$ (125)	\$ (13)	\$ (15)
	Corporate & Other		Consolidated			
	2017	2016	2017	2016		
Revenues						
Product revenues	\$ -	\$ -	\$ 728	\$ 578		
Gains (losses) on risk management, net	110	(457)	129	(330)		
Market optimization	-	-	204	91		
Other	17	17	22	25		
Total Revenues	127	(440)	1,083	364		
Operating Expenses						
Production, mineral and other taxes	-	-	24	30		
Transportation and processing	-	(6)	206	244		
Operating	4	5	113	135		
Purchased product	-	-	192	79		
Depreciation, depletion and amortization	17	20	193	230		
Impairments	-	-	-	484		
Accretion of asset retirement obligation	10	13	10	13		
Administrative	24	61	24	61		
Total Operating Expenses	55	93	762	1,276		
Operating Income (Loss)	\$ 72	\$ (533)	321	(912)		
Other (Income) Expenses						
Interest			79	107		
Foreign exchange (gain) loss, net			(58)	23		
(Gain) loss on divestitures, net			-	2		
Other (gains) losses, net			(27)	24		
Total Other (Income) Expenses			(6)	156		
Net Earnings (Loss) Before Income Tax			327	(1,068)		
Income tax expense (recovery)			(4)	(467)		
Net Earnings (Loss)			\$ 331	\$ (601)		

Results of Operations (For the six months ended June 30)

Segment and Geographic Information

	Canadian Operations		USA Operations		Market Optimization	
	2017	2016	2017	2016	2017	2016
Revenues						
Product revenues	\$ 561	\$ 420	\$ 905	\$ 677	\$ -	\$ -
Gains (losses) on risk management, net	(19)	122	14	181	-	1
Market optimization	-	-	-	-	390	178
Other	5	4	10	11	-	-
Total Revenues	547	546	929	869	390	179
Operating Expenses						
Production, mineral and other taxes	10	12	43	41	-	-
Transportation and processing	265	304	110	171	43	43
Operating	53	77	171	200	12	14
Purchased product	-	-	-	-	363	152
Depreciation, depletion and amortization	117	149	229	302	-	-
Impairments	-	493	-	903	-	-
Total Operating Expenses	445	1,035	553	1,617	418	209
Operating Income (Loss)	\$ 102	\$ (489)	\$ 376	\$ (748)	\$ (28)	\$ (30)
	Corporate & Other		Consolidated			
	2017	2016	2017	2016		
Revenues						
Product revenues	\$ -	\$ -	\$ 1,466	\$ 1,097		
Gains (losses) on risk management, net	472	(511)	467	(207)		
Market optimization	-	-	390	178		
Other	34	34	49	49		
Total Revenues	506	(477)	2,372	1,117		
Operating Expenses						
Production, mineral and other taxes	-	-	53	53		
Transportation and processing	-	(5)	418	513		
Operating	9	10	245	301		
Purchased product	-	-	363	152		
Depreciation, depletion and amortization	34	40	380	491		
Impairments	-	-	-	1,396		
Accretion of asset retirement obligation	21	26	21	26		
Administrative	82	140	82	140		
Total Operating Expenses	146	211	1,562	3,072		
Operating Income (Loss)	\$ 360	\$ (688)	810	(1,955)		
Other (Income) Expenses						
Interest			167	210		
Foreign exchange (gain) loss, net			(84)	(356)		
(Gain) loss on divestitures, net			1	2		
Other (gains) losses, net			(35)	(63)		
Total Other (Income) Expenses			49	(207)		
Net Earnings (Loss) Before Income Tax			761	(1,748)		
Income tax expense (recovery)			(1)	(768)		
Net Earnings (Loss)			\$ 762	\$ (980)		

Intersegment Information

	Market Optimization					
	Marketing Sales		Upstream Eliminations		Total	
	2017	2016	2017	2016	2017	2016
For the three months ended June 30						
Revenues	\$ 951	\$ 713	\$ (747)	\$ (621)	\$ 204	\$ 92
Operating Expenses						
Transportation and processing	61	74	(39)	(52)	22	22
Operating	3	6	-	-	3	6
Purchased product	900	648	(708)	(569)	192	79
Operating Income (Loss)	\$ (13)	\$ (15)	\$ -	\$ -	\$ (13)	\$ (15)

	Market Optimization					
	Marketing Sales		Upstream Eliminations		Total	
	2017	2016	2017	2016	2017	2016
For the six months ended June 30						
Revenues	\$ 1,907	\$ 1,402	\$ (1,517)	\$ (1,223)	\$ 390	\$ 179
Operating Expenses						
Transportation and processing	125	154	(82)	(111)	43	43
Operating	12	14	-	-	12	14
Purchased product	1,798	1,263	(1,435)	(1,111)	363	152
Operating Income (Loss)	\$ (28)	\$ (29)	\$ -	\$ (1)	\$ (28)	\$ (30)

Capital Expenditures

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Canadian Operations	\$ 81	\$ 54	\$ 169	\$ 117
USA Operations	333	159	644	456
Corporate & Other	1	2	1	1
	\$ 415	\$ 215	\$ 814	\$ 574

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

	Goodwill		Property, Plant and Equipment		Total Assets	
	As at		As at		As at	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Canadian Operations	\$ 673	\$ 650	\$ 701	\$ 602	\$ 1,661	\$ 1,542
USA Operations	2,129	2,129	6,337	6,050	9,803	9,535
Market Optimization	-	-	2	2	100	105
Corporate & Other	-	-	1,505	1,485	3,445	3,471
	\$ 2,802	\$ 2,779	\$ 8,545	\$ 8,139	\$ 15,009	\$ 14,653

4. Acquisitions and Divestitures

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Acquisitions				
Canadian Operations	\$ -	\$ -	\$ 31	\$ -
USA Operations	2	1	17	2
Total Acquisitions	2	1	48	2
Divestitures				
Canadian Operations	(3)	-	(6)	-
USA Operations	(79)	-	(79)	(6)
Total Divestitures	(82)	-	(85)	(6)
Net Acquisitions & (Divestitures)	\$ (80)	\$ 1	\$ (37)	\$ (4)

Acquisitions

For the six months ended June 30, 2017, acquisitions in the Canadian Operations and USA Operations were \$31 million and \$17 million, respectively, which primarily included land purchases with oil and liquids rich potential.

Divestitures

During the three and six months ended June 30, 2017, divestitures in the USA Operations were \$79 million, which primarily included the sale of the Tuscaloosa Marine Shale assets in Mississippi and Louisiana. During the six months ended June 30, 2016, divestitures in the USA Operations were \$6 million, which primarily included the sale of certain properties that did not complement Encana's existing portfolio of assets.

During the six months ended June 30, 2017, divestitures in the Canadian Operations were \$6 million (2016 - nil), which primarily included the sale of certain properties that did not complement Encana's existing portfolio of assets.

Amounts received from divestiture transactions were deducted from the respective Canadian and U.S. full cost pools.

5. Interest

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Expense on:				
Debt	\$ 67	\$ 76	\$ 133	\$ 157
The Bow office building	15	16	31	31
Capital leases	5	6	10	12
Other	(8)	9	(7)	10
	\$ 79	\$ 107	\$ 167	\$ 210

For the three and six months ended June 30, 2017, other primarily includes an interest recovery due to the successful resolution of certain tax items previously assessed by the tax authorities relating to prior taxation years.

6. Foreign Exchange (Gain) Loss, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Unrealized Foreign Exchange (Gain) Loss on:				
Translation of U.S. dollar financing debt issued from Canada	\$ (45)	\$ 59	\$ (78)	\$ (277)
Translation of U.S. dollar risk management contracts issued from Canada	(28)	-	(32)	6
Translation of intercompany notes	10	14	11	1
	(63)	73	(99)	(270)
Foreign Exchange on Settlements of:				
U.S. dollar financing debt issued from Canada	7	(41)	7	(72)
U.S. dollar risk management contracts issued from Canada	2	-	1	-
Intercompany notes	-	(12)	2	(13)
Other Monetary Revaluations	(4)	3	5	(1)
	\$ (58)	\$ 23	\$ (84)	\$ (356)

The unrealized foreign exchange (gain) loss on translation of U.S. dollar financing debt issued from Canada for the three and six months ended June 30, 2017 disclosed in the table above includes an out-of-period adjustment in respect of unrealized losses on a foreign-denominated capital lease obligation since December 2013. The cumulative impact from December 31, 2013 to June 30, 2017 recognized within foreign exchange (gain) loss in the Company's Condensed Consolidated Statement of Earnings for the three and six months ended June 30, 2017 was \$68 million, before tax (\$47 million, after tax). Encana has determined that the adjustment is not material to the Condensed Consolidated Financial Statements for the period ended June 30, 2017 or any prior periods. Accordingly, comparative periods presented in the Condensed Consolidated Financial Statements have not been restated.

7. Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Current Tax				
Canada	\$ (20)	\$ (14)	\$ (62)	\$ (13)
United States	1	-	1	-
Other Countries	1	2	4	4
Total Current Tax Expense (Recovery)	(18)	(12)	(57)	(9)
Deferred Tax				
Canada	2	(262)	20	(358)
United States	6	(252)	21	(608)
Other Countries	6	59	15	207
Total Deferred Tax Expense (Recovery)	14	(455)	56	(759)
Income Tax Expense (Recovery)	\$ (4)	\$ (467)	\$ (1)	\$ (768)
Effective Tax Rate	(1.2%)	43.7%	(0.1%)	43.9%

Encana's interim income tax expense is determined using an 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.

During the three and six months ended June 30, 2017, the current income tax recovery was primarily due to the successful resolution of certain tax items previously assessed by the tax authorities relating to prior taxation years. During the three and six months ended June 30, 2016, the deferred tax recovery was primarily due to the ceiling test impairments recognized in the Canadian and USA Operations as disclosed in Note 8.

These items resulted in an effective tax rate of (0.1) percent for the six months ended June 30, 2017, which is lower than the Canadian statutory rate of 27 percent. The effective tax rate for the six months ended June 30, 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.

8. Property, Plant and Equipment, Net

	As at June 30, 2017			As at December 31, 2016		
	Cost	Accumulated DD&A	Net	Cost	Accumulated DD&A	Net
Canadian Operations						
Proved properties	\$ 13,818	\$ (13,463)	\$ 355	\$ 13,159	\$ (12,896)	\$ 263
Unproved properties	300	-	300	285	-	285
Other	46	-	46	54	-	54
	14,164	(13,463)	701	13,498	(12,896)	602
USA Operations						
Proved properties	27,342	(25,533)	1,809	26,393	(25,300)	1,093
Unproved properties	4,496	-	4,496	4,913	-	4,913
Other	32	-	32	44	-	44
	31,870	(25,533)	6,337	31,350	(25,300)	6,050
Market Optimization	7	(5)	2	6	(4)	2
Corporate & Other	2,219	(714)	1,505	2,148	(663)	1,485
	\$ 48,260	\$ (39,715)	\$ 8,545	\$ 47,002	\$ (38,863)	\$ 8,139

Canadian Operations and USA Operations property, plant and equipment include internal costs directly related to exploration, development and construction activities of \$77 million, which have been capitalized during the six months ended June 30, 2017 (2016 - \$72 million). Included in Corporate and Other are \$61 million (\$58 million as of December 31, 2016) of international property costs, which have been fully impaired.

For the three and six months ended June 30, 2017, the Company did not recognize any ceiling test impairments in the Canadian or U.S. cost centres. For the three months ended June 30, 2016, the Company recognized before-tax ceiling test impairments of \$226 million in the Canadian cost centre and \$258 million in the U.S. cost centre. For the six months ended June 30, 2016, the Company recognized before-tax ceiling test impairments of \$493 million in the Canadian cost centre and \$903 million in the U.S. cost centre. The impairments recognized in 2016 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 presented below. The benchmark prices were adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

	Oil & NGLs		Natural Gas	
	WTI (\$/bbl)	Edmonton Condensate ⁽²⁾ (C\$/bbl)	Henry Hub (\$/MMBtu)	AECO (C\$/MMBtu)
12-Month Average Trailing Reserves Pricing ⁽¹⁾				
June 30, 2017	48.95	64.27	3.01	2.76
December 31, 2016	42.75	55.39	2.49	2.17
June 30, 2016	43.12	55.63	2.24	2.14

⁽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.

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 June 30, 2017, the total carrying value of assets under capital lease was \$49 million (\$51 million as at December 31, 2016), net of accumulated amortization of \$666 million (\$648 million as at December 31, 2016). 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.

Other Arrangement

As at June 30, 2017, Corporate and Other property, plant and equipment and total assets include a carrying value of \$1,224 million (\$1,194 million as at December 31, 2016) 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, the remaining asset and corresponding liability are expected to be derecognized as disclosed in Note 10.

9. Long-Term Debt

	As at June 30, 2017	As at December 31, 2016
U.S. Dollar Denominated Debt		
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	462
6.50% due February 1, 2038 ⁽¹⁾	505	505
5.15% due November 15, 2041 ⁽¹⁾	244	244
Total Principal	4,211	4,211
Increase in Value of Debt Acquired	26	26
Unamortized Debt Discounts and Issuance Costs	(39)	(39)
Current Portion of Long-Term Debt	-	-
	\$ 4,198	\$ 4,198

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

As at June 30, 2017, total long-term debt had a carrying value of \$4,198 million and a fair value of \$4,752 million (as at December 31, 2016 - carrying value of \$4,198 million and a fair value of \$4,553 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 of long-term debt with similar terms and maturity, 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.

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 totaled \$89 million, which is included in other (gains) losses in the Condensed Consolidated Statement of Earnings.

10. Other Liabilities and Provisions

	As at June 30, 2017	As at December 31, 2016
The Bow Office Building	\$ 1,305	\$ 1,266
Capital Lease Obligations	335	304
Unrecognized Tax Benefits	187	193
Pensions and Other Post-Employment Benefits	123	124
Long-Term Incentive Costs (See Note 16)	78	120
Other Derivative Contracts (See Notes 18, 19)	11	14
Other	22	26
	\$ 2,061	\$ 2,047

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 lease term, the remaining asset and corresponding liability are expected to be derecognized. Encana has also subleased approximately 50 percent of The Bow office space under the lease agreement. 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 sublease are outlined below.

	2017	2018	2019	2020	2021	Thereafter	Total
Expected Future Lease Payments	\$ 37	\$ 73	\$ 74	\$ 75	\$ 75	1,327	\$ 1,661
Less: Amounts Representing Interest	32	62	62	62	61	834	1,113
Present Value of Expected Future Lease Payments	\$ 5	\$ 11	\$ 12	\$ 13	\$ 14	493	\$ 548
Sublease Recoveries (undiscounted)	\$ (18)	\$ (36)	\$ (36)	\$ (37)	\$ (37)	(653)	\$ (817)

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	\$ 49	\$ 99	\$ 99	\$ 99	\$ 87	46	\$ 479
Less: Amounts Representing Interest	11	20	15	10	4	7	67
Present Value of Expected Future Lease Payments	\$ 38	\$ 79	\$ 84	\$ 89	\$ 83	39	\$ 412

11. Asset Retirement Obligation

	As at June 30, 2017	As at December 31, 2016
Asset Retirement Obligation, Beginning of Year	\$ 687	\$ 814
Liabilities Incurred and Acquired	6	18
Liabilities Settled and Divested	(75)	(107)
Change in Estimated Future Cash Outflows	-	(99)
Accretion Expense	21	51
Foreign Currency Translation	11	10
Asset Retirement Obligation, End of Period	\$ 650	\$ 687
Current Portion	\$ 46	\$ 33
Long-Term Portion	604	654
	\$ 650	\$ 687

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 Class A Preferred Shares are outstanding.

Issued and Outstanding

	As at June 30, 2017		As at December 31, 2016	
	Number (millions)	Amount	Number (millions)	Amount
Common Shares Outstanding, Beginning of Year	973.0	\$ 4,756	849.8	\$ 3,621
Common Shares Issued	-	-	123.1	1,134
Common Shares Issued Under Dividend Reinvestment Plan	-	-	0.1	1
Common Shares Outstanding, End of Period	973.0	\$ 4,756	973.0	\$ 4,756

During the six months ended June 30, 2017, Encana issued 30,671 common shares totaling \$0.3 million under the Company's dividend reinvestment plan ("DRIP"). During the twelve months ended December 31, 2016, Encana issued 121,249 common shares totaling \$1 million under the DRIP.

Dividends

During the three months ended June 30, 2017, Encana paid dividends of \$0.015 per common share totaling \$14 million (2016 - \$0.015 per common share totaling \$12 million). During the six months ended June 30, 2017, Encana paid dividends of \$0.03 per common share totaling \$29 million (2016 - \$0.03 per common share totaling \$25 million).

For the three and six months ended June 30, 2017, the dividends paid included \$0.1 million and \$0.3 million, respectively, in common shares issued in lieu of cash dividends under the DRIP (for the three and six months ended June 30, 2016 - \$0.3 million and \$0.6 million, respectively).

On July 20, 2017, the Board of Directors declared a dividend of \$0.015 per common share payable on September 29, 2017 to common shareholders of record as of September 15, 2017.

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Earnings (Loss)	\$ 331	\$ (601)	\$ 762	\$ (980)
Number of Common Shares:				
Weighted average common shares outstanding - Basic	973.0	849.9	973.0	849.9
Effect of dilutive securities	-	-	-	-
Weighted average common shares outstanding - Diluted	973.0	849.9	973.0	849.9
Net Earnings (Loss) per Common Share				
Basic & Diluted	\$ 0.34	\$ (0.71)	\$ 0.78	\$ (1.15)

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 June 30, 2017 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.

13. Accumulated Other Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Foreign Currency Translation Adjustment				
Balance, Beginning of Period	\$ 1,184	\$ 1,113	\$ 1,200	\$ 1,383
Change in Foreign Currency Translation Adjustment	(59)	14	(75)	(256)
Balance, End of Period	\$ 1,125	\$ 1,127	\$ 1,125	\$ 1,127
Pension and Other Post-Employment Benefit Plans				
Balance, Beginning of Period	\$ 9	\$ 7	\$ 10	\$ 7
Reclassification of Net Actuarial (Gains) and Losses to Net Earnings (See Note 17)	-	-	(1)	-
Income Taxes	-	-	-	-
Balance, End of Period	\$ 9	\$ 7	\$ 9	\$ 7
Total Accumulated Other Comprehensive Income	\$ 1,134	\$ 1,134	\$ 1,134	\$ 1,134

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 June 30, 2017, Encana had a capital lease obligation of \$350 million (\$299 million as at December 31, 2016) 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 liquids and natural gas production in the Montney play. As at June 30, 2017, VMLP provides approximately 623 MMcf/d of natural gas gathering and compression and 304 MMcf/d of natural gas processing under long-term service agreements with remaining terms ranging from up to 15 to 28 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. 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 \$1,988 million as at June 30, 2017. 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 21 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 June 30, 2017, accounts payable and accrued liabilities included \$0.3 million 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. During 2016, Encana incurred total restructuring charges of \$34 million, before tax, primarily related to severance costs, of which \$1 million remains accrued as at June 30, 2017 and is expected to be paid in 2017.

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

	As at June 30, 2017	As at December 31, 2016
Outstanding Restructuring Accrual, Beginning of Year	\$ 7	\$ 13
Current Period Restructuring Expenses Incurred	-	34
Restructuring Costs Paid	(6)	(40)
Outstanding Restructuring Accrual, End of Period	\$ 1	\$ 7

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 June 30, 2017		As at June 30, 2016	
	US\$ Share Units	C\$ Share Units	US\$ Share Units	C\$ Share Units
Risk Free Interest Rate	1.09%	1.09%	0.54%	0.54%
Dividend Yield	0.68%	0.70%	0.77%	0.79%
Expected Volatility Rate ⁽¹⁾	59.17%	54.94%	53.96%	50.39%
Expected Term	1.9 yrs	1.9 yrs	1.7 yrs	2.0 yrs
Market Share Price	US\$8.80	C\$11.41	US\$7.79	C\$10.05

⁽¹⁾ Volatility was estimated using historical rates.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total Compensation Costs of Transactions Classified as Cash-Settled	\$ (41)	\$ 38	\$ (7)	\$ 46
Less: Total Share-Based Compensation Costs Capitalized	11	(9)	-	(10)
Total Share-Based Compensation Expense (Recovery)	\$ (30)	\$ 29	\$ (7)	\$ 36
Recognized on the Condensed Consolidated Statement of Earnings in:				
Operating	\$ (8)	\$ 11	\$ -	\$ 13
Administrative	(22)	18	(7)	23
	\$ (30)	\$ 29	\$ (7)	\$ 36

As at June 30, 2017, the liability for share-based payment transactions totaled \$155 million (\$208 million as at December 31, 2016), of which \$77 million (\$88 million as at December 31, 2016) is recognized in accounts payable and accrued liabilities and \$78 million (\$120 million as at December 31, 2016) is recognized in other liabilities and provisions in the Condensed Consolidated Balance Sheet.

	As at June 30, 2017	As at December 31, 2016
Liability for Cash-Settled Share-Based Payment Transactions:		
Unvested	\$ 128	\$ 171
Vested	27	37
	\$ 155	\$ 208

The following units were granted primarily in conjunction with the Company's February 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.

Six Months Ended June 30, 2017 (thousands of units)

TSARs	850
SARs	349
PSUs	1,964
DSUs	140
RSUs	4,751

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 six months ended June 30 as follows:

	Pension Benefits		OPEB		Total	
	2017	2016	2017	2016	2017	2016
Net Defined Periodic Benefit Cost	\$ (1)	\$ (1)	\$ 5	\$ 7	\$ 4	\$ 6
Defined Contribution Plan Expense	12	14	-	-	12	14
Total Benefit Plans Expense	\$ 11	\$ 13	\$ 5	\$ 7	\$ 16	\$ 20

Of the total benefit plans expense, \$12 million (2016 - \$16 million) was included in operating expense and \$4 million (2016 - \$4 million) was included in administrative expense.

The net defined periodic benefit cost for the six months ended June 30 are as follows:

	Defined Benefits		OPEB		Total	
	2017	2016	2017	2016	2017	2016
Service Cost	\$ -	\$ 1	\$ 4	\$ 5	\$ 4	\$ 6
Interest Cost	4	4	2	2	6	6
Expected Return on Plan Assets	(5)	(6)	-	-	(5)	(6)
Amounts Reclassified from Accumulated Other Comprehensive Income:						
Amortization of net actuarial (gains) and losses ⁽¹⁾	-	-	(1)	-	(1)	-
Total Net Defined Periodic Benefit Cost	\$ (1)	\$ (1)	\$ 5	\$ 7	\$ 4	\$ 6

⁽¹⁾ Included in operating expense in the Condensed Consolidated Statement of Earnings.

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.

Recurring fair value measurements are performed for risk management assets and liabilities and other derivative contracts, 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.

	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total Fair Value	Netting ⁽¹⁾	Carrying Amount
As at June 30, 2017						
Risk Management Assets						
Commodity Derivatives:						
Current assets	\$ -	\$ 128	\$ 31	\$ 159	\$ (30)	\$ 129
Long-term assets	-	141	-	141	(15)	126
Foreign Currency Derivatives:						
Current assets	-	16	-	16	-	16
Long-term assets	-	9	-	9	-	9
Risk Management Liabilities						
Commodity Derivatives:						
Current liabilities	\$ -	\$ 72	\$ -	\$ 72	\$ (30)	\$ 42
Long-term liabilities	-	28	-	28	(15)	13
Other Derivative Contracts						
Current in accounts payable and accrued liabilities	\$ -	\$ 5	\$ -	\$ 5	\$ -	\$ 5
Long-term in other liabilities and provisions	-	11	-	11	-	11

⁽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.

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 Assets						
Commodity Derivatives:						
Current assets	\$ -	\$ 11	\$ -	\$ 11	\$ (11)	\$ -
Long-term assets	-	19	-	19	(3)	16
Risk Management Liabilities						
Commodity Derivatives:						
Current liabilities	\$ -	\$ 228	\$ 36	\$ 264	\$ (11)	\$ 253
Long-term liabilities	-	38	-	38	(3)	35
Foreign Currency Derivatives:						
Current liabilities	-	1	-	1	-	1
Other Derivative Contracts						
Current in accounts payable and accrued liabilities	\$ -	\$ 5	\$ -	\$ 5	\$ -	\$ 5
Long-term in other liabilities and provisions	-	14	-	14	-	14

⁽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, foreign currency swaps and basis swaps with terms to 2023. Level 2 also includes financial guarantee contracts 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.

Level 3 Fair Value Measurements

As at June 30, 2017, 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 six months ended June 30 is presented below:

	Risk Management	
	2017	2016
Balance, Beginning of Year	\$ (36)	\$ 16
Total Gains (Losses)	64	(4)
Purchases, Sales, Issuances and Settlements:		
Settlements	3	(3)
Transfers Out of Level 3 ⁽¹⁾	-	(10)
Balance, End of Period	\$ 31	\$ (1)
Change in Unrealized Gains (Losses) Related to Assets and Liabilities Held at End of Period	\$ 59	\$ (7)

⁽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 June 30, 2017	As at December 31, 2016
Risk Management - WTI Options	Option Model	Implied Volatility	17% - 48%	18% - 64%

A 10 percent increase or decrease in implied volatility for the WTI options would cause a corresponding \$1 million (\$3 million as at December 31, 2016) increase or decrease to net risk management assets and liabilities.

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, 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, electricity costs 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.

Crude Oil and NGLs - To partially mitigate crude oil and NGL commodity price risk, the Company uses WTI-based and Mont Belvieu-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.

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.

Power - The Company has entered into Canadian dollar denominated derivative contracts to manage its electricity consumption costs.

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 June 30, 2017, Encana had \$620 million notional U.S. dollar denominated currency swaps at an average exchange rate of US\$0.7421 to C\$1. The notional contracts mature monthly throughout 2017 and 2018.

Risk Management Positions as at June 30, 2017

	Notional Volumes	Term	Average Price	Fair Value
Crude Oil and NGL Contracts				
Fixed Price Contracts				
WTI Fixed Price	33.0 Mbbls/d	2017	52.27 US\$/bbl	\$ 33
WTI Fixed Price	31.3 Mbbls/d	2018	55.45 US\$/bbl	80
Butane Fixed Price	2.5 Mbbls/d	2017	36.12 US\$/bbl	2
WTI Three-Way Options				
Sold call price	25.0 Mbbls/d	2017	61.40 US\$/bbl	18
Bought put price			49.95 US\$/bbl	
Sold put price			39.40 US\$/bbl	
WTI Costless Collars				
Sold call price	30.0 Mbbls/d	Q3 - Q4 2017	56.05 US\$/bbl	13
Bought put price			46.22 US\$/bbl	
Basis Contracts ⁽¹⁾		2017 - 2020		9
Crude Oil and NGLs Fair Value Position				155
Natural Gas Contracts				
Fixed Price Contracts				
NYMEX Fixed Price	405 MMcf/d	2017	3.13 US\$/Mcf	3
NYMEX Fixed Price	650 MMcf/d	2018	3.07 US\$/Mcf	19
NYMEX Three-Way Options				
Sold call price	300 MMcf/d	2017	3.07 US\$/Mcf	(8)
Bought put price			2.75 US\$/Mcf	
Sold put price			2.27 US\$/Mcf	
NYMEX Costless Collars				
Sold call price	160 MMcf/d	2017	3.57 US\$/Mcf	2
Bought put price			2.96 US\$/Mcf	
NYMEX Call Options				
Sold call price	230 MMcf/d	2018	3.75 US\$/Mcf	(10)
Sold call price	230 MMcf/d	2019	3.75 US\$/Mcf	(11)
Basis Contracts ⁽²⁾		2017 - 2023		50
Natural Gas Fair Value Position				45
Other Derivative Contracts				
Fair Value Position				(16)
Foreign Currency Contracts				
Fair Value Position ⁽³⁾		2017-2018		25
Total Fair Value Position				\$ 209

⁽¹⁾ Encana has entered into swaps to protect against widening Midland and Edmonton Condensate differentials to WTI.

⁽²⁾ Encana has entered into swaps to protect against widening natural gas price differentials between benchmark and regional sales prices.

⁽³⁾ Encana has entered into U.S. dollar denominated fixed-for-floating average currency swaps to protect against widening fluctuations between the Canadian and U.S. dollars.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Realized Gains (Losses) on Risk Management				
Commodity and Other Derivatives:				
Revenues ⁽¹⁾	\$ 19	\$ 127	\$ (5)	\$ 304
Transportation and processing	-	2	(4)	(4)
Foreign Currency Derivatives:				
Foreign exchange	(2)	-	(1)	-
	\$ 17	\$ 129	\$ (10)	\$ 300
Unrealized Gains (Losses) on Risk Management				
Commodity and Other Derivatives:				
Revenues ⁽²⁾	\$ 110	\$ (457)	\$ 472	\$ (511)
Transportation and processing	-	6	-	5
Foreign Currency Derivatives:				
Foreign exchange	24	-	26	-
	\$ 134	\$ (451)	\$ 498	\$ (506)
Total Realized and Unrealized Gains (Losses) on Risk Management, net				
Commodity and Other Derivatives:				
Revenues ⁽¹⁾⁽²⁾	\$ 129	\$ (330)	\$ 467	\$ (207)
Transportation and processing	-	8	(4)	1
Foreign Currency Derivatives:				
Foreign exchange	22	-	25	-
	\$ 151	\$ (322)	\$ 488	\$ (206)

⁽¹⁾ Includes realized gains of \$1 million and \$3 million for the three and six months ended June 30, 2017, respectively, (2016 - gains of \$2 million and \$3 million, respectively) related to other derivative contracts.

⁽²⁾ Includes unrealized losses of \$1 million for the three and six months ended June 30, 2017 (2016 - nil and nil, respectively) related to other derivative contracts.

Reconciliation of Unrealized Risk Management Positions from January 1 to June 30

	2017		2016	
	Fair Value	Total Unrealized Gain (Loss)	Total Unrealized Gain (Loss)	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Year	\$ (292)			
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Period	488	\$ 488	\$ (206)	
Settlement of Other Derivative Contracts	3			
Fair Value of Contracts Realized During the Period	10	10	(300)	
Fair Value of Contracts, End of Period	\$ 209	\$ 498	\$ (506)	

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.

Unrealized Risk Management Positions

	As at June 30, 2017	As at December 31, 2016
Risk Management Assets		
Current	\$ 145	\$ -
Long-term	135	16
	280	16
Risk Management Liabilities		
Current	42	254
Long-term	13	35
	55	289
Other Derivative Contracts		
Current in accounts payable and accrued liabilities	5	5
Long-term in other liabilities and provisions	11	14
Net Risk Management Assets (Liabilities) and Other Derivative Contracts	\$ 209	\$ (292)

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 June 30, 2017, the Company had no significant credit derivatives in place and held no collateral.

As at June 30, 2017, 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 that have 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 June 30, 2017, approximately 92 percent (90 percent as at December 31, 2016) of Encana's accounts receivable and financial derivative credit exposures were with investment grade counterparties.

As at June 30, 2017, Encana had four 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 June 30, 2017, these counterparties accounted for 16 percent, 13 percent, 12 percent and 10 percent of the fair value of the outstanding in-the-money net risk management contracts. As at December 31, 2016, Encana had one counterparty whose net settlement position accounted for 84 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 seven years with a fair value recognized of \$16 million as at June 30, 2017 (\$19 million as at December 31, 2016). The maximum potential amount of undiscounted future payments is \$315 million as at June 30, 2017, and is considered unlikely.

20. Supplementary Information

Supplemental disclosures to the Condensed Consolidated Statement of Cash Flows are presented below:

A) Net Change in Non-Cash Working Capital

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Activities				
Accounts receivable and accrued revenues	\$ 33	\$ (19)	\$ 103	\$ 126
Accounts payable and accrued liabilities	(37)	(64)	(171)	(191)
Income tax receivable and payable	(125)	(11)	(221)	30
	\$ (129)	\$ (94)	\$ (289)	\$ (35)

B) Non-Cash Activities

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Non-Cash Investing Activities				
Asset retirement obligation incurred (See Note 11)	\$ 3	\$ 1	\$ 6	\$ 4
Property, plant and equipment accruals	34	(66)	78	(53)
Capitalized long-term incentives (See Note 16)	(11)	9	-	10
Property additions/dispositions	159	54	165	55
Non-Cash Financing Activities				
Common shares issued under dividend reinvestment plan (See Note 12)	\$ -	\$ 1	\$ -	\$ 1

21. Commitments and Contingencies

Commitments

The following table outlines the Company's commitments as at June 30, 2017:

(undiscounted)	Expected Future Payments							Total
	2017	2018	2019	2020	2021	Thereafter		
Transportation and Processing	\$ 257	\$ 555	\$ 623	\$ 604	\$ 480	\$ 2,762	\$ 5,281	
Drilling and Field Services	129	69	34	19	7	-	258	
Operating Leases	10	19	18	16	17	76	156	
Total	\$ 396	\$ 643	\$ 675	\$ 639	\$ 504	\$ 2,838	\$ 5,695	

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.