EnerCare Solutions Inc.

Consolidated Financial Statements

Second Quarter Ended June 30, 2011

Dated August 8, 2011

EnerCare Solutions Inc.
Consolidated Statement of Financial Position

(unaudited) (in thousands of Cdn $)		June 30, 2011		December 31, 2010
Assets				
Current assets				
Cash and cash equivalents (note 4)	$	**35,029**	$	18,145
Accounts receivables (note 5)		**19,666**		18,910
Prepaid and other assets		**411**		-
		55,106		37,055
Equipment (note 7)		**431,563**		440,256
Intangible assets (note 8)		**352,823**		376,020
	$	**839,492**	$	853,331
Liabilities				
Current liabilities				
Current portion of long-term debt (note 9)	$	**60,000**	$	-
Accounts payable and accrued liabilities (note 6)		**18,927**		14,307
Provisions (note 20)		**2,128**		2,728
Interest payable		**7,374**		7,374
Dividends payable		**2,993**		-
		91,422		24,409
Long-term debt (note 9)		**507,449**		566,853
Promissory note / Subordinated debt (note 10)		**100,000**		381,755
Deferred tax liability (note 13)		**149,380**		152,743
		848,251		1,125,760
Shareholders' equity (note 11)		**(8,759)**		(272,429)
	$	**839,492**	$	853,331

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

EnerCare Solutions Inc.
Consolidated Statements of Income

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(in thousands of Cdn $, except per share amounts)	**2011**	2010	**2011**	2010
Revenues				
Rentals and services	**$ 46,745**	$ 49,115	**$ 93,640**	$ 95,579
Investment income	**87**	3	**147**	4
Total Revenues	**46,832**	49,118	**93,787**	95,583
Expenses				
Selling, general & administrative (note 18)	**5,870**	6,710	**13,057**	12,466
Amortization	**25,451**	26,061	**50,888**	52,158
Loss on disposal of equipment	**4,861**	5,918	**9,501**	10,911
Interest				
Short-term	**79**	164	**157**	3,287
Long-term	**11,689**	10,813	**21,955**	20,555
Total operating expenses	**47,950**	49,666	**95,558**	99,377
Loss before income taxes	**(1,118)**	(548)	**(1,771)**	(3,794)
Tax expense				
Current tax expense	**1,881**	-	**3,465**	-
Deferred Income tax recovery	**(1,849)**	(3,835)	**(3,363)**	(8,038)
Total tax recovery	**32**	(3,835)	**102**	(8,038)
Net (loss)/income for the period	**$ (1,150)**	$ 3,287	**$ (1,873)**	$ 4,244

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

EnerCare Solutions Inc.
Consolidated Statements of Comprehensive (loss)/Income

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(in thousands of Cdn $, except per share amounts)	**2011**	2010	**2011**	2010
Net (loss)/income for the period	$ (1,150)	$ 3,287	$ (1,873)	$ 4,244
Amortization of accumulated other comprehensive loss to net income	918	922	1,837	1,834
Comprehensive (loss)/income for the period	**$ (232)**	$ 4,209	**$ (36)**	$ 6,078

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

EnerCare Solutions Inc.
Consolidated Statements of Changes in Equity

(unaudited) (in thousands of Cdn $)	Share Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Total
Balance - January 1, 2010	$ 79,614	$ (14,673)	$ (314,628)	$ (249,687)
Net income for the period	-	-	957	957
Other comprehensive loss:				
Amortization	-	912	-	912
Dividends	-	-	(7,082)	(7,082)
Balance - March 31, 2010	$ 79,614	$ (13,761)	$ (320,753)	$ (254,900)
Net income for the period	-	-	3,287	3,287
Other comprehensive loss:				
Amortization	-	922	-	922
Dividends	-	-	(7,352)	(7,352)
Balance - June 30, 2010	$ 79,614	$ (12,839)	$ (324,818)	$ (258,043)
Balance - January 1, 2011	**$ 79,614**	**$ (10,975)**	**$ (341,068)**	**$ (272,429)**
Net loss for the period	**-**	**-**	**(723)**	**(723)**
Other comprehensive loss:				
Amortization	**-**	**919**	**-**	**919**
Increase in equity on Trust reorganization and Fund liability assumption (note 1)	**-**	**-**	**281,879**	**281,879**
Dividends	**-**	**-**	**(8,918)**	**(8,918)**
Balance - March 31, 2011	**$ 79,614**	**$ (10,056)**	**$ (68,830)**	**$ 728**
Net loss for the period	**-**	**-**	**(1,150)**	**(1,150)**
Other comprehensive loss:				
Amortization	**-**	**918**	**-**	**918**
Increase in equity on Trust reorganization and Fund liability assumption (note 1)	**-**	**-**	**(297)**	**(297)**
Dividends	**-**	**-**	**(8,958)**	**(8,958)**
Balance - June 30, 2011	**$ 79,614**	**$ (9,138)**	**$ (79,235)**	**$ (8,759)**

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

EnerCare Solutions Inc.
Consolidated Statements of Cash Flows

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(in thousands of Cdn $)	**2011**	2010	**2011**	2010
Cash provided by/(used in):				
Operating activities				
Net (loss)/income for the period	**$ (1,150)**	$ 3,287	**$ (1,873)**	$ 4,244
Items not affecting cash				
Amortization	**25,451**	26,061	**50,888**	52,158
Loss on disposal of equipment	**4,861**	5,918	**9,501**	10,911
Non-cash interest expense	**1,217**	1,225	**2,433**	3,811
Deferred income tax recovery	**(1,849)**	(3,835)	**(3,363)**	(8,038)
Operating cash flow	**28,530**	32,656	**57,586**	63,086
Net change in working capital (note 21)	**(2,411)**	(3,740)	**2,680**	(6,761)
Cash provided by operating activities	**26,119**	28,916	**60,266**	56,325
Investing activities				
Purchase of equipment	**(15,229)**	(17,474)	**(30,580)**	(35,379)
Proceeds from disposal of equipment	**1,010**	833	**2,081**	1,761
Cash used in investing activities	**(14,219)**	(16,641)	**(28,499)**	(33,618)
Financing activities				
Distributions to shareholders	**(11,909)**	(7,061)	**(14,883)**	(14,137)
Repayment of line of credit	**-**	(83)	**-**	(15,061)
Proceeds from bridge facility	**-**	-	**-**	240,000
Repayment of bridge facility	**-**	-	**-**	(240,000)
Issuance of long-term debt	**-**	-	**-**	240,000
Repayment of long-term debt	**-**	-	**-**	(225,000)
Deferred financing costs on long-term debt	**-**	(107)	**-**	(1,328)
Cash used in financing activities	**(11,909)**	(7,251)	**(14,883)**	(15,526)
Increase/(decrease) in cash and cash equivalents	**(9)**	5,024	**16,884**	7,181
Cash and cash equivalents - beginning of period	**35,038**	14,530	**18,145**	12,373
Cash and cash equivalents - end of period	**$ 35,029**	$ 19,554	**$ 35,029**	$ 19,554
Supplementary information				
Interest paid	**$ 12,999**	$ 12,033	**$ 19,299**	$ 21,387
Income taxes paid	**$ -**	$ -	**$ -**	$ -

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

1. Organization and Nature of Business

EnerCare Solutions Inc. ("EnerCare Solutions") is the successor to The Consumers' Waterheater Operating Trust (the "Trust). EnerCare Solutions is a 100% subsidiary of EnerCare Inc. ("EnerCare"). EnerCare Solutions 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, with the net reduction in the Trust subordinated debt being reflected as a contribution to equity along with the assumption of certain of its obligations.

The head office of EnerCare Solutions is located at 2 East Beaver Creek Road, Building 2, Richmond Hill, Ontario, L4B 2N3.

2. Basis of Preparation and Adoption of IFRS

These unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. EnerCare Solutions has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. There were no significant changes as a result of the conversion to IFRS.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of August 8, 2011, the date the board of directors approved the interim consolidated financial statements. Any subsequent changes to IFRS, that are given effect in the company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS. The interim consolidated financial statements should be read in conjunction with EnerCare Solutions' previously issued annual financial statements for the year ended December 31, 2010 prepared in accordance with Part V of the Canadian Institute of Chartered Accountants handbook ("CGAAP"). Throughout these interim consolidated financial statements EnerCare and EnerCare Solutions have replaced references to the predecessor entities of the Fund and the Trust, respectively, as well, references to shares, shareholders and dividends replace previous references to units, unitholders and distributions, respectively.

3. Significant Accounting Policies

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

Basis of Measurement

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

Consolidation

The interim consolidated financial statements of EnerCare Solutions 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 Solutions 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 Solutions controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by EnerCare Solutions and are de-consolidated from the date that control ceases. As of the date of these interim consolidated financial statements, 100% of the operating results and equity of the subsidiaries is attributable to EnerCare Solutions.

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 Solutions 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 Solutions has transferred substantially all risks and rewards of ownership.

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

At initial recognition, EnerCare Solutions 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. No instruments classified in this category were held by EnerCare Solutions.

(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 Solutions' loans and receivables are comprised primarily of trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

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

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

Impairment of Financial Instruments

At each reporting date, EnerCare Solutions assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, EnerCare Solutions 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 Solutions has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. EnerCare Solutions performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset, including installation costs, labour, and direct overhead. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to EnerCare Solutions 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 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 Solutions substantially all the benefits and risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the finance lease is included in the statement of income. All other leases are operating leases and the rental costs are charged to the statement of income on a straight-line basis over the lease term. At June 30, 2011, EnerCare Solutions had no finance leases.

Intangible Assets

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

Impairment of Non-financial Assets

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

Long Term Compensation

Cash Based Payment Plans

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

EnerCare adopted the Deferred Share Unit Plan ("DSUP") effective January 1, 2011 for non-employee directors. In addition to annual grants, pursuant to the DSUP, directors will receive 50% of their fees in the form of deferred share units until the director has met the director's share ownership requirements. Directors may also elect once each calendar year to receive any portion of their fees in the form of deferred share units for the year. 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.

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 Solutions' performance. Recorded amounts are reflected in contributed surplus and profit and loss for the period. The number of options expected to vest is reviewed at least annually, with any impact being recognized immediately.

Income Tax

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

EnerCare Solutions 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 Solutions 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 EnerCare Solutions recognizes 100% of the revenues, together with related operating and service costs.

Interest Expense and Financing Charges

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

Hedge Accounting

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

Dividends

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

Critical Accounting Estimates and Judgments

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

Billing and Servicing Matters

Earnings Items

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

EnerCare Solutions has estimated and recorded revenues of $1,100 ($2,665 – second quarter of 2010) in respect of customer billings and adjustments associated with transactions that have not been completed by DE. The accrual reflects the amount expected to be recovered from customers, but does not include any amounts EnerCare Solutions may recover from DE for lost revenues arising from these billing system conversion issues.

During the quarter ended June 30, 2011, DE has made some progress in respect of collection exposures and application of customer payments. As a result, EnerCare Solutions reached an agreement in principal with DE to receive a payment of approximately $2,200 representing EnerCare Solutions' entitlement to unremitted customer payments for rentals outside of the EGD territory. The settlement amount had an earnings impact of $1,300 recorded as a recovery of previous bad debts written off during 2010, with the remainder reflected as a change in financial position between outstanding customer receivables and an account receivable from DE. Payment and full settlement of this component of the DE billing issues should be completed for the third quarter of 2011.

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

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

Capital Items

EnerCare Solutions continues to be in discussion with DE regarding certain amounts DE has billed EnerCare Solutions for water heater installations that are reflected as capital additions. The amounts at issue totalled $3,200 ($2,200 – second quarter of 2010) at June 30, 2011. Settlement with DE for a lower amount than billed would result in a reduction to previously stated capital expenditure amounts.

Accounting Standards Issued but not yet Applied

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

4. Cash and Cash Equivalent

	June 30, 2011	December 31, 2010
Cash at bank and in hand	**$ 9,340**	$18,145
Short-term deposits	**25,689**	-
	$35,029	$18,145

5. Accounts Receivable

	June 30, 2011	December 31, 2010
Accounts receivable	**$19,240**	$18,910
Related party receivable	**426**	-
	$19,666	$18,910

Bad and doubtful debt provision:		
Opening balance	**$ 97**	$ 10
Charge for the period	**56**	102
Subsequent recoveries of amounts provided for	**-**	-
Utilised	**-**	-
Ending balance	**$ 153**	$ 112

Previous to 2011, EnerCare Solutions had a purchase and sale agreement regarding encumbered receivables with 6814867 Canada Limited (“6814867”), a wholly-owned company of EnerCare Solutions. Those receivables were sold to 6814867 at their fair market value and were repaid to EnerCare Solutions at the same value when payment was received. This related party transaction is no longer required.

6. Accounts Payable and Accrued Liabilities

	June 30, 2011	December 31, 2010
Accounts payable	**$12,761**	$10,328
Accruals	**1,935**	2,256
Current taxes payable	**3,465**	1,723
Related party payable	**766**	-
	$18,927	$14,307

7. Equipment

At December 31, 2010	Water Heaters	Other	Total
Cost	$773,440	$175	$773,615
Accumulated depreciation	(333,334)	(25)	(333,359)
Net book value	440,106	150	440,256
Additions	30,571	9	30,580
Disposals	(11,582)	-	(11,582)
Depreciation for the period	(27,673)	(18)	(27,691)
At June 30, 2011	431,422	141	431,563
At June 30, 2011:			
Cost	778,635	184	778,819
Accumulated depreciation	(347,213)	(43)	(347,256)
Net book value	$431,422	$141	$431,563

8. Intangible Assets

	Total
At December 31, 2010:	
Cost	$743,336
Accumulated depreciation	(367,316)
Net book value	376,020
Additions	-
Disposals	-
Amortization for the quarter	(23,197)
At June 30, 2011	352,823
At June 30, 2011:	
Cost	743,336
Accumulated depreciation	(390,513)
Net book value	$352,823

9. Debt

	June 30, 2011	December 31, 2010
Short term debt:		
Opening balance as at January 1, 2011:	$ -	$ -
Current portion of long-term debt	60,000	-
	$ 60,000	$ -
Long term debt		
Opening balance as at January 1, 2011:	$566,853	$552,036
Current portion of long-term debt	(60,000)	-
New debt	-	240,000
Repayment of debt	-	(225,000)
Transaction costs	596	(183)
	507,449	566,853
Current portion	60,000	-
Non-current portion	507,449	566,853
	$567,449	$566,853

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

The long term debt balance includes the following items:

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

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

10. Long Term Promissory Note

On January 1, 2011, the $381,755 Series 1 subordinated debt outstanding to EnerCare was redeemed for additional equity consideration and the issuance of a $100,000 promissory note. The promissory note bears interest at rates notified by the holder. The note has no fixed repayment terms, but is redeemable at the option of the EnerCare Solutions at a price equal to the principal amount thereof plus accrued and unpaid interest to the date of redemption. The note has been classified as long term as there are no near term intentions to demand repayment.

The fair value of the note was not determinable, as no quoted market price existed for these instruments because they were not traded in an active and liquid market.

11. Equity

	June 30, 2011		June 30, 2010	
Shares Authorized	Shares	Net Proceeds	Shares	Net Proceeds
At January 1, 2011	1,001	$79,614	107,813,721	$79,614
Issued	-	-	-	-
Shares purchased and cancelled	-	-	-	-
At June 30, 2011	1,001	$79,614	107,813,721	$79,614

EnerCare Solutions’ articles of incorporation provide for the issuance of an unlimited number of common shares. On January 1, 2011, EnerCare Solutions converted to a dividend paying corporation pursuant to a plan of arrangement. As at June 30, 2011, there were 1,001 common shares issued and outstanding.

12. Long Term Compensation Plans

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

Cash Based Payment Plans

The PSUP awards phantom shares to management in consideration for past services provided, support achievement of EnerCare Solution's performance objectives, align interests of key persons with the success of EnerCare Solutions, 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 Solutions 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 Solutions 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 Solutions. 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. 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 common shares of EnerCare.

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's 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 Solution'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, 2011	225	6.84	74	6.84	-	-
Granted	71	6.84	29	6.84	416	7.07
Director's optional purchases	-	-	13	7.55	-	-
Phantom dividends	8	-	2	-	-	-
Forfeited	(78)	-	(24)	-	-	-
Exercised	(31)	6.84	-	-	-	-
Expired	-	-	(17)	-	-	-
At June 30, 2011	**195**	**7.55**	**77**	**7.55**	**416**	**-**
Expensed in the period	**-**	**259**	**-**	**189**	**-**	**66**
Liabilities payable	**-**	**553**	**-**	**263**	**-**	**-**

	PUP		PUP		SOP	
	(Employees)		(Non-employee directors)		N/A	
(in thousands except price)	#	$	#	$	#	$
At January 1, 2010	152	4.05	44	4.05	-	-
Granted	114	4.05	29	4.05	-	-
Director's optional purchases	-	-	-	-	-	-
Phantom dividends	16	-	5	-	-	-
Forfeited	-	-	-	-	-	-
Exercised	(22)	4.05	-	-	-	-
Expired		-	(8)	-	-	-
At June 30, 2010	260	4.61	70	4.61	-	-
Expensed in the period	-	138	-	18	-	-
Liabilities payable	-	206	-	24	-	-

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.

13. Income Tax

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

14. Commitments

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

	June 30, 2011
Rental payments due within 1 year	**$ 336**
Rental payments due between 1 and 2 years	**248**
Rental payments due between 2 and 3 years	**248**
Rental payments due between 3 and 4 years	**294**
Rental payments due between 4 and 5 years	**386**
Rental payments due after 5 years	**257**
Total commitments under non-cancellable operating leases	**$1,769**

The operating lease payments recognized in the statement of income for the three and six months ended June 30, 2011 is $256 and $319, respectively (June 30, 2010; $32 and $102, respectively).

15. Contingent Liabilities

EnerCare Solutions 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 Solutions' financial instruments are exposed to include credit risk, liquidity risk and market risk.

Credit Risk

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

EnerCare Solutions' financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. For less than 5% of its portfolio EnerCare Solutions 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 Solutions is guaranteed payment by EGD for 99.47% of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued. A related trust agreement also serves to mitigate EnerCare Solutions' credit exposure on receivables owing from EGD.

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

Liquidity Risk

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

The covenants under the 2009 Notes and 2010 Notes are contained in a Master Trust Indenture and Supplemental Trust Indentures effective January 29, 2010 and February 19, 2010, respectively. Under the terms of these indentures, EnerCare Solutions 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 Solutions exceeded this threshold requirement at June 30, 2011.

EnerCare Solutions has also staggered its senior debt maturity dates through to April 30, 2014. While EnerCare Solutions will assess various refinancing alternatives, including bank financing/refinancing and capital markets transactions well before expected debt maturities, no guarantees can be provided that refinancing of maturing debt will be available or at rates comparable to those on the current debt.

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

	June 30, 2011
Due within 1 month	**$ -**
Due within 1 to 3 months	**-**
Due within 3 to 12 months	**94,545**
Due within 1 to 5 years	**559,050**
Due over 5 years	**-**
	$653,595

Market Risk

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

Following the completion of financing activities through to July 2010, EnerCare Solutions' borrowings are fixed rate obligations maturing in 2012, 2013 and 2014. EnerCare Solutions' market risk is considered to be low.

Fair Value

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

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

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

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

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

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

	June 30, 2011		December 31, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 35,029**	**$ 35,029**	$ 18,145	$ 18,145
Trade and other receivables in the scope of IAS 39	**19,666**	**19,666**	18,910	18,910
Total financial assets	**54,695**	**54,695**	37,055	37,055
Financial liabilities measured at amortized cost:				
Gross Senior borrowings	**570,000**	**598,212**	570,000	585,495
Transaction costs	**(2,551)**	**-**	(3,147)	-
Total borrowings	**567,449**	**598,212**	566,853	585,495
Trade and other payables in the scope of IAS 39	**31,422**	**31,422**	24,409	24,409
Total financial liabilities	**$598,871**	**$629,634**	$591,262	$609,904

17. Capital Risk Management

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

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

18. Selling, General and Administrative

	Three months ended June 30,		**Six months ended June 30,**	
	2011	2010	**2011**	2010
Employee compensation and benefits	**$1,531**	$ 980	**$ 3,164**	$ 1,884
Professional fees	**382**	985	**1,891**	1,921
Selling, office and other	**2,465**	744	**3,752**	1,600
Billing and Servicing	**1,718**	1,854	**3,455**	3,881
Claims and bad debt	**(226)**	2,147	**795**	3,180
	$5,870	$6,710	**$ 13,057**	$ 12,466

19. Related Parties

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. The total compensation and benefits to key management for employee services is shown below:

	Three months ended June 30,		**Six months ended June 30,**	
	2011	2010	**2011**	2010
Salaries and short-term benefits	**$ 693**	$ 664	**$ 1,230**	$ 1,145
Other employment benefits	**26**	25	**39**	37
Long term benefits	**175**	127	**307**	229
Termination benefits	**-**	-	**-**	-
	$ 894	$ 816	**$ 1,576**	$ 1,411

EnerCare often incurs expenses on behalf of EnerCare Solutions in the normal course of business. Intercompany amounts owing to EnerCare are typically on account of selling, general and administrative expenses.

20. Provisions

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

	Claims
At December 31, 2010	$2,728
Charged/(credited) to the statement of income:	
Additional provisions	1,998
Unused amounts reversed	(708)
Used during the period	(1,890)
As at June 30, 2011	$2,128

21. Changes in Working Capital

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Accounts and other receivables	**$(1,397)**	$(2,363)	**$ (766)**	$(4,032)
Prepaid and other assets	**162**	-	**(698)**	(124)
Accounts payable and accrued liabilities	**2,108**	1,025	**4,620**	312
Provisions	**(534)**	(121)	**(476)**	804
Interest payable	**(2,750)**	(2,281)	**-**	(2,281)
Amortization of bridge fees	**-**	-	**-**	(1,440)
	$(2,411)	$(3,740)	**$2,680**	$(6,761)

22. Subsequent Events

On July 6, 2011, the Revolver was amended to decrease standby fees by approximately 60% and extend the term by one year to 2014. In addition, the covenant restriction of total debt to adjusted EBITDA ratio as defined in the agreement was maintained at 4.25:1 throughout the term of the agreement. This ratio was originally scheduled to become 4.0:1 after March 31, 2012.