EnerCare Inc.

Condensed Interim Consolidated Financial Statements

First Quarter ended March 31, 2013

Dated May 13, 2013

EnerCare Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)		(unaudited) March 31, 2013		December 31, 2012
Assets				
Current assets				
Cash and cash equivalents (note 4)	**$**	**8,965**	$	12,626
Accounts receivable (note 5)		**46,647**		41,302
Prepaid and other assets		**3,409**		3,360
		59,021		57,288
Capital assets (note 7)		**458,698**		456,114
Intangible assets (note 8)		**272,951**		284,608
Goodwill		**2,962**		2,962
Deferred tax asset		**9,598**		6,270
	$	**803,230**	$	807,242
Liabilities				
Current liabilities				
Bank indebtedness (note 9)	**$**	**2,000**	$	-
Current portion of long-term debt (note 9)		**1,209**		1,198
Accounts payable and accrued liabilities (note 6)		**36,068**		36,955
Provisions (note 19)		**656**		726
Interest payable		**5,553**		4,228
Dividends payable (note 12)		**3,311**		3,249
		48,797		46,356
Long-term debt (note 9)		**535,927**		521,881
Convertible debentures (note 9)		**5,894**		6,396
Deferred tax liability		**132,576**		136,972
		723,194		711,605
Shareholders' equity		**80,036**		95,637
	$	**803,230**	$	807,242

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

EnerCare Inc.

Condensed Interim Consolidated Statements of Income

(unaudited) (in thousands of Cdn $, except per share amounts)		Three months ended March 31, 2013		2012
Revenues				
Rentals and services	$	**74,042**	$	67,682
Investment income		**268**		185
Total revenues		**74,310**		67,867
Expenses				
Commodity charges		**22,151**		16,545
Selling, general & administrative (note 18)		**10,462**		10,302
Amortization				
Capital assets		**12,699**		14,206
Intangibles		**11,657**		11,668
Loss on disposal of equipment		**2,892**		4,115
Interest				
Short-term		**363**		27
Make-whole charge on early redemption of debt		**13,754**		-
Long-term		**12,856**		10,303
Total operating expenses		**86,834**		67,166
Other income		**-**		1,500
Loss for the period before income taxes		**(12,524)**		2,201
Tax expense				
Current tax expense		**5,588**		3,311
Deferred income tax (recovery)		**(7,724)**		(941)
Total tax expense/(recovery)		**(2,136)**		2,370
Net loss for the period	**$**	**(10,388)**	$	(169)
Weighted average number of shares outstanding (notes 10, 11)		**58,040**		56,554
Diluted shares outstanding (notes 10, 11)		**59,060**		58,742
Basic/diluted loss per share (note 11)	**$**	**(0.18)**	$	0.00

EnerCare Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of Cdn $)		Three months ended March 31, 2013		2012
Net loss for the period	**$**	**(10,388)**	$	(169)
Amortization of accumulated other comprehensive loss to net loss		**4,023**		922
Comprehensive (loss)/income for the period	**$**	**(6,365)**	$	753

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 March 31,	
(in thousands of Cdn $)	**2013**	2012
Share Capital		
Balance - beginning of period	**$ 520,997**	$ 509,722
Shares issued on debenture conversion (net of issue costs) (note 10)	**550**	4,780
Share Capital - end of period	**521,547**	514,502
Contributed Surplus		
Balance - beginning of period	**785**	1,308
Shares issued on debenture conversion (net of issue costs) (note 10)	**(29)**	(308)
Employee share options:		
Value of services recognized	**56**	40
Contributed Surplus - end of period	**812**	1,040
Accumulated Other Comprehensive Loss		
Balance - beginning of period	**(4,023)**	(7,281)
Amortization	**4,023**	922
Accumulated Other Comprehensive Loss - end of period	**-**	(6,359)
Deficit		
Balance - beginning of period	**(422,122)**	(380,342)
Net loss for the period	**(10,388)**	(169)
Dividends (note 12)	**(9,813)**	(9,424)
Deficit - end of period	**(442,323)**	(389,935)
Shareholders' equity - end of period	**$ 80,036**	$ 119,248

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

EnerCare Inc.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)	Three months ended March 31,	
(in thousands of Cdn $)	**2013**	2012
Cash provided by/(used in):		
Operating activities		
Net loss for the period	**$ (10,388)**	$ (169)
Items not affecting cash		
Amortization		
Capital assets (note 7)	**12,699**	14,206
Intangibles (note 8)	**11,657**	11,668
Loss on disposal of equipment (note 7)	**2,892**	4,115
Non-cash interest expense	**4,925**	1,283
Employee share options	**56**	40
Deferred income tax (recovery)	**(7,724)**	(941)
Operating cash flow	**14,117**	30,202
Net change in non-cash working capital (note 20)	**(5,026)**	(6,088)
Cash provided by operating activities	**9,091**	24,114
Investing activities		
Purchase of capital assets	**(19,092)**	(18,445)
Acquisitions	**-**	(2,053)
Proceeds from disposal of equipment	**917**	1,692
Cash used in investing activities	**(18,175)**	(18,806)
Financing activities		
Dividends to shareholders	**(9,751)**	(9,325)
Proceeds from revolving line of credit	**2,000**	-
Proceeds from issuance of long-term debt	**285,000**	-
Repayment of long-term debt	**(270,294)**	(280)
Deferred financing costs on long-term debt	**(1,532)**	-
Cash provided by/(used in) financing activities	**5,423**	(9,605)
Decrease in cash and cash equivalents	**(3,661)**	(4,297)
Cash and cash equivalents - beginning of period	**12,626**	75,290
Cash and cash equivalents - end of period	**$ 8,965**	$ 70,993
Supplementary information		
Interest paid	**$ 20,723**	$ 7,075
Income taxes paid	**$ 9,893**	$ 7,487

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

1. Organization and Nature of Business

EnerCare Inc. ("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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by 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, 2012. 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, except for the adoption of new accounting standards as described in note 3.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 13, 2013, 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.

Certain comparative amounts have been reclassified to conform to the current period's presentation. Revenue related to charges to landlords on account of common area and suite consumption that was not billed to tenants has been reclassified from commodity charges. The related accounts receivable has been reclassified from accounts payable and accrued liabilities. These reclassifications resulted in an increase of $4,362 to both rentals and services revenue and commodity charges for the three month period ended March 31, 2012 in the condensed interim consolidated statement of income and an increase to both accounts receivable and accounts payable and accrued liabilities of $5,196 as at December 31, 2012 in the condensed interim consolidated statement of financial position. These reclassifications did not result in any adjustments to previously reported net income, working capital or cash flows.

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 to fair value, including derivative instruments.

Critical Accounting Estimates

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 condensed interim 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.

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 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. During the fourth quarter of 2012 and in January 2013, a number of billing issues were resolved with the third party billing system.

At December 31, 2012, EnerCare estimated and recorded revenue accruals of $800 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 March 31, 2013, EnerCare has accrued the same amount in respect of outstanding billing amounts.

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 accounts required accruals for additional service periods resulting in a total revenue accrual at December 31, 2012 of approximately $12,500. At March 31, 2013, EnerCare accrued revenue of approximately $13,000. Subsequent to quarter end, EnerCare has successfully completed substantially all back billing of customers.

As a result of the billing backlog, EnerCare modified some of its collection programs in the latter half of 2012, with enhanced collection procedures implemented in 2013. Based on management's best estimate, the bad debt provision was increased during the first quarter to reflect the increase in receivables caused by the back-billing of customers and our modified collection practices. Bad debt charges and provisions were approximately $500 for the first quarter of 2013 and $200 for the same period of 2012.

3. Adoption of New Accounting Standards

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

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 implemented the standard and has determined that it did 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 implemented the standard and has determined that it did not have an impact on current reporting.

4. Cash and Cash Equivalents

	March 31, 2013	December 31, 2012
Cash at bank and in hand	**$8,965**	$12,626
Ending balance	**$8,965**	$12,626

5. Accounts Receivable

	March 31, 2013	December 31, 2012
Accounts receivable (net of provision)	**$46,647**	$41,302
Bad and doubtful debt provision:		
Opening balance	**$ 3,100**	$ 1,422
Charge for the period	**659**	1,678
Provision ending balance	**$ 3,759**	$ 3,100

6. Accounts Payable and Accrued Liabilities

	March 31, 2013	December 31, 2012
Accounts payable	**$12,771**	$ 5,588
Accruals	**14,224**	10,174
Compensation payable	**2,080**	3,051
Current taxes payable	**3,852**	8,157
Other payables	**3,141**	9,985
Ending balance	**$36,068**	$36,955

7. Capital Assets

As at March 31, 2013	Water Heaters	Sub-metering	Other	Total
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
Additions	$ 14,876	$ 3,794	$ 422	$ 19,092
Loss on disposal before proceeds	(3,809)	-	-	(3,809)
Depreciation for the period	(11,506)	(856)	(337)	(12,699)
At March 31, 2013	$410,407	$40,840	$7,451	$458,698
At March 31, 2013:				
Cost	$795,540	$53,543	$10,542	$859,625
Accumulated depreciation	(385,133)	(12,703)	(3,091)	(400,927)
Net book value	$410,407	$40,840	$ 7,451	$458,698

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	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

8. Intangible Assets

As at March 31, 2013	Customer Relationships	Customer Contracts	Total
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
Amortization for the period	(11,599)	(58)	(11,657)
At March 31, 2013	271,633	1,318	272,951
At March 31, 2013:			
Cost	743,336	33,270	776,606
Accumulated depreciation	(471,703)	(31,952)	(503,655)
Net book value	$271,633	$ 1,318	$272,951

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

9. Debt

Bank indebtedness, current and long-term debts:

	March 31, 2013	December 31, 2012
Bank indebtedness:		
Opening balance January 1	**$ -**	$ -
Revolver	**2,000**	-
Total bank indebtedness	**$ 2,000**	$ -
Current portion of long term debt:		
Opening balance January 1	**$ 1,198**	$ 61,131
Current portion of non-current debt	**1,209**	1,198
Repayment of debt	**(1,198)**	(61,131)
Total current portion	**$ 1,209**	$ 1,198
Non-current portion of long term debt:		
Senior debt principal amount	**$520,000**	$510,000
Stratacon debt principal amount	**4,373**	5,571
Deferred financing costs and interest accretion	**(2,492)**	(1,946)
Opening balance January 1	**$521,881**	$513,625
Current portion of Stratacon debt	**(1,209)**	(1,198)
Repayment of debt	**(269,096)**	(240,000)
Issuance of debt	**285,000**	250,000
Additional deferred financing costs	**(1,532)**	(1,786)
Amortization of deferred financing costs	**883**	1,240
Total non-current portion	**$535,927**	$521,881
Senior debt principal amount	**$535,000**	$520,000
Stratacon debt principal amount	**4,068**	4,373
Deferred financing costs and interest accretion	**(3,141)**	(2,492)
Total long term debt	**$535,927**	$521,881

Under EnerCare Solutions' revolving credit facility, which matures on July 6, 2014, EnerCare Solutions has a standby charge of 0.24%. EnerCare Solutions is subject to three principal financial covenants as defined in the revolver and term loan documents. The covenants address interest and debt coverage. At March 31, 2013, EnerCare Solutions complied with these covenants and was able to fully utilize the revolver limit of $35,000. As at March 31, 2013, $2,000 was drawn and subsequently repaid on April 19, 2013.

The long term debt balance includes the following items:

The senior debt consists of the $250,000 4.30% 2012-1 Senior Unsecured Notes (the "2012 Notes") maturing on November 30, 2017 and the $225,000 4.60% 2013-1 Senior Unsecured Notes (the "2013 Notes") maturing on February 3, 2020, with semi-annual interest payments due on May 30 and November 30 and February 3 and August 3 in each year. On January 28, 2013, EnerCare Solutions entered into a $60,000 variable rate, single draw, term loan credit facility ("Term Loan") maturing on January 28, 2016. The $60,000 6.20% 2009-1 Senior Unsecured 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 issuance of the 2012 Notes. The $270,000 6.75% 2009-2 Senior Unsecured Notes were redeemed in March 2013, including a make-whole payment of $13,754, from proceeds of the issuance of the 2013 Notes and drawdown of the Term Loan.

Debt was assumed in connection with the Stratacon acquisition in 2008. The secured debt of $5,277 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:

	March 31, 2013	December 31, 2012
Convertible Debentures:		
Opening principal	**$6,760**	$18,361
Net deferred financing costs	**(364)**	(1,555)
Opening balance January 1	**$6,396**	$16,806
Principal conversions	**$ (550)**	$(11,601)
Transfer of financing costs to equity upon conversion	**29**	1,053
Amortization of financing costs to expense	**19**	138
Ending balance	**$5,894**	$6,396
Principal balance	**$6,210**	$6,760
Net deferred financing costs	**(316)**	(364)
Ending balance	**$5,894**	$6,396

From April 1, 2013 to May 10, 2013, approximately $254 principal amount of additional convertible debentures were converted to shares.

10. Share Capital

	March 31, 2013		December 31, 2012	
Shares Issued and Outstanding	**Shares**	**Net Proceeds**	Shares	Net Proceeds
Opening balance at January 1:	**58,012**	**$520,997**	56,203	$509,722
Issued:				
Principal conversion of debentures	**84**	**550**	1,809	11,601
Transfer of financing costs to equity	**-**	**(29)**	-	(1,053)
Transfer from contributed surplus	**-**	**29**	-	727
Totals	**58,096**	**$521,547**	58,012	$520,997

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 March 31, 2013, 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 and therefore were excluded from the calculation of diluted earnings per share.

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

Three months ended March 31,	**2013**	2012
(in thousands – except per share amounts)		
Net loss	**$(10,388)**	$ (169)
After tax impact of convertible debentures	**90**	224
Fully diluted net (loss)/earnings	**(10,298)**	55
Weighted average shares outstanding	**58,040**	56,554
Dilutive impact of convertible debentures and stock options	**1,020**	2,188
Fully diluted shares outstanding	**59,060**	58,742
Basic/Diluted (loss)/earnings per share	**$ (0.18)**	$ 0.00

12. Dividends

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

Three months ended March 31,	**2013**	2012
Dividends declared per share during the period	**$ 0.169**	$0.166
Dividends declared after March 31,		
April		
Dollars	**$ 3,311**	$ 3,190
Shares	**58,096**	56,962
Per share/unit amount	**$ 0.057**	$ 0.056

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

13. Compensation Plans

EnerCare operates the following share based compensation plans: the Performance Share Unit Plan (“PSUP”), the Director’s Share Unit Plan (“DSUP”) and the Share Option Plan (“SOP”).

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% and 22% volatility measure in respect of the 2011 and 2013 grants; and
- Dividend yield was based on historical levels preceding the date of grant.

The weighted average remaining contractual life is approximately 8 years.

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

As at March 31, 2013	PSUP		DSUP		SOP	
(in thousands except price)	#	$	#	$	#	$
At January 1, 2013	338	8.27	172	8.27	435	8.20
Granted	88	8.27	23	8.27	394	8.89
Director's optional purchases	-	-	5	9.06	-	-
Phantom dividends	6	-	4	-	-	-
Performance objective modifier	-	-	-	-	-	-
Forfeited	-	-	-	-	(46)	-
Exercised	(137)	8.27	(39)	8.27	-	-
Expired	-	-	-	-	-	-
At March 31, 2013	**295**	**9.06**	**165**	**9.06**	**783**	**9.15**
Expensed in the period	**-**	**570**	**-**	**153**	**-**	**89**
Liabilities payable	**-**	**1,027**	**-**	**1,052**	**-**	**-**

2012	PSUP		DSUP		SOP	
(in thousands except price)	#	$	#	$	#	$
At January 1, 2012	216	9.39	95	9.39	453	9.21
Granted	128	9.39	29	9.39	-	-
Director's optional purchases	-	-	37	8.97	-	-
Phantom dividends	19	-	11	-	-	-
Performance objective modifier	(12)	-	-	-	-	-
Forfeited	(13)	-	-	-	-	-
Exercised	-	-	-	-	(18)	-
Expired	-	-	-	-	-	-
At December 31, 2012	338	8.27	172	8.27	435	8.20
Expensed in the period	-	821	-	573	-	79
Liabilities payable	-	1,893	-	1,158	-	-

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.

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:

Period	**March 31, 2013**
Due in 2013	**$ 234**
Due in 2014	**264**
Due in 2015	**379**
Due in 2016	**397**
Due in 2017	**70**
Thereafter	**-**
Total commitments under non-cancellable operating leases	**$1,344**

The operating lease payments recognized in the condensed interim consolidated statement of income for the period ended March 31, 2013 is $317 (2012 - $184).

15. Contingent Liabilities

EnerCare and a subsidiary of EnerCare Solutions have 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 unlawful activities aimed at 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.

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 10% 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 and its senior unsecured trust indenture, as supplemented, 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 February 3, 2020.

The covenants under the 2012 Notes and 2013 Notes are contained in the senior unsecured trust indenture, as supplemented. Under the terms of this indenture, 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 March 31, 2013.

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	$ 904	$ 18,032
Due in 2014	1,251	23,300
Due in 2015	1,299	23,197
Due in 2016	61,003	21,849
Due in 2017	256,825	21,141
Thereafter	225,205	25,896
Total	$546,487	$133,415

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 March 31, 2013 and December 31, 2012. 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.

	March 31, 2013		December 31, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 8,965**	**$ 8,965**	$ 12,626	$ 12,626
Trade and other receivables	**46,647**	**46,647**	41,302	41,302
Total financial assets	**$ 55,612**	**$ 55,612**	$ 53,928	$ 53,928
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$535,000**	**$557,495**	$520,000	$537,274
Gross convertible debentures	**6,210**	**8,694**	6,760	8,519
Stratacon debt	**5,277**	**5,277**	5,571	5,571
Total borrowings	**546,487**	**571,466**	532,331	551,364
Trade and other payables	**47,588**	**47,588**	45,158	45,158
Total financial liabilities	**$594,075**	**$619,054**	$577,489	$596,522

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 2012 Notes, 2013 Notes, Revolver and Term Loan as at March 31, 2013.

18. Selling, General and Administrative

Three months ended March 31,	**2013**	2012
Employee compensation and benefits	**$ 3,636**	$ 3,167
Professional fees	**1,054**	1,348
Selling, office and other	**1,630**	1,786
Billing and servicing	**2,358**	2,808
Claims and bad debt	**1,784**	1,193
Total	**$10,462**	$10,302

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.

Three months ended March 31,	**2013**	2012
Opening balance:	**$726**	$1,592
Charged/(credited) to the condensed interim consolidated statement of income:		
Additional provision	**827**	872
Reversals	**(80)**	(424)
Claims spending during the period	**(817)**	(933)
	$656	$1,107

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 March 31,	**2013**	2012
Accounts receivable	**$(5,345)**	$ (3,730)
Prepaid and other assets	**(49)**	(165)
Accounts payable and accrued liabilities	**(887)**	(3,680)
Provisions	**(70)**	(485)
Interest payable	**1,325**	1,972
Total	**$(5,026)**	$(6,088)

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 earned by key management for services is shown below:

Three months ended March 31,	**2013**	2012
Salaries and short-term benefits	**$516**	$1,125
Other employment benefits	**32**	15
Long term benefits	**366**	335
Total	**$914**	$1,475

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:

Three months ended March 31,	**2013**	2012
Origination agreement:		
Capital expenditures	**$12,810**	$13,328
GreenSource acquisition	**-**	2,053
Inventory service fee	**841**	858
Other capital expenditures	**1,517**	1,401
Other expenses, including billing and servicing costs	**702**	829
Total	**$15,870**	$18,469

22. 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 March 31, 2013				Three months ended March 31, 2012			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$ 47,082**	**$ 26,960**	**$ -**	**$ 74,042**	$ 46,847	$ 20,835	$ -	$ 67,682
Expenses:								
Commodity	**-**	**(22,151)**	**-**	**(22,151)**	-	(16,545)	-	(16,545)
SG&A	**(3,817)**	**(3,284)**	**(3,361)**	**(10,462)**	(3,532)	(2,784)	(3,986)	(10,302)
Adjusted EBITDA	**43,265**	**1,525**	**(3,361)**	**41,429**	43,315	1,506	(3,986)	40,835
Loss on disposal	**(2,892)**	**-**	**-**	**(2,892)**	(4,115)	-	-	(4,115)
EBITDA	**40,373**	**1,525**	**(3,361)**	**38,537**	39,200	1,506	(3,986)	36,720
Amortization	**(23,163)**	**(856)**	**(337)**	**(24,356)**	(24,938)	(748)	(188)	(25,874)
Interest income				**268**				185
Interest expense				**(26,973)**				(10,330)
Other income				**-**				1,500
Current taxes				**(5,588)**				(3,311)
Deferred tax recovery				**7,724**				941
Net loss				**(10,388)**				(169)
Segment assets	**706,555**	**80,259**	**16,416**	**803,230**	757,920	59,663	76,702	894,285
Equipment additions	**14,876**	**3,794**	**422**	**19,092**	17,550	1,600	1,348	20,498
Segment liabilities	**$159,471**	**$ 21,902**	**$541,821**	**$723,194**	$470,675	$ 18,336	$286,026	$775,037

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.