Encana Corporation

Interim Consolidated Financial Statements
(unaudited)

For the period ended September 30, 2010

(U.S. Dollars)

Consolidated Statement of Earnings *(unaudited)*

($ millions, except per share amounts)		Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Revenues, Net of Royalties	*(Note 3)*	**$ 2,425**	$ 2,271	**$ 7,439**	$ 8,402
Expenses	*(Note 3)*				
Production and mineral taxes		**49**	29	**170**	122
Transportation and selling		**217**	355	**642**	969
Operating		**272**	411	**778**	1,246
Purchased product		**189**	322	**560**	1,120
Depreciation, depletion and amortization		**810**	943	**2,424**	2,809
Administrative		**72**	139	**261**	332
Interest, net	*(Note 6)*	**119**	111	**380**	252
Accretion of asset retirement obligation	*(Note 10)*	**12**	20	**35**	55
Foreign exchange (gain) loss, net	*(Note 7)*	**(154)**	(114)	**(32)**	(117)
(Gain) loss on divestitures		**(1)**	(1)	**(1)**	1
		1,585	2,215	**5,217**	6,789
Net Earnings Before Income Tax		**840**	56	**2,222**	1,613
Income tax expense	*(Note 8)*	**271**	17	**681**	372
Net Earnings From Continuing Operations		**569**	39	**1,541**	1,241
Net Earnings (Loss) From Discontinued Operations	*(Note 4)*	**-**	(14)	**-**	(15)
Net Earnings		**$ 569**	$ 25	**$ 1,541**	$ 1,226
Net Earnings From Continuing Operations per Common Share	*(Note 12)*				
Basic		**$ 0.77**	$ 0.05	**$ 2.08**	$ 1.65
Diluted		**$ 0.77**	$ 0.05	**$ 2.08**	$ 1.65
Net Earnings per Common Share	*(Note 12)*				
Basic		**$ 0.77**	$ 0.03	**$ 2.08**	$ 1.63
Diluted		**$ 0.77**	$ 0.03	**$ 2.08**	$ 1.63

Consolidated Statement of Comprehensive Income *(unaudited)*

($ millions)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Net Earnings	**$ 569**	$ 25	**$ 1,541**	$ 1,226
Other Comprehensive Income, Net of Tax				
Foreign Currency Translation Adjustment	**148**	985	**130**	1,630
Comprehensive Income	**$ 717**	$ 1,010	**$ 1,671**	$ 2,856

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet *(unaudited)*

($ millions)		**As at September 30, 2010**	As at December 31, 2009
Assets			
Current Assets			
Cash and cash equivalents		**$ 1,397**	$ 4,275
Accounts receivable and accrued revenues		**1,012**	1,180
Risk management	*(Note 14)*	**993**	328
Income tax receivable		**369**	-
Inventories		**6**	12
		3,777	5,795
Property, Plant and Equipment, net	*(Note 3)*	**27,368**	26,173
Investments and Other Assets		**259**	164
Risk Management	*(Note 14)*	**692**	32
Goodwill		**1,683**	1,663
	(Note 3)	**$ 33,779**	$ 33,827
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 2,142**	$ 2,143
Income tax payable		**-**	1,776
Risk management	*(Note 14)*	**95**	126
Current portion of long-term debt	*(Note 9)*	**-**	200
		2,237	4,245
Long-Term Debt	*(Note 9)*	**7,586**	7,568
Other Liabilities	*(Note 3)*	**1,544**	1,185
Risk Management	*(Note 14)*	**14**	42
Asset Retirement Obligation	*(Note 10)*	**771**	787
Future Income Taxes		**4,277**	3,386
		16,429	17,213
Shareholders' Equity			
Share capital	*(Note 12)*	**2,319**	2,360
Paid in surplus	*(Note 12)*	**-**	6
Retained earnings		**14,146**	13,493
Accumulated other comprehensive income		**885**	755
Total Shareholders' Equity		**17,350**	16,614
		$ 33,779	$ 33,827

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity *(unaudited)*

($ millions)		Nine Months Ended September 30, 2010	2009
Share Capital			
Balance, Beginning of Year		**$ 2,360**	$ 4,557
Common Shares Issued under Option Plans	*(Note 12)*	**5**	4
Common Shares Issued from PSU Trust	*(Note 12)*	**-**	19
Stock-Based Compensation	*(Note 12)*	**2**	1
Common Shares Purchased	*(Note 12)*	**(48)**	-
Balance, End of Period		**$ 2,319**	$ 4,581
Paid in Surplus			
Balance, Beginning of Year		**$ 6**	$ -
Common Shares Issued from PSU Trust		**-**	6
Common Shares Purchased	*(Note 12)*	**(6)**	-
Balance, End of Period		**$ -**	$ 6
Retained Earnings			
Balance, Beginning of Year		**$ 13,493**	$ 17,584
Net Earnings		**1,541**	1,226
Dividends on Common Shares		**(443)**	(901)
Charges for Normal Course Issuer Bid	*(Note 12)*	**(445)**	-
Balance, End of Period		**$ 14,146**	$ 17,909
Accumulated Other Comprehensive Income			
Balance, Beginning of Year		**$ 755**	$ 833
Foreign Currency Translation Adjustment		**130**	1,630
Balance, End of Period		**$ 885**	$ 2,463
Total Shareholders' Equity		**$ 17,350**	$ 24,959

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows *(unaudited)*

($ millions)		Three Months Ended September 30, **2010**	Three Months Ended September 30, 2009	Nine Months Ended September 30, **2010**	Nine Months Ended September 30, 2009
Operating Activities					
Net earnings from continuing operations		**$ 569**	$ 39	**$ 1,541**	$ 1,241
Depreciation, depletion and amortization		**810**	943	**2,424**	2,809
Future income taxes	*(Note 8)*	**367**	(306)	**869**	(518)
Unrealized (gain) loss on risk management	*(Note 14)*	**(491)**	1,384	**(1,343)**	2,391
Unrealized foreign exchange (gain) loss		**(160)**	(100)	**(87)**	(149)
Accretion of asset retirement obligation	*(Note 10)*	**12**	20	**35**	55
(Gain) loss on divestitures		**(1)**	(1)	**(1)**	1
Other		**26**	53	**84**	184
Cash flow from discontinued operations		**-**	47	**-**	162
Net change in other assets and liabilities		**(16)**	10	**(85)**	36
Net change in non-cash working capital from continuing operations		**209**	278	**(1,991)**	(557)
Net change in non-cash working capital from discontinued operations		**-**	283	**-**	747
Cash From (Used in) Operating Activities		**1,325**	2,650	**1,446**	6,402
Investing Activities					
Capital expenditures	*(Note 3)*	**(1,416)**	(1,017)	**(3,687)**	(3,454)
Proceeds from divestitures	*(Note 5)*	**220**	977	**574**	1,030
Corporate acquisition		**-**	-	**-**	(24)
Restricted cash	*(Note 1)*	**-**	(3,619)	**-**	(3,619)
Net change in investments and other		**117**	77	**(100)**	232
Net change in non-cash working capital from continuing operations		**11**	51	**32**	(216)
Discontinued operations		**-**	(329)	**-**	(910)
Cash From (Used in) Investing Activities		**(1,068)**	(3,860)	**(3,181)**	(6,961)
Financing Activities					
Net issuance (repayment) of revolving long-term debt		**-**	(726)	**-**	(1,391)
Issuance of long-term debt		**-**	-	**-**	496
Issuance of Cenovus Notes	*(Note 1)*	**-**	3,468	**-**	3,468
Repayment of long-term debt		**(200)**	(250)	**(200)**	(250)
Issuance of common shares	*(Note 12)*	**-**	2	**5**	23
Purchase of common shares	*(Note 12)*	**-**	-	**(499)**	-
Dividends on common shares		**(147)**	(300)	**(443)**	(901)
Cash From (Used in) Financing Activities		**(347)**	2,194	**(1,137)**	1,445
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		**6**	6	**(6)**	11
Increase (Decrease) in Cash and Cash Equivalents		**(84)**	990	**(2,878)**	897
Cash and Cash Equivalents, Beginning of Period		**1,481**	261	**4,275**	354
Cash and Cash Equivalents, End of Period		**$ 1,397**	$ 1,251	**$ 1,397**	$ 1,251
Cash (Bank Overdraft), End of Period		**$ (22)**	$ 57	**$ (22)**	$ 57
Cash Equivalents, End of Period		**1,419**	1,194	**1,419**	1,194
Cash and Cash Equivalents, End of Period		**$ 1,397**	$ 1,251	**$ 1,397**	$ 1,251

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 operations are in the business of the exploration for, the development of, and the production and marketing of natural gas and 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.

In conjunction with the Split Transaction, on September 18, 2009, Cenovus completed a private offering of senior unsecured notes for net proceeds of $3,468 million. The net proceeds from the private offering, together with amounts on deposit, were held in escrow as restricted cash for the benefit of the note holders until the Split Transaction was completed.

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

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 will impact the accounting treatment of future 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 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"). Encana will be required to report its results in accordance with IFRS beginning in 2011. The Company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on Encana's financial results of operations, financial position and disclosures.

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, and development 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, and development 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.

In conjunction with the Split Transaction, the assets formerly included in Encana's Canadian Plains Division and Integrated Oil Division were transferred to Cenovus. As a result, the former Canadian Foothills Division is reported as the Canadian Division and the Canadian Plains Division and Integrated Oil - Canada are presented as Canada – Other. Prior periods have been restated to reflect this presentation.

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

- **Canadian Division**, formerly the Canadian Foothills Division, which includes natural gas 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 on the Alberta and British Columbia border, including Montney; (iii) Bighorn in west central Alberta; and (iv) Coalbed Methane in southern Alberta.

- **USA Division,** which includes the natural gas 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.

Operations that have been discontinued are disclosed in Note 4.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

Results of Operations (For the three months ended September 30)

Segment and Geographic Information

	Canada		USA		Market Optimization	
	2010	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 692**	$ 2,101	**$ 1,028**	$ 1,161	**$ 205**	$ 381
Expenses						
Production and mineral taxes	**3**	12	**46**	17	**-**	-
Transportation and selling	**52**	216	**165**	139	**-**	-
Operating	**131**	289	**120**	100	**11**	11
Purchased product	**-**	(41)	**-**	-	**189**	363
	506	1,625	**697**	905	**5**	7
Depreciation, depletion and amortization	**318**	537	**463**	373	**2**	6
Segment Income (Loss)	**$ 188**	$ 1,088	**$ 234**	$ 532	**$ 3**	$ 1

	Corporate & Other		Consolidated	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ 500**	$ (1,372)	**$ 2,425**	$ 2,271
Expenses				
Production and mineral taxes	**-**	-	**49**	29
Transportation and selling	**-**	-	**217**	355
Operating	**10**	11	**272**	411
Purchased product	**-**	-	**189**	322
	490	(1,383)	**1,698**	1,154
Depreciation, depletion and amortization	**27**	27	**810**	943
Segment Income (Loss)	**$ 463**	$ (1,410)	**888**	211
Administrative			**72**	139
Interest, net			**119**	111
Accretion of asset retirement obligation			**12**	20
Foreign exchange (gain) loss, net			**(154)**	(114)
(Gain) loss on divestitures			**(1)**	(1)
			48	155
Net Earnings Before Income Tax			**840**	56
Income tax expense			**271**	17
Net Earnings from Continuing Operations			**$ 569**	$ 39

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

Results of Operations (For the three months ended September 30)

Product and Divisional Information

Canada Segment

	Canadian Division		Canada - Other		Total	
	2010	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 692**	$ 849	**$ -**	$ 1,252	**$ 692**	$ 2,101
Expenses						
Production and mineral taxes	**3**	2	**-**	10	**3**	12
Transportation and selling	**52**	40	**-**	176	**52**	216
Operating	**131**	126	**-**	163	**131**	289
Purchased product	**-**	-	**-**	(41)	**-**	(41)
Operating Cash Flow	**$ 506**	$ 681	**$ -**	$ 944	**$ 506**	$ 1,625

Canadian Division *

	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 603**	$ 761	**$ 78**	$ 77	**$ 11**	$ 11	**$ 692**	$ 849
Expenses								
Production and mineral taxes	**3**	2	**-**	-	**-**	-	**3**	2
Transportation and selling	**51**	38	**1**	2	**-**	-	**52**	40
Operating	**123**	118	**4**	5	**4**	3	**131**	126
Operating Cash Flow	**$ 426**	$ 603	**$ 73**	$ 70	**$ 7**	$ 8	**$ 506**	$ 681

USA Division

	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 941**	$ 1,084	**$ 56**	$ 53	**$ 31**	$ 24	**$ 1,028**	$ 1,161
Expenses								
Production and mineral taxes	**41**	12	**5**	5	**-**	-	**46**	17
Transportation and selling	**165**	139	**-**	-	**-**	-	**165**	139
Operating	**103**	78	**-**	-	**17**	22	**120**	100
Operating Cash Flow	**$ 632**	$ 855	**$ 51**	$ 48	**$ 14**	$ 2	**$ 697**	$ 905

Canada - Other **

	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ -**	$ 487	**$ -**	$ 730	**$ -**	$ 35	**$ -**	$ 1,252
Expenses								
Production and mineral taxes	**-**	3	**-**	6	**-**	1	**-**	10
Transportation and selling	**-**	10	**-**	158	**-**	8	**-**	176
Operating	**-**	56	**-**	100	**-**	7	**-**	163
Purchased product	**-**	-	**-**	-	**-**	(41)	**-**	(41)
Operating Cash Flow	**$ -**	$ 418	**$ -**	$ 466	**$ -**	$ 60	**$ -**	$ 944

* Formerly known as the Canadian Foothills Division.

** 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 Operations (For the nine months ended September 30)

Segment and Geographic Information

	Canada		USA		Market Optimization	
	2010	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 2,136**	$ 6,054	**$ 3,314**	$ 3,461	**$ 603**	$ 1,239
Expenses						
Production and mineral taxes	**8**	44	**162**	78	**-**	-
Transportation and selling	**145**	582	**497**	387	**-**	-
Operating	**399**	866	**350**	314	**25**	26
Purchased product	**-**	(72)	**-**	-	**560**	1,192
	1,584	4,634	**2,305**	2,682	**18**	21
Depreciation, depletion and amortization	**918**	1,544	**1,439**	1,168	**8**	15
Segment Income (Loss)	**$ 666**	$ 3,090	**$ 866**	$ 1,514	**$ 10**	$ 6

	Corporate & Other		Consolidated	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ 1,386**	$ (2,352)	**$ 7,439**	$ 8,402
Expenses				
Production and mineral taxes	**-**	-	**170**	122
Transportation and selling	**-**	-	**642**	969
Operating	**4**	40	**778**	1,246
Purchased product	**-**	-	**560**	1,120
	1,382	(2,392)	**5,289**	4,945
Depreciation, depletion and amortization	**59**	82	**2,424**	2,809
Segment Income (Loss)	**$ 1,323**	$ (2,474)	**2,865**	2,136
Administrative			**261**	332
Interest, net			**380**	252
Accretion of asset retirement obligation			**35**	55
Foreign exchange (gain) loss, net			**(32)**	(117)
(Gain) loss on divestitures			**(1)**	1
			643	523
Net Earnings Before Income Tax			**2,222**	1,613
Income tax expense			**681**	372
Net Earnings from Continuing Operations			**$ 1,541**	$ 1,241

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

Results of Operations (For the nine months ended September 30)

Product and Divisional Information

Canada Segment

	Canadian Division		Canada - Other		Total	
	2010	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 2,136**	$ 2,671	**$ -**	$ 3,383	**$ 2,136**	$ 6,054
Expenses						
Production and mineral taxes	**8**	13	**-**	31	**8**	44
Transportation and selling	**145**	115	**-**	467	**145**	582
Operating	**399**	389	**-**	477	**399**	866
Purchased product	**-**	-	**-**	(72)	**-**	(72)
Operating Cash Flow	**$ 1,584**	$ 2,154	**$ -**	$ 2,480	**$ 1,584**	$ 4,634

Canadian Division *

	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 1,859**	$ 2,432	**$ 238**	$ 208	**$ 39**	$ 31	**$ 2,136**	$ 2,671
Expenses								
Production and mineral taxes	**7**	11	**1**	2	**-**	-	**8**	13
Transportation and selling	**143**	109	**2**	6	**-**	-	**145**	115
Operating	**376**	362	**12**	17	**11**	10	**399**	389
Operating Cash Flow	**$ 1,333**	$ 1,950	**$ 223**	$ 183	**$ 28**	$ 21	**$ 1,584**	$ 2,154

USA Division

	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ 3,036**	$ 3,246	**$ 182**	$ 132	**$ 96**	$ 83	**$ 3,314**	$ 3,461
Expenses								
Production and mineral taxes	**145**	66	**17**	12	**-**	-	**162**	78
Transportation and selling	**497**	387	**-**	-	**-**	-	**497**	387
Operating	**293**	237	**-**	-	**57**	77	**350**	314
Operating Cash Flow	**$ 2,101**	$ 2,556	**$ 165**	$ 120	**$ 39**	$ 6	**$ 2,305**	$ 2,682

Canada - Other **

	Gas		Oil & NGLs		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenues, Net of Royalties	**$ -**	$ 1,483	**$ -**	$ 1,763	**$ -**	$ 137	**$ -**	$ 3,383
Expenses								
Production and mineral taxes	**-**	11	**-**	19	**-**	1	**-**	31
Transportation and selling	**-**	31	**-**	418	**-**	18	**-**	467
Operating	**-**	158	**-**	284	**-**	35	**-**	477
Purchased product	**-**	-	**-**	-	**-**	(72)	**-**	(72)
Operating Cash Flow	**$ -**	$ 1,283	**$ -**	$ 1,042	**$ -**	$ 155	**$ -**	$ 2,480

* Formerly known as the Canadian Foothills Division.

** 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 September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Capital				
Canadian Division	**$ 529**	$ 432	**$ 1,562**	$ 1,294
Canada - Other	**-**	206	**-**	714
Canada	**529**	638	**1,562**	2,008
USA	**681**	358	**1,749**	1,306
Market Optimization	**-**	1	**1**	(2)
Corporate & Other	**17**	5	**34**	38
	1,227	1,002	**3,346**	3,350
Acquisition Capital				
Canada	**175**	8	**234**	83
USA	**14**	7	**107**	21
	189	15	**341**	104
Total	**$ 1,416**	$ 1,017	**$ 3,687**	$ 3,454

Property, Plant and Equipment and Total Assets by Segment

	Property, Plant and Equipment As at		Total Assets As at	
	September 30, 2010	December 31, 2009	**September 30, 2010**	December 31, 2009
Canada	**$ 12,085**	$ 11,162	**$ 13,677**	$ 12,748
USA	**13,929**	13,929	**15,078**	14,962
Market Optimization	**119**	124	**170**	303
Corporate & Other	**1,235**	958	**4,854**	5,814
Total	**$ 27,368**	$ 26,173	**$ 33,779**	$ 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 September 30, 2010, Canada Property, Plant, and Equipment and Total Assets includes Encana's accrual to date of $508 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 September 30, 2010, Corporate and Other Property, Plant and Equipment and Total Assets includes Encana's accrual to date of $926 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.

Consolidated Statement of Earnings

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ -**	$ 1,610	**$ -**	$ 3,849
Expenses				
Operating	**-**	99	**-**	329
Purchased product	**-**	1,425	**-**	3,221
Depreciation, depletion and amortization	**-**	49	**-**	146
Administrative	**-**	6	**-**	18
Interest, net	**-**	44	**-**	136
Accretion of asset retirement obligation	**-**	-	**-**	1
Foreign exchange (gain) loss, net	**-**	-	**-**	1
	-	1,623	**-**	3,852
Net Earnings (Loss) Before Income Tax	**-**	(13)	**-**	(3)
Income tax expense	**-**	1	**-**	12
Net Earnings (Loss) From Discontinued Operations	**$ -**	$ (14)	**$ -**	$ (15)
Net Earnings (Loss) From Discontinued Operations per Common Share				
Basic	**$ -**	$ (0.02)	**$ -**	$ (0.02)
Diluted	**$ -**	$ (0.02)	**$ -**	$ (0.02)

5. Acquisitions and Divestitures

Acquisitions

On May 5, 2009, the Company acquired the common shares of Kerogen Resources Canada, ULC for net cash consideration of $24 million. The acquisition included $37 million of property, plant and equipment and the assumption of $6 million of current liabilities and $7 million of future income taxes. The operations are included in the Canadian Division.

Divestitures

Total year-to-date proceeds received on the sale of assets were $574 million (2009 - $1,030 million). The significant items are described below:

Canada and USA

In 2010, the Company completed the divestiture of non-core oil and natural gas assets for proceeds of $200 million (2009 - $957 million) in the Canadian Division and $374 million (2009 - $70 million) in the USA Division.

6. Interest, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Interest Expense - Long-Term Debt	**$ 123**	$ 125	**$ 365**	$ 366
Interest Expense - Other	**3**	28	**26**	25
Interest Income *	**(7)**	(42)	**(11)**	(139)
	$ 119	$ 111	**$ 380**	$ 252

* In 2009, Interest Income is primarily due to the Partnership Contribution Receivable which was transferred to Cenovus under the Split Transaction on November 30, 2009.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

7. Foreign Exchange (Gain) Loss, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Unrealized Foreign Exchange (Gain) Loss on:				
Translation of U.S. dollar debt issued from Canada	**$ (162)**	$ (485)	**$ (88)**	$ (774)
Translation of U.S. dollar partnership contribution receivable issued from Canada *	**-**	254	**-**	414
Other Foreign Exchange (Gain) Loss on:				
Monetary revaluations and settlements	**8**	117	**56**	243
	$ (154)	$ (114)	**$ (32)**	$ (117)

* The Partnership Contribution Receivable was transferred to Cenovus under the Split Transaction on November 30, 2009.

8. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Current				
Canada	**$ (61)**	$ 238	**$ (163)**	$ 678
United States	**(38)**	86	**(31)**	207
Other Countries	**3**	(1)	**6**	5
Total Current Tax	**(96)**	323	**(188)**	890
Future	**367**	(306)	**869**	(518)
	$ 271	$ 17	**$ 681**	$ 372

9. Long-Term Debt

	As at September 30, 2010	As at December 31, 2009
Canadian Dollar Denominated Debt		
Unsecured notes	**$ 1,214**	$ 1,194
U.S. Dollar Denominated Debt		
Unsecured notes	**6,400**	6,600
Increase in Value of Debt Acquired	**49**	52
Debt Discounts and Financing Costs	**(77)**	(78)
Current Portion of Long-Term Debt	**-**	(200)
	$ 7,586	$ 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 September 30, 2010	As at December 31, 2009
Asset Retirement Obligation, Beginning of Year	**$ 787**	$ 1,230
Liabilities Incurred	**29**	21
Liabilities Settled	**(19)**	(52)
Liabilities Divested	**(70)**	(26)
Liabilities Transferred to Cenovus	**-**	(692)
Change in Estimated Future Cash Outflows	**1**	74
Accretion Expense	**35**	71
Foreign Currency Translation	**8**	161
Asset Retirement Obligation, End of Period	**$ 771**	$ 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 September 30, 2010, Encana's Debt to Capitalization ratio was 30 percent (December 31, 2009 - 32 percent) calculated as follows:

	As at September 30, 2010	As at December 31, 2009
Debt	**$ 7,586**	$ 7,768
Shareholders' Equity	**17,350**	16,614
Capitalization	**$ 24,936**	$ 24,382
Debt to Capitalization Ratio	**30%**	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 September 30, 2010, Debt to Adjusted EBITDA was 1.2x (December 31, 2009 - 1.3x) calculated on a trailing 12-month basis as follows:

	As at September 30, 2010	As at December 31, 2009
Debt	**$ 7,586**	$ 7,768
Net Earnings from Continuing Operations	**$ 2,130**	$ 1,830
Add (deduct):		
Interest, net	**533**	405
Income tax expense	**418**	109
Depreciation, depletion and amortization	**3,319**	3,704
Accretion of asset retirement obligation	**51**	71
Foreign exchange (gain) loss, net	**63**	(22)
(Gain) loss on divestitures	**-**	2
Adjusted EBITDA	**$ 6,514**	$ 6,099
Debt to Adjusted EBITDA	**1.2x**	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

	September 30, 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 Period	**736.3**	**$ 2,319**	751.3	$ 2,360

Normal Course Issuer Bid

Encana has received regulatory approval each year under Canadian securities laws to purchase Common Shares under eight consecutive Normal Course Issuer Bids ("NCIB"). Encana is entitled to purchase, for cancellation, up to 37.5 million Common Shares under the renewed NCIB which commenced on December 14, 2009 and terminates on December 13, 2010. To September 30, 2010, the Company purchased 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, there were no purchases under the current or prior NCIB.

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

12. Share Capital (continued)

Stock Options

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. Options granted under predecessor and/or related company replacement plans expire up to 10 years from the date the options were granted.

As at September 30, 2010, Encana had no stock options outstanding and exercisable (2009 - 256,294 outstanding and exercisable with a weighted average exercise price of C$11.84 per stock option). These stock options do not have Tandem Share Appreciation Rights ("TSARs") attached.

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 material impact on Encana's net earnings for these share units held by Cenovus employees. No further Encana share units will be granted to Cenovus employees.

As Cenovus employees may exercise Encana TSARs and Encana Performance TSARs in exchange for Encana Common Shares, the following table is provided as at September 30, 2010:

Canadian Dollar Denominated (C$)	Number of Encana Share Units *(millions)*	Weighted Average Exercise Price
Encana TSARs held by Cenovus Employees		
Outstanding, September 30, 2010	**6.9**	**30.48**
Exercisable, September 30, 2010	**4.8**	**29.86**
Encana Performance TSARs held by Cenovus Employees		
Outstanding, September 30, 2010	**7.2**	**31.62**
Exercisable, September 30, 2010	**3.6**	**31.76**

Per Share Amounts

The following table summarizes the Common Shares used in calculating Net Earnings per Common Share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(millions)	**2010**	2009	**2010**	2009
Weighted Average Common Shares Outstanding - Basic	**736.3**	751.2	**740.8**	750.9
Effect of Dilutive Securities	**-**	0.2	**0.1**	0.5
Weighted Average Common Shares Outstanding - Diluted	**736.3**	751.4	**740.9**	751.4

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 September 30, 2010.

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. 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 new 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 September 30, 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	4,562,495	32.75	-	-
Exercised - SARs	(2,037,124)	23.55	(2,415,028)	21.47
Exercised - Options	(94,976)	20.77	(101,634)	19.17
Forfeited	(306,394)	32.82	(259,305)	29.53
Outstanding, End of Period	14,597,215	30.77	9,706,727	27.20
Exercisable, End of Period	7,755,552	29.25	7,373,370	26.64

For the period ended September 30, 2010, Encana recorded a reduction of compensation costs of $21 million related to the Encana TSARs and compensation costs of $12 million related to the Cenovus TSARs (2009 - compensation costs of $71 million related to the outstanding TSARs prior to the November 30, 2009 Split Transaction).

B) Performance Tandem Share Appreciation Rights

The following table summarizes information related to the Encana and Cenovus Performance TSARs held by Encana employees at September 30, 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	(234,247)	29.37	(268,564)	26.53
Exercised - Options	(171)	29.04	(171)	26.27
Forfeited	(1,052,234)	31.48	(1,063,559)	28.45
Outstanding, End of Period	9,175,249	31.46	9,130,349	28.47
Exercisable, End of Period	5,027,399	31.42	4,982,501	28.44

For the period ended September 30, 2010, Encana recorded a reduction of compensation costs of $9 million related to the Encana Performance TSARs and compensation costs of $8 million related to the Cenovus Performance TSARs (2009 - compensation costs of $36 million related to the outstanding Performance TSARs prior to the November 30, 2009 Split Transaction).

Notes to Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

13. Compensation Plans (continued)

C) Share Appreciation Rights

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 Encana and Cenovus SARs held by Encana employees at September 30, 2010:

	Encana SARs		Cenovus SARs	
Canadian Dollar Denominated (C$)	Outstanding	Weighted Average Exercise Price	Outstanding	Weighted Average Exercise Price
Outstanding, Beginning of Year	2,343,485	33.75	2,323,960	30.55
Exercised	(32,032)	29.06	(31,568)	26.31
Forfeited	(82,181)	32.62	(82,181)	29.51
Outstanding, End of Period	2,229,272	33.86	2,210,211	30.65
Exercisable, End of Period	986,294	35.54	986,758	32.14

	Encana SARs	
U.S. Dollar Denominated (US$)	Outstanding	Weighted Average Exercise Price
Outstanding, Beginning of Year	-	-
Granted	4,560,090	30.87
Forfeited	(70,925)	30.68
Outstanding, End of Period	4,489,165	30.87
Exercisable, End of Period	5,050	30.68

For the period ended September 30, 2010, Encana recorded a reduction of compensation costs of $1 million related to the Encana SARs and compensation costs of $2 million related to the Cenovus SARs (2009 - compensation costs of $3 million related to the outstanding SARs prior to the November 30, 2009 Split Transaction).

D) Performance Share Appreciation Rights

The following table summarizes information related to the Encana and Cenovus Performance SARs held by Encana employees at September 30, 2010:

	Encana Performance SARs		Cenovus Performance SARs	
Canadian Dollar Denominated (C$)	Outstanding	Weighted Average Exercise Price	Outstanding	Weighted Average Exercise Price
Outstanding, Beginning of Year	3,471,998	32.00	3,471,998	28.94
Exercised	(48,660)	29.04	(47,871)	26.27
Forfeited	(357,648)	32.30	(357,168)	29.22
Outstanding, End of Period	3,065,690	32.01	3,066,959	28.95
Exercisable, End of Period	1,075,674	33.41	1,076,943	30.22

For the period ended September 30, 2010, Encana recorded a reduction of compensation costs of $2 million related to the Encana Performance SARs and compensation costs of $3 million related to the Cenovus Performance SARs (2009 - compensation costs of $4 million related to the outstanding Performance SARs prior to the November 30, 2009 Split Transaction).

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 September 30, 2010:

Canadian Dollar Denominated	Outstanding PSUs
Outstanding, Beginning of Year	-
Granted	880,735
Units, in Lieu of Dividends	16,998
Forfeited	(22,187)
Outstanding, End of Period	875,546

U.S. Dollar Denominated	Outstanding PSUs
Outstanding, Beginning of Year	-
Granted	810,910
Units, in Lieu of Dividends	15,678
Forfeited	(30,485)
Outstanding, End of Period	796,103

For the period ended September 30, 2010, Encana recorded compensation costs of $11 million related to the outstanding PSUs (2009 - nil).

F) Deferred Share Units ("DSUs")

The following table summarizes information related to the DSUs at September 30, 2010:

Canadian Dollar Denominated	Outstanding DSUs
Outstanding, Beginning of Year	672,147
Granted	103,021
Converted from HPR awards	21,732
Units, in Lieu of Dividends	15,435
Redeemed	(896)
Outstanding, End of Period	811,439

For the period ended September 30, 2010, Encana recorded compensation costs of $2 million related to the outstanding DSUs (2009 - $8 million).

G) Pensions

Encana's net benefit plan expense for the three months ended September 30, 2010 was $15 million (2009 - $20 million) and for the nine months ended September 30, 2010 was $45 million (2009 - $58 million). Encana's contribution to the defined benefit pension plans for the nine months ended September 30, 2010 was $8 million (2009 - $6 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 November 30, 2009 Split Transaction as discussed in Notes 12 and 13.

Risk management assets and liabilities are recorded at their estimated fair value based on the mark-to-market method of accounting, 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 September 30, 2010		As at December 31, 2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Held-for-Trading:				
Cash and cash equivalents	**$ 1,397**	**$ 1,397**	$ 4,275	$ 4,275
Accounts receivable and accrued revenues (1)	**34**	**34**	75	75
Risk management assets (2)	**1,685**	**1,685**	360	360
Investments and other assets	**106**	**106**	-	-
Loans and Receivables:				
Accounts receivable and accrued revenues	**978**	**978**	1,105	1,105
Financial Liabilities				
Held-for-Trading:				
Accounts payable and accrued liabilities (3, 4)	**$ 87**	**$ 87**	$ 155	$ 155
Risk management liabilities (2)	**109**	**109**	168	168
Other Financial Liabilities:				
Accounts payable and accrued liabilities	**2,055**	**2,055**	1,988	1,988
Long-term debt (2)	**7,586**	**8,743**	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 September 30, 2010**	As at December 31, 2009
Risk Management		
Current asset	**$ 993**	$ 328
Long-term asset	**692**	32
	1,685	360
Risk Management		
Current liability	**95**	126
Long-term liability	**14**	42
	109	168
Net Risk Management Asset	**$ 1,576**	$ 192

Summary of Unrealized Risk Management Positions

	As at September 30, 2010			As at December 31, 2009		
	Risk Management			Risk Management		
	Asset	**Liability**	**Net**	Asset	Liability	Net
Commodity Prices						
Natural gas	**$ 1,676**	**$ 86**	**1,590**	$ 298	$ 88	$ 210
Crude oil	**9**	**11**	**(2)**	62	72	(10)
Power	**-**	**12**	**(12)**	-	8	(8)
Total Fair Value	**$ 1,685**	**$ 109**	**$ 1,576**	$ 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 $1,576 million as at September 30, 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 September 30, 2010

	Notional Volumes	Term	Average Price	**Fair Value**
Natural Gas Contracts				
Fixed Price Contracts				
NYMEX Fixed Price	1,527 MMcf/d	2010	6.19 US$/Mcf	**$ 319**
NYMEX Fixed Price	1,158 MMcf/d	2011	6.33 US$/Mcf	**790**
NYMEX Fixed Price	1,040 MMcf/d	2012	6.46 US$/Mcf	**525**
Basis Contracts *				
Canada		2010		**(2)**
United States		2010		**(5)**
Canada and United States		2011-2013		**(37)**
Natural Gas Fair Value Position				**$ 1,590**

* 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.

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)

Net Fair Value of Commodity Price Positions at September 30, 2010 (continued)

	Notional Volumes	Term	Average Price	Fair Value
Crude Oil Contracts				
Fixed Price Contracts				
WTI NYMEX Fixed Price	5,400 bbls/d	2010	76.99 US$/bbl	**$ (2)**
Crude Oil Fair Value Position				**$ (2)**

	Fair Value
Power Purchase Contracts	
Power Fair Value Position	**$ (12)**

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

	Realized Gain (Loss) Three Months Ended September 30,		Realized Gain (Loss) Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ 318**	$ 1,362	**$ 895**	$ 3,776
Operating Expenses and Other	**(2)**	(4)	**(3)**	(33)
Gain (Loss) on Risk Management	**$ 316**	$ 1,358	**$ 892**	$ 3,743

	Unrealized Gain (Loss) Three Months Ended September 30,		Unrealized Gain (Loss) Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Revenues, Net of Royalties	**$ 498**	$ (1,373)	**$ 1,347**	$ (2,354)
Operating Expenses and Other	**(7)**	(11)	**(4)**	(37)
Gain (Loss) on Risk Management	**$ 491**	$ (1,384)	**$ 1,343**	$ (2,391)

Reconciliation of Unrealized Risk Management Positions from January 1 to September 30, 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 Period	**2,235**	**$ 2,235**	$ 1,352
Settlement of Contracts Transferred to Cenovus	**41**	**-**	-
Fair Value of Contracts Realized During the Period	**(892)**	**(892)**	(3,743)
Fair Value of Contracts, End of Period	**$ 1,576**	**$ 1,343**	$ (2,391)

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 September 30, 2010 as follows:

	10% Price Increase	**10% Price Decrease**
Natural gas price	**$ (430)**	**$ 430**
Crude oil price	**(4)**	**4**
Power price	**6**	**(6)**

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.

Crude Oil - The Company has partially mitigated its commodity price risk on crude oil with swaps which fix WTI NYMEX prices.

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 September 30, 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 September 30, 2010, approximately 97 percent (93 percent at December 31, 2009) of Encana's accounts receivable and financial derivative credit exposures are with investment grade counterparties.

At September 30, 2010, Encana had three counterparties (2009 - four 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. As disclosed in Note 11, 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.

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 September 30, 2010, Encana had available unused committed bank credit facilities totaling $4.9 billion which include a C$4.5 billion ($4.3 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:

	Less Than 1 Year	1 - 3 Years	4 - 5 Years	Thereafter	Total
Accounts Payable and Accrued Liabilities	$ 2,142	$ -	$ -	$ -	$ 2,142
Risk Management Liabilities	95	14	-	-	109
Long-Term Debt *	470	1,848	2,243	9,682	14,243

* Principal and interest, including current portion.

Encana's total long-term debt obligations were $14.2 billion at September 30, 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 exchange rate, Encana maintains a mix of both U.S. dollar and Canadian dollar debt. At September 30, 2010, Encana had $5.4 billion in U.S. dollar debt issued from Canada ($5.6 billion at December 31, 2009) subject to foreign exchange exposure.

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 $46 million change in foreign exchange (gain) loss at September 30, 2010 (2009 - $22 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. Typically, the Company partially mitigates its exposure to interest rate changes by maintaining a mix of both fixed and floating rate debt.

At September 30, 2010, the Company had no floating rate debt. Therefore, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt was nil (2009 - $3 million).

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.