EnerCare Inc.

Consolidated Financial Statements

Year Ended December 31, 2011

Dated February 23, 2012

February 23, 2012

Independent Auditor's Report

To the Shareholders of
EnerCare Inc.

We have audited the accompanying consolidated financial statements of EnerCare Inc. which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EnerCare Inc. as at December 31, 2011, December 31, 2010, and January 1, 2010 and its

PricewaterhouseCoopers LLP, Chartered Accountants
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

EnerCare Inc.

Consolidated Statements of Financial Position

(in thousands of Cdn $)		**As at December 31, 2011**		As at December 31, 2010		As at January 1, 2010
						(note 4)
Assets						
Current assets						
Cash and cash equivalents (note 5)	**$**	**75,290**	$	52,495	$	25,339
Accounts receivable (note 6)		**27,275**		25,329		15,636
Deposits		**-**		1,435		1,435
Prepaid and other assets		**3,590**		3,224		3,742
		106,155		82,483		46,152
Equipment (note 8)		**458,890**		470,878		463,713
Intangible assets (note 9)		**331,212**		377,944		425,426
Goodwill (note 25)		**2,962**		-		-
Deferred tax asset (note 11)		**7,739**		4,118		2,631
	$	**906,958**	$	935,423	$	937,922
Liabilities						
Current liabilities						
Bank indebtedness (note 10)	**$**	**-**	$	-	$	27,438
Current portion of long-term debt (note 10)		**61,131**		1,195		226,149
Accounts payable and accrued liabilities (note 7)		**34,105**		25,035		14,602
Provisions (note 22)		**1,592**		2,728		2,153
Interest payable		**7,907**		7,374		8,803
Other liabilities payable (note 3)		**855**		4,300		-
Dividends payable		**3,091**		-		2,674
		108,681		40,632		281,819
Long-term debt (note 10)		**530,431**		599,166		335,542
Other liabilities payable (note 4)		**-**		1,749		5,000
Deferred tax liability (note 11)		**144,439**		152,564		169,285
		783,551		794,111		791,646
Shareholders' equity		**123,407**		141,312		146,276
	$	**906,958**	$	935,423	$	937,922

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

EnerCare Inc.
Consolidated Statements of Income

For the years ended December 31, (in thousands of Cdn $, except per share amounts)		2011		2010
				(note 4)
Revenues				
Rentals and services	**$**	**243,907**	$	207,217
Investment income		**594**		201
Total revenues		**244,501**		207,418
Expenses				
Commodity charges		**41,941**		13,495
Selling, general & administrative (note 20)		**38,438**		37,704
Amortization				
Capital assets		**58,050**		60,046
Intangibles		**46,653**		49,027
Loss on disposal of equipment		**19,099**		21,340
Impairment of assets (note 8)		**458**		-
Interest				
Short-term		**215**		3,460
Long-term		**41,852**		40,337
Total operating expenses		**246,706**		225,409
Other income (note 3)		**2,383**		1,504
Earnings/(loss) before income taxes		**178**		(16,487)
Tax expense				
Current tax expense (note 11)		**5,708**		-
Deferred income tax recovery (note 11)		**(9,513)**		(18,208)
Total tax recovery		**(3,805)**		(18,208)
Net income for the period	**$**	**3,983**	$	1,721
Weighted average number of shares outstanding (notes 12, 13)		**55,470**		52,479
Diluted shares outstanding (notes 12, 13)		**58,326**		53,026
Basic/diluted earnings per share (note 13)	**$**	**0.07**	$	0.03

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

EnerCare Inc.
Consolidated Statements of Comprehensive Income

For the years ended December 31, (in thousands of Cdn $)		2011		2010
Net income for the period	$	3,983	$	1,721
Amortization of accumulated other comprehensive loss to net income		3,694		3,698
Comprehensive income for the period	**$**	**7,677**	$	5,419

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

EnerCare Inc.
Consolidated Statements of Changes in Equity

(in thousands of Cdn $)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Deficit	Total
	(note 12)				
Balance - January 1, 2010 (note 4)	$ 476,868	$ -	$ (14,673)	$ (315,919)	$ 146,276
Net income for the period	-	-	-	1,721	1,721
Shares issued (net of issue costs) (notes 10, 12)	23,678	-	-	-	23,678
Other comprehensive loss:					
Amortization	-	-	3,698	-	3,698
Dividends	-	-	-	(34,061)	(34,061)
Balance - December 31, 2010 (note 4)	$ 500,546	$ -	$ (10,975)	$ (348,259)	$ 141,312
Balance - January 1, 2011	**$ 500,546**	**$ -**	**$ (10,975)**	**$ (348,259)**	**$ 141,312**
Net income for the period	**-**	**-**	**-**	**3,983**	**3,983**
Shares issued on debenture conversion (net of issue costs) (notes 10, 12)	**9,176**	**(597)**	**-**	**-**	**8,579**
Other comprehensive loss:					
Amortization	**-**	**-**	**3,694**	**-**	**3,694**
Employee share options:					
Value of services recognized (note 15)	**-**	**156**	**-**	**-**	**156**
Conversion rights - equity allocation (notes 3, 4)	**-**	**1,749**	**-**	**-**	**1,749**
Dividends	**-**	**-**	**-**	**(36,066)**	**(36,066)**
Balance - December 31, 2011	**$ 509,722**	**$ 1,308**	**$ (7,281)**	**$ (380,342)**	**$ 123,407**

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

EnerCare Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, (in thousands of Cdn $)		2011		2010
Cash provided by/(used in):				
Operating activities				
Net income for the period	**$**	**3,983**	$	1,721
Items not affecting cash				
Amortization				
Capital assets (note 8)		**58,050**		60,046
Intangibles (note 9)		**46,653**		49,027
Loss on disposal of equipment (note 8)		**19,099**		21,340
Impairment of assets (note 8)		**458**		-
Non-cash interest expense		**5,260**		6,529
Employee share options (note 15)		**156**		-
Contingent consideration on Stratacon acquisiton (note 3)		**(2,383)**		-
Deferred income tax recovery (note 11)		**(9,513)**		(18,208)
Operating cash flow		**121,763**		120,455
Net change in non-cash working capital (note 23)		**6,155**		(99)
Cash provided by operating activities	**$**	**127,918**	$	120,356
Investing activities				
Purchase of equipment (note 8)		**(74,667)**		(72,190)
Acquisition of EnerCare Connections Inc. (note 25)		**-**		(22,508)
Payment of contingent consideration on Stratacon acquisition (note 3)		**(1,062)**		(700)
Proceeds from disposal of equipment (note 8)		**3,932**		3,665
Cash used in investing activities	**$**	**(71,797)**	$	(91,733)
Financing activities				
Dividends to shareholders		**(32,975)**		(36,735)
Proceeds from share issuance (net of issue costs)		**-**		23,678
Proceeds from deposits		**1,435**		-
Repayment of line of credit		**-**		(27,438)
Proceeds from bridge facility		**-**		240,000
Repayment of bridge facility		**-**		(240,000)
Issuance of long-term debt		**-**		268,094
Repayment of long-term debt		**(1,786)**		(226,167)
Deferred financing costs on long-term debt		**-**		(2,899)
Cash used in financing activities	**$**	**(33,326)**	$	(1,467)
Increase in cash and cash equivalents		**22,795**		27,156
Cash and cash equivalents - beginning of period		**52,495**		25,339
Cash and cash equivalents - end of period	**$**	**75,290**	$	52,495
Supplementary information				
Interest paid	**$**	**36,274**	$	38,697
Income taxes paid	**$**	**-**	$	-

The accompanying notes are an integral part of these consolidated 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") changed its name to EnerCare Connections Inc. ("ECI"). EnerCare, through, 6814867 Canada Limited (which was continued into Ontario as 1759857 Ontario Limited on December 2, 2011), owned 100% of the issued and outstanding shares of both Stratacon and ECI. On January 1, 2012, 1759857 Ontario Limited, Stratacon Inc. and EnerCare Connections Inc. amalgamated. The name of the amalgamated company is EnerCare Connections Inc.

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements, specifically, 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 consolidated financial statements are based on IFRS issued and outstanding as of February 23, 2012, the date the board of directors approved the consolidated financial statements. The board also has the authority to amend the consolidated financial statements after they have been issued. Throughout these 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 consolidated financial statements are described below.

Basis of Measurement

The 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 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 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 liabilities are derecognized when the obligation is eliminated or EnerCare is no longer required to transfer economic resources to a third party in respect of the obligation

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, prior to the conversion of EnerCare to a corporation 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, provisions, interest payable, other liabilities payable and 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 Assets

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. The discount rate, if applied, would be the risk free rate at the then measurement date. 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.

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"). 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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. For goodwill, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified. Management monitors goodwill for internal purposes based on its operating segments.

To test for impairment, goodwill must be allocated to each segment that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those segments.

The unit to which goodwill has been allocated is tested for impairment at least annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, an impairment loss will be recognized.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order, first, reduce the carrying amount of any goodwill allocated to the unit; and then, reduce the carrying amounts of the other assets of the unit on a pro rata basis.

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 at issuance 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 amended in 2011 to, among other things, reflect 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 over the vesting 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 expected 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 6.20%, $60,000, Series 2009-1 Senior notes and the 6.75%, $270,000 Series 2009-2 Senior notes ("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 did 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 was no cumulative earnings impact. Subsequent to year end, EnerCare has collected $1,200 of the $1,700 accrual. The remaining balance is expected to be collected in 2012.

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 principle 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 early 2012.

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.

EBITDA and Adjusted EBITDA are Non-IFRS financial measures. Refer to the Non-IFRS Financial and Performance Measures section in the MD&A for the year ended December 31, 2011.

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 $3,672 ($3,100 in the fourth quarter of 2010) at December 31, 2011. Settlement with DE for a lower amount than billed could 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 financial statements as per Part V of the Canadian Institute of Chartered Accountants handbook ("CGAAP"). The IFRS January 1, 2010 statement of financial position reflects the required liability for this contingent consideration of $5,000, which was based on an estimate of the expected future performance. The January 1, 2010 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 the contracted fixed dollar amount per suite. The contingent consideration is re-measured based on revised estimates each reporting period with any differences recognized through earnings. As at December 31, 2010, the estimated contingent consideration of $4,300 decreased by $700 from $5,000 as at January 1, 2010 on account of a reduction in the estimated total obligation. As at December 31, 2011, the estimated payable of $855 decreased by $3,445 from $4,300 as at December 31, 2010. This decrease reflects a reduction in the estimated total obligation of $2,383, recorded as other income, and payments made during 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, 2015, with early adoption permitted. EnerCare has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10, *Consolidated Financial Statements,* was issued in May 2011. It introduces a single model in the control analysis to determining which investees should be consolidated. The consolidation procedures are carried forward from IAS 27 (2008). The control model is based on three elements: An investor controls an investee when (1) it is exposed or has rights to variable (e.g. residual) returns from its involvement with that investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between power and returns. The approach comprises a series of indicators of control, but no hierarchy is provided: preparers are required to analyze all facts and circumstances and apply their judgment in making the control assessment. Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee. In such a case that portion of the investee is a deemed separate entity (referred to as a silo) for the purpose of applying the consolidation requirements. In assessing control, the investor also needs to analyze substantial potential voting rights as well as currently exercisable potential voting rights. This is likely to change the control conclusion in some cases: currently exercisable potential voting rights might not be considered substantive and vice versa. Control is assessed on a continuous basis, i.e. it is reassessed as facts and circumstances change considerably. This standard is required to be applied for accounting periods beginning on or after January 1, 2013. EnerCare has not yet assessed the impact of the standard.

IFRS 13, *Fair Value Measurement*, was issued in May 2011. It defines “fair value” and sets out, in a single IFRS, a framework for measuring fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or liability at fair value, nor does it change what is measured at fair value in IFRSs or address how to present changes in fair value. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, but can, with early adoption permitted. EnerCare has not yet assessed the impact of the standard or 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 acquisitions occurring prior to January 1, 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	Jan. 1, 2010
Equity as reported under CGAAP		$ 160,516	$ 165,311
IFRS adjustments increase/(decrease):			
Contingent consideration	(a)	(5,000)	(5,000)
Other income (fair value change in contingent consideration)	(a)	700	-
Intangible assets	(b)	(18,565)	(18,565)
Financial instruments – convertible debentures	(c)	(1,538)	-
Convertible debentures - equity fair value	(c)	(211)	-
Amortization	(b)	1,256	-
Deferred income tax recovery	(d)	4,154	4,530
Equity as reported under IFRS		$ 141,312	$ 146,276

	4(iii)	December 31, 2010 CGAAP	Change	IFRS	January 1, 2010 CGAAP	Change	IFRS
Assets							
Current assets							
Cash and cash equivalents		$ 52,495	$ -	$ 52,495	$ 25,339	$ -	$ 25,339
Accounts receivable		25,329	-	25,329	15,636	-	15,636
Deposits		1,435	-	1,435	1,435	-	1,435
Prepaid and other asset		3,224	-	3,224	3,742	-	3,742
		82,483	-	82,483	46,152	-	46,152
Non-current assets							
Equipment		470,878	-	470,878	463,713	-	463,713
Intangible assets	(b)	395,253	(17,309)	377,944	443,991	(18,565)	425,426
Deferred Tax asset	(e)	4,118	-	4,118	2,631	-	2,631
Other non-current assets		870,249	(17,309)	852,940	910,335	(18,565)	891,770
Total Assets		$952,732	$(17,309)	$935,423	$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	226,149	-	226,149
Accounts payable and accrued liabilities		25,035	-	25,035	14,602	-	14,602
Provisions		2,728	-	2,728	2,153	-	2,153
Interest payable		7,374	-	7,374	8,803	-	8,803
Other liabilities payable	(a)	-	4,300	4,300	-	-	-
Dividends payable		-	-	-	2,674	-	2,674
		36,332	4,300	40,632	281,819	-	281,819
Non-current liabilities							
Long-term debt		599,166	-	599,166	335,542	-	335,542
Other liabilities payable	(a),(c)	-	1,749	1,749	-	5,000	5,000
Deferred tax liability	(b),(d),(e)	156,718	(4,154)	152,564	173,815	(4,530)	169,285
		755,884	(2,405)	753,479	509,357	470	509,827
Total Liabilities		$792,216	$ 1,895	$794,111	$791,176	$ 470	$791,646
Shareholders' Equity							
Share capital		$500,546	$ -	$ 500,546	$476,868	$ -	$476,868
Conversion rights-equity allocations	(c)	1,538	(1,538)	-	-	-	-
Retained earnings	(a),(b),(c),(d)	(330,593)	(17,666)	(348,259)	(296,884)	(19,035)	(315,919)
Accumulated other comprehensive income		(10,975)		(10,975)	(14,673)	-	(14,673)
Total Equity		160,516	(19,204)	141,312	165,311	(19,035)	146,276
Total Liabilities and Equity		$952,732	$(17,309)	$935,423	$956,487	$(18,565)	$937,922

	4(iii)	Year ended December 31, 2010 CGAAP	Change	IFRS
Revenues		$ 207,217	$ -	$ 207,217
Investment income		201		201
Total revenues		207,418		207,418
Commodity charges		13,495		13,495
Selling, general & administrative		37,704		37,704
Amortization	(b)	110,329	(1,256)	109,073
Loss on disposal of equipment		21,340		21,340
Interest		43,797		43,797
Total operating expenses		226,665	(1,256)	225,409
Other income	(a),(c)	1,015	489	1,504
Loss before income taxes	(e)	(18,232)	1,745	(16,487)
Income tax recovery/(expense)	(d)	18,584	(376)	18,208
Net earnings for the year		352	1,369	1,721
Basic and diluted earnings per share		.01		.03
Comprehensive income:				
Net earnings for the year		352	1,369	1,721
Amortization of accumulated other comprehensive income		3,698		3,698
Comprehensive income for the year		$ 4,050	$ 1,369	$ 5,419

(iii) Explanatory Notes

(a) Liability for Stratacon contingent consideration as described in note 3.

(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, in EnerCare's corporate segment, 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

Year ended December 31,	2011	2010
Cash at bank and in hand	**$ 17,344**	$ 52,495
Short-term deposits	**57,946**	-
Ending balance	**$ 75,290**	$ 52,495

6. Accounts Receivable

Year ended December 31,	2011	2010
Accounts receivable (net of provision)	**$ 27,275**	$ 25,329
Bad and doubtful debt provision:		
Opening balance	**$ 351**	$ 37
Charge for the period	**1,071**	314
Ending balance	**$ 1,422**	$ 351

7. Accounts Payable and Accrued Liabilities

Year ended December 31,	2011	2010
Accounts payable	**$ 14,968**	$ 13,942
Accruals	**9,847**	7,839
Long term compensation payables	**1,657**	582
Current taxes payable	**5,708**	-
Other payables	**1,925**	2,672
Ending balance	**$ 34,105**	$ 25,035

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	1,645	1,742	72,190
EECI acquisition (note 25)		20,026		20,026
Disposals	(25,005)	-	-	(25,005)
Depreciation for the period	(57,734)	(1,354)	(958)	(60,046)
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	60,503	10,260	3,904	74,667
Disposals	(23,031)	-	-	(23,031)
Acquisition adjustment (note 25)	-	(5,116)	-	(5,116)
Impairment	-	(458)	-	(458)
Depreciation for the period	(55,253)	(2,256)	(541)	(58,050)
At December 31, 2011	$ 422,325	$ 32,017	$ 4,548	$ 458,890
At December 31, 2011:				
Cost	782,854	41,306	6,531	830,691
Accumulated depreciation	(360,529)	(9,289)	(1,983)	(371,801)
Net book value	$ 422,325	$ 32,017	$ 4,548	$ 458,890

An impairment provision of $458 was taken on certain Sub-metering assets during the fourth quarter of 2011. The provision covers assets in work in progress which are no longer proceeding forward under a contract and some equipment which may never become income generating property for EnerCare.

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 (including EECI acquisition) (note 25)	-	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 (note 25)	-	(79)	(79)
Amortization for the year	(46,396)	(257)	(46,653)
At December 31, 2011	329,625	1,587	331,212
At December 31, 2011:			
Cost	743,336	30,865	774,201
Accumulated depreciation	(413,711)	(29,278)	(442,989)
Net book value	$ 329,625	$ 1,587	$ 331,212

10. Debt

Year ended December 31,	**2011**	2010
Bank indebtedness:		
Opening balance as at January 1	**$ -**	$ 27,438
Repayment of debt	**-**	(27,438)
Total bank indebtedness	**-**	-
Current portion of long term debt:		
Opening balance as at January 1	**$ 1,195**	$ 226,149
Current portion of long-term debt	**61,131**	1,195
New debt	**-**	240,000
Repayment of debt	**(1,195)**	(466,149)
Total current portion	**$ 61,131**	$ 1,195
Non-current portion of long term debt:		
Opening balance as at January 1	**$ 599,166**	$ 335,542
Current portion of long-term debt	**(61,131)**	(1,195)
New debt	**-**	267,883
Repayment of debt	**(591)**	(18)
Debenture conversion	**(9,522)**	-
Net deferred financing costs and interest accretion	**2,509**	(3,046)
Total non-current portion	**$ 530,431**	$ 599,166

Under its revolving credit facility, which matures on January 28, 2014, EnerCare has a standby charge of 0.31%. EnerCare Solutions is subject to three principal financial covenants as defined in the loan documents. The covenants address interest and debt coverage. At December 31, 2011, EnerCare Solutions complied with these covenants and is able to fully utilize the revolver limit of $35,000. As at December 31, 2011 no amounts have been drawn on this revolver.

The long term debt balance includes the following items:

The 2009 senior debt consists of $60,000 6.20% 2009-1 Notes maturing on April 30, 2012 and $270,000 6.75% 2009-2 Notes maturing on 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, EnerCare Solutions 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, $24,774 net of issue costs, 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 common shares of EnerCare at the option of the holder at a conversion price of $6.48 per Share (or 154.3210 shares per $1,000 principal amount of convertible debentures). The convertible debentures are not 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 December 31, 2011, the principal balance of the convertible debentures was $18,361 as a result of debenture holder conversions. Convertible debenture principal of $2,290 and $9,522 was converted to shares during the fourth quarter and for the year ended December 31, 2011, respectively.

The following table summarizes the movement of the convertible debentures:

Year ended December 31,	**2011**	2010
Debt:		
Opening balance	**$ 27,883**	$ -
Issuance of convertible debentures	**-**	27,883
Conversion of debentures	**(9,522)**	-
Ending principal	**$ 18,361**	$ 27,883
Unamortized transaction costs and discount:		
Opening balance	**$ (2,863)**	$ -
Transaction costs and discount	**-**	(3,109)
Conversion impact	**943**	-
Accretion	**365**	246
Ending transaction costs and discount	**$ (1,555)**	$ (2,863)
Equity:		
Opening balance	**$ 1,749**	$ -
Option value	**-**	1,749
Shares issued on debenture conversion	**9,176**	-
Transfer from contributed surplus to share capital	**(597)**	-
Ending equity impact	**$ 10,328**	$ 1,749

As of February 23, 2012 an additional $2,977 principal amount of convertible debenture converted to shares.

Debt was assumed with the Stratacon acquisition in 2008. The secured debt of $6,703 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 Taxes

Income tax expense is recognized based on management's best estimates of the weighted average annual income tax rate for the full financial year. The estimated average annual rate used for the year ended December 31, 2011 and 2010 was 28.25% and 31.00%, respectively. The provisions for income taxes in the consolidated statements of earnings reflect an effective rate that differs from the combined Canadian federal and provincial rates, as follows:

	2011
Profit before tax at statutory rate of 28.25%	$ 50
Tax effects of:	
Return to provision differences	(997)
Non-deductible expenses	392
Future tax rate differential & other	(3,250)
Total	**$(3,805)**
Current tax expense	5,708
Deferred income tax recovery	(9,513)
Total tax recovery	**$(3,805)**

As described in note 1, EnerCare completed a reorganization, effective January 1, 2011, which converted the previous income fund structure to EnerCare as a dividend paying corporation. Prior to January 1, 2011, EnerCare was not subject to current income taxes, but did fully provide for deferred income taxes. The provision for income taxes in 2011 reflects both a provision for temporary difference expected to be reversed in the future and the impact of future changes in tax rates applicable to EnerCare.

The provisions for income taxes in the consolidated statements of earnings for 2010 are as follows:

	2010
Loss before income taxes	$ (16,487)
Less: Earnings of the Fund not subject to tax	35,569
Accounting loss	(52,056)
Combined statutory tax rate	31.0%
Income tax recovery at the statutory rate	(16,137)
Other	(2,071)
Tax recovery reported in net earnings	$ (18,208)

Long-term deferred income tax asset and liability

The deferred income tax asset and liability on EnerCare's balance sheets reflect the estimated tax on temporary and other differences. The movement of the deferred income tax accounts are as follows:

	2011	2010
As at January 1:	**$ (148,446)**	$ (166,654)
Charge to the statement of income	**9,513**	18,208
Setup of deferred income tax on EECI acquisition	**2,233**	-
Total	**$ (136,700)**	$ (148,446)

EnerCare's management expects that the future tax assets will be recoverable based on the expected growth of the sub-metering segment and the profitability of the company.

The balance of the deferred income tax asset and liability classified by temporary differences is as follow:

	2011	2010
Deferred tax asset		
Equipment	**$ 10**	$ -
Loss carry forwards	**6,042**	4,118
Allowances	**966**	-
Other	**721**	-
	7,739	4,118
Deferred tax liability		
Equipment	**(117,880)**	(134,021)
Intangible assets	**(397)**	(113)
Temporary difference due to different tax year ends	**(25,877)**	(18,443)
Other	**(285)**	13
	(144,439)	(152,564)
Total	**$ (136,700)**	$ (148,446)

12. Share Capital

	2011		2010	
Shares Issued and Outstanding	**Shares**	**Net Proceeds**	Shares	Net Proceeds
Opening balance at January 1:	**54,734**	**$ 500,546**	49,524	$ 476,868
Issued	**1,469**	**9,176**	5,210	23,678
Totals	**56,203**	**$ 509,722**	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. In 2010 EnerCare completed a public offering of 5,210 shares at a price of $4.80 for net proceeds of $23,678. shares issued in 2011 arise from the conversion of convertible debentures. At December 31, 2011, there were no preferred shares outstanding. Each series of preferred shares will have such rights, privileges, restrictions and conditions as may be determined by the board of directors prior to the issuance thereof. Holders of preferred shares, except as required by law, will not be entitled to vote at meetings of shareholders of EnerCare. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of EnerCare, whether voluntary or involuntary, the preferred shares are entitled to preference over the common shares and any other shares ranking junior to the preferred shares.

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.

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

(in thousands – except per share amounts)	**2011**	2010
Net earnings	**$ 3,983**	$ 1,721
After tax impact of convertible debentures	**1,299**	849
Fully diluted net earnings	**5,282**	2,570
Weighted average shares outstanding	**55,470**	52,479
Dilutive impact of convertible debentures and stock options	**2,856**	547
Fully diluted shares outstanding	**58,326**	53,026
Basic/Diluted earnings per share	**$ 0.07**	$ 0.03

14. Dividends

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

	2011	2010
Dividends declared per share during the period	**$ 0.649**	$ 0.648
Dividends declared after December 31,		
January		
Dollars	**$ 3,116**	$ 2,956
Shares	**56,654**	54,743
Per share/unit amount	**$ 0.055**	$ 0.054
February		
Dollars	**$ 3,116**	$ 2,975
Shares	**56,659**	55,088
Per share/unit amount	**$ 0.055**	$ 0.054

The total amount of the dividend for February 2012 is estimated above and is subject to change dependent upon the actual debenture conversions throughout the month, if any.

15. Long Term Compensation Plans

EnerCare operates the following share based compensation plans: the PSUP, 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	74	6.84	29	6.84	453	7.07
Director's optional purchases	-	-	27	7.55	-	-
Phantom dividends	30	-	6	-	-	-
Forfeited	(82)	-	(24)	-	-	-
Exercised	(23)	6.84	-	-	-	-
Expired	(8)	-	(17)	-	-	-
At December 31, 2011	**216**	**9.39**	**95**	**9.39**	**453**	**-**
Expensed in the period	**-**	**707**	**-**	**308**	**-**	**156**
Liabilities payable	**-**	**1,072**	**-**	**585**	**-**	**-**

	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	31	-	9	-	-	-
Exercised	(66)	4.05	-	-	-	-
Expired	(6)	-	(8)	-	-	-
At December 31, 2010	225	6.84	74	6.84	-	-
Expensed in the period	-	438	-	69	-	-
Liabilities payable	-	507	-	75	-	-

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:

Year ended December 31,	**2011**	2010
Payments due within 1 year	**$ 416**	$ 543
Payments due between 1 and 2 years	**321**	416
Payments due between 2 and 3 years	**248**	321
Payments due between 3 and 4 years	**363**	248
Payments due between 4 and 5 years	**386**	363
Payments due after 5 years	**64**	450
Total commitments under non-cancellable operating leases	**$ 1,798**	$ 2,341

The operating lease payments recognized in the statement of income for the year ended December 31, 2011 is $607 (2010 - $418).

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, provisions, interest payable, other liabilities payable and dividends payable. 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 December 31, 2011.

EnerCare is examining opportunities to refinance its 2010 Notes and 2009-2 Notes 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 repay from cash on hand, 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 $22,795 to $75,290 as of December 31, 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:

Period	Principal Payments	Interest Payments
Within the next 12 months	$ 61,131	$ 34,338
1 to 2 years	241,198	26,084
2 to 3 years	271,251	10,573
3 to 4 years	1,299	1,356
4 to 5 years	1,003	1,258
Thereafter	19,181	634
Total	$ 595,063	$ 74,243

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 December 31, 2011 and December 31, 2010. The estimated 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.

	December 31, 2011		December 31, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 75,290**	**$ 75,290**	$ 52,495	$ 52,495
Trade and other receivables in the scope of IAS 39	**27,275**	**27,275**	25,329	25,329
Total financial assets	**$ 102,565**	**$ 102,565**	$ 77,824	$ 77,824
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$ 570,000**	**$ 591,717**	$ 570,000	$ 585,495
Gross convertible debentures	**18,361**	**26,264**	27,883	29,556
Stratacon debt	**6,702**	**6,702**	8,488	8,488
Deferred transaction costs	**(3,501)**	**-**	(6,010)	-
Total borrowings	**591,562**	**624,683**	600,361	623,539
Trade and other payables in the scope of IAS 39	**47,550**	**47,550**	39,437	39,437
Total financial liabilities	**$ 639,112**	**$ 672,233**	$ 639,798	$ 662,976

All financial assets and liabilities recorded at fair value are classified as Level 1 financial instruments.

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 December 31, 2011.

20. Selling, General and Administrative

Year ended December 31,	2011	2010
Employee compensation and benefits	**$ 11,034**	$ 9,241
Professional fees	**4,694**	5,530
Selling, office and other	**8,244**	4,755
Billing and servicing	**10,261**	10,503
Claims and bad debt	**4,205**	7,675
Total	**$ 38,438**	$ 37,704

21. Related Parties and Transactions with DE

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:

Year ended December 31,	**2011**	2010
Salaries and short-term benefits	**$ 1,720**	$ 2,977
Other employment benefits	**112**	78
Long term benefits	**1,433**	497
Total	**$ 3,265**	$ 3,552

Transactions with DE

EnerCare's relationship with DE is significant, as DE services and supports more than 90% of EnerCare's customers and installed asset base. The following agreements govern the principal affairs between EnerCare and DE.

Co-ownership Agreement:

Under this agreement, DE receives, subject to certain exceptions, 35% of the gross revenue generated by the co-owned portfolio of assets and is obligated to service that asset portfolio, effectively operating the day-to-day activities of that portion of the Rentals business. Pursuant to an agreement between DE and EnerCare, DE is entitled to put forth one individual for consideration by EnerCare's board for inclusion in EnerCare's annual management information circular for election as a director of EnerCare for as long as it is servicer under the co-ownership agreement.

Origination Agreement:

Under this agreement, subject to certain exceptions, DE must offer to sell all rental water heaters to EnerCare at prescribed prices, essentially at DE's cost plus an inventory service fee and a set installation fee. EnerCare has no obligation to purchase any water heaters. The agreement also establishes an incentive fee payable to DE should certain growth targets be achieved. The initial term of the origination agreement is through December 2022 and is subject to extension or early termination in certain circumstances.

Other Agreements with DE:

In addition to the above agreements, EnerCare and DE have entered into an agreement for the servicing of TH Energy units, as these units are not subject to the co-ownership agreement. This agreement provides for the administration and servicing of the portfolio on a fee-for-service basis.

EnerCare and DE have also entered into an agreement for the origination and servicing of HVAC rental units, whereby DE originates HVAC rental customers and provides servicing to these HVAC rental customers. EnerCare has the right to originate HVAC rental customers outside of this arrangement with DE.

Each of the above agreements continued following conversion of EnerCare into a dividend paying corporation on January 1, 2011.

Details of transactions between EnerCare and DE are as follows:

Amount Paid or Payable to DE	**2011**	2010
Origination agreement:		
Capital expenditures	**$ 53,159**	$ 60,914
Inventory service fee	**3,386**	3,974
Other capital expenditures	**5,272**	5,496
Other expenses, including billing and servicing costs	**2,918**	3,230
Total payments	**$ 64,735**	$ 73,614

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.

Year ended December 31,	**2011**	2010
Opening balance:	**$ 2,728**	$ 2,108
Charged/(credited) to the statement of income:		
Additional provision	**3,719**	2,904
Reversals	**(1,167)**	620
Claims spending during the period	**(3,688)**	(2,904)
	$ 1,592	$ 2,728

All claims generated during the years ended are typically paid out within 12 months, therefore no discounting in the provisions have been calculated.

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.

Year ended December 31,	**2011**	2010
Accounts and other receivables	**$ (1,946)**	$ (9,693)
Prepaid and other assets	**(366)**	518
Accounts payable and accrued liabilities	**9,070**	11,372
Provisions	**(1,136)**	573
Interest payable	**533**	(1,429)
Amortization of bridge fees	**-**	(1,440)
Total	**$ 6,155**	$ (99)

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:

	Year ended December 31, 2011				Year ended December 31, 2010			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$186,524**	**$57,383**	**$ -**	**$243,907**	$187,574	$19,643	$ -	$207,217
Expenses:								
Commodity	**-**	**(41,941)**	**-**	**(41,941)**	-	(13,495)	-	(13,495)
SG&A	**(16,109)**	**(10,530)**	**(11,799)**	**(38,438)**	(21,507)	(9,134)	(7,063)	(37,704)
Adjusted EBITDA	**170,415**	**4,912**	**(11,799)**	**163,528**	166,067	(2,986)	(7,063)	156,018
Loss on disposal	**(19,099)**	**-**	**-**	**(19,099)**	(21,340)	-	-	(21,340)
Impairment of assets	**-**	**(458)**	**-**	**(458)**	-	-	-	-
EBITDA	**151,316**	**4,912**	**(11,799)**	**143,971**	144,727	(2,986)	(7,063)	134,678
Amortization	**(101,906)**	**(2,256)**	**(541)**	**(104,703)**	(106,760)	(2,067)	(246)	(109,073)
Interest income				**594**				201
Interest expense				**(42,067)**				(43,797)
Other income				**2,383**				1,504
Current taxes				**(5,708)**				-
Deferred tax recovery				**9,513**				18,208
Net earnings/(loss)				**3,983**				1,721
Segment assets	**774,723**	**52,160**	**80,075**	**906,958**	837,699	44,043	53,681	935,423
Equipment additions	**60,502**	**10,260**	**3,905**	**74,667**	68,805	1,644	1,741	72,190
Segment liabilities	**$228,620**	**$11,959**	**$542,972**	**$783,551**	$ 17,192	$14,871	$762,048	$794,111

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.

25. Acquisition - Enbridge Electric Connections Inc.

On October 1, 2010, EnerCare acquired 100% of the outstanding shares of EECI. The acquisition was accounted for using the acquisition method in accordance with the business combinations standard under IFRS 3. EECI changed its name to EnerCare Connections Inc. and is included in the Sub-metering results for the period. The purchase price allocation was finalized in the second quarter of 2011. The total purchase price was $22,772, including $22,508 paid in cash after the recognition of a $702 post closing working capital credit and $264 of acquisition costs which were expensed in the year ended December 31, 2010.

The following table summarizes the final fair value of the assets acquired and liabilities assumed at the date of acquisition. EnerCare has completed the process of determining the fair values of assets and liabilities that were acquired.

EnerCare prepared an estimate of the purchase price allocation ("PPA") on October 1, 2010. During 2011, EnerCare finalized the PPA. The table below illustrates the final fair value of the assets and liabilities acquired:

	October 1, 2010	Adjustment	Final PPA
Current assets	$ 8,720	$ -	$ 8,720
Equipment	20,026	(5,116)	14,910
Income tax loss carry forwards	-	2,599	2,599
Customer contracts, relationships and other Intangibles	1,545	(79)	1,466
Goodwill	-	2,962	2,962
Total assets acquired	30,291	366	30,657
Less:			
Current liabilities	(7,783)		(7,783)
Deferred income tax liability	-	(366)	(366)
Net assets acquired	$ 22,508	$ -	$ 22,508

Equipment consists primarily of installed meters which are amortized on a straight-line basis over ten years, and selling and overhead costs which are amortized on a straight-line basis over the term of the contract which varies from 10 to 25 years. The intangible assets relate to customer contracts and relationships which are amortized over the estimated average life of 16 years on a straight line basis.

The amounts of revenue and EBITDA of ECI which is included in the Consolidated Statements of Comprehensive Income for the period ended December 31, 2011, is $43,150 and $4,474 respectively ($9,317 and $315 for the period ended October 1, 2010 to December 31, 2010).