Energy Investment Research

Tristone Capital Inc.
Producer Update

EnCana Corporation (ECA-N, $52.95)
12 Month Target $61.00 (up $6.00), Outperform

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			2007A	2008A	2009E	2010E
Shares (basic, mm)	750.4	CFPS	$11.07	$12.48	$9.06	$9.55
Shares (FD, mm)	750.9	EPS	$5.30	$5.86	$3.60	$3.26
Market Cap $mm	$39,736	EV/DACF	5.7x	5.1x	6.8x	6.5x
Enterprise Value	$49,351	P/EPS	10.0x	9.0x	14.7x	16.2x
		D/CF	1.2x	1.0x	1.3x	1.2x

Recommendation	**Outperform**	Oil & NGL	mb/d	134	134	136	143
Current Price	$52.95	Gas	mmcf/d	3,566	3,838	3,772	3,790
12 Month Target	$61.00	Total (6:1)	mmcfe/d	4,370	4,639	4,587	4,650
Expected Return	**18%**						

All figures in US$ and net of royalties, unless otherwise stated.

Mid-Bossier is Icing on the Haynesville Cake

- **Mid-Bossier resource potential rivals Haynesville**. EnCana hosted its Deep Bossier & Haynesville operations conference call yesterday. The key takeaway from the call was the profile put on the Mid-Bossier, which overlies the Haynesville. In the core of the play – Red River and De Soto Parishes – EnCana sees parallel development of both zones, with equal resource potential.

- **Deep Bossier expanding focus**. The Deep Bossier has been a solid production growth driver for EnCana, ranking amongst the highest return plays in its portfolio. The play is shifting its focus to larger fault blocks, which tend to correlate with higher EURs, with drilling picking up outside of the Amoruso core at Hilltop.

- **Dialling in on the core of the Haynesville**. Over half of EnCana's acreage in the Haynesville resides in Red River and De Soto Parishes in Louisiana. This area is the core focus for EnCana's Haynesville, with IP rates generally double the shallower, less over-pressured Haynesville in East Texas. EnCana sees 6 bcf as a good starting point for EURs, with 9 bcf quite possible in the core.

- **Increasing risked resource upside on expanded resource base**. Overall a positive assessment of EnCana's shale gas activity in East Texas and Louisiana. Reflecting our updated sum of parts of $57.66/sh on strip pricing and $61.23/sh on flat pricing, we are raising our 12-month target price on EnCana to $61.00/sh – in line with our flat deck NAV and representing 7.0x 2010 EV/DACF and 20.0x EPS (75%/25% weight). With a positive bias to EnCana's position in low cost shale gas, we maintain our Outperform rating.

Important Disclosures: Please see back two pages

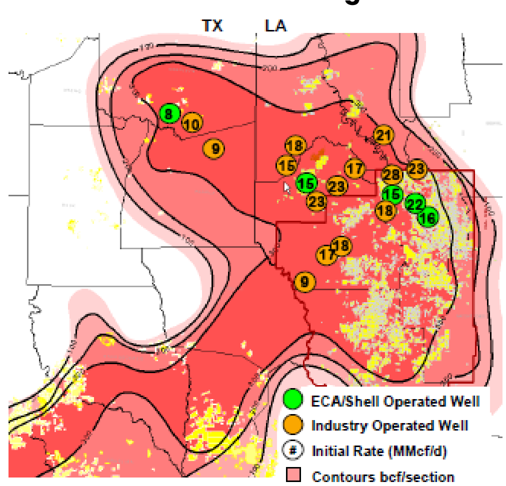
Haynesville/Deep Bossier Operations Conference Call

We highlight four main takeaways from yesterday's call:

1. **We heard what what we expect to hear from a resource player** – Underlying any large scale shale gas development is the underlying focus on cutting drilling and completion (D&C) costs and optimizing well configuration and completion techniques to maximize recovery. We give EnCana check marks on both fronts, as D&C costs are coming down in both the Deep Bossier and Haynesville in the range of 20-30%. At the same time, more recent wells are seeing shorter cycle times, more frac intervals and the use of increased sand proppant is correlating with higher IP rates.

2. **Tightening the Haynesville core** – EnCana is focused on 235,000 net undeveloped acres, largely in the Red River and De Soto parishes of Louisiana. The company indicated it is very confident on 6 bcf EURs with 9 bcf/well a possibility in the core; which is characterized by deeper, over-pressured higher porosity reservoir. EnCana appears to be managing land expiries by farming out the book-ends, including East Texas and further SE Louisiana in Sabine and Natichotches parishes, although it has expanded its core to include extension of deeper reservoir further SE. The company de-emphasized East Texas Haynesville, which is shallower, less over-pressured, yielding lower IP rates and lower EURs. The curves here look more analogous to the Barnett.

Exhibit 1: Haynesville Land Position and Drilling Results



Source: Company presentation

3. **Overlying Mid-Bossier has equivalent resource potential** – EnCana indicated that it has several vertical penetrations and a horizontal completion in the Mid-Bossier formation, which overlies the Haynesville. The first horizontal is flowing from 3 of 8 fraced intervals at 4 mmcf/d (they need to workover the well and drill out remaining plugs), but the initial results are encouraging. EnCana sees this overlying zone as having equivalent resource potential and a development scenario that sees the play move forward in parallel with the underlying Haynesville.

4. **Deep Bossier – expanding the footprint**. Last year's Deep Bossier results were mixed, with IP rates on wells underperforming previous year curves. This year, EnCana plans to drill 20 horizontals in the Amoruso core and to step out with 14 wells to the southeast at Hilltop. Drilling last year did yield positive results from a step-out perspective, with results indicating high porosity sands in the Outer shelf. These sands are highly faulted, with EURs positively correlated to the size of the fault. As such, Hilltop drilling looks to reverse the trend in well performance and expand the resource potential for this low cost play.

Haynesville – Dialling in on Core Development

EnCana now has 16 horizontal wells into the Haynesville shale. Its drilling and seismic activity have increased the company's understanding of the play and focused its activity in the core of the deeper, thicker, over-pressured shale in the Red River and De Soto parishes of Louisiana. Porosity is notably high in the core at over 8%, which drives higher OGIP. The company indicated that in the core, it is on the verge of transforming from an emerging play to a commercial development.

Notable takeaways on the Haynesville included the use of longer laterals, increased frac density and the most important driver of doubling the amount of proppant distributed near the wellbore. The company also indicated that it flows back its wells at a restricted rate, which mitigates sand recovery on flow back and allows the sand to stay in the frac face, which in our view is critical to the performance of these wells post flush-production.

Of its 433,000 undeveloped acres in the Haynesville, EnCana identifies 235,000 as core, with a strategy to use industry partner capital to evaluate the book ends of the play in East Texas and further SE Louisiana. We note that EnCana has no rigs operating in East Texas and it generally views this shallower, less pressured area as more analogous to Barnett shale type curves, with lower EURs.

Egress options developing. EnCana has secured pipeline capacity for growing takeaway from East Texas and Louisiana, with 1.5 bcf/d of firm capacity, including 650 mmcf/d secured for Haynesville supply. The company recently tendereds request for proposals with several midstream companies to find long-term midstream solutions for processing and moving its regional shale gas to market, at prices close to the Henry Hub benchmark.

Mid-Bossier is Icing on the Haynesville Cake

EnCana's disclosure on the mid-Bossier was the largest takeaway from yesterday's call. The company has several vertical penetrations into the zone by virtue of its Haynesville activity and it will continue to gain a window into the zone on each underlying Haynesville test. Its first horizontal had issues on completion, with several plugs stuck in the whole. Producing from 3 of the 8 frac intervals, the well is flat lined at 4 mmcf/d. These are encouraging results and additional drilling will be key to establishing comparable resource capture relative to the Haynesville. EnCana sees the play as a parallel development with the Haynesville, with our risking of the mid-Bossier including its core Haynesville lands of 235,000 acres in Louisiana. This figure may change up or down, depending on additional well control, reminding investors that EnCana holds a total of 433,000 acres in the broader fairway.

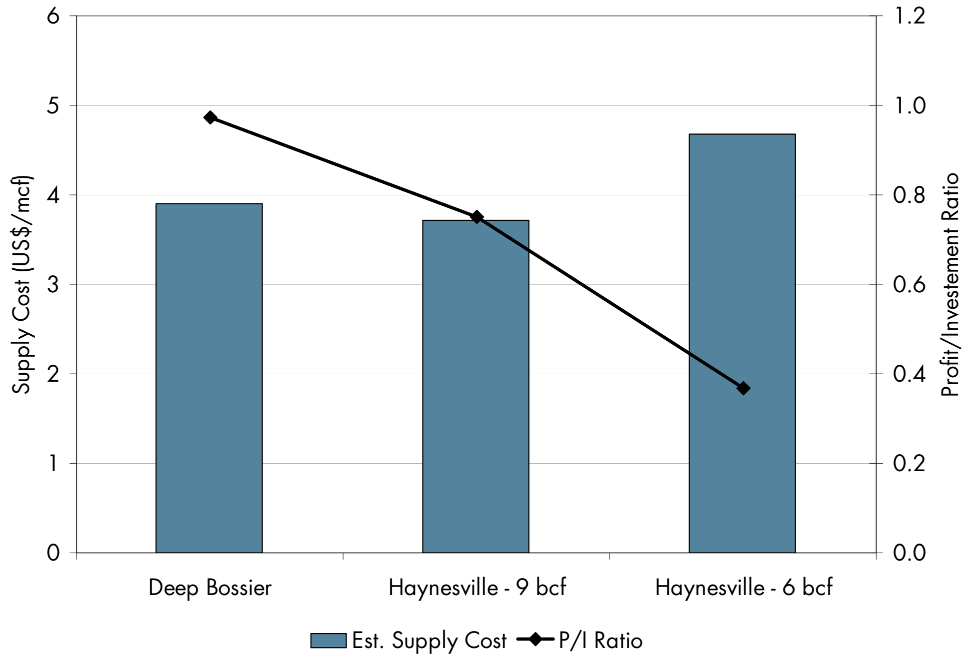
Deep Bossier Expanding into Thicker Reservoir

Targeting high porosity sands in larger fault blocks has turned the program around from its relative underperformance in 2008. EnCana is stepping outside the Amoruso core and drilling 14 wells in the Hilltop area, where it sees more net pay and higher reservoir pressure. Although the wells are more challenging, EnCana has sufficient takeaway and gas conditioning capacity to handle higher H_2S and CO_2 content as it moves deeper. D&C costs have come down here by 19% to $9.6 mm and the company expects to shave another $300k off with greater efficiencies as it moves into development mode and service costs come down.

Shale Gas Economics

In Exhibit 2, we highlight the economics of EnCana's Deep Bossier and Haynesville wells, with both 6 and 9 bcf/well cases for the Haynesville core. Supply costs are attractive at under $4.00/mcf for the high case Haynesville and Deep Bossier, while the 6 bcf Haynesville case puts supply costs under our estimated weighted average North American shale supply cost of $5.15/mcf NYMEX.

Exhibit 2: Texas / Louisiana Shale Economics



Source: Tristone Capital

Reflecting yesterday's results, with a greater understanding on the Haynesville, Deep Bossier and the addition of Mid-Bossier upside, we have updated our resource development model for EnCana, which in sum adds $3.94/sh (PV10%AT) to our risked resource strip NAV to sum to $57.66/sh and $61.23/sh on our L/T flat price of $6.75/mmbtu NYMEX. Segmented, our Haynesville strip-based risked upside is up $2.00/sh, Deep Bossier is up $0.65/sh and the Mid-Bossier adds $1.30/sh. Our core NAV plus risked resource upside is shown in Exhibit 3.

Exhibit 3: Core NAV + Risked Resource Upside

Based on 2008 Year End Reserves		Forward Strip Pricing			Flat Pricing	
Reserves (10% AT)	**MMBOE**	**Unit Value ($/BOE)**	**PV AT $mm**	**$/Share**	**PV AT $mm**	**$/Share**
Proven - N. American Conventional	2,626	$9.66	25,379	$33.80	27,526	$36.66
North American Risked Unbooked Gas Resource Potential	**Bcf**	**$/mcf**	**PV AT $mm**	**$/Share**	**PV AT $mm**	**$/Share**
North Rockies (Jonah)	967	$0.77	748	$1.00	748	$1.00
Piceance Basin (US Rockies)	1,469	$0.26	376	$0.50	376	$0.50
Deep Bossier (Texas)	4,537	$0.58	2,632	$3.50	2,632	$3.50
Barnett Shale (Texas)	1,318	$0.05	67	$0.09	67	$0.09
Haynesville (Louisiana)	11,243	$0.23	2,559	$3.41	2,559	$3.41
Mid-Bossier (Louisiana)	6,114	$0.16	972	$1.29	972	$1.29
US Division Sub-Total	19,535	$0.38	7,354.2	$9.79	7,354.2	$9.79
Montney (Swan - Cutbank Ridge)	5,938	$0.46	2,732	$3.64	2,732	$3.64
Devonian Shale (Horn River, NEBC)	2,844	$0.09	247	$0.33	247	$0.33
Horseshow Canyon CBM (Alberta)	2,704	$0.66	1,779	$2.37	1,779	$2.37
Mannville CBM (Alberta)	683	$0.01	7	$0.01	16	$0.01
Bighorn Basin (Alberta)	879	$0.12	102	$0.14	516	$0.14
Greater Sierra (NEBC Jean Marie)	696	$0.18	123	$0.16	123	$0.16
Shallow Gas (Alberta)	606	$0.43	261	$0.35	261	$0.35
Canadian Division Sub-total	14,350	$0.37	5,251.2	$6.99	5,674.4	$6.99
Total North American Risked Unbooked Gas Resource Potential	33,885	0.7	12,605.4	$16.79	13,028.6	$16.79
Deep Panuke - Nova Scotia 2010	632	1.43	906	$1.21	906	$1.21
Oilsands (SAGD)	**MMBOE**	**Unit Value ($/BOE)**	**PV AT $mm**	**$/Share**	**PV AT $mm**	**$/Share**
Base Case Foster Creek / Christina Lake 50% WI	569	$2.90	1,650	$2.20	1,706	$2.27
Foster Creek Expansions 50% WI (incr. 60 mb/d risked at 100%)	876	$0.72	635	$0.85	712	$0.95
Christina Lake Expansions 50% WI (incr. 100 mb/d risked at 50%)	1,460	$0.48	699	$0.93	766	$1.02
Borealis (100 mb/d risked at 25%)	1,460	$0.15	225	$0.30	300	$0.40
Total SAGD (~230 mb/d net by 2020)	**4,365**	**$0.74**	**3,209**	**$4.27**	**3,483**	**$4.64**
Total Reserves	**41,508**	**$1.01**	**42,099.1**	**56.1**	**44,943.6**	**$59.29**
Hedging (After-tax Realized Gains)			2,719.2	$3.62	2,719.2	$3.62
Tax Pools ($mm)	17,621.0	$0.17	3,056.5	$4.07	3,058.0	$4.07
Undeveloped Land Holdings	**000's acres**	**$/acre**				
Western Canada	586	200	117	$0.16	117	$0.16
USA	2,312	200	462	$0.62	462	$0.62
International	865	5	4	$0.01	4	$0.01
Total Undeveloped Land	**3,763**	**155**	**584**	**$0.78**	**584**	**$0.78**
Total Assets ($mm)			**48,459**	**$64.53**	**51,305**	**$67.76**
Net Debt ($mm)			(9,615)	($12.80)	(9,615)	($12.80)
Option Proceeds ($mm)			1	$0.00	1	$0.00
Total Net Assets ($mm)			**43,301**	**$57.66**	**45,979**	**$61.23**
Shares Outstanding (millions)			751		751	
Net Asset Value				**$57.66**		**$61.23**
Current Price/NAV				92%		87%
Unrisked NAV*			**90,479**	**120.49**	**92,734**	**$123.49**

Source: Tristone Capital

Conclusion – Solid Position in Low-Cost North American Shale Gas

Overall a positive assessment of EnCana's shale gas activity in East Texas and Louisiana. While early days in the Haynesville and Mid-Bossier – with significant statistical variance in EUR outcomes for any play at this stage, EnCana appears to have focused in on the heart of the plays with measureable success. The resource potential for the region remains impressive and we expect it to be a main driver of EnCana's US shale growth, alongside the Montney in Canada. Reflecting our updated sum of parts of $57.66/sh on strip pricing and $61.23/sh on flat pricing, we are raising our 12-month target price on EnCana to $61.00/sh – in line with our flat deck NAV and representing 7.0x 2010 EV/DACF and 20.0x EPS (75%/25% weight).

With respect to the Montney, we are biased to the upside on our resource estimates for EnCana in the play, given the amount of drilling and stepout success being achieved. Management has indicated that our risked resource estimates are conservative, and if TransCanada's estimate of 7.5 Tcf recoverable from industry in the Groundbirch area is indicative, we have room to move on our resource capture estimates in Canada. With a positive bias to EnCana's position in low cost shale gas, we maintain our Outperform rating.

Investment Risks

Investors should carefully consider the following risk factors when making an investment decision in the oil and gas sector: Commodity price fluctuations for oil and gas can result in operating and financial performance different from our forecast. Commodities are typically priced in US dollar terms, thus exchange rates for non-US based companies can result in realized prices significantly different than the US benchmark. Third-party credit risk exposes producer cash flow to adverse cash flow impacts in the event counterparties fail to meet contractual obligations. Future financial performance is dependent on companies' ability to replace reserves via exploration and production and via integrating acquisitions. Reliance on third-party operators and/or processing capacity may create delays and cost over-runs. Actual production and cash flow achieved by a producer could be materially different than third-party engineering and/or our forecasts. Geologic and reservoir characteristics vary by play and results in a wide range of risk; thus, there is no certainty past drilling success rates will be replicated in the future. Companies are exposed to geopolitical risks, including changes to regulatory and fiscal policy which may alter expected economic returns. Increased environmental regulation may potentially impact timelines and costs for projects. At any given time a producer may see limited access to capital resulting in higher debt levels and/or reduced capital spending programs.

ENCANA CORP. (ECA: N, T)				**Rating: Outperform**
Target EV/DACF: 7.0 — Recent Price:	*$52.95*			
Target PE Ratio: 20.0 — Target Price (US):	*$61.00*			
Earnings Weighting 25% — Expected Return:	*18%*			
	2007A	2008A	2009E	2010E
Pricing				
WTI ($US/b)	$72.30	$99.60	$50.00	$70.00
Corporate Oil & Liquids Price ($/b)	484.21	78.37	37.35	52.37
Corporate Natural Gas Price ($/mcf)	5.89	7.93	3.48	6.22
Production Volumes				
Oil & Liquids (mb/d)	134	134	136	143
Natural Gas (mmcf/d)	3,566	3,838	3,772	3,790
mmcfe/d (@ 6:1)	4,370	4,639	4,587	4,650
Production Growth	1.7%	6.1%	-1.1%	1.4%
Production Per Share Growth (boe/mm shares)	9.5%	7.8%	-1.1%	1.3%
Gas Production Ratio (6:1)	82%	83%	82%	82%
Financial Results				
Cash Flow to Common ($mm)	8,454	9,386	6,805	7,179
CFPS (Basic $/Sh.)	$11.18	$12.51	$9.07	$9.56
CFPS (Diluted $/Sh.)	**$11.07**	**$12.48**	**$9.06**	**$9.55**
Earnings to Common (Continuous, $mm)	3,960	5,944	2,720	2,452
Continuous EPS (Diluted $/Sh.)	**$5.30**	**$5.86**	**$3.60**	**$3.26**
Multiples				
Price/Cash Flow (Diluted)	4.8x	4.2x	5.8x	5.5x
EV/DACF	5.7x	5.1x	6.8x	6.5x
P/E (Diluted)	10.0x	9.0x	14.7x	16.2x
EV/Reserves ($/boe, Proven)	14.85	13.36		
EV/Production ($m/boe/d)	60.5	56.5	57.8	56.7
Capital Structure				
Basic Shares Outstanding (mm)	750.2	750.4	750.6	750.6
Market Capitalization ($mm)	39,725	39,736	39,746	39,746
Year End Net Debt ($mm)	10,726	9,615	9,088	8,810
Enterprise Value ($mm)	50,451	49,351	48,834	48,556
Debt/CF	1.2	1.0	1.3	1.2
Unit Costs and Netbacks - $/boe (6:1)				
Net Revenue	$43.22	$49.55	$35.41	$36.20
Operating Costs	(6.73)	(6.90)	(5.51)	(5.75)
Operating Netback	36.48	42.65	29.90	30.45
G&A	(1.44)	(1.70)	(1.38)	(1.77)
Interest	(1.61)	(2.08)	(1.73)	(1.79)
Cash Taxes	(5.84)	(3.50)	(2.46)	(1.49)
Netback ($/boe)	**27.59**	**35.38**	**24.34**	**25.41**
Other Information				
Capex ($mm)	8,315	7,375	5,079	5,700
Capex/CF	1.0	0.8	0.7	0.8
ROACE	15%	21%	10%	8%
Undeveloped acres (000s)	19,358	14,062		
NAV $/Share		$57.66		
Price/NAV		92%		

Valuation Methodology

	Weighting
12-month target established using a multiple of forecast Enterprise Value to Debt-Adjusted Cashflow.	75%
12-month target established using a multiple of forecast Earnings Per Share.	25%

Important Disclosures

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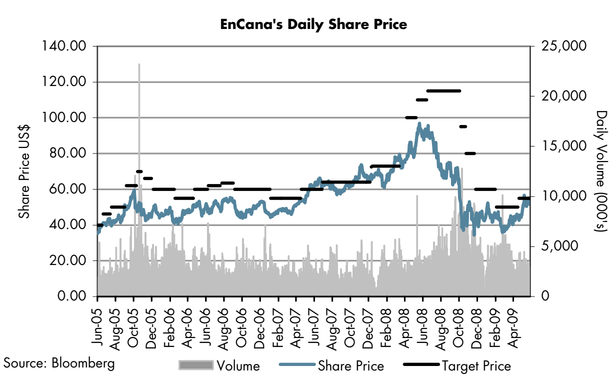
Research Recommendations

The following is the Tristone Rating System, which includes the percentage of recommendations that fall into each category.

Rating	Expected returns versus the peer group or sector	% of Tristone Universe
Top Pick	The highest risk-adjusted return	5%
Outperform:	Greater than the average of their peer group or sector	34%
Market Perform:	On par with the average of their peer group or sector	51%
Underperform:	Below the average of their peer group or sector	7%
Speculative:	Companies that carry high operational and/or financial risk where a change in a limited number of business variables can significantly change the valuation	3%



Source: Bloomberg

Change Summary

Date	Rating	Target Price ($US) ^
30-Oct-02	Initiate at OP	$21.45
29-Oct-03	MP from OP	$19.13
23-Mar-04	OP from MP	$26.00
6-Sep-05	TP from OP	$62.00
11-Oct-05	OP from TP	$62.00
27-Oct-05	TP from OP	$66.00
12-Dec-05	OP from TP	$60.00
12-Dec-06	MP from OP	$60.00
5-Jul-07	UP from MP	$64.00
10-Dec-07	MP from UP	$72.50
7-Apr-08	OP from MP	$100.00
25-Jul-08	TP from OP	$115.00
25-Nov-08	OP from TP	$60.00
3-Feb-09	MP from OP	$50.00
20-Apr-09	OP from MP	$55.00

^ Adjusted for share splits

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