EnerCare Solutions Inc.

Condensed Interim Consolidated Financial Statements

Second Quarter ended June 30, 2013

Dated August 12, 2013

EnerCare Solutions Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)		(unaudited) June 30, 2013		December 31, 2012
Assets				
Current assets				
Cash and cash equivalents (note 4)	**$**	**7,596**	$	3,617
Accounts receivable (note 5)		**20,402**		16,384
Prepaid and other assets		**770**		857
Investment in EnerCare Connections Inc. preferred shares (note 11)		**50,000**		50,000
		78,768		70,858
Capital assets (note 7)		**411,438**		411,022
Intangible assets (note 8)		**260,034**		283,232
Deferred tax asset		**2,943**		348
	$	**753,183**	$	765,460
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 6)	**$**	**15,214**	$	19,134
Related party payable (note 19)		**833**		1,936
Provisions (note 17)		**1,163**		726
Interest payable		**5,058**		4,228
Dividends payable		**3,317**		3,249
Subordinated debt (note 11)		**50,000**		50,000
		75,585		79,273
Long-term debt (note 9)		**531,884**		517,508
Long-term subordinated promissory notes (note 10)		**250,000**		250,000
Deferred tax liability		**124,572**		133,690
		982,041		980,471
Shareholders' equity (note 12)		**(228,858)**		(215,011)
	$	**753,183**	$	765,460

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

EnerCare Solutions Inc.
Condensed Interim Consolidated Statements of Income

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(in thousands of Cdn $, except per share amounts)	**2013**	2012	**2013**	2012
Revenues				
Rentals and services	**$ 47,293**	$ 46,735	**$ 94,375**	$ 93,582
Dividend income	**860**	4,301	**1,720**	8,602
Investment income	**29**	59	**297**	199
Total revenues	**48,182**	51,095	**96,392**	102,383
Expenses				
Selling, general & administrative (note 16)	**6,560**	8,220	**12,525**	15,203
Amortization				
Capital assets (note 7)	**11,487**	12,565	**23,014**	25,926
Intangible assets (note 8)	**11,599**	11,597	**23,198**	23,196
Loss on disposal of equipment (note 7)	**3,449**	4,113	**6,341**	8,228
Interest				
Short-term	**395**	38	**758**	65
Make-whole charge on early redemption of debt	**-**	-	**13,754**	-
Long-term	**5,355**	9,105	**17,977**	18,963
Subordinated debt	**873**	4,363	**1,746**	8,726
Promissory notes	**2,500**	2,000	**5,000**	4,000
Total operating expenses	**42,218**	52,001	**104,313**	104,307
Other income (note 20)	**1,678**	-	**1,678**	1,500
Earnings/(loss) for the period before income taxes	**7,642**	(906)	**(6,243)**	(424)
Tax expense				
Current tax expense	**4,725**	2,035	**10,206**	5,289
Deferred income tax (recovery)/expense	**(3,480)**	1,382	**(11,713)**	(1,522)
Total tax expense/(recovery)	**1,245**	3,417	**(1,507)**	3,767
Net earnings/(loss) for the period	**$ 6,397**	$ (4,323)	**$ (4,736)**	$ (4,191)

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

EnerCare Solutions Inc.
Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(in thousands of Cdn $)	**2013**	2012	**2013**	2012
Net earnings/(loss) for the period	**$ 6,397**	$ (4,323)	**$ (4,736)**	$ (4,191)
Amortization of accumulated other comprehensive loss to net (loss)/earnings	**-**	811	**4,023**	1,733
Comprehensive income/(loss) for the period	**$ 6,397**	$ (3,512)	**$ (713)**	$ (2,458)

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

EnerCare Solutions Inc.
Condensed Interim Consolidated Statements of Changes in Equity

(unaudited)		Three months ended June 30,				Six months ended June 30,		
(in thousands of Cdn $)		**2013**		2012		**2013**		2012
Share Capital								
Balance - beginning of period	**$**	**79,614**	$	79,614	**$**	**79,614**	$	79,614
Share Capital - end of period (note 12)		**79,614**		79,614		**79,614**		79,614
Accumulated Other Comprehensive Loss								
Balance - beginning of period		**-**		(6,359)		**(4,023)**		(7,281)
Amortization		**-**		811		**4,023**		1,733
Accumulated Other Comprehensive Loss - end of period		**-**		(5,548)		**-**		(5,548)
Deficit								
Balance - beginning of period		**(308,237)**		(105,121)		**(290,602)**		(95,829)
Net earnings/(loss) for the period		**6,397**		(4,323)		**(4,736)**		(4,191)
Dividends		**(6,632)**		(9,706)		**(13,134)**		(19,130)
Deficit - end of period		**(308,472)**		(119,150)		**(308,472)**		(119,150)
Shareholders' equity - end of period	**$**	**(228,858)**	$	(45,084)	**$**	**(228,858)**	$	(45,084)

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

EnerCare Solutions Inc.
Condensed Interim Consolidated Statements of Cash Flows

(unaudited)		Three months ended June 30,				Six months ended June 30,		
(in thousands of Cdn $)		**2013**		2012		**2013**		2012
Cash provided by/(used in):								
Operating activities								
Net earnings/(loss) for the period	**$**	**6,397**	$	(4,323)	**$**	**(4,736)**	$	(4,191)
Items not affecting cash								
Amortization								
Capital assets (note 7)		**11,487**		12,565		**23,014**		25,926
Intangible assets (note 8)		**11,599**		11,597		**23,198**		23,196
Loss on disposal of equipment (note 7)		**3,449**		4,113		**6,341**		8,228
Non-cash interest expense		**154**		1,089		**5,060**		2,311
Deferred income tax (recovery)/expense		**(3,480)**		1,382		**(11,713)**		(1,522)
Operating cash flow		**29,606**		26,423		**41,164**		53,948
Net change in non-cash working capital (note 18)		**(1,655)**		(8,422)		**(7,687)**		(10,219)
Cash provided by operating activities		**27,951**		18,001		**33,477**		43,729
Investing activities								
Purchase of equipment (note 7)		**(16,793)**		(13,542)		**(31,669)**		(29,041)
Acquisitions	**-**		-		**-**			(2,053)
Proceeds from disposal of equipment (note 7)		**981**		1,493		**1,898**		3,185
Cash used in investing activities		**(15,812)**		(12,049)		**(29,771)**		(27,909)
Financing activities								
Dividends to shareholders		**(6,566)**		(9,658)		**(13,066)**		(18,983)
Proceeds from revolving line of credit						**2,000**		-
Repayment of line of credit		**(2,000)**				**(2,000)**		
Proceeds from issuance of long-term non-interest bearing loan		**-**		16,000		**-**		16,000
Proceeds from issuance of long-term debt		**-**		-		**285,000**		-
Repayment of long-term debt		**-**		(60,000)		**(270,000)**		(60,000)
Deferred financing costs on long-term debt		**(129)**	-			**(1,661)**	-	
Cash (used in)/provided by financing activities		**(8,695)**		(53,658)		**273**		(62,983)
Increase/(decrease) in cash and cash equivalents		**3,444**		(47,706)		**3,979**		(47,163)
Cash and cash equivalents - beginning of period		**4,152**		50,946		**3,617**		50,403
Cash and cash equivalents - end of period	**$**	**7,596**	$	3,240	**$**	**7,596**	$	3,240
Supplementary information								
Interest paid	**$**	**9,367**	$	13,010	**$**	**33,345**	$	21,337
Income taxes paid	**$**	**5,059**	$	967	**$**	**14,733**	$	8,054

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

1. Organization and Nature of Business

EnerCare Solutions Inc. ("EnerCare Solutions") is a wholly-owned subsidiary of EnerCare Inc. ("EnerCare").

EnerCare holds all of the issued and outstanding shares of EnerCare Solutions. 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").

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

2. Basis of Preparation

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

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

Basis of Measurement

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

Critical Accounting Estimates

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

Earnings Items

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

Over the past 18 months, DE and EnerCare Solutions have reached settlements in respect of billing and collection matters and installation costs. EnerCare Solutions has not provided for any additional settlements that may materialize as they are not determinable. Settlement with DE for an amount in excess of revenues recorded and recovery of any expenses accrued would result in an increase to previously stated EBITDA amounts. During the second quarter of 2013, EnerCare Solutions and DE reached a settlement of $1,678 on account of billing and collection in respect of water heater buyouts. The amount was recorded as other income (note 20).

3. Adoption of New Accounting Standards

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

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

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

4. Cash and Cash Equivalents

	June 30, 2013	December 31, 2012
Cash at bank	**$7,596**	$3,617
Ending balance	**$7,596**	$3,617

5. Accounts Receivable

	June 30, 2013	December 31, 2012
Accounts receivable (net of provision)	**$20,402**	$16,384
Bad and doubtful debt provision:		
Opening balance	**$ 1,547**	$ 486
Charge for the period	**375**	1,061
Provision ending balance	**$ 1,922**	$ 1,547

6. Accounts Payable and Accrued Liabilities

	June 30, 2013	December 31, 2012
Accounts payable	**$10,907**	$ 8,238
Accruals	**736**	1,289
Compensation payable	**-**	1,519
Current taxes payable	**3,493**	8,020
Other payables	**78**	68
Ending balance	**$15,214**	$19,134

7. Capital Assets

2013	Water Heaters	Other	Total
At December 31, 2012:			
Cost	$791,775	$ 342	$792,117
Accumulated depreciation	(380,929)	(166)	(381,095)
Net book value	$410,846	$ 176	$411,022
Additions	31,669	-	31,669
Loss on disposal before proceeds	(8,239)	-	(8,239)
Depreciation for the period	(22,971)	(43)	(23,014)
At June 30, 2013	$411,305	$ 133	$411,438
At June 30, 2013:			
Cost	$799,920	$ 342	$800,262
Accumulated depreciation	(388,615)	(209)	(388,824)
Net book value	$411,305	$ 133	$411,438

2012	Water Heaters	Other	Total
At December 31, 2011:			
Cost	$782,854	$ 350	$783,204
Accumulated depreciation	(360,529)	(79)	(360,608)
Net book value	$422,325	$ 271	$422,596
Additions	57,885	(8)	57,877
Loss on disposal before proceeds	(20,527)	-	(20,527)
Acquisition	1,944	-	1,944
Impairment	-	-	-
Depreciation for the period	(50,781)	(87)	(50,868)
At December 31, 2012	$410,846	$ 176	$411,022
At December 31, 2012:			
Cost	$791,775	$ 342	$792,117
Accumulated depreciation	(380,929)	(166)	(381,095)
Net book value	$410,846	$ 176	$411,022

8. Intangible Assets

Customer Relationships	**June 30, 2013**	December 31, 2012
At January 1:		
Cost	$743,336	$743,336
Accumulated depreciation	(460,104)	(413,711)
Net book value	$283,232	$329,625
Amortization for the period	(23,198)	(46,393)
Net book value	$260,034	$283,232
Ending Balance:		
Cost	$743,336	$743,336
Accumulated depreciation	(483,302)	(460,104)
Net book value	$260,034	$283,232

9. Debt

Bank indebtedness, current and long term debts:

	June 30, 2013	December 31, 2012
Bank indebtedness:		
Opening balance January 1	**$ -**	$ -
Revolver – drawdown	**2,000**	-
Revolver – repayment	**(2,000)**	-
Total bank indebtedness	**$ -**	$ -
Current portion of long term debt:		
Opening balance January 1	**$ -**	$ 60,000
Current portion of non-current debt	**-**	-
Repayment of debt	**-**	(60,000)
Total current portion of long term debt	**$ -**	$ -
Non-current portion of long term debt:		
Senior debt principal amount	**$520,000**	$510,000
Deferred financing costs and interest accretion	**(2,492)**	(1,946)
Opening balance January 1	**$517,508**	$508,054
Current portion of long term debt	**-**	-
Repayment of debt	**(270,000)**	(240,000)
Issuance of debt	**285,000**	250,000
Additional deferred financing costs	**(1,661)**	(1,786)
Amortization of deferred financing costs	**1,037**	1,240
Total non-current portion	**$531,884**	$517,508
Senior debt principal amount	**$535,000**	$520,000
Deferred financing costs and interest accretion	**(3,116)**	(2,492)
Total non-current portion of long term debt	**$531,884**	$517,508

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

The long term debt balance includes the following items:

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

10. Long Term Subordinated Promissory Notes

On January 1, 2011, the $381,755 Series 1 subordinated debt outstanding to EnerCare was redeemed for additional equity consideration and the issuance of a $100,000 subordinated promissory note. On September 28, 2012, a $150,000 promissory note was issued by EnerCare (collectively, the "Subordinated Promissory Notes"). The Subordinated Promissory Notes bear interest at rates notified by the holder. The notes have no fixed repayment terms, but are redeemable at the option of EnerCare Solutions at a price equal to the principal amount thereof plus accrued and unpaid interest to the date of redemption. The notes have been classified as long term as there are no near term intentions to demand repayment.

11. Subordinated Debt

On July 6, 2011, through a series of transactions, EnerCare Solutions invested $250,000 in preferred shares of Stratacon Inc. ("Stratacon"), a subsidiary entity of EnerCare. On January 1, 2012, 1759857 Ontario Limited, Stratacon and EnerCare Connections Inc. amalgamated. The name of the amalgamated entity is EnerCare Connections Inc. ("ECI"). The investment was funded through a short term bank loan. The preferred shares accrue cumulative dividends at 6.90% and are both redeemable and retractable. Stratacon, now ECI, invested the proceeds by providing a loan to a subsidiary of EnerCare Solutions ("Intercompany Loan"). The Intercompany Loan is a demand loan and bears interest at 7.00% (the "Subordinated Debt"). The subsidiary used the proceeds from the loan to repay existing obligations due to EnerCare Solutions from the subsidiary. On July 1, 2012, $200,000 of the preferred shares were redeemed and EnerCare Solutions used the proceeds to pay down the Intercompany Loan. Both the preferred shares and the Intercompany Loan have been classified as short term due to their underlying features.

12. Share Capital

	June 30, 2013		June 30, 2012	
Shares Issued and Outstanding	**Shares**	**Net Proceeds**	Shares	Net Proceeds
Opening balance at January 1:	1,001	$79,614	1,001	$79,614
Issued	-	-	-	-
Totals	1,001	$79,614	1,001	$79,614

EnerCare Solutions' articles of incorporation provide for the issuance of an unlimited number of common shares. On January 1, 2012, EnerCare Solutions converted to a corporation pursuant to a plan of arrangement. As at June 30, 2013, there were 1,001 common shares issued and outstanding.

13. Commitments

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

Period	**June 30, 2013**
Due in 2013	**$ 132**
Due in 2014	**264**
Due in 2015	**379**
Due in 2016	**397**
Due in 2017	**70**
Thereafter	**-**
Total commitments under non-cancellable operating leases	**$1,242**

The operating lease payments recognized in the condensed interim consolidated statement of income for the three and six months ended June 30, 2013 were $164 and $479 respectively (2012 - $298 and $482).

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 Solutions 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 Solutions' financial instruments are exposed to include credit risk, liquidity risk and market risk.

Credit Risk

EnerCare Solutions is exposed to credit risk on accounts receivable from customers. EnerCare Solutions' credit risk is considered to be low.

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

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

Liquidity Risk

EnerCare Solutions believes it has low liquidity risks given the makeup of its accounts payable and accrued liabilities, related party payables, provisions, interest payable, other liabilities payable and dividends payable. EnerCare Solutions measures liquidity risk through comparisons of current financial ratios with the financial covenants contained in its revolving and term loan credit facility agreements and its senior unsecured trust indenture, as supplemented, as applicable. To reduce liquidity risk, EnerCare Solutions 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 Solutions 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 Solutions exceeded this threshold requirement at June 30, 2013.

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

Period	Principal Payments	Interest Payments
Due in 2013	$ -	$ 11,513
Due in 2014	-	22,600
Due in 2015	-	22,600
Due in 2016	60,000	21,225
Due in 2017	250,000	21,100
Thereafter	225,000	25,875
Total	$535,000	$124,913

Market Risk

Fair Value

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

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

	June 30, 2013		December 31, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 7,596**	**$ 7,596**	$ 3,617	$ 3,617
Trade and other receivables	**20,402**	**20,402**	16,384	16,384
Total financial assets	**$ 27,998**	**$ 27,998**	$ 20,001	$ 20,001
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$535,000**	**$548,728**	$520,000	$537,274
Long term promissory note	**250,000**	**250,000**	250,000	250,000
Subordinated debt	**50,000**	**50,000**	50,000	50,000
Total borrowings	**835,000**	**848,728**	820,000	837,274
Trade and other payables	**25,585**	**25,585**	29,273	29,273
Total financial liabilities	**$860,585**	**$874,313**	$849,273	$866,547

Capital Risk Management

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

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

16. Selling, General and Administrative

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Employee compensation and benefits	**$1,440**	$1,899	**$ 2,850**	$ 3,748
Professional fees	**877**	903	**1,472**	1,974
Selling, office and other	**894**	2,628	**1,920**	4,001
Billing and servicing	**1,730**	1,517	**3,381**	3,223
Claims and bad debt	**1,619**	1,273	**2,902**	2,257
Total	**$6,560**	$8,220	**$12,525**	$15,203

17. Provisions

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

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

All claims generated during the years ended are typically paid out within 12 months, therefore no discounting in the provisions have been calculated.

18. Changes in Working Capital

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Account receivables	**$(1,055)**	$(1,744)	**$(4,018)**	$ 596
Prepaid and other assets	**40**	(15)	**87**	53
Accounts payable and accrued liabilities	**(187)**	1,323	**(3,920)**	(7,226)
Provisions	**507**	(105)	**437**	(590)
Related party	**(562)**	(4,925)	**(1,103)**	(2,432)
Interest payable	**(398)**	(2,956)	**830**	(620)
Total	**$(1,655)**	$(8,422)	**$(7,687)**	$(10,219)

19. Related Parties and Transactions with DE

Key Management

Key management includes EnerCare officers and directors who provide shared services to EnerCare Solutions. A schedule of total compensation and benefits earned by key management for employee services can be found in EnerCare's financial statements in respect of the second quarter of 2013.

Related Party Payables

EnerCare often incurs expenses on behalf of EnerCare Solutions in the normal course of business. Related party amounts owing to EnerCare are typically on account of selling, general and administrative expenses.

	June 30, 2013	December 31, 2012
Related party payables	**$833**	$1,936

Transactions with DE

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

Co-ownership Agreement:

Under this agreement, DE receives, subject to certain exceptions, 35% of the gross revenue generated by the co-owned portfolio of assets and is obligated to service that asset portfolio, effectively operating the day-to-day activities of that portion of the business. Pursuant to an agreement between DE and EnerCare, DE is entitled to put forth one individual for consideration by EnerCare Solutions' board for inclusion in EnerCare's annual management information circular for election as a director of EnerCare and its subsidiaries, including EnerCare Solutions, 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 Solutions at prescribed prices, essentially at DE's cost plus an inventory service fee and a set installation fee. EnerCare Solutions 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 Solutions and DE have entered into an agreement for the servicing of Toronto Hydro Energy Services Inc. ("TH") energy units, as these units are not subject to the co-ownership agreement. This agreement provides for the administration and servicing of the portfolio on a fee-for-service basis.

EnerCare Solutions 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 Solutions has the right to originate HVAC rental customers outside of this arrangement with DE.

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

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

20. Other Income

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