EnerCare Inc.

EnerCare Inc.

Consolidated Financial Statements

Year Ended December 31, 2012

Dated February 27, 2013

February 27, 2013

Independent Auditor's Report

To the Shareholders of
EnerCare Inc.

We have audited the accompanying consolidated financial statements of EnerCare Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, 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 audit 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. and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

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EnerCare Inc.

Consolidated Statements of Financial Position

As at December 31, (in thousands of Cdn $)		2012		2011
Assets				
Current assets				
Cash and cash equivalents (note 4)	**$**	**12,626**	$	75,290
Accounts receivable (note 5)		**36,106**		27,275
Prepaid and other assets		**3,360**		3,590
		52,092		106,155
Capital assets (note 7)		**456,114**		458,890
Intangible assets (note 8)		**284,608**		331,212
Goodwill		**2,962**		2,962
Deferred tax asset (note 10)		**6,270**		7,739
	$	**802,046**	$	906,958
Liabilities				
Current liabilities				
Current portion of long-term debt (note 9)	**$**	**1,198**	$	61,131
Accounts payable and accrued liabilities (note 6)		**31,759**		34,105
Provisions (note 19)		**726**		1,592
Interest payable		**4,228**		7,907
Other liabilities payable (note 3)		**-**		855
Dividends payable		**3,249**		3,091
		41,160		108,681
Long-term debt (note 9)		**521,881**		513,625
Convertible debentures (note 9)		**6,396**		16,806
Deferred tax liability (note 10)		**136,972**		144,439
		706,409		783,551
Shareholders' equity		**95,637**		123,407
	$	**802,046**	$	906,958

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)		2012		2011
Revenues				
Rentals and services	$	**256,125**	$	243,907
Investment income		**457**		594
Total revenues		**256,582**		244,501
Expenses				
Commodity charges		**52,048**		41,941
Selling, general & administrative (note 18)		**43,623**		38,438
Amortization				
Capital assets		**55,018**		58,050
Intangibles		**46,604**		46,653
Loss on disposal of equipment		**15,148**		19,099
Impairment of assets (note 7)		**-**		458
Interest				
Short-term		**141**		215
Make-whole charge on early redemption of debt		**1,920**		-
Long-term		**38,698**		41,852
Total operating expenses		**253,200**		246,706
Other income (note 25)		**1,993**		2,383
Earnings for the year before income taxes		**5,375**		178
Tax expense				
Current tax expense (note 10)		**14,548**		5,708
Deferred income tax recovery (note 10)		**(5,998)**		(9,513)
Total tax expense/(recovery)		**8,550**		(3,805)
Net (loss)/earnings for the year	**$**	**(3,175)**	$	3,983
Weighted average number of shares outstanding (notes 11, 12)		**57,486**		55,470
Diluted shares outstanding (notes 11, 12)		**58,613**		58,325
Basic/diluted (loss)/earnings per share (note 12)	**$**	**(0.06)**	$	0.07

EnerCare Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31, (in thousands of Cdn $)		2012		2011
Net (loss)/earnings for the year	**$**	**(3,175)**	$	3,983
Amortization of accumulated other comprehensive loss to net (loss)/earnings		**3,258**		3,694
Comprehensive income for the year	**$**	**83**	$	7,677

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

EnerCare Inc.
Consolidated Statements of Changes in Equity

For the years ended December 31, (in thousands of Cdn $)	**2012**	2011
Share Capital		
Balance - beginning of year	**$ 509,722**	$ 500,546
Shares issued on debenture conversion (net of issue costs) (note 11)	**11,275**	9,176
Share Capital - end of year	**520,997**	509,722
Contributed Surplus		
Balance - beginning of year	**1,308**	1,749
Shares issued on debenture conversion (net of issue costs) (note 11)	**(727)**	(597)
Employee share options:		
Value of services recognized	**79**	156
Shares issued from treasury upon exercise of share options	**125**	-
Contributed Surplus - end of year	**785**	1,308
Accumulated Other Comprehensive Loss		
Balance - beginning of year	**(7,281)**	(10,975)
Amortization	**3,258**	3,694
Accumulated Other Comprehensive Loss - end of year	**(4,023)**	(7,281)
Retained Deficit		
Balance - beginning of year	**(380,342)**	(348,259)
Net (loss)/earnings for the year	**(3,175)**	3,983
Dividends (note 13)	**(38,605)**	(36,066)
Retained Deficit - end of year	**(422,122)**	(380,342)
Shareholders' equity - end of year	**$ 95,637**	$ 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 $)		2012		2011
Cash provided by/(used in):				
Operating activities				
Net (loss)/earnings for the year	**$**	**(3,175)**	$	3,983
Items not affecting cash				
Amortization				
Capital assets (note 7)		**55,018**		58,050
Intangibles (note 8)		**46,604**		46,653
Loss on disposal of equipment (note 7)		**15,148**		19,099
Impairment of assets (note 7)		**-**		458
Non-cash interest expense		**4,636**		5,260
Employee share options		**204**		156
Contingent consideration on Stratacon acquisition		**(855)**		(2,383)
Deferred income tax recovery (note 10)		**(5,998)**		(9,513)
Operating cash flow		**111,582**		121,763
Net change in non-cash working capital (note 20)		**(15,492)**		6,155
Cash provided by operating activities		**96,090**		127,918
Investing activities				
Purchase of capital assets		**(70,825)**		(74,667)
Acquisitions (note 24)		**(1,944)**		-
Payment of contingent consideration on Stratacon acquisition		**-**		(1,062)
Proceeds from disposal of equipment		**5,379**		3,932
Cash used in investing activities		**(67,390)**		(71,797)
Financing activities				
Dividends to shareholders		**(38,447)**		(32,975)
Proceeds from deposits		**-**		1,435
Proceeds from Issuance of long-term debt		**250,000**		-
Repayment of long-term debt		**(301,131)**		(1,786)
Deferred financing costs on long-term debt		**(1,786)**		-
Cash used in financing activities		**(91,364)**		(33,326)
(Decrease)/increase in cash and cash equivalents		**(62,664)**		22,795
Cash and cash equivalents - beginning of year		**75,290**		52,495
Cash and cash equivalents - end of year	**$**	**12,626**	$	75,290
Supplementary information				
Interest paid	**$**	**39,802**	$	36,274
Income taxes paid	**$**	**12,099**	$	-

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”).

EnerCare also owns EnerCare Connections Inc., which operates in the sub-metering (“Sub-metering”) business primarily in Ontario. EnerCare Connections Inc. was formed through the amalgamation on January 1, 2012 of Stratacon Inc. and EnerCare Connections Inc.

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

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of financial statements. EnerCare has consistently applied the same accounting policies throughout all periods presented as if these policies had always been in effect.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of February 27, 2013, 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.

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.

(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, 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.

Capital Assets

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 rate method.

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 the statement of income 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 sale.

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 rate 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 rate method based upon the maturity of the 6.20% $60,000, Series 2009-1 Senior Unsecured Notes (the "2009-1 Notes") and the 6.75% $270,000 Series 2009-2 Senior Unsecured Notes (the "2009-2 Notes" and collectively with the 2009-1 Notes, the "2009 Notes"). The Series 2009-1 Notes matured in April 2012.

Dividends

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

DE 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. 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 controls over financial reporting ("ICFR") identified issues principally associated with DE's original system conversion as well as the third party conversion, primarily in respect of completeness of billing, customer collections and allocation of customer payments.

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. At December 31, 2012, EnerCare has accrued approximately $800 in respect of outstanding billing amounts. The accrual decreased during the fourth quarter of 2012 as a result of the implementation of the new non-EGD territory billing system.

Buyout processing from 2010 remains 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

During May, 2012, the Sub-metering business deployed a new utility grade customer billing system which consolidated all sub-metering billing functions on to one platform. 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 and fourth quarters 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 revenue accrual of approximately $5,600 and related commodity charges of $4,300.

As a result of the billing backlog, EnerCare modified some of its collection programs in the latter half of 2012. Subsequent to year end, enhanced collection procedures were implemented. Based on management's best estimate, the bad debt provision was increased during the fourth quarter to reflect the increase in receivables caused by the recent back-billing and our modified collection practices. Bad debt charges and provisions were approximately $1,577 for 2012 and $855 for 2011.

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 the statement of income. 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. In 2012, the remaining obligation of $855 was recorded as other income based upon an assessment of the estimated contingent consideration payable.

Intangible Impairment

Impairment tests are conducted at least annually, or as warranted by prevailing circumstances at the time of reporting. The fair value is 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 the statement of income.

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 reviewed the standard and has determined that it will not have an impact on current reporting.

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 reviewed the standard and has determined that it will not have an impact on current reporting.

4. Cash and Cash Equivalents

As at December 31,	**2012**	2011
Cash at bank and in hand	**$12,626**	$17,344
Short-term deposits	**-**	57,946
Ending balance	**$12,626**	$75,290

5. Accounts Receivable

As at December 31,	**2012**	2011
Accounts receivable (net of provision)	**$36,106**	$27,275
Bad and doubtful debt provision:		
Opening balance	**$ 1,422**	$ 351
Charge for the period	**1,678**	1,071
Provision ending balance	**$ 3,100**	$ 1,422

6. Accounts Payable and Accrued Liabilities

As at December 31,	**2012**	2011
Accounts payable	**$ 5,588**	$14,968
Accruals	**4,978**	9,847
Compensation payable	**3,051**	1,657
Current taxes payable	**8,157**	5,708
Other payables	**9,985**	1,925
Ending balance	**$31,759**	$34,105

7. Capital Assets

2012	Water Heaters	Sub-metering	Other	Total
At December 31, 2011:				
Cost	$782,854	$40,947	$5,982	$829,783
Accumulated depreciation	(360,529)	(8,692)	(1,672)	(370,893)
Net book value	422,325	32,255	4,310	458,890
Additions	57,885	8,802	4,138	70,825
Loss on disposal before proceeds	(20,527)	-	-	(20,527)
Acquisition (note 24)	1,944	-	-	1,944
Impairment	-	-	-	-
Depreciation for the period	(50,781)	(3,155)	(1,082)	(55,018)
At December 31, 2012	$410,846	$37,902	$7,366	$456,114
At December 31, 2012:				
Cost	791,775	49,749	10,120	851,644
Accumulated depreciation	(380,929)	(11,847)	(2,754)	(395,530)
Net book value	$410,846	$37,902	$ 7,366	$456,114

2011	Water Heaters	Sub-metering	Other	Total
At December 31, 2010				
Cost	$773,441	$36,261	$2,078	$811,780
Accumulated depreciation	(333,335)	(6,436)	(1,131)	(340,902)
Net book value	440,106	29,825	947	470,878
Additions	60,503	10,260	3,904	74,667
Loss on disposal before proceeds	(23,031)	-	-	(23,031)
Acquisition adjustment	-	(5,116)	-	(5,116)
Impairment	-	(458)	-	(458)
Depreciation for the period	(55,253)	(2,256)	(541)	(58,050)
At December 31, 2011	$422,325	$32,255	$4,310	$458,890
At December 31, 2011:				
Cost	782,854	40,947	5,982	829,783
Accumulated depreciation	(360,529)	(8,692)	(1,672)	(370,893)
Net book value	$422,325	$32,255	$ 4,310	$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.

8. Intangible Assets

2012	Customer Relationships	Customer Contracts	Total
At December 31, 2011:			
Cost	$743,336	$ 33,270	$776,606
Accumulated depreciation	(413,711)	(31,683)	(445,394)
Net book value	329,625	1,587	331,212
Amortization for the year	(46,393)	(211)	(46,604)
At December 31, 2012	283,232	1,376	284,608
At December 31, 2012:			
Cost	743,336	33,270	776,606
Accumulated depreciation	(460,104)	(31,894)	(491,998)
Net book value	$283,232	$ 1,376	$284,608

2011	Customer Relationships	Customer Contracts	Total
At December 31, 2010:			
Cost	$743,336	$33,349	$776,685
Accumulated depreciation	(367,315)	(31,426)	(398,741)
Net book value	376,021	1,923	377,944
Acquisition adjustment	-	(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	33,270	776,606
Accumulated depreciation	(413,711)	(31,683)	(445,394)
Net book value	$329,625	$ 1,587	$331,212

9. Debt

Current and long term debt:

As at December 31,	**2012**	2011
Current portion of long term debt:		
Opening balance January 1	**$ 61,131**	$ 1,195
Current portion of non-current debt	**1,198**	61,131
Repayment of debt	**(61,131)**	(1,195)
Total current portion	**$ 1,198**	$ 61,131
Non-current portion of long term debt:		
Senior debt principal amount	**$510,000**	$570,000
Stratacon debt principal amount	**5,571**	7,293
Deferred financing costs and interest accretion	**(1,946)**	(3,147)
Opening balance January 1	**$513,625**	$574,146
Current portion of long-term debt	**-**	(60,000)
Current portion of Stratacon debt	**(1,198)**	(1,131)
Repayment of debt	**(240,000)**	(591)
Issuance of debt	**250,000**	-
Additional deferred financing costs	**(1,786)**	-
Amortization of deferred financing costs	**1,240**	1,201
Total non-current portion	**$521,881**	$513,625
Senior debt principal amount	**$520,000**	$510,000
Stratacon debt principal amount	**4,373**	5,571
Deferred financing costs and interest accretions	**(2,492)**	(1,946)
Total long term debt	**$521,881**	$513,625

Under its revolving credit facility, which matures on January 28, 2014, EnerCare had 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 December 31, 2012, EnerCare Solutions complied with these covenants and is able to fully utilize the revolver limit of $35,000. As at December 31, 2012, no amounts had been drawn on this revolver.

The long term debt balance includes the following items:

The senior debt consists of the 2009-2 Notes maturing on April 30, 2014 and the $250,000 4.30% 2012-1 Senior Unsecured Notes (the “2012 Notes”) maturing on November 30, 2017, with semi-annual interest payments due on April 30 and October 30 and May 30 and November 30 in each year. The 2009-1 Notes matured and were repaid with cash on hand on April 30, 2012. The $240,000 5.25% 2010-1 Senior Unsecured Notes were redeemed in December 2012, including a make-whole payment of $1,920, from proceeds of the 2012 Notes.

Debt was assumed in connection with the Stratacon acquisition in 2008. The secured debt of $5,571 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.

Convertible Debentures:

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.

The following table summarizes the movement of the convertible debentures:

As at December 31,	**2012**	2011
Convertible Debentures:		
Opening principal	**$18,361**	$27,883
Net deferred financing costs	**(1,555)**	(2,863)
Opening balance January 1	**$16,806**	$25,020
Principal conversions	**(11,601)**	$ (9,522)
Transfer of financing costs to equity upon conversion	**1,053**	943
Amortization of financing costs to expense	**138**	365
Ending balance	**$ 6,396**	$16,806
Principal balance	**$ 6,760**	$18,361
Net deferred financing costs	**(364)**	(1,555)
Ending balance	**$ 6,396**	$16,806

From January 1, 2013 to February 27, 2013, approximately $204 principal amount of additional convertible debentures were converted to shares.

10. 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, 2012 and 2011 was 26.50% and 28.25%, 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:

For the year ended December 31,	**2012**	2011
Tax expense at statutory rate of 26.50% (2012) and 28.25% (2011)	**$1,424**	$ 50
Tax effects of:		
Future tax rate differential	**6,046**	(3,627)
Non-deductible expenses	**1,100**	392
Other	**(20)**	(620)
Total	**$8,550**	$(3,805)
Current tax expense	**14,548**	5,708
Deferred income tax recovery	**(5,998)**	(9,513)
Total tax recovery	**$8,550**	$(3,805)

The provision for income taxes in 2012 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 statutory tax rate of 26.50% reflects the reduction of corporate tax rates in the province of Ontario.

Long-term deferred income tax asset and liability

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

As at December 31,	**2012**	2011
As at January 1:	**$(136,700)**	$(148,446)
Charge to the statement of income	**5,998**	9,513
Setup of deferred income tax on EECI acquisition	**-**	2,233
Total	**$(130,702)**	$(136,700)

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:

As at December 31,	**2012**	2011
Deferred tax asset		
Equipment	**$ -**	$ 10
Loss carry forwards	**4,835**	6,042
Allowances	**968**	966
Other	**467**	721
	6,270	7,739
Deferred tax liability		
Equipment	**(112,534)**	(117,880)
Intangible assets	**(364)**	(397)
Temporary difference due to different tax year ends	**(24,205)**	(25,877)
Other	**131**	(285)
	(136,972)	(144,439)
Total	**$(130,702)**	$(136,700)

11. Share Capital

As at December 31,		**2012**		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:				
Principal conversion of debentures	**1,809**	**11,601**	1,469	9,522
Transfer of financing costs to equity	**-**	**(1,053)**		(943)
Transfer from contributed surplus	**-**	**727**		597
Totals	**58,012**	**$520,997**	56,203	$509,722

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 December 31, 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.

12. 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:

For the year ended December 31,	**2012**	2011
(in thousands – except per share amounts)		
Net (loss)/earnings	**$(3,175)**	$3,983
After tax impact of convertible debentures	**564**	1,299
Fully diluted net (loss)/earnings	**(2,611)**	5,282
Weighted average shares outstanding	**57,486**	55,470
Dilutive impact of convertible debentures and stock options	**1,127**	2,856
Fully diluted shares outstanding	**58,613**	58,326
Basic/Diluted (loss)/earnings per share	**$ (0.06)**	$ 0.07

13. Dividends

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

For the year ended December 31,	**2012**	2011
Dividends declared per share during the period	**$ 0.67**	$ 0.649

Dividends declared after December 31,		
January		
Dollars	**$ 3,250**	$ 3,116
Shares	**58,043**	56,654
Per share/unit amount	**$ 0.056**	$ 0.055
February		
Dollars	**$ 3,250**	$ 3,120
Shares	**58,043**	56,723
Per share/unit amount	**$ 0.056**	$ 0.055

The total amount of the dividend for February 2013 is estimated above and is subject to change dependent upon the actual debenture conversions throughout the month, if any.

14. 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:

As at December 31,	**2012**	2011
Due in 2013	**$ 319**	$ 416
Due in 2014	**255**	321
Due in 2015	**370**	248
Due in 2016	**392**	363
Due in 2017	**70**	386
Thereafter	**-**	64
Total commitments under non-cancellable operating leases	**$1,406**	$1,798

The operating lease payments recognized in the consolidated statement of income for 2012 is $814 (December 31, 2011; $607).

15. 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 consolidated financial statements.

16. 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 for Rentals and moderate for Sub-metering.

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.

EnerCare is exposed to credit risk in the normal course of business associated with the billing of sub-metering customers and landlords. Since EnerCare employs various billing models with sub-metering, credit risk exposure fluctuates based on the type of customer. In the case where a landlord is responsible for commodity expenses, credit risk is low. On accounts where EnerCare is responsible for commodity expenses, credit risk is higher. This credit risk tends to be lower where customers own their unit as opposed to renting them. EnerCare has the ability to lower this risk through various contractual protections with landlords, as well as EnerCare's ability to disconnect electricity for non-payment.

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 revolving and term loan credit facility agreements, 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 November 30, 2017.

The covenants under the 2009 Notes and 2012 Notes are contained in a Master Trust Indenture and Supplemental Trust Indentures effective January 29, 2010 and November 21, 2012, 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, 2012.

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
Due in 2013	$ 1,198	$30,081
Due in 2014	271,251	20,574
Due in 2015	1,299	11,359
Due in 2016	1,003	11,261
Due in 2017	257,011	10,791
Thereafter	205	21
Total	$531,967	$84,087

Market Risk

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.

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

As at December 31,	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 12,626**	**$ 12,626**	$ 75,290	$ 75,290
Trade and other receivables	**36,106**	**36,106**	27,275	27,275
Total financial assets	**48,732**	**48,732**	102,565	102,565
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**520,000**	**537,274**	570,000	591,717
Gross convertible debentures	**6,760**	**8,519**	18,361	26,264
Stratacon debt	**5,571**	**5,571**	6,702	6,702
Total borrowings	**532,331**	**551,364**	595,063	624,683
Trade and other payables	**39,962**	**39,962**	47,550	47,550
Total financial liabilities	**$572,293**	**$591,326**	$642,613	$672,233

17. 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, 2012 Notes and revolver as at December 31, 2012.

18. Selling, General and Administrative

For the year ended December 31,	2012	2011
Employee compensation and benefits	**$12,969**	$11,034
Professional fees	**6,285**	4,694
Selling, office and other	**7,850**	8,244
Billing and servicing	**9,668**	10,261
Claims and bad debt	**6,851**	4,205
Total	**$43,623**	$38,438

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.

As at December 31,	2012	2011
Opening balance:	**$1,592**	$2,728
Charged/(credited) to the consolidated statement of income:		
Additional provision	**3,503**	3,719
Reversals	**(876)**	(1,167)
Claims spending during the period	**(3,493)**	(3,688)
Ending balance	**$ 726**	$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 consolidated statement of cash flows.

For the year ended December 31,	**2012**	2011
Accounts and other receivables	**$ (8,831)**	$(1,946)
Prepaid and other assets	**230**	(366)
Accounts payable and accrued liabilities	**(2,346)**	9,070
Provisions	**(866)**	(1,136)
Interest payable	**(3,679)**	533
Total	**$(15,492)**	$6,155

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:

For the year ended December 31,	**2012**	2011
Salaries and short-term benefits	**$2,906**	$1,720
Other employment benefits	**66**	112
Long term benefits	**1,046**	1,433
Total	**$4,018**	$3,265

Transactions with DE

EnerCare's relationship with DE is significant, as DE services and supports more than 90% of EnerCare's Rental customers and Rental 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 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:

For the year ended December 31,	**2012**	2011
Origination agreement:		
Capital expenditures	**$49,089**	$53,159
GreenSource acquisition	**1,944**	-
Inventory service fee	**3,150**	3,386
Other capital expenditures	**5,418**	5,272
Other expenses, including billing and servicing costs	**2,850**	2,918
Total	**$62,451**	$64,735

22. 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 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:

	PSUP		DSUP		SOP	
(in thousands except price)	#	$	#	$	#	$
At January 1, 2012	216	9.39	95	9.39	453	-
Granted	128	9.39	29	9.39	-	-
Director's optional purchases	-	-	37	8.97	-	-
Phantom dividends	7	-	11	-	-	-
Forfeited	(13)	-	-	-	-	-
Exercised	-	-	-	-	-	-
Expired	-	-	-	-	-	-
At December 31, 2012	338	8.26	172	8.28	453	-
Expensed in the period	-	821	-	573	-	79
Liabilities payable	-	1,893	-	1,158	-	-

	PSUP		DSUP		SOP	
(in thousands except price)	#	$	#	$	#	$
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	-	-

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.

23. 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:

				December 31, 2012				December 31, 2011
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$186,288**	**$69,837**	**$ -**	**$256,125**	$186,524	$57,383	$ -	$243,907
Expenses:								
Commodity	**-**	**(52,048)**	**-**	**(52,048)**	-	(41,941)	-	(41,941)
SG&A	**(15,474)**	**(12,007)**	**(16,142)**	**(43,623)**	(16,109)	(10,530)	(11,799)	(38,438)
Adjusted EBITDA	**170,814**	**5,782**	**(16,142)**	**160,454**	170,415	4,912	(11,799)	163,528
Loss on disposal	**(15,148)**	**-**	**-**	**(15,148)**	(19,099)	-	-	(19,099)
Impairment of assets	**-**	**-**	**-**	**-**	-	(458)	-	(458)
EBITDA	**155,666**	**5,782**	**(16,142)**	**145,306**	151,316	4,454	(11,799)	143,971
Amortization	**(97,385)**	**(3,165)**	**(1,072)**	**(101,622)**	(101,906)	(2,256)	(541)	(104,703)
Interest income				**457**				594
Interest expense				**(40,759)**				(42,067)
Other income				**1,993**				2,383
Current taxes				**(14,548)**				(5,708)
Deferred tax recovery				**5,998**				9,513
Net earnings / (loss)				**(3,175)**				3,983
Segment assets	**711,974**	**70,080**	**19,992**	**802,046**	774,723	52,160	80,075	906,958
Equipment additions	**57,885**	**8,802**	**4,138**	**70,825**	60,503	10,260	3,904	74,667
Segment liabilities	**$164,989**	**$13,143**	**$528,277**	**$706,409**	$228,620	$11,959	$542,972	$783,551

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 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.

24. 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 fourth quarter of 2012, related to GreenSource, was approximately $221 and $99, and $705 and $227, respectively, year to date. EnerCare Solutions entered into a transitional services agreement with DE to provide service support to customers on a fee-for-service basis.

25. Other Income

Other income of $1,993 includes amounts recognized in the current year related to prior years' events. The amount for 2012 includes income of approximately $855, which represents the reversal of the liability in respect of the third and final earnout payable to the former principals of Stratacon, $1,500 on account of a settlement reached by EnerCare and DE on account of billing disputes for water heater installation costs, $200 from DE on account of billing shortfalls and a reduction of $600 related to reversal of billed amounts from EGD following the billing conversions. Other income in 2011 represents the reduction in the estimated liability of the third and final earnout payable to the former Stratacon shareholders.

26. Subsequent Events

On January 28, 2013, EnerCare Solutions entered into a $60,000 term credit facility (the "Term Loan") with the Canadian chartered bank affiliate of National Bank Financial Inc. The Term Loan is payable interest only until maturity in January 2016 and is payable in whole or in part at any time without penalty. The Term Loan bears interest at a rate of bankers' acceptances plus 120 basis points or prime plus 20 basis points at EnerCare Solutions' current credit rating. EnerCare Solutions drew the full amount available under the Term Loan on February 4, 2013. The covenants under the Term Loan mirror those of the existing $35,000 Revolver.

On February 1, 2013, EnerCare Solutions completed a public offering of $225,000 aggregate principal amount of 4.60% Series 2013-1 Senior Unsecured Notes due February 3, 2020 (the "2013 Notes"). The 2013 Notes were sold at a price of 99.94% of the principal amount, with an effective yield of 4.61% per annum if held to maturity. The covenants associated with this debt are the same as those under the existing 2009-2 Notes and 2012 Notes.

The proceeds of the offering and the drawdown of the Term Loan will be used to redeem on March 6, 2013 the outstanding $270,000 aggregate principal amount of 6.75% Series 2009-2 Senior Unsecured Notes due April 30, 2014 for an aggregate redemption price of approximately $290,095, which includes interest and a make-whole payment of $13,754.

On February 26, 2013, the revolving credit agreement pricing was amended to reflect a 20% reduction in standby fees on the unused portion of the facility and a 30 basis point reduction in margin on borrowings at EnerCare Solutions' current debt ratings.