EnerCare Inc.

Condensed Interim Consolidated Financial Statements

First Quarter ended March 31, 2014

Dated May 9, 2014

EnerCare Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)		(unaudited) **March 31, 2014**		December 31, 2013
Assets				
Current assets				
Cash and cash equivalents (note 4)	**$**	**14,025**	$	25,940
Accounts receivable (note 5)		**43,945**		38,086
Prepaid and other assets		**2,674**		2,526
		60,644		66,552
Capital assets (note 7)		**470,971**		466,759
Intangible assets (note 8)		**228,199**		238,029
Goodwill		**2,962**		2,962
Deferred tax asset		**3,664**		4,578
	$	**766,440**	$	778,880
Liabilities				
Current liabilities				
Current portion of long-term debt (note 9)	**$**	**1,232**	$	1,213
Accounts payable and accrued liabilities (note 6)		**35,452**		40,414
Provisions (note 19)		**1,254**		1,187
Interest payable		**5,209**		5,044
Dividends payable (note 12)		**3,532**		3,389
		46,679		51,247
Long-term debt (note 9)		**535,029**		535,193
Convertible debentures (note 9)		**3,655**		3,914
Deferred tax liability		**112,795**		117,230
		698,158		707,584
Shareholders' equity				
Share capital (note 10)		**523,959**		523,676
Contributed surplus		**864**		863
Accumulated other comprehensive loss		**-**		-
Deficit		**(456,541)**		(453,243)
		68,282		71,296
	$	**766,440**	$	778,880

Commitments and contingent liabilities are found in notes 13 and 14 respectively.

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 March 31, 2014	2013
Revenues		
Rentals and services	$ **82,188**	$ 74,042
Investment income	**37**	268
Total revenues	**82,225**	74,310
Expenses		
Commodity charges	**28,359**	22,151
Selling, general & administrative (note 18)	**11,220**	10,462
Amortization		
Capital assets (note 7)	**12,871**	12,699
Intangibles (note 8)	**11,635**	11,657
Loss on disposal of equipment	**3,004**	2,892
Interest		
Short-term	**386**	363
Make-whole charge on early redemption of debt (note 9)	**-**	13,754
Long-term	**5,586**	12,856
Total expenses	**73,061**	86,834
Other income (note 17)	**408**	-
Earnings/(loss) for the period before income taxes	**9,572**	(12,524)
Tax expense		
Current tax expense	**6,079**	5,588
Deferred income tax (recovery)	**(3,521)**	(7,724)
Total tax expense/(recovery)	**2,558**	(2,136)
Net earnings/(loss) for the period	$ **7,014**	$ (10,388)
Weighted average number of shares outstanding (notes 10, 11)	**58,449**	58,040
Diluted shares outstanding (notes 10, 11)	**59,195**	59,060
Basic/diluted earnings/(loss) per share (note 11)	$ **0.12**	$ (0.18)

EnerCare Inc.
Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of Cdn $)	Three months ended March 31, 2014	2013
Net earnings/(loss) for the period	$ **7,014**	$ (10,388)
Reclassification of cash flow hedge loss to earnings/(loss)	**-**	4,023
Comprehensive income/(loss) for the period	$ **7,014**	$ (6,365)

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 March 31,	
(in thousands of Cdn $)	**2014**	2013
Share Capital		
Balance - beginning of period	**$ 523,676**	$ 520,997
Shares issued on debenture conversion (net of issue costs) (notes 9, 10)	**283**	550
Share Capital - end of period	**523,959**	521,547
Contributed Surplus		
Balance - beginning of period	**863**	785
Shares issued on debenture conversion (net of issue costs) (notes 9, 10)	**(12)**	(29)
Employee share options:		
Value of services recognized	**13**	56
Contributed Surplus - end of period	**864**	812
Accumulated Other Comprehensive Loss		
Balance - beginning of period	**-**	(4,023)
Reclassification of cash flow hedge loss to earnings/(loss)	**-**	4,023
Accumulated Other Comprehensive Loss - end of period	**-**	-
Deficit		
Balance - beginning of period	**(453,243)**	(422,122)
Net earnings/(loss) for the period	**7,014**	(10,388)
Dividends	**(10,312)**	(9,813)
Deficit - end of period	**(456,541)**	(442,323)
Shareholders' equity - end of period	**$ 68,282**	$ 80,036

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 March 31,	
(in thousands of Cdn $)	**2014**	2013
Cash provided by/(used in):		
Operating activities		
Net earnings/(loss) for the period	**$ 7,014**	$ (10,388)
Items not affecting cash		
Amortization		
Capital assets (note 7)	**12,871**	12,699
Intangibles (note 8)	**11,635**	11,657
Loss on disposal of equipment	**3,004**	2,892
Non-cash interest expense	**164**	4,925
Employee share options	**13**	56
Deferred income tax (recovery)	**(3,521)**	(7,724)
Operating cash flow	**31,180**	14,117
Net change in non-cash working capital (note 20)	**(10,737)**	(5,026)
Cash provided by operating activities	**20,443**	9,091
Investing activities		
Purchase of capital assets (note 7)	**(20,027)**	(19,092)
Acquisition of capital assets and intangibles (note 24)	**(3,035)**	-
Proceeds from disposal of equipment - warranty recoveries	**456**	411
Proceeds from disposal of equipment - buyout receipts	**714**	506
Cash used in investing activities	**(21,892)**	(18,175)
Financing activities		
Dividends to shareholders	**(10,169)**	(9,751)
Proceeds from revolving line of credit	**-**	2,000
Proceeds from issuance of long-term debt	**-**	285,000
Repayment of long-term debt	**(297)**	(270,294)
Deferred financing costs on long-term debt	**-**	(1,532)
Cash used in/(provided by) financing activities	**(10,466)**	5,423
Decrease in cash and cash equivalents	**(11,915)**	(3,661)
Cash and cash equivalents - beginning of period	**25,940**	12,626
Cash and cash equivalents - end of period	**$ 14,025**	$ 8,965
Supplementary information		
Interest paid	**$ 5,643**	$ 20,723
Income taxes paid	**$ 12,188**	$ 9,893

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 the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013. 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.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 9, 2014, the date the board of directors approved these condensed interim consolidated financial statements. The board of directors also has the authority to amend these condensed interim consolidated financial statements after they have been issued.

Basis of Measurement

These 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 these condensed interim consolidated financial statements. Management applies judgment 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.

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.

Over the past two years, DE and EnerCare have reached settlements in respect of billing and collection matters and installation costs. During the first quarter of 2014, EnerCare realized a settlement of $408 from DE on account of the reclassification of certain water heaters under the co-ownership agreement to EnerCare's owned portfolio, originally associated with the Toronto Hydro Energy Services Inc. portfolio acquisition. These amounts were recorded as other income.

While EnerCare continues to work with DE in respect of outstanding billing and collection matters, EnerCare has not provided for any additional settlements that may materialize as they are not determinable.

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 first half of 2013, EnerCare reduced the backlog of non-billing customer accounts in a number of areas such that the total revenue accruals at March 31, 2013 were $13,000. At March 31, 2014, EnerCare recorded a revenue accrual of approximately $12,200, 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 accounts receivable provision in light of the completion of the billing backlog and collection results and increased the bad debt expense by $2,046 in the fourth quarter of 2013, resulting in a bad debt expense of $3,246 for 2013. For the first quarter of 2014, the accounts receivable provision increased by approximately $300 compared to an increase of approximately $500 in the first quarter of 2013.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those policies in effect at December 31, 2013.

Accounting Standards Issued But Not Yet Applied

IFRS 9, Financial Instruments, was issued in November 2009 and further amended in October 2010 and November 2013. 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. IFRS 9 was amended to (i) include guidance on hedge accounting; (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income (without having to adopt the remainder of IFRS 9); and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption. EnerCare has not yet assessed the impact of the standard and will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

4. Cash and Cash Equivalents

	March 31, 2014	December 31, 2013
Cash at bank	**$14,025**	$25,940
Ending balance	**$14,025**	$25,940

5. Accounts Receivable

	March 31, 2014	December 31, 2013
Accounts receivable (net of provision)	**$43,945**	$38,086
Bad and doubtful debt provision:		
Opening balance	**$ 7,025**	$ 3,100
Charge for the period	**390**	3,925
Provision ending balance	**$ 7,415**	$ 7,025

6. Accounts Payable and Accrued Liabilities

	March 31, 2014	December 31, 2013
Accounts payable	**$11,780**	$10,762
Accruals	**16,619**	16,821
Compensation payable	**3,715**	3,715
Current taxes payable	**-**	6,109
Other payables	**3,338**	3,007
Ending balance	**$35,452**	$40,414

7. Capital Assets

As at March 31, 2014	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	$ 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**
Additions	$ 17,712	$ 2,289	$ 26	$ 20,027
Loss on disposal before proceeds	(4,174)	-	-	(4,174)
Acquisition (note 24)	1,230	-	-	1,230
Depreciation for the period	(11,371)	(1,089)	(411)	(12,871)
At March 31, 2014	$419,108	$45,416	$ 6,447	$470,971
At March 31, 2014:				
Cost	$818,726	$62,345	$10,099	$891,170
Accumulated depreciation	(399,618)	(16,929)	(3,652)	(420,199)
Net book value	**$419,108**	**$45,416**	**$ 6,447**	**$470,971**

8. Intangible Assets

As at March 31, 2014	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 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**
Acquisition (note 24)	$ 1,805	$ -	$ 1,805
Amortization for the period	(11,612)	(23)	(11,635)
At March 31, 2014	$227,029	$ 1,170	$228,199
At March 31, 2014:			
Cost	$745,141	$33,270	$778,411
Accumulated depreciation	(518,112)	(32,100)	(550,212)
Net book value	**$227,029**	**$ 1,170**	**$228,199**

9. Debt

Bank indebtedness, current and long term debts:

	March 31, 2014	December 31, 2013
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	**$ 1,213**	$ 1,198
Repayment of debt	**(297)**	(1,198)
Current portion of Stratacon debt	**316**	1,213
Total current portion of long term debt	**$ 1,232**	$ 1,213
Non-current portion of long term debt:		
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)
Opening balance January 1	**$535,193**	$521,881
Current portion of Stratacon debt	**(316)**	(1,213)
Repayment of debt	**-**	(270,088)
Issuance of debt	**-**	285,000
Additional deferred financing costs	**-**	(1,733)
Amortization of deferred financing costs	**152**	1,346
Total non-current portion	**$535,029**	$535,193
Senior debt principal amount	**$535,000**	$535,000
Stratacon debt principal amount	**2,756**	3,072
Unamortized financing costs and interest accretion	**(2,727)**	(2,879)
Total non-current portion of long term debt	**$535,029**	$535,193

EnerCare Solutions' revolving credit facility (the "Revolver"), which matures on July 6, 2014, 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 March 31, 2014, EnerCare Solutions complied with these covenants and was able to fully utilize the Revolver limit of $35,000. As at March 31, 2014, 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 $3,988 as at March 31, 2014 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:

	March 31, 2014	December 31, 2013
Convertible Debentures:		
Opening principal	**$4,081**	$6,760
Net deferred financing costs	**(167)**	(364)
Opening balance at January 1:	**$3,914**	$6,396
Principal conversions	**$ (283)**	$(2,679)
Transfer of financing costs to equity upon conversion	**12**	131
Amortization of financing costs to expense	**12**	66
Ending balance	**$3,655**	$3,914
Principal balance	**$3,798**	$4,081
Net deferred financing costs	**(143)**	(167)
Ending balance	**$3,655**	$3,914

From April 1, 2014 to May 7, 2014, approximately $64 principal amount of additional convertible debentures were converted to shares.

10. Share Capital

	March 31, 2014		December 31, 2013	
Shares Issued and Outstanding	**Shares**	**Net Proceeds**	Shares	Net Proceeds
Opening balance at January 1:	**58,425**	**$523,676**	58,012	$520,997
Issued:				
Principal conversion of debentures	**44**	**283**	413	2,679
Transfer of financing costs to equity	**-**	**(12)**	-	(131)
Transfer from contributed surplus	**-**	**12**	-	131
Totals	**58,469**	**$523,959**	58,425	$523,676

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 March 31, 2014, 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 March 31, (in thousands – except per share amounts)	**2014**	2013
Net earnings/(loss)	**$ 7,014**	$(10,388)
After tax impact of convertible debentures	**53**	90
Fully diluted net earnings/(loss)	**7,067**	(10,298)
Weighted average shares outstanding	**58,449**	58,040
Dilutive impact of convertible debentures and stock options	**746**	1,020
Fully diluted shares outstanding	**59,195**	59,060
Basic/diluted earnings/(loss) per share	**$ 0.12**	$ (0.18)

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 March 31,	**2014**	2013
Dividends declared per share during the period	**$ 0.176**	$ 0.169
Dividends declared after March 31,		
April		
Dollars	**$ 3,532**	$ 3,311
Shares	**58,478**	58,096
Per share/unit amount	**$ 0.0604**	$ 0.057

The total amount of dividends declared after March 31, 2014 are estimated above and are subject to change dependent upon the actual debenture conversions throughout the period, 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	March 31, 2014
Due in 2014	**$ 198**
Due in 2015	**379**
Due in 2016	**397**
Due in 2017	**70**
Due in 2018	**-**
Thereafter	**-**
Total commitments under non-cancellable operating leases	**$1,044**

The operating lease payments recognized in the condensed interim consolidated statement of income for the quarter ended March 31, 2014 were $293 (2013 - $317).

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 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 99.56% 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 these condensed interim 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 March 31, 2014.

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	$ 917	$ 17,508
Due in 2015	1,258	23,043
Due in 2016	60,992	21,573
Due in 2017	254,413	21,269
Due in 2018	126	10,360
Thereafter	225,080	15,536
Total	$542,786	$109,289

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 March 31, 2014 and December 31, 2013. 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.

	March 31, 2014		December 31, 2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 14,025**	**$ 14,025**	$ 25,940	$ 25,940
Accounts receivable	**43,945**	**43,945**	38,086	38,086
Total financial assets	**$ 57,970**	**$ 57,970**	$ 64,026	$ 64,026
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$535,000**	**$558,055**	$535,000	$548,110
Gross convertible debentures	**3,798**	**6,620**	4,081	6,183
Stratacon debt	**3,988**	**3,988**	4,285	4,285
Total borrowings	**$542,786**	**$568,663**	$543,366	$558,578
Accounts and other payables	**45,447**	**45,447**	50,034	50,034
Total financial liabilities	**$588,233**	**$614,110**	$593,400	$608,612

Fair values of all financial assets and liabilities 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.

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 March 31, 2014.

17. Other Income

During the first quarter of 2014, EnerCare realized a settlement of $408 from DE on account of the reclassification of certain water heaters under the co-ownership agreement to EnerCare's owned portfolio, originally associated with the Toronto Hydro Energy Services Inc. portfolio acquisition.

18. Selling, General and Administrative

Three months ended March 31,	**2014**	2013
Employee compensation and benefits	**$ 4,596**	$ 3,636
Professional fees	**1,371**	1,054
Selling, office and other	**949**	1,630
Billing and servicing	**2,480**	2,358
Claims and bad debt	**1,824**	1,784
Total	**$11,220**	$10,462

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 as at March 31, 2014.

Three months ended March 31,	**2014**	2013
Opening balance:	**$1,187**	$726
Charged/(credited) to the condensed interim consolidated statement of income:		
Additional provision	**803**	827
Reversals	**-**	(80)
Claims spending during the period	**(736)**	(817)
Ending balance	**$1,254**	$656

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

20. Changes in Working Capital

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

Three months ended March 31,	**2014**	2013
Accounts receivable	**$ (5,859)**	$(5,345)
Prepaid and other assets	**(148)**	(49)
Accounts payable and accrued liabilities	**(4,962)**	(887)
Provisions	**67**	(70)
Interest payable	**165**	1,325
Total	**$(10,737)**	$(5,026)

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 March 31,	**2014**	2013
Salaries and short-term benefits	**$724**	$516
Other employment benefits	**37**	32
Long term benefits	**372**	366
Total	**$1,133**	$914

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:

Three months ended March 31,	**2014**	2013
Origination agreement:		
Capital expenditures	**$12,429**	$12,810
Inventory service fee	**794**	841
Other capital expenditures	**4,639**	1,517
Other expenses, including billing and servicing costs	**841**	702
Total	**$18,703**	$15,870

22. 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;
- Volatility of 20%; and
- Dividend yield was based on historical levels preceding the date of grant.

The weighted average remaining contractual life is approximately 6.6 years.

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

2014	PSUP		DSUP		SOP	
(in thousands except price)	#	$	#	$	#	$
At January 1, 2014	325	9.94	188	9.94	817	8.06
Granted	86	9.94	35	9.94	379	10.71
Director's optional purchases	-	-	4	11.15	-	-
Phantom dividends	5	-	4	-	-	-
Performance objective modifier	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Exercised	(86)	9.94	-	-	-	-
Expired	-	-	-	-	-	-
At March 31, 2014	330	11.15	231	11.15	1,196	8.90
Expensed in the period	-	503	-	356	-	13
Liabilities payable	-	1,764	-	1,951	-	-

2013	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	-	-

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.

23. 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:

	Three months ended March 31, 2014				Three months ended March 31, 2013			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate and Other**	**Total**	Rentals	Sub-Metering	Corporate and Other	Total
Total revenue	**$ 48,636**	**$ 33,552**	**$ -**	**$ 82,188**	$ 47,082	$ 26,960	$ -	$ 74,042
Expenses:								
Commodity	**-**	**(28,359)**	**-**	**(28,359)**	-	(22,151)	-	(22,151)
SG&A	**(3,450)**	**(3,731)**	**(4,039)**	**(11,220)**	(3,817)	(3,284)	(3,361)	(10,462)
Loss on disposal	**(3,004)**	**-**	**-**	**(3,004)**	(2,892)	-	-	(2,892)
EBITDA[1]	**42,182**	**1,462**	**(4,039)**	**39,605**	40,373	1,525	(3,361)	38,537
Amortization	**(23,006)**	**(1,089)**	**(411)**	**(24,506)**	(23,163)	(856)	(337)	(24,356)
Investment income				**37**				268
Interest expense				**(5,972)**				(26,973)
Other income	**408**	**-**	**-**	**408**	-	-	-	-
Current taxes				**(6,079)**				(5,588)
Deferred tax recovery				**3,521**				7,724
Net earnings				**7,014**				(10,388)
Adjusted EBITDA[1,2]	**45,594**	**1,462**	**(4,039)**	**43,017**	43,265	1,525	(3,361)	41,429
Segment assets	**666,389**	**79,579**	**20,472**	**766,440**	706,555	80,259	16,416	803,230
Equipment additions	**$ 17,712**	**$ 2,289**	**$ 26**	**$ 20,027**	$ 14,876	$ 3,794	$ 422	$ 19,092

(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 these condensed interim consolidated financial statements. These assets are allocated based on the operation of the segment. Equipment additions exclude any acquisition amounts.

24. Acquisition of Capital Assets and Intangibles

In February 2014, EnerCare, through a subsidiary of EnerCare Solutions, acquired the rental portfolio of Energy Services Niagara Inc. ("ESN"), comprised of approximately 2,468 electric and gas-fired water heaters for cash consideration of $3,035, plus inventory of $38. The completion of the purchase price allocation resulted in a fair value of approximately $1,230 for the electric and gas-fired water heaters and a customer relationship intangible value of $1,805. 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.