EnerCare Inc.

EnerCare Inc.

Condensed Interim Consolidated Financial Statements

Third Quarter Ended September 30, 2012

Dated November 5, 2012

EnerCare Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)	(unaudited) September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$ 4,173**	$ 75,290
Accounts receivable (note 5)	**44,278**	27,275
Prepaid and other assets	**3,499**	3,590
	51,950	106,155
Capital assets (note 7)	**456,457**	458,890
Intangible assets (note 8)	**296,213**	331,212
Goodwill	**2,962**	2,962
Deferred tax asset	**6,370**	7,739
	$ 813,952	$ 906,958
Liabilities		
Current liabilities		
Current portion of long-term debt (note 9)	**$ 241,184**	$ 61,131
Accounts payable and accrued liabilities (note 6)	**32,497**	34,105
Provisions (note 19)	**1,020**	1,592
Interest payable	**8,228**	7,907
Other liabilities payable (note 3)	**-**	855
Dividends payable	**3,246**	3,091
	286,175	108,681
Long-term debt (note 9)	**273,575**	513,625
Convertible debentures (note 9)	**6,582**	16,806
Deferred tax liability	**141,227**	144,439
	707,559	783,551
Shareholders' equity (note 10)	**106,393**	123,407
	$ 813,952	$ 906,958

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

EnerCare Inc.

Condensed Interim Consolidated Statements of Income

(unaudited)	Three months ended September 30,		Nine months ended September 30,	
(in thousands of Cdn $, except per share amounts)	**2012**	2011	**2012**	2011
Revenues				
Rentals and services	**$ 66,704**	$ 62,864	**$ 193,177**	$ 184,093
Investment income	**16**	168	**277**	420
Total revenues	**66,720**	63,032	**193,454**	184,513
Expenses				
Commodity charges	**15,553**	11,689	**39,885**	32,007
Selling, general & administrative (note 17)	**10,795**	8,890	**32,621**	27,968
Amortization				
Capital assets	**13,741**	14,490	**41,448**	43,514
Intangibles	**11,666**	11,636	**34,999**	34,955
Loss on disposal of equipment	**3,397**	4,718	**11,625**	14,219
Interest				
Short-term	**32**	30	**97**	187
Long-term	**9,003**	10,403	**28,725**	31,503
Total operating expenses	**64,187**	61,856	**189,400**	184,353
Other income	**855**	254	**2,355**	2,383
Earnings for the period before income taxes	**3,388**	1,430	**6,409**	2,543
Tax expense				
Current tax expense	**3,902**	1,478	**9,331**	4,943
Deferred income tax recovery	**(2,668)**	(5,666)	**(1,843)**	(8,639)
Total tax expense/(recovery)	**1,234**	(4,188)	**7,488**	(3,696)
Net earnings/(loss) for the period	**$ 2,154**	$ 5,618	**$ (1,079)**	$ 6,239
Weighted average number of shares outstanding (notes 10, 11)	**57,860**	55,728	**57,316**	55,298
Diluted shares outstanding (notes 10,11)	**59,015**	58,937	**58,492**	58,496
Basic/diluted earnings/(loss) per share (note 11)	**$ 0.04**	$ 0.10	**$ (0.02)**	$ 0.11

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

EnerCare Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited)	Three months ended September 30,		Nine months ended September 30,	
(in thousands of Cdn $)	**2012**	2011	**2012**	2011
Net earnings/(loss) for the period	**$ 2,154**	$ 5,618	**$ (1,079)**	$ 6,239
Amortization of accumulated other comprehensive loss to net earnings/(loss)	**763**	925	**2,496**	2,762
Comprehensive income for the period	**$ 2,917**	$ 6,543	**$ 1,417**	$ 9,001

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

EnerCare Inc.
Condensed Interim Consolidated Statements of Changes in Equity

(unaudited)	Three months ended September 30,		Nine months ended September 30,	
(in thousands of Cdn $)	**2012**	2011	**2012**	2011
Share Capital				
Balance - beginning of period	**$ 519,868**	$ 504,597	**$ 509,722**	$ 500,546
Shares issued on debenture conversion (net of issue costs) (note 9)	**908**	2,449	**11,054**	6,500
Share Capital - end of period	**520,776**	507,046	**520,776**	507,046
Contributed Surplus				
Balance - beginning of period	**715**	1,815	**1,308**	-
Value of services recognized	**23**	44	**87**	110
Shares issued on debenture conversion (net of issue costs) (note 9)	**(57)**	-	**(714)**	1,749
Contributed Surplus - end of period	**681**	1,859	**681**	1,859
Accumulated Other Comprehensive Loss				
Balance - beginning of period	**(5,548)**	(9,138)	**(7,281)**	(10,975)
Amortization	**763**	925	**2,496**	2,762
Accumulated Other Comprehensive Loss - end of period	**(4,785)**	(8,213)	**(4,785)**	(8,213)
Retained Deficit				
Balance - beginning of period	**(402,705)**	(365,514)	**(380,342)**	(348,259)
Net earnings/(loss) for the period	**2,154**	5,618	**(1,079)**	6,239
Dividends (note 12)	**(9,728)**	(9,047)	**(28,858)**	(26,923)
Retained Deficit - end of period	**(410,279)**	(368,943)	**(410,279)**	(368,943)
Shareholders' equity - end of period	**$ 106,393**	$ 131,749	**$ 106,393**	$ 131,749

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

EnerCare Inc.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited) (in thousands of Cdn $)	Three months ended September 30, **2012**	2011	Nine months ended September 30, **2012**	2011
Cash provided by/(used in):				
Operating activities				
Net earnings/(loss) for the period	**$ 2,154**	$ 5,618	**$ (1,079)**	$ 6,239
Items not affecting cash				
Amortization				
Capital assets (note 7)	**13,741**	14,490	**41,448**	43,514
Intangibles (note 8)	**11,666**	11,636	**34,999**	34,955
Loss on disposal of equipment (note 7)	**3,397**	4,718	**11,625**	14,219
Non-cash interest expense	**1,054**	1,309	**3,458**	3,947
Employee share options	**23**	44	**87**	110
Deferred income tax recovery	**(2,668)**	(5,666)	**(1,843)**	(8,639)
Operating cash flow	**29,367**	32,149	**88,695**	94,345
Net change in non-cash working capital (note 20)	**(3,541)**	208	**(19,626)**	(1,956)
Cash provided by operating activities	**25,826**	32,357	**69,069**	92,389
Investing activities				
Purchase of equipment	**(16,568)**	(18,057)	**(52,932)**	(54,698)
Acquisitions (note 22)	**109**	-	**(1,944)**	-
Proceeds from disposal of equipment (note 7)	**1,051**	1,007	**4,236**	3,088
Cash used in investing activities	**(15,408)**	(17,050)	**(50,640)**	(51,610)
Financing activities				
Dividends to shareholders	**(9,720)**	(9,024)	**(28,703)**	(23,907)
Proceeds from deposits	**-**	-	**-**	1,435
Repayment of long-term debt	**(283)**	(272)	**(60,843)**	(1,508)
Cash used in financing activities	**(10,003)**	(9,296)	**(89,546)**	(23,980)
Increase/(decrease) in cash and cash equivalents	**415**	6,011	**(71,117)**	16,799
Cash and cash equivalents - beginning of period	**3,758**	63,283	**75,290**	52,495
Cash and cash equivalents - end of period	**$ 4,173**	$ 69,294	**$ 4,173**	$ 69,294
Supplementary information				
Interest paid	**$ 6,466**	$ 6,465	**$ 25,043**	$ 25,084
Income taxes paid	**$ 1,545**	$ -	**$ 10,001**	$ -

The accompanying notes are an integral part of these condensed interim 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").

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., which operates in the sub-metering ("Sub-metering") business primarily in Ontario.

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

2. Basis of Preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011. EnerCare has consistently applied the same accounting policies and methods of computation throughout all periods presented, as if these policies had always been in effect.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 2, 2012, the date the board of directors approved the condensed interim consolidated financial statements. The board also has the authority to amend the condensed interim consolidated financial statements after they have been issued.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements, as described below, are the same as those applied in the annual financial statements for the year ended December 31, 2011.

Basis of Measurement

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

Critical Accounting Estimates

Rentals Earnings Items

Direct Energy Marketing Limited (“DE”), through Enbridge Gas Distribution Inc. (“EGD”), provides billing and collection services for substantially all of EnerCare’s water heaters and other assets. In September 2009, DE implemented a billing system conversion which coincided with a billing system conversion by EGD. Further, in late 2011, DE began utilizing a third party billing system for new assets and in August 2012 also employed the billing system for non-EGD territory accounts. EnerCare’s Internal Control Over Financial Reporting (“ICFR”) identified issues principally associated with DE’s original system conversion as well as the recent third party conversion primarily in respect of completeness of billing, customer collections and allocation of customer payments. EnerCare continues to work closely with DE to resolve billing issues as well as billing completeness.

At December 31, 2011, EnerCare estimated and recorded revenue accruals of $1,700 in respect of billings and adjustments expected to be recovered from customers, but did not include any amounts that EnerCare may recover from DE for lost revenues arising from the billing system conversion. During the third quarter of 2012, EnerCare has accrued approximately $2,900 in respect of outstanding billing amounts.

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.

Sub-metering Billing and Customer Care System

On May 25, 2012, EnerCare announced that it deployed a new utility grade customer billing system which consolidates on one platform all Sub-metering billing functions previously performed by two legacy systems inherited as part of the Stratacon and EECI acquisitions. Additionally, the consolidation of systems has permitted EnerCare to internalize its Sub-metering customer care delivery, previously provided by two external suppliers.

As a result of the transition, during May and June a number of bills required modification resulting in delayed mailings to residents and consequently a backlog of move in and out processing and establishment of new accounts and suspension of collection activities. During the third quarter of 2012, EnerCare reduced the backlog of non-billing customer accounts in a number of areas, however, in addition to normal account accruals, a number of customer accounts required accruals for additional service periods resulting in a total revenue accrual of approximately $9,000 and related commodity charges of $5,400. EnerCare does not anticipate any significant provision adjustment for collectability at this time.

Contingent Consideration

The contingent consideration is re-measured based on revised estimates each reporting period with any differences recognized through earnings. The current period income of $855 represents the reversal of the liability in respect of the third and final earn out payable to the former principals of Stratacon. As at September 30, 2012 no amount remains payable.

4. Cash and Cash Equivalents

	September 30, 2012	December 31, 2011
Cash at bank and in hand	$4,173	$17,344
Short-term deposits	-	57,946
Ending balance	$4,173	$75,290

5. Accounts Receivable

	September 30, 2012	December 31, 2011
Accounts receivable (net of provision)	$44,278	$27,275
Bad and doubtful debt provision:		
Opening balance	$ 1,422	$ 351
Charge for the period	187	1,071
Provision ending balance	$ 1,609	$ 1,422

6. Accounts Payable and Accrued Liabilities

	September 30, 2012	December 31, 2011
Accounts payable	$ 9,017	$14,968
Accruals	5,550	9,847
Long term compensation payables	2,798	1,657
Current taxes payable	4,934	5,708
Other payables	10,198	1,925
Ending balance	$32,497	$34,105

7. Capital Assets

	September 30, 2012			December 31, 2011		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Water Heaters	**$788,335**	**$(375,714)**	**$412,621**	$782,854	$(360,529)	$422,325
Sub-metering	**47,738**	**(11,033)**	**36,705**	41,306	(9,289)	32,017
Other	**9,531**	**(2,400)**	**7,131**	6,531	(1,983)	4,548
Ending balances	**$845,604**	**$(389,147)**	**$456,457**	$830,691	$(371,801)	$458,890

For the three and nine months ended September 30, 2012, EnerCare purchased $13,442 and $44,534 of water heater and HVAC equipment, $2,589 and $6,791 of sub-metering equipment and $428 and $3,551 of other capital assets, respectively. Due to asset exchanges, attrition and buyouts of contracts, for the quarter and year to date ended September 30, 2012, EnerCare recorded a loss on disposal of assets of $3,397 and $11,625 and buyout revenues of $1,051 and $4,236, respectively.

In the first quarter of 2012, EnerCare also acquired a portfolio of water heaters and HVAC equipment for a purchase price of $1,944 (note 22). All amounts were recorded in capital assets.

8. Intangible Assets

	September 30, 2012			December 31, 2011		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Customer Relationships	**$743,336**	**$(448,505)**	**$294,831**	$743,336	$(413,711)	$329,625
Customer Contracts	**30,865**	**(29,483)**	**1,382**	30,865	(29,278)	1,587
Ending balances	**$774,201**	**$(477,988)**	**$296,213**	$774,201	$(442,989)	$331,212

9. Debt

	September 30, 2012	December 31, 2011
Current portion of long term debt:		
Opening balance as at January 1	**$ 61,131**	$ 1,195
Current portion of long-term debt	**240,896**	61,131
Repayment of debt	**(60,843)**	(1,195)
Total current portion	**$241,184**	$ 61,131
Non-current portion of long term debt and convertible debentures:		
Opening balance as at January 1	**$530,431**	$599,166
Current portion of long-term debt	**(240,896)**	(61,131)
Repayment of debt	**-**	(591)
Debenture conversions	**(11,380)**	(9,522)
Net deferred financing costs and interest accretion	**2,002**	2,509
Total non-current portion	**$280,157**	$530,431
Non-current long term debt	**273,575**	513,625
Convertible debentures	**$ 6,582**	$ 16,806

Under its revolving credit facility, which matures on January 28, 2014, EnerCare has a standby charge of 0.375%. 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, 2012, EnerCare Solutions complied with these covenants and is able to fully utilize the revolver limit of $35,000. As at September 30, 2012, no amounts had been drawn on this revolver.

The long term debt balance includes the following items:

The 2009 senior debt consists of $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. The 2009 senior debt consisting of $60,000 6.20% 2009-1 Notes matured and was repaid with cash on hand on April 30, 2012. 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.

Debt was assumed in connection with the Stratacon acquisition in 2008. The secured debt of $5,859 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.

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 September 30, 2012, the principal balance of the convertible debentures was $6,981 as a result of debenture holder conversions. Convertible debenture principal of $906 was converted to shares during the third quarter of 2012 and $11,380 for the year to date, as compared to $2,717 and $7,232 for the same periods in 2011.

The following table summarizes the movement of the convertible debentures:

	September 30, 2012	December 31, 2011
Debt:		
Opening balance	**$18,361**	$27,883
Conversion of debentures	**(11,380)**	(9,522)
Ending principal	**$ 6,981**	$18,361
Unamortized transaction costs and discount:		
Opening balance	**$(1,555)**	$ (2,863)
Conversion impact	**1,040**	943
Accretion	**116**	365
Ending transaction costs and discount	**$ (399)**	$ (1,555)
Total convertible debentures	**$ 6,582**	$16,806
Equity:		
Opening balance	**$10,328**	$ 1,749
Shares issued on debenture conversions	**11,054**	9,176
Transfer from contributed surplus to share capital	**(714)**	(597)
Ending equity impact	**$20,668**	$10,328

As of November 2, 2012, approximately $195 principal amount of additional convertible debentures were converted to shares.

10. Share Capital

	September 30, 2012		September 30, 2011	
Shares Issued and Outstanding	**Shares**	**Net Proceeds**	Shares	Net Proceeds
Opening balance at January 1:	**56,203**	**$ 509,722**	54,734	$ 500,546
Issued	**1,757**	**11,054**	1,116	6,500
Totals	**57,960**	**$ 520,776**	55,850	$ 507,046

EnerCare's articles of incorporation provide for the issuance of an unlimited number of common shares and 10,000,000 preferred shares. Shares issued after 2010 arise from the conversion of convertible debentures. At September 30, 2012, 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.

11. 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 2012 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)	Three months ended Sept. 30, **2012**	2011	Nine months ended Sept. 30, **2012**	2011
Net earnings/(loss)	**$ 2,154**	$ 5,618	**$ (1,079)**	$ 6,239
After tax impact of convertible debentures	**105**	301	**471**	1,021
Fully diluted net earnings/(loss)	**2,259**	5,919	**(608)**	7,260
Weighted average shares outstanding	**57,860**	55,728	**57,316**	55,298
Dilutive impact of convertible debentures and stock options	**1,155**	3,209	**1,176**	3,198
Fully diluted shares outstanding	**59,015**	58,937	**58,492**	58,496
Basic/Diluted earnings/(loss) per share	**$ 0.04**	$ 0.10	**$ (0.02)**	$ 0.11

12. Dividends

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

	September 30, 2012	September 30, 2011
Dividends declared per share during the period	**$0.168**	$0.162
Dividends declared after September 30,		
Dollars	**$3,246**	$3,016
Per share/unit amount	**$0.056**	$0.054

13. Commitments

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

	September 30, 2012
Payments due within 2012	**$ 91**
Payments due in 2013	**328**
Payments due in 2014	**255**
Payments due in 2015	**370**
Payments due in 2016	**392**
Payments due in 2017	**70**
Total commitments under non-cancellable operating leases	**$1,506**

The operating lease payments recognized in the condensed interim consolidated statement of income for the three and nine months ended September 30, 2012 is $331 and $814, respectively (September 30, 2011; $121 and $442, respectively).

14. Contingent Liabilities

EnerCare has been named in legal proceedings commenced by certain competitors seeking specified and unspecified damages based on allegations that EnerCare, its service provider, EcoSmart Home Services Inc., and others engaged in unlawful surveillance and other activities aimed at tracking the door to door sales efforts of the competitors.

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 condensed interim consolidated financial statements.

15. 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 Rentals 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 99.42% 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.

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 September 30, 2012.

The 2010 Notes are maturing on March 15, 2013. EnerCare is considering numerous options to refinance both its 2010 Notes and 2009-2 Notes, maturing on April 30, 2014. These options include a bank term loan, a public note offering, a private placement and bridge financing. As part of the consideration for refinancing, EnerCare is evaluating which option will best optimize current interest rates, term length and future business plans. Factors that enhance these options include EnerCare's investment grade ratings from Standard and Poor's Rating Services and DBRS Limited, EnerCare's strong and stable cash flows and EnerCare's current leverage. As a result, EnerCare expects to refinance all of its 2010 Notes before maturity.

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 remainder of 2012	$ 288	$ 9,449
Due in 2013	241,198	25,372
Due in 2014	271,251	9,861
Due in 2015	1,299	645
Due in 2016	1,003	547
Due in 2017 and thereafter	7,801	279
Total	$522,840	$46,153

Fair Value

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

The following table presents the carrying amounts and the fair values of EnerCare's financial assets and liabilities at September 30, 2012 and December 31, 2011. 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.

	September 30, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 4,173**	**$ 4,173**	$ 75,290	$ 75,290
Trade and other receivables in the scope of IAS 39	**44,278**	**44,278**	27,275	27,275
Total financial assets	**48,451**	**48,451**	102,565	102,565
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**510,000**	**527,955**	570,000	591,717
Gross convertible debentures	**6,981**	**9,278**	18,361	26,264
Stratacon debt	**5,859**	**5,859**	6,702	6,702
Deferred transaction costs	**(1,499)**	**-**	(3,501)	-
Total borrowings	**521,341**	**543,092**	591,562	624,683
Trade and other payables in the scope of IAS 39	**44,991**	**44,991**	47,550	47,550
Total financial liabilities	**$566,332**	**$588,083**	$639,112	$672,233

16. 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, 2012.

17. Selling, General and Administrative

	Three months ended Sept. 30, **2012**	2011	Nine months ended Sept. 30, **2012**	2011
Employee compensation and benefits	**$ 3,304**	$2,527	**$ 9,764**	$ 7,397
Professional fees	**1,771**	782	**4,224**	3,609
Selling, office and other	**1,874**	1,651	**6,868**	6,733
Billing and servicing	**2,243**	2,611	**7,460**	7,712
Claims and bad debt	**1,603**	1,319	**4,305**	2,517
Total	**$10,795**	$8,890	**$32,621**	$27,968

18. 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:

	Three months ended Sept. 30, **2012**	2011	Nine months ended Sept. 30, **2012**	2011
Salaries and short-term benefits	**$ 569**	$387	**$2,309**	$1,617
Other employment benefits	**15**	23	**44**	62
Long term benefits	**427**	298	**912**	605
Total	**$1,011**	$708	**$3,265**	$2,284

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 Toronto Hydro Energy Services Inc. ("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.

Details of amount paid or payable to DE are as follows:

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	2011	**2012**	2011
Origination agreement:				
Capital expenditures	**$11,461**	$12,791	**$36,372**	$39,772
GreenSource acquisition	**(109)**	-	**1,944**	-
Inventory service fee	**736**	829	**2,340**	2,539
Other capital expenditures	**1,069**	1,194	**3,567**	3,705
Other expenses, including billing and servicing costs	**621**	706	**2,169**	2,344
Total	**$13,778**	$15,520	**$46,392**	$48,360

19. 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.

	September 30, 2012	December 31, 2011
Opening balance:	**$ 1,592**	$ 2,728
Charged/(credited) to the condensed interim consolidated statement of income:		
Additional provision	**2,540**	3,719
Reversals	**(569)**	(1,167)
Claims spending during the period	**(2,543)**	(3,688)
Ending balance	**$ 1,020**	$ 1,592

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

20. Changes in Working Capital

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

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	2011	**2012**	2011
Accounts receivable	**$(13,931)**	$(2,515)	**$(17,003)**	$(4,064)
Prepaid and other assets	**(960)**	197	**91**	(968)
Accounts payable and accrued liabilities	**9,817**	70	**(2,463)**	1,220
Provisions	**18**	(203)	**(572)**	(803)
Interest payable	**1,515**	2,659	**321**	2,659
Total	**$ (3,541)**	$ 208	**$(19,626)**	$(1,956)

21. 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, 2012				Three months ended September 30, 2011			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$ 46,581**	**$ 20,123**	**$ -**	**$ 66,704**	$ 46,853	$ 16,011	$ -	$ 62,864
Expenses:								
Commodity	**-**	**(15,553)**	**-**	**(15,553)**	-	(11,689)	-	(11,689)
SG&A	**(3,892)**	**(3,273)**	**(3,630)**	**(10,795)**	(3,730)	(2,648)	(2,512)	(8,890)
Adjusted EBITDA	**42,689**	**1,297**	**(3,630)**	**40,356**	43,123	1,674	(2,512)	42,285
Loss on disposal	**(3,397)**	**-**	**-**	**(3,397)**	(4,718)	-	-	(4,718)
EBITDA	**39,292**	**1,297**	**(3,630)**	**36,959**	38,405	1,674	(2,512)	37,567
Amortization	**(24,094)**	**(953)**	**(360)**	**(25,407)**	(25,478)	(615)	(33)	(26,126)
Interest income				**16**				168
Interest expense				**(9,035)**				(10,433)
Other income				**855**				254
Current taxes				**(3,902)**				(1,478)
Deferred tax recovery				**2,668**				5,666
Net earnings				**2,154**				5,618
Segment assets	**728,804**	**73,846**	**11,302**	**813,952**	799,273	44,206	72,789	916,268
Equipment additions	**13,442**	**2,589**	**428**	**16,459**	14,633	2,193	1,231	18,057
Segment liabilities	**$408,531**	**$ 18,871**	**$280,157**	**$707,559**	$ 81,478	$ 11,015	$692,026	$784,519

	Nine months ended September 30, 2012				Nine months ended September 30, 2011			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$140,163**	**$ 53,014**	**$ -**	**$193,177**	$140,493	$ 43,600	$ -	$184,093
Expenses:								
Commodity	**-**	**(39,885)**	**-**	**(39,885)**	-	(32,007)	-	(32,007)
SG&A	**(11,660)**	**(8,706)**	**(12,255)**	**(32,621)**	(11,848)	(7,720)	(8,400)	(27,968)
Adjusted EBITDA	**128,503**	**4,423**	**(12,255)**	**120,671**	128,645	3,873	(8,400)	124,118
Loss on disposal	**(11,625)**	**-**	**-**	**(11,625)**	(14,219)	-	-	(14,219)
EBITDA	**116,878**	**4,423**	**(12,255)**	**109,046**	114,426	3,873	(8,400)	109,899
Amortization	**(73,169)**	**(2,548)**	**(730)**	**(76,447)**	(76,471)	(1,599)	(399)	(78,469)
Interest income				**277**				420
Interest expense				**(28,822)**				(31,690)
Other income				**2,355**				2,383
Current taxes				**(9,331)**				(4,943)
Deferred tax recovery				**1,843**				8,639
Net (loss)/earnings				**(1,079)**				6,239
Segment assets	**728,804**	**73,846**	**11,302**	**813,952**	799,273	44,206	72,789	916,268
Equipment additions	**44,534**	**6,791**	**3,551**	**54,876**	45,203	6,785	2,710	54,698
Segment liabilities	**$408,531**	**$ 18,871**	**$280,157**	**$707,559**	$ 81,478	$ 11,015	$692,026	$784,519

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 condensed interim consolidated financial statements. These assets and liabilities are allocated based on the operation of the segment. Segment assets for 2011 have been restated to conform to the 2012 presentation. EnerCare has reclassified the intangibles related to the Sub-metering business from the corporate segment to the Sub-metering segment.

22. Acquisition of Water Heaters from GreenSource Capital Inc.

On February 29, 2012, EnerCare Solutions acquired approximately 3,421 water heaters and HVAC equipment from GreenSource Capital Inc., a subsidiary of DE, for cash consideration of $2,053, with $5 in acquisition costs being expensed. During the third quarter of 2012, EnerCare Solutions completed the process of determining the fair values of the assets that were acquired. This analysis resulted in a reduction of the original purchase price by $109, and determined the fair value of the net assets acquired is entirely allocated to equipment with a fair value for $1,944.

The rental revenue from GreenSource is not subject to the Co-ownership Agreement between EnerCare Solutions and DE. Rental revenue and profit in the current period, related to GreenSource, was approximately $218 and $63, respectively and $484 and $128, respectively, year to date. EnerCare Solutions has entered into a transitional services agreement with DE to provide service support to customers on a fee-for-service basis.