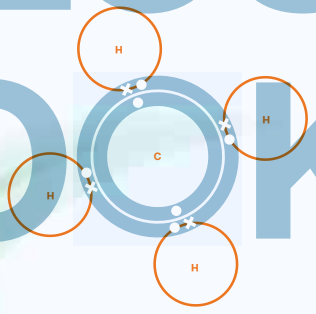
TAKE A CLOSER LOOK



encana
natural gas

we're a high-performance company driven by a culture of innovation

Encana Corporation
Annual Report 2010

VOL/two ISSUE/one
www.encana.com

10%

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TAKE A CLOSER LOOK AT OUR **RESOURCE POTENTIAL**

14.3

TCFE TOTAL PROVED RESERVES

OPPORTUNITY- RICH

- increased total proved reserves by 12 percent from 2009
- additional 20.0 Tcfe 1C (low estimate) economic contingent resources
- 11.7 million total net acres
- over 20 years of drilling opportunities

37,000

NET DRILLING LOCATIONS (BEST ESTIMATE)

- large geographically-diverse, high-quality portfolio of resource plays
- pursuing additional value and enhanced project returns from liquids-rich production

CAPITAL DISCIPLINE

- strong investment grade credit rating
- healthy balance sheet, with debt to capitalization at less than 40 percent and a debt to adjusted EBITDA at less than 2.0x
- approximately one-half of 2011 daily production hedged to provide greater cash flow certainty

$4.05

MCF 2010 CORPORATE AVERAGE SUPPLY COST *

LOW-COST FOCUS

- goal to lower supply cost to approximately $3 per Mcf over the next 3 to 5 years
- maximizing operational efficiencies and cost savings achieved through resource play hub approach
- continual assessment and high-grade of asset portfolio through acquisition and divestiture program
- leveraging third-party capital to lower our costs, increase capital efficiencies and bring forth value recognition sooner through increased development activity

TEN

NATURAL GAS-POWERED DRILLING RIGS DEPLOYED

CULTURE OF **INNOVATION**

- multi-discipline, knowledge-sharing teams refining resource play hubs across key and emerging plays
- pioneered use of cost-saving fit-for-purpose drilling equipment
- strategic pad site design for concurrent drilling, completion, production and midstream operations
- commenced construction on five natural gas fueling stations

*Supply cost is defined as the flat NYMEX natural gas price that yields a risked internal rate of return of 9 percent after tax: does not include land costs.

We are rising to the challenge of sustaining our business success and increasing the value of every Encana share in a low natural gas price environment through capital discipline, risk management and by applying technology, efficiency and innovation to our resource play hub production model.

With our enormous resource potential in many of North America's most prolific natural gas resource plays, we will continue to grow the reserves and productive capacity of our diverse and abundant portfolio of opportunities.

Our goal is to be the highest-growth, lowest-cost senior natural gas producer in North America. By accelerating production growth from our high-quality, low-cost resource base, establishing joint venture investments and building demand for natural gas, we are pursuing the greatest value proposition for our shareholders.

I invite you to take a closer look.

Randy Eresman
President & CEO
Encana Corporation

TAKE A CLOSER LOOK AT THE **BENEFITS OF NATURAL GAS**

65%

LESS CO_2 EMISSIONS THAN COAL PER KILOWATT HOUR

THE **CLEANEST-BURNING** FOSSIL FUEL

- 25 percent less CO_2 emissions than oil
- particulates from combustion 90 percent lower than oil and 99 percent lower than coal

1/3

LESS EXPENSIVE THAN GASOLINE AT THE PUMP

AFFORDABLE NATURAL GAS

- 15 to 30 percent less expensive than diesel

$450

BILLION VALUE ADDED TO CANADIAN AND U.S. ECONOMIES*

A **DOMESTIC** RESOURCE

- up to 35,000 jobs created with every 1 percent increase in North American natural gas production
- estimated $160 billion improvement in foreign trade balance if natural gas displaces foreign oil for transportation

100

YEARS OF CURRENT SUPPLY IN NORTH AMERICA AT CURRENT CONSUMPTION RATES

AN **ABUNDANT** RESOURCE

- a secure, made-in-North America energy solution

REDUCED EMISSIONS

BY CONVERTING LARGE TRUCKING FLEETS TO NATURAL GAS

FUELING A TRANSPORT PARADIGM

- Canadian federal report recommends expanded natural gas use across medium- and heavy-duty transportation sectors
- Colorado state grants supporting infrastructure to accelerate market for compressed natural gas

2024

THE YEAR NATURAL GAS IS FORECAST TO BE THE LEADING SOURCE OF ENERGY (ALBERTA ELECTRIC INDUSTRY MARKET STUDY)

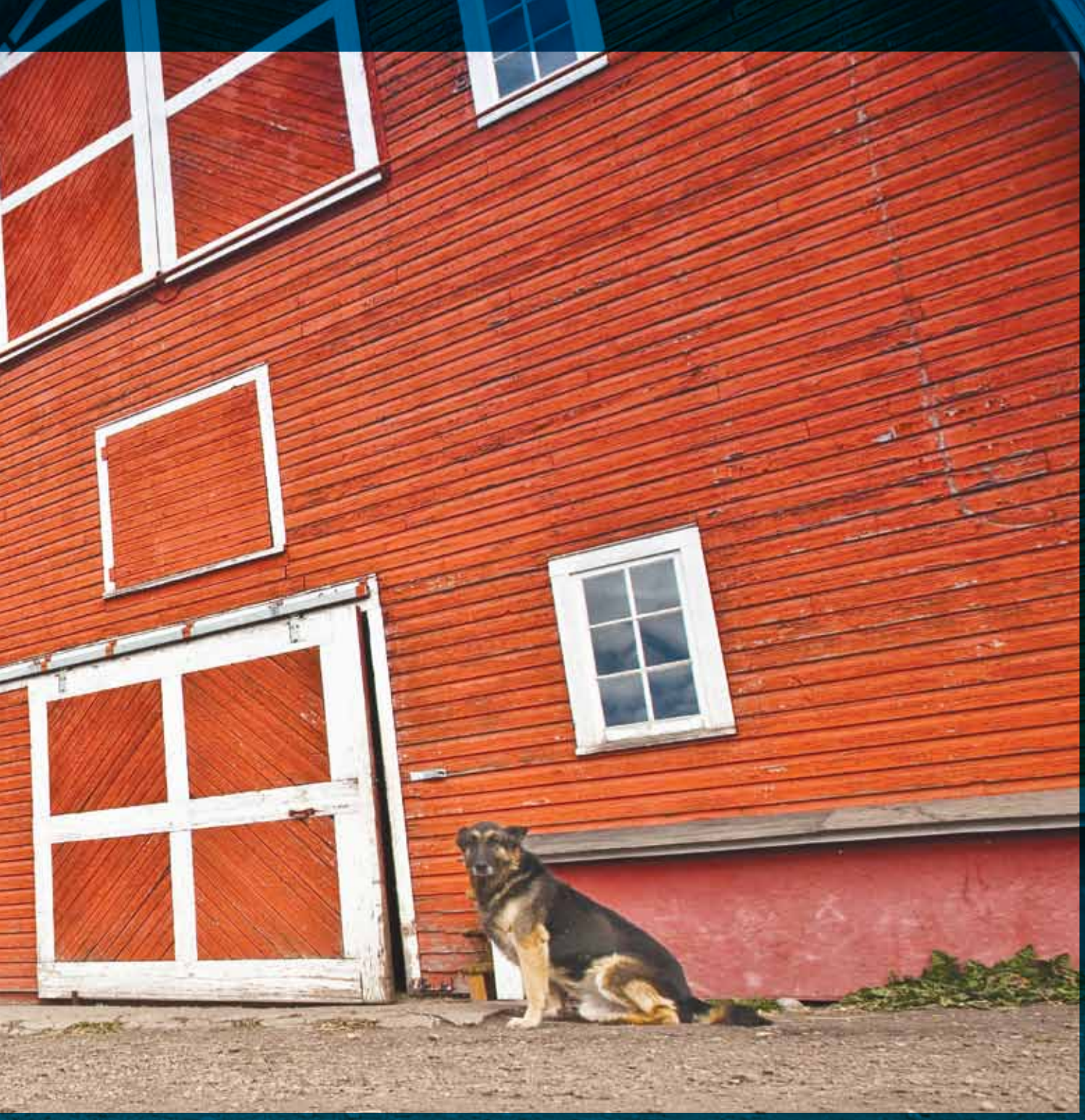
CLEAN ENERGY FOR THE **POWER INDUSTRY**

- Colorado legislation designed to replace coal with natural gas in aging generation units

*IHS Global Insight: September 2009 – The Contributions of the Natural Gas Industry to the U.S. National and State Economies; February 2010 – The Contributions of the Natural Gas Industry to the Canadian National and Provincial Economies

Being a good neighbour in the communities where we work and live is more than just a best practice – it stems from our knowledge that actions speak louder than words. Our social licence to operate depends on working with stakeholders in a transparent, honest and respectful way by listening and responding to feedback. Recent community surveys indicated over 80 percent of residents believe our landowner respect program, Courtesy Matters, is working. **Take a closer look. We are Encana.**

Learn more about natural gas and Encana at **www.encana.com**



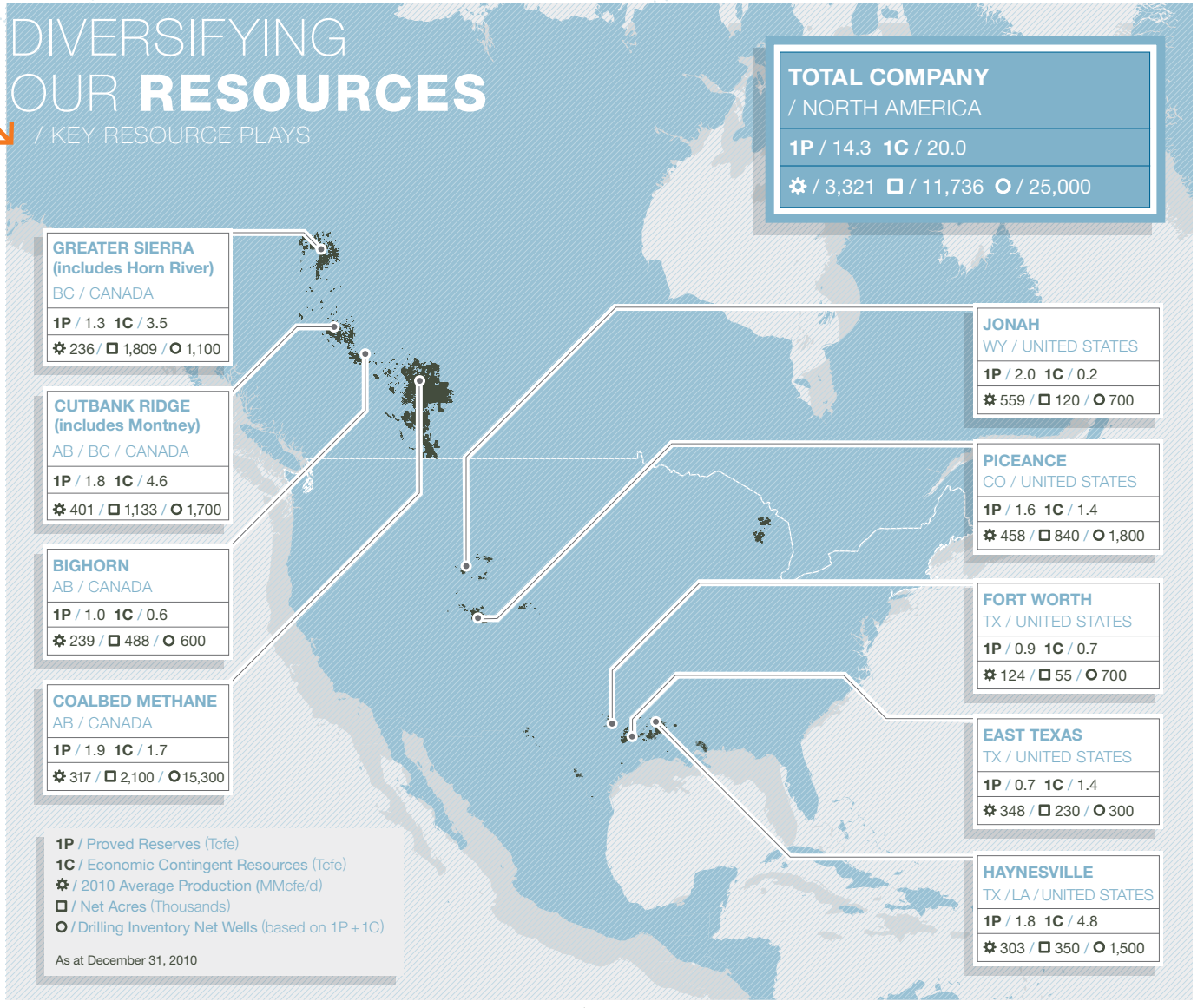
encana™
natural gas

COURTESY® MATTERS

take a closer look

DIVERSIFYING OUR **RESOURCES**

/ KEY RESOURCE PLAYS



Despite a year of challenging prices, 2010 marked great progress towards Encana's pursuit of becoming North America's leading, high-growth, low-cost senior natural gas producer.

Encana is committed to attaining the highest standards of transparent reporting and accountability.

With its enormous inventory of low-cost, undeveloped resources, Encana believes it can be the highest-growth, lowest-cost senior natural gas producer in North America.

Resource play hubs are an innovative and efficient production model tailor-made to reduce natural gas production costs and environmental impact.

LEADING
TECHNOLOGY

"We like Encana's management and employees' strong technical and economic focus throughout the process of finding and developing hydrocarbons. The benefits show up in early entries to the best North American gas plays, Encana's low cost structure, and focus on maximizing its asset value."

Andrew Fairbanks
Director, Canadian Energy Research
Bank of America Merrill Lynch

Encana continues to solidify its presence in several of the most exciting shale and tight gas plays in North America: the Haynesville in Louisiana and Texas, Horn River in British Columbia and Montney in Alberta and British Columbia.

DRIVING FUTURE GROWTH

350,000
NET ACRES

303
MMcfe/d 2010 AVERAGE DAILY PRODUCTION

1,500
WELL INVENTORY (1P + 1C)

HAYNESVILLE SHALE / TX / LA

Having completed the majority of its land retention program in 2010, Encana holds 350,000 net acres in the heart of this exciting play. In 2011, it is expected that the majority of Haynesville development activity will focus on maximizing natural gas recovery by establishing resource play hubs.

HORN RIVER SHALE / BC

With more than 250,000 net acres in the Horn River, Encana believes it has an industry-leading position in this play. Without any land retention concerns, the company can immediately begin optimization work with resource play hub operations and infrastructure development.

264,000
NET ACRES

29
MMcfe/d 2010 AVERAGE DAILY PRODUCTION

600
WELL INVENTORY (1P + 1C)

693,000
NET ACRES

274
MMcfe/d 2010 AVERAGE DAILY PRODUCTION

1,600
WELL INVENTORY (1P + 1C)

MONTNEY TIGHT GAS / BC / AB

Since entering the Montney eight years ago, Encana has improved cost structures by leveraging technology and optimizing the development process. With 2010 average supply costs of approximately $3 per Mcf, the Montney is one of Encana's most economic plays and its evolution is an excellent analogy for what Encana expects to achieve throughout its portfolio.

As at December 31, 2010

VAST HIGH-QUALITY **PORTFOLIO**

Encana has built one of the largest, low-cost, contiguous land positions in many of North America's best resource plays.

BIGHORN / AB

This tight gas, multi-zone stacked cretaceous play produces primarily sweet, liquids-rich natural gas. Although historical development focused on drilling vertical wells, Encana has had success extracting significant additional volumes by supplementing existing well locations with horizontal wells.

COALBED METHANE (CBM) / AB

Encana's CBM play integrates the Horseshoe Canyon Coals with shallower sands. Approximately 75 percent of the total net acreage landholdings are owned in fee title, which means the mineral rights are held by Encana in perpetuity and mineral taxes are generally less than the Crown royalty.

CUTBANK RIDGE / BC / AB

Encana's focus in this tight gas reservoir is on long-term growth using the latest extraction technology to produce gas from the Montney, Cadomin and Doig geological formations.

GREATER SIERRA / BC

The focus in Greater Sierra is development of the Jean Marie formation and Horn River Basin. Encana began implementing multi-lateral horizontal drilling, resulting in increased well performance and improved cost structures.

EAST TEXAS / TX / LA

This tight gas, multi-zone play targets the Bossier and Cotton Valley zones and requires careful application of technology to unlock the gas.

FORT WORTH / TX

This resource play stretches underground across a 15-county area and includes the Barnett Shale in the Fort Worth Basin. Encana applies horizontal drilling and multi-stage reservoir stimulation to improve performance in this play.

PICEANCE / CO

The Piceance Basin is characterized by thick natural gas accumulations primarily in the Williams Fork formation. Encana has recently initiated the evaluation phase of the Niobrara formation, a thick shale predominant throughout the basin.

JONAH / WY

Producing from the Lance formation, wells in the Jonah field are stimulated with multi-stage advanced hydraulic fracturing techniques. Historically, Encana's operations were conducted in the over-pressured core portion of the field; however, in 2008, Encana began developing the adjacent normally pressured Lance (NPL). Long-term development plans for the NPL estimate as many as 3,500 wells to be drilled over a 10-year period.

DEEP PANUKE / NS

Located on the Scotian Shelf approximately 250 kilometres (156 miles) southeast of Halifax, the Deep Panuke project involves offshore drilling pad and pipeline facilities installation to produce and process natural gas from the Deep Panuke field.

SOLID
FINANCIAL PERFORMANCE

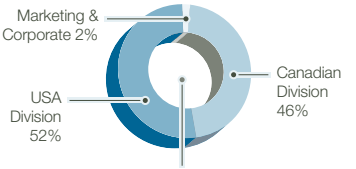
"We continue to look upon Encana as one of the best managed independents, with superior execution capability and the best real estate on the block."

Greg Pardy
Managing Director, Co-head,
Global Energy Research
RBC Capital Markets

STRONG FINANCIAL PERFORMANCE

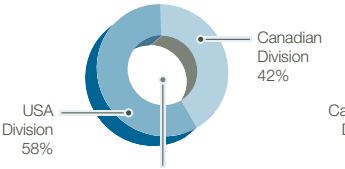
Operationally and financially, Encana is able to adapt to the challenges and opportunities that come its way, all with the overriding goal of preserving value for its shareholders.

CAPITAL



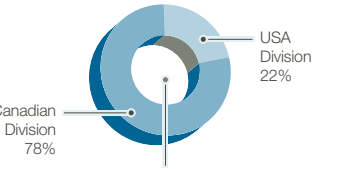
Total $4.8 Billion

PRODUCTION



3.3 Bcfe/d

LAND



11.7 Million Net Acres

For the year ended December 31, 2010.

2010 RESULTS

3,321
MMcfe/d PRODUCTION

$4,439
MM CASH FLOW

$1.07
PER Mcfe OPERATING AND G&A COSTS

$0.80
ANNUAL COMMON SHARE DIVIDEND

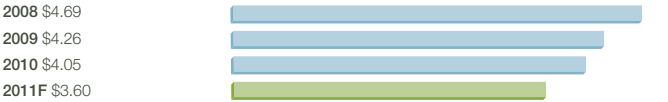
2.7%
2010 YEAR-END DIVIDEND YIELD

31%
DEBT TO CAPITALIZATION

PROVEN TRACK RECORD / LOWERING COST STRUCTURES

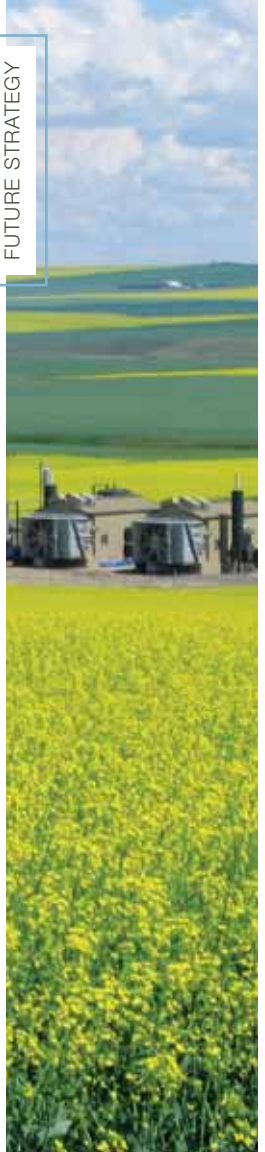
Over the last three-year period, Encana has demonstrated a 25 percent reduction to its capital weighted portfolio average supply cost. With further efficiency gains and continued high-grading, the company is targeting further reductions to approximately $3 per Mcf over the next 3 to 5 years.

$/Mcf



2011F represents initial projections.

Maintaining flexibility and capital discipline are key elements of Encana's business strategy. The company continues to focus its capital spending on its highest-growth and highest-margin opportunities, all while further increasing efficiencies.



SUSTAINABLE FUTURE STRATEGY

Infusing every element of Encana's growth plans is an innovative, value-driven corporate culture focused on maximizing margins by increasing operational efficiencies and continually striving to be one of the lowest-cost producers in the industry.

1. OPPORTUNITY-RICH

With more than 11.7 million net acres of land in many of North America's most active natural gas basins, Encana has a vast, high-quality asset base with over 20 years of drilling locations on existing lands. Encana believes that given the significant size and quality of its assets, the greatest value proposition for shareholders is to accelerate recognition of the value of these assets by delivering a sustainably higher growth rate.

2. LOW-COST FOCUS

Encana's vision is to be the highest growth, lowest-cost senior natural gas producer in North America. The company's ability to achieve growth is supported by its existing low-cost structure and its firm commitment to continue to drive costs down. For 2010, Encana's corporate supply cost was $4.05 per Mcf.

3. CAPITAL DISCIPLINE

Throughout this lower natural gas price environment, Encana has continued to maintain a strong balance sheet with $5.1 billion available under unused, committed bank credit facilities at year-end 2010. Management stewards the company to have a debt to capitalization of less than 40 percent and a debt to adjusted EBITDA of less than 2.0 times. All of Encana's outstanding debt at year-end 2010 was composed of long-term, fixed rate debt, with an average remaining term of about 13 years. All of these factors work together to help maintain the company's investment grade credit ratings.

4. CULTURE OF INNOVATION

The fourth competitive advantage that supports Encana's strategy is its people and its culture of innovation. Encana is always looking for new ways to conduct its business, to leverage technology and to share learnings. It will continue to be a leader in the development of innovative solutions that will help lower its cost structures.

5. NATURAL GAS DEMAND INITIATIVES

Encana's Natural Gas Economy team's mission is to establish natural gas as the foundation of North America's energy portfolio. This advocacy-focused team works closely with industry and government to develop initiatives in the areas of transportation, power generation and liquified natural gas (LNG) export that are expected to lead to increased demand for clean-burning natural gas.

take a closer look

FINANCIAL AND OPERATING **PERFORMANCE**

/ YEAR-END HIGHLIGHTS

FINANCIAL HIGHLIGHTS

(US$ millions, except per share amounts)	2010	2009 (1)
Revenues, Net of Royalties	**8,870**	6,732
Cash Flow (2)	**4,439**	5,021
Per Share – Diluted	**6.00**	6.68
Net Earnings	**1,499**	749
Per Share – Diluted	**2.03**	1.00
Operating Earnings (2)	**665**	1,767
Per Share – Diluted	**0.90**	2.35
Total Capital Investment	**4,773**	3,755
Net Acquisition and Divestiture Activity	**(150)**	(815)
Net Capital Investment	**4,623**	2,940
Dividends Per Common Share	**0.80**	0.80
Dividend Yield (%) (3)	**2.7**	2
Debt to Capitalization (%) (2)	**31**	32
Debt to Adjusted EBITDA (times) (2)	**1.4**	2.1
Debt to Proved Developed Reserves ($/Mcfe) (2)(4)	**1.04**	1.14

(1) Reflects Pro Forma results. See Pro Forma information on page 74.
(2) Non-GAAP measures as referenced in the Advisory on page 72.
(3) Based on NYSE closing price at year-end.
(4) Based on forecast prices and costs, after royalties case.

OPERATIONAL HIGHLIGHTS

After Royalties	2010	2009 (1)
Production		
Natural Gas (MMcf/d)		
Canada	**1,323**	1,224
USA	**1,861**	1,616
Total Natural Gas (MMcf/d)	**3,184**	2,840
Oil & NGLs (bbls/d)		
Canada	**13,149**	15,880
USA	**9,638**	11,317
Total Oil & NGLs (bbls/d)	**22,787**	27,197
Total Production (MMcfe/d)	**3,321**	3,003
Reserves (2)		
Year-End Reserves (Bcfe)	**14,335**	12,774
Net Reserve Additions (Bcfe)	**3,074**	1,857
Production Replacement (%)	**254**	169
Reserve Life Index (years)	**11.8**	11.7

(1) Reflects Pro Forma results. See Pro Forma information on page 74.
(2) 2009 results after royalties, before price related revisions employing constant prices and costs. 2010 results after royalties, employing forecast prices and costs.
For additional information on reserves reporting protocols, see page 73.

Advisory

Encana reports in U.S. dollars unless otherwise noted. Production, sales, reserves and economic contingent resources estimates are reported on an after royalties basis, unless otherwise noted. Certain information regarding the company and its subsidiaries set forth in this document including management's assessment of the company's future plans and operations, may constitute forward-looking statements or forward-looking information under applicable securities laws and necessarily involve risks and uncertainties associated with future events. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements or information. For further details see the Advisory on page 72 of this document.

This document contains references to measures commonly referred to as non-GAAP measures, such as cash flow, cash flow per share – diluted, free cash flow, operating earnings, operating earnings per share – diluted, adjusted EBITDA, debt, net debt and capitalization. Additional disclosure relating to these measures is set forth on page 72 in the Advisory.

See also our Endnotes on page 135 for certain defined terms used in this Annual Report.

Natural gas is the North American solution for a secure energy future, a common sense, economic alternative for transportation and power generation.

THE NATURAL GAS ECONOMY /30

RESPONSIBLE DEVELOPMENT /38

Encana's commitment to responsible development means investing in communities where it operates, protecting people's health and safety and minimizing environmental impact.

MANAGEMENT'S DISCUSSION AND ANALYSIS /45

Encana is committed to the key business objectives of maintaining financial strength, optimizing capital investments and continuing to pay a stable dividend to shareholders.

Encana maintains a strong balance sheet and is committed to being a low-cost producer.

FINANCIALS /78

PRESIDENT & CEO

RANDY ERESMAN

take a closer look

ABUNDANT **OPPORTUNITIES**

/ CEO'S MESSAGE

In our first year as a pure-play natural gas producer, we concentrated our efforts on two core objectives: efficiently achieving our financial and operational goals for 2010 and accelerating the value recognition of our enormous resource potential – the foundation for generating long-term value for every Encana share.

I am pleased to report that we very successfully accomplished our 2010 goals, and we made significant progress accelerating the value recognition of our asset base on the road towards our long-term objective of becoming North America's leading, high-growth, low-cost senior natural gas producer.

STRONG 2010 PERFORMANCE DURING A YEAR OF CHALLENGING PRICES

2010 continued to provide clear evidence of how much has changed in the world of natural gas. The revolutionary technical breakthroughs of recent years again delivered abundant supplies of natural gas to market at a time when the global and North American economies struggled to recover from a nagging recession. This resulted in natural gas prices that remained weak, averaging about $4.40 per Mcf – levels that we believe are unsustainable in the long term. Despite these persistent economic challenges, our teams achieved superior performance by efficiently delivering production per share growth of 12 percent and replacing more than 250 percent of our 2010 production. Proved reserves increased 12 percent to 14.3 Tcfe, a natural gas storehouse that represents close to 12 years of supply based on 2010 production rates. Financially, Encana generated cash flow of about $4.4 billion, or $6 per share, supported by commodity price hedges that resulted in realized hedging gains for 2010 of about $810 million after tax. Operating earnings for 2010 were $665 million, or 90 cents per share. Beyond our drive to grow production

ENCANA 2010 HIGHLIGHTS

Financial

- cash flow of approximately $4.4 billion, or $6 per share
- operating earnings of $665 million, or $0.90 per share
- capital investment, excluding acquisitions and divestitures, of $4.8 billion

Operating

- total production of 3.3 Bcfe/d
- total natural gas production of 3.2 Bcf/d
- oil and NGL production of 23,000 bbls/d
- operating and administrative costs of $1.07 per Mcfe

Reserves / before price revisions

- proved reserves of 14.3 Tcfe
- added 3.1 Tcfe of proved reserves, compared to production of 1.2 Tcfe, for a production replacement of more than 250 percent
- proved reserves life index of approximately 12 years

For additional information on reserves reporting protocols, see page 73.

and reserves, we continued our relentless pursuit of lower costs, achieving a very competitive supply cost of about $4 per Mcf, and we are confident we can continue to lower production costs as all of our teams are now targeting a supply cost of about $3 per Mcf, based on 2010 cost structures, over the next three to five years. We define supply cost as the flat NYMEX natural gas price that yields an internal rate of return of 9 percent after tax, and does not include land costs. It is the prime financial measure and threshold for determining which projects we will fund to grow production and reserves. Our focus on increasing efficiency and reducing cost has a solitary goal – maximizing the margins we earn on all production. When we win the drive to be the lowest-cost producer, we sustain our business throughout all stages in the supply-demand price cycle. Our 2010 results illustrate our continued focus on capital discipline, operational excellence, risk management and a relentless pursuit of lowering cost structures and maximizing margins.

WELL-DEFINED AND DISCIPLINED PURSUIT OF LONG-TERM VALUE CREATION

The key to financial and operating success in this highly competitive natural gas environment, and the recipe for long-term value creation, resides in a series of disciplined practices that are the focus of everyone at Encana. Our strategies and operations are intensely researched, tested, detailed and intricate. That is why the theme of our Annual Report this year invites you to Take A Closer Look at all that we do in pursuit of success and leadership in every aspect of our business. In the pages that follow, I invite you to read this comprehensive overview of the meticulous and rigorous steps we are taking in pursuit of being North America's best natural gas producer.

ENORMOUS RESOURCE POTENTIAL – FOUNDATION FOR VALUE CREATION

First, our high-quality asset base. In March 2010, we redefined Encana, providing to investors extensive detail on the huge potential of our natural gas reserves and resources. We outlined how we are in an ideal position to continue to accelerate our production growth even during a period when the market is abundantly supplied with natural gas. We know very well how plentiful natural gas has become in North America, which means that we also know that our key to success is to be the lowest-cost producer in the continent. The size and depth of our natural gas reserves and resources is our long-term bank account of value. It is the foundation for how we create value. On pages 12 - 15, we outline why our resource foundation alone is a compelling reason to invest in Encana. The Gold Standard story showcases how independent evaluators have judiciously defined the size and depth of our natural gas reserves and resources, an inventory that taps some of North America's most prolific sedimentary basins from northern British Columbia, through Alberta, Wyoming, Colorado and Texas to Louisiana. This high-quality asset base provides us with more opportunities than we have capital to invest, which leads to how we decide which projects we fund.

MAKING THE BEST INVESTMENT DECISIONS

With the new reality of natural gas abundance in North America, there's a level of competitiveness that we have not seen in years. What's not new is our commitment to capital and financial discipline – our process for deciding which projects we will fund. Because we have a wealth of high-growth opportunities, our business units compete internally for capital to fund a diverse and high-quality portfolio of projects for the year ahead, and for the long term. It's not unlike how people manage their own portfolio of financial opportunities. We all have choices on where to invest our money. On pages 16 - 17, we explain our life-cycle approach to investing in a suite of opportunities that generates strong returns and creates value for the long term.

FINANCIAL AND CAPITAL STEWARDSHIP, DISCIPLINED RISK MANAGEMENT

In this persistent environment of low natural gas prices, financial stewardship is of utmost importance. We will not pursue growth at any cost. Our moderated growth plan for 2011 reflects the reality of current prices and our disciplined approach. On pages 18 - 19, our Chief Financial Officer Sherri Brillon answers the tough financial questions on our guidelines for maintaining the financial strength of our balance sheet, our company's approach to paying an attractive dividend and when we choose to purchase shares, plus details on how to compare key accounting rules when measuring our financial performance against our U.S. peers and why we focus on operating earnings rather than net earnings.

RELENTLESS PURSUIT OF LOWERING COSTS

Efficiency and optimization are at the core of our approach to business. Everyone in the company is charged with finding ways to produce more natural gas with less effort, energy and investment, to reduce our impact on the environment and to continually innovate with every step we take in our processes. The technical evolutions we have experienced in natural gas development over the past five years alone have redefined how we are doing our work. Through pages 21 - 28 we define our Culture of Innovation, a creative way of working that infuses all we do at Encana.

The resource play hub

The resource play hub is Encana's disciplined approach to move resource plays into commercial production in a repeatable, transferable manner using enterprise-wide collaboration and yielding consistently reduced costs, and improved safety and environmental performance.

In past, you may have heard us speak about our gas factory operations and our manufacturing approach to development. In the same way that our practices, operations and technologies evolve, so do the names we place on them. How we produce natural gas is a complex and integrated process that involves thousands of incremental steps, operational and engineering augmentations that each offer our staff new opportunities to improve, invent and do better next time. For every creative and efficient solution we develop and repeat across our operations, we increase efficiency. That is the focus of what we call our resource play hub, the evolved name for our core production complex and a way of working that strives to reduce operating and capital costs while continually improving efficiencies to maximize the margins on every molecule of natural gas we produce. To really understand Encana, one must examine the productive intricacies of our resource play hubs and the relentless mindset of continuous improvement that permeates our culture of innovation.

THE COMMON SENSE ALTERNATIVE FUEL

This is the second year we have designed our Annual Report like a news magazine, and the reason is because there's plenty of compelling news to report. Given North America's newly discovered natural gas abundance, the greatest question for society is how do we capitalize on this clean, affordable and versatile fuel? On pages 30 - 36 we define the numerous benefits of the common sense alternative fuel – natural gas. While methane has long heated many of our homes, there are so many other uses that make more sense than ever, primarily generating electricity and fueling our vehicles. This fuel is very competitive economically and it generates lower emissions, 25 to 50 percent lower than gasoline for vehicles and coal for electricity respectively. Natural gas is the common sense energy solution for fleet vehicles, transportation, power generation and a variety of other uses. At Encana, we are putting natural gas to work wherever we can. We now have 10 of our drilling rigs fueled by natural gas. In the field, we have about 50 of the 1,000 vehicles in our fleet running on natural gas, and we're planning to convert them all. We built and opened our first natural gas fueling station in Red River Parish, Louisiana and have four others in development. We are also working with public policy-makers to help make it easier for power companies to generate electricity from natural gas rather than coal, and we're inviting municipalities to follow the lead of cities like Los Angeles, where the last diesel bus was recently retired because 99 percent of the city's 2,228 transit buses run on compressed natural gas.

RESPONSIBLE AND SAFE IN ALL WE DO

The front end of our Annual Report concludes with an update on how we contribute to the communities where we operate. We help build capacity by providing educational sponsorships to high school students pursuing resource science professions, investing in environmental education and supporting the next generation of Aboriginal leaders. In 2010, we streamlined how we manage our environment, health and safety practices with the launch of Ethos, a management system that guides our measurement and assessment of safeguarding our people and our environment. Our safety focus is paying dividends as last year we achieved the best safety results to date, recording our lowest injury rate in Encana's history. While we can tell you about how we've operated responsibly, a true measure is independent assessment. For the fifth year in a row, Encana was named to the Dow Jones Sustainability World Index and we earned the title of "sustainability leader" in the oil and gas industry.

Competitive Advantages

Opportunity-Rich
- North American portfolio of natural gas assets
- history of entering plays early and leveraging technology to unlock resources
- tremendous reserves and economic contingent resources base

Low-Cost Focus
- among the lowest-cost structures in natural gas industry
- leveraging scale and efficiencies across operations

Capital Discipline
- disciplined approach to capital spending and financial stewardship
- strong corporate governance

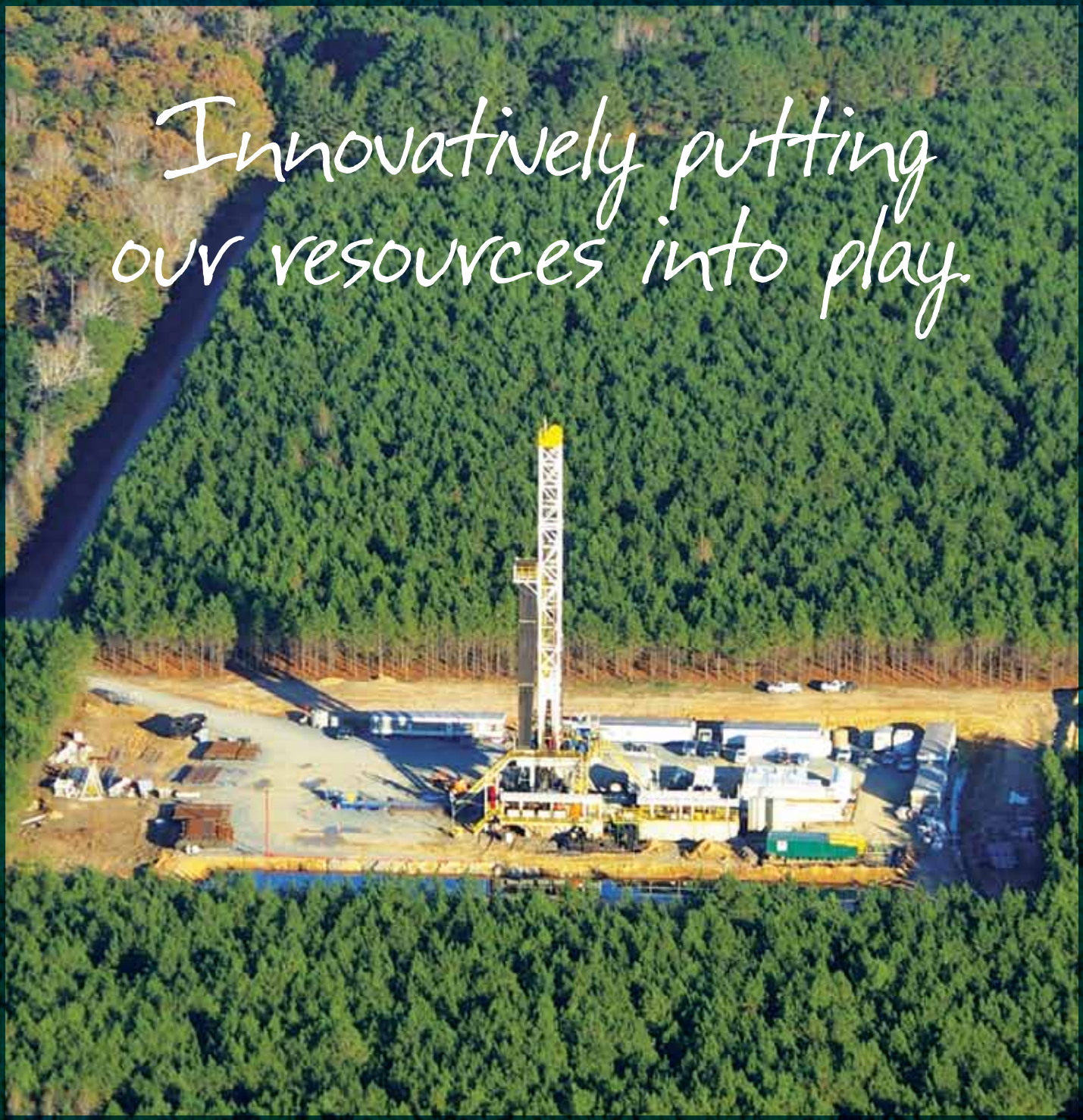
Culture of Innovation
- innovative and comprehensive knowledge-sharing

As we look to 2011 and natural gas prices remain at levels we believe are below the average cost to add new production, our daily focus remains squarely on the things we can manage: costs, operational efficiency, risk mitigation and pursuing innovative ways to accelerate the value recognition of our resource potential. Over the past few years we have entered into about 60 agreements with U.S. and Canadian companies looking to earn healthy returns by investing in projects that step up the development of our resource potential. These joint ventures increase project returns, shorten the timeline for resource development and lower our economic and project execution risk. They are the kinds of transactions that illustrate the acceleration of value recognition that we are pursuing. We invest shareholders' savings and business partners' capital to deliver long-term, sustainable value in every Encana share and every Encana community.

In closing, my thanks go to our Board of Directors for its wise and prudent leadership during our inaugural year as a pure-play natural gas producer. I also extend my appreciation for the dedication, innovative leadership and accomplishments of our management teams, employees and contractors in 2010. We've established a vast foundation that's burgeoning with resource potential and opportunity, one that I'm confident our people will ambitiously develop as we continue to pioneer and deliver sustainable value creation for many years ahead.

Randy Eresman

President & Chief Executive Officer
Encana Corporation
March 4, 2011



Our resource play hub approach to natural gas production reduces costs on two fronts. First, with a disciplined approach to managing surface logistics it helps reduce our operating and capital costs – and increases value for our shareholders. Secondly, by bringing together our land, technology and people in a focused effort, the resource play hub reduces our operational footprint – lessening impact on the environment and enhancing sustainability. **Take a closer look. We are Encana.**

encana™
natural gas

Learn more about natural gas and Encana at **www.encana.com**

CHAIRMAN OF THE BOARD

DAVID O'BRIEN

take a closer look

ACCOUNTING TO OUR SHAREHOLDERS

/ CHAIRMAN'S MESSAGE

Encana remains steadfastly committed to strong corporate governance and corporate responsibility practices – principles and policies that successfully guided the company through a year marked by further uncertainty in commodity prices and major changes in the natural gas industry.

As Chairman of the Board, I have a responsibility to lead the Board of Directors in ensuring that Encana creates maximum long-term value from its vast, high-quality inventory of natural gas resources. I also have the responsibility to ensure that investors and other stakeholders have confidence in Encana, its financial performance, ability to do its job in the safest possible manner, and that its corporate governance practices and policies are effective in assessing and mitigating potential risks and the impacts arising from its activities.

Encana fully complies with all applicable regulatory requirements and we are committed to attaining the highest standards of transparent reporting and accountability that these requirements represent. It goes without saying that good corporate governance and corporate responsibility practices benefit Encana's business and enhance shareholder value.

At Encana corporate governance and corporate responsibility programs are aligned and integrated; they have a common objective – enhancing stakeholder confidence that Encana operates in compliance with securities, environmental and other laws while at the same time operating ethically, responsibly and as a good neighbour and corporate citizen.

Encana was recognized for its leadership in this area once again this past year with a number of awards and accolades. We are very proud of these achievements. However, we are committed to continually evaluating and enhancing our corporate governance practices.

In 2010, Encana significantly updated its Corporate Responsibility Policy. Recognizing their importance, the Board of Directors also approved new stand-alone environment and health and safety policies. These policies and data measuring Encana's corporate responsibility performance can be viewed at www.encana.com.

In the past year, Encana's Board of Directors also approved a plan to include a non-binding advisory vote by shareholders at the 2011 annual general meeting on the subject of executive compensation, often called "say on pay", which gives shareholders an opportunity to provide feedback on Encana's approach to executive compensation.

Encana's Board of Directors is committed to monitoring environmental performance to ensure the company complies with or exceeds environmental laws and regulations and it participates with governments and industry in providing input into regulatory development. We recognize that responsible environmental practices contribute to long-term shareholder value creation. Encana continues to strive to reduce emissions intensity, responsibly source, handle and dispose of water, and increase efficiencies in its operations as it advances opportunities and practices aimed at increasing the use of natural gas as a cleaner energy source.

All of these measures, in concert with Encana's corporate strategy, continued capital discipline and prudent risk management, are aimed at increasing shareholder value.

Since the split of Encana in 2009, which resulted in the company's transition into a pure-play natural gas company, we have reconstituted the Board of Directors. Three directors are women who have built highly credible careers in the energy sector and four of the 10 outside directors bring comprehensive U.S. expertise and knowledge, backgrounds that reflect the diverse demands of Encana's North American operations. We believe that we have created a Board of Directors with a broad range of skills and experience to fulfill its role in both overseeing management and providing solid advice and counsel.

In closing, my thanks go to our Board of Directors for its steadfast dedication and leadership during Encana's inaugural year as a pure-play natural gas producer. I also express my appreciation to Encana's management, employees and contractors for their strong performance during a year marked by continued challenges. Our company is well positioned to meet these challenges in 2011 and beyond.

On behalf of the Board of Directors,

David P. O'Brien
Chairman of the Board
Encana Corporation

take a closer look

STRONG LEADERSHIP

/ OUR EXECUTIVE AND BOARD

Executive Officers

Randy Eresman / President & Chief Executive Officer

Named Encana's Chief Operating Officer in 2002, Randy became President & Chief Executive Officer of Encana on January 1, 2006. He is also a member of Encana's Board of Directors.

Sherri Brillon / Executive Vice-President & Chief Financial Officer

Responsible for treasury, tax, financial risk and risk reporting, internal audit and Sarbanes-Oxley compliance, portfolio management, strategic and corporate planning, and legal and corporate secretarial, Sherri has been named on Canada's Most Powerful Women: Top 100 over the past four years.

Mike Graham / Executive Vice-President (*President, Canadian Division*)

Responsible for Encana's Canadian Division, including key resource plays; Greater Sierra in British Columbia, Cutbank Ridge in British Columbia and Alberta, Bighorn and Coalbed Methane in Alberta, as well as Encana's Deep Panuke project in Atlantic Canada.

Bob Grant / Executive Vice-President, Corporate Development, EH&S and Reserves

Responsible for ensuring consistency of processes for Encana's acquisitions and divestitures, as well as business development, reserves assessment, competitor analysis, corporate environment, health & safety, and corporate responsibility.

Eric Marsh / Executive Vice-President, Natural Gas Economy (*Senior Vice-President, USA Division*)

Responsible for pursuing the development of expanded natural gas markets in North America, including involvement in government and regulatory relations to expand these markets. Eric also acts as alternate and delegate to the USA Division President.

Mike McAllister / Executive Vice-President (*Senior Vice-President, Canadian Division*)

Responsible for the Canadian Deep Basin Business Unit, which includes two of Encana's key resource plays: Cutbank Ridge in British Columbia and northwest Alberta and Bighorn in west central Alberta. Mike also acts as alternate and delegate to the Canadian Division President.

Bill Oliver / Executive Vice-President & Chief Corporate Officer

Responsible for human resources, communications, investor relations, media relations, community involvement, information technology and administrative services, including THE BOW building project.

Bill Stevenson / Executive Vice-President & Chief Accounting Officer

Responsible for company-wide corporate comptrollership and accounting functions within Encana, including financial and management reporting, accounting research and accounting systems.

Jeff Wojahn / Executive Vice-President (*President, USA Division*)

Responsible for all of Encana's upstream exploration and production activities in the United States, which includes Encana's key resource plays at the Jonah field and the Piceance Basin in the U.S. Rockies, and the Fort Worth and East Texas Basins in the state of Texas and the Haynesville Shale in Louisiana and Texas.

Renee Zemljak / Executive Vice-President, Midstream, Marketing & Fundamentals

Responsible for positioning Encana as a natural gas supplier of choice, maximizing the company's netback prices and optimizing the profitability of the company's midstream assets.

Board of Directors

David O'Brien, O.C.

David O'Brien is Chairman of Encana's Board of Directors and also serves as Chairman of the Board of Royal Bank of Canada and is a director of Molson Coors Brewing Company, TransCanada Corporation and Enerplus Corporation, as well as several other private energy-related companies.

Randy Eresman

Randy Eresman is President & Chief Executive Officer of Encana Corporation.

Peter Dea

Peter Dea is President & Chief Executive Officer of Cirque Resources LP.

Claire Farley

Claire Farley is the co-founder of RPM Energy LLC and is also a director of FMC Technologies, Inc.

Fred Fowler

Fred Fowler is a Corporate Director and is the Chairman of Spectra Energy Partners, LP.

Barry Harrison

Barry Harrison is a Corporate Director and independent businessman. He is the Chairman of the Board of The Wawanesa Mutual Insurance Company and its related companies.

Suzanne Nimocks

Suzanne Nimocks is a Corporate Director and serves as a director of Rowan Companies, Inc. and ArcelorMittal.

Jane Peverett

Jane Peverett is a Corporate Director and serves as a director of Canadian Imperial Bank of Commerce, Northwest Natural Gas Company, B.C. Ferry Authority and Associated Electric & Gas Insurance Services Limited.

Allan Sawin

Allan Sawin is President of Bear Investments Inc. and serves as a director of a number of private companies.

Bruce Waterman

Bruce Waterman is Senior Vice-President, Finance & Chief Financial Officer of Agrium Inc.

Clayton Woitas

Clayton Woitas is Chairman & Chief Executive Officer of Range Royalty Management Ltd. and serves as a director of NuVista Energy Ltd. and Enerplus Corporation as well as several private energy-related companies and advisory boards.

take a closer look

REPORTING **RESPONSIBLY**

/ TO OUR SHAREHOLDERS

ADVISORY / PAGE 72

Encana reports in U.S. dollars unless otherwise noted, and discloses reserves data in accordance with Canadian securities regulatory requirements and select supplemental disclosure in accordance with the U.S. regulatory reporting requirements. For further details please see the Advisory regarding Reserves Data and Oil and Gas Information on page 73.

WEB/MEDIA LINKS

In this report you will see this 'link' icon, which represents websites you can visit to find out more information on the topic being discussed.

PRODUCTION OF THIS REPORT

This publication is printed on FSC-certified paper, made of at least 10 percent post-consumer waste. The two inserts are printed on paper made with 100% post-consumer recycled fibre.

The cover paper, along with pages 1-44, were manufactured using natural gas for 10 percent of the manufacturer's total energy needs.

The Management's Discussion and Analysis and the Financial Statements are printed on a paper manufactured in a plant that uses natural gas to fuel the large dryers needed to dry the coating applied to the paper, and as the primary fuel for its boilers.

Printing took place at Blanchette Press, which uses natural gas as the source of energy for the furnace that heats its 28,000 square-foot building, housing all its manufacturing and administration operations.

Because of these choices, production of this report:

> avoided close to seven tons of greenhouse gas emissions

> saved over 62,000 gallons of water

> reduced solid waste by close to 3,750 pounds

FEEDBACK

What do you think of our Annual Report?

Please take a few minutes to provide your feedback through our online survey on the effectiveness of our Annual Report in sharing information about Encana's strategy, assets and performance. Your input will be used to guide subsequent publications.

Thank you.

www.encana.com/news/2010arsurvey/

JOIN THE CONVERSATION

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Endnotes can be referenced on page 135.

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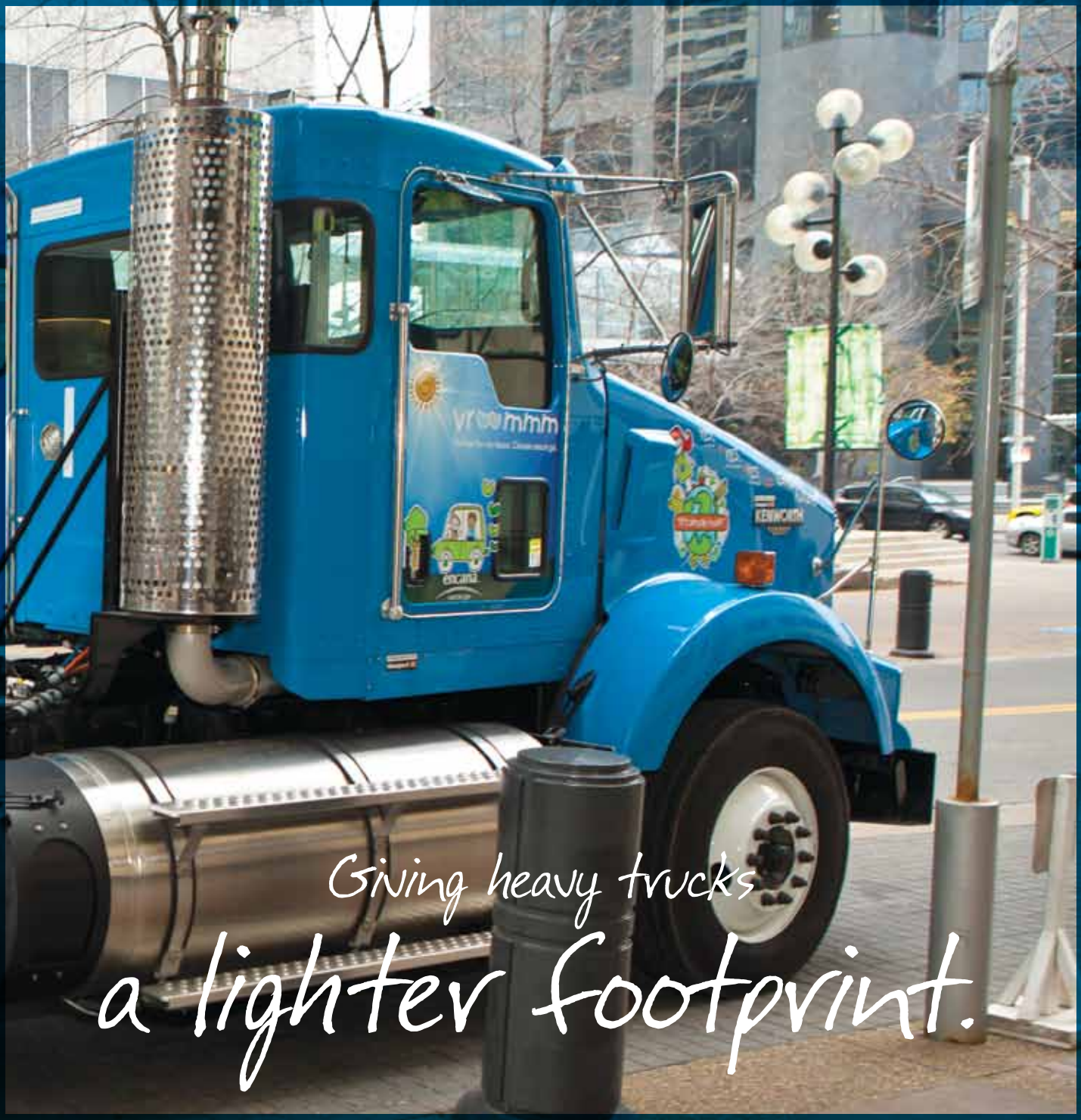

Giving heavy trucks a lighter footprint.

Encana knows vehicles fueled by natural gas are the future, so we've teamed up with Westport Innovations and ALT fuels to lead by example. Through our Ride & Drive program, interested organizations can take a two-day test drive of an 18-wheel, heavy-duty truck fueled entirely by liquefied natural gas (LNG) as part of their daily operations. **Take a closer look. We are Encana.**

encana™
natural gas

Learn more about natural gas and Encana at **www.encana.com**

why invest in encana

a vision for growing shareholder value

A PURE-PLAY COMPANY / POSITIONED FOR GROWTH /13

As North America's largest independent natural gas producer, Encana has a very large, geographically diverse, high-quality portfolio of natural gas assets that include some of the lowest-cost producing properties in the industry.

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www.encana.com/investors/

why invest in encana / because we are

A **PURE-PLAY** COMPANY

/ POSITIONED FOR GROWTH

As North America's largest independent natural gas producer, Encana has a very large, geographically diverse, high-quality portfolio of natural gas assets that include some of the lowest-cost producing properties in the industry. These long-life resource plays, which contain a huge inventory of drilling opportunities, allow for large-scale repeatable development programs that deliver predictable and profitable production growth. With its enormous inventory of low-cost, undeveloped resources, Encana believes it can be the highest-growth, lowest-cost, senior natural gas producer in North America. Supported by its tremendous assets – people and resources – the company is focused on increasing the value of each Encana share, and doing it at the lowest cost in the industry.

"Having built a high-quality resource base, the greatest value-creating proposition for our shareholders is to accelerate the value recognition inherent within our undeveloped resources by delivering a sustainably higher growth rate than historically established, and doing so at the lowest possible cost."

Randy Eresman
President & CEO

The foundation for a higher growth rate begins with the quality of Encana's resource base. With a huge land position in many of the key North American natural gas resource plays, the company has an advanced understanding of project economics that allows it to strategically invest in assets with industry-leading potential for production growth and value creation. Encana's inventory of drilling opportunities is more than 20 years. The depth and quality of this inventory is so strong that Encana believes the greatest value-creating proposition for its shareholders is to accelerate the monetization of this inventory. "Overall, when we think about creating value for our shareholders, there are a few key components that drive our strategy. The first – which is at the forefront of all our investment decisions – is our focus on reducing costs. The second stems from the basis that we are opportunity-rich. This provides the ability to accelerate the value recognition inherent in our vast inventory very economically," says Randy Eresman.

So how will this be achieved? Encana has a two-pronged approach to accelerate value recognition. One is increasing development pace to reduce the size of its inventory through capital deployment and by moving forward to resource play hub development mode as quickly as possible. The second is by attracting joint venture partners to leverage Encana's capital investment. Over the past three years, Encana has attracted more than $4 billion in third-party capital. Not only has this facilitated an accelerated pace of development, it has also lowered the overall risk of Encana's portfolio and improved project economics.

"Long-term growth potential for Encana is impressive with the company planning to double production per share in five years (from 2009 base). While the implied 15 percent annual compound annual growth rate is impressive, we believe the long-term growth potential of the company is likely to be restrained as Encana manages around weak gas prices."

Tom Driscoll
Managing Director, Barclays Capital

Use of third-party capital allows Encana to lower costs, increase capital efficiencies and bring value forward sooner through increased activity. Joint venture partner funds are being deployed to develop assets that would otherwise remain dormant in the company's inventory for a longer period. "Overall, we're targeting annual joint venture investments of between $1 billion and $2 billion," says Eresman.

Encana's employees share an innovative, value-driven corporate culture focused on maximizing margins by increasing operational efficiencies and continually striving to be the lowest-cost producer. Complementing Encana's production per share growth plans is a strong dividend yield. In 2010, Encana paid dividends of $0.80 per share which, based on the year-end share price, represents a yield of approximately 2.7 percent. Encana believes this combination of growth and yield provides investors with a compelling investment opportunity.

FOCUS ON LONG-TERM VALUE CREATION REMAINS PARAMOUNT

"Our strategy is focused on high-growth, low-cost margin maximization as we continue our tradition of maintaining the company's financial strength, applying strict discipline to all capital investment and continually capturing operational efficiencies as we grow production. By accelerating our development pace, we are advancing value recognition of our huge natural gas resource inventory. However, we are mindful that during periods of low prices, we may need to temporarily reel in our growth rate," says Eresman. As evidence of this, Encana's 2011 pace of development balances the company's priorities in responding to near-term uncertainty with continuing investment in long-term capacity to grow production more aggressively. The company's planning focus is to position itself to maintain momentum, controlling the things it can control and reacting to changes in internal and external environments with speed and discipline.

why invest in encana / because we use

THE **GOLD** STANDARD

/ RESERVES AND RESOURCES REPORTING

"With 100 percent of our reserves and contingent resources externally evaluated by Independent Qualified Reserves Evaluators, Encana is leading the way in reserves and resources evaluation practices with more consistent and comprehensive disclosure."

Bob Grant
Executive Vice-President,
Corporate Development, EH&S & Reserves

Encana has been busy over the past decade, building one of the largest natural gas resource portfolios in North America. The effort has caused Bob Grant to feel the company is sitting on a wealth of opportunities. His view is bolstered by knowing that Encana employs industry-leading reserves and resources evaluation practices and standards of disclosure.

Every year, companies are required to report an estimate of their oil and gas reserves. Typically, an external consulting firm is retained to provide an assessment of a company's reported numbers. These assessments occur in a variety of forms, separated by the degree of rigour applied by reservoir evaluation engineers. They are:

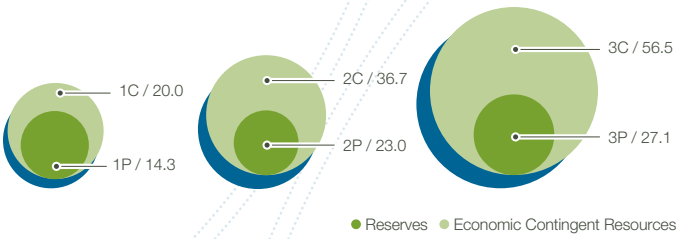
- **Process Review** – A consulting firm is retained to review the procedure that an oil and gas firm uses to internally estimate its reserves.
- **Audit** – A consulting firm is retained to evaluate a portion of the company's reserves for comparison against the internally generated numbers. Typically, the internally generated numbers are reported.
- **Evaluate** – A consulting firm is retained to evaluate and estimate all of the company's reserves. The reported numbers are those determined by the third-party firm.

At year-end 2010, Encana once again retained Independent Qualified Reserves Evaluators (IQREs) to conduct a complete evaluation of not only the company's reserves, but also its economic contingent resources.

TREMENDOUS RESOURCE POTENTIAL

GOLD STANDARD IN RESERVES DISCLOSURE

Reserves and Economic Contingent Resources* (Tcfe)



Reserves: 1P is proved, 2P is proved plus probable, 3P is proved plus probable plus possible.

Economic contingent resources: 1C is low estimate, 2C is best estimate, 3C is high estimate.

*Evaluated by Independent Qualified Reserves Evaluators as at December 31, 2010, employing a business case price forecast.

The three classifications of contingent resources have the same degree of technical certainty as the corresponding reserves category. For example, the 1C contingent resources meet most of the same criteria as proved reserves; most importantly, they have the same degree of technical certainty – a 90 percent probability that the quantities recovered will equal or exceed the estimated number. The major factor that prevents them from being included as proved reserves is time. Generally, 1C contingent resources exceed the five-year regulatory guideline for proved reserves development. By adding the qualifier that the contingent resources are "economic", the resources are high-graded. Shareholders then understand that these resources are expected to be economically recoverable under the fiscal conditions that Encana expects to prevail.

In accordance with the definitions for reserves and resources established by Canadian and U.S. regulatory authorities, the IQREs have estimated that Encana's reserves range from 14.3 to 27.1 Tcfe and the economic contingent resources range from 20.0 to 56.5 Tcfe. "We believe this is the gold standard in reserves and resources evaluation practices and disclosure, and represents the highest level of corporate governance with respect to reserves and resources reporting. It means that Encana's reported numbers are often more conservative compared to those reported by others operating in the same plays," says Grant. This is the core reason behind Encana's confidence in the quality of its reported reserves and resources.

"Encana is exceptionally well positioned in unconventional gas, in our view, exploiting its early-mover advantage in these resources. Encana's unconventional gas resource base is amongst the largest and best of all the resource players."

Andrew Potter
Managing Director, Institutional Equity Research
CIBC World Market Inc.

"It is important for investors to take the time to understand the differences in estimates of reserves and resources, the evaluation procedures employed and the qualifications of those engaged. For example, on the subject of contingent resources, Encana reports numbers that have been constrained by economic considerations and fully evaluated by independent qualified evaluators, whereas many other companies do not. As a consequence, another company may appear to have a large or larger reported resource base on what might very well be a smaller acreage position in a given play, but their reported numbers may include volumes that are currently uneconomic and have not been independently evaluated."

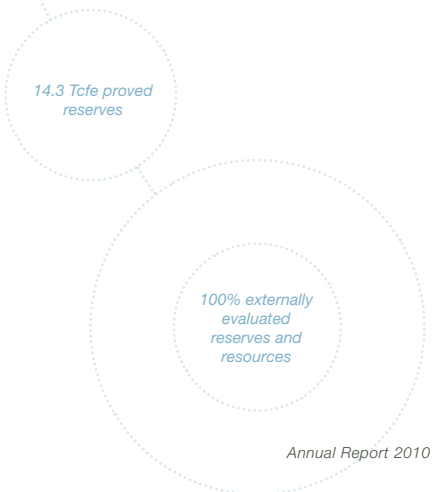
"We have described Encana as being a treasure chest of opportunity. Implicit in this description is our belief that Encana's vast and diversified undeveloped land base contains some of the best exploitation and development opportunities in North America."

Brian Dutton
Director, Canadian Oil & Gas Equity Research
Credit Suisse Securities (Canada) Inc.

How did Encana become so well positioned? "Because we entered these plays at an early stage, and amassed large, low-cost, contiguous land positions," says Grant. "Our portfolio includes large positions at various stages of development in many of the most prospective plays in North America. We are very well positioned – in almost every region in which we operate."

Before the commercial development of unconventional natural gas, a company in this industry typically considered itself to be successful if it had more than one or two years of drilling inventory. Today, Encana's drilling inventory is vastly larger than historical levels – about 20 years using the "best estimate" 2P plus 2C figures. Looking at the near-term development programs, Encana has identified across its resource base a drilling inventory of approximately 37,000 net locations.

"The drilling inventory of high certainty reserves and resources locations that has been identified on Encana's vast landholdings is both substantial and economic, employing a forecast of commodity prices that essentially mirrors recent forward strip pricing. This economic inventory provides our company with substantial optionality, not only with respect to pace and focus of development, but also with respect to funding, such as from cash flow, or joint venture initiatives," says Grant.



Managing a suite of assets as geographically and technically diversified as those in Encana's portfolio is a dynamic process that balances the risks and returns of every dollar invested on a project-by-project basis.

why invest in encana / because we have

A DIVERSE **PORTFOLIO**

/ WITH THE RIGHT BALANCE

It's like managing your own personal investment portfolio, and many of the same questions that you would ask yourself are analyzed and debated by Encana's management team every day: Which investments will bring growth and returns in the short term? Where does Encana need to allocate dollars today to ensure growth and sustainability in future years? What assets are no longer a strategic focus and can therefore be sold? What assets are available that can be added to Encana's portfolio in order to successfully execute on the company's strategic objectives? In your own portfolio, you might ask similar questions to meet your goals: Should I pay down my mortgage or invest more in my retirement fund or my children's college savings? The answer is never simple, and finding a balance between long- and short-term objectives requires discipline.

"We have to fund a balanced portfolio," says Corey Code, Encana's Vice-President, Portfolio Management and Assistant Treasurer. "It's critical that we think about both the short- and the long-term implications of our investments. We want to deliver sustainable growth and value to our shareholders, not just this year, but every year."

Encana's life cycle approach to portfolio management provides a strategic framework to evaluate projects and make investments that create value by reducing costs and maximizing margins. It weighs short- and long-term goals, divestitures and acquisitions, risks and rewards of investments, and forecast and actual results, aligning each component with the same end goal of achieving sustainable growth and value for Encana shareholders.

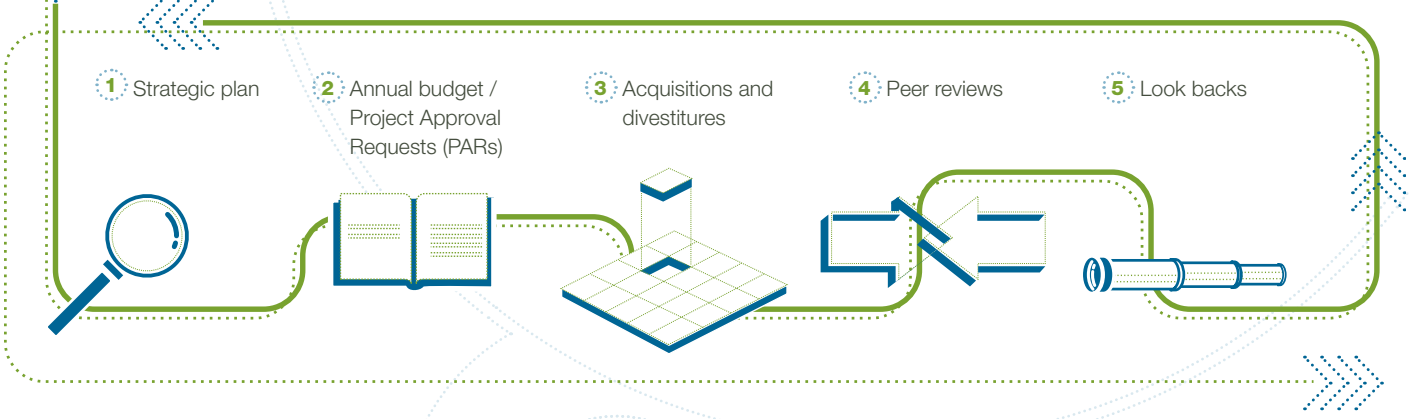
1 STRATEGIC PLAN

The strategic plan looks closely at the company's overarching strategy by focusing on each operating division's resource assessments. This is a detailed, bottom-up examination of each operating area's drilling inventory, right down to type curve analysis and cost structures. This plan forms the basis for establishing long-term goals and for the second phase of the portfolio process, Encana's annual budget.

2 ANNUAL BUDGET / PROJECT APPROVAL REQUESTS

When the annual budget is set, there are both economic hurdles that must be met prior to investment and qualitative considerations that underscore the company's investment decisions. "It's about measuring our strategic assets – those resource plays that are very young with many years of growth ahead – and our developed assets that generate strong returns today," says Code.

Encana's life cycle approach to portfolio management focuses on five key steps:



These considerations might include investments that must be made, such as drilling primarily to retain land and resources. With land retention – as in the Haynesville, for example – funds are invested today to hold the promise of development tomorrow. This is like investing in an education fund for your children's future – investing today for the promise of development tomorrow. Still in its formative years, Encana's Haynesville resource play produced an average of 303 MMcfe/d in 2010. This volume does not reflect its potential because recent investments were directed to land retention, rather than optimization of the assets. Over time this will change, because Encana's Haynesville asset has the potential to produce more than 1 Bcfe/d by 2014.

The selection of funded assets undergoes further scrutiny through the Project Approval Requests (PAR) process. This process allows operating teams to present their business plans for each asset. The PAR outlines the deliverables and economics for each asset, allowing for comparisons across the company. This screening process ensures capital is allocated efficiently and in alignment with Encana's goals and strategy.

"Encana has a diverse portfolio of high-quality/low-cost natural gas assets across Canada and the U.S. Encana's potential to double production volumes will increase shareholder value over time."

Andrew Fairbanks
Director, Canadian Energy Research,
Bank of America Merrill Lynch

"Deciding which projects are funded each year is an evolutionary process of continuous improvement that marries Encana's resource inventory with the overarching strategic direction for the company," says Code. "With an inventory as significant and robust as Encana's, there's always more in the hopper, always more opportunities that we might have funded given different circumstances. Encana's huge resource inventory, in part, is why it's so important that we high-grade our assets through an ongoing divestiture program."

3 ACQUISITIONS AND DIVESTITURES

Encana continually assesses and high-grades its asset portfolio through its acquisition and divestiture program. This third step in the portfolio management life cycle focuses on reducing supply costs and maximizing margins by divesting non-core properties that no longer fit future development plans or have higher costs. To this end, Encana divested a total of more than $880 million of assets in 2010. Encana also continually assesses potential acquisition opportunities that would high-grade its portfolio of assets and sharpen its focus on accumulating low-cost assets with growth potential.

4 PEER REVIEWS

Peer reviews and look backs occur throughout the year and work hand-in-hand to improve results and hold operating teams accountable for forecast results. Peer reviews foster a transparent, collaborative learning environment that facilitates knowledge-sharing and innovation among company leaders and technical teams. People from different areas of expertise – geology, engineering, geophysics, finance – roll up their sleeves to analyze development plans. This results in a compressed learning curve in areas such as new project development and the ability to accelerate understanding of the potential implications of technological innovation. "Knowing what new technical developments are working in the Haynesville in Louisiana to optimize recoveries or reduce capital or operating costs may provide an important insight into what might work better in the Horn River in northeastern British Columbia, or vice versa," says Code. This knowledge-sharing, in turn, forms the basis for continuous improvement and optimization of company operations, while simultaneously assisting with cost reduction.

5 LOOK BACKS

Encana's portfolio management process involves looking back on each project that received approval and comparing forecast and actual results. Tracking forecast to actual results allows Encana to look for trends in its investment decisions to compare those trends across the entire organization. This creates greater consistency in forecasting – a grounding in reality that reinforces strategic direction and provides increased confidence in the company's ability to achieve its goals.

Executive Vice-President & Chief Financial Officer

SHERRI BRILLON

why invest in encana / because we

ANSWER THE **TOUGH FINANCIAL QUESTIONS**

/ Q & A WITH SHERRI BRILLON

Financial stewardship has always been and will remain at the forefront of Encana's investment decisions as the company pursues a sustainably higher growth rate. Continued focus on cost reduction and operational efficiencies will deliver even greater shareholder value in the future. Sherri Brillon, Encana's Chief Financial Officer, is charged with stewarding the company's balance sheet as it works towards its growth targets. The following is a Q & A with Sherri.

Credit Ratings
(as at December 31, 2010)

Senior Unsecured Debt
Strong investment grade credit ratings
Moody's – Baa2, stable
S&P – BBB+, stable
DBRS – A (low), stable

Q / If low natural gas prices persist throughout 2011, will the execution of Encana's 2011 capital commitments come at the expense of capital discipline?

A / Capital discipline is a cornerstone of our business strategy. This means that even in a low natural gas price environment, we plan to steward to the same financial metrics and preserve the strength and flexibility of our balance sheet.

We target the company to have a debt to capitalization ratio of less than 40 percent and a debt to adjusted EBITDA of less than 2.0 times. As of December 31, 2010, Encana's debt to capitalization ratio was 31 percent and debt to adjusted EBITDA was 1.4 times, on a trailing 12-month basis. Additionally, all of Encana's outstanding debt at year-end 2010 was comprised of long-term, fixed rate debt, with an average remaining term of about 13 years.

The strong financial position at year-end 2010 not only puts us in a good position to fund our 2011 program, but it will also allow us to respond quickly when the pricing environment improves.

As well, we have a number of other levers at our disposal which include the following three:

- First, we entered 2011 with $0.6 billion in cash and cash equivalents and $5.1 billion undrawn and available under our committed bank credit facilities.
- Second, we have hedged about 50 percent of our expected 2011 daily natural gas production at an average price of $5.75 per Mcf (as at January 31, 2011). Hedging helps provide greater certainty to our cash flow, thereby allowing us to execute more consistently on our capital and operating programs and fund our projected dividend.
- Third, we have approximately $300 million in joint venture capital that partners have committed to invest on Encana's behalf for 2011. Leveraging third-party capital allows us to lower our costs, increase capital efficiencies and bring value recognition forward sooner through increased development activity.

Q / What is your approach to share purchases?

A / Encana plans to achieve significant production per share growth over the next several years. This per share growth is typically achieved through production increases and by using proceeds from divestitures of producing assets to purchase shares. We continually seek to high-grade our portfolio by divesting non-strategic assets. Where appropriate, the use of proceeds from divestitures to purchase Encana shares allows us to offset the decrease in per share production that results from the sale of those assets.

In 2010, we purchased approximately 15.4 million common shares at a total cost of about $500 million, reducing the number of shares outstanding to about 736 million as at December 31, 2010. Under our current Normal Course Issuer Bid, Encana has the ability to purchase up to 36.8 million, or approximately 5 percent, of the common shares that were outstanding at November 30, 2010.

cash flow of $6 per common share diluted

$0.80 per share 2010 annual dividend

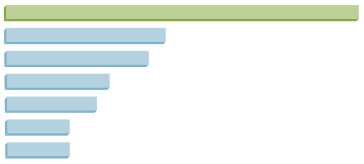
Q/ Is Encana considering lowering its dividend in this low natural gas price environment?

A / The dividend is an integral component of Encana's strategy to deliver value to our shareholders. The distribution of a strong, stable dividend reflects the confidence that we have in the long-term profitability of our assets and our business model. With a dividend yield of approximately 2.7 percent based on an NYSE closing share price of $29.12 as of December 31, 2010, our dividend yield is about twice that of our peer group average. Dividend payments are at the discretion of the Board of Directors and are assessed on a quarterly basis. In 2010, our dividend payments represented an approximate $590 million payout to our shareholders.

Q/ Why is Encana's DD&A expense higher than many of its U.S. peers?

A / This is primarily a result of differences between full cost accounting under Canadian Generally Accepted Accounting Principles (GAAP) and United States (U.S.) GAAP. Both sets of accounting principles require tests to be performed where unamortized capitalized costs (property, plant and equipment (PP&E)) are compared to prescribed calculations of the value of reserves quantities. If total PP&E exceeds the value of reserves quantities, then it is written down to the value of those reserves. The primary difference in calculating the value of reserves is that Canadian GAAP utilizes forecast commodity prices on an undiscounted basis whereas U.S. GAAP requires the use of historical prices which are on a discounted basis. As a result, some of our U.S. peers have recorded significant cost write-downs due to declining commodity prices experienced in 2008 and 2009 and, consequently, have lower depletion rates resulting in decreases in depletion, depreciation and amortization (DD&A) expense going forward. To illustrate, under Canadian GAAP Encana's 2010 net earnings are reported as $1,499 million ($2.03 per share) while under U.S. GAAP it would be $2,343 million ($3.17 per share) with the greatest impact being associated with DD&A. For more detail, impacts on Encana's results utilizing U.S. GAAP accounting methods have been disclosed in Note 21 of our Consolidated Financial Statements to provide readers with improved comparability to our U.S. peers.

ATTRACTIVE DIVIDEND, STRONG YIELD
2010 ANNUAL DIVIDEND OF $0.80/SHARE



Peers include Anadarko Petroleum Corp., Apache Corp., Chesapeake Energy, Devon Energy, EOG Resources Inc. and Talisman Energy Inc.

As at December 31, 2010

We expect Encana's depletion rate to trend downward over time due to the lower-cost nature of our current and future development programs.

Q/ Can you explain why you focus on operating earnings versus net earnings?

A / We believe that operating earnings, rather than net earnings, are a better measure of the company's financial performance. Encana's net earnings are inherently volatile due to unrealized gains or losses as a result of mark-to-market accounting for commodity price hedging and foreign exchange fluctuations.

With respect to commodity price hedging, unrealized gains or losses as a result of mark-to-market accounting reflects the estimated change in value of outstanding hedge positions from period to period. This includes changes in the value of outstanding contracts due to volatility in commodity prices, the reversal of previously recognized gains or losses that are realized during the current period, as well as any future estimated gains or losses from commodity price changes on positions entered into during the current period. Unrealized mark-to-market gains or losses after tax are included as part of net earnings, which management believes reduces the comparability of the company's underlying financial performance between periods.

U.S./Canadian dollar exchange rate fluctuations also add volatility to net earnings because of the change in value of Encana's Canadian held U.S. dollar denominated debt.

Unrealized gains and losses do not represent actual cash movements. In calculating operating earnings, the effects of unrealized gains and losses after tax are removed from net earnings, resulting in a better representation of the company's earnings performance.


A promising play becomes
a proven legacy.
Our latest major land acquisition in southeast Texas, named the Brent Miller Field, honours a late employee whose work embodied our reputation as a first-mover on promising opportunities. Attracting, retaining and honouring the best and brightest people, as staff, contractors and service providers, is at the heart of our business strategy. **Take a closer look. We are Encana.**
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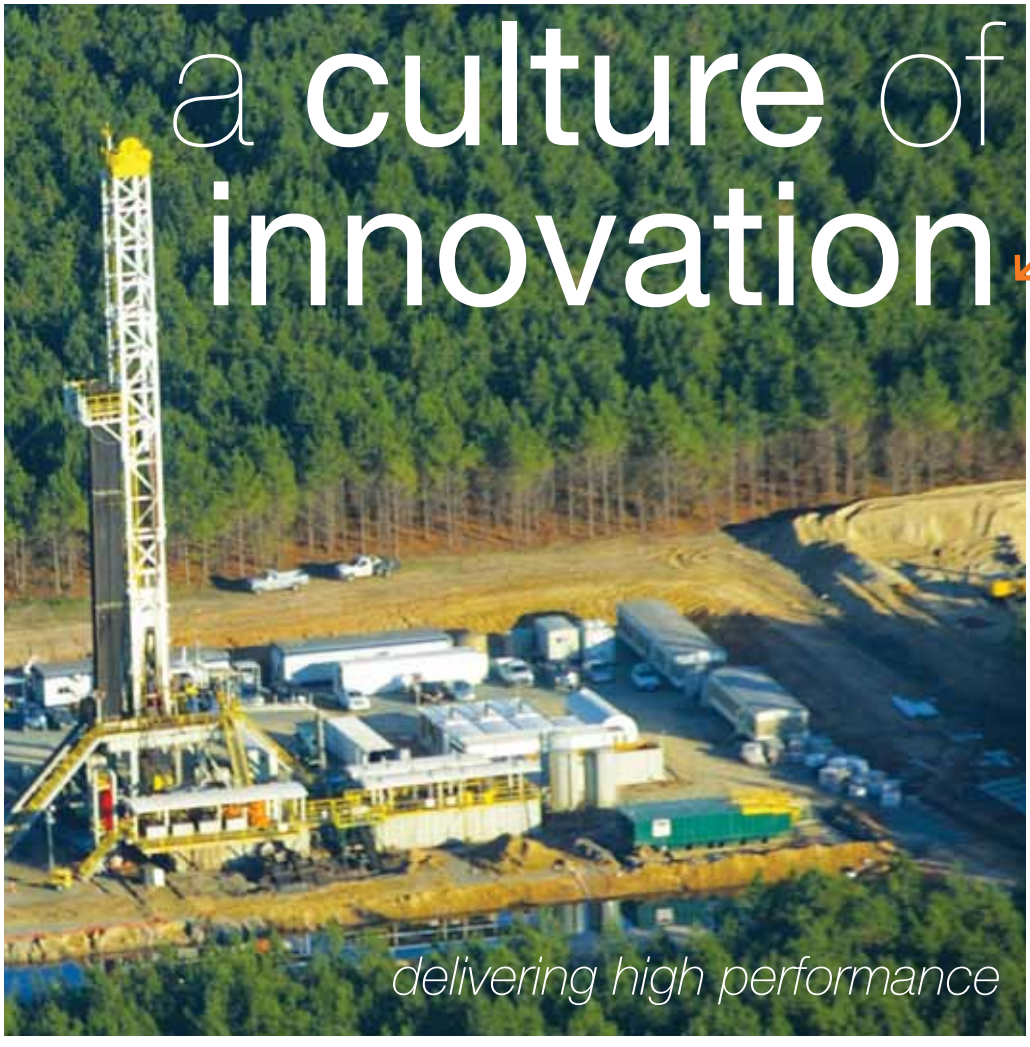
natural gas
Learn more about natural gas and Encana at **www.encana.com**

a culture of innovation



RESOURCE PLAY HUB EVOLUTION
/ CONTINUOUS IMPROVEMENT /24

COMPLETION COSTS DROP 60 PERCENT
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COST SAVINGS IN THE HAYNESVILLE
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PIONEERING A MODEL
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Encana's resource play hub strives to reduce operating and capital costs while continually improving operating efficiencies to maximize the margins realized on every single gas molecule produced.

COMPANY-WIDE COLLABORATION
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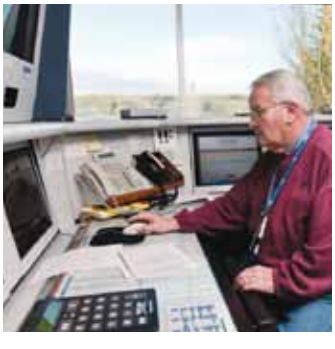
www.encana.com/operations/hub/



TECHNOLOGY IN ACTION
/ HAYNESVILLE GEOLOGICAL OPERATIONS PILOT PROJECT /28

a culture of innovation / we are working at

PIONEERING A MODEL

/ WHERE INNOVATION AND EFFICIENCY MEET

Encana's resource play hub model strives to reduce operating and capital costs while continually improving operating efficiencies to maximize the margins realized on every single gas molecule produced. Implemented across Encana's entire North American asset portfolio, the resource play hub is an innovative and efficient production model tailor-made to reduce natural gas production costs and environmental impact.

WHAT IS A RESOURCE PLAY HUB?

A resource play hub is created when multiple deviated or horizontal wells are simultaneously drilled, completed, tied in and produced from a single surface location, or pad, where Encana, along with its service providers, can optimize every part of the process. The resource play hub toolbox includes fit-for-purpose drilling and hydraulic fracturing equipment, standardized processes, new technology innovation, peer reviews and vendor contracts aligned with efficiency gains. Encana's first resource play hub was pioneered in the Piceance Basin in 2005 where, due to challenging topography, a single pad with 52 deviated vertical wells was developed. Company-wide expertise has advanced so much since then that a single resource play hub in the Horn River, for example, is designed to drain an area of about four to six square miles. At the heart of this design are 16 long reach, multi-stage horizontal wells with roughly 440 hydraulic fractures in total, where each fracture essentially functions as a vertical well would, but at a fraction of the cost.

"Encana's razor-sharp focus on driving down its cost structure via its gas manufacturing process is right on the mark."

Greg Pardy
Managing Director,
Co-head, Global Energy Research
RBC Capital Markets

How a resource play hub ultimately operates, or even looks, varies depending on the unique geological and above-ground features existing at each of Encana's plays. The fundamental goals of all resource play hubs, however, remain unchanged: per unit cost reduction, a focus on efficiency gains and further innovation combined with minimal surface disturbance. This highly disciplined approach has already begun to pay off; in 2010, Encana reduced overall operating cost guidance by more than 10 percent while its corporate supply cost – the flat NYMEX gas price that yields a 9 percent after-tax rate of return – fell to $4.05 per Mcf.

"Learning in parallel equals an accelerated rate of production. Through sharing and collaboration, seeing what works for other teams and what doesn't, each team can increase the efficiency of its own resource play hub through the knowledge accrued and shared company-wide. As a concept, the resource play hub is very much about tapping into the talents and expertise of our people."

Mike Graham
Executive Vice-President &
President, Canadian Division

Along with reducing costs and optimizing efficiencies, Encana's resource play hubs are designed to improve environmental and safety performance. This disciplined method means rigs and hydraulic fracturing crews need only travel a short distance from task to task, while supplies can be delivered in bulk to centralized resource play hub locations. The net result is enhanced environmental and safety performance markers – reduced vehicle traffic and emissions, less movement of fluids and chemicals, suppression of dust – which, when taken together, demonstrate the resource play hub's importance in maintaining Encana's social licence to operate. In the North Louisiana operating area, to cite one example, driving and injury risk has been reduced by 83 and 66 percent, respectively, for drilling and completion due to decreased heavy truck trips.

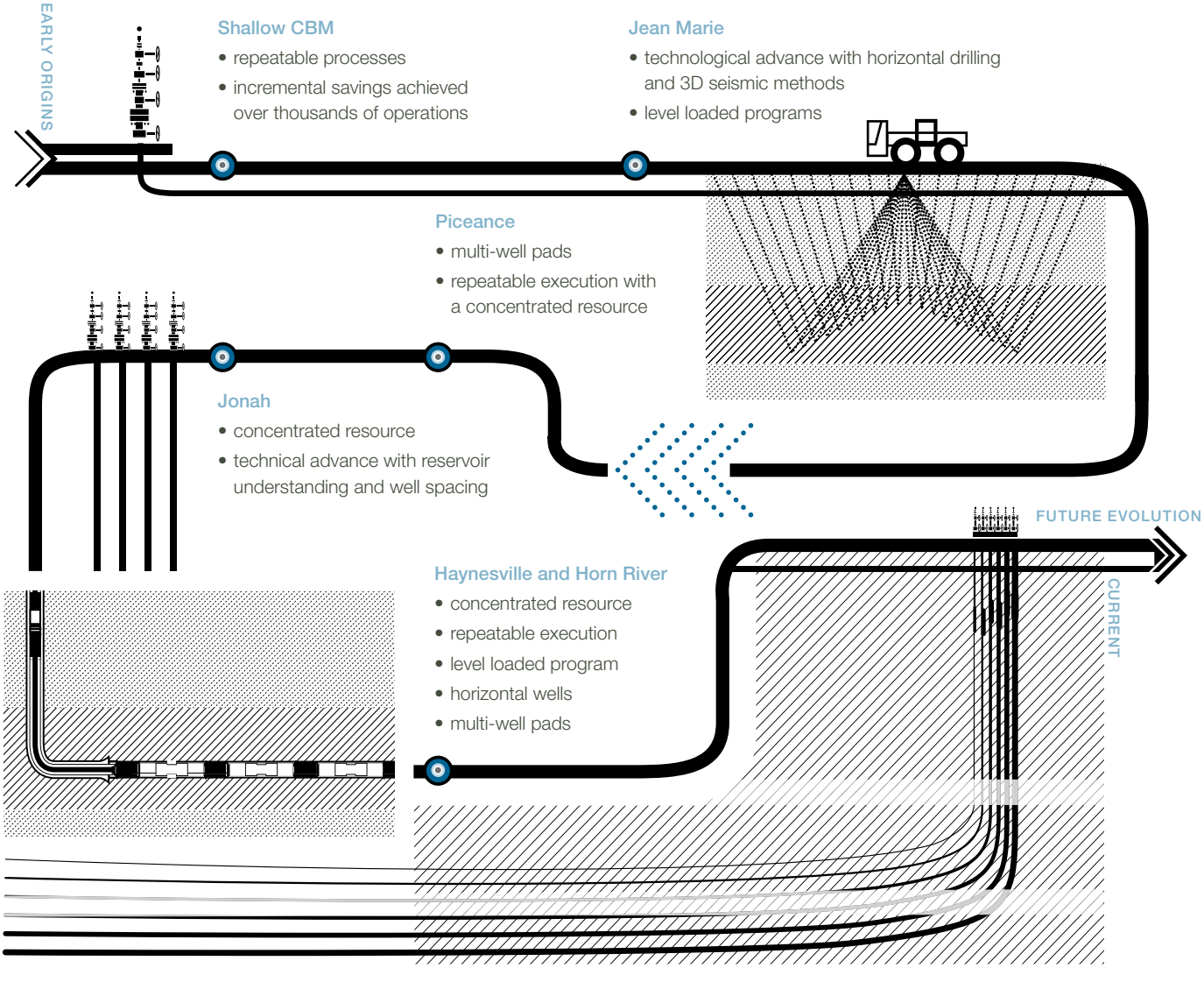
THE RESOURCE PLAY HUB OF THE FUTURE

Most cost improvements to date using the resource play hub model have resulted from below-ground technical advancements. There remains tremendous opportunity to optimize and streamline the above-ground equipment and logistics, with possible further savings achieved by converting fee-for-service mobile equipment into a centralized facility. In much the same way Encana developed fit-for-purpose drilling equipment a few years ago, the company has engaged industry players to develop fit-for-purpose completions equipment that is designed and optimized for specific reservoir characteristics. In the Haynesville for example, where Encana is drilling high-pressure/high-temperature wells, equipment that is durable enough to sustain a 24-hour per day fracturing operation is needed. Simultaneous with this initiative, Encana is working with service providers to establish longer-term work commitments that provide equipment and crew certainty, efficiency and cost advantages, as well as control and direction of environment, health and safety standards.

RESOURCE PLAY HUB **EVOLUTION**

/ CONTINUOUS IMPROVEMENT

Resource play hub has been pioneered by Encana through decades of innovation and knowledge-sharing.



Resource play hub's physical characteristics evolved from early origins in southern Alberta shallow gas wells to the 21st-century model of natural gas production, a model sure to evolve in coming years as innovations and efficiencies are added through technical expertise and knowledge-sharing.

a culture of innovation / developing efficiencies

COMPLETION COSTS DROP 60 PERCENT

/ THE HORN RIVER SHALE

In the Horn River of northeastern British Columbia, the resource play hub approach was implemented immediately after the successful completion of a 2009 down-spacing pilot project that tested the commerciality of pad development.

Building on this successful initiative, Encana's 2010 Horn River program was designed to drill long reach, multi-stage horizontal wells that ultimately developed more of the resource, more efficiently, at a lower cost and all from a single surface location.

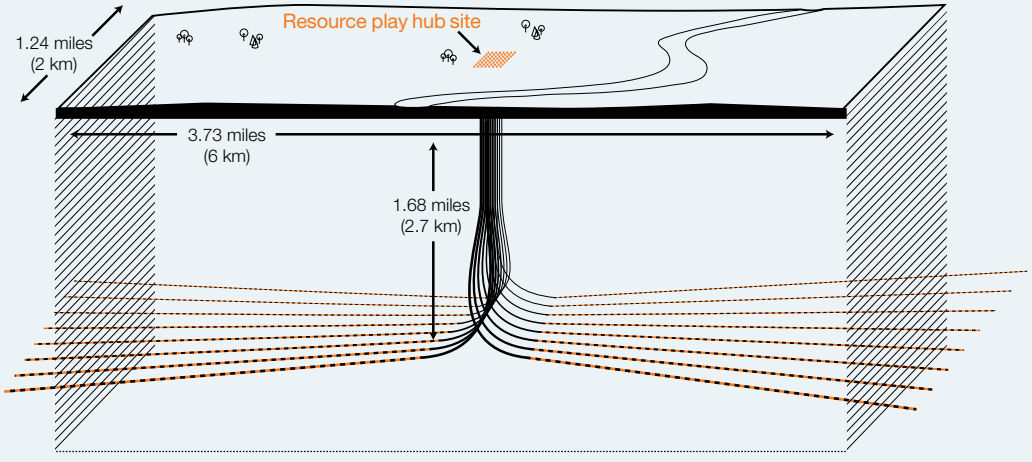
"We have seen our costs drop dramatically as we have moved into the resource play hub process. On the drilling side, we have reduced our total unit costs of horizontal lateral length by more than 45 percent through an integrated team approach, better bit selection and continuous improvement," says Kevin Smith, Vice-President of the Fort Nelson Business Unit & Canadian Unconventional Gas Exploration.

Lowering the cost per lateral foot drilled is one half of the recipe for efficiency. The other half focuses on continuous operations. Due to Horn River's remoteness and minimal surface constraints, resource play hub application in the play means 24-hour operations, centralized, modular facilities and full use of on-site horsepower for completions. This systematic approach allows for year-round operations, despite harsh winters in the northern locale that have historically slowed activity.

"On the completions side, costs have dropped almost 60 percent over the past three years to an actual 2010 completion cost per fracture of about $450,000. The main drivers have been more hydraulic fractures per pad and 24-hour operations to spread out the fixed costs, having an inventory of fractures ready to pump to avoid non-productive time and the use of a subsurface, non-potable water source."

Kevin Smith
Vice-President, Fort Nelson Business Unit
& Canadian Unconventional Gas Exploration

HORIZONTAL MULTI-WELL PAD
REDUCING THE SURFACE IMPACT: GAINING OPERATIONAL EFFICIENCY



/ 1 acre of surface disturbance to access 164 acres of reservoir.

/ The pad site at 984 x 820 feet (300 x 250 metres) is about 18 acres.

/ On the current pad we will drain 4.6 sections or 2,950 acres of reservoir.

/ 25 fracs x 16 wells = 400 fracs from one pad.

COST SAVINGS IN THE **HAYNESVILLE**

/ SETTING ENCANA APART

Three unique aspects of Encana's operations in the Haynesville set the company apart from its competitors – drilling efficiencies, the Design of Experiment process and hydraulic fracturing efficiency.

DRILLING EFFICIENCIES

The resource play hub multi-well pad approach in key areas of the Haynesville has resulted in significant drilling cost reductions. In the Mid-Continent Business Unit's focus area in Red River Parish, wells drilled in 2009 averaged $5.8 million to case and suspend versus $5.2 million in 2010, a 10 percent reduction. Likewise, in the De Soto Parish focus area, teams averaged $5.2 million in 2009 to case and suspend, compared to $4.6 million in 2010, an 11 percent reduction. These significant cost reductions are attributed to several key efficiencies and performance gains. Multi-well pads used in conjunction with Encana's fit-for-purpose rigs with skidding capability have reduced the overall surface footprint and pad cost, and enabled a batch-set approach to drilling as well as a skidding alternative to traditional rig moves. Managed-pressure drilling has resulted in significant rate of penetration increases, reducing spud to rig release times by three to five days.

DESIGN OF EXPERIMENT

Haynesville completion designs have continued to be optimized through the use of the Design of Experiment (DOE) process, which requires tight control on certain completion parameters while systematically varying others to determine their impact on well performance. The resultant standardized completion design delivered a significant improvement in cost management, contributed to increased operational fracturing efficiency and increased the estimated ultimate reserves or recovery (EUR) by 9 percent per 1,000 feet of lateral length. It also resulted in the use of less expensive proppant without observing any detrimental effects on EUR, reducing proppant costs by more than 45 percent.

HYDRAULIC FRACTURING EFFICIENCY

In 2009, Encana pumped 420 stages in the Haynesville with an average of one hydraulic fracturing crew. In 2010, 1,560 stages were pumped with an average of two crews. Among the reasons for this gain in efficiency were equipment move times decreased by more than 60 percent, pump-down times were reduced by 45 percent and operational non-productive times were cut by 20 percent. Through these and other initiatives, the number of stages pumped per month increased 105 percent from 82 in January to 168 in December while utilizing two crews throughout the year.

Through the combination of successfully implementing the DOE and the hydraulic fracturing crew efficiency improvements, a 122 percent price increase in services and product was held to a modest completion cost increase of 5 percent per 1,000 feet completed.

a culture of innovation / *vibrant teamwork*

COMPANY-WIDE **COLLABORATION**

/ KNOWLEDGE-SHARING

Formed in 2010 as a subgroup of Encana's Shale Technology Exchange Partnership (STEP), Encana's resource play hub team is helping to drive a dramatic shift in an already vibrant knowledge-sharing culture. Cross-border collaboration – peers sharing knowledge and experience – is this team's mandate. "We have to recognize that the only way we're going to be the lowest-cost producer in North America is by cross-border collaboration and sharing of new knowledge and best practices," says Mark Taylor, Horn River Team Lead and leader of the STEP resource play hub subgroup.

While healthy competition between business units drives continuous improvement at each of Encana's resource plays, sharing technology, innovation and knowledge via peer reviews is embedded in the company's culture and business practices. This culture of collaborative learning has been further enhanced when the resource play hub subgroup recently nominated top company talent to lead the inaugural Go Team, a formal working group comprised of experienced personnel with the primary purpose of expediting resource play hub operations.

The Go Team made its first stop in the Mid-Continent Business Unit's Texas Sabine operating area. In North Louisiana (NLA), the Haynesville play has seen significant advancement in the resource play hub model. Go Team members spent one day in NLA visiting active resource play hub locations, then one day in Sabine visiting three locations. The Go Team shared its members' expertise with the Sabine team and left with knowledge and perspective from both NLA and Sabine that, in turn, may also be applied elsewhere in the company, the Horn River or the Montney, for example.

"We saw the spirit of partnership and knowledge exchange come full-circle. The Piceance has a mature resource play hub program and they helped us get the Haynesville going. After coming back to help again, they were able to discover some modifications that would increase efficiencies in their own process. This was very gratifying for both programs."

Jeff Wojahn
Executive Vice-President & President, USA Division

COLLABORATION, KNOWLEDGE-SHARING AND INNOVATION

"A key goal for Encana is to accelerate the pace of learning and to drive down the supply cost of our resource play hubs. Although each of these plays will require a unique development approach to maximize value creation, they have more similarities than differences. As a result, the concepts and operating practices around execution efficiency, integrated supply management strategies and technology improvements span the corporation. It is imperative that we harness the collective ideas, expertise and talents of our people across the organization. We are transferring and sequentially implementing our successes across the company in real time. This teamwork is essential in order to keep Encana at the leading edge of performance," says Wojahn.

Encana divides resource play hub initiatives into three levels: the micro level, which addresses pad development; the macro level, which focuses on the entire field development and resources for key initiatives, such as water management; and the enterprise level, which strengthens an already strong culture of knowledge-sharing across plays.

a culture of innovation / sharing knowledge

TECHNOLOGY IN ACTION

/ HAYNESVILLE GEOLOGICAL OPERATIONS PILOT PROJECT

Initiated as a joint effort between Haynesville and Horn River geologic staff, the Haynesville geological operations pilot project highlights the knowledge-sharing that takes place across Encana's resource plays and are central to the resource play hub.

In a structurally complex play such as the Haynesville, characterized by faulting and large dip changes, 24-hour, seven-day geological monitoring manages and often eliminates problems that can lead to out-of-zone drilling and decreased production. It amounts to an extra set of eyes that helps to decrease costs and improve production rates.

The main objective is to better manage the high rig count and create standard procedures for geological input during the drilling of wells. In the Haynesville, well path changes are often required with little advance notice and are based on real-time data.

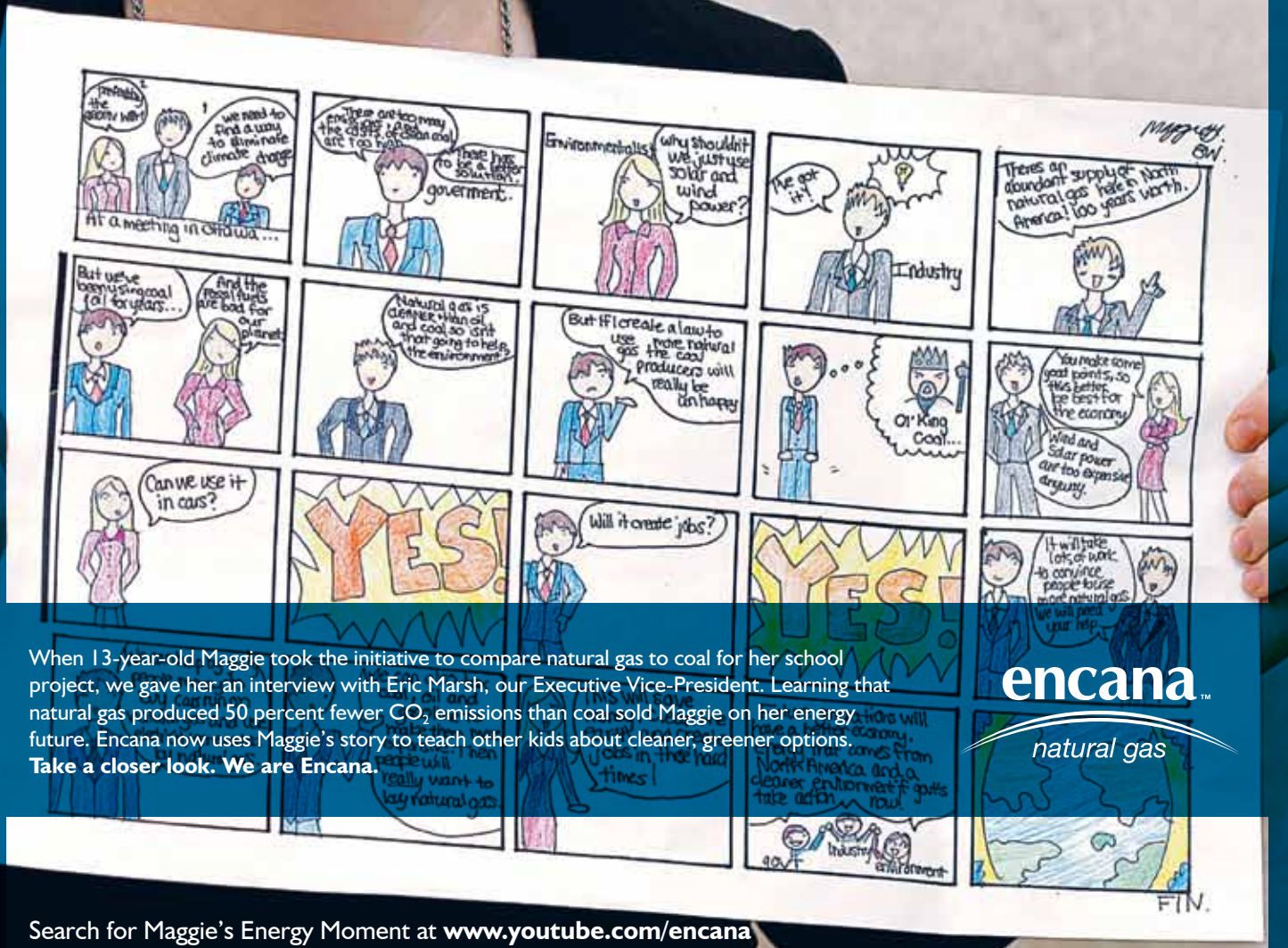
Well monitoring takes place via a remote geological steering centre in Calgary, complementing the on-site monitoring by the Haynesville geologic staff. The pilot project initially ran eight rigs from the Calgary control room, expanding its support function to running 24 Haynesville rigs in 2010, while at the same time providing well monitoring for Encana's Michigan Collingwood Shale play drilling team.

Success measurements of the pilot project include:

- better communication between geology and drilling
- fewer operational issues with wells
- reduced drilling time and costs

We've always on the lookout for

fresh talent.



When 13-year-old Maggie took the initiative to compare natural gas to coal for her school project, we gave her an interview with Eric Marsh, our Executive Vice-President. Learning that natural gas produced 50 percent fewer CO_2 emissions than coal sold Maggie on her energy future. Encana now uses Maggie's story to teach other kids about cleaner, greener options. **Take a closer look. We are Encana.**

encana™

natural gas

Search for Maggie's Energy Moment at **www.youtube.com/encana**

the natural gas economy

meeting the need for cleaner fuel

THE COMMON SENSE ALTERNATIVE / CLEAN AND AFFORDABLE /31

Encana's Natural Gas Economy team made significant progress in 2010 along the road to creating a cleaner, more economically viable energy future powered by natural gas.

CANADIAN NATURAL GAS VEHICLE SUMMIT / SHOWCASING THE NEXT TRANSPORTATION FUEL /33

RED RIVER CNG FILLING STATION / MAKING NATURAL GAS ACCESSIBLE /34

CHANGES IN POLICY / REPLACING COAL WITH NATURAL GAS /36

HITTING THE ROAD WITH LNG TRUCKS / CLEANER AND MORE AFFORDABLE /35

INSIDE THE ENERGY INDUSTRY / DRILLING FOR GAS WITH GAS /34

COAL RETIREMENT MOMENTUM /36

Endnotes in articles can be referenced on page 135.

www.encana.com/operations/gas/

THE **COMMON SENSE** ALTERNATIVE

/ CLEAN AND AFFORDABLE

The mandate of Encana's Natural Gas Economy team is to showcase, through advocacy and pilot projects, that natural gas is the domestic solution for a secure energy future, a common sense, economic alternative for transportation and power generation.

"As the cleanest-burning fossil fuel, natural gas represents an affordable, readily available source of energy that allows us to hit the ground running as we aim to achieve the emissions reduction targets our society has set. Tapping into the vast reservoirs of North America's natural gas supply – a supply estimated to last 100 years [1] or more based on current consumption rates – will strengthen the domestic economy and wean us off of foreign oil. Natural gas makes sense for the environment and the economy in meeting North America's growing energy needs."

Eric Marsh
Executive Vice-President, Natural Gas Economy & Senior Vice-President, USA Division

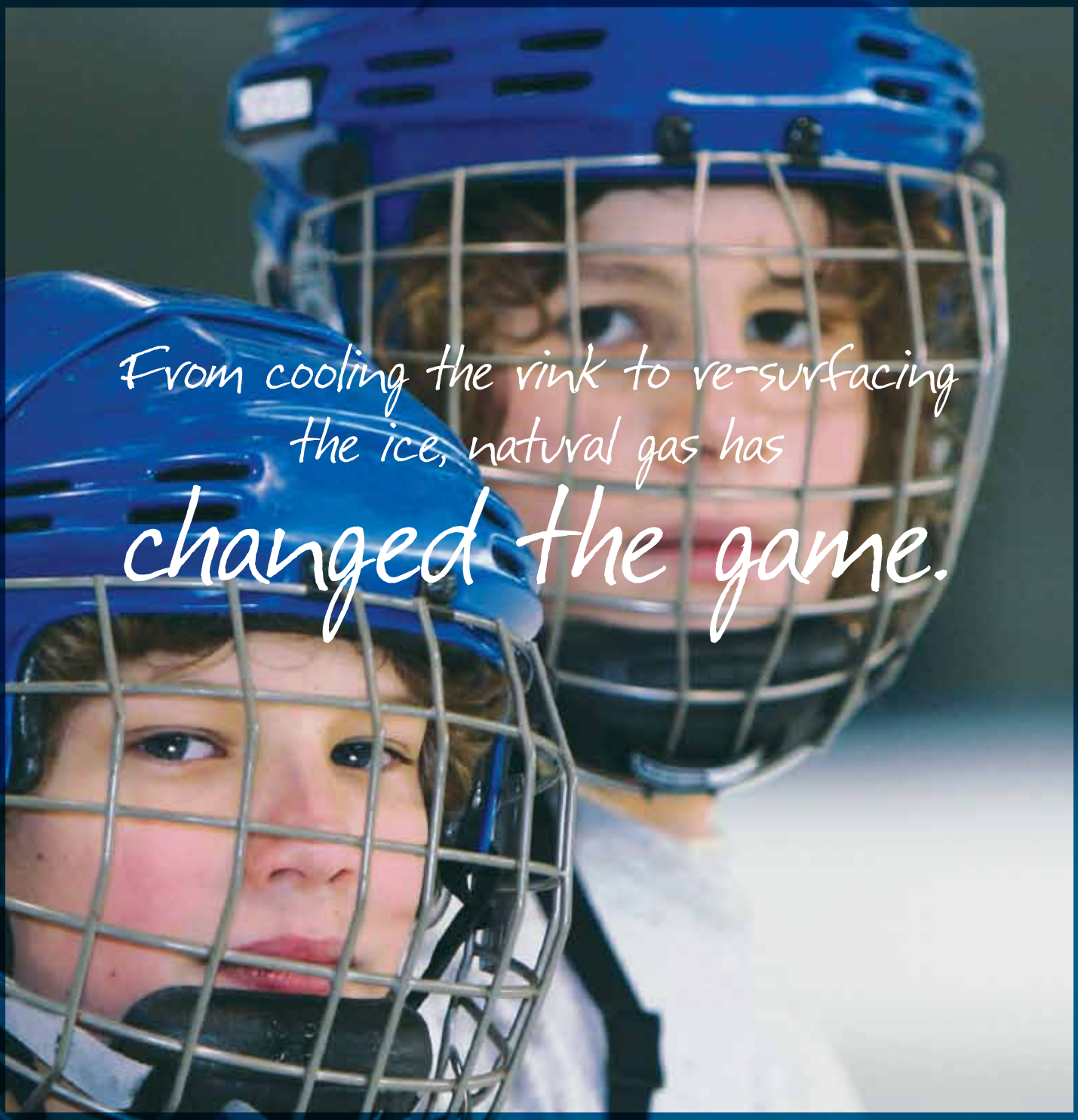
Encana's Natural Gas Economy (NGE) team made significant progress in 2010 along the road to creating a cleaner, more economically viable energy future powered by natural gas.

Through both grassroots community efforts and high-level discussions with key policy-makers, the team has strengthened the building blocks of a new energy portfolio for North America, one that is cleaner for the environment. What are the economic benefits of this new portfolio? In building new infrastructure and creating new markets for natural gas, these projects are also contributing to stronger economies in Canada and the United States. Every one percent increase in natural gas production creates up to 35,000 [2] jobs. In addition, the vast domestic abundance of natural gas offers a secure, made-in-North America energy solution, potentially reducing foreign oil dependence and the massive wealth transfer these imports entail. Displacing oil for transportation purposes could positively impact the North American trade balance by a staggering average of $160 billion every year. [3]

Encana is committed to leading by example by converting its own vehicle fleets to natural gas and building the necessary filling stations to demonstrate the fuel's utility as a transportation alternative. To this end, the company has already witnessed a shift in the transportation sector, including recent initiatives by major trucking companies interested in converting their fleets to this safe, more affordable and cleaner fuel alternative.

In addition to its own fleet of natural gas vehicles, Encana continues to walk the talk in all aspects of its operations. In a truly reciprocal relationship, Encana also uses natural gas to power drilling rigs in some areas and to meet some of its power generation requirements, as detailed in the series of stories on the following pages. Encana has taken a leading advocacy role to make natural gas the centrepiece of North America's energy portfolio. The potential resulting legislation points the way forward for cleaner-burning natural gas to replace coal as the preferred fuel in the power industry.

The education and advocacy efforts of the NGE team have been undertaken on a simple premise; namely that natural gas makes the most sense as North America's fuel of choice.
It makes the most sense in terms of job creation and added value to the North American economy. It makes the most sense as the preferred fuel for transportation and power generation to dramatically reduce greenhouse gases. And it makes the most sense both environmentally and to consumers' pocketbooks. With all these factors considered, natural gas makes the most sense as a sustainable energy solution for future generations.



From ice chillers to plastics to polyester fibre, natural gas is an unignorable part of your everyday life. Modern manufacturing processes turn this clean, affordable, abundant resource into solid products – building both innovation and economic stability. Meeting growing global demand calls for new ways of looking at things. **Take a closer look. We are Encana.**

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natural gas

Learn more about natural gas and Encana at **www.encana.com**

CANADIAN **NATURAL GAS** VEHICLE SUMMIT

/ SHOWCASING THE NEXT TRANSPORTATION FUEL

opportunities for market growth

The transportation sector is the single largest contributor to greenhouse gas emissions, making it all the more urgent to create a low-carbon economy based on natural gas.

Dropping the emissions odometer and fueling the North American economy were the key themes driving the inaugural Encana-hosted Canadian Natural Gas Vehicle (NGV) Summit held in Calgary on October 28, 2010.

The first of its kind in Canada, the summit attracted more than 100 delegates from municipalities, the service sector, upstream oil and gas producers and trucking companies.

The event focused on market growth opportunities in a Canadian transportation sector predominantly fueled by less environmentally friendly gasoline and diesel.

The shift to natural gas is already occurring in the transportation sector across North America, as seen in the examples below.

Government

- A report facilitated by Natural Resources Canada confirms policy-makers recognize the competitive and environmental advantages of natural gas usage in the medium- and heavy-duty transportation sector. The report, titled Natural Gas Use in the Canadian Transportation Sector Deployment Roadmap, brought together stakeholders from government and industry, including reps from Encana, to discuss strategies and recommendations for increasing natural gas usage.
- The Government of Quebec has introduced policies to foster a greener transportation future by offering incentives for trucks or tractors that run on liquefied natural gas (LNG).

Infrastructure

- The City of Los Angeles is currently building the largest LNG/LCNG station in the world to serve its growing fleet of LNG-powered vehicles.[4]
- Terasen Gas, the largest distributor of natural gas in British Columbia, will fuel the Vedder Transport natural gas fleet by constructing a LNG refueling station in Abbotsford, British Columbia in 2011.

Original Equipment Manufacturers

- For the eighth consecutive year, the American Council for an Energy-Efficient Economy named the Honda Civic GX natural gas car the Greenest Car of 2011, beating out other alternative-fuel cars like the Nissan Leaf and Toyota Prius.
- Two leading providers of alternative fuel systems for heavy-duty vehicles, FAB Industries and Enviromech Industries, merged to form Agility Fuel Systems, effectively combining their strength in innovation and safety.

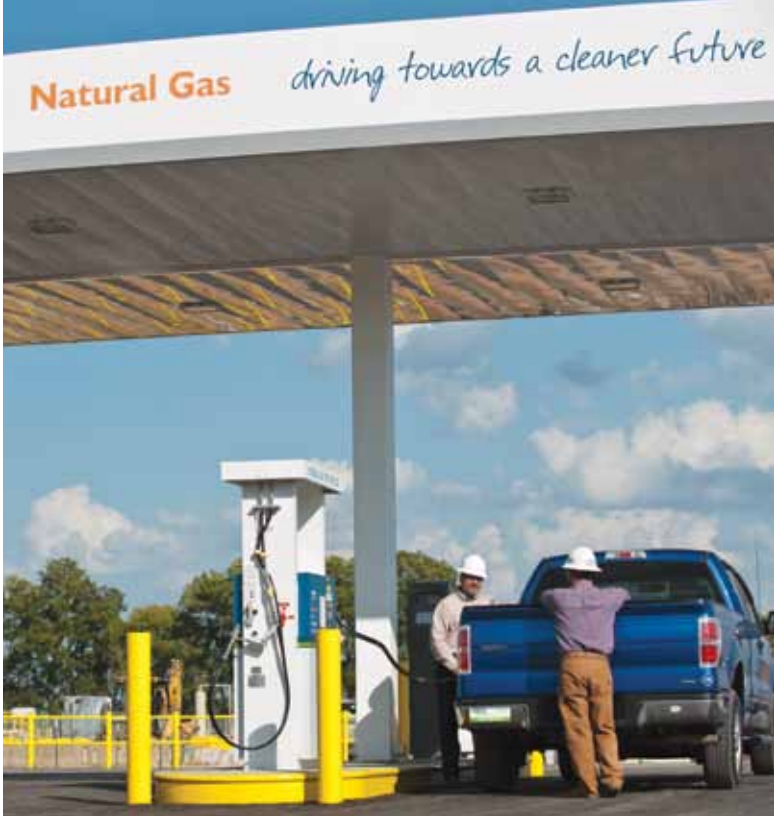
NGVs on the Road

- Twelve clean-burning compressed natural gas (CNG) Ford taxis serve the City of Chicago as a part of Taxi Medallion Management's goal of reducing emissions by 25 percent.[5]
- In January 2011, Dallas Area Rapid Transit unanimously approved the purchase of 452 buses powered by CNG. The buses will begin to serve Dallas and 12 surrounding cities in 2013.[6]
- In its continued efforts to reduce air pollution in one of America's smoggiest regions, LA County Metropolitan Transportation Authority retired its last diesel bus in January 2011.[6]
- In December 2010, The Kansas City Public School District purchased 47 Thomas Built HDX rear engine buses, powered by CNG.[7]
- In February 2011, UPS added 48 LNG 18-wheeler trucks to its hubs in Ontario, California and Las Vegas, Nevada. A rep from UPS said LNG is the only long-term and viable option to diesel.[8]
- The purchase of 50 Peterbilt 386 LNG trucks makes Vedder Transport Ltd., servicing southern British Columbia, one of the world's most environmentally clean transporters.
- Coinciding with Encana's inaugural Canadian Natural Gas Vehicle Summit in October 2010, Robert Transport purchased 180 Peterbilt LNG trucks from Westport Innovations Inc. (see story on page 35).

the natural gas economy / *building the infrastructure*

RED RIVER CNG **FILLING STATION**

/ MAKING NATURAL GAS ACCESSIBLE



Natural gas costs, on average, one-third less than conventional gasoline at the pump.[9] With more than 150 NGV models now being manufactured[10] and a growing network of fueling stations, NGVs are an ideal solution to North America's growing petroleum dependence.

Changing consumer habits when it comes to the transportation sector requires more than education and advocacy. Sometimes it involves building the necessary infrastructure to support a more sustainable energy equation, one that's good for the economy and the environment, as well as demonstrative of the practicality and accessibility of natural gas as a transportation fuel.

Such was the case on November 30, 2010, when Encana officially opened an NGV fueling station in Louisiana's Red River Parish. It's another example of Encana demonstrating through action on its mandate by making natural gas more accessible as a transportation fuel.

The Red River CNG Filling Station is the first of five that Encana plans to build to service its NGV fleet, the rest of which are scheduled to come on-stream in 2011.

Natural gas vehicles

There are currently more than 110,000 NGVs and 900 NGV fueling stations in the U.S., with more being added.[11]

NGVs work similarly to gasoline-powered vehicles but with one notable exception: enhanced safety.

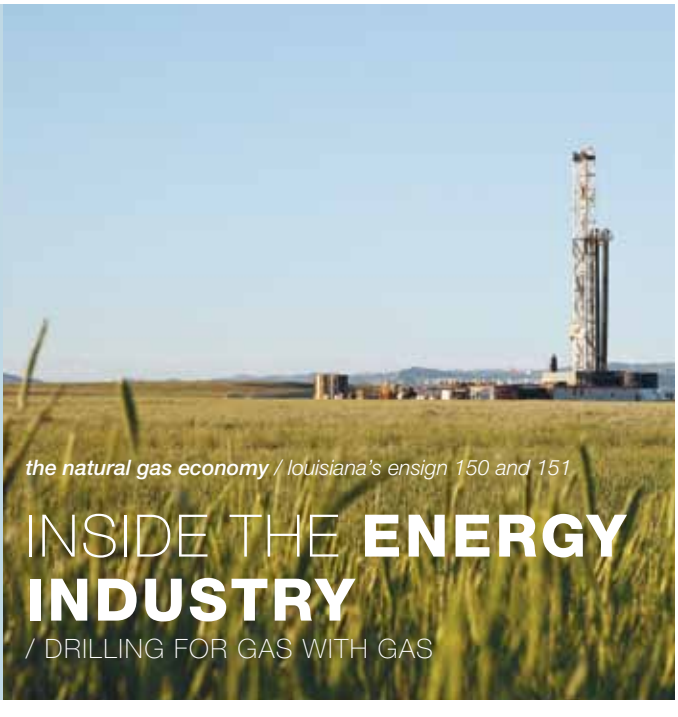
Unlike gasoline, CNG dissipates into the atmosphere in the event of a vehicular accident, rather than pooling on the ground and creating a potential fire hazard. In addition, the fuel storage cylinders used in NGVs are sealed to prevent any fuel spillage or evaporative losses.

Natural gas offers a more environmentally sound fuel to drive our cars, heat our homes and, in a truly reciprocal relationship, drill for more natural gas.

An innovative 2010 project in Encana's Mid-Continent Business Unit made the notion of running a drilling rig on the cleanest-burning fossil fuel go from pipe dream to reality in little more than a year.

Project leaders chose a portable system whereby fuel is trucked to drilling locations. The group used LNG, which at nearly 100 percent methane, offered the cleanest solution and allowed for sufficient on-site fuel amounts with a manageable footprint.

Ultimately, two rigs in Louisiana, Ensign 150 and 151, were deemed appropriate candidates for natural gas conversion. After six months of work, the first LNG system was completed in June 2010 and Ensign's generator skids were retrofitted with natural gas engines. The generator skids and LNG system then met in Mont Belvieu, Texas – and it was a match made in heaven. Testing ended July 20 and the equipment was moved to the Shreveport, Louisiana area. On August 27, the project recorded another milestone when Ensign 151, running on LNG, officially spudded a well in northern Louisiana.



the natural gas economy / *louisiana's ensign 150 and 151*

INSIDE THE **ENERGY INDUSTRY**

/ DRILLING FOR GAS WITH GAS

HITTING THE ROAD **WITH LNG TRUCKS**

/ CLEANER AND MORE AFFORDABLE

Natural gas is becoming a fuel of choice in the heavy-duty truck corridors of North America, which ship us the goods necessary for our daily lives. It's the common sense solution for the transportation sector to reduce emissions through the use of an affordable fuel – and this message has translated into meaningful actions.

On October 28, 2010, Westport Innovations Inc. (Westport) announced [12] it had received a purchase order from Robert Transport for 180 Peterbilt LNG trucks. All will be equipped with the Westport HD System, consisting of the GX 15-litre engine, proprietary Westport fuel injectors, LNG fuel tanks with integrated cryogenic fuel pumps and associated electronic components to facilitate robust performance and reliable operation.

Robert Transport, based in Boucherville, Quebec, is one of Canada's largest trucking-for-hire companies with an estimated 1,100 tractors and 2,300 employees. The new trucks will be used on line haul routes between Montreal and Quebec City, and Montreal to Toronto.

Fueling the new fleet is Gaz Métro Transport Solutions, a wholly owned subsidiary of Gaz Métro, Quebec's main natural gas distributor. The company plans to install three LNG filling stations along the Ontario-Quebec 401/ Highway 20 corridor – a critical first step in realizing Encana's vision for an NGV highway network in Canada. This eastern thoroughfare would complement an envisioned western NGV highway network linking the cities of Calgary, Edmonton and Vancouver.

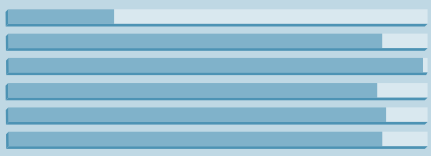
"This is the single largest order for LNG trucks powered by Westport HD. It's evidence that natural gas is gaining momentum as a mainstream transportation fuel in Canada."

David Demers
CEO, Westport Innovations Inc.

"Operating natural gas trucks helps reduce one of our largest input costs and reduces our carbon footprint. This is a win-win for both the environment and our company."

Claude Robert
President & CEO, Robert Transport

CLEANER, HEALTHIER AIR
EMISSIONS REDUCTIONS FOR NATURAL GAS VEHICLES



Source: NGVAmerica, Encana estimate, Environmental Protection Agency (EPA)

Natural gas travelling roadshow

During the spring and summer of 2010, Encana teamed up with Westport to stage a travelling roadshow on the merits of natural gas as a transportation fuel. An 18-wheel, heavy-duty truck fueled entirely by LNG was displayed at various stops in Colorado, Utah, Kansas and Wyoming, racking up nearly 3,500 miles (5,633 kilometres) during its four-month tour.

Part of the initiative included a ride and drive program where interested organizations test drove the truck for two days as part of their daily operations. Major distribution companies such as Ensign Drilling and the Dairy Farmers of America, as well as several municipalities and counties, partook of this opportunity to discover how to lower their greenhouse gas emissions by up to 22 percent with no loss in efficiency.

"It's not enough to just tell people that natural gas is the only alternative fuel comparable to diesel that can move a heavy-hauler; they want to experience the phenomenon for themselves," says David Hill, Vice-President, Natural Gas Economy Operations.

Encana's advocacy efforts to make natural gas the preferred fuel for power generation have made policy-makers sit up and take notice.

the natural gas economy / colorado's clean air, clean jobs act

CHANGES IN **POLICY**

/ REPLACING COAL WITH NATURAL GAS

Colorado's Clean Air, Clean Jobs Act (House Bill 1365), signed into law on April 19, 2010, is designed to retire aging and inefficient high-emitting coal-fired generation units along the Colorado front-range and to provide primary consideration to natural gas as the replacement fuel.

Under the framework of reducing harmful emissions such as nitrogen oxides (NO_x), sulphur oxides (SO_x) and mercury, Bill 1365 creates a framework whereby the Colorado Public Utilities Commission (PUC) will oversee technical and operational implementation for the retirement of approximately 900 megawatts, or 50 percent, of coal-fired generation capacity for the state's utility. The utility's plan proposes that all 900 megawatts retired or repowered capacity be converted from coal to natural gas.[13]

Mirroring the Colorado example, Canada's federal Environment Ministry announced on June 23, 2010 that legislation will be tabled to phase out coal-fired power plants over the coming years in favour of more environmentally sound alternatives. It's expected the legislation will reference emissions standards and efficiencies currently achieved by combined cycle natural gas-fired power plants, of which Encana's Cavalier Power Station is an example.

The Canadian government indicated the legislation will likely be introduced in late 2011 to phase out the 51 coal-burning power plants currently operating in Canada. Of those, 33 are slated to reach the end of their economic life cycles by 2025.[14]

Encana's Cavalier Power Station

Encana's Cavalier Power Station demonstrates why clean, affordable, abundant natural gas is the preferred fuel choice for power generation.

Located southeast of Strathmore, Alberta, the natural gas-fired combined cycle power plant produces enough electricity for the Alberta grid to light up a city of 100,000 people, and it does so with minimized emissions output. The Cavalier Power Station emits 50 percent less CO_2, 70 percent less NO_x and 100 percent less SO_2 and mercury than a typical coal-fired generating station.

In operation since 2001, the 120 megawatt facility draws roughly 20 MMcf/d of natural gas from the next-door Cavalier Gas Plant in order to meet Encana's electricity needs. The gas fuels a combined cycle operation consisting of two gas turbines and one steam turbine, the main drivers of the plant's cycle.

INSIDE THE **ENERGY INDUSTRY**

/ COAL RETIREMENT MOMENTUM

Encana continues its advocacy efforts in collaboration with ANGA (America's Natural Gas Alliance), an important coalition of natural gas companies, to promote the benefits of natural gas power generation as an environmentally progressive and cost-effective alternative to existing and planned coal-fired power generation.

Coal retirement announcements increased significantly in 2010 across North America in response to stringent environmental regulations. Among the largest were American Electric Power's December 2010 announcement of approximately 6,000 megawatts[15] and TransAlta's November 2010 announcement of up to 800 megawatts[16] of coal-fired power plant capacity. Dozens of other announcements were made throughout 2010.

The U.S. Environmental Protection Agency's (EPA) regulatory calendar is rapidly evolving and filled with rules regulating harmful emissions such as NO_x, SO_x, fine particulates, mercury and greenhouse gases. Also being addressed are other environmental challenges that face coal-fired electricity generation such as coal combustion byproducts and cooling water structures. The EPA will finalize these regulations over the next few years, and the new rules are expected to have a profound impact on the electricity industry.

Many existing coal plants are vulnerable to retirement where environmental controls are uneconomic. Under many strict environmental regulatory scenarios, experts such as Credit Suisse predict coal-fired capacity retirements of up to 100 gigawatts over the next decade, accounting for up to 30 percent of the U.S. coal-fired electricity generating fleet.[17] If these retirements occur and the capacity is replaced with modern natural gas combined cycle power stations, natural gas consumption could increase by up to 8 Bcf/d.

CLEANER, HEALTHIER AIR
EMISSIONS REDUCTIONS FOR POWER GENERATION

Source: Energy Information Administration, Encana estimate.


We support
our people's people.
LINDEN
Pierce
Our proven record of giving and volunteering is strengthened year-round through our Encana Cares programs, which match employee donations dollar-for-dollar and provide cash grants to organizations where they donate their time. In 2010, the Encana Cares Annual Campaign saw more than 1,200 charities locally and around the world receive $3 million raised in the month of October alone. **Take a closer look. We are Encana.**
encana™
natural gas
Learn more about natural gas and Encana at **www.encana.com**

STREAMLINED MANAGEMENT SYSTEM

/ ENCANA'S COMMITMENT TO RESPONSIBLE DEVELOPMENT /42

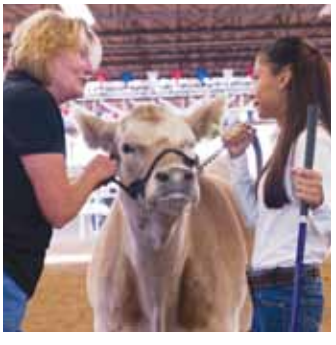
- MID-CONTINENT BUSINESS UNIT EARNS ISO CERTIFICATION
- A PREMIER SAFETY CULTURE
- FUNDING THE TECHNOLOGIES OF THE FUTURE
- WATER MANAGEMENT
- INTERNATIONAL RECOGNITION

responsible development

ENHANCING SKILLS AND IMPROVING ECONOMIES

/ SCHOLARSHIPS AND AWARDS /39

Investing in the communities where Encana operates simply makes good business sense. Encana's Community Involvement programs are strategically aligned to help boost local economies and enhance the skill sets of the next generation of industry leaders.



- SCHOLARSHIPS PROVIDE SUPPORT FOR FUTURE WORKERS
- TOOLS FOR SUCCESS FOR FUTURE INDUSTRY LEADERS
- SUPPORTING THE NEXT GENERATION OF ABORIGINAL BUSINESS LEADERS
- ENVIRONMENTAL EDUCATION A KEY PRIORITY
- NURTURING COMMUNITY LEADERS
- THE SPIRIT OF GIVING

www.encana.com/responsibility/
www.encana.com/news/topics/cbm-groundwater/

WATER MANAGEMENT

/ RESPONSIBLE USE

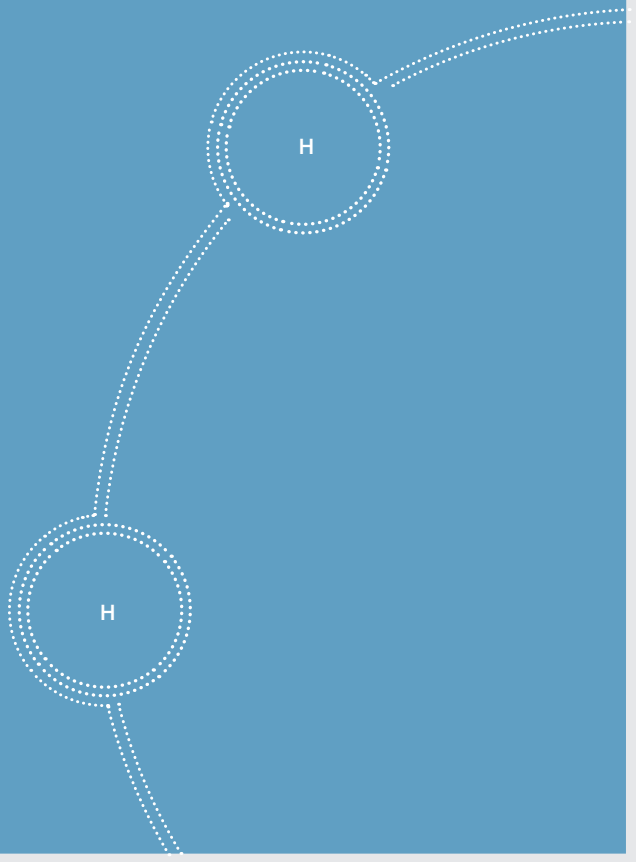
"We need water. We need energy. It's not a question of one or the other. It's a matter of using both responsibly."

DAVE LYE
Vice-President, Corporate EH&S,
Security & Corporate Responsibility

Energy is utilized in everything we do. From the moment we get out of bed, turn on the light and start brewing our morning cup of coffee, energy is being consumed from various forms of renewable and non-renewable resources.

We all need both energy and water. Water is a critical resource and Encana takes responsibility for the water it uses extremely seriously. All forms of energy require water somewhere along their development cycle. In turn, energy is required to treat, transport and heat the water we use in our homes and businesses.

Encana takes a responsible approach to sourcing, use, transport and disposal of water. This includes seeking opportunities to use non-potable (not fit for animals or humans) water and recycling/reusing water where possible.

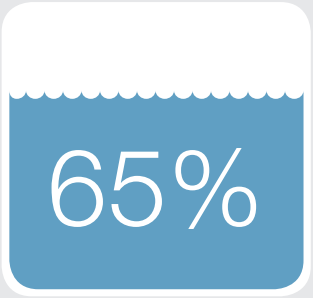


ENERGY

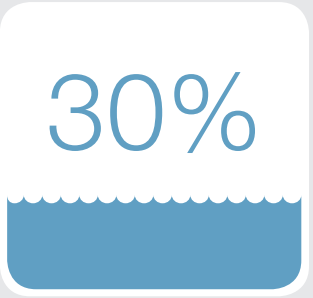
Natural gas is a key energy source of the future, and North America is well positioned to meet the demand. Natural gas is critical to North America's lower carbon future.

> *"Natural gas is the viable energy option for a carbon-constrained world."*

KEVIN BENETEAU
Group Lead, Air & Water
Canadian Division



Natural gas is clean, producing up to 65 percent less emissions than coal and 25 percent less than oil.



Natural gas is affordable, in many regions up to 30 percent less expensive as a transportation fuel than diesel or gasoline.

WHY USE NATURAL GAS AS OUR SOURCE OF ENERGY?

A domestic and proven source of energy, natural gas makes up about 23 percent of the energy mix in Canada and the U.S. With an estimated 100 years supply in Canada and the U.S., at current production rates, this underutilized resource presents an opportunity to shift North America's energy mix and incorporate more natural gas into transportation and power generation.

Natural gas is the clear energy choice in meeting the increased demand for energy while at the same time reducing our overall carbon footprint.

A shift towards renewable energy is a viable solution to cut carbon emissions – however, North American demand is simply too high to be supported entirely by renewable energy sources.

Natural gas is affordable, it can support renewable technology, and it is a reliable source of energy when the wind doesn't blow or the sun doesn't shine.

Natural gas is the cleanest-burning fossil fuel. Composed mostly of methane, the combustion by-products of natural gas are carbon dioxide (CO_2) and water vapour, the same compounds we exhale.

Natural gas produces 25 percent less CO_2 emissions than oil and up to 65 percent less CO_2 emissions than coal.

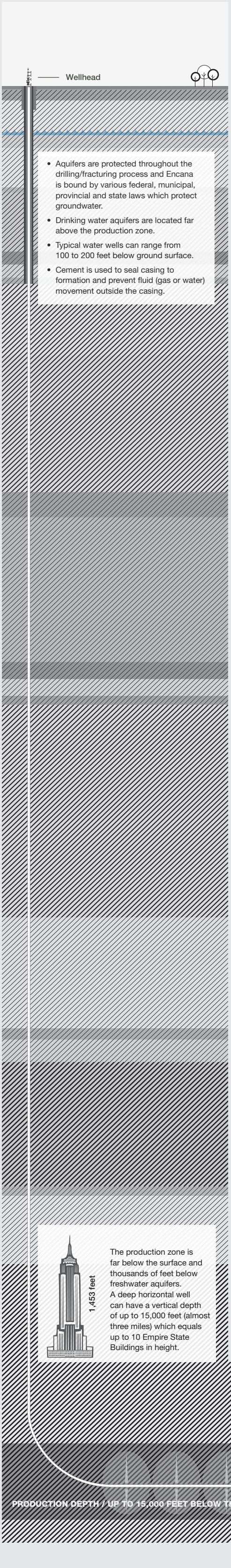
NATURAL GAS DEVELOPMENT DEPENDS UPON WATER

So do Encana's contractors and employees who live and work in the same communities as its stakeholders.

Encana has adapted its water management approach to address geological factors, hydrology and operational needs. This means no single water management approach works in all of the company's operating areas.

Protecting water resources and using them wisely is important to Encana's continued success. The company recognizes that its water requirements and the challenges posed by its operations require tailored approaches to water management. Encana reduces the use of freshwater through the sourcing of alternatives where appropriate, and seeks to recycle and reuse water wherever possible. Where produced water cannot be recycled, it is disposed of responsibly to avoid the contamination of freshwater resources or land.

PROTECTION



PROTECTING WATER DURING DRILLING

Encana has proven processes in place to protect groundwater and minimize environmental impact before, during and after the drilling process.

Before drilling, Encana may conduct predevelopment or baseline groundwater sampling. In some jurisdictions, such as coalbed methane development in Alberta, groundwater testing is currently required by regulation. In other areas the scope and extent of predevelopment or baseline groundwater testing is determined by site-specific factors including the depth and quality of local groundwater resources, the current and expected use of the groundwater in the area and the proximity to groundwater users and potential users.

In addition to the natural barriers formed by thousands of feet of dense rock formations, Encana takes numerous measures to ensure the integrity of the wellbore and eliminate any pathway from the wellbore to drinking water formations.

Wellbore construction is critical to protecting groundwater. Encana takes great care to design and install effective well casing systems.

Surface casing, a section of steel pipe, is cemented in place deeper than aquifers used for drinking water and isolates shallow groundwater from geologic formations that produce natural gas. Numerous tests are run to ensure the quality and integrity of the casing and cement.

Depending on the unique characteristic of the subsurface, sometimes Encana will install a second string of casing – called intermediate casing.

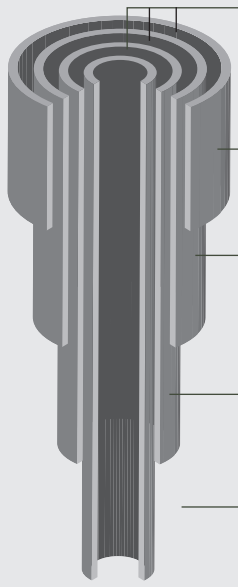
On a deep horizontal well, Encana drills the well to a total vertical depth ranging from approximately 6,500 feet to 15,000 feet.

Drilling then continues into the horizontal portion of the well that extends up to 9,800 feet into the producing formation.

Once the horizontal section of the well is drilled, a third string of protection – the production casing – is run into the wellbore. Horizontal drilling allows for the extraction of larger quantities of natural gas from a single well.

Typical Well Casing Diagram

(Not to Scale)



Cement – the engineered steel casing system is cemented externally to prevent any fluids from migrating from the wellbore to groundwater aquifers.

Conductor Casing – used to maintain integrity during initial drilling operations.

Surface Casing – steel pipe protects groundwater/aquifers. Depth is dependent on depth of aquifers and/or pressure of reservoir, but is generally deeper than regional aquifers; cemented in place with cement running between the earth and the pipe.

Intermediate Casing – required in certain wells, depending on reservoir pressure; set to top of the producing formation.

Production Casing – runs to bottom of well; often cemented all the way to surface.

PROTECTING WATER DURING HYDRAULIC FRACTURING

Most of Encana's water use happens during hydraulic fracturing operations.

Virtually every natural gas well drilled today requires some type of stimulation to allow the gas to flow to the wellbore. The goal of hydraulic fracturing is to enhance recovery by creating pathways for the natural gas trapped in the rock to flow up the wellbore to production equipment at the surface. It is this path of least resistance that channels the natural gas into the wellbore.

This controlled operation pumps a mixture of fluids (primarily water) and a propping agent through the wellbore to the target formation at a high pressure in multiple intervals, or stages. The process breaks up the target formation, much like a stone fracturing a windshield, to create pathways that allow the gas to flow from the very low permeability reservoir toward the wellbore.

In all Encana operations, rigorous water management and protection are vital parts of this process. As noted above, proper wellbore design and a steel casing system prevent fluids migrating from the wellbore and protect local groundwater.

The extreme pressure exerted by the rock above the fracturing zones limits the distance new fractures can travel. Along with those safeguards, Encana uses multiple techniques to fully monitor each hydraulic fracture treatment it conducts. Encana ensures the integrity of the casing and cement system through field inspection and wellbore logging.

Before the company begins completion operations, it pressure tests to ensure integrity. Encana then constantly monitors pressures during each fracturing operation. Any flow of fluids into non-targeted areas would immediately be detected by a sudden loss in pressure and operations would be halted.

Hydraulic fracturing processes are strictly regulated by various state or provincial government agencies today. Encana meets and, in many cases exceeds, the requirements set out by the regulators.

Encana continues to build upon its detailed understanding of the chemicals used in the hydraulic fracturing process to ensure the company is using the most responsible hydraulic fracturing fluid formulations and fluid management practices available.

www.encana.com/news/topics/hydraulicfracturing/

APPROACH

Water is vital to our daily lives. The use of water plays a crucial role in developing natural gas resources. Protecting this natural resource and using it wisely is important to Encana's continued success.

WATER TREATMENT IN COLORADO

Since 2003, Encana has been using an extensive water treatment and distribution system to support drilling and well completion operations in Colorado's Piceance Basin.

Produced water is removed from the wells, along with natural gas, from thousands of feet below ground surface.

Because of its salt content (up to 30 times higher than drinking water) this water is unsuitable for domestic or livestock use. Encana's facilities in four locations are designed to treat about 45,000 barrels of water per day and allow recycling of produced water.

Produced water from Encana wells and flowback water from well completion operations is transported to these facilities by truck and an extensive network of pipelines. In the region, Encana also continues to build pipeline infrastructure to minimize the need for trucking water and over the course of 2010 the company installed another 10 miles of water pipelines.

The treatment facilities provide hydrocarbon and solids removal through gravity separation, chemical and heat addition methods. Once treated, the water is stored in secure holding ponds until it is reused in completion activities, and the cycle begins again. Improving the quality of the water waiting to be recycled makes it less hazardous to wildlife and improves air quality. The separated hydrocarbons are stored in tanks for future sale. Through this voluntary hydrocarbon removal and water treatment system, Encana is able to recycle up to 90 percent of the water produced during drilling, completion and production operations, greatly reducing the amount of freshwater used, thereby conserving this important natural resource.

SOURCING SALINE WATER IN BRITISH COLUMBIA

In 2007, Encana and Apache Corporation began an active drilling program in British Columbia's Horn River Basin. Given the low permeability of the Horn River, hydraulic fracturing of the target formation is required to recover natural gas from this play. Water management was a key concern identified by Encana and brought forward by stakeholders during public meetings about developments in the basin. Encana sought alternatives to freshwater use to supply hydraulic fracturing operations. What followed was the identification of the Debolt formation, a deep, sub-surface, unutilized aquifer containing saline, sour water. Test results indicated that the Debolt formation is capable of supplying water for fracturing operations and for disposal of spent fracturing fluids or produced water. The Debolt formation occurs at depths of approximately 1,600 feet to 3,600 feet below the surface and holds saline water unfit for most common uses. Tapping this water source required many innovations, including the investigation of several "sweetening" methods needed to remove hydrogen sulphide (H_2S) and make this water usable for industrial purposes. A water treatment plant was designed and built and since it began operation in June 2010, surface water use has been significantly reduced. In 2010 alone, a total of five million barrels of Debolt water were used in completion operations, which in the past would have been sourced from surface sources. In 2011, the plant is expected to treat more than 12.5 million barrels of water, meaning only about 10 percent of the water required for hydraulic fracturing operations is sourced from surface water sources. This initiative reduces the need for surface water sources and relieves some of the pressure on the local watershed.

WATER TRANSPORT IN ALBERTA

By constructing a water storage pond on its Kakwa property in west-central Alberta, Encana is optimizing collection of surface water flow and providing a permanent wetland and water body habitat for wildlife use in the future. The water required to develop the Kakwa resource was being purchased from the municipality of Grande Cache, Alberta and trucked to the Kakwa Field, a round trip of about 90 miles.

At a development rate of 40 wells per year, approximately 3,000 truckloads of water per year would be required. The stakeholders near Encana's Kakwa operations were concerned with the amount of truck traffic that would be added to their main transportation route which is narrow, steep and windy.

By constructing the water storage pond, Encana fulfills its water use requirements within the Kakwa field, which eliminates the need to use municipal water, reduces truck traffic, the associated emissions from that traffic as well as the costs of purchasing and transporting water from Grande Cache.

"We collaborate with third parties to fund important water-related research."

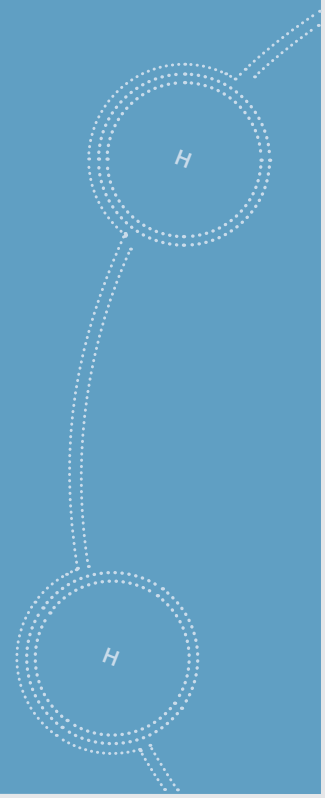
DOUG HOCK
Team Lead, Community & Public Relations
USA Division

In Colorado, Encana participates in the Piceance Basin Water Data Repository project. This database, maintained by the US Geological Survey, consists of a publicly accessible website that contains water sampling data from locations throughout the Piceance Basin provided by industry, government and citizens. In addition to maintaining the database, USGS provides technical papers and abstracts based upon the data gathered. Over the long term this database will help industry, regulators and stakeholders better understand what impacts, if any, oil and gas development is having on groundwater in the basin.

In the Peace Region of British Columbia, the Kiskatinaw River watershed is the only source of water for the City of Dawson Creek and Village of Pouce Coupe. Encana has supported water research work by the University of Northern British Columbia. This research monitors surface water and groundwater levels in the Kiskatinaw watershed and furthers knowledge about the surface and groundwater hydrology in this area.

In British Columbia, Encana has supported the Horn River and Montney Water projects being run by Geoscience BC. This industry-led, industry-focused, applied geoscience organization encourages minerals and oil and gas exploration investment in British Columbia through the collection, interpretation and marketing of publicly available, applied geoscience.

The Montney Water Project is designed to provide a comprehensive inventory of water sources and potential for deep geological disposal sites in the Montney Gas Play area of northeastern B.C., by creating a comprehensive database of surface water, groundwater and deep saline aquifers in the area.



ENHANCING **SKILLS AND IMPROVING** ECONOMIES

/ SCHOLARSHIPS AND AWARDS

Investing in the communities where Encana operates simply makes good business sense. Encana's Community Investment programs are strategically aligned to help boost local economies and enhance the skill sets of the next generation of industry leaders. Working directly with stakeholders through open dialogue and collaboration increases Encana's understanding of the unique needs specific to each of its operating communities and where the company can make the most impact through its community investment.

Encana has five focus areas for community investment: the environment, education, sports and recreation, family and community wellness and community enhancement. Encana places a strong emphasis on the environment and education focus areas.

In 2010, about 40 percent of Encana's investment was for education, complementing the company's overall business strategy by helping to create the highly skilled workforce needed to build a new North American energy portfolio. This came in the form of scholarships and programs delivered through various educational institutions. When coupled with Community Involvement initiatives on environmental awareness, this focus on education bolsters the skills and knowledge needed for a cleaner energy future.

SCHOLARSHIPS PROVIDE SUPPORT FOR FUTURE WORKERS

Encana awards approximately 50 new scholarships yearly to high school students pursuing post-secondary education in engineering, geology, geophysics and other industry-related trades. Worth $10,000 over four years, these awards – along with numerous other scholarships for specialized studies at various post-secondary institutions throughout North America – reflect Encana's commitment to education.

TOOLS FOR SUCCESS FOR FUTURE INDUSTRY LEADERS

The Encana Integrated Simulation Data Centre, designed to resemble a professional industry data room, was officially opened at the University of Wyoming on October 8, 2010. The facility features software and technology capable of running well simulation 30 to 40 years into the future, predicting lifespan and potential output. The lab enables students to create three-dimensional renderings of oil and gas development, detailing stratum up to 12,000 feet below the surface. This is the second of three labs funded through a $2 million donation from Encana made in 2006 and matched by the State of Wyoming. "Encana values the long-term commitment to education and the rewarding relationship with the University of Wyoming and supports programs that serve the needs of students, the university and the oil and gas industry. I look forward to seeing what these students are able to do in the next 10 years and beyond with the knowledge they gain from this facility," says Encana's Eric Marsh, a University of Wyoming alumnus who attended the facility's ribbon-cutting ceremony.

SUPPORTING THE NEXT GENERATION OF ABORIGINAL BUSINESS LEADERS

In 2010, Encana's Aboriginal Relations team continued to support scholarships and networking opportunities specifically tailored to make post-secondary education accessible to Aboriginal youth in British Columbia. The Ch'nook Aboriginal Business Education initiative, offered through the University of British Columbia, helps Aboriginal students to pursue business education at 25 colleges throughout the province. This unique opportunity allows for study close to home, helping to bring the entrepreneurialism of graduates back to their communities.

community enhancement

environment

community wellness

Since the 2006 introduction of Ch'nook's Advanced Management Program – of which Encana is a leading funding sponsor – the initiative has produced 50 alumni from Victoria to Fort Nelson.

"Contributing to the strength and sustainability of the Aboriginal communities where we operate is fundamental to our business strategy, proactively demonstrated in our support of educational programs and opportunities to help train the Aboriginal business leaders of tomorrow. This investment and support represents a mature, evolving relationship between Encana and its communities, one that fosters constructive partnerships and win-win economic opportunities."

Mike Forgo
Vice-President, Business Services
& Stakeholder Relations, Canadian Division

This past spring, Encana helped initiate a pilot project for a group of Aboriginal high school students from the northeastern British Columbia communities of Fort St. John, Dawson Creek, Chetwynd and Fort Nelson. The students gathered at the Dawson Creek campus of Northern Lights College, where they were introduced to Ch'nook through first-hand testimonials from some of its graduates. One of Ch'nook's and Encana's academic partners, Northern Lights College, was also the recipient of six $1,000 Aboriginal Entrance Awards offered by Encana for the 2010 fall semester at the College.

ENVIRONMENTAL EDUCATION A KEY PRIORITY

Four Colorado high schools and their international sister schools are helping to build the world's first global ozone database, thanks to a grant from Encana. The funds sponsored the participation of the eight schools in the Global Ozone (GO3) project, supplying each with a state-of-the-art ozone monitor and meteorological station. Students use the equipment to collect data on ground-level ozone outside their schools. The results are uploaded as an overlay on a Google Earth map, giving students detailed visuals of ozone concentrations and variances in air quality.

In Texas, hands-on environmental help from hundreds of students proved truly habitat-forming through an Encana grant of $240,000 to the Healthy Habitats program. Administered by the Texas Parks & Wildlife Department and the Texas Center for Service-Learning, the program sees Kindergarten to Grade 12 students, their teachers and community members embark on environmental improvement initiatives. With Encana's support, more than 3,100 students, teachers, parents and community members across Texas helped restore prairie habitat, prevent creek and land erosion, and remove invasive species.

"Making natural gas the ***centrepiece of North America's energy portfolio*** *requires reaching out to students through a number of unique initiatives, both to promote environmental awareness and to* ***educate the next generation about this clean, affordable, abundant resource*** *within North America."*

Don McClure
Vice-President, Government & Stakeholder Relations & Legal, USA Division

"It was truly incredible to witness the outpouring of generosity during the 2010 annual campaign in October. More than 1,200 worthwhile charities locally and around the world were the beneficiaries of $3 million, thanks to employee giving during the one month that the campaign was active. I'm very proud to be part of an organization that is not only keenly competitive but where our employees are willing to step forward and help those in need."

Pat MacDonald
Vice-President,
Human Resources & Communications

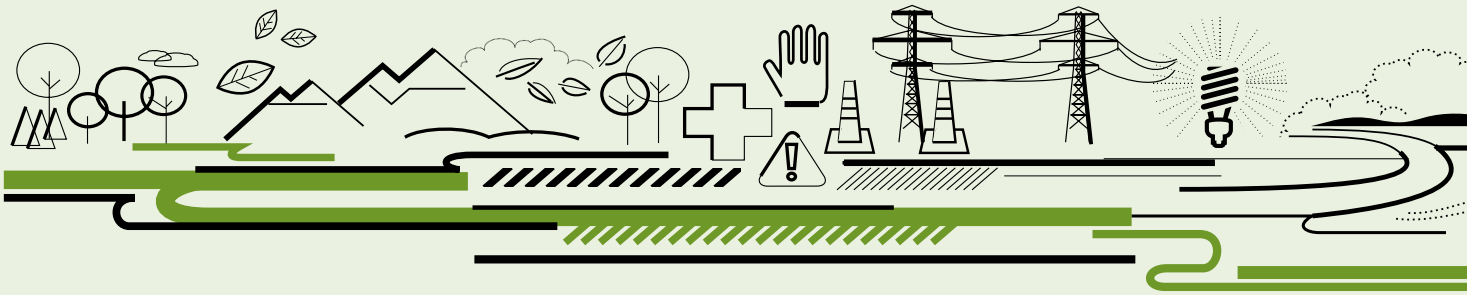
Educating the next generation about environmental responsibility also means showcasing the virtues of natural gas. Encana's efforts were recognized last June when the non-profit organization National Energy Education Development (NEED) gave Program of the Year honours to the Colorado school system's energy education curriculum. Encana was recognized for supporting teacher training and providing kits to more than 180 classrooms – reaching more than 15,000 students. In 2010, Encana provided nearly $450,000 in funding for NEED programs in Colorado, Texas, Wyoming, Louisiana and Pennsylvania.

NURTURING COMMUNITY LEADERS

Understanding the unique needs of each community in which it operates is central to Encana's Community Involvement programs. To support leadership and capacity-building at the community level, Encana entered into a $1.5 million arrangement in 2009 with The Banff Centre in Alberta for the creation of an innovative new Community of Leaders program. The program has been making a difference since November 2009, when the first cohort of leaders from across Western Canada began an intensive three-day leadership and project management training program at The Banff Centre, while a second cohort embarked on the program this past November. Encana's relationships with its operational communities helped in the selection of program participants, each of whom identified a community project they advanced by applying The Banff Centre's training.

THE SPIRIT OF GIVING

Community investment also supports the individual charitable choices of its employees through the Encana Cares program. This program matches employee donations, dollar for dollar, up to $25,000 per employee per year. Encana also has an employee volunteer program that provides cash grants to organizations where employees and their families volunteer their time. In 2010, more than $5 million was donated to charities thanks to the Encana Cares program and the generosity of Encana employees.



responsible development / *environment, health & safety*

STREAMLINED MANAGEMENT SYSTEM

/ ENCANA'S COMMITMENT TO RESPONSIBLE DEVELOPMENT

Encana's commitment to responsible development means striving for continuous improvement in protecting people's health and safety and minimizing the impact of its activities on the environment. These values underscore the company's approach to business and guide its performance. By increasing accountability for performance in these areas, both individually and company-wide, Encana reinforces Environment, Health & Safety (EH&S) as a core value, ultimately safeguarding workers, communities and the environment. A number of significant EH&S milestones were achieved in 2010, including the development of an enhanced EH&S management system, strong safety performance and advances in environmental innovation.

Encana's EH&S management system is far more than a tool that specifies performance expectations; it's a cultural blueprint embedded in Encana's daily operations and activities. During 2010, Encana realigned its EH&S management system. The streamlined, simplified system, now called Ethos, integrates operational excellence across all Encana operations to ensure long-term success and sustainability. Integrating Ethos helps Encana meet internal and external accountabilities and demonstrate sound EH&S performance to all stakeholders. The plan-do-check-act process integral to Ethos drives the continuous improvement of Encana's EH&S processes and performance.

"Ethos provides business units with a simple and effective system to guide their EH&S performance as well as a means to measure and report on that performance through audit and self-assessment against the system. It's a systematic, common sense approach that gives predictable outcomes and empowers staff to achieve continuous improvement," says Byron Gale, Vice-President, EH&S, USA Division.

MID-CONTINENT BUSINESS UNIT EARNS ISO CERTIFICATION

Consistent with the Ethos philosophy of continuous improvement, the Mid-Continent Business Unit (MCBU) saw the culmination of efforts launched in the fall of 2009 to enhance the environmental management system of its operations. MCBU Vice-President Paul Sander had a goal of achieving ISO 14001: 2004 certification in 2010 in order to:

- establish the environment as a clear priority and focus for the business unit
- reduce the overall operational footprint by minimizing impacts and reducing pollution
- continuously improve environmental performance within every operation

The effort included an environmental assessment of all activities, selection and implementation of environmental objectives, measurement of outcomes and a significant amount of training and awareness activities. The MCBU was audited in October and November of 2010, and in December 2010 received formal ISO certification.

A PREMIER SAFETY CULTURE

In 2010, Encana achieved the best safety results in company history in terms of Total Recordable Injury Frequency. This performance was attributable to strong safety leadership throughout the company, a capacity Encana has built on through training programs such as Safety Essentials for Leaders. In addition, Encana further raised its expectations on the safety performance of contractors and service providers.

The company's Drive Safe program – initiated to curb vehicle collisions, the single leading cause of death in the oil and gas industry – was expanded company-wide in 2010 with representation from both the USA and Canadian Divisions.

A revised safety brand – Safe 360 – further speaks to Encana's ongoing work to achieve an injury-free workplace. Targeting all employees, contractors, service providers and stakeholders, Safe 360 underscores the importance of being aware in all directions – be it potential hazards on a worksite or acknowledgement of safety considerations in a project design.

safe360

"In 2009, we achieved our best-ever total recordable injury frequency rate as a company, a benchmark we bettered statistically in 2010. Striving for a premier safety culture means never being satisfied. We constantly strive for improvement and that's the message of Safe 360 – being committed to safety at home, on the road and in the workplace."

Brent Harrison
Vice-President, EH&S, Canadian Division

FUNDING THE TECHNOLOGIES OF THE FUTURE

In 2010, Encana expanded the mandate of its energy efficiency program to include internal projects that create measurable reductions in energy, air emissions, and land or water use within company operations. Under the renamed Environmental Efficiency Fund, $6 million was committed to 12 projects in 2010, with an estimated 55,000 tonnes of carbon dioxide equivalent ($C0_2e$) avoidance. Three external projects were funded in 2010 through the Environmental Innovation Fund – a sister program that provides financial support to external companies and technologies that endeavour to improve the environmental performance of producing or consuming energy.

Such funding enhances and complements Encana's commitment to environmental stewardship and its focus on minimizing detrimental impacts on air and water quality. Through identification of environmental risks and of innovative and viable environmental technologies, Encana strives for continuous improvement in terms of minimizing operational impacts on land, water and air.

WATER MANAGEMENT

Encana's sound water management practices are constantly evaluated for improvement. To help preserve this valuable resource, Encana seeks opportunities to recycle water and use unutilized water sources wherever practical. Water advisors embedded in both operating divisions provide surface and groundwater expertise in Canada and the United States.

Walking the talk on water management requires infrastructure investment. The Debolt water treatment plant in northeastern British Columbia is a prime example. Commissioned in 2010, the plant provided completions operations in the Horn River play with a consistent supply of water. Six months after the plant was operational, 75 to 80 percent of water used in hydraulic fracturing operations was from the Debolt formation – resulting in significant surface water preservation.

INTERNATIONAL RECOGNITION

Encana's commitment to responsible development saw the company named in 2010 to the Dow Jones Sustainability World Index (DJSI World). It was the fifth consecutive year Encana made the World index, which recognizes a select list of 318 companies in 57 industries and 27 countries. The list is based on analyses of corporate economic, environmental and social criteria, including the evaluation of climate change strategies, energy consumption, human resources development, knowledge management, stakeholder relations and corporate governance. Encana was the only North American oil and gas company, and one of 12 worldwide, named to the Oil and Gas Producers' sector of the 2010 DJSI World list. The company also earned the distinction as a "sustainability leader" in the oil and gas industry.

"This ongoing recognition as a world leader in sustainability shows that our initiatives around responsible development – including those pertaining to EH&S and our stakeholders – are well-balanced with our economic achievements. It reflects the daily efforts our staff undertakes to ensure we conduct our business in the most responsible and sustainable fashion possible."

Dave Lye
Vice-President, Corporate EH&S,
Security & Corporate Responsibility

To improve our safety standards we recently installed digital devices in some of our company vehicles to positively affect driving habits. The new devices monitor each driver's behaviour, including speeding, hard braking and hard acceleration. This ensures everyone gets to their destinations safely.
Take a closer look. We are Encana.

encana™
natural gas

safe360

Learn more about natural gas and Encana at **www.encana.com**