EnerCare Inc.

Condensed Interim Consolidated Financial Statements

Second Quarter ended June 30, 2013

Dated August 12, 2013

EnerCare Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)		(unaudited) June 30, 2013		December 31, 2012
Assets				
Current assets				
Cash and cash equivalents (note 4)	$	11,542	$	12,626
Accounts receivable (note 5)		45,139		41,302
Prepaid and other assets		2,897		3,360
		59,578		57,288
Capital assets (note 7)		461,265		456,114
Intangible assets (note 8)		261,298		284,608
Goodwill		2,962		2,962
Deferred tax asset		9,189		6,270
	$	794,292	$	807,242
Liabilities				
Current liabilities				
Current portion of long-term debt (note 9)	$	1,185	$	1,198
Accounts payable and accrued liabilities (note 6)		35,767		36,955
Provisions (note 19)		1,163		726
Interest payable		5,233		4,228
Dividends payable (note 12)		3,317		3,249
		46,665		46,356
Long-term debt (note 9)		535,570		521,881
Convertible debentures (note 9)		5,347		6,396
Deferred tax liability		128,527		136,972
		716,109		711,605
Shareholders' equity		78,183		95,637
	$	794,292	$	807,242

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

EnerCare Inc.
Condensed Interim Consolidated Statements of Income

(unaudited) (in thousands of Cdn $, except per share amounts)		Three months ended June 30, 2013		2012		Six months ended June 30, 2013		2012
Revenues								
Rentals and services	**$**	**71,555**	$	67,263	**$**	**145,597**	$	134,945
Investment income		**49**		76		**317**		261
Total revenues		**71,604**		67,339		**145,914**		135,206
Expenses								
Commodity charges		**20,037**		16,259		**42,188**		32,804
Selling, general & administrative (note 18)		**11,043**		11,524		**21,505**		21,826
Amortization								
Capital assets (note 7)		**12,691**		13,501		**25,390**		27,707
Intangible assets (note 8)		**11,653**		11,665		**23,310**		23,333
Loss on disposal of equipment		**3,449**		4,113		**6,341**		8,228
Interest								
Short-term		**395**		38		**758**		65
Make-whole charge on early redemption of debt (note 9)		**-**		-		**13,754**		-
Long-term		**5,581**		9,419		**18,437**		19,722
Total operating expenses		**64,849**		66,519		**151,683**		133,685
Other income (note 17)		**1,678**		-		**1,678**		1,500
Earnings/(loss) for the period before income taxes		**8,433**		820		**(4,091)**		3,021
Tax expense								
Current tax expense		**4,591**		2,118		**10,179**		5,429
Deferred income tax (recovery)/expense		**(3,640)**		1,766		**(11,364)**		825
Total tax expense/(recovery)		**951**		3,884		**(1,185)**		6,254
Net earnings/(loss) for the period	**$**	**7,482**	$	(3,064)	**$**	**(2,906)**	$	(3,233)
Weighted average number of shares outstanding (notes 10, 11)		**58,137**		57,526		**58,089**		57,040
Diluted shares outstanding (notes 10, 11)		**59,109**		58,846		**59,040**		58,365
Basic/diluted loss per share (note 11)	**$**	**0.13**	$	(0.05)	**$**	**(0.05)**	$	(0.05)

EnerCare Inc.
Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of Cdn $)		Three months ended June 30, 2013		2012		Six months ended June 30, 2013		2012
Net earnings/(loss) for the period	**$**	**7,482**	$	(3,064)	**$**	**(2,906)**	$	(3,233)
Amortization of accumulated other comprehensive loss to net loss		**-**		811		**4,023**		1,733
Comprehensive income/(loss) for the period	**$**	**7,482**	$	(2,253)	**$**	**1,117**	$	(1,500)

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

EnerCare Inc.
Condensed Interim Consolidated Statements of Changes in Equity

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(in thousands of Cdn $)	**2013**	2012	**2013**	2012
Share Capital				
Balance - beginning of period	**$ 521,547**	$ 514,502	**$ 520,997**	$ 509,722
Shares issued on debenture conversion (net of issue costs) (note 10)	**594**	5,366	**1,144**	10,146
Share Capital - end of period	**522,141**	519,868	**522,141**	519,868
Contributed Surplus				
Balance - beginning of period	**812**	1,040	**785**	1,308
Shares issued on debenture conversion (net of issue costs) (note 10)	**(30)**	(349)	**(59)**	(657)
Employee share options:				
Value of services recognized	**46**	24	**102**	64
Contributed Surplus - end of period	**828**	715	**828**	715
Accumulated Other Comprehensive Loss				
Balance - beginning of period	**-**	(6,359)	**(4,023)**	(7,281)
Amortization	**-**	811	**4,023**	1,733
Accumulated Other Comprehensive Loss - end of period	**-**	(5,548)	**-**	(5,548)
Deficit				
Balance - beginning of period	**(442,323)**	(389,935)	**(422,122)**	(380,342)
Net earnings/(loss) for the period	**7,482**	(3,064)	**(2,906)**	(3,233)
Dividends (note 12)	**(9,945)**	(9,706)	**(19,758)**	(19,130)
Deficit - end of period	**(444,786)**	(402,705)	**(444,786)**	(402,705)
Shareholders' equity - end of period	**$ 78,183**	$ 112,330	**$ 78,183**	$ 112,330

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

EnerCare Inc.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(in thousands of Cdn $)	**2013**	2012	**2013**	2012
Cash provided by/(used in):				
Operating activities				
Net earnings/(loss) for the period	**$ 7,482**	$ (3,064)	**$ (2,906)**	$ (3,233)
Items not affecting cash				
Amortization				
Capital assets (note 7)	**12,691**	13,501	**25,390**	27,707
Intangible assets (note 8)	**11,653**	11,665	**23,310**	23,333
Loss on disposal of equipment (note 7)	**3,449**	4,113	**6,341**	8,228
Non-cash interest expense	**171**	1,121	**5,096**	2,404
Employee share options	**46**	24	**102**	64
Deferred income tax (recovery)/expense	**(3,640)**	1,766	**(11,364)**	825
Operating cash flow	**31,852**	29,126	**45,969**	59,328
Net change in non-cash working capital (note 20)	**1,906**	(9,997)	**(3,120)**	(16,085)
Cash provided by operating activities	**33,758**	19,129	**42,849**	43,243
Investing activities				
Purchase of capital assets	**(19,688)**	(17,919)	**(38,780)**	(36,364)
Acquisitions	**-**	-	**-**	(2,053)
Proceeds from disposal of equipment	**981**	1,493	**1,898**	3,185
Cash used in investing activities	**(18,707)**	(16,426)	**(36,882)**	(35,232)
Financing activities				
Dividends to shareholders	**(9,939)**	(9,658)	**(19,690)**	(18,983)
Proceeds from revolving line of credit	**-**	-	**2,000**	-
Proceeds from issuance of long-term debt	**-**	-	**285,000**	-
Repayment of line of credit	**(2,000)**	-	**(2,000)**	-
Repayment of long-term debt	**(406)**	(60,280)	**(270,700)**	(60,560)
Deferred financing costs on long-term debt	**(129)**	-	**(1,661)**	-
Cash used in financing activities	**(12,474)**	(69,938)	**(7,051)**	(79,543)
Increase/(decrease) in cash and cash equivalents	**2,577**	(67,235)	**(1,084)**	(71,532)
Cash and cash equivalents - beginning of period	**8,965**	70,993	**12,626**	75,290
Cash and cash equivalents - end of period	**$ 11,542**	$ 3,758	**$ 11,542**	$ 3,758
Supplementary information				
Interest paid	**$ 6,125**	$ 11,502	**$ 26,848**	$ 18,577
Income taxes paid	**$ 5,239**	$ 969	**$ 15,132**	$ 7,487

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

1. Organization and Nature of Business

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

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

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

2. Basis of Preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by IASB applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012. EnerCare has consistently applied the same accounting policies and methods of computation throughout all periods presented, as if these policies had always been in effect, except for the adoption of new accounting standards as described in note 3.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 12, 2013, the date the board of directors approved the condensed interim consolidated financial statements. The board also has the authority to amend the condensed interim consolidated financial statements after they have been issued.

Certain comparative amounts have been reclassified to conform to the current period's presentation. Revenue related to charges to landlords on account of common area and suite consumption that was not billed to tenants has been reclassified from commodity charges. The related accounts receivable has been reclassified from accounts payable and accrued liabilities. These reclassifications resulted in an increase of $4,110 for the second quarter and $8,472 year to date 2012, to both rentals and services revenue and commodity charges respectively in the condensed interim consolidated statement of income and an increase to both accounts receivable and accounts payable and accrued liabilities of $5,196 as at December 31, 2012 in the condensed interim consolidated statement of financial position. These reclassifications did not result in any adjustments to previously reported net income, working capital or cash flows.

Basis of Measurement

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

Critical Accounting Estimates

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

Rentals Earnings Items

Direct Energy Marketing Limited ("DE"), through Enbridge Gas Distribution Inc. ("EGD"), provides billing and collection services for substantially all of EnerCare's water heaters and other assets. In September 2009, DE implemented a billing system conversion which coincided with a billing system conversion by EGD. Further, in late 2011, DE began utilizing a third party billing system for new assets and in August 2012 also employed the billing system for non-EGD territory accounts. EnerCare's internal controls over financial reporting ("ICFR") identified issues principally associated with DE's original system conversion as well as the third party conversion, primarily in respect of completeness of billing, customer collections and allocation of customer payments. During the fourth quarter of 2012 and through 2013, a number of billing issues were resolved with the third party billing system.

Over the past 18 months, DE and EnerCare have reached settlements in respect of billing and collection matters and installation costs. EnerCare has not provided for any additional settlements that may materialize as they are not determinable. 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. During the second quarter of 2013, EnerCare and DE reached a settlement of $1,678 on account of billing and collection in respect of water heater buyouts. The amount was recorded as other income.

Sub-metering Billing and Customer Care System

During May, 2012, the Sub-metering business deployed a new utility grade customer billing system which consolidated all sub-metering billing functions on to one platform. As a result of the transition, during May and June a number of bills required modification resulting in delayed mailings to residents and consequently a backlog of move in and out processing and establishment of new accounts and suspension of collection activities. During the third and fourth quarters of 2012, EnerCare reduced the backlog of non-billing customer accounts in a number of areas, however, in addition to normal account accruals, a number of accounts required accruals for additional service periods resulting in a total revenue accrual for the period ended December 31, 2012 of approximately $12,500. At June 30, 2013, EnerCare recorded a revenue accrual of approximately $12,300, reflecting the completion of customer back billing activity and increased billable units during the quarter.

As a result of the billing backlog, EnerCare modified some of its collection programs in the latter half of 2012, with enhanced collection procedures implemented in 2013. Based on management's best estimate, the bad debt provision was not increased during the second quarter.

3. Adoption of New Accounting Standards

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

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

IFRS 13, Fair Value Measurement, was issued in May 2011. It defines “fair value” and sets out, in a single IFRS, a framework for measuring fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or liability at fair value, nor does it change what is measured at fair value in IFRSs or address how to present changes in fair value. This standard is required to be applied for accounting periods beginning on or after January 1, 2013. EnerCare implemented the standard and has determined that it did not have an impact on current reporting.

4. Cash and Cash Equivalents

	June 30, 2013	December 31, 2012
Cash at bank	**$11,542**	$12,626
Ending balance	**$11,542**	$12,626

5. Accounts Receivable

	June 30, 2013	December 31, 2012
Accounts receivable (net of provision)	**$45,139**	$41,302
Bad and doubtful debt provision:		
Opening balance	**$ 3,100**	$ 1,422
Charge for the period	**875**	1,678
Provision ending balance	**$ 3,975**	$ 3,100

6. Accounts Payable and Accrued Liabilities

	June 30, 2013	December 31, 2012
Accounts payable	**$13,077**	$ 5,588
Accruals	**13,941**	10,174
Compensation payable	**2,339**	3,051
Current taxes payable	**3,204**	8,157
Other payables	**3,206**	9,985
Ending balance	**$35,767**	$36,955

7. Capital Assets

2013	Water Heaters	Sub-metering	Other	Total
At December 31, 2012:				
Cost	$791,775	$49,749	$10,120	$851,644
Accumulated depreciation	(380,929)	(11,847)	(2,754)	(395,530)
Net book value	$410,846	$37,902	$ 7,366	$456,114
Additions	$ 31,669	$ 6,277	$ 834	$ 38,780
Loss on disposal before proceeds	(8,239)	-	-	(8,239)
Depreciation for the period	(22,971)	(1,730)	(689)	(25,390)
At June 30, 2013	$411,305	$42,449	$7,511	$461,265
At June 30, 2013:				
Cost	$799,920	$56,026	$10,954	$866,900
Accumulated depreciation	(388,615)	(13,577)	(3,443)	(405,635)
Net book value	$411,305	$42,449	$ 7,511	$461,265

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

8. Intangible Assets

2013	Customer Relationships	Customer Contracts	Total
At December 31, 2012			
Cost	$743,336	$ 33,270	$776,606
Accumulated depreciation	(460,104)	(31,894)	(491,998)
Net book value	283,232	1,376	284,608
Amortization for the period	(23,198)	(112)	(23,310)
At June 30, 2013	260,034	1,264	261,298
At June 30, 2013:			
Cost	743,336	33,270	776,606
Accumulated depreciation	(483,302)	(32,006)	(515,308)
Net book value	$260,034	$ 1,264	$261,298

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

9. Debt

Bank indebtedness, current and long term debts:

	June 30, 2013	December 31, 2012
Bank indebtedness:		
Opening balance January 1	**$ -**	$ -
Revolver – drawdown	**2,000**	-
Revolver – repayment	**(2,000)**	
Total bank indebtedness	**$ -**	$ -
Current portion of long term debt:		
Opening balance January 1	**$ 1,198**	$ 61,131
Current portion of non-current debt	**1,185**	1,198
Repayment of debt	**(1,198)**	(61,131)
Total current portion of long term debt	**$ 1,185**	$ 1,198
Non-current portion of long term debt:		
Senior debt principal amount	**$520,000**	$510,000
Stratacon debt principal amount	**4,373**	5,571
Deferred financing costs and interest accretion	**(2,492)**	(1,946)
Opening balance January 1	**$521,881**	$513,625
Current portion of Stratacon debt	**(1,185)**	(1,198)
Repayment of debt	**(269,502)**	(240,000)
Issuance of debt	**285,000**	250,000
Additional deferred financing costs	**(1,661)**	(1,786)
Amortization of deferred financing costs	**1,037**	1,240
Total non-current portion	**$535,570**	$521,881
Senior debt principal amount	**$535,000**	$520,000
Stratacon debt principal amount	**3,686**	4,373
Deferred financing costs and interest accretion	**(3,116)**	(2,492)
Total non-current portion of long term debt	**$535,570**	$521,881

Under EnerCare Solutions' revolving credit facility (the "Revolver"), which matures on July 6, 2014, EnerCare Solutions has a standby charge of 0.24%. EnerCare Solutions is subject to three principal financial covenants as defined in the Revolver and term loan documents. The covenants address interest and debt coverage. At June 30, 2013, EnerCare Solutions complied with these covenants and was able to fully utilize the Revolver limit of $35,000. As at June 30, 2013, no amounts were drawn on the Revolver. The long term debt balance includes the following items:

The senior debt consists of the $250,000 4.30% 2012-1 Senior Unsecured Notes (the "2012 Notes") maturing on November 30, 2017 and the $225,000 4.60% 2013-1 Senior Unsecured Notes (the "2013 Notes") maturing on February 3, 2020, with semi-annual interest payments due on May 30 and November 30 and February 3 and August 3 in each year. On January 28, 2013, EnerCare Solutions entered into a $60,000 variable rate, single draw, term loan credit facility ("Term Loan") maturing on January 28, 2016. The $60,000 6.20% 2009-1 Senior Unsecured Notes matured and were repaid with cash on hand on April 30, 2012. The $240,000 5.25% 2010-1 Senior Unsecured Notes were redeemed in December 2012, including a make-whole payment of $1,920, from proceeds of the issuance of the 2012 Notes. The $270,000 6.75% 2009-2 Senior Unsecured Notes were redeemed in March 2013, including a make-whole payment of $13,754, from proceeds of the issuance of the 2013 Notes and drawdown of the Term Loan.

Debt was assumed in connection with the Stratacon acquisition in 2008. The secured debt of $4,871 as at June 30, 2013 was arranged in a series of advances bearing interest at rates between 7.50% and 8.75% with repayment terms ranging from 4 to 14 years ending in 2022.

Convertible Debentures:

On June 8, 2010 and July 6, 2010, EnerCare issued a total of $27,883 of 6.25% convertible unsecured subordinated debentures, $24,774 net of issue costs, with interest payable semi-annually on June 30 and December 31, commencing December 31, 2010, until maturity in June 2017. Each convertible debenture is convertible into common shares of EnerCare at the option of the holder at a conversion price of $6.48 per Share (or 154.3210 shares per $1,000 principal amount of convertible debentures). The convertible debentures were not redeemable by EnerCare prior to June 30, 2013. On and after June 30, 2013, and prior to June 30, 2015, EnerCare may redeem with proper notice the convertible debentures provided that the volume weighted average trading price of the shares for the 20 trading days prior to the 5th trading day before the redemption notification date is not less than 125% of the conversion price. On or after June 30, 2015, EnerCare may redeem with proper notice the convertible debentures for the principal amount plus accrued and unpaid interest.

The following table summarizes the movement of the convertible debentures:

	June 30, 2013	December 31, 2012
Convertible Debentures:		
Opening principal	**$ 6,760**	$18,361
Net deferred financing costs	**(364)**	(1,555)
Opening balance at January 1:	**$ 6,396**	$16,806
Principal conversions	**$(1,144)**	$(11,601)
Transfer of financing costs to equity upon conversion	**59**	1,053
Amortization of financing costs to expense	**36**	138
Ending balance	**$ 5,347**	$ 6,396
Principal balance	**$ 5,616**	$ 6,760
Net deferred financing costs	**(269)**	(364)
Ending balance	**$ 5,347**	$ 6,396

From July 1, 2013 to August 9, 2013, approximately $264 principal amount of additional convertible debentures were converted to shares.

10. Share Capital

		June 30, 2013		June 30, 2012
Shares Issued and Outstanding	**Shares**	**Net Proceeds**	Shares	Net Proceeds
Opening balance at January 1:	**58,012**	**$520,997**	56,203	$509,722
Issued:				
Principal conversion of debentures	**176**	**1,144**	1,617	10,474
Transfer of financing costs to equity	**-**	**(59)**	-	(985)
Transfer from contributed surplus	**-**	**59**	-	657
Totals	**58,188**	**$522,141**	57,820	$519,868

EnerCare's articles of incorporation provide for the issuance of an unlimited number of common shares and 10,000,000 preferred shares. Shares issued after 2010 arise from the conversion of convertible debentures. At June 30, 2013, there were no preferred shares outstanding. Each series of preferred shares will have such rights, privileges, restrictions and conditions as may be determined by the board of directors prior to the issuance thereof. Holders of preferred shares, except as required by law, will not be entitled to vote at meetings of shareholders of EnerCare. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of EnerCare, whether voluntary or involuntary, the preferred shares are entitled to preference over the common shares and any other shares ranking junior to the preferred shares.

11. Earnings per Share

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the period. Dilutive computations are based upon: (i) an if converted approach where interest expense attributable to the convertible debentures on an after tax basis is added back to earnings as part of the numerator and the impact of additional shares as a result of the conversion feature of 154.3210 shares per $1,000 principal amount is added to the denominator, and (ii) stock options whereby the number of dilutive shares is calculated as the difference between the number of shares issued and the number of shares that would have been issued at the average market price during the period based upon the assumed initial proceeds. Options are not dilutive if the average price is below the strike price.

The convertible debentures and stock options were anti-dilutive and therefore were excluded from the calculation of diluted earnings per share.

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands – except per share amounts)	**2013**	2012	**2013**	2012
Net earnings/(loss)	**$ 7,482**	$(3,064)	**$(2,906)**	$(3,233)
After tax impact of convertible debentures	**81**	136	**171**	367
Fully diluted net earnings/(loss)	**7,563**	(2,928)	**(2,735)**	(2,866)
Weighted average shares outstanding	**58,137**	57,526	**58,089**	57,040
Dilutive impact of convertible debentures and stock options	**972**	1,320	**951**	1,325
Fully diluted shares outstanding	**59,109**	58,846	**59,040**	58,365
Basic/Diluted earnings/(loss) per share	**$ 0.13**	$ (0.05)	**$ (0.05)**	$ (0.05)

12. Dividends

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Dividends declared per share	**$0.171**	$0.168	**$0.340**	$0.334
Dividends declared after June 30				
July				
Dollars			**$3,317**	$3,238
Per share/unit amount			**$0.057**	$0.056

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

13. Commitments

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

Period	June 30, 2013
Due in 2013	**$ 141**
Due in 2014	**264**
Due in 2015	**379**
Due in 2016	**397**
Due in 2017	**70**
Thereafter	**-**
Total commitments under non-cancellable operating leases	**$1,251**

The operating lease payments recognized in the condensed interim consolidated statement of income for the three and six months ended June 30, 2013 were $298 and $615, respectively (2012 - $299 and $483).

14. Contingent Liabilities

EnerCare and a subsidiary of EnerCare Solutions have been named in legal proceedings commenced by certain competitors seeking specified and unspecified damages based on allegations that EnerCare, its service provider, EcoSmart Home Services Inc., and others engaged in unlawful surveillance and other unlawful activities aimed at the door to door sales efforts of the competitors.

EnerCare is a party to a number of product liability claims and lawsuits in the ordinary course of business. Management is of the opinion that any liabilities that may arise from these lawsuits have been adequately provided for in these condensed interim consolidated financial statements.

15. Financial Instruments

The main risks EnerCare's financial instruments are exposed to include credit risk, liquidity risk and market risk.

Credit Risk

EnerCare is exposed to credit risk on accounts receivable from customers. EnerCare's credit risk is considered to be low for Rentals and moderate for Sub-metering.

EnerCare's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. For less than 10% of its Rentals portfolio, EnerCare is exposed to credit risk in the normal course of business for customers who are billed by DE or are billed by EGD outside their service territory. For accounts receivable from customers billed on EGD invoices within their service territory, EnerCare is guaranteed payment by EGD for 99.46% of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued. A related trust agreement also serves to mitigate EnerCare's credit exposure on receivables owing from EGD.

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

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

Liquidity Risk

EnerCare believes it has low liquidity risks given the makeup of its accounts payable and accrued liabilities, provisions, interest payable, other liabilities payable and dividends payable. EnerCare measures liquidity risk through comparisons of current financial ratios with the financial covenants contained in its revolving and term loan credit facility agreements and its senior unsecured trust indenture, as supplemented, as applicable. To reduce liquidity risk, EnerCare has maintained financial ratios which comply with the financial covenants applicable to the borrowings and has staggered its senior debt maturity dates through to February 3, 2020.

The covenants under the 2012 Notes and 2013 Notes are contained in the senior unsecured trust indenture, as supplemented. Under the terms of this indenture, EnerCare may not incur additional senior debt other than certain refinancing debt and certain working capital debt if the incurrence test is less than 3.8 to 1. The incurrence test is the ratio of defined EBITDA over defined interest expense calculated 12 months in arrears. EnerCare exceeded this threshold requirement at June 30, 2013.

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

Period	Principal Payments	Interest Payments
Due in 2013	$ 586	$ 11,666
Due in 2014	1,213	23,258
Due in 2015	1,258	23,157
Due in 2016	60,992	21,812
Due in 2017	256,231	21,140
Thereafter	225,207	25,895
Total	$545,487	$126,928

Market Risk

Fair Value

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

The following table presents the carrying amounts and the fair values of EnerCare's financial assets and liabilities at June 30, 2013 and December 31, 2012. The estimated fair values of the financial instruments are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	**$ 11,542**	**$ 11,542**	$ 12,626	$ 12,626
Trade and other receivables	**45,139**	**45,139**	41,302	41,302
Total financial assets	**$ 56,681**	**$ 56,681**	$ 53,928	$ 53,928
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$535,000**	**$548,728**	$520,000	$537,274
Gross convertible debentures	**5,616**	**7,949**	6,760	8,519
Stratacon debt	**4,871**	**4,871**	5,571	5,571
Total borrowings	**545,487**	**561,548**	532,331	551,364
Trade and other payables	**45,480**	**45,480**	45,158	45,158
Total financial liabilities	**$590,967**	**$607,028**	$577,489	$596,522

16. Capital Risk Management

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

EnerCare was in compliance with all covenants under the 2012 Notes, 2013 Notes, Revolver and Term Loan as at June 30, 2013.

17. Other Income

During the second quarter of 2013, EnerCare and DE reached a settlement of $1,678 on account of billing and collection in respect of water heater buyouts. In 2012, EnerCare and DE reached a settlement of $1,500 on account of billing for water heater installation costs.

18. Selling, General and Administrative

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Employee compensation and benefits	**$ 3,885**	$ 3,293	**$ 7,521**	$ 6,460
Professional fees	**1,620**	1,105	**2,674**	2,453
Selling, office and other	**1,475**	3,208	**3,105**	4,994
Billing and servicing	**2,444**	2,409	**4,802**	5,217
Claims and bad debt	**1,619**	1,509	**3,403**	2,702
Total	**$11,043**	$11,524	**$21,505**	$21,826

19. Provisions

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

	June 30, 2013	December 31, 2012
Opening balance:	**$ 726**	$1,592
Charged/(credited) to the condensed interim consolidated statement of income:		
Additional provision	**2,072**	3,503
Reversals	**-**	(876)
Claims spending during the period	**(1,635)**	(3,493)
Ending balance	**$ 1,163**	$ 726

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 June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Accounts receivable	**$1,508**	$(3,452)	**$(3,837)**	$ (7,182)
Prepaid and other assets	**512**	1,216	**463**	1,051
Accounts payable and accrued liabilities	**(301)**	(4,490)	**(1,188)**	(8,170)
Provisions	**507**	(105)	**437**	(590)
Interest payable	**(320)**	(3,166)	**1,005**	(1,194)
Total	**$1,906**	$(9,997)	**$(3,120)**	$(16,085)

21. Related Parties and Transactions with DE

Key Management

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Salaries and short-term benefits	**$639**	$615	**$1,155**	$1,740
Other employment benefits	**18**	14	**50**	29
Long term benefits	**317**	150	**683**	485
Total	**$974**	$779	**$1,888**	$2,254

Transactions with DE

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

***Co-ownership Agreement**:*

Under this agreement, DE receives, subject to certain exceptions, 35% of the gross revenue generated by the co-owned portfolio of assets and is obligated to service that asset portfolio, effectively operating the day-to-day activities of that portion of the business. Pursuant to an agreement between DE and EnerCare, DE is entitled to put forth one individual for consideration by EnerCare's board for inclusion in EnerCare's annual management information circular for election as a director of EnerCare for as long as it is servicer under the co-ownership agreement.

Origination Agreement:

Under this agreement, subject to certain exceptions, DE must offer to sell all rental water heaters to EnerCare at prescribed prices, essentially at DE's cost plus an inventory service fee and a set installation fee. EnerCare has no obligation to purchase any water heaters. The agreement also establishes an incentive fee payable to DE should certain growth targets be achieved. The initial term of the origination agreement is through December 2022 and is subject to extension or early termination in certain circumstances.

Other Agreements with DE:

In addition to the above agreements, EnerCare and DE have entered into an agreement for the servicing of Toronto Hydro Energy Services Inc. ("TH") energy units, as these units are not subject to the co-ownership agreement. This agreement provides for the administration and servicing of the portfolio on a fee-for-service basis.

EnerCare and DE have also entered into an agreement for the origination and servicing of HVAC rental units, whereby DE originates HVAC rental customers and provides servicing to these HVAC rental customers. EnerCare has the right to originate HVAC rental customers outside of this arrangement with DE.

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Origination agreement:				
Capital expenditures	**$13,827**	$11,583	**$26,637**	$24,911
GreenSource acquisition	**-**	-	**-**	2,053
Inventory service fee	**892**	746	**1,733**	1,604
Other capital expenditures	**2,251**	1,097	**3,768**	2,498
Other expenses, including billing and servicing costs	**693**	719	**1,395**	1,548
Total	**$17,663**	$14,145	**$33,533**	$32,614

22. Segment Information

Management has determined the operating segments based on the reports reviewed by the President and CEO are used to make strategic decisions.

The President and CEO considers EnerCare from a product perspective. The reportable operating segments derive their revenue primarily from (a) the rental of water heaters and other energy related assets, and (b) the sub-metering of multi-unit residential and commercial properties.

The Rentals segment consists of a portfolio of approximately 1.2 million installed water heaters and other assets, rented primarily to residential customers in Ontario. The Sub-metering segment is engaged principally in providing the equipment and services to allow sub-metering and remote measurement of electricity and water consumption in individual units in condominiums, apartment buildings and commercial properties primarily in Ontario. The Corporate segment reports the costs for management oversight of the combined business, public reporting and filings, financing activities, corporate governance and related expenses. There are no transfers between the Rentals and Sub-metering segments so no inter-segment eliminations are required.

EnerCare assessed its performance of the reporting units on a measure of EBITDA as follows:

	Three months ended June 30, 2013				Three months ended June 30, 2012			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$ 47,293**	**$24,262**	**$ -**	**$ 71,555**	$ 46,735	$20,528	$ -	$ 67,263
Expenses:								
Commodity	**-**	**(20,037)**	**-**	**(20,037)**	-	(16,259)	-	(16,259)
SG&A	**(4,090)**	**(2,718)**	**(4,235)**	**(11,043)**	(4,236)	(2,649)	(4,639)	(11,524)
Loss on disposal	**(3,449)**	**-**	**-**	**(3,449)**	(4,113)	-	-	(4,113)
EBITDA[1]	**39,754**	**1,507**	**(4,235)**	**37,026**	38,386	1,620	(4,639)	35,367
Amortization	**(23,118)**	**(874)**	**(352)**	**(24,344)**	(24,138)	(850)	(178)	(25,166)
Interest income				**49**				76
Interest expense				**(5,976)**				(9,457)
Other income	**1,678**	**-**	**-**	**1,678**	-	-	-	-
Current taxes				**(4,591)**				(2,118)
Deferred tax recovery/(expense)				**3,640**				(1,766)
Net earnings/(loss)				**7,482**				(3,064)
Adjusted EBITDA[1,2]	**44,881**	**1,507**	**(4,235)**	**42,153**	42,499	1,620	(4,639)	39,480
Segment assets	**695,849**	**79,390**	**19,053**	**794,292**	743,195	62,520	10,825	816,540
Equipment additions	**16,793**	**2,483**	**412**	**19,688**	11,489	2,602	1,775	15,866
Segment liabilities	**$154,001**	**$21,191**	**$540,917**	**$716,109**	$409,144	$14,047	$281,019	$704,210

	Six months ended June 30, 2013				Six months ended June 30, 2012			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$94,375**	**$51,222**	**$ -**	**$145,597**	$93,582	$41,363	$ -	$134,945
Expenses:								
Commodity	**-**	**(42,188)**	**-**	**(42,188)**	-	(32,804)	-	(32,804)
SG&A	**(7,907)**	**(6,002)**	**(7,596)**	**(21,505)**	(7,768)	(5,433)	(8,625)	(21,826)
Loss on disposal	**(6,341)**	**-**	**-**	**(6,341)**	(8,228)	-	-	(8,228)
EBITDA[1]	**80,127**	**3,032**	**(7,596)**	**75,563**	77,586	3,126	(8,625)	72,087
Amortization	**(46,281)**	**(1,730)**	**(689)**	**(48,700)**	(49,076)	(1,598)	(366)	(51,040)
Interest income				**317**				261
Interest expense				**(32,949)**				(19,787)
Other income	**1,678**	**-**	**-**	**1,678**	1,500	-	-	1,500
Current taxes				**(10,179)**				(5,429)
Deferred tax recovery/(expense)				**11,364**				(825)
Net (loss)				**(2,906)**				(3,233)
Adjusted EBITDA[1][2]	**88,146**	**3,032**	**(7,596)**	**83,582**	87,314	3,126	(8,625)	81,815
Equipment additions	**$31,669**	**$ 6,277**	**$ 834**	**$ 38,780**	$29,041	$ 4,202	$ 3,121	$ 36,364

(1) EBITDA and Adjusted EBITDA are Non-IFRS financial measures and are metrics that can be used to determine EnerCare's ability to service its debt, finance capital expenditures, and provide for the payment of dividends to shareholders.

(2) Adjusted EBITDA is comprised of total revenues and other income, less commodity and SG&A expenses.

The amounts provided to the President and CEO with respect to total assets and total liabilities are measured in a manner consistent with that of the condensed interim consolidated financial statements. These assets and liabilities are allocated based on the operation of the segment.