



EnerCare Inc.

Condensed Interim Consolidated Financial Statements

Third Quarter ended September 30, 2014

Dated November 12, 2014

EnerCare Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn \$)	(unaudited)	
	September 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$ 21,899	\$ 25,940
Subscription receipts funds held in escrow (note 24)	326,597	-
Accounts receivable (note 5)	38,684	38,086
Prepaid and other assets	4,295	2,526
	391,475	66,552
Capital assets (note 7)	476,921	466,759
Intangible assets (note 8)	204,873	238,029
Goodwill	2,962	2,962
Deferred tax asset	3,033	4,578
	\$ 1,079,264	\$ 778,880
Liabilities		
Current liabilities		
Subscription receipts payable (note 24)	\$ 326,597	\$ -
Current portion of long-term debt (note 9)	1,253	1,213
Accounts payable and accrued liabilities (note 6)	41,654	40,414
Provisions (note 19)	1,207	1,187
Interest payable	8,373	5,044
Dividends payable (note 12)	3,536	3,389
	382,620	51,247
Long-term debt (note 9)	534,710	535,193
Convertible debentures (note 9)	3,223	3,914
Deferred tax liability	101,502	117,230
	1,022,055	707,584
Shareholders' equity		
Share capital (note 10)	524,427	523,676
Contributed surplus	940	863
Deficit	(468,158)	(453,243)
	57,209	71,296
	\$ 1,079,264	\$ 778,880

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

Subsequent events are found in note 25

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues				
Rentals and services	\$ 79,991	\$ 77,539	\$ 236,146	\$ 223,136
Investment income	478	21	595	338
Total revenues	80,469	77,560	236,741	223,474
Expenses				
Commodity charges	25,220	25,500	73,149	67,688
Selling, general & administrative (note 18)	13,727	10,855	36,238	32,360
Amortization				
Capital assets (note 7)	13,523	13,581	39,601	38,971
Intangibles (note 8)	11,663	11,647	34,961	34,957
Loss on disposal of equipment	2,304	2,633	7,679	8,974
Interest				
Interest	9,827	6,022	21,762	25,217
Make-whole charge on early redemption of debt (note 9)	-	-	-	13,754
Total expenses	76,264	70,238	213,390	221,921
Other income (note 17)	-	2,000	408	3,678
Earnings for the period before income taxes	4,205	9,322	23,759	5,231
Tax expense				
Current tax expense	8,924	5,525	21,338	15,704
Deferred income tax (recovery)	(6,852)	(3,134)	(14,183)	(14,498)
Total tax expense	2,072	2,391	7,155	1,206
Net earnings for the period	\$ 2,133	\$ 6,931	\$ 16,604	\$ 4,025
Weighted average number of shares outstanding (note 11)				
	58,532	58,222	58,489	58,134
Diluted shares outstanding (note 11)				
	85,067	59,108	84,915	58,996
Basic earnings per share (note 11)				
	\$ 0.04	\$ 0.12	\$ 0.28	\$ 0.07
Diluted earnings per share (note 11)				
	\$ 0.03	\$ 0.12	\$ 0.20	\$ 0.07

EnerCare Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of Cdn \$)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net earnings for the period	\$ 2,133	\$ 6,931	\$ 16,604	\$ 4,025
Reclassification of cash flow hedge loss to earnings	-	-	-	4,023
Comprehensive income for the period	\$ 2,133	\$ 6,931	\$ 16,604	\$ 8,048

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) (in thousands of Cdn \$)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Share Capital				
Balance - beginning of period	\$ 524,256	\$ 522,141	\$ 523,676	\$ 520,997
Shares issued on debenture conversion (net of issue costs) (notes 9, 10)	171	650	751	1,794
Share Capital - end of period	524,427	522,791	524,427	522,791
Contributed Surplus				
Balance - beginning of period	892	828	863	785
Shares issued on debenture conversion (net of issue costs) (notes 9, 10)	(5)	(31)	(28)	(90)
Employee share options:				
Value of services recognized	53	58	105	160
Contributed Surplus - end of period	940	855	940	855
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	(459,684)	(444,786)	(453,243)	(422,122)
Net earnings for the period	2,133	6,931	16,604	4,025
Dividends	(10,607)	(10,020)	(31,519)	(29,778)
Deficit - end of period	(468,158)	(447,875)	(468,158)	(447,875)
Shareholders' equity - end of period	\$ 57,209	\$ 75,771	\$ 57,209	\$ 75,771

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

EnerCare Inc.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited) (in thousands of Cdn \$)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cash provided by/(used in):				
Operating activities				
Net earnings for the period	\$ 2,133	\$ 6,931	\$ 16,604	\$ 4,025
Items not affecting cash				
Amortization				
Capital assets (note 7)	13,523	13,581	39,601	38,971
Intangibles (note 8)	11,663	11,647	34,961	34,957
Loss on disposal of equipment	2,304	2,633	7,679	8,974
Non-cash interest expense	164	170	492	5,266
Employee share options	53	58	105	160
Deferred income tax (recovery)	(6,852)	(3,134)	(14,183)	(14,498)
Operating cash flow	22,988	31,886	85,259	77,855
Net change in non-cash working capital (note 20)	8,073	49	2,222	(3,071)
Cash provided by operating activities	31,061	31,935	87,481	74,784
Investing activities				
Purchase of capital assets (note 7)	(19,711)	(19,725)	(60,124)	(58,505)
Acquisition of capital assets and intangibles (note 23)	-	-	(3,035)	-
Proceeds from disposal of equipment - warranty recoveries	579	276	1,639	1,103
Proceeds from disposal of equipment - buyout receipts	774	1,397	2,273	2,468
Cash used in investing activities	(18,358)	(18,052)	(59,247)	(54,934)
Financing activities				
Dividends to shareholders	(10,605)	(9,956)	(31,372)	(29,646)
Proceeds from issuance of subscription receipts (note 24)	326,597	-	326,597	-
Subscription receipts funds held in escrow (note 24)	(326,597)	-	(326,597)	-
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)
Repayment of long-term debt	(305)	(293)	(903)	(270,993)
Deferred financing costs on long-term debt	-	(72)	-	(1,733)
Cash provided by/(used in) financing activities	(10,910)	(10,321)	(32,275)	(17,372)
Increase in cash and cash equivalents	1,793	3,562	(4,041)	2,478
Cash and cash equivalents - beginning of period	20,106	11,542	25,940	12,626
Cash and cash equivalents - end of period (note 4)	\$ 21,899	\$ 15,104	\$ 21,899	\$ 15,104
Supplementary information				
Interest paid	\$ 6,336	\$ 5,863	\$ 17,941	\$ 32,711
Income taxes paid	\$ 5,499	\$ 3,823	\$ 24,411	\$ 18,955

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

EnerCare Inc.

Notes to these Condensed Interim Consolidated Financial Statements

September 30, 2014 and 2013

(in thousands of Canadian dollars, except per share and per subscription receipt amounts)

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.

On October 20, 2014, EnerCare through a subsidiary of EnerCare Solutions acquired the Ontario home and small commercial services business of Direct Energy Marketing Limited (“DE”) (the “Acquisition”), (see note 25).

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 November 12, 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

Until October 19, 2014, DE, through Enbridge Gas Distribution Inc. (“Enbridge”), provided billing and

collection services for substantially all of EnerCare's water heaters and other assets (see note 25).

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.

As a result of the Acquisition, there are no further disputes to resolve.

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 September 30, 2013 were \$14,990. At September 30, 2014, EnerCare recorded a revenue accrual of approximately \$9,700, 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 September 30, 2014, the accounts receivable provision increased by approximately \$900 compared to an increase of approximately \$1,200 over 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

	September 30, 2014	December 31, 2013
Cash at bank	\$21,899	\$25,940
Ending balance	\$21,899	\$25,940

5. Accounts Receivable

	September 30, 2014	December 31, 2013
Accounts receivable (net of provision)	\$38,684	\$38,086
Bad and doubtful debt provision:		
Opening balance	\$ 7,025	\$ 3,100
Charge for the period	1,464	3,925
Provision ending balance	\$ 8,489	\$ 7,025

6. Accounts Payable and Accrued Liabilities

	September 30, 2014	December 31, 2013
Accounts payable	\$10,909	\$10,762
Accruals	18,512	16,821
Compensation payable	5,627	3,715
Current taxes payable	3,103	6,109
Other payables	3,503	3,007
Ending balance	\$41,654	\$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	\$ 53,784	\$ 6,189	\$ 151	\$ 60,124
Loss on disposal before proceeds	(11,591)	-	-	(11,591)
Cost reversal – assets no longer in use	-	-	(20)	(20)
Acquisition (note 25)	1,230	-	-	1,230
Depreciation for the period	(34,822)	(3,520)	(1,259)	(39,601)
Depreciation reversal – assets no longer in use	-	-	20	20
At September 30, 2014	\$424,312	\$46,885	\$ 5,724	\$476,921
At September 30, 2014:				
Cost	\$833,551	\$66,245	\$10,204	\$910,000
Accumulated depreciation	(409,239)	(19,360)	(4,480)	(433,079)
Net book value	\$424,312	\$46,885	\$ 5,724	\$476,921

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 25)	\$ 1,805	\$ -	\$ 1,805
Amortization for the period	(34,892)	(69)	(34,961)
At September 30, 2014	\$203,749	\$ 1,124	\$204,873
At September 30, 2014:			
Cost	\$745,141	\$33,270	\$778,411
Accumulated depreciation	(541,392)	(32,146)	(573,538)
Net book value	\$203,749	\$ 1,124	\$204,873

9. Debt

Bank indebtedness, current and long term debts:

	September 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	(903)	(1,198)
Current portion of Stratacon debt	943	1,213
Total current portion of long term debt	\$ 1,253	\$ 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	(943)	(1,213)
Repayment of debt	-	(270,088)
Issuance of debt	-	285,000
Additional deferred financing costs	-	(1,733)
Amortization of deferred financing costs	460	1,346
Total non-current portion	\$534,710	\$535,193
Senior debt principal amount	\$535,000	\$535,000
Stratacon debt principal amount	2,129	3,072
Unamortized financing costs and interest accretion	(2,419)	(2,879)
Total non-current portion of long term debt	\$534,710	\$535,193

At September 30, 2014, EnerCare Solutions' previous revolving credit facility (the "Previous Revolver"), had a standby charge of 0.21%. EnerCare Solutions was subject to three principal financial covenants as defined in the Previous Revolver and previous term loan credit facility (the "Previous Term Loan") documents. The covenants addressed interest and debt coverage. At September 30, 2014, EnerCare Solutions complied with these covenants and was able to fully utilize the Previous Revolver limit of \$35,000. As at September 30, 2014, no amounts were drawn on the Previous Revolver. On October 20, 2014, the Previous Revolver and Previous Term Loan were replaced as outlined in note 25.

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, Previous Term Loan maturing on January 28, 2016. On October 20, 2014 the Previous Term Loan was replaced as outlined in note 25. 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 Previous Term Loan.

Debt was assumed in connection with the Stratacon acquisition in 2008. The secured debt of \$3,382 as at September 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:

	September 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	\$ (751)	\$(2,679)
Transfer of financing costs to equity upon conversion	28	131
Amortization of financing costs to expense	32	66
Ending balance	\$3,223	\$ 3,914
Principal balance	\$3,330	\$ 4,081
Net deferred financing costs	(107)	(167)
Ending balance	\$3,223	\$ 3,914

From October 1, 2014 to November 10, 2014, approximately \$11 principal amount of additional convertible debentures were converted to shares.

10. Share Capital

	September 30, 2014		December 31, 2013	
	Shares	Net Proceeds	Shares	Net Proceeds
Shares Issued and Outstanding				
Opening balance at January 1:	58,425	\$523,676	58,012	\$520,997
Issued:				
Principal conversion of debentures	116	751	413	2,679
Transfer of financing costs to equity	-	(28)	-	(131)
Transfer from contributed surplus	-	28	-	131
Totals	58,541	\$524,427	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 September 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, stock options and subscription receipts, were dilutive and therefore were included in the calculation of diluted earnings per share.

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

(in thousands – except per share amounts)	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2014	2013	2014	2013
Net earnings	\$ 2,133	\$ 6,931	\$16,604	\$ 4,025
After tax impact of convertible debentures	44	74	147	244
Fully diluted net earnings/(loss)	\$ 2,177	\$ 7,005	\$16,751	\$ 4,269
Weighted average shares outstanding	58,532	58,222	58,489	58,134
Dilutive impact of convertible debentures and stock options	899	886	790	862
Dilutive impact of subscription receipts (note 24)	25,636	-	25,636	-
Fully diluted shares outstanding	85,067	59,108	84,915	58,996
Basic earnings per share	\$ 0.04	\$ 0.12	\$ 0.28	\$ 0.07
Diluted earnings per share	\$ 0.03	\$ 0.12	\$ 0.20	\$ 0.07

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Dividends declared per share	\$0.181	\$0.172	\$0.539	\$0.512
Dividends declared after September 30				
October				
Dollars			\$5,549	\$3,384
Per share amount			\$0.060	\$0.058

The dividend amount for October 2014 is estimated above and includes the shares issued from the conversion of subscription receipts and those issued to DE associated with the closing of the Acquisition on October 20, 2014 (see note 25). The dividend amount 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	September 30, 2014
Due in 2014	\$ 66
Due in 2015	379
Due in 2016	397
Due in 2017	70
Due in 2018	-
Thereafter	-
Total commitments under non-cancellable operating leases	\$912

The operating lease payments recognized in the condensed interim consolidated statement of income for the three and nine months ended September 30, 2014 were \$359 and \$957, respectively (2013 - \$181 and \$796).

In addition to the above lease commitments, EnerCare was liable for 50% of the fees associated with the offering of subscription receipts, upon closing, as discussed further in note 24. Offering fees of \$6,665 were paid in October upon closing of the Acquisition (see note 25).

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 at September 30, 2014, as follows. See note 25 which outlines the change in relationship with DE commencing on October 20, 2014.

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 new debt financing (see note 25) 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 September 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	\$ 310	\$ 5,896
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	\$541,882	\$97,510

Market Risk

Fair Value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, subscription receipts 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 September 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.

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 21,899	\$ 21,899	\$ 25,940	\$ 25,940
Subscription receipt funds held in escrow	326,597	326,597	-	-
Accounts receivable	38,684	38,684	38,086	38,086
Total financial assets	\$387,180	\$387,180	\$ 64,026	\$ 64,026
Financial liabilities measured at amortized cost:				
Gross senior borrowings	\$535,000	\$552,090	\$535,000	\$548,110
Gross convertible debentures	3,330	6,993	4,081	6,183
Subscription receipts payable	326,597	326,597	-	-
Stratacon debt	3,382	3,382	4,285	4,285
Total borrowings	\$868,309	\$889,062	\$543,366	\$558,578
Accounts and other payables	54,770	54,770	50,034	50,034
Total financial liabilities	\$923,079	\$943,832	\$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, Previous Revolver and Previous Term Loan as at September 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 third quarter of 2013, EnerCare accrued in other income a settlement from DE of \$2,000 on account of water heater installation costs, billing and collection deficiencies and third-party claims. In 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 Sept. 30,		Nine months ended Sept. 30,	
	2014	2013	2014	2013
Employee compensation and benefits	\$ 4,860	\$ 3,884	\$14,241	\$ 11,405
Professional fees	3,511	1,038	6,719	3,712
Selling, office and other	1,137	903	3,083	4,008
Billing and servicing	2,813	2,643	7,883	7,445
Claims and bad debt	1,406	2,387	4,312	5,790
Total	\$13,727	\$10,855	\$36,238	\$32,360

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 September 30, 2014.

For the period ended	September 30, 2014	December 31, 2013
Opening balance:	\$ 1,187	\$ 726
Charged/(credited) to the condensed interim consolidated statement of income:		
Additional provision	1,651	3,395
Claims spending during the period	(1,631)	(2,934)
Ending balance	\$ 1,207	\$ 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Accounts receivable	\$ (193)	\$(2,717)	\$ (598)	\$(6,554)
Prepaid and other assets	(1,456)	(253)	(1,769)	210
Accounts payable and accrued liabilities	6,390	2,968	1,240	1,780
Provisions	5	62	20	499
Interest payable	3,327	(11)	3,329	994
Total	\$ 8,073	\$ 49	\$ 2,222	\$(3,071)

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 are shown below:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Salaries and short-term benefits	\$ 672	\$ 651	\$2,386	\$1,806
Other employment benefits	4	19	74	69
Long term benefits	1,484	573	2,486	1,256
Total	\$2,160	\$1,243	\$4,946	\$3,131

Transactions with DE

EnerCare's relationship with DE was significant, as DE serviced and supported approximately 90% of EnerCare's Rentals customers and Rentals installed asset base. The following agreements governed the principal affairs between EnerCare and DE prior to October 20, 2014. These agreements were assigned to a subsidiary of EnerCare on October 20, 2014. See note 25 – "Subsequent Events" for further discussion regarding DE.

Co-ownership Agreement:

Under this agreement, DE received, subject to certain exceptions, 35% of the gross revenue generated by the co-owned portfolio of assets and was 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 was 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 was required to 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 had no obligation to purchase any water heaters. The agreement also established an incentive fee payable to DE had certain growth targets been achieved. The initial term of the origination agreement was through December 2022 and was subject to extension or early termination in certain circumstances.

Other Agreements with DE:

In addition to the above agreements, EnerCare and DE were parties to an agreement for the servicing of Toronto Hydro Energy Services Inc. units, as these units were not subject to the co-ownership agreement. This agreement provided for the administration and servicing of the portfolio on a fee-for-service basis.

EnerCare and DE were also parties to an agreement for the origination and servicing of HVAC rental units, whereby DE originated HVAC rental customers and provided servicing to these HVAC rental customers. EnerCare had 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 Sept. 30,		Nine months ended Sept. 30,	
	2014	2013	2014	2013
Origination agreement:				
Capital expenditures	\$12,344	\$15,384	\$37,642	\$42,021
Inventory service fee	787	871	2,404	2,604
Other capital expenditures	5,158	1,328	14,696	5,096
Other expenses, including billing and servicing costs	864	748	2,526	2,143
Total	\$19,153	\$18,331	\$57,268	\$51,864

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 September 30, 2014				Three months ended September 30, 2013			
Segment Data	Rentals	Sub-Metering	Corporate	Total	Rentals	Sub-Metering	Corporate	Total
Total revenue	\$ 49,154	\$30,837	\$ -	\$ 79,991	\$ 47,248	\$30,291	\$ -	\$ 77,539
Expenses:								
Commodity	-	(25,220)	-	(25,220)	-	(25,500)	-	(25,500)
SG&A	(6,503)	(3,804)	(3,420)	(13,727)	(3,927)	(3,475)	(3,453)	(10,855)
Loss on disposal	(2,304)	-	-	(2,304)	(2,633)	-	-	(2,633)
EBITDA ⁽¹⁾	40,347	1,813	(3,420)	38,740	40,688	1,316	(3,453)	38,551
Amortization	(23,515)	(1,243)	(428)	(25,186)	(23,790)	(1,022)	(416)	(25,228)
Investment income				478				21
Interest expense				(9,827)				(6,022)
Other income	-	-	-	-	2,000	-	-	2,000
Current taxes				(8,924)				(5,525)
Deferred tax recovery				6,852				3,134
Net earnings				2,133				6,931
Adjusted EBITDA ^(1,2)	42,651	1,813	(3,420)	41,044	45,321	1,316	(3,453)	43,184
Segment assets	649,186	75,858	354,220	1,079,264	683,315	84,406	22,420	790,141
Equipment additions	\$ 17,855	\$ 1,799	\$ 57	\$ 19,711	\$ 17,383	\$ 2,121	\$ 221	\$ 19,725

Segment Data	Nine months ended September 30, 2014				Nine months ended September 30, 2013			
	Rentals	Sub-Metering	Corporate	Total	Rentals	Sub-Metering	Corporate	Total
Total revenue	\$147,014	\$89,132	\$ -	\$236,146	\$141,623	\$81,513	\$ -	\$223,136
Expenses:								
Commodity	-	(73,149)	-	(73,149)	-	(67,688)	-	(67,688)
SG&A	(12,964)	(10,924)	(12,350)	(36,238)	(11,834)	(9,477)	(11,049)	(32,360)
Loss on disposal	(7,679)	-	-	(7,679)	(8,974)	-	-	(8,974)
EBITDA ⁽¹⁾	126,371	5,059	(12,350)	119,080	120,815	4,348	(11,049)	114,114
Amortization	(69,783)	(3,520)	(1,259)	(74,562)	(70,071)	(2,752)	(1,105)	(73,928)
Investment income				595				338
Interest expense				(21,762)				(38,971)
Other income	408	-	-	408	3,678	-	-	3,678
Current taxes				(21,338)				(15,704)
Deferred tax recovery				14,183				14,498
Net earnings				16,604				4,025
Adjusted EBITDA ⁽¹⁾⁽²⁾	134,458	5,059	(12,350)	127,167	133,467	4,348	(11,049)	126,766
Equipment additions	\$ 53,784	\$ 6,219	\$ 121	\$ 60,124	\$ 49,052	\$ 8,398	\$ 1,055	\$ 58,505

(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. Issuance of Subscription Receipts

In July 2014, EnerCare and EnerCare Solutions announced that EnerCare had entered into a definitive asset purchase agreement to purchase the Ontario home and small commercial services business of DE for a purchase price of \$550,000, subject to customary working capital and other adjustments. In conjunction with the Acquisition, EnerCare completed an offering of 25,635,525 subscription receipts at a price of \$13.00 per subscription receipt (which included 1,788,525 subscription receipts sold as a result of the exercise in full of the over-allotment option by the underwriters). The offering raised gross proceeds of \$333,262. Each subscription receipt entitled the holder to receive, upon the satisfaction or waiver of the closing conditions contained in the asset purchase agreement, without payment of additional consideration, one common share of EnerCare plus an amount per common share equal to the amount per common share of any dividends for which record dates have occurred during the period from the closing date of the offering to the date immediately preceding the closing date of the Acquisition, less any withholding taxes, if any.

The subscription receipts, classified as financial liabilities, are being carried at amortized cost, with the common share dividend equivalent recognized as interest. As of September 30, 2014, EnerCare recorded

\$3,097 of interest payable to the holders of subscription receipts. The proceeds (see note 13) from the offering, net of \$6,665, representing 50% of the commissions paid, were held in escrow by an escrow agent until October 20, 2014. Proceeds were used by EnerCare to finance, in part, its Acquisition, as well as EnerCare's expenses of the Acquisition and the offering (see note 25).

25. Subsequent Events

On October 20, 2014, EnerCare, through a subsidiary of EnerCare Solutions, completed its acquisition of the Ontario home and small commercial services business of DE. The purchase price of the Acquisition was approximately \$550,000, subject to working capital and other adjustments. The acquired assets and liabilities assumed included components of working capital, capital assets, intangible assets, goodwill, capital leases and employee future benefits assets and obligations. The initial accounting for this business combination is incomplete as at the date hereof.

The Acquisition was financed through a combination of debt and equity, including approximately \$333,262 of subscription receipts (\$317,000 net of fees), \$150,000 from debt facilities entered into in connection with the Acquisition, and a private placement of 7,692,308 of EnerCare common shares to DE. The common shares issued to DE are subject to a 12-month lock-up and thereafter, one-half of such shares are subject to a further 6-month lock-up.

In accordance with the terms of the agreement pursuant to which the subscription receipts were issued, each outstanding subscription receipt was exchanged for one common share of EnerCare, resulting in the issuance of 25,635,525 shares and a cash payment equal to \$0.1208 per subscription receipt. The cash payment is equal to the aggregate amount of dividends per share for which record dates occurred since the issuance of the subscription receipts, less any withholding taxes, if any.

EnerCare's new debt financing with two Canadian chartered banks is comprised of: (i) a 4-year non-revolving, non-amortizing variable rate term credit facility in the amount of \$210,000, which was drawn for the purpose of financing the Acquisition and re-financing EnerCare Solutions' previous \$60,000 term loan; and (ii) a 5-year \$100,000 revolving, non-amortizing variable rate credit facility, which replaces EnerCare Solutions' previous \$35,000 revolving facility and which was undrawn.

The new debt financing contains financial covenants that are more favourable than the previous term loan and revolving facility. The new covenants removed entirely the previous covenant to maintain the ratio of Adjusted EBITDA less capital expenditures to cash interest expense and increased the upper limit of the ratio of total debt (other than subordinated debt) to Adjusted EBITDA to 4.75:1. The new debt financing also contains substantially similar definitions to those of the previous term loan and revolving facility except that "Adjusted EBITDA" adds back certain specified items incurred with respect to the Acquisition, including transaction expenses, one-time rebranding costs and information technology system harmonization costs, not to exceed \$23,500.

Concurrent with the closing of the Acquisition, EnerCare and DE entered into a transition services agreement pursuant to which DE will provide certain transition services to EnerCare relating to, among other things, the provision of ongoing information technology, other support and information technology decoupling services for an initial period of 15-months, subject to extension by either party for up to two additional 3-month terms.