

Rating: Buy
S&P 500: 1191

Encana Corporation **Natural Gas Leader**

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$mm)</i>	11,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	83
<i>Price (US\$/sh)</i>	47.95	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/26/05	<i>Adjusted Reserves/Production NTM</i>	7.1
<i>Shares (mm)</i>	876	<i>EV/Ebitda</i>	4.6
<i>Market Capitalization (US\$mm)</i>	42,000	<i>PV/Ebitda</i>	4.9
<i>Debt (US\$mm)</i>	10,900	<i>Undeveloped Reserves (%)</i>	34
<i>Enterprise Value (EV) (US\$mm)</i>	52,900	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	7.19
<i>Present Value (PV) (US\$mm)</i>	55,600	<i>Present Value Proven Reserves(US\$/boe)</i>	24.49
<i>Net Present Value (US\$/share)</i>	51	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.08
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.64
<i>McDep Ratio - EV/PV</i>	0.95	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.30

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Buy-recommended **Encana Corporation (ECA)** priced near estimated net present value of \$51 a share is the largest producer of North American natural gas. The company would earn a normal return if natural gas price were \$10 a million btu on a long-term real basis while the next twelve months quote is \$12. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$8 a share lower than estimated. Though the comparison is influenced by a short life for reported proven reserves, the company appears to have an unusually large backlog of resources to be converted to proven quantities profitably. We thank Mr. Gwyn Morgan on his retirement after a long, profitable service as chief executive officer.

Thank You, Gwyn Morgan

The chief executive officer of Encana, Mr. Gwyn Morgan, retires from that position at the end of the year. Mr. Morgan has made a lot of money for our clients and for us since we first met him around 1990. Already having a strong record for more than a decade with Encana predecessor Alberta Energy, the CEO was a modest unassuming person. We remember an institutional investor expressing disbelief to us at that time that a man without a more aggressive self-promoting personality could have gone so far in the industry. It was just the beginning. In recent years, Mr. Morgan made a bolder commitment to natural gas than the leader of any other producer. Last month Encana became Canada's largest company. Gwyn is a nice guy who finished first.

Chairman David O'Brien, another far-sighted Canadian leader, leads the directors in choosing Randy Eresman as successor CEO. Mr. Eresman has worked along side Mr. Morgan through most of the years of building a profitable producer.

Please see disclosures on the final page.

Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$8 a share lower than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

One factor that contributed to wider deviation from the correlation is that Encana's realized natural gas price lagged the industry marker for the past quarter. That is partly temporary. Moreover, not all companies have reported third quarter results yet and the correlation will change should more companies not realize the marker price increases fully.

Encana Corporation
Functional Cash Flow and Present Value

	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	9,460	7.0	4.9	46,000	83%
Oil	1,930	7.6	5.0	9,600	17%
	11,390	7.1	4.9	55,600	100%
Debt				10,900	
Net Present Value (\$mm)				44,700	
Shares				876	
Net Present Value (\$/sh)				51	
Over (-)/ Under (+) Correlation (US\$/sh)					(8)

Cash Flow by Quarter Depends on Latest Results and Futures Prices

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

Encana Corporation
 Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>9/30/06</i>
Volume											
Natural Gas (mmcf)	3,087	2,992	3,146	3,212	3,222	3,400	3,246	3,400	3,400	3,400	3,400
Oil (mbd)	159	238	157	157	150	157	155	157	157	157	157
Total (bcf)	372	1,618	368	378	379	399	1,525	391	395	399	1,585
Total (mmcfed)	4,041	4,420	4,088	4,154	4,122	4,342	4,177	4,342	4,342	4,342	4,342
Price											
Henry Hub (US\$/mmbtu)	7.10	6.15	6.27	6.76	8.56	13.38	8.74	13.36	10.43	10.40	11.89
Differential	1.02	0.57	0.46	0.51	1.27	1.99	0.98	1.99	1.55	1.55	1.77
Encana (\$/mcf)	6.08	5.58	5.81	6.25	7.29	11.39	7.76	11.37	8.88	8.85	10.12
WTI Cushing (US\$/bbl)	48.31	41.44	49.65	53.05	62.52	61.00	56.56	60.75	61.06	61.09	60.97
Differential	17.57	6.51	19.88	21.25	16.36	15.96	18.39	15.90	15.98	15.98	15.95
Encana (\$/bbl)	30.74	34.93	29.77	31.80	46.16	45.04	38.17	44.86	45.08	45.10	45.02
Total (\$/bbl)	35.12	33.96	33.69	36.21	44.27	63.29	44.70	63.17	51.48	51.37	57.31
Revenue (\$mm)											
Natural Gas	1,727	6,112	1,645	1,827	2,161	3,563	9,196	3,481	2,746	2,768	12,558
Oil	450	3,044	421	454	637	651	2,163	634	644	651	2,580
Total	2,176	10,276	2,066	2,281	2,798	4,214	11,358	4,115	3,390	3,420	15,138
Expense	317	3,646	460	391	690	1,044	2,585	1,019	838	845	3,746
Ebitda (\$mm)	1,860	6,630	1,605	1,890	2,108	3,170	8,773	3,096	2,552	2,575	11,392
Deprec., Deplet., & Amort.	641	2,692	686	675	677	677	2,715	677	677	677	2,708
Hedging	226	873	22	112	135	57	326	35	56	57	205
Interest	113	391	100	101	218	218	637	218	218	218	872
Ebt	880	2,675	797	1,002	1,078	2,218	5,095	2,166	1,601	1,623	7,607
Income tax	308	699	279	351	377	776	1,783	758	560	568	2,663
Net Income (\$mm)	572	1,975	518	651	701	1,442	3,312	1,408	1,041	1,055	4,945
Per share (\$)	0.62	2.12	0.57	0.73	0.80	1.65	3.75	1.61	1.19	1.20	5.64
Shares (millions)	930	932	909	892	876	876	884	876	876	876	876
Ebitda margin	85%	65%	78%	83%	75%	75%	77%	75%	75%	75%	75%
Tax rate	35%	26%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Industry Conditions Support Long-Term Price Expectation

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

Oil and Gas Commodity and Stock Price
 Wednesday, October 26, 2005

	<i>Units</i>	<i>Futures Price</i>		<i>McDep Ratio</i>
		<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
Crude Oil	\$/barrel	57.67	61.81	50
Natural Gas	\$/million btu	8.59	12.09	10
	<i>Stocks</i>			<i>Median McDep Ratio</i>
	Independent Producer - Large Cap			0.76
	ECA			0.95

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

Please see disclosures on the final page.

Buy Independent Natural Gas and Oil Producers

Energy is necessary for world economic growth and clean energy provides a better quality of life. Independent natural gas and oil producers are among the leading global suppliers of clean energy. Headquartered in China, Canada and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table Rank by McDep Ratio).

Kurt H. Wulff, CFA

Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i> <i>Cap</i>	<i>Net</i> <i>Present</i> <i>Value</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
			<i>26-Oct</i> <i>2005</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>		
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	47.95	876	42,000	51.00	0.20	0.95
XTO Energy Inc.	XTO	B	43.72	370	16,180	48.00	0.20	0.93
Burlington Resources	BR	B	70.98	385	27,300	86.00	0.09	0.84
CNOOC Limited (29%)	CEO	B	63.64	119	7,590	84.00	0.01	0.76
Devon Energy Corporation	DVN	B	60.75	471	28,600	86.00	0.15	0.75
Anadarko Petroleum Corp.	APC	B	90.21	238	21,500	140.00	0.11	0.69
Occidental Petroleum Corp.	OXY	B	75.60	406	30,700	120.00	0.11	0.67
			<i>Total or Median</i>		<i>174,000</i>		<i>0.11</i>	<i>0.76</i>

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