EnerCare Solutions Inc.

EnerCare Solutions Inc.

Consolidated Financial Statements

Year Ended December 31, 2011

Dated February 23, 2012

February 23, 2012

Independent Auditor's Report

To the Shareholders of
EnerCare Solutions Inc.

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

EnerCare Solutions Inc.

Consolidated Statements of Financial Position

(in thousands of Cdn $)	As at December 31, 2011	As at December 31, 2010 (note 2)	As at January 1, 2010 (note 2)
Assets			
Current assets			
Cash and cash equivalents (note 4)	**$ 50,403**	$ 18,145	$ 12,373
Accounts receivable (note 5)	**19,638**	18,910	16,524
Prepaid and other assets	**750**	-	-
Dividends receivable (note 11)	**8,460**	-	-
Investment in Stratacon preferred shares (note 11)	**250,000**	-	-
	329,251	37,055	28,897
Deferred tax asset (note 12)	**485**	-	-
Equipment (note 7)	**422,596**	440,256	454,042
Intangible assets (note 8)	**329,625**	376,020	422,414
	$ 1,081,957	$ 853,331	$ 905,353
Liabilities			
Current liabilities			
Bank indebtedness (note 9)	**$ -**	$ -	$ 27,438
Current portion of long-term debt (note 9)	**60,000**	-	225,000
Accounts payable and accrued liabilities (note 6)	**22,819**	14,307	11,873
Related party payable (note 19)	**459**	-	-
Provisions (note 20)	**1,592**	2,728	2,153
Dividends payable	**3,091**	-	2,345
Interest payable on subordinated debt (note 11)	**8,582**	-	-
Interest payable	**7,333**	7,374	9,134
Subordinated debt (note 11)	**250,000**	-	-
	353,876	24,409	277,943
Long term promissory note (note 10)	**100,000**	381,755	381,755
Deferred tax liability (note 12)	**143,523**	152,743	168,306
Long-term debt (note 9)	**508,054**	566,853	327,036
	1,105,453	1,125,760	1,155,040
Shareholders' deficit	**(23,496)**	(272,429)	(249,687)
	$ 1,081,957	$ 853,331	$ 905,353

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

EnerCare Solutions Inc.
Consolidated Statements of Income

For the years ended December 31, (in thousands of Cdn $)		2011		2010
				(note 2)
Revenues				
Rentals and services	**$**	**186,524**	$	187,574
Dividend income		**8,460**		-
Investment income		**368**		80
Total revenues		**195,352**		187,654
Expenses				
Selling, general & administrative (note 18)		**26,457**		28,240
Amortization				
Capital assets		**55,308**		57,757
Intangibles		**46,395**		46,394
Loss on disposal of equipment		**19,099**		21,340
Interest				
Short-term		**215**		3,460
Long-term		**39,398**		38,406
Other indebtedness		**8,582**		-
Promissory note		**4,500**		3,817
Total operating expenses		**199,954**		199,414
Loss before income taxes		**(4,602)**		(11,760)
Tax expense				
Current tax expense (note 12)		**5,380**		-
Deferred income tax recovery (note 12)		**(9,705)**		(15,563)
Total tax recovery		**(4,325)**		(15,563)
Net (loss)/income for the period	**$**	**(277)**	$	3,803

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

EnerCare Solutions Inc.
Consolidated Statements of Comprehensive Income

For the years ended December 31, (in thousands of Cdn $)		2011		2010
				(note 2)
Net (loss)/income for the period	$	(277)	$	3,803
Amortization of accumulated other comprehensive loss to net (loss)/income		3,694		3,698
Comprehensive income for the period	**$**	**3,417**	$	7,501

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

EnerCare Solutions Inc.
Consolidated Statements of Changes in Equity

(in thousands of Cdn $)	Share Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Total
	(note 13)			
Balance - January 1, 2010 (note 2)	$ 79,614	$ (14,673)	$ (314,628)	$ (249,687)
Net income for the period	-	-	3,803	3,803
Other comprehensive loss:				
Amortization	-	3,698	-	3,698
Dividends	-	-	(30,243)	(30,243)
Balance - December 31, 2010 (note 2)	$ 79,614	$ (10,975)	$ (341,068)	$ (272,429)
Balance - January 1, 2011	**$ 79,614**	**$ (10,975)**	**$ (341,068)**	**$ (272,429)**
Net loss for the period	**-**	**-**	**(277)**	**(277)**
Other comprehensive loss:				
Amortization	**-**	**3,694**	**-**	**3,694**
Increase in equity on Trust reorganization and Fund liability assumption (note 1)	**-**	**-**	**281,582**	**281,582**
Dividends	**-**	**-**	**(36,066)**	**(36,066)**
Balance - December 31, 2011	**$ 79,614**	**$ (7,281)**	**$ (95,829)**	**$ (23,496)**

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

EnerCare Solutions Inc.
Consolidated Statements of Cash Flows

For the years ended December 31, (in thousands of Cdn $)		2011		2010 (note 2)
Cash provided by/(used in):				
Operating activities				
Net (loss)/income for the period	**$**	**(277)**	$	3,803
Items not affecting cash				
Amortization				
Capital assets (note 7)		**55,308**		57,757
Intangibles (note 8)		**46,395**		46,394
Loss on disposal of equipment (note 7)		**19,099**		21,340
Non-cash interest expense		**4,895**		6,283
Deferred income tax recovery (note 12)		**(9,705)**		(15,563)
Operating cash flow		**115,715**		120,014
Net change in non-cash working capital (note 21)		**6,265**		(2,577)
Cash provided by operating activities	**$**	**121,980**	$	117,437
Investing activities				
Purchase of equipment (note 7)		**(60,679)**		(68,977)
Proceeds from disposal of equipment (note 7)		**3,932**		3,666
Cash used in investing activities	**$**	**(56,747)**	$	(65,311)
Financing activities				
Dividends to shareholders		**(32,975)**		(32,588)
Purchase of preferred shares (note 11)		**(250,000)**		-
Repayment of line of credit		**-**		(27,438)
Proceeds from bridge facility		**-**		240,000
Repayment of bridge facility		**-**		(240,000)
Issuance of other indebtedness (note 11)		**250,000**		-
Issuance of long-term debt		**-**		240,000
Repayment of long-term debt		**-**		(225,000)
Deferred financing costs on long-term debt		**-**		(1,328)
Cash used in financing activities	**$**	**(32,975)**	$	(46,354)
Increase in cash and cash equivalents		**32,258**		5,772
Cash and cash equivalents - beginning of period		**18,145**		12,373
Cash and cash equivalents - end of period	**$**	**50,403**	$	18,145
Supplementary information				
Interest paid	**$**	**39,259**	$	41,160
Income taxes paid	**$**	**-**	$	-

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

EnerCare Solutions Inc.
Notes to the Consolidated Financial Statements

December 31, 2011 and 2010
(in thousands of Canadian dollars, except share amounts)

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.

EnerCare holds all of the issued and outstanding shares of EnerCare Solutions. 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").

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

2. Basis of Preparation and Adoption of IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements, specifically, IFRS 1. 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 to the statement of financial position, statement of income, statement of change in equity or statement of cash flows as a result of the conversion to IFRS.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of February 23, 2012, the date the board of directors approved the consolidated financial statements. The board also has the authority to amend the consolidated financial statements after they have been issued. Throughout these consolidated financial statements EnerCare Solutions has replaced references to the predecessor entity of the Trust, as well, references to shares, shareholders and dividends replace previous references to units, unitholders and distributions, respectively.

3. Significant Accounting Policies

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

Basis of Measurement

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

Consolidation

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

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

At initial recognition, EnerCare 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.

(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, dividends receivable 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, related party payable, provisions, dividend payable, interest payable and bank debt and long-term debt. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are recognized at amortized cost using the effective interest rate method. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

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

Impairment of Financial Assets

At each reporting date, EnerCare 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. The discount rate, if applied, would be the risk free rate at the then measurement date. 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	2-10 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.

Intangible Assets

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

Impairment of Non-financial Assets

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

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.

The Rental business earns revenue based on the rental agreements that are managed under: (a) the co-ownership agreement with Direct Energy Marketing Limited ("DE") as well as (b) other third party arrangements. Under the co-ownership agreement with DE, EnerCare 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 expected 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 6.20%, $60,000, Series 2009-1 Senior notes and the 6.75%, $270,000 Series 2009-2 Senior notes ("2009 Notes")

Dividends

Dividends on shares are recognized in EnerCare 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 $1,700 in respect of billings and adjustments expected to be recovered from customers, but did not include any amounts EnerCare Solutions may recover from DE for lost revenues arising from the billing system conversion. At December 31, 2010, the accrual was $1,700, consequently in 2011 there was no cumulative earnings impact. Subsequent to year end, EnerCare Solutions has collected $1,200 of the $1,700 accrual. The remaining balance is expected to be collected in 2012.

During 2010, EnerCare Solutions provided for bad debt regarding the collectability of revenues recorded related to customers where the EGD revenue guarantee did not apply and where DE was responsible for collection activities. As reported in the second quarter of 2011, EnerCare Solutions reached an agreement in principle 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 executed legal settlement of this component of the DE billing issues should be completed for early 2012.

Buyout processing and other miscellaneous items from 2010 remain outstanding. EnerCare 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.

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

Capital Items

EnerCare 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 $3,672 ($3,100 in the fourth quarter of 2010) at December 31, 2011. Settlement with DE for a lower amount than billed could result in a reduction to previously stated capital expenditure amounts.

Accounting Standards Issued but not yet Applied

IFRS 9, *Financial Instruments*, was issued in November 2009. It addressed classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return on investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with early adoption permitted. EnerCare Solutions has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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

IFRS 13, *Fair Value Measurement*, was issued in May 2011. It defines “fair value” and sets out, in a single IFRS, a framework for measuring fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or liability at fair value, nor does it change what is measured at fair value in IFRSs or address how to present changes in fair value. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, but can, with early adoption permitted. EnerCare Solutions has not yet assessed the impact of the standard or whether it will adopt the standard early.

4. Cash and Cash Equivalents

Year ended December 31,	**2011**	2010
Cash at bank and in hand	**$ 12,438**	$ 18,145
Short-term deposits	**37,965**	-
Ending balance	**$ 50,403**	$ 18,145

5. Accounts Receivable

Year ended December 31,	**2011**	2010
Accounts receivable (net of provision)	**$ 19,638**	$ 18,910
Bad and doubtful debt provision:		
Opening balance	**$ 112**	$ 10
Charge for the period	**374**	102
Ending balance	**$ 486**	$ 112

6. Accounts Payable and Accrued Liabilities

Year ended December 31,	**2011**	2010
Accounts payable	**$ 14,455**	$ 10,328
Accruals	**2,984**	2,256
Current taxes payable	**5,380**	1,723
Ending balance	**$ 22,819**	$ 14,307

7. Equipment

	Water Heaters	Other	Total
At January 1, 2010:			
Cost	$ 757,801	$ -	$ 757,801
Accumulated depreciation	(303,759)	-	(303,759)
Net book value	454,042	-	454,042
Additions	68,803	174	68,977
Disposals	(25,005)	(1)	(25,006)
Depreciation for the period	(57,734)	(23)	(57,757)
At December 31, 2010	440,106	150	440,256
At December 31, 2010:			
Cost	$ 773,440	$ 174	$ 773,614
Accumulated depreciation	(333,334)	(24)	(333,358)
Net book value	440,106	150	440,256
Additions	60,503	176	60,679
Disposals	(23,031)	-	(23,031)
Depreciation for the period	(55,253)	(55)	(55,308)
At December 31, 2011	$ 422,325	$ 271	$ 422,596
At December 31, 2011:			
Cost	782,854	350	783,204
Accumulated depreciation	(360,529)	(79)	(360,608)
Net book value	$ 422,325	$ 271	$ 422,596

8. Intangible Assets

At January 1, 2010:	
Cost	$ 743,336
Accumulated depreciation	(320,922)
Net book value	422,414
Amortization for the year	(46,394)
At December 31, 2010	376,020
At December 31, 2010:	
Cost	$ 743,336
Accumulated depreciation	(367,316)
Net book value	376,020
Amortization for the year	(46,395)
At December 31, 2011	329,625
At December 31, 2011:	
Cost	743,336
Accumulated depreciation	(413,711)
Net book value	$ 329,625

9. Debt

Year ended December 31,	**2011**	2010
Bank indebtedness:		
Opening balance as at January 1:	**$ -**	$ 27,438
Repayment of debt	**-**	(27,438)
Total bank indebtedness	**$ -**	$ -
Current portion of long term debt:		
Opening balance as at January 1:	**$ -**	$ 225,000
Current portion of long-term debt	**60,000**	-
Repayment of debt	**-**	(225,000)
Total current portion	**$ 60,000**	$ -
Non-current portion of long term debt:		
Opening balance as at January 1:	**$ 566,853**	$ 327,036
Current portion of long-term debt	**(60,000)**	-
New debt	**-**	240,000
Net deferred financing costs and interest accretion	**1,201**	(183)
Total non-current portion	**$ 508,054**	$ 566,853

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

The long term debt balance includes the following items:

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

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

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 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. Subordinated Debt

On July 6, 2011, through a series of transactions, EnerCare Solutions invested $250,000 in preferred shares of Stratacon Inc. ("Stratacon"), a subsidiary entity of EnerCare. The investment was funded through a short term bank loan. The preferred shares accrue cumulative dividends at 6.90% and are both redeemable and retractable. Stratacon invested the proceeds by providing a loan to a subsidiary of EnerCare Solutions. The loan is a demand loan and bears interest at 7.00%. The subsidiary used the proceeds from the loan to repay existing obligations due to EnerCare Solutions from the subsidiary. Both the preferred shares and the loan have been classified as short term due to their underlying features.

12. Income Taxes

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

	2011
Profit before tax at statutory rate of 28.25%	**$ 1,300**
Tax effects of:	
Return to provision differences	**(1,056)**
Non-deductible expenses	**3,437**
Future tax rate differential & other	**644**
Total	**$ (4,325)**
Current tax expense	**5,380**
Deferred income tax recovery	**(9,705)**
Total tax recovery	**$ (4,325)**

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

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

	2010
Loss before income taxes	$ (11,760)
Less: Earnings of the Fund not subject to tax	31,751
Accounting loss	(43,511)
Combined statutory tax rate	31.0%
Income tax recovery at the statutory rate	(13,488)
Other	(2,075)
Tax recovery reported in net earnings	$ (15,563)

Long-term deferred income tax asset and liability

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

	2011	2010
As at January 1:	**$ (152,743)**	$ (168,306)
Charge to the statement of income	**9,705**	15,563
Total	**$ (143,038)**	$ (152,743)

EnerCare Solutions' management expects that the future tax assets will be recoverable based on the expected profitability of the company.

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

	2011	2010
Deferred tax asset		
Financing fees	**$ 485**	$ -
	485	-
Deferred tax liability		
Equipment	**(117,372)**	(134,021)
Temporary difference due to different tax year ends	**(25,877)**	(18,443)
Other	**(274)**	(279)
	(143,523)	(152,743)
Total	**$ (143,038)**	$ (152,743)

13. Share Capital

		2011		2010
Shares Issued and Outstanding	**Shares**	**Net Proceeds**	Shares	Net Proceeds
At January 1	**1,001**	**$ 79,614**	107,813,721	$ 79,614
Issued	**-**	**-**	-	-
Totals	**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 corporation pursuant to a plan of arrangement. As at December 31, 2011, there were 1,001 common shares issued and outstanding.

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:

Year ended December 31,	**2011**	2010
Payments due within 1 year	**$ 305**	$ 282
Payments due between 1 and 2 years	**248**	305
Payments due between 2 and 3 years	**248**	248
Payments due between 3 and 4 years	**363**	248
Payments due between 4 and 5 years	**386**	363
Payments due after 5 years	**64**	450
Total commitments under non-cancellable operating leases	**$ 1,614**	$ 1,896

The operating lease payments recognized in the statement of income for the year ended December 31, 2011 is $604 (2010 - $212).

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 Rental 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, related party payables, provisions, dividends payable and interest payable. 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 and has staggered its senior debt maturity dates through to April 30, 2014.

The covenants under the 2009 Notes and 2010 Notes are contained in a Master Trust Indenture and Supplemental Trust Indentures effective January 29, 2010 and February 19, 2010, respectively. Under the terms of these indentures, EnerCare 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 December 31, 2011.

EnerCare Solutions is examining opportunities to refinance its 2010 Notes and 2009-2 Notes in order to take advantage of the current low interest environment. In respect of the $60,000 2009-1 Notes (maturing in 2012), EnerCare Solutions expects to repay from cash on hand, these notes on or before April 30, 2012. EnerCare Solutions continues to generate considerable cash flow from operations as a result cash and cash equivalents increased by $32,258 to $50,403 as of December 31, 2011. In addition, EnerCare Solutions has an unused line of credit of $35,000 available.

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

Period	Principal Payments	Interest Payments
Within the next 12 months	$ 60,000	$ 32,685
1 to 2 years	240,000	24,525
2 to 3 years	270,000	9,113
3 to 4 years	-	-
4 to 5 years	-	-
Thereafter	-	-
Total	$570,000	$ 66,323

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. The fixed rate obligations assumed with the Stratacon acquisition have maturities through 2022.

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.

EnerCare Solutions does not have any amounts recorded at fair value.

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

	December 31, 2011		December 31, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 50,403**	**$ 50,403**	$ 18,145	$ 18,145
Trade and other receivables in the scope of IAS 39	**28,098**	**28,098**	18,910	18,910
Total financial assets	**$ 78,501**	**$ 78,501**	$ 37,055	$ 37,055
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$ 570,000**	**$ 591,717**	$ 570,000	$ 585,495
Long term promissory note	**100,000**	**100,000**	381,755	381,755
Subordinated debt	**250,000**	**250,000**	-	-
Deferred transaction costs	**(1,946)**	**-**	(3,147)	-
Total borrowings	**918,054**	**941,717**	948,608	967,250
Trade and other payables in the scope of IAS 39	**43,876**	**43,876**	24,409	24,409
Total financial liabilities	**$ 961,930**	**$ 985,593**	$ 973,017	$ 991,659

All financial assets and liabilities recorded at fair value are classified as Level 1 financial instruments. The investment in Stratacon preferred shares do not have a quoted market price, therefore the fair value cannot be reliably measured.

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 December 31, 2011.

18. Selling, General and Administrative

Year ended December 31,	**2011**	2010
Employee compensation and benefits	**$ 7,174**	$ 4,889
Professional fees	**3,201**	4,881
Selling, office and other	**6,035**	3,542
Billing and servicing	**6,702**	7,556
Claims and bad debt	**3,345**	7,372
Total	**$ 26,457**	$ 28,240

19. Related Parties and Transactions with DE

Key Management

Key management includes EnerCare Solutions' officers and directors. External director's fees are included in professional fees as part of total selling, general and administrative expenses. Total compensation and benefits to key management for employee services is shown below:

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

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

Related party payables

Year ended December 31,	**2011**	2010
Related party payables	**$ 459**	$ -

Transactions with DE

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

Co-ownership Agreement:

Under this agreement, DE receives, subject to certain exceptions, 35% of the gross revenue generated by the co-owned portfolio of assets and is obligated to service that asset portfolio, effectively operating the day-to-day activities of that portion of the Rentals business. Pursuant to an agreement between DE and EnerCare Solutions, DE is entitled to put forth one individual for consideration by EnerCare Solutions' board for inclusion in EnerCare Solutions' annual management information circular for election as a director of EnerCare Solutions 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 Solutions at prescribed prices, essentially at DE's cost plus an inventory service fee and a set installation fee. EnerCare Solutions 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 Solutions and DE have entered into an agreement for the servicing of TH Energy units, as these units are not subject to the co-ownership agreement. This agreement provides for the administration and servicing of the portfolio on a fee-for-service basis.

EnerCare Solutions 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 Solutions has the right to originate HVAC rental customers outside of this arrangement with DE.

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

Details of transactions between EnerCare Solutions and DE are as follows:

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

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.

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

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

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.

Year ended December 31,	**2011**	2010
Accounts and other receivables	**$ (9,188)**	$ (2,262)
Prepaid and other assets	**(750)**	(124)
Accounts payable and accrued liabilities	**8,971**	2,436
Provisions	**(1,136)**	1,498
Interest payable	**8,541**	(2,685)
Equity movement	**(173)**	-
Amortization of bridge fees	**-**	(1,440)
Total	**$ 6,265**	$ (2,577)