EnerCare Inc.

EnerCare Inc.

Condensed Interim Consolidated Financial Statements

Second Quarter ended June 30, 2014

Dated August 13, 2014

EnerCare Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)		(unaudited) June 30, 2014		December 31, 2013
Assets				
Current assets				
Cash and cash equivalents (note 4)	**$**	**20,106**	$	25,940
Accounts receivable (note 5)		**38,491**		38,086
Prepaid and other assets		**2,839**		2,526
		61,436		66,552
Capital assets (note 7)		**474,390**		466,759
Intangible assets (note 8)		**216,536**		238,029
Goodwill		**2,962**		2,962
Deferred tax asset		**3,240**		4,578
	$	**758,564**	$	778,880
Liabilities				
Current liabilities				
Current portion of long-term debt (note 9)	**$**	**1,246**	$	1,213
Accounts payable and accrued liabilities (note 6)		**35,264**		40,414
Provisions (note 19)		**1,202**		1,187
Interest payable		**5,046**		5,044
Dividends payable (note 12)		**3,534**		3,389
		46,292		51,247
Long-term debt (note 9)		**534,867**		535,193
Convertible debentures (note 9)		**3,380**		3,914
Deferred tax liability		**108,561**		117,230
		693,100		707,584
Shareholders' equity				
Share capital (note 10)		**524,256**		523,676
Contributed surplus		**892**		863
Deficit		**(459,684)**		(453,243)
		65,464		71,296
	$	**758,564**	$	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 $, except per share amounts)	Three months ended June 30, **2014**	 2013	Six months ended June 30, **2014**	 2013
Revenues				
Rentals and services	**$ 73,967**	$ 71,555	**$ 156,155**	$ 145,597
Investment income	**80**	49	**117**	317
Total revenues	**74,047**	71,604	**156,272**	145,914
Expenses				
Commodity charges	**19,570**	20,037	**47,929**	42,188
Selling, general & administrative (note 18)	**11,291**	11,043	**22,511**	21,505
Amortization				
Capital assets (note 7)	**13,207**	12,691	**26,078**	25,390
Intangibles (note 8)	**11,663**	11,653	**23,298**	23,310
Loss on disposal of equipment	**2,371**	3,449	**5,375**	6,341
Interest				
Interest on debt	**5,963**	5,976	**11,935**	19,195
Make-whole charge on early redemption of debt (note 9)	**-**	-	**-**	13,754
Total expenses	**64,065**	64,849	**137,126**	151,683
Other income (note 17)	**-**	1,678	**408**	1,678
Earnings/(loss) for the period before income taxes	**9,982**	8,433	**19,554**	(4,091)
Tax expense				
Current tax expense	**6,335**	4,591	**12,414**	10,179
Deferred income tax (recovery)	**(3,810)**	(3,640)	**(7,331)**	(11,364)
Total tax expense/(recovery)	**2,525**	951	**5,083**	(1,185)
Net earnings/(loss) for the period	**$ 7,457**	$ 7,482	**$ 14,471**	$ (2,906)
Weighted average number of shares outstanding (note 11)	**58,486**	58,137	**58,467**	58,089
Diluted shares outstanding (note 11)	**59,281**	59,109	**59,217**	59,040
Basic/diluted earnings/(loss) per share (note 11)	**$ 0.13**	$ 0.13	**$ 0.25**	$ (0.05)

EnerCare Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of Cdn $)	Three months ended June 30, **2014**	 2013	Six months ended June 30, **2014**	 2013
Net earnings/(loss) for the period	**$ 7,457**	$ 7,482	**$ 14,471**	$ (2,906)
Reclassification of cash flow hedge loss to earnings/(loss)	**-**	-	**-**	4,023
Comprehensive income for the period	**$ 7,457**	$ 7,482	**$ 14,471**	$ 1,117

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

EnerCare Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(in thousands of Cdn $)	**2014**	2013	**2014**	2013
Share Capital				
Balance - beginning of period	**$ 523,959**	$ 521,547	**$ 523,676**	$ 520,997
Shares issued on debenture conversion (net of issue costs) (notes 9, 10)	**297**	594	**580**	1,144
Share Capital - end of period	**524,256**	522,141	**524,256**	522,141
Contributed Surplus				
Balance - beginning of period	**864**	812	**863**	785
Shares issued on debenture conversion (net of issue costs) (notes 9, 10)	**(11)**	(30)	**(23)**	(59)
Employee share options:				
Value of services recognized	**39**	46	**52**	102
Contributed Surplus - end of period	**892**	828	**892**	828
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	**(456,541)**	(442,323)	**(453,243)**	(422,122)
Net earnings/(loss) for the period	**7,457**	7,482	**14,471**	(2,906)
Dividends	**(10,600)**	(9,945)	**(20,912)**	(19,758)
Deficit - end of period	**(459,684)**	(444,786)	**(459,684)**	(444,786)
Shareholders' equity - end of period	**$ 65,464**	$ 78,183	**$ 65,464**	$ 78,183

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

EnerCare Inc.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(in thousands of Cdn $)	**2014**	2013	**2014**	2013
Cash provided by/(used in):				
Operating activities				
Net earnings/(loss) for the period	**$ 7,457**	$ 7,482	**$ 14,471**	$ (2,906)
Items not affecting cash				
Amortization				
Capital assets (note 7)	**13,207**	12,691	**26,078**	25,390
Intangibles (note 8)	**11,663**	11,653	**23,298**	23,310
Loss on disposal of equipment	**2,371**	3,449	**5,375**	6,341
Non-cash interest expense	**164**	171	**328**	5,096
Employee share options	**39**	46	**52**	102
Deferred income tax (recovery)	**(3,810)**	(3,640)	**(7,331)**	(11,364)
Operating cash flow	**31,091**	31,852	**62,271**	45,969
Net change in non-cash working capital (note 20)	**4,886**	1,906	**(5,851)**	(3,120)
Cash provided by operating activities	**35,977**	33,758	**56,420**	42,849
Investing activities				
Purchase of capital assets (note 7)	**(20,386)**	(19,688)	**(40,413)**	(38,780)
Acquisition of capital assets and intangibles (note 23)	**-**	-	**(3,035)**	-
Proceeds from disposal of equipment - warranty recoveries	**604**	416	**1,060**	827
Proceeds from disposal of equipment - buyout receipts	**785**	565	**1,499**	1,071
Cash used in investing activities	**(18,997)**	(18,707)	**(40,889)**	(36,882)
Financing activities				
Dividends to shareholders	**(10,598)**	(9,939)	**(20,767)**	(19,690)
Proceeds from revolving line of credit	**-**	-	**-**	2,000
Proceeds from issuance of long-term debt	**-**	-	**-**	285,000
Repayment of revolving line of credit	**-**	(2,000)	**-**	(2,000)
Repayment of long-term debt	**(301)**	(406)	**(598)**	(270,700)
Deferred financing costs on long-term debt	**-**	(129)	**-**	(1,661)
Cash used in financing activities	**(10,899)**	(12,474)	**(21,365)**	(7,051)
Increase/(decrease) in cash and cash equivalents	**6,081**	2,577	**(5,834)**	(1,084)
Cash and cash equivalents - beginning of period	**14,025**	8,965	**25,940**	12,626
Cash and cash equivalents - end of period	**$ 20,106**	$ 11,542	**$ 20,106**	$ 11,542
Supplementary information				
Interest paid	**$ 5,962**	$ 6,125	**$ 11,605**	$ 26,848
Income taxes paid	**$ 5,488**	$ 5,239	**$ 18,912**	$ 15,132

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 August 13, 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 June 30, 2013 were $12,300. At June 30, 2014, EnerCare recorded a revenue accrual of approximately $8,700, reflecting accrued service periods, increases in billable units and lower 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. To June 30, 2014, the accounts receivable provision increased by approximately $500, which was consistent with the increase in the same period in 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

The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. EnerCare has neither assessed the full impact of IFRS 9 nor determined when it will adopt the new standard.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, covering the principles that an entity shall apply to report additional information in financial statements about the amount, nature, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The mandatory effective date is for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted. EnerCare has neither assessed the impact of the standard nor determined when it will adopt the new standard.

4. Cash and Cash Equivalents

	June 30, 2014	December 31, 2013
Cash at bank	**$20,106**	$25,940
Ending balance	**$20,106**	$25,940

5. Accounts Receivable

	June 30, 2014	December 31, 2013
Accounts receivable (net of provision)	**$38,491**	$38,086
Bad and doubtful debt provision:		
Opening balance	**$ 7,025**	$ 3,100
Charge for the period	**772**	3,925
Provision ending balance	**$ 7,797**	$ 7,025

6. Accounts Payable and Accrued Liabilities

	June 30, 2014	December 31, 2013
Accounts payable	**$11,817**	$10,762
Accruals	**15,074**	16,821
Compensation payable	**4,464**	3,715
Current taxes payable	**476**	6,109
Other payables	**3,433**	3,007
Ending balance	**$35,264**	$40,414

7. Capital Assets

	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	$ 35,929	$ 4,390	$ 94	$ 40,413
Loss on disposal before proceeds	(7,934)	-	-	(7,934)
Cost reversal – assets no longer in use	-	-	(20)	(20)
Acquisition (note 23)	1,230	-	-	1,230
Depreciation for the period	(22,970)	(2,277)	(831)	(26,078)
Depreciation reversal – assets no longer in use	-	-	20	20
At June 30, 2014	$421,966	$46,329	$ 6,095	$474,390
At June 30, 2014:				
Cost	$825,742	$64,446	$10,147	$900,335
Accumulated depreciation	(403,776)	(18,117)	(4,052)	(425,945)
Net book value	**$421,966**	**$46,329**	**$ 6,095**	**$474,390**

8. Intangible Assets

	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 23)	$ 1,805	$ -	$ 1,805
Amortization for the period	(23,252)	(46)	(23,298)
At June 30, 2014	$215,389	$ 1,147	$216,536
At June 30, 2014:			
Cost	$745,141	$33,270	$778,411
Accumulated depreciation	(529,752)	(32,123)	(561,875)
Net book value	**$215,389**	**$ 1,147**	**$216,536**

9. Debt

Bank indebtedness, current and long term debts:

	June 30, 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	**(598)**	(1,198)
Current portion of Stratacon debt	**631**	1,213
Total current portion of long term debt	**$ 1,246**	$ 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	**(631)**	(1,213)
Repayment of debt	**-**	(270,088)
Issuance of debt	**-**	285,000
Additional deferred financing costs	**-**	(1,733)
Amortization of deferred financing costs	**305**	1,346
Total non-current portion	**$534,867**	$535,193
Senior debt principal amount	**$535,000**	$535,000
Stratacon debt principal amount	**2,441**	3,072
Unamortized financing costs and interest accretion	**(2,574)**	(2,879)
Total non-current portion of long term debt	**$534,867**	$535,193

EnerCare Solutions' revolving credit facility (the "Revolver"), which matures on November 15, 2014, has a standby charge of 0.21%. 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 June 30, 2014, EnerCare Solutions complied with these covenants and was able to fully utilize the Revolver limit of $35,000. As at June 30, 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 $3,687 as at June 30, 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:

	June 30, 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	**$ (580)**	$(2,679)
Transfer of financing costs to equity upon conversion	**23**	131
Amortization of financing costs to expense	**23**	66
Ending balance	**$ 3,380**	$ 3,914
Principal balance	**$ 3,501**	$ 4,081
Net deferred financing costs	**(121)**	(167)
Ending balance	**$ 3,380**	$ 3,914

From July 1, 2014 to August 11, 2014, approximately $147 principal amount of additional convertible debentures were converted to shares.

10. Share Capital

		June 30, 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	**89**	**580**	413	2,679
Transfer of financing costs to equity	**-**	**(23)**	-	(131)
Transfer from contributed surplus	**-**	**23**	-	131
Totals	**58,514**	**$524,256**	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 June 30, 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 June 30,		Six months ended June 30,	
(in thousands – except per share amounts)	**2014**	2013	**2014**	2013
Net earnings/(loss)	**$ 7,457**	$ 7,482	**$14,471**	$(2,906)
After tax impact of convertible debentures	**50**	81	**103**	171
Fully diluted net earnings/(loss)	**7,507**	7,563	**14,574**	(2,735)
Weighted average shares outstanding	**58,486**	58,137	**58,467**	58,089
Dilutive impact of convertible debentures and stock options	**795**	972	**750**	951
Fully diluted shares outstanding	**59,281**	59,109	**59,217**	59,040
Basic/diluted earnings/(loss) per share	**$ 0.13**	$ 0.13	**$ 0.25**	$ (0.05)

12. Dividends

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Dividends declared per share	**$0.181**	$0.171	**$0.358**	$0.340
Dividends declared after June 30				
July				
Dollars			**$3,536**	$3,317
Per share/unit amount			**$0.060**	$0.057

The dividend amount for July 2014 is estimated above and is subject to change dependent upon the actual debenture conversions throughout the month, if any.

13. Commitments

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

Period	June 30, 2014
Due in 2014	**$ 132**
Due in 2015	**379**
Due in 2016	**397**
Due in 2017	**70**
Due in 2018	**-**
Thereafter	**-**
Total commitments under non-cancellable operating leases	**$ 978**

The operating lease payments recognized in the condensed interim consolidated statement of income for the three and six months ended June 30, 2014 were $305 and $599, respectively (2013 - $298 and $615).

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 June 30, 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	$ 614	$ 11,490
Due in 2015	1,258	22,905
Due in 2016	60,992	21,545
Due in 2017	254,116	21,269
Due in 2018	126	10,360
Thereafter	225,080	15,535
Total	$542,186	$103,104

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 June 30, 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.

	June 30, 2014		December 31, 2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 20,106**	**$ 20,106**	$ 25,940	$ 25,940
Accounts receivable	**38,491**	**38,491**	38,086	38,086
Total financial assets	**$ 58,597**	**$ 58,597**	$ 64,026	$ 64,026
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$535,000**	**$565,050**	$535,000	$548,110
Gross convertible debentures	**3,501**	**7,037**	4,081	6,183
Stratacon debt	**3,687**	**3,687**	4,285	4,285
Total borrowings	**$542,188**	**$575,774**	$543,366	$558,578
Accounts and other payables	**45,046**	**45,046**	50,034	50,034
Total financial liabilities	**$587,234**	**$620,820**	$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 June 30, 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. During the second quarter of 2013, EnerCare and DE reached a settlement of $1,678 on account of billing and collection matters in respect of water heater buyouts.

18. Selling, General and Administrative

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Employee compensation and benefits	**$ 4,785**	$ 3,885	**$ 9,381**	$ 7,521
Professional fees	**1,837**	1,620	**3,208**	2,674
Selling, office and other	**997**	1,475	**1,946**	3,105
Billing and servicing	**2,590**	2,444	**5,070**	4,802
Claims and bad debt	**1,082**	1,619	**2,906**	3,403
Total	**$11,291**	$11,043	**$22,511**	$21,505

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 June 30, 2014.

For the period ended,	**June 30, 2014**	December 31, 2013
Opening balance:	**$1,187**	$ 726
Charged/(credited) to the condensed interim consolidated statement of income:		
Additional provision	**1,140**	3,395
Reversals	**-**	-
Claims spending during the period	**(1,125)**	(2,934)
Ending balance	**$1,202**	$1,187

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 June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Accounts receivable	**$5,454**	$1,508	**$ (405)**	$(3,837)
Prepaid and other assets	**(165)**	512	**(313)**	463
Accounts payable and accrued liabilities	**(188)**	(301)	**(5,150)**	(1,188)
Provisions	**(52)**	507	**15**	437
Interest payable	**(163)**	(320)	**2**	1,005
Total	**$4,886**	$1,906	**$(5,851)**	$(3,120)

21. Related Parties and Transactions with DE

Key Management

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Salaries and short-term benefits	**$ 998**	$639	**$1,722**	$1,155
Other employment benefits	**33**	18	**70**	50
Long term benefits	**630**	317	**1,002**	683
Total	**$1,661**	$974	**$2,794**	$1,888

Transactions with DE

EnerCare's relationship with DE is significant, as DE services and supports approximately 90% of EnerCare's Rentals customers and Rentals installed asset base. The following agreements govern the principal affairs between EnerCare and DE. See note 24 – "Subsequent Events" for further discussion regarding 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 June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Origination agreement:				
Capital expenditures	**$12,869**	$13,827	**$25,298**	$26,637
Inventory service fee	**823**	892	**1,617**	1,733
Other capital expenditures	**4,899**	2,251	**9,538**	3,768
Other expenses, including billing and servicing costs	**821**	693	**1,662**	1,395
Total	**$19,412**	$17,663	**$38,115**	$33,533

22. 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 June 30, 2014				Three months ended June 30, 2013			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$ 49,224**	**$24,743**	**$ -**	**$ 73,967**	$ 47,293	$24,262	$ -	$ 71,555
Expenses:								
Commodity	**-**	**(19,570)**	**-**	**(19,570)**	-	(20,037)	-	(20,037)
SG&A	**(3,011)**	**(3,389)**	**(4,891)**	**(11,291)**	(4,090)	(2,718)	(4,235)	(11,043)
Loss on disposal	**(2,371)**	**-**	**-**	**(2,371)**	(3,449)	-	-	(3,449)
EBITDA[1]	**43,842**	**1,784**	**(4,891)**	**40,735**	39,754	1,507	(4,235)	37,026
Amortization	**(23,262)**	**(1,188)**	**(420)**	**(24,870)**	(23,118)	(874)	(352)	(24,344)
Investment income				**80**				49
Interest expense				**(5,963)**				(5,976)
Other income	**-**	**-**	**-**	**-**	1,678	-	-	1,678
Current taxes				**(6,335)**				(4,591)
Deferred tax recovery				**3,810**				3,640
Net earnings				**7,457**				7,482
Adjusted EBITDA[1,2]	**46,213**	**1,784**	**(4,891)**	**43,106**	44,881	1,507	(4,235)	42,153
Segment assets	**657,098**	**75,265**	**26,201**	**758,564**	695,849	79,390	19,053	794,292
Equipment additions	**18,217**	**2,131**	**38**	**20,386**	16,793	2,483	412	19,688

	Six months ended June 30, 2014				Six months ended June 30, 2013			
Segment Data	**Rentals**	**Sub-Metering**	**Corporate**	**Total**	Rentals	Sub-Metering	Corporate	Total
Total revenue	**$ 97,860**	**$58,295**	**$ -**	**$156,155**	$ 94,375	$51,222	$ -	$145,597
Expenses:								
Commodity	**-**	**(47,929)**	**-**	**(47,929)**	-	(42,188)	-	(42,188)
SG&A	**(6,461)**	**(7,120)**	**(8,930)**	**(22,511)**	(7,907)	(6,002)	(7,596)	(21,505)
Loss on disposal	**(5,375)**	**-**	**-**	**(5,375)**	(6,341)	-	-	(6,341)
EBITDA[1]	**86,024**	**3,246**	**(8,930)**	**80,340**	80,127	3,032	(7,596)	75,563
Amortization	**(46,268)**	**(2,277)**	**(831)**	**(49,376)**	(46,281)	(1,730)	(689)	(48,700)
Investment income				**117**				317
Interest expense				**(11,935)**				(32,949)
Other income	**408**	**-**	**-**	**408**	1,678	-	-	1,678
Current taxes				**(12,414)**				(10,179)
Deferred tax recovery				**7,331**				11,364
Net earnings/(loss)				**14,471**				(2,906)
Adjusted EBITDA[1][2]	**91,807**	**3,246**	**(8,930)**	**86,123**	88,146	3,032	(7,596)	83,582
Equipment additions	**$ 35,929**	**$ 4,420**	**$ 64**	**$ 40,413**	$ 31,669	$ 6,277	$ 834	$ 38,780

(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.

23. 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.

24. Subsequent Events

In July 2014, EnerCare and EnerCare Solutions announced that EnerCare entered into a definitive asset purchase agreement to purchase the Ontario home and small commercial services business ("OHCS") of DE (the "Acquisition") for a purchase price of $550,000, subject to customary working capital and other adjustments. In conjunction with the Acquisition, EnerCare also announced that it entered into an agreement with a syndicate of underwriters to issue, on a bought deal basis, approximately $310,000 of subscription receipts and approximately $100,000 in shares indirectly to DE on a private placement basis in partial satisfaction of the purchase price for the Acquisition. In addition, existing lenders have committed to provide debt funding for the Acquisition. EnerCare Solutions expects to draw $223,000 at closing of the Acquisition comprised of two different components: (i) a 4-year non-revolving, non-amortizing variable rate term credit facility in the amount of $223,000 to be available in a single drawdown, for the purpose of financing a portion of the purchase price and re-financing EnerCare Solutions' existing $60,000 Term Loan; and (ii) a 5-year $100,000 revolving, non-amortizing variable rate credit facility which replaces EnerCare Solutions' existing $35,000 Revolver and is expected to remain undrawn at the close of the Acquisition. Closing is expected during the fourth quarter of 2014.

The debt financing also includes a fully committed 6-month variable rate bridge facility of $310,000 for the purchase price and transaction expenses to be funded from the Offering should the bought deal not be completed by time of closing of the acquisition.