



Encana Corporation

U.S. GAAP Supplemental Information  
*(unaudited)*

For the period ended September 30, 2011

U.S. Dollars / U.S. Protocol

The U.S. GAAP Supplemental Financial Information presented is unaudited and intended for information purposes only. The Company believes U.S. GAAP financial results are relevant and provide information that is more directly comparable with U.S. peer companies.

## U.S. GAAP Supplemental Financial Information *(unaudited)*

### Financial Results - U.S. GAAP

(\$ millions, except per share amounts)

	2011				2010					
	Year-to-date	Q3	Q2	Q1	Year	Q4	Q3 Year-to-date	Q3	Q2	Q1
<b>Summary Net Earnings Reconciliation</b>										
<b>Net Earnings (Loss) - IFRS</b>	<b>374</b>	<b>120</b>	176	78	1,170	(469)	1,639	606	(457)	1,490
After-tax addition (deduction):										
Full cost accounting										
Exploration & evaluation	87	2	79	6	27	26	1	1	(1)	1
Depreciation, depletion & amortization	573	207	194	172	883	226	657	214	226	217
Impairments	(582)	-	-	(582)	371	371	-	-	-	-
Gain (loss) on divestitures, net	(108)	1	(26)	(83)	(101)	12	(113)	(51)	(28)	(34)
Income tax	105	129	(40)	16	-	(27)	27	(5)	125	(93)
Other	32	-	-	32	(7)	(8)	1	(2)	3	-
<b>Net Earnings (Loss) - U.S. GAAP</b>	<b>481</b>	<b>459</b>	383	(361)	2,343	131	2,212	763	(132)	1,581
<b>Net Earnings (Loss) per Common Share - U.S. GAAP <sup>(1)</sup></b>										
Basic	0.65	0.62	0.52	(0.49)	3.17	0.18	2.99	1.04	(0.18)	2.11
Diluted	0.65	0.62	0.52	(0.49)	3.17	0.18	2.99	1.04	(0.18)	2.11
<b>Operating Earnings Summary</b>										
<b>Net Earnings (Loss) - U.S. GAAP</b>	<b>481</b>	<b>459</b>	383	(361)	2,343	131	2,212	763	(132)	1,581
Deduct (Add back):										
Unrealized hedging gain (loss), after tax	203	273	18	(88)	634	(269)	903	331	(340)	912
Impairments, after tax	(582)	-	-	(582)	-	-	-	-	-	-
Non-operating foreign exchange gain (loss), after tax	(181)	(325)	44	100	235	159	76	140	(211)	147
<b>Operating Earnings - U.S. GAAP <sup>(2)</sup></b>	<b>1,041</b>	<b>511</b>	321	209	1,474	241	1,233	292	419	522
<b>Operating Earnings per Common Share - U.S. GAAP <sup>(1)</sup></b>										
Basic	1.41	0.69	0.44	0.28	1.99	0.33	1.66	0.40	0.57	0.70
Diluted	1.41	0.69	0.44	0.28	1.99	0.33	1.66	0.40	0.57	0.70
<b>Cash Flow <sup>(3)</sup></b>										
IFRS	3,199	1,157	1,087	955	4,437	917	3,520	1,131	1,217	1,172
U.S. GAAP	3,233	1,181	1,089	963	4,439	917	3,522	1,132	1,217	1,173
<b>Capital Investment</b>										
IFRS	3,589	1,183	1,120	1,286	4,764	1,426	3,338	1,218	1,096	1,024
U.S. GAAP	3,602	1,186	1,122	1,294	4,779	1,430	3,349	1,223	1,099	1,027
<b>Total Assets</b>										
IFRS	34,667				33,583					
U.S. GAAP	23,660				22,317					
<b>Total Liabilities</b>										
IFRS	18,088				16,750					
U.S. GAAP	14,313				12,824					
<b>Shareholders' Equity</b>										
IFRS	16,579				16,833					
U.S. GAAP	9,347				9,493					

<sup>(1)</sup> Net earnings and operating earnings per common share are calculated using the weighted average number of Encana common shares outstanding as disclosed in Note E).

<sup>(2)</sup> Operating Earnings is a non-GAAP measure defined as Net earnings excluding non-recurring or non-cash items that Management believes reduces the comparability of the Company's financial performance between periods. Under U.S. GAAP, these after-tax items may include, but are not limited to, unrealized hedging gains/losses, impairments, foreign exchange gains/losses and the effect of changes in statutory income tax rates.

<sup>(3)</sup> Cash Flow is a non-GAAP measure defined as Cash from Operating Activities excluding net change in other assets and liabilities and net change in non-cash working capital.

### Financial Metrics - U.S. GAAP

	2011	2010
	Year-to-date	Year
<b>Debt to Debt Adjusted Cash Flow <sup>(1, 2)</sup></b>	<b>1.9x</b>	1.6x
<b>Debt to Adjusted EBITDA <sup>(1, 2)</sup></b>	<b>2.1x</b>	1.4x
<b>Debt to Capitalization <sup>(1)</sup></b>	<b>48%</b>	45%
<b>Return on Capital Employed <sup>(1, 2)</sup></b>	<b>5%</b>	16%

<sup>(1)</sup> Calculated using debt defined as current and long-term debt.

<sup>(2)</sup> Calculated on a trailing twelve-month basis.

## U.S. GAAP Supplemental Financial Information *(unaudited)*

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### U.S. GAAP Adjustments

Encana's Consolidated Financial Statements are prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS"). These policies vary in certain respects from accounting principles generally accepted in the United States ("U.S. GAAP"). The Company believes U.S. GAAP financial results are relevant and provide information that is more directly comparable with U.S. peer companies. The U.S. GAAP Supplemental Financial Information presented is unaudited and intended for information purposes only.

The significant differences between accounting policies under IFRS and U.S. GAAP are discussed further below along with the significant impacts to the Company's consolidated financial results.

#### A) Full Cost Accounting

Under U.S. GAAP, Encana accounts for upstream activities in accordance with full cost accounting rules whereby all costs directly associated with the acquisition of, the exploration for, and the development of natural gas and liquids reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre, or full cost pool, are depleted using the unit-of-production method and are subject to a ceiling test to assess for impairment.

The following adjustments were made in determining the Company's U.S. GAAP consolidated net earnings:

- Exploration and evaluation expense decreased as exploration and evaluation costs are capitalized within the full cost pool.
- A U.S. GAAP ceiling test impairment of \$582 million after tax was recognized in the first quarter of 2011 for the Canadian cost centre. In the fourth quarter of 2010, an IFRS impairment of \$371 million after tax related to the Company's offshore upstream assets was reversed for U.S. GAAP purposes. In 2010, there were no U.S. GAAP ceiling test impairments.

A ceiling test impairment is recognized when the capitalized costs aggregated at the country cost centre level exceeds the sum of the estimated after-tax future net cash flows from proved reserves, using 12-month average trailing prices and unescalated costs, discounted at 10 percent, plus unimpaired unproved property costs. Under IFRS, impairments are recognized if the carrying value exceeds the recoverable amount for a cash-generating unit.

- Depreciation, depletion and amortization decreased primarily due to the impact of previous ceiling test impairments recognized in 2008 and 2009. Under U.S. GAAP, depletion is determined using the unit-of-production method calculated for each cost centre based on proved reserves using 12-month average trailing prices. Under IFRS, depletion is determined using the unit-of-production method calculated at a smaller area level based on proved reserves using forecast prices.
- Gains and losses on divestitures were reversed as proceeds from divestitures of upstream assets are deducted from the full cost pool without recognition of a gain or loss under U.S. GAAP.

As at September 30, 2011, the cumulative U.S. GAAP full cost pool adjustments resulted in decreases of approximately \$10.8 billion in total assets, \$3.6 billion in deferred income tax liabilities and \$7.2 billion in shareholders' equity. As at December 31, 2010, the cumulative U.S. GAAP full cost pool adjustments resulted in decreases of approximately \$11.0 billion in long-term assets, \$3.8 billion in deferred income tax liabilities and \$7.2 billion in shareholders' equity. These decreases primarily resulted from historical U.S. GAAP ceiling test impairments recognized in 2008 and 2009.

#### B) Income Tax

Under U.S. GAAP, Encana's interim income tax provisions are measured using estimates of annual effective tax rates that differ from those determined under IFRS. In addition, under U.S. GAAP, deferred income tax is calculated using the enacted income tax rates and legislation expected to apply when the assets are realized or liabilities are settled. Under IFRS, deferred income tax is calculated using the enacted or substantively enacted income tax rates and legislation. For the nine months ended September 30, 2011, the tax rate differences resulted in an increase in net earnings of \$105 million.

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### U.S. GAAP Adjustments (continued)

#### C) Other - Net Earnings

Other adjustments in determining the Company's U.S. GAAP consolidated net earnings primarily include the following:

- Foreign exchange losses decreased under U.S. GAAP due to a reclassification of foreign currency translation adjustments from net earnings to accumulated other comprehensive income within shareholders' equity. Under U.S. GAAP, the settlement of intra-entity foreign currency transactions that are of a long-term investment nature between entities that are consolidated in the Company's financial statements are recognized in accumulated other comprehensive income. In the first quarter of 2011, a foreign exchange loss of \$32 million recognized under IFRS on the settlement of the Company's net investment in foreign operations was reversed under U.S. GAAP and reclassified from net earnings to accumulated other comprehensive income.
- Accretion of the asset retirement obligation ("ARO") decreased due to different discount rates used to establish the obligation. ARO is measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Under U.S. GAAP, existing liabilities are not remeasured using period end discount rates. Under IFRS, existing liabilities are remeasured using the period end discount rates.

As at September 30, 2011, the above adjustments resulted in a decrease of approximately \$130 million in long-term assets and \$155 million in long-term liabilities with an increase of \$25 million in shareholders' equity. As at December 31, 2010, the above adjustments resulted in a decrease of approximately \$95 million in long-term assets and \$125 million in long-term liabilities with an increase of \$30 million in shareholders' equity.

#### D) Other - Balance Sheet

Encana's U.S. GAAP consolidated balance sheet also includes adjustments related to compensation, income taxes and foreign currency. As at September 30, 2011, these adjustments resulted in decreases of approximately \$65 million in total assets, \$15 million in long-term liabilities and \$50 million in shareholders' equity. As at December 31, 2010, these adjustments resulted in a decrease in total assets of approximately \$125 million, an increase in long-term liabilities of \$35 million, with a corresponding decrease to shareholders' equity of \$160 million.

#### E) Net Earnings and Operating Earnings per Common Share

Under U.S. GAAP, compensation plans that may be settled at the employees' option in either cash or common shares are not included in the diluted earnings per share calculation if it is probable that the plan will be settled in cash. Under IFRS, these plans are presumed to be settled in common shares and are included in the diluted earnings per common share calculation if they are determined dilutive.

U.S. GAAP net earnings and operating earnings per common share are calculated using the weighted average number of Encana common shares outstanding as follows:

<i>(millions)</i>	2011				2010					
	Year-to-date	Q3	Q2	Q1	Year	Q4	Q3 Year-to-date	Q3	Q2	Q1
Weighted Average Common Shares Outstanding										
Basic	736.3	736.3	736.3	736.3	739.7	736.3	740.8	736.3	737.6	748.7
Diluted	737.4	737.6	737.6	737.6	739.8	736.3	740.9	736.3	737.6	748.8