



**EnerCare Solutions Inc.**

**Condensed Interim Consolidated Financial Statements**

**Third Quarter ended September 30, 2013**

**Dated November 13, 2013**

**EnerCare Solutions Inc.**  
**Condensed Interim Consolidated Statements of Financial Position**

(in thousands of Cdn \$)	(unaudited)	
	September 30, 2013	December 31, 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	\$ 12,581	\$ 3,617
Accounts receivable (note 5)	19,527	16,384
Prepaid and other assets	766	857
Investment in EnerCare Connections Inc. preferred shares (note 11)	50,000	50,000
	<b>82,874</b>	<b>70,858</b>
<b>Capital assets (note 7)</b>	<b>412,351</b>	<b>411,022</b>
<b>Intangible assets (note 8)</b>	<b>248,435</b>	<b>283,232</b>
<b>Deferred tax asset</b>	<b>2,028</b>	<b>348</b>
	<b>\$ 745,688</b>	<b>\$ 765,460</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6)	\$ 15,510	\$ 19,134
Related party payable (note 19)	833	1,936
Provisions (note 17)	1,225	726
Interest payable	5,144	4,228
Dividends payable	3,381	3,249
Subordinated debt (note 11)	50,000	50,000
	<b>76,093</b>	<b>79,273</b>
<b>Long-term debt (note 9)</b>	<b>531,966</b>	<b>517,508</b>
<b>Long-term subordinated promissory notes (note 10)</b>	<b>250,000</b>	<b>250,000</b>
<b>Deferred tax liability</b>	<b>120,215</b>	<b>133,690</b>
	<b>978,274</b>	<b>980,471</b>
<b>Shareholders' equity</b>	<b>(232,586)</b>	<b>(215,011)</b>
	<b>\$ 745,688</b>	<b>\$ 765,460</b>

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

**EnerCare Solutions 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,	
	2013	2012	2013	2012
<b>Revenues</b>				
Rentals and services	\$ 47,248	\$ 46,581	\$ 141,623	\$ 140,163
Dividend income	870	870	2,590	9,472
Investment income	20	14	317	213
<b>Total revenues</b>	<b>48,138</b>	<b>47,465</b>	<b>144,530</b>	<b>149,848</b>
<b>Expenses</b>				
Selling, general & administrative (note 16)	6,277	6,159	18,802	21,362
Amortization				
Capital assets (note 7)	12,164	12,517	35,178	38,443
Intangible assets (note 8)	11,599	11,598	34,797	34,794
Loss on disposal of equipment	2,633	3,397	8,974	11,625
Interest				
Short-term	395	32	1,153	97
Make-whole charge on early redemption of debt (note 9)	-	-	13,754	-
Long-term	5,429	8,738	23,406	27,701
Subordinated debt	882	882	2,628	9,608
Promissory notes	2,500	3,049	7,500	7,049
<b>Total operating expenses</b>	<b>41,879</b>	<b>46,372</b>	<b>146,192</b>	<b>150,679</b>
<b>Other income (note 20)</b>	<b>2,000</b>	<b>-</b>	<b>3,678</b>	<b>1,500</b>
<b>Earnings for the period before income taxes</b>	<b>8,259</b>	<b>1,093</b>	<b>2,016</b>	<b>669</b>
<b>Tax expense</b>				
Current tax expense	5,410	3,821	15,616	9,110
Deferred income tax (recovery)	(3,442)	(3,065)	(15,155)	(4,587)
<b>Total tax expense</b>	<b>1,968</b>	<b>756</b>	<b>461</b>	<b>4,523</b>
<b>Net earnings/(loss) for the period</b>	<b>\$ 6,291</b>	<b>\$ 337</b>	<b>\$ 1,555</b>	<b>\$ (3,854)</b>

**EnerCare Solutions Inc.**  
**Condensed Interim Consolidated Statements of Comprehensive Income**

(unaudited) (in thousands of Cdn \$)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Net earnings/(loss) for the period</b>	<b>\$ 6,291</b>	<b>\$ 337</b>	<b>\$ 1,555</b>	<b>\$ (3,854)</b>
Amortization of accumulated other comprehensive loss to net earnings/(loss)	-	763	4,023	2,496
<b>Comprehensive income/(loss) for the period</b>	<b>\$ 6,291</b>	<b>\$ 1,100</b>	<b>\$ 5,578</b>	<b>\$ (1,358)</b>

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) (in thousands of Cdn \$)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Share Capital</b>				
Balance - beginning of period	\$ 79,614	\$ 79,614	\$ 79,614	\$ 79,614
<b>Share Capital - end of period (note 12)</b>	<b>79,614</b>	<b>79,614</b>	<b>79,614</b>	<b>79,614</b>
<b>Accumulated Other Comprehensive Loss</b>				
Balance - beginning of period	-	(5,548)	(4,023)	(7,281)
Amortization	-	763	4,023	2,496
<b>Accumulated Other Comprehensive Loss - end of period</b>	<b>-</b>	<b>(4,785)</b>	<b>-</b>	<b>(4,785)</b>
<b>Deficit</b>				
Balance - beginning of period	(308,472)	(119,150)	(290,602)	(95,829)
Net earnings/(loss) for the period	6,291	337	1,555	(3,854)
(Decrease)/increase in equity on reduction to and issuance of additional promissory notes (note 10)	-	(150,000)	-	(150,000)
Dividends	(10,019)	(9,728)	(23,153)	(28,858)
<b>Deficit - end of period</b>	<b>(312,200)</b>	<b>(278,541)</b>	<b>(312,200)</b>	<b>(278,541)</b>
<b>Shareholders' equity - end of period</b>	<b>\$ (232,586)</b>	<b>\$ (203,712)</b>	<b>\$ (232,586)</b>	<b>\$ (203,712)</b>

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) (in thousands of Cdn \$)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Cash provided by/(used in):</b>				
<b>Operating activities</b>				
Net earnings/(loss) for the period	\$ 6,291	\$ 337	\$ 1,555	\$ (3,854)
Items not affecting cash				
Amortization				
Capital assets (note 7)	12,164	12,517	35,178	38,443
Intangible assets (note 8)	11,599	11,598	34,797	34,794
Loss on disposal of equipment	2,633	3,397	8,974	11,625
Non-cash interest expense	154	1,031	5,214	3,342
Deferred income tax (recovery)	(3,442)	(3,065)	(15,155)	(4,587)
<b>Operating cash flow</b>	<b>29,399</b>	<b>25,815</b>	<b>70,563</b>	<b>79,763</b>
Net change in non-cash working capital (note 18)	1,323	6,201	(6,364)	(4,018)
<b>Cash provided by operating activities</b>	<b>30,722</b>	<b>32,016</b>	<b>64,199</b>	<b>75,745</b>
<b>Investing activities</b>				
Purchase of capital assets (note 7)	(17,383)	(13,543)	(49,052)	(42,584)
Acquisitions	-	109	-	(1,944)
Proceeds from disposal of equipment	1,673	1,051	3,571	4,236
<b>Cash used in investing activities</b>	<b>(15,710)</b>	<b>(12,383)</b>	<b>(45,481)</b>	<b>(40,292)</b>
<b>Financing activities</b>				
Dividends to shareholders	(9,955)	(9,720)	(23,021)	(28,703)
Sale of preferred shares	-	200,000	-	200,000
Proceeds from revolving line of credit	-	-	2,000	-
Repayment of line of credit	-	-	(2,000)	-
Repayment of subordinated debt	-	(200,000)	-	(200,000)
Proceeds from issuance of long-term non-interest bearing loan	-	-	-	16,000
Repayment of long-term non-interest bearing loan	-	(10,800)	-	(10,800)
Proceeds from issuance of long-term debt	-	-	285,000	-
Repayment of long-term debt	-	-	(270,000)	(60,000)
Deferred financing costs on long-term debt	(72)	-	(1,733)	-
<b>Cash (used in)/provided by financing activities</b>	<b>(10,027)</b>	<b>(20,520)</b>	<b>(9,754)</b>	<b>(83,503)</b>
Increase in cash and cash equivalents	4,985	(887)	8,964	(48,050)
Cash and cash equivalents - beginning of period	7,596	3,240	3,617	50,403
<b>Cash and cash equivalents - end of period</b>	<b>\$ 12,581</b>	<b>\$ 2,353</b>	<b>\$ 12,581</b>	<b>\$ 2,353</b>
<b>Supplementary information</b>				
Interest paid	\$ 8,966	\$ 9,382	\$ 42,311	\$ 30,719
Income taxes paid	\$ 3,675	\$ 1,369	\$ 18,408	\$ 9,423

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

# **EnerCare Solutions Inc.**

## **Notes to the Condensed Interim Consolidated Financial Statements**

September 30, 2013 and 2012  
(in thousands of Canadian dollars, except share amounts)

### **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 consolidated 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 November 13, 2013, the date the board of directors approved the condensed interim consolidated financial statements. The board of directors 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 21 months, DE and EnerCare Solutions have reached settlements in respect of billing and collection matters and installation costs. 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 the third quarter of 2013, EnerCare Solutions has accrued \$2,000 on account of water heater installation costs, billing and collection deficiencies and third-party claims. These amounts were recorded as other income. 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 other income amounts.

### **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

	September 30, 2013	December 31, 2012
Cash at bank	\$12,581	\$3,617
Ending balance	\$12,581	\$3,617

#### 5. Accounts Receivable

	September 30, 2013	December 31, 2012
Accounts receivable (net of provision)	\$19,527	\$16,384
Bad and doubtful debt provision:		
Opening balance	\$ 1,547	\$ 486
Charge for the period	871	1,061
Provision ending balance	\$ 2,418	\$ 1,547

#### 6. Accounts Payable and Accrued Liabilities

	September 30, 2013	December 31, 2012
Accounts payable	\$ 9,942	\$ 8,238
Accruals	258	1,289
Compensation payable	-	1,519
Current taxes payable	5,228	8,020
Other payables	82	68
Ending balance	\$15,510	\$19,134

#### 7. Capital Assets

2013	Water Heaters	Other	Total
<b>At December 31, 2012:</b>			
Cost	\$791,775	\$ 342	\$792,117
Accumulated depreciation	(380,929)	(166)	(381,095)
Net book value	\$410,846	\$ 176	\$411,022
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Additions	49,052	-	49,052
Loss on disposal before proceeds	(12,545)	-	(12,545)
Depreciation for the period	(35,114)	(64)	(35,178)
At September 30, 2013	\$412,239	\$112	\$412,351
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<b>At September 30, 2013:</b>			
Cost	805,366	\$342	\$805,708
Accumulated depreciation	(393,127)	(230)	(393,357)
Net book value	\$412,239	\$112	\$412,351



<b>2012</b>	Water Heaters	Other	Total
<b>At December 31, 2011:</b>			
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
Depreciation for the period	(50,781)	(87)	(50,868)
At December 31, 2012	\$410,846	\$ 176	\$411,022
<b>At December 31, 2012:</b>			
Cost	\$791,775	\$ 342	\$792,117
Accumulated depreciation	(380,929)	(166)	(381,095)
Net book value	\$410,846	\$ 176	\$411,022

## 8. Intangible Assets

<b>Customer Relationships</b>	<b>September 30, 2013</b>	December 31, 2012
<b>At January 1:</b>		
Cost	\$743,336	\$743,336
Accumulated depreciation	(460,104)	(413,711)
Net book value	\$283,232	\$329,625
Amortization for the period	(34,797)	(46,393)
Net book value	\$248,435	\$283,232
<b>Ending Balance:</b>		
Cost	\$743,336	\$743,336
Accumulated depreciation	(494,901)	(460,104)
Net book value	\$248,435	\$283,232

## 9. Debt

### *Bank indebtedness, current and long term debts:*

	September 30, 2013	December 31, 2012
<b>Bank indebtedness:</b>		
Opening balance January 1	\$ -	\$ -
Revolver – drawdown	2,000	-
Revolver – repayment	(2,000)	-
<b>Total bank indebtedness</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Current portion of long term debt:</b>		
Opening balance January 1	\$ -	\$ 60,000
Current portion of non-current debt	-	-
Repayment of debt	-	(60,000)
<b>Total current portion of long term debt</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Non-current portion of long term debt:</b>		
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	(1,733)	(1,786)
Amortization of deferred financing costs	1,191	1,240
<b>Total non-current portion</b>	<b>\$531,966</b>	<b>\$517,508</b>
Senior debt principal amount	\$535,000	\$520,000
Deferred financing costs and interest accretion	(3,034)	(2,492)
<b>Total non-current portion of long term debt</b>	<b>\$531,966</b>	<b>\$517,508</b>

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 September 30, 2013, EnerCare Solutions complied with these covenants and was able to fully utilize the Revolver limit of \$35,000. As at September 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

	September 30, 2013		September 30, 2012	
	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 September 30, 2013, there were 1,001 common shares issued and outstanding.

## 13. Commitments

EnerCare Solutions is not party to any operating lease agreements. Operating leases for office premises and office equipment are borne by EnerCare.

## 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.

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

### Liquidity Risk

EnerCare Solutions believes it has low liquidity risks given the makeup of its accounts payable and accrued liabilities, related party payable, 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 Revolver and Term Loan 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 September 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	\$ -	\$ 5,750
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	\$119,150

## 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.

The following table presents the carrying amounts and the fair values of EnerCare Solutions' financial assets and liabilities at September 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 knowledgeable willing parties, in an arm's length transaction.

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 12,581	\$ 12,581	\$ 3,617	\$ 3,617
Accounts receivable	19,527	19,527	16,384	16,384
Total financial assets	\$ 32,108	\$ 32,108	\$ 20,001	\$ 20,001
Financial liabilities measured at amortized cost:				
Gross senior borrowings	\$535,000	\$547,735	\$520,000	\$537,274
Long term subordinated promissory notes	250,000	250,000	250,000	250,000
Subordinated debt	50,000	50,000	50,000	50,000
Total borrowings	835,000	847,735	820,000	837,274
Trade and other payables	26,093	26,093	29,273	29,273
Total financial liabilities	\$861,093	\$873,828	\$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 September 30, 2013.

## 16. Selling, General and Administrative

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2013	2012	2013	2012
Employee compensation and benefits	\$1,820	\$ 1,319	\$ 4,670	\$ 5,067
Professional fees	466	751	1,938	2,725
Selling, office and other	479	1,321	2,399	5,322
Billing and servicing	1,824	1,496	5,205	4,719
Claims and bad debt	1,688	1,272	4,590	3,529
Total	\$6,277	\$ 6,159	\$18,802	\$21,362

## 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.

	<b>September 30, 2013</b>	December 31, 2012
Opening balance:	\$ 726	\$1,592
Charged/(credited) to the condensed interim consolidated statement of income:		
Additional provision	<b>2,820</b>	3,503
Reversals	-	(876)
Claims spending during the period	<b>(2,321)</b>	(3,493)
Ending balance	<b>\$1,225</b>	\$ 726

All claims generated during the periods 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 September 30, 2013		Nine months ended September 30, 2012	
	<b>2013</b>	2012	<b>2013</b>	2012
Accounts receivable	<b>\$875</b>	\$ (578)	<b>\$(3,143)</b>	\$ 18
Prepaid and other assets	<b>4</b>	(178)	<b>91</b>	(125)
Accounts payable and accrued liabilities	<b>296</b>	1,748	<b>(3,624)</b>	(5,478)
Provisions	<b>62</b>	18	<b>499</b>	(572)
Related party payable	-	3,785	<b>(1,103)</b>	1,353
Interest payable	<b>86</b>	1,406	<b>916</b>	786
Total	<b>\$1,323</b>	\$6,201	<b>\$(6,364)</b>	\$(4,018)

## 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 condensed interim consolidated financial statements in respect of the third 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.

	<b>September 30, 2013</b>	December 31, 2012
Related party payables	<b>\$833</b>	\$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. 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 Sept 30,		Nine months ended Sept 30,	
	2013	2012	2013	2012
Origination agreement:				
Capital expenditures	\$15,384	\$11,461	\$42,021	\$36,372
GreenSource acquisition	-	(109)	-	1,944
Inventory service fee	871	736	2,604	2,340
Other capital expenditures	1,328	1,069	5,096	3,567
Other expenses, including billing and servicing costs	748	621	2,143	2,169
Total	\$18,331	\$13,778	\$51,864	\$46,392

## **20. Other Income**

During the third quarter of 2013, EnerCare Solutions 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 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.