**EnerCare Inc.**

**Consolidated Financial Statements**

**Year Ended December 31, 2013**

**Dated March 5, 2014**

March 5, 2014

**Independent Auditor's Report**

**To the Shareholders of**
**EnerCare Inc.**

We have audited the accompanying consolidated financial statements of EnerCare Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, 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 audit 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 Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**



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# EnerCare Inc.

## Consolidated Statements of Financial Position

| (in thousands of Cdn $)<br>As at December 31, | | 2013 | | 2012 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents (note 4) | **$** | **25,940** | $ | 12,626 |
| Accounts receivable (note 5) | | **38,086** | | 41,302 |
| Prepaid and other assets | | **2,526** | | 3,360 |
| | | **66,552** | | 57,288 |
| **Capital assets (note 7)** | | **466,759** | | 456,114 |
| **Intangible assets (note 8)** | | **238,029** | | 284,608 |
| **Goodwill** | | **2,962** | | 2,962 |
| **Deferred tax asset (note 10)** | | **4,578** | | 3,594 |
| | **$** | **778,880** | $ | 804,566 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Current portion of long-term debt (note 9) | **$** | **1,213** | $ | 1,198 |
| Accounts payable and accrued liabilities (note 6) | | **40,414** | | 36,955 |
| Provisions (note 20) | | **1,187** | | 726 |
| Interest payable | | **5,044** | | 4,228 |
| Dividends payable (note 13) | | **3,389** | | 3,249 |
| | | **51,247** | | 46,356 |
| **Long-term debt (note 9)** | | **535,193** | | 521,881 |
| **Convertible debentures (note 9)** | | **3,914** | | 6,396 |
| **Deferred tax liability (note 10)** | | **117,230** | | 134,296 |
| | | **707,584** | | 708,929 |
| **Shareholders' equity** | | | | |
| Share Capital | | **523,676** | | 520,997 |
| Contributed Surplus | | **863** | | 785 |
| Accumulated Other Comprehensive Loss | | **-** | | (4,023) |
| Deficit | | **(453,243)** | | (422,122) |
| | | **71,296** | | 95,637 |
| | **$** | **778,880** | $ | 804,566 |

Commitments, contingent liabilities and financial instrument obligations are found in notes 14,15 and 16, respectively.

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

# EnerCare Inc.
## Consolidated Statements of Income

| (in thousands of Cdn $, except per share amounts)<br>For the years ended December 31, | | 2013 | | 2012 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Rentals and services | **$** | **298,776** | $ | 275,121 |
| Investment income | | **373** | | 457 |
| Total revenues | | **299,149** | | 275,578 |
| **Expenses** | | | | |
| Commodity charges | | **90,671** | | 71,044 |
| Selling, general & administrative (note 19) | | **43,972** | | 43,623 |
| Amortization | | | | |
| Capital assets (note 7) | | **53,141** | | 55,018 |
| Intangibles (note 8) | | **46,579** | | 46,604 |
| Loss on disposal of equipment | | **11,640** | | 15,148 |
| Interest | | | | |
| Short-term | | **1,548** | | 141 |
| Make-whole charge on early redemption of debt (note 9) | | **13,754** | | 1,920 |
| Long-term | | **29,671** | | 38,698 |
| Total expenses | | **290,976** | | 272,196 |
| **Other income (note 18)** | | **4,447** | | 1,993 |
| **Earnings for the year before income taxes** | | **12,620** | | 5,375 |
| **Tax expense** | | | | |
| Current tax expense (note 10) | | **21,852** | | 14,548 |
| Deferred income tax (recovery) (note 10) | | **(18,050)** | | (5,998) |
| Total tax expense | | **3,802** | | 8,550 |
| **Net earnings/(loss) for the year** | **$** | **8,818** | $ | (3,175) |
| **Weighted average number of shares outstanding (notes 11, 12)** | | **58,190** | | 57,486 |
| **Basic earnings/(loss) per share (note 12)** | **$** | **0.15** | $ | (0.06) |

# EnerCare Inc.
## Consolidated Statements of Comprehensive Income

| (in thousands of Cdn $)<br>For the years ended December 31, | | 2013 | | 2012 |
|---|---|---|---|---|
| **Net earnings/(loss) for the year** | **$** | **8,818** | $ | (3,175) |
| Reclassification of cash flow hedge loss to earnings/(loss) | | **4,023** | | 3,258 |
| **Comprehensive income for the year** | **$** | **12,841** | $ | 83 |

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

# EnerCare Inc.
## Consolidated Statements of Changes in Equity

| (in thousands of Cdn $)<br>For the years ended December 31, | | 2013 | | 2012 |
|---|---|---|---|---|
| **Share Capital** | | | | |
| Balance - beginning of year | **$** | **520,997** | $ | 509,722 |
| Shares issued on debenture conversion (net of issue costs) (notes 9, 11) | | **2,679** | | 11,275 |
| **Share Capital - end of year** | | **523,676** | | 520,997 |
| **Contributed Surplus** | | | | |
| Balance - beginning of year | | **785** | | 1,308 |
| Shares issued on debenture conversion (net of issue costs) (notes 9, 11) | | **(131)** | | (727) |
| Employee share options: | | | | |
| Value of services recognized | | **209** | | 79 |
| Shares issued from treasury upon exercise of share options | | **-** | | 125 |
| **Contributed Surplus - end of year** | | **863** | | 785 |
| **Accumulated Other Comprehensive Loss** | | | | |
| Balance - beginning of year | | **(4,023)** | | (7,281) |
| Reclassification of cash flow hedge loss to earnings/(loss) | | **4,023** | | 3,258 |
| **Accumulated Other Comprehensive Loss - end of year** | | **-** | | (4,023) |
| **Deficit** | | | | |
| Balance - beginning of year | | **(422,122)** | | (380,342) |
| Net earnings/(loss) for the year | | **8,818** | | (3,175) |
| Dividends | | **(39,939)** | | (38,605) |
| **Deficit - end of year** | | **(453,243)** | | (422,122) |
| **Shareholders' equity - end of year** | **$** | **71,296** | $ | 95,637 |

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

# EnerCare Inc.

## Consolidated Statements of Cash Flows

| (in thousands of Cdn $)<br>For the years ended December 31, | | **2013** | | 2012 |
|---|---|---|---|---|
| **Cash provided by/(used in):** | | | | |
| **Operating activities** | | | | |
| Net earnings/(loss) for the year | **$** | **8,818** | $ | (3,175) |
| Items not affecting cash | | | | |
| Amortization | | | | |
| Capital assets (note 7) | | **53,141** | | 55,018 |
| Intangibles (note 8) | | **46,579** | | 46,604 |
| Loss on disposal of equipment | | **11,640** | | 15,148 |
| Non-cash interest expense | | **5,435** | | 4,636 |
| Employee share options | | **209** | | 204 |
| Contingent consideration on Stratacon acquisition | | **-** | | (855) |
| Deferred income tax (recovery) (note 10) | | **(18,050)** | | (5,998) |
| **Operating cash flow** | | **107,772** | | 111,582 |
| Net change in non-cash working capital (note 21) | | **8,786** | | (15,492) |
| **Cash provided by operating activities** | | **116,558** | | 96,090 |
| **Investing activities** | | | | |
| Purchase of capital assets (note 7) | | **(80,146)** | | (70,825) |
| Acquisitions | | **-** | | (1,944) |
| Proceeds from disposal of equipment - warranty recoveries | | **1,517** | | 1,629 |
| Proceeds from disposal of equipment - buyout receipts | | **3,203** | | 3,750 |
| **Cash used in investing activities** | | **(75,426)** | | (67,390) |
| **Financing activities** | | | | |
| Dividends to shareholders | | **(39,799)** | | (38,447) |
| Proceeds from revolving line of credit | | **2,000** | | - |
| Proceeds from issuance of long-term debt | | **285,000** | | 250,000 |
| Repayment of revolving line of credit | | **(2,000)** | | - |
| Repayment of long-term debt | | **(271,286)** | | (301,131) |
| Deferred financing costs on long-term debt | | **(1,733)** | | (1,786) |
| **Cash used in financing activities** | | **(27,818)** | | (91,364) |
| Increase/(decrease) in cash and cash equivalents | | **13,314** | | (62,664) |
| Cash and cash equivalents - beginning of year | | **12,626** | | 75,290 |
| **Cash and cash equivalents - end of year** | **$** | **25,940** | $ | 12,626 |
| **Supplementary information** | | | | |
| Interest paid | **$** | **38,722** | $ | 39,802 |
| Income taxes paid | **$** | **23,900** | $ | 12,099 |

The accompanying notes are an integral part of these 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of consolidated financial statements. 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 and certain comparative amounts as described below.

Certain comparative amounts have been reclassified to conform to the current period's presentation: 1) 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 $18,996 in 2012, to both rentals and services revenue and commodity charges, respectively, in the consolidated statement of incomes and an increase to both accounts receivable and accounts payable and accrued liabilities of $5,196 as at December 31, 2012 in the consolidated statement of financial position. These reclassifications did not result in any adjustments to previously reported net income, working capital or cash flows. 2) Where deferred tax assets and liabilities existed in the legal entities of EnerCare and its subsidiaries, these amounts were reclassified to either a net deferred tax asset or liability as applicable. As such, for 2012 deferred tax assets and deferred tax liabilities declined by $2,676 on a consolidated basis. These reclassifications did not result in any adjustments to previously reported net income, working capital or cash flows.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 5, 2014, the date the board of directors approved the consolidated financial statements. The board of directors also has the authority to amend the consolidated financial statements after they have been issued.

## 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 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 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 controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by EnerCare 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.

*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 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 has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation is eliminated or EnerCare 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 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's loans and receivables are comprised primarily of accounts 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 accounts payable and accrued liabilities, provisions, interest payable, other liabilities payable and long-term debt. Accounts payable are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are recognized at amortized cost using the effective interest rate method. Current and long-term debts 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 assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, EnerCare 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.

*Accounts Receivable*

Accounts receivable 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 an accounts receivable is determined to be uncollectable it is written off, firstly against any provision available and then to the statement of income.

Subsequent recoveries of amounts previously provided for are credited to the statement of income.

*Provisions*

Provisions for legal claims, where applicable, are recognized in accounts payable and accrued liabilities when EnerCare 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 performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

*Capital Assets*

Capital assets are 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 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 capital assets 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 |
| Installed meters | 10 years |
| Other Sub-metering capital | length of the contract, typically 10-25 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 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 of disposal 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.

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of EnerCare's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. For goodwill, the recoverable amount is estimated at each statement of financial position date or more frequently when indicators of impairment are identified. Management monitors goodwill for internal purposes based on its operating segments.

To test for impairment, goodwill must be allocated to each segment that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those segments.

The unit to which goodwill has been allocated is tested for impairment at least annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, an impairment loss will be recognized.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order, first, reduce the carrying amount of any goodwill allocated to the unit; and then, reduce the carrying amounts of the other assets of the unit on a pro rata basis.

*Convertible Debentures*

The convertible debentures, issued in June and July 2010, have been recorded as a liability. The value of the debentures has been reduced at issuance to reflect the fair value of the conversion feature of these debentures. The reduction will be accreted to earnings over the term of the debentures using the effective interest rate method.

*Long Term Compensation*

*Cash Based Payment Plans*

The Performance Share Unit Plan ("PSUP") was originally implemented in 2007 to reward senior management and EnerCare's directors and amended in 2011 to, among other things, reflect conversion to a corporation. Awards are made in the form of phantom shares, which vest at the end of a three year period.

EnerCare adopted the Deferred Share Unit Plan ("DSUP") effective January 1, 2011 for non-employee directors. In addition to annual grants, pursuant to the DSUP, directors will receive 50% of their fees in the form of deferred share units until the director has met the director's share ownership requirements. Directors may also elect to have vested performance share units settled in deferred share units on a one-for-one basis and may elect once each calendar year to receive any portion of their fees in the form of deferred share units for the year. Such fee election can be changed on a quarterly basis. The vesting period is estimated to be three years.

The PSUP and DSUP plan liabilities are based upon the product of the number of share units, the vesting period, the average volume weighted share price for the five days preceding the last trading day of the period and performance criteria established for each grant and plan at each statement of financial position date. EnerCare's obligation for each plan is recorded in accounts payable and paid in cash, unless a director elects to have vested performance share units settled in deferred share units.

*Share Based Payment Plan*

Effective January 1, 2011, EnerCare implemented a stock option plan for officers of EnerCare. At the date of grant, options are valued using the Black-Scholes option pricing model giving consideration to the terms of plan and EnerCare's performance. Recorded amounts are reflected in contributed surplus and the statement of income for the period over the vesting period. The number of options expected to vest is reviewed at least annually, with any impact being recognized immediately.

*Income Tax*

EnerCare 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 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 sale.

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 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, including the Sub-metering assets, EnerCare 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 expense. Costs associated with the arrangement of long-term financing are netted against the carrying value of the debt and amortized on an effective interest rate method over the expected term of the debt.

*Hedge Accounting*

In 2009, EnerCare completed a series of cash flow hedge transactions which resulted in a charge to other comprehensive income. This loss was being amortized into income using the effective interest rate method based upon the maturity of the 6.20% $60,000, Series 2009-1 Senior Unsecured Notes (the "2009-1 Notes") and the 6.75% $270,000 Series 2009-2 Senior Unsecured Notes (the "2009-2 Notes" and collectively with the 2009-1 Notes, the “2009 Notes”). The Series 2009-1 Notes matured in April 2012, while the Series 2009-2 Notes were redeemed in March 2013.

*Dividends*

Dividends on shares are recognized in EnerCare’s consolidated financial statements in the period in which the dividends are approved by EnerCare’s board of directors.

*Critical Accounting Estimates and Judgments*

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 consolidated financial statements. Management applies judgement in its assessment of EnerCare’s arrangements with customers when determining the classification of leases and the extent to which the risks and rewards incidental to ownership lie with the company or the customer. In addition to leases, other 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. (“Enbridge”), 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 Enbridge. 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-Enbridge 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 2 years, DE and EnerCare have reached settlements in respect of billing and collection matters and installation costs. 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 the third quarter of 2013, EnerCare accrued $2,000 on account of water heater installation costs, billing and collection deficiencies and third-party claims, with an additional $769 being recognized upon settlement in the fourth quarter of 2013. These amounts were recorded as other income. 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 other income amounts.

*Sub-metering Billing and Customer Care System*

During 2012, the Sub-metering business deployed a new utility grade customer care and billing system which consolidated all the Sub-metering customer care and billing functions onto one platform. As a result of this conversion, the Sub-metering business experienced operational disruptions, particularly in respect of billings and collections. During May and June of 2012, a number of bills required modification resulting in a delay mailing to residents and a backlog of move in and out processing, establishment of new accounts and suspension of collection activities. During the third and fourth quarters of 2012, EnerCare reduced the backlog of non-billing customer accounts in a number of areas, however, in addition to normal account accruals, a number of accounts required accruals for additional service periods resulting in a total revenue accrual at December 31, 2012 of approximately $12,500. At December 31, 2013, EnerCare recorded a revenue accrual of approximately $14,350, reflecting accrued service periods, increases in billable units and pass through commodity charges.

As a result of the billing backlog, EnerCare modified some of its collection programs in the latter half of 2012 and implemented full collection procedures during the second quarter of 2013. During the fourth quarter of 2013, EnerCare reassessed the bad debts provision in light of the completion of the billing backlog. EnerCare analyzed the collection experience of its customer account segments since the second quarter of 2013, and based upon that information, the accounts receivable provision was increased by $2,046 for the fourth quarter, resulting in a bad debt expense of $3,246 for 2013 compared with $1,577 in 2012.

Contingent Consideration

Stratacon was acquired in August 2008, and the purchase included additional purchase price consideration based on future performance measures which were not required to be recorded in prior financial statements as per Part V of the Canadian Institute of Chartered Accountants handbook ("CGAAP"). The IFRS January 1, 2010 statement of financial position reflects the required liability for this contingent consideration of $5,000, which was based on an estimate of the expected future performance. The January 1, 2010 contingent consideration was determined using an estimate of the future contracted sales (suites) for the period August 1, 2010 to July 31, 2011, multiplied by the contracted fixed dollar amount per suite. The contingent consideration is re-measured based on revised estimates each reporting period with any differences recognized through the statement of income. As at December 31, 2010, the estimated contingent consideration of $4,300 decreased by $700 from $5,000 as at January 1, 2010 on account of a reduction in the estimated total obligation. As at December 31, 2011, the estimated payable of $855 decreased by $3,445 from $4,300 as at December 31, 2010. This decrease reflects a reduction in the estimated total obligation of $2,383, recorded as other income, and payments made during 2011. In 2012, the remaining obligation of $855 was recorded as other income based upon an assessment of the estimated contingent consideration payable.

Impairment of Non-Financial Assets

Impairment tests are conducted at least annually, or as warranted by prevailing circumstances at the time of reporting. The fair value is based upon a number of assumptions, including but not limited to: discount rates, billing suites, cash flows and expenses. Changes in any of these assumptions may result in a materially different fair value. Changes in fair value are recognized through the statement of income.

*Adoption of new Accounting Standards*

On December 16, 2011, the IASB released Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The standard amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosure to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32. The standard requires a financial asset and a financial liability to be offset and the net amount presented in the statement of financial position when, and only when, an entity (1) currently has a legally enforceable right to set off the recognized amounts and (2) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. 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 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 IFRS standards 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 IFRS 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.

*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 has not yet assessed the impact of the standard or determined whether it will adopt the standard prior to January 1, 2015.

## 4. Cash and Cash Equivalents

| As at December 31, | **2013** | 2012 |
|---|---|---|
| Cash at bank | **$25,940** | $12,626 |
| Ending balance | **$25,940** | $12,626 |

## 5. Accounts Receivable

| As at December 31, | **2013** | 2012 |
|---|---|---|
| Accounts receivable (net of provision) | **$38,086** | $41,302 |
| Bad and doubtful debt provision: | | |
| Opening balance | **$ 3,100** | $ 1,422 |
| Charge for the year | **3,925** | 1,678 |
| Provision ending balance | **$ 7,025** | $ 3,100 |

## 6. Accounts Payable and Accrued Liabilities

| As at December 31, | **2013** | 2012 |
|---|---|---|
| Accounts payable | **$10,762** | $10,784 |
| Accruals | **16,821** | 11,850 |
| Compensation payable | **3,715** | 3,051 |
| Current taxes payable | **6,109** | 8,157 |
| Other payables | **3,007** | 3,113 |
| Ending balance | **$40,414** | $36,955 |

## 7. Capital Assets

| **2013 and 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 |
| Depreciation for the year | (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** |
| Additions | $ 68,746 | $ 10,307 | $ 1,093 | $ 80,146 |
| Loss on disposal before proceeds | (16,360) | - | - | (16,360) |
| Cost reversal - assets no longer in use | - | - | (1,140) | (1,140) |
| Depreciation for the year | (47,521) | (3,993) | (1,627) | (53,141) |
| Depreciation reversal - assets no longer in use | - | - | 1,140 | 1,140 |
| At December 31, 2013 | $415,711 | $44,216 | $ 6,832 | $466,759 |
| ***At December 31, 2013:*** | | | | |
| Cost | $813,630 | $60,056 | $10,073 | $883,759 |
| Accumulated depreciation | (397,919) | (15,840) | (3,241) | (417,000) |
| **Net book value** | **$415,711** | **$44,216** | **$ 6,832** | **$466,759** |

## 8. Intangible Assets

| 2013 and 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** |
| | | | |
| Amortization for the year | (46,396) | (183) | (46,579) |
| At December 31, 2013 | 236,836 | 1,193 | 238,029 |
| | | | |
| ***At December 31, 2013:*** | | | |
| Cost | 743,336 | 33,270 | 776,606 |
| Accumulated depreciation | (506,500) | (32,077) | (538,577) |
| **Net book value** | **$236,836** | **$ 1,193** | **$238,029** |

## 9. Debt

***Bank indebtedness, current and long term debt:***

| As at December 31, | **2013** | 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 |
| Repayment of debt | **(1,198)** | (61,131) |
| Current portion of Stratacon debt | **1,213** | 1,198 |
| **Total current portion of long term debt** | **$ 1,213** | $ 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 |
| Unamortized financing costs and interest accretion | **(2,492)** | (1,946) |
| Opening balance January 1 | **$521,881** | $513,625 |
| Current portion of Stratacon debt | **(1,213)** | (1,198) |
| Repayment of debt | **(270,088)** | (240,000) |
| Issuance of debt | **285,000** | 250,000 |
| Additional deferred financing costs | **(1,733)** | (1,786) |
| Amortization of deferred financing costs | **1,346** | 1,240 |
| **Total non-current portion** | **$535,193** | $521,881 |

| | | |
|---|---|---|
| Senior debt principal amount | **$535,000** | $520,000 |
| Stratacon debt principal amount | **3,072** | 4,373 |
| Unamortized financing costs and interest accretion | **(2,879)** | (2,492) |
| **Total non-current portion of long term debt** | **$535,193** | $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 credit facility (the "Term Loan") documents. The covenants address interest and debt coverage. At December 31, 2013, EnerCare Solutions complied with these covenants and was able to fully utilize the Revolver limit of $35,000. As at December 31, 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, respectively. On January 28, 2013, EnerCare Solutions entered into a $60,000 variable rate, single draw, 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 $4,285 as at December 31, 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 $1,000 principal amount of convertible debentures). The convertible debentures were not redeemable by EnerCare prior to June 30, 2013. On and after June 30, 2013, and prior to June 30, 2015, EnerCare may redeem with proper notice the convertible debentures provided that the volume weighted average trading price of the shares for the 20 trading days prior to the 5$^{th}$ 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:

| As at December 31, | **2013** | 2012 |
|---|---|---|
| **Convertible Debentures:** | | |
| Opening principal | **$6,760** | $18,361 |
| Net deferred financing costs | **(364)** | (1,555) |
| Opening balance at January 1: | **$6,396** | $16,806 |
| | | |
| Principal conversions | **$(2,679)** | $(11,601) |
| Transfer of financing costs to equity upon conversion | **131** | 1,053 |
| Amortization of financing costs to expense | **66** | 138 |
| Ending balance | **$3,914** | $ 6,396 |
| | | |
| Principal balance | **$4,081** | $ 6,760 |
| Net deferred financing costs | **(167)** | (364) |
| Ending balance | **$3,914** | $ 6,396 |

From January 1, 2014 to March 3, 2014, approximately $242 principal amount of additional convertible debentures were converted to shares.

## 10. 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 each of the years ended December 31, 2013 and 2012 was 26.50%. 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:

| For the year ended December 31, | **2013** | 2012 |
|---|---|---|
| Tax expense at statutory rate of 26.50% | **$3,344** | $1,424 |
| Tax effects of: | | |
| Future tax rate differential | **-** | 6,046 |
| Non-deductible expenses | **852** | 1,100 |
| Recognition of previously unrecognized losses | **(632)** | - |
| Other | **238** | (20) |
| **Total** | **$3,802** | $8,550 |
| | | |
| Current tax expense | **21,852** | 14,548 |
| Deferred income tax recovery | **(18,050)** | (5,998) |
| **Total tax recovery** | **$3,802** | $8,550 |

The provision for income taxes in 2013 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.

**Deferred income tax asset and liability**

The deferred income tax asset and liability on EnerCare's statement of financial position reflect the estimated tax on temporary and other differences. The movement of the deferred income tax accounts are as follows:

| As at December 31, | **2013** | 2012 |
|---|---|---|
| ***As at January 1:*** | **$(130,702)** | $(136,700) |
| Deferred income tax recovery | **18,050** | 5,998 |
| Total | **$(112,652)** | $(130,702) |

EnerCare's management expects that the future tax assets will be recoverable based on the expected growth of the sub-metering segment and the profitability of the company.

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

| As at December 31, | **2013** | 2012 |
|---|---|---|
| **Deferred tax asset** | | |
| Loss carry forwards | **$ 4,990** | $ 4,835 |
| Allowances | **1,699** | 968 |
| Other | **1,805** | 863 |
| | **8,494** | 6,666 |
| **Deferred tax liability** | | |
| Equipment | **(101,811)** | (112,534) |
| Intangible assets | **(316)** | (364) |
| Temporary difference – subsidiary tax year end | **(18,780)** | (24,205) |
| Other | **(239)** | (265) |
| | **(121,146)** | (137,368) |
| **Total** | **$(112,652)** | $(130,702) |

**Classification**

| As at December 31, | **2013** | 2012 |
|---|---|---|
| Deferred tax asset | **$ 4,578** | $ 3,594 |
| Deferred tax liability | **(117,230)** | (134,296) |
| **Total** | **$(112,652)** | $(130,702) |

## 11. Share Capital

| As at December 31, | | **2013** | | 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 | **413** | **2,679** | 1,809 | 11,601 |
| Transfer of financing costs to equity | **-** | **(131)** | - | (1,053) |
| Transfer from contributed surplus | **-** | **131** | - | 727 |
| Totals | **58,425** | **$523,676** | 58,012 | $520,997 |

EnerCare's articles of incorporation provide for the issuance of an unlimited number of common shares and 10,000,000 preferred shares. Shares issued after 2010 arise from the conversion of convertible debentures. At December 31, 2013, there were no preferred shares outstanding. Each series of preferred shares will have such rights, privileges, restrictions and conditions as may be determined by the board of directors prior to the issuance thereof. Holders of preferred shares, except as required by law, will not be entitled to vote at meetings of shareholders of EnerCare. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of EnerCare, whether voluntary or involuntary, the preferred shares are entitled to preference over the common shares and any other shares ranking junior to the preferred shares.

## 12. 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 earnings per share are shown below:

| For the year ended December 31, | **2013** | 2012 |
|---|---|---|
| (in thousands – except per share amounts) | | |
| Net (loss)/earnings | **$8,818** | $(3,175) |
| Weighted average shares outstanding | **58,190** | 57,486 |
| Basic earnings/(loss) per share | **$ 0.15** | $ (0.06) |

## 13. Dividends

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

| For the year ended December 31, | **2013** | 2012 |
|---|---|---|
| Dividends declared per share during the period | **$ 0.69** | $ 0.67 |

| Dividends declared after December 31, | | |
|---|---|---|
| January | | |
| Dollars | **$ 3,390** | $ 3,250 |
| Shares | **58,455** | 58,043 |
| Per share/unit amount | **$ 0.058** | $ 0.056 |
| February | | |
| Dollars | **$ 3,391** | $ 3,251 |
| Shares | **58,462** | 58,049 |
| Per share/unit amount | **$ 0.058** | $ 0.056 |

The total amount of dividends declared after December 31, 2013 are estimated above and are subject to change dependent upon the actual debenture conversions throughout the period, if any.

## 14. Commitments

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

| As at December 31, | **2013** | 2012 |
|---|---|---|
| Due in 2014 | **$ 264** | $ 255 |
| Due in 2015 | **379** | 370 |
| Due in 2016 | **397** | 392 |
| Due in 2017 | **70** | 70 |
| Thereafter | **-** | - |
| Total commitments under non-cancellable operating leases | **$1,110** | $1,087 |

The operating lease payments recognized in the consolidated statement of income for the year ended December 31, 2013 were $1,064 (2012 - $814).

## 15. Contingent Liabilities

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

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

## 16. Financial Instruments

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

### Credit Risk

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

EnerCare's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. For less than 10% of its Rentals portfolio, EnerCare is exposed to credit risk in the normal course of business for customers who are billed by DE or are billed by Enbridge outside their service territory. For accounts receivable from customers billed on Enbridge invoices within their service territory, EnerCare is guaranteed payment by Enbridge 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 Enbridge.

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.

A provision for all amounts at risk of collection and impaired has been made in the consolidated financial statements.

### 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 Revolver and Term Loan 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 December 31, 2013.

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

| Period | Principal Payments | Interest Payments |
|---|---|---|
| Due in 2014 | $ 1,213 | $ 23,162 |
| Due in 2015 | 1,258 | 23,061 |
| Due in 2016 | 60,992 | 21,591 |
| Due in 2017 | 254,696 | 21,269 |
| Due in 2018 | 126 | 10,359 |
| Thereafter | 225,081 | 15,535 |
| Total | $543,366 | $114,977 |

**Market Risk**

Fair Value

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

Fair value measurements are determined 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's financial assets and liabilities at December 31, 2013 and 2012. The estimated fair values of the financial instruments are at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

| As at December 31, | **Carrying Value** | **2013 Fair Value** | Carrying Value | 2012 Fair Value |
|---|---|---|---|---|
| Cash and cash equivalents | **$ 25,940** | **$ 25,940** | $ 12,626 | $ 12,626 |
| Accounts receivable | **38,086** | **38,086** | 41,302 | 41,302 |
| Total financial assets | **$ 64,026** | **$ 64,026** | $ 53,928 | $ 53,928 |
| Financial liabilities measured at amortized cost: | | | | |
| Gross senior borrowings | **$535,000** | **$548,110** | $520,000 | $537,274 |
| Gross convertible debentures | **4,081** | **6,183** | 6,760 | 8,519 |
| Stratacon debt | **4,285** | **4,285** | 5,571 | 5,571 |
| Total borrowings | **543,366** | **558,578** | 532,331 | 551,364 |
| Accounts and other payables | **50,034** | **50,034** | 45,158 | 45,158 |
| Total financial liabilities | **$593,400** | **$608,612** | $577,489 | $596,522 |

Financial assets and liabilities recorded at fair value are classified as Level 2 financial instruments, except gross senior borrowings and gross convertible debentures which are classified as Level 1, and the Stratacon debt which is unobservable.

## 17. Capital Risk Management

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

EnerCare was in compliance with all covenants under the 2012 Notes, 2013 Notes, Revolver and Term Loan as at December 31, 2013.

## 18. Other Income

During 2013, EnerCare realized settlements from DE of $4,447, including income of approximately $2,769 on account of water heater installation costs, billing and collection deficiencies and third-party claims, and $1,678 on account of billing and collection in respect of water heater buyouts. Other income in 2012 includes $855 representing the reversal of the liability in respect of the third and final earn out payable to the former principals of Stratacon, $1,500 on account of a settlement reached by EnerCare and DE on account of billing disputes for water heater installation costs, approximately $200 from DE on account of billing shortfalls and a reduction of $600 related to reversal of billed amounts from Enbridge following the billing conversion.

## 19. Selling, General and Administrative

| For the year ended December 31, | **2013** | 2012 |
|---|---|---|
| Employee compensation and benefits | **$15,502** | $12,969 |
| Professional fees | **4,564** | 6,285 |
| Selling, office and other | **5,046** | 7,850 |
| Billing and servicing | **9,805** | 9,668 |
| Claims and bad debt | **9,055** | 6,851 |
| Total | **$43,972** | $43,623 |

## 20. 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 as at December 31, 2013.

| For the year ended December 31, | **2013** | 2012 |
|---|---|---|
| Opening balance: | **$ 726** | $1,592 |
| Charged/(credited) to the consolidated statement of income: | | |
| Additional provision | **3,395** | 3,503 |
| Reversals | **-** | (876) |
| Claims spending during the year | **(2,934)** | (3,493) |
| Ending balance | **$1,187** | $ 726 |

All claims generated during the periods ended are typically paid out within 12 months, therefore the provisions have not been discounted.

## 21. Changes in Working Capital

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

| For the year ended December 31, | **2013** | 2012 |
|---|---|---|
| Accounts receivable | **$3,216** | $ (8,831) |
| Prepaid and other assets | **834** | 230 |
| Accounts payable and accrued liabilities | **3,459** | (2,346) |
| Provisions | **461** | (866) |
| Interest payable | **816** | (3,679) |
| Total | **$8,786** | $(15,492) |

## 22. 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:

| For the year ended December 31, | **2013** | 2012 |
|---|---|---|
| Salaries and short-term benefits | **$2,492** | $2,906 |
| Other employment benefits | **87** | 66 |
| Long term benefits | **1,991** | 1,046 |
| Total | **$4,570** | $4,018 |

***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. 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:

| For the year ended December 31, | **2013** | 2012 |
|---|---|---|
| Origination agreement: | | |
| Capital expenditures | **$54,759** | $49,089 |
| GreenSource acquisition | **-** | 1,944 |
| Inventory service fee | **3,521** | 3,150 |
| Other capital expenditures | **11,234** | 5,418 |
| Other expenses, including billing and servicing costs | **2,956** | 2,850 |
| Total | **$72,470** | $62,451 |

On February 29, 2012, EnerCare Solutions acquired approximately 3,421 water heaters and HVAC equipment from GreenSource Capital Inc., a subsidiary of DE.

## 23. Compensation Plans

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

Cash Based Payment Plans

The PSUP awards phantom shares to management in consideration for past services provided, support achievement of EnerCare’s performance objectives; align interests of key persons with the success of EnerCare, and to retain management. These phantom shares vest equally over a three year period, and are based on the achievement of certain service and/or performance criteria, and are non-forfeitable. Dividends on the phantom shares accrue at the same rates as dividends on the shares.

EnerCare adopted the DSUP effective January 1, 2011 for non-employee directors to assist EnerCare to promote a greater alignment of interests between the directors and the shareholders, provide a compensation system for the directors that is reflective of the responsibility, commitment and risk accompanying board membership; assist EnerCare to attract and retain individuals with experience and ability to serve as members of the board; and allow the directors to participate in the long-term success of EnerCare. Pursuant to the DSUP, directors will receive 50% of their fees in the form of deferred share units until the director has met the director’s share ownership requirements. Directors may also elect once each calendar year to receive any portion of their fees in the form of deferred share units for the year, such election can be changed on a quarterly basis. A director’s entitlement under the DSUP may be redeemed only when the director ceases to be a director and must be redeemed no later than the end of the calendar year following the date the director ceases to be a director. Dividends on these deferred shares accrue at the same rates as dividends on the shares.

Share Based Payment Plans

Effective January 1, 2011, EnerCare implemented a stock option plan for officers of EnerCare. The purpose of the plan is to support the achievement of the corporation's objectives, align officer interests with the success of the corporation and provide compensation opportunities to attract retain and motivate key management employees. Options must be exercised within 8 years after the grant date with vesting equally over the first 3 years. All vested options must be exercised within 2 years, 1 year or 90 days of the termination date in respect of retirement/disability, death and termination, respectively. Options are settled through the issuance of treasury shares for the strike price consideration.

The fair value of the options at the date of grant was determined using the Black-Scholes option pricing model giving consideration to the terms of the plan and EnerCare's performance. The significant variables included in the model were as follows:

- An expected option life of approximately 5.5 years;
- A risk free rate based upon Government of Canada bonds corresponding to the expected option life;
- Stock prices based upon the daily close for the past 36 months resulting in a 33% volatility measure; and
- Dividend yield was based on historical levels preceding the date of grant.

The weighted average remaining contractual life is approximately 6.24 years.

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

| | PSUP | | DSUP | | SOP | |
|---|---|---|---|---|---|---|
| (in thousands except price) | # | $ | # | $ | # | $ |
| At January 1, 2013 | 338 | 8.27 | 172 | 8.27 | 390 | 7.12 |
| Granted | 94 | 8.27 | 23 | 8.27 | 427 | 8.92 |
| Director's optional purchases | - | - | 19 | 9.36 | - | - |
| Phantom dividends | 21 | - | 13 | - | - | - |
| Performance objective modifier | 25 | - | - | - | - | - |
| Forfeited | (16) | - | - | - | - | - |
| Exercised | (137) | 8.27 | (39) | 8.27 | - | - |
| Expired | - | - | - | - | - | - |
| At December 31, 2013 | 325 | 9.94 | 188 | 9.94 | 817 | 8.06 |
| Expensed in the period | - | 1,663 | - | 451 | - | 209 |
| Liabilities payable | - | 2,120 | - | 1,595 | - | - |

| (in thousands except price) | PSUP # | PSUP $ | DSUP # | DSUP $ | SOP # | SOP $ |
|---|---|---|---|---|---|---|
| At January 1, 2012 | 216 | 9.39 | 95 | 9.39 | 443 | 7.12 |
| Granted | 128 | 9.39 | 29 | 9.39 | - | - |
| Director's optional purchases | - | - | 37 | 8.97 | - | - |
| Phantom dividends | 32 | - | 11 | - | - | - |
| Performance objective modifier | (25) | | | | | |
| Forfeited | (13) | - | - | - | (36) | 7.07 |
| Exercised | - | - | - | - | (17) | 7.07 |
| Expired | - | - | - | - | - | - |
| At December 31, 2012 | 338 | 8.27 | 172 | 8.27 | 390 | 7.12 |
| Expensed in the period | - | 821 | - | 573 | - | 79 |
| Liabilities payable | - | 1,893 | - | 1,158 | - | - |

Price per share is the average price per share at the close of market on the day preceding the last trading day of the month or the five day weighted dollar volume average immediately preceding the last trading day of the month as applicable to the terms of the plans.

## 24. Segment Information

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

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

The Rentals segment consists of a portfolio of approximately 1.1 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 sales 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:

| | December 31, 2013 | | | | December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Segment Data | **Rentals** | **Sub-Metering** | **Corporate and other** | **Total** | Rentals | Sub-Metering | Corporate and other | Total |
| Total revenue | **$189,438** | **$109,338** | **$ -** | **$298,776** | $186,288 | $88,833 | $ - | $275,121 |
| Expenses: | | | | | | | | |
| Commodity | **-** | **(90,671)** | **-** | **(90,671)** | - | (71,044) | - | (71,044) |
| SG&A | **(15,211)** | **(13,943)** | **(14,818)** | **(43,972)** | (15,474) | (12,007) | (16,142) | (43,623) |
| Loss on disposal | **(11,640)** | **-** | **-** | **(11,640)** | (15,148) | | | (15,148) |
| EBITDA[1] | **162,587** | **4,724** | **(14,818)** | **152,493** | 155,666 | 5,782 | (16,142) | 145,306 |
| Amortization | **(94,100)** | **(3,993)** | **(1,627)** | **(99,720)** | (97,385) | (3,165) | (1,072) | (101,622) |
| Interest income | | | | **373** | | | | 457 |
| Interest expense | | | | **(44,973)** | | | | (40,759) |
| Other income | **4,447** | **-** | **-** | **4,447** | 1,138 | 855 | - | 1,993 |
| Current taxes | | | | **(21,852)** | | | | (14,548) |
| Deferred tax recovery | | | | **18,050** | | | | 5,998 |
| Net earnings | | | | **8,818** | | | | (3,175) |
| | | | | | | | | |
| Adjusted EBITDA[1,2] | **178,674** | **4,724** | **(14,818)** | **168,580** | 171,952 | 6,637 | (16,142) | 162,447 |
| | | | | | | | | |
| Segment assets | **669,323** | **76,785** | **32,772** | **778,880** | 709,416 | 75,276 | 19,874 | 804,566 |
| Equipment additions | **$ 68,746** | **$10,307** | **$ 1,093** | **$ 80,146** | $ 57,885 | $ 8,802 | $ 4,138 | $ 70,825 |

(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 are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operation of the segment.

## 25. Subsequent Events

In February 2014, EnerCare, through a subsidiary of EnerCare Solutions, acquired the rental portfolio of Energy Services Niagara Inc. ("ESN"), comprised of approximately 2,441 electric and gas-fired water heaters for cash consideration of $3,002 subject to post-closing adjustments. In connection with the acquisition, ESN and EnerCare entered into a transitional agreement, as well as an assignment, assumption and consent agreement with Enbridge in respect of the ESN open bill access agreement ("OBA"). At the time of acquisition, approximately 97% of ESN's customers were billed through the OBA. The rental revenue from the ESN water heaters are not subject to the co-ownership agreement.