Encana Corporation

Management's Discussion and Analysis
(Prepared using U.S. GAAP)

For the year ended December 31, 2012

(Prepared in U.S. Dollars)

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for Encana Corporation ("Encana" or the "Company") should be read with the audited Consolidated Financial Statements for the year ended December 31, 2012 ("Consolidated Financial Statements"), as well as the audited United States ("U.S.") generally accepted accounting principles ("U.S. GAAP") Consolidated Financial Statements and U.S. GAAP MD&A for the year ended December 31, 2011.

The Consolidated Financial Statements and comparative information have been prepared in accordance with U.S. GAAP and in U.S. dollars, except where another currency has been indicated. Production volumes are presented on an after royalties basis consistent with U.S. oil and gas reporting standards and the disclosure of U.S. oil and gas companies. The term "liquids" is used to represent oil, natural gas liquids ("NGLs") and condensate. The term "liquids rich" is used to represent natural gas streams with associated liquids volumes. This document is dated February 21, 2013.

Certain measures in this document do not have any standardized meaning as prescribed by U.S. GAAP and, therefore, are considered non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by Encana to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Non-GAAP measures include: Cash Flow; Operating Earnings; Revenues, Net of Royalties, Excluding Unrealized Hedging; Net Debt to Debt Adjusted Cash Flow; Debt to Debt Adjusted Cash Flow; Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"); Debt to Adjusted EBITDA; and Debt to Adjusted Capitalization. Further information can be found in the Non-GAAP Measures section of this MD&A, including reconciliations of Cash from Operating Activities to Cash Flow and of Net Earnings to Operating Earnings.

Readers should also read the Advisory section located at the end of this document, which provides information on Forward-Looking Statements, Oil and Gas Information and Currency and References to Encana.

Encana's Strategic Objectives

Encana is a leading North American energy producer that is focused on growing its strong portfolio of diverse resource plays producing natural gas, oil and NGLs. Encana is pursuing the key business objectives of maintaining financial strength, optimizing capital investments in the Company's highest return projects and continuing to pay a stable dividend to shareholders as it pursues disciplined, responsible and reliable low-cost production growth.

Encana's extensive portfolio of reserves and economic contingent resources in high-growth resource plays in North America serve as the foundation for the Company's long-term strategy of accelerating the value recognition of its assets. Encana has a history of entering prospective plays early and leveraging technology to unlock resources and build the underlying productive capacity at a low cost. The Company is also working to expand the use of natural gas in North America in power generation, transportation and industrial applications.

Encana continually strives to improve operating efficiencies, foster technological innovation and lower its cost structures, while reducing its environmental footprint through resource play optimization. The Company's resource play hub model, which utilizes highly integrated production facilities, is used to develop resources by drilling multiple wells from central pad sites. Repeatable operations lend themselves to ongoing cost reductions through optimization of equipment and processes by applying continuous improvement techniques.

Encana's capital investment strategy is focused on building long-term production growth capacity and transitioning to a more diversified portfolio of production and cash flows. In the current price environment, the Company plans to continue focusing capital investment in oil and liquids rich natural gas plays, minimizing investment in dry natural gas plays and attracting third party capital investments. Third party capital investment advances development of the Company's reserves and resources, recognizes the value of the Company's assets and provides additional financial flexibility. In addition, third party investment reduces the risk of early life plays and maintains capital and operating efficiencies on mature assets.

At December 31, 2012, Encana has hedged approximately 1,515 million cubic feet ("MMcf") per day ("MMcf/d") of expected 2013 natural gas production using NYMEX fixed price contracts at an average price of $4.39 per thousand cubic feet ("Mcf"), approximately 748 MMcf/d of expected 2014 production at an average price of $4.22

per Mcf and approximately 825 MMcf/d of expected 2015 production at an average price of $4.37 per Mcf. In addition, Encana has hedged approximately 9.3 thousand barrels ("Mbbls") per day ("Mbbls/d") of expected 2013 oil production using Brent fixed price contracts at an average price of $108.22 per barrel ("bbl"). The Company's hedging program helps sustain Cash Flow and netbacks during periods of lower prices.

Further information on expected results can be found in Encana's 2013 Corporate Guidance on the Company's website www.encana.com.

Encana's Business

Encana's reportable segments are determined based on the Company's operations and geographic locations as follows:

- **Canadian Division** includes the exploration for, development of, and production of natural gas, oil and NGLs and other related activities within Canada.

- **USA Division** includes the exploration for, development of, and production of natural gas, oil and NGLs and other related activities within the U.S.

- **Market Optimization** is primarily responsible for the sale of the Company's proprietary production. These results are included in the Canadian and USA Divisions. Market optimization activities include third party purchases and sales of product that provide operational flexibility for transportation commitments, product type, delivery points and customer diversification. These activities are reflected in the Market Optimization segment.

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

Market Optimization sells substantially all of the Company's upstream production to third party customers. Transactions between segments are based on market values and are eliminated on consolidation. Financial information is presented on an after eliminations basis within this MD&A.

Results Overview

Highlights

In the year ended December 31, 2012, Encana reported:

- Cash Flow of $3,537 million and Operating Earnings of $997 million.
- Net Earnings, a loss of $2,794 million, including after-tax non-cash ceiling test impairments of $3,179 million.
- Average natural gas production volumes of 2,981 MMcf/d and average liquids production volumes of 31.0 Mbbls/d.
- Realized financial commodity hedging gains of $2,161 million before tax.
- Average realized natural gas prices, including financial hedges, of $4.82 per Mcf. Average realized liquids prices of $75.12 per bbl.
- Dividends paid of $0.80 per share.
- Cash and cash equivalents increase of $2,379 million to $3,179 million and long-term debt decrease of $475 million to $7,675 million.
- Net divestitures of $3,664 million and lower capital expenditures of $3,476 million.

Significant developments for the Company during the year ended December 31, 2012 included the following:

- Entered into a partnership agreement with a Mitsubishi Corporation subsidiary (“Mitsubishi”) to jointly develop certain Cutbank Ridge lands in British Columbia. Mitsubishi has agreed to invest approximately C$2.9 billion for a 40 percent interest in the partnership, with C$1.45 billion received in February 2012.
- Entered into an agreement with a PetroChina Company Limited subsidiary (“PetroChina”) to jointly explore and develop certain liquids rich natural gas Duvernay lands in Alberta. PetroChina has agreed to invest approximately C$2.18 billion for a 49.9 percent working interest in the lands, with C$1.18 billion received in December 2012.
- Entered into an agreement with a Toyota Tsusho Corporation subsidiary (“Toyota Tsusho”) under which Toyota Tsusho has agreed to acquire a royalty interest in natural gas production from a portion of Encana’s Clearwater resource play. Toyota Tsusho has agreed to invest approximately C$600 million for a 32.5 percent gross overriding royalty, with C$100 million received in April 2012.
- Entered into a long-term joint venture agreement with a Nucor Corporation subsidiary (“Nucor”) under which Nucor is to earn a 50 percent working interest in certain natural gas wells to be drilled over the next 20 years in the Piceance Basin in Colorado. Nucor has agreed to pay its share of well costs plus a portion attributable to Encana’s interest.
- Entered into a joint venture agreement with Exaro Energy III LLC (“Exaro”) under which Exaro has agreed to invest approximately $380 million over the next five years to earn a 32.5 percent working interest in certain sections of the Jonah field in Wyoming.
- Renegotiated certain gathering and processing agreements which result in Encana receiving additional NGL volumes from the Company’s processed gas in the Piceance and Jonah areas in the U.S.
- Closed the sale of two natural gas processing plants in British Columbia and Alberta for proceeds of approximately C$920 million in February 2012.

Financial Results

	2012					2011					2010
($ millions, except per share)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	Annual	Q4	Q3	Q2	Q1	Annual
Cash Flow [(1)]	**$ 3,537**	**$ 809**	**$ 913**	**$ 794**	**$ 1,021**	$ 4,216	$ 983	$ 1,181	$ 1,089	$ 963	$ 4,439
per share - diluted	**4.80**	**1.10**	**1.24**	**1.08**	**1.39**	5.72	1.33	1.60	1.48	1.31	6.00
Operating Earnings [(1)]	**997**	**296**	**263**	**198**	**240**	1,191	232	389	352	218	1,474
per share - diluted	**1.35**	**0.40**	**0.36**	**0.27**	**0.33**	1.62	0.31	0.53	0.48	0.30	1.99
Net Earnings	**(2,794)**	**(80)**	**(1,244)**	**(1,482)**	**12**	5	(476)	459	383	(361)	2,343
per share - basic	**(3.79)**	**(0.11)**	**(1.69)**	**(2.01)**	**0.02**	0.01	(0.65)	0.62	0.52	(0.49)	3.17
per share - diluted	**(3.79)**	**(0.11)**	**(1.69)**	**(2.01)**	**0.02**	0.01	(0.65)	0.62	0.52	(0.49)	3.17
Production Volumes											
Natural Gas (MMcf/d)	**2,981**	**2,948**	**2,905**	**2,802**	**3,272**	3,333	3,459	3,365	3,309	3,196	3,184
Liquids (Mbbls/d)	**31.0**	**36.2**	**30.3**	**28.2**	**29.3**	24.0	23.9	24.4	24.3	23.3	22.8
Capital Investment	**3,476**	**780**	**779**	**797**	**1,120**	4,610	1,008	1,186	1,122	1,294	4,779
Net Acquisitions & (Divestitures)	**(3,664)**	**(1,327)**	**31**	**(8)**	**(2,360)**	(1,565)	(1,538)	(4)	108	(131)	(150)
Revenues, Net of Royalties	**5,160**	**1,605**	**1,025**	**731**	**1,799**	8,467	2,461	2,353	1,986	1,667	8,870
Revenues, Net of Royalties, Excluding Unrealized Hedging [(1)]	**6,601**	**1,723**	**1,623**	**1,526**	**1,729**	7,613	1,883	1,953	1,959	1,818	7,923
Total Assets	**18,700**					23,415					23,007
Total Debt	**7,675**					8,150					7,682
Cash & Cash Equivalents	**3,179**					800					699

(1) A non-GAAP measure, which is defined under the Non-GAAP Measures section of this MD&A.

Q4 2012 versus Q4 2011

Cash Flow of $809 million decreased $174 million primarily due to lower natural gas production volumes and lower commodity prices, partially offset by higher liquids production volumes and higher realized financial hedging gains. In the three months ended December 31, 2012:

- Average realized natural gas prices, excluding financial hedges, were $3.45 per Mcf compared to $3.73 per Mcf in 2011. Average realized liquids prices, excluding financial hedges, were $66.65 per bbl compared to $85.44 per bbl in 2011.
- Realized financial hedging gains before tax were $420 million compared to $331 million in 2011.
- Average natural gas production volumes of 2,948 MMcf/d decreased 511 MMcf/d from 3,459 MMcf/d in 2011 primarily as a result of the Company's capital investment focus in oil and liquids rich natural gas plays. Average oil and NGL production volumes of 36.2 Mbbls/d increased 12.3 Mbbls/d from 23.9 Mbbls/d in 2011.

Operating Earnings of $296 million increased $64 million primarily due to higher liquids production volumes, higher realized financial hedging gains, lower depreciation, depletion and amortization ("DD&A") and lower deferred tax, partially offset by lower natural gas production volumes and lower commodity prices.

Net Earnings, a loss of $80 million, increased $396 million primarily due to lower non-cash ceiling test impairments, higher liquids production volumes, higher realized financial hedging gains and lower DD&A. These were partially offset by unrealized financial hedging gain reversals, lower natural gas production volumes, lower commodity prices and an unrealized foreign exchange loss on the revaluation of long-term debt.

2012 versus 2011

Cash Flow of $3,537 million decreased $679 million primarily due to lower commodity prices and lower natural gas production volumes, partially offset by higher realized financial hedging gains and higher liquids production volumes. In 2012:

- Average realized natural gas prices, excluding financial hedges, were $2.83 per Mcf compared to $4.17 per Mcf in 2011. Average realized liquids prices, excluding financial hedges, were $75.12 per bbl compared to $85.36 per bbl in 2011.
- Realized financial hedging gains before tax were $2,161 million compared to $948 million in 2011.
- Average natural gas production volumes of 2,981 MMcf/d decreased 352 MMcf/d from 3,333 MMcf/d in 2011 primarily as a result of shut-in and curtailed production and the Company's capital investment focus in oil and liquids rich natural gas plays. Average oil and NGL production volumes of 31.0 Mbbls/d increased 7.0 Mbbls/d from 24.0 Mbbls/d in 2011.

Operating Earnings of $997 million decreased $194 million primarily due to lower commodity prices and lower natural gas production volumes, partially offset by higher realized financial hedging gains, lower DD&A, higher liquids production volumes and lower deferred tax.

Net Earnings, a loss of $2,794 million, decreased $2,799 million primarily due to higher non-cash ceiling test impairments, unrealized financial hedging gain reversals, lower commodity prices and lower natural gas production volumes. These were partially offset by higher realized financial hedging gains, lower DD&A, an unrealized foreign exchange gain on the revaluation of long-term debt, higher liquids production volumes and a deferred tax recovery.

The Company's after-tax non-cash ceiling test impairments of $3,179 million in 2012 and $1,687 million in 2011 primarily resulted from the decline in the 12-month average trailing natural gas prices. Under full cost accounting, the carrying amount of Encana's natural gas and oil properties within each country cost centre is subject to a ceiling test performed quarterly. Ceiling test impairments are recognized when the capitalized costs exceed the sum of the estimated after-tax future net cash flows from proved reserves as calculated under Securities and Exchange Commission ("SEC") requirements using the 12-month average trailing prices and discounted at 10 percent.

Future ceiling test impairments could result from decreases in the 12-month average trailing commodity prices as well as changes to reserves estimates, future development costs, capitalized costs and unproved property costs. Proceeds received from oil and gas divestitures are deducted from the Company's capitalized costs and can reduce the risk of ceiling test impairments.

The Company believes that the discounted after-tax future net cash flows from proved reserves required to be used in the ceiling test calculation are not indicative of the fair market value of Encana's oil and gas properties or of the future net cash flows expected to be generated from such properties. The discounted after-tax future net cash flows do not consider the value of unproved properties, the value of probable or possible reserves or future changes in commodity prices. Encana manages its business using estimates of reserves and resources based on forecast prices and costs.

Encana's quarterly net earnings are impacted by fluctuations in commodity prices, realized and unrealized hedging gains and losses, production volumes, foreign exchange rates and non-cash ceiling test impairments. Further to the information included within this MD&A:

- Realized hedging gains before tax in 2012 were: Q1 - $527 million; Q2 - $636 million; Q3 - $578 million; and Q4 - $420 million. In 2011, realized hedging gains before tax were: Q1 - $205 million; Q2 - $196 million; Q3 - $216 million; and Q4 - $331 million.
- Non-cash ceiling test impairments after tax in 2012 were: Q2 - $1,695 million; Q3 - $1,193 million; and Q4 - $291 million. In 2011, non-cash ceiling test impairments after tax were: Q1 - $582 million; and Q4 - $1,105 million.

2011 versus 2010

Cash Flow of $4,216 million decreased $223 million primarily due to lower natural gas prices, lower realized financial hedging gains and higher transportation and processing expense. These were partially offset by higher production volumes and higher liquids prices. In 2011:

- Average realized natural gas prices, excluding financial hedges, were $4.17 per Mcf compared to $4.47 per Mcf in 2010. Average realized liquids prices, excluding financial hedges, were $85.36 per bbl compared to $66.72 per bbl in 2010.
- Realized financial hedging gains before tax were $948 million compared to $1,203 million in 2010.
- Average natural gas production volumes of 3,333 MMcf/d increased 149 MMcf/d from 3,184 MMcf/d in 2010. Average oil and NGL production volumes of 24.0 Mbbls/d increased 1.2 Mbbls/d from 22.8 Mbbls/d in 2010.

Operating Earnings of $1,191 million decreased $283 million primarily due to lower natural gas prices, lower realized financial hedging gains, higher transportation and processing expense and higher DD&A. These were partially offset by higher production volumes, higher liquids prices and lower deferred tax expense.

Net Earnings of $5 million decreased $2,338 million primarily due to non-cash ceiling test impairments, lower unrealized financial hedging gains and an unrealized foreign exchange loss on the revaluation of long-term debt. Net earnings also decreased due to the items discussed in operating earnings.

Quarterly Prices and Foreign Exchange Rates

	2012					2011					2010
(average for the period)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	Annual	Q4	Q3	Q2	Q1	Annual
Encana Realized Pricing											
Natural Gas ($/Mcf)											
Including hedging	**$ 4.82**	**$ 5.02**	**$ 4.91**	**$ 4.79**	**$ 4.58**	$ 4.96	$ 4.79	$ 5.01	$ 5.09	$ 5.00	$ 5.48
Excluding hedging	**2.83**	**3.45**	**2.77**	**2.25**	**2.80**	4.17	3.73	4.32	4.42	4.26	4.47
Liquids ($/bbl) (1)											
Oil	**84.06**	**79.75**	**80.04**	**84.62**	**92.65**	86.70	87.18	81.98	94.65	82.74	68.53
NGLs	**63.37**	**52.97**	**61.34**	**72.88**	**72.30**	83.32	83.11	83.12	89.40	77.42	66.21
Total	**75.12**	**66.65**	**72.17**	**80.32**	**83.77**	85.36	85.44	82.43	92.66	80.70	66.72
Natural Gas Price Benchmarks											
NYMEX ($/MMBtu)	**2.79**	**3.40**	**2.81**	**2.22**	**2.74**	4.04	3.55	4.20	4.31	4.11	4.39
AECO (C$/Mcf)	**2.40**	**3.06**	**2.19**	**1.83**	**2.52**	3.67	3.47	3.72	3.74	3.77	4.13
Rockies (Opal) ($/MMBtu)	**2.63**	**3.26**	**2.56**	**2.01**	**2.67**	3.80	3.47	3.90	3.98	3.84	3.94
HSC ($/MMBtu)	**2.75**	**3.35**	**2.84**	**2.17**	**2.65**	4.02	3.49	4.23	4.29	4.06	4.38
Basis Differential ($/MMBtu)											
AECO/NYMEX	**0.38**	**0.32**	**0.62**	**0.39**	**0.22**	0.31	0.17	0.34	0.42	0.29	0.40
Rockies/NYMEX	**0.16**	**0.14**	**0.25**	**0.21**	**0.07**	0.24	0.08	0.30	0.33	0.27	0.45
HSC/NYMEX	**0.04**	**0.05**	**(0.03)**	**0.05**	**0.09**	0.02	0.06	(0.03)	0.02	0.05	0.01
Oil Price Benchmarks											
West Texas Intermediate (WTI) ($/bbl)	**94.21**	**88.22**	**92.20**	**93.35**	**103.03**	95.11	94.02	89.54	102.34	94.25	79.55
Edmonton (C$/bbl) (2)	**87.02**	**83.99**	**84.33**	**83.95**	**92.23**	95.03	97.35	91.74	103.07	87.97	77.50
Foreign Exchange											
U.S./Canadian Dollar Exchange Rate	**1.000**	**1.009**	**1.005**	**0.990**	**0.999**	1.012	0.978	1.020	1.033	1.015	0.971

(1) Excluding hedging impact.

(2) Light Sweet.

Encana's financial results are influenced by fluctuations in commodity prices, price differentials and the U.S./Canadian dollar exchange rate. In 2012, Encana's average realized natural gas price, excluding hedging, reflected lower benchmark prices compared to 2011. Hedging activities contributed an additional $1.99 per Mcf to the average realized natural gas price in 2012. In 2012, Encana's average realized oil price reflected lower benchmark prices compared to 2011. The Company's 2012 NGLs price reflects a lower proportion of higher value condensate included in the total NGL product mix.

In 2011, Encana's average realized natural gas price, excluding hedging, reflected lower benchmark prices compared to 2010. Hedging activities contributed an additional $0.79 per Mcf to the average realized natural gas price in 2011. The Company's 2011 average realized liquids prices reflected higher benchmark prices compared to 2010.

As a means of managing commodity price volatility and its impact on cash flows, Encana enters into various financial hedge agreements. Unsettled derivative financial contracts are recorded at the date of the financial statements based on the fair value of the contracts. Changes in fair value result from volatility in forward curves of commodity prices and changes in the balance of unsettled contracts between periods. The changes in fair value are recognized in revenue as unrealized hedging gains and losses. Realized hedging gains and losses are recognized in revenue when derivative financial contracts are settled.

At December 31, 2012, Encana has hedged approximately 1,515 MMcf/d of expected 2013 natural gas production using NYMEX fixed price contracts at an average price of $4.39 per Mcf, approximately 748 MMcf/d of expected 2014 production at an average price of $4.22 per Mcf and approximately 825 MMcf/d of expected 2015

production at an average price of $4.37 per Mcf. In addition, Encana has hedged approximately 9.3 Mbbls/d of expected 2013 oil production using Brent fixed price contracts at an average price of $108.22 per bbl. The Company's hedging program helps sustain Cash Flow during periods of lower prices. For additional information, see the Risk Management - Financial Risks section of this MD&A.

Reserves Quantities

Since its formation in 2002, Encana has retained independent qualified reserves evaluators ("IQREs") to evaluate and prepare reports on 100 percent of the Company's natural gas, oil and NGL reserves annually. The Company has a Reserves Committee composed of a majority of independent Board of Directors ("Board") members that reviews the qualifications and appointment of the IQREs. The Reserves Committee also reviews the procedures for providing information to the IQREs. All booked reserves are based upon annual evaluations by the IQREs.

As required by Canadian regulatory standards, Encana's disclosure of reserves data is in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). Encana's 2012 Canadian protocol disclosure includes proved reserves quantities before and after royalties employing forecast prices and costs and is available in Encana's Annual Information Form ("AIF"). Canadian standards require reconciliations in this section to include cubic feet equivalent. The oil and NGL volumes have been converted to cubic feet equivalent on the basis of one Mbbls to six MMcf based on an energy equivalency conversion method primarily applicable at the burner tip. This energy equivalency conversion method does not represent value equivalency, as the current price of oil and NGLs compared to natural gas is significantly higher.

Supplementary oil and gas information, including proved reserves on an after royalties basis, is provided in accordance with U.S. disclosure requirements in Note 22 to the December 31, 2012 Consolidated Financial Statements. As Encana follows U.S. GAAP full cost accounting for oil and gas activities, the U.S. protocol reserves estimates are key inputs to the Company's depletion and ceiling test impairment calculations.

The Canadian standards require the use of forecast prices in the estimation of reserves and the disclosure of before and after royalties volumes. The U.S. standards require the use of 12-month average trailing prices in the estimation of reserves and the disclosure of after royalties volumes. The following sections provide Encana's Canadian protocol and U.S. protocol reserves quantities.

Canadian Protocol Reserves Quantities

Proved Reserves by Country
(Forecast Prices and Costs; Before Royalties)

	Natural Gas (Bcf)			Oil and NGLs (MMbbls)		
(as at December 31)	**2012**	2011	2010	**2012**	2011	2010
Canada	**6,730**	7,067	6,755	**126.3**	106.5	61.9
United States	**6,660**	8,432	9,299	**156.2**	47.3	47.4
Total	**13,390**	15,499	16,054	**282.5**	153.8	109.3

Proved Reserves Reconciliation
(Forecast Prices and Costs; Before Royalties)

	Natural Gas (Bcf)			Oil and NGLs (MMbbls)			
	Canada	United States	Total	Canada	United States	Total	**Total** (Bcfe)
December 31, 2011	7,067	8,432	15,499	106.5	47.3	153.8	16,422
Extensions	863	378	1,241	28.8	42.9	71.7	1,672
Discoveries	17	7	24	1.3	0.6	1.9	35
Technical revisions	217	(222)	(5)	0.1	76.7	76.8	456
Economic factors	(580)	(783)	(1,363)	(2.2)	(1.0)	(3.2)	(1,383)
Acquisitions	83	11	94	0.1	0.1	0.2	95
Dispositions	(435)	(429)	(864)	(2.7)	(5.2)	(7.9)	(911)
Production	(502)	(734)	(1,236)	(5.6)	(5.2)	(10.8)	(1,301)
December 31, 2012	6,730	6,660	13,390	126.3	156.2	282.5	15,085

Encana's 2012 natural gas proved reserves before royalties of approximately 13.4 trillion cubic feet ("Tcf") decreased 2.1 Tcf from 2011 primarily due to the impact of lower prices included in economic factors. Divestitures also reduced 2012 proved reserves. Extensions and discoveries of approximately 1.3 Tcf replaced production before royalties during the year.

Encana's 2012 oil and NGL proved reserves before royalties of approximately 282.5 million barrels ("MMbbls") increased 128.7 MMbbls from 2011 primarily due to activities in the U.S., including the impact of renegotiated gathering and processing agreements. The renegotiated agreements result in Encana receiving additional NGL volumes from the Company's processed gas, which increased oil and NGL reserves and reduced natural gas reserves.

Proved Reserves by Country
(Forecast Prices and Costs; After Royalties)

(as at December 31)	Natural Gas (Bcf) 2012	2011	2010	Oil and NGLs (MMbbls) 2012	2011	2010
Canada	**6,207**	6,607	6,298	**113.1**	94.4	54.8
United States	**5,410**	6,834	7,477	**127.3**	38.6	38.5
Total	**11,617**	13,441	13,775	**240.4**	133.0	93.3

Proved Reserves Reconciliation
(Forecast Prices and Costs; After Royalties)

	Natural Gas (Bcf)			Oil and NGLs (MMbbls)			
	Canada	United States	Total	Canada	United States	Total	**Total** (Bcfe)
December 31, 2011	6,607	6,834	13,441	94.4	38.6	133.0	14,239
Extensions and discoveries	795	312	1,107	26.1	35.2	61.3	1,475
Revisions [(1)]	(285)	(810)	(1,095)	2.0	61.8	63.8	(712)
Acquisitions	76	10	86	-	0.1	0.1	86
Dispositions	(489)	(343)	(832)	(2.3)	(4.2)	(6.5)	(871)
Production	(497)	(593)	(1,090)	(7.1)	(4.2)	(11.3)	(1,158)
December 31, 2012	6,207	5,410	11,617	113.1	127.3	240.4	13,059

(1) Includes economic factors.

Encana's 2012 natural gas proved reserves after royalties of approximately 11.6 Tcf decreased 1.8 Tcf from 2011 primarily due to the impact of lower prices included in revisions. Divestitures also reduced 2012 proved reserves. Extensions and discoveries of approximately 1.1 Tcf replaced production after royalties during the year.

Encana's 2012 oil and NGL proved reserves after royalties of approximately 240.4 MMbbls increased 107.4 MMbbls from 2011 primarily due to activities in the U.S., including the impact of renegotiated gathering and processing agreements. The renegotiated agreements result in Encana receiving additional NGL volumes from the Company's processed gas, which increased oil and NGL reserves and reduced natural gas reserves.

Forecast Prices

The reference prices below were utilized in the determination of reserves.

	Natural Gas		Liquids	
	Henry Hub ($/MMBtu)	AECO (C$/MMBtu)	WTI ($/bbl)	Edmonton [(1)] (C$/bbl)
2010 Price Assumptions				
2011	4.73	4.35	79.53	81.93
2012 - 2015	5.33 - 6.01	4.94 - 5.78	82.65 - 86.68	85.88 - 91.61
Thereafter	6.18 - 6.63	5.97 - 6.48	83.72	88.37
2011 Price Assumptions				
2012	3.80	3.49	97.00	97.96
2013 - 2021	4.50 - 7.17	4.13 - 6.58	100.00 - 107.56	101.02 - 108.73
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr
2012 Price Assumptions				
2013	3.75	3.38	90.00	85.00
2014 - 2022	4.25 - 6.27	3.83 - 5.64	92.50 - 104.57	91.50 - 103.57
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr

(1) Light Sweet.

U.S. Protocol Reserves Quantities

Proved Reserves by Country
(12-month average trailing prices; After Royalties)

(as at December 31)	Natural Gas (Bcf) 2012	2011	2010	Oil and NGLs (MMbbls) 2012	2011	2010
Canada	**4,550**	6,329	6,117	**101.6**	95.0	54.3
United States	**4,242**	6,511	7,183	**108.4**	38.2	38.2
Total	**8,792**	12,840	13,300	**210.0**	133.2	92.5

Proved Reserves Reconciliation
(12-month average trailing prices; After Royalties)

	Natural Gas (Bcf)			Oil and NGLs (MMbbls)		
	Canada	United States	Total	Canada	United States	Total
December 31, 2011	6,329	6,511	12,840	95.0	38.2	133.2
Revisions and improved recovery	(1,497)	(1,701)	(3,198)	(10.0)	38.9	28.9
Extensions and discoveries	638	338	976	25.9	39.2	65.1
Purchase of reserves in place	38	8	46	-	0.1	0.1
Sale of reserves in place	(461)	(321)	(782)	(2.2)	(3.8)	(6.0)
Production	(497)	(593)	(1,090)	(7.1)	(4.2)	(11.3)
December 31, 2012	4,550	4,242	8,792	101.6	108.4	210.0

Encana's 2012 natural gas proved reserves after royalties of approximately 8.8 Tcf decreased 4.0 Tcf from 2011 primarily due to the impact of lower 12-month average trailing prices included in revisions and improved recovery. Divestitures also reduced 2012 proved reserves.

Encana's 2012 oil and NGL proved reserves after royalties of approximately 210.0 MMbbls increased 76.8 MMbbls from 2011 primarily due to activities in the U.S., including the impact of renegotiated gathering and processing agreements. The renegotiated agreements result in Encana receiving additional NGL volumes from the Company's processed gas, which increased oil and NGL reserves and reduced natural gas reserves.

12-Month Average Trailing Prices

The reference prices below were utilized in the determination of reserves. The 12-month average trailing price is calculated as the average of the prices on the first day of each month within the trailing 12-month period.

	Natural Gas		Liquids	
	Henry Hub ($/MMBtu)	AECO (C$/MMBtu)	WTI ($/bbl)	Edmonton [(1)] (C$/bbl)
Reserves Pricing [(2)]				
2010	4.38	4.03	79.43	76.22
2011	4.12	3.76	96.19	96.53
2012	2.76	2.35	94.71	87.42

(1) Light Sweet.

(2) All prices were held constant in all future years when estimating reserves.

Production and Net Capital Investment

Production Volumes (After Royalties)

(average daily)	**2012**	2011	2010
Natural Gas (MMcf/d)			
Canadian Division	**1,359**	1,454	1,323
USA Division	**1,622**	1,879	1,861
	2,981	3,333	3,184
Oil and NGLs (Mbbls/d)			
Canadian Division	**19.4**	14.5	13.2
USA Division	**11.6**	9.5	9.6
	31.0	24.0	22.8

2012 versus 2011

Encana's natural gas production volumes for 2012 were impacted by the Company's capital investment focus in oil and liquids rich natural gas plays and shut-in and curtailed production. In 2012, average natural gas production volumes of 2,981 MMcf/d decreased 352 MMcf/d from 2011. The Canadian Division volumes were lower primarily due to shut-in production and divestitures, partially offset by a successful drilling program at Cutbank Ridge and Bighorn. The USA Division volumes were lower primarily due to natural declines, divestitures and shut-in production, partially offset by a successful drilling program in Piceance. During 2012, Encana announced plans to shut-in and curtail natural gas production volumes of approximately 250 MMcf/d in areas subject to higher decline and higher variable costs. The shut-in volumes were brought back on prior to year end.

In 2012, average oil and NGL production volumes of 31.0 Mbbls/d increased 7.0 Mbbls/d from 2011. The Canadian Division volumes were higher primarily due to the extraction of additional liquids volumes at the Musreau plant in Bighorn, higher royalty interest volumes and a successful drilling program in Peace River Arch and Bighorn. The USA Division volumes were higher primarily due to successful drilling programs in oil and liquids rich natural gas plays and renegotiated gathering and processing agreements which resulted in additional liquids volumes.

2011 versus 2010

In 2011, average natural gas production volumes of 3,333 MMcf/d increased 149 MMcf/d from 2010. Average oil and NGL production volumes of 24.0 Mbbls/d increased 1.2 Mbbls/d from 2010. The Canadian Division volumes were higher primarily due to a successful drilling program in the resource plays. The USA Division volumes were higher primarily due to a successful drilling program in Haynesville, partially offset by net divestitures and natural declines.

Net Capital Investment

($ millions)	2012	2011	2010
Canadian Division	**$ 1,567**	$ 2,031	$ 2,214
USA Division	**1,727**	2,446	2,502
Market Optimization	**7**	2	2
Corporate & Other	**175**	131	61
Capital Investment	**3,476**	4,610	4,779
Acquisitions	**379**	515	733
Divestitures	**(4,043)**	(2,080)	(883)
Net Acquisitions and Divestitures	**(3,664)**	(1,565)	(150)
Net Capital Investment	**$ (188)**	$ 3,045	$ 4,629

2012

Capital investment during 2012 was $3,476 million and focused on completing previously initiated drilling programs, executing drilling programs with joint venture partners and increasing investment in oil and liquids rich natural gas development and exploration opportunities. Development of resource plays continued in Piceance, Haynesville, Bighorn, Cutbank Ridge and Peace River Arch. Investment in prospective oil and liquids rich natural gas plays was focused on the Duvernay, Clearwater Oil, the Tuscaloosa Marine Shale, Eaglebine, the Mississippian Lime, the DJ Niobrara and the San Juan Basin.

Divestitures in 2012 were $3,770 million in the Canadian Division and $271 million in the USA Division. The Canadian Division included C$1.45 billion received from Mitsubishi, C$1.18 billion received from PetroChina, C$100 million received from Toyota Tsusho and approximately C$920 million received from the sale of two natural gas processing plants. The USA Division received the remaining proceeds of $114 million from the divestiture of the North Texas natural gas assets, with the majority of the proceeds received in December 2011. Amounts received from the transactions have been deducted from the respective Canadian and U.S. full cost pools.

Acquisitions in 2012 were $139 million in the Canadian Division and $240 million in the USA Division and primarily included land and property purchases with oil and liquids rich natural gas production potential.

In December, Encana agreed to sell its 30 percent interest in the proposed Kitimat liquefied natural gas export terminal in British Columbia. The transaction closed on February 8, 2013.

Encana is currently involved in a number of joint ventures with counterparties in both Canada and the U.S. These arrangements support the Company's long-term strategy of accelerating the value recognition of its assets. Sharing development costs with third parties enables Encana to advance project development while reducing capital investment, thereby improving project returns.

2011

Capital investment during 2011 was $4,610 million and focused on continued development of Encana's resource plays, including Bighorn, Cutbank Ridge, Haynesville and Piceance.

Divestitures in 2011 were $350 million in the Canadian Division and $1,730 million in the USA Division. The USA Division divestitures included the sales of the Fort Lupton natural gas processing plant for proceeds of $296 million, the South Piceance natural gas gathering assets for proceeds of $547 million and the majority of the North Texas natural gas assets for proceeds of $836 million. Cash taxes increased by $114 million as a result of the sale of the South Piceance assets and the North Texas assets. Divestiture amounts were net of amounts recovered for capital expenditures incurred prior to the sale of certain natural gas gathering and processing assets.

Acquisitions in 2011 were $410 million in the Canadian Division and $105 million in the USA Division, which included land and property purchases that were complementary to existing Company assets and focused on acreage with oil and liquids rich natural gas production potential.

2010

Capital investment during 2010 was $4,779 million and focused on continued development of Encana's resource plays, including Greater Sierra, Clearwater, Cutbank Ridge, Haynesville and Texas. Divestitures in 2010 were $288 million in the Canadian Division and $595 million in the USA Division and included the sale of mature conventional oil and natural gas assets. Acquisitions in 2010 were $592 million in the Canadian Division and $141 million in the USA Division and included land and property purchases that were complementary to existing Company assets.

Divisional Results

Canadian Division

Operating Cash Flow

	Operating Cash Flow ($ millions)			Natural Gas Netback ($/Mcf)			Oil & NGLs Netback ($/bbl)		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Revenues, Net of Royalties, excluding Hedging	**$ 1,802**	$ 2,507	$ 2,350	**$ 2.58**	$ 3.79	$ 4.10	**$ 70.84**	$ 85.41	$ 64.79
Realized Financial Hedging Gain	**958**	365	479	**1.97**	0.69	0.99	**-**	-	(1.04)
Expenses									
Production and mineral taxes	**9**	15	8	**-**	0.02	0.01	**1.13**	0.90	0.44
Transportation and processing	**555**	490	436	**1.12**	0.91	0.87	**0.75**	1.45	1.73
Operating	**352**	380	324	**0.67**	0.68	0.62	**2.09**	1.23	2.33
Operating Cash Flow/Netback	**$ 1,844**	$ 1,987	$ 2,061	**$ 2.76**	$ 2.87	$ 3.59	**$ 66.87**	$ 81.83	$ 59.25

	Natural Gas (MMcf/d)			Oil & NGLs (Mbbls/d)		
	2012	2011	2010	**2012**	2011	2010
Production Volumes - After Royalties	**1,359**	1,454	1,323	**19.4**	14.5	13.2

2012 versus 2011

Operating Cash Flow of $1,844 million decreased $143 million primarily due to lower realized commodity prices, lower natural gas production volumes and higher transportation and processing expense, partially offset by higher realized financial hedging gains and higher liquids production volumes. In 2012:

- Lower natural gas and liquids prices decreased revenues by $695 million.
- Realized financial hedging gains were $958 million compared to $365 million in 2011.
- Average natural gas production volumes of 1,359 MMcf/d were lower by 95 MMcf/d. This decreased revenues by $158 million primarily due to shut-in and curtailed production and divestitures, partially offset by a successful drilling program at Cutbank Ridge and Bighorn. A portion of 2012 production was shut-in at Cutbank Ridge, Greater Sierra and Clearwater.

- Average oil and NGL production volumes of 19.4 Mbbls/d were higher by 4.9 Mbbls/d, which increased revenues by $156 million primarily due to the extraction of additional liquids volumes at the Musreau plant in Bighorn, higher royalty interest volumes and a successful drilling program in Peace River Arch and Bighorn.
- Transportation and processing expense increased $65 million primarily due to higher volumes processed through third party facilities, mainly resulting from the sale of two natural gas processing plants.

2011 versus 2010

Operating Cash Flow of $1,987 million decreased $74 million primarily due to lower realized natural gas prices, lower financial hedging gains, higher transportation and processing expense and higher operating expense, partially offset by higher production volumes and higher realized liquids prices. In 2011:

- Lower natural gas prices decreased revenues by $165 million, while higher liquids prices increased revenues by $111 million.
- Realized financial hedging gains were $365 million compared to $479 million in 2010.
- Average natural gas production volumes of 1,454 MMcf/d were higher by 131 MMcf/d and average oil and NGL production volumes of 14.5 Mbbls/d were higher by 1.3 Mbbls/d. This increased revenues $212 million as a result of a successful drilling program across all resource plays.
- Transportation and processing expense increased $54 million due to higher production volumes.
- Operating expense increased $56 million due to scheduled plant turnaround costs, higher property tax and a higher U.S./Canadian dollar exchange rate, partially offset by lower electricity costs.

Comparative figures for 2011 and 2010 in the Operating Cash Flow table above have been updated to present processing costs with transportation expense. Formerly these processing costs were presented in operating expense. The Company has reclassified $240 million of operating expense to transportation and processing expense for 2011 and $239 million for 2010. For additional information, see Note 2 to the Consolidated Financial Statements.

2012 Investment Highlights

Encana entered into a partnership agreement with Mitsubishi to jointly develop certain Cutbank Ridge lands in British Columbia. Under the agreement, Encana owns 60 percent and Mitsubishi owns 40 percent of the partnership. Mitsubishi agreed to invest approximately C$2.9 billion for its partnership interest, with C$1.45 billion received in February 2012. Mitsubishi has agreed to invest the remaining amount of approximately C$1.45 billion, in addition to its 40 percent of the partnership's future capital investment, over an expected commitment period of five years, thereby reducing Encana's capital funding commitment to 30 percent of the total expected capital investment over that period. The transaction did not include any of Encana's existing Cutbank Ridge production, processing plants, gathering systems or Alberta landholdings at the time of the transaction.

The Company entered into an agreement with PetroChina to jointly explore and develop certain liquids rich natural gas Duvernay lands in Alberta. PetroChina has agreed to invest approximately C$2.18 billion for a 49.9 percent working interest in the lands. PetroChina invested C$1.18 billion in December 2012 and has agreed to further invest approximately C$1.0 billion over a commitment period which is expected to be four years. The further investment of approximately C$1.0 billion is to be used to fund half of Encana's capital funding commitment.

Encana entered into an agreement with Toyota Tsusho under which Toyota Tsusho has agreed to invest approximately C$600 million to acquire a 32.5 percent gross overriding royalty interest in natural gas production from a portion of Encana's Clearwater resource play. Toyota Tsusho invested C$100 million in April 2012 and has agreed to further invest approximately C$500 million which is expected to be received over the next seven years.

The Company closed the sale of two natural gas processing plants in British Columbia and Alberta for proceeds of approximately C$920 million in February 2012. As part of the sale, Encana has entered into an agreement for firm gathering and processing services in the Cutbank Ridge area.

Results by Resource Play

	Natural Gas Production (MMcf/d)			Oil & NGLs Production (Mbbls/d)			Capital ($ millions)		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Cutbank Ridge	**433**	428	344	**1.5**	1.1	0.4	**$ 228**	$ 371	$ 422
Bighorn	**242**	230	220	**5.8**	3.5	3.2	**333**	397	345
Peace River Arch	**108**	101	105	**2.9**	2.1	1.6	**220**	156	84
Clearwater	**374**	433	395	**8.6**	7.0	6.0	**131**	354	428
Greater Sierra	**200**	260	230	**0.5**	0.8	1.0	**118**	325	515
Other and emerging	**2**	2	29	**0.1**	-	1.0	**537**	428	420
Total Canadian Division	**1,359**	1,454	1,323	**19.4**	14.5	13.2	**$ 1,567**	$ 2,031	$ 2,214

Other and emerging resource plays include results from prospective oil and liquids rich natural gas plays, including the Duvernay emerging play, and the Deep Panuke offshore natural gas project.

Other Divisional Expenses

($ millions)	**2012**	2011	2010
Depreciation, depletion and amortization	**$ 748**	$ 966	$ 826
Impairments	**1,822**	2,249	-

In 2012, DD&A decreased $218 million from 2011 due to lower depletion rates and lower production volumes. The lower depletion rates primarily resulted from ceiling test impairments and credits to the full cost pool for amounts received from divestitures in 2012. In 2011, DD&A increased $140 million from 2010 primarily due to higher production volumes.

In 2012, the Division recognized non-cash ceiling test impairments of $1,822 million before tax compared to $2,249 million before tax recognized in 2011 (2010 - nil). The impairments resulted primarily from the decline in the 12-month average trailing natural gas prices, which reduced the Division’s proved reserves volumes and values as calculated under SEC requirements. A non-cash ceiling test impairment is recognized when the capitalized costs aggregated at the country cost centre level exceed the sum of the estimated after-tax future net cash flows from proved reserves based on SEC requirements, using the 12-month average trailing prices and unescalated future development and production costs, discounted at 10 percent, plus unproved property costs.

USA Division

Operating Cash Flow

	Operating Cash Flow ($ millions)			Natural Gas Netback ($/Mcf)			Oil & NGLs Netback ($/bbl)		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Revenues, Net of Royalties, excluding Hedging	**$ 2,170**	$ 3,424	$ 3,577	**$ 3.03**	$ 4.47	$ 4.73	**$ 82.33**	$ 85.28	$ 69.35
Realized Financial Hedging Gain	**1,195**	598	698	**2.01**	0.87	1.03	**-**	-	-
Expenses									
Production and mineral taxes	**96**	183	209	**0.11**	0.23	0.27	**6.63**	7.54	6.69
Transportation and processing	**652**	728	662	**1.10**	1.06	0.97	**0.06**	0.08	-
Operating	**377**	444	472	**0.59**	0.62	0.58	**5.88**	0.70	-
Operating Cash Flow/Netback	**$ 2,240**	$ 2,667	$ 2,932	**$ 3.24**	$ 3.43	$ 3.94	**$ 69.76**	$ 76.96	$ 62.66

	Natural Gas (MMcf/d)			Oil & NGLs (Mbbls/d)		
	2012	2011	2010	**2012**	2011	2010
Production Volumes - After Royalties	**1,622**	1,879	1,861	**11.6**	9.5	9.6

2012 versus 2011

Operating Cash Flow of $2,240 million decreased $427 million primarily due to lower realized natural gas prices and lower natural gas production volumes, partially offset by higher realized financial hedging gains, lower production and mineral taxes, lower transportation and processing expense, lower operating expense and higher liquids production volumes. In 2012:

- Lower natural gas prices decreased revenues by $856 million.
- Realized financial hedging gains were $1,195 million compared to $598 million in 2011.
- Average natural gas production volumes of 1,622 MMcf/d were lower by 257 MMcf/d. This decreased revenues by $412 million primarily due to natural declines, divestitures in Texas and shut-in production in Haynesville, partially offset by a successful drilling program in Piceance.
- Average oil and NGL production volumes of 11.6 Mbbls/d were higher by 2.1 Mbbls/d. This increased revenues by $66 million primarily due to successful drilling programs in oil and liquids rich natural gas plays and renegotiated gathering and processing agreements, which resulted in additional liquids volumes.
- Production and mineral taxes decreased $87 million primarily due to lower natural gas prices.
- Transportation and processing expense decreased $76 million primarily due to lower natural gas production volumes.
- Operating expense decreased $67 million primarily due to lower property taxes and the North Texas asset divestiture.

2011 versus 2010

Operating Cash Flow of $2,667 million decreased $265 million primarily due to lower realized natural gas prices, lower financial hedging gains and higher transportation and processing expense, partially offset by higher realized liquids prices and higher natural gas production volumes. In 2011:

- Lower natural gas prices decreased revenues by $179 million, while higher liquids prices increased revenues by $56 million.
- Realized financial hedging gains were $598 million compared to $698 million in 2010.

- Average natural gas production volumes of 1,879 MMcf/d were higher by 18 MMcf/d. This increased revenues by $31 million primarily due to a successful drilling program in Haynesville, partially offset by net divestitures and natural declines.
- Transportation and processing expense increased $66 million due to transporting volumes further to obtain higher price realizations.

2012 Investment Highlights

Encana entered into a long-term joint venture agreement with Nucor in November 2012 under which Nucor is to earn a 50 percent working interest in certain natural gas wells to be drilled over the next 20 years in the Piceance Basin in Colorado. Nucor has agreed to pay its share of well costs plus a portion attributable to Encana's interest.

Encana entered into a joint venture agreement with Exaro in March 2012 under which Exaro has agreed to invest approximately $380 million over the next five years to earn a 32.5 percent working interest in certain sections of the Jonah field in Wyoming.

The Company renegotiated certain gathering and processing agreements in September 2012, which result in Encana receiving additional NGL volumes from the Company's processed gas in the Piceance and Jonah areas.

The Company closed the majority of the North Texas asset sale in December 2011 for proceeds of $836 million. The remainder of the sale closed in March 2012 for proceeds of $114 million.

Results by Resource Play

	Natural Gas Production (MMcf/d)			Oil & NGLs Production (Mbbls/d)			Capital ($ millions)		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Piceance	**475**	435	446	**2.2**	1.9	2.0	**$ 328**	$ 453	$ 224
Jonah	**411**	471	531	**4.1**	4.3	4.6	**102**	275	374
Haynesville	**475**	508	287	**-**	-	-	**337**	1,018	1,141
Texas	**167**	376	487	**0.1**	0.3	0.2	**62**	310	418
Other and emerging	**94**	89	110	**5.2**	3.0	2.8	**898**	390	345
Total USA Division	**1,622**	1,879	1,861	**11.6**	9.5	9.6	**$ 1,727**	$ 2,446	$ 2,502

Other and emerging resource plays include results from prospective oil and liquids rich natural gas plays, including the Tuscaloosa Marine Shale, Eaglebine, the Mississippian Lime, the DJ Niobrara and the San Juan Basin.

Other Divisional Expenses

($ millions)	**2012**	2011	2010
Depreciation, depletion and amortization	**$ 1,102**	$ 1,226	$ 1,094
Impairments	**2,842**	-	-

In 2012, DD&A decreased $124 million from 2011 due to lower production volumes, partially offset by a higher depletion rate. The higher depletion rate primarily resulted from lower proved reserves estimates based on SEC requirements due to a decline in natural gas prices, partially offset by ceiling test impairments recognized in the second and third quarters of 2012. In 2011, DD&A increased $132 million from 2010 primarily due to higher production volumes.

In 2012, the Division recognized non-cash ceiling test impairments of $2,842 million before tax (2011 - nil; 2010 - nil). The impairments resulted primarily from the decline in the 12-month average trailing natural gas prices, which reduced the Division's proved reserves volumes and values as calculated under SEC requirements.

Market Optimization

($ millions)	2012	2011	2010
Revenues	$ 419	$ 703	$ 797
Expenses			
Operating	48	40	34
Purchased product	349	635	739
Depreciation, depletion and amortization	12	12	11
	$ 10	$ 16	$ 13

Market Optimization revenues and purchased product expense relate to activities that provide operational flexibility for transportation commitments, product type, delivery points and customer diversification. Revenues and purchased product expense decreased in 2012 compared to 2011 primarily due to lower commodity prices and lower volumes required for optimization. Revenues and purchased product expense also decreased in 2011 compared to 2010 primarily due to lower commodity prices and lower volumes required for optimization.

Corporate and Other

($ millions)	2012	2011	2010
Revenues	$ (1,384)	$ 870	$ 969
Expenses			
Transportation and processing	24	(25)	2
Operating	17	2	(3)
Depreciation, depletion and amortization	94	78	77
Impairment	31	-	-
	$ (1,550)	$ 815	$ 893

Revenues mainly includes unrealized hedging gains or losses recorded on financial derivative contracts which result from the volatility in forward curves of commodity prices and changes in the balance of unsettled contracts between periods. Revenues in 2012 resulted from the reversals of unrealized hedging gains. Transportation and processing expense primarily reflects unrealized financial hedging gains or losses related to the Company's power financial derivative contracts. DD&A includes amortization of corporate assets, such as computer equipment, office furniture and leasehold improvements. Impairment expense in 2012 relates to the Company's corporate assets.

Comparative figures for 2011 and 2010 in the table above have been updated to present unrealized financial hedging gains and losses related to the Company's power financial derivative contracts in transportation and processing expense. Formerly, these were presented in operating expense. For additional information, see Note 2 to the Consolidated Financial Statements.

Other Operating Results

Expenses

($ millions)		2012		2011		2010
Accretion of asset retirement obligation	**$**	**53**	$	50	$	46
Administrative		**392**		350		362
Interest		**522**		468		501
Foreign exchange (gain) loss, net		**(107)**		133		(251)
Other		**1**		21		2
	$	**861**	$	1,022	$	660

Administrative expense in 2012 increased from 2011 primarily due to higher long-term compensation cost accruals and legal costs.

Interest expense in 2012 increased from 2011 due to higher standby fees on available committed revolving bank credit facilities, a lower recovery of interest accrued on unrecognized tax benefits and interest related to The Bow office project. Interest expense on long-term debt in 2012 was comparable to 2011. The Bow office project is discussed further in the Contractual Obligations and Contingencies section of this MD&A.

Foreign exchange gains and losses result from the impact of the fluctuations in the Canadian to U.S. dollar exchange rate. Foreign exchange gains and losses primarily arise from the revaluation and settlement of U.S. dollar long-term debt issued from Canada and the revaluation of other monetary assets and liabilities.

Income Tax

($ millions)		2012		2011		2010
Current Income Tax	**$**	**(200)**	$	(195)	$	(213)
Deferred Income Tax		**(1,837)**		212		1,189
Income Tax Expense (Recovery)	**$**	**(2,037)**	$	17	$	976

In 2012, current income tax was a recovery of $200 million compared to a recovery of $195 million in 2011 and $213 million in 2010. The current income tax recoveries were primarily due to the carry back of tax losses to prior years.

In 2012, total income tax was a recovery of $2,037 million compared to an expense of $17 million in 2011 due to lower net earnings before tax primarily resulting from higher non-cash ceiling test impairments, lower commodity prices and unrealized hedging gain reversals. Total income tax expense in 2011 decreased $959 million from 2010 due to lower net earnings before tax primarily resulting from non-cash ceiling test impairments, lower natural gas prices, lower realized and unrealized hedging gains and an unrealized foreign exchange loss.

For 2012, Encana's annual effective tax rate was 42 percent, which included the tax benefit from the Cutbank Ridge transaction with Mitsubishi that closed in the first quarter. Encana's effective tax rate is impacted by earnings, along with tax benefits and expenses resulting from items including any tax on divestitures and transactions and related pool adjustments, international financing and the non-taxable portions of capital gains and losses.

The effective tax rate differs from the Canadian statutory tax rate due to permanent differences, jurisdictional tax rates, benefits of loss carry-backs and adjustments to estimates. Permanent differences primarily include any tax on divestitures and transactions and related pool adjustments, international financing, the non-taxable portion of capital gains and losses and the effect of legislative changes.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As a result, there are tax matters under review. The Company believes that the provision for taxes is adequate.

Liquidity and Capital Resources

($ millions)	2012	2011	2010
Net Cash From (Used In)			
Operating activities	**$ 3,107**	$ 3,927	$ 2,329
Investing activities	**361**	(3,631)	(4,729)
Financing activities	**(1,111)**	(194)	(1,284)
Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency	**22**	(1)	2
Increase (Decrease) in Cash and Cash Equivalents	**$ 2,379**	$ 101	$ (3,682)
Cash and Cash Equivalents, End of Year	**$ 3,179**	$ 800	$ 699

Operating Activities

Net cash from operating activities in 2012 of $3,107 million decreased $820 million from 2011. Net cash from operating activities in 2011 of $3,927 million increased $1,598 million from 2010. These variances are a result of the Cash Flow variances discussed in the Financial Results section of this MD&A. In 2012, the net change in non-cash working capital was a deficit of $323 million compared to a deficit of $15 million in 2011 and a deficit of $1,998 million in 2010. The 2010 net change in non-cash working capital reflected a one time tax payment of $1,775 million related to the wind-up of the Company's Canadian oil and gas partnership.

The Company had a working capital surplus of $2,865 million at December 31, 2012 compared to $881 million at December 31, 2011. The increase in working capital is primarily the result of an increase in cash and cash equivalents, a decrease in accounts payable and accrued liabilities and a decrease in the deferred income tax liability, partially offset by lower risk management assets. At December 31, 2012, working capital included cash and cash equivalents of $3,179 million compared to $800 million at December 31, 2011. Encana expects that it will continue to meet the payment terms of its suppliers.

Investing Activities

Net cash from investing activities in 2012 was $361 million compared to net cash used in investing activities of $3,631 million in 2011. The net cash from investing activities primarily resulted from higher divestiture proceeds and lower capital expenditures. Net cash used for investing activities in 2011 of $3,631 million decreased $1,098 million from 2010 due to higher divestiture proceeds. Reasons for these changes are discussed further in the Net Capital Investment section of this MD&A.

Net cash from investing activities in 2012 also included cash in reserve released from escrow of $415 million compared to cash placed in escrow of $383 million in 2011. Cash in reserve includes amounts received from counterparties related to jointly controlled assets. At December 31, 2011, the Company also had amounts placed in escrow for a possible qualifying like-kind exchange for U.S. income tax purposes.

Financing Activities

Long-Term Debt

Encana's current portion of long-term debt outstanding at December 31, 2012 was $500 million compared to $492 million at December 31, 2011. Encana's long-term debt, excluding the current portion, totaled $7,175 million at December 31, 2012 and $7,658 million at December 31, 2011. Long-term debt at December 31, 2012 decreased from 2011 due to the repayment of the Company's C$500 million 4.30 percent notes that matured on March 12, 2012. There were no outstanding balances under the Company's commercial paper or revolving credit facilities at December 31, 2012 or December 31, 2011.

In November 2011, Encana completed a public offering in the U.S. of senior unsecured notes in two series totaling $1.0 billion. The first series of $600 million have a coupon rate of 3.90 percent and mature November 15, 2021. The second series of $400 million have a coupon rate of 5.15 percent and mature November 15, 2041. The proceeds of the offering were used to repay a portion of Encana's commercial paper indebtedness, a portion of which was incurred to repay Encana's $500 million 6.30 percent notes that matured November 1, 2011.

Credit Facilities and Shelf Prospectuses

Encana maintains two committed revolving bank credit facilities and a Canadian and a U.S. dollar shelf prospectus.

As at December 31, 2012, Encana had available unused committed revolving bank credit facilities of $5.0 billion.

- Encana has in place a revolving bank credit facility for C$4.0 billion ($4.0 billion) that remains committed through October 2015, of which C$4.0 billion ($4.0 billion) remained unused.
- One of Encana's U.S. subsidiaries has in place a revolving bank credit facility for $1.0 billion that remains committed through October 2015, of which $999 million remained unused.

As at December 31, 2012, Encana had available unused capacity under shelf prospectuses for up to $6.0 billion.

- Encana has in place a shelf prospectus whereby it may issue from time to time up to C$2.0 billion ($2.0 billion), or the equivalent in foreign currencies, of debt securities in Canada. At December 31, 2012, the shelf prospectus remained unutilized, the availability of which is dependent upon market conditions. The shelf prospectus expires in June 2013 and is expected to be renewed.
- Encana has in place a shelf prospectus whereby it may issue from time to time up to $4.0 billion, or the equivalent in foreign currencies, of debt securities in the U.S. At December 31, 2012, the shelf prospectus remained unutilized, the availability of which is dependent upon market conditions. The shelf prospectus expires in June 2014.

Encana is currently in compliance with, and expects that it will continue to be in compliance with, all financial covenants under its credit facility agreements. Management monitors Debt to Adjusted Capitalization as a proxy for Encana's financial covenant under its credit facility agreements which require debt to adjusted capitalization to be less than 60 percent. The definitions used in the covenant under the credit facilities adjust capitalization for historical ceiling test impairments that were recorded as at December 31, 2011. Debt to Adjusted Capitalization was 37 percent at December 31, 2012 and 33 percent at December 31, 2011.

Normal Course Issuer Bid

In 2011 and 2010, Encana had approval from the Toronto Stock Exchange to purchase common shares under a Normal Course Issuer Bid ("NCIB"). Encana was entitled to purchase, for cancellation, up to 36.8 million common shares under the NCIB, which commenced on December 14, 2010 and expired on December 13, 2011. The Company did not renew its NCIB for 2012 and did not purchase any common shares during 2012 or 2011. During 2010, the Company purchased approximately 15.4 million common shares for total consideration of approximately $499 million.

Dividends

Encana pays quarterly dividends to shareholders at the discretion of the Board of Directors. For the year ended December 31, 2012, dividend payments were $0.80 per share totaling $588 million (2011 - $0.80 per share totaling $588 million; 2010 - $0.80 per share totaling $590 million).

On February 13, 2013, the Board declared a dividend of $0.20 per share payable on March 28, 2013 to common shareholders of record as of March 15, 2013.

Outstanding Share Data

As at December 31, 2012 and February 19, 2013, Encana had 736.3 million common shares outstanding (December 31, 2011 - 736.3 million; December 31, 2010 - 736.3 million).

Eligible employees have been granted stock options to purchase common shares in accordance with Encana's Employee Stock Option Plan. As at December 31, 2012, there were approximately 29.8 million outstanding stock options with associated Tandem Stock Appreciation Rights ("TSARs") attached (20.7 million exercisable). A TSAR gives the option holder the right to receive a cash payment equal to the excess of the market price of Encana's common shares at the time of exercise over the original grant price. The exercise of a TSAR for a cash payment does not result in the issuance of any Encana common shares and therefore has no dilutive effect. Historically, most holders of these options have elected to exercise their stock options as a TSAR in exchange for a cash payment.

Since 2011, Restricted Share Units ("RSUs") have been granted to eligible employees to receive an Encana common share, or the cash equivalent, as determined by Encana, upon vesting of the RSUs and in accordance with the terms of the RSU Plan and Grant Agreement. The value of one RSU is notionally equivalent to one Encana common share. As at December 31, 2012, there were approximately 3.6 million outstanding RSUs which vest three years from the date granted. The Company intends to settle vested RSUs in cash on the vesting date. A settlement in cash does not result in the issuance of any Encana common shares and therefore has no dilutive effect.

Capital Structure

The Company's capital structure consists of shareholders' equity plus long-term debt, including the current portion. The Company's objectives when managing its capital structure are to maintain financial flexibility to preserve Encana's access to capital markets and its ability to meet financial obligations and finance internally generated growth, as well as potential acquisitions. Encana has a long-standing practice of maintaining capital discipline, managing its capital structure and adjusting its capital structure according to market conditions to maintain flexibility while achieving the Company's objectives.

To manage the capital structure, the Company may adjust capital spending, adjust dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt or repay existing debt. In managing its capital structure, the Company monitors several non-GAAP financial metrics as indicators of its overall financial strength. The financial metrics the Company currently monitors are below.

(as at December 31)	**2012**	2011	2010
Net Debt to Debt Adjusted Cash Flow [(1)]	**1.1x**	1.6x	1.5x
Debt to Debt Adjusted Cash Flow [(1)]	**2.0x**	1.8x	1.6x
Debt to Adjusted EBITDA [(1)]	**2.0x**	1.9x	1.6x
Debt to Adjusted Capitalization [(1)]	**37%**	33%	

(1) A non-GAAP measure, which is defined under the Non-GAAP Measures section of this MD&A.

Contractual Obligations and Contingencies

Contractual Obligations

The following table outlines the Company's contractual obligations including commitments at December 31, 2012:

	Expected Future Payments						
($ millions, undiscounted)	2013	2014	2015	2016	2017	Thereafter	Total
Long-Term Debt [1]	500	1,000	-	-	700	5,454	7,654
Asset Retirement Obligation	34	52	47	59	60	4,073	4,325
Other Long-Term Obligations	86	93	93	94	95	2,120	2,581
Capital Leases	82	97	97	97	97	354	824
Obligations [2]	702	1,242	237	250	952	12,001	15,384
Transportation and Processing	905	970	991	868	829	5,030	9,593
Drilling and Field Services	366	114	70	48	21	51	670
Operating Leases	51	48	44	38	29	71	281
Commitments	1,322	1,132	1,105	954	879	5,152	10,544
Total Contractual Obligations	2,024	2,374	1,342	1,204	1,831	17,153	25,928
Sublease Recoveries	(44)	(46)	(46)	(47)	(47)	(1,049)	(1,279)

(1) Principal component only. See Note 13 to the Consolidated Financial Statements.

(2) The Company has recorded $10,983 million in liabilities related to these obligations.

Contractual obligations arising from long-term debt, asset retirement obligations, capital leases, The Bow office project and the Deep Panuke Production Field Centre are recognized on the Company's balance sheet. Further information can be found in the note disclosures to the Consolidated Financial Statements.

Other Long-Term Obligations relates to the 25-year lease agreement with a third party developer for The Bow office project. Encana has recognized the accumulated construction costs for The Bow office project as an asset with a related liability. Beginning in July 2012, Encana assumed partial occupancy of The Bow office premises and commenced payments to the third party developer. At the conclusion of the 25-year term, the remaining asset and corresponding liability are expected to be derecognized. Encana has subleased part of The Bow office space to a subsidiary of Cenovus Energy Inc. ("Cenovus"). Sublease Recoveries in the table above include the amounts expected to be recovered from Cenovus. Encana's undiscounted payments for The Bow are $2,581 million, of which $1,279 million is expected to be recovered from Cenovus.

Capital Leases primarily include the commitment related to the Deep Panuke Production Field Centre, which has been recorded as an asset under construction with a corresponding liability of $612 million. Upon commencement of operations, Encana will recognize the production facility as a capital lease. Encana's undiscounted contractual payments are limited to $711 million ($564 million discounted).

In addition to the Commitments disclosed in the table above, Encana has development commitments with its joint venture partners resulting from the arrangements the Company entered into during 2012. A portion of these joint venture commitments may be satisfied by the Drilling and Field Services commitments included in the table above. For further information on Encana's significant arrangements, see the 2012 Investment Highlights in the Divisional Results section.

In addition to the Total Contractual Obligations disclosed above, Encana has made commitments related to its risk management program and the Company has an obligation to fund its defined benefit pension and other post-employment benefit plans. Further information can be found in Notes 19 and 17, respectively, to the Consolidated Financial Statements. The Company expects to fund its 2013 commitments from Cash Flow and cash and cash equivalents.

Contingencies

Encana is involved in various legal claims and actions arising in the course of the Company's operations. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on Encana's financial position, cash flows or results of operations. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net earnings or loss in the period in which the outcome is determined. Accruals for litigation and claims are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such legal claims.

Results of Independent Investigation

In June 2012, Encana's independent Directors authorized its Chairman, Mr. David O'Brien, to oversee an investigation into allegations of collusion with competitors regarding land leasing in Michigan in 2010. External legal counsel were retained in both the United States and Canada to assist in undertaking a thorough investigation, which was conducted independent of the Company's management. Based on the results of the investigation, the Board has concluded that Encana did not engage in such conduct. The Company has received a subpoena from the Antitrust Division of the United States Department of Justice and a civil investigatory demand from the Michigan Attorney General and is cooperating fully with the investigations of both agencies. It is possible that Encana may become a defendant or involved in potential legal actions, including class actions, in connection with matters relating to the allegations.

Risk Management

Encana's business, prospects, financial condition, results of operation and cash flows, and in some cases its reputation, are impacted by risks that are categorized as follows:

- financial risks;
- operational risks; and
- safety, environmental and regulatory risks.

Issues affecting, or with the potential to affect, Encana's reputation are generally of a strategic nature or emerging issues that can be identified early and then managed, but occasionally include unforeseen issues that arise unexpectedly and must be managed on an urgent basis. Encana takes a proactive approach to the identification and management of issues that affect the Company's reputation and has established consistent and clear policies, procedures, guidelines and responsibilities for identifying and managing these issues.

Encana continues to implement its business model of focusing on developing low-risk and low-cost long-life resource plays, which allows the Company to respond well to market uncertainties. Management adjusts financial and operational risk strategies to proactively respond to changing economic conditions and to mitigate or reduce risk.

Financial Risks

Encana defines financial risks as the risk of loss or lost opportunity resulting from financial management and market conditions that could have a positive or negative impact on Encana's business.

Financial risks include, but are not limited to:

- market pricing of natural gas and liquids;
- credit and liquidity;
- foreign exchange rates; and
- interest rates.

Encana partially mitigates its exposure to financial risks through the use of various financial instruments and physical contracts. The use of derivative financial instruments is governed under formal policies and is subject to limits established by the Board of Directors. All derivative financial agreements are with major financial institutions in Canada and the U.S. or with counterparties having investment grade credit ratings. Encana has in place policies and procedures with respect to the required documentation and approvals for the use of derivative financial instruments and specifically ties their use, in the case of commodities, to the mitigation of price risk to achieve investment returns and growth objectives, while maintaining prescribed financial metrics.

To partially mitigate commodity price risk, the Company may enter into transactions that fix or set a floor and cap on prices. To help protect against regional price differentials, Encana executes transactions to manage the price differentials between its production areas and various sales points. Further information, including the details of Encana's financial instruments as at December 31, 2012, is disclosed in Note 19 to the Consolidated Financial Statements.

Counterparty and credit risks are regularly and proactively managed. A substantial portion of Encana's credit exposure is with customers in the oil and gas industry or financial institutions. This credit exposure is mitigated through the use of Board-approved credit policies governing the Company's credit portfolio, including credit practices that limit transactions and grant payment terms according to counterparties' credit quality.

The Company manages liquidity risk using cash and debt management programs. The Company has access to cash equivalents and a wide range of funding alternatives at competitive rates through commercial paper, committed revolving bank credit facilities and debt capital markets. Encana closely monitors the Company's ability to access cost-effective credit and ensures that sufficient liquidity is in place to fund capital expenditures and dividend payments. The Company minimizes its liquidity risk by managing its capital structure. In managing the capital structure, the Company may adjust capital spending, adjust dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt or repay existing debt.

As a means of mitigating the exposure to fluctuations in the U.S./Canadian dollar exchange rate, Encana may enter into foreign exchange contracts. Realized gains or losses on these contracts are recognized on settlement. By maintaining U.S. and Canadian operations, Encana has a natural hedge to some foreign exchange exposure.

Encana also maintains a mix of both U.S. dollar and Canadian dollar debt, which helps to offset the exposure to the fluctuations in the U.S./Canadian dollar exchange rate. In addition to direct issuance of U.S. dollar denominated debt, the Company may enter into cross currency swaps on a portion of its debt as a means of managing the U.S./Canadian dollar debt mix.

The Company may partially mitigate its exposure to interest rate changes by holding a mix of both fixed and floating rate debt. Encana may enter into interest rate swap transactions from time to time as an additional means of managing the fixed/floating rate debt portfolio mix.

Operational Risks

Operational risks are defined as the risk of loss or lost opportunity resulting from the following:

- reserves and resources replacement;
- capital activities; and
- operating activities.

The Company's ability to operate, generate cash flows, complete projects, and value reserves and resources is subject to financial risks, including commodity prices mentioned above, continued market demand for its products and other risk factors outside of its control, which include: general business and market conditions; economic recessions and financial market turmoil; the overall state of the capital markets, including investor appetite for investments in the oil and gas industry generally and the Company's securities in particular; the ability to secure and maintain cost effective financing for its commitments; legislative, environmental and regulatory matters;

unexpected cost increases; royalties; taxes; volatility in natural gas and liquids prices; the availability of drilling and other equipment; the ability to access lands; the ability to access water for hydraulic fracturing operations; weather; the availability of processing capacity; the availability and proximity of pipeline capacity; technology failures; accidents; the availability of skilled labour; and reservoir quality. If Encana fails to acquire or find additional natural gas and liquids reserves and resources, its reserves, resources and production will decline materially from their current levels and, therefore, its cash flows are highly dependent upon successfully exploiting current reserves and resources and acquiring, discovering or developing additional reserves and resources. To mitigate these risks, as part of the capital approval process, the Company's projects are evaluated on a fully risked basis, including geological risk and engineering risk.

In addition, the asset teams undertake a thorough review of previous capital programs to identify key learnings, which often include operational issues that positively and negatively impact project results. Mitigation plans are developed for the operational issues that had a negative impact on results. These mitigation plans are then incorporated into the current year plan for the project. On an annual basis, these results are analyzed for Encana's capital program with the results and identified learnings shared across the Company.

A peer review process is used to ensure that capital projects are appropriately risked and that knowledge is shared across the Company. Peer reviews are undertaken primarily for exploration projects and early stage resource plays, although they may occur for any type of project.

When making operating and investing decisions, Encana's business model allows flexibility in capital allocation to optimize investments focused on project returns, long-term value creation and risk mitigation. Encana also mitigates operational risks through a number of other policies, systems and processes as well as by maintaining a comprehensive insurance program.

Safety, Environmental and Regulatory Risks

The Company is committed to safety in its operations and has high regard for the environment and stakeholders, including regulators. The Company's business is subject to all of the operating risks normally associated with the exploration for, development of and production of natural gas, oil and NGLs and the operation of midstream facilities. When assessing the materiality of the environmental risk factors, Encana takes into account a number of qualitative and quantitative factors, including, but not limited to, financial, operational, reputational and regulatory aspects of the identified risk factor. These risks are managed by executing policies and standards that are designed to comply with or exceed government regulations and industry standards. In addition, Encana maintains a system that identifies, assesses and controls safety, security and environmental risk and requires regular reporting to Senior Management and the Board of Directors. The Corporate Responsibility, Environment, Health & Safety Committee of Encana's Board of Directors provides recommended environmental policies for approval by Encana's Board of Directors and oversees compliance with government laws and regulations. Monitoring and reporting programs for environmental, health and safety performance in day-to-day operations, as well as inspections and audits, are designed to provide assurance that environmental and regulatory standards are met. Contingency plans are in place for a timely response to environmental events and remediation/reclamation strategies are utilized to restore the environment.

Encana's operations are subject to regulation and intervention by governments that can affect or prohibit the drilling, completion, including hydraulic fracturing and tie-in of wells, production, the construction or expansion of facilities and the operation and abandonment of fields. Changes in government regulation could impact the Company's existing and planned projects as well as impose a cost of compliance.

One of the processes Encana monitors relates to hydraulic fracturing. Hydraulic fracturing is used throughout the oil and gas industry where fracturing fluids are utilized to develop the reservoir. This process has been used in the oil and gas industry for approximately 60 years. Encana uses multiple techniques to fully understand the effect of each hydraulic fracturing operation it conducts. In all Encana operations, rigorous water management and protection is an essential part of this process.

Hydraulic fracturing processes are strictly regulated by various state and provincial government agencies. Encana meets or exceeds the requirements set out by the regulators. The U.S. and Canadian federal governments and

certain U.S. state and Canadian provincial governments are currently reviewing certain aspects of the scientific, regulatory and policy framework under which hydraulic fracturing operations are conducted. At present, most of these governments are primarily engaged in the collection, review and assessment of technical information regarding the hydraulic fracturing process and have not provided specific details with respect to any significant actual, proposed or contemplated changes to the hydraulic fracturing regulatory construct. However, there are increased chemical disclosure requirements in many of the jurisdictions in which the Company operates. In addition, well setback and water sampling requirements are expected to come into force in the state of Colorado in 2013.

The U.S. Environmental Protection Agency (the "EPA") continues to study the potential environmental impacts of hydraulic fracturing, including the impacts on drinking water sources and public health. The EPA released a draft report in 2011 outlining the results of its groundwater study at Encana's Pavillion natural gas field in Wyoming. Although the EPA released additional analytical data in 2012, their draft report has not yet been subject to a qualified, third party, scientific verification. Any implication of a potential connection between hydraulic fracturing and groundwater quality could impact the Company's existing and planned projects as well as impose a cost of compliance.

Encana is committed to and supports the disclosure of hydraulic fracturing chemical information. Encana participates in the FracFocus Chemical Disclosure Registry ("the Registry") in the U.S. and the Alberta and British Columbia versions of the Registry. Encana works collaboratively with industry peers, trade associations, fluid suppliers and regulators to identify, develop and advance responsible hydraulic fracturing best practices. More information on hydraulic fracturing can be accessed on the Company's website at www.encana.com.

Climate Change

A number of federal, provincial and state governments have announced intentions to regulate greenhouse gases ("GHG") and certain other air emissions. While some jurisdictions have provided details on these regulations, it is anticipated that other jurisdictions will announce emission reduction plans in the future. As these federal and regional programs are under development, Encana is unable to predict the total impact of the potential regulations upon its business. Therefore, it is possible that the Company could face increases in operating and capital costs in order to comply with GHG emissions legislation. However, Encana will continue to work with governments to develop an approach to deal with climate change issues that protects the industry's competitiveness, limits the cost and administrative burden of compliance and supports continued investment in the sector.

The Alberta Government has set targets for GHG emission reductions. In March 2007, regulations were amended to require facilities that emit more than 100,000 tonnes of GHG emissions per year to reduce their emissions intensity by 12 percent from a regulated baseline starting July 1, 2007. To comply, companies can make operating improvements, purchase carbon offsets or make a C$15 per tonne contribution to an Alberta Climate Change and Emissions Management Fund. In Alberta, Encana has one facility covered under the emissions regulations. The forecast cost of carbon associated with the Alberta regulations is not material to Encana at this time and is being actively managed.

In British Columbia, effective July 1, 2008, a 'revenue neutral carbon tax' was applied to virtually all fossil fuels, including diesel, natural gas, coal, propane and home heating fuel. The tax applies to combustion emissions and to the purchase or use of fossil fuels within the province. The rate started at C$10 per tonne of carbon equivalent emissions and has risen to C$30 per tonne at present. The forecast cost of carbon associated with the British Columbia regulations is not material to Encana at this time and is being actively managed.

The American Clean Energy and Security Act ("ACESA") was passed by the U.S. House of Representatives in June 2009 but failed to gain sufficient support in the U.S. Senate in 2010. The ACESA proposed climate change legislation which would have established a GHG cap-and-trade system and provided incentives for the development of renewable energy. Subsequently, the current U.S. Administration has directed the EPA to exercise new authority under the Clean Air Act to regulate GHG emissions. Under the Clean Air Act, the EPA is required to set industry-specific standards for new and existing sources that emit GHGs above a certain threshold. To date, the EPA has not made significant announcements pertaining to the development or

implementation of industry-specific standards related to oil and gas exploration and production. Encana will continue to monitor these developments during 2013.

The Canadian federal government has announced that it will align greenhouse gas emission legislation with the U.S. As it remains unclear what approach the U.S. federal government will take, or when, it is also unclear whether these federal governments will implement economy-wide greenhouse gas emission legislation or a sector-specific approach, and what type of compliance mechanisms will be available to certain emitters.

Encana intends to continue its activity to reduce its emissions intensity and improve its energy efficiency. The Company's efforts with respect to emissions management are founded on the following key elements:

- focus on energy efficiency and the development of technology to reduce GHG emissions;
- involvement in the creation of industry best practices; and
- production weighting of natural gas.

Encana has a proactive strategy for addressing the implications of emerging carbon regulations which is composed of three principal elements:

- *Active Cost Management*. When regulations are implemented, a cost is placed on Encana's emissions (or a portion thereof) and while these are not material at this stage, they are being actively managed to ensure compliance. Factors such as effective emissions tracking and attention to fuel consumption help to support and drive the Company's focus on cost reduction.

- *Anticipate and Respond to Price Signals.* As regulatory regimes for GHGs develop in the jurisdictions where Encana works, inevitably price signals begin to emerge. The Company maintains an Environmental Efficiency Initiative in an effort to improve the energy efficiency of its operations. The price of potential carbon reductions plays a role in the economics of the projects that are implemented. In response to the anticipated price of carbon, Encana is also attempting, where appropriate, to realize the associated value of its reduction projects.

- *Work with Industry Groups.* Encana continues to work with governments, academics and industry leaders to develop and respond to emerging GHG regulations. By continuing to stay engaged in the debate on the most appropriate means to regulate these emissions, the Company gains useful knowledge that allows it to explore different strategies for managing its emissions and costs. These scenarios influence Encana's long-range planning and its analyses on the implications of regulatory trends.

Encana monitors developments in emerging climate change policy and legislation, and considers the associated costs of carbon in its strategic planning. Management and the Board of Directors review the impact of a variety of carbon constrained scenarios on its strategy, with a current price range from approximately $10 to $80 per tonne of emissions applied to a range of emissions coverage levels. Encana also examines the impact of carbon regulation on its major projects. Although uncertainty remains regarding potential future emissions regulation, Encana's plan is to continue to assess and evaluate the cost of carbon relative to its investments across a range of scenarios.

Encana recognizes that there is a cost associated with carbon emissions. Encana is confident that GHG regulations and the cost of carbon at various price levels have been adequately considered as part of its business planning and scenarios analyses. Encana believes that the resource play strategy is an effective way to develop the resource, generate shareholder returns and coordinate overall environmental objectives with respect to carbon, air emissions, water and land. Encana is committed to transparency with its stakeholders and will keep them apprised of how these issues affect operations. Additional detail on Encana's GHG emissions is available in the Corporate Responsibility Report that is available on the Company's website at www.encana.com.

Accounting Policies and Estimates

Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in applying its accounting policies and practices, which have a significant impact on the financial results of the Company. A summary of Encana's significant accounting policies can be found in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2012. The following discussion outlines the accounting policies and practices involving the use of estimates that are critical to determining Encana's financial results.

Upstream Assets and Reserves

Encana follows U.S. GAAP full cost accounting for natural gas, oil and NGL activities. Reserves estimates can have a significant impact on net earnings, as they are a key input to the Company's depletion and ceiling test impairment calculations. A downward revision in reserves estimates may increase depletion expense and may also result in a ceiling test impairment. A ceiling test impairment is recognized in net earnings when the carrying amount of a country cost centre exceeds the country cost centre ceiling. The carrying amount of a cost centre includes capitalized costs of proved oil and gas properties, net of accumulated depletion and the related deferred income taxes. The cost centre ceiling is the sum of the estimated after-tax future net cash flows from proved reserves as calculated under SEC requirements, using the 12-month average trailing prices and unescalated future development and production costs, discounted at 10 percent, plus unproved property costs. The 12-month average trailing price is calculated as the average of the prices on the first day of each month within the trailing 12-month period. Any excess of the carrying amount over the calculated ceiling is recognized as an impairment in net earnings. During 2012 and 2011, Encana recorded ceiling test impairments, which are discussed further in the Divisional Results section of this MD&A.

Annually, all of Encana's natural gas, oil and NGL reserves and resources are evaluated and reported on by independent qualified reserves evaluators. The estimation of reserves is a subjective process. Estimates are based on engineering data, projected future rates of production, and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserves estimates can be revised upward or downward based on the results of future drilling, testing, production levels and economics of recovery.

Asset Retirement Obligation

Asset retirement obligations are those legal obligations where the Company will be required to retire tangible long-lived assets such as producing well sites, offshore production platforms and natural gas processing plants. The fair value of estimated asset retirement obligations is recognized in the Consolidated Balance Sheet when incurred and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the related asset retirement cost.

The asset retirement obligation is estimated by discounting the expected future cash flows of the settlement. The discounted cash flows are based on estimates of such factors as reserves lives, retirement costs, timing of settlements, credit-adjusted risk-free rates and inflation rates. These estimates will impact net earnings through accretion of the asset retirement obligation in addition to depletion of the asset retirement cost included in property, plant and equipment. Actual expenditures incurred are charged against the accumulated asset retirement obligation.

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is assessed for impairment at least annually at December 31. Goodwill and all other assets and liabilities are allocated to reporting units, which are Encana's country cost centres. To assess impairment, the carrying amount of each reporting unit is determined and compared to the fair value of the reporting unit. If the carrying amount of the reporting unit is higher than the fair value then goodwill is written down to the implied fair value of goodwill. The

implied fair value of goodwill is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit. Any excess of the carrying value of goodwill over the implied fair value of goodwill is recognized as an impairment and charged to net earnings. Subsequent measurement of goodwill is at cost less accumulated impairments.

The fair value used in the impairment test is based on estimates of discounted future cash flows which involves assumptions of natural gas and liquids reserves, including commodity prices, future costs and discount rates. Encana has assessed its goodwill for impairment at December 31, 2012 and has determined that no write-down is required.

Income Taxes

Encana follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability, using the enacted income tax rates and laws expected to apply when the assets are realized and liabilities are settled. Current income taxes are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates and laws enacted at the end of the reporting period. The effect of a change in the enacted tax rates or laws is recognized in net earnings in the period of enactment.

Deferred income tax assets are routinely assessed for realizability. If it is more likely than not that deferred tax assets will not be realized, a valuation allowance is recorded to reduce the deferred tax assets. Encana considers available positive and negative evidence when assessing the realizability of deferred tax assets including historic and expected future taxable earnings, available tax planning strategies and carry forward periods. The estimates used in determining expected future taxable earnings are consistent with those used in the goodwill impairment assessment.

Encana's interim income tax expense is determined using an estimated annual effective income tax rate applied to year-to-date net earnings before income tax. The estimated annual effective income tax rate is impacted by the expected annual earnings along with the tax benefits and expenses resulting from items including any tax on divestitures and transactions and related pool adjustments, international financing and the non-taxable portions of capital gains or losses.

Encana recognizes the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by a taxing authority. A recognized tax position is initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority. Liabilities for unrecognized tax benefits that are not expected to be settled within the next 12 months are included in other liabilities and provisions.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty and the interpretations can impact net earnings through the income tax expense arising from the changes in deferred income tax assets or liabilities.

Derivative Financial Instruments

As described in the Risk Management section of this MD&A, derivative financial instruments are used by Encana to manage its exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. The Company's policy is not to utilize derivative financial instruments for speculative purposes.

Derivative financial instruments are measured at fair value with changes in fair value recognized in net earnings. The fair values recorded in the Consolidated Balance Sheet reflect netting the asset and liability positions where counterparty master netting arrangements contain provisions for net settlement. Realized gains or losses from financial derivatives related to natural gas and oil commodity prices are recognized in revenues as the contracts are settled. Realized gains or losses from financial derivatives related to power commodity prices are recognized in transportation and processing expense as the related power contracts are settled. Unrealized gains and losses

are recognized in revenues and transportation and processing expense accordingly, at the end of each respective reporting period based on the changes in fair value of the contracts.

The estimate of fair value of all derivative instruments is based on quoted market prices or, in their absence, third party market indications and forecasts. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

Recent Accounting Pronouncements

On January 1, 2012, Encana adopted the following accounting standards updates issued by the Financial Accounting Standards Board ("FASB"), which have not had a material impact on the Company's Consolidated Financial Statements:

- Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,* clarifies and changes existing fair value measurement and disclosure requirements. The amendments have been applied prospectively and have not had a significant impact on the Company's fair value measurements or disclosures.

- Accounting Standards Update 2011-05, *Presentation of Comprehensive Income,* requires that net earnings and comprehensive income be presented either in a single continuous statement or in two separate consecutive statements. As Encana presents its net earnings and comprehensive income in two separate consecutive statements, the amendments had no impact on the Company's financial statement presentation. Accounting Standards Update 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,* defers the effective date of certain presentation requirements for items reclassified out of accumulated other comprehensive income to net earnings.

- Accounting Standards Update 2011-08, *Intangibles - Goodwill and Other,* permits an initial assessment of qualitative factors to determine whether the two-step goodwill impairment test is required to be performed as described in Accounting Standards Codification Topic 350, *Intangibles - Goodwill and Other*. The amendments have been applied prospectively.

As of January 1, 2013, Encana will be required to adopt the following accounting standards updates issued by FASB, which are not expected to have a material impact on the Company's Consolidated Financial Statements:

- Accounting Standards Update 2011-11, *Disclosures about Offsetting Assets and Liabilities,* and Accounting Standards Update 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, require disclosure of both gross and net information about certain financial instruments eligible for offset in the balance sheet and certain financial instruments subject to master netting arrangements. The amendments will be applied retrospectively and may expand the Company's financial instruments disclosures.

- Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* requires enhanced disclosures about amounts reclassified out of accumulated other comprehensive income. The amendments will be applied prospectively and may expand the Company's disclosures.

Non-GAAP Measures

Certain measures in this document do not have any standardized meaning as prescribed by U.S. GAAP and therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures are commonly used in the oil and gas industry and by Encana to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Non-GAAP measures include: Cash Flow; Cash Flow per share - diluted; Operating Earnings; Operating Earnings per share - diluted; Revenues, Net of Royalties, Excluding Unrealized Hedging; Net Debt to Debt Adjusted Cash Flow; Debt to Debt Adjusted Cash Flow; Debt to Adjusted EBITDA; and Debt to Adjusted Capitalization. Management's use of these measures is discussed further below.

Cash Flow

Cash Flow is a non-GAAP measure commonly used in the oil and gas industry and by Encana to assist Management and investors in measuring the Company's ability to finance capital programs and meet financial obligations. Cash Flow is defined as cash from operating activities excluding net change in other assets and liabilities, net change in non-cash working capital and cash tax on sale of assets.

	2012					2011					2010
($ millions)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	Annual	Q4	Q3	Q2	Q1	Annual
Cash From (Used in) Operating Activities	**$ 3,107**	**$ 717**	**$ 1,142**	**$ 631**	**$ 617**	$ 3,927	$ 1,005	$ 1,285	$ 980	$ 657	$ 2,329
(Add back) deduct:											
Net change in other assets and liabilities	**(78)**	**(23)**	**(9)**	**(26)**	**(20)**	(160)	(30)	(26)	(75)	(29)	(112)
Net change in non-cash working capital	**(323)**	**(56)**	**242**	**(134)**	**(375)**	(15)	166	130	(34)	(277)	(1,998)
Cash tax on sale of assets	**(29)**	**(13)**	**(4)**	**(3)**	**(9)**	(114)	(114)	-	-	-	-
Cash Flow	**$ 3,537**	**$ 809**	**$ 913**	**$ 794**	**$ 1,021**	$ 4,216	$ 983	$ 1,181	$ 1,089	$ 963	$ 4,439

Operating Earnings

Operating Earnings is a non-GAAP measure that adjusts Net Earnings by non-operating items that Management believes reduces the comparability of the Company's underlying financial performance between periods. Operating Earnings is commonly used in the oil and gas industry and by Encana to provide investors with information that is more comparable between periods.

Operating Earnings is 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. These after-tax items may include, but are not limited to, unrealized hedging gains/losses, impairments, foreign exchange gains/losses, income taxes related to divestitures and adjustments to normalize the effect of income taxes calculated using the estimated annual effective tax rate.

	2012					2011					2010
($ millions)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	Annual	Q4	Q3	Q2	Q1	Annual
Net Earnings	**$ (2,794)**	**$ (80)**	**$ (1,244)**	**$ (1,482)**	**$ 12**	$ 5	$ (476)	$ 459	$ 383	$ (361)	$ 2,343
After-tax (addition) / deduction:											
Unrealized hedging gain (loss)	**(1,002)**	**(72)**	**(428)**	**(547)**	**45**	600	397	273	18	(88)	634
Impairments	**(3,188)**	**(300)**	**(1,193)**	**(1,695)**	**-**	(1,687)	(1,105)	-	-	(582)	-
Non-operating foreign exchange gain (loss)	**92**	**(66)**	**162**	**(90)**	**86**	(99)	82	(325)	44	100	235
Income tax adjustments	**307**	**62**	**(48)**	**652**	**(359)**	-	(82)	122	(31)	(9)	-
Operating Earnings	**$ 997**	**$ 296**	**$ 263**	**$ 198**	**$ 240**	$ 1,191	$ 232	$ 389	$ 352	$ 218	$ 1,474

Revenues, Net of Royalties, Excluding Unrealized Hedging

Revenues, Net of Royalties, Excluding Unrealized Hedging is a non-GAAP measure that adjusts revenues, net of royalties for unrealized hedging gains/losses. Unrealized hedging gains/losses result from the fair value changes in unsettled derivative financial contracts. Management monitors Revenues, Net of Royalties, Excluding Unrealized Hedging as it reflects the realized hedging impact of the Company's settled financial contracts.

	2012					2011					2010
($ millions)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**	Annual	Q4	Q3	Q2	Q1	Annual
Revenues, Net of Royalties	**$ 5,160**	**$ 1,605**	**$ 1,025**	**$ 731**	**$ 1,799**	$ 8,467	$ 2,461	$ 2,353	$ 1,986	$ 1,667	$ 8,870
(Add) / deduct:											
Unrealized hedging gain (loss), before tax	**(1,441)**	**(118)**	**(598)**	**(795)**	**70**	854	578	400	27	(151)	947
Revenues, Net of Royalties, Excluding Unrealized Hedging	**$ 6,601**	**$ 1,723**	**$ 1,623**	**$ 1,526**	**$ 1,729**	$ 7,613	$ 1,883	$ 1,953	$ 1,959	$ 1,818	$ 7,923

Net Debt to Debt Adjusted Cash Flow

Net Debt to Debt Adjusted Cash Flow is a non-GAAP measure monitored by Management as an indicator of the Company's overall financial strength. Net Debt is a non-GAAP measure defined as long-term debt, including current portion, less cash and cash equivalents. Debt Adjusted Cash Flow is a non-GAAP measure defined as Cash Flow on a trailing 12-month basis excluding interest expense after tax.

($ millions, as at December 31)		**2012**		2011		2010
Debt	**$**	**7,675**	$	8,150	$	7,682
Less: Cash and Cash Equivalents		**3,179**		800		699
Net Debt		**4,496**		7,350		6,983
Cash Flow		**3,537**		4,216		4,439
Interest Expense, after tax		**391**		344		360
Debt Adjusted Cash Flow	**$**	**3,928**	$	4,560	$	4,799
Net Debt to Debt Adjusted Cash Flow		**1.1x**		1.6x		1.5x

Debt to Debt Adjusted Cash Flow

Debt to Debt Adjusted Cash Flow is a non-GAAP measure monitored by Management as an indicator of the Company's overall financial strength. Debt Adjusted Cash Flow is a non-GAAP measure defined as Cash Flow on a trailing 12-month basis excluding interest expense after tax.

($ millions, as at December 31)		**2012**		2011		2010
Debt	**$**	**7,675**	$	8,150	$	7,682
Cash Flow		**3,537**		4,216		4,439
Interest Expense, after tax		**391**		344		360
Debt Adjusted Cash Flow	**$**	**3,928**	$	4,560	$	4,799
Debt to Debt Adjusted Cash Flow		**2.0x**		1.8x		1.6x

Debt to Adjusted EBITDA

Debt to Adjusted EBITDA is a non-GAAP measure monitored by Management as an indicator of the Company's overall financial strength. Adjusted EBITDA is a non-GAAP measure defined as trailing 12-month Net Earnings before income taxes, foreign exchange gains or losses, interest, accretion of asset retirement obligation, DD&A, impairments, unrealized hedging gains and losses and other expenses.

($ millions, as at December 31)		**2012**		2011		2010
Debt	**$**	**7,675**	$	8,150	$	7,682
Net Earnings		**(2,794)**		5		2,343
Add (deduct):						
Interest		**522**		468		501
Income tax expense (recovery)		**(2,037)**		17		976
Depreciation, depletion and amortization		**1,956**		2,282		2,008
Impairments		**4,695**		2,249		-
Accretion of asset retirement obligation		**53**		50		46
Foreign exchange (gain) loss, net		**(107)**		133		(251)
Unrealized (gain) loss on risk management		**1,465**		(879)		(945)
Other		**1**		21		2
Adjusted EBITDA	**$**	**3,754**	$	4,346	$	4,680
Debt to Adjusted EBITDA		**2.0x**		1.9x		1.6x

Debt to Adjusted Capitalization

Debt to Adjusted Capitalization is a non-GAAP measure, which adjusts capitalization for historical ceiling test impairments that were recorded as at December 31, 2011. Management monitors Debt to Adjusted Capitalization as a proxy for Encana's financial covenant under its credit facility agreements which require debt to adjusted capitalization to be less than 60 percent. Adjusted Capitalization includes debt, shareholders' equity and an equity adjustment for ceiling test impairments recognized as at December 31, 2011.

($ millions, as at December 31)		**2012**		2011
Debt	**$**	**7,675**	$	8,150
Shareholders' Equity		**5,295**		8,578
Equity Adjustment for Impairments at December 31, 2011		**7,746**		7,746
Adjusted Capitalization	**$**	**20,716**	$	24,474
Debt to Adjusted Capitalization		**37%**		33%

Advisory

Forward-Looking Statements

In the interest of providing Encana shareholders and potential investors with information regarding the Company and its subsidiaries, including Management's assessment of Encana's and its subsidiaries' future plans and operations, certain statements contained in this document constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project", "objective", "strategy", "strives", "agreed to" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this document include, but are not limited to, statements with respect to: achieving the Company's focus on growing its strong portfolio of diverse resource plays producing natural gas, oil and NGLs; achieving its key business objectives of maintaining financial strength, optimizing capital investments, continuing to pay a stable dividend as it pursues low-cost production growth; expectation for its portfolio of reserves and economic contingent resources in high-growth resource plays to serve as the foundation for the Company's long-term strategy of accelerating the value recognition of its assets; ability to continue entering prospective plays early and leveraging technology to unlock resources and build productive capacity at low cost; expanding the use of natural gas in North America; achieving operating efficiencies, lowering cost structures and success of resource play hub model; expectation for capital investment to help build long-term production growth capacity and transition to a more diversified portfolio of production and cash flows; plan to accelerate capital investment in oil and liquids rich natural gas plays and minimize investment in dry natural gas plays; ability to attract third party capital investment and expectation for the same to provide additional financial flexibility, value recognition of the Company's assets, reduction of the risk of early life plays and improvement of project returns; anticipated future proceeds from various joint venture, partnership and other agreements entered into by the Company, including their successful implementation, expected future benefits and the Company's ability to fund future development costs associated with those agreements; projections contained in the 2013 Corporate Guidance (including estimates of cash flow including per share, natural gas, oil and NGLs production, capital investment and its allocation, net divestitures, operating costs, and 2013 estimated sensitivities of cash flow and operating earnings); estimates of reserves and resources; the potential of future ceiling test impairments and the reasons for such impairments; expectation that the discounted after-tax future net cash flows from proved reserves used in ceiling test calculations is not indicative of the fair market value of Encana's oil and gas properties or of the future net cash flows expected to be generated from such properties; projections relating to the adequacy of the Company's provision for taxes and legal claims; possibility of legal actions in connection with the matters relating to the allegations of collusion with competitors regarding land leasing in Michigan in 2010; the flexibility of capital spending plans and the source of funding therefore; the benefits of the Company's risk management program, including the impact of derivative financial instruments; projections that the Company has access to cash equivalents and a wide range of funding at competitive rates; the Company's ability to meet payment terms of its suppliers and be in compliance with all financial covenants under its credit facility agreements; expectations surrounding environmental legislation including regulations relating to climate change and hydraulic fracturing and the impact such regulations could have on the Company; expectation to fund 2013 commitments from Cash Flow; the expected renewal of the Canadian dollar shelf prospectus in 2013; the effect of the Company's risk mitigation policies, systems, processes and insurance program; the Company's expectations for future Debt to Debt Adjusted Cash Flow, Debt to Adjusted EBITDA and Debt to Adjusted Capitalization ratios; and the expected impact and timing of various accounting pronouncements, rule changes and standards on the Company and its financial statements.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These assumptions, risks and uncertainties include, among other things: volatility of, and assumptions regarding natural gas and liquids prices, including substantial or extended decline of the same and their adverse effect on the Company's operations and financial condition and the value and amount

of its reserves; assumptions based upon the Company's current guidance; fluctuations in currency and interest rates; risk that the Company may not conclude divestitures of certain assets or other transactions or receive amounts contemplated under the transaction agreements (such transactions may include third party capital investments, farm-outs or partnerships, which Encana may refer to from time to time as "partnerships" or "joint ventures" and the funds received in respect thereof which Encana may refer to from time to time as "proceeds", "deferred purchase price" and/or "carry capital", regardless of the legal form) as a result of various conditions not being met; product supply and demand; market competition; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserves estimates and estimates of recoverable quantities of natural gas and liquids from resource plays and other sources not currently classified as proved, probable or possible reserves or economic contingent resources, including future net revenue estimates; marketing margins; potential disruption or unexpected technical difficulties in developing new facilities; unexpected cost increases or technical difficulties in constructing or modifying processing facilities; risks associated with technology; the Company's ability to acquire or find additional reserves; hedging activities resulting in realized and unrealized losses; business interruption and casualty losses; risk of the Company not operating all of its properties and assets; counterparty risk; downgrade in credit rating and its adverse effects; liability for indemnification obligations to third parties; variability of dividends to be paid; its ability to generate sufficient cash flow from operations to meet its current and future obligations; its ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Company's ability to secure adequate product transportation; changes in royalty, tax, environmental, greenhouse gas, carbon, accounting and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company operates; terrorist threats; risks associated with existing and potential future lawsuits and regulatory actions made against the Company; risk arising from price basis differential; risk arising from inability to enter into attractive hedges to protect the Company's capital program; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Encana. Although Encana believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this document are made as of the date hereof and, except as required by law, Encana undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

Forward-looking information respecting anticipated 2013 cash flow for Encana is based upon, among other things, achieving average production for 2013 of between 2.8 Bcf/d and 3.0 Bcf/d of natural gas and 50,000 bbls/d to 60,000 bbls/d of liquids, commodity prices for natural gas and liquids based on NYMEX $3.75 per Mcf and WTI of $95 per bbl, an estimated U.S./Canadian dollar foreign exchange rate of $1.00 and a weighted average number of outstanding shares for Encana of approximately 736 million.

Forward-looking statements with respect to matters relating to allegations of collusion with competitors regarding land leasing in Michigan in 2010 are qualified by the fact that, while Encana intends to vigorously defend against any claims of liability alleged in any lawsuits arising out of such allegations, the Company cannot predict the outcome of any governmental investigations or the commencement or outcome of any future legal proceedings involving Encana or whether such proceedings would lead to monetary damages which could have a material adverse effect on the Company's financial position, or whether there will be other proceedings arising out of these allegations.

Assumptions relating to forward-looking statements generally include Encana's current expectations and projections made in light of, and generally consistent with, its historical experience and its perception of historical trends, including the conversion of resources into reserves and production as well as expectations regarding rates of advancement and innovation, generally consistent with and informed by its past experience, all of which are subject to the risk factors identified elsewhere in this document.

Encana is required to disclose events and circumstances that occurred during the period to which this MD&A relates that are reasonably likely to cause actual results to differ materially from material forward-looking statements for a period that is not yet complete that Encana has previously disclosed to the public and the expected differences thereto. Such disclosure can be found in Encana's news release dated February 14, 2013,

which is available on Encana's website at www.encana.com, on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

Oil and Gas Information

National Instrument 51-101 of the Canadian Securities Administrators imposes oil and gas disclosure standards for Canadian public companies engaged in oil and gas activities. Prior to 2011, Encana relied upon an exemption from NI 51-101 granted by Canadian securities regulatory authorities to permit it to provide disclosure relating to reserves and other oil and gas information in accordance with U.S. disclosure requirements. Subsequent to the expiry of that exemption, Encana has provided and continues to provide disclosure which complies with the annual disclosure requirements of NI 51-101 in the Company's AIF. The Canadian protocol disclosure is contained in Appendix A and under "Narrative Description of the Business" in the AIF. Encana has obtained an exemption dated January 4, 2011 from certain requirements of NI 51-101 to permit it to provide certain disclosure prepared in accordance with U.S. disclosure requirements, in addition to the Canadian protocol disclosure. The Company's U.S. GAAP U.S. protocol disclosure is included in Note 22 (unaudited) to the Company's Consolidated Financial Statements for the year ended December 31, 2012 and in Appendix D of the AIF.

A description of the primary differences between the disclosure requirements under the Canadian standards and the disclosure requirements under the U.S. standards is set forth under the heading "Reserves and Other Oil and Gas Information" in the AIF.

Natural Gas, Oil and NGLs Conversions

In this document, certain oil and NGL volumes have been converted to billions of cubic feet ("Bcf") equivalent ("Bcfe") on the basis of one bbl to six Mcf. Cubic feet equivalent may be misleading, particularly if used in isolation. A conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalency at the wellhead.

Given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Resource Play

Resource play is a term used by Encana to describe an accumulation of hydrocarbons known to exist over a large areal expanse and/or thick vertical section, which when compared to a conventional play typically has a lower geological and/or commercial development risk and lower average decline rate.

Currency and References to Encana

All information included in this document and the Consolidated Financial Statements and comparative information is shown on a U.S. dollar, after royalties basis unless otherwise noted. References to C$ are to Canadian dollars. Encana's financial results are consolidated in Canadian dollars, however, the Company has adopted the U.S. dollar as its reporting currency to facilitate a more direct comparison to other North American oil and gas companies. All proceeds from divestitures are provided on a before-tax basis.

For convenience, references in this document to "Encana", the "Company", "we", "us", "our" and "its" may, where applicable, refer only to or include any relevant direct and indirect subsidiary corporations and partnerships ("Subsidiaries") of Encana Corporation, and the assets, activities and initiatives of such Subsidiaries.

Additional Information

Further information regarding Encana Corporation, including its Annual Information Form, can be accessed under the Company's public filings found on SEDAR at www.sedar.com, on EDGAR at www.sec.gov and on the Company's website at www.encana.com.