EnerCare Inc.

Consolidated Financial Statements

Third Quarter Ended September 30, 2011

Dated November 7, 2011

EnerCare Inc.
Consolidated Statements of Financial Position

(unaudited) (in thousands of Cdn $)	**September 30, 2011**	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents (note 5)	**$ 69,294**	$ 52,495
Accounts receivable (note 6)	**29,393**	25,329
Deposits	**-**	1,435
Prepaid and other assets	**4,194**	3,224
	102,881	82,483
Equipment (note 8)	**459,639**	470,878
Intangible assets (note 9)	**342,910**	377,944
Goodwill	**2,962**	-
Deferred tax asset (note 11)	**7,876**	4,118
	$ 916,268	$ 935,423
Liabilities		
Current liabilities		
Current portion of long-term debt (note 10)	**$ 61,120**	$ 1,195
Accounts payable and accrued liabilities (note 7)	**29,713**	25,035
Provisions (note 22)	**1,925**	2,728
Interest payable	**10,033**	7,374
Other liabilities payable	**855**	4,300
Dividends payable	**3,016**	-
	106,662	40,632
Long-term debt (note 10)	**532,418**	599,166
Other liabilities payable	**-**	1,749
Deferred tax liability (note 11)	**145,439**	152,564
	784,519	794,111
Shareholders' equity (note 12)	**131,749**	141,312
	$ 916,268	$ 935,423

The accompanying notes are an integral part of these consolidated interim financial statements.

EnerCare Inc.
Consolidated Statements of Income

(unaudited) (in thousands of Cdn $, except per share amounts)	Three months ended September 30, **2011**	 2010	Nine months ended September 30, **2011**	 2010
Revenues				
Rentals and services	**$ 62,864**	$ 49,589	**$ 184,093**	$ 150,155
Investment income	**168**	87	**420**	94
Total revenues	**63,032**	49,676	**184,513**	150,249
Expenses				
Commodity charges	**11,689**	1,631	**32,007**	4,555
Selling, general & administrative (note 20)	**8,890**	8,980	**27,968**	25,012
Amortization				
Capital assets	**14,490**	15,030	**43,514**	45,060
Intangibles	**11,636**	12,257	**34,955**	37,393
Loss on disposal of equipment	**4,718**	5,756	**14,219**	16,667
Interest				
Short-term	**30**	100	**187**	3,387
Long-term	**10,403**	10,593	**31,503**	29,744
Total operating expenses	**61,856**	54,347	**184,353**	161,818
Other Income (note 3)	**254**	1,715	**2,383**	1,715
Earnings/(loss) before income taxes	**1,430**	(2,956)	**2,543**	(9,854)
Tax expense				
Current tax expense	**1,478**	-	**4,943**	-
Deferred income tax recovery	**(5,666)**	(5,172)	**(8,639)**	(14,789)
Total tax recovery	**(4,188)**	(5,172)	**(3,696)**	(14,789)
Net income for the period	**$ 5,618**	$ 2,216	**$ 6,239**	$ 4,935
Weighted average number of shares outstanding (note 13)	**55,728**	54,734	**55,298**	51,719
Fully diluted shares outstanding (note 13)	**58,937**	59,037	**58,496**	52,266
Basic earnings per share	**$ 0.10**	$ 0.04	**$ 0.11**	$ 0.10
Diluted earnings per share	**$ 0.10**	$ 0.04	**$ 0.11**	$ 0.10

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EnerCare Inc.
Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of Cdn $)	Three months ended September 30, **2011**	 2010	Nine months ended September 30, **2011**	 2010
Net income for the period	$ 5,618	$ 2,216	$ 6,239	$ 4,935
Amortization of accumulated other comprehensive loss to net income	925	932	2,762	2,766
Comprehensive income for the period	**$ 6,543**	$ 3,148	**$ 9,001**	$ 7,701

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EnerCare Inc.
Consolidated Statements of Changes in Equity

(unaudited) (in thousands of Cdn $)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Deficit	Total
Balance - January 1, 2010	$ 476,868	$ -	$ (14,673)	$ (315,919)	$ 146,276
Net income for the period	-	-	-	153	153
Other comprehensive loss:					
Amortization	-	-	912	-	912
Dividends (note 14)	-	-	-	(8,023)	(8,023)
Balance - March 31, 2010	$ 476,868	$ -	$ (13,761)	$ (323,789)	$ 139,318
Net income for the period	-	-	-	2,566	2,566
Shares issued (net of issue costs)	23,678	-	-	-	23,678
Other comprehensive loss:					
Amortization	-	-	922	-	922
Dividends (note 14)	-	-	-	(8,304)	(8,304)
Balance - June 30, 2010	$ 500,546	$ -	$ (12,839)	$ (329,527)	$ 158,180
Net income for the period	-	-	-	2,216	2,216
Other comprehensive loss:					
Amortization	-	-	932	-	932
Dividends (note 14)	-	-	-	(8,867)	(8,867)
Balance - September 30, 2010	$ 500,546	$ -	$ (11,907)	$ (336,178)	$ 152,461
Balance - January 1, 2011	**$ 500,546**	**$ -**	**$ (10,975)**	**$ (348,259)**	**$ 141,312**
Net loss for the period	**-**	**-**	**-**	**(1,061)**	**(1,061)**
Shares issued on debenture conversion (net of issue costs)	**2,061**	**-**	**-**	**-**	**2,061**
Other comprehensive loss:					
Amortization	**-**	**-**	**919**	**-**	**919**
Employee share options:					
Value of services recognized	**-**	**21**	**-**	**-**	**21**
Conversion rights - equity allocation (note 4)	**-**	**1,749**	**-**	**-**	**1,749**
Dividends (note 14)	**-**	**-**	**-**	**(8,918)**	**(8,918)**
Balance - March 31, 2011	**$ 502,607**	**$ 1,770**	**$ (10,056)**	**$ (358,238)**	**$ 136,083**
Net income for the period	**-**	**-**	**-**	**1,682**	**1,682**
Shares issued on debenture conversion (net of issue costs)	**1,990**	**-**	**-**	**-**	**1,990**
Other comprehensive loss:					
Amortization	**-**	**-**	**918**	**-**	**918**
Employee share options:					
Value of services recognized	**-**	**45**	**-**	**-**	**45**
Dividends (note 14)	**-**	**-**	**-**	**(8,958)**	**(8,958)**
Balance - June 30, 2011	**$ 504,597**	**$ 1,815**	**$ (9,138)**	**$ (365,514)**	**$ 131,760**
Net income for the period	**-**	**-**	**-**	**5,618**	**5,618**
Shares issued on debenture conversion (net of issue costs)	**2,449**	**-**	**-**	**-**	**2,449**
Other comprehensive loss:					
Amortization	**-**	**-**	**925**	**-**	**925**
Employee share options:					
Value of services recognized	**-**	**44**	**-**	**-**	**44**
Dividends (note 14)	**-**	**-**	**-**	**(9,047)**	**(9,047)**
Balance - September 30, 2011	**$ 507,046**	**$ 1,859**	**$ (8,213)**	**$ (368,943)**	**$ 131,749**

The accompanying notes are an integral part of these consolidated interim financial statements.

EnerCare Inc.

Consolidated Statements of Cash Flows

(unaudited) (in thousands of Cdn $)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Cash provided by/(used in):				
Operating activities				
Net income for the period	**$ 5,618**	$ 2,216	**$ 6,239**	$ 4,935
Items not affecting cash				
Amortization				
Capital assets	**14,490**	15,030	**43,514**	45,060
Intangibles	**11,636**	12,257	**34,955**	37,393
Loss on disposal of equipment	**4,718**	5,756	**14,219**	16,667
Non-cash interest expense	**1,309**	1,346	**3,947**	5,180
Deferred income tax recovery	**(5,666)**	(5,172)	**(8,639)**	(14,789)
Operating cash flow	**32,105**	31,433	**94,235**	94,446
Net change in working capital (note 23)	**208**	5,918	**(1,956)**	(634)
Cash provided by operating activities	**$ 32,313**	$ 37,351	**$ 92,279**	$ 93,812
Investing activities				
Purchase of equipment	**(18,057)**	(16,831)	**(54,698)**	(53,395)
Income from Stratacon Earnout	-	(700)	-	(700)
Proceeds from disposal of equipment	**1,007**	1,168	**3,088**	2,929
Cash used in investing activities	**$ (17,050)**	$ (16,363)	**$ (51,610)**	$ (51,166)
Financing activities				
Distributions to shareholders	**(9,024)**	(8,867)	**(23,907)**	(24,912)
Proceeds from share issuance (net of issue costs)	**-**	-	**-**	23,678
Proceeds from deposits	**-**	-	**1,435**	-
Repayment of line of credit	**-**	(12,377)	**-**	(27,438)
Proceeds from bridge facility	**-**	-	**-**	240,000
Repayment of bridge facility	**-**	-	**-**	(240,000)
Issuance of long-term debt	**-**	2,883	**-**	267,883
Repayment of long-term debt	**(272)**	(290)	**(1,508)**	(225,853)
Employee share options	**44**	-	**110**	-
Deferred financing costs on long-term debt	**-**	(398)	**-**	(2,899)
Cash (used in)/provided by financing activities	**$ (9,252)**	$ (19,049)	**$ (23,870)**	$ 10,459
(Decrease)/increase in cash and cash equivalents	**6,011**	1,939	**16,799**	53,105
Cash and cash equivalents - beginning of period	**63,283**	76,505	**52,495**	25,339
Cash and cash equivalents - end of period	**$ 69,294**	$ 78,444	**$ 69,294**	$ 78,444
Supplementary information				
Interest paid	**$ 6,465**	$ 6,665	**$ 25,084**	$ 26,516
Income taxes paid	**$ -**	$ -	**$ -**	$ -

The accompanying notes are an integral part of these consolidated interim financial statements.

1. Organization and Nature of Business

EnerCare Inc. ("EnerCare") is the successor to The Consumers' Waterheater Income Fund (the "Fund"). EnerCare converted into a dividend paying corporation on January 1, 2011, pursuant to a plan of arrangement under the Canadian Business Corporations Act. The conversion was accounted for on a continuity of interest basis.

EnerCare holds all of the issued and outstanding shares of EnerCare Solutions Inc. ("EnerCare Solutions"). EnerCare Solutions is the successor to The Consumers' Waterheater Operating Trust (the "Trust"). EnerCare Solutions, through its wholly-owned subsidiaries, owns a portfolio of water heaters and other assets which are primarily rented to customers across Ontario ("Rentals").

In August 2008, EnerCare acquired all the issued and outstanding shares of Stratacon Inc. ("Stratacon"), entering the sub-metering ("Sub-metering") business operating primarily in Ontario, Alberta and other areas in Canada. In October 2010, EnerCare acquired Enbridge Electric Connections Inc. ("EECI") and re-named the business to EnerCare Connections Inc. ("ECI"). EnerCare, through a subsidiary, owns 100% of the issued and outstanding shares of both Stratacon and ECI.

The head office of EnerCare is located at 4000 Victoria Park Avenue, Toronto, Ontario, M2H 3P4.

2. Basis of Preparation and Adoption of IFRS

These unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 4, EnerCare has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on EnerCare's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in EnerCare's consolidated financial statements as at December 31, 2010.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of November 7, 2011, the date the board of directors approved the interim consolidated financial statements. Any subsequent changes to IFRS, that are given effect in the company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS. The interim consolidated financial statements should be read in conjunction with EnerCare's previously issued annual financial statements for the year ended December 31, 2010 prepared in accordance with Part V of the Canadian Institute of Chartered Accountants handbook ("CGAAP"). Throughout these interim consolidated financial statements EnerCare and EnerCare Solutions have replaced references to the predecessor entities of the Fund and the Trust, respectively, as well, references to shares, shareholders and dividends replace previous references to units, unitholders and distributions, respectively.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these interim consolidated financial statements are described below.

Basis of Measurement

The interim consolidated financial statements have been prepared under a historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

Consolidation

The interim consolidated financial statements of EnerCare consolidate the accounts of its subsidiaries. All inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

Subsidiaries are those entities which EnerCare controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether EnerCare controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by EnerCare and are de-consolidated from the date that control ceases. As of the date of these interim consolidated financial statements, 100% of the operating results and equity of the subsidiaries is attributable to EnerCare.

Business Combinations

Business combinations are presented in accordance with IFRS 3. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Any excess purchase price over the identifiable net assets will be recorded as goodwill. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and short-term investments with maturities of less than 90 days after the date of purchase.

Financial Instruments

Financial assets and liabilities are recognized when EnerCare becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and EnerCare has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, EnerCare classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position, which is classified as non-current. The derivative related to the convertible debentures and instruments accounted as hedges are classified in this category.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. EnerCare's loans and receivables are comprised primarily of trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, bank debt and long-term debt. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are recognized at amortized cost using the effective interest rate method. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of Financial Instruments

At each reporting date, EnerCare assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, EnerCare recognizes an impairment loss on financial assets carried at amortized cost as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Trade Receivables

Trade receivables are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade receivable is determined to be uncollectable it is written off, firstly against any provision available and then to the income statement.

Subsequent recoveries of amounts previously provided for are credited to the statement of income.

Provisions

Provisions for legal claims, where applicable, are recognized in other liabilities when EnerCare has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. EnerCare performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset, including installation costs, labour, and direct overhead. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to EnerCare and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

The major categories of equipment are depreciated over the estimated useful lives of the assets on a straight-line basis as follows:

Water heaters	16 years
Furniture and fixtures	5 years
Computer equipment	3 years
Computer software	2-10 years
Installed meters	10 years
Other Sub-metering capital	length of the contract, typically 10-25 years
Leasehold improvements	over the term of the lease

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of loss on disposal of equipment in the statement of income.

Leases

Leasing agreements which transfer to EnerCare substantially all the benefits and risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the finance lease is included in the statement of income. All other leases are operating leases and the rental costs are charged to the statement of income on a straight-line basis over the lease term. At September 30, 2011, EnerCare had no finance leases.

Intangible Assets

Intangible assets are predominantly related to contractual customer relationships and customer contracts acquired in business combinations that are recognized at fair value at the acquisition date. The contractual customer relationships and customer contracts have a finite useful life and are carried at cost less accumulated amortization and impairment charges. Amortization is calculated using the straight-line method over the expected life of 16 years.

Impairment of Non-financial Assets

Intangible assets and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGU"s). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. When there are indications of a potential decrease in a prior period impairment loss a reversal may be recognized through profit and loss. A change in amortization may be required based upon the estimated remaining service life.

Convertible Debentures

The convertible debentures issued in June and July 2010 have been recorded as a liability. The value of the debentures has been reduced to reflect the fair value of the conversion feature of these debentures. The reduction will be accreted to earnings over the term of the debentures using the effective interest method. For the period from the date of issue through to EnerCare's conversion to a corporation on January 1, 2011, the value of the conversion feature was reflected in other liabilities and revalued to fair value each reporting period. Changes in the fair value have been reflected through earnings. On January 1, 2011, the fair value of the conversion feature of $1,749 was transferred to equity of EnerCare and will no longer be subject to fair value adjustments each reporting period.

Long Term Compensation

Cash Based Payment Plans

The Performance Share Unit Plan ("PSUP") was originally implemented in 2007 to reward senior management and EnerCare's directors and updated in 2011 upon conversion to a corporation. Awards are made in the form of phantom shares, which vest at the end of a three year period.

EnerCare adopted the Deferred Share Unit Plan ("DSUP") effective January 1, 2011 for non-employee directors. In addition to annual grants, pursuant to the DSUP, directors will receive 50% of their fees in the form of deferred share units until the director has met the director's share ownership requirements. Directors may also elect to have vested performance share units settled in deferred share units on a one-for-one basis and may elect once each calendar year to receive any portion of their fees in the form of deferred share units for the year. Such fee election can be changed on a quarterly basis. The vesting period is estimated to be three years.

The PSUP and DSUP plan liabilities are based upon the product of the number of share units, the vesting period, the average volume weighted share price for the five days preceding the last trading day of the period and performance criteria established for each grant and plan at each statement of financial position date. EnerCare's obligation for each plan is recorded in accounts payable and paid in cash, unless a director elects to have vested performance share units settled in deferred share units.

Share Based Payment Plan

Effective January 1, 2011, EnerCare implemented a stock option plan for officers of EnerCare. At the date of grant, options are valued using the Black-Scholes option pricing model giving consideration to the terms of plan and EnerCare's performance. Recorded amounts are reflected in contributed surplus and profit and loss for the period. The number of options expected to vest is reviewed at least annually, with any impact being recognized immediately.

Income Tax

EnerCare uses the liability method to determine the deferred income tax liability and related earnings impact. Under this method, deferred income tax assets and liabilities are determined based on differences between the accounting and tax value of assets and liabilities and are measured using the currently enacted, or substantially enacted, tax rates that will be in effect when the differences are anticipated to reverse. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantially enacted, at the end of the reporting period, and any adjustment to tax payable in respect to previous years.

Deferred income tax assets and liabilities are presented as non-current.

Revenue

Revenue is recognized when it is probable that the economic benefits will flow to EnerCare and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are met at the time the equipment is installed and, depending on the delivery condition, title and risk have been passed to the customer and acceptance of the product, when contractually required, has been obtained. Revenue is measured based on the contract price, net of discounts at the time of sales.

The Rental business earns revenue based on the rental agreements that are managed under: (a) the Co-ownership Agreement with Direct Energy Marketing Limited ("DE") as well as, (b) other third party arrangements. Under the Co-ownership Agreement with DE, EnerCare earns 65% of gross revenues, and the remaining 35% is earned by DE for installing and servicing the equipment. For all other portfolio assets that are not under the Co-ownership Agreement, including the Sub-metering assets, EnerCare recognizes 100% of the revenues, together with related operating and service costs.

Interest Expense and Financing Charges

Interest charges on debt are classified as an operating activity. Costs associated with the arrangement of long-term financing are netted against the carrying value of the debt and amortized on an effective interest method over the term of the debt.

Hedge Accounting

In 2009, EnerCare completed a series of cash flow hedge transactions which resulted in a charge to other comprehensive income. This loss is being amortized into income using the effective interest method based upon the maturity of the 2009 Notes.

Dividends

Dividends on shares are recognized in EnerCare's financial statements in the period in which the dividends are approved by EnerCare's directors.

Critical Accounting Estimates and Judgments

EnerCare makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following items are of significance for the period.

Billing and Servicing Matters

Earnings Items

DE, through Enbridge Gas Distribution Inc. ("EGD"), provides billing and collection services for substantially all of EnerCare's water heaters and other assets. Following the September 2009 billing system conversion implemented by DE, which coincided with a billing system conversion by EGD, EnerCare's internal control over financial reporting ("ICFR") identified issues principally associated with DE's system conversion impacting EnerCare's customers, including issues in respect of the allocation of customer payments, customer collections, and billing issues, including completeness of billing, billing in respect of new customers and implementation of new rental rates. EnerCare continues to work closely with DE to resolve billing issues as well as billing completeness.

EnerCare has estimated and recorded revenues of $1,700 in respect of billings and adjustments expected to be recovered from customers, but does not include any amounts EnerCare may recover from DE for lost revenues arising from the billing system conversion. At December 31, 2010, the accrual was $1,700, consequently, in 2011, there has been no cumulative earnings impact. At September 30, 2010, the accrual of $2,100 included pricing changes for a number of customers that had not been completed. The pricing changes were completed and resolved by December 31, 2010.

During 2010, EnerCare provided for bad debt regarding the collectability of revenues recorded related to customers where the EGD revenue guarantee did not apply and where DE was responsible for collection activities. As reported in the second quarter of 2011, EnerCare reached an agreement in principal with DE to receive a payment of approximately $2,200 representing EnerCare's entitlement to unremitted customer payments for rentals outside of the EGD territory. The settlement amount had an earnings impact of $1,300 recorded as a recovery of previous bad debts written off during 2010, with the remainder reflected as a change in financial position between outstanding customer receivables and an account receivable from DE. Payment and executed legal settlement of this component of the DE billing issues should be completed for the fourth quarter of 2011.

Buyout processing and other miscellaneous items from 2010 remain outstanding. EnerCare has recorded amounts expected to be charged to customers by DE and continues to work with DE to resolve issues relating to buyout processing.

Settlement with DE for an amount in excess of revenues recorded and recovery of any expenses accrued would result in an increase to previously stated EBITDA amounts.

Capital Items

EnerCare continues to be in discussion with DE regarding certain amounts DE has billed EnerCare for water heater installations that are reflected as capital additions. The amounts at issue totalled $3,400 ($2,500 in the third quarter of 2010) at September 30, 2011. Settlement with DE for a lower amount than billed would result in a reduction to previously stated capital expenditure amounts.

Contingent Consideration

Stratacon was acquired in August 2008, and the purchase included additional purchase price consideration based on future performance measures which were not required to be recorded in prior CGAAP financial statements. The IFRS January 1, 2010 statement of financial position reflects the required accrual for this contingent consideration of $5,000, which was based on an estimate of the actual payment in 2011. The fair value contingent consideration was determined using an estimate of the future contracted sales (suites) for the period August 1, 2010 to July 31, 2011, multiplied by a fixed dollar amount per suite. Any difference in final contracted suites versus the estimate will be recognized through earnings. As at September 30, 2011, the estimated payable of $855 declined $705 from $1,560 on June 30, 2011 on account of a reduction in the estimated total obligation of $254 which was recorded as other income and $451 as progress payments made during the third quarter of 2011.

Intangible Impairment

The opening statement of financial position reflects an impairment charge of $18,565 to reflect the fair value of Stratacon customer contracts. The fair value was based upon a number of assumptions, including but not limited to: discount rates, billing suites, cash flows and expenses. Changes in any of these assumptions may result in a materially different fair value. Changes in fair value are recognized through earnings. See "Transition to IFRS" – note 4, explanatory notes for additional commentary.

Accounting Standards Issued but not yet Applied

IFRS 9, *Financial Instruments*, was issued in November 2009. It addressed classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return on investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. EnerCare has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4. Transition to IFRS

The effect of EnerCare's transition to IFRS, described in note 2, is summarized in this note as follows:

i. Transition elections;
ii. Reconciliation of equity and comprehensive income as previously reported under CGAAP to IFRS;
iii. Explanatory notes; and
iv. Adjustments to the statement of cash flows.

(i) Transition Elections

EnerCare has elected to apply only the business combinations transition election to exempt full retrospective application of IFRS for 2010. Accordingly, other than the contingent purchase consideration, EnerCare's acquisition of Stratacon has not been restated.

(ii) Reconciliation of equity and comprehensive income as previously reported under CGAAP to IFRS

	4(iii)	Dec. 31, 2010	Sept. 30, 2010	Jan. 1, 2010
Equity as reported under CGAAP		$160,516	$171,674	$165,311
IFRS adjustments increase/(decrease):				
Other income (fair value change in contingent consideration)	a	700	700	-
Intangible assets	b	(18,565)	(18,565)	(18,565)
Contingent consideration		(5,000)	(5,000)	(5,000)
Financial instruments – convertible debentures	c	(1,538)	(1,538)	-
Convertible debentures - equity fair value	c	(211)	-	-
Amortization	b	1,256	942	-
Deferred income tax recovery	d	4,154	4,248	4,530
Equity as reported under IFRS		$141,312	$152,461	$146,276

		December 31, 2010			September 30, 2010			January 1, 2010		
	4(iii)	CGAAP	Change	IFRS	CGAAP	Change	IFRS	CGAAP	Change	IFRS
Assets										
Current assets										
Cash and cash equivalents		$ 52,495	$ -	$ 52,495	$ 78,444	$ -	$ 78,444	$ 25,339	$ -	$ 25,339
Accounts receivable		25,329	-	25,329	20,237	-	20,237	15,636	-	15,636
Deposits		1,435	-	1,435	1,435	-	1,435	1,435	-	1,435
Prepaid and other asset		3,224	-	3,224	1,864	-	1,864	3,742	-	3,742
		82,483	-	82,483	101,980	-	101,980	46,152	-	46,152
Non-current assets										
Equipment		470,878	-	470,878	452,451	-	452,451	463,713	-	463,713
Intangible assets	b	395,253	(17,309)	377,944	405,657	(17,623)	388,034	443,991	(18,565)	425,426
Deferred Tax asset		4,118	-	4,118	3,693	-	3,693	2,631	-	2,631
Other non-current assets		870,249	(17,309)	852,940	861,801	(17,623)	844,178	910,335	(18,565)	891,770
Total Assets		$952,732	$(17,309)	$935,423	$963,781	$(17,623)	$946,158	$956,487	$(18,565)	$937,922
Liabilities										
Current Liabilities										
Bank indebtedness		$ -	$ -	$ -	$ -	$ -	$ -	$ 27,438	$ -	$ 27,438
Current portion of long-term debt		1,195	-	1,195	1,194	-	1,194	226,149	-	226,149
Accounts payable and accrued liabilities		25,035	-	25,035	16,466	-	16,466	14,602	-	14,602
Provisions		2,728	-	2,728	2,383	-	2,383	2,153	-	2,153
Interest payable		7,374	-	7,374	10,238	-	10,238	8,803	-	8,803
Other liabilities payable	a	-	4,300	4,300	-	4,300	4,300	-	-	-
Dividends payable		-		-	2,956	-	2,956	2,674	-	2,674
		36,332	4,300	40,632	33,237	4,300	37,537	281,819	-	281,819
Non-current liabilities										
Long-term debt		599,166	-	599,166	599,064	-	599,064	335,542	-	335,542
Other liabilities payable	a,c	-	1,749	1,749	-	1,538	1,538	-	5,000	5,000
Deferred tax liability	b,d	156,718	(4,154)	152,564	159,806	(4,248)	155,558	173,815	(4,530)	169,285
		755,884	(2,405)	753,479	758,870	(2,710)	756,160	509,357	470	509,827
Total Liabilities		$792,216	$ 1,895	$794,111	$792,107	$ 1,590	$793,697	$791,176	$ 470	$791,646
Shareholders' Equity										
Share capital		500,546	-	500,546	500,546	-	500,546	476,868	-	476,868
Conversion rights - equity allocations	c	1,538	(1,538)	-	1,538	(1,538)	-	-	-	-
Retained earnings	b,c,d	(330,593)	(17,666)	(348,259)	(318,503)	(17,675)	(336,178)	(296,884)	(19,035)	(315,919)
Accumulated other comprehensive income		(10,975)	-	(10,975)	(11,907)	-	(11,907)	(14,673)	-	(14,673)
Total Equity		160,516	(19,204)	141,312	171,674	(19,213)	152,461	165,311	(19,035)	146,276
Total Liabilities and Equity		$952,732	$(17,309)	$935,423	$963,781	$(17,623)	$946,158	$956,487	$(18,565)	$937,922

		Year ended December 31, 2010			Nine months ended September 30, 2010			Three months ended September 30, 2010		
	4(iii)	CGAAP	Change	IFRS	CGAAP	Change	IFRS	CGAAP	Change	IFRS
Revenues		$207,217	$ -	$207,217	$150,155	$ -	$150,155	$49,589	$ -	$49,589
Investment income		201	-	201	94	-	94	87	-	87
Total Revenues		207,418	-	207,418	150,249	-	150,249	49,676	-	49,676
Commodity charges		13,495	-	13,495	4,555	-	4,555	1,631	-	1,631
Selling, general & administrative		37,704	-	37,704	25,012	-	25,012	8,980	-	8,980
Amortization	b	110,329	(1,256)	109,073	83,395	(942)	82,453	27,601	(314)	27,287
Loss on disposal of equipment		21,340	-	21,340	16,667	-	16,667	5,756	-	5,756
Interest		43,797	-	43,797	33,131	-	33,131	10,693	-	10,693
Total operating expenses		226,665	(1,256)	225,409	162,760	(942)	161,818	54,661	(314)	54,347
Other income	a,c	1,015	489	1,504	1,015	700	1,715	1,015	700	1,715
Loss before income taxes		(18,232)	1,745	(16,487)	(11,496)	1,642	(9,854)	(3,970)	1,014	(2,956)
Income Tax recovery/(expense)	d	18,584	(376)	18,208	15,071	(282)	14,789	5,266	(94)	5,172
Net earnings for the year		$ 352	$1,369	$1,721	$3,575	$1,360	$4,935	$1,296	$ 920	$2,216
Basic and diluted earnings per share		$ 0.01	$ -	$ 0.03	$ 0.07	$ -	$ 0.10	$ 0.02	$ -	$ 0.04
Comprehensive income:										
Net earnings for the year		$ 352	$1,369	$1,721	$3,575	$1,360	$4,935	$1,296	$ 920	$2,216
Amortization of accumulated other comprehensive loss		3,698	-	3,698	2,766	-	2,766	932	-	932
Comprehensive income for the year		$4,050	$1,369	$5,419	$6,341	$1,360	$7,701	$2,228	$ 920	$3,148

(iii) Explanatory Notes

(a) Stratacon was acquired in August 2008, and the purchase price included additional purchase price consideration based on future performance measures which were not required to be recorded in prior CGAAP financial statements. The IFRS January 1, 2010 statement of financial position reflects the required accrual for this contingent consideration of $5,000 which was based on an estimate of the actual payment in 2011. The accrual is evaluated and revised each reporting period with any changes charged to earnings. During the third quarter of 2010, $700 was recorded in other income as a result of the reduction in the estimated contingent liability.

(b) As at January 1, 2010, under CGAAP the carrying value of intangible assets was evaluated on an undiscounted cost recovery methodology. On transition to IFRS certain specific indicators of impairment were reviewed resulting in a charge of $18,565 based on the discounted value in use of these assets. Equity was reduced by $14,035 net of a reduction in deferred tax liabilities of $4,530. Under CGAAP amortization was based on intangible asset values without any impairment provision in 2010, as such, amortization and deferred tax recoveries for 2010 have been reduced under IFRS to give effect to the impairment recorded January 1, 2010.

(c) These adjustments reflect the initial recognition of the fair value of the convertible debenture conversion feature as a financial liability with subsequent fair value changes in 2010 being reflected through earnings. With the conversion of EnerCare to a corporation on January 1, 2011, the fair value of the conversion feature has been transferred from other liabilities to equity.

(d) Deferred income tax liabilities have been adjusted to give effect to the changes in intangible assets and amortization.

(e) Comparative deferred tax balances have been reclassified to conform to the current year's financial statement presentation.

(iv) Adjustments to the Statement of Cash Flows

The transition from CGAAP to IFRS had no significant impact on cash flows generated by EnerCare.

5. Cash and Cash Equivalents

	September 30, 2011	December 31, 2010	January 1, 2010
Cash at bank and in hand	**$13,844**	$52,495	$19,341
Short-term deposits	**55,450**	-	5,998
Ending balance	**$69,294**	$52,495	$25,339

6. Accounts Receivable

	September 30, 2011	December 31, 2010	January 1, 2010
Accounts receivable (net of provision)	**$29,393**	$25,329	$15,636
Bad and doubtful debt provision:			
Opening balance	**759**	37	37
Charge for the period	**280**	314	-
Ending balance	**$ 1,039**	$ 351	$ 37

7. Accounts Payable and Accrued Liabilities

	September 30, 2011	December 31, 2010	January 1, 2010
Accounts payable	**$13,032**	$13,942	$ 9,549
Accruals	**9,809**	8,421	4,443
Current taxes payable	**5,016**	-	-
Other payables	**1,856**	2,672	610
Ending balance	**$29,713**	$25,035	$14,602

8. Equipment

	Water Heaters	Sub-metering	Other	Total
At January 1, 2010:				
Cost	$757,801	$12,227	$ 886	$770,914
Accumulated depreciation	(303,759)	(2,957)	(485)	(307,201)
Net book value	454,042	9,270	401	463,713
Additions	68,803	24,439	1,742	94,984
Disposals	(25,005)	-	-	(25,005)
Depreciation for the period	(57,734)	(4,122)	(958)	(62,814)
At December 31, 2010	440,106	29,587	1,185	470,878
At December 31, 2010:				
Cost	$773,441	$ 36,620	$ 2,627	$812,688
Accumulated depreciation	(333,335)	(7,033)	(1,442)	(341,810)
Net book value	440,106	29,587	1,185	470,878
Additions	45,204	6,785	2,709	54,698
Disposals	(17,307)	-	-	(17,307)
Acquisition Adjustment		(5,116)		(5,116)
Depreciation for the period	(41,516)	(1,599)	(399)	(43,514)
At September 30, 2011	426,487	29,657	3,495	459,639
At September 30, 2011:				
Cost	780,856	38,289	5,336	824,481
Accumulated depreciation	(354,369)	(8,632)	(1,841)	(364,842)
Net book value	$426,487	$29,657	$3,495	$459,639

9. Intangible Assets

	Customer Relationships	Customer Contracts	Total
At January 1, 2010:			
Cost	$743,336	$29,399	$772,735
Accumulated depreciation	(320,922)	(26,387)	(347,309)
Net book value	422,414	3,012	425,426
Additions	-	1,545	1,545
Amortization for the year	(46,393)	(2,634)	(49,027)
At December 31, 2010	376,021	1,923	377,944
At December 31, 2010:			
Cost	$743,336	$30,944	$774,280
Accumulated depreciation	(367,315)	(29,021)	(396,336)
Net book value	376,021	1,923	377,944
Acquisition Adjustment		(79)	(79)
Amortization for the year	(34,797)	(158)	(34,955)
At September 30, 2011	341,224	1,686	342,910
At September 30, 2011:			
Cost	743,336	30,865	774,201
Accumulated depreciation	(402,112)	(29,179)	(431,291)
Net book value	$341,224	$ 1,686	$342,910

10. Debt

	September 30, 2011	December 31, 2010
Short term debt:		
Opening balance as at January 1	**$ -**	$ 27,438
Current portion of long-term debt	**61,120**	1,195
New debt	**-**	240,000
Repayment of debt	**-**	(267,438)
	$ 61,120	$ 1,195
Long term debt:		
Opening balance as at January 1	**$600,361**	$561,691
Current portion of long-term debt	**(61,120)**	(1,195)
New debt	**-**	267,883
Repayment of debt	**(1,508)**	(226,167)
Debenture conversion	**(6,500)**	-
Transaction cost accretion	**1,185**	(3,046)
	532,418	599,166
Current portion	**61,120**	1,195
Non-current portion	**532,418**	599,166
Ending balances	**$593,538**	$600,361

Under its revolving credit facility, EnerCare Solutions is subject to three principal financial covenants as defined in the loan documents. The covenants address interest and debt coverage. At September 30, 2011, EnerCare Solutions complied with these covenants and had the ability to draw the full revolver limit of $35,000.

The long term debt balance includes the following items:

The 2009 senior debt consists of $60,000 6.20% 2009-1 Notes maturing April 30, 2012 and $270,000 6.75% 2009-2 Notes maturing April 30, 2014. Semi-annual interest payments are due on April 30 and October 30 in each year. These notes are collectively the “2009 Notes”.

On February 19, 2010, the Trust issued debt consisting of $240,000 5.25% 2010 Notes (the “2010 Notes”) with semi-annual interest payments on March 15 and September 15 in each year, with a maturity date of March 15, 2013.

On June 8, 2010 and July 6, 2010, EnerCare issued a total of $27,883 of 6.25% convertible unsecured subordinated debentures, with interest payable semi-annually on June 30 and December 31, commencing December 31, 2010, until maturity in June 2017. Each convertible debenture is convertible into shares at the option of the holder at a conversion price of $6.48 per Unit (or 154.3210 shares per $1,000 principal amount of convertible debentures). The convertible debentures will not be redeemable by EnerCare prior to June 30, 2013. On and after June 30, 2013, and prior to June 30, 2015, EnerCare may redeem with proper notice the convertible debentures provided that the volume weighted average trading price of the shares for the 20 trading days prior to the 5th trading day before the redemption notification date is not less than 125% of the conversion price. On or after June 30, 2015, EnerCare may redeem with proper notice the convertible debentures for the principal amount plus accrued and unpaid interest. As at September 30, 2011, the principal balance of the convertible debentures was $20,651 as a result of debenture holder conversions. An amount of $2,449 was transferred during the third quarter of 2011, and $6,500 year to date, from liabilities to equity to recognize the impact of the debenture conversions.

Debt was assumed with the Stratacon acquisition in 2008. The secured debt of $6,980 was arranged in a series of advances bearing interest at rates between 7.50% and 8.75% with repayment terms ranging from 4 to 14 years ending in 2022.

11. Income Tax

Income tax expense is recognized based on management’s best estimates of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the year ended December 31, 2010 and the nine months ended September 30, 2011 was 31.00% and 28.25%, respectively.

12. Share Capital

	September 30, 2011		September 30, 2010	
Shares Issued and Outstanding	**Shares**	**Net Proceeds**	Shares	Net Proceeds
At January 1	**54,734**	**$500,546**	49,524	$476,868
Issued	**1,116**	**6,500**	5,210	23,678
Shares purchased and cancelled				
Totals	**55,850**	**$507,046**	54,734	$500,546

EnerCare’s articles of incorporation provide for the issuance of an unlimited number of common shares and 10,000,000 preferred shares. Shares issued in 2011 are on account of conversion of convertible debentures. At September 30, 2011, there were no preferred shares outstanding.

13. Earnings per Share

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the period. Dilutive computations are based upon: (i) an if converted approach where interest expense attributable to the convertible debentures on an after tax basis is added back to earnings as part of the numerator and the impact of additional shares as a result of the conversion feature of 154.3210 shares per $1,000 principal amount is added to the denominator and (ii) stock options whereby the number of dilutive shares is calculated as the difference between the number of shares issued and the number of shares that would have been issued at the average market price during the period based upon the assumed initial proceeds. Options are not dilutive if the average price is below the strike price. The convertible debentures and stock options were anti-dilutive for 2011 and therefore were excluded from the calculation of diluted earnings per share. During the third quarter of 2010, EnerCare had $27,883 of convertible debentures outstanding with no stock options.

The computations of basic and diluted earnings per share are shown below:

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
(in thousands – except per share amounts)	**2011**	2010	**2011**	2010
Net earnings	**$ 5,618**	$ 2,216	**$ 6,239**	$ 4,935
After tax impact of convertible debentures	**301**	377	**1,021**	457
Fully diluted net earnings	**5,919**	2,593	**7,260**	5,392
Weighted average shares outstanding	**55,728**	54,734	**55,298**	51,719
Dilutive impact of convertible debentures and stock options	**3,209**	4,303	**3,198**	547
Fully diluted shares outstanding	**58,937**	59,037	**58,496**	52,266
Basic (loss)/earnings per share	**$ 0.10**	$ 0.04	**$ 0.11**	$ 0.10
Diluted (loss)/earnings per share	**$ 0.10**	$ 0.04	**$ 0.11**	$ 0.10

14. Dividends

The following table outlines the dividend declarations as approved by the board of directors and the related per share amounts.

	September 30, 2011	September 30, 2010
Dividends declared per share during the period	**$0.162**	$0.162
Dividends declared after September 30, 2011:		
Dollars	**3,016**	2,956
Per share amount	**$0.054**	$0.054

15. Long Term Compensation Plans

EnerCare operates two cash based and one share based compensation plans: the Performance Share Unit Plan ("PSUP"), Deferred Share Unit Plan ("DSUP") and the Share Option Plan ("SOP"). Prior to 2011, the Performance Unit Plan ("PUP") plans were presented in aggregate for both EnerCare employees and non-employee directors. These plans have been classified to conform to the current 2011 presentation.

Cash Based Payment Plans

The PSUP awards phantom shares to management in consideration for past services provided, support achievement of EnerCare's performance objectives; align interests of key persons with the success of EnerCare, and to retain management. These phantom shares vest equally over a three year period, and are based on the achievement of certain service and/or performance criteria, and are non-forfeitable. Dividends on the Phantom shares accrue at the same rates as dividends on the shares.

EnerCare adopted the DSUP effective January 1, 2011 for non-employee directors to assist EnerCare to promote a greater alignment of interests between the directors and the shareholders, provide a compensation system for the directors that is reflective of the responsibility, commitment and risk accompanying board membership; assist EnerCare to attract and retain individuals with experience and ability to serve as members of the board; and allow the directors to participate in the long-term success of EnerCare. Pursuant to the DSUP, directors will receive 50% of their fees in the form of deferred share units until the director has met the director's share ownership requirements. Directors may also elect once each calendar year to receive any portion of their fees in the form of deferred share units for the year, such election can be changed on a quarterly basis. A director's entitlement under the DSUP may be redeemed only when the director ceases to be a director and must be redeemed no later than the end of the calendar year following the date the director ceases to be a director. Dividends on these deferred shares accrue at the same rates as dividends on the shares.

Share Based Payment Plans

Effective January 1, 2011, EnerCare implemented a stock option plan for officers of EnerCare. The purpose of the plan is to support the achievement of the corporation's objectives, align officer interests with the success of the corporation and provide compensation opportunities to attract retain and motivate key management employees. Options must be exercised within 8 years after the grant date with vesting equally over the first 3 years. All vested options must be exercised within 2 years, 1 year or 90 days of the termination date in respect of retirement/disability, death and termination, respectively. Options are settled through the issuance of treasury shares for the strike price consideration.

The fair value of the options at the date of grant was determined using the Black-Scholes option pricing model giving consideration to the terms of the plan and EnerCare's performance. The significant variables included in the model were as follows:

- An expected option life of approximately 5.5 years;
- A risk free rate based upon Government of Canada bonds corresponding to the expected option life;
- Stock prices based upon the daily close for the past 36 months resulting in a 33% volatility measure; and
- Dividend yield was based on historical levels preceding the date of grant.

The weighted average remaining contractual life is approximately 8 years.

Changes in the number of long term compensation plan awards outstanding and their related weighted average prices are as follows:

(in thousands except price)	PSUP #	PSUP $	DSUP #	DSUP $	SOP #	SOP $
At January 1, 2011	225	6.84	74	-	-	-
Granted	71	6.84	29	6.84	416	7.07
Director's optional purchases	-	-	12	7.55	-	-
Phantom dividends	12	-	13	-	-	-
Forfeited	(78)	-	(24)	-	-	-
Exercised	(31)	6.84	-	-	-	-
Expired	-	-	(17)	-	-	-
At September 30, 2011	**199**	**7.21**	**87**	**7.21**	**416**	**-**
Expensed in the period	**-**	**364**	**-**	**277**	**-**	**110**
Liabilities payable	**-**	**659**	**-**	**352**	**-**	**-**

	PUP		PUP		SOP	
	Employees		Non-employee Directors		N/A	
(in thousands except price)	#	$	#	$	#	$
At January 1, 2010	152	4.05	44	4.05	-	-
Granted	114	4.05	29	4.05	-	-
Phantom dividends	25	-	7	-	-	-
Exercised	(22)	4.05	-	-	-	-
Expired	-	-	(8)	-	-	-
At September 30, 2010	269	5.07	72	5.07	-	-
Expensed in the period	-	232	-	35	-	-
Liabilities payable	-	300	-	41	-	-

Price per share is the average price per share at the close of market on the day preceding the last trading day of the month or the five day weighted dollar volume average immediately preceding the last trading day of the month as applicable to the terms of the plans.

16. Commitments

Under operating lease agreements for office premises, office equipment and vehicles, EnerCare is required to make annual minimum lease payments. The aggregate amount of future minimum payments is as follows:

	September 30, 2011
Payments due within 1 year	**$ 451**
Payments due between 1 and 2 years	**348**
Payments due between 2 and 3 years	**248**
Payments due between 3 and 4 years	**328**
Payments due between 4 and 5 years	**386**
Payments due after 5 years	**161**
Total commitments under non-cancellable operating leases	**$1,922**

The operating lease payments recognized in the statement of income for the three and nine months ended September 30, 2011 is $121 and $442, respectively (September 30, 2010; $85 and $264, respectively).

17. Contingent Liabilities

EnerCare is a party to a number of product liability claims and lawsuits in the ordinary course of business. Management is of the opinion that any liabilities that may arise from these lawsuits have been adequately provided for in these consolidated financial statements.

18. Financial Instruments

The main risks EnerCare's financial instruments are exposed to include credit risk, liquidity risk and market risk.

Credit Risk

EnerCare is exposed to credit risk on accounts receivable from customers. EnerCare's credit risk is considered to be low.

EnerCare's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. For less than 5% of its Rental portfolio, EnerCare is exposed to credit risk in the normal course of business for customers who are billed by DE or are billed by EGD outside their service territory. For accounts receivable from customers billed on EGD invoices within their service territory, EnerCare is guaranteed payment by EGD for 99.47% of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued. A related trust agreement also serves to mitigate EnerCare's credit exposure on receivables owing from EGD. EnerCare is exposed to credit risk in the Sub-metering business for billable service charges and commodity charges when paid on behalf of the landlord and passed through to customers. For a small percentage of Sub-metering buildings, customer payments are collected by EnerCare and remitted net of service charges to landlords, mitigating credit risk.

There are no amounts that are past due nor impaired that have not been provided for.

Liquidity Risk

EnerCare believes it has low liquidity risks given the makeup of its accounts payable and accrued liabilities. EnerCare measures liquidity risk through comparisons of current financial ratios with the financial covenants contained in its credit facility agreement, Master Trust Indenture and Supplemental Trust Indentures as applicable. To reduce liquidity risk, EnerCare has maintained financial ratios which comply with the financial covenants applicable to the borrowings and has staggered its senior debt maturity dates through to April 30, 2014.

The covenants under the 2009 Notes and 2010 Notes are contained in a Master Trust Indenture and Supplemental Trust Indentures effective January 29, 2010 and February 19, 2010, respectively. Under the terms of these indentures, EnerCare may not incur additional senior debt other than certain refinancing debt and certain working capital debt if the incurrence test is less than 3.8 to 1. The incurrence test is the ratio of defined EBITDA over defined interest expense calculated 12 months in arrears. EnerCare exceeded this threshold requirement at September 30, 2011.

EnerCare is examining opportunities to refinance its 2010 Notes (maturing in 2013) and 2009-2 Notes (maturing in 2014) in order to take advantage of the current low interest environment. In respect of the $60,000 2009-1 Notes (maturing in 2012), EnerCare expects to refinance or repay from cash on hand, in whole or part, these notes on or before April 30, 2012. EnerCare continues to generate considerable cash flow from operations as a result cash and cash equivalents increased by approximately $16,800 so far this year to $69,294 as of September 30, 2011. In addition, EnerCare has an unused line of credit of $35,000 available.

The summary of financial obligations and contractual maturities related to undiscounted non-derivative financial liabilities excluding accounts payable was as follows:

	September 30, 2011
Due within 1 month	$ 11,111
Due within 1 to 3 months	924
Due within 3 to 12 months	85,448
Due within 1 to 5 years	563,869
Due over 5 years	23,067
Total obligations	$684,419

Market Risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of EnerCare. Short-term instruments (accounts receivable, accounts payable and accrued liabilities) are not subject to market risk.

Following the completion of financing activities through to July 2010, EnerCare's borrowings are fixed rate obligations maturing in 2012, 2013 and 2014. The fixed rate obligations assumed with the Stratacon acquisition have maturities through 2022.

EnerCare's market risk is considered to be low.

Fair Value

The carrying values of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate their fair values due to their relatively short periods to maturity.

Fair value measurements recognized in the consolidated statement of financial position must be categorized in accordance with the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

The following table presents the carrying amounts and the fair values of EnerCare's financial assets and liabilities at September 30, 2011 and December 31, 2010. The fair values of the financial instruments are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	September 30, 2011		December 31, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 69,294**	**$ 69,294**	$ 52,495	$ 52,495
Trade and other receivables in the scope of IAS 39	**29,393**	**29,393**	25,329	25,329
Total financial assets	**$ 98,687**	**$ 98,687**	$ 77,824	$ 77,824
Financial liabilities measured at amortized cost:				
Gross Senior borrowings	**$570,000**	**$599,535**	$570,000	$585,495
Gross Convertible Debentures	**20,651**	**26,640**	27,883	29,556
Stratacon Debt	**6,980**	**6,980**	8,488	8,488
Deferred transaction costs	**(4,093)**	**-**	(6,010)	-
Total borrowings	**593,538**	**633,155**	600,361	623,539
Trade and other payables in the scope of IAS 39	**45,542**	**45,542**	39,437	39,437
Total financial liabilities	**$638,080**	**$678,697**	$639,798	$662,976

19. Capital Risk Management

EnerCare's capital management strategy is designed to maintain financial strength and flexibility to support profitable growth in all business environments. EnerCare continually monitors its capital management strategy and makes adjustments as appropriate. EnerCare's capital management strategy, objectives, evaluation measures, definitions and targets have not changed significantly from the prior year.

EnerCare was in compliance with all covenants under the 2009 Notes, 2010 Notes and revolver as at September 30, 2011.

20. Selling, General and Administrative

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2011	2010	**2011**	2010
Employee compensation and benefits	**$2,527**	$2,335	**$ 7,397**	$ 6,024
Professional fees	**782**	1,257	**3,609**	3,351
Selling, office and other	**1,651**	1,230	**6,733**	3,343
Billing and servicing	**2,611**	2,237	**7,712**	7,149
Claims and bad debt	**1,319**	1,921	**2,517**	5,145
Total	**$8,890**	$8,980	**$27,968**	$25,012

21. Related Parties

Key Management

Key management includes EnerCare's officers and directors. External director's fees are included in professional fees as part of total selling, general and administrative expenses. Total compensation and benefits to key management for employee services is shown below:

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2011	2010	**2011**	2010
Salaries and short-term benefits	**$387**	$645	**$1,617**	$1,790
Other employment benefits	**23**	44	**62**	81
Long term benefits	**298**	112	**605**	341
Total	**$708**	$801	**$2,284**	$2,212

22. Provisions

On a regular basis, EnerCare evaluates key accounting estimates based upon historical information, internal and external factors and probability factors to measure provisions. The key provision is on account of claims as a result of water damage caused by faulty water heaters. The claims provision is a current liability estimated as the product of the average anticipated dollar loss and the current and anticipated incidents.

	Claims
At December 31, 2010	$2,728
Charged/(credited) to the statement of income:	
Additional provisions	2,807
Unused amounts reversed	(842)
Used during the period	(2,768)
As at September 30, 2011	$1,925

23. Changes in Working Capital

The following table reconciles the changes in working capital during the comparative periods as presented in the statement of cash flows.

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2011	2010	**2011**	2010
Accounts and other receivables	**$(2,515)**	$ 622	**$(4,064)**	$(4,601)
Prepaid and other assets	**197**	111	**(968)**	1,878
Accounts payable and accrued liabilities	**70**	2,503	**1,220**	2,094
Provisions	**(203)**		**(803)**	
Interest payable	**2,659**	2,682	**2,659**	1,435
Amortization of bridge fees	**-**	-	**-**	(1,440)
Total	**$ 208**	$5,918	**$(1,956)**	$ (634)

24. Segment information

Management has determined the operating segments based on the reports reviewed by the President and CEO that are used to make strategic decisions.

The President and CEO considers EnerCare from a product perspective. The reportable operating segments derive their revenue primarily from (a) the rental of water heaters and other energy related assets and, (b) the sub-metering of multi-unit residential and commercial properties.

The Rentals segment consists of a portfolio of approximately 1.2 million installed water heaters and other assets, rented primarily to residential customers in Ontario. The Sub-metering segment is engaged principally in providing the equipment and services to allow sub-metering and remote measurement of electricity and water consumption in individual units in condominiums, apartment buildings and commercial properties primarily in Ontario. The Corporate segment reports the costs for management oversight of the combined business, public reporting and filings, financing activities, corporate governance and related expenses. There are no transfers between the Rentals and Sub-metering segments so no inter-segment eliminations are required.

EnerCare assessed its performance of the reporting units on a measure of EBITDA as follows:

	Three months ended September 30, 2011				Three months ended September 30, 2010			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$46,853**	**$16,011**	**$ -**	**$ 62,864**	$46,951	$ 2,638	$ -	$ 49,589
Expenses:								
Commodity	**-**	**(11,689)**	**-**	**(11,689)**	-	(1,631)		(1,631)
SG&A	**(3,730)**	**(2,648)**	**(2,512)**	**(8,890)**	(5,835)	(1,610)	(1,535)	(8,980)
Adjusted EBITDA	**43,123**	**1,674**	**(2,512)**	**42,285**	41,116	(603)	(1,535)	38,978
Loss on disposal	**(4,718)**	**-**	**-**	**(4,718)**	(5,756)	-	-	(5,756)
EBITDA	**38,405**	**1,674**	**(2,512)**	**37,567**	35,360	(603)	(1,535)	33,222
Amortization	**(25,478)**	**(615)**	**(33)**	**(26,126)**	(26,705)	(543)	(39)	(27,287)
Interest income				**168**				87
Interest expense				**(10,433)**				(10,693)
Other Income				**254**				1,715
Current taxes				**(1,478)**				-
Deferred tax recovery				**5,666**				5,172
Net earnings/(loss)				**5,618**				2,216
Segment assets	**799,273**	**44,206**	**72,789**	**916,268**	853,645	13,421	79,092	946,158
Equipment additions	**14,633**	**2,193**	**1,231**	**18,057**	16,507	240	84	16,831
Segment liabilities	**$81,478**	**$11,015**	**$692,026**	**$784,519**	$17,923	$ 5,226	$770,548	$793,697

	Nine months ended September 30, 2011				Nine months ended September 30, 2010			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$140,493**	**$43,600**	**-**	**$184,093**	$142,530	$ 7,625	$ -	$150,155
Expenses:								
Commodity	**-**	**(32,007)**	**-**	**(32,007)**	-	(4,555)	-	(4,555)
SG&A	**(11,848)**	**(7,720)**	**(8,400)**	**(27,968)**	(16,116)	(5,117)	(3,779)	(25,012)
Adjusted EBITDA	**128,645**	**3,873**	**(8,400)**	**124,118**	126,414	(2,047)	(3,779)	120,588
Loss on disposal	**(14,219)**	**-**	**-**	**(14,219)**	(16,667)	-	-	(16,667)
EBITDA	**114,426**	**3,873**	**(8,400)**	**109,899**	109,747	(2,047)	(3,779)	103,921
Amortization	**(76,471)**	**(1,599)**	**(399)**	**(78,469)**	(80,801)	(1,544)	(108)	(82,453)
Interest income				**420**				94
Interest expense				**(31,690)**				(33,131)
Other income				**2,383**				1,715
Current taxes				**(4,943)**				-
Deferred tax recovery				**8,639**				14,789
Net earnings/(loss)				**6,239**				4,935
Segment assets	**799,273**	**44,206**	**72,789**	**916,268**	853,645	13,421	79,092	946,158
Equipment additions	**45,203**	**6,785**	**2,710**	**54,698**	51,739	1,300	356	53,395
Segment liabilities	**$81,478**	**$11,015**	**$692,026**	**$784,519**	$ 17,923	$ 5,226	$770,548	$793,697

The amounts provided to the President and CEO with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets and liabilities are allocated based on the operation of the segment. Segment assets for 2010 have been restated to conform to the 2011 presentation.