Encana Corporation

Interim Condensed Consolidated Financial Statements
(unaudited)

For the period ended December 31, 2012

(U.S. Dollars)

Condensed Consolidated Statement of Earnings *(unaudited)*

($ millions, except per share amounts)		Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Twelve Months Ended December 31, 2012	Twelve Months Ended December 31, 2011
Revenues, Net of Royalties	*(Note 3)*	**$ 1,605**	$ 2,461	**$ 5,160**	$ 8,467
Expenses	*(Note 3)*				
Production and mineral taxes		**36**	45	**105**	198
Transportation and processing		**318**	302	**1,231**	1,193
Operating		**183**	228	**794**	866
Purchased product		**84**	127	**349**	635
Depreciation, depletion and amortization		**445**	576	**1,956**	2,282
Impairments	*(Note 8)*	**487**	1,473	**4,695**	2,249
Accretion of asset retirement obligation	*(Note 11)*	**13**	12	**53**	50
Administrative		**93**	104	**392**	350
Interest	*(Note 5)*	**134**	122	**522**	468
Foreign exchange (gain) loss, net	*(Note 6)*	**58**	(91)	**(107)**	133
Other		**3**	27	**1**	21
		1,854	2,925	**9,991**	8,445
Net Earnings (Loss) Before Income Tax		**(249)**	(464)	**(4,831)**	22
Income tax expense (recovery)	*(Note 7)*	**(169)**	12	**(2,037)**	17
Net Earnings (Loss)		**$ (80)**	$ (476)	**$ (2,794)**	$ 5
Net Earnings (Loss) per Common Share	*(Note 12)*				
Basic		**$ (0.11)**	$ (0.65)	**$ (3.79)**	$ 0.01
Diluted		**$ (0.11)**	$ (0.65)	**$ (3.79)**	$ 0.01

Condensed Consolidated Statement of Comprehensive Income *(unaudited)*

($ millions)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Twelve Months Ended December 31, 2012	Twelve Months Ended December 31, 2011
Net Earnings (Loss)	**$ (80)**	$ (476)	**$ (2,794)**	$ 5
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustment	**(5)**	(108)	**81**	(305)
Compensation plans	**5**	(34)	**13**	(34)
Comprehensive Income (Loss)	**$ (80)**	$ (618)	**$ (2,700)**	$ (334)

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet *(unaudited)*

($ millions)		As at December 31, 2012	As at December 31, 2011
Assets			
Current Assets			
Cash and cash equivalents		**$ 3,179**	$ 800
Accounts receivable and accrued revenues		**1,236**	1,075
Risk management	*(Note 15)*	**479**	1,806
Income tax receivable		**560**	686
Deferred income taxes		**23**	-
		5,477	4,367
Property, Plant and Equipment, at cost:	*(Note 8)*		
Natural gas and oil properties, based on full cost accounting			
Proved properties		**50,953**	50,690
Unproved properties		**1,295**	1,426
Other		**3,379**	2,748
Property, plant and equipment		**55,627**	54,864
Less: Accumulated depreciation, depletion and amortization		**(45,876)**	(38,807)
Property, plant and equipment, net	*(Note 3)*	**9,751**	16,057
Cash in Reserve		**54**	469
Other Assets		**466**	395
Risk Management	*(Note 15)*	**111**	241
Deferred Income Taxes		**1,116**	188
Goodwill	*(Note 3)*	**1,725**	1,698
	(Note 3)	**$ 18,700**	$ 23,415
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 2,003**	$ 2,428
Income tax payable		**45**	123
Risk management	*(Note 15)*	**5**	1
Current portion of long-term debt	*(Note 9)*	**500**	492
Deferred income taxes		**59**	442
		2,612	3,486
Long-Term Debt	*(Note 9)*	**7,175**	7,658
Other Liabilities and Provisions	*(Note 10)*	**2,672**	2,301
Risk Management	*(Note 15)*	**10**	6
Asset Retirement Obligation	*(Note 11)*	**936**	875
Deferred Income Taxes		**-**	511
		13,405	14,837
Commitments and Contingencies	*(Note 16)*		
Shareholders' Equity			
Share capital - authorized unlimited common shares, without par value			
2012 and 2011 issued and outstanding: 736.3 million shares	*(Note 12)*	**2,354**	2,354
Paid in surplus	*(Note 13)*	**10**	5
Retained earnings		**2,261**	5,643
Accumulated other comprehensive income		**670**	576
Total Shareholders' Equity		**5,295**	8,578
		$ 18,700	$ 23,415

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Shareholders' Equity *(unaudited)*

($ millions)		Twelve Months Ended December 31, 2012	2011
Share Capital	*(Note 12)*		
Balance, Beginning of Year		**$ 2,354**	$ 2,352
Common Shares Issued under Option Plans		**-**	2
Balance, End of Year		**$ 2,354**	$ 2,354
Paid in Surplus	*(Note 13)*		
Balance, Beginning of Year		**$ 5**	$ -
Share-Based Compensation		**5**	5
Balance, End of Year		**$ 10**	$ 5
Retained Earnings			
Balance, Beginning of Year		**$ 5,643**	$ 6,226
Net Earnings (Loss)		**(2,794)**	5
Dividends on Common Shares	*(Note 12)*	**(588)**	(588)
Balance, End of Year		**$ 2,261**	$ 5,643
Accumulated Other Comprehensive Income			
Foreign Currency Translation Adjustment			
Balance, beginning of year		**$ 658**	$ 963
Change in foreign currency translation adjustment		**81**	(305)
Balance, end of year		**$ 739**	$ 658
Compensation Plans			
Balance, beginning of year		**$ (82)**	$ (48)
Change in funded status of defined benefit and other post-employment benefit plans, net of income taxes of $5 million (2011 - $12 million recovery)		**13**	(34)
Balance, end of year		**$ (69)**	$ (82)
Total Accumulated Other Comprehensive Income		**$ 670**	$ 576
Total Shareholders' Equity		**$ 5,295**	$ 8,578

See accompanying Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows *(unaudited)*

($ millions)		Three Months Ended December 31, 2012	2011	Twelve Months Ended December 31, 2012	2011
Operating Activities					
Net earnings (loss)		**$ (80)**	$ (476)	**$ (2,794)**	$ 5
Depreciation, depletion and amortization		**445**	576	**1,956**	2,282
Impairments	*(Note 8)*	**487**	1,473	**4,695**	2,249
Accretion of asset retirement obligation	*(Note 11)*	**13**	12	**53**	50
Deferred income taxes	*(Note 7)*	**(231)**	(103)	**(1,837)**	212
Unrealized (gain) loss on risk management	*(Note 15)*	**114**	(581)	**1,465**	(879)
Unrealized foreign exchange (gain) loss	*(Note 6)*	**58**	(124)	**(112)**	96
Other		**(10)**	92	**82**	87
Net change in other assets and liabilities		**(23)**	(30)	**(78)**	(160)
Net change in non-cash working capital		**(56)**	166	**(323)**	(15)
Cash From (Used in) Operating Activities		**717**	1,005	**3,107**	3,927
Investing Activities					
Capital expenditures	*(Note 3)*	**(780)**	(1,008)	**(3,476)**	(4,610)
Acquisitions	*(Note 4)*	**(18)**	(47)	**(379)**	(515)
Proceeds from divestitures	*(Note 4)*	**1,345**	1,585	**4,043**	2,080
Cash in reserve		**4**	(373)	**415**	(383)
Net change in investments and other		**31**	33	**(242)**	(203)
Cash From (Used in) Investing Activities		**582**	190	**361**	(3,631)
Financing Activities					
Issuance of revolving long-term debt		**-**	2,267	**1,721**	13,606
Repayment of revolving long-term debt		**-**	(3,352)	**(1,724)**	(13,556)
Issuance of long-term debt		**-**	997	**-**	997
Repayment of long-term debt	*(Note 9)*	**-**	(500)	**(503)**	(500)
Issuance of common shares	*(Note 12)*	**-**	-	**-**	2
Dividends on common shares	*(Note 12)*	**(147)**	(147)	**(588)**	(588)
Capital lease payments		**(3)**	(14)	**(17)**	(155)
Cash From (Used in) Financing Activities		**(150)**	(749)	**(1,111)**	(194)
Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency		**(9)**	(2)	**22**	(1)
Increase (Decrease) in Cash and Cash Equivalents		**1,140**	444	**2,379**	101
Cash and Cash Equivalents, Beginning of Period		**2,039**	356	**800**	699
Cash and Cash Equivalents, End of Period		**$ 3,179**	$ 800	**$ 3,179**	$ 800
Cash, End of Period		**$ 92**	$ 70	**$ 92**	$ 70
Cash Equivalents, End of Period		**3,087**	730	**3,087**	730
Cash and Cash Equivalents, End of Period		**$ 3,179**	$ 800	**$ 3,179**	$ 800

See accompanying Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

1. Basis of Presentation

Encana Corporation and its subsidiaries ("Encana" or "the Company") are in the business of the exploration for, the development of, and the production and marketing of natural gas, oil and natural gas liquids ("NGLs"). The term liquids is used to represent Encana's oil, NGLs and condensate.

The interim Condensed Consolidated Financial Statements include the accounts of Encana and are presented in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

The interim Condensed Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual audited U.S. GAAP Consolidated Financial Statements for the year ended December 31, 2011, except as noted below in Note 2. The disclosures provided below are incremental to those included with the annual audited U.S. GAAP Consolidated Financial Statements. Certain information and disclosures normally required to be included in the notes to the annual audited U.S. GAAP Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, the interim Condensed Consolidated Financial Statements should be read in conjunction with the annual audited U.S. GAAP Consolidated Financial Statements and the notes thereto for the year ended December 31, 2011.

These unaudited interim Condensed Consolidated Financial Statements reflect, in the opinion of Management, all normal and recurring adjustments necessary to present fairly the financial position and results of the Company as at and for the periods presented.

2. Changes in Accounting Policies and Practices

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

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

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

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

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information

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

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

- **USA Division** includes the exploration for, development of, and production of natural gas, oil and 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 Canadian and USA Divisions. Market optimization activities include third party purchases and sales of product that provide operational flexibility for transportation commitments, product type, delivery points and customer diversification. These activities are reflected in the Market Optimization segment.

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

Market Optimization sells substantially all of the Company's upstream production to third party customers. Transactions between segments are based on market values and are eliminated on consolidation.

The Condensed Consolidated Statement of Earnings for the comparative period ended December 31, 2011 and the accompanying segmented information disclosed in this note have been updated to present processing costs with transportation expense. Formerly, these processing costs were presented in operating expense. Encana has updated its presentation as a result of the Canadian Division entering into firm gathering and processing agreements associated with the divestiture of two natural gas processing plants during the first quarter of 2012 as disclosed in Note 4. Encana believes the nature of processing costs more closely align with transportation expense. As a result, the Company has reclassified $58 million from operating expense to transportation and processing expense for the three months ended December 31, 2011 and $240 million for the twelve months ended December 31, 2011.

In conjunction with the reclassification of the Canadian Division processing costs discussed above, Encana has reclassified the unrealized financial hedging gains and losses related to the Company’s power financial derivative contracts to transportation and processing within the Corporate and Other segment. Formerly, these were presented in operating expense. Encana has updated its presentation to align the treatment with realized financial hedging gains and losses, which are now included in the Canadian Division transportation and processing expense. The Condensed Consolidated Statement of Earnings and the accompanying segmented information disclosed in this note, along with the impact of realized and unrealized gains and losses on risk management activities disclosed in Note 15, have been updated accordingly.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

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

Segment and Geographic Information

	Canadian Division		USA Division		Market Optimization	
	2012	2011	**2012**	2011	**2012**	2011
Revenues, Net of Royalties	**$ 736**	$ 733	**$ 857**	$ 1,002	**$ 99**	$ 146
Expenses						
Production and mineral taxes	**2**	4	**34**	41	**-**	-
Transportation and processing	**160**	125	**162**	180	**-**	-
Operating	**81**	104	**87**	109	**10**	14
Purchased product	**-**	-	**-**	-	**84**	127
	493	500	**574**	672	**5**	5
Depreciation, depletion and amortization	**176**	238	**238**	315	**3**	3
Impairments	**-**	1,473	**456**	-	**-**	-
	$ 317	$ (1,211)	**$ (120)**	$ 357	**$ 2**	$ 2

	Corporate & Other		Consolidated	
	2012	2011	**2012**	2011
Revenues, Net of Royalties	**$ (87)**	$ 580	**$ 1,605**	$ 2,461
Expenses				
Production and mineral taxes	**-**	-	**36**	45
Transportation and processing	**(4)**	(3)	**318**	302
Operating	**5**	1	**183**	228
Purchased product	**-**	-	**84**	127
	(88)	582	**984**	1,759
Depreciation, depletion and amortization	**28**	20	**445**	576
Impairments	**31**	-	**487**	1,473
	$ (147)	$ 562	**52**	(290)
Accretion of asset retirement obligation			**13**	12
Administrative			**93**	104
Interest			**134**	122
Foreign exchange (gain) loss, net			**58**	(91)
Other			**3**	27
			301	174
Net Earnings (Loss) Before Income Tax			**(249)**	(464)
Income tax expense (recovery)			**(169)**	12
Net Earnings (Loss)			**$ (80)**	$ (476)

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

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

Product and Divisional Information

	Canadian Division							
	Natural Gas		Oil & NGLs		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Revenues, Net of Royalties	**$ 598**	$ 610	**$ 128**	$ 112	**$ 10**	$ 11	**$ 736**	$ 733
Expenses								
Production and mineral taxes	**1**	2	**1**	2	**-**	-	**2**	4
Transportation and processing	**158**	122	**2**	3	**-**	-	**160**	125
Operating	**71**	98	**7**	2	**3**	4	**81**	104
Operating Cash Flow	**$ 368**	$ 388	**$ 118**	$ 105	**$ 7**	$ 7	**$ 493**	$ 500

	USA Division							
	Natural Gas		Oil & NGLs		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Revenues, Net of Royalties	**$ 761**	$ 911	**$ 89**	$ 78	**$ 7**	$ 13	**$ 857**	$ 1,002
Expenses								
Production and mineral taxes	**28**	35	**6**	6	**-**	-	**34**	41
Transportation and processing	**162**	180	**-**	-	**-**	-	**162**	180
Operating	**78**	104	**8**	2	**1**	3	**87**	109
Operating Cash Flow	**$ 493**	$ 592	**$ 75**	$ 70	**$ 6**	$ 10	**$ 574**	$ 672

	Market Optimization					
	Marketing Sales		Upstream Eliminations		Total	
	2012	2011	**2012**	2011	**2012**	2011
Revenues, Net of Royalties	**$ 1,283**	$ 1,565	**$ (1,184)**	$ (1,419)	**$ 99**	$ 146
Expenses						
Transportation and processing	**132**	131	**(132)**	(131)	**-**	-
Operating	**21**	19	**(11)**	(5)	**10**	14
Purchased product	**1,112**	1,399	**(1,028)**	(1,272)	**84**	127
Operating Cash Flow	**$ 18**	$ 16	**$ (13)**	$ (11)	**$ 5**	$ 5

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

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

Segment and Geographic Information

	Canadian Division		USA Division		Market Optimization	
	2012	2011	**2012**	2011	**2012**	2011
Revenues, Net of Royalties	**$ 2,760**	$ 2,872	**$ 3,365**	$ 4,022	**$ 419**	$ 703
Expenses						
Production and mineral taxes	**9**	15	**96**	183	**-**	-
Transportation and processing	**555**	490	**652**	728	**-**	-
Operating	**352**	380	**377**	444	**48**	40
Purchased product	**-**	-	**-**	-	**349**	635
	1,844	1,987	**2,240**	2,667	**22**	28
Depreciation, depletion and amortization	**748**	966	**1,102**	1,226	**12**	12
Impairments	**1,822**	2,249	**2,842**	-	**-**	-
	$ (726)	$ (1,228)	**$ (1,704)**	$ 1,441	**$ 10**	$ 16

	Corporate & Other		Consolidated	
	2012	2011	**2012**	2011
Revenues, Net of Royalties	**$ (1,384)**	$ 870	**$ 5,160**	$ 8,467
Expenses				
Production and mineral taxes	**-**	-	**105**	198
Transportation and processing	**24**	(25)	**1,231**	1,193
Operating	**17**	2	**794**	866
Purchased product	**-**	-	**349**	635
	(1,425)	893	**2,681**	5,575
Depreciation, depletion and amortization	**94**	78	**1,956**	2,282
Impairments	**31**	-	**4,695**	2,249
	$ (1,550)	$ 815	**(3,970)**	1,044
Accretion of asset retirement obligation			**53**	50
Administrative			**392**	350
Interest			**522**	468
Foreign exchange (gain) loss, net			**(107)**	133
Other			**1**	21
			861	1,022
Net Earnings (Loss) Before Income Tax			**(4,831)**	22
Income tax expense (recovery)			**(2,037)**	17
Net Earnings (Loss)			**$ (2,794)**	$ 5

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

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

Product and Divisional Information

	Canadian Division							
	Natural Gas		Oil & NGLs		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Revenues, Net of Royalties	**$ 2,225**	$ 2,376	**$ 500**	$ 453	**$ 35**	$ 43	**$ 2,760**	$ 2,872
Expenses								
Production and mineral taxes	**1**	10	**8**	5	**-**	-	**9**	15
Transportation and processing	**549**	481	**6**	9	**-**	-	**555**	490
Operating	**327**	360	**14**	6	**11**	14	**352**	380
Operating Cash Flow	**$ 1,348**	$ 1,525	**$ 472**	$ 433	**$ 24**	$ 29	**$ 1,844**	$ 1,987

	USA Division							
	Natural Gas		Oil & NGLs		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Revenues, Net of Royalties	**$ 2,993**	$ 3,664	**$ 348**	$ 295	**$ 24**	$ 63	**$ 3,365**	$ 4,022
Expenses								
Production and mineral taxes	**68**	157	**28**	26	**-**	-	**96**	183
Transportation and processing	**652**	728	**-**	-	**-**	-	**652**	728
Operating	**347**	423	**25**	3	**5**	18	**377**	444
Operating Cash Flow	**$ 1,926**	$ 2,356	**$ 295**	$ 266	**$ 19**	$ 45	**$ 2,240**	$ 2,667

	Market Optimization					
	Marketing Sales		Upstream Eliminations		Total	
	2012	2011	**2012**	2011	**2012**	2011
Revenues, Net of Royalties	**$ 4,260**	$ 6,680	**$ (3,841)**	$ (5,977)	**$ 419**	$ 703
Expenses						
Transportation and processing	**528**	506	**(528)**	(506)	**-**	-
Operating	**84**	75	**(36)**	(35)	**48**	40
Purchased product	**3,593**	6,035	**(3,244)**	(5,400)	**349**	635
Operating Cash Flow	**$ 55**	$ 64	**$ (33)**	$ (36)	**$ 22**	$ 28

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

3. Segmented Information (continued)

Capital Expenditures

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Twelve Months Ended December 31, 2012	Twelve Months Ended December 31, 2011
Canadian Division	**$ 373**	$ 399	**$ 1,567**	$ 2,031
USA Division	**352**	562	**1,727**	2,446
Market Optimization	**-**	2	**7**	2
Corporate & Other	**55**	45	**175**	131
	$ 780	$ 1,008	**$ 3,476**	$ 4,610

Goodwill, Property, Plant and Equipment and Total Assets by Segment

	Goodwill As at December 31, 2012	Goodwill As at December 31, 2011	Property, Plant and Equipment As at December 31, 2012	Property, Plant and Equipment As at December 31, 2011	Total Assets As at December 31, 2012	Total Assets As at December 31, 2011
Canadian Division	**$ 1,252**	$ 1,225	**$ 2,960**	$ 7,493	**$ 4,748**	$ 11,090
USA Division	**473**	473	**4,405**	6,733	**5,664**	7,691
Market Optimization	**-**	-	**106**	108	**161**	166
Corporate & Other	**-**	-	**2,280**	1,723	**8,127**	4,468
	$ 1,725	$ 1,698	**$ 9,751**	$ 16,057	**$ 18,700**	$ 23,415

4. Acquisitions and Divestitures

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Twelve Months Ended December 31, 2012	Twelve Months Ended December 31, 2011
Acquisitions				
Canadian Division	**$ 8**	$ 13	**$ 139**	$ 410
USA Division	**10**	34	**240**	105
Total Acquisitions	**18**	47	**379**	515
Divestitures				
Canadian Division	**(1,265)**	(200)	**(3,770)**	(350)
USA Division	**(80)**	(1,385)	**(271)**	(1,730)
Corporate & Other	**-**	-	**(2)**	-
Total Divestitures	**(1,345)**	(1,585)	**(4,043)**	(2,080)
Net Acquisitions and Divestitures	**$ (1,327)**	$ (1,538)	**$ (3,664)**	$ (1,565)

Acquisitions

For the twelve months ended December 31, 2012, acquisitions in the Canadian and USA Divisions totaled $379 million (2011 - $515 million), which primarily included land and property purchases with oil and liquids rich natural gas production potential.

Divestitures

For the twelve months ended December 31, 2012, divestitures were $3,770 million (2011 - $350 million) in the Canadian Division and $271 million (2011 - $1,730 million) in the USA Division, which included the following transactions:

Canadian Division

Encana entered into a partnership agreement with a Mitsubishi Corporation subsidiary ("Mitsubishi") to jointly develop certain Cutbank Ridge lands in British Columbia. Under the agreement, Encana owns 60 percent and Mitsubishi owns 40 percent of the partnership. Mitsubishi agreed to invest approximately C$2.9 billion for its partnership interest, with C$1.45 billion received in February 2012. Mitsubishi has agreed to invest the remaining amount of approximately C$1.45 billion, in addition to its 40 percent of the partnership's future capital investment, over an expected commitment period of five years, thereby reducing Encana's capital funding commitment to 30 percent of the total expected capital investment over that period.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

4. Acquisitions and Divestitures (continued)

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

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

The Company closed the sale of two natural gas processing plants in British Columbia and Alberta for proceeds of approximately C$920 million in February 2012.

USA Division

The Company closed the majority of the North Texas asset sale in December 2011 for proceeds of $836 million. The remainder of the sale closed in March 2012 for proceeds of $114 million. During the twelve months ended December 31, 2011, Encana also sold its Fort Lupton natural gas processing plant for proceeds of $296 million and its South Piceance natural gas gathering assets for proceeds of $547 million.

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

5. Interest

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	2011	**2012**	2011
Interest Expense on:				
Debt	**$ 119**	$ 123	**$ 474**	$ 488
Other	**15**	(1)	**48**	(20)
	$ 134	$ 122	**$ 522**	$ 468

6. Foreign Exchange (Gain) Loss, Net

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	2011	**2012**	2011
Unrealized Foreign Exchange (Gain) Loss on:				
Translation of U.S. dollar debt issued from Canada	**$ 69**	$ (133)	**$ (131)**	$ 107
Translation of U.S. dollar risk management contracts issued from Canada	**(11)**	9	**19**	(11)
	58	(124)	**(112)**	96
Foreign Exchange on Intercompany Transactions	**11**	35	**4**	18
Other Monetary Revaluations and Settlements	**(11)**	(2)	**1**	19
	$ 58	$ (91)	**$ (107)**	$ 133

7. Income Taxes

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	2011	**2012**	2011
Current Tax				
Canada	**$ 58**	$ (26)	**$ (219)**	$ (373)
United States	**(1)**	121	**(25)**	102
Other Countries	**5**	20	**44**	76
Total Current Tax Expense (Recovery)	**62**	115	**(200)**	(195)
Deferred Tax				
Canada	**(72)**	(187)	**(902)**	(227)
United States	**110**	84	**(935)**	442
Other Countries	**(269)**	-	**-**	(3)
Total Deferred Tax Expense (Recovery)	**(231)**	(103)	**(1,837)**	212
	$ (169)	$ 12	**$ (2,037)**	$ 17

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

8. Property, Plant and Equipment, Net

	As at December 31, 2012			As at December 31, 2011		
	Cost	**Accumulated DD&A***	**Net**	Cost	Accumulated DD&A*	Net
Canadian Division						
Proved properties	**$ 26,024**	**$ (23,962)**	**$ 2,062**	$ 27,259	$ (20,906)	$ 6,353
Unproved properties	**716**	**-**	**716**	968	-	968
Other	**182**	**-**	**182**	172	-	172
	26,922	**(23,962)**	**2,960**	28,399	(20,906)	7,493
USA Division						
Proved properties	**24,825**	**(21,236)**	**3,589**	23,319	(17,294)	6,025
Unproved properties	**579**	**-**	**579**	458	-	458
Other	**237**	**-**	**237**	250	-	250
	25,641	**(21,236)**	**4,405**	24,027	(17,294)	6,733
Market Optimization	**235**	**(129)**	**106**	223	(115)	108
Corporate & Other	**2,829**	**(549)**	**2,280**	2,215	(492)	1,723
	$ 55,627	**$ (45,876)**	**$ 9,751**	$ 54,864	$ (38,807)	$ 16,057

* Depreciation, depletion and amortization.

The Canadian Division and USA Division property, plant and equipment include internal costs directly related to exploration, development and construction activities of $471 million capitalized during the twelve months ended December 31, 2012 (2011 - $415 million). Included in Corporate and Other are $104 million ($112 million as at December 31, 2011) of international property costs, which have been fully impaired.

For the three months ended December 31, 2012, the Company recognized a ceiling test impairment of nil (2011 - $1,473 million) in the Canadian cost centre and $456 million (2011 - nil) in the U.S. cost centre. For the twelve months ended December 31, 2012, the Company recognized a ceiling test impairment of $1,822 million (2011 - $2,249 million) in the Canadian cost centre and $2,842 million (2011 - nil) in the U.S. cost centre. The impairments resulted primarily from the decline in the 12-month average trailing natural gas prices which have reduced proved reserves volumes and values.

The 12-month average trailing prices used in the ceiling test calculations were based on the benchmark prices below. The benchmark prices were adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

	Natural Gas		**Oil & NGLs**	
	Henry Hub *($/MMBtu)*	AECO *(C$/MMBtu)*	WTI *($/bbl)*	Edmonton [(1)] *(C$/bbl)*
12-Month Average Trailing Reserves Pricing				
December 31, 2012	**2.76**	**2.35**	**94.71**	**87.42**
December 31, 2011	4.12	3.76	96.19	96.53

(1) Light Sweet.

In 2008, Encana signed a contract for the design and construction of the Production Field Centre ("PFC") for the Deep Panuke project. As at December 31, 2012, Canadian Division property, plant and equipment and total assets include Encana's accrual to date of $612 million ($607 million as at December 31, 2011) related to this offshore facility as an asset under construction. There is no effect on the Company's current net earnings or cash flows related to the capitalization of the PFC.

In 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, 2012, Corporate and Other property, plant and equipment and total assets include Encana's accumulated costs to date of $1,668 million ($1,309 million as at December 31, 2011). Beginning in July 2012, Encana assumed partial occupancy of The Bow office premises, initiated payments to the third party developer and commenced depreciation of The Bow asset over the 60-year estimated life of the building. At the conclusion of the 25-year term, the remaining asset and corresponding liability are expected to be derecognized (See Note 10).

Liabilities for the PFC and The Bow office project are included in other liabilities and provisions in the Condensed Consolidated Balance Sheet and are disclosed in Note 10.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

9. Long-Term Debt

	C$ Principal Amount	As at December 31, 2012	As at December 31, 2011
Canadian Dollar Denominated Debt			
4.30% due March 12, 2012	$ -	$ -	$ 492
5.80% due January 18, 2018	750	754	737
	$ 750	754	1,229
U.S. Dollar Denominated Debt			
4.75% due October 15, 2013		500	500
5.80% due May 1, 2014		1,000	1,000
5.90% due December 1, 2017		700	700
6.50% due May 15, 2019		500	500
3.90% due November 15, 2021		600	600
8.125% due September 15, 2030		300	300
7.20% due November 1, 2031		350	350
7.375% due November 1, 2031		500	500
6.50% due August 15, 2034		750	750
6.625% due August 15, 2037		500	500
6.50% due February 1, 2038		800	800
5.15% due November 15, 2041		400	400
		6,900	6,900
Total Principal		7,654	8,129
Increase in Value of Debt Acquired		46	46
Debt Discounts		(25)	(25)
Current Portion of Long-Term Debt		(500)	(492)
		$ 7,175	$ 7,658

Long-term debt is accounted for at amortized cost using the effective interest method of amortization. As at December 31, 2012, long-term debt had a carrying value of $7,675 million and a fair value of $9,043 million (as at December 31, 2011 - $8,150 million carrying value and a fair value of $9,215 million). The estimated fair value of long-term borrowings is categorized within Level 2 of the fair value hierarchy, as described in Note 14, and has been determined based on market information or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end.

10. Other Liabilities and Provisions

	As at December 31, 2012	As at December 31, 2011
The Bow Office Project (See Note 8)	$ 1,674	$ 1,309
Asset under Construction - Production Field Centre (See Note 8)	612	607
Obligation under Capital Lease	69	-
Unrecognized Tax Benefits	134	178
Pensions and Other Post-Employment Benefits	165	184
Other	18	23
	$ 2,672	$ 2,301

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

10. Other Liabilities and Provisions (continued)

The Bow Office Project

As described in Note 8, Encana has recognized the accumulated construction costs for The Bow office project as an asset with a related liability. Beginning in July 2012, Encana assumed partial occupancy of The Bow office premises and commenced payments to the third party developer. At the conclusion of the 25-year term, the remaining asset and corresponding liability are expected to be derecognized. The total undiscounted future payments related to The Bow office commitment are outlined below. In conjunction with the Split Transaction as described in Note 12, Encana has subleased part of The Bow office space to a subsidiary of Cenovus Energy Inc. ("Cenovus"). Expected sublease recoveries are outlined below.

(undiscounted)	2013	2014	2015	2016	2017	Thereafter	Total
Expected future lease payments	$ 86	$ 93	$ 93	$ 94	$ 95	$ 2,120	**$ 2,581**
Sublease recoveries	$ (44)	$ (46)	$ (46)	$ (47)	$ (47)	$ (1,049)	**$ (1,279)**

Production Field Centre

As described in Note 8, during the construction phase of the PFC, Encana has recognized an asset under construction with a corresponding liability. Upon commencement of operations, Encana will recognize the PFC as a capital lease. Encana's total discounted future payments related to the PFC total $564 million. The total undiscounted future payments related to the PFC are outlined below.

(undiscounted)	2013	2014	2015	2016	2017	Thereafter	Total
Expected future lease payments	$ 74	$ 89	$ 89	$ 89	$ 89	$ 281	**$ 711**

11. Asset Retirement Obligation

	As at December 31, 2012	As at December 31, 2011
Asset Retirement Obligation, Beginning of Year	**$ 921**	$ 820
Liabilities Incurred	**43**	43
Liabilities Settled	**(90)**	(111)
Change in Estimated Future Cash Outflows	**28**	132
Accretion Expense	**53**	50
Foreign Currency Translation and Other	**14**	(13)
Asset Retirement Obligation, End of Year	**$ 969**	$ 921
Current Portion	**$ 33**	$ 46
Long-Term Portion	**936**	875
	$ 969	$ 921

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

12. Share Capital

Authorized

The Company is authorized to issue an unlimited number of no par value common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

Issued and Outstanding

	As at December 31, 2012		As at December 31, 2011	
	Number (millions)	**Amount**	Number (millions)	Amount
Common Shares Outstanding, Beginning of Year	**736.3**	**$ 2,354**	736.3	$ 2,352
Common Shares Issued under Option Plans	**-**	**-**	-	2
Common Shares Outstanding, End of Year	**736.3**	**$ 2,354**	736.3	$ 2,354

Earnings Per Common Share

The following table presents the computation of net earnings per common share:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
(millions, except per share amounts)	**2012**	2011	**2012**	2011
Net Earnings (Loss)	**$ (80)**	$ (476)	**$ (2,794)**	$ 5
Number of Common Shares:				
Weighted average common shares outstanding - Basic	**736.3**	736.3	**736.3**	736.3
Effect of dilutive securities	**-**	0.5	**-**	0.9
Weighted average common shares outstanding - Diluted	**736.3**	736.8	**736.3**	737.2
Net Earnings (Loss) per Common Share				
Basic	**$ (0.11)**	$ (0.65)	**$ (3.79)**	$ 0.01
Diluted	**$ (0.11)**	$ (0.65)	**$ (3.79)**	$ 0.01

Dividends

During the three months ended December 31, 2012, Encana paid dividends of $0.20 per common share totaling $147 million (2011 - $0.20 per common share totaling $147 million). During the twelve months ended December 31, 2012, Encana paid dividends of $0.80 per common share totaling $588 million (2011 - $0.80 per common share totaling $588 million).

Encana Stock Option Plan

Encana has stock-based compensation plans that allow employees to purchase common shares of the Company. Option exercise prices are not less than the market value of the common shares on the date the options are granted. Options granted are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years, are fully exercisable after three years and expire five years after the date granted.

All options outstanding as at December 31, 2012 have associated Tandem Stock Appreciation Rights ("TSARs") attached. In lieu of exercising the option, the associated TSARs give the option holder the right to receive a cash payment equal to the excess of the market price of Encana's common shares at the time of the exercise over the original grant price. In addition, certain stock options granted are performance-based. The Performance TSARs vest and expire under the same terms and conditions as the underlying option. Vesting is also subject to Encana attaining prescribed performance relative to predetermined key measures. Historically, most holders of options with TSARs have elected to exercise their stock options as a Stock Appreciation Right ("SAR") in exchange for a cash payment. See Note 13 for further information on Encana's outstanding and exercisable TSARs and Performance TSARs.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

12. Share Capital (continued)

Encana Restricted Share Units ("RSUs")

Encana has a stock-based compensation plan whereby eligible employees are granted RSUs. An RSU is a conditional grant to receive an Encana common share, or the cash equivalent, as determined by Encana, upon vesting of the RSUs and in accordance with the terms of the RSU Plan and Grant Agreement. The value of one RSU is notionally equivalent to one Encana common share. RSUs vest three years from the date granted, provided the employee remains actively employed with Encana on the vesting date. The Company intends to settle vested RSUs in cash on the vesting date. See Note 13 for further information on Encana's outstanding RSUs.

Encana Share Units Held by Cenovus Employees

On November 30, 2009, Encana completed a corporate reorganization to split into two independent publicly traded energy companies - Encana Corporation and Cenovus Energy Inc. (the "Split Transaction"). In conjunction with 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. Share units include TSARs, Performance TSARs, SARs, and Performance SARs. The terms and conditions of the share units are similar to the terms and conditions of the original share units.

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 are based on the fair value of the Encana share units determined using the Black-Scholes-Merton model (See Notes 13 and 14). There is no impact on Encana's net earnings for the share units held by Cenovus employees. TSARs and Performance TSARs held by Cenovus employees will expire by December 2014. No further Encana share units have been granted to Cenovus employees since the Split Transaction.

Cenovus employees may exercise Encana TSARs and Encana Performance TSARs in exchange for Encana common shares. The following table summarizes the Encana TSARs and Performance TSARs held by Cenovus employees as at December 31, 2012:

Canadian Dollar Denominated (C$)	Number (millions)	Weighted Average Exercise Price
Outstanding and Exercisable		
Encana TSARs held by Cenovus employees	**3.2**	**33.08**
Encana Performance TSARs held by Cenovus employees	**4.6**	**32.37**

13. Compensation Plans

Encana has a number of compensation arrangements that form the Company's long-term incentive plan awarded to eligible employees. They include TSARs, Performance TSARs, SARs, Performance SARs, Performance Share Units ("PSUs"), Deferred Share Units ("DSUs"), RSUs and a Restricted Cash Plan. The majority of these compensation arrangements are share-based.

Encana accounts for TSARs, Performance TSARs, SARs, Performance SARs and RSUs held by Encana employees as cash-settled share-based payment transactions and accordingly, accrues compensation costs over the vesting period based on the fair value of the rights determined using the Black-Scholes-Merton and other fair value models. TSARs, Performance TSARs, SARs and Performance SARs granted are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years, are fully exercisable after three years and expire five years after the date granted. RSUs vest three years from the date of grant, provided the employee remains actively employed with Encana on the vesting date.

13. Compensation Plans (continued)

As at December 31, 2012, the fair value of the Encana share units held by Encana employees was estimated using the following weighted average assumptions: risk free rate of 1.14 percent, dividend yield of 4.07 percent, volatility of 30.51 percent, expected term of 1.5 years and an Encana market share price of C$19.66. As at December 31, 2012, the fair value of the Cenovus share units held by Encana employees was estimated using the following weighted average assumptions: risk free rate of 1.14 percent, dividend yield of 2.64 percent, volatility of 30.18 percent, expected term of 0.5 years and a Cenovus market share price of C$33.29. For both Encana and Cenovus share units held by Encana employees, volatility was estimated using historical volatility rates.

The amounts recognized for share-based payment transactions are as follows:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	2011	**2012**	2011
Compensation Costs of Cash-Settled Transactions	**$ (36)**	$ 20	**$ 42**	$ 28
Compensation Costs of Equity-Settled Transactions	**3**	(9)	**5**	-
Total Compensation Costs	**(33)**	11	**47**	28
Less: Total Compensation Costs Capitalized	**9**	(4)	**(14)**	(14)
Total Compensation Expense	**$ (24)**	$ 7	**$ 33**	$ 14

Of the total compensation expense recorded for the three months ended December 31, 2012, a reduction of $15 million (2011 - $4 million) was included in operating expense and a reduction of $9 million (2011 - $3 million) was included in administrative expense.

Of the total compensation expense recorded for the twelve months ended December 31, 2012, $13 million (2011 - $8 million) was included in operating expense and $20 million (2011 - $6 million) was included in administrative expense.

A) Tandem Stock Appreciation Rights

All options to purchase common shares issued under the Encana Stock Option Plan have associated TSARs attached. In lieu of exercising the option, the associated TSARs give the option holder the right to receive a cash payment equal to the excess of the market price of Encana's common shares at the time of exercise over the exercise price. The TSARs vest and expire under the same terms and conditions as the underlying option.

The following table summarizes information related to the Encana and Cenovus TSARs held by Encana employees as at December 31, 2012:

	Encana TSARs		**Cenovus TSARs**	
(thousands of units)	**Outstanding**	**Weighted Average Exercise Price (C$)**	**Outstanding**	**Weighted Average Exercise Price (C$)**
Outstanding, Beginning of Year	**19,390**	**28.79**	**3,935**	**29.49**
Granted	**1,514**	**20.99**	**-**	**-**
Exercised - SARs	**(17)**	**20.99**	**(1,788)**	**29.14**
Exercised - Options	**-**	**-**	**(8)**	**26.69**
Forfeited	**(1,704)**	**29.47**	**(84)**	**31.31**
Expired	**(2,015)**	**30.54**	**(30)**	**28.74**
Outstanding, End of Year	**17,168**	**27.84**	**2,025**	**29.75**
Exercisable, End of Year	**8,133**	**30.38**	**2,025**	**29.75**

For the year ended December 31, 2012, Encana recorded compensation costs of $6 million related to the Encana TSARs and a reduction in compensation costs of $1 million related to the Cenovus TSARs (2011 - a reduction in compensation costs of $4 million related to the Encana TSARs and compensation costs of $6 million related to the Cenovus TSARs).

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

13. Compensation Plans (continued)

B) Performance Tandem Stock Appreciation Rights

From 2007 to 2009, Encana granted Performance TSARs. In lieu of exercising the option, the option holder has the right to receive a cash payment equal to the excess of the market price of Encana's common shares at the time of exercise over the exercise price. The Performance TSARs vest and expire under the same terms and conditions as the underlying option. Vesting is also subject to Encana attaining prescribed performance relative to an internal recycle ratio and predetermined key measures. Performance TSARs that do not vest when eligible are forfeited.

The following table summarizes information related to the Encana and Cenovus Performance TSARs held by Encana employees as at December 31, 2012:

	Encana Performance TSARs		Cenovus Performance TSARs	
(thousands of units)	Outstanding	Weighted Average Exercise Price (C$)	Outstanding	Weighted Average Exercise Price (C$)
Outstanding, Beginning of Year	7,879	31.50	5,751	28.60
Exercised - SARs	-	-	(2,188)	28.33
Exercised - Options	-	-	(12)	26.61
Forfeited	(779)	31.50	(314)	26.69
Expired	(2,221)	29.45	(32)	26.66
Outstanding, End of Year	4,879	32.44	3,205	29.00
Exercisable, End of Year	4,879	32.44	3,205	29.00

For the year ended December 31, 2012, Encana recorded a reduction in compensation costs of $1 million related to the Encana Performance TSARs and a reduction in compensation costs of $2 million related to the Cenovus Performance TSARs (2011 - a reduction in compensation costs of $12 million related to the Encana Performance TSARs and compensation costs of $14 million related to the Cenovus Performance TSARs).

C) Stock Appreciation Rights

During 2008 and 2009, Canadian dollar denominated SARs were granted to employees, which entitle the employee to receive a cash payment equal to the excess of the market price of Encana's common shares at the time of exercise over the exercise price of the right.

The following table summarizes information related to the Encana and Cenovus SARs held by Encana employees as at December 31, 2012:

	Encana SARs		Cenovus SARs	
(thousands of units)	Outstanding	Weighted Average Exercise Price (C$)	Outstanding	Weighted Average Exercise Price (C$)
Outstanding, Beginning of Year	1,973	33.81	1,641	30.73
Exercised	-	-	(591)	29.69
Forfeited	(130)	34.08	(23)	34.45
Outstanding, End of Year	1,843	33.79	1,027	31.25
Exercisable, End of Year	1,843	33.79	1,027	31.25

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

13. Compensation Plans (continued)

C) Stock Appreciation Rights (continued)

Since 2010, U.S. dollar denominated SARs have been granted to eligible employees. The terms and conditions are similar to the Canadian dollar denominated SARs. The following table summarizes information related to U.S. dollar denominated Encana SARs held by Encana employees as at December 31, 2012:

	Encana SARs	
(thousands of units)	**Outstanding**	**Weighted Average Exercise Price (US$)**
Outstanding, Beginning of Year	**12,645**	**26.78**
Granted	**482**	**20.54**
Exercised	**(29)**	**20.88**
Forfeited	**(933)**	**27.36**
Outstanding, End of Year	**12,165**	**26.50**
Exercisable, End of Year	**4,685**	**27.75**

For the year ended December 31, 2012, Encana recorded compensation costs of $7 million related to the Encana SARs and a reduction in compensation costs of $1 million related to the Cenovus SARs (2011 - reduction in compensation costs of $5 million related to the Encana SARs and compensation costs of $3 million related to the Cenovus SARs).

D) Performance Stock Appreciation Rights

During 2008 and 2009, Encana granted Performance SARs to certain employees which entitle the employee to receive a cash payment equal to the excess of the market price of Encana's common shares at the time of exercise over the grant price. Performance SARs are subject to Encana attaining prescribed performance relative to an internal recycle ratio and predetermined key measures. Performance SARs that do not vest when eligible are forfeited.

The following table summarizes information related to the Encana and Cenovus Performance SARs held by Encana employees as at December 31, 2012:

	Encana Performance SARs		Cenovus Performance SARs	
(thousands of units)	**Outstanding**	**Weighted Average Exercise Price (C$)**	**Outstanding**	**Weighted Average Exercise Price (C$)**
Outstanding, Beginning of Year	**2,710**	**32.07**	**2,282**	**28.88**
Exercised	**-**	**-**	**(835)**	**29.46**
Forfeited	**(255)**	**30.81**	**(128)**	**26.56**
Outstanding, End of Year	**2,455**	**32.20**	**1,319**	**28.74**
Exercisable, End of Year	**2,455**	**32.20**	**1,319**	**28.74**

For the year ended December 31, 2012, Encana recorded no compensation costs related to the Encana Performance SARs and no compensation costs related to the Cenovus Performance SARs (2011 - reduction in compensation costs of $4 million related to the Encana Performance SARs and compensation costs of $5 million related to the Cenovus Performance SARs).

13. Compensation Plans (continued)

E) Performance Share Units

Since 2010, PSUs have been 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 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 in respect of the year being measured. The respective proportion of the original PSU grant deemed eligible to vest for each year will be valued 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 as at December 31, 2012:

(thousands of units)	Canadian Dollar Denominated Outstanding PSUs	U.S. Dollar Denominated Outstanding PSUs
Outstanding, Beginning of Year	1,238	1,089
Granted	213	27
Deemed Eligible to Vest	(427)	(393)
Units, in Lieu of Dividends	37	27
Forfeited	(100)	(57)
Outstanding, End of Year	961	693

For the year ended December 31, 2012, Encana recorded compensation costs of $12 million related to the outstanding PSUs (2011 - compensation costs of $15 million).

F) Deferred Share Units

The Company has in place a program whereby Directors and certain key employees are issued DSUs, which vest immediately, are equivalent in value to a common share of the Company and are settled in cash. DSUs can be redeemed in accordance with the terms of the agreement and expire on December 15th of the year following the Director's resignation or employee's departure.

Employees have the option to convert either 25 or 50 percent of their annual High Performance Results ("HPR") award into DSUs. The number of DSUs is based on the value of the award divided by the closing value of Encana's share price at the end of the performance period of the HPR award.

The following table summarizes information related to the DSUs as at December 31, 2012:

(thousands of units)	Canadian Dollar Denominated Outstanding PSUs
Outstanding, Beginning of Year	905
Granted	109
Converted from HPR awards	38
Units, in Lieu of Dividends	39
Redeemed	(117)
Outstanding, End of Year	974

For the year ended December 31, 2012, Encana recorded compensation costs of $2 million related to the outstanding DSUs (2011 - reduction in compensation costs of $5 million).

13. Compensation Plans (continued)

G) Restricted Share Units

Since 2011, RSUs have been granted to eligible employees. An RSU is a conditional grant to receive an Encana common share, or the cash equivalent, as determined by Encana, upon vesting of the RSUs and in accordance with the terms of the RSU Plan and Grant Agreement. The value of one RSU is notionally equivalent to one Encana common share. RSUs vest three years from the date granted, provided the employee remains actively employed with Encana on the vesting date. As at December 31, 2012, Encana plans to settle the RSUs in cash on the vesting date.

The following table summarizes information related to the RSUs as at December 31, 2012:

(thousands of units)	Canadian Dollar Denominated Outstanding RSUs	U.S. Dollar Denominated Outstanding RSUs
Outstanding, Beginning of Year	**1,751**	**1,574**
Granted	**298**	**83**
Units, in Lieu of Dividends	**77**	**63**
Forfeited	**(160)**	**(124)**
Outstanding, End of Year	**1,966**	**1,596**

For the year ended December 31, 2012, Encana recorded compensation costs of $25 million related to the outstanding RSUs (2011 - compensation costs of $15 million). The paid in surplus balance as at December 31, 2012 and December 31, 2011 relates to the RSUs.

H) Restricted Cash Plan

In October 2011, Encana's Board approved the use of a Restricted Cash Plan as a component of the long-term incentive grant to eligible employees. The Restricted Cash Plan is a time-based conditional grant to receive cash which, in accordance with the corresponding grant agreement, requires that the employee remain actively employed with Encana on the vesting date. The Restricted Cash Plan vests over three years with one third payable after each anniversary of the grant date. For the year ended December 31, 2012, Encana recorded compensation costs of $18 million (2011 - compensations costs of $6 million) relating to the Restricted Cash Plan grant.

I) Pensions and Other Post-Employment Benefits

The periodic pension and other post-employment benefits ("OPEB") expense for the twelve months ended December 31 is as follows:

	Pension Benefits		OPEB	
	2012	2011	**2012**	2011
Current service costs	**$ 5**	$ 5	**$ 14**	$ 12
Interest cost	**14**	15	**4**	4
Expected return on plan assets	**(28)**	(15)	**-**	-
Amortization of net actuarial gains and losses	**15**	8	**-**	-
Amortization of transitional obligation	**-**	-	**-**	1
Amortization of net prior service costs	**-**	1	**-**	-
Total Defined Benefit Plan Expense	**$ 6**	$ 14	**$ 18**	$ 17

	Pension Benefits		OPEB	
	2012	2011	**2012**	2011
Defined Benefit Plan Expense	**$ 6**	$ 14	**$ 18**	$ 17
Defined Contribution Plan Expense	**44**	43	**-**	-
Total Benefit Plans Expense	**$ 50**	$ 57	**$ 18**	$ 17

Encana's net benefit plan expense for the three months ended December 31, 2012 was $8 million (2011 - $27 million) and for the twelve months ended December 31, 2012 was $68 million (2011 - $74 million). Encana's contribution to the defined benefit pension plans for the twelve months ended December 31, 2012 was $25 million (2011 - $19 million). Encana's contribution to the defined contribution pension plans for the twelve months ended December 31, 2012 was $44 million (2011 - $43 million).

(All amounts in $ millions unless otherwise specified)

14. Fair Value Measurements

A) Fair Value

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques include the market, income, and cost approach. Market approach uses information generated by market transactions involving identical or comparable assets or liabilities; income approach converts estimated future amounts to a present value; and cost approach is based on the amount that currently would be required to replace an asset.

B) Fair Value Hierarchy

Inputs used in determining fair value are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable. The three input levels of the fair value hierarchy are as follows:

- Level 1 - Inputs represent quoted prices in active markets for identical assets or liabilities, such as exchange-traded commodity derivatives.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted market prices for similar assets or liabilities in active markets or other market corroborated inputs.
- Level 3 - Inputs that are not observable from objective sources, such as forward prices supported by little or no market activity or internally developed estimates of future cash flows used in a present value model.

In determining fair value, the Company utilizes the most observable inputs available. If a fair value measurement reflects inputs at multiple levels within the hierarchy, the fair value measurement is characterized based on the lowest level of input that is significant to the fair value measurement.

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 share units issued as part of the Split Transaction, as disclosed below. The fair value of cash in reserve approximates its carrying amount due to the nature of the instrument held.

Recurring fair-value measurements are performed for risk management assets and liabilities and for share units resulting from the Split Transaction, which are discussed further in Notes 15 and 12, respectively. These items are carried at fair value in the Condensed Consolidated Balance Sheet and are classified within the three levels of the fair value hierarchy in the tables below. There have been no transfers between the hierarchy levels during the period.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

14. Fair Value Measurements (continued)

As at December 31, 2012	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total Fair Value	Netting [5]	Carrying Amount
Risk Management						
Risk Management Assets [1]	**$ 2**	**$ 617**	**$ -**	**$ 619**	**$ (29)**	**$ 590**
Risk Management Liabilities [1]	**-**	**32**	**12**	**44**	**(29)**	**15**
Share Units Resulting from the Split Transaction						
Encana Share Units Held by Cenovus Employees						
Accounts receivable and accrued revenues [2]	**$ -**	**$ -**	**$ 1**	**$ 1**	**$ -**	**$ 1**
Accounts payable and accrued liabilities [3]	**-**	**-**	**1**	**1**	**-**	**1**
Cenovus Share Units Held by Encana Employees						
Accounts payable and accrued liabilities [4]	**-**	**-**	**36**	**36**	**-**	**36**

As at December 31, 2011	Level 1 Quoted Prices in Active Markets	Level 2 Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total Fair Value	Netting [5]	Carrying Amount
Risk Management						
Risk Management Assets [1]	$ 1	$ 2,124	$ 18	$ 2,143	$ (96)	$ 2,047
Risk Management Liabilities [1]	-	103	-	103	(96)	7
Share Units Resulting from the Split Transaction						
Encana Share Units Held by Cenovus Employees						
Accounts receivable and accrued revenues [2]	$ -	$ -	$ 1	$ 1	$ -	$ 1
Accounts payable and accrued liabilities [3]	-	-	1	1	-	1
Cenovus Share Units Held by Encana Employees						
Accounts payable and accrued liabilities [4]	-	-	83	83	-	83

(1) Including current portion.
(2) Receivable from Cenovus.
(3) Payable to Cenovus employees.
(4) Payable to Cenovus.
(5) Netting to offset derivative assets and liabilities with the same counterparty, which are presented within the fair value hierarchy on a gross basis, even where the legal right of offset exists.

The Company's Level 1 and Level 2 risk management assets and liabilities consist of commodity fixed price contracts and basis swaps with terms to 2016. The fair values of these contracts are based on a market approach and are estimated using inputs which are either directly or indirectly observable at the reporting date, such as exchange and other published prices, broker quotes and observable trading activity.

C) Level 3 Fair Value Measurements

The Company's Level 3 risk management assets and liabilities consist of natural gas options and power purchase contracts and with terms to 2013 and 2017, respectively. The fair values of both the natural gas options and the power purchase contracts are based on an income approach and are modeled internally using observable and unobservable inputs such as natural gas price volatilities and forward power prices in less active markets. The unobservable inputs are obtained from third parties whenever possible and reviewed by the Company for reasonableness.

Amounts related to risk management assets and liabilities are recognized in revenues and transportation and processing expense according to their purpose. Amounts related to share units resulting from the Split Transaction are recognized in operating expense, administrative expense and capitalized within property, plant and equipment as described in Note 13.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

14. Fair Value Measurements (continued)

C) Level 3 Fair Value Measurements (continued)

A summary of changes in Level 3 fair value measurements for the year ended December 31 is presented below:

	Risk Management		Share Units Resulting from Split Transaction	
	2012	2011	**2012**	2011
Balance, Beginning of Year	**$ 18**	$ (7)	**$ (83)**	$ (120)
Total gains (losses)	**(18)**	23	**4**	(32)
Purchases, issuances and settlements:				
Purchases	**-**	-	**-**	-
Settlements	**(12)**	2	**43**	69
Transfers in and out of Level 3	**-**	-	**-**	-
Balance, End of Year	**$ (12)**	$ 18	**$ (36)**	$ (83)
Change in unrealized gains (losses) related to assets and liabilities held at end of year	**$ (21)**	$ 22	**$ (7)**	$ (5)

Quantitative information about unobservable inputs used in Level 3 fair value measurements is presented below:

	Valuation Technique	Unobservable Input	**As at December 31, 2012**	As at December 31, 2011
Risk Management - Natural Gas Options	Option Model	Price volatility	**0.3% - 28.3%**	-
Risk Management - Power	Discounted Cash Flow	Forward prices ($/Megawatt Hour)	**$48.25 - $57.97**	$71.50 - $77.55
Share Units Resulting from the Split Transaction	Option Model	Cenovus share unit volatility	**30.18%**	32.48%

A five percentage point increase or decrease in natural gas price volatility would cause no decrease or increase (nil as at December 31, 2011) to net risk management assets. A 10 percent increase or decrease in estimated forward power prices would cause a corresponding $6 million ($6 million as at December 31, 2011) increase or decrease to net risk management assets. A five percentage point increase or decrease in Cenovus share unit estimated volatility would cause a corresponding $2 million ($6 million as at December 31, 2011) increase or decrease to accounts payable and accrued liabilities.

15. Financial Instruments and Risk Management

A) Financial Instruments

Encana's financial assets and liabilities are recognized in cash and cash equivalents, accounts receivable and accrued revenues, cash in reserve, accounts payable and accrued liabilities, risk management assets and liabilities and long-term debt.

B) Risk Management Assets and Liabilities

Risk management assets and liabilities arise from the use of derivative financial instruments and are measured at fair value. See Note 14 for a discussion of fair value measurements.

Unrealized Risk Management Position	**As at December 31, 2012**	As at December 31, 2011
Risk Management Asset		
Current	**$ 479**	$ 1,806
Long-term	**111**	241
	590	2,047
Risk Management Liability		
Current	**5**	1
Long-term	**10**	6
	15	7
Net Risk Management Asset	**$ 575**	$ 2,040

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

15. Financial Instruments and Risk Management (continued)

B) Risk Management Assets and Liabilities (continued)

Summary of Unrealized Risk Management Positions - By Product

	As at December 31, 2012			As at December 31, 2011		
	Risk Management			Risk Management		
	Asset	**Liability**	**Net**	Asset	Liability	Net
Commodity Prices						
Natural gas	**$ 545**	**$ 6**	**$ 539**	$ 2,032	$ 7	$ 2,025
Crude oil	**45**	**-**	**45**	-	-	-
Power	**-**	**9**	**(9)**	15	-	15
Total Fair Value	**$ 590**	**$ 15**	**$ 575**	$ 2,047	$ 7	$ 2,040

Commodity Price Positions as at December 31, 2012

	Notional Volumes		Term	Average Price		Fair Value
Natural Gas Contracts						
Fixed Price Contracts						
NYMEX Fixed Price	1,515	MMcf/d	2013	4.39	US$/Mcf	**$ 462**
NYMEX Fixed Price	748	MMcf/d	2014	4.22	US$/Mcf	**51**
NYMEX Fixed Price	825	MMcf/d	2015	4.37	US$/Mcf	**41**
Options			2013			**(3)**
Basis Contracts [(1)]			2013-2016			**(14)**
Other Financial Positions						**2**
Natural Gas Fair Value Position						**539**
Crude Oil Contracts						
Fixed Price Contracts						
Brent Fixed Price	9.3	Mbbls/d	2013	108.22	US$/bbl	**4**
Basis Contracts [(2)]			2013-2015			**41**
Crude Oil Fair Value Position						**45**
Power Purchase Contracts						
Fair Value Position						**(9)**
Total Fair Value						**$ 575**

(1) Encana has entered into swaps to protect against widening natural gas price differentials between production areas in Canada. These basis swaps are priced using both fixed price differentials and differentials determined as a percentage of NYMEX.

(2) Encana has entered into swaps to protect against widening oil price differentials between production areas in Canada and the U.S. These basis swaps are priced using fixed price differentials.

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

	Realized Gain (Loss)		Realized Gain (Loss)	
	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	2011	**2012**	2011
Revenues, Net of Royalties	**$ 419**	$ 336	**$ 2,149**	$ 955
Transportation and Processing	**1**	(5)	**12**	(7)
Gain on Risk Management	**$ 420**	$ 331	**$ 2,161**	$ 948

	Unrealized Gain (Loss)		Unrealized Gain (Loss)	
	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	2011	**2012**	2011
Revenues, Net of Royalties	**$ (118)**	$ 578	**$ (1,441)**	$ 854
Transportation and Processing	**4**	3	**(24)**	25
Gain (Loss) on Risk Management	**$ (114)**	$ 581	**$ (1,465)**	$ 879

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

15. Financial Instruments and Risk Management (continued)

B) Risk Management Assets and Liabilities (continued)

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

	2012		2011
	Fair Value	**Total Unrealized Gain (Loss)**	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Year	**$ 2,040**		
Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Year	**696**	**$ 696**	$ 1,827
Fair Value of Contracts Realized During the Year	**(2,161)**	**(2,161)**	(948)
Fair Value of Contracts, End of Year	**$ 575**	**$ (1,465)**	$ 879

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 derivative financial 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 uses NYMEX swaps and options. To help protect against widening natural gas price differentials in various production areas, Encana has entered into basis swaps to manage the price differentials between these production areas and various sales points.

Crude Oil - To help protect against widening crude oil price differentials between North American and world prices, Encana has entered into fixed price contracts and basis swaps.

Power - The Company has entered into Canadian dollar denominated derivative contracts to manage its electricity consumption costs.

The table below 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 as follows:

	2012		2011	
	10% Price Increase	**10% Price Decrease**	10% Price Increase	10% Price Decrease
Natural gas price	**$ (446)**	**$ 446**	$ (305)	$ 305
Crude oil price	**(20)**	**20**	-	-
Power price	**6**	**(6)**	6	(6)

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 including credit practices that limit transactions according to counterparties' credit quality. Mitigation strategies may include master netting arrangements, requesting collateral and/or transacting credit derivatives. The Company executes commodity derivative financial instruments under master agreements that have netting provisions that provide for offsetting payables against receivables. As at December 31, 2012, the Company had no significant collateral balances posted and there were no credit derivatives in place.

As at December 31, 2012, cash equivalents include high-grade, short-term securities, placed primarily with financial institutions and companies with strong investment grade ratings. Any foreign currency agreements entered into are with major financial institutions in Canada and the U.S. or with counterparties having investment grade credit ratings.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

15. Financial Instruments and Risk Management (continued)

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

Credit Risk (continued)

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, 2012, approximately 88 percent (95 percent at December 31, 2011) of Encana's accounts receivable and financial derivative credit exposures were with investment grade counterparties.

As at December 31, 2012, Encana had two counterparties (2011 - four counterparties) whose net settlement position individually accounted for more than 10 percent of the fair value of the outstanding in-the-money net risk management contracts by counterparty. As at December 31, 2012, these counterparties accounted for 22 percent and 15 percent of the fair value of the outstanding in-the-money net risk management contracts.

Liquidity Risk

Liquidity risk arises from the potential that the Company will encounter difficulties in meeting a demand to fund its financial liabilities as they come due. The Company manages liquidity risk using cash and debt management programs.

The Company has access to cash equivalents and a wide range of funding alternatives at competitive rates through commercial paper, committed revolving bank credit facilities and debt capital markets. As at December 31, 2012, Encana had available unused committed revolving bank credit facilities totaling $5.0 billion which include C$4.0 billion ($4.0 billion) on a revolving bank credit facility for Encana and $999 million on a revolving bank credit facility for a U.S. subsidiary. The facilities remain committed through October 2015.

Encana also had unused capacity under two shelf prospectuses for up to $6.0 billion, or the equivalent in foreign currencies, 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 in the U.S. These shelf prospectuses expire in June 2013 and June 2014, respectively. The Company believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

The Company minimizes its liquidity risk by managing its capital structure. The Company's capital structure consists of shareholders' equity plus long-term debt, including the current portion. The Company's objectives when managing its capital structure are to maintain financial flexibility to preserve Encana's access to capital markets and its ability to meet financial obligations and finance internally generated growth, as well as potential acquisitions. 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 timing of cash outflows relating to financial liabilities is outlined in the table below:

	Less Than 1 Year	1 - 3 Years	4 - 5 Years	6 - 9 Years	Thereafter	Total
Accounts Payable and Accrued Liabilities	$ 2,003	$ -	$ -	$ -	$ -	**$ 2,003**
Risk Management Liabilities	5	8	2	-	-	**15**
Long-Term Debt [(1)]	963	1,793	1,464	2,982	6,874	**14,076**

[(1)] Principal and interest.

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. and Canadian dollars can have a significant effect on the Company's reported results. Encana's financial results are consolidated in 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 is not separately identifiable.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

(All amounts in $ millions unless otherwise specified)

15. Financial Instruments and Risk Management (continued)

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

Foreign Exchange Risk (continued)

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 and may also enter into foreign exchange derivatives. As at December 31, 2012, Encana had $5.9 billion in U.S. dollar debt issued from Canada that was subject to foreign exchange exposure ($5.9 billion as at December 31, 2011) and $1.8 billion in debt that was not subject to foreign exchange exposure ($2.2 billion as at December 31, 2011). There were no foreign exchange derivatives outstanding as at December 31, 2012.

Encana's foreign exchange (gain) loss primarily includes unrealized foreign exchange gains and losses on the translation of U.S. dollar denominated 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 foreign exchange gains and losses on U.S. dollar denominated cash and short-term investments held in Canada. A $0.01 change in the U.S. to Canadian dollar exchange rate would have resulted in a $51 million change in foreign exchange (gain) loss as at December 31, 2012 (2011 - $48 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 and may also enter into interest rate derivatives to partially mitigate effects of fluctuations in market interest rates. There were no interest rate derivatives outstanding as at December 31, 2012.

As at December 31, 2012, 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 (2011 - nil).

16. Commitments and Contingencies

Commitments

The following table outlines the Company's commitments as at December 31, 2012:

	Expected Future Payments						
(undiscounted)	2013	2014	2015	2016	2017	Thereafter	Total
Transportation and Processing	$ 905	$ 970	$ 991	$ 868	$ 829	$ 5,030	**$ 9,593**
Drilling and Field Services	366	114	70	48	21	51	**670**
Operating Leases	51	48	44	38	29	71	**281**
Total	$ 1,322	$ 1,132	$ 1,105	$ 954	$ 879	$ 5,152	**$ 10,544**

Contingencies

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