

*take a closer look*ABUNDANT  
OPPORTUNITIES

/ CEO'S MESSAGE

*relentless  
pursuit of  
lowering cost  
structures**increasing the  
value of each  
Encana share**technological  
and operating  
efficiencies**the natural  
gas economy*

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

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

### 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

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

### 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

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.

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