



Encana Corporation

Management's Discussion and Analysis

For the year ended December 31, 2013

(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, 2013 ("Consolidated Financial Statements"), as well as the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2012.

The Consolidated Financial Statements and comparative information have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("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 20, 2014.

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; Debt, including the current portion ("Debt"); 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 regarding these measures 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.

The following volumetric measures may be abbreviated throughout this MD&A: thousand cubic feet ("Mcf"); million cubic feet ("MMcf") per day ("MMcf/d"); million cubic feet equivalent ("Mcfе"); billion cubic feet ("Bcf") per day ("Bcf/d"); billion cubic feet equivalent ("Bcfе"); trillion cubic feet ("Tcf"); barrel ("bbl"); thousand barrels ("Mbbls") per day ("Mbbls/d"); million barrels ("MMbbls"); million British thermal units ("MMBtu").

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 developing its strong portfolio of resource plays producing natural gas, oil and NGLs. Encana is committed to growing long-term shareholder value through a disciplined focus on generating profitable growth. The Company is pursuing the key business objectives of balancing its commodity mix, focusing capital investments in high return scalable projects, maintaining portfolio flexibility to respond to changing market conditions, maximizing profitability through operating efficiencies, reducing costs and preserving balance sheet strength.

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. 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. Ongoing cost reductions are achieved through repeatable operations, optimizing equipment and processes, by applying continuous improvement techniques.

Encana hedges a portion of its expected natural gas and oil production volumes. The Company's hedging program reduces volatility and helps sustain Cash Flow and netbacks during periods of lower prices. Further information on the Company's commodity price positions as at December 31, 2013 can be found in the Results Overview section of this MD&A and in Note 21 to the Consolidated Financial Statements.

Additional information on expected results can be found in Encana's 2014 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. 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.

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

In 2014, the Company does not anticipate any significant change in reportable segments as a result of the business strategy announced in November 2013.

Results Overview

Highlights

In the year ended December 31, 2013, Encana reported:

- Cash Flow of \$2,581 million, Operating Earnings of \$802 million and Net Earnings of \$236 million.
- Average natural gas production volumes of 2,777 MMcf/d and average oil and NGL production volumes of 53.9 Mbbls/d.
- Realized financial commodity hedging gains of \$544 million before tax.
- Average realized natural gas prices, including financial hedges, of \$4.09 per Mcf. Average realized oil prices, including financial hedges, of \$88.19 per bbl. Average realized NGL prices of \$48.95 per bbl.
- Proceeds received from divestitures totaling \$705 million before tax.
- Repayment of the 4.75 percent \$500 million debt maturity from cash in October 2013.
- Dividends paid of \$0.67 per share.
- Cash and cash equivalents of \$2,566 million at year end.

Developments for the Company during the year ended December 31, 2013 included the following:

- Appointed Doug Suttles as Encana's President & Chief Executive Officer and Director of the Company in June 2013 and subsequently announced a realignment of the Company's business strategy and corporate organizational structure in November 2013 to be implemented in 2014.
- Announced plans to transfer Encana's royalty business, whose assets comprise fee simple mineral title and certain royalty interests in lands located predominantly in Alberta, into a separate company. Encana plans to subsequently divest a portion of its interest in the new company through an initial public offering ("IPO") in mid-2014. Encana intends to retain a majority stake in the new company. The transaction is subject to approval by Encana's Board of Directors, due diligence, favourable market conditions and stock exchange, regulatory and third party approvals.
- Commenced production at the Deep Panuke natural gas facility located offshore Nova Scotia in August 2013 and reached commercial operation with the issuance of the Production Acceptance Notice in December 2013.
- Completed the sale of the Company's 30 percent interest in the proposed Kitimat liquefied natural gas ("LNG") export terminal in British Columbia in February 2013.

Financial Results

(\$ millions, except per share)	2013					2012					2011
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual
Cash Flow ⁽¹⁾	\$ 2,581	\$ 677	\$ 660	\$ 665	\$ 579	\$ 3,537	\$ 809	\$ 913	\$ 794	\$1,021	\$ 4,216
per share - diluted	3.50	0.91	0.89	0.90	0.79	4.80	1.10	1.24	1.08	1.39	5.72
Operating Earnings ⁽¹⁾	802	226	150	247	179	997	296	263	198	240	1,191
per share - diluted	1.09	0.31	0.20	0.34	0.24	1.35	0.40	0.36	0.27	0.33	1.62
Net Earnings (Loss)	236	(251)	188	730	(431)	(2,794)	(80)	(1,244)	(1,482)	12	5
per share - basic and diluted	0.32	(0.34)	0.25	0.99	(0.59)	(3.79)	(0.11)	(1.69)	(2.01)	0.02	0.01
Production Volumes											
Natural Gas (MMcf/d)	2,777	2,744	2,723	2,766	2,877	2,981	2,948	2,905	2,802	3,272	3,333
Oil & NGLs (Mbbbls/d)											
Oil	25.8	33.0	27.2	22.9	20.0	17.6	18.5	17.5	17.9	16.5	14.5
NGLs	28.1	33.0	31.0	24.7	23.5	13.4	17.7	12.8	10.3	12.8	9.5
Total Oil & NGLs	53.9	66.0	58.2	47.6	43.5	31.0	36.2	30.3	28.2	29.3	24.0
Capital Investment	2,712	717	641	639	715	3,476	780	779	797	1,120	4,610
Net Acquisitions & (Divestitures)	(521)	(72)	(51)	(312)	(86)	(3,664)	(1,327)	31	(8)	(2,360)	(1,565)
Revenues, Net of Royalties	5,858	1,423	1,392	1,984	1,059	5,160	1,605	1,025	731	1,799	8,467
Revenues, Net of Royalties, Excluding Unrealized Hedging ⁽¹⁾	6,205	1,719	1,518	1,523	1,445	6,601	1,723	1,623	1,526	1,729	7,613
Realized Hedging Gains, before tax	544	174	175	52	143	2,161	420	578	636	527	948
Ceiling Test Impairments, after tax	-	-	-	-	-	(3,179)	(291)	(1,193)	(1,695)	-	(1,687)
Total Assets	17,648					18,700					23,415
Total Debt	7,124					7,675					8,150
Cash & Cash Equivalents	2,566					3,179					800

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

Encana's quarterly net earnings can be significantly impacted by fluctuations in commodity prices, realized and unrealized hedging gains and losses, production volumes, foreign exchange rates and non-cash ceiling test impairments which are provided in the Financial Results table and Quarterly Prices and Foreign Exchange Rates table within this MD&A. Quarterly net earnings are also impacted by Encana's interim income tax expense calculated using the estimated annual effective income tax rate as discussed in the Critical Accounting Estimates section of this MD&A.

Q4 2013 versus Q4 2012

Cash Flow of \$677 million decreased \$132 million primarily due to lower realized financial hedging gains of \$246 million before tax. In the three months ended December 31, 2013, Cash Flow was impacted by the following significant items:

- Realized financial hedging gains before tax were \$174 million compared to \$420 million in 2012.
- Average realized natural gas prices, excluding financial hedges, were \$3.69 per Mcf compared to \$3.45 per Mcf in 2012 reflecting higher benchmark prices. Average natural gas production volumes of 2,744 MMcf/d decreased 204 MMcf/d from 2,948 MMcf/d in 2012 primarily as a result of the Company's capital investment focus in oil and liquids rich natural gas plays, a reduced capital investment program, natural declines and divestitures, partially offset by successful drilling programs and production from the Deep Panuke offshore natural gas facility.

- Average oil and NGL production volumes of 66.0 Mbbls/d increased 29.8 Mbbls/d from 36.2 Mbbls/d in 2012 primarily due to successful drilling programs in oil and liquids rich natural gas plays and the extraction of additional liquids volumes processed through third party facilities. Higher oil and NGL volumes increased revenues by \$190 million.
- Transportation and processing expense increased \$87 million primarily due to costs related to higher production volumes processed through third party facilities and costs related to the Deep Panuke offshore natural gas facility.
- Administrative expense increased primarily due to restructuring charges as discussed in the Other Operating Results section of this MD&A.
- Current tax was a recovery of \$25 million compared to an expense of \$62 million in 2012.

Operating Earnings of \$226 million decreased \$70 million primarily due to the items discussed in the Cash Flow section. Operating Earnings excludes restructuring charges as described in the Non-GAAP Measures section of this MD&A.

Net Loss was \$251 million compared to a Net Loss of \$80 million in 2012. The Net Loss for the fourth quarter of 2013 was primarily due to the items discussed in the Cash Flow and Operating Earnings sections, partially offset by the inclusion of an after-tax non-cash ceiling test impairment of \$291 million in the 2012 comparative. Net Loss for the fourth quarter of 2013 was also impacted by higher unrealized hedging losses of \$137 million after tax, a higher after-tax non-operating foreign exchange loss, higher administrative expense as a result of restructuring charges and deferred tax expense.

2013 versus 2012

Cash Flow of \$2,581 million decreased \$956 million primarily due to lower realized financial hedging gains of \$1,617 million before tax, partially offset by higher realized natural gas prices which increased revenues \$790 million. In 2013, Cash Flow was impacted by the following significant items:

- Realized financial hedging gains before tax were \$544 million compared to \$2,161 million in 2012.
- Average realized natural gas prices, excluding financial hedges, were \$3.57 per Mcf compared to \$2.83 per Mcf in 2012 reflecting higher benchmark prices which increased revenues \$790 million. Average natural gas production volumes of 2,777 MMcf/d decreased 204 MMcf/d from 2,981 MMcf/d in 2012 primarily as a result of the Company's capital investment focus in oil and liquids rich natural gas plays, a reduced capital investment program and natural declines, partially offset by shut-in production volumes in 2012, successful drilling programs and production from the Deep Panuke offshore natural gas facility in 2013. Lower natural gas volumes decreased revenues \$208 million.
- Average realized liquids prices, excluding hedges, were \$67.30 per bbl compared to \$75.12 per bbl in 2012 which decreased revenues \$168 million. Average oil and NGL production volumes of 53.9 Mbbls/d increased 22.9 Mbbls/d from 31.0 Mbbls/d in 2012 primarily due to successful drilling programs in oil and liquids rich natural gas plays, the extraction of additional liquids volumes processed through third party facilities and additional NGL volumes resulting from new and renegotiated gathering and processing agreements. Higher oil and NGL volumes increased revenues \$640 million.
- Transportation and processing expense increased \$245 million primarily due to costs related to higher production volumes processed through third party facilities, additional NGL volumes resulting from new and renegotiated gathering and processing agreements, costs related to the Deep Panuke offshore natural gas facility and higher firm processing costs.
- Operating expense increased \$65 million primarily due to an increased focus on emerging oil and liquids rich natural gas plays.
- Administrative expense increased primarily due to restructuring charges as discussed in the Other Operating Results section of this MD&A.

Operating Earnings of \$802 million decreased \$195 million primarily due to the items discussed in the Cash Flow section, partially offset by lower depreciation, depletion and amortization (“DD&A”) and lower deferred tax. Operating Earnings excludes restructuring charges as described in the Non-GAAP Measures section of this MD&A.

Net Earnings were \$236 million compared to a Net Loss of \$2,794 million in 2012 primarily due to the inclusion of after-tax non-cash ceiling test impairments of \$3,179 million in the 2012 comparative, partially offset by the items discussed in the Cash Flow and Operating Earnings sections. Net Earnings for 2013 were also impacted by lower unrealized hedging losses of \$770 million after tax, partially offset by an after-tax non-operating foreign exchange loss and higher administrative expense as a result of restructuring charges.

2012 versus 2011

Cash Flow of \$3,537 million decreased \$679 million primarily due to lower realized commodity prices which decreased revenues \$1,564 million, partially offset by higher realized financial hedging gains of \$1,213 million before tax. In 2012, Cash Flow was impacted by the following significant items:

- Realized financial hedging gains before tax were \$2,161 million compared to \$948 million in 2011.
- Average realized natural gas prices, excluding financial hedges, were \$2.83 per Mcf compared to \$4.17 per Mcf 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 realized liquids prices, excluding financial hedges, were \$75.12 per bbl compared to \$85.36 per bbl in 2011. 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 the items discussed in the Cash Flow section, partially offset by lower DD&A and lower deferred tax.

Net Loss was \$2,794 million compared to Net Earnings of \$5 million in 2011. The Net Loss for 2012 was primarily due to unrealized hedging losses, higher non-cash ceiling test impairments and the items discussed in the Cash Flow and Operating Earnings sections. The Net Loss for 2012 was partially offset by an unrealized foreign exchange gain on the revaluation of long-term debt 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.

Quarterly Prices and Foreign Exchange Rates

(average for the period)	2013					2012					2011
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual
Encana Realized Pricing											
Including Hedging											
Natural Gas (\$/Mcf)	\$ 4.09	\$ 4.34	\$ 4.00	\$ 4.17	\$ 3.86	\$ 4.82	\$ 5.02	\$ 4.91	\$ 4.79	\$ 4.58	\$ 4.96
Oil (\$/bbl)	88.19	85.39	90.42	88.27	89.71	84.06	79.75	80.04	84.62	92.65	86.70
NGLs (\$/bbl) ⁽¹⁾	48.95	48.59	46.35	49.63	52.24	63.37	52.97	61.34	72.88	72.30	83.32
Total Oil & NGLs (\$/bbl)	67.75	67.01	66.95	68.25	69.45	75.12	66.65	72.17	80.32	83.77	85.36
Excluding Hedging											
Natural Gas (\$/Mcf)	3.57	3.69	3.26	3.99	3.35	2.83	3.45	2.77	2.25	2.80	4.17
Oil (\$/bbl)	87.25	82.54	96.09	85.89	84.46	84.06	79.75	80.04	84.62	92.65	86.70
NGLs (\$/bbl)	48.95	48.59	46.35	49.63	52.24	63.37	52.97	61.34	72.88	72.30	83.32
Total Oil & NGLs (\$/bbl)	67.30	65.58	69.60	67.10	67.04	75.12	66.65	72.17	80.32	83.77	85.36
Natural Gas Price Benchmarks											
NYMEX (\$/MMBtu)	3.65	3.60	3.58	4.09	3.34	2.79	3.40	2.81	2.22	2.74	4.04
AECO (C\$/Mcf)	3.16	3.15	2.82	3.59	3.08	2.40	3.06	2.19	1.83	2.52	3.67
Rockies (Opal) (\$/MMBtu)	3.50	3.48	3.37	3.89	3.26	2.63	3.26	2.56	2.01	2.67	3.80
HSC (\$/MMBtu)	3.63	3.57	3.55	4.11	3.30	2.75	3.35	2.84	2.17	2.65	4.02
Basis Differential (\$/MMBtu)											
AECO/NYMEX	0.57	0.59	0.89	0.56	0.27	0.38	0.32	0.62	0.39	0.22	0.31
Rockies/NYMEX	0.15	0.12	0.21	0.20	0.08	0.16	0.14	0.25	0.21	0.07	0.24
HSC/NYMEX	0.02	0.03	0.03	(0.02)	0.04	0.04	0.05	(0.03)	0.05	0.09	0.02
Oil Price Benchmarks											
West Texas Intermediate (WTI) (\$/bbl)	97.97	97.46	105.81	94.17	94.36	94.21	88.22	92.20	93.35	103.03	95.11
Edmonton Light Sweet (C\$/bbl)	93.11	86.58	103.65	92.67	87.43	87.02	83.99	84.33	83.95	92.23	95.03
Foreign Exchange											
U.S./Canadian Dollar Exchange Rate	0.971	0.953	0.963	0.977	0.992	1.000	1.009	1.005	0.990	0.999	1.012

(1) The Company did not settle any NGL hedges during the periods presented.

Encana's financial results are influenced by fluctuations in commodity prices, price differentials and the U.S./Canadian dollar exchange rate. In 2013, Encana's average realized natural gas price, excluding hedging, reflected higher benchmark prices compared to 2012. Hedging activities contributed an additional \$0.52 per Mcf to the average realized natural gas price in 2013. Encana's average realized oil price, excluding hedging for 2013, reflected higher benchmark prices. Hedging activities contributed an additional \$0.94 per bbl to the average realized oil price in 2013. The Company's 2013 NGLs price reflected a lower proportion of higher value condensate included in the total NGL product mix.

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 reflected a lower proportion of higher value condensate included in the total NGL product mix.

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, 2013, Encana has hedged approximately 2,138 MMcf/d of expected 2014 production at an average price of \$4.17 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 9.5 Mbbls/d of expected 2014 oil production using WTI fixed price contracts at an average price of \$94.19 per bbl. The Company's hedging program helps sustain Cash Flow and netbacks 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 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 2013 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 24 to the December 31, 2013 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)

(as at December 31)	Natural Gas (Bcf)			Oil & NGLs (MMbbls)		
	2013	2012	2011	2013	2012	2011
Canada	5,031	6,730	7,067	141.1	126.3	106.5
United States	4,887	6,660	8,432	136.2	156.2	47.3
Total	9,918	13,390	15,499	277.3	282.5	153.8

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

	Natural Gas (Bcf)			Oil & NGLs (MMbbls)			Total (Bcfe)
	Canada	United States	Total	Canada	United States	Total	
December 31, 2012	6,730	6,660	13,390	126.3	156.2	282.5	15,085
Extensions	533	296	829	33.8	23.5	57.3	1,173
Discoveries	32	-	32	3.2	-	3.2	51
Technical revisions	(1,082)	(1,424)	(2,506)	(9.1)	(32.4)	(41.5)	(2,755)
Economic factors	(121)	(46)	(167)	(0.1)	(1.3)	(1.4)	(176)
Acquisitions	-	10	10	-	0.8	0.8	15
Dispositions	(514)	(2)	(516)	(3.2)	(0.1)	(3.3)	(535)
Production	(547)	(607)	(1,154)	(9.8)	(10.5)	(20.3)	(1,276)
December 31, 2013	5,031	4,887	9,918	141.1	136.2	277.3	11,582

Encana's 2013 proved natural gas reserves before royalties of approximately 9.9 Tcf decreased 3.5 Tcf from 2012 primarily due to changes in the Company's development plans and the resulting impact on proved undeveloped reserves bookings, which are included in technical revisions. Divestitures also reduced 2013 proved reserves. Extensions and discoveries of approximately 0.9 Tcf replaced 75 percent of production before royalties during the year.

Encana's 2013 proved oil and NGL reserves before royalties of approximately 277.3 MMbbls decreased 5.2 MMbbls from 2012 primarily due to technical revisions which were impacted by a decrease in NGL reserves in the U.S. resulting from ethane rejection. Ethane rejection occurs when ethane is not recovered from the production stream as NGLs and is sold as natural gas instead. Extensions and discoveries of approximately 60.5 MMbbls replaced 298 percent of production before royalties during the year.

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

(as at December 31)	Natural Gas (Bcf)			Oil & NGLs (MMbbls)		
	2013	2012	2011	2013	2012	2011
Canada	4,550	6,207	6,607	122.2	113.1	94.4
United States	4,026	5,410	6,834	112.7	127.3	38.6
Total	8,576	11,617	13,441	234.9	240.4	133.0

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

	Natural Gas (Bcf)			Oil & NGLs (MMbbls)			Total (Bcfe)
	Canada	United States	Total	Canada	United States	Total	
December 31, 2012	6,207	5,410	11,617	113.1	127.3	240.4	13,059
Extensions and discoveries	508	264	772	30.3	19.4	49.7	1,070
Revisions ⁽¹⁾	(1,152)	(1,164)	(2,316)	(7.6)	(26.0)	(33.6)	(2,518)
Acquisitions	-	8	8	-	0.7	0.7	12
Dispositions	(490)	(1)	(491)	(2.5)	(0.1)	(2.6)	(506)
Production	(523)	(491)	(1,014)	(11.1)	(8.6)	(19.7)	(1,132)
December 31, 2013	4,550	4,026	8,576	122.2	112.7	234.9	9,985

(1) Includes economic factors.

Encana's 2013 proved natural gas reserves after royalties of approximately 8.6 Tcf decreased 3.0 Tcf from 2012 primarily due to changes in the Company's development plans and the resulting impact on proved undeveloped reserves bookings which are included in revisions. Divestitures also reduced 2013 proved reserves. Extensions and discoveries of approximately 0.8 Tcf replaced 76 percent of production after royalties during the year.

Encana's 2013 proved oil and NGL reserves after royalties of approximately 234.9 MMbbls decreased 5.5 MMbbls from 2012 primarily due to revisions which were impacted by a decrease in NGL reserves in the U.S. resulting from ethane rejection. Extensions and discoveries of approximately 49.7 MMbbls replaced 252 percent of production after royalties during the year.

Forecast Prices

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

	Natural Gas		Oil & NGLs	
	Henry Hub (\$/MMBtu)	AECO (C\$/MMBtu)	WTI (\$/bbl)	Edmonton Light Sweet (C\$/bbl)
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
2013 Price Assumptions				
2014	4.25	4.03	97.50	92.76
2015 - 2023	4.50 - 5.97	4.26 - 5.66	97.50 - 104.57	97.37 - 106.93
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr

U.S. Protocol Reserves Quantities

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

(as at December 31)	Natural Gas (Bcf)			Oil & NGLs (MMbbls)		
	2013	2012	2011	2013	2012	2011
Canada	3,975	4,550	6,329	110.2	101.6	95.0
United States	3,877	4,242	6,511	110.6	108.4	38.2
Total	7,852	8,792	12,840	220.8	210.0	133.2

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

	Natural Gas (Bcf)			Oil & NGLs (MMbbls)		
	Canada	United States	Total	Canada	United States	Total
December 31, 2012	4,550	4,242	8,792	101.6	108.4	210.0
Revisions and improved recovery	(256)	(362)	(618)	(7.0)	(17.3)	(24.3)
Extensions and discoveries	499	482	981	28.2	27.6	55.8
Purchase of reserves in place	-	7	7	-	0.6	0.6
Sale of reserves in place	(295)	(1)	(296)	(1.5)	(0.1)	(1.6)
Production	(523)	(491)	(1,014)	(11.1)	(8.6)	(19.7)
December 31, 2013	3,975	3,877	7,852	110.2	110.6	220.8

Encana's 2013 proved natural gas reserves after royalties of approximately 7.9 Tcf decreased 0.9 Tcf from 2012. Revisions and improved recovery included a reduction of approximately 2.9 Tcf due to lower proved undeveloped reserves bookings resulting from changes in the Company's development plans, partially offset by additions of approximately 2.2 Tcf due to higher 12-month average trailing prices and minor positive revisions. Divestitures also reduced 2013 proved reserves. Extensions and discoveries of approximately 1.0 Tcf replaced 97 percent of production during the year.

Encana's 2013 proved oil and NGL reserves after royalties of approximately 220.8 MMbbls increased 10.8 MMbbls from 2012 primarily due to extensions and discoveries. Revisions and improved recovery was impacted by a decrease in NGL reserves primarily due to ethane rejection in the U.S. Extensions and discoveries of approximately 55.8 MMbbls replaced 283 percent of production during the year.

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		Oil & NGLs	
	Henry Hub (\$/MMBtu)	AECO (C\$/MMBtu)	WTI (\$/bbl)	Edmonton Light Sweet (C\$/bbl)
Reserves Pricing ⁽¹⁾				
2011	4.12	3.76	96.19	96.53
2012	2.76	2.35	94.71	87.42
2013	3.67	3.14	96.94	93.44

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

Production and Net Capital Investment

Production Volumes (After Royalties)

(average daily)	2013	2012	2011
Natural Gas (MMcf/d)			
Canadian Division	1,432	1,359	1,454
USA Division	1,345	1,622	1,879
	2,777	2,981	3,333
Oil (Mbbbls/d)			
Canadian Division	11.9	7.3	5.1
USA Division	13.9	10.3	9.4
	25.8	17.6	14.5
NGLs (Mbbbls/d)			
Canadian Division	18.5	12.1	9.4
USA Division	9.6	1.3	0.1
	28.1	13.4	9.5
Total Oil & NGLs (Mbbbls/d)			
Canadian Division	30.4	19.4	14.5
USA Division	23.5	11.6	9.5
	53.9	31.0	24.0

2013 versus 2012

Average natural gas production volumes for 2013 compared to 2012 were impacted by the Company's capital investment focus in oil and liquids rich natural gas plays, a reduced capital investment program and natural declines, partially offset by shut-in production volumes in 2012. In 2013, average natural gas production volumes of 2,777 MMcf/d decreased 204 MMcf/d from 2012. The Canadian Division volumes were higher primarily due to successful drilling programs, mainly at Cutbank Ridge, production from the Deep Panuke offshore natural gas facility, and shut-in production volumes in 2012, partially offset by natural declines and the sale of the Jean Marie natural gas assets in Greater Sierra. The USA Division volumes were lower primarily due to natural declines, partially offset by shut-in production volumes in 2012.

In 2013, average oil and NGL production volumes of 53.9 Mbbbls/d increased 22.9 Mbbbls/d from 2012. The Canadian Division volumes were higher primarily due to the extraction of additional liquids volumes at the Musreau plant in Bighorn and the Gordondale plant in Peace River Arch and successful drilling programs in Peace River Arch and Clearwater. The USA Division volumes were higher primarily due to successful drilling programs in oil and liquids rich natural gas plays and new and renegotiated gathering and processing agreements which resulted in additional NGL volumes primarily in Piceance and Jonah.

2012 versus 2011

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 in Texas 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 Mbbbls/d increased 7.0 Mbbbls/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 successful drilling programs 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 NGL volumes.

Net Capital Investment

(\$ millions)	2013	2012	2011
Canadian Division	\$ 1,365	\$ 1,567	\$ 2,031
USA Division	1,283	1,727	2,446
Market Optimization	3	7	2
Corporate & Other	61	175	131
Capital Investment	2,712	3,476	4,610
Acquisitions	184	379	515
Divestitures	(705)	(4,043)	(2,080)
Net Acquisitions & (Divestitures)	(521)	(3,664)	(1,565)
Net Capital Investment	\$ 2,191	\$ (188)	\$ 3,045

2013

Capital investment during 2013 was \$2,712 million and reflected the Company's disciplined capital spending which focused on investment in Encana's highest return resource plays, investments in opportunities where development has demonstrated success and executing drilling programs with joint venture partners. Development of resource plays continued in Peace River Arch, Bighorn, Piceance and Haynesville. Investment in prospective oil and liquids rich natural gas plays was focused on the Duvernay, the San Juan Basin and the DJ Basin. In 2014, Encana will realign its capital investment program in support of the Company's strategy announced in November 2013.

Acquisitions in 2013 were \$28 million in the Canadian Division and \$156 million in the USA Division, which primarily included land and property purchases with oil and liquids rich natural gas production potential.

Divestitures in 2013 were \$685 million in the Canadian Division and \$18 million in the USA Division. The Canadian Division included the sale of the Company's Jean Marie natural gas assets in the Greater Sierra resource play in northeast British Columbia and other assets.

Encana is currently involved in a number of joint ventures with counterparties in both Canada and the U.S. Sharing development costs with third parties enables Encana to advance project development while reducing capital investment, thereby improving project returns.

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 and investment in prospective oil and liquids rich natural gas plays including the Duvernay, Clearwater Oil, the Tuscaloosa Marine Shale, Eaglebine, the Mississippian Lime, the DJ Niobrara and the San Juan Basin.

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.

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 a Mitsubishi Corporation subsidiary, C\$1.18 billion received from a PetroChina Company Limited subsidiary, C\$100 million received from a Toyota Tsusho Corporation subsidiary 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.

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.

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.

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.

Amounts received from the divestiture transactions above have been deducted from the respective Canadian and U.S. full cost pools.

Divisional Results

Canadian Division

Operating Cash Flow

	Operating Cash Flow (\$ millions)			Natural Gas Netback (\$/Mcf)			Oil & NGLs Netback (\$/bbl)		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Revenues, Net of Royalties, excluding Hedging	\$ 2,548	\$ 1,802	\$ 2,507	\$ 3.35	\$ 2.58	\$ 3.79	\$ 65.06	\$ 70.84	\$ 85.41
Realized Financial Hedging Gain	276	958	365	0.51	1.97	0.69	0.46	-	-
Expenses									
Production and mineral taxes	15	9	15	0.01	-	0.02	0.96	1.13	0.90
Transportation and processing	756	555	490	1.37	1.12	0.91	2.89	0.75	1.45
Operating	372	352	380	0.61	0.67	0.68	3.56	2.09	1.23
Operating Cash Flow/Netback	\$ 1,681	\$ 1,844	\$ 1,987	\$ 1.87	\$ 2.76	\$ 2.87	\$ 58.11	\$ 66.87	\$ 81.83

	Natural Gas (MMcf/d)			Oil & NGLs (Mbbbls/d)		
	2013	2012	2011	2013	2012	2011
Production Volumes - After Royalties	1,432	1,359	1,454	30.4	19.4	14.5

2013 versus 2012

Operating Cash Flow of \$1,681 million decreased \$163 million primarily due to lower realized financial hedging gains of \$682 million, partially offset by higher realized natural gas prices which increased revenues \$405 million. In 2013, Cash Flow was impacted by the following significant items:

- Realized financial hedging gains were \$276 million compared to \$958 million in 2012.
- Higher natural gas prices reflected higher benchmark prices, which increased revenues by \$405 million. Average natural gas production volumes of 1,432 MMcf/d were higher by 73 MMcf/d, which increased revenues by \$103 million. This was primarily due to successful drilling programs, mainly at Cutbank Ridge, shut-in production volumes in 2012 and production from the Deep Panuke offshore natural gas facility, partially offset by natural declines and the sale of the Jean Marie natural gas assets in Greater Sierra.
- Average oil and NGL production volumes of 30.4 Mbbbls/d were higher by 11.0 Mbbbls/d. This increased revenues by \$281 million primarily due to the extraction of additional liquids volumes at the Musreau plant in Bighorn and the Gordondale plant in Peace River Arch and successful drilling programs in Peace River Arch and Clearwater. Lower liquids prices decreased revenues by \$63 million.
- Transportation and processing expense increased \$201 million primarily due to costs related to higher production volumes processed through third party facilities in Bighorn, Cutbank Ridge and Peace River Arch, costs related to the Deep Panuke offshore natural gas facility and higher firm processing costs.

2012 versus 2011

Operating Cash Flow of \$1,844 million decreased \$143 million primarily due to lower realized commodity prices which decreased revenues \$695 million, partially offset by higher realized financial hedging gains of \$593 million. In 2012, Cash Flow was impacted by the following significant items:

- Realized financial hedging gains were \$958 million compared to \$365 million in 2011.
- Lower natural gas prices reflected lower benchmark prices, which decreased revenues by \$586 million. 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. Lower liquids prices decreased revenues by \$109 million.
- 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.

Results by Resource Play

	Natural Gas Production (MMcf/d)			Oil & NGLs Production (Mbbls/d)			Capital (\$ millions)		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Cutbank Ridge	506	433	428	1.8	1.5	1.1	\$ 143	\$ 228	\$ 371
Bighorn	255	242	230	8.9	5.8	3.5	268	333	397
Peace River Arch	133	108	101	8.7	2.9	2.1	435	220	156
Clearwater	335	374	433	9.9	8.6	7.0	128	131	354
Greater Sierra	156	200	260	0.3	0.5	0.8	17	118	325
Other and emerging	47	2	2	0.8	0.1	-	374	537	428
Total Canadian Division	1,432	1,359	1,454	30.4	19.4	14.5	\$ 1,365	\$ 1,567	\$ 2,031

Other and emerging resource plays primarily includes results from the Duvernay prospective oil and liquids rich natural gas play and the Deep Panuke offshore natural gas facility. Production from the Deep Panuke offshore natural gas facility increased natural gas volumes by approximately 41 MMcf/d for 2013.

Greater Sierra average natural gas production volumes were lower in 2013 compared to 2012 primarily as a result of the sale of the Jean Marie natural gas assets which closed in the second quarter of 2013. Cutbank Ridge average natural gas production volumes have increased and capital investment has decreased during the periods presented as a result of partnership activity in the resource play.

Average oil and NGL production volumes during 2013 increased primarily due to the extraction of additional liquids volumes at the Musreau plant in Bighorn and the Gordondale plant in Peace River Arch and successful drilling programs in Peace River Arch and Clearwater.

Other Divisional Expenses

(\$ millions)	2013	2012	2011
Depreciation, depletion and amortization	\$ 601	\$ 748	\$ 966
Impairments	-	1,822	2,249

In 2013, DD&A decreased from 2012 due to a lower depletion rate of \$1.01 per Mcfe in 2013 compared to \$1.41 per Mcfe in 2012, partially offset by higher production volumes in 2013. The lower depletion rate primarily resulted from ceiling test impairments recognized in 2012 and deductions from the full cost pool for amounts received from divestitures during 2012 and 2013.

In 2012, the Division recognized non-cash ceiling test impairments before tax of \$1,822 million (2011 - \$2,249 million). The impairments primarily resulted 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 Securities and Exchange Commission ("SEC") requirements.

USA Division

Operating Cash Flow

	Operating Cash Flow (\$ millions)			Natural Gas Netback (\$/Mcf)			Oil & NGLs Netback (\$/bbl)		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Revenues, Net of Royalties, excluding Hedging	\$ 2,499	\$ 2,170	\$ 3,424	\$ 3.81	\$ 3.03	\$ 4.47	\$ 70.18	\$ 82.33	\$ 85.28
Realized Financial Hedging Gain	264	1,195	598	0.53	2.01	0.87	0.44	-	-
Expenses									
Production and mineral taxes	119	96	183	0.16	0.11	0.23	4.79	6.63	7.54
Transportation and processing	722	652	728	1.47	1.10	1.06	-	0.06	0.08
Operating	411	377	444	0.69	0.59	0.62	7.02	5.88	0.70
Operating Cash Flow/Netback	\$ 1,511	\$ 2,240	\$ 2,667	\$ 2.02	\$ 3.24	\$ 3.43	\$ 58.81	\$ 69.76	\$ 76.96

	Natural Gas (MMcf/d)			Oil & NGLs (Mbbbls/d)		
	2013	2012	2011	2013	2012	2011
Production Volumes - After Royalties	1,345	1,622	1,879	23.5	11.6	9.5

2013 versus 2012

Operating Cash Flow of \$1,511 million decreased \$729 million primarily due to lower realized financial hedging gains of \$931 million, partially offset by higher realized natural gas prices which increased revenues \$385 million. In 2013, Cash Flow was impacted by the following significant items:

- Realized financial hedging gains were \$264 million compared to \$1,195 million in 2012.
- Higher natural gas prices reflected higher benchmark prices, which increased revenues by \$385 million. Average natural gas production volumes of 1,345 MMcf/d were lower by 277 MMcf/d. This decreased revenues by \$311 million primarily due to natural declines, partially offset by shut-in production volumes in 2012.
- Average oil and NGL production volumes of 23.5 Mbbbls/d were higher by 11.9 Mbbbls/d. This increased revenues by \$359 million primarily due to successful drilling programs in oil and liquids rich natural gas plays and new and renegotiated gathering and processing agreements which resulted in additional NGL volumes primarily in Piceance and Jonah. Lower liquids prices decreased revenues by \$105 million.
- Transportation and processing expense increased \$70 million primarily due to costs related to new and renegotiated gathering and processing agreements.
- Operating expense increased \$34 million primarily due to an increased focus on emerging oil and liquids rich natural gas plays.

2012 versus 2011

Operating Cash Flow of \$2,240 million decreased \$427 million primarily due to lower realized natural gas prices which decreased revenues \$856 million, partially offset by higher realized financial hedging gains of \$597 million. In 2012, Cash Flow was impacted by the following significant items:

- Realized financial hedging gains were \$1,195 million compared to \$598 million in 2011.
- Lower natural gas prices reflected lower benchmark prices, which decreased revenues by \$856 million. 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 NGL 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.

Results by Resource Play

	Natural Gas Production (MMcf/d)			Oil & NGLs Production (Mbbls/d)			Capital (\$ millions)		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Piceance	455	475	435	5.1	2.2	1.9	\$ 241	\$ 328	\$ 453
Jonah	323	411	471	4.7	4.1	4.3	48	102	275
Haynesville	348	475	508	-	-	-	210	337	1,018
Texas	136	167	376	-	0.1	0.3	23	62	310
Other and emerging	83	94	89	13.7	5.2	3.0	761	898	390
Total USA Division	1,345	1,622	1,879	23.5	11.6	9.5	\$ 1,283	\$ 1,727	\$ 2,446

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

Average oil and NGL production volumes during 2013 increased primarily due to successful drilling programs in the DJ Basin, Piceance and the San Juan Basin and new and renegotiated gathering and processing agreements which resulted in additional NGL volumes primarily in Piceance and Jonah.

Average natural gas production volumes during 2013 in Jonah and Haynesville were impacted by natural declines and a reduced capital investment program.

Other Divisional Expenses

(\$ millions)	2013	2012	2011
Depreciation, depletion and amortization	\$ 818	\$ 1,102	\$ 1,226
Impairments	-	2,842	-

In 2013, DD&A decreased from 2012 due to a lower depletion rate of \$1.51 per Mcfe in 2013 compared to \$1.78 per Mcfe in 2012 and lower production volumes in 2013. The lower depletion rate primarily resulted from ceiling test impairments recognized during 2012.

In 2012, the Division recognized non-cash ceiling test impairments before tax of \$2,842 million (2011 - nil). The impairments primarily resulted 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)	2013	2012	2011
Revenues	\$ 512	\$ 419	\$ 703
Expenses			
Operating	38	48	40
Purchased product	441	349	635
Depreciation, depletion and amortization	12	12	12
	\$ 21	\$ 10	\$ 16

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 increased in 2013 compared to 2012 primarily due to higher commodity prices partially offset by lower volumes required for optimization. Revenues and purchased product expense decreased in 2012 compared to 2011 primarily due to lower commodity prices and lower volumes required for optimization.

Corporate and Other

(\$ millions)	2013	2012	2011
Revenues	\$ (241)	\$ (1,384)	\$ 870
Expenses			
Transportation and processing	(2)	24	(25)
Operating	38	17	2
Depreciation, depletion and amortization	134	94	78
Impairments	21	31	-
	\$ (432)	\$ (1,550)	\$ 815

Revenues mainly include unrealized hedging gains or losses recorded on derivative financial contracts which result from the volatility in forward curves of commodity prices and changes in the balance of unsettled contracts between periods. Transportation and processing expense 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 buildings, furniture and leasehold improvements. Impairments relates to certain corporate assets.

Corporate and Other results include revenues and operating expenses related to the sublease of office space in The Bow office building. For further information on The Bow office sublease, refer to the Contractual Obligations and Contingencies section of this MD&A.

Other Operating Results

Expenses

(\$ millions)	2013	2012	2011
Accretion of asset retirement obligation	\$ 53	\$ 53	\$ 50
Administrative	439	392	350
Interest	563	522	468
Foreign exchange (gain) loss, net	325	(107)	133
Other	(6)	1	21
	\$ 1,374	\$ 861	\$ 1,022

Administrative expense in 2013 increased from 2012 primarily due to restructuring charges of approximately \$88 million resulting from workforce reductions to align the organizational structure in support of the strategy announced in November 2013, partially offset by higher legal costs in 2012. Administrative expense in 2012 increased from 2011 primarily due to higher long-term compensation cost accruals and higher legal costs.

Interest expense in 2013 increased from 2012 primarily due to interest related to The Bow office building. 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 building. The Bow office obligation 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)	2013	2012	2011
Current Income Tax	\$ (191)	\$ (200)	\$ (195)
Deferred Income Tax	(57)	(1,837)	212
Income Tax Expense (Recovery)	\$ (248)	\$ (2,037)	\$ 17

Current income tax in 2013 was a recovery of \$191 million primarily due to amounts in respect of prior periods. The current income tax recoveries of \$200 million in 2012 and \$195 million in 2011 were primarily due to the carry back of tax losses to prior years.

Total income tax was a recovery of \$248 million in 2013 and decreased \$1,789 million primarily due to higher net earnings before tax resulting from the non-cash ceiling test impairments included in 2012 results. 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 losses. The Net Earnings variances are further discussed in the Financial Results section of this MD&A.

Encana's annual effective tax rate is impacted by earnings, statutory rate and other foreign differences, the effect of legislative changes, non-taxable capital gains and losses, tax differences on divestitures and transactions and partnership tax allocations in excess of funding.

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)	2013	2012	2011
Net Cash From (Used In)			
Operating activities	\$ 2,289	\$ 3,107	\$ 3,927
Investing activities	(1,895)	361	(3,631)
Financing activities	(909)	(1,111)	(194)
Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency	(98)	22	(1)
Increase (Decrease) in Cash and Cash Equivalents	\$ (613)	\$ 2,379	\$ 101
Cash and Cash Equivalents, End of Year	\$ 2,566	\$ 3,179	\$ 800

Operating Activities

Net cash from operating activities in 2013 of \$2,289 million decreased \$818 million from 2012. Net cash from operating activities in 2012 of \$3,107 million decreased \$820 million from 2011. These decreases are primarily a result of the Cash Flow variances discussed in the Financial Results section of this MD&A. In 2013, the net change in non-cash working capital was a deficit of \$179 million compared to a deficit of \$323 million in 2012 and a deficit of \$15 million in 2011.

The Company had a working capital surplus of \$1,338 million at December 31, 2013 compared to \$2,865 million at December 31, 2012. The decrease in working capital is primarily due to an increase in the current portion of long-term debt, a decrease in risk management assets and a decrease in accounts receivable and accrued revenues. At December 31, 2013, working capital included cash and cash equivalents of \$2,566 million compared to \$3,179 million at December 31, 2012. Encana expects that it will continue to meet the payment terms of its suppliers.

Investing Activities

Net cash used in investing activities in 2013 was \$1,895 million compared to net cash from investing activities of \$361 million in 2012. The net cash used in investing activities primarily resulted from lower divestiture proceeds, partially offset by lower capital expenditures. 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. Reasons for these changes are discussed further in the Net Capital Investment section of this MD&A.

Investing activities in 2013 also included proceeds received from the sale of the Company's 30 percent interest in the proposed Kitimat LNG export terminal in British Columbia which closed in February 2013.

Net cash used in investing activities in 2013 also included cash in reserve released from escrow of \$44 million compared to \$415 million in 2012. Net cash from investing activities in 2011 included cash placed in escrow of \$383 million. Cash in reserve includes monies which are not available for general operating use, are segregated or held in escrow and include amounts received from counterparties related to jointly developed 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 long-term debt, excluding the current portion, totaled \$6,124 million at December 31, 2013 and \$7,175 million at December 31, 2012. The current portion of long-term debt outstanding was \$1,000 million at December 31, 2013 compared to \$500 million at December 31, 2012. On October 15, 2013, the Company repaid its 4.75 percent \$500 million debt maturity from cash. The Company expects that the remaining \$1,000 million 5.80 percent notes which are due to mature on May 1, 2014 will be paid in cash. There were no outstanding balances under the Company's revolving credit facilities at December 31, 2013 or December 31, 2012.

Encana has the flexibility to refinance maturing long-term debt or repay debt maturities from existing sources of liquidity. Encana's primary sources of liquidity include cash and cash equivalents, revolving bank credit facilities, working capital, operating cash flow and proceeds from asset divestitures.

Credit Facilities and Shelf Prospectuses

Encana maintains two committed revolving bank credit facilities and a U.S. dollar shelf prospectus. In June 2013, the Company extended the maturity date of its existing revolving bank credit facilities to June 2018 and reduced the Canadian facility from C\$4.0 billion to C\$3.5 billion. As at December 31, 2013, Encana had available unused committed revolving bank credit facilities of \$4.3 billion and unused capacity under a shelf prospectus for up to \$4.0 billion.

- Encana has in place a revolving bank credit facility for C\$3.5 billion (\$3.3 billion) that remains committed through June 2018, all of which 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 June 2018, of which \$999 million remained unused.
- 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, 2013, the shelf prospectus remained unutilized, the availability of which is dependent upon market conditions. The shelf prospectus expires in June 2014.

Encana had in place an unutilized shelf prospectus for up to C\$2.0 billion, or the equivalent in foreign currencies, of debt securities in Canada which expired in June 2013. Encana did not renew the shelf prospectus as the Company had sufficient cash balances on hand and does not believe that access to the debt capital market in Canada will be required in the near term.

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 cumulative historical ceiling test impairments that were recorded as at December 31, 2011 in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP. Debt to Adjusted Capitalization was 36 percent at December 31, 2013 and 37 percent at December 31, 2012.

Outstanding Share Data

As at December 31, 2013 and February 18, 2014, Encana had 740.9 million common shares outstanding.

Eligible employees have been granted stock options to purchase common shares in accordance with Encana's Employee Stock Option Plan. As at December 31, 2013, there were approximately 29.5 million outstanding stock options with associated Tandem Stock Appreciation Rights ("TSARs") attached (15.5 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.

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, 2013, there were approximately 8.6 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.

During 2013, Encana cancelled 767,327 common shares reserved for issuance to shareholders upon exchange of predecessor companies’ shares. In accordance with the terms of the merger agreement which formed Encana, shares which have remained unexchanged were extinguished.

In March 2013, Encana amended its dividend reinvestment plan (“DRIP”) to permit the Company to issue, from its treasury, Encana common shares to participating shareholders of the DRIP at a discount to the average market price for the applicable dividend payment date. Under the Company’s DRIP, Encana issued 5.4 million common shares totaling \$93 million during 2013.

On February 13, 2014, Encana announced that any future dividends in conjunction with the DRIP will be issued from Encana’s treasury without a discount to the average market price unless otherwise announced by the Company via news release.

Dividends

Encana pays quarterly dividends to shareholders at the discretion of the Board of Directors. Dividend payments were \$494 million or \$0.67 per share for 2013 compared to \$588 million or \$0.80 per share for 2012 and 2011. As disclosed above, the dividends paid included \$93 million in common shares for 2013, which were issued in lieu of cash dividends under the Company’s DRIP.

On February 12, 2014, the Board declared a dividend of \$0.07 per share payable on March 31, 2014 to common shareholders of record as of March 14, 2014.

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 and managing 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, 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, which are defined in the Non-GAAP Measures section of this MD&A. The financial metrics the Company currently monitors are below.

	2013	2012	2011
Net Debt to Debt Adjusted Cash Flow	1.5x	1.1x	1.6x
Debt to Debt Adjusted Cash Flow	2.4x	2.0x	1.8x
Debt to Adjusted EBITDA	2.5x	2.0x	1.9x
Debt to Adjusted Capitalization	36%	37%	33%

Contractual Obligations and Contingencies

Contractual Obligations

The following table outlines the Company's contractual obligations at December 31, 2013:

(\$ millions, undiscounted)	Expected Future Payments						Total
	2014	2015	2016	2017	2018	Thereafter	
Long-Term Debt ⁽¹⁾	1,000	-	-	700	705	4,700	7,105
Asset Retirement Obligation	68	61	70	68	57	3,982	4,306
Other Long-Term Obligations	87	87	88	89	90	1,893	2,334
Capital Leases	106	93	93	94	94	315	795
Obligations ⁽²⁾	1,261	241	251	951	946	10,890	14,540
Transportation and Processing	967	985	896	896	848	4,379	8,971
Drilling and Field Services	292	106	71	41	38	35	583
Operating Leases	47	43	38	31	28	38	225
Commitments	1,306	1,134	1,005	968	914	4,452	9,779
Total Contractual Obligations	2,567	1,375	1,256	1,919	1,860	15,342	24,319
Sublease Recoveries	(43)	(43)	(44)	(44)	(44)	(939)	(1,157)

(1) Principal component only. See Note 12 to the Consolidated Financial Statements.

(2) The Company has recorded \$10,312 million in liabilities related to these obligations.

Contractual obligations arising from long-term debt, asset retirement obligations, The Bow office building and capital leases 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 building. Encana has recognized the accumulated construction costs for The Bow office building as an asset with a related liability. In 2012, Encana 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 \$2,334 million, of which \$1,157 million is expected to be recovered from Cenovus.

Capital Leases primarily includes the obligation related to the Deep Panuke Production Field Centre, which commenced commercial operations in December 2013 following issuance of the Production Acceptance Notice. Encana's undiscounted future lease payments total \$687 million (\$536 million discounted).

In addition to the Commitments disclosed in the table above, Encana has significant development commitments with joint venture partners, a portion of which may be satisfied by the Drilling and Field Services commitments included in the table above.

Further to the Commitments disclosed above, Encana also has obligations related to its risk management program and to fund its defined benefit pension and other post-employment benefit plans. Further information can be found in Note 21 to the Consolidated Financial Statements regarding the Company's risk management program. The Company expects to fund its 2014 commitments and obligations 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 unfavourable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net earnings or loss in the period in which the outcome is determined. Accruals for litigation and claims are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such legal claims.

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 can be categorized as follows:

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

Encana has created a new strategy to strengthen its position as a leading North American resource play company and grow shareholder value through a disciplined focus on generating profitable growth. Encana continues to focus 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.

Issues that can affect Encana's reputation are generally strategic or emerging issues that can be identified early and then appropriately managed, but they can also include unforeseen issues that must be managed on a more urgent basis. Encana takes a proactive approach to the identification and management of issues that affect the Company's reputation and has established appropriate policies, procedures, guidelines and responsibilities for identifying and managing these issues.

Financial Risks

Encana defines financial risks as the risk of loss or lost opportunity resulting from financial management and market conditions that could have an 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 global financial institutions or with corporate 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 to the mitigation of financial 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, set a floor 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, 2013, is disclosed in Note 21 to the Consolidated Financial Statements.

Counterparty 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 industry standards and counterparties' credit quality.

The Company manages liquidity risk using cash and debt management programs. The Company has access to cash equivalents and a range of funding alternatives at competitive rates through committed revolving bank credit

facilities and debt 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 which may include adjusting capital spending, adjusting dividends paid to shareholders, issuing new shares, issuing new debt or repaying 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. This 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:

- operating activities;
- capital activities, including the ability to complete projects; and
- reserves and resources replacement.

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. These factors 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; partner funding for their share of joint venture and partnership commitments; 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, Encana undertakes 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.

Environmental, Regulatory, Reputational and Safety 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 environmental risk factors, Encana takes into account a number of qualitative and quantitative factors, including, but not limited to, the financial, operational, reputational and regulatory aspects of each 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 and 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 hydraulic fracturing regulations. However, chemical disclosure requirements are increasing in many of the jurisdictions in which the Company operates.

In the state of Colorado, several cities, including Boulder, Longmont, Fort Collins, Lafayette and Broomfield as well as the County of Boulder, have passed local ordinances limiting or banning certain oil and gas activities, including hydraulic fracturing. These local rule-making initiatives have not significantly impacted the Company's operations or development plans in the state and are not anticipated to have a negative impact on the Company's operations in the future. On January 21, 2014, a ballot initiative was filed in the state seeking to transfer the authority to regulate all for-profit companies to local government and specifically stating that local ordinances preempt all international, federal and state laws, except for individual fundamental rights. Though broad in nature, the ballot initiative is understood to be primarily intended to restrict oil and gas development in the state. This and other possible measures could make certain Colorado jurisdictions inaccessible to drilling in the future. Therefore, it is possible that the Company's operations in Colorado could be impeded should such initiatives succeed. Encana continues to work with state and local governments, academics and industry leaders to develop and respond to hydraulic fracturing related concerns in Colorado. The Company recognizes that additional hydraulic fracturing ballot initiatives are a possibility and will continue to monitor and respond to these developments in 2014.

In June 2013, the U.S. Environmental Protection Agency (the “EPA”) announced it has suspended its study of the potential environmental impacts of hydraulic fracturing, including the impacts on drinking water sources and public health, at Encana's Pavillion natural gas field in Wyoming. The agency has stated that the results in its 2011 draft report were inconclusive and it does not plan to finalize, seek peer review of or rely upon the conclusions of the draft report. Further, no aspects of the draft report will be incorporated into the EPA's larger ongoing national study of hydraulic fracturing. Instead, the EPA will support additional scientific investigation of the Pavillion groundwater being led by the Wyoming Department of Environmental Quality and the Wyoming Oil and Gas Conservation Commission. Any implication of a potential connection between hydraulic fracturing and groundwater quality may potentially subject Encana to regulatory, operational and/or reputation risks.

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 Regulations

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 Canadian federal government has announced that it will align GHG emission reduction targets with the U.S. The Canadian federal government has taken a sector-specific approach and, while progress has been made working with industry and the provinces on the development of oil and gas sector-specific regulations, the federal government has not committed to a definitive timeline for implementation and/or release of legislation. Encana will continue to monitor these developments during 2014.

While the U.S federal government has noted climate change action as a priority for the current administration's upcoming second term, direction given to the EPA to date has focused on establishing proposed carbon emission standards, regulations or guidelines related to power plants. To date, no legislative or regulatory announcements have been made that would materially impact oil and natural gas activities. Encana will continue to monitor any developments during 2014.

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 with a focus on energy efficiency, the development of technology to reduce GHG emissions and active involvement in the creation of industry best practices.

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 operates, 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, 2013. 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 price 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.

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.

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 future 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 its related fair value then goodwill is written down to the reporting unit's 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 as if the reporting entity had been acquired in a business combination. 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, 2013 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 assumptions 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 plus the effect of legislative changes and amounts in respect of prior periods. The estimated annual effective income tax rate is impacted by the expected annual earnings, statutory rate and other foreign differences, non-taxable capital gains and losses, tax differences on divestitures and transactions and partnership tax allocations in excess of funding.

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

Changes in Accounting Policies and Practices

As of January 1, 2013, 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 2011-11, *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 have been applied retrospectively.
- 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 have been applied prospectively.

New Standards Issued Not Yet Adopted

As of January 1, 2014, Encana will be required to adopt the following accounting standards updates issued by the FASB, which are not expected to have a material impact on the Company's Consolidated Financial Statements:

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

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.

(\$ millions)	2013					2012					2011
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual
Cash From (Used in) Operating Activities	\$ 2,289	\$ 462	\$ 935	\$ 554	\$ 338	\$ 3,107	\$ 717	\$ 1,142	\$ 631	\$ 617	\$ 3,927
(Add back) deduct:											
Net change in other assets and liabilities	(80)	(21)	(15)	(22)	(22)	(78)	(23)	(9)	(26)	(20)	(160)
Net change in non-cash working capital	(179)	(183)	300	(81)	(215)	(323)	(56)	242	(134)	(375)	(15)
Cash tax on sale of assets	(33)	(11)	(10)	(8)	(4)	(29)	(13)	(4)	(3)	(9)	(114)
Cash Flow	\$ 2,581	\$ 677	\$ 660	\$ 665	\$ 579	\$ 3,537	\$ 809	\$ 913	\$ 794	\$ 1,021	\$ 4,216

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, restructuring charges, 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.

(\$ millions)	2013					2012					2011
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual
Net Earnings (Loss)	\$ 236	\$ (251)	\$ 188	\$ 730	\$ (431)	\$(2,794)	\$ (80)	\$(1,244)	\$(1,482)	\$ 12	\$ 5
After-tax (addition) / deduction:											
Unrealized hedging gain (loss)	(232)	(209)	(89)	332	(266)	(1,002)	(72)	(428)	(547)	45	600
Impairments	(16)	-	(16)	-	-	(3,188)	(300)	(1,193)	(1,695)	-	(1,687)
Restructuring charges	(64)	(64)	-	-	-	-	-	-	-	-	-
Non-operating foreign exchange gain (loss)	(282)	(124)	105	(162)	(101)	92	(66)	162	(90)	86	(99)
Income tax adjustments	28	(80)	38	313	(243)	307	62	(48)	652	(359)	-
Operating Earnings	\$ 802	\$ 226	\$ 150	\$ 247	\$ 179	\$ 997	\$ 296	\$ 263	\$ 198	\$ 240	\$ 1,191

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.

(\$ millions)	2013					2012					2011
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual
Revenues, Net of Royalties	\$ 5,858	\$ 1,423	\$ 1,392	\$ 1,984	\$ 1,059	\$ 5,160	\$ 1,605	\$ 1,025	\$ 731	\$ 1,799	\$ 8,467
(Add) / deduct:											
Unrealized hedging gain (loss), before tax	(347)	(296)	(126)	461	(386)	(1,441)	(118)	(598)	(795)	70	854
Revenues, Net of Royalties, Excluding Unrealized Hedging	\$ 6,205	\$ 1,719	\$ 1,518	\$ 1,523	\$ 1,445	\$ 6,601	\$ 1,723	\$ 1,623	\$ 1,526	\$ 1,729	\$ 7,613

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)	2013	2012	2011
Debt	\$ 7,124	\$ 7,675	\$ 8,150
Less: Cash and Cash Equivalents	2,566	3,179	800
Net Debt	4,558	4,496	7,350
Cash Flow	2,581	3,537	4,216
Interest Expense, after tax	421	391	344
Debt Adjusted Cash Flow	\$ 3,002	\$ 3,928	\$ 4,560
Net Debt to Debt Adjusted Cash Flow	1.5x	1.1x	1.6x

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)	2013	2012	2011
Debt	\$ 7,124	\$ 7,675	\$ 8,150
Cash Flow	2,581	3,537	4,216
Interest Expense, after tax	421	391	344
Debt Adjusted Cash Flow	\$ 3,002	\$ 3,928	\$ 4,560
Debt to Debt Adjusted Cash Flow	2.4x	2.0x	1.8x

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)	2013	2012	2011
Debt	\$ 7,124	\$ 7,675	\$ 8,150
Net Earnings (Loss)	236	(2,794)	5
Add (deduct):			
Interest	563	522	468
Income tax expense (recovery)	(248)	(2,037)	17
Depreciation, depletion and amortization	1,565	1,956	2,282
Impairments	21	4,695	2,249
Accretion of asset retirement obligation	53	53	50
Foreign exchange (gain) loss, net	325	(107)	133
Unrealized (gain) loss on risk management	345	1,465	(879)
Other	(6)	1	21
Adjusted EBITDA	\$ 2,854	\$ 3,754	\$ 4,346
Debt to Adjusted EBITDA	2.5x	2.0x	1.9x

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 cumulative historical ceiling test impairments recorded as at December 31, 2011 in conjunction with the Company's January 1, 2012 adoption of U.S. GAAP.

(\$ millions)	2013	2012	2011
Debt	\$ 7,124	\$ 7,675	\$ 8,150
Shareholders' Equity	5,147	5,295	8,578
Equity Adjustment for Impairments at December 31, 2011	7,746	7,746	7,746
Adjusted Capitalization	\$ 20,017	\$ 20,716	\$ 24,474
Debt to Adjusted Capitalization	36%	37%	33%

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 developing its strong portfolio of resource plays producing natural gas, oil and NGLs; commitment to growing long-term shareholder value through a disciplined focus on generating profitable growth; pursuing its key business objectives of balancing its commodity mix, focusing capital investments in high return, scalable projects, maintaining portfolio flexibility, maximizing profitability through operating efficiencies, reducing costs and preserving balance sheet strength; the expectation that there will be no significant changes in reportable segments as a result of the new business strategy; the realignment of the Company's business strategy and corporate organizational structure and success thereof; the Company's plans to transfer its royalty business into a new company through an IPO, including the expected future activities of the new company following the transaction, the anticipated benefits of the transaction to Encana and its shareholders, Encana's expected ownership level in the new company, that applicable approvals will be obtained and the timing and success of such offering; the ability to continue entering prospective plays early and leveraging technology to unlock resources and build the underlying productive capacity at low cost; anticipated revenues and operating expenses; improving operating efficiencies, fostering technological innovation, lowering cost structures and success of resource play hub model; the Company's continued focus on developing low-risk and low-cost long-life resource plays; the anticipated 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; anticipated dividends, potential future discounts to market price in connection with the Company's DRIP; anticipated oil, natural gas and NGLs prices; anticipated third party purchases and sales; projections contained in the 2014 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 2014 estimated sensitivities of cash flow and operating earnings); estimates of reserves and resources; 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; the flexibility of capital spending plans and the source of funding therefor; anticipated access to capital markets and ability to meet financial obligations and finance growth; the benefits of the Company's risk management program, including the impact of derivative financial instruments; projections that the Company has access to cash and cash equivalents and a 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; anticipated debt repayments and the ability to make such repayments in cash; expectations surrounding environmental legislation including regulations relating to climate change and hydraulic fracturing and the impact such regulations could have on the Company and the results of additional scientific investigations of the Pavillion groundwater; anticipated flexibility to refinance maturing long-term debt or repay debt maturities from existing sources of liquidity; expectation to fund 2014 commitments from cash flow, cash and cash equivalents; expectations regarding accessing the debt capital market in Canada in the near term; the anticipated effect of the Company's risk mitigation policies, systems, processes and insurance program; the Company's ability to manage its Net Debt to Debt Adjusted Cash Flow, 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. Without limiting the generality of the foregoing, there can be no assurance that Encana will ultimately conduct an IPO, or, if a new company is created, the final particulars thereof, including without limitation, the number, value or location of the fee simple mineral title lands and associated royalty interests that would be proposed to be transferred to a new company, the size of the retained interest that Encana would hold initially or in the future in the new company, and other arrangements that would be proposed or exist as between Encana and the new company. Encana's determination to create a new company is subject to a number of risks and uncertainties, including without limitation, those relating to approval by Encana's Board of Directors, due diligence, favourable market conditions and stock exchange, regulatory and third party approvals. 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 2014 cash flow for Encana is based upon, among other things, achieving average production for 2014 of between 2.6 Bcf/d and 2.8 Bcf/d of natural gas and 70,000 bbls/d to 75,000 bbls/d of liquids, commodity prices for natural gas and liquids based on NYMEX \$3.75 per MMBtu and WTI of \$95 per bbl, an estimated U.S./Canadian dollar foreign exchange rate of \$0.95 and a weighted average number of outstanding shares for Encana of approximately 741 million.

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 13, 2014, 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. The Canadian protocol disclosure is contained in Appendix A and under "Narrative Description of the Business" in the AIF. Encana 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 24 (unaudited) to the Company's Consolidated Financial Statements for the year ended December 31, 2013 and in Appendix D of the AIF.

A description of the primary differences between the disclosure requirements under the Canadian standards and 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 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.