EnerCare Solutions Inc.

Condensed Interim Consolidated Financial Statements

First Quarter ended March 31, 2015

Dated May 13, 2015

EnerCare Solutions Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)	(unaudited) **March 31, 2015**	(unaudited - note 2) December 31, 2014
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$ 15,489**	$ 52,855
Accounts receivable (note 5)	**84,579**	52,202
Inventory (note 6)	**6,151**	5,649
Prepaid expenses	**1,356**	1,524
Investment in EnerCare Connections Inc. preferred shares (note 15)	**50,000**	50,000
	157,575	162,230
Capital assets (note 9)	**452,897**	446,191
Intangible assets (note 10)	**572,838**	589,094
Reimbursement right - pension (note 16)	**17,379**	17,379
Goodwill (note 11)	**144,578**	144,447
Deferred tax asset	**4,561**	4,007
	$ 1,349,828	$ 1,363,348
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	**$ 22,840**	$ 34,475
Obligation under finance leases (note 12)	**2,070**	1,981
Related party payable (note 23)	**1,636**	2,141
Provisions	**1,120**	1,150
Interest payable	**4,744**	4,540
Deferred revenue and service obligation	**8,565**	7,860
Dividends payable	**6,436**	5,550
Subordinated debt (note 15)	**50,000**	50,000
	97,411	107,697
Long-term debt (note 13)	**682,086**	681,878
Long-term subordinated promissory notes (note 14)	**567,367**	567,367
Long-term obligations under finance leases (note 12)	**4,888**	5,151
Employee benefit plans (note 16)	**34,591**	31,832
Deferred tax liability	**125,554**	122,984
	1,511,897	1,516,909
Shareholder's equity		
Share capital (note 17)	**189,076**	189,076
Contributed surplus	**18**	-
Accumulated other comprehensive loss	**(1,946)**	(251)
Deficit	**(349,217)**	(342,386)
	(162,069)	(153,561)
	$ 1,349,828	$ 1,363,348

Commitments and contingent liabilities are found in notes 18 and 19 respectively.

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 March 31,			
(in thousands of Cdn $, except per share amounts)		**2015**		2014
Revenues				
Contracted revenue	**$**	**93,653**	$	48,602
Sales and other services		**10,360**		34
Dividend income		**863**		860
Investment income		**72**		34
Total revenues		**104,948**		49,530
Expenses				
Cost of goods sold and services provided				
Maintenance and servicing costs		**14,388**		**-**
Sales and other services		**7,328**		29
Selling, general & administrative (note 21)		**29,473**		6,037
Amortization				
Capital assets (note 9)		**12,457**		11,392
Intangible assets (note 10)		**16,657**		11,612
Loss on disposal of equipment		**1,758**		3,004
Gain on retirement of finance lease obligations		**(6)**		-
Interest expense (note 13)		**13,542**		9,186
Total expenses		**95,597**		41,260
Other income		**-**		408
Earnings for the period before income taxes		**9,351**		8,678
Tax expense				
Current tax expense		**1,834**		5,786
Deferred income tax (expense) / recovery		**2,361**		(3,588)
Total tax expense		**4,195**		2,198
Net earnings for the period	**$**	**5,156**	$	6,480

EnerCare Solutions Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited)	Three months ended March 31,			
(in thousands of Cdn $)		**2015**		2014
Net earnings for the period	**$**	**5,156**	$	6,480
Items that will not be reclassified to earnings				
Remeasurements of defined benefit plans (note 16)		**(2,067)**		-
Tax effect of remeasurements of defined benefit plans		**372**		-
Comprehensive income for the period	**$**	**3,461**	$	6,480

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 March 31,	
(in thousands of Cdn $)	**2015**	2014
Share Capital		
Balance - beginning of period	**$ 189,076**	$ 79,614
Share Capital - end of year (note 17)	**189,076**	79,614
Contributed Surplus		
Balance - beginning of period	**-**	-
Equity contribution from parent	**18**	-
Contributed Surplus - end of period	**18**	-
Accumulated Other Comprehensive Surplus		
Balance - beginning of period	**(251)**	-
Remeasurements of defined benefit plans (note 16)	**(2,067)**	-
Tax effect of remeasurements of defined benefit plans	**372**	-
Accumulated Other Comprehensive Surplus - end of period	**(1,946)**	-
Deficit		
Balance - beginning of period	**(342,386)**	(317,131)
Net earnings for the period	**5,156**	6,480
Dividends	**(11,987)**	(10,312)
Deficit - end of period	**(349,217)**	(320,963)
Shareholder's equity - end of year	**$ (162,069)**	$ (241,349)

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 March 31,	
(in thousands of Cdn $)	**2015**	2014
Cash provided by/(used in):		
Operating activities		
Net earnings for the period	**$ 5,156**	$ 6,480
Items not affecting cash		
Amortization		
Capital assets (note 9)	**12,457**	11,392
Intangible assets (note 10)	**16,657**	11,612
Loss on disposal of equipment	**1,758**	3,004
Gain on retirement of finance lease obligations	**(6)**	-
Non-cash interest expense	**482**	152
Defined benefit plan expense	**1,064**	-
Employee share options and stock purchase plan	**18**	-
Deferred income tax (recovery)	**2,361**	(3,588)
Contributions to defined benefit pension plan	**(646)**	-
Operating cash flow	**39,301**	29,052
Net change in non-cash working capital (note 22)	**(43,972)**	(9,809)
Cash (used in)/provided by operating activities	**(4,671)**	19,243
Investing activities		
Purchase of capital assets (note 9)	**(22,226)**	(17,745)
Acquisition of NCI (note 25)	**(880)**	-
Acquisition of ESN	**-**	(3,035)
Proceeds from disposal of equipment	**1,680**	1,170
Cash used in investing activities	**(21,426)**	(19,610)
Financing activities		
Dividends to shareholders	**(11,101)**	(10,169)
Repayment of obligations under finance leases	**(168)**	-
Cash used in financing activities	**(11,269)**	(10,169)
Decrease in cash and cash equivalents	**(37,366)**	(10,536)
Cash and cash equivalents - beginning of period	**52,855**	17,799
Cash and cash equivalents - end of period (note 4)	**$ 15,489**	$ 7,263
Supplementary information		
Interest paid	**$ 12,856**	$ 8,929
Income taxes paid	**$ 9,248**	$ 13,369

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 Solutions, through its wholly-owned subsidiaries, owns a portfolio of water heaters and other assets which are primarily rented to customers in Ontario. On October 20, 2014, EnerCare, through a subsidiary of EnerCare Solutions, acquired the Ontario home and small commercial services business ("OHCS") of Direct Energy Marketing Limited ("DE") (the "Acquisition"). The assets acquired and liabilities assumed included components of working capital, capital assets, intangible assets, goodwill, finance leases and employee future benefits (note 26).

OHCS serviced and supported more than 90% of EnerCare Solutions' rentals business installed asset base at the time of closing of the Acquisition through origination and co-ownership agreements. Prior to the Acquisition, under the co-ownership agreement, EnerCare was entitled to 65% of the revenue and other payments and OHCS was entitled to the remaining 35% of the revenue. For OHCS' portion of the revenue, it was primarily responsible for servicing and maintaining EnerCare's rentals business capital assets subject to certain exceptions and limitations. In addition, OHCS independently sold protection and maintenance plans for furnaces, air conditioners, boilers and other equipment, sold and financed HVAC equipment and other on demand residential and small commercial equipment and provided maintenance and repair services. The combined business unit is known as "Home Services" and operates as the only segment of EnerCare Solutions.

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, 2014. 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.

Certain comparative amounts have been reclassified to conform to the current period's presentation, as a result of the Acquisition which include contracted revenue, sales and other services revenues, cost of goods sold and services provided – sales and other services, prepaid expenses and capital assets. Additionally, the consolidated statement of financial position as at December 31, 2014 has been revised by the measurement period adjustments as disclosed in note 26.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 13, 2015, the date the board of directors approved these condensed interim consolidated financial statements.

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, employee benefit plans and the receivable identified as a reimbursement right – pension as described in note 16.

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 these condensed interim consolidated financial statements. Management continually evaluates estimates and judgments which 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.

Revenue Accruals

At March 31, 2015, EnerCare Solutions recorded a revenue accrual of approximately $46,400 (2014 - $1,200) reflecting unbilled service periods. Unbilled protection plans comprise approximately $28,100 (2014 - $0) of this balance which is predominantly made up of protection plans sold in franchisee service areas which are recognized as royalty revenue at inception but are invoiced over a period of twelve months. The remaining unbilled revenues reflect accrued service periods for rental water heaters and other products.

Bad Debt Provisions

EnerCare Solutions is exposed to credit risk in the normal course of business for customers who are billed directly by Enbridge Gas Distribution Inc. (“EGD”) within its service territory and secondarily when billed by EnerCare Solutions or are billed by EGD outside of its service territory. For billing within the EGD service territory, EnerCare Solutions is guaranteed payment by EGD for 99.49% in 2015 and 99.56% in 2014 of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued.

For all other customers, management evaluates a number of factors and assumptions in the determination of the bad debt provision. The total bad debt provision was approximately $4,919 at March 31, 2015, compared to approximately $3,399 in 2014. Changes in any of the variables or assumptions may result in a materially different amount.

Leases

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.

Impairment of Non-Financial Assets and Goodwill

Impairment tests are conducted at least annually, or as warranted by prevailing circumstances at the time of reporting. The recoverable amount is based upon a number of assumptions, including but not limited to: discount rates, billing suites, cash flows and expenses. Changes in any of these assumptions may result in a materially different recoverable amount.

Employee Benefit Plans

Employee defined benefit pension plan balances, as described in note 16, are subject to a number of assumptions. The actuarial valuations rely on estimates and assumptions including those for wage escalation, mortality, health care and dental costs inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have a material impact on the employee benefit plans liability and employee benefit plan costs.

Recoverability of Deferred Tax Assets

Deferred tax assets are recognized to the extent that realization is considered probable. Judgments regarding projected future income and tax planning strategies are considered in making this assessment.

Business Combination

With respect to the preliminary estimated fair value of acquired assets and assumed liabilities and other adjustments related to the Acquisition, these condensed interim consolidated financial statements have been prepared using the acquisition method of accounting, in accordance with IFRS 3R, Business Combinations, under which, the total fair value of the consideration transferred has been assigned to the assets acquired and liabilities assumed based on their estimated fair values at the date of the Acquisition, with any excess purchase price allocated to goodwill. Changes may be expected as additional information becomes available following the closing date of October 20, 2014. Accordingly, the final fair value determinations may differ from those set forth in these condensed interim consolidated financial statements and such differences may be material.

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, 2014.

Adoption of New Accounting Standards

EnerCare Solutions has adopted new or revised standards as required by IFRS, effective January 1, 2015.

IAS 19, "Employee Benefits" ("IAS 19"), was amended in November 2013. The amendments include changes to the accounting treatment of employee or third-party contributions to defined benefit plans under certain circumstances. This standard is required to be applied for accounting periods beginning on or after January 1, 2015. EnerCare Solutions implemented the standard and has determined that it did not have an impact.

Accounting Standards Issued But Not Yet Applied

The following are accounting policy changes to be implemented by EnerCare Solutions in future years:

Revenue Recognition

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. EnerCare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Financial Instruments

The final version of IFRS 9, “Financial Instruments” (“IFRS 9”), 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 is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Financial Instruments Disclosures

IFRS 7, “Financial Instruments: Disclosures” (“IFRS 7”), has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for periods beginning on or after January 1, 2018. EnerCare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Presentation of Financial Statements

IAS 1, “Presentation of Financial Statements” (“IAS 1”) was amended by the IASB to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment gives guidance that information within the consolidated statements of financial position and consolidated statements of income should not be aggregated or disaggregated in a manner that obscures useful information, and that disaggregation may be required in the consolidated statements of income in the form of additional subtotals as they are relevant to understanding the entity’s financial position or performance. The amendments to IAS 1 are effective for periods beginning on or after January 1, 2016. EnerCare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

4. Cash and Cash Equivalents

	March 31, 2015	December 31, 2014
Cash at bank	**$15,489**	$52,611
Restricted cash	**-**	244
Ending balance	**$15,489**	$52,855

5. Accounts Receivable

	March 31, 2015	December 31, 2014
Billed accounts receivable	**$37,416**	$11,696
Unbilled accounts receivable	**46,419**	43,905
Current taxes receivable	**5,663**	-
Bad and doubtful debt provision	**(4,919)**	(3,399)
Accounts receivable (net of provision)	**$84,579**	$52,202
Bad and doubtful debt provision:		
Opening balance	**$ 3,399**	$ 2,661
Charge for the period	**1,520**	738
Ending balance	**$ 4,919**	$ 3,399

Unbilled accounts receivable of $28,063 (December 2014 - $27,839) primarily related to protection plans sold in franchisee service areas which are recognized as royalty revenue at inception but are invoiced over a period of twelve months. The remaining unbilled accounts receivable reflect the unbilled service periods for residential water heaters and other products.

6. Inventory

	March 31, 2015	December 31, 2014
Inventory	**$6,493**	$5,728
Less: inventory obsolescence	**(342)**	(79)
Inventory (net of provision)	**$6,151**	$5,649
Inventory obsolescence provision:		
Opening balance	**$ 79**	$ -
Charge for the period	**263**	79
Ending balance	**$ 342**	$ 79

During the first quarter ended March 31, 2015, $4,309 (2014 - $0) of inventory was recognized as part of cost of goods sold and services provided in the condensed interim consolidated statement of income.

7. Accounts Payable and Accrued Liabilities

	March 31, 2015	December 31, 2014
Accounts payable	**$ 4,273**	$ 9,337
Accruals	**17,253**	22,073
Current taxes payable	**1,314**	3,065
Ending balance	**$22,840**	$34,475

8. Protection Plan Contracts

Full service protection plans are fixed-fee service contracts for residential, air conditioners and furnaces. The contracts protect the customer against the risk of breakdowns, resulting in the transfer of an element of risk to EnerCare Solutions. Benefits provided to the customer vary in accordance with the terms and conditions of the contract entered into however, they generally include maintenance, repair and/or replacement of items affected. A provision for anticipated claims is not recognized due to the short elapsed time between an incident and settlement.

The levels of risk exposure and service provision to customers are dependent on the occurrence of uncertain future events, in particular the nature and frequency of faults and the cost of repair or replacement of the items affected. Accordingly, the timing and amount of future cash outflows associated with the contracts is uncertain. The key terms and conditions that affect future cash flows are as follows:

The provision of parts and labour for repairs, dependent on the agreement and associated level of service; and

There is no limit to the number of call-outs to carry out repair work and limits on certain servicing and repair costs.

When the estimated future costs of protection plan contracts exceed the associated revenue to be recognized, a loss is recognized in net earnings immediately. The future costs of the protection plan contracts are dependent on the number and nature of service requests for the associated equipment. Management estimates the future costs of protection plan contracts based on its historical experience of service requests for similar equipment and manages risk by monitoring the cost of service requests, product reliability and limiting the contract term to one year.

Amounts recognized in these condensed interim consolidated financial statements related to protection plan contracts are as follows:

Three months ended March 31,	**March 31, 2015**	March 31, 2014
Revenue	**$16,985**	$ -
Cost of service	**8,097**	-

	Three months ended March 31, 2015	Year ended December 31, 2014
Deferred revenue net of service obligation	**$ 2,167**	$ 1,472

9. Capital Assets

	Rental Equipment	Leased Vehicles	Other	Total
At December 31, 2013:				
Cost	$ 813,787	$ -	$ 342	$ 814,129
Accumulated depreciation	(397,919)	-	(252)	(398,171)
Net book value	**$ 415,868**	**$ -**	**$ 90**	**$ 415,958**
Additions	$ 77,558	$ -	$ 385	$ 77,943
Acquisition – Niagara portfolio	1,230	-	-	1,230
Acquisition – OHCS (note 26)	3,441	7,557	3,202	14,200
Loss on disposal before proceeds	(15,285)	(15)	-	(15,300)
Depreciation for the year	(46,730)	(419)	(691)	(47,840)
At December 31, 2014	$ 436,082	$7,123	$ 2,986	$ 446,191
At December 31, 2014:				
Cost	$ 849,474	$7,242	$ 3,929	$ 860,645
Accumulated depreciation	(413,392)	(119)	(943)	(414,454)
Net book value	**$ 436,082**	**$7,123**	**$ 2,986**	**$ 446,191**
Additions	$ 20,442	$ 395	$ 1,389	$ 22,226
Acquisition – Cobourg portfolio (note 25)	375	-	-	375
Loss on disposal before proceeds	(3,432)	(6)	-	(3,438)
Depreciation for the period	(11,357)	(552)	(548)	(12,457)
At March 31, 2015	$ 442,110	$6,960	$ 3,827	$ 452,897
At March 31, 2015:				
Cost	$ 859,801	$7,493	$ 5,318	$ 872,612
Accumulated depreciation	(417,691)	(533)	(1,491)	(419,715)
Net book value	**$ 442,110**	**$6,960**	**$ 3,827**	**$ 452,897**

10. Intangible Assets

Customer Relationships	March 31, 2015	December 31, 2014
Opening balance January 1:		
Cost	**$1,146,141**	$ 743,336
Accumulated depreciation	**(557,047)**	(506,500)
Net book value	**$ 589,094**	$ 236,836
Acquisition – Niagara portfolio	**$ -**	$ 1,805
Acquisition – OHCS (note 26)	**-**	401,000
Acquisition – Cobourg portfolio (note 25)	**401**	-
Amortization for the year	**(16,657)**	(50,547)
Net book value	**$ 572,838**	$ 589,094
Ending balance:		
Cost	**$1,146,542**	$1,146,141
Accumulated depreciation	**(573,704)**	(557,047)
Net book value	**$ 572,838**	$ 589,094

11. Goodwill

The following table provides details about the changes in the carrying value of goodwill for the quarter ended March 31, 2015.

As at March 31, 2015	
Opening balance January 1 and at December 31, 2013	$ -
Acquisition – OHCS (note 26)	144,447
At December 31, 2014	**$144,447**
Acquisition – Cobourg portfolio (note 25)	131
Ending balance at March 31, 2015	**$144,578**

Goodwill is reviewed for impairment annually, or at any time an indicator of impairment exists.

12. Obligations Under Finance Leases

Obligations under finance leases are secured by the leased vehicles. EnerCare Solutions has a Master Lease Agreement with the lessor, where the lessor will acquire vehicles and lease them to EnerCare Solutions.

The obligations under finance leases bear floating interest rates that are 2.5% above the one month banker's acceptance rate, per annum. The finance leases mature at dates ranging between April 2015 and January 2021. During the first quarter ended March 31, 2015, EnerCare Solutions recognized $69 (2014 - $0) of interest expense related to the obligations under finance leases.

	March 31, 2015	December 31, 2014
Obligations under finance leases	**$ 6,958**	$ 7,132
Less: current portion	**(2,070)**	(1,981)
	$ 4,888	$ 5,151

Future minimum lease payments under finance leases are as follows:

	Principal	Interest	Lease Payments
Due in 2015	$ 1,573	$ 183	$ 1,756
Due in 2016	1,856	178	2,034
Due in 2017	1,539	113	1,652
Due in 2018	1,121	61	1,182
Due in 2019	653	24	677
Thereafter	216	6	222
	$ 6,958	$ 565	$ 7,523

13. Debt

Bank indebtedness, current and long term debts:

	March 31, 2015	December 31, 2014
Non-current portion of long term debt:		
Senior debt principal amount	**$685,000**	$535,000
Unamortized financing costs and interest accretion	**(3,122)**	(2,879)
Opening balance January 1	**$681,878**	$532,121
Repayment of debt	**-**	(60,000)
Issuance of debt	**-**	210,000
Financing costs	**-**	(902)
Amortization of financing costs	**208**	659
Total non-current portion	**$682,086**	$681,878
Senior debt principal amount	**$685,000**	$685,000
Unamortized financing costs and interest accretion	**(2,914)**	(3,122)
Total non-current portion of long term debt	**$682,086**	$681,878

On October 20, 2014, EnerCare Solutions entered into a $100,000, five-year revolving, non-amortizing variable rate credit facility (the “Revolver”), replacing the former $35,000 facility. The Revolver has a standby fee of 0.20% and at March 31, 2015, no amounts were drawn. EnerCare Solutions is subject to two 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 March 31, 2015, EnerCare Solutions complied with these covenants.

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 (“Previous Term Loan”). On October 20, 2014, the Previous Term Loan was repaid through the proceeds of the $210,000 non-revolving, non-amortizing variable rate Term Loan, maturing on October 20, 2018, which bears interest at a variable rate based upon the banker’s acceptance rate plus 1%, which was 2% at March 31, 2015. Deferred financing costs of $902 were incurred in relation to the issuance of the $210,000 Term Loan.

EnerCare Solutions was in compliance with all covenants under the 2012 Notes, 2013 Notes, Revolver and Term Loan as at March 31, 2015.

Interest Expense:

Three months ended March 31,	**2015**	2014
Interest expense payable in cash	**$ 6,511**	$5,661
Interest on subordinated debt	**875**	873
Interest on promissory note	**5,674**	2,500
Non-cash items:		
Notional interest on employee benefit plans	**274**	-
Amortization of financing costs	**208**	152
Interest expense	**$13,542**	$9,186

Interest expense payable in cash is associated with debt activity in 2015 and 2014. The Acquisition resulted in an increase of the Subordinated Promissory Notes from $250,000 to $567,367, which drove higher interest expense subsequent to the Acquisition. Notional interest of $274 in 2015 relates to the employee benefits plan acquired as part of the Acquisition. Amortization of financing costs include previously unamortized costs associated with debt.

14. 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 subordinated promissory note was issued by EnerCare (collectively, the “Subordinated Promissory Notes”). On October 20, 2014, an additional $317,367 subordinated promissory note was issued by EnerCare as part of the Acquisition. 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.

15. 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 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.

16. Employee Benefit Plans

Defined Benefit Plans

In connection with the Acquisition (note 26), DE established a mirror pension plan (“RPP”) to their current registered pension plan (“DE Plan”). The RPP has both defined benefit and defined contribution components. The defined benefits provide for partially indexed pensions based on years of service and the final 5 years’ average earnings for contributory service and final 3 years’ average earning for non-contributory service.

Subject to regulatory approval, the pension assets and liabilities of DE employees who transferred to EnerCare Solutions at the closing of the Acquisition ("Transferred Employees") will transfer from the DE Plan to the RPP. Until such time, in accordance with the asset purchase agreement ("Asset Purchase Agreement"), DE has committed to fund the solvency deficit relating to these employees and remains responsible for the sponsorship and administration of the pension plan, including exposure to the return on any plan assets. The RPP must be fully funded, on a solvency basis, prior to being transferred to EnerCare Solutions. Accordingly, EnerCare Solutions has recognized a receivable, identified as a "Reimbursement Right - Pension" in the consolidated statement of financial position as at March 31, 2015 in the amount of $17,379. As the ultimate amount of the reimbursement is not yet known at the acquisition date, any changes that occur through to the final settlement of the reimbursement amount and transfer of the plan will be recognized as a measurement period adjustment under purchase accounting.

EnerCare Solutions is responsible for current service cost contributions relating to Transferred Employees until such time that EnerCare Solutions assumes sponsorship and administration of the RPP. The defined benefit component of the RPP is closed to new members.

EnerCare Solutions also provides other post-employment benefits other than pensions to qualifying employees ("OPEB"), these include medical, dental and insurance benefits. The OPEB is closed to new members.

The cost of employee benefit plans is recognized as the Transferred Employees provide service to EnerCare Solutions. The cost of the defined benefit plan is actuarially determined using the projected unit credit method and the use of best estimates of compensation level increase, retirement ages of workers, mortality rates, health costs and other factors. Remeasurements, which include actuarial gains and losses, are recognized in other comprehensive income, with the exception of any changes to the reimbursement amount and transfer of the plan, as described above.

The total cost of the employee benefit plans recognized in selling, general and administrative and interest expense are as follows:

Three months ended March 31,	**2015**	2014
Pension		
Current service cost	**$832**	$ -
Interest	**81**	-
	$913	$ -
OPEB		
Current service cost	**$232**	$ -
Net interest cost	**193**	-
	$425	$ -

Remeasurements of the employee benefit plans recognized in other comprehensive income are as follows:

Three months ended March 31,	**2015**	2014
Pension and OPEB		
Actuarial gains and losses arising from changes in financial assumptions	**$1,414**	$ -
Actuarial gains and losses arising from demographic and other experience	**(11)**	-
	$1,403	$ -

17. Share Capital

(000's)	March 31, 2015		December 31, 2014	
Shares Issued and Outstanding	**Shares**	**Dollars**	Shares	Dollars
Opening balance at January 1:	**1,169**	**$189,076**	1,001	$79,614
Issued	**-**	**-**	168	109,462
Totals	**1,169**	**$189,076**	1,169	$189,076

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 March 31, 2015, there were 1,169 common shares issued and outstanding. The additional shares issued in 2014 were in conjunction with the Acquisition (see note 26).

18. Commitments

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

	March 31, 2015
Due in 2015	**$ 956**
Due in 2016	**1,308**
Due in 2017	**536**
Due in 2018	**-**
Due in 2019	**-**
Thereafter	**-**
Total commitments under non-cancellable operating leases	**$2,800**

The operating lease payments recognized in the consolidated statement of income for the quarter ended March 31, 2015 were $590 (2014 - $0).

19. 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 also 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.

20. 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 more than 95% of revenues, EnerCare Solutions is guaranteed payment by EGD for 99.49% of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued. EnerCare Solutions is exposed to credit risk in the normal course of business for customers who are billed directly by EnerCare Solutions or are billed by EGD outside its service territory. For accounts receivable from customers billed on EGD invoices within its service territory a related trust agreement also serves to mitigate EnerCare Solutions' credit exposure on receivables owing from EGD.

For accounts receivable as at March 31, 2015, a provision for all amounts at risk of collection and impaired has been made in these condensed interim consolidated financial statements based upon a number of factors which include, but are not limited to, the type of account and credit characteristics, aging, and net future cash flows.

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, dividends payable and debt. EnerCare Solutions monitors 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. 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 March 31, 2015.

The covenants under the Revolver and Term Loan are an amendment and restatement of the Previous Revolver. The principal covenant tests measure the ratio of total debt to adjusted EBITDA and the ratio of adjusted EBITDA to cash interest expense. Total debt, Adjusted EBITDA and cash interest expense are defined in the agreements and may not be the same as terms used in the MD&A. EnerCare Solutions was in compliance with these covenants at March 31, 2015.

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

	Debt		Finance Lease Obligations		Total	
Period	Principal	Interest	Principal	Interest	Principal	Interest
Due in 2015	$ -	$16,960	$1,573	$183	$ 1,573	$17,143
Due in 2016	-	21,215	1,856	178	1,856	21,393
Due in 2017	250,000	21,100	1,539	113	251,539	21,213
Due in 2018	210,000	10,350	1,121	61	211,121	10,411
Due in 2019	-	10,350	653	24	653	10,374
Thereafter	225,000	5,175	216	6	225,216	5,181
Total	$685,000	$85,150	$6,958	$565	$691,958	$85,715

Market Risk

Fair Value

The carrying values of cash and cash equivalents, accounts receivable, investment in preferred shares, accounts payable and accrued liabilities, deferred revenue, obligations under finance leases 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 March 31, 2015 and December 31, 2014. 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.

	March 31, 2015		December 31, 2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 15,489**	**$ 15,489**	$ 52,855	$ 52,855
Accounts receivable	**84,579**	**84,579**	52,202	52,202
Investment in preferred shares	**50,000**	**50,000**	50,000	50,000
Total financial assets	**$ 150,068**	**$ 150,068**	$ 155,057	$ 155,057
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$ 685,000**	**$ 710,222**	$ 685,000	$ 700,418
Long term subordinated promissory notes	**567,367**	**567,367**	567,367	567,367
Subordinated debt	**50,000**	**50,000**	50,000	50,000
Obligations under finance lease	**6,958**	**6,958**	7,132	7,132
Total borrowings	**$1,309,325**	**$1,334,547**	$1,309,499	$1,324,917
Other obligations and payables	**45,341**	**45,341**	55,716	55,716
Total financial liabilities	**$1,354,666**	**$1,379,888**	$1,365,215	$1,380,633

Fair values of all financial assets and liabilities are classified as Level 3 financial instruments, except cash and cash equivalents and gross senior borrowings which are classified as Level 1.

21. Selling, General and Administrative

Three months ended March 31,	**2015**	2014
Employee compensation and benefits	**$9,514**	$1,716
Professional fees	**1,054**	788
Selling, office and other	**5,352**	438
Billing and servicing	**8,594**	1,708
Claims and bad debt	**2,066**	1,387
Charges from EnerCare Inc.	**2,893**	-
Total	**$29,473**	$6,037

Charges from EnerCare Inc. primarily relate to employee compensation and benefits, professional fees and office expenses.

During the first quarter of 2015, EnerCare Solutions recorded $612 (2014 - $0) of SG&A expenses associated with the integration of the Acquisition, primarily related to re-branding marketing expenditures.

22. Changes in Working Capital

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

Three months ended March 31,	**2015**	2014
Accounts receivable	**$(32,377)**	$(4,043)
Inventory	**(502)**	-
Prepaid expenses	**168**	(16)
Deferred revenue	**705**	1
Accounts payable and accrued liabilities	**(11,635)**	(5,974)
Provisions	**(30)**	67
Related party payable	**(505)**	51
Interest payable	**204**	105
Total	**$(43,972)**	$(9,809)

23. Related Parties

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 March 31,	**2015**	2014
Salaries and short-term benefits	**$705**	$724
Other employment benefits	**41**	37
Long term benefits	**709**	372
Total	**$1,455**	$1,133

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.

Three months ended March 31,	**2015**	2014
Related party payables	**$1,636**	$2,141

Transactions with DE

Prior to October 20, 2014, EnerCare Solutions' relationship with DE was significant, as DE serviced and supported approximately 90% of EnerCare Solutions' rentals customers and rentals 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 26 – "Acquisition of Direct Energy's Home and Small Commercial Services Business in Ontario".

Co-ownership Agreement:

Under this agreement, DE received, subject to certain exceptions, 35% of the gross revenue generated by the co-owned portfolio of assets and was obligated to service that asset portfolio, effectively operating the day-to-day activities of that portion of the business. Pursuant to an agreement between DE and EnerCare, DE was entitled to put forth one individual for consideration by EnerCare's board for inclusion in EnerCare's annual management information circular for election as a director of EnerCare 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.

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

Details of amounts paid or payable under these agreements to DE are as follows:

Three months ended March 31,	**2015**	2014
Origination agreement:		
Capital expenditures	**$ -**	$12,429
Inventory service fee	**-**	794
Other capital expenditures	**-**	4,639
Other expenses, including billing and servicing costs	**-**	841
Total	**$ -**	$18,703

24. Compensation Plans

Effective November 1, 2014, EnerCare Solutions implemented the ESPP for all eligible employees of EnerCare Solutions. Under the plan, employees can purchase shares of EnerCare, up to a maximum of $10 per year or 5% of base salary. EnerCare will award one matching share for every two shares purchased and held by an employee for at least two years. Shares related to both the employee and employer portions are purchased in the month following the employee contributions. Expenses related to the company match portion are recorded equally over the 2 year vesting period and are reflected in the condensed interim consolidated statement of income. Employee contributions held by EnerCare Solutions at the end of a period are classified as restricted cash which will be used to purchase EnerCare shares in the following period. As of March 31, 2015, there was no restricted cash on hand (December 2014 – $276).

25. Acquisition of Cobourg Network Inc. Rental Portfolio

On March 2, 2015, a subsidiary of EnerCare Solutions acquired the rental portfolio of Cobourg Network Inc. ("CNI"), comprised of approximately 1,380 electric water heaters for cash consideration of $880. The completion of the purchase price allocation resulted in a fair value of approximately $375 for electric water heaters, a customer relationship intangible value of $401, deferred tax liabilities of

$27 and goodwill of $131. In connection with the acquisition, CNI and EnerCare Solutions entered into a transitional agreement pursuant to which CNI provides transitional support and billing and collection services on behalf of EnerCare Solutions.

26. Acquisition of Direct Energy's Home and Small Commercial Services Business in Ontario

On October 20, 2014, a subsidiary of EnerCare Solutions acquired through the Asset Purchase Agreement the Ontario home and small commercial services business of DE. The purchase price of the Acquisition was approximately $550,390, subject to final working capital adjustments. The acquired assets and liabilities assumed included components of working capital, capital assets, intangible assets and obligations under finance leases. It also includes employee future benefit related assets and obligations, including a receivable identified as a reimbursement right in respect thereof from DE (see note 16). The Acquisition is accounted for as a business combination.

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, EnerCare and DE entered into a transition services agreement pursuant to which DE provides 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.

As part of the Acquisition, EnerCare Solutions recorded total expenses of $11,594 and interest income of $531 during 2014. Total expenses include $3,872 of interest expense from $3,097 of interest paid in respect of the subscription receipts issued, along with equity bridge financing fees of $775. SG&A expenses include $7,722 of costs associated with the Acquisition, of which approximately $6,770 were professional fees.

During the first quarter of 2015, EnerCare Solutions recorded an additional $612 of SG&A expenses associated with the integration of the Acquisition, primarily related to re-branding marketing expenditures (note 21).

The following table summarizes the preliminary allocation and adjustments to the total consideration allocated to the net assets acquired. The allocation of the purchase price is preliminary for certain amounts including capital assets, intangible assets, certain working capital accounts, employees future benefits, reimbursement right pension (see note 16) and tax balances and is therefore subject to change. EnerCare Solutions continues to refine the purchase price allocation related to the Acquisition. The adjustments below primarily relate to changes in the working capital balances, pension plan and the related reimbursement right (see note 16).

	October 20, 2014	Adjustments	Revised
Cash and cash equivalents	$ 815	$ -	$ 815
Accounts receivable (note 5)	56,824	(1,443)	55,381
Inventory	5,645	-	5,645
Prepaid expenses	385	111	496
Capital assets (note 9)	14,279	(79)	14,200
Intangible assets – customer relationships	401,000	-	401,000
Reimbursement right - pension (note 16)	15,284	2,095	17,379
Goodwill (note 11)	141,333	3,114	144,447
Deferred tax asset	3,596	176	3,772
Total assets acquired	639,161	3,974	643,135
Less:			
Accounts payable and accrued liabilities (note 7)	21,736	(152)	21,584
Deferred revenue and service obligation (note 8)	3,856	1,701	5,557
Long-term obligations under finance lease (note 12)	7,809	(322)	7,487
Employee benefit plan liabilities (note 16)	28,850	2,095	30,945
Deferred tax liability	26,520	652	27,172
Total net assets acquired	$550,390	$ 3,974	$550,390
Fair value of consideration transferred:			
Cash consideration	$450,000	$ -	$450,000
Preliminary working capital adjustment	(9,072)	-	(9,072)
DE Private Placement - 7,692,308 common shares	109,462	-	109,462
Total consideration transferred	$550,390	$ -	$550,390

Goodwill is calculated as the difference between the fair value of consideration transferred and the preliminary fair value of the assets acquired and liabilities assumed. The goodwill is primarily attributable to the addition of new customers and the corresponding projected cash flows to be earned. Goodwill is not amortized for accounting, however is deductible for tax purposes.