EnerCare Solutions Inc.

Consolidated Financial Statements

Year Ended December 31, 2013

Dated March 5, 2014

March 5, 2014

Independent Auditor's Report

To the Shareholders of
EnerCare Solutions Inc.

We have audited the accompanying consolidated financial statements of EnerCare Solutions Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EnerCare Solutions Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

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EnerCare Solutions Inc.
Consolidated Statements of Financial Position

As at December 31, (in thousands of Cdn $)		**December 31, 2013**		December 31, 2012
Assets				
Current assets				
Cash and cash equivalents (note 4)	**$**	**17,799**	$	3,617
Accounts receivable (note 5)		**14,448**		16,384
Prepaid and other assets		**928**		857
Investment in EnerCare Connections Inc. preferred shares (note 11)		**50,000**		50,000
		83,175		70,858
Capital assets (note 7)		**415,801**		411,022
Intangible assets (note 8)		**236,836**		283,232
Deferred tax asset (note 12)		**1,114**		348
	$	**736,926**	$	765,460
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 6)	**$**	**15,734**	$	19,134
Related party payable (note 20)		**1,139**		1,936
Provisions (note 18)		**1,187**		726
Interest payable		**5,044**		4,228
Dividends payable		**3,389**		3,249
Subordinated debt (note 11)		**50,000**		50,000
		76,493		79,273
Long-term debt (note 9)		**532,121**		517,508
Long-term subordinated promissory notes (note 10)		**250,000**		250,000
Deferred tax liability (note 12)		**115,829**		133,690
		974,443		980,471
Shareholders' equity				
Share Capital		**79,614**		79,614
Accumulated Other Comprehensive Loss		**-**		(4,023)
Deficit		**(317,131)**		(290,602)
		(237,517)		(215,011)
	$	**736,926**	$	765,460

Commitments, contingent liabilities and financial instrument obligations are found in notes 14,15 and 16, respectively.

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

EnerCare Solutions Inc.

Consolidated Statements of Income

For the years ended December 31, (in thousands of Cdn $, except per share amounts)		2013		2012
Revenues				
Rentals and services	**$**	**189,438**	$	186,288
Dividend income		**3,459**		10,342
Investment income		**352**		402
Total revenues		**193,249**		197,032
Expenses				
Selling, general & administrative (note 17)		**24,562**		27,579
Amortization				
Capital assets (note 7)		**47,607**		50,868
Intangible assets (note 8)		**46,396**		46,393
Loss on disposal of equipment		**11,640**		15,148
Interest				
Short-term		**1,548**		141
Make-whole charge on early redemption of debt (note 9)		**13,754**		1,920
Long-term		**28,836**		37,427
Subordinated debt		**3,510**		10,490
Promissory notes		**10,000**		10,174
Total operating expenses		**187,853**		200,140
Other income (note 21)		**4,447**		1,138
Earnings/(loss) for the year before income taxes		**9,843**		(1,970)
Tax expense				
Current tax expense (note 12)		**21,685**		13,896
Deferred income tax (recovery) (note 12)		**(18,627)**		(9,696)
Total tax expense		**3,058**		4,200
Net earnings/(loss) for the year	**$**	**6,785**	$	(6,170)

EnerCare Solutions Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31, (in thousands of Cdn $)		2013		2012
Net earnings/(loss) for the year	**$**	**6,785**	$	(6,170)
Reclassification of cash flow hedge loss to earnings/(loss)		**4,023**		3,258
Comprehensive income/(loss) for the year	**$**	**10,808**	$	(2,912)

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

EnerCare Solutions Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, (in thousands of Cdn $)		2013		2012
Share Capital				
Balance - beginning of year	**$**	**79,614**	$	79,614
Share Capital - end of year (note 13)		**79,614**		79,614
Accumulated Other Comprehensive Loss				
Balance - beginning of year		**(4,023)**		(7,281)
Reclassification of cash flow hedge loss to earnings/(loss)		**4,023**		3,258
Accumulated Other Comprehensive Loss - end of year		**-**		(4,023)
Deficit				
Balance - beginning of year		**(290,602)**		(95,829)
Net earnings/(loss) for the year		**6,785**		(6,170)
(Decrease)/increase in equity on reduction to and issuance of additional promissory notes (note 10)		**-**		(150,000)
Dividends		**(33,314)**		(38,603)
Deficit - end of year		**(317,131)**		(290,602)
Shareholders' equity - end of year	**$**	**(237,517)**	$	(215,011)

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

EnerCare Solutions Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, (in thousands of Cdn $)	**2013**	2012
Cash provided by/(used in):		
Operating activities		
Net earnings/(loss) for the year	**$ 6,785**	$ (6,170)
Items not affecting cash		
Amortization		
Capital assets (note 7)	**47,607**	50,868
Intangible assets (note 8)	**46,396**	46,393
Loss on disposal of equipment	**11,640**	15,148
Non-cash interest expense	**5,369**	4,498
Deferred income tax (recovery) (note 12)	**(18,627)**	(9,696)
Operating cash flow	**99,170**	101,041
Net change in non-cash working capital (note 19)	**(1,055)**	(3,154)
Cash provided by operating activities	**98,115**	97,887
Investing activities		
Purchase of capital assets (note 7)	**(68,746)**	(57,877)
Acquisitions	**-**	(1,944)
Proceeds from disposal of equipment	**4,720**	5,379
Cash used in investing activities	**(64,026)**	(54,442)
Financing activities		
Dividends to shareholders	**(33,174)**	(38,445)
Sale of preferred shares	-	200,000
Proceeds from revolving line of credit	**2,000**	-
Repayment of line of credit	**(2,000)**	-
Repayment of subordinated debt	-	(200,000)
Proceeds from issuance of long-term debt	**285,000**	250,000
Repayment of long-term debt	**(270,000)**	(300,000)
Deferred financing costs on long-term debt	**(1,733)**	(1,786)
Cash used in financing activities	**(19,907)**	(90,231)
Increase/(decrease) in cash and cash equivalents	**14,182**	(46,786)
Cash and cash equivalents - beginning of year	**3,617**	50,403
Cash and cash equivalents - end of year	**$ 17,799**	$ 3,617
Supplementary information		
Interest paid	**$ 51,463**	$ 48,269
Income taxes paid	**$ 23,308**	$ 11,256

The accompanying notes are an integral part of these 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 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 consolidated financial statements. 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 consolidated financial statements are based on IFRS issued and outstanding as of March 5, 2014, the date the board of directors approved the consolidated financial statements. The board of directors also has the authority to amend the consolidated financial statements after they have been issued.

3. Significant Accounting Policies

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

Basis of Measurement

The 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.

Consolidation

The consolidated financial statements of EnerCare Solutions consolidate the accounts of its subsidiaries. All inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

Subsidiaries are those entities which EnerCare Solutions controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether EnerCare Solutions controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by EnerCare Solutions and are de-consolidated from the date that control ceases. As of the date of these consolidated financial statements, 100% of the operating results and equity of the subsidiaries is attributable to EnerCare Solutions.

Business Combinations

Business combinations are presented in accordance with IFRS 3. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Any excess purchase price over the identifiable net assets will be recorded as goodwill. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and short-term investments with maturities of less than 90 days after the date of purchase.

Financial Instruments

Financial assets and liabilities are recognized when EnerCare Solutions becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and EnerCare Solutions has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation is eliminated or EnerCare Solutions is no longer required to transfer economic resources to a third party in respect of the obligation.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, EnerCare Solutions classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position, which is classified as non-current.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. EnerCare Solutions' loans and receivables are comprised primarily of accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, provisions, interest payable, other liabilities payable and long-term debt. Accounts payable are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are recognized at amortized cost using the effective interest rate method. Current and long-term debts are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of Financial Assets

At each reporting date, EnerCare Solutions assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, EnerCare Solutions recognizes an impairment loss on financial assets carried at amortized cost as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Accounts Receivable

Accounts receivable are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When an accounts receivable is determined to be uncollectable it is written off, firstly against any provision available and then to the statement of income.

Subsequent recoveries of amounts previously provided for are credited to the statement of income.

Provisions

Provisions for legal claims, where applicable, are recognized in accounts payable and accrued liabilities when EnerCare Solutions has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The discount rate, if applied, would be the risk free rate at the then measurement date. EnerCare Solutions performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Capital Assets

Capital assets are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset, including installation costs, labour, and direct overhead. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to EnerCare Solutions and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

The major categories of capital assets are depreciated over the estimated useful lives of the assets on a straight-line basis as follows:

Water heaters	16 years
Furniture and fixtures	5 years
Computer equipment	3 years

Computer software	2-10 years

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of loss on disposal of equipment in the statement of income.

Leases

Leasing agreements which transfer to EnerCare Solutions substantially all the benefits and risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the finance lease is included in the statement of income. All other leases are operating leases and the rental costs are charged to the statement of income on a straight-line basis over the lease term.

Intangible Assets

Intangible assets are predominantly related to contractual customer relationships acquired in business combinations that are recognized at fair value at the acquisition date. The contractual customer relationships and customer contracts have a finite useful life and are carried at cost less accumulated amortization and impairment charges. Amortization is calculated using the straight-line method over the expected life of 16 years.

Impairment of Non-financial Assets

Intangible assets and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGU"). The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. When there are indications of a potential decrease in a prior period impairment loss a reversal may be recognized through profit and loss. A change in amortization may be required based upon the estimated remaining service life.

Income Tax

EnerCare Solutions uses the liability method to determine the deferred income tax liability and related earnings impact. Under this method, deferred income tax assets and liabilities are determined based on differences between the accounting and tax value of assets and liabilities and are measured using the currently enacted, or substantially enacted, tax rates that will be in effect when the differences are anticipated to reverse. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantially enacted, at the end of the reporting period, and any adjustment to tax payable in respect to previous years.

Deferred income tax assets and liabilities are presented as non-current.

Revenue

Revenue is recognized when it is probable that the economic benefits will flow to EnerCare Solutions and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are met at the time the equipment is installed and, depending on the delivery condition, title and risk have been passed to the customer and acceptance of the product, when contractually required, has been obtained. Revenue is measured based on the contract price, net of discounts at the time of sale.

The Rental business earns revenue based on the rental agreements that are managed under: (a) the co-ownership agreement with Direct Energy Marketing Limited ("DE") as well as (b) other third party arrangements. Under the co-ownership agreement with DE, EnerCare Solutions earns 65% of gross revenues, and the remaining 35% is earned by DE for installing and servicing the equipment. For all other portfolio assets that are not under the co-ownership agreement, including the Sub-metering assets, EnerCare Solutions recognizes 100% of the revenues, together with related operating and service costs.

Interest Expense and Financing Charges

Interest charges on debt are classified as an operating expense. Costs associated with the arrangement of long-term financing are netted against the carrying value of the debt and amortized on an effective interest rate method over the expected term of the debt.

Hedge Accounting

In 2009, EnerCare Solutions completed a series of cash flow hedge transactions which resulted in a charge to other comprehensive income. This loss was being amortized into income using the effective interest rate method based upon the maturity of the 6.20% $60,000, Series 2009-1 Senior Unsecured Notes (the "2009-1 Notes") and the 6.75% $270,000 Series 2009-2 Senior Unsecured Notes (the "2009-2 Notes" and collectively with the 2009-1 Notes, the "2009 Notes"). The Series 2009-1 Notes matured in April 2012, while the Series 2009-2 Notes were redeemed in March 2013.

Dividends

Dividends on shares are recognized in EnerCare Solutions' consolidated financial statements in the period in which the dividends are approved by EnerCare Solutions' board of directors.

Critical Accounting Estimates and Judgments

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 consolidated financial statements. Management applies judgement in its assessment of EnerCare Solutions' arrangements with customers when determining the classification of leases and the extent to which the risks and rewards incidental to ownership lie with the company or the customer. In addition to leases, other estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following items are of significance for the period.

Earnings Items

Direct Energy Marketing Limited ("DE"), through Enbridge Gas Distribution Inc. ("Enbridge"), provides billing and collection services for substantially all of EnerCare Solutions' water heaters and other assets. In September 2009, DE implemented a billing system conversion which coincided with a billing system conversion by Enbridge. 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-Enbridge 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 2 years, 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 accrued $2,000 on account of water heater installation costs, billing and collection deficiencies and third-party claims, with an additional $769 being recognized upon settlement in the fourth quarter of 2013. 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.

Adoption of new Accounting Standards

On December 16, 2011, the IASB released Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The standard amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosure to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32. The standard requires a financial asset and a financial liability to be offset and the net amount presented in the statement of financial position when, and only when, an entity (1) currently has a legally enforceable right to set off the recognized amounts and (2) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. 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 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 IFRS standards 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 IFRS 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.

Accounting Standards Issued But Not Yet Applied

IFRS 9, *Financial Instruments*, was issued in November 2009. It addressed classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return on investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with early adoption permitted. EnerCare Solutions has not yet assessed the impact of the standard or determined whether it will adopt the standard prior to January 1, 2015.

4. Cash and Cash Equivalents

As at December 31,	**2013**	2012
Cash at bank	**$17,799**	$3,617
Ending balance	**$17,799**	$3,617

5. Accounts Receivable

As at December 31,	**2013**	2012
Accounts receivable (net of provision)	**$14,448**	$16,384
Bad and doubtful debt provision:		
Opening balance	**$ 1,547**	$ 486
Charge for the year	**1,114**	1,061
Provision ending balance	**$ 2,661**	$ 1,547

6. Accounts Payable and Accrued Liabilities

As at December 31,	**2013**	2012
Accounts payable	**$ 8,914**	$ 8,238
Accruals	**337**	1,289
Compensation payable	**-**	1,519
Current taxes payable	**6,397**	8,020
Other payables	**86**	68
Ending balance	**$15,734**	$19,134

7. Capital Assets

2013 and 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
Depreciation for the year	(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**
Additions	68,746	-	68,746
Loss on disposal before proceeds	(16,360)	-	(16,360)
Depreciation for the year	(47,521)	(86)	(47,607)
At December 31, 2013	$415,711	$ 90	$415,801
At December 31, 2013:			
Cost	$813,630	$342	$813,972
Accumulated depreciation	(397,919)	(252)	(398,171)
Net book value	**$415,711**	**$ 90**	**$415,801**

8. Intangible Assets

Customer Relationships	**2013**	2012
Opening balance January 1:		
Cost	**$743,336**	$743,336
Accumulated depreciation	**(460,104)**	(413,711)
Net book value	**$283,232**	$329,625
Amortization for the year	**(46,396)**	(46,393)
Net book value	**$236,836**	$283,232
Ending balance as at December 31:		
Cost	**$743,336**	$743,336
Accumulated depreciation	**(506,500)**	(460,104)
Net book value	**$236,836**	$283,232

9. Debt

Bank indebtedness, current and long term debt:

As at December 31,	**2013**	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
Unamortized 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	**1,346**	1,240
Total non-current portion	**$532,121**	$517,508
Senior debt principal amount	**$535,000**	$520,000
Unamortized financing costs and interest accretion	**(2,879)**	(2,492)
Total non-current portion of long term debt	**$532,121**	$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 credit facility (the "Term Loan") documents. The covenants address interest and debt coverage. At December 31, 2013, EnerCare Solutions complied with these covenants and was able to fully utilize the Revolver limit of $35,000. As at December 31, 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, respectively. On January 28, 2013, EnerCare Solutions entered into a $60,000 variable rate, single draw, Term Loan maturing on January 28, 2016. The $60,000 6.20% 2009-1 Senior Unsecured Notes matured and were repaid with cash on hand on April 30, 2012. The $240,000 5.25% 2010-1 Senior Unsecured Notes were redeemed in December 2012, including a make-whole payment of $1,920, from proceeds of the issuance of the 2012 Notes. The $270,000 6.75% 2009-2 Senior Unsecured Notes were redeemed in March 2013, including a make-whole payment of $13,754, from proceeds of the issuance of the 2013 Notes and drawdown of the Term Loan.

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. Income Taxes

Income tax expense is recognized based on management's best estimates of the weighted average annual income tax rate for the full financial year. The estimated average annual rate used for each of the years ended December 31, 2013 and 2012 was 26.50%. The provisions for income taxes in the consolidated statements of earnings reflect an effective rate that differs from the combined Canadian federal and provincial rates, as follows:

For the year ended December 31,	**2013**	2012
Tax expense at statutory rate of 26.50%	**$2,608**	$ (522)
Tax effects of:		
Future tax rate differential	**-**	6,359
Non-deductible expenses	**527**	(1,577)
Other	**(77)**	(60)
Total	**$3,058**	$4,200
Current tax expense	**21,685**	13,896
Deferred income tax recovery	**(18,627)**	(9,696)
Total tax recovery	**$ 3,058**	$4,200

The provision for income taxes in 2013 reflects both a provision for temporary difference expected to be reversed in the future and the impact of future changes in tax rates applicable to EnerCare Solutions.

Deferred income tax asset and liability

The deferred income tax asset and liability on EnerCare Solutions' statement of financial position reflect the estimated tax on temporary and other differences. The movement of the deferred income tax accounts are as follows:

As at December 31,	**2013**	2012
As at January 1:	**$(133,342)**	$(143,038)
Deferred income tax recovery	**18,627**	9,696
Total	**$(114,715)**	$(133,342)

The balance of the deferred income tax asset and liability classified by temporary differences is as follow:

As at December 31,	**2013**	2012
Deferred tax asset		
Financing fees	**$1,114**	$348
Other	**691**	397
	1,805	745
Deferred tax liability		
Equipment	**(97,523)**	(109,615)
Temporary difference due to different tax year ends	**(18,780)**	(24,205)
Other	**(217)**	(267)
	(116,520)	(134,087)
Total	**$(114,715)**	$(133,342)

Classification

As at December 31,	**2013**	2012
Deferred tax asset	**$ 1,114**	$ 348
Deferred tax liability	**(115,829)**	(133,690)
Total	**$(114,715)**	$(133,342)

13. Share Capital

As at December 31,		**2013**		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 December 31, 2013, there were 1,001 common shares issued and outstanding.

14. Commitments

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

15. 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 consolidated financial statements.

16. 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 Enbridge outside their service territory. For accounts receivable from customers billed on Enbridge invoices within their service territory, EnerCare Solutions is guaranteed payment by Enbridge 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 Enbridge.

A provision for all amounts at risk of collection and impaired has been made in the 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 December 31, 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 2014	$ -	$ 22,600
Due in 2015	-	22,600
Due in 2016	60,000	21,225
Due in 2017	250,000	21,100
Due in 2018	-	10,350
Thereafter	225,000	15,525
Total	$535,000	$113,400

Market Risk

Fair Value

The carrying values of cash and cash equivalents, accounts receivable, investment in preferred shares, accounts payable and accrued liabilities and other payables approximate their fair values due to their relatively short periods to maturity.

Fair value measurements are determined in accordance with the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

The following table presents the carrying amounts and the fair values of EnerCare Solutions' financial assets and liabilities at December 31, 2013 and 2012. 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.

As at December 31,		**2013**		2012
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 17,799**	**$17,799**	$ 3,617	$ 3,617
Accounts receivable	**14,448**	**14,448**	16,384	16,384
Investment in preferred shares	**50,000**	**50,000**	50,000	50,000
Total financial assets	**$ 82,247**	**$82,247**	$ 70,001	$ 70,001
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$535,000**	**$548,110**	$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**	**848,110**	820,000	837,274
Accounts and other payables	**26,493**	**26,493**	29,273	29,273
Total financial liabilities	**$861,493**	**$874,603**	$849,273	$866,547

Financial assets and liabilities recorded at fair value are classified as Level 2 financial instruments, except gross senior borrowings which are classified as Level 1, and the promissory notes and subordinated debt which are unobservable.

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 December 31, 2013.

17. Selling, General and Administrative

For the year ended December 31,	**2013**	2012
Employee compensation and benefits	**$ 6,443**	$ 6,458
Professional fees	**2,419**	3,741
Selling, office and other	**2,875**	5,792
Billing and servicing	**7,015**	6,313
Claims and bad debt	**5,810**	5,275
Total	**$24,562**	$27,579

18. 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 as at December 31, 2013.

For the year ended December 31,	**2013**	2012
Opening balance:	**$ 726**	$1,592
Charged/(credited) to the consolidated statement of income:		
Additional provision	**3,395**	3,503
Reversals	**-**	(876)
Claims spending during the year	**(2,934)**	(3,493)
Ending balance	**$1,187**	$ 726

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

19. Changes in Working Capital

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

For the year ended December 31,	**2013**	2012
Accounts receivable	**$1,936**	$3,254
Prepaid and other assets	**(71)**	(107)
Accounts payable and accrued liabilities	**(3,400)**	(3,685)
Provisions	**461**	(866)
Related party payable	**(797)**	1,477
Interest payable	**816**	(3,227)
Total	**$(1,055)**	$ (3,154)

20. Related Parties and Transactions with DE

Key Management

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

For the year ended December 31,	**2013**	2012
Salaries and short-term benefits	**$2,492**	$2,906
Other employment benefits	**87**	66
Long term benefits	**1,991**	1,046
Total	**$4,570**	$4,018

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.

For the year ended December 31,	**2013**	2012
Related party payables	**$1,139**	$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. 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:

For the year ended December 31,	**2013**	2012
Origination agreement:		
Capital expenditures	**$54,759**	$49,089
GreenSource acquisition	**-**	1,944
Inventory service fee	**3,521**	3,150
Other capital expenditures	**11,234**	5,418
Other expenses, including billing and servicing costs	**2,956**	2,850
Total	**$72,470**	$62,451

On February 29, 2012, EnerCare Solutions acquired approximately 3,421 water heaters and HVAC equipment from GreenSource Capital Inc., a subsidiary of DE.

21. Other Income

During 2013, EnerCare realized settlements from DE of $4,447, including income of approximately $2,769 on account of water heater installation costs, billing and collection deficiencies and third-party claims, and $1,678 on account of billing and collection in respect of water heater buyouts. Other income in 2012 includes $1,500 on account of a settlement reached by EnerCare and DE on account of billing disputes for water heater installation costs, approximately $200 from DE on account of billing shortfalls and a reduction of $600 related to reversal of billed amounts from Enbridge following the billing conversion.

22. Subsequent Events

In February 2014, EnerCare Solutions, through a subsidiary of EnerCare Solutions, acquired the rental portfolio of Energy Services Niagara Inc. (“ESN”), comprised of approximately 2,441 electric and gas-fired water heaters for cash consideration of $3,002 subject to post-closing adjustments. In connection with the acquisition, ESN and EnerCare Solutions 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.