Enercare Solutions Inc.

Condensed Interim Consolidated Financial Statements

First Quarter ended March 31, 2016

Dated May 12, 2016

Enercare Solutions Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Cdn $)		(unaudited) March 31, 2016		December 31, 2015
Assets				
Current assets				
Cash and cash equivalents (note 4)	$	**12,173**	$	17,581
Accounts and other receivables (note 5)		**74,952**		78,501
Financing receivables (note 11)		**31**		-
Inventory (note 6)		**7,052**		7,026
Prepaid expenses		**1,734**		1,629
Investment in Enercare Connections Inc. preferred shares (note 16)		**50,000**		50,000
		145,942		154,737
Capital assets (note 9)		**496,954**		485,241
Intangible assets (note 10)		**506,164**		522,829
Reimbursement right - pension (note 17)		**-**		11,107
Employee benefit plan assets (note 17)		**1,512**		-
Goodwill (note 12)		**142,666**		142,666
Deferred tax asset		**6,088**		4,438
Long-term financing receivables (note 11)		**334**		-
Other assets		**1,699**		1,538
	$	**1,301,359**	$	1,322,556
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 7)	$	**35,263**	$	32,591
Obligation under finance leases (note 13)		**2,101**		2,061
Related party payable (note 24)		**2,837**		1,727
Provisions		**1,150**		1,191
Interest payable		**5,093**		4,694
Deferred revenue		**9,099**		8,127
Dividends payable		**6,768**		6,156
Subordinated debt (note 16)		**50,000**		50,000
		112,311		106,547
Long-term debt (note 14)		**732,926**		732,718
Long-term subordinated promissory notes (note 15)		**502,367**		508,367
Long-term obligations under finance leases (note 13)		**4,696**		4,634
Employee benefit plan obligation (note 17)		**21,408**		27,848
Deferred tax liability		**119,224**		127,925
		1,492,932		1,508,039
Shareholder's equity				
Share capital (note 18)		**189,076**		189,076
Contributed surplus		**302**		201
Accumulated other comprehensive gain / (loss)		**(1,718)**		103
Deficit		**(379,233)**		(374,863)
		(191,573)		(185,483)
	$	**1,301,359**	$	1,322,556

Commitments and contingent liabilities are found in notes 19 and 20 respectively.

Subsequent events are found in note 27.

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

Enercare Solutions Inc.

Condensed Interim Consolidated Statements of Income

(unaudited)	Three months ended March 31,	
(in thousands of Cdn $, except per share amounts)	**2016**	2015
Revenues		
Contracted revenue	**$ 100,331**	$ 93,653
Sales and other services	**6,098**	10,360
Dividend income	**863**	863
Investment income	**78**	72
Total revenues	**107,370**	104,948
Expenses		
Cost of goods sold and services provided		
Maintenance and servicing costs	**16,268**	**14,388**
Sales and other services	**5,281**	7,328
Selling, general & administrative (note 22)	**30,548**	29,473
Amortization		
Capital assets (note 9)	**13,371**	12,457
Intangible assets (note 10)	**16,665**	16,657
Loss on disposal of equipment	**1,940**	1,758
Gain on retirement of finance lease obligations	**(15)**	(6)
Interest expense (note 14)	**13,097**	13,542
Total expenses	**97,155**	95,597
Earnings for the period before income taxes	**10,215**	9,351
Tax expense		
Current tax expense	**11,965**	1,834
Deferred income tax (recovery) / expense	**(9,694)**	2,361
Total tax expense	**2,271**	4,195
Net earnings for the period	**$ 7,944**	$ 5,156

Enercare Solutions Inc.

Condensed Interim Consolidated Statements of Comprehensive Income

(unaudited)	Three months ended March 31,	
(in thousands of Cdn $)	**2016**	2015
Net earnings for the period	**$ 7,944**	$ 5,156
Items that will not be reclassified to earnings		
Remeasurements of defined benefit plans (note 17)	**(2,478)**	(2,067)
Tax effect of remeasurements of defined benefit plans	**657**	372
Comprehensive income for the period	**$ 6,123**	$ 3,461

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

Enercare Solutions Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(unaudited)		Three months ended March 31,		
(in thousands of Cdn $)		**2016**		2015
Share Capital				
Balance - beginning of period	**$**	**189,076**	$	189,076
Share Capital - end of year (note 18)		**189,076**		189,076
Contributed Surplus				
Balance - beginning of period		**201**		-
Equity contribution from parent		**101**		18
Contributed Surplus - end of period		**302**		18
Accumulated Other Comprehensive Gain / (Loss)				
Balance - beginning of period		**103**		(251)
Remeasurements of defined benefit plans (note 17)		**(2,478)**		(2,067)
Tax effect of remeasurements of defined benefit plans		**657**		372
Accumulated Other Comprehensive (Loss) / Gain - end of period		**(1,718)**		(1,946)
Deficit				
Balance - beginning of period		**(374,863)**		(342,386)
Net earnings for the period		**7,944**		5,156
Dividends		**(12,314)**		(11,987)
Deficit - end of period		**(379,233)**		(349,217)
Shareholder's equity - end of period	**$**	**(191,573)**	$	(162,069)

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

Enercare Solutions Inc.
Condensed Interim Consolidated Statements of Cash Flows

(unaudited) (in thousands of Cdn $)	Three months ended March 31, **2016**	2015
Cash provided by/(used in):		
Operating activities		
Net earnings for the period	$ **7,944**	$ 5,156
Items not affecting cash		
Amortization		
Capital assets (note 9)	**13,371**	12,457
Intangible assets (note 10)	**16,665**	16,657
Loss on disposal of equipment	**1,940**	1,758
Gain on retirement of finance lease obligations	**(15)**	(6)
Non-cash interest expense	**418**	482
Non-cash interest income	**(42)**	-
Defined benefit plan expense	**1,148**	1,064
Employee share options and stock purchase plan	**101**	18
Deferred income tax (recovery) / expense	**(9,694)**	2,361
Deferred customer inducements	**(161)**	-
Financing receivables	**(365)**	-
Contributions to defined benefit pension plan	**(639)**	(646)
	30,671	39,301
Net change in non-cash working capital (note 23)	**7,333**	(43,972)
Cash provided by/(used in) operating activities	**38,004**	(4,671)
Investing activities		
Purchase of capital assets (note 9)	**(27,794)**	(22,226)
Acquisition of CNI	**-**	2,155
Acquisition of ESN	**-**	(3,035)
Proceeds from disposal of equipment	**1,967**	1,680
Cash used in investing activities	**(25,827)**	(21,426)
Financing activities		
Dividends to shareholders	**(11,702)**	(11,101)
Repayment of subordinated promissory notes (note 15)	**(6,000)**	-
Increase in obligations under finance leases	**692**	(168)
Repayment of obligations under finance leases	**(575)**	-
Cash used in financing activities	**(17,585)**	(11,269)
Decrease in cash and cash equivalents	**(5,408)**	(37,366)
Cash and cash equivalents - beginning of period	**17,581**	52,855
Cash and cash equivalents - end of period (note 4)	$ **12,173**	$ 15,489
Supplementary information		
Interest paid	$ **12,280**	$ 12,856
Income taxes paid	$ **2,127**	$ 9,248

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 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 “DE Acquisition”). The assets acquired and liabilities assumed included components of working capital, capital assets, intangible assets, goodwill, finance leases and employee future benefits.

OHCS serviced and supported more than 90% of Enercare Solutions’ rentals business installed asset base at the time of closing of the DE Acquisition through origination and co-ownership agreements. Prior to the DE 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 now referred to as “Home Services” and operates as the only segment of Enercare Solutions.

On May 11, 2016, Enercare Solutions through an indirect wholly-owned subsidiary acquired, through a merger, SEHAC Holdings Corporation (“Service Experts”) (the “SE Transaction”), (see note 26 and 27).

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, 2015. Enercare Solutions has consistently applied the same accounting policies and methods of computation throughout all periods presented, as if these policies had always been in effect, except for the adoption of new accounting standards as described in note 3.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 12, 2016, 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 reimbursement right – pension as described in note 17.

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, 2016, Enercare Solutions recorded a revenue accrual of approximately $45,900 (2015 - $46,400) reflecting accrued service periods. Unbilled protection plans comprise approximately $28,300 (2015 - $28,100) 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 12 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 99.51% in 2016 and 99.49% in 2015 of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued. For the remaining billings, Enercare Solutions considers several factors in the determination of the accounts receivable provision, which was approximately $6,400 at March 31, 2016, compared to approximately $6,100 at the end of 2015.

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 resides with the company or the customer.

Impairment of Non-Financial Assets and Goodwill

Impairment tests are conducted at least annually, or when events or circumstances indicate an impairment may exist. The recoverable amount is based upon a number of assumptions, including but not limited to: discount rates, billable units, cash flows and expenses. Changes in any of these assumptions may result in a materially different recoverable amount.

Employee Benefit Plans

Employee defined benefit plan balances, as described in note 17, 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.

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, 2015.

Adoption of New Accounting Standards

Enercare Solutions has adopted new or revised standards as required by IFRS, effective January 1, 2016.

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 implemented the standard and has determined that it did not have any impact.

Accounting Standards Issued But Not Yet Applied

The following are accounting policy changes to be implemented by Enercare Solutions in future periods:

Statement of Cash flows

IAS 7, "Statement of cash flows" ("IAS 7"), has been amended by the IASB to introduce additional disclosure that will allow users to understand changes in liabilities arising from financing activities. This amendment to IAS 7 is effective for annual periods beginning or after January 1, 2017. Enercare Solutions is currently evaluating the impact of adopting this standard on the interim financial statements.

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, 2018, 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.

Leases

IFRS 16, "Leases" ("IFRS 16"), sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. Enercare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

4. Cash and Cash Equivalents

	March 31, 2016	December 31, 2015
Cash at bank	**$12,173**	$17,581
Ending balance	**$12,173**	$17,581

5. Accounts and Other Receivables

	March 31, 2016	December 31, 2015
Billed accounts receivable	**$35,183**	$32,876
Unbilled accounts receivable	**45,925**	47,189
Current taxes receivable	**230**	4,491
Bad and doubtful debt provision	**(6,386)**	(6,055)
Accounts receivable (net of provision)	**$74,952**	$78,501
Bad and doubtful debt provision:		
Opening balance	**$ 6,055**	$ 3,399
Charge for the period	**331**	2,656
Provision ending balance	**$ 6,386**	$ 6,055

Unbilled accounts receivable of $28,321 (2015 - $28,656), primarily relate 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, 2016	December 31, 2015
Inventory	**$7,974**	$7,807
Less: inventory obsolescence	**(922)**	(781)
Inventory (net of provision)	**$7,052**	$7,026
Inventory obsolescence provision:		
Opening balance	**$ 781**	$ 79
Charge for the period	**$ 141**	702
Provision ending balance	**$ 922**	$ 781

During the first quarter ended March 31, 2016, $3,433 (2015 - $4,323) 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, 2016	December 31, 2015
Accounts payable	**$11,528**	$ 9,872
Current taxes payable	**5,750**	173
Accruals and other payables	**17,985**	22,546
Ending balance	**$35,263**	$32,591

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, 2016**	March 31, 2015
Revenue	**$19,084**	$16,985

	Three months ended March 31, 2016	Year ended December 31, 2015
Deferred revenue	**$ 3,566**	$ 2,142

9. Capital Assets

	Rental Equipment	Leased Vehicles	Other	Total
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	$ 96,505	$ 1,930	$ 4,969	$ 103,404
Acquisition – Cobourg portfolio	372	-	-	372
Loss on disposal before proceeds	(13,221)	(146)	-	(13,367)
Depreciation for the year	(47,368)	(2,212)	(1,779)	(51,359)
At December 31, 2015	$ 472,370	$ 6,695	$ 6,176	$ 485,241
At December 31, 2015:				
Cost	$ 905,742	$ 9,226	$ 8,898	$ 923,866
Accumulated depreciation	(433,372)	(2,531)	(2,722)	(438,625)
Net book value	**$ 472,370**	**$ 6,695**	**$ 6,176**	**$ 485,241**
Additions	$ 27,499	$ 693	$ 799	$ 28,991
Loss on disposal before proceeds	(3,891)	(16)		(3,907)
Depreciation for the period	(12,184)	(575)	(612)	(13,371)
At March 31, 2016	$ 483,794	$ 6,797	$ 6,363	$ 496,954
At March 31, 2016:				
Cost	$ 920,050	$ 9,861	$ 9,697	$ 939,608
Accumulated depreciation	(436,256)	(3,064)	(3,334)	(442,654)
Net book value	**$ 483,794**	**$ 6,797**	**$ 6,363**	**$ 496,954**

During the first quarter ended March 31, 2016, the non-cash portion of additions consisted of rental equipment of $1,197 (December 2015 - $0).

10. Intangible Assets

Customer Relationships	**March 31, 2016**	December 31, 2015
Opening balance January 1:		
Cost	**$1,146,528**	$1,146,141
Accumulated depreciation	**(623,699)**	(557,047)
Net book value	**$ 522,829**	$ 589,094
Acquisition – Cobourg portfolio	**-**	387
Amortization for the year	**(16,665)**	(66,652)
Net book value	**506,164**	$ 522,829
Ending balance:		
Cost	**$1,146,528**	$1,146,528
Accumulated depreciation	**(640,364)**	(623,699)
Net book value	**$ 506,164**	$ 522,829

11. Financing Receivables

Financing receivables consist of loans to customers resulting from HVAC sales. Outstanding balances can be repaid at any time without penalty. At the end of the 60 month term, customers have the option of renewing on a month by month basis. The following table summarizes the activity related to the financing receivables for the period ended March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Balance as at January 1	**$ -**	$ -
Financing receivables added in the period	**365**	-
Balance, end of period	**$365**	$ -

12. Goodwill

The following table provides details about the changes in the carrying amounts of goodwill as at March 31, 2016 and December 31, 2015.

Opening balance January 1, 2015	**$142,535**
Acquisition – Cobourg portfolio	**131**
At December 31, 2015 and March 31, 2016	**$142,666**

13. 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 2016 and January 2022. During the quarter ended March 31, 2016, Enercare Solutions recognized $61 (2015 - $69) of interest expense related to the obligations under finance leases.

	March 31, 2016	December 31, 2015
Obligations under finance leases	**$ 6,797**	$ 6,695
Less: current portion	**(2,101)**	(2,061)
	$ 4,696	$ 4,634

Future minimum lease payments under finance leases are as follows:

	Principal	Interest	Lease Payments
Due in 2016	$1,599	$163	$1,762
Due in 2017	1,880	156	2,036
Due in 2018	1,484	95	1,579
Due in 2019	1,024	50	1,074
Due in 2020	568	20	588
Thereafter	242	5	247
	$6,797	$489	$7,286

14. Debt

Bank indebtedness, current and long term debts:

	March 31, 2016	December 31, 2015
Non-current portion of long term debt:		
Senior debt principal amount	**$685,000**	$685,000
Revolving credit facility	**50,000**	-
Unamortized financing costs and interest accretion	**(2,282)**	(3,122)
Opening balance January 1	**$732,718**	$681,878
Repayment of debt	**-**	50,000
Issuance of debt	**-**	-
Financing costs	**-**	-
Amortization of financing costs	**208**	840
Total non-current portion	**$732,926**	$732,718
Senior debt principal amount	**$685,000**	$685,000
Revolving credit facility	**50,000**	50,000
Unamortized financing costs and interest accretion	**(2,074)**	(2,282)
Total non-current portion of long term debt	**$732,926**	$732,718

On October 20, 2014, Enercare Solutions entered into a $100,000, five-year revolving, non-amortizing variable rate credit facility (the “2014 Revolver”), replacing the former $35,000 facility. The 2014 Revolver has a standby fee of 0.25% and at March 31, 2016, $50,000 was drawn bearing interest at a variable rate based upon the banker’s acceptance rate plus 1.25%, which was 2.122% at March 31, 2016. Enercare Solutions is subject to two principal financial covenants as defined in the 2014 Revolver and term loan credit facility (the “2014 Term Loan”) documents. The covenants address interest and debt coverage. At March 31, 2016, 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.

The senior debt also consists of a $210,000 non-revolving, non-amortizing variable rate 2014 Term Loan, maturing on October 20, 2018, which bears interest at a variable rate based upon the banker’s acceptance rate plus 1.25%, which was 2.118% at March 31, 2016. Deferred financing costs of $902 were incurred in relation to the issuance of the $210,000 2014 Term Loan.

Enercare Solutions was in compliance with all covenants under the 2012 Notes, 2013 Notes, 2014 Revolver and 2014 Term Loan as at March 31, 2016.

Interest Expense:

Three months ended March 31,	**2016**	2015
Interest expense payable in cash	**$ 6,551**	$ 6,511
Interest on subordinated debt	**875**	875
Interest on promissory note	**5,064**	5,674
Equity bridge financing fees	**189**	-
Non-cash items:		
Notional interest on employee benefit plans	**210**	274
Amortization of financing costs	**208**	208
Interest expense	**$13,097**	$13,542

Interest expense payable in cash is primarily associated with debt activity. Interest on the $50,000 Subordinated Debt was consistent with the prior period. Notional interest relates to employee benefits plans acquired as part of the DE Acquisition. Amortization of financing costs include previously unamortized costs associated with debt. Equity bridge financing fees of $189 were incurred as part of the SE Transaction.

15. 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. On October 20, 2014, an additional $317,367 subordinated promissory note was issued by Enercare (collectively, the “Subordinated Promissory Notes”) as part of the DE Acquisition. During 2015, $59,000 of the Subordinated Promissory Notes was repaid and in 2016, $6,000 of the Subordinated Promissory Notes was repaid. 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.

16. 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.

17. Employee Benefit Plans

Defined Benefit Plans

In connection with the DE Acquisition, 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.

Regulatory approval was received in December of 2015 and the pension assets and liabilities of DE employees who transferred to Enercare Solutions at the closing of the DE Acquisition (“Transferred Employees”) were transferred from the DE Plan to the RPP on January 28, 2016 at which time Enercare Solutions assumed sponsorship and administration of the RPP.

Prior to this transfer, in accordance with the asset purchase agreement (“Asset Purchase Agreement”), DE funded the solvency deficit relating to these employees and remained responsible for the sponsorship and administration of the pension plan, including exposure to the return on any plan assets. The RPP was fully funded, on a solvency basis, prior to being transferred to Enercare Solutions. Accordingly, Enercare Solutions had recognized a receivable, identified as a “Reimbursement Right - Pension” in the consolidated statement of financial position as at December 31, 2015 in the amount of $11,107.

On January 28, 2016, the Reimbursement Right – Pension was settled through a $11,107 transfer received from DE representing $84,360 of pension liabilities (solvency basis), net of $73,453 of pension assets and $200 of wind up expenses.

Enercare Solutions was only responsible for current service cost contributions relating to Transferred Employees until Enercare Solutions assumed 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 total cost of the employee benefit plans recognized in selling, general and administrative, interest income and interest expense are as follows:

Three months ended March 31,	**2016**	2015
Pension		
Current service cost	**$922**	$832
Interest (income) / expense	**(42)**	81
Administrative expenses	**18**	-
	$898	$913
OPEB		
Current service cost	**$208**	$232
Net interest cost	**210**	193
	$418	$425

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

Three months ended March 31,	**2016**	2015
Pension		
Actuarial gain	**$1,233**	$ -
OPEB		
Actuarial gain	**$1,245**	$1,403
	$2,478	**$1,403**

18. Share Capital

(000's)	**March 31, 2016**		December 31, 2015	
Shares Issued and Outstanding	**Shares**	**Dollars**	Shares	Dollars
Opening balance at January 1:	**1,169**	**$189,076**	1,169	$189,076
Issued	**-**	**-**	-	-
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, 2016, there were 1,169 common shares issued and outstanding.

19. Commitments

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

	March 31, 2016
Due in 2016	**$ 1,376**
Due in 2017	**878**
Due in 2018	**325**
Due in 2019	**273**
Due in 2020	**277**
Thereafter	**366**
Total commitments under non-cancellable operating leases	**$3,495**

The operating lease payments recognized in the consolidated statement of income for the quarter ended March 31, 2016 were $741 (2015 - $590).

20. 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 consolidated financial statements.

21. 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. The majority of Enercare Solutions' contracted revenues are subject to a guaranteed payment by EGD for 99.51% 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, 2016, 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 2014 Revolver and 2014 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, 2016.

The covenants under the 2014 Revolver and 2014 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, 2016.

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 2016	$ -	$19,498	$1,599	$163	$ 1,599	$19,661
Due in 2017	250,000	25,864	1,880	156	251,880	26,020
Due in 2018	210,000	14,363	1,484	95	211,484	14,458
Due in 2019	50,000	11,130	1,024	50	51,024	11,180
Due in 2020	225,000	5,175	568	20	225,568	5,195
Thereafter	-	-	242	5	242	5
Total	$735,000	$76,030	$6,797	$489	$741,797	$76,519

Market Risk

Fair Value

The carrying values of cash and cash equivalents, accounts and other receivables, 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, 2016 and December 31, 2015. 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, 2016		December 31, 2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 12,173**	**$ 12,173**	$ 17,581	$ 17,581
Accounts receivable	**74,952**	**74,952**	78,501	78,501
Investment in preferred shares	**50,000**	**50,000**	50,000	50,000
Total financial assets	**137,125**	**137,125**	$ 146,082	$ 146,082
Financial liabilities measured at amortized cost:				
Gross senior borrowings	**$ 685,000**	**$ 700,770**	$ 685,000	$ 705,118
Revolving credit facility	**50,000**	**50,000**	50,000	50,000
Long term subordinated promissory notes	**502,367**	**502,367**	508,367	508,367
Subordinated debt	**50,000**	**50,000**	50,000	50,000
Obligations under finance lease	**6,797**	**6,797**	6,695	6,695
Total borrowings	**$1,294,164**	**$1,309,934**	$1,300,062	$1,320,180
Other obligations and payables	**$60,210**	**$60,210**	$54,486	$54,486
Total financial liabilities	**$1,354,374**	**$1,370,144**	$1,354,548	$1,374,666

Fair values of all financial assets and liabilities are classified as Level 3 financial instruments, except cash and cash equivalents, revolving credit facility and obligations under finance lease which are classified as Level 2 financial instruments and gross senior borrowings which are classified as Level 1.

Enercare Solutions is subject to variable interest rate risk on its revolving credit facility and a portion of its gross senior borrowings. A 0.5% change in interest rates will have approximately a $1,300 impact on earnings. Enercare Solutions is also subject to interest rate risk on its cash on hand where a 0.5% change in interest rates will have approximately a $90 impact on earnings.

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' considers capital to be primarily cash and cash equivalents, gross senior borrowings and subordinated promissory notes as originally funded by Enercare, as such makes adjustments as appropriate to such variables as cash on hand, additional capital expenditures, debt capacity, available credit facilities and covenant restrictions. Enercare Solutions' capital management strategy, objectives, and definitions have not materially changed during the quarter ended March 31, 2016.

Enercare Solutions was in compliance with all covenants under the 2012 Notes, 2013 Notes, 2014 Revolver and 2014 Term Loan as at March 31, 2016.

22. Selling, General and Administrative

Three months ended March 31,	**2016**	2015
Employee compensation and benefits	**$10,429**	$ 9,514
Professional fees	**3,356**	1,054
Selling, office and other	**5,134**	5,352
Billing and servicing	**5,841**	8,594
Claims and bad debt	**1,828**	2,066
Charges from Enercare Inc.	**3,960**	2,893
Total	**$30,548**	$29,473

23. 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,	**2016**	2015
Accounts receivable	**$3,549**	$(32,377)
Inventory	**(26)**	(502)
Prepaid expenses	**(105)**	168
Deferred revenue	**972**	705
Accounts payable and accrued liabilities	**1,475**	(11,635)
Provisions	**(41)**	(30)
Related party payable	**1,110**	(505)
Interest payable	**399**	204
Total	**$7,333**	$(43,972)

24. 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,	**2016**	2015
Salaries and short-term benefits	**$1,158**	$705
Other employment benefits	**59**	41
Long term benefits	**430**	709
Total	**$1,647**	$1,455

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.

	March 31, 2016	December 31, 2015
Related party payables	**$2,837**	$1,727

25. 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 at March 31, 2016, there was no restricted cash on hand (December 31, 2015 - nil).

26. Agreement to Acquire Service Experts and Issuance of Subscription Receipts

In March 2016, Enercare and Enercare Solutions announced that Enercare Solutions entered into a definitive merger agreement pursuant to which an indirect wholly-owned subsidiary of Enercare Solutions will acquire, through a merger, SEHAC Holdings Corporation for consideration of US$340,750, excluding transaction costs (the “Consideration”), subject to customary working capital and other adjustments.

In conjunction with the SE Transaction, Enercare also announced that it had entered into an agreement with a syndicate of underwriters to issue, on a bought deal basis, approximately $218,000 of subscription receipts plus approximately $21,800 of subscription receipts issuable pursuant to an overallotment option granted to the underwriters (collectively, the “SE Subscription Receipts”) to partially finance the equity component of the Consideration, SE Transaction-related costs and general working capital requirements (the “Offering”). In order to finance the remainder of the Consideration, Enercare Solutions entered into a commitment with two Canadian chartered banks (the "Lenders") pursuant to which the Lenders committed, subject to customary conditions, to provide debt financing to Enercare Solutions in the form of an unsecured 4-year variable rate term credit facility in an aggregate amount of US$200,000 (the “2016 Term Loan”), which Enercare Solutions fully drew at closing of the SE Transaction.

In addition, the Lenders also provided a fully committed bridge facility in the amount of US$140,750 in the event the Offering did not close. This bridge facility was terminated by Enercare Solutions in conjunction with the closing of the Offering.

Enercare completed the Offering of 15,725,600 SE Subscription Receipts at a price of $15.25 per SE Subscription Receipt (which included 1,429,600 SE Subscription Receipts sold as a result of the exercise in full of the overallotment option by the underwriters) in March 2016. The Offering raised gross proceeds of $239,815.

In addition to the SE Subscription Receipts issued pursuant to the Offering, the Chief Executive Officer and certain other officers of Service Experts subscribed for an aggregate of 109,000 of SE Subscription Receipts at the Offering price on a private placement basis (the "Concurrent Private Placement"). The Concurrent Private Placement raised gross proceeds of $1,662.

The SE Subscription Receipts, classified as financial liabilities, are being carried at amortized cost, with the common share dividend equivalent recognized as interest. As of March 31, 2016, Enercare recorded $1,108 of interest payable to the holders of SE Subscription Receipts. The proceeds from the Offering, net of transaction costs of $4,765, representing 50% of the underwriters fees paid, were held in escrow by an escrow agent until the closing of the SE Transaction.

27. Subsequent Events

On May 11, 2016, Enercare and Enercare Solutions announced that Enercare Solutions completed the SE Transaction. The purchase price for the SE Transaction was approximately US$340,750 excluding transaction costs, and subject to customary working capital and other adjustments. The acquired assets and liabilities assumed included components of working capital, capital assets, intangible assets, goodwill and capital leases. The initial accounting for this business combination is incomplete as at the date hereof.

The SE Transaction was financed through a combination of debt and equity, including approximately $241,478 of SE Subscription Receipts ($231,947 net of fees), inclusive of the Concurrent Private Placement, and US$200,000 from the 2016 Term Loan.

Concurrent with the closing of the SE Transaction, a portion of the net funds from the SE Subscription Receipts were loaned from Enercare to Enercare Solutions in the form of an interest bearing promissory note of $187,504, such that an indirect wholly-owned subsidiary of Enercare Solutions could fund the SE Transaction.

In accordance with the terms of the agreement pursuant to which the SE Subscription Receipts were issued, each outstanding SE Subscription Receipt was exchanged for one Share, resulting in the issuance of 15,834,600 Shares (including 109,000 Shares issued to certain U.S. persons, including the Chief Executive Officer and certain other officers of Service Experts in exchange for the SE Subscription Receipts issued to them in the Concurrent Private Placement) and a cash payment equal to $0.14 per SE Subscription Receipt. The cash payment was equal to the aggregate amount of dividends per Share for which record dates occurred since the issuance of the SE Subscription Receipts, less any withholding taxes, if any, to the date of closing of the SE Transaction. The Shares issued in exchange for the SE Subscription Receipts issued in the Concurrent Private Placement are subject to a contractual hold period of six months from closing of the Offering.

In conjunction with the SE Transaction, Enercare Solutions entered into an amendment to the 2014 Term Loan and 2014 Revolver with the Lenders to give effect to the SE Transaction and 2016 Term Loan which included, among other things (i) modifying the definition of Adjusted EBITDA to exclude SE Transaction and integration costs up to $10,300 in the aggregate, (ii) adding Service Experts and its subsidiaries as guarantors, (iii) increasing certain of the “basket” sizes permitted under certain covenants and events of default (to take into account the increase of assets under management due to the SE Transaction) and (iv) the enhancement of certain financial covenants as described below.

The amendment to the 2014 Term Loan and 2014 Revolver included enhancements to certain of the financial covenants as follows: (i) the ratio of total debt (other than subordinated debt) to Adjusted EBITDA must now only be equal to or less than 4.75:1 and (ii) the ratio of Adjusted EBITDA to Cash Interest Expense must now only be equal to or greater than 3.00:1.