encana™ natural gas

Encana Corporation

Interim Consolidated Financial Statements
(unaudited)

For the period ended December 31, 2010

(U.S. Dollars)

Consolidated Statement of Earnings *(unaudited)*

($ millions, except per share amounts)		Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009
Revenues, Net of Royalties	*(Note 3)*	**$ 1,431**	$ 2,712	**$ 8,870**	$ 11,114
Expenses	*(Note 3)*				
Production and mineral taxes		**47**	49	**217**	171
Transportation		**217**	311	**859**	1,280
Operating		**283**	381	**1,061**	1,627
Purchased product		**179**	340	**739**	1,460
Depreciation, depletion and amortization		**818**	895	**3,242**	3,704
Administrative		**98**	145	**359**	477
Interest, net	*(Note 6)*	**121**	153	**501**	405
Accretion of asset retirement obligation	*(Note 10)*	**11**	16	**46**	71
Foreign exchange (gain) loss, net	*(Note 7)*	**(184)**	95	**(216)**	(22)
(Gain) loss on divestitures		**3**	1	**2**	2
		1,593	2,386	**6,810**	9,175
Net Earnings (Loss) Before Income Tax		**(162)**	326	**2,060**	1,939
Income tax expense (recovery)	*(Note 8)*	**(120)**	(263)	**561**	109
Net Earnings (Loss) From Continuing Operations		**(42)**	589	**1,499**	1,830
Net Earnings From Discontinued Operations	*(Note 4)*	**-**	47	**-**	32
Net Earnings (Loss)		**$ (42)**	$ 636	**$ 1,499**	$ 1,862
Net Earnings (Loss) From Continuing Operations per Common Share	*(Note 12)*				
Basic		**$ (0.06)**	$ 0.78	**$ 2.03**	$ 2.44
Diluted		**$ (0.06)**	$ 0.78	**$ 2.03**	$ 2.44
Net Earnings (Loss) per Common Share	*(Note 12)*				
Basic		**$ (0.06)**	$ 0.85	**$ 2.03**	$ 2.48
Diluted		**$ (0.06)**	$ 0.85	**$ 2.03**	$ 2.48

Consolidated Statement of Comprehensive Income *(unaudited)*

($ millions)	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009
Net Earnings (Loss)	**$ (42)**	$ 636	**$ 1,499**	$ 1,862
Other Comprehensive Income, Net of Tax				
Foreign Currency Translation Adjustment	**166**	388	**296**	2,018
Comprehensive Income	**$ 124**	$ 1,024	**$ 1,795**	$ 3,880

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet *(unaudited)*

($ millions)		**As at December 31, 2010**	As at December 31, 2009
Assets			
Current Assets			
Cash and cash equivalents		**$ 629**	$ 4,275
Accounts receivable and accrued revenues		**1,103**	1,180
Risk management	*(Note 14)*	**729**	328
Income tax receivable		**390**	-
Inventories		**3**	12
		2,854	5,795
Property, Plant and Equipment, net	*(Note 3)*	**28,701**	26,173
Investments and Other Assets		**235**	164
Risk Management	*(Note 14)*	**505**	32
Goodwill		**1,725**	1,663
	(Note 3)	**$ 34,020**	$ 33,827
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 2,211**	$ 2,143
Income tax payable		**-**	1,776
Risk management	*(Note 14)*	**65**	126
Current portion of long-term debt	*(Note 9)*	**500**	200
		2,776	4,245
Long-Term Debt	*(Note 9)*	**7,129**	7,568
Other Liabilities	*(Note 3)*	**1,730**	1,185
Risk Management	*(Note 14)*	**8**	42
Asset Retirement Obligation	*(Note 10)*	**820**	787
Future Income Taxes		**4,230**	3,386
		16,693	17,213
Shareholders' Equity			
Share capital	*(Note 12)*	**2,319**	2,360
Paid in surplus	*(Note 12)*	**-**	6
Retained earnings		**13,957**	13,493
Accumulated other comprehensive income		**1,051**	755
Total Shareholders' Equity		**17,327**	16,614
		$ 34,020	$ 33,827

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity *(unaudited)*

($ millions)		Twelve Months Ended December 31, 2010	2009
Share Capital	(Note 12)		
Balance, Beginning of Year		**$ 2,360**	$ 4,557
Common Shares Issued under Option Plans		**5**	5
Common Shares Issued from PSU Trust		**-**	19
Stock-Based Compensation		**2**	1
Common Shares Purchased		**(48)**	-
Common Shares Cancelled		**-**	(4,582)
New Encana Common Shares Issued		**-**	2,360
Encana Special Shares Issued		**-**	2,222
Encana Special Shares Cancelled		**-**	(2,222)
Balance, End of Year		**$ 2,319**	$ 2,360
Paid in Surplus			
Balance, Beginning of Year		**$ 6**	$ -
Common Shares Issued from PSU Trust		**-**	6
Common Shares Purchased	(Note 12)	**(6)**	-
Balance, End of Year		**$ -**	$ 6
Retained Earnings			
Balance, Beginning of Year		**$ 13,493**	$ 17,584
Net Earnings		**1,499**	1,862
Dividends on Common Shares		**(590)**	(1,051)
Charges for Normal Course Issuer Bid	(Note 12)	**(445)**	-
Net Distribution to Cenovus Energy		**-**	(4,902)
Balance, End of Year		**$ 13,957**	$ 13,493
Accumulated Other Comprehensive Income			
Balance, Beginning of Year		**$ 755**	$ 833
Foreign Currency Translation Adjustment		**296**	2,018
Transferred to Cenovus Energy		**-**	(2,096)
Balance, End of Year		**$ 1,051**	$ 755
Total Shareholders' Equity		**$ 17,327**	$ 16,614

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows *(unaudited)*

($ millions)		Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009
Operating Activities					
Net earnings (loss) from continuing operations		**$ (42)**	$ 589	**$ 1,499**	$ 1,830
Depreciation, depletion and amortization		**818**	895	**3,242**	3,704
Future income taxes	*(Note 8)*	**(95)**	(1,281)	**774**	(1,799)
Unrealized (gain) loss on risk management	*(Note 14)*	**398**	289	**(945)**	2,680
Unrealized foreign exchange (gain) loss		**(191)**	(82)	**(278)**	(231)
Accretion of asset retirement obligation	*(Note 10)*	**11**	16	**46**	71
(Gain) loss on divestitures		**3**	1	**2**	2
Other		**15**	189	**99**	373
Cash flow from discontinued operations		**-**	(13)	**-**	149
Net change in other assets and liabilities		**1**	(13)	**(84)**	23
Net change in non-cash working capital from continuing operations		**1**	528	**(1,990)**	(29)
Net change in non-cash working capital from discontinued operations		**-**	353	**-**	1,100
Cash From Operating Activities		**919**	1,471	**2,365**	7,873
Investing Activities					
Capital expenditures	*(Note 3)*	**(1,427)**	(1,275)	**(4,773)**	(4,625)
Acquisitions	*(Note 5)*	**(392)**	(135)	**(733)**	(263)
Proceeds from divestitures	*(Note 5)*	**309**	148	**883**	1,178
Cash transferred on Split Transaction		**-**	(3,996)	**-**	(3,996)
Proceeds from notes receivable from Cenovus		**-**	3,750	**-**	3,750
Restricted cash		**-**	3,619	**-**	-
Net change in investments and other		**20**	105	**(80)**	337
Net change in non-cash working capital from continuing operations		**(58)**	166	**(26)**	(50)
Discontinued operations		**-**	(227)	**-**	(1,137)
Cash From (Used in) Investing Activities		**(1,548)**	2,155	**(4,729)**	(4,806)
Financing Activities					
Net issuance (repayment) of revolving long-term debt		**-**	(461)	**-**	(1,852)
Issuance of long-term debt		**-**	-	**-**	496
Issuance of Cenovus Notes		**-**	-	**-**	3,468
Repayment of long-term debt		**-**	-	**(200)**	(250)
Issuance of common shares	*(Note 12)*	**-**	1	**5**	24
Purchase of common shares	*(Note 12)*	**-**	-	**(499)**	-
Dividends on common shares		**(147)**	(150)	**(590)**	(1,051)
Cash From (Used in) Financing Activities		**(147)**	(610)	**(1,284)**	835
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		**8**	8	**2**	19
Increase (Decrease) in Cash and Cash Equivalents		**(768)**	3,024	**(3,646)**	3,921
Cash and Cash Equivalents, Beginning of Period		**1,397**	1,251	**4,275**	354
Cash and Cash Equivalents, End of Period		**$ 629**	$ 4,275	**$ 629**	$ 4,275
Cash, End of Period		**$ 126**	$ 218	**$ 126**	$ 218
Cash Equivalents, End of Period		**503**	4,057	**503**	4,057
Cash and Cash Equivalents, End of Period		**$ 629**	$ 4,275	**$ 629**	$ 4,275

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

1. Basis of Presentation

The interim Consolidated Financial Statements include the accounts of Encana Corporation and its subsidiaries ("Encana" or the "Company"), and are presented in accordance with Canadian generally accepted accounting principles ("GAAP"). Encana's continuing operations are in the business of the exploration for, the development of, and the production and marketing of natural gas, crude oil and natural gas liquids ("NGLs").

The interim Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual audited Consolidated Financial Statements for the year ended December 31, 2009, except as noted below. The disclosures provided below are incremental to those included with the annual audited Consolidated Financial Statements. Certain information and disclosures normally required to be included in the notes to the annual audited Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, the interim Consolidated Financial Statements should be read in conjunction with the annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2009.

On November 30, 2009, Encana completed a corporate reorganization (the "Split Transaction") to split into two independent publicly traded energy companies - Encana Corporation, a natural gas company, and Cenovus Energy Inc. ("Cenovus"), an integrated oil company.

Encana's 2009 comparative results in the Consolidated Statement of Earnings and Consolidated Statement of Cash Flows include Cenovus's upstream operations prior to the November 30, 2009 Split Transaction in continuing operations, while the U.S. Downstream Refining results are reported as discontinued operations.

2. Changes in Accounting Policies and Practices

New Accounting Standards Adopted

On January 1, 2010, Encana adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

- "Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard has had no material impact on the accounting treatment of business combinations entered into after January 1, 2010.

- "Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard has had no material impact on Encana's Consolidated Financial Statements.

- "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard has had no material impact on Encana's Consolidated Financial Statements.

The above CICA Handbook sections are converged with International Financial Reporting Standards ("IFRS").

International Financial Reporting Standards

Effective January 1, 2011, the Company will be required to report its Consolidated Financial Statements in accordance with IFRS, including 2010 comparative information. Encana is in the final stages of its IFRS changeover plan and expects to report its first quarter 2011 results in accordance with IFRS in April 2011. Based on current International standards, Encana expects the transition to IFRS will not have a major impact on the Company’s operations, strategic decisions and cash flows.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information

The Company's operating and reportable segments are as follows:

- **Canada** includes the Company's exploration for, development of, and production of natural gas, crude oil and NGLs and other related activities within the Canadian cost centre.

- **USA** includes the Company's exploration for, development of, and production of natural gas, NGLs and other related activities within the U.S. cost centre.

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

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

Market Optimization sells substantially all of the Company's upstream production to third-party customers. Transactions between segments are based on market values and eliminated on consolidation. The tables in this note present financial information on an after eliminations basis.

Encana has a decentralized decision-making and reporting structure. Accordingly, the Company reports its divisional results as follows:

- **Canadian Division**, which includes natural gas exploration, development and production assets located in British Columbia and Alberta, as well as the Deep Panuke natural gas project offshore Nova Scotia. Four key resource plays are located in the Division: (i) Greater Sierra in northeast British Columbia, including Horn River; (ii) Cutbank Ridge in Alberta and British Columbia, including Montney; (iii) Bighorn in west central Alberta; and (iv) Coalbed Methane in southern Alberta.

- **USA Division,** which includes the natural gas exploration, development and production assets located in the U.S. Five key resource plays are located in the Division: (i) Jonah in southwest Wyoming; (ii) Piceance in northwest Colorado; (iii) East Texas in Texas; (iv) Haynesville in Louisiana and Texas; and (v) Fort Worth in Texas.

- **Canada - Other** includes the combined results from the former Canadian Plains Division and Integrated Oil - Canada.

Comparative results prior to the November 30, 2009 Split Transaction include the results of operations from assets transferred to Cenovus. The former Canadian Plains and Integrated Oil – Canada upstream operations are presented as Canada – Other within continuing operations. The former Integrated Oil Downstream Refining operations are reported as discontinued operations as disclosed in Note 4.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

Results of Continuing Operations (For the three months ended December 31)

Segment and Geographic Information

	Canada		USA		Market Optimization	
	2010	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 693**	$ 1,531	**$ 961**	$ 1,076	**$ 194**	$ 368
Expenses						
Production and mineral taxes	**-**	9	**47**	40	**-**	-
Transportation	**52**	168	**165**	143	**-**	-
Operating	**162**	252	**118**	120	**8**	-
Purchased product	**-**	(13)	**-**	-	**179**	353
	479	1,115	**631**	773	**7**	15
Depreciation, depletion and amortization	**324**	436	**473**	393	**3**	5
Segment Income (Loss)	**$ 155**	$ 679	**$ 158**	$ 380	**$ 4**	$ 10

	Corporate & Other		Consolidated	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ (417)**	$ (263)	**$ 1,431**	$ 2,712
Expenses				
Production and mineral taxes	**-**	-	**47**	49
Transportation	**-**	-	**217**	311
Operating	**(5)**	9	**283**	381
Purchased product	**-**	-	**179**	340
	(412)	(272)	**705**	1,631
Depreciation, depletion and amortization	**18**	61	**818**	895
Segment Income (Loss)	**$ (430)**	$ (333)	**(113)**	736
Administrative			**98**	145
Interest, net			**121**	153
Accretion of asset retirement obligation			**11**	16
Foreign exchange (gain) loss, net			**(184)**	95
(Gain) loss on divestitures			**3**	1
			49	410
Net Earnings (Loss) Before Income Tax			**(162)**	326
Income tax expense (recovery)			**(120)**	(263)
Net Earnings (Loss) from Continuing Operations			**$ (42)**	$ 589

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

Results of Continuing Operations (For the three months ended December 31)

Product and Divisional Information

Canada Segment

	Canadian Division		Canada - Other *		Total	
	2010	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 693**	$ 691	**$ -**	$ 840	**$ 693**	$ 1,531
Expenses						
Production and mineral taxes	**-**	1	**-**	8	**-**	9
Transportation	**52**	39	**-**	129	**52**	168
Operating	**162**	147	**-**	105	**162**	252
Purchased product	**-**	-	**-**	(13)	**-**	(13)
Operating Cash Flow	**$ 479**	$ 504	**$ -**	$ 611	**$ 479**	$ 1,115

Canadian Division

	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 621**	$ 609	**$ 67**	$ 69	**$ 5**	$ 13	**$ 693**	$ 691
Expenses								
Production and mineral taxes	**-**	-	**-**	1	**-**	-	**-**	1
Transportation	**51**	39	**1**	-	**-**	-	**52**	39
Operating	**155**	139	**4**	4	**3**	4	**162**	147
Operating Cash Flow	**$ 415**	$ 431	**$ 62**	$ 64	**$ 2**	$ 9	**$ 479**	$ 504

USA Division

	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 876**	$ 976	**$ 62**	$ 69	**$ 23**	$ 31	**$ 961**	$ 1,076
Expenses								
Production and mineral taxes	**40**	34	**7**	6	**-**	-	**47**	40
Transportation	**165**	143	**-**	-	**-**	-	**165**	143
Operating	**100**	90	**-**	-	**18**	30	**118**	120
Operating Cash Flow	**$ 571**	$ 709	**$ 55**	$ 63	**$ 5**	$ 1	**$ 631**	$ 773

Canada - Other *

	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ -**	$ 298	**$ -**	$ 524	**$ -**	$ 18	**$ -**	$ 840
Expenses								
Production and mineral taxes	**-**	4	**-**	4	**-**	-	**-**	8
Transportation	**-**	6	**-**	117	**-**	6	**-**	129
Operating	**-**	28	**-**	72	**-**	5	**-**	105
Purchased product	**-**	-	**-**	-	**-**	(13)	**-**	(13)
Operating Cash Flow	**$ -**	$ 260	**$ -**	$ 331	**$ -**	$ 20	**$ -**	$ 611

* Includes the operations formerly known as the Canadian Plains Division and Integrated Oil - Canada.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

Results of Continuing Operations (For the twelve months ended December 31)

Segment and Geographic Information

	Canada		USA		Market Optimization	
	2010	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 2,829**	$ 7,585	**$ 4,275**	$ 4,537	**$ 797**	$ 1,607
Expenses						
Production and mineral taxes	**8**	53	**209**	118	**-**	-
Transportation	**197**	750	**662**	530	**-**	-
Operating	**561**	1,118	**468**	434	**33**	26
Purchased product	**-**	(85)	**-**	-	**739**	1,545
	2,063	5,749	**2,936**	3,455	**25**	36
Depreciation, depletion and amortization	**1,242**	1,980	**1,912**	1,561	**11**	20
Segment Income (Loss)	**$ 821**	$ 3,769	**$ 1,024**	$ 1,894	**$ 14**	$ 16

	Corporate & Other		Consolidated	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ 969**	$ (2,615)	**$ 8,870**	$ 11,114
Expenses				
Production and mineral taxes	**-**	-	**217**	171
Transportation	**-**	-	**859**	1,280
Operating	**(1)**	49	**1,061**	1,627
Purchased product	**-**	-	**739**	1,460
	970	(2,664)	**5,994**	6,576
Depreciation, depletion and amortization	**77**	143	**3,242**	3,704
Segment Income (Loss)	**$ 893**	$ (2,807)	**2,752**	2,872
Administrative			**359**	477
Interest, net			**501**	405
Accretion of asset retirement obligation			**46**	71
Foreign exchange (gain) loss, net			**(216)**	(22)
(Gain) loss on divestitures			**2**	2
			692	933
Net Earnings Before Income Tax			**2,060**	1,939
Income tax expense			**561**	109
Net Earnings from Continuing Operations			**$ 1,499**	$ 1,830

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

Results of Continuing Operations (For the twelve months ended December 31)

Product and Divisional Information

	Canada Segment					
	Canadian Division		Canada - Other *		Total	
	2010	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 2,829**	$ 3,362	**$ -**	$ 4,223	**$ 2,829**	$ 7,585
Expenses						
Production and mineral taxes	**8**	14	**-**	39	**8**	53
Transportation	**197**	154	**-**	596	**197**	750
Operating	**561**	536	**-**	582	**561**	1,118
Purchased product	**-**	-	**-**	(85)	**-**	(85)
Operating Cash Flow	**$ 2,063**	$ 2,658	**$ -**	$ 3,091	**$ 2,063**	$ 5,749

	Canadian Division							
	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 2,480**	$ 3,041	**$ 305**	$ 277	**$ 44**	$ 44	**$ 2,829**	$ 3,362
Expenses								
Production and mineral taxes	**7**	11	**1**	3	**-**	-	**8**	14
Transportation	**194**	148	**3**	6	**-**	-	**197**	154
Operating	**531**	501	**16**	21	**14**	14	**561**	536
Operating Cash Flow	**$ 1,748**	$ 2,381	**$ 285**	$ 247	**$ 30**	$ 30	**$ 2,063**	$ 2,658

	USA Division							
	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 3,912**	$ 4,222	**$ 244**	$ 201	**$ 119**	$ 114	**$ 4,275**	$ 4,537
Expenses								
Production and mineral taxes	**185**	100	**24**	18	**-**	-	**209**	118
Transportation	**662**	530	**-**	-	**-**	-	**662**	530
Operating	**393**	327	**-**	-	**75**	107	**468**	434
Operating Cash Flow	**$ 2,672**	$ 3,265	**$ 220**	$ 183	**$ 44**	$ 7	**$ 2,936**	$ 3,455

	Canada - Other *							
	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ -**	$ 1,781	**$ -**	$ 2,287	**$ -**	$ 155	**$ -**	$ 4,223
Expenses								
Production and mineral taxes	**-**	15	**-**	23	**-**	1	**-**	39
Transportation	**-**	37	**-**	535	**-**	24	**-**	596
Operating	**-**	186	**-**	356	**-**	40	**-**	582
Purchased product	**-**	-	**-**	-	**-**	(85)	**-**	(85)
Operating Cash Flow	**$ -**	$ 1,543	**$ -**	$ 1,373	**$ -**	$ 175	**$ -**	$ 3,091

* Includes the operations formerly known as the Canadian Plains Division and Integrated Oil - Canada.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

Capital Expenditures (Continuing Operations)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2010	2009	**2010**	2009
Capital				
Canadian Division	**$ 649**	$ 575	**$ 2,211**	$ 1,869
Canada - Other	**-**	134	**-**	848
Canada	**649**	709	**2,211**	2,717
USA	**750**	515	**2,499**	1,821
Market Optimization	**1**	4	**2**	2
Corporate & Other	**27**	47	**61**	85
	$ 1,427	$ 1,275	**$ 4,773**	$ 4,625

Property, Plant and Equipment and Total Assets by Segment

	Property, Plant and Equipment As at		Total Assets As at	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
Canada	**$ 13,193**	$ 11,162	**$ 14,823**	$ 12,748
USA	**13,963**	13,929	**15,154**	14,962
Market Optimization	**121**	124	**193**	303
Corporate & Other	**1,424**	958	**3,850**	5,814
Total	**$ 28,701**	$ 26,173	**$ 34,020**	$ 33,827

In January 2008, Encana signed the contract for the design and construction of the Production Field Centre ("PFC") for the Deep Panuke project. As at December 31, 2010, Canada property, plant, and equipment and total assets includes Encana's accrual to date of $528 million ($427 million at December 31, 2009) related to this offshore facility as an asset under construction.

In February 2007, Encana announced that it had entered into a 25 year lease agreement with a third party developer for The Bow office project. As at December 31, 2010, Corporate and Other property, plant and equipment and total assets includes Encana's accrual to date of $1,090 million ($649 million at December 31, 2009) related to this office project as an asset under construction.

Corresponding liabilities for these projects are included in other liabilities in the Consolidated Balance Sheet. There is no effect on the Company's net earnings or cash flows related to the capitalization of The Bow office project or the Deep Panuke PFC.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

4. Discontinued Operations

As a result of the Split Transaction on November 30, 2009, Encana transferred its Downstream Refining operations to Cenovus. These operations have been accounted for as discontinued operations. There were no assets or liabilities related to discontinued operations as at December 31, 2010 and December 31, 2009.

Consolidated Statement of Earnings

The following table presents the effect of discontinued operations in the Consolidated Statement of Earnings:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ -**	$ 955	**$ -**	$ 4,804
Expenses				
Operating	**-**	87	**-**	416
Purchased product	**-**	849	**-**	4,070
Depreciation, depletion and amortization	**-**	27	**-**	173
Administrative	**-**	26	**-**	44
Interest, net	**-**	27	**-**	163
Accretion of asset retirement obligation	**-**	1	**-**	2
Foreign exchange (gain) loss, net	**-**	-	**-**	1
	-	1,017	**-**	4,869
Net Earnings (Loss) Before Income Tax	**-**	(62)	**-**	(65)
Income tax expense (recovery)	**-**	(109)	**-**	(97)
Net Earnings From Discontinued Operations	**$ -**	$ 47	**$ -**	$ 32
Net Earnings From Discontinued Operations per Common Share				
Basic	**$ -**	$ 0.07	**$ -**	$ 0.04
Diluted	**$ -**	$ 0.07	**$ -**	$ 0.04

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

5. Acquisitions and Divestitures

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2010	2009	**2010**	2009
Acquisitions				
Canadian Division	**$ 358**	$ 108	**$ 592**	$ 190
Canada - Other	**-**	2	**-**	3
Canada	**358**	110	**592**	193
USA	**34**	25	**141**	46
Corporate & Other	**-**	-	**-**	24
Total Acquisitions	**392**	135	**733**	263
Divestitures				
Canadian Division	**(88)**	(43)	**(288)**	(1,000)
Canada - Other	**-**	(19)	**-**	(17)
Canada	**(88)**	(62)	**(288)**	(1,017)
USA	**(221)**	(3)	**(595)**	(73)
Corporate & Other	**-**	(83)	**-**	(88)
Total Divestitures	**(309)**	(148)	**(883)**	(1,178)
Net Acquisitions and Divestitures	**$ 83**	$ (13)	**$ (150)**	$ (915)

Acquisitions

Acquisitions in Canada and the USA include the purchase of various strategic lands and properties that complement existing assets within Encana's portfolio. For the three months ended December 31, 2010, acquisitions were $392 million (2009 - $135 million). For the twelve months ended December 31, 2010, acquisitions were $733 million (2009 - $263 million).

Divestitures

Divestitures in Canada and the USA primarily include the sale of non-core oil and natural gas assets. For the three months ended December 31, 2010, proceeds received on the sale of assets were $309 million (2009 - $148 million). For the twelve months ended December 31, 2010, proceeds received on the sale of assets were $883 million (2009 - $1,178 million).

Corporate and Other

In November 2009, the Company completed the sale of Senlac Oil Limited for cash consideration of $83 million.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

6. Interest, Net

	Three Months Ended December 31, 2010	2009	Twelve Months Ended December 31, 2010	2009
Interest Expense - Long-Term Debt	**$ 120**	$ 167	**$ 485**	$ 533
Interest Expense - Other	**3**	15	**29**	40
Interest Income *	**(2)**	(29)	**(13)**	(168)
	$ 121	$ 153	**$ 501**	$ 405

* In 2009, Interest Income was primarily due to the Partnership Contribution Receivable which was transferred to Cenovus under the Split Transaction.

7. Foreign Exchange (Gain) Loss, Net

	Three Months Ended December 31, 2010	2009	Twelve Months Ended December 31, 2010	2009
Unrealized Foreign Exchange (Gain) Loss on:				
Translation of U.S. dollar debt issued from Canada	**$ (194)**	$ (204)	**$ (282)**	$ (978)
Translation of U.S. dollar partnership contribution receivable issued from Canada *	**-**	34	**-**	448
Other Foreign Exchange (Gain) Loss on:				
Monetary revaluations and settlements	**10**	265	**66**	508
	$ (184)	$ 95	**$ (216)**	$ (22)

* The Partnership Contribution Receivable was transferred to Cenovus under the Split Transaction.

8. Income Taxes

The provision (recovery) for income taxes is as follows:

	Three Months Ended December 31, 2010	2009	Twelve Months Ended December 31, 2010	2009
Current				
Canada	**$ (12)**	$ 945	**$ (175)**	$ 1,623
United States	**(18)**	72	**(49)**	279
Other Countries	**5**	1	**11**	6
Total Current Tax	**(25)**	1,018	**(213)**	1,908
Future	**(95)**	(1,281)	**774**	(1,799)
	$ (120)	$ (263)	**$ 561**	$ 109

9. Long-Term Debt

	As at December 31, 2010	As at December 31, 2009
Canadian Dollar Denominated Debt		
Unsecured notes	**$ 1,257**	$ 1,194
U.S. Dollar Denominated Debt		
Unsecured notes	**6,400**	6,600
Total Debt Principal	**7,657**	7,794
Increase in Value of Debt Acquired	**50**	52
Debt Discounts and Transaction Costs	**(78)**	(78)
Current Portion of Long-Term Debt	**(500)**	(200)
	$ 7,129	$ 7,568

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

10. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas assets:

	As at December 31, 2010	As at December 31, 2009
Asset Retirement Obligation, Beginning of Year	**$ 787**	$ 1,230
Liabilities Incurred	**101**	21
Liabilities Settled	**(26)**	(52)
Liabilities Divested	**(75)**	(26)
Liabilities Transferred to Cenovus	**-**	(692)
Change in Estimated Future Cash Outflows	**(38)**	74
Accretion Expense	**46**	71
Foreign Currency Translation	**25**	161
Asset Retirement Obligation, End of Year	**$ 820**	$ 787

11. Capital Structure

The Company's capital structure consists of shareholders' equity plus debt, defined as long-term debt including the current portion. The Company's objectives when managing its capital structure are to:

i) maintain financial flexibility to preserve Encana's access to capital markets and its ability to meet its financial obligations; and
ii) finance internally generated growth, as well as potential acquisitions.

The Company monitors its capital structure and short-term financing requirements using non-GAAP financial metrics consisting of Debt to Capitalization and Debt to Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). These metrics are measures of the Company's overall financial strength and are used to steward the Company's overall debt position.

Encana targets a Debt to Capitalization ratio of less than 40 percent. At December 31, 2010, Encana's Debt to Capitalization ratio was 31 percent (December 31, 2009 - 32 percent) calculated as follows:

	As at December 31, 2010	As at December 31, 2009
Debt	**$ 7,629**	$ 7,768
Shareholders' Equity	**17,327**	16,614
Capitalization	**$ 24,956**	$ 24,382
Debt to Capitalization Ratio	**31%**	32%

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

11. Capital Structure (continued)

Encana targets a Debt to Adjusted EBITDA of less than 2.0 times. At December 31, 2010, Debt to Adjusted EBITDA was 1.4x (December 31, 2009 - 1.3x) calculated on a trailing 12-month basis as follows:

	As at December 31, 2010	As at December 31, 2009
Debt	**$ 7,629**	$ 7,768
Net Earnings from Continuing Operations	**$ 1,499**	$ 1,830
Add (deduct):		
Interest, net	**501**	405
Income tax expense	**561**	109
Depreciation, depletion and amortization	**3,242**	3,704
Accretion of asset retirement obligation	**46**	71
Foreign exchange (gain) loss, net	**(216)**	(22)
(Gain) loss on divestitures	**2**	2
Adjusted EBITDA	**$ 5,635**	$ 6,099
Debt to Adjusted EBITDA	**1.4x**	1.3x

Encana has a long-standing practice of maintaining capital discipline, managing its capital structure and adjusting its capital structure according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust capital spending, adjust dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt or repay existing debt.

The Company's capital management objectives, evaluation measures, definitions and targets have remained unchanged over the periods presented. Encana is subject to certain financial covenants in its credit facility agreements and is in compliance with all financial covenants.

12. Share Capital

	December 31, 2010		December 31, 2009	
(millions)	**Number**	**Amount**	Number	Amount
Common Shares Outstanding, Beginning of Year	**751.3**	**$ 2,360**	750.4	$ 4,557
Common Shares Issued under Option Plans	**0.4**	**5**	0.4	5
Common Shares Issued from PSU Trust	**-**	**-**	0.5	19
Stock-Based Compensation	**-**	**2**	-	1
Common Shares Purchased	**(15.4)**	**(48)**	-	-
Common Shares Cancelled	**-**	**-**	(751.3)	(4,582)
New Encana Common Shares Issued	**-**	**-**	751.3	2,360
Encana Special Shares Issued	**-**	**-**	751.3	2,222
Encana Special Shares Cancelled	**-**	**-**	(751.3)	(2,222)
Common Shares Outstanding, End of Year	**736.3**	**$ 2,319**	751.3	$ 2,360

Per Share Amounts

The following table summarizes the common shares used in calculating net earnings per common share:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
(millions)	**2010**	2009	**2010**	2009
Weighted Average Common Shares Outstanding - Basic	**736.3**	751.3	**739.7**	751.0
Effect of Dilutive Securities	**-**	0.1	**0.1**	0.4
Weighted Average Common Shares Outstanding - Diluted	**736.3**	751.4	**739.8**	751.4

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

12. Share Capital (continued)

Normal Course Issuer Bid

Encana has received regulatory approval each year under Canadian securities laws to purchase common shares under nine consecutive Normal Course Issuer Bids ("NCIB"). Encana is entitled to purchase, for cancellation, up to 36.8 million common shares under the current NCIB which commenced on December 14, 2010 and terminates on December 13, 2011. During 2010, the Company purchased approximately 15.4 million common shares for total consideration of approximately $499 million. Of the amount paid, $6 million was charged to paid in surplus, $48 million was charged to share capital and $445 million was charged to retained earnings. During 2009, the Company did not purchase any of its common shares.

Encana Stock Option Plan

Encana has stock-based compensation plans that allow employees to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options were granted. Options granted under the plans are generally fully exercisable after three years and expire five years after the date granted.

Encana Share Units Held by Cenovus Employees

As part of the Split Transaction on November 30, 2009, each holder of Encana share units disposed of their right in exchange for the grant of new Encana share units and Cenovus share units. The terms and conditions of the new share units are similar to the terms and conditions of the original share units. Additional information is contained in Note 17 of the Company's annual audited Consolidated Financial Statements for the year ended December 31, 2009.

Refer to Note 13 for information regarding share units held by Encana employees.

With respect to the Encana share units held by Cenovus employees and the Cenovus share units held by Encana employees, both Encana and Cenovus have agreed to reimburse each other for share units exercised for cash by their respective employees. Accordingly, for Encana share units held by Cenovus employees, Encana has recorded a payable to Cenovus employees and a receivable due from Cenovus. The payable to Cenovus employees and the receivable due from Cenovus is based on the fair value of the Encana share units determined using the Black-Scholes-Merton model (See Note 14). There is no impact on Encana's net earnings for share units held by Cenovus employees. No further Encana share units will be granted to Cenovus employees.

As Cenovus employees may exercise Encana Tandem Share Appreciation Rights ("TSARs") and Encana Performance TSARs in exchange for Encana common shares, the following table is provided as at December 31, 2010:

Canadian Dollar Denominated (C$)	**Number of Encana Share Units** *(millions)*	**Weighted Average Exercise Price**
Encana TSARs held by Cenovus Employees		
Outstanding, December 31, 2010	**6.4**	**30.67**
Exercisable, December 31, 2010	**4.5**	**30.13**
Encana Performance TSARs held by Cenovus Employees		
Outstanding, December 31, 2010	**7.1**	**31.61**
Exercisable, December 31, 2010	**3.6**	**31.74**

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

13. Compensation Plans

The following tables outline certain information related to Encana's compensation plans at December 31, 2010.

As part of the Split Transaction, each holder of Encana share units disposed of their right in exchange for the grant of new Encana share units and Cenovus share units. The terms and conditions of the new share units are similar to the terms and conditions of the original share units. Share units include TSARs, Performance TSARs, Share Appreciation Rights ("SARs") and Performance SARs. Additional information is contained in Note 19 of the Company's annual audited Consolidated Financial Statements for the year ended December 31, 2009.

Refer to Note 12 for information regarding Encana share units held by Cenovus employees.

A) Tandem Share Appreciation Rights

The following table summarizes information related to the Encana and Cenovus TSARs held by Encana employees at December 31, 2010:

	Encana TSARs		Cenovus TSARs	
Canadian Dollar Denominated (C$)	Outstanding	Weighted Average Exercise Price	Outstanding	Weighted Average Exercise Price
Outstanding, Beginning of Year	12,473,214	28.85	12,482,694	26.08
Granted	4,796,595	32.59	-	-
Exercised - SARs	(2,499,993)	23.97	(3,847,458)	22.25
Exercised - Options	(97,136)	20.90	(105,469)	19.37
Forfeited	(432,413)	32.87	(316,109)	29.86
Outstanding, End of Year	14,240,267	30.89	8,213,658	27.81
Exercisable, End of Year	7,301,991	29.47	5,977,506	27.38

For the year ended December 31, 2010, the Company recorded a net reduction of compensation costs of $2 million which included a reduction of compensation costs of $33 million related to the Encana TSARs and compensation costs of $31 million related to the Cenovus TSARs (2009 - compensation costs of $5 million related to the outstanding TSARs prior to the Split Transaction, $11 million related to the Encana TSARs and $46 million related to the Cenovus TSARs).

B) Performance Tandem Share Appreciation Rights

The following table summarizes information related to the Encana and Cenovus Performance TSARs held by Encana employees at December 31, 2010:

	Encana Performance TSARs		Cenovus Performance TSARs	
Canadian Dollar Denominated (C$)	Outstanding	Weighted Average Exercise Price	Outstanding	Weighted Average Exercise Price
Outstanding, Beginning of Year	10,461,901	31.42	10,462,643	28.42
Exercised - SARs	(251,443)	29.36	(410,520)	26.54
Exercised - Options	(171)	29.04	(991)	26.46
Forfeited	(1,102,718)	31.51	(1,110,646)	28.49
Outstanding, End of Year	9,107,569	31.46	8,940,486	28.49
Exercisable, End of Year	4,994,939	31.42	4,827,858	28.49

For the year ended December 31, 2010, the Company recorded net compensation costs of $4 million which included a reduction of compensation costs of $18 million related to the Encana Performance TSARs and compensation costs of $22 million related to the Cenovus Performance TSARs (2009 - compensation costs of $4 million related to the outstanding Performance TSARs prior to the Split Transaction, $20 million related to the Encana Performance TSARs and $19 million related to the Cenovus Performance TSARs).

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

13. Compensation Plans (continued)

C) Share Appreciation Rights

The following table summarizes information related to the Canadian dollar denominated Encana and Cenovus SARs held by Encana employees at December 31, 2010:

Canadian Dollar Denominated (C$)	Encana SARs Outstanding	Encana SARs Weighted Average Exercise Price	Cenovus SARs Outstanding	Cenovus SARs Weighted Average Exercise Price
Outstanding, Beginning of Year	2,343,485	33.75	2,323,960	30.55
Exercised	(35,535)	28.98	(44,327)	26.15
Forfeited	(121,334)	33.23	(121,122)	30.11
Outstanding, End of Year	2,186,616	33.86	2,158,511	30.67
Exercisable, End of Year	993,370	35.39	979,635	32.08

Beginning in January 2010, U.S. dollar denominated SARs were granted to eligible employees. The terms and conditions are similar to the Canadian dollar denominated SARs. The following table summarizes information related to the U.S. dollar denominated SARs held by Encana employees at December 31, 2010:

U.S. Dollar Denominated (US$)	Encana SARs Outstanding	Encana SARs Weighted Average Exercise Price
Outstanding, Beginning of Year	-	-
Granted	4,864,490	30.73
Forfeited	(145,900)	30.71
Outstanding, End of Year	4,718,590	30.73
Exercisable, End of Year	5,050	30.68

For the year ended December 31, 2010, the Company recorded net compensation costs of $2 million which included a reduction of compensation costs of $3 million related to the Encana SARs and compensation costs of $5 million related to the Cenovus SARs (2009 - compensation costs of $1 million related to the outstanding SARs prior to the Split Transaction, $2 million related to the Encana SARs and $5 million related to the Cenovus SARs).

D) Performance Share Appreciation Rights

The following table summarizes information related to the Encana and Cenovus Performance SARs held by Encana employees at December 31, 2010:

Canadian Dollar Denominated (C$)	Encana Performance SARs Outstanding	Encana Performance SARs Weighted Average Exercise Price	Cenovus Performance SARs Outstanding	Cenovus Performance SARs Weighted Average Exercise Price
Outstanding, Beginning of Year	3,471,998	32.00	3,471,998	28.94
Exercised	(52,173)	29.04	(64,173)	26.27
Forfeited	(401,963)	32.26	(401,827)	29.20
Outstanding, End of Year	3,017,862	32.01	3,005,998	28.96
Exercisable, End of Year	1,060,938	33.41	1,050,358	30.26

For the year ended December 31, 2010, the Company recorded net compensation costs of $2 million which included a reduction of compensation costs of $4 million related to the Encana Performance SARs and compensation costs of $6 million related to the Cenovus Performance SARs (2009 - compensation costs of $1 million related to the outstanding Performance SARs prior to the Split Transaction, $3 million related to the Encana Performance SARs and $7 million related to the Cenovus SARs).

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

13. Compensation Plans (continued)

E) Performance Share Units ("PSUs")

In February 2010, PSUs were granted to eligible employees which entitle the employee to receive, upon vesting, a cash payment equal to the value of one common share of Encana for each PSU held, depending upon the terms of the amended PSU plan. PSUs vest three years from the date of grant, provided the employee remains actively employed with Encana on the vesting date.

The ultimate value of the PSUs will depend upon Encana's performance measured over the three year period. Each year, Encana's performance will be assessed by the Board of Directors (the "Board") to determine whether the performance criteria have been met. Based on this assessment, up to a maximum of two times the original PSU grant may be awarded. The respective proportion of the original PSU grant for each year will be valued, based on an average share price, and the notional cash value deposited to a PSU account, with payout deferred to the final vesting date.

The following table summarizes information related to the PSUs at December 31, 2010:

Canadian Dollar Denominated	Outstanding PSUs
Outstanding, Beginning of Year	**-**
Granted	**880,735**
Units, in Lieu of Dividends	**23,002**
Forfeited	**(28,556)**
Outstanding, End of Year	**875,181**

U.S. Dollar Denominated	Outstanding PSUs
Outstanding, Beginning of Year	**-**
Granted	**810,910**
Units, in Lieu of Dividends	**21,082**
Forfeited	**(36,080)**
Outstanding, End of Year	**795,912**

For the year ended December 31, 2010, the Company recorded compensation costs of $15 million related to the outstanding PSUs (2009 - nil).

F) Deferred Share Units ("DSUs")

The following table summarizes information related to the DSUs at December 31, 2010:

Canadian Dollar Denominated	Outstanding DSUs
Outstanding, Beginning of Year	**672,147**
Granted	**104,477**
Converted from HPR awards	**21,732**
Units, in Lieu of Dividends	**20,338**
Redeemed	**(101,801)**
Outstanding, End of Year	**716,893**

For the year ended December 31, 2010, the Company did not record any compensation costs related to the outstanding DSUs (2009 - $8 million).

G) Pensions

Encana's net benefit plan expense for the three months ended December 31, 2010 was $16 million (2009 - $19 million) and for the twelve months ended December 31, 2010 was $61 million (2009 - $77 million). Encana's contribution to the defined benefit pension plans for the twelve months ended December 31, 2010 was $10 million (2009 - $12 million).

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

14. Financial Instruments and Risk Management

Encana's financial assets and liabilities include cash and cash equivalents, accounts receivable and accrued revenues, investments and other assets, accounts payable and accrued liabilities, risk management assets and liabilities and long-term debt. Risk management assets and liabilities arise from the use of derivative financial instruments. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows:

A) Fair Value of Financial Assets and Liabilities

The fair values of cash and cash equivalents, accounts receivable and accrued revenues, and accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of those instruments except for the amounts associated with new share units issued as part of the Split Transaction as discussed in Notes 12 and 13.

Risk management assets and liabilities are recorded at their estimated fair value using quoted market prices or, in their absence, third-party market indications and forecasts.

The fair value of investments and other assets approximate their carrying amount due to the nature of the instruments held.

Long-term debt is carried at amortized cost using the effective interest method of amortization. The estimated fair values of long-term borrowings have been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end.

The fair value of financial assets and liabilities were as follows:

	As at December 31, 2010		As at December 31, 2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Held-for-Trading:				
Cash and cash equivalents	**$ 629**	**$ 629**	$ 4,275	$ 4,275
Accounts receivable and accrued revenues [(1)]	**27**	**27**	75	75
Risk management assets [(2)]	**1,234**	**1,234**	360	360
Investments and other assets	**86**	**86**	-	-
Loans and Receivables:				
Accounts receivable and accrued revenues	**1,076**	**1,076**	1,105	1,105
Financial Liabilities				
Held-for-Trading:				
Accounts payable and accrued liabilities [(3, 4)]	**$ 147**	**$ 147**	$ 155	$ 155
Risk management liabilities [(2)]	**73**	**73**	168	168
Other Financial Liabilities:				
Accounts payable and accrued liabilities	**2,064**	**2,064**	1,988	1,988
Long-term debt [(2)]	**7,629**	**8,488**	7,768	8,527

(1) Represents amounts due from Cenovus for Encana share units held by Cenovus employees (See Note 12).
(2) Including current portion.
(3) Includes amounts due to Cenovus employees for Encana share units held (See Note 12).
(4) Includes amounts due to Cenovus for Cenovus share units held by Encana employees (See Notes 12 and 13).

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

14. Financial Instruments and Risk Management (continued)

B) Risk Management Assets and Liabilities

Net Risk Management Position	**As at December 31, 2010**	As at December 31, 2009
Risk Management		
Current asset	**$ 729**	$ 328
Long-term asset	**505**	32
	1,234	360
Risk Management		
Current liability	**65**	126
Long-term liability	**8**	42
	73	168
Net Risk Management Asset	**$ 1,161**	$ 192

Summary of Unrealized Risk Management Positions

	As at December 31, 2010			As at December 31, 2009		
	Risk Management			Risk Management		
	Asset	**Liability**	**Net**	Asset	Liability	Net
Commodity Prices						
Natural gas	**$ 1,234**	**$ 63**	**1,171**	$ 298	$ 88	$ 210
Crude oil	**-**	**-**	**-**	62	72	(10)
Power	**-**	**10**	**(10)**	-	8	(8)
Total Fair Value	**$ 1,234**	**$ 73**	**$ 1,161**	$ 360	$ 168	$ 192

Net Fair Value Methodologies Used to Calculate Unrealized Risk Management Positions

The total net fair value of Encana's unrealized risk management positions is $1,161 million as at December 31, 2010 ($192 million as at December 31, 2009) and has been calculated using both quoted prices in active markets and observable market-corroborated data.

Net Fair Value of Commodity Price Positions at December 31, 2010

	Notional Volumes	Term	Average Price	**Fair Value**
Natural Gas Contracts				
Fixed Price Contracts				
NYMEX Fixed Price	1,438 MMcf/d	2011	5.98 US$/Mcf	**$ 745**
NYMEX Fixed Price	1,125 MMcf/d	2012	6.36 US$/Mcf	**522**
Basis Contracts *				
Canada		2011		**(15)**
United States		2011		**(51)**
Canada and United States		2012-2013		**(21)**
				1,180
Other Financial Positions**				**(9)**
Natural Gas Fair Value Position				**1,171**
Power Purchase Contracts				
Power Fair Value Position				**(10)**
Total Fair Value				**$ 1,161**

* Encana has entered into swaps to protect against widening natural gas price differentials between production areas, including Canada, the U.S. Rockies and Texas, and various sales points. These basis swaps are priced using both fixed prices and basis prices determined as a percentage of NYMEX.

** Other financial positions are part of the ongoing operations of the Company's proprietary production management.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

14. Financial Instruments and Risk Management (continued)

B) Risk Management Assets and Liabilities (continued)

Earnings Impact of Realized and Unrealized Gains (Losses) on Risk Management Positions

	Realized Gain (Loss) Three Months Ended December 31,		Realized Gain (Loss) Twelve Months Ended December 31,	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ 312**	$ 644	**$ 1,207**	$ 4,420
Operating Expenses and Other	**(1)**	(11)	**(4)**	(44)
Gain (Loss) on Risk Management	**$ 311**	$ 633	**$ 1,203**	$ 4,376

	Unrealized Gain (Loss) Three Months Ended December 31,		Unrealized Gain (Loss) Twelve Months Ended December 31,	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ (400)**	$ (286)	**$ 947**	$ (2,640)
Operating Expenses and Other	**2**	(3)	**(2)**	(40)
Gain (Loss) on Risk Management	**$ (398)**	$ (289)	**$ 945**	$ (2,680)

Reconciliation of Unrealized Risk Management Positions from January 1 to December 31, 2010

	2010		2009
	Fair Value	**Total Unrealized Gain (Loss)**	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Year	**$ 192**		
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Year	**2,148**	**$ 2,148**	$ 1,696
Settlement of Contracts Transferred to Cenovus	**24**	**-**	-
Fair Value of Contracts Realized During the Year	**(1,203)**	**(1,203)**	(4,376)
Fair Value of Contracts, End of Year	**$ 1,161**	**$ 945**	$ (2,680)

Commodity Price Sensitivities

The following table summarizes the sensitivity of the fair value of the Company's risk management positions to fluctuations in commodity prices, with all other variables held constant. The Company has used a 10 percent variability to assess the potential impact of commodity price changes. Fluctuations in commodity prices could have resulted in unrealized gains (losses) impacting pre-tax net earnings as at December 31, 2010 as follows:

	10% Price Increase	**10% Price Decrease**
Natural gas price	**$ (447)**	**$ 447**
Power price	**10**	**(10)**

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

14. Financial Instruments and Risk Management (continued)

C) Risks Associated with Financial Assets and Liabilities

The Company is exposed to financial risks arising from its financial assets and liabilities. Financial risks include market risks (such as commodity prices, foreign exchange and interest rates), credit risk and liquidity risk. The fair value or future cash flows of financial assets or liabilities may fluctuate due to movement in market prices and the exposure to credit and liquidity risks.

Commodity Price Risk

Commodity price risk arises from the effect that fluctuations of future commodity prices may have on the fair value or future cash flows of financial assets and liabilities. To partially mitigate exposure to commodity price risk, the Company has entered into various financial derivative instruments. The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board. The Company's policy is to not use derivative financial instruments for speculative purposes.

Natural Gas - To partially mitigate the natural gas commodity price risk, the Company has entered into swaps which fix the NYMEX prices. To help protect against widening natural gas price differentials in various production areas, Encana has entered into swaps to manage the price differentials between these production areas and various sales points.

Power - The Company has in place two Canadian dollar denominated derivative contracts, which commenced January 1, 2007 for a period of 11 years, to manage its electricity consumption costs.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. This credit risk exposure is mitigated through the use of Board-approved credit policies governing the Company's credit portfolio and with credit practices that limit transactions according to counterparties' credit quality. At December 31, 2010, cash equivalents include high-grade, short-term securities, placed primarily with Governments and financial institutions with strong investment grade ratings. Any foreign currency agreements entered into are with major financial institutions in Canada and the United States or with counterparties having investment grade credit ratings.

A substantial portion of the Company’s accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2010, approximately 94 percent (93 percent at December 31, 2009) of Encana's accounts receivable and financial derivative credit exposures are with investment grade counterparties.

At December 31, 2010, Encana had four counterparties (2009 - two counterparties) whose net settlement position individually account for more than 10 percent of the fair value of the outstanding in-the-money net financial instrument contracts by counterparty. The maximum credit risk exposure associated with accounts receivable and accrued revenues and risk management assets is the total carrying value.

Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulties in meeting a demand to fund its financial liabilities as they come due. The Company manages its liquidity risk through cash and debt management. Encana targets a Debt to Capitalization ratio of less than 40 percent and a Debt to Adjusted EBITDA of less than 2.0 times to steward the Company's overall debt position. Further information on Encana's Debt to Capitalization ratio and Debt to Adjusted EBITDA calculation is contained in Note 11.

In managing liquidity risk, the Company has access to cash equivalents and a wide range of funding at competitive rates through commercial paper, capital markets and banks. As at December 31, 2010, Encana had available unused committed bank credit facilities totaling $5.1 billion which include a C$4.5 billion ($4.5 billion) revolving bank credit facility and a U.S. subsidiary revolving bank credit facility for $565 million that remain committed through October 2012 and February 2013, respectively.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

14. Financial Instruments and Risk Management (continued)

C) Risks Associated with Financial Assets and Liabilities (continued)

Encana also had unused capacity under two shelf prospectuses for up to $6.0 billion, the availability of which is dependent on market conditions, to issue up to C$2.0 billion ($2.0 billion) of debt securities in Canada and up to $4.0 billion of debt securities in the United States. These shelf prospectuses expire in June 2011 and May 2012, respectively. The Company believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

The timing of cash outflows relating to financial liabilities are outlined in the table below:

	Year	1 - 3 Years	4 - 5 Years	6 - 9 Years	Thereafter	Total
Accounts Payable and Accrued Liabilities	$ 2,211	$ -	$ -	$ -	$ -	$ 2,211
Risk Management Liabilities	65	8	-	-	-	73
Long-Term Debt *	973	1,853	1,705	3,141	6,502	14,174

* Principal and interest, including current portion.

Encana's total long-term debt obligations were $14.2 billion at December 31, 2010. Further information on long-term debt is contained in Note 9.

Foreign Exchange Risk
Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As Encana operates primarily in North America, fluctuations in the exchange rate between the U.S./Canadian dollar can have a significant effect on the Company's reported results. Encana's functional currency is Canadian dollars; however, the Company reports its results in U.S. dollars as most of its revenue is closely tied to the U.S. dollar and to facilitate a more direct comparison to other North American oil and gas companies. As the effects of foreign exchange fluctuations are embedded in the Company's results, the total effect of foreign exchange fluctuations are not separately identifiable.

To mitigate the exposure to the fluctuating U.S./Canadian dollar exchange rate, Encana maintains a mix of both U.S. dollar and Canadian dollar debt. As at December 31, 2010, Encana had $5.4 billion in U.S. dollar debt issued from Canada subject to foreign exchange exposure ($5.6 billion at December 31, 2009) and $2.3 billion in debt that was not subject to foreign exchange exposure ($2.2 billion at December 31, 2009).

Encana's foreign exchange (gain) loss primarily includes foreign exchange gains and losses on U.S. dollar cash and short-term investments held in Canada, unrealized foreign exchange gains and losses on the translation of U.S. dollar debt issued from Canada, unrealized foreign exchange gains and losses on the translation of U.S. dollar denominated risk management assets and liabilities held in Canada and, in the prior year, foreign exchange gains and losses on the translation of the U.S. dollar partnership contribution receivable issued from Canada. A $0.01 change in the U.S. to Canadian dollar exchange rate would have resulted in a $49 million change in foreign exchange (gain) loss at December 31, 2010 (2009 - $21 million).

Interest Rate Risk
Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company may partially mitigate its exposure to interest rate changes by holding a mix of both fixed and floating rate debt.

At December 31, 2010, the Company had no floating rate debt. Accordingly, the sensitivity in net earnings for each one percent change in interest rates on floating rate debt was nil (2009 - nil).

15. Contingencies

Legal Proceedings

The Company is involved in various legal claims associated with the normal course of operations. The Company believes it has made adequate provision for such legal claims.

16. Reclassification

Certain information provided for prior periods has been reclassified to conform to the presentation adopted in 2010.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

17. Subsequent Events

On February 9, 2011, Encana announced the signing of a Co-operation Agreement with PetroChina International Investment Company Limited, a subsidiary of PetroChina Company Limited, that would see PetroChina pay C$5.4 billion to acquire a 50 percent interest in Encana's Cutbank Ridge business assets in British Columbia and Alberta. Under the Co-operation Agreement, the two companies would establish a 50/50 joint venture to develop the assets.

The transaction is subject to regulatory approval from Canadian and Chinese authorities, due diligence and the negotiation and execution of various transaction agreements, including the joint venture agreement. Financial impacts will be determined at the time the negotiations are complete.