



Encana Corporation

Interim Condensed Consolidated Financial Statements
(unaudited)

For the period ended December 31, 2014

(U.S. Dollars)

Condensed Consolidated Statement of Earnings *(unaudited)*

(\$ millions, except per share amounts)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Revenues, Net of Royalties	<i>(Note 3)</i> \$ 2,254	\$ 1,423	\$ 8,019	\$ 5,858
Expenses	<i>(Note 3)</i>			
Production and mineral taxes	36	37	133	134
Transportation and processing	356	405	1,505	1,476
Operating	178	221	735	859
Purchased product	347	138	1,191	441
Depreciation, depletion and amortization	451	388	1,745	1,565
Impairments	-	-	-	21
Accretion of asset retirement obligation	<i>(Note 12)</i> 13	13	52	53
Administrative	<i>(Note 16)</i> 58	167	327	439
Interest	<i>(Note 6)</i> 252	139	654	563
Foreign exchange (gain) loss, net	<i>(Note 7)</i> 149	160	403	325
(Gain) loss on divestitures	<i>(Notes 5, 15)</i> 16	(3)	(3,426)	(7)
Other	<i>(Note 4)</i> 63	7	71	1
	1,919	1,672	3,390	5,870
Net Earnings (Loss) Before Income Tax	335	(249)	4,629	(12)
Income tax expense (recovery)	<i>(Note 8)</i> 137	2	1,203	(248)
Net Earnings (Loss)	198	(251)	3,426	236
Net earnings attributable to noncontrolling interest	<i>(Note 15)</i> -	-	(34)	-
Net Earnings (Loss) Attributable to Common Shareholders	\$ 198	\$ (251)	\$ 3,392	\$ 236
Net Earnings (Loss) per Common Share				
Basic & Diluted	<i>(Note 13)</i> \$ 0.27	\$ (0.34)	\$ 4.58	\$ 0.32

Condensed Consolidated Statement of Comprehensive Income *(unaudited)*

(\$ millions)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Net Earnings (Loss)	\$ 198	\$ (251)	\$ 3,426	\$ 236
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustment	<i>(Note 14)</i> 58	(27)	22	(46)
Pension and other post-employment benefit plans	<i>(Notes 14, 18)</i> (17)	52	(17)	60
Other Comprehensive Income	41	25	5	14
Comprehensive Income (Loss)	239	(226)	3,431	250
Comprehensive Income Attributable to Noncontrolling Interest	<i>(Note 15)</i> -	-	(34)	-
Comprehensive Income (Loss) Attributable to Common Shareholders	\$ 239	\$ (226)	\$ 3,397	\$ 250

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet *(unaudited)*

(\$ millions)	As at December 31, 2014	As at December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 338	\$ 2,566
Accounts receivable and accrued revenues	1,307	988
Risk management <i>(Note 20)</i>	707	56
Income tax receivable	509	562
Deferred income taxes	-	118
	2,861	4,290
Property, Plant and Equipment, at cost: <i>(Note 9)</i>		
Natural gas and oil properties, based on full cost accounting		
Proved properties	42,615	51,603
Unproved properties	6,133	1,068
Other	2,711	3,148
Property, plant and equipment	51,459	55,819
Less: Accumulated depreciation, depletion and amortization	(33,444)	(45,784)
Property, plant and equipment, net <i>(Note 3)</i>	18,015	10,035
Cash in Reserve	73	10
Other Assets	394	526
Risk Management <i>(Note 20)</i>	65	204
Deferred Income Taxes	296	939
Goodwill <i>(Notes 3, 4, 5, 15)</i>	2,917	1,644
	\$ 24,621	\$ 17,648
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,243	\$ 1,895
Income tax payable	15	29
Risk management <i>(Note 20)</i>	20	25
Current portion of long-term debt <i>(Note 10)</i>	-	1,000
Deferred income taxes	128	3
	2,406	2,952
Long-Term Debt <i>(Note 10)</i>	7,340	6,124
Other Liabilities and Provisions <i>(Note 11)</i>	2,484	2,520
Risk Management <i>(Note 20)</i>	7	5
Asset Retirement Obligation <i>(Note 12)</i>	870	900
Deferred Income Taxes	1,829	-
	14,936	12,501
Commitments and Contingencies <i>(Note 21)</i>		
Shareholders' Equity		
Share capital - authorized unlimited common shares, without par value		
2014 issued and outstanding: 741.2 million shares (2013: 740.9 million shares) <i>(Note 13)</i>	2,450	2,445
Paid in surplus <i>(Notes 13, 15, 17)</i>	1,358	15
Retained earnings	5,188	2,003
Accumulated other comprehensive income <i>(Note 14)</i>	689	684
Total Shareholders' Equity	9,685	5,147
	\$ 24,621	\$ 17,648

See accompanying Notes to Condensed Consolidated Financial Statements

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

Twelve Months Ended December 31, 2014 (\$ millions)	Share Capital	Paid in Surplus	Retained Earnings	Accumulated Other Comprehensive Income		Non-Controlling Interest	Total Shareholders' Equity
Balance, December 31, 2013	\$ 2,445	\$ 15	\$ 2,003	\$ 684	\$ -	\$ -	\$ 5,147
Share-Based Compensation <i>(Note 17)</i>	-	(2)	-	-	-	-	(2)
Net Earnings	-	-	3,392	-	34	-	3,426
Dividends on Common Shares <i>(Note 13)</i>	-	-	(207)	-	-	-	(207)
Common Shares Issued Under Dividend Reinvestment Plan <i>(Note 13)</i>	5	-	-	-	-	-	5
Other Comprehensive Income <i>(Note 14)</i>	-	-	-	5	-	-	5
Sale of Noncontrolling Interest <i>(Note 15)</i>	-	1,345	-	-	117	-	1,462
Distributions to Noncontrolling Interest Owners <i>(Note 15)</i>	-	-	-	-	(18)	-	(18)
Sale of Investment in PrairieSky <i>(Note 15)</i>	-	-	-	-	(133)	-	(133)
Balance, December 31, 2014	\$ 2,450	\$ 1,358	\$ 5,188	\$ 689	\$ -	\$ -	\$ 9,685

Twelve Months Ended December 31, 2013 (\$ millions)	Share Capital	Paid in Surplus	Retained Earnings	Accumulated Other Comprehensive Income		Non-Controlling Interest	Total Shareholders' Equity
Balance, December 31, 2012	\$ 2,354	\$ 10	\$ 2,261	\$ 670	\$ -	\$ -	\$ 5,295
Share-Based Compensation <i>(Note 17)</i>	-	3	-	-	-	-	3
Net Earnings	-	-	236	-	-	-	236
Common Shares Cancelled <i>(Note 13)</i>	(2)	2	-	-	-	-	-
Dividends on Common Shares <i>(Note 13)</i>	-	-	(494)	-	-	-	(494)
Common Shares Issued Under Dividend Reinvestment Plan <i>(Note 13)</i>	93	-	-	-	-	-	93
Other Comprehensive Income <i>(Note 14)</i>	-	-	-	14	-	-	14
Balance, December 31, 2013	\$ 2,445	\$ 15	\$ 2,003	\$ 684	\$ -	\$ -	\$ 5,147

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows *(unaudited)*

(\$ millions)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Operating Activities				
Net earnings (loss)	\$ 198	\$ (251)	\$ 3,426	\$ 236
Depreciation, depletion and amortization	451	388	1,745	1,565
Impairments	-	-	-	21
Accretion of asset retirement obligation	(Note 12) 13	13	52	53
Deferred income taxes	(Note 8) 135	27	960	(57)
Unrealized (gain) loss on risk management	(Note 20) (489)	301	(444)	345
Unrealized foreign exchange (gain) loss	(Note 7) 174	147	440	330
(Gain) loss on divestitures	(Notes 5, 15) 16	(3)	(3,426)	(7)
Other	(81)	44	(34)	62
Net change in other assets and liabilities	(15)	(21)	(43)	(80)
Net change in non-cash working capital	(141)	(183)	(9)	(179)
Cash From (Used in) Operating Activities	261	462	2,667	2,289
Investing Activities				
Capital expenditures	(Note 3) (857)	(717)	(2,526)	(2,712)
Acquisitions	(Note 5) (41)	(23)	(3,016)	(184)
Corporate acquisition	(Note 4) (5,962)	-	(5,962)	-
Proceeds from divestitures	(Note 5) (9)	95	4,345	705
Proceeds from sale of investment in PrairieSky	(Notes 5, 15) -	-	2,172	-
Cash in reserve	38	24	(63)	44
Net change in investments and other	232	65	321	252
Cash From (Used in) Investing Activities	(6,599)	(556)	(4,729)	(1,895)
Financing Activities				
Issuance of revolving long-term debt	(Notes 10, 20) 1,277	-	1,277	-
Repayment of revolving long-term debt	(Note 4) (335)	-	(335)	-
Repayment of long-term debt	(Note 10) (1,150)	(500)	(2,152)	(500)
Dividends on common shares	(Note 13) (50)	(39)	(202)	(401)
Proceeds from sale of noncontrolling interest	(Note 15) (1)	-	1,462	-
Distributions to noncontrolling interest owners	(Note 15) -	-	(18)	-
Capital lease payments and other financing arrangements	(Note 9) (11)	(5)	(71)	(8)
Cash From (Used in) Financing Activities	(270)	(544)	(39)	(909)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency				
	(28)	(54)	(127)	(98)
Increase (Decrease) in Cash and Cash Equivalents	(6,636)	(692)	(2,228)	(613)
Cash and Cash Equivalents, Beginning of Period	6,974	3,258	2,566	3,179
Cash and Cash Equivalents, End of Period	\$ 338	\$ 2,566	\$ 338	\$ 2,566
Cash, End of Period	\$ 142	\$ 161	\$ 142	\$ 161
Cash Equivalents, End of Period	196	2,405	196	2,405
Cash and Cash Equivalents, End of Period	\$ 338	\$ 2,566	\$ 338	\$ 2,566

See accompanying Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

1. Basis of Presentation and Principles of Consolidation

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

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

The interim Condensed Consolidated Financial Statements include the accounts of Encana and entities in which it holds a controlling interest. The noncontrolling interest represented the third party equity ownership in a former consolidated subsidiary, PrairieSky Royalty Ltd. ("PrairieSky"). See Note 15 for further details regarding the noncontrolling interest. As of September 26, 2014, Encana no longer holds an interest in PrairieSky. All intercompany balances and transactions are eliminated on consolidation. Undivided interests in natural gas and oil exploration and production joint ventures and partnerships are consolidated on a proportionate basis. Investments in non-controlled entities over which Encana has the ability to exercise significant influence are accounted for using the equity method.

The interim Condensed Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual audited Consolidated Financial Statements for the year ended December 31, 2013, except as noted below in Note 2. The disclosures provided below are incremental to those included with the annual audited Consolidated Financial Statements. Certain information and disclosures normally required to be included in the notes to the annual audited Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, the interim Condensed Consolidated Financial Statements should be read in conjunction with the annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2013.

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

2. Recent Accounting Pronouncements

Changes in Accounting Policies and Practices

On January 1, 2014, Encana adopted the following Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB"), which have not had a material impact on the Company's interim Condensed Consolidated Financial Statements:

- ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date", clarifies guidance for the recognition, measurement and disclosure of liabilities resulting from joint and several liability arrangements. The amendments have been applied retrospectively.
- ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity", clarifies the applicable guidance for certain transactions that result in the release of the cumulative translation adjustment into net earnings. The amendments have been applied prospectively.
- ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists", clarifies that a liability related to an unrecognized tax benefit or portions thereof should be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, except under specific situations. The amendments have been applied prospectively.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

2. Recent Accounting Pronouncements (continued)

New Standards Issued Not Yet Adopted

- As of January 1, 2015, Encana will be required to adopt ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which amends the criteria and expands the disclosures for reporting discontinued operations. Under the new criteria, only disposals representing a strategic shift in operations would qualify as a discontinued operation. The amendments will be applied prospectively and are not expected to have a material impact on the Company's Consolidated Financial Statements.
- As of January 1, 2016, Encana will be required to adopt ASU 2014-12, "Compensation - Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period". The standard requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. The amendments will be applied prospectively and are not expected to have a material impact on the Company's Consolidated Financial Statements.
- As of January 1, 2017, Encana will be required to adopt ASU 2014-09, "Revenue from Contracts with Customers" under Topic 606, which was the result of a joint project by the FASB and International Accounting Standards Board. The new standard replaces 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. The standard can be applied using either the full retrospective approach or a modified retrospective approach at the date of adoption. Encana is currently assessing the potential impact of the standard 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 natural gas, oil and NGLs and other related activities within the Canadian cost centre.
- **USA Operations** includes the exploration for, development of, and production of natural gas, oil and NGLs and other related activities within the U.S. cost centre.
- **Market Optimization** is primarily responsible for the sale of the Company's proprietary production. These results are reported in the Canadian and USA Operations. Market optimization activities include third party purchases and sales of product to provide operational flexibility for transportation commitments, product type, delivery points and customer diversification. These activities are reflected in the Market Optimization segment. Market Optimization sells substantially all of the Company's upstream production to third party customers. Transactions between segments are based on market values and are eliminated on consolidation.

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

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

3. Segmented Information *(continued)*

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

Segment and Geographic Information

	Canadian Operations		USA Operations		Market Optimization	
	2014	2013	2014	2013	2014	2013
Revenues, Net of Royalties	\$ 604	\$ 845	\$ 771	\$ 691	\$ 358	\$ 155
Expenses						
Production and mineral taxes	2	4	34	33	-	-
Transportation and processing	193	225	152	175	-	-
Operating	68	90	105	108	2	12
Purchased product	-	-	-	-	347	138
	341	526	480	375	9	5
Depreciation, depletion and amortization	122	156	298	195	-	3
	\$ 219	\$ 370	\$ 182	\$ 180	\$ 9	\$ 2

	Corporate & Other		Consolidated	
	2014	2013	2014	2013
Revenues, Net of Royalties	\$ 521	\$ (268)	\$ 2,254	\$ 1,423
Expenses				
Production and mineral taxes	-	-	36	37
Transportation and processing	11	5	356	405
Operating	3	11	178	221
Purchased product	-	-	347	138
	507	(284)	1,337	622
Depreciation, depletion and amortization	31	34	451	388
Impairments	-	-	-	-
	\$ 476	\$ (318)	\$ 886	\$ 234
Accretion of asset retirement obligation			13	13
Administrative			58	167
Interest			252	139
Foreign exchange (gain) loss, net			149	160
(Gain) loss on divestitures			16	(3)
Other			63	7
			551	483
Net Earnings (Loss) Before Income Tax			335	(249)
Income tax expense			137	2
Net Earnings (Loss)			198	(251)
Net earnings attributable to noncontrolling interest			-	-
Net Earnings (Loss) Attributable to Common Shareholders			\$ 198	\$ (251)

Intersegment Information

	Marketing Sales		Market Optimization		Total	
			Upstream Eliminations			
	2014	2013	2014	2013	2014	2013
Revenues, Net of Royalties	\$ 1,631	\$ 1,466	\$ (1,273)	\$ (1,311)	\$ 358	\$ 155
Expenses						
Transportation and processing	100	131	(100)	(131)	-	-
Operating	3	20	(1)	(8)	2	12
Purchased product	1,519	1,306	(1,172)	(1,168)	347	138
Operating Cash Flow	\$ 9	\$ 9	\$ -	\$ (4)	\$ 9	\$ 5

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

3. Segmented Information *(continued)*

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

Segment and Geographic Information

	Canadian Operations		USA Operations		Market Optimization	
	2014	2013	2014	2013	2014	2013
Revenues, Net of Royalties	\$ 3,310	\$ 2,824	\$ 2,902	\$ 2,763	\$ 1,248	\$ 512
Expenses						
Production and mineral taxes	15	15	118	119	-	-
Transportation and processing	835	756	658	722	-	-
Operating	314	372	354	411	39	38
Purchased product	-	-	-	-	1,191	441
	2,146	1,681	1,772	1,511	18	33
Depreciation, depletion and amortization	625	601	992	818	4	12
	\$ 1,521	\$ 1,080	\$ 780	\$ 693	\$ 14	\$ 21

	Corporate & Other		Consolidated	
	2014	2013	2014	2013
Revenues, Net of Royalties	\$ 559	\$ (241)	\$ 8,019	\$ 5,858
Expenses				
Production and mineral taxes	-	-	133	134
Transportation and processing	12	(2)	1,505	1,476
Operating	28	38	735	859
Purchased product	-	-	1,191	441
	519	(277)	4,455	2,948
Depreciation, depletion and amortization	124	134	1,745	1,565
Impairments	-	21	-	21
	\$ 395	\$ (432)	2,710	1,362
Accretion of asset retirement obligation			52	53
Administrative			327	439
Interest			654	563
Foreign exchange (gain) loss, net			403	325
(Gain) loss on divestitures			(3,426)	(7)
Other			71	1
			(1,919)	1,374
Net Earnings (Loss) Before Income Tax			4,629	(12)
Income tax expense (recovery)			1,203	(248)
Net Earnings			3,426	236
Net earnings attributable to noncontrolling interest			(34)	-
Net Earnings Attributable to Common Shareholders			\$ 3,392	\$ 236

Intersegment Information

	Marketing Sales		Market Optimization		Total	
			Upstream Eliminations			
	2014	2013	2014	2013	2014	2013
Revenues, Net of Royalties	\$ 7,371	\$ 5,662	\$ (6,123)	\$ (5,150)	\$ 1,248	\$ 512
Expenses						
Transportation and processing	458	516	(458)	(516)	-	-
Operating	62	75	(23)	(37)	39	38
Purchased product	6,822	4,993	(5,631)	(4,552)	1,191	441
Operating Cash Flow	\$ 29	\$ 78	\$ (11)	\$ (45)	\$ 18	\$ 33

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

3. Segmented Information (continued)

Capital Expenditures

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Canadian Operations	\$ 302	\$ 354	\$ 1,226	\$ 1,365
USA Operations	548	343	1,285	1,283
Market Optimization	-	1	-	3
Corporate & Other	7	19	15	61
	\$ 857	\$ 717	\$ 2,526	\$ 2,712

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

	Goodwill		Property, Plant and Equipment		Total Assets	
	As at		As at		As at	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Canadian Operations	\$ 788	\$ 1,171	\$ 2,338	\$ 2,728	\$ 3,632	\$ 4,452
USA Operations	2,129	473	13,817	5,127	16,800	6,350
Market Optimization	-	-	1	91	181	161
Corporate & Other	-	-	1,859	2,089	4,008	6,685
	\$ 2,917	\$ 1,644	\$ 18,015	\$ 10,035	\$ 24,621	\$ 17,648

4. Business Combinations

Athlon Energy Inc. Acquisition

On November 13, 2014, Encana completed the acquisition of all of the issued and outstanding shares of common stock of Athlon Energy Inc. ("Athlon") for \$5.93 billion, or \$58.50 per share. In addition, Encana assumed Athlon's \$1.15 billion senior notes and repaid and terminated Athlon's credit facility with indebtedness outstanding of \$335 million. Encana funded the acquisition of Athlon with cash on hand. Transaction costs of approximately \$31 million are included in other expenses. Following completion of the acquisition, Athlon's \$1.15 billion senior notes were redeemed in accordance with the provisions of the governing indentures (See Note 10). Athlon's operations focused on the acquisition and development of oil and gas properties located in the Permian Basin in Texas.

The transaction was accounted for under the acquisition method, which requires that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The preliminary purchase price allocation, representing consideration paid and the fair values of the assets acquired and liabilities assumed as of the acquisition date, is shown in the table below.

Preliminary Purchase Price Allocation

Assets Acquired:	
Cash	\$ 2
Accounts receivable and other current assets	133
Risk management	80
Proved properties	2,124
Unproved properties	5,338
Other property, plant and equipment	2
Other assets	2
Goodwill	1,724
Liabilities Assumed:	
Accounts payable and accrued liabilities	(195)
Long-term debt, including revolving credit facility	(1,497)
Asset retirement obligation	(25)
Deferred income taxes	(1,724)
Total Purchase Price ⁽¹⁾	\$ 5,964

⁽¹⁾ The purchase price includes cash consideration paid for issued and outstanding shares of common stock of Athlon of \$58.50 per share totaling \$5.93 billion, as well as payments to terminate certain employment agreements with Athlon's management and payments for certain other existing obligations of Athlon.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

4. Business Combinations *(continued)*

Athlon Energy Inc. Acquisition *(continued)*

The Company used the income approach valuation technique for the fair value of assets acquired and liabilities assumed. The carrying amounts of cash, accounts receivable and other current assets, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of the instruments. The fair values of the risk management assets and long-term debt, including the revolving credit facility, are categorized within Level 2 of the fair value hierarchy and were determined using quoted prices and rates from an available pricing source. The fair values of the proved and unproved properties, other property, plant and equipment, other assets, goodwill, and asset retirement obligation are categorized within Level 3 and were determined using relevant market assumptions, including discount rates, future commodity prices and costs, timing of development activities, projections of oil and gas reserves, and estimates to abandon and reclaim producing wells.

Goodwill arose primarily from the requirement to recognize deferred taxes on the difference between the fair value of the assets acquired and liabilities assumed and the respective carry-over tax basis. Goodwill is not amortized and is not deductible for tax purposes.

The results of operations attributable to the Athlon acquisition are included in the Company's Condensed Consolidated Statement of Earnings beginning November 13, 2014. The assets acquired generated revenues of \$176 million and a net loss of \$3 million for the period from November 13, 2014 to December 31, 2014.

Eagle Ford Acquisition

On June 20, 2014, Encana completed the acquisition of approximately 45,500 net acres located in the Eagle Ford shale formation from Freeport-McMoRan Oil & Gas LLC and PXP Producing Company LLC for approximately \$2.9 billion, after closing adjustments. The acquisition included an interest in certain producing properties and undeveloped lands in the Karnes, Wilson and Atascosa counties of south Texas. Encana funded the acquisition with cash on hand. Transaction costs of approximately \$9 million are included in other expenses.

The transaction was accounted for under the acquisition method. The final purchase price allocation, representing consideration paid and the fair values of the assets acquired and liabilities assumed as of the acquisition date, is shown in the table below. Based on the allocation of the consideration paid, no goodwill was recognized.

Final Purchase Price Allocation

Assets Acquired:		
Inventory	\$	4
Proved properties		2,873
Unproved properties		78
Liabilities Assumed:		
Asset retirement obligation		(32)
Total Purchase Price	\$	2,923

The Company used the income approach valuation technique. The fair values of the assets acquired and liabilities assumed are categorized within Level 3 of the fair value hierarchy. The fair values of the assets acquired and liabilities assumed were determined using relevant market assumptions, including future commodity prices and costs, timing of development activities, projections of oil and gas reserves, and estimates to abandon and reclaim producing wells.

The results of operations attributable to the Eagle Ford assets are included in the Company's Condensed Consolidated Statement of Earnings beginning June 20, 2014. The assets acquired generated revenues of \$585 million and net earnings of \$222 million for the period from June 20, 2014 to December 31, 2014.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information has been prepared assuming the Athlon and Eagle Ford acquisitions occurred on January 1, 2013. The pro forma information is not intended to reflect the actual results of operations that would have occurred if the business combinations had been completed at the dates indicated. In addition, the pro forma information does not project Encana's results of operations for any future period.

(\$ millions, except per share amounts)	Athlon		Eagle Ford	
	Twelve Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Revenues, Net of Royalties	\$ 8,572	\$ 6,139	\$ 8,760	\$ 7,189
Net Earnings Attributable to Common Shareholders	\$ 3,486	\$ 158	\$ 3,641	\$ 741
Net Earnings per Common Share				
Basic & Diluted	\$ 4.71	\$ 0.21	\$ 4.91	\$ 1.01

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

5. Acquisitions and Divestitures

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Acquisitions				
Canadian Operations	\$ 7	\$ 11	\$ 21	\$ 28
USA Operations	34	12	2,995	156
Total Acquisitions	41	23	3,016	184
Divestitures				
Canadian Operations	3	(93)	(1,847)	(685)
USA Operations	6	(2)	(2,264)	(18)
Market Optimization	-	-	(205)	-
Corporate & Other	-	-	(29)	(2)
Total Divestitures	9	(95)	(4,345)	(705)
Net Acquisitions & (Divestitures)	\$ 50	\$ (72)	\$ (1,329)	\$ (521)

Acquisitions

For the twelve months ended December 31, 2014, acquisitions in the Canadian Operations totaled \$21 million (2013 - \$28 million), which primarily included land and property purchases with oil and liquids rich production potential.

For the twelve months ended December 31, 2014, acquisitions in the USA Operations totaled \$2,995 million (2013 - \$156 million), which primarily included the purchase of certain properties in the Eagle Ford shale formation in south Texas as described in Note 4.

Divestitures

For the twelve months ended December 31, 2014, divestitures in the Canadian Operations were \$1,847 million (2013 - \$685 million), which primarily included the sale of the Company's Bighorn assets in west central Alberta for approximately \$1,725 million. During the twelve months ended December 31, 2013, divestitures included the sale of the Company's Jean Marie natural gas assets in northeast British Columbia and other assets.

For the twelve months ended December 31, 2014, divestitures in the USA Operations were \$2,264 million (2013 - \$18 million), which primarily included the sale of the Jonah properties for proceeds of approximately \$1,636 million and the sale of certain properties in East Texas for proceeds of approximately \$495 million.

Amounts received from the divestiture transactions have been deducted from the respective Canadian and U.S. full cost pools, except for divestitures that result in a significant alteration between capitalized costs and proved reserves in the respective country cost centre. For divestitures that result in a gain or loss and constitute a business, goodwill is allocated to the divestiture. Accordingly, for the twelve months ended December 31, 2014, Encana recognized a gain of approximately \$1,014 million, before tax, on the sale of the Company's Bighorn assets in the Canadian cost centre and allocated goodwill of \$257 million. In addition, for the twelve months ended December 31, 2014, Encana recognized a gain of approximately \$209 million, before tax, on the sale of the Jonah properties in the U.S. cost centre and allocated goodwill of \$68 million.

OTHER CAPITAL TRANSACTIONS

The following transactions involve the acquisition or disposition of common shares and, therefore, are excluded from the acquisitions and divestitures table above.

Acquisition of Athlon

On November 13, 2014, Encana acquired all of the issued and outstanding shares of common stock of Athlon for \$5.93 billion, or \$58.50 per share. See Note 4 for further details regarding the Athlon transaction.

Divestiture of Investment in PrairieSky

On September 26, 2014, Encana completed the secondary offering of 70.2 million common shares of PrairieSky at a price of C\$36.50 per common share for aggregate gross proceeds of approximately C\$2.6 billion. As the sale of the investment in PrairieSky resulted in a significant alteration between capitalized costs and proved reserves in the Canadian cost centre, Encana recognized a gain on divestiture of approximately \$2.1 billion, before tax.

See Note 15 for further details regarding the PrairieSky transactions.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

6. Interest

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Interest Expense on:				
Debt	\$ 206	\$ 112	\$ 509	\$ 460
The Bow office building	18	20	75	76
Capital leases	9	6	37	9
Other	19	1	33	18
	\$ 252	\$ 139	\$ 654	\$ 563

Interest on Debt for the three and twelve months ended December 31, 2014 includes a one-time outlay of approximately \$125 million associated with the early redemption of senior notes assumed in conjunction with the Athlon acquisition (See Note 10).

Interest on Capital leases and Other were previously reported together in 2013.

7. Foreign Exchange (Gain) Loss, Net

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Unrealized Foreign Exchange (Gain) Loss on:				
Translation of U.S. dollar debt issued from Canada	\$ 180	\$ 156	\$ 456	\$ 349
Translation of U.S. dollar risk management contracts issued from Canada	(6)	(9)	(16)	(19)
	174	147	440	330
Foreign Exchange on Intercompany Transactions	-	-	28	-
Other Monetary Revaluations and Settlements	(25)	13	(65)	(5)
	\$ 149	\$ 160	\$ 403	\$ 325

8. Income Taxes

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Current Tax				
Canada	\$ 2	\$ 19	\$ 249	\$ (152)
United States	(2)	(50)	(21)	(64)
Other countries	2	6	15	25
Total Current Tax Expense (Recovery)	2	(25)	243	(191)
Deferred Tax				
Canada	15	(151)	713	(106)
United States	139	97	246	52
Other countries	(19)	81	1	(3)
Total Deferred Tax Expense (Recovery)	135	27	960	(57)
	\$ 137	\$ 2	\$ 1,203	\$ (248)

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

9. Property, Plant and Equipment, Net

	As at December 31, 2014			As at December 31, 2013		
	Cost	Accumulated DD&A ⁽¹⁾	Net	Cost	Accumulated DD&A ⁽¹⁾	Net
Canadian Operations						
Proved properties	\$ 18,271	\$ (16,566)	\$ 1,705	\$ 25,003	\$ (23,012)	\$ 1,991
Unproved properties	478	-	478	598	-	598
Other	155	-	155	139	-	139
	18,904	(16,566)	2,338	25,740	(23,012)	2,728
USA Operations						
Proved properties	24,279	(16,260)	8,019	26,529	(22,074)	4,455
Unproved properties	5,655	-	5,655	470	-	470
Other	143	-	143	202	-	202
	30,077	(16,260)	13,817	27,201	(22,074)	5,127
Market Optimization	8	(7)	1	223	(132)	91
Corporate & Other	2,470	(611)	1,859	2,655	(566)	2,089
	\$ 51,459	\$ (33,444)	\$ 18,015	\$ 55,819	\$ (45,784)	\$ 10,035

⁽¹⁾ Depreciation, depletion and amortization.

Canadian Operations and USA Operations property, plant and equipment include internal costs directly related to exploration, development and construction activities of \$306 million which have been capitalized during the twelve months ended December 31, 2014 (2013 - \$372 million). Included in Corporate and Other are \$65 million (2013 - \$71 million) of international property costs, which have been fully impaired.

Capital Lease Arrangements

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

In December 2013, Encana commenced commercial operations at its Deep Panuke facility located offshore Nova Scotia following successful completion of the Production Field Centre ("PFC") and issuance of the Production Acceptance Notice. As at December 31, 2014, Canadian Operations property, plant and equipment and total assets include the PFC, which is under a capital lease totaling \$520 million (2013 - \$536 million).

As at December 31, 2014, the total carrying value of assets under capital lease was \$547 million (2013 - \$683 million). Liabilities for the capital lease arrangements are included in other liabilities and provisions in the Condensed Consolidated Balance Sheet and are disclosed in Note 11.

Other Arrangement

As at December 31, 2014, Corporate and Other property, plant and equipment and total assets include a carrying value of \$1,431 million (2013 - \$1,587 million) related to The Bow office building, which is under a 25-year lease agreement. The Bow asset is being depreciated over the 60-year estimated life of the building. At the conclusion of the 25-year term, the remaining asset and corresponding liability are expected to be derecognized as disclosed in Note 11.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

10. Long-Term Debt

	C\$ Principal Amount	As at December 31, 2014	As at December 31, 2013
Canadian Dollar Denominated Debt			
5.80% due January 18, 2018	\$ 750	\$ 647	\$ 705
U.S. Dollar Denominated Debt			
Revolving credit and term loan borrowings		1,277	-
U.S. Unsecured Notes			
5.80% due May 1, 2014		-	1,000
5.90% due December 1, 2017		700	700
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		500	500
6.50% due February 1, 2038		800	800
5.15% due November 15, 2041		400	400
		6,677	6,400
Total Principal		7,324	7,105
Increase in Value of Debt Acquired		34	40
Debt Discounts		(18)	(21)
Current Portion of Long-Term Debt		-	(1,000)
		\$ 7,340	\$ 6,124

Long-term debt is accounted for at amortized cost using the effective interest method of amortization. As at December 31, 2014, total long-term debt had a carrying value of \$7,340 million and a fair value of \$7,788 million (2013 - carrying value of \$7,124 million and a fair value of \$7,805 million). The estimated fair value of long-term borrowings is categorized within Level 2 of the fair value hierarchy and has been determined based on market information, or by discounting future payments of interest and principal at interest rates expected to be available to the Company at period end.

On February 28, 2014, Encana announced a cash tender offer and consent solicitation for any and all of the Company's outstanding \$1,000 million 5.80 percent notes with a maturity date of May 1, 2014. The Company paid \$1,004.59 for each \$1,000 principal amount of the notes plus accrued and unpaid interest up to, but not including, the settlement date and a consent payment equal to \$2.50 per \$1,000 principal amount of the notes.

On March 28, 2014, the tender offer and consent solicitation expired and on March 31, 2014, Encana paid the consenting note holders an aggregate of approximately \$792 million in cash reflecting a \$768 million principal debt repayment, \$2 million for the consent payment and \$22 million of accrued and unpaid interest.

On April 28, 2014, pursuant to the Notice of Redemption issued on March 28, 2014, the Company redeemed the remaining principal amount of the 5.80 percent notes not tendered in the tender offer. Encana paid approximately \$239 million in cash reflecting a \$232 million principal debt repayment and \$7 million of accrued and unpaid interest.

On December 16, 2014, Encana completed the redemption of the \$500 million 7.375 percent senior notes due April 15, 2021 and the \$650 million 6.00 percent senior notes due May 1, 2022, which were assumed by Encana in conjunction with the Athlon acquisition as discussed in Note 4. The Company recognized a one-time outlay of approximately \$125 million as a result of the early redemption. Upon acquisition, the Company recorded an increase in the fair value of the debt acquired from Athlon of approximately \$12 million, which was expensed upon redemption of the senior notes and is included in other expenses in the Company's Condensed Consolidated Statement of Earnings. Encana used proceeds from the Company's revolving credit facility of \$1,277 million to redeem the senior notes.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

11. Other Liabilities and Provisions

	As at December 31, 2014	As at December 31, 2013
The Bow Office Building (See Note 9)	\$ 1,486	\$ 1,631
Capital Lease Obligations (See Note 9)	473	544
Unrecognized Tax Benefits	279	133
Pensions and Other Post-Employment Benefits	144	110
Long-Term Incentives (See Note 17)	70	58
Other	32	44
	\$ 2,484	\$ 2,520

Long-Term Incentives was previously reported in Other in 2013.

The Bow Office Building

As described in Note 9, Encana has recognized the accumulated costs for The Bow office building, which is under a 25-year lease agreement. At the conclusion of the 25-year term, the remaining asset and corresponding liability are expected to be derecognized. Encana has also subleased part of The Bow office space to a subsidiary of Cenovus Energy Inc. ("Cenovus"). The total undiscounted future payments related to the lease agreement and the total undiscounted future amounts expected to be recovered from the Cenovus sublease are outlined below.

(undiscounted)	2015	2016	2017	2018	2019	Thereafter	Total
Expected Future Lease Payments	\$ 80	\$ 81	\$ 82	\$ 82	\$ 83	\$ 1,652	\$ 2,060
Sublease Recoveries	\$ (39)	\$ (40)	\$ (40)	\$ (40)	\$ (41)	\$ (812)	\$ (1,012)

Capital Lease Obligations

As described in Note 9, the Company has several lease arrangements that are accounted for as capital leases, including an office building, equipment and an offshore production platform.

The PFC commenced commercial operations in December 2013. Accordingly, Encana derecognized the asset under construction and related liability and recorded the PFC as a capital lease asset with a corresponding capital lease obligation. 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, the lease contract qualifies as a variable interest and 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 lease entity and its affiliates, other than the contractual payments under the lease and operating contracts.

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

	2015	2016	2017	2018	2019	Thereafter	Total
Expected Future Lease Payments	\$ 98	\$ 98	\$ 99	\$ 99	\$ 99	\$ 232	\$ 725
Less Amounts Representing Interest	39	36	32	27	23	36	193
Present Value of Expected Future Lease Payments	\$ 59	\$ 62	\$ 67	\$ 72	\$ 76	\$ 196	\$ 532

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

12. Asset Retirement Obligation

	As at December 31, 2014	As at December 31, 2013
Asset Retirement Obligation, Beginning of Year	\$ 966	\$ 969
Liabilities Incurred and Acquired (See Note 4)	85	38
Liabilities Settled and Divested	(188)	(126)
Change in Estimated Future Cash Outflows	35	68
Accretion Expense	52	53
Foreign Currency Translation	(37)	(36)
Asset Retirement Obligation, End of Year	\$ 913	\$ 966
Current Portion	\$ 43	\$ 66
Long-Term Portion	870	900
	\$ 913	\$ 966

13. Share Capital

Authorized

The Company is authorized to issue an unlimited number of no par value common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

Issued and Outstanding

	As at December 31, 2014		As at December 31, 2013	
	Number (millions)	Amount	Number (millions)	Amount
Common Shares Outstanding, Beginning of Year	740.9	\$ 2,445	736.3	\$ 2,354
Common Shares Cancelled	-	-	(0.8)	(2)
Common Shares Issued Under Dividend Reinvestment Plan	0.3	5	5.4	93
Common Shares Outstanding, End of Year	741.2	\$ 2,450	740.9	\$ 2,445

During the twelve months ended December 31, 2014, Encana issued 240,839 common shares totaling \$5 million under the Company's dividend reinvestment plan (2013 - issued 5,385,845 common shares totaling \$93 million).

During the twelve months ended December 31, 2013, Encana cancelled 767,327 common shares reserved for issuance to shareholders upon exchange of predecessor companies' shares. In accordance with the terms of the merger agreement which formed Encana, shares which remained unexchanged were extinguished. Accordingly, the weighted average book value of the common shares extinguished of \$2 million was transferred to paid in surplus.

Dividends

During the three months ended December 31, 2014, Encana paid dividends of \$0.07 per common share totaling \$51 million (2013 - \$0.07 per common share totaling \$52 million). During the twelve months ended December 31, 2014, Encana paid dividends of \$0.28 per common share totaling \$207 million (2013 - \$0.67 per common share totaling \$494 million).

For the three and twelve months ended December 31, 2014, the dividends paid included \$1 million and \$5 million, respectively, in common shares which were issued in lieu of cash dividends under the Company's dividend reinvestment plan (2013 - \$13 million and \$93 million, respectively).

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

13. Share Capital (continued)

Earnings Per Common Share

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

(millions, except per share amounts)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Net Earnings (Loss) Attributable to Common Shareholders	\$ 198	\$ (251)	\$ 3,392	\$ 236
Number of Common Shares:				
Weighted average common shares outstanding - Basic	741.1	740.4	741.0	737.7
Effect of dilutive securities	-	-	-	-
Weighted average common shares outstanding - Diluted	741.1	740.4	741.0	737.7
Net Earnings (Loss) per Common Share				
Basic	\$ 0.27	\$ (0.34)	\$ 4.58	\$ 0.32
Diluted	\$ 0.27	\$ (0.34)	\$ 4.58	\$ 0.32

Encana Stock Option Plan

Encana has share-based compensation plans that allow employees to purchase common shares of the Company. Option exercise prices are not less than the market value of the common shares on the date the options are granted. All options outstanding as at December 31, 2014 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, Encana does not consider outstanding TSARs to be 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, Encana does not consider RSUs to be potentially dilutive securities.

Encana Share Units Previously Held by Cenovus Employees

On November 30, 2009, Encana completed a corporate reorganization to split into two independent publicly traded energy companies - Encana Corporation and Cenovus Energy Inc. (the "Split Transaction"). In conjunction with the Split Transaction, each holder of Encana share units disposed of their right in exchange for the grant of new Encana share units and Cenovus share units. Share units included TSARs, Performance TSARs, SARs, and Performance SARs. The terms and conditions of the share units were similar to the terms and conditions of the original share units. There was no impact on Encana's net earnings for the share units held by Cenovus employees. As at December 31, 2014, all remaining share units held by Cenovus employees have expired.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

14. Accumulated Other Comprehensive Income

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Foreign Currency Translation Adjustment				
Balance, Beginning of Period	\$ 657	\$ 720	\$ 693	\$ 739
Current Period Change in Foreign Currency Translation Adjustment	58	(27)	22	(46)
Balance, End of Period	\$ 715	\$ 693	\$ 715	\$ 693
Pension and Other Post-Employment Benefit Plans				
Balance, Beginning of Period	\$ (9)	\$ (61)	\$ (9)	\$ (69)
Net Actuarial Gains and (Losses) and Plan Amendment (See Note 18)	(22)	65	(22)	65
Income Taxes	7	(17)	7	(17)
Reclassification of Net Actuarial (Gains) and Losses to Net Earnings (See Note 18)	(1)	-	(1)	11
Income Taxes	-	-	-	(3)
Reclassification of Net Prior Service Costs and (Credits) to Net Earnings (See Note 18)	(1)	-	(1)	-
Income Taxes	-	-	-	-
Settlement and Curtailment in Defined Benefit Plan Expense (See Note 18)	-	6	-	6
Income Taxes	-	(2)	-	(2)
Balance, End of Period	\$ (26)	\$ (9)	\$ (26)	\$ (9)
Total Accumulated Other Comprehensive Income	\$ 689	\$ 684	\$ 689	\$ 684

15. Noncontrolling Interest

Initial Public Offering of Common Shares of PrairieSky

On May 22, 2014, PrairieSky filed a final prospectus to qualify the distribution of 52.0 million common shares (the "IPO"), to be sold by Encana pursuant to the terms of an underwriting agreement dated May 22, 2014, at a price of C\$28.00 per common share (the "Offering Price").

On May 27, 2014, prior to closing the IPO, PrairieSky acquired from Encana a royalty business in exchange for common shares of PrairieSky pursuant to the Purchase and Sale Agreement dated May 22, 2014 between PrairieSky and Encana (the "Agreement"). The royalty business assets acquired by PrairieSky comprise: (i) fee simple mineral title in lands prospective for petroleum, natural gas and certain other mines and minerals located predominantly in central and southern Alberta (the "Fee Lands"); (ii) lessor interests in and to leases that are currently issued in respect of certain Fee Lands; (iii) royalty interests, including overriding royalty interests, gross overriding royalty interests and production payments on lands located predominantly in Alberta; (iv) an irrevocable, perpetual licence to certain proprietary seismic data of Encana (the "Seismic Licence"); and (v) certain other related assets as set forth in the Agreement.

As part of the Agreement, PrairieSky and Encana entered into: (i) a Seismic Licence Agreement whereby Encana granted the Seismic Licence to PrairieSky; and (ii) Lease Issuance and Administration Agreements whereby PrairieSky issued leases to document Encana's retention of its working interest in respect of certain Fee Lands and pursuant to which PrairieSky receives royalties from Encana.

On May 29, 2014, Encana completed the IPO of 52.0 million common shares of PrairieSky at the Offering Price for gross proceeds of approximately C\$1.46 billion. On June 3, 2014, the over-allotment option granted to the underwriters to purchase up to an additional 7.8 million common shares was exercised in full for gross proceeds of approximately C\$218.4 million. Encana received aggregate gross proceeds from the IPO of approximately C\$1.67 billion (\$1.54 billion). Subsequent to the IPO, Encana owned 70.2 million common shares of PrairieSky, representing a 54 percent ownership interest.

The noncontrolling interest in the former consolidated subsidiary, PrairieSky, was reflected as a separate component of Total Equity in the Condensed Consolidated Balance Sheet. Encana recorded \$117 million of the proceeds from the IPO as a noncontrolling interest and the remainder of the proceeds of \$1,427 million, less transaction costs of \$82 million, was recognized as paid in surplus.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

15. Noncontrolling Interest (continued)

Secondary Public Offering of Common Shares of PrairieSky

On September 8, 2014, Encana and PrairieSky announced the secondary offering of 70.2 million common shares of PrairieSky at a price of C\$36.50 per common share, for aggregate gross proceeds to Encana of approximately C\$2.6 billion. Following the completion of the secondary offering on September 26, 2014, Encana no longer holds an interest in PrairieSky. As discussed in Note 5, the PrairieSky divestiture resulted in a significant alteration between capitalized costs and proved reserves in the Canadian cost centre. Accordingly, Encana recognized a gain on the divestiture of approximately \$2,094 million, which is included in (gain) loss on divestitures in the Company's Condensed Consolidated Statement of Earnings. In conjunction with the divestiture, Encana derecognized the carrying amount of the net assets of \$258 million, including goodwill of \$39 million, and the noncontrolling interest of \$133 million.

Distributions to Noncontrolling Interest Owners

During the period from May 29, 2014 to September 25, 2014, PrairieSky paid dividends of C\$0.3174 per common share totaling \$38 million, of which \$18 million is attributable to the noncontrolling interest as presented in the Condensed Consolidated Statement of Changes in Shareholders' Equity and Condensed Consolidated Statement of Cash Flows.

Net Earnings Attributable to Noncontrolling Interest

During the period from May 29, 2014 to September 25, 2014, the Company held a controlling interest in PrairieSky. Accordingly, Encana consolidated 100 percent of the financial position and results of operations of PrairieSky and recognized a noncontrolling interest for the third party ownership. For the twelve months ended December 31, 2014, net earnings and comprehensive income of \$34 million were attributable to the noncontrolling interest as presented in the Condensed Consolidated Statement of Earnings and Condensed Consolidated Statement of Comprehensive Income.

16. Restructuring Charges

In November 2013, Encana announced its plans to align the organizational structure in support of the Company's strategy. For the twelve months ended December 31, 2014, Encana has incurred restructuring charges totaling \$36 million relating primarily to severance costs, which are included in administrative expense in the Company's Condensed Consolidated Statement of Earnings (2013 - \$88 million). Of the \$124 million in restructuring charges incurred to date, \$4 million remains accrued as at December 31, 2014 (2013 - \$65 million). Total restructuring charges are expected to be approximately \$133 million before tax. The remaining restructuring charges of approximately \$9 million are anticipated to be incurred in 2015.

17. Compensation Plans

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

Encana accounts for TSARs, Performance TSARs, SARs, Performance SARs, PSUs and RSUs held by Encana 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.

As at December 31, 2014, the following weighted average assumptions were used to determine the fair value of the share units held by Encana employees:

	Encana US\$ Share Units	Encana C\$ Share Units
Risk Free Interest Rate	1.01%	1.01%
Dividend Yield	2.02%	1.91%
Expected Volatility Rate	30.66%	29.11%
Expected Term	1.5 yrs	1.7 yrs
Market Share Price	US\$13.87	C\$16.17

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

17. Compensation Plans (continued)

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Compensation Costs of Transactions Classified as Cash-Settled	\$ (90)	\$ 36	\$ 25	\$ 63
Compensation Costs of Transactions Classified as Equity-Settled ⁽¹⁾	(1)	(1)	(2)	3
Total Share-Based Compensation Costs	(91)	35	23	66
Less: Total Share-Based Compensation Costs Capitalized	35	(13)	(6)	(22)
Total Share-Based Compensation Expense	\$ (56)	\$ 22	\$ 17	\$ 44
Recognized on the Condensed Consolidated Statement of Earnings in:				
Operating expense	\$ (19)	\$ 10	\$ 12	\$ 18
Administrative expense	(37)	12	5	26
	\$ (56)	\$ 22	\$ 17	\$ 44

⁽¹⁾ RSUs may be settled in cash or equity as determined by Encana. The Company's decision to cash settle RSUs was made subsequent to the original grant date.

As at December 31, 2014, the liability for share-based payment transactions totaled \$99 million (2013 - \$169 million), of which \$29 million (2013 - \$111 million) is recognized in accounts payable and accrued liabilities.

	As at December 31, 2014	As at December 31, 2013
Liability for Cash-Settled Share-Based Payment Transactions:		
Unvested	\$ 78	\$ 121
Vested	21	48
	\$ 99	\$ 169

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 market price of Encana's common shares on the grant date.

Twelve Months Ended December 31, 2014 (thousands of units)

TSARs	5,271
SARs	3,139
PSUs	646
DSUs	166
RSUs	4,697

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

18. Pension and Other Post-Employment Benefits

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

	Pension Benefits		OPEB		Total	
	2014	2013	2014	2013	2014	2013
Defined Benefit Plan Expense	\$ -	\$ 21	\$ 12	\$ 11	\$ 12	\$ 32
Defined Contribution Plan Expense	34	43	-	-	34	43
Total Benefit Plans Expense	\$ 34	\$ 64	\$ 12	\$ 11	\$ 46	\$ 75

Of the total benefit plans expense, \$36 million (2013 - \$60 million) was included in operating expense and \$10 million (2013 - \$15 million) was included in administrative expense.

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

	Pension Benefits		OPEB		Total	
	2014	2013	2014	2013	2014	2013
Current Service Costs	\$ 3	\$ 4	\$ 10	\$ 12	\$ 13	\$ 16
Interest Cost	12	12	4	4	16	16
Expected Return On Plan Assets	(15)	(16)	-	-	(15)	(16)
Amounts Reclassified From Accumulated Other Comprehensive Income:						
Amortization of net actuarial (gains) and losses	-	11	(1)	-	(1)	11
Amortization of net prior service costs	-	-	(1)	-	(1)	-
Settlement	-	5	-	-	-	5
Curtailment	-	1	-	(5)	-	(4)
Special Termination Benefits	-	4	-	-	-	4
Total Defined Benefit Plan Expense	\$ -	\$ 21	\$ 12	\$ 11	\$ 12	\$ 32

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

	Pension Benefits		OPEB		Total	
	2014	2013	2014	2013	2014	2013
Net Actuarial (Gains) Losses	\$ 8	\$ (46)	\$ 14	\$ (6)	\$ 22	\$ (52)
Plan Amendment	-	-	-	(13)	-	(13)
Amortization of Net Actuarial Gains and Losses	-	(11)	1	-	1	(11)
Amortization of Net Prior Service Costs	-	-	1	-	1	-
Settlement and Curtailment	-	(6)	-	-	-	(6)
Total Amounts Recognized in Other Comprehensive (Income) Loss, Before Tax	\$ 8	\$ (63)	\$ 16	\$ (19)	\$ 24	\$ (82)
Total Amounts Recognized in Other Comprehensive (Income) Loss, After Tax	\$ 6	\$ (46)	\$ 11	\$ (14)	\$ 17	\$ (60)

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

19. 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 except for the amounts associated with share units issued as part of the Split Transaction, as disclosed below. The fair value of cash in reserve approximates its carrying amount due to the nature of the instrument held.

Recurring fair value measurements are performed for risk management assets and liabilities and for share units resulting from the Split Transaction, which are discussed further in Notes 20 and 13, respectively. 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 tables below. There have been no transfers between the hierarchy levels during the period.

As at December 31, 2014	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total Fair Value	Netting ⁽¹⁾	Carrying Amount
Risk Management						
Risk Management Assets						
Current	\$ -	\$ 718	\$ -	\$ 718	\$ (11)	\$ 707
Long-term	-	67	-	67	(2)	65
Risk Management Liabilities						
Current	6	14	11	31	(11)	20
Long-term	-	2	7	9	(2)	7

As at December 31, 2013	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total Fair Value	Netting ⁽¹⁾	Carrying Amount
Risk Management						
Risk Management Assets						
Current	\$ -	\$ 71	\$ -	\$ 71	\$ (15)	\$ 56
Long-term	-	204	-	204	-	204
Risk Management Liabilities						
Current	-	38	2	40	(15)	25
Long-term	-	-	5	5	-	5
Share Units Resulting from the Split Transaction						
Encana Share Units Held by Cenovus Employees ⁽²⁾	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cenovus Share Units Held by Encana Employees						
Accounts payable and accrued liabilities ⁽³⁾	-	-	8	8	-	8

⁽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.

⁽²⁾ There were no remaining Encana share units held by Cenovus employees as at December 31, 2014 (2013 - 3.9 million share units with a weighted average exercise price of C\$29.06).

⁽³⁾ There were no remaining Cenovus share units held by Encana employees as at December 31, 2014.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

19. Fair Value Measurements *(continued)*

The Company's Level 1 and Level 2 risk management assets and liabilities consist of commodity fixed price contracts and basis swaps with terms to 2018. 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 December 31, 2014, the Company's Level 3 risk management assets and liabilities consist of power purchase contracts with terms to 2017. The fair values of the power purchase contracts are based on the income approach and are modelled internally using observable and unobservable inputs such as forward power prices in less active markets. The unobservable inputs are obtained from third parties whenever possible and reviewed by the Company for reasonableness.

Changes in amounts related to risk management assets and liabilities are recognized in revenues and transportation and processing expense according to their purpose. Changes in amounts related to share units resulting from the Split Transaction are recognized in operating expense, administrative expense and capitalized within property, plant and equipment as described in Note 17.

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

	Risk Management		Share Units Resulting from Split Transaction	
	2014	2013	2014	2013
Balance, Beginning of Year	\$ (7)	\$ (12)	\$ (8)	\$ (36)
Total Gains (Losses)	(19)	3	3	16
Purchases, Issuances and Settlements:				
Purchases	-	-	-	-
Settlements	8	2	5	12
Transfers in and out of Level 3	-	-	-	-
Balance, End of Year	\$ (18)	\$ (7)	\$ -	\$ (8)
Change in unrealized gains (losses) related to assets and liabilities held at end of year	\$ (13)	\$ (2)	\$ -	\$ 20

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

	Valuation Technique	Unobservable Input	As at December 31, 2014	As at December 31, 2013
Risk Management - Power	Discounted Cash Flow	Forward prices (\$/Megawatt Hour)	\$40.70 - \$48.50	\$49.25 - \$54.47
Share Units Resulting from the Split Transaction	Option Model	Cenovus share unit volatility	-	27.75%

A 10 percent increase or decrease in estimated forward power prices would cause a corresponding \$5 million (2013 - \$7 million) increase or decrease to net risk management assets and liabilities. As at December 31, 2014, all share units resulting from the Split Transaction have expired. As at December 31, 2013, a five percentage point increase or decrease in Cenovus share unit estimated volatility would cause no increase or decrease to accounts payable and accrued liabilities.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

20. Financial Instruments and Risk Management

A) Financial Instruments

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

B) Risk Management Assets and Liabilities

Risk management assets and liabilities arise from the use of derivative financial instruments and are measured at fair value. See Note 19 for a discussion of fair value measurements.

Unrealized Risk Management Position

	As at December 31, 2014	As at December 31, 2013
Risk Management Assets		
Current	\$ 707	\$ 56
Long-term	65	204
	772	260
Risk Management Liabilities		
Current	20	25
Long-term	7	5
	27	30
Net Risk Management Assets	\$ 745	\$ 230

Commodity Price Positions as at December 31, 2014

	Notional Volumes	Term	Average Price	Fair Value
Natural Gas Contracts				
Fixed Price Contracts				
NYMEX Fixed Price	1,062 MMcf/d	2015	4.29 US\$/Mcf	\$ 487
Basis Contracts ⁽¹⁾		2015-2018		120
Other Financial Positions				(3)
Natural Gas Fair Value Position				604
Crude Oil Contracts				
Fixed Price Contracts				
WTI Fixed Price	12.3 Mbbls/d	2015	92.88 US\$/bbl	161
WTI Fixed Price	1.2 Mbbls/d	2016	92.35 US\$/bbl	14
Basis Contracts ⁽²⁾		2015-2016		(16)
Crude Oil Fair Value Position				159
Power Purchase Contracts				
Fair Value Position				(18)
Total Fair Value Position				\$ 745

⁽¹⁾ Encana has entered into swaps to protect against widening natural gas price differentials between benchmark and regional sales prices. These basis swaps are priced using differentials determined as a percentage of NYMEX.

⁽²⁾ Encana has entered into swaps to protect against widening Brent and Midland differentials to WTI. These basis swaps are priced using fixed price differentials.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

20. Financial Instruments and Risk Management (continued)

B) Risk Management Assets and Liabilities (continued)

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

	Realized Gain (Loss)			
	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Revenues, Net of Royalties	\$ 126	\$ 175	\$ (84)	\$ 544
Transportation and Processing	(2)	(1)	(7)	-
Gain (Loss) on Risk Management	\$ 124	\$ 174	\$ (91)	\$ 544

	Unrealized Gain (Loss)			
	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Revenues, Net of Royalties	\$ 500	\$ (296)	\$ 456	\$ (347)
Transportation and Processing	(11)	(5)	(12)	2
Gain (Loss) on Risk Management	\$ 489	\$ (301)	\$ 444	\$ (345)

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

	2014		2013	
	Fair Value	Total Unrealized Gain (Loss)	Fair Value	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Year	\$ 230			
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Year	353	\$ 353	\$ 199	
Foreign Exchange Translation Adjustment on Canadian Dollar Contracts	1			
Fair Value of Athlon Crude Oil Contracts Acquired	70			
Fair Value of Contracts Realized During the Year	91	91		(544)
Fair Value of Contracts, End of Year	\$ 745	\$ 444	\$ (345)	

C) Risks Associated with Financial Assets and Liabilities

The Company is exposed to financial risks including market risks (such as commodity prices, foreign exchange and interest rates), credit risk and liquidity risk. Future cash flows may fluctuate due to movement in market prices and the exposure to credit and liquidity risks.

Commodity Price Risk

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

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

Crude Oil - To partially mitigate against crude oil commodity price risk including widening price differentials between North American and world prices, the Company has entered into fixed price contracts and basis swaps.

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

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

20. Financial Instruments and Risk Management (continued)

C) Risks Associated with Financial Assets and Liabilities (continued)

Commodity Price Risk (continued)

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 at December 31 as follows:

	2014		2013	
	10% Price Increase	10% Price Decrease	10% Price Increase	10% Price Decrease
Natural Gas Price	\$ (105)	\$ 105	\$ (441)	\$ 441
Crude Oil Price	(22)	22	(19)	19
Power Price	5	(5)	7	(7)

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. This credit risk exposure is mitigated through the use of Board-approved credit policies governing the Company's credit portfolio including credit practices that limit transactions according to counterparties' credit quality. Mitigation strategies may include master netting arrangements, requesting collateral and/or transacting credit derivatives. The Company executes commodity derivative financial instruments under master agreements that have netting provisions that provide for offsetting payables against receivables. As at December 31, 2014, the Company had no significant collateral balances posted or received and there were no credit derivatives in place.

As at December 31, 2014, cash equivalents include high-grade, short-term securities, placed primarily with financial institutions and companies with strong investment grade ratings. Any foreign currency agreements entered into are with major financial institutions in Canada and the U.S. or with counterparties having investment grade credit ratings.

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2014, approximately 94 percent (2013 - 87 percent) of Encana's accounts receivable and financial derivative credit exposures were with investment grade counterparties.

As at December 31, 2014, Encana had three counterparties (2013 - 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 December 31, 2014, these counterparties accounted for 16 percent, 16 percent and 15 percent (2013 - 24 percent, 14 percent, 14 percent and 13 percent) of the fair value of the outstanding in-the-money net risk management contracts.

Liquidity Risk

Liquidity risk arises from the potential that the Company will encounter difficulties in meeting a demand to fund its financial liabilities as they come due. The Company manages liquidity risk using cash and debt management programs.

The Company has access to cash equivalents and a range of funding alternatives at competitive rates through committed revolving bank credit facilities and debt and equity capital markets. As at December 31, 2014, the Company had committed revolving bank credit facilities totaling \$4.0 billion which include C\$3.5 billion (\$3.0 billion) on a revolving bank credit facility for Encana and \$1.0 billion on a revolving bank credit facility for a U.S. subsidiary, the latter of which remains unused. The facilities remain committed through June 2018. Of the C\$3.5 billion (\$3.0 billion) revolving bank credit facility, \$1.7 billion remained unused and \$1.3 billion was drawn to redeem the senior notes assumed by Encana in conjunction with the Athlon acquisition as discussed in Note 10.

Encana also has accessible capacity under a shelf prospectus for up to \$6.0 billion, or the equivalent in foreign currencies, the availability of which is dependent on market conditions, to issue up to \$6.0 billion of debt and/or equity securities in Canada and/or the U.S. The shelf prospectus expires in July 2016.

The Company believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

20. Financial Instruments and Risk Management (continued)

C) Risks Associated with Financial Assets and Liabilities (continued)

Liquidity Risk (continued)

The Company minimizes its liquidity risk by managing its capital structure. The Company's capital structure consists of 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 to finance internally generated growth as well as potential acquisitions. To manage the capital structure, the Company may adjust capital spending, adjust dividends paid to shareholders, issue new shares, issue new debt or repay existing debt.

The timing of expected cash outflows relating to financial liabilities is outlined in the table below:

	Less Than					Total
	1 Year	1 - 3 Years	4 - 5 Years	6 - 9 Years	Thereafter	
Accounts Payable and Accrued Liabilities	\$ 2,243	\$ -	\$ -	\$ -	\$ -	\$ 2,243
Risk Management Liabilities	20	7	-	-	-	27
Long-Term Debt ⁽¹⁾	396	1,493	3,030	1,610	6,392	12,921

⁽¹⁾ Principal and interest.

Included in Encana's long-term debt obligations of \$12,921 million at December 31, 2014 are \$1,277 million in principal obligations related to LIBOR loans drawn on the credit facility. These amounts are fully supported and Management expects that they will continue to be supported by revolving credit facilities that have no repayment requirements within the next year. The revolving credit facilities are fully revolving for a period of up to five years. Based on the current maturity dates of the credit facilities, these amounts are included in cash outflows for the period disclosed as 4 – 5 Years. Further information on Long-Term Debt is contained in Note 10.

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 primarily in North America, fluctuations in the exchange rate between the U.S. and Canadian dollars can have a significant effect on the Company's reported results. Encana's financial results are consolidated in Canadian dollars; however, the Company reports its results in U.S. dollars as most of its revenue is closely tied to the U.S. dollar and to facilitate a more direct comparison to other North American oil and gas companies. As the effects of foreign exchange fluctuations are embedded in the Company's results, the total effect of foreign exchange fluctuations is not separately identifiable.

To mitigate the exposure to the fluctuating U.S./Canadian dollar exchange rate, Encana maintains a mix of both U.S. dollar and Canadian dollar debt and may also enter into foreign exchange derivatives. As at December 31, 2014, Encana had \$6.7 billion in U.S. dollar debt issued from Canada that was subject to foreign exchange exposure (2013 - \$5.4 billion) and \$0.6 billion in debt that was not subject to foreign exchange exposure (2013 - \$1.7 billion). There were no foreign exchange derivatives outstanding as at December 31, 2014.

Encana's foreign exchange (gain) loss primarily includes unrealized foreign exchange gains and losses on the translation of U.S. dollar denominated debt issued from Canada, unrealized foreign exchange gains and losses on the translation of U.S. dollar denominated risk management assets and liabilities held in Canada and foreign exchange gains and losses on U.S. dollar denominated cash and short-term investments held in Canada. A \$0.01 change in the U.S. to Canadian dollar exchange rate would have resulted in a \$61 million change in foreign exchange (gain) loss as at December 31, 2014 (2013 - \$48 million).

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. There were no interest rate derivatives outstanding as at December 31, 2014.

As at December 31, 2014, the Company had floating rate debt of \$1,277 million. Accordingly, the sensitivity in net earnings for each one percent change in interest rates on floating rate debt was \$10 million (2013 - nil).

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in \$ millions unless otherwise specified)

21. Commitments and Contingencies

Commitments

The following table outlines the Company's commitments as at December 31, 2014:

(undiscounted)	Expected Future Payments						Total
	2015	2016	2017	2018	2019	Thereafter	
Transportation and Processing	\$ 878	\$ 825	\$ 815	\$ 800	\$ 673	\$ 3,204	\$ 7,195
Drilling and Field Services	312	138	93	47	16	17	623
Operating Leases	43	36	28	26	10	24	167
Total	\$ 1,233	\$ 999	\$ 936	\$ 873	\$ 699	\$ 3,245	\$ 7,985

Contingencies

Encana is involved in various legal claims and actions arising in the 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. If an unfavourable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net earnings or loss in the period in which the outcome is determined. Accruals for litigation and claims are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such legal claims.