#### 2013 SUSTAINABILITY REPORT

encana

## 2013 SUSTAINABILITY REPORT

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## EARNING OUR Social License To operate Every day

DOUG SUTTUN

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(4)

Encana has long been a leader in promoting workplace safety, engaging with its operating communities and minimizing the impact of its operations on the environment. These were among my first observations when I joined the company as President & CEO in June of 2013. Encana's emphasis on ensuring that its corporate responsibility programs support profitability, maximize efficiency and strengthen our social license to operate has reinforced my belief that Encana is on its way to becoming the leading North American resource play company.

The past year has been one of significant change at Encana as we developed and began implementing our new strategy, which focuses our capital on key liquids-rich plays and diversifies our portfolio in order to generate higher returns. Operationally, we exited 2013 largely meeting or exceeding our financial and production guidance while spending significantly less capital than forecast. Toward the end of the year our Deep Panuke offshore platform safely achieved full production – a major milestone for the company.

While 2013 was marked with a number of significant achievements, it was not without challenges. Among the greatest challenges was making some very difficult decisions regarding staffing and restructuring. Ultimately, the implementation of our new strategy resulted in an approximate 20 percent reduction of our workforce and the closure of our Plano. Texas office. Throughout this difficult transition we took great care to treat all staff with the utmost respect and dignity and I commend the Encana team for their dedication and perseverance during a challenging time. While the changes were difficult, they were necessary in order to achieve our new strategic goals and put Encana on track to be the leading North American resource play company.

Throughout this period of change and uncertainty, our commitment to safe operations, environmental stewardship and responsible development never wavered. Our environment, health and safety performance in 2013 remained strong and we saw continued improvement in a number of areas, including reductions in total recordable injuries, motor vehicle incidents and injury severity.

Although we are proud of our safety performance improvements, we still have work to do. Tragically, one of our sub-contractors was fatally injured in a single vehicle motor vehicle incident this past fall and five of our contractors were seriously injured by a fire and tank explosion at one of our locations this winter – occurrences which are not acceptable to me or anyone at Encana. Our operations staff, supported by our health and safety specialists, remain steadfastly committed to eliminating injuries and incidents from our work sites.

Looking ahead, we recognize that as we shift to a more liquids-weighted production portfolio our risk of spills increases. In 2013 we did note a small increase in the number of spills our operations experienced. We attribute this change to the increased volumes of liquids we are handling as we implement our new strategy. To respond to and manage this risk, in early 2014 we initiated a project to review and enhance our spill prevention programs. The goal of this project is to implement industry-leading practices for spill prevention, reinforcing our commitment to environmental stewardship.

To help guide Encana in the sustainable execution of our new strategy I have renewed our emphasis on responsible development and sound governance with the creation of a dedicated Policy, Environment & Sustainability team. This team, comprised of environmental and policy specialists in both Canada and the United States, is focused on creating and implementing a sustainability strategy that integrates economic, environmental, social and ethical considerations into the execution of our business strategy and day-to-day operations. This sustainability strategy will support and enhance Encana's social license to operate by improving, refining and supporting existing best practices, identifying emerging issues and opportunities and measuring, monitoring and mitigating the impacts of our business in our operating areas.

The efficient development of our strong asset base cannot be done at the expense of worker safety, environmental protection or community acceptance. While responsible development has always been an important part of Encana's culture, ensuring it remains at the core of what we do is essential to our future success.

DOUG SUTTLES PRESIDENT & CEO

## **DETERMINING WHAT MATTERS**

The primary purpose of our Sustainability Report is to disclose our annual environmental, social and governance (ES&G) performance. Using this report, our goal is to provide useful and meaningful information to all of our stakeholders, from investors seeking to understand Encana's exposure to ES&G risks, to non-government organizations concerned about specific issues of concern, to communities, regulators and current and potential business partners seeking to understand our approach to oil and gas development.

We continuously monitor evolving ES&G reporting practices and requirements and the expectations of our stakeholders to inform our reporting practices. We refer to a range of reporting guidelines to inform our sustainability reporting and rely primarily on the Global Reporting Initiative (GRI). We also follow guidance from organizations such as the International Petroleum Industry Environmental Conservation Association (IPIECA) and the Canadian Association of Petroleum Producers' (CAPP) Responsible Energy Program to assist in the preparation of our report.

Good practice in sustainability reporting includes identifying and reporting on sustainability issues that are of concern to our stakeholders or may have an impact on Encana's operations. The material presented in this year's report was determined utilizing a multi-step process that involved input from a large team of Encana employees including subject matter experts from diverse disciplines across the company, including representatives from Investor Relations, Communications, Community Investment, Corporate Legal Services and Corporate Secretary, Government Relations and Environment, Health & Safety. This process focused on the ES&G priorities identified and reported on in our 2012 Corporate Responsibility Report, with emphasis on identifying new and emerging ES&G risks, opportunities and priorities arising from Encana's new business strategy.

To identify topics of concern to our stakeholders, the subject matter experts involved in our issue identification process provided insight into the issues and concerns of our diverse range of external stakeholders. This process was validated and augmented through the use of focused stakeholder surveys. The feedback we received was used to inform the material presented within this report.

Additional information regarding Encana, our strategy and our approach to managing ES&G issues can be found on our website: www.encana.com.

To ensure the quality and integrity of the performance metrics presented in this report, Encana has engaged Deloitte LL.P (Deloitte) to provide independent assurance of select performance indicators.





## **ACCOMPLISHMENTS AND PRIORITIES**

#### **2013 Priorities**

#### Executing on our strategy

- continued focus on becoming one of the most profitable oil and gas producers in North America
- build oil and liquids portfolio
- leverage opportunities to increase the visibility, utility and availability of natural gas within our own operations and the North American transportation and energy infrastructure

#### **Operational Excellence**

- measure, report and improve our air and greenhouse gas emissions performance, and forecasting
- identify the risks and opportunities in liquids and oil development
- develop training and awareness programs to improve our mitigation and response to spills
- continue to look for projects through our Environmental Innovation Fund that economically improve our environmental performance
- continue to develop water
   management program

#### Managing risk and opportunities

- implement third-party recommendations to enhance the Ethos EH&S Management System audit program
- mitigate regulatory risks through active monitoring, assessment, forecasting and industry collaboration
- evaluate the impact of carbon price on our operations
- continue to improve chemical management and disclosure
- continue to monitor and evaluate impact of induced seismicity

#### Social Licence/Shared Value

- develop tools to measure and evaluate the effectiveness of our community investment programs and stakeholder engagement programs
- implement our Community Impact Assessment tool and refine as necessary
- continue to work with Aboriginal communities to identify opportunities to contribute to economic capacity building

#### Maintain and enhance culture

- deliver training and communications related to our Business Code of Conduct
- develop a comprehensive health surveillance protocol
- focus on our workforce planning process, including the implementation of Talent Hub
- encourage cross-border collaboration and knowledge-sharing

#### 2013 Accomplishments

#### Executing on our strategy

- named new President and CEO and Chairman of the Board and established a new Executive Leadership Team
- underwent a strategic review of all assets, which informed a new corporate strategy
- aligned organizational structure to deliver on new corporate strategy

#### **Operational Excellence**

- began implementation of new emissions management system within our Canadian operations
- identified 40 high potential spill impact areas and developed potential spill control points
- commissioned the Neptune water treatment facility in Wyoming; began construction on Water Resource Hub near Dawson Creek and an alternative water sourcing project near Grande Prairie in Alberta in support of our Pipestone operations; secured agreement to use municipal waste water in Rimbey, Alberta
- used bi-fuel liquefied natural gas (LNG) hydraulic fracturing spreads in both the U.S. and Canada and initiated pilot projects in both the Piceance basin and Duvernay which use LNG to fuel pumps and hydraulic fracturing water heaters in the field

#### Managing risk and opportunities

- revised our Ethos audit program to better evaluate the implementation of standards and practices
- began integration of surface hole drilling fluids into Responsible Products Program
- safely delivered first gas from Deep Panuke off-shore project
- worked to implement practices around management of induced seismicity

#### Social Licence/Shared Value

- conducted stakeholder surveys in a number of key communities near our Canadian operations
- continued to align community investment with community need and business priority
- piloted Community Impact Assessment tool on key projects
- continued to monitor vegetation and wildlife at our wetlands reclamation project near Nordegg, Alberta, including ongoing engagement with local First Nations and an update on progress with the regulator

#### Maintain and enhance culture

- developed and delivered online and inperson training and awareness program on Encana's Business Code of Conduct
- implemented a safety campaign that included the creation of new safety practices, training and awareness programs, titled the Pressure & Pipe Principles
- launched Talent Hub, Encana's integrated solution for attracting, selecting, training and developing staff
- established cross-border teams and reporting structure to deliver on new business strategy
- training modules addressing workplace health hazards were integrated into our talent management system

#### **2014 Priorities**

#### Executing on our strategy

- accelerate oil and liquids growth and continue to focus on capital efficiency and improve profitability of core business
- develop and implement a Sustainability Strategy for the company
- complete initial public offering for PrairieSky Royalty

#### **Operational Excellence**

- complete conversion to new emissions management system within our Canadian operations
- enhance the directed inspection and maintenance program to align with fugitive methane emissions in Colorado
- create company-wide Spill Prevention Program including area-specific, riskbased training and awareness programs for high-risk spill sites
- complete Water Resource Hub construction
- oversee the review and evaluation of Ethos standards, practices, and guidance documents relative to new company structure

#### Managing risk and opportunities

- oversee and execute four Ethos audits, three compliance audits and 100 contractor EH&S evaluations and shift the Ethos audit program from a focus on implementation to an emphasis on continuous improvement
- work with state and local governments, academics and industry leaders to develop and respond to hydraulic fracturing related concerns raised in the potential ballot initiative in Colorado
- continue to assess and evaluate the cost of carbon relative to our investments across a range of scenarios
- execute the Responsible Products Program for surface hole drilling fluids

- assess operations, monitor and implement best management practices to mitigate risk of induced seismicity
- continue to secure long-term water resources to support long-term development plans

#### Social Licence/Shared Value

- invest in opportunities throughout our focus areas that support our brand and that create shared value for stakeholders, our shareholders and our staff
- optimize and enhance Encana's existing partnerships to support and enhance our social license to operate
- refine Community Impact Assessment tool
- maintain timely, accurate and relevant communication with our stakeholders including the employees, investment community, communities in which we operate

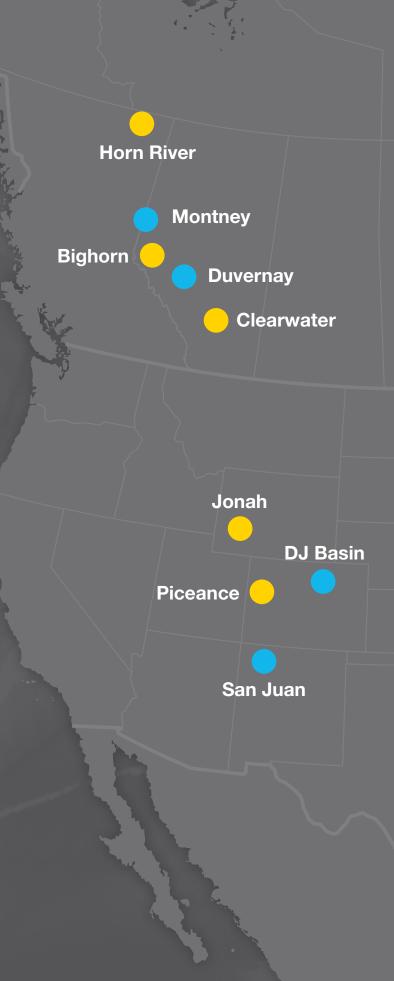
#### Maintain and enhance culture

- revise and re-introduce updated new company values
- roll-out Encana's new driving safety program
- improve year-over-year safety performance
- continue implementation of Encana's
   Pressure & Pipe Principles
- continue to advance Encana's silica exposure control programs
- plan for the future: succession planning, adjusting compensation to align with delivering business strategy/performance and integration of Talent Hub to enhance training and development of staff
- complete development of a comprehensive health surveillance protocol using data analysis, research and consultation with leading occupational physicians

## OPERATIONS MAP



\*As at December 31, 2013



(10)



Collingwood/Utica Shale



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## FINANCIAL AND OPERATING PERFORMANCE YEAR-END HIGHLIGHTS

## cash flow of approximately \$2\_6Billion

or \$3.50 per share

#### Financial Highlights (1)

(US\$ millions, except share amounts)	2012	2013
Revenues, Net of Royalties	5,160	5,858
Cash Flow <sup>(2)</sup>	3,537	2,581
Per Share – Diluted	4.80	3.50
Net Earnings	(2,794)	236
Per Share – Diluted	(3.79)	0.32
Operating Earnings <sup>(2)</sup>	997	802
Per Share – Diluted	1.35	1.09
Total Capital Investment	3,476	2,712
Net Acquisitions and Divestitures <sup>(3)</sup>	(3,664)	(776)
Net Capital Investment	188	1,936
Dividends per Common Share	0.80	0.67
Debt to Adjusted Capitalization (%) <sup>(2)</sup>	37	36
Net Debt to Debt Adjusted Cash Flow (times)	NPR	1.5
Debt to Proved Developed Reserves (\$/Mcfe) (4)(5)	1.10	1.11
Royalties <sup>(6)</sup>	NPR	765
Production & Mineral Taxes (7)	NPR	134
Income Taxes Paid <sup>®</sup>	NPR	-186

(1) Reported using financial information prepared in accordance with U.S. Generally Accepted Accounting Princip

(2) Non-GAAP measures as referenced in the Management's Discussion & Analysis.

(3) 2013 includes proceeds received from the sale of the Company's 30 percent interest in the proposed Kitimat liquefied natural gas export termina

(4) After royalties, employing forecast prices and cost

(5) A non-GAAP measure defined as long-term debt including current portion divided by proved developed reserve quantities.

(6) Represents Encana company-wide expenses

(7) Production and mineral taxes are mainly paid to governments and include ad valorem taxes, production taxes and mineral taxes. Some freehold amounts are included.

(8) Income taxes paid represents the net amount refundable to Encana. The income tax amount payable is offset by loss carrybacks, incentive credits, etc. to result in a credit back to Encana.

\* NPR - Not previously reported

# oil and NGLs production of 53,900 bbls/d

#### **Operational Highlights**

After Royalties	2012	2013
Production Volumes (average)		
Natural Gas (MMcf/d)		
Canada	1,359	1,432
USA	1,622	1,345
Total Natural Gas(MMcf/d)	2.981	2,777
Oil & NGLs (MMcf/d)		
Canada	19.4	30.4
USA	11.6	23.5
	00.1	52.0
Total Oil & NGLs (MMcf/d)	30.1	53.9

## total natural gas production of

**2.8**Bcf/d

## **EXECUTING ON OUR STRATEGY**

#### Developing a compelling vision and company strategy

In July 2013, Encana's recently-named President & CEO Doug Suttles announced the formation of a Strategy Development Team. This team worked closely with Encana's Board of Directors and Executive Leadership Team to formulate a strategy to sustainably grow shareholder value. The team, comprised of experts from across the organization, focused full-time on developing a practical strategy that engaged staff and represented a compelling vision for shareholders.

The team's key responsibilities included: building a deep understanding of our current assets; identifying our key strengths and capabilities and quantifying our current performance; carefully examining the external market and our competitive position; and considering a range of strategic options and their opportunities and risks. The team was provided with full access to Encana's financial and technical information and they called upon staff from across the organization to better understand the company's assets and identify its strengths and weaknesses. As the new strategy was launched and the organization was realigned, a permanent strategy team was created.

In October 2013, a new organizational structure was announced. This new structure was designed

to align with key competencies identified during the strategy development process. Then, in November, Encana introduced a new corporate strategy that committed to growing long-term shareholder value through a disciplined focus on generating profitable growth. Leveraging the company's proven operational expertise and focusing operations to improve efficiency will assist in this commitment. The strategy also outlined an opportunity to unlock additional value from the company's portfolio through an initial public offering (IPO) of its Clearwater mineral fee title lands and associated royalty interests.

Encana concluded 2013 by meeting or exceeding guidance on our key operating and financial metrics. Solid results were achieved on the primary themes of the strategy, including significant year-over-year increases in liquids production and ending the year with strong cash flow and an improving financial outlook. Moving forward, we are focused on growing cash flow – not purely on increasing production volumes, by improving margins in our netbacks based on capital allocation and a renewed focus on efficiency. Our efforts in 2014 and beyond will focus on delivering under our new business strategy and realizing our vision of becoming the leading North American resource play company.

#### Creating a sustainability team and strategy

#### Encana defines sustainability as:

Creating long-term value by integrating financial, environmental, social and ethical considerations into the successful execution of our business strategy.

As part of the company-wide restructuring in the latter half of 2013, Encana created a dedicated Policy, Environment & Sustainability team. The team is comprised of environmental and policy specialists in both Canada and the United States and is focused on integrating sustainability into our business. At Encana, this means integrating financial, environmental, social and ethical considerations into the execution of our business strategy.

The Policy, Environment & Sustainability team is currently in the process of developing a sustainability strategy for the company, which will support Encana's competitive advantage and social license to operate by identifying emerging ES&G risks and measuring, monitoring and reporting on the impacts those risks could have on our business. The team is also responsible for Encana's ES&G disclosures and supports Encana's broader corporate governance framework.





High-quality rocks / Scale and running room / Operational excellence / Portfolio optionality



Capital to core growth assets / Acceleration of oil and liquids growth opportunities / Reduce costs and drive efficiency



Sustainable business model / Cash flow per share growth Investment grade credit rating / Strong balance sheet and dividend paying

## VISION

#### LEAD THE INDUSTRY

To be the leading North American Resource Play company.

We will consistently deliver strong operational and financial results by finding and developing high-quality resource plays in North America and operating in those plays more efficiently than our competitors.

## STRATEGY

### DISCIPLINED FOCUS ON PROFITABLE GROWTH

Investing in high-value assets to maximize cash flow.

We will value profitability over production volumes and focus our investment on a limited number of core growth plays that have scale and running room. We will continuously optimize the performance of our base production while relentlessly driving efficiency and reducing costs. We will unlock value from our massive resource base to build a portfolio of oil, natural gas and natural gas liquids that provides us with a range of high margin investment options through commodity price cycles.

## GROW SHAREHOLDER VALUE

GOAL

#### Our measure of success will be growing cash flow per share throughout the commodity price cycle.

We will do this by executing on our strategy, remaining disciplined and delivering strong results. Operational excellence is a critical factor in delivering cash flow growth and sustained profitability.

#### AT OUR CORE

## KEY TO ACHIEVING OUR VISION, STRATEGY AND GOAL ARE FOUR PILLARS.

As our foundation, these core competencies — our pillars — differentiate Encana from our competitors. Supported by a strong balance sheet they are the critical building blocks of a strategy focused on delivering profitable growth and realizing our vision of being North America's leading resource play company.



#### **TOP TIER ASSETS**

We will always be on the lookout for the best rocks and focus our capital on a limited number of core growth assets characterized by high returns, scale and running room. Our strategy is centered on diversifying our commodity mix and growing value in top tier assets.

#### **CAPITAL ALLOCATION**

A highly disciplined, dynamic and centrally controlled capital allocation program will ensure that we are directing our investment dollars in a manner that is consistent with our strategy. By concentrating capital on our core growth plays, we believe we can generate the most value for our shareholders.

#### MARKET FUNDAMENTALS

We will actively monitor and manage the effects of market volatility and ensure that we can respond to the ever-changing trade winds inherent in the oil and gas business. Leveraging our industry leading commodity market expertise to inform our capital allocation decisions is critical to both managing risk and maximizing margins.

#### **OPERATIONAL EXCELLENCE**

Operational excellence is one of Encana's strengths and we will continuously work to maintain this competitive advantage. We strive to increase profitability by running our operations in the most efficient and cost effective manner possible. Our best-in-class operators will focus on efficiency, safety and integrated and collaborative thinking in order to maximize value across our asset base.

#### **BALANCE SHEET STRENGTH**

Underpinning these four core competencies is balance sheet strength. Maintaining financial flexibility and investment grade credit ratings are an important part of how we think about managing our business. Balance sheet strength allows us to capitalize on opportunities as they arise and demonstrates the sustainability of our business model through commodity cycles.

See our pillars in action: encana.com/operations

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## A COMMITMENT TO OPERATIONAL EXCELLENCE

#### Managing our air and greenhouse gas emissions

Managing and reporting on our greenhouse gas (GHG) and other air emissions is an important part of our approach to responsible development. As concerns related to the pace of domestic energy production grow, it is critically important that we continue to refine our understanding of air emissions and limit them to the extent practical.

The ability to confidently measure, report and manage the emission of methane, carbon dioxide and other air emissions like sulphur dioxide and nitrogen oxides ensures that we are able to meet our regulatory obligations and creates opportunities to improve operational efficiency. Moreover, by creating effective and efficient management programs, we can proactively address concerns related to climate change and air emissions – important stakeholder issues that can impede our social license to operate over the short and long term.

#### Methane study results published, second phase underway

Although we regularly manage and report carbon dioxide, sulphur dioxide and nitrogen oxide emissions from our operations, there are emission sources within the company's operations that we continue to research. For example, unintended releases of methane during production and transportation, referred to as fugitive emissions, result in lost revenue. In 2012, Encana partnered with the University of Texas at Austin, the Environmental Defence Fund and nine of our industry peers in a study to better understand, identify and measure fugitive methane emissions associated with the natural gas supply chain.

The study included the measurement of methane emissions associated with the hydraulic fracturing of natural gas wells using data collected from the well pad during completion flowback operations. The results showed that measured emissions from completion flowback operations were 97 percent lower than current Environmental Protection Agency (EPA) estimates. The study estimated that fugitive emissions represent 0.42 percent of total gross natural gas production. The results of the study were published in the Proceedings of National Academy of Sciences in September 2013 and contribute to a better understanding of the sources of methane emissions from the production of natural gas.

Encana is participating in the second phase of the University of Texas at Austinled study, which builds from the results of phase one of the study and aims to further understand fugitive emissions associated natural gas production. Combined, these studies serve to inform and advance national and international scientific and policy discussions with respect to natural gas development, regulation and use.

#### Innovative technologies continue to drive emissions reductions and operational efficiency

As part of our ongoing commitment to improve operational efficiencies, Encana's Environmental Innovation Fund (EIF) continues to make strategic investments in the development and deployment of technologies to economically improve our environmental performance.

In 2013, we concluded a multi-year program to optimize the efficiency of our natural gas-fired burners. Burners are widely used at natural gas processing facilities to provide thermal energy for glycol dehydration re-boilers, line heaters, tank heaters, boilers and other process equipment. In total, more than \$2 million was invested to retrofit 110 gas-fired burners across our assets in southern Alberta and northeastern British Columbia (BC). In each case, an analysis was completed by a burner specialist to measure the combustion efficiency of each burner to determine the optimum retrofits to improve fuel use efficiency. In most cases this involved installing a new high-efficiency burner with secondary air control to improve heat distribution and flame stability. On average, these retrofits improved the combustion efficiency of each burner by between 10 and 20 percent. Overall, our burner retrofit program reduced greenhouse gas emissions (GHG) by approximately 4,500 tonnes of carbon dioxide equivalent (tCO\_e) emissions per year.

#### Strong economic returns while reducing methane emissions

Another focus area for our EIF has been the reduction of methane emissions across our operational footprint – from the wellhead to compressor stations, through to our operated gas processing plants. Not only do methane emissions during production and transportation

contribute to Encana's emissions footprint, they also represent gas lost.

In 2013, we initiated a \$1.1-million retrofit program to reduce methane emissions from approximately 320 operated well sites in the Montney resource play in northwest Alberta and northeast BC. To date, 100 percent of the retrofits in Alberta and approximately 40 percent of the retrofits in BC have been completed. Based on a detailed measurement program undertaken at approximately 70 sites, we expect the program to achieve gas savings of about 27 million cubic feet per year and reduce GHG emissions by approximately 11,500 tCO<sub>2</sub>e per year.

We also continued to reduce methane emissions from field booster compressor stations and older gas processing facilities by installing instrument air or vent gas capture systems to reduce emissions from pneumatic control systems. In 2013, we completed three instrument gas to instrument air conversion projects to add to the six instrument air projects that were operational as of 2012. In total, we have now invested \$1.7

million to upgrade older gas processing plants with instrument air systems. The performance of these instrument air projects was verified by a third-party engineering firm, confirming that we achieved gas savings of approximately 52 million cubic feet and reduced GHG emissions by 20,457 tCO<sub>g</sub>e in 2013.

The continued implementation of our \$5.4-million vent gas capture program in Alberta was also an area of focus for the EIF in 2013. The 52-site rollout, using SlipStream<sup>®</sup> vent gas capture technology from Calgary-based REM Technology Inc., began in July 2012 and is presently 98 percent mechanically complete. Each SlipStream<sup>®</sup> unit continuously captures fuel gas (primarily methane) that is being vented to the atmosphere as part of normal operations. The unit then redirects this gas into the compressor engine's air intake to help fuel the engine. In 2013, the performance of Encana's operational vent gas capture units was verified by a third-party engineering firm, confirming savings of approximately 72 million cubic feet of natural gas and 28,974 tCO<sub>2</sub>e in GHG emission reductions for the 2013 calendar year.

Based on the strong results achieved in 2012 and 2013, between five and 10 additional retrofits have been identified for 2014, thereby expanding the use of this best practice technology at up to 60 sites. When fully completed, the vent gas capture program is expected to reduce Encana's GHG emissions by more than 69,000 tCO<sub>2</sub>e annually and generate an additional \$1 million per year worth of carbon offsets. By capturing and redirecting the vented methane to fuel the compressor engines, Encana expects to recover approximately 175 million standard cubic feet of sales gas per year.

By voluntarily retrofitting our older facilities in Alberta, well in advance of regulations requiring us to do so, we reduced emissions from these facilities and we were eligible to generate carbon offsets from our vent gas capture and instrument air projects. In 2013, we generated 49,431 offsets worth approximately \$740,000 under the Alberta Offset System.

#### Environmental Innovation Fund (1) (2) (3) (4)

	2011	2012	2013
Internal rate of return (%)	90	72	55
Cumulative CO2e avoided (tonnes)	630,000	900,000	1,160,000
Cumulative natural gas conserved (Bcf)	5		8
Capital investment	\$12,240,000	\$11,500,000	\$6,800,000 <sup>(5)</sup>

(4) Capital is rounded to the nearest \$10,000.
 (5) Decrease in spend is a result of organizational changes that occurred in 2013.

AIR

	2011	2012	2013
Total energy use			
Total energy use (Canada) (10³ GJ)	36,562	31,001	32,571
Total energy use (USA) (10 <sup>3</sup> GJ)	NPR	5,264	5,550
Emissions intensity - Canada			
Production energy intensity (GJ/m³OE)	2.03	1.86	1.78
Direct carbon intensity (tonnes/m³OE)	0.16	0.17	0.14(1)
Production carbon intensity (tonnes/m³OE)	0.17	0.17	0.15
Emissions intensity – USA			
 Direct carbon intensity (tonnes/m³OE)	0.09	0.07	0.09 <sup>(3)</sup>
Production carbon intensity (tonnes/m³OE)	0.10	0.9	0.10(4)
GHG emissions - Canada			
Direct CO <sub>2</sub> e (10 <sup>3</sup> tonnes)	3,074	3,037	2,889
Total purchased electrical consumption (MWh)	413,790	368,068	358,284
Indirect CO <sub>2</sub> e (10 <sup>3</sup> tonnes)	177	136	117 <sup>(5</sup>
GHG emissions – USA			-
Direct CO <sub>2</sub> e (10 <sup>3</sup> tonnes)	2,373	1,583	1,899 <sup>(6)</sup>
Total purchased electrical consumption (MWh)	457,152	678,412	<b>3</b> 77,153 <sup>(7)</sup>
Indirect CO <sub>2</sub> e (10 <sup>3</sup> tonnes)	389	577	322(8
Nitrogen oxides (NO <sub><math>\chi</math></sub> ) emissions (tonnes)			
Canada	17,724	11,361	9,179 <sup>(9)</sup>
USA	1,948	1,485	1,753 <sup>(10)</sup>
Sulphur dioxide (SO2) emissions (tonnes)			
Canada	2,747	2,475	3,578(11)
USA		5	6(12)
Total gas flared (10³m³/yr)			
Canada	50,102	34,662	79,460 <sup>(13)</sup>
USA	25,482	55,938	64,935(14)
Total gas vented (10³m³/yr)			
Canada	2,742	3,184	<b>1,822</b> <sup>(15)</sup>
USA	88,409	111,001	127,684(16)

(2) The decrease in Production Carbon Intensity is due to a decrease in direct and indirect greenhouse gas emissions resulting from changes in Global Warming Potentials (GWPs) for methane (CH.) and nitrous oxide (N.O), coupled with a increase in production. Our 2012 intensity value has been revised to reflect the GWP changes in order to increase accuracy and consistency.
 (3) The increase in Direct Carbon Intensity is due to an increase in direct greenhouse gas emissions coupled with a decrease in production. Our 2012 intensity value has been revised to reflect the GWP changes in order to increase accuracy and consistency.
 (4) The increase in Production Carbon Intensity is due to an increase in direct greenhouse gas emissions coupled with a decrease in production. Our 2012 intensity value has been revised to reflect the GWP changes in order to increase accuracy and consistency.
 (5) The increase in Production Carbon Intensity is due to an increase in direct greenhouse gas emissions coupled with a decrease in production. Our 2012 intensity value has been revised to reflect the GWP changes in order to increase accuracy and consistency.
 (6) The increase accuracy and consistency.
 (7) The increase accuracy and consistency.
 (8) Intensity increase accuracy and consistency.

(6) Indirect emissions decreased due to reductions in electrical grid emission factors used for our BC facilities in 2013. (6) The increase in our U.S. direct greenhouse gas emissions is due to ongoing refinement of our calculation methodology and equipment inventory, as well as operational factors. As well, changes to Global Warming Potentials (GWPe) for methane (CH) and nitrous oxide (N,Q) were mandated by regulatory reporting in 2013. These changes significantly affected our emission inventory, and were retroactively applied to our 2012 inventory to maintain consistency in our inventory and to comply with regulations. (7) Our U.S. operations experiations experiations in purchased electricity across our Business Units, with a significant reduction in our Mid-Continent Business Unit associated primarily with divestitures of our East Texas assets during the last quarter of 2012.

(20)

(i) or uss. operations experienced general reductions in purchased electricity across our Business Units, with a significant reduction in our Mid-Continent Business Unit associated primarily with divestitures of our East Texas assets during the last quarter of 2012.
(ii) Our US, operations experienced general reductions in purchased electricity across our Business Units, with a significant reduction in our And-Continent Business Unit associated primarily with divestitures of our East Texas assets during the last quarter of 2012.
(iii) Our US, operations experienced general reductions in purchased electricity across our Business Units, with a significant reduction in our Canadian NOx emissions is due to lower reported fuel usage in 2013 coupled with increased accuracy in our calculation methodology resulting from ongoing refinement of equipment and fuel data.
(ii) The increase in our USA NO, emissions is due to ongoing refinement of our calculation methodology. In 2013 a comprehensive review and update of NO, emission factors was undertaken for our USA facilities, and this review coupled with ongoing refinements to the accuracy of our equipment data, resulted in a NO, emission increase. These methodology improvements were retroactively applied to our 2012 NO, inventory to increase accuracy and consistency.
(ii) The increase in our CBAS O, emission is due to tongoing refinement of our calculation methodology. In 2013 a comprehensive review and update of SO, emission factors was undertaken for our USA to underground injection at a later date.
(iii) The increase in our CBAS O, emission is due to tongoing refinement data, resulted in an SO, emission increase. These methodology improvements were retroactively applied to our 2012 SO, inventory to increase accuracy and consistency.
(ii) Our Canadian poerations experienced increased flaring for well testing in 2013. Additionally, as significant contribution to the increase in flaring is due to flaring of acu

(16) The decrease in Canadian vented gas volumes is due to reduced venting for well testing in 2013.
 (16) The increase in Canadian vented gas volumes is due to reduced venting for well testing in 2013.
 (16) The increase in Canadian vented gas volumes is due to ongoing refinement of our calculation methodology and equipment inventory, as well as operational changes in our Business Units. In 2013 a comprehensive review and update of pneumatic pump emission factors was undertaken as part of our ongoing data OAOC processes. The updated emission factors were retroactively applied to our 2012 inventory to increase accuracy and consistency. In 2013 our North Rockies Business Unit increases activities, and our South Rockies Business Unit was required to meet new Colorado state regulatory regularements for emission controls.

Under current rules in Alberta, our projects are eligible to generate offsets for at least eight years, which we expect will result in annual volumes of greater than 100,000 offsets per year worth approximately \$1.5 million per year. Our carbon offset program not only helps Encana to mitigate potential exposure to current and future climate change regulations but also supports our EIF program with an additional revenue stream to help finance new emission reduction projects.

#### Improving Encana's emissions management system

Encana's operations are subject to specific air emissions regulations at the

provincial, state and federal levels, and we have implemented robust processes and systems to meet all regulatory and policy requirements in areas where we operate.

In order to better facilitate our data management and regulatory reporting for air emissions, Encana is moving toward a single unified emissions management and reporting solution for both our Canadian and U.S. operations. The emission management system currently being implemented in Encana's Canadian operations has been in use for the company's U.S. operations since 2012, and is developed by a third-party leader in environment, health, safety and sustainability management solutions. This new emission management system will better meet Encana's diverse reporting requirements and provide more consistent, accurate and efficient emissions management and reporting. By leveraging a single integrated and enterprise-wide solution to managing air emissions. Encana will be able to execute on its strategic goal of operational excellence through improved asset identification and tracking, emission calculation methods, emission footprint management, regulatory reporting and risk management. It is expected that Encana's Canadian operations will complete the implementation of this new emission management system by the end of 2014, with reporting out of the new system the following year.

#### Executing on our water management strategy

Water use is a critical part of energy development. Encana uses water throughout its operations, including for both well drilling and completions operations. Continued and affordable access to this important resource and the development of efficient water management systems are a critical part of our business strategy and longterm planning processes. Similarly, advancing best practices in the sourcing, transport and management of water can create competitive advantages, mitigate regulatory risks and help to minimize stakeholder concerns in our operating areas.

We are committed to responsible use of water for energy production and proactively align our water management approach to local operating conditions and regulatory requirements. We also develop industry-leading best practices in water management in order to continually improve our approach and regularly report on our performance. While there is no one-size-fits-all solution to managing our water resources in all of our operating areas, we strive to advance best practices in seven key areas:

- 1. baseline groundwater testing
- 2. water sourcing and volumes
- 3. wellbore construction
- 4. additive selection
- 5. additive disclosure
- 6. fracturing fluid transport, handling and storage
- 7. flowback fluid reuse, recycling and disposal

We currently implement several programs to ensure the protection of water resources and to ensure a sustainable supply for our operational requirements.

#### Responsible treatment of produced water using cutting-edge technology in Wyoming

In support of our overarching water management strategy, we continually look for opportunities to improve our processes for sourcing, treating and disposing of the fluids associated with our operations. In November, we started construction of the Neptune Water Treatment Facility – the third-largest water treatment facility of its kind in the world – to treat the produced water associated with resource development. The facility, which will have the capacity to treat as much as 1 million U.S. gallons of water per day, supports Encana's Moneta Divide Natural Gas and Oil Development Project and is projected to begin treating water as early as June 2014.

Produced water will enter the Neptune facility and travel through a series of filters and chemical treatment systems prior to passing through a reverse osmosis (RO) membrane. This proprietary water treatment system supplied by GE will reduce total dissolved solids (TDS) in the produced water from 7,500 parts per million (ppm) to drinking water quality (less than 250 ppm). The facility effluent will meet the Wyoming Department of Environmental Quality's Class 1 standard, which is considered to be the same purity as mountain spring water. The purified water will also meet drinking water and aquatic life quality specifications.

#### A COMMITMENT TO OPERATIONAL EXCELLENCE

Some of the purified water will be recycled for use in field operations while the rest, between 80 and 90 percent, will be transferred via pipeline to the Boysen reservoir, a popular sporting area with numerous species of fish including walleye, perch, crappie, channel catfish and rainbow and brown trout. Frequent tests will be conducted at the facility and discharge points to ensure that the effluent water quality meets State of Wyoming requirements.

We will continue to make investments in technologies that economically improve our environmental performance, particularly those that create measurable reductions in air emissions, energy, land or fresh water use.

#### Understanding local water resources – the South Piceance Water Repository Project

Through the cooperation of numerous local governments, municipalities and energy companies operating in the Piceance Basin in Colorado, including Encana, more than 50 years' worth of water-quality data is now available in a centralized data repository for the Piceance Basin. The need for this baseline water resource assessment was identified by energy producers and local governments to address water concerns as large-scale energy development and population growth occurs in the Piceance Basin.

Data samples from 1,545 wells, collected from 1946 through 2009, were compiled, evaluated, and compared with EPA drinking-water standards and are published in an Overview of Groundwater Quality in the Piceance Basin report. Additionally, 347 surface-water sites were compared to EPA and Colorado State drinking water standards, and are contained in a separate Characterization and Data-Gap Analysis of Surface-Water Quality in the Piceance Study Area report.

The new database compiles data from varied sources into a single, understandable format that will provide an invaluable contribution to the planning, oversight, conservation and management of water resources relative to energy development. By utilizing a subset of data from the repository, the U.S. Geological Survey created two separate reports – one on groundwater and another on surface water. These types of studies provide us with valuable information on local water resources and constraints, and identify opportunities to improve our water use performance. We are participating in similar studies in Canada, including involvement in an industry effort to develop a detailed hydrogeological assessment of potential aquifers in the Duvernay resource play in Alberta. This project has progressed over multiple years from compiling and integrating thousands of energy well records, drill stem tests and water analyses to identifying areas for exploratory wells in 2014. Encana has also done extensive aquifer mapping in the area to supplement the industry initiative.

#### Alternative sourcing in British Columbia and Alberta

As resource plays move past the initial phases of development in some areas, Encana may move away from full reliance upon surface water sources to supply hydraulic fracturing operations and look to otherwise unusable non-potable sources.

To help supplement our surface water use near Dawson Creek, BC, we are working to finalize construction of the Water Resource Hub. Expected to be operational at the end of 2014, the facility will allow Encana to blend source water from saline aquifers deep below ground, approximately 1,000 metres beneath ground surface, with saline produced water from compressor stations to supplement water needs in the area. The use of this saline water for our operations helps reduce the reliance on fresh surface water and provides a number of additional long-term benefits, including the creation of a centralized facility and a longterm plan that will reduce water truck traffic and emissions, dust, noise and overall disturbances.

Encana will have a total of approximately 17 source water wells into the saline aquifer. This centralized facility is expected to meet 50 to 75 percent of our water needs in the area, substantially reducing our use of surface water.

Also in 2013, Encana began the development of an unutilized water source project in the Pipestone area west of Grande Prairie, Alberta. The project involves the installation of a deep water well on an existing lease which targets an unutilized source









of non-potable groundwater approximately 720 metres below ground in the Cardium formation. The water, which is considered non-saline from a regulatory perspective but is unsuitable for human consumption due to its still-high salinity, is pumped to surface and stored in a lined water storage pit and then trucked or pumped via temporary surface pipelines to well pads in the area.

To meet our water needs over the long term, Encana plans on transporting this water through a network of pipelines to future lined pits in the area. The Cardium water will be supplemented by local surface water sources as required. To ensure there is no risk to local shallow groundwater, Encana has installed monitoring wells near the storage pit and has determined that the Cardium water meets or exceeds the tested quality of shallow groundwater in the immediate area. The use of the Cardium water source well helps to offset surface water needs in the area and the use of temporary and permanent pipeline infrastructure will help reduce truck traffic in the area.

#### Advancing the use of Encana's Responsible Products Program

Encana's Responsible Products Program, implemented in 2012, continues to play an important role in our management of chemical additives used in hydraulic fracturing. The program is a risk-based tool that allows us to carefully assess the hydraulic fracturing fluid additives we use for their potential to impact human health and the environment using generally accepted toxicological criteria. For example, over the course of implementing the program, Encana has determined that the most effective way to manage the risks associated with diesel, 2-Butoxyethanol or benzene is to eliminate those chemicals from use entirely. Encana has also determined that none of the hydraulic fracturing products we use contain arsenic, cadmium, chromium, lead or mercury. We are committed to verifying that none of these heavy metals will be used in our hydraulic fracturing operations in the future.

Beginning in 2013, in an effort to continue to advance best practices in chemical additive management, Encana has expanded the scope of the Responsible Products Program by including the assessment surface hole drilling fluids in the program.

Because drilling the surface hole requires drilling through groundwater aquifers which may be used for drinking water or agricultural purposes, ensuring the responsible use of any additives is essential to address any risk of contamination. For that reason, water-based drilling mud is most often used when drilling the surface hole in order to avoid any potential contamination. We now screen our surface hole drilling fluids using the same assessment criteria developed to manage our hydraulic fracturing fluids.

In March 2013, Encana received top honours at the 2013 CAPP Responsible Canadian Energy Awards and was presented with the Presidents Award. The Responsible Products Program was one of three Encana projects recognized for exceptional environment, health, safety, and social performance at the event.

water			
Encana water use (bbls)	2011	2012	2013
Total fresh water (surface & groundwater)	NPR	34,325,457	41,871,807
Total saline water (groundwater)	NPR	52,419	75,455
Total source water used <sup>(1)</sup>	NPR	34,377,876	41,947,262

(1) Total source water consists of fresh and saline water but does not include produced, recycled or reused water \*NPR – Not previously reported

#### Preserving pipeline integrity and managing spills

Preventing, mitigating and quickly responding to spills within our operations are important for a number of reasons, including mitigating environmental disturbance, preserving operational integrity, avoiding costly fines and managing reputational and social risks. These factors are of particular importance given increasing stakeholder concern regarding the safe transportation of oil and natural gas liquids as it relates to pipeline infrastructure.

#### Assessing spill severity and creating a company-wide spill prevention program

In an effort to better understand the severity of spills within our operations, we have developed a spill severity assessment tool. The creation of this tool, which is used in internal reporting to the Corporate Responsibility, Environment, Health & Safety Committee of Encana's Board of Directors, began in 2011 and was finalized in 2013.

The tool assesses the severity of a specific spill incident based on a number of characteristics. Among the factors considered are the product or commodity spilled, the potential for environmental and reputational impacts, the logistical requirements involved in spill response and whether or not the spill is deemed reportable under the appropriate regulatory framework.

The data generated through the spill severity assessment process allows Encana to identify and report on anomalous trends in its spill performance and, once those trends are analyzed and understood, identify the appropriate controls.

Use of the spill severity tool is now fully integrated across all of Encana's

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operations in both Canada and the U.S. A retrospective assessment of all of our reported spill incidents going back to 2010 has also been conducted and we will look to implement the findings into the development of a new companywide spill program.

Beginning in early 2014, as we took steps to consolidate our operations in support of Encana's new corporate structure, we began the process of initiating a company-wide spill prevention program. This program will apply to all of Encana's operating areas and consolidates a number of existing systems and programs related to spill evaluation and spill prevention. The program is designed to address all spills related to all of Encana's activities - including drilling, completions and construction - and aligns with standards under Encana's existing environment, health and safety management system, Ethos.

As part of this program and in order to inform its approach to program development, Encana reviewed its 2013 spill performance in detail. This in-depth review allowed spills to be assessed based on where in our operations they occurred, the primary causes cited and whether or not these spills were contractor or employee-related. With this data in hand, we began development of a robust program to improve spill prevention and response.

The program has five focus areas, including:

- operating area engagement
- education and feedback
- contractor management
- incident management
- data systems & analysis

Encana is now in the process of establishing effective mechanisms for

training and communications and is finalizing expectations for each of the five working groups.

#### Spill practice review

Regulations related to spills in the oil and gas industry are constantly evolving, and Encana works to create practices within its operations that meet or exceed regulatory requirements. Similarly, stakeholder concern related to spills within the oil and gas industry remains high. To support our transition to increased liquids production and to ensure compliance with developing regulations, we initiated an exhaustive review of our Canadian well sites, facilities and pipeline crossings in 2013.

A cross-disciplinary team of subject matter experts from across Encana's Canadian operations collaborated in the review, including representatives from Geographic Information Systems (GIS), Facility Integrity and Environment, Health & Safety. Using GIS data, the team worked to identify sites within our operations where a product spill could have a high potential for impact, such as sites located near water bodies or communities.

To identify sites with high potential for impact, the team created a High Impact Spill Index, which ranked surface locations within our operations based on three primary factors: proximity to and classification of nearby water bodies; distance to the nearest stakeholder groups (such as landowners and municipalities); and our ability to quickly access the location in order to respond to a spill. Using Encana's GIS data to assess locations in AB and BC, the review consisted of over 17,500 unique surface locations.

Once the review was complete, we eliminated overlapping rankings and

screened each field location based on the type of product transported on-site (i.e. gas as opposed to natural gas liquids or oil). The team then conducted interviews with operators near surface locations with high potential for impact to identify any area-specific considerations not captured in the GIS desktop review. The team identified 40 surface locations with the greatest potential for impact that required field verification to ensure adequate spill prevention and response plans were in place. The field verification allowed Encana to review a number of important factors in mitigating and responding to spills and to visually document high-potential for impact areas and potential spill control points. Moving forward, we are developing area-specific, risk-based training and awareness programs for high-impact spill sites. The training will focus on area-specific spill prevention and response and allow us to refine mitigation and response plans and resources at high-impact surface locations.

#### Spills

	2011	2012	2013
Number reportable	224	173 <sup>(1)</sup>	175
Estimated reportable volume (bbls)	12,491	4,079	<b>3,866</b> <sup>(2)</sup>

(1) The 2013 assurance process uncovered one 2012 reportable spill that was missed in the data collection stage of last year's report cycle. This resulted in one additional 2012 reportable spill with a volume of 80 barrels over what was previously reported.

(2) The reduction in spill volume for 2013 corresponds to the ongoing efforts in spill reporting, management and prevention practices

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## MANAGING RISK AND IDENTIFYING OPPORTUNITIES

#### Mitigating regulatory risk

Without sound and effective regulatory constructs, access to land and necessary infrastructure would be particularly challenging. Anticipating and managing regulatory changes and engaging in dialogue specific to regulatory developments that impact our operations protects our competitiveness and supports regulatory certainty critical components for business success.

#### Collaborative effort to address ground-level ozone formation in Colorado

In Colorado, Encana worked alongside the Environmental Defence Fund and peer companies Anadarko Petroleum Corporation and Noble Energy to develop a proposed plan to reduce methane and volatile organic compounds emissions associated with oil and gas drilling and processing. The plan was approved by Colorado Air Quality Control Commission officials in February 2014. These stringent but technically feasible and economically viable rules provide Encana with regulatory certainty moving forward, along with a quantifiable and achievable means for Colorado to proactively reduce ground-level ozone levels – an important concern for local stakeholders and communities.

The new rules require companies operating in Colorado to use technology to capture 95 percent of emissions and to conduct frequent inspections of facilities identify and repair leaks. Encana has utilized this type of inspection program for the past two years in the Jonah field in Wyoming. Encana conducted over 2,000 instrument-based inspections per year at the Jonah facilities.

Participating in functional partnerships with nongovernment organizations, regulators and other stakeholders to create meaningful, practical and effective solutions to legitimate concerns plays an important role in securing our social license to operate while improving our operational, environmental and social performance.

#### Industry collaboration to support responsible resource development

Working alongside our peers, policy makers and regulators to address issues of importance to industry and community stakeholders plays an important role in supporting responsible development. These efforts help to facilitate continued improvement in social, environment, health and safety performance while maintaining a viable industry by supporting an effective policy and regulatory framework that meets industry's objectives.

Encana works alongside numerous trade and industry associations to help support this collaborative approach to engagement. Over the course of 2013 Encana continued to engage in discussions with policy makers and regulators, both independently and through trade associations, on a number of issues of significant importance to the company. These issues included topics such as:

- market access
- environment, access to land and hydraulic fracturing
- health, safety and emergency management
- fiscal policy, including taxation and burdens

The continued involvement of Encana staff working alongside our industry peers on initiatives related to these topics plays a critical role in the creation of effective policy and regulatory frameworks as well as the advancement of industry-wide best practices.

For example, we work closely with CAPP in Canada on projects that support a balanced approach to responsible development. We have shared our Responsible Products Program with members of CAPP, who have adopted it for use as an industry-wide tool to address stakeholder concerns related to the chemicals used in hydraulic fracturing, as per CAPP's hydraulic fracturing operating practices. We were also heavily involved in the creation of those practices, designed to improve water management and water and fluids reporting for shale gas and tight gas development across Canada.

Moving forward, we will continue to work independently and alongside our peers to engage policy makers and regulators in constructive dialogue specific to issues that impact our business. These trade associations and industry groups provide opportunities for Encana to

collaborate with industry peers on initiatives that are vital to the ongoing economic viability and competitiveness of our industry.

#### Pavillion study suspended

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

#### Identifying risks and opportunities

Encana's Board of Directors is responsible for ensuring that we have systems and processes in place to identify risk and procedures to monitor and mitigate those risks.

Through the latter half of 2013 Encana created a new strategy to strengthen the company's position as a leading North American resource play company and grow shareholder value through a disciplined focus on generating profitable growth. We continue to focus on developing low-risk and low-cost long-life resource plays, which allows us to respond well to market uncertainties. Encana's leadership adjusts financial and operational risk strategies to proactively respond to changing economic conditions and to mitigate or reduce risk.

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

#### Policies and standards to identify impending risk

Encana is committed to safety in its operations and has high regard for the environment and stakeholders, including regulators. Encana's business is subject to all of the operating risks normally associated with the exploration for, development of and production of natural gas, oil and natural gas liquids and the operation of midstream facilities. When assessing the materiality of environmental risk factors, we take into account a number of qualitative and quantitative factors, including, but not limited to, the financial, operational, reputational and regulatory aspects of each identified risk factor. These risks are managed by executing policies and standards that are designed to comply with or exceed government regulations and industry standards. In addition, we maintain a system that identifies, assesses and controls safety, security and environmental risk and requires regular reporting to the Executive Leadership Team and the Board of Directors.

The Corporate Responsibility, Environment, Health and Safety Committee of Encana's Board of Directors provides recommended environmental, health and safety and corporate responsibility policies for approval by Encana's Board of Directors and oversees compliance with government laws and regulations. Monitoring and reporting programs for environmental, health and safety performance in day-to-day operations, as well as inspections and audits, are designed to provide assurance that environmental and regulatory standards are met. Contingency plans are in place for a timely response to environmental events and remediation and reclamation strategies are utilized to restore the environment.

#### **Ballot initiative in Colorado**

In the state of Colorado, several cities have passed local ordinances limiting or banning certain oil and gas activities, including hydraulic fracturing. To date, these local rule-making initiatives have not significantly impacted our operations or development plans in the state. Additionally, ballot initiatives have been filed in the state seeking to transfer the authority to regulate all oil & gas activities, including hydraulic fracturing, to local governments and to increase set backs. This and other possible measures could make certain Colorado jurisdictions inaccessible to drilling in the future. It is expected that some operations in Colorado would be impeded should such initiatives succeed.

We continue to work with state and local governments, academics and industry leaders to develop and respond to hydraulic fracturing-related concerns in Colorado. Additionally, we

#### Abandonment and reclamation

	2011	2012	2013
Total abandoned wells awaiting reclamation	699	537	451
Total abandoned wells, active reclamation complete, awaiting reclamation certificate	86	217	589 <sup>(1)</sup>
Well site reclamation certificates received	107	52	14
Total wells undergoing active reclamation	893	937	596
Total reclaimed land (acres)	424.4	434.0	68.9

(1) In 2013, Encana Oil & Gas (USA) Inc. acquired the liability associated with an estimated 376 plugged and abandoned wells located in the San Juan Basin. It is believed reclamation was performed by the operator of record at the time of abandonment; however, the existence of final, approved reclamation completion determinations for these locations has not yet been completed.

continue to seek to work with local communities to share our development plans and to mitigate our impacts. For example, our best management practices designed for high-density residential areas in the Front Range of Colorado specifically address a number of local community concerns. These practices include a comprehensive notification program, where anyone living within one-half mile of planned or current development receives notice regarding our planned activity. We hold community meetings to share our development plans and to address stakeholder concerns about specific well locations. To manage air emissions from our operations, we use combustors on our wellhead equipment which reduce emissions of both methane and volatile organic compounds, and seek to maximize the setback of our operations where possible.

A second collaborative effort resulting in the creation of tougher new air quality regulations in the state serves as another example of our efforts to improve our operational and environmental performance while addressing stakeholder concerns in Colorado. The Encana-led effort brought Noble Energy, Anadarko, the Environmental Defense Fund (EDF), and the State of Colorado together to develop air quality regulations aimed at significantly reducing air emissions associated with oil and gas operations (for more on these regulations, see page 29).

We continue to seek opportunities to engage with local stakeholders in order to mitigate concerns regarding hydraulic fracturing.

#### Climate change regulation

A number of federal, provincial and state governments have announced intentions to regulate greenhouse gases (GHG) and certain other air emissions. While some jurisdictions have provided details on these regulations, it is anticipated that others will announce emission reduction plans in the future. As these federal and regional programs are under development, we are unable to predict the total impact of the potential regulations upon our business. It is possible that we could face increases in operating and capital costs in order to comply with GHG emissions legislation. We will continue to work with governments to develop a climate change approach that protects the industry's competitiveness, limits the cost and administrative burden of compliance and supports continued investment in the sector.

We intend to continue our efforts to reduce our emissions intensity and improve our energy efficiency. Our efforts with respect to emissions management are founded with a focus on energy efficiency, the development of technology to reduce GHG emissions and active involvement in the creation of industry best practices. For example, Encana's EIF continues to generate strong returns in both emissions reduction – estimated to be cumulatively 1.16 million tonnes of carbon dioxide equivalent to date – and economic performance.

We continue to monitor developments in emerging climate change policy and legislation, and consider the associated costs of carbon in our strategic planning. Management and the Board of Directors review the impact of a variety of carbon-constrained scenarios on our strategy, with a current price range from approximately \$10 to \$80 per tonne of emissions applied to a range of emissions coverage levels. We also examine the impact of carbon regulation on major projects. Although uncertainty remains regarding potential future emissions regulation, we plan to continue to assess and evaluate the cost of carbon relative to our investments across a range of climate change policy scenarios.

## CREATING SHARED VALUE IN SUPPORT OF OUR SOCIAL LICENSE

#### **Engaging communities**

Creating opportunities for both socioeconomic development and collaborative community engagement within our operating areas is an important area of focus. Informing our local stakeholders about development plans, engaging them in dialogue related to potentially contentious issues and seeking opportunities to create shared value between Encana and communities helps to avoid unnecessary delays in the development process and mitigates reputational risk.

Similarly, identifying opportunities to create value for Encana's operating communities and local economies through local hiring, capacity development and community investment supports the company's social license to operate and reinforces Encana's position as a community partner of choice.

#### Measuring and understanding local impacts on communities

As we seek opportunities to create meaningful and positive strategic impacts through our community engagement initiatives, it's important that we understand baseline community sentiment and proactively identify potential concerns. Understanding the scale of local opposition or support – as well as issues of particular concern for residents – helps to inform our community engagement strategy and identifies areas for improvement. This process is particularly valuable as we enter new or developing operating areas, where familiarity with oil and gas operations may be low.

Working with a third-party research and polling organization in 2013, Encana commissioned a comprehensive survey of local stakeholders in communities near our current operations within northeastern BC and north and central Alberta. Over 1,100 randomly selected community members (which included 13 Encana employees and 69 contractors living in these communities) were interviewed over the telephone about Encana's local operations and approach to communication and corporate responsibility.

Key highlights from the survey include:

- 54 percent of respondents rated Encana's communication with the public good or excellent, while 21 percent provided a rating of poor or below average
- almost two-thirds of respondents provided a rating of four or five out of five, with five being positive, related to Encana supporting community programs in their area
- 64 percent of respondents rated Encana's regard for residents' health and safety four or five out of five, again indicating a positive response
- almost half rated Encana's environmental performance four or five out of five; 35 percent were neutral and 18 percent negative
- the vast majority of respondents (76 percent) provided a positive rating for Encana's local economic impact while only four percent provided a negative rating
- 70 percent rated Encana four or five out of five in terms of conducting business in an honest, ethical manner

We continually seek opportunities to build relationships that generate positive change within our operating areas and stakeholder surveys represent a key facet of this commitment. Our stakeholder relations teams review these survey results in detail and look for opportunities to improve the company's performance. We plan to undertake similar stakeholder surveys in select areas of our U.S. operations in 2014.



#### Creating shared value through wastewater use in the Duvernay

As the pace of development increases in the Duvernay resource plav in central Alberta, our water needs are forecasted to increase significantly. Currently, most of our water needs are being met by sourcing fresh surface water, such as dugouts and river and creek withdrawals. Recognizing that stakeholders are concerned about the volumes of water used in resource development and in keeping with our water management strategy, we began to identify possible alternative options in order to ensure access to adequate water resources in the area while reducing our reliance of surface water resources.

As part of this process, Encana approached the Town of Rimbey to inquire about the availability of municipal wastewater effluent for use in our operations. After several meetings, an agreement was reached which provided Encana with priority access to up to 180,000 cubic metres of municipal wastewater over a oneyear period, beginning January 1, 2013. The water was trucked directly from the municipal effluent storage site to Encana well locations where additional on-site water treatment is conducted if necessary. We have also committed to upgrading roadways where necessary to ensure safe access for water trucks.

This agreement, which provides fair compensation to the town for the use of its wastewater effluent, provides mutual benefit to both Encana and the municipality. Encana, in keeping with its commitment to using alternative water sources, is able to economically mitigate its freshwater usage while the Town of Rimbey can safely dispose of wastewater effluent that would otherwise require treatment. After a successful first year which saw Encana use the wastewater effluent to support its completions operations in the area, the agreement has been renewed for 2014. These types of projects help reduce our surface water requirements and create sustainable solutions which directly benefit its operating communities.

With significant development planned in the area over the coming years, we will continue to explore ways to reduce surface water use in the Duvernay resource play. We continue to explore a number of options to reduce our surface water consumption, including increased use of alternative sources such as saline water, improved water efficiency, increased water recycling and reuse and collaborating with others in the industry to manage resource play water needs.

#### Pipeline for talent in Encana's Southern Operations

Ensuring that we can adequately meet our human capital requirements with trained and knowledgeable people is critical to the execution of our business strategy. This can be particularly challenging in rural field offices, where specialized skill sets related to oil and gas are often necessary and access to appropriately-trained post-secondary graduates may be scarce.

In Encana's Southern Operations, a number of field staff are engaged with local colleges in order to develop a local pipeline for talent. For example, two of Encana's superintendents serve on the industry advisory boards at Navarro College and Bossier Parish Community College along with peer company representatives from XTO Energy Inc. and Marathon Oil Company. These boards review the college curriculum and make suggestions to align with industry standards, along with helping the colleges procure equipment for training purposes. Recently, supervisory control and data acquisition (SCADA) training was added to the curriculums to ensure that program graduates meet Encana's workforce requirements.

Encana also provides tuition scholarships and summer internships to a select number of students at both Navarro and Bossier Parish. Approximately 30 students go through the interview process and two or three candidates are selected based on class performance, work ethic and willingness to learn. After one year of study, students apprentice with our operations staff and are carefully monitored and mentored as they learn how to maximize production at the wellhead while minimizing costs.

Eleven of the 14 interns who have completed the two-year training program at either Navarro or Bossier Parish have joined Encana and two have taken contract positions with service providers. Once on board, new hires complete the Assuring Competency 11-week training course that covers Encana's standard operating procedures for oil and natural gas wells.

This type of local workforce development helps meet our skilled workforce requirements and simultaneously provides direct benefits to local communities and local economies.

#### Making strategic community investments

Our community investment initiatives are designed to support our business strategy, help maintain our social license to operate and distinguish Encana as an employer of choice. These investments, which provide for mutually beneficial relationships with communities and non-government organizations, support continued access to land and the ability to develop our energy resources. We consider community concerns from a social and economic standpoint and evaluate our community investments to address community needs and align with our business priorities.

#### Refining our community investment strategy

As we focus on becoming North America's leading resource play company, it's critical that we apply the same discipline on our community investment initiatives that we do with our development plans. With that in mind, Encana has undertaken a significant effort to refine our community involvement program in order to establish the company as a top-tier corporate citizen and true community partner.

Under this new strategy, developed over the course of 2013, we are actively moving to increase our strategic giving and move away from responsive donations. Strategic community investments are those that support the company brand, encourage critical industry research, reinforce Encana's social license and align with our sustainability programs. These investments must also align with Encana's business objectives and operational focus.

The types of investments we make in local operating communities vary based on localized stakeholder and community concerns. Localized giving is particularly valuable in supporting our social license to operate in key communities, contributing to improved standards of living for community residents and organizations and building support for our operations by building brand recognition and meeting communityspecific needs.

Moving forward, we have developed an internal, cross-disciplinary working group to guide strategic alignment of prospective community investments. We are also better leveraging our communications and media teams to enhance the social media opportunities of our investments. Additionally, where multi-year commitments already exist, we are proactively leveraging and maximizing the value of those relationships. Where needed, we will develop exit strategies for programs that no longer align with our focus areas and core business.

#### More than just a bystander in British Columbia

Encana has been developing natural gas in BC for over a decade and prides itself on being a part of the communities where it operates. One of the central pillars of our community investment activities has been to align with programs that strengthen communities through health, education and recreation projects.

In 2011, we identified an opportunity to support family wellness and help strengthen communities throughout BC as a founding partner of the "Be More Than a Bystander" (BMTB) program. The program, launched in July 2011, is a joint initiative with the Ending Violence Association of BC (EVA BC) and the BC Lions football team aimed at encouraging and enabling people to speak up about violence against women in BC.

With a large number of staff and service providers working for Encana in the province, we identified BMTB as an opportunity to make a meaningful impact on the strength and safety of our operating communities and to heighten the profile of the company throughout the province. As developments continue to ramp up in northeastern BC, it is critical for companies like Encana to showcase the benefits of increased activity to both local communities and the province on a whole. While BMTB encompasses all of BC, the project allows us to allocate our community investment dollars to benefit our operating communities specifically. In working with EVA BC to develop the program, we were able to identify key operating areas of particular importance in maintaining access to land and building our social license to operate, including in and around Dawson Creek, Fort St. John and Fort Nelson.

In addition to the public education program, BC Lions players have also been visiting schools throughout BC, facilitating interactive educational workshops about gender-based violence and talking to students in grades 8 to 12 about how their individual choices and actions can be part of creating positive social change. Players visited 21 schools in 2013, presenting to approximately 13,000 students. In March 2013, the players also presented to 1,600 Aboriginal youth at the "Gathering our Voices" conference, held in Penticton, BC. As of September 2013, the total number of youth reached through school visits in 2012 and 2013 was approximately 29,000.

We have also made significant efforts to extend the reach of BMTB to include our employees and contractors through the use of internal news bulletins and presentations delivered to staff and members of our Executive Leadership

Team in Calgary. Beginning in 2013, we began planning how to extend the campaign's messaging into our field operations. A robust internal communications effort is now underway, with specific targeting of field locations and work camps slated for 2014.

#### Supporting disaster relief in operating communities in Colorado and Alberta

In the wake of significant flooding in both Colorado and Alberta in 2013. Encana undertook substantial effort to ensure business continuity and to provide disaster relief assistance in its operating communities. In Colorado, the company donated \$250,000 to support disaster relief and recovery efforts in the flood-ravaged Front Range. Encana issued cash grants to various charities active in the efforts in Weld and Boulder Counties, including the flood relief funds established by Weld County United Way and Foothills United Way. In addition, employee donations to registered charities were matched by Encana up to \$25,000 per employee as part of the company's matching gifts program.

To ensure the safety of Encana's operations, crews conducted site-by-site visits to evaluate existing storm water controls when and where safe to do so. As a safeguard, we shut-in production in those areas hit hardest by the flooding. The wells remained shut-in until the weather stabilized and the flood waters sufficiently receded. Throughout the course of the Colorado floods, despite shutting in 30 percent of our wells in the state, we experienced no reportable spills or environmental issues.

Following the flooding in Alberta considered the costliest natural disaster in Canadian history – Encana committed \$500,000 to assist with flood relief efforts across the southern part of the province. This included an initial donation of \$250,000 to the Red Cross to assist in immediate relief work in impacted communities, as well as \$250.000 allocated to a number of Encana's partners actively engaged in the effort in both the Calgary area and elsewhere in southern Alberta, including the Town of Drumheller and the Siksika First Nation. Encana also worked with city officials to coordinate a volunteer response to aid those communities impacted by flooding.

The state of emergency due to flooding in Calgary and much of southern Alberta prompted the closure of Encana's corporate headquarters in Calgary, as well as some field offices. While our Drumheller office was not impacted by the cresting river in that area, a number of our staff in that community were recognized for their efforts to help prepare the area for possible flooding and for assisting the community and citizens that were impacted.



### Community Involvement (USD) <sup>(1)</sup>

	2011	2012	2013
Environment	\$5,756,228	\$2,600,495	\$865,321
Education	\$3,401,778	\$3,491,981	\$2,184,612
Community Life	\$3,088,527	\$5,748,782	\$4,070,666
Family & Community Wellness	\$4,182,040	N/A	N/A
Sport & Recreation	\$1,441,237	N/A	N/A
Total	\$17,869,811	\$11,841,258	\$7,120,599 <sup>(1)</sup>
Encana Cares <sup>(2)</sup>			
Total funds	NPR	NPR	\$1,841,275
Number of charities	NPR	NPR	1,379
Number of employees	NPR	NPR	1,852
Encana Matches <sup>(3)</sup>			
Total funds	NPR	NPR	\$1,188,711
Encana Volunteers <sup>(4)</sup>			
Total funds	NPR	NPR	\$229,824
Number of volunteer hours	NPR	NPR	14,040
Total (sum of Encana Cares/matches/volunteer funds)			
Total funds	NPR	NPR	\$3,259,810

(1) Our Community Investment budget is directly related to cash flow. In 2013, we continued to work to ensure new investments aligned with business strategy and our long-term partnerships continued to deliver maximum mutual benefit.
 (2) Encana Cares, Encana's annual giving campaign, runs each year during the month of October. Employees are encouraged to plan their charitable giving using an online donation tool. Employees can choose to donate a one-time lump sum gift or spread their giving over the year with pay roll deductions.
 (3) Encana Matches allows employees to submit tax receipts from donations they make any time throughout the year for a matching grant from Encana.
 (4) Encana Volunteers gives Encana the opportunity to match employees' volunteer efforts with grants to the organizations where they share their time. Encana extends the match to include hours volunteered by the employee's family members up to a maximum of \$1,000 annually.

### Aboriginal Engagement<sup>(1)</sup>

	2011	2012	2013
Procurement from Aboriginal suppliers	\$30,800,000	\$30,900,000	\$21,000,000

# MAINTAINING AND ENHANCING A WINNING CULTURE

## Team Encana

Over the course of 2013, we undertook a significant effort to revise our corporate strategy and realign our business to support the execution of that strategy. To help execute a new vision for the company, Encana's organizational structure needed to be reshaped into one which aligned and unified the company into "One Team." Moving forward, reinforcing and supporting the Team Encana mindset will be critical to ensuring Encana's ability to deliver on its targets in the years ahead.

## Corporate restructuring to support new business strategy

In October 2013 we announced a new organizational structure and Executive Leadership Team, removing duplication in a number of corporate functions and streamlining our business by creating clear and distinct accountabilities. Our Executive Leadership Team was reconfigured to align with the core competencies needed to support Encana's strategy, including top tier resources, operational excellence, market fundamentals and capital allocation combined with balance sheet strength.

In November, we announced a new corporate strategy and began aligning the organizational structure to support the new company vision. This process resulted in an estimated workforce reduction of approximately 20 percent and included the consolidation of our office locations to Denver and Calgary and the closure of the Plano, Texas office. Completed in December 2013, the restructuring reflects our shift from funding almost 30 different assets to focusing resources on five core growth assets and the performance of our base production.

For those staff that departed the organization as part of the restructuring, Encana took considerable care to ensure that they were treated fairly and respectfully. Relocation options were offered to a number of staff identified as key in delivering on our new strategy. For employees leaving the company, Encana made sure they were allowed to leave in a respectful manner, offered career counseling services and provided fair compensation upon their departure. Our new organizational structure is aligned with our four strategic pillars: top tier assets, capital allocation, market fundamentals and operational excellence. This allows us to make strategic decisions that are connected across the key areas of organization and drive execution performance into all areas of our business.

## Managing and recognizing employee performance

Delivering on our new business strategy requires an engaged, disciplined and diligent pool of staff and leaders. Ensuring that these individuals are active participants in delivering on Encana's business goal of growing shareholder value requires that we actively manage and recognize exceptional performance.

In line with that objective, in March 2013 Encana implemented a new program designed to costeffectively reinforce a positive working experience. The program, titled Recognize, offers tools and resources to help our employees acknowledge and reward exceptional performance throughout the year.

Under the program, effective recognition identifies performance excellence deemed to be above and beyond individual and team accountabilities. Recognizing individuals for their behaviours and accomplishments that lead to Encana's success – as tied to Encana's Leadership Capabilities model – promotes a culture in which employee contributions are recognized and supports increased employee engagement and performance. The program provides guidance and tools to encourage staff to provide non-monetary recognition to their colleagues and peers as well as guidance for leaders to monetarily recognize employees as warranted throughout the year.

In February 2013, Encana's Board of Directors approved a change in the way Encana awards annual bonuses to employees. Beginning with the 2013 performance year, Encana no longer accounted for team-specific or business unit performance when determining an individual's annual bonus award. Instead, the new approach focuses strongly on individual and company-wide performance, a step taken to better align with the Team Encana approach.

In alignment with this change, we introduced two new learning modules as part of Talent Hub, our centralized talent management system. This system, which was deployed in early 2013, allows us to improve our efficiency in regards to organizational reporting, analytics and audit compliance.

The first new module, titled Learning Management System (LMS), replaces multiple internal systems that tracked employee and contractor licensing, certificates and learnings. The module allows for accurate records of all training, certificates and licensing for staff to ensure they are compliant with regulatory requirements for various worksites and have the necessary qualifications and training to safely and competently perform their work.

The second new module, titled Performance & Development, replaces Encana's prior system and supports improvements to Encana's High Performance Achievement process, which employees use to identify the results they plan to achieve during the year and ensures they align with Encana's strategy. The Performance & Development module aligns employee objectives and accountabilities directly with Encana's business strategy and allows supervisors to undertake a more comprehensive performance review process. In 2014, Encana is continuing to integrate its Talent Hub system into its existing Human Resources processes and systems including the piloting of a module for succession planning.

## Employee giving programs reinforce importance of corporate culture

Encana Cares, our employee giving campaign, runs for the month of October annually. During the one-month program, employees are encouraged to plan their charitable giving for the following year using payroll deductions. Encana matches employees' donations up to \$25,000 per year, per employee and provides the employee-selected charities with the total gift at the start of the calendar year. The company handles all the associated administration costs so employees know that 100 percent of the funds they give are going directly to their charities of choice.

The 2013 Encana Cares campaign was launched at the end of September by our President & CEO Doug Suttles during employee town halls, which updated staff on the strategy development process and build support for the new Team Encana.

The campaign was designed and executed under the Team Encana theme, with messaging created to stress the importance of the campaign in creating internal alignment and supporting community success in our operating areas. Driven in large part by the Team Encana theme, the 2013 campaign became one of the most successful in company history. Altogether, over 1,800 employees participated in the campaign with approximately 1,370 charities receiving funding. Total donations by employees reached \$1.7 million generating, along with the Encana match, approximately \$3.5 million towards charities in Encana's communities. By comparison, Encana's total donations for the 2012 campaign came in at \$3.3 million with participation from approximately 1,500 employees.

In addition to the year-over-year increase donation totals and staff participation, the campaign also helped reinforce the cohesive single-team mindset by encouraging employees to share a common objective – making an impact in our operating communities. This aligned closely with our corporate strategy and drove engagement in local operating areas.

Moving forward, we continue to leverage the Encana Cares campaign to drive staff engagement with our community investment initiatives. We hope to continue to increase staff participation in the program and to encourage staff to contribute to charitable organizations of the greatest importance to them – important steps in solidifying and supporting the new Team Encana.

### **Reinforcing effective governance**

Strong corporate governance plays a critical role in our ability to execute on our business strategy. Beyond simply a mechanism to ensure that Encana meets or exceeds applicable laws and regulations, it promotes accountability and transparency throughout the company. Accordingly, we are continuously taking steps to ensure that our corporate governance

framework meets the needs and expectations of a diverse and evolving group of stakeholders. We are committed to ensuring that our governance model continues to meet those needs as the company transitions to a more unified, agile and streamlined organization.

### Introducing Encana's Business Code of Conduct

Our corporate governance model, including its associated policies and practices, positions Encana as an industry leader in business ethics and governance. In 2012 and 2013, Encana reviewed its governance model and updated and added to

our policies, practices and guidance documents pertaining to ethical business expectations and obligations and created a new Business Code of Conduct. These changes, which were formally endorsed by Encana's Board of Directors and became effective in March 2013, were designed to help provide clarity to staff regarding expected behaviours in their business dealings.

The Business Code of Conduct. which renames and replaces Encana's former Business Conduct & Ethics Practice, has been expanded to include the areas of Competition and Antitrust, Privacy and Prevention of Corruption. The Code establishes Encana's commitment to conducting business ethically and legally and addresses topics such as compliance with laws and regulations, conflict of interest, anti-fraud, disclosure, confidentiality, securities trading and insider reporting, accountability for adherence to the Code and reporting of violations of the Code. Additional new policies include Anti-Fraud and Prevention of Corruption. Formalized Conflict of Interest and Political Contributions policies were also created, replacing divisional business practices. The Code and all of Encana's policies, practices and guidelines apply to all employees, contractors and directors of Encana and its subsidiaries.

To ensure staff compliance with Encana's corporate governance framework, all Encana employees are required to formally confirm their commitment to the governance framework on an annual basis. In 2013, with the introduction of Encana's Business Code of Conduct, all employees were required to complete the Business Code of Conduct online training module and sign-off on their commitment. Employees were also required to review and declare any potential conflicts of interest and complete Encana's Non-Harassment practice online training program.

Additional training on select components of the Code was delivered to specific teams within Encana's operations. Teams and individuals were selected based on the nature and scope of their positions with Encana and whether or not their daily work required them to perform specific functions. Designated staff completed detailed targeted training on five specific aspects of the Business Code of Conduct including:

- Prevention of Corruption
- Lobbying
- Competition & Antitrust Compliance
- Political Contributions
- Travel

Every Encana employee completed the online Business Code of Conduct training in 2013.

We continue to reinforce staff understanding of, and conformance with, the Business Code of Conduct through internal communications and ongoing training and awareness programs. Additionally, all new hires must complete the online Business Code of Conduct training as part of their onboarding and orientation process.

### **Defending Michigan allegations**

Encana has publicly denied charges put forth by the Michigan Attorney General regarding alleged collusion with competitors related to land leasing activities in Michigan in 2010.

In June 2012, the independent members of Encana's Board of Directors initiated a comprehensive investigation into these allegations. Based on the results of this investigation, the Board conclude that Encana did not engage in such conduct, including a violation of antitrust law. In May 2014, Encana reached a settlement with the Michigan Attorney General regarding allegations relating to land leasing activities in the State in 2010. The settlement includes a financial contribution to the State of Michigan of \$5 million, a substantial portion of which will be paid by Encana to the Department of Natural Resources State Park Endowment Fund in exchange for a release of the state's civil claims. The State of Michigan agreed to dismiss the charge against Encana of violating the Michigan anti-trust laws and further agreed to dismiss the remaining charge of attempt to violate the Michigan anti-trust laws, in 11 months if Encana complies with the terms of its agreement with the State.

The resolution of these state claims followed confirmation by the U.S. Department of Justice Antitrust Division in April 2014 that it had closed its grand jury investigation into Encana's oil and gas leasing activities in the Western District of Michigan. Together, these effectively conclude the inquiries of both the federal and state government into these allegations, averting the need for costly and protracted litigation.

Encana values its relationships in the State of Michigan, including with the Department of Natural Resources. Since our initial entry into Michigan in 2009, Encana has invested more than \$230 million in the State, and created hundreds of jobs and opportunity to the benefit of people and families across Michigan. Through this arrangement, Encana will continue to help fund initiatives which benefit Michigan residents.

### Governance

	2011	2012	2013
Integrity Hotline contacts	120	64	81 <sup>(1)</sup>
Concerns	80	58	72
Requests for information	40	6	9
New Business Conduct investigations	35	28	32
Total incidents of violations involving rights of indigenous people	0	0	0
Percentage of business units analyzed for risk related to corruption	100	100	100
Percentage of employees who have signed off and are training on Encana's Business Conduct and Ethics Practice	100	100	100
Monetary value of significant fines and total non-monetary sanction			
for non-compliance with laws and regulations	0	\$146,870	0
Environmental fines (2)(3)	\$54,680	\$46,971	\$169,954

(1) In 2013, a concerted effort was made around education and awareness in regards to the Integrity Hotline, which may have contributed to increased contacts.
(2) The amount reported for environmental fines reflects the amount paid in the year indicated, and may include fines levied in previous years.
(3) In the United States, most federal actions against businesses or individuals for failure to comply with environmental laws are resolved through settlement agreements. As part of a settlement, an alleged violator may voluntarily agree to undertake an environmentally beneficial project related to the violation in exchange for mitigation of the penalty to be paid. Supplemental Environmental Projects (SEPs) further the Environmental Protection Agency's goal of protecting and enhancing public health and the environment. Encana paid \$62,160 towards SEPs in 2013. The indicator shows only the portion of the settlement agreement that may be considered an environmental fine.

### People

	2011	2012	2013
 Total staff			
Canada	3,105	2,995	2,228
USA	2,020	1,942	1,546
Other	0	0	0
Total Encana	5,125	4,937	3,774(1)
Gender ratio (in percent of total)			
Male	62%	62%	63%
Female	38%	38%	37%
Breakdown by age (in percent of total)			
20 – 25	5%	6%	5%
26 – 30	15%	14%	14%
31 – 35	15%	15%	16%
36 - 40	14%	14%	15%
41 – 45	12%	11%	12%
46 - 50	12%	11%	11%
51 – 55	14%	15%	13%
56 - 60	9%	9%	9%
61 – 65	3%	3%	3%
66 – 99	1%	1%	1%
Voluntary attrition by gender (in percent of age group) (2)(3)			
Male	8%	7%	8%
Female	7%	7%	8%
Executive Team gender ratio			
Male	80%	80%	71%
Female	20%	20%	29%
Board of Directors gender ratio			
Male	70%	70%	70%
Female	30%	30%	30%



## Improving our safety performance

Creating and maintaining safe working environment for our staff and the communities in which we operate is at the foundation of what we do. Workplace injuries and the resulting impact they have on individuals, families and communities are unacceptable to Encana. We work hard to ensure that the hazards associated with our work are identified and controlled, safe work procedures are available and followed and our staff and contractors have the training and experience to their jobs safely with the goal have having an incident-free workplace.

Beyond the unacceptable human cost of workplace injuries, safety related incidents often result in production interruptions, fines and penalties associated with regulatory violations. In some instances, these incidents can lead to legal action and can significantly impair local support for our activity.

Ensuring safe operating conditions is important in retaining the confidence and trust of our staff, service providers and community residents. Over the course of 2013, we continued to focus on improving our safety performance and strengthening our strong safety culture.

# Implementing Encana's Pressure & Piping Principles

Continuing work from 2012, in 2013 we advanced our company-wide initiative to improve how we manage operations early in their lifecycle. Following the identification of 15 areas for improvement in early lifecycle well management, we implemented a comprehensive safety campaign that included the creation of new safety practices, standard operating procedures, training and awareness programs and changes to existing policies. Combined, these new materials were integrated into our existing processes and became the new 'normal' for how we manage early lifecycle well operations.

Nine administrative controls were created to address high risk/high consequence tasks such as well flowback and sand management, pipe restraints, pressure testing and managing non-essential personnel. Training programs were created to address topics such as pressure hazards, safe positioning and equipment construction and modification.

To reinforce the importance of this initiative, each field location and worksite in our operations completed a Safety Stand Down, a dedicated worksite safety meeting, to review the Pressure & Piping Principles program. Field leaders were provided Encana-specific guidance for early lifecycle well operations that was reviewed with all workers during the stand down activities. By the end of September 2013 over 4,700 Encana staff and contractors had participated in 109 Safety Stand Downs.

Efforts are ongoing to educate and train and remind staff of the hazards of working with pressure using Safety Stand Downs and focused training across operating areas in 2014.

# Responding to serious incidents in Encana's operations

While our overall safety performance for the year was strong, tragically we experienced two very serious safety incidents within our operations in 2013.

The first, which took place in October, was a fatal single-motor vehicle incident involving a sub-contractor which occurred near our Willesden Green operations in the Duvernay resource play in central Alberta. The second

incident, which took place in November at a processing facility in the Jonah Field of Wyoming, involved a fire and tank explosion. Five contractors were injured, one of them critically.

Immediately following both incidents, work on the related projects was suspended and a Safety Alert was circulated across our operations to advise our staff and contractors of the occurrence and initial investigation findings. As with any serious incident that occurs during the course of our operations, we have conducted a full root cause investigation into each incident and are applying learnings from these investigations to help prevent the future recurrence of similar incidents.

#### Managing driving safety

Motor vehicle incidents, including driving-related fatalities and injuries, are one of the most pressing safety challenges we face in our operations. In order to ensure that we are managing our driving performance as effectively, efficiently and safely as possible, we undertook a number of steps in 2013 to improve and enhance our driving safety program. We consolidated our existing driving safety initiatives into a single overarching Driving Safety Program and augmented the program with several new driving safety improvement programs. Among these enhancements was the installation of in-vehicle monitoring in all of Encana fleet vehicles. These monitoring systems allow us to measure and record hard acceleration, hard braking, speed and excessive speed in order to help establish and monitor driver performance.

We also now collect and review state and provincial motor vehicle records

### Safety (1) (2) (3) (4) (5)

Recordable number of injuries	2011	2012	2013
Employees	5	19	11 <sup>(6)</sup>
Contractors	209	154	157
Total Encana	214	173	168
Lost time number of injuries			
Employees			5
Contractors	33	24	29
Total Encana	35	28	34
Number of fatalities			
Employee	0	0	0
Contractor	0		
Total Encana	0	2	1
Recordable injury frequency			
Employees	0.11	0.46	0.23
Contractors	0.72	0.52	0.57
Total Encana	0.64	0.51	0.52
Lost time injury frequency			
Employees	0.05	0.10	0.10
Contractors	0.11	0.08	0.11
Total Encana	0.10	0.08	0.11

(1) Recordable injuries include permanent total disabilities, lost workday cases, restricted work cases, medical treatment cases and fatalities.

(2) Estimation of contractor hours is based on gross operational and gross capital expenditures using 2009 American Petroleum Institute conversion factors.

(3) Frequency is based on 200,000 exposure hour

(4) We calculate exposure hours based on U.S. dollars in our Canadian and USA Divisions

(5) Frequency equals (number of occurrence X 200,000)/exposure hours

(6) Our overall number of recordable injuries were lower in 2013 compared to 2012. The slight increase in TRIF was a result of lower exposure hours.

for all staff assigned an Encana vehicle. The information gathered through these record checks is used in conjunction with our in-vehicle monitoring system results and other elements of the Driving Safety Program to gain a more complete picture of each individual employee's driving performance. Monitoring these key performance indicators allows the company to proactively identify and correct driving related performance issues, with the goal of reducing instances of unsafe driving.

We also updated our Driver Distraction Practice in 2013. The practice, which applies to all Encana staff, provides direction on the use of electronic devices while driving along with other potential driver distractions such as grooming and smoking. The practice was updated to reflect advances in mobile technology and to create a more exhaustive list of prohibited activities for our drivers.

Over the next calendar year, we will continue the company-wide rollout of our new and improved Driving Safety Program in the U.S. and Canada.

## Advancing best practices for silica dust management

Encana's efforts in managing the health risks associated with silica began in 2010, when potentially hazardous exposure to silica sand was identified for workers operating a large sand storage facility associated with hydraulic fracturing operations. With increasingly large volumes of sand being transported and stored for use in high-volume hydraulic fracturing, it became apparent that a more robust approach to managing silica was necessary. Over the course of the next year, a variety of exposure assessments were conducted at sand storage and handling facilities across our operations. Working closely with our contractors we implemented exposure control plans which were consistent with legislative requirements to manage the immediate exposure risk.

We then developed and implemented a multi-pronged strategy to address silica exposure and promote awareness throughout our operations. This strategy, which consisted of engineering and administrative hazard controls, was designed to address the prime sources of airborne silica dust and to engage and educate key internal and external stakeholders, including our peer companies. To streamline efforts and share control initiatives, Encana convened internal focus groups consisting of various completions staff throughout our Canadian and U.S. operations. These groups identified key next steps for creating an awareness campaign, and highlighted the importance of educating staff and service providers on the risks.

Over the course of 2013, we also conducted site visits throughout our operations to conduct exposure assessments and review contractor compliance with current silica exposure regulations and gauge their effectiveness in managing silica exposure. We also evaluated a number of technologies to control and limit the concentrations of airborne silica during high-exposure operations, including the use of dust suppressants, water filtration systems and ventilation units.

We will continue to advance the development of best practices for managing silica dust and explore a variety of controls within our operations moving forward, including both administrative and engineering control options. Similarly, we will proactively look for opportunities to share our learnings with our industry peers and other interested stakeholders.

# **INDEPENDENT ASSURANCE REPORT**

### To the Board of Directors and Management of Encana Corporation ("Encana")

We have reviewed selected performance indicators (the "Subject Matter") presented in Encana's Sustainability Report (the "Report") for the year ended December 31, 2013. A review does not constitute an audit and, consequently, we do not express an audit opinion on the selected performance indicators.

### **Subject Matter**

We reviewed the selected performance indicators listed below and set out in the Report [GRI Reference]:

#### Corporate

Community Involvement	[EC1] USD \$7,120,599
Total number of reportable spills	[EN23] 175 spills
Estimated volume of reportable spills	[EN23] 3,866 barrels
Employee and contractor lost time injury frequency	[LA7] 0.11 (# of loss time incidents per 200K hours worked)
Employee and contractor total recordable injury frequency	[LA7] 0.52 (# of recordable injuries per 200K hours worked)
Canadian Operations	
Canadian energy use	[EN3] 32,571 Terajoules (TJ)
Canadian carbon dioxide equivalent	[EN16] 2,889 kilotonnes of carbon dioxide equivalent (ktCO <sub>2</sub> e)
Canadian nitrous oxide emissions	[EN20] 9,179 tonnes of NO <sub>x</sub> (tNO <sub>x</sub> )
Canadian sulphur dioxide emissions	[EN20] 3,578 tonnes of SO <sub>x</sub> (tSO <sub>x</sub> )
US Operations	
US energy use	[EN3] 5,550 TJ
US carbon dioxide equivalent	[EN16] 1,899 ktCO <sub>2</sub> e
US nitrous oxide emissions	[EN20] 1,753 tNO <sub>x</sub>

US sulphur dioxide emissions

The Subject Matter was chosen by Encana management primarily on the basis of perceived external stakeholder interest. We did not review the narrative sections of the Report except where they incorporated the Subject Matter, nor did we review other performance indicators included in the report.

[EN20] 6 tSO

### Responsibilities

Encana management is responsible for the collection and presentation of the Subject Matter set out in the Report. Our responsibility is to express a conclusion, based on our assurance procedures, as to whether anything has come to our attention to suggest that the Subject Matter is not presented fairly in accordance with the relevant criteria.

### Assurance standards and procedures

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Federation of Accountants. As such, we planned and performed our work in order to provide limited assurance with respect to the Subject Matter. We obtained and evaluated evidence using a variety of procedures including:

- Interviewing relevant management and staff responsible for data collection and reporting;
- Obtaining an understanding of the management systems, processes and the relevant controls used to generate, aggregate, and report the data at Encana operations and corporate office;
- Reviewing relevant documents and records on a sample basis;
- Testing and re-calculating information related to the selected performance indicators on a sample basis; and,
- Assessing the information for consistency with our knowledge of Encana's operations, including comparing Encana's assertions to publicly available third-party information.

Our assurance criteria comprised the Global Reporting Initiative (GRI) Sustainability Reporting 3.1 Guidelines (2011), industry standards, and Encana internal management definitions as disclosed in the Report, informed by relevant regulations. Our assurance team included individuals with environmental and assurance experience.

Environmental and energy use data are subject to inherent limitations of accuracy given the nature and the methods used for determining such data. The selection of different acceptable measurement techniques can result in materially different measurements. The precision of different measurement techniques may also vary.

### Conclusion

Based on our work as described in this report, nothing has come to our attention that causes us to believe that the Subject Matter is not, in all material respects, presented fairly in accordance with the relevant criteria. This report is intended solely for use by the Management and Board of Directors of Encana.

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Deloitte LLP Calgary, Alberta, Canada May 20, 2014

# **ADVISORIES AND TERMS**

### **Currency and volumes**

All information included in this document has been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("U.S." GAAP") and in U.S. dollars, except where another currency has been indicated. Production volumes are presented on an after royalties basis consistent with U.S. oil and gas reporting standards and the disclosure of U.S. oil and gas companies. The term "liquids" is used to represent oil, natural gas liquids ("NGLs") and condensate. The term "liquids rich" is used to represent natural gas streams with associated liquids volumes.

### **Non-GAAP** measures

Certain measures in this document do not have any standardized meaning as prescribed by U.S. GAAP and, therefore, are considered non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by Encana to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Non-GAAP measures include: Cash Flow; Operating Earnings; Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"); Debt to Adjusted EBITDA; and Debt to Adjusted Capitalization. Further information can be found in the Non-GAAP Measures section of Encana's Management Discussion and Analysis for the year ended of December 31, 2013.

### **Resource play**

Resource play is a term used by Encana to describe an accumulation of hydrocarbons known to exist over a large areal expanse and/or thick vertical section, which when compared to a conventional play typically has a lower geological and/or commercial development risk and lower average decline rate.

### **References to Encana**

Unless otherwise specified or the context otherwise requires, reference to Encana or to the Company includes reference to subsidiaries of and partnership interests held by Encana Corporation and its subsidiaries.

For convenience, Encana may refer to third-party capital investments, farm-outs or partnerships from time to time as "partnerships" or "joint ventures" and the funds received in respect thereof may be refered by Encana from time to time as "proceeds", "deferred purchase price" and/or "carry capital", regardless of the legal form.

### Definitions

**Aquifer** – a body of permeable rock that can contain or transmit groundwater.

**Deep saline** – a deep underground rock formation composed of permeable materials and containing highly saline fluids.

**Direct emissions** – emissions resulting from our activities and that come from sources owned and controlled by us.

**Flowback** – water that is brought to the surface during the completions operations and may include fracturing fluids.

**Indirect emissions** – emissions that arise from our consumption of purchased electricity.

**Motor vehicle incident** – an incident which involves a motor vehicle in motion coming in contact with another vehicle, other property, person(s) or animal(s).

Non-potable water – water that is not of drinking water quality.

**Produced water** – water that is brought to the surface during the production of hydrocarbons. Produced water may include reused water or water produced from the geologic formation.

**Reclamation** – the process of restoring, improving or reclaiming disturbed land to productive uses and sustainability, or as defined and required by applicable regulatory agencies.

### **Abbreviations**

bbls	barrels
bbls/d	barrels per day
Bcf	billion cubic feet
Bcf/d	billion cubic feet per day
$CO_2(e)$	carbon dioxide equivalent
CO <sub>2</sub>	carbon dioxide
EBITDA	earnings before interest, taxes, depreciation
	and amortization
Mbbls	thousand barrels
Mbbls/d	thousand barrels per day
MMbbls	million barrels
MMbbls/d	million barrels per day
Mcf	thousand cubic feet
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGL	natural gas liquids
NO <sub>x</sub>	nitrogen oxides
NPR	not previously reported
SO <sub>2</sub>	sulphur dioxide
Tcf	trillion cubic feet

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