EnerCare Solutions Inc.

Condensed Interim Consolidated Financial Statements

First Quarter Ended March 31, 2012

Dated May 14, 2012

EnerCare Solutions Inc.
Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)	(unaudited) March 31, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$ 50,946**	$ 50,403
Accounts receivable (note 5)	**17,400**	19,638
Prepaid and other assets	**682**	750
Dividends receivable (note 11)	**12,760**	8,460
Investment in EnerCare Connections Inc. preferred shares (note 11)	**250,000**	250,000
	331,788	329,251
Capital assets (note 7)	**420,980**	422,596
Intangible assets (note 8)	**318,026**	329,625
Deferred tax asset	**440**	485
	$ 1,071,234	$ 1,081,957
Liabilities		
Current liabilities		
Current portion of long-term debt (note 9)	**$ 300,000**	$ 60,000
Accounts payable and accrued liabilities (note 6)	**14,270**	22,819
Related party payable (note 18)	**2,991**	459
Provisions (note 19)	**1,107**	1,592
Interest payable	**9,669**	7,333
Interest payable on subordinated debt (note 11)	**12,945**	8,582
Dividends payable	**3,190**	3,091
Subordinated debt (note 11)	**250,000**	250,000
	594,172	353,876
Long-term debt (note 9)	**268,354**	508,054
Long-term promissory note (note 10)	**100,000**	100,000
Deferred tax liability	**140,574**	143,523
	1,103,100	1,105,453
Shareholders' equity (note 12)	**(31,866)**	(23,496)
	$ 1,071,234	$ 1,081,957

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

EnerCare Solutions Inc.
Condensed Interim Consolidated Statements of Income

(unaudited) (in thousands of Cdn $, except per share amounts)		Three months ended March 31, **2012**		2011
Revenues				
Rentals and services	**$**	**46,847**	$	46,895
Dividend income		**4,301**		-
Investment income		**140**		60
Total revenues		**51,288**		46,955
Expenses				
Selling, general & administrative (note 17)		**6,983**		7,187
Amortization				
Capital assets		**13,361**		13,839
Intangibles		**11,599**		11,598
Loss on disposal of equipment		**4,115**		4,640
Interest				
Short-term		**27**		78
Long-term		**9,858**		9,853
Subordinated debt		**4,363**		-
Promissory note		**2,000**		413
Total operating expenses		**52,306**		47,608
Other income (note 3)		**1,500**		-
Earnings/(loss) for the period		**482**		(653)
Tax expense				
Current tax expense		**3,254**		1,584
Deferred income tax recovery		**(2,904)**		(1,514)
Total tax expense		**350**		70
Net earnings/(loss) for the period	**$**	**132**	$	(723)

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

EnerCare Solutions Inc.
Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of Cdn $)		Three months ended March 31, **2012**		2011
Net earnings/(loss) for the period	**$**	**132**	$	(723)
Amortization of accumulated other comprehensive loss to net earnings		**922**		919
Comprehensive income for the period	**$**	**1,054**	$	196

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

EnerCare Solutions Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(unaudited) (in thousands of Cdn $)	Share Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Total
Balance - January 1, 2011	**$ 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**
Balance - January 1, 2012	**$ 79,614**	**$ (7,281)**	**$ (95,829)**	**(23,496)**
Net earnings for the period	-	-	132	132
Other comprehensive loss:				
Amortization	-	922	-	922
Dividends	-	-	(9,424)	(9,424)
Balance - March 31, 2012	**$ 79,614**	**$ (6,359)**	**$ (105,121)**	**$ (31,866)**

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

EnerCare Solutions Inc.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)		Three months ended March 31,		
(in thousands of Cdn $)		**2012**		2011
Cash provided by/(used in):				
Operating activities				
Net earnings/(loss) for the period	**$**	**132**	$	(723)
Items not affecting cash				
Amortization				
Capital assets		**13,361**		13,839
Intangibles		**11,599**		11,598
Loss on disposal of equipment		**4,115**		4,640
Non-cash interest expense		**1,222**		1,216
Deferred income tax recovery		**(2,904)**		(1,514)
Operating cash flow		**27,525**		29,056
Net change in non-cash working capital (note 20)		**(1,797)**		5,091
Cash provided by operating activities	**$**	**25,728**	$	34,147
Investing activities				
Purchase of equipment		**(15,499)**		(15,351)
Acquisitions (note 21)		**(2,053)**		-
Proceeds from disposal of equipment		**1,692**		1,071
Cash used in investing activities	**$**	**(15,860)**	$	(14,280)
Financing activities				
Dividends to shareholders		**(9,325)**		(2,974)
Cash used in financing activities	**$**	**(9,325)**	$	(2,974)
Increase in cash and cash equivalents		**543**		16,893
Cash and cash equivalents - beginning of period		**50,403**		18,145
Cash and cash equivalents - end of period	**$**	**50,946**	$	35,038
Supplementary information				
Interest paid	**$**	**8,327**	$	6,300
Income taxes paid	**$**	**7,087**	$	-

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

EnerCare holds all of the issued and outstanding shares of EnerCare Solutions. EnerCare Solutions is the successor to The Consumers' Waterheater Operating Trust (the "Trust"). EnerCare Solutions, through its wholly-owned subsidiaries, owns a portfolio of water heaters and other assets which are primarily rented to customers across Ontario ("Rentals").

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

2. Basis of Preparation

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

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 14, 2012, the date the board of directors approved the condensed interim consolidated financial statements. The board also has the authority to amend the condensed interim consolidated financial statements after they have been issued.

3. Significant Accounting Policies

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

Basis of Measurement

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

Consolidation

The condensed 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 condensed 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 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. The derivative related to the convertible debentures, prior to the conversion of EnerCare Solutions to a corporation and instruments accounted as hedges are classified in this category.

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

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, provisions, interest payable, other liabilities payable 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 that are recognized at fair value at the acquisition date. The contractual customer relationships 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 condensed interim consolidated financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following items are of significance for the period.

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' 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.

At December 31, 2011, EnerCare Solutions estimated and recorded revenue accruals of $1,700 in respect of billings and adjustments expected to be recovered from customers, but did not include any amounts that EnerCare Solutions may recover from DE for lost revenues arising from the billing system conversion. During the first quarter of 2012, EnerCare Solutions collected $1,200. At March 31, 2012, EnerCare Solutions has $860 accrued resulting in an increase in income in the quarter of $360. The remaining balance is expected to be collected in 2012.

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 definitive agreement in respect of this settlement was entered into and payment in respect thereof was received in the first quarter of 2012. EnerCare Solutions continues to work with DE to resolve remaining billing, collection and remittance issues in respect of the non-EGD territory.

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

At December 31, 2011, EnerCare Solutions was in discussions with DE regarding $3,672 of certain installation costs billed by DE for water heater installations. EnerCare Solutions came to an agreement with DE on account of installation costs to be borne by EnerCare Solutions and received a $1,500 payment from DE which was recorded as other income. EnerCare Solutions subsequently released approximately $2,172 reflecting the net balance of amounts previously withheld.

4. Cash and Cash Equivalents

	March 31, 2012	December 31, 2011
Cash at bank and in hand	**$ 1,993**	$ 12,438
Short-term deposits	**48,953**	37,965
Ending balance	**$ 50,946**	$ 50,403

5. Accounts Receivable

	March 31, 2012	December 31, 2011
Accounts receivable (net of provision)	**$17,400**	$19,638
Bad and doubtful debt provision:		
Opening balance	**$ 486**	$ 112
Charge for the period	**129**	374
Ending balance	**$ 615**	$ 486

6. Accounts Payable and Accrued Liabilities

	March 31, 2012	December 31, 2011
Accounts payable	**$ 10,466**	$ 14,455
Accruals	**778**	1,549
Long term compensation payables	**1,435**	1,435
Current taxes payable	**1,547**	5,380
Other payables	**44**	-
Ending balance	**$ 14,270**	$ 22,819

7. Capital Assets

As at March 31, 2012	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Water Heaters	**$ 785,615**	**$ (364,887)**	**$ 420,728**
Other	**352**	**(100)**	**252**
	$ 785,967	**$ (364,987)**	**$ 420,980**

As at December 31, 2011	Cost	Accumulated Depreciation	Net Book Value
Water Heaters	$ 782,854	$ (360,529)	$ 422,325
Other	350	(79)	271
	$ 783,204	$ (360,608)	$ 422,596

During the quarter, EnerCare Solutions purchased $17,550 of water heater and HVAC equipment. Due to asset changes, attrition and buyouts on contracts, EnerCare Solutions recorded a loss of $4,115 from the disposal of assets and recorded $1,692 of buyout revenues.

EnerCare Solutions also acquired a portfolio of water heaters and HVAC equipment for a purchase price of $2,053 (note 21). All amounts were recorded in capital assets.

8. Intangible Assets

As at March 31, 2012	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Customer Relationships	**$ 743,336**	**$ (425,310)**	**$ 318,026**

As at December 31, 2011	Cost	Accumulated Depreciation	Net Book Value
Customer Relationships	$ 743,336	$ (413,711)	$ 329,625

9. Debt

	March 31, 2012	December 31, 2011
Current portion of long term debt:		
Opening balance as at January 1	**$ 60,000**	$ -
Current portion of long-term debt	**240,000**	60,000
Repayment of debt	**-**	-
Total current portion	**$ 300,000**	$ 60,000
Non-current portion of long term debt:		
Opening balance as at January 1	**$ 508,054**	$ 566,853
Current portion of long-term debt	**(240,000)**	(60,000)
Net deferred financing costs and interest accretion	**300**	1,201
Total non-current portion	**$ 268,354**	$ 508,054

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 March 31, 2012, EnerCare Solutions complied with these covenants and is able to fully utilize the revolver limit of $35,000. As at March 31, 2012, no amounts had 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 April 30, 2012, EnerCare Solutions repaid the $60,000 2009-1 notes with cash on hand and an interest free loan from EnerCare.

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. On January 1, 2012, 1759857 Ontario Limited, Stratacon and EnerCare Connections amalgamated. The name of the amalgamated entity is EnerCare Connections Inc. ("ECI"). 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; now ECI 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. Share Capital

	March 31, 2012		March 31, 2011	
Shares Issued and Outstanding	**Shares**	**Net Proceeds**	Shares	Net Proceeds
Opening balance at January 1:	**1,001**	**$ 79,614**	1,001	$ 79,614
Issued	**-**	**-**	-	-
Totals	**1,001**	**$ 79,614**	1,001	$ 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 March 31, 2012, there were 1,001 common shares issued and outstanding.

13. Commitments

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

	March 31, 2012
Payments due within 2012	**$ 207**
Payments due in 2013	**248**
Payments due in 2014	**248**
Payments due in 2015	**363**
Payments due in 2016	**386**
Payments due in 2017	**64**
Total commitments under non-cancellable operating leases	**$ 1,516**

The operating lease payments recognized in the condensed interim consolidated statement of income for the period ended March 31, 2012 is $184 (2011 - $63).

14. 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 condensed interim consolidated financial statements.

15. 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 99.42%

of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued. A related trust agreement also serves to mitigate EnerCare Solutions' credit exposure on receivables owing from EGD. EnerCare Solutions is exposed to credit risk in the Sub-metering business for billable service charges and commodity charges when paid on behalf of the landlord and passed through to customers. For a small percentage of Sub-metering buildings, customer payments are collected by EnerCare Solutions and remitted net of service charges to landlords, mitigating credit risk.

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, provisions, interest payable, other liabilities payable and dividends 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 March 31, 2012.

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, EnerCare Solutions paid the entire amount from cash on hand and an interest free loan from EnerCare on April 30, 2012. In respect of the $240,000 of 5.25% Series 2010-1 Senior Unsecured Notes, which mature on March 15, 2013, EnerCare Solutions is examining opportunities to refinance these notes on or before March 15, 2013 in order to take advantage of the current low interest environment. EnerCare Solutions continues to generate considerable cash flow from operations and, in addition, as at March 31, 2012, had 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 remainder of 2012	$ 60,000	$ 26,385
Due in 2013	240,000	24,525
Due in 2014	270,000	9,113
Due in 2015	-	-
Due in 2016	-	-
Due in 2017 and thereafter	-	-
Total	$ 570,000	$ 60,023

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 March 31, 2012 and December 31, 2011. The estimated fair values of the financial instruments are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	March 31, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 50,946**	**$ 50,946**	$ 50,403	$ 50,403
Trade and other receivables in the scope of IAS 39	**30,160**	**30,160**	28,098	28,098
Total financial assets	**$ 81,106**	**$ 81,106**	$ 78,501	$ 78,501
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$570,000**	**$593,217**	$570,000	$591,717
Long term promissory note	**100,000**	**100,000**	100,000	100,000
Subordinated debt	**250,000**	**250,000**	250,000	250,000
Deferred transaction costs	**(1,646)**	**-**	(1,946)	-
Total borrowings	**918,354**	**943,217**	918,054	941,717
Trade and other payables in the scope of IAS 39	**44,172**	**44,172**	43,876	43,876
Total financial liabilities	**$962,526**	**$987,389**	$961,930	$985,593

All financial assets and liabilities recorded at fair value are classified as Level 1 financial instruments.

16. 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 March 31, 2012.

17. Selling, General and Administrative

Three months ended March 31,	2012	2011
Employee compensation and benefits	**$ 1,849**	$ 1,633
Billing and servicing	**1,706**	1,737
Selling, office and other	**1,373**	1,287
Professional fees	**1,071**	1,509
Claims and bad debt	**984**	1,021
Total	**$ 6,983**	$ 7,187

18. 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:

Three months ended March 31,	2012	2011
Salaries and short-term benefits	**$ 1,125**	$ 1,138
Other employment benefits	**15**	13
Long term benefits	**335**	132
Total	**$ 1,475**	$ 1,283

Key management compensation is expensed in EnerCare and a portion of the amounts are allocated to EnerCare Solutions.

Related party payables

	March 31, 2012	December 31, 2011
Related party payables	**$ 2,991**	$ 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.

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

Three months ended March 31,	**2012**	2011
Origination agreement:		
Capital expenditures	**$ 13,328**	$ 13,260
GreenSource acquisition	**2,053**	-
Inventory service fee	**858**	839
Other capital expenditures	**1,401**	1,454
Other expenses, including billing and servicing costs	**829**	870
Total payments	**$ 18,469**	$ 16,423

19. 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.

	March 31, 2012	December 31, 2011
Opening balance:	**$ 1,592**	$ 2,728
Charged/(credited) to the statement of income:		
Additional provision	**872**	3,719
Reversals	**(424)**	(1,167)
Claims spending during the period	**(933)**	(3,688)
	$ 1,107	$ 1,592

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

20. Changes in Working Capital

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

Three months ended March 31,	**2012**	2011
Accounts and other receivables	**$ 2,238**	$ (283)
Prepaid and other assets	**68**	54
Dividends receivable	**(4,300)**	-
Accounts payable and accrued liabilities	**(8,549)**	2,636
Related party payable	**2,532**	-
Provisions	**(485)**	(66)
Interest payable	**2,336**	2,750
Interest payable on subordinated debt	**4,363**	-
Total	**$(1,797)**	$ 5,091

21. Acquisition of Water Heaters from GreenSource Capital Inc.

On February 29, 2012, EnerCare Solutions acquired approximately 3,421 water heaters and HVAC equipment from GreenSource Capital Inc., a subsidiary of DE, for cash consideration of $2,053, of which $5 in acquisition costs were expensed. EnerCare Solutions is in the process of validating the assets and as such the purchase price is preliminary and subject to adjustment. The estimated fair value of the net assets acquired is entirely allocated to equipment with a fair value for $2,053

The rental revenue from GreenSource is not subject to the Co-ownership Agreement between EnerCare Solutions and DE. Rental revenue and profit in the current period, related to GreenSource, was approximately $68 and $53, respectively. EnerCare Solutions has entered into a transitional services agreement with DE to provide service support to customers on a fee-for-service basis.