EnerCare Solutions Inc.

Condensed Interim Consolidated Financial Statements

Third Quarter ended September 30, 2014

Dated November 12, 2014

EnerCare Solutions Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)		(unaudited) **September 30, 2014**		December 31, 2013
Assets				
Current assets				
Cash and cash equivalents (note 4)	**$**	**8,145**	$	17,799
Accounts receivable (note 5)		**17,751**		14,448
Prepaid and other assets		**1,070**		928
Related party receivable (note 19)		**250**		-
Investment in EnerCare Connections Inc. preferred shares (note 11)		**50,000**		50,000
		77,216		83,175
Capital assets (note 7)		**424,338**		415,801
Intangible assets (note 8)		**203,749**		236,836
Deferred tax asset		**-**		1,114
	$	**705,303**	$	736,926
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 6)	**$**	**11,939**	$	15,734
Related party payable (note 19)		**-**		1,139
Provisions (note 17)		**1,207**		1,187
Interest payable		**5,226**		5,044
Dividends payable		**3,536**		3,389
Subordinated debt (note 11)		**50,000**		50,000
		71,908		76,493
Long-term debt (note 9)		**532,581**		532,121
Long-term subordinated promissory notes (note 10)		**250,000**		250,000
Deferred tax liability		**100,140**		115,829
		954,629		974,443
Shareholder's equity				
Share capital		**79,614**		79,614
Deficit		**(328,940)**		(317,131)
		(249,326)		(237,517)
	$	**705,303**	$	736,926

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

See subsequent events found in note 22.

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 September 30,		Nine months ended September 30,	
(in thousands of Cdn $, except per share amounts)	**2014**	2013	**2014**	2013
Revenues				
Rentals and services	**$ 49,154**	$ 47,248	**$ 147,014**	$ 141,623
Dividend income	**870**	870	**2,590**	2,590
Investment income	**66**	20	**175**	317
Total revenues	**50,090**	48,138	**149,779**	144,530
Expenses				
Selling, general & administrative (note 16)	**8,845**	6,277	**20,911**	18,802
Amortization				
Capital assets (note 7)	**11,874**	12,164	**34,886**	35,178
Intangible assets (note 8)	**11,640**	11,599	**34,892**	34,797
Loss on disposal of equipment	**2,304**	2,633	**7,679**	8,974
Interest				
Interest on debt	**9,980**	9,206	**28,354**	34,687
Make-whole charge on early redemption of debt (note 9)	**-**	-	**-**	13,754
Total expenses	**44,643**	41,879	**126,722**	146,192
Other income (note 20)	**-**	2,000	**408**	3,678
Earnings for the period before income taxes	**5,447**	8,259	**23,465**	2,016
Tax expense				
Current tax expense	**8,462**	5,410	**20,451**	15,616
Deferred income tax (recovery)	**(7,046)**	(3,442)	**(14,575)**	(15,155)
Total tax expense/(recovery)	**1,416**	1,968	**5,876**	461
Net earnings for the period	**$ 4,031**	$ 6,291	**$ 17,589**	$ 1,555

EnerCare Solutions Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited)	Three months ended September 30,		Nine months ended September 30,	
(in thousands of Cdn $)	**2014**	2013	**2014**	2013
Net earnings for the period	**$ 4,031**	$ 6,291	**$ 17,589**	$ 1,555
Reclassification of cash flow hedge loss to earnings	**-**	-	**-**	4,023
Comprehensive income for the period	**$ 4,031**	$ 6,291	**$ 17,589**	$ 5,578

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 September 30,		Nine months ended September 30,	
(in thousands of Cdn $)	**2014**	2013	**2014**	2013
Share Capital				
Balance - beginning of period	**$ 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	**-**	-	**-**	(4,023)
Reclassification of cash flow hedge loss to earnings	**-**	-	**-**	4,023
Accumulated Other Comprehensive Loss - end of period	**-**	-	**-**	-
Deficit				
Balance - beginning of period	**(324,485)**	(308,472)	**(317,131)**	(290,602)
Net earnings for the period	**4,031**	6,291	**17,589**	1,555
Dividends	**(8,486)**	(10,019)	**(29,398)**	(23,153)
Deficit - end of period	**(328,940)**	(312,200)	**(328,940)**	(312,200)
Shareholder's equity - end of period	**$ (249,326)**	$ (232,586)	**$ (249,326)**	$ (232,586)

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 September 30,		Nine months ended September 30,	
(in thousands of Cdn $)	**2014**	2013	**2014**	2013
Cash provided by/(used in):				
Operating activities				
Net earnings for the period	**$ 4,031**	$ 6,291	**$ 17,589**	$ 1,555
Items not affecting cash				
Amortization				
Capital assets (note 7)	**11,874**	12,164	**34,886**	35,178
Intangible assets (note 8)	**11,640**	11,599	**34,892**	34,797
Loss on disposal of equipment	**2,304**	2,633	**7,679**	8,974
Non-cash interest expense	**155**	154	**460**	5,214
Deferred income tax (recovery)	**(7,046)**	(3,442)	**(14,575)**	(15,155)
Operating cash flow	**22,958**	29,399	**80,931**	70,563
Net change in non-cash working capital (note 18)	**1,920**	1,323	**(8,427)**	(6,364)
Cash provided by operating activities	**24,878**	30,722	**72,504**	64,199
Investing activities				
Purchase of capital assets (note 7)	**(17,855)**	(17,383)	**(53,784)**	(49,052)
Acquisition of capital assets and intangibles (note 21)	**-**	-	**(3,035)**	-
Proceeds from disposal of equipment	**1,353**	1,673	**3,912**	3,571
Cash used in investing activities	**(16,502)**	(15,710)	**(52,907)**	(45,481)
Financing activities				
Dividends to shareholders	**(8,484)**	(9,955)	**(29,251)**	(23,021)
Proceeds from revolving line of credit	**-**	-	**-**	2,000
Repayment of line of credit	**-**	-	**-**	(2,000)
Proceeds from issuance of long-term debt	**-**	-	**-**	285,000
Repayment of long-term debt	**-**	-	**-**	(270,000)
Deferred financing costs on long-term debt	**-**	(72)	**-**	(1,733)
Cash (used in)/provided by financing activities	**(8,484)**	(10,027)	**(29,251)**	(9,754)
(Decrease)/increase in cash and cash equivalents	**(108)**	4,985	**(9,654)**	8,964
Cash and cash equivalents - beginning of period	**8,253**	7,596	**17,799**	3,617
Cash and cash equivalents - end of period	**$ 8,145**	$ 12,581	**$ 8,145**	$ 12,581
Supplementary information				
Interest paid	**$ 9,645**	$ 8,966	**$ 27,712**	$ 42,311
Income taxes paid	**$ 5,448**	$ 3,675	**$ 24,259**	$ 18,408

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").

On October 20, 2014, EnerCare through a subsidiary of EnerCare Solutions acquired the Ontario home and small commercial services business of Direct Energy Marketing Limited ("DE") (the "Acquisition"), (see note 22).

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 the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013. EnerCare 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.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 12, 2014, the date the board of directors approved these condensed interim consolidated financial statements. The board of directors also has the authority to amend these condensed interim consolidated financial statements after they have been issued.

Basis of Measurement

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

Critical Accounting Estimates

EnerCare 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 these condensed interim consolidated financial statements. Management applies judgment 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

Until October 19, 2014, DE, through Enbridge Gas Distribution Inc. ("Enbridge"), provided billing and collection services for substantially all of EnerCare Solutions' water heaters and other assets (see note 22).

Over the past two years, DE and EnerCare Solutions have reached settlements in respect of billing and collection matters and installation costs. During the first quarter of 2014, EnerCare Solutions realized a settlement of $408 from DE on account of the reclassification of certain water heaters under the co-ownership agreement to EnerCare Solutions' owned portfolio, originally associated with the Toronto Hydro Energy Services Inc. portfolio acquisition. These amounts were recorded as other income.

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

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those policies in effect at December 31, 2013.

Accounting Standards Issued But Not Yet Applied

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

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

4. Cash and Cash Equivalents

	September 30, 2014	December 31, 2013
Cash at bank	**$8,145**	$17,799
Ending balance	**$8,145**	$17,799

5. Accounts Receivable

	September 30, 2014	December 31, 2013
Accounts receivable (net of provision)	**$17,751**	$14,448
Bad and doubtful debt provision:		
Opening balance	**$ 2,661**	$ 1,547
Charge for the period	**518**	1,114
Provision ending balance	**$ 3,179**	$ 2,661

6. Accounts Payable and Accrued Liabilities

	September 30, 2014	December 31, 2013
Accounts payable	**$ 8,979**	$ 8,914
Accruals	**217**	337
Current taxes payable	**2,656**	6,397
Other payables	**87**	86
Ending balance	**$11,939**	15,734

7. Capital Assets

	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	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**
Additions	$ 53,784	$ -	$ 53,784
Acquisition (note 22)	1,230	-	1,230
Loss on disposal before proceeds	(11,591)	-	(11,591)
Depreciation for the period	(34,822)	(64)	(34,886)
At September 30, 2014	$424,312	$ 26	$424,338
At September 30, 2014:			
Cost	$833,551	$342	$833,893
Accumulated depreciation	(409,239)	(316)	(409,555)
Net book value	**$424,312**	**$ 26**	**$424,338**

8. Intangible Assets

Customer Relationships	September 30, 2014	December 31, 2013
Opening balance January 1:		
Cost	**$743,336**	$743,336
Accumulated depreciation	**(506,500)**	(460,104)
Net book value	**$236,836**	$283,232
Acquisition (note 22)	**$1,805**	
Amortization for the period	**(34,892)**	(46,396)
Net book value	**$203,749**	$236,836
Ending balance:		
Cost	**$745,141**	$743,336
Accumulated depreciation	**(541,392)**	(506,500)
Net book value	**$203,749**	$236,836

9. Debt

Bank indebtedness, current and long term debts:

	September 30, 2014	December 31, 2013
Bank indebtedness:		
Opening balance January 1	**$ -**	$ -
Revolver – drawdown	**-**	2,000
Revolver – repayment	**-**	(2,000)
Total bank indebtedness	**$ -**	$ -
Non-current portion of long term debt:		
Senior debt principal amount	**$535,000**	$520,000
Unamortized financing costs and interest accretion	**(2,879)**	(2,492)
Opening balance January 1	**$532,121**	$517,508
Repayment of debt	**-**	(270,000)
Issuance of debt	**-**	285,000
Additional deferred financing costs	**-**	(1,733)
Amortization of deferred financing costs	**460**	1,346
Total non-current portion	**$532,581**	$532,121
Senior debt principal amount	**$535,000**	$535,000
Unamortized financing costs and interest accretion	**(2,419)**	(2,879)
Total non-current portion of long term debt	**$532,581**	$532,121

At September 30, 2014, EnerCare Solutions' previous revolving credit facility (the "Previous Revolver"), had a standby charge of 0.21%. EnerCare Solutions was subject to three principal financial covenants as defined in the Previous Revolver and previous term loan credit facility (the "Previous Term Loan") documents. The covenants addressed interest and debt coverage. At September 30, 2014, EnerCare Solutions complied with these covenants and was able to fully utilize the Previous Revolver limit of $35,000. As at September 30, 2014, no amounts were drawn on the Previous Revolver. On October 20, 2014, the Previous Revolver and Previous Term Loan were replaced as outlined in note 22.

The long term debt balance includes the following items:

The senior debt consists of the $250,000 4.30% 2012-1 Senior Unsecured Notes (the "2012 Notes") maturing on November 30, 2017 and the $225,000 4.60% 2013-1 Senior Unsecured Notes (the "2013 Notes") maturing on February 3, 2020, with semi-annual interest payments due on May 30 and November 30 and February 3 and August 3 in each year, respectively. On January 28, 2013, EnerCare Solutions entered into a $60,000 variable rate, single draw, Previous Term Loan maturing on January 28, 2016. On October 20, 2014 the Previous Term Loan was replaced as outlined in note 22. The $60,000 6.20% 2009-1 Senior Unsecured Notes matured and were repaid with cash on hand on April 30, 2012. The $240,000 5.25% 2010-1 Senior Unsecured Notes were redeemed in December 2012, including a make-whole payment of $1,920, from proceeds of the issuance of the 2012 Notes. The $270,000 6.75% 2009-2 Senior Unsecured Notes were redeemed in March 2013, including a make-whole payment of $13,754, from proceeds of the issuance of the 2013 Notes and drawdown of the Previous Term Loan.

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, 2014		December 31, 2013	
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. As at September 30, 2014, 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 at September 30, 2014, as follows. See note 22 which outlines the change in relationship with DE commencing on October 20, 2014.

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 99.56% of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued. A related trust agreement also serves to mitigate EnerCare Solutions' credit exposure on receivables owing from Enbridge.

A provision for all amounts at risk of collection and impaired has been made in these 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 new debt financing (see note 22) 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, 2014.

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

Period	Principal Payments	Interest Payments
Due in 2014	$ -	$ 5,720
Due in 2015	-	22,480
Due in 2016	60,000	21,215
Due in 2017	250,000	21,100
Due in 2018	-	10,350
Thereafter	225,000	15,525
Total	$535,000	$96,390

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 September 30, 2014 and December 31, 2013. The estimated fair values of the financial instruments are at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

	September 30, 2014		December 31, 2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 8,145**	**$ 8,145**	$ 17,799	$ 17,799
Accounts receivable	**18,001**	**18,001**	14,448	14,448
Investment in preferred shares	**50,000**	**50,000**	50,000	50,000
Total financial assets	**$ 76,146**	**$ 76,146**	$ 82,247	$ 82,247
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$535,000**	**$552,090**	$535,000	$548,110
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**	**$852,090**	$835,000	$848,110
Accounts and other payables	**21,908**	**21,908**	26,493	26,493
Total financial liabilities	**$856,908**	**$873,998**	$861,493	$874,603

Fair values of all financial assets and liabilities 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, Previous Revolver and Previous Term Loan as at September 30, 2014.

16. Selling, General and Administrative

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2014	2013	**2014**	2013
Employee compensation and benefits	**$1,927**	$1,820	**$5,577**	$ 4,670
Professional fees	**3,519**	466	**5,164**	1,938
Selling, office and other	**546**	479	**1,427**	2,399
Billing and servicing	**1,816**	1,824	**5,408**	5,205
Claims and bad debt	**1,037**	1,688	**3,335**	4,590
Total	**$8,845**	$6,277	**$20,911**	$18,802

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 as at September 30, 2014.

For the period ended	September 30, 2014	December 31, 2013
Opening balance:	**$1,187**	$ 726
Charged/(credited) to the condensed interim consolidated statement of income:		
Additional provision	**1,651**	3,395
Claims spending during the period	**(1,631)**	(2,934)
Ending balance	**$ 1,207**	$1,187

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

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 Sept. 30,		Nine months ended Sept. 30,	
	2014	2013	**2014**	2013
Accounts receivable	**$ 569**	$875	**$(3,553)**	$(3,143)
Prepaid and other assets	**(203)**	4	**(142)**	91
Accounts payable and accrued liabilities	**2,202**	296	**(3,795)**	(3,624)
Provisions	**5**	62	**20**	499
Related party payable	**(833)**	-	**(1,139)**	(1,103)
Interest payable	**180**	86	**182**	916
Total	**$1,920**	$1,323	**$(8,427)**	$(6,364)

19. 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:

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

Related Party Receivables and 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.

	September 30, 2014	December 31, 2013
Related party receivable/(payables)	**$250**	$(1,139)

Transactions with DE

EnerCare Solutions' relationship with DE was significant, as DE serviced and supported approximately 90% of EnerCare Solutions' customers and installed asset base. The following agreements governed the principal affairs between EnerCare Solutions and DE prior to October 20, 2014. These agreements were assigned to a subsidiary of EnerCare Solutions on October 20, 2014. See note 22 – "Subsequent Events" for further discussion regarding DE.

Co-ownership Agreement:

Under this agreement, DE received, subject to certain exceptions, 35% of the gross revenue generated by the co-owned portfolio of assets and was obligated to service that asset portfolio, effectively operating the day-to-day activities of that portion of the business. Pursuant to an agreement between DE and EnerCare, DE was entitled to put forth one individual for consideration by EnerCare 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 was servicer under the co-ownership agreement.

Origination Agreement:

Under this agreement, subject to certain exceptions, DE was required to offer to sell all rental water heaters to EnerCare Solutions at prescribed prices, essentially at DE's cost plus an inventory service fee and a set installation fee. EnerCare Solutions had no obligation to purchase any water heaters. The agreement also established an incentive fee payable to DE had certain growth targets been achieved. The initial term of the origination agreement was through December 2022 and was subject to extension or early termination in certain circumstances.

Other Agreements with DE:

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

EnerCare Solutions and DE were parties to an agreement for the origination and servicing of HVAC rental units, whereby DE originated HVAC rental customers and provided servicing to these HVAC rental customers. EnerCare Solutions had the right to originate HVAC rental customers outside of this arrangement with DE.

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

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2014	2013	**2014**	2013
Origination agreement:				
Capital expenditures	**$12,344**	$15,384	**$37,642**	$42,021
Inventory service fee	**787**	871	**2,404**	2,604
Other capital expenditures	**5,158**	1,328	**14,696**	5,096
Other expenses, including billing and servicing costs	**864**	748	**2,526**	2,143
Total	**$19,153**	$18,331	**$57,268**	$51,864

20. Other Income

During the first quarter of 2014, EnerCare Solutions realized a settlement of $408 from DE on account of the reclassification of certain water heaters under the co-ownership agreement to EnerCare Solutions' owned portfolio, originally associated with the Toronto Hydro Energy Services Inc. portfolio acquisition. 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 matters in respect of water heater buyouts.

21. Acquisition of Capital Assets and Intangibles

In February 2014, EnerCare Solutions acquired the rental portfolio of Energy Services Niagara Inc. ("ESN"), comprised of approximately 2,468 electric and gas-fired water heaters for cash consideration of $3,035, plus inventory of $38. The completion of the purchase price allocation resulted in a fair value of approximately $1,230 for the electric and gas-fired water heaters and a customer relationship intangible value of $1,805. In connection with the acquisition, ESN and EnerCare 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.

22. Subsequent Events

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

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

Concurrent with the closing of the Acquisition, the net funds from the subscription receipts were loaned to EnerCare Solutions in the form of an interest bearing promissory note of $317,367 such that a subsidiary of EnerCare Solutions could fund the Acquisition.

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

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

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