"With this year's annual report you'll notice we've taken a different approach based on feedback from you, our shareholders. We've published this summary report covering the essentials of our 2011 performance and our future plans, and we invite you to visit our redesigned website at encana.com for wide-ranging, comprehensive and up-to-date information on Encana. We trust you will find this a better fit with how we all access timely information today, and it's a more environmentally friendly approach that reduces paper and energy use."

Randy Eresman, *President & CEO*

CEO'S MESSAGE

During a year of intensifying economic challenges, we recorded one of our best operational performances ever. We continued to pursue full value recognition of our enormous resource potential and achieved our core operating and financial targets.

As we approach an anniversary marking Encana's first decade of operating excellence and disciplined financial strength, we remain steadily focused on investing in our highest return projects and enhancing shareholder value over the long term. We continue to play a leading and successful role in advancing and improving the extraordinary technical innovation that has added abundant new supplies of natural gas to North American energy markets.

Leveraging resource play expertise to thrive in current market reality

In 2011, many of our accomplishments were overshadowed by low natural gas prices that have continued to deteriorate to a level well below the price required to profitably add most new production. We believe these prices are unsustainably low, yet they continue to dominate our business and impact the performance of our share price. Numerous factors have contributed to the current natural gas surplus, and it is now abundantly clear that a continued reduction of natural gas drilling activity in North America will be required to restore market balance. Working through the oversupply will take time and Encana continues to be in a strong financial and operating position to weather this economic storm and prosper as a leading natural gas, oil and natural gas liquids (NGLs) producer in the long term. For the near to medium term, we are adapting to the market reality by shifting our investment and operational excellence towards growing our oil and NGLs production. This will help balance our commodity and revenue mix and reinforce our capacity to achieve continued value creation and success over the long term.

Continuing tradition of achieving operating and financial objectives

In 2011, Encana delivered solid cash flow of $4.2 billion, or $5.66 per share, and operating earnings of $398 million, or 54 cents per share. We met our capital investment objectives and held operating costs and administrative expenses below our guidance. Natural gas production of approximately 3.3 billion cubic feet per day (Bcf/d) was up five percent from 2010, and our oil and NGLs production of about 24,000 barrels per day (bbls/d) was also up five percent compared to 2010 volumes. These results underscore the quality of our asset base and the strength of our teams in delivering low-cost production.

Managing price risk and relentlessly driving down production costs

Our 2011 successes were achieved through the efficient execution of core initiatives aimed at maintaining our competitive edge and reducing the principal risks inherent in our business – commodity prices and cost structures. Firstly, we have had more than half of our 2011 and expected 2012 production hedged at prices above $5.75 per thousand cubic feet (Mcf) – very attractive levels that bring stability to cash flow generation. Secondly, we continue to make numerous advancements in the field to our resource play hubs – efficiency and optimization developments that help us reduce the cost of adding new natural gas supplies in many of our resource plays towards a level that is less than $3.00 per Mcf. These financial and operating successes were reinforced for the long term by exploration and development drilling that added proved reserves of 2.3 trillion cubic feet equivalent (Tcfe) of natural gas and liquids, yielding a 2011 production replacement ratio, before acquisitions and divestitures, of 180 percent.

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High grading assets and pursuing unrecognized value of enormous resource base

Throughout the year, we continued to high-grade our portfolio of assets and attracted new investment to help maximize the value recognition of our enormous resource base. In 2011, $2.1 billion of divestitures unlocked value from non-core assets, such as midstream processing plants or mature producing natural gas fields – assets that no longer fit with our future development plans or are more highly valued by others. These proceeds enhanced the financial strength of our balance sheet and were partially reinvested – about $515 million – in acquiring prospective oil and liquids-rich lands.

Creating value from the ground up with Cutbank Ridge Partnership

Our work in joining forces with new investors was highlighted by the announcement in February 2012 of our Cutbank Ridge Partnership with Mitsubishi Corporation. This agreement sees Mitsubishi invest approximately C$2.9 billion for a 40 percent interest in the Partnership, which holds about 409,000 net acres of undeveloped Montney natural gas lands in British Columbia. Encana owns 60 percent and is managing partner and operator of the Partnership.

The Cutbank Ridge Partnership is a great example of Encana's track record of creating value from a grassroots level. We identify high-quality, early life resources, assemble large, contiguous land positions, leverage technological advancements and apply innovative operating practices to develop these plays at some of the lowest costs in the industry. The result of these efforts is a deep portfolio of high-quality, low-cost assets that can be profitably developed for several decades. We believe the partnership with Mitsubishi clearly demonstrates the value we identified at Cutbank Ridge over a decade ago, further validates our strategy of building value from the ground up and provides an excellent analog for what we expect to achieve in several other plays throughout our portfolio. We are continuing to advance potential joint ventures in a number of other areas, both in Canada and the U.S.

Applying unconventional expertise to build a portfolio of potential liquids-rich resource plays

Over the past decade, Encana has developed an industry-leading portfolio of natural gas resource plays by employing a highly disciplined methodology. The company's five-step resource play process involves assembling and exploring a large land base, piloting wells to unlock the technical barriers, demonstrating commerciality through repeatable technical success, driving down costs with manufacturing precision and optimizing plays through continuous improvement. Encana is now applying its same resource play skills, technologies and execution methodology to grow its oil and NGLs production.

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Exploring a North American portfolio of prospective oil and liquids-rich opportunities

With extensive exploration underway on several prospective liquids-rich plays, covering more than 2.5 million net acres of land, Encana is looking to develop three to four new key liquids resource plays from this wide-ranging inventory of prospective lands, replicating its natural gas resource play success. Encana is actively exploring for oil in the Tuscaloosa Marine Shale that straddles the Mississippi and Louisiana border, and prospective liquids-rich plays in the stacked Utica and Collingwood shale formations in Michigan, the San Juan basin in northwest New Mexico, the DJ Basin Niobrara formation in Colorado, the Eaglebine play in East Texas and the Mississippi Lime formation in Oklahoma and Kansas. In Canada, Encana has assembled a large land position across Alberta's Duvernay formation. Early exploration across this portfolio shows very encouraging results and represents a meaningful step towards growing liquids production to diversify our product and revenue mix.

Natural gas liquids extraction advancing in Western Canada

Our other liquids-growth initiative involves a significant expansion of NGLs extraction from our liquids-rich natural gas production in Western Canada. In 2011, Encana negotiated supply agreements that will see midstream processors make substantial investments in three Alberta natural gas plants to expand NGLs extraction. By expanding this approach, Encana expects to grow current total liquids production from about 24,000 bbls/d to about 80,000 bbls/d in 2015.

Growing role for natural gas in the global energy mix

Although we are slowing our investments in dry natural gas plays in the short term, we believe the long-term future for natural gas remains promising. In 2011, an International Energy Agency special report outlined a “Golden Age of Gas Scenario” that sees natural gas play a greater role in the future global energy mix. Revolutionary technologies have added abundant new supplies of the affordable and more environmentally friendly fuel that is particularly attractive in regions such as China, India and the Middle East where urbanization and rising economic standards are driving up energy demands. Our Cutbank Ridge Partnership is a foundational step in our ongoing efforts to expand the use of natural gas here in North America and in capturing a portion of the burgeoning Asian energy market.

We have a three-pronged approach towards expanding natural gas use in North America and overseas. In 2011, we acquired a 30 percent interest in the Kitimat liquified natural gas (LNG) export terminal planned for the west coast of British Columbia. Extensive project engineering work and marketing efforts continue at a brisk pace and we expect the partners will this year determine a clear path for the Kitimat project, which has a planned export capacity of 1.4 Bcf/d, built in two phases. With the strong energy demand in Asia, we expect to capture overseas natural gas prices that are linked to global oil pricing.

For the second year running, we achieved our best safety record as both our recordable and lost-time injury frequency decreased.

In transportation, we have converted the first 15 percent of our 1,500-truck fleet to run on compressed natural gas (CNG). We operate five CNG fueling stations in our producing areas and additional stations are planned. For large trucks, we have built refueling units to supply LNG trucks that provide water for our drilling and completions. In 2011, we operated 15 natural gas or LNG powered drilling rigs which saved us about $11 million on fuel. We are also piloting conversions of our completions equipment to run on natural gas.

The third major natural gas market opportunity is replacing coal used in power generation. With such affordable supplies, power companies are turning to natural gas when coal-fired generators are retired. Assuming reasonable electricity demand growth, these retirements could contribute to natural gas demand in excess of 10 Bcf/d in North America by 2020, which represents more than a 10 percent increase in continental consumption.

All of this points to a long-term future for natural gas that is bright. However, for the near term, until the North American oversupply dissipates and we see signs of a sustainable recovery in natural gas prices, we are reducing our natural gas investment and production to preserve the value of our resource base. Our 2012 budget reflects these actions, as well as our target to maintain financial strength and flexibility by balancing capital investment spending plans with forecasted cash flow less anticipated dividends.

In 2011, Encana was again recognized as a sustainability leader by independent assessments of our work in pursuing responsible development.

Continued leadership in safe and sustainable development of resource base

In 2011, Encana was again recognized as a sustainability leader by independent assessments of our work in pursuing responsible development: the 2011 Carbon Disclosure Leadership Index for Canada, a biodiversity survey led by the Natural Value Initiative, and the 2011 Dow Jones North America Sustainability Index, where Encana performed 32 percent above the industry average for oil and gas producers. For the second year running, we achieved our best safety record as both our recordable and lost-time injury frequency decreased. Safety is a core value at Encana, where staff members know that if they can’t do something safely, they don’t do it.

In closing, my thanks go to our Board of Directors for its wise and visionary leadership in the continued refinement of Encana’s governance and stewardship. I also thank our disciplined and determined management teams, employees and contractors for their strong performance in delivering on our 2011 commitments. Encana has built a decade-long tradition of operational excellence and maintaining financial strength through all the dynamic price cycles, and our core focus remains the disciplined pursuit of long-term value creation for every Encana share. As we look ahead, we maintain our focus on investing in the highest return projects and maximizing the value recognition from our enormous resource potential.

Randy Eresman
President & Chief Executive Officer
Encana Corporation
February 28, 2012

Please share your thoughts on our new format by completing our online survey.

encana.com/news/2011arsurvey/