Enercare Solutions Inc.

Consolidated Financial Statements

Year Ended December 31, 2016

Dated March 6, 2017

March 6, 2017

Independent Auditor's Report

To the Shareholders of
Enercare Solutions Inc.

We have audited the accompanying consolidated financial statements of Enercare Solutions Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enercare Solutions Inc. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Enercare Solutions Inc.

Consolidated Statements of Financial Position

(in thousands of Cdn $) As at December 31,		2016		2015
Assets				
Current assets				
Cash and cash equivalents (note 4)	$	**36,446**	$	17,581
Accounts and other receivables (note 5)		**118,504**		78,501
Financing receivables (note 6)		**319**		-
Inventory (note 7)		**15,168**		7,026
Prepaid expenses		**9,134**		1,629
Collateral deposits (note 11)		**9,842**		-
Investment in Enercare Connections Inc. preferred shares (note 17)		**50,000**		50,000
		239,413		154,737
Capital assets (note 8)		**577,442**		485,241
Intangible assets (note 9)		**694,908**		522,829
Reimbursement right - pension (note 18)		**-**		11,107
Employee benefit plan assets (note 18)		**6,246**		-
Goodwill (note 10)		**371,719**		142,666
Deferred tax asset (note 19)		**5,901**		4,438
Long-term financing receivables (note 6)		**2,557**		-
Other assets		**1,994**		1,538
	$	**1,900,180**	$	1,322,556
Liabilities				
Current liabilities				
Current portion of long-term debt (note 14)	$	**250,000**	$	-
Accounts payable and accrued liabilities (note 12)		**137,524**		32,591
Obligation under finance leases (note 13)		**11,216**		2,061
Related party payable (note 28)		**5,572**		1,727
Insurance claim provisions (note 11)		**7,990**		-
Other Provisions (note 26)		**1,107**		1,191
Interest payable		**4,742**		4,694
Deferred revenue and service obligation (note 15)		**41,400**		8,127
Dividends payable		**-**		6,156
Subordinated debt (note 17)		**50,000**		50,000
		509,551		106,547
Long-term debt (note 14)		**716,274**		732,718
Long-term subordinated promissory notes (note 16)		**708,379**		508,367
Long-term obligations under finance leases (note 13)		**14,408**		4,634
Employee benefit plan obligation (note 18)		**22,028**		27,848
Deferred tax liability (note 19)		**100,921**		127,925
		2,071,561		1,508,039
Shareholder's equity				
Share capital (note 20)		**189,076**		189,076
Contributed surplus		**728**		201
Accumulated other comprehensive income		**8,618**		103
Deficit		**(369,803)**		(374,863)
		(171,381)		(185,483)
	$	**1,900,180**	$	1,322,556

Commitments and contingent liabilities are found in notes 21 and 22 respectively.

Subsequent events are found in notes 14 and 32.

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

Enercare Solutions Inc.

Consolidated Statements of Income

(in thousands of Cdn $, except share and per share amounts) For the years ended December 31,		2016		2015
Revenues				
Contracted revenue	$	**432,592**	$	390,509
Sales and other services		**416,761**		35,962
Dividend income		**3,452**		3,452
Investment income		**377**		186
Total revenues		**853,182**		430,109
Expenses				
Cost of goods sold and services provided (note 24)				
Maintenance and servicing costs		**84,705**		61,164
Sales and other services		**261,689**		25,448
Selling, general & administrative (note 25)		**231,558**		117,400
Foreign exchange (gain) / loss		**(180)**		107
Depreciation and amortization				
Capital assets (note 8)		**62,082**		51,359
Intangible assets (note 9)		**73,937**		66,652
Loss on disposal of equipment		**4,713**		5,501
Gain on retirement of finance lease obligations		**(230)**		(147)
Interest expense (note 14)		**60,877**		53,437
		779,151		380,921
Earnings for the year before income taxes		**74,031**		49,188
Tax expense				
Current tax expense (note 19)		**51,358**		7,006
Deferred income tax (recovery) / expense (note 19)		**(31,318)**		5,414
Total tax expense		**20,040**		12,420
Net earnings for the year	**$**	**53,991**	$	36,768

Enercare Solutions Inc.

Consolidated Statements of Comprehensive Income

(in thousands of Cdn $) For the years ended December 31,		2016		2015
Net earnings for the year	**$**	**53,991**	$	36,768
Items that will not be reclassified to earnings				
Remeasurements of defined benefit plans (note 18)		**3,641**		481
Tax effect of remeasurements of defined benefit plans		**(965)**		(127)
Items that will be reclassified to earnings				
Net investment hedge of US dollar loans (note 23)		**(5,080)**		-
Tax effect of net investment hedge of US dollar loans		**125**		-
Foreign currency translation differences from foreign operations		**10,794**		-
Comprehensive income for the year	**$**	**62,506**	$	37,122

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

Enercare Solutions Inc.

Consolidated Statements of Changes in Equity

(in thousands of Cdn $)				
For the years ended December 31,		**2016**		2015
Share Capital				
Balance - beginning of year	**$**	**189,076**	$	189,076
Share Capital - end of year (note 20)		**189,076**		189,076
Contributed Surplus				
Balance - beginning of period		**201**		-
Equity contribution from parent		**527**		201
Contributed Surplus - end of year		**728**		201
Accumulated Other Comprehensive Income				
Balance - beginning of period		**103**		(251)
Remeasurements of defined benefit plans (note 18)		**3,641**		481
Net investment hedge of US dollar loans (note 23)		**(5,080)**		-
Foreign currency translation differences from foreign operations		**10,794**		-
Tax effect of net investment hedge of US dollar loans		**125**		-
Tax effect of remeasurements of defined benefit plans		**(965)**		(127)
Accumulated Other Comprehensive Income - end of year		**8,618**		103
Deficit				
Balance - beginning of year		**(374,863)**		(342,386)
Net earnings for the year		**53,991**		36,768
Dividends		**(48,931)**		(69,245)
Deficit - end of year		**(369,803)**		(374,863)
Shareholder's equity - end of period	**$**	**(171,381)**	$	(185,483)

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

Enercare Solutions Inc.

Consolidated Statements of Cash Flows

(in thousands of Cdn $, except share and per share amounts) For the years ended December 31,		2016		2015
Cash provided by/(used in):				
Operating activities				
Net earnings for the year	**$**	**53,991**	$	36,768
Items not affecting cash				
Depreciation and amortization				
Capital assets (note 8)		**62,082**		51,359
Intangible assets (note 9)		**73,937**		66,652
Loss on disposal of equipment		**4,713**		5,501
Gain on retirement of finance lease obligations		**(230)**		(147)
Non-cash foreign exchange expense		**(127)**		-
Non-cash interest expense		**1,865**		1,937
Non-cash interest income		**(168)**		-
Defined benefit plan expense		**4,606**		4,256
Employee share options and stock purchase plan		**527**		201
Deferred income tax (recovery) / expense		**(31,318)**		5,414
Deferred customer inducements		**(456)**		(1,538)
Financing receivables		**(2,876)**		-
Contributions to defined benefit pension plan		**(2,596)**		(2,584)
		163,950		167,819
Net change in non-cash working capital (note 27)		**(15,836)**		(28,763)
Cash provided by/(used in) operating activities		**148,114**		139,056
Investing activities				
Purchase of capital assets (note 8)		**(127,901)**		(101,472)
Acquisition of SE - net of cash received (note 31)		**(375,163)**		-
Acquisition of CNI		**-**		(863)
Proceeds from disposal of vehicle leases		**1,104**		313
Proceeds from disposal of equipment - warranty recoveries		**2,364**		2,118
Proceeds from disposal of equipment - buyout receipts		**7,514**		5,435
Cash used in investing activities		**(492,082)**		(94,469)
Financing activities				
Dividends to shareholders		**(55,087)**		(68,639)
Proceeds from revolving credit facility		**15,000**		50,000
Repayment of line of credit		**(50,000)**		-
Issuance of promissory note (note 16)		**227,504**		-
Repayment of subordinated promissory notes (note 17)		**(27,492)**		(59,000)
Proceeds from issuance of long-term debt (note 14)		**258,320**		-
Repayment of obligations under finance leases		**(6,129)**		(2,222)
Financing costs on long-term debt		**(1,009)**		-
Cash used in financing activities		**361,107**		(79,861)
Effect of foreign currency on cash and cash equivalents		**1,726**		-
Increase/(Decrease) in cash and cash equivalents		**17,139**		(35,274)
Cash and cash equivalents - beginning of year		**17,581**		52,855
Cash and cash equivalents - end of year (note 4)	**$**	**36,446**	$	17,581
Supplementary information				
Interest paid	**$**	**62,938**	$	51,346
Income taxes paid	**$**	**26,839**	$	14,389

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.

Enercare Solutions is the successor to The Consumers' Waterheater Operating Trust. On October 20, 2014, Enercare Solutions acquired the Ontario home and small commercial services business ("OHCS") of Direct Energy Marketing Limited ("DE") (the "DE Acquisition"). The combined business unit is now referred to as "Enercare Home Services" which rents, sells and finances, water heaters, water treatment, furnaces, air conditioners, and other HVAC rental products and provides protection plans and on demand duct cleaning, plumbing and related services.

On May 11, 2016, Enercare Solutions acquired, through a merger, SEHAC Holdings Corporation (now SEHAC Holdings LLC or "SEHAC") (the "SE Transaction") (see note 31), which owned the business operated under the Service Experts brands ("Service Experts"). Enercare Solutions purchased 100% of the outstanding shares of Service Experts. Service Experts provides sales, installation, maintenance and repair of heating, ventilation and air conditioning ("HVAC") systems directly to residential and light commercial customers operating in locations in the United States and Canada. The consolidated financial statements reflect Enercare Solutions' ownership of Service Experts for the period of May 11, 2016 to December 31, 2016.

The head office of Enercare Solutions is located at 4000 Victoria Park Avenue, Toronto, Ontario, M2H 3P4.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 under "Adoption of New Accounting Standards".

The consolidated financial statements have been presented in Canadian dollars, which is Enercare's functional currency and presentation currency. Certain subsidiaries acquired through the SE Transaction have a functional currency of US dollars.

Certain comparative balances have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2016 financial statements.

These financial statements were approved and authorized for issue by the board of directors on March 6, 2017.

3. Significant Accounting Policies

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

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for insurance provision claims (note 11) and employee benefit plans (note 18).

Consolidation

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

Subsidiaries are those entities which Enercare Solutions controls. Enercare Solutions controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained by Enercare Solutions and are de-consolidated from the date that control ceases. As of the date of these consolidated financial statements, 100% of the operating results and equity of the subsidiaries is attributable to Enercare Solutions.

Business Combinations

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

Cash and Cash Equivalents

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

Financial Instruments

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

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

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

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

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

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

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, provisions, interest payable, dividends payable, deferred revenue, obligations under finance leases and long-term debt. Amounts are initially recognized at the amount required to be paid less, when material, a discount to reduce the amount to fair value. Subsequently, amounts are recognized at amortized cost using the effective interest rate method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

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

(iv) A portion of the 2016 Term Loan (see Note 14 & 23) is designated as a hedge with respect to the foreign currency exposure as a result of Enercare's net investment in its US operations. The 2016 Term Loan is carried at amortized cost, however the foreign exchange translation adjustment related to the portion designated as a hedge is recorded in OCI along with the cumulative translation adjustment associated with the hedged item.

Impairment of Financial Assets

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

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

Accounts Receivable

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

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

Inventory

Inventory consists of furnaces, boilers, air conditioners held for sale or parts used in servicing equipment. Inventory is stated at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average cost basis.

Inventory is considered for obsolescence based on current estimates of future sales and use.

Provisions

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

Insurance Claims Provisions

Enercare Solutions has insurance coverage for claims related to workers compensation, automobile and general liability claims. This coverage includes a self-insured component which is funded to a third-party collateral account based on estimated claim losses for the plan year. The balance of the collateral account at December 31, 2016 represents the net of payments made by Enercare Solutions to fund into the collateral account, less payments from the collateral account to fund cost of paid claims (up to the self-insured retention), and is recognized as an asset in the statement of financial position.

Claims provisions are estimated by the appointed actuary and are based on assumptions such as historical loss development factors, payment patterns, future rates of insurance claims frequency and severity, inflation, expenses, taking into consideration the circumstances of the entity and the nature of the insurance policies. These liabilities are recognized on the statement of financial position and changes are recognized within claims expense in selling, general and administrative expenses on the statement of income.

Claims provisions are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Included in claims provision is an estimate for the future development of these insurance claims, including insurance claims incurred but not reported by employees, customers, or other third-parties ("IBNR"), as well as a provision for adverse deviations.

Capital Assets

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

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

Rental equipment	16 years
Furniture and fixtures	3-5 years
Computer equipment	3-5 years
Computer software	2-10 years
Vehicles	over the term of the lease
Leasehold improvements	over the term of the lease
Building	20 years
Land	Indefinite life

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

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

Leases

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

Intangible Assets

Intangible assets are predominantly related to contractual customer relationships, customer contracts and proprietary technology acquired in business combinations that are recognized at fair value at the acquisition date. The contractual customer relationships, customer contracts and proprietary technology have a finite useful life and are carried at cost less accumulated amortization and impairment charges. Amortization is calculated using the straight-line method over the expected life of 10 to 20 years. Brands acquired through the SE Transaction are determined to have indefinite lives.

Impairment of Non-financial Assets

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Enercare Solutions' share of the identifiable net assets of the acquired business at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

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

For the purposes of impairment testing, goodwill is allocated to a CGU or group of CGUs which corresponds to the level at which goodwill is internally monitored by the Chief Operating Decision Maker.

The recoverable amount is the higher of value in use and fair value less costs of disposal. A goodwill impairment is recognized for any excess of the carrying amount of the CGU or groups of CGUs over its recoverable amount. Goodwill impairments are not reversible.

Long Term Compensation

Employee Share Purchase Plan

Effective November 1, 2014, Enercare Solutions implemented an Employee Share Purchase Plan ("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 Solutions will award one matching share of Enercare for every two shares purchased by an employee over a two year vesting period during which Enercare Solutions will recognize an expense over the vesting period. Employee contributions held by Enercare Solutions at the end of a period are classified as restricted cash until such time the funds are transferred to the administrative agent for the purchase of Enercare shares.

Income Tax

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

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

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

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

Relationship with Franchisees

In certain regions of Ontario, Enercare Solutions outsources the sale of air conditioners, boilers, furnaces and other services and protection plans to seven third party franchisees and earns royalties based on the revenue earned by the franchisees. As part of the arrangement, which expires in 2034, Enercare Solutions facilitates the invoicing and collection of receivable balances from the franchisees' customers and remits the franchisees' portion of the collected amounts, thereby recognizing as revenue the royalty earned. Royalty revenue of $13,702 (2015 - $14,354) was recognized during the year.

Enercare Solutions also manages an advertising fund (“Ad Fund”), established to collect and administer funds contributed by the franchisees for use in advertising programs. Contributions to the Ad Fund are based on a percentage of each franchisee’s revenue. In accordance with IAS 18 “Revenue”, these contributions are not recorded as revenue but are netted against the advertising expenses incurred by Enercare Solutions as it is acting in substance, as an agent for the franchisees with regard to these contributions.

Revenue

General

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

Amounts paid in advance of revenue recognition are recorded as deferred revenue. Revenue recognized prior to invoicing is recorded as unbilled accounts receivable and is included in accounts receivable.

Enercare Solutions assesses the revenue recognition for principal versus agent considerations for its Enercare Home Services franchisee revenues. When a principal relationship exists, revenue is recognized on a gross basis and when an agent relationship exists, revenue is recognized on a net basis.

Contract Revenues

Rental Revenue

Rental revenue is primarily comprised of the rental of water heaters, furnaces, boilers and air conditioners and is recognized on a monthly basis, in line with the terms of the rental agreement.

Protection Plans

Within this product offering, Enercare Solutions provides both maintenance service contracts and full service protection plans. Under maintenance service contracts, Enercare Solutions is obligated to perform one annual maintenance service on the customer’s equipment when requested by the customer. Maintenance service revenue is recognized when the service is performed, or when the performance period has expired.

Enercare Solutions offers certain arrangements where multiple-element arrangements may exist. The amount of revenue allocated to each element is based upon the relative fair values of the various elements. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Full service protection plans consist of fixed-fee service contracts for residential, air conditioners and furnaces directly with the end customer. These fixed-fee service contracts are for a twelve month term and are billed annually, quarterly or monthly in advance. Amounts billed are initially recorded as deferred revenue and recognized as revenue on a straight-line basis over the term of the service period. For protection plan sales originated by franchisees, Enercare Solutions earns royalties when the service contract is sold to the customer as the franchisee retains the service obligation.

These full service protection plan arrangements are considered insurance contracts under IFRS 4. In the event that the estimated future costs of full service protection plan contracts exceed the associated revenue to be recognized, a loss is recognized in net income immediately.

Sales and Other Services

Sale and Installation of Equipment

Sale and installation of equipment in the Home Services segment is primarily comprised of residential furnaces, boilers and air conditioners through both the corporate and franchised regions. In the Service Experts segment, sales and installations of equipment is primarily comprised of residential and commercial furnaces and air conditioners. Revenue is recognized as the service is provided.

Other Services

Other services include chargeable services such as on demand repairs and maintenance and duct cleaning, and royalties thereon when the services are performed by third party franchisees. Revenue from other services is recognized when the services are provided.

Interest Expense and Financing Charges

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

Foreign Currency Translation

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Foreign currency differences arising on re-measurement are recognized through the statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Foreign currency gains and losses are reported in the statement of income on a net basis. The effect of currency translation adjustments on cash and cash equivalents is presented separately in the statements of cash flows.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated from their functional currency to the presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency using average exchange rates for the period. Foreign currency differences are recognized in other comprehensive income (“OCI”) in the foreign currency translation differences from foreign operations.

Financial instruments designated as a hedge of the foreign currency exposure of a net investment in foreign operations that are effective as a hedge are reported in the same manner as the foreign currency translation adjustment (in OCI) related to the net investment. To the extent that the hedge is ineffective, such differences are recognized in the statement of income.

Dividends

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

Critical Accounting Estimates and Judgments

Enercare Solutions makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Management 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 December 31, 2016, the Enercare Home Services segment recorded a revenue accrual of approximately $46,400 reflecting accrued service periods, compared to $47,200 at December 31, 2015. Unbilled protection plans comprise approximately $28,200 of this balance, compared to $28,700 at December 31, 2015. This balance 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 revenues for rental water heaters and other products.

At December 31, 2016, the Service Experts segment recorded a revenue accrual of approximately $1,700 reflecting accrued revenue for contracts in progress, compared to $nil at December 31, 2015.

Bad Debt Provisions

The Enercare Home Services segment 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.

Management evaluates a number of factors and assumptions in the determination of the bad debt provision. The total bad debt provision comprising the Enercare Home Services and Service Experts segments was approximately $5,000 at December 31, 2016, compared to approximately $6,100 at the end of 2015. 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 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 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 18, 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 fair value of acquired assets and assumed liabilities and other adjustments related to the acquisition of Service Experts (note 31), these 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 May 11, 2016. Accordingly, the final fair value determinations may differ from those set forth in these consolidated financial statements and such differences may be material.

Estimation of Insurance Claims

Insurance liabilities are subject to measurement uncertainty. The recognized amounts of such items are based on Enercare Solutions' best information and judgment. Estimates and other judgments are continuously evaluated based on management's experience and expectations about future events, including insurance claims for events that have occurred but not yet been reported to management.

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 has assessed the impact of adopting this amendment on the consolidated financial statements, and notes that additional disclosure of the movements in net debt between changes arising from cash flows and non-cash changes may be required.

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 has begun to assess the terms and conditions of its inventory of revenue contracts with customers, and continues to evaluate the impact of adopting this standard on the consolidated financial statements. Quantification of the impact is expected in 2017.

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. Quantification of the impact is expected in 2017.

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 twelve 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

As at December 31,	2016	2015
Cash at bank	**$36,446**	$17,581
Ending balance	**$36,446**	$17,581

5. Accounts and Other Receivables

As at December 31,	2016	2015
Billed accounts receivable	**$ 72,893**	$32,876
Unbilled accounts receivable	**48,676**	47,189
Current taxes receivable	**1,984**	4,491
Bad and doubtful debt provision	**(5,049)**	(6,055)
Accounts and other receivables (net of provision)	**$118,504**	$78,501
Bad and doubtful debt provision:		
Opening balance	**$ 6,055**	$ 3,399
(Write-off)/charge for the year	**(1,006)**	2,656
Provision ending balance	**$ 5,049**	$ 6,055

Unbilled accounts receivable of $28,179 (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. Financing Receivables

Financing receivables consist of loans to customers resulting from HVAC sales, which can be financed up to 180 months. Outstanding balances can be repaid at any time without penalty. At the end of the 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 periods ended December 31, 2016 and 2015:

As at December 31,	2016	2015
Balance as at January 1	**$ -**	$ -
Financing receivables added in the period	**3,172**	-
Prepayments	**(296)**	
Balance, end of period	**$2,876**	$ -

7. Inventory

As at December 31,	2016	2015
Inventory	**$ 16,036**	$ 7,807
Less: inventory obsolescence	**(868)**	(781)
Inventory (net of provision)	**$ 15,168**	$ 7,026
Inventory obsolescence provision:		
Opening balance	**$ 781**	$ 79
Charge for the year	**87**	702
Provision ending balance	**$ 868**	$ 781

During the year ended December 31, 2016, $126,984 (2015 - $18,438) of inventory was recognized as part of cost of goods sold and services provided in the consolidated statement of income.

8. Capital Assets

	Rental Equipment	Vehicles	Buildings	Land and Improvements	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
Loss on disposal before proceeds	(13,221)	(146)	-	-	-	(13,367)
Acquisition – Cobourg portfolio	372	-	-	-	-	372
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	$ 118,671	$ 7,943	$ 46	$ -	$ 9,516	$ 136,176
Loss on disposal before proceeds	(14,876)	(819)	-	-	-	(15,695)
Acquisition – Service Experts (note 31)	-	23,254	3,234	2,544	3,704	32,736
Foreign exchange	-	654	125	101	186	1,066
Depreciation for the year	(50,819)	(7,386)	(165)	-	(3,712)	(62,082)
At December 31, 2016	$ 525,346	$30,341	$3,240	$2,645	$15,870	$ 577,442
At December 31, 2016:						
Cost	$ 979,804	$39,636	$3,409	$2,645	$22,299	$1,047,793
Accumulated depreciation	(454,458)	(9,295)	(169)	-	(6,429)	(470,351)
Net book value	**$ 525,346**	**$30,341**	**$3,240**	**$2,645**	**$15,870**	**$ 577,442**

During the year ended December 31, 2016, the non-cash portion of additions consisted of rental equipment of $332 (2015 - $nil). Included within the additions is $7,943 (2015 - $1,930) related to the purchases of vehicles under finance lease, which has also increased the respective obligations under finance leases by $7,943 (2015 - $1,932). Repayment of obligations under finance leases of $6,129 for the twelve months ended December 31, 2016 has been included within the statements of cash flows.

9. Intangible Assets

	Customer Relationships	Brands	Proprietary Technology	Total
At December 31, 2014:				
Cost	$1,146,141	$ -	$ -	$1,146,141
Accumulated depreciation	(557,047)	-	-	(557,047)
Net book value	**$ 589,094**	**$ -**	**$ -**	**$ 589,094**
Acquisition – Cobourg portfolio	$ 387	$ -	$ -	$ 387
Amortization for the year	(66,652)	-	-	(66,652)
At December 31, 2015	**$ 522,829**	**$ -**	**$ -**	**$ 522,829**
At December 31, 2015:				
Cost	$1,146,528	$ -	$ -	$1,146,528
Accumulated depreciation	(623,699)	-	-	(623,699)
Net book value	**$ 522,829**	**$ -**	**$ -**	**$ 522,829**
Acquisition – Service Experts (note 31)	$ 161,450	$ 73,621	$ 2,786	$ 237,857
Foreign exchange	5,521	2,555	83	8,159
Amortization for the year	(73,937)	-	-	(73,937)
At December 31, 2016	$ 615,863	$ 76,176	$ 2,869	$ 694,908
At December 31, 2016:				
Cost	$1,313,650	$ 76,176	$ 2,869	$1,392,695
Accumulated depreciation	(697,787)	-	-	(697,787)
Net book value	**$ 615,863**	**$ 76,176**	**$ 2,869**	**$ 694,908**

10. Goodwill

The following table provides details by reporting segment regarding the changes in the carrying amounts of goodwill for the years ended December 31, 2016 and 2015.

	Enercare Home Services	Service Experts	Total
Opening balance January 1, 2015	$142,535	$ -	$142,535
Acquisition – Cobourg portfolio	131	-	131
At December 31, 2015	$142,666	-	$142,666
Acquisition – Service Experts (Note 31)	$ -	$221,259	$221,259
Foreign exchange	-	7,794	7,794
At December 31, 2016	**$142,666**	**$229,053**	**$371,719**

As described in note 3, Significant Accounting Policies, goodwill is reviewed for impairment annually, or at any time if an indicator of impairment exists.

For the annual impairment tests of goodwill and indefinite lived intangible assets, recoverable amounts are determined based on fair value less cost of disposal using discounted cash flows. The cash flow projections relating to the goodwill for the Enercare Home Services and Service Experts segments were established based on various assumptions. The following table summarizes the critical assumptions that were used in estimating fair value for the various entities:

Assumptions	**Range**
Estimated average revenue growth rate	3.7% to 5%
Terminal growth factor	3.0%
Post tax discount rate	8.1% to 13.5%

Management has concluded that no impairment charge was required for the year ended December 31, 2016.

11. Collateral Deposits and Insurance Claims Provisions

Enercare Solutions' Service Experts business uses a third party insurance company to provide coverage for workers compensation, automotive and general liability claims. Certain amounts paid to this insurance company are utilized to settle claim amounts above Enercare Solutions' insurance deductible limit, if and when these arise. The balance of the payments to this insurance company are to a general collateral deposit account which has been classified as a current asset and is used to fund claim payments related to insurance claim provision. The insurance claims provision is a current liability estimating the amounts required to settle outstanding claims related to insured events below Enercare Solutions' insurance deductible limit. There is no legal right to offset the collateral amount with the claims provision.

As at December 31,	**2016**	2015
Collateral Deposits		
Opening balance January 1, 2016	$ -	$ -
Acquisition – Service Experts (note 31)	9,122	-
Additional deposits during the period	3,391	-
Claims spending during the period	(3,040)	-
Foreign exchange	369	-
Ending balance	**$ 9,842**	$ -
Insurance Claim Provisions		
Opening balance January 1, 2016	$ -	$ -
Acquisition – Service Experts (note 31)	8,234	-
Additional provisions charged to the consolidated statement of income	2,483	-
Claims spending during the period	(3,040)	-
Foreign exchange	313	-
Ending balance	**$ 7,990**	$ -

12. Accounts Payable and Accrued Liabilities

As at December 31,	**2016**	2015
Accounts payable	**$ 37,669**	$ 9,872
Current taxes payable	**34,370**	173
Accruals and other payables	**48,609**	22,465
Compensation payable	**16,876**	81
Ending balance	**$137,524**	$32,591

13. Obligations Under Finance Leases

Obligations under vehicle finance leases are secured by the leased vehicles. Enercare Solutions has master lease agreements with various lessors, where the lessors will acquire vehicles and lease them to Enercare Solutions.

The obligations under finance leases in the Enercare Home Services segment bear floating interest rates that are either 2.5% above the one month banker's acceptance rate per annum or equal to the yield of interest rate swaps as quoted in the Federal Reserve system per annum. The obligations under vehicle finance leases in the Service Experts segment during the period bear fixed interest rates of 1.05% to 2.44%, at floating interest rates that are 2.5% above the three month banker's acceptance rate or 0.35% above the one month LIBOR rate per annum. The finance leases mature at dates ranging between January 2017 and August 2022. During the year ended December 31, 2016, Enercare Solutions recognized $526 (2015 - $248) of interest expense related to the obligations under finance leases.

As at December 31,	**2016**	2015
Obligations under finance leases	**$ 25,624**	$ 6,695
Less: current portion	**(11,216)**	(2,061)
	$ 14,408	$ 4,634

Future minimum lease payments under finance leases are as follows:

As at December 31,	Principal	Interest	Lease Payments
Due in 2017	$ 7,304	$ 570	$ 7,874
Due in 2018	6,702	386	7,088
Due in 2019	5,841	223	6,064
Due in 2020	4,223	92	4,315
Due in 2021	1,391	20	1,411
Thereafter	163	4	167
	$25,624	$1,295	$26,919

14. Debt

Bank indebtedness, current and long term debts:

As at December 31,	**2016**	2015
Current portion of long term debt:		
Opening balance January 1	**$ -**	$ -
Current portion of senior debt	**250,000**	-
Total current portion of long term debt	**$250,000**	$ -
Non-current portion of long term debt:		
Senior debt principal amount	**475,000**	$475,000
2014 Term Loan	**210,000**	210,000
Revolving credit facility	**50,000**	-
Unamortized financing costs and interest accretion	**(2,282)**	(3,122)
Opening balance January 1	**$732,718**	$681,878
Current portion of senior debt	**(250,000)**	-
Draw from revolving credit facility	**15,000**	50,000
Repayment of revolving credit facility	**(50,000)**	-
Draw from 2016 Term Loan	**258,320**	-
Deferred financing costs on 2016 Term Loan	**(1,009)**	-
Amortization of financing costs	**1,025**	840
Foreign exchange	**10,220**	-
Total non-current portion	**$716,274**	$732,718
Senior debt principal amount	**$225,000**	$475,000
Term Loans	**478,540**	210,000
Revolving credit facility	**15,000**	50,000
Unamortized financing costs and interest accretion	**(2,266)**	(2,282)
Total non-current portion of long term debt	**$716,274**	$732,718

Enercare Solutions entered into a $100,000, five-year revolving, non-amortizing variable rate credit facility (the “2014 Revolver”), which has a standby fee of 0.25%. At December 31, 2016, a total of $15,000 was drawn bearing interest at a variable rate based upon the banker’s acceptance rate plus 1.25%, which was 2.95% at December 31, 2016. During the fourth quarter, Enercare Solutions increased the 2014 Revolver limit to $200,000, maintaining the same terms. As of March 6 2017, $30,000 was drawn on the 2014 Revolver.

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 2014 Term Loan consists of a $210,000 non-revolving, non-amortizing variable rate term loan (the “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 2.14% at December 31, 2016.

In conjunction with the SE Transaction, on May 11, 2016, Enercare Solutions entered into a USD $200,000 4-year variable rate term credit facility, (the “2016 Term Loan”) maturing on May 11, 2020, which bears interest at LIBOR plus 125 basis points, or base rate plus 25 basis points at Enercare Solutions’ credit rating as of the date hereof which was 2.20% at December 31, 2016.

Deferred financing costs during the period of $1,009 are in relation to the 2016 Term Loan entered into in conjunction with the SE Transaction.

On February 21, 2017, Enercare Solutions completed its offering of $500,000 aggregate principal amount of Senior Unsecured Notes (see Note 33) and the proceeds of the offering were used to redeem the 2014 Term Loan on February 23, 2017 and will be used to redeem the 2012 Notes in March 2017 with the balance to be used to repay a portion of the 2014 Revolver.

The 2016 Term Loan contains covenants have substantially the same terms as the 2014 Term Loan. Enercare Solutions entered into an amendment to the 2014 Term Loan to give effect to the SE Transaction and 2016 Term Loan which included (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.

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

Interest Expense:

(000’s)	**2016**	2015
Interest expense payable in cash	**$30,171**	$25,719
Interest on subordinated debt	**3,500**	3,500
Interest on promissory note	**25,341**	22,281
Non-cash items:		
Notional interest on employee benefit plans	**840**	1,096
Amortization of financing costs	**1,025**	841
Interest expense	**$60,877**	$53,437

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 and amortization of financing costs includes previously unamortized costs associated with debt.

15. 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 a majority of the contract terms to one year.

Amounts recognized relating to revenues, related to protection plans and maintenance contracts are as follows:

	2016	2015
Revenue	**$105,132**	$77,940

Total deferred revenue and service obligations recognized on the consolidated financial statements include the following:

As at December 31,	**2016**	2015
Deferred revenue	**$32,054**	$8,127
Service obligations	**9,346**	-
Deferred revenue and service obligations	**$41,400**	$8,127

The movement relating to the service obligation as a result of the SE Transaction is as follows:

	December 31, 2016
Opening balance January 1, 2016	**$ -**
Additions to obligations through acquisition of Service Experts	**25,393**
Released during the period	**(16,549)**
Foreign exchange	**502**
Service obligation	**$ 9,346**

16. 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. In the year ended December 31, 2016, $27,492 of the Subordinated Promissory Notes was repaid, of which $7,000 was in the third quarter. 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. On May 11, 2016, a $227,504 subordinated promissory note was issued by Enercare as part of the SE Transaction (see Note 31). The note had similar terms as the Subordinated Promissory Notes. The notes have been classified as long term as there are no near term intentions to demand repayment.

17. 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. 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. Both the preferred shares and the Subordinated Debt have been classified as short term due to their underlying features. At December 31, 2016, $50,000 of the preferred shares and Subordinated Debt are outstanding.

18. 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 relating to the DE Acquisition, 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 cost of employee benefit plans is recognized as the Transferred Employees provide service to Enercare Solutions and the obligation for these plans were measured individually at December 31, 2016 and 2015, as the present value of the benefit obligation less the fair value of plan assets. 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 prior to the transfer of the plan, as described above.

Regulatory Framework

The RPP is a registered pension plan under the Ontario Pension Benefits Act (“PBA”), which requires certain minimum benefit standards and funding levels. Minimum funding requirements under the PBA are determined based on actuarial valuations on both a going concern and solvency basis that are required at a minimum of every three years. The last actuarial valuation for funding purposes was as at August 1, 2014 and the next valuation will be prepared prior to August 1, 2017. Deficits under the going concern basis may be funded over a period up to 15 years, beginning one year from the valuation date. In addition, solvency valuations must be performed which simulate a plan wind-up. Deficiencies established on a solvency basis may be funded over a period of up to five years, beginning one year from the valuation date (post-retirement cost of living adjustments are not required to be included in the solvency liabilities).

The OPEB is not funded in advance.

Funding of the RPP

Enercare Solutions’ practice is to contribute to the RPP the minimum required under the PBA, but additional contributions may be made at Enercare Solutions’ discretion. The employees do not make contributions to the RPP.

Governance of Defined Benefit Pension Plans

Enercare Solutions assumed the sponsorship and administration of the RPP on January 28, 2016 from DE. Enercare Solutions now oversees the administration of the pension plans in accordance with applicable legislation and approved the governance structure, including the mandates of those to whom administrative duties and responsibilities were delegated.

Risks

Given that employees do not make contributions to the employee benefit plans, Enercare generally bears the risks associated with the defined benefit plans. Sources of risks for Enercare Solutions’ defined benefit plans as at December 31, 2016 include:

Investment Risk

The pension plans invest their assets in a variety of asset classes including Canadian equity, US equity, international equity, emerging markets, universe and long term fixed income, and real estate. All of these asset classes contain investment risk. Fixed income investments are generally a better match to the liability profile of a pension plan, but other asset classes are generally expected to earn a higher return over a long time horizon.

As the RPP plan is a funded plan and is invested in a variety of asset classes, market return is a significant source of risk to the pension plan. Asset return impacts both the progression of the balance sheet liability over time and the contributions that are required to keep the plan funded over the long term.

Corporate Bond Yields

The discount rate used when reporting the liability for balance sheet purposes is determined in reference to corporate bond yields. When yields decrease the liabilities in the plans rise, and conversely when yields increase the liabilities in the plans decrease. While some of the assets for the funded plan are invested in corporate bonds, this represents a small portion of the overall liabilities in the plans. This mismatch means that the overall deficit position is subject to the movements in corporate bond yields. This risk is a significant source of variation in the employee benefit plans liability from year to year.

Government Bond Yields

The discount rate used when determining the RPP's solvency position for funding purposes is determined in reference to government bond yields. When yields decrease the liabilities in the plan rise, and conversely when yields increase the liabilities in the plan decrease. While some of the assets are invested in government bonds, the weighting is less than the overall liabilities in the plan. This mismatch means that the funded status of the plan for cash contribution purposes is subject to movements in government bond yields. Government bond yields represent a significant risk associated with the cash funding requirements of the RPP.

Longevity

The benefits payable to members are generally provided for the life of the member as well as the member's spouse. The life expectancy of members is a significant assumption used in the determination of the plans' liabilities, and increases in life expectancy, or the survival experience of members being higher than expected, will lead to increases in the plans' liability. This risk is particularly significant because the cost of benefits in all plans is linked to inflation, further increasing the cost of benefits if members live longer than expected.

Inflation

The benefits payable to members in the RPP are increased by a proportion of the increase of the Consumer Price Index each year. In addition, active member's benefits are linked to final average earnings, and earnings increases are typically seen to increase in high inflationary environments. The benefits payable to members in the post-retirement benefits plan generally increase with increases in medical costs. All of these assumptions are linked to inflation. An increase in the inflation assumption, or a period of high inflation, will generally increase the liabilities. Given the strong link the benefits have to inflation this is a significant source of risk. The medical trend rate, while linked with inflation, has traditionally been higher than inflation and represents an additional, and significant, source of inflation risk for the post-retirement benefits plan.

Risk Controls

Enercare Solutions manages the risks through plan design reviews, as appropriate, and regular valuations of the plan. Investment risks are managed through external quarterly monitoring. Pension plan risks are controlled through the governance process in place with the Compensation Committee.

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

As at December 31,	**2016**	2015
Pension		
Current service cost	**$ 3,687**	$3,328
Interest (income)/expense	**(168)**	324
Administrative expenses	**83**	-
	$ 3,602	$3,652
OPEB		
Current service cost	**$ 836**	$ 928
Net interest cost	**840**	773
	$ 1,676	$1,701

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

As at December 31,	**2016**	2015
Pension		
Actuarial gain/(loss)	**$ 4,291**	$(362)
OPEB		
Actuarial gain/(loss)	**$ (650)**	$ 843
	$ 3,641	$ 481

Employee Benefit Plan Assets and Liability

The liability for the employee benefit plans is comprised of the following:

As at December 31,	**2016**	2015
Pension		
Present value of defined benefit obligations	**$(90,701)**	$(87,690)
Fair value of plan assets	**96,947**	79,586
	$ 6,246	$ (8,104)
OPEB		
Present value of unfunded defined benefit obligations	**$(22,028)**	$(19,744)
	$(15,782)	$(27,848)

Defined Benefit Obligations

The movements in the total present value of defined benefit obligations are as follows:

As at December 31,	2016	2015
Pension		
Obligation, beginning of year	**$87,690**	$74,928
Transfers of employees after acquisition date	**172**	4,764
Current service cost	**3,687**	3,328
Interest expense on the defined benefit obligations	**3,490**	3,072
(Gains)/losses arising from demographic and other experiences	**-**	306
(Gains)/losses arising from changes in financial assumptions	**(2,912)**	1,378
Benefits paid	**(1,426)**	(86)
Obligation, end of year	**$90,701**	$87,690
OPEB		
Obligation, beginning of year	**$19,744**	$18,886
Current service cost	**836**	928
Interest expense	**840**	773
Actuarial loss (gain)	**650**	(843)
Benefits paid	**(42)**	-
Obligation, end of year	**$22,028**	$19,744

Fair Value of the Plan Assets

The movement in the total fair value of plan assets is as follows:

As at December 31,	2016	2015
Pension		
Fair value, beginning of year	**$79,586**	$68,254
Transfers of employees after acquisition date	**172**	4,764
Interest income	**3,658**	2,748
Actuarial gains	**1,379**	1,322
Reimbursement right contributions	**11,107**	-
Contributions	**2,554**	2,584
Benefits paid	**(1,426)**	(86)
Administrative expenses	**(83)**	-
Fair value, end of year	**$96,947**	$79,586

Reimbursement Right – Pension

The movement in the total fair value of the Reimbursement Right - Pension is as follows:

As at December 31,	2016	2015
Pension		
Balance, beginning of year	**$ 11,107**	**$ 11,107**
Settlement	**(11,107)**	**-**
Balance, end of year	**$ -**	**$11,107**

Plan assets are comprised of the following:

	2016	2015
Plan assets by major category		
Canadian large cap equities	**10.0%**	9.9%
Canadian small cap equities	**3.5%**	3.6%
US equities	**16.8%**	17.8%
International equities	**11.0%**	11.4%
Emerging markets	**3.5%**	3.5%
Canadian universe bonds	**0.0%**	21.9%
Canadian long bonds	**45.2%**	22.0%
Real estate pooled funds	**10.0%**	9.9%
Cash and short term	**0.0%**	0.0%
Total	**100.0%**	100.0%

Actuarial Assumptions

The significant actuarial assumptions used in the determination of the present value of the defined benefit obligation are as follows:

As at December 31,		2016	2015
Pensions			
Discount rate (RPP)		**4.14%**	4.00%
Salary growth rate - Union	From 2015	**3.00%**	3.00%
Salary growth rate - Non-Union	Until 2015	**3.75%**	3.75%
	From 2016	**4.25%**	4.25%
Inflation		**2.00%**	2.00%
Increase in maximum pension limit		**3.00%**	3.00%
Mortality table		**CPM Private using projection scale CPM-B**	CPM Private using projection scale CPM-B
Male life expectancy, age 60		**26.1 years**	26.0 years
Male life expectancy, age 65		**21.6 years**	21.6 years
Female life expectancy, age 60		**28.8 years**	28.7 years
Female life expectancy, age 65		**24.1 years**	24.0 years
OPEB			
Weighted average assumptions to determine defined benefit obligations:			
Discount rate		**4.12%**	4.27%
Mortality table		**Final CPM 2014 Private Mortality Table with scale CPM-B**	Final CPM 2014 Private Mortality Table with scale CPM-B
Immediate health care cost trend rate		**5.65%**	5.75%
Ultimate health care cost trend rate		**4.00%**	4.00%
Year reached ultimate health care cost trend rate		**2029**	2029
Weighted average assumptions to determine defined benefit costs:			
Discount rate		**4.27%**	4.10%
Mortality table		**Final CPM 2014 Private Mortality Table with scale CPM-B**	Final CPM 2014 Private Mortality Table with scale CPM-B
Immediate health care cost trend rate		**5.75%**	5.86%
Ultimate health care cost trend rate		**4.00%**	4.00%
Year reached ultimate health care cost trend rate		**2029**	2029

Sensitivity Analysis

	Increase in Liability December 31, 2016
Pensions	
100 basis point decrease in the discount rate	**$20,045**
100 basis point increase in the long term salary rate	**7,256**
Impact on the cost of living adjustments of a 100 basis point increase in inflation	**5,896**
90% of mortality rates	**1,541**
100% basis point increase in the prior year pensionable earnings	**900**
OPEB	
100 basis point decrease in the discount rate	**$ 5,652**
Impact of a 1 year increase in life expectancy	**730**
100 basis point increase in health care cost trend rates	**5,205**

Maturity Analysis

The approximate duration of the pension plans is 22.1 years while the approximate duration of the other long-term benefits plan is 22.6 years. The undiscounted liabilities of the plan can be broken into the following durations:

As at December 31, 2016	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Pension	**$ 895**	**$1,173**	**$5,579**	**$198,959**	**$206,606**
OPEB	**140**	**213**	**1,147**	**59,537**	**61,037**
Total	**$1,035**	**$1,386**	**$6,726**	**$258,496**	**$267,643**

19. Income Taxes

The reconciliation of income taxes computed at the statutory tax rates to income tax expense/(recovery) is as follows:

For the year ended December 31,	**2016**	2015
Tax expense at statutory rate of 26.50%	**$19,618**	$13,035
Tax effects of:		
(Non-taxable)/ non-deductible expenses	**(1,760)**	(608)
Tax rate differentials	**2,254**	-
Book to return differences	**51**	21
Other	**(123)**	(28)
Total	**$20,040**	$12,420
Current tax expense	**$51,358**	$7,006
Deferred income tax (recovery) / expense	**(31,318)**	5,414
Total tax expense	**$20,040**	$12,420

Enercare Solutions operates in multiple jurisdictions with differing tax rates. Enercare Solutions' effective tax rates are dependent on the jurisdiction to which income relates.

Deferred income tax asset and liability

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

As at December 31,	2016	2015
As at January 1:	**$(123,487)**	$(117,919)
Step up of deferred income tax on the SE Transaction (note 31)	**(2,068)**	-
Deferred tax liability on Cobourg Network Inc. acquisition	**-**	(27)
Deferred tax on remeasurements of defined benefit plan and other items booked to OCI	**(840)**	(127)
Other foreign exchange	**57**	-
Deferred income tax (expense) / recovery	**31,318**	(5,414)
Total	**($95,020)**	($123,487)

Enercare Solutions' management expects that the deferred tax assets will be recoverable based on the expected growth and profitability of the business.

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

As at December 31,	2016	2015
Deferred tax asset		
Allowances and financing fees	**$ 10,756**	$ 4,164
Employee future benefit obligations	**4,182**	4,437
	$ 14,938	$ 8,601
Deferred tax liability		
Equipment and intangible assets	**$(109,116)**	$(105,657)
Temporary difference – subsidiary tax year end	**(678)**	(26,248)
Other	**(164)**	(183)
	(109,958)	(132,088)
Total	**$ (95,020)**	$(123,487)

Classification

As at December 31,	2016	2015
Deferred tax asset	**$ 5,901**	$ 4,438
Deferred tax liability	**(100,921)**	(127,925)
Total	**$ (95,020)**	$(123,487)

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested. Unremitted earnings totaled $10,448 at December 31, 2016.

20. Share Capital

As at December 31,		2016		2015
Shares Issued and Outstanding	**Shares**	**Dollars**	Shares	Dollars
Opening balance at January 1:	**1,169**	**$189,076**	1,169	$189,076
Totals	**1,169**	**$189,076**	1,169	$189,076

Enercare Solutions' articles of incorporation provide for the issuance of an unlimited number of shares. On January 1, 2012, Enercare Solutions converted to a corporation pursuant to a plan of arrangement. As at December 31, 2016, there were 1,169 shares issued and outstanding.

21. Commitments

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

As at December 31,	2016
Due in 2017	**$ 8,279**
Due in 2018	**5,549**
Due in 2019	**3,280**
Due in 2020	**2,016**
Due in 2021	**2,082**
Thereafter	**255**
Total commitments under non-cancellable operating leases	**$21,461**

The operating lease and sponsorship payments recognized in the consolidated statement of income for the year ended December 31, 2016 were $9,952 (2015 - $2,447).

22. 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, other claims, ongoing proceedings 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.

23. 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 for Enercare Home Services and moderate for Service Experts.

Enercare Solutions' financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The majority of Enercare Home Services 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.

Enercare Solutions' Service Experts business provides services in both Canada and the United States. Credit risk primarily consists of receivables from a variety of customers, including general contractors, property owners, developers and commercial and industrial companies. Service Experts is exposed to credit risk related to changes in the business and economic factors throughout the United States within the mechanical services industry. However, Service Experts is entitled to payment for work performed and have certain lien rights in that work. Service Experts believes that their contract acceptance, billing and collection policies are adequate to manage potential credit risk. Service Experts has a diverse customer base, with no single customer accounting for more than 10% of revenues or receivables.

For accounts receivable as at December 31, 2016, a provision for all amounts at risk of collection and impairment has been made in these 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 monitors liquidity risk through comparisons of current financial ratios with the financial covenants contained in its 2014 Revolver, 2014 Term Loan and 2016 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 and term loan maturity dates through to May 11, 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 twelve months in arrears. Enercare Solutions exceeded this threshold requirement at December 31, 2016.

In conjunction with the SE Transaction, Enercare Solutions entered into an amendment to its existing Term Loan and 2014 Revolver with the lenders to give effect to the SE Transaction and 2016 Term Loan. 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 December 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 2017	$ 250,000	$31,957	$ 7,304	$ 570	$ 257,304	$32,527
Due in 2018	210,000	20,324	6,702	386	216,702	20,710
Due in 2019	10,000	16,648	5,841	223	15,841	16,871
Due in 2020	493,540	7,504	4,223	92	497,763	7,596
Due in 2021	5,000	138	1,391	20	6,391	158
Thereafter	-	-	163	4	163	4
Total	$ 968,540	$76,571	$25,624	$1,295	$ 994,164	$77,866

As part of Enercare Solutions' plan to monitor liquidity risk, to maintain an appropriate amount of working capital and to address the maturity of the 2012 Notes, Enercare Solutions completed a Senior Unsecured Notes offering of $500,000 aggregate principal amount (see Note 14 and Note 33) as of February 21, 2017.

Market Risk

Fair Value

The carrying values of cash and cash equivalents, accounts and other receivables, financing receivables, collateral deposits, investment in preferred shares, accounts payable and accrued liabilities, obligations under vehicle finance leases, subordinated debt and other payables approximate their fair values due to their relatively short periods to maturity.

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

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

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

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

The following table presents the carrying amounts and the fair values of Enercare Solutions' financial assets and liabilities at December 31, 2016 and 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.

As at December 31,		**2016**		2015
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 36,446**	**$ 36,446**	$ 17,581	$ 17,581
Accounts and other receivables	**113,806**	**113,806**	78,501	78,501
Collateral deposits	**9,842**	**9,842**	-	-
Investment in preferred shares	**50,000**	**50,000**	50,000	50,000
Total financial assets	**$ 210,094**	**$ 210,094**	$ 146,082	$ 146,082
Financial liabilities measured at amortized cost:				
Senior borrowings	**$ 475,000**	**$ 491,850**	$ 475,000	$ 495,118
Revolving credit facility	**15,000**	**15,000**	50,000	50,000
Term Loans	**478,540**	**478,540**	210,000	210,000
Long term subordinated promissory notes	**708,379**	**708,379**	508,367	508,367
Subordinated debt	**50,000**	**50,000**	50,000	50,000
Obligations under finance lease	**25,624**	**25,624**	6,695	6,695
Total borrowings	**$1,752,543**	**$1,769,393**	$1,300,062	$1,320,180
Other obligations and payables	**448,335**	**448,335**	54,486	54,486
Total financial liabilities	**$2,200,878**	**$2,217,728**	$1,354,548	$1,374,666

Fair values of the following financial assets and liabilities are classified as Level 3 financial instruments:

- Accounts receivable;
- Financing receivables; and
- Other obligations and payables.

Cash and cash equivalents, collateral deposits, revolving credit facility, Term Loans, and obligations under finance lease are classified as Level 2 financial instruments and 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 $2,662 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 $182 impact on earnings.

Enercare Solutions is exposed to foreign currency risk through transactions conducted in currencies other than the Canadian dollar, and also through its financial liabilities that are denominated in US dollar currency. Enercare Solutions has subsidiaries that have a functional currency of US dollars. Enercare Solution's foreign currency risk management objective is to mitigate the impact of foreign currency rate fluctuations on total equity. Enercare Solutions manages foreign currency risk on its liabilities that are not hedged by operating subsidiaries in the same currency as the liabilities to which they relate.

Enercare Solutions designates USD $100,000 drawn under the 2016 Term Loan as a hedge of the foreign currency exposure of its net investment in Enercare Solutions' US operations. The related foreign currency translation gain or loss on the USD $100,000 notional of the 2016 Term Loan that is designated as, and is effective as, a hedge of the net investment in the US operation is reported in the same manner as the translation adjustment (in OCI) related to the net investment.

Enercare Solutions may nevertheless, from time to time, experience gains or losses resulting from fluctuations in the values of these foreign currencies, which may favourably or adversely affect operating results.

The following table shows gains (losses) associated with a 10% change in exchange rate of the US dollar:

	Effect on net earnings		Effect on equity	
	2016	2015	**2016**	2015
10% strengthening	**$944**	-	**$799**	-
10% weakening	**($944)**	-	**($799)**	-

Capital Risk Management

Enercare Solutions' considers capital to be primarily cash and cash equivalents, 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 2016.

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

24. Cost of Goods Sold

For the year ended December 31,	**2016**	2015
Labour and benefits	**$ 201,105**	$ 67,092
Parts	**126,984**	18,438
Other	**18,305**	1,082
Total	**$ 346,394**	$ 86,612

25. Selling, General and Administrative

For the year ended December 31,	**2016**	2015
Employee compensation and benefits	**$108,438**	$ 41,233
Professional fees	**15,256**	5,447
Selling, office and other	**54,350**	23,138
Billing and servicing	**28,210**	27,196
Claims and bad debt	**8,682**	7,844
Allocations	**16,622**	12,542
Total	**$231,558**	$117,400

26. Other Provisions

On a regular basis, Enercare Solutions evaluates key accounting estimates based upon historical information, internal and external factors and probability factors to measure provisions. The key provision is on account of claims as a result of water damage caused by faulty water heaters. The claims provision is a current liability estimated as the product of the average anticipated dollar loss and the current incidents as at December 31, 2016.

For the year ended December 31,	**2016**	2015
Opening balance:	**$ 1,191**	$ 1,150
Charged/(credited) to the consolidated statement of income:		
Additional provision	**2,814**	3,363
Claims spending during the year	**(2,898)**	(3,322)
Ending balance	**$ 1,107**	$ 1,191

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

27. Changes in Working Capital

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

For the year ended December 31,	**2016**	2015
Accounts receivable	**$ (3,536)**	$(24,453)
Inventory	**994**	(1,377)
Prepaid expenses	**(1,018)**	(105)
Collateral deposits	**(351)**	
Deferred revenue and service obligation	**6,964**	1,174
Accounts payable and accrued liabilities	**(17,505)**	(3,783)
Other provisions	**(84)**	41
Insurance claim provisions	**(558)**	-
Related party payable	**(790)**	(414)
Interest payable	**48**	154
Total	**$(15,836)**	$(28,763)

28. Related Parties

Key Management

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

For the year ended December 31,	**2016**	2015
Salaries and short-term benefits	**$6,076**	$3,285
Other employment benefits	**172**	119
Long term benefits	**1,010**	3,438
Total	**$7,258**	$6,842

Related Party Payables

Enercare often incurs expenses on behalf of Enercare Solutions in the normal course of business. Related party amounts owing to Enercare are typically on account of selling, general and administrative expenses.

For the year ended December 31,	**2016**	2015
Related party payables	**$5,572**	$1,727

29. 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 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 December 31, 2016, there was no restricted cash on hand (2015 - $nil).

30. Segment Information

Management has determined the operating segments based on the reports reviewed by the Chief Operating Decision Maker (CODM), which has been identified as the Executive Leadership Team (consisting of the Chief Executive Officer, the Chief Financial Officer, the Chief Legal Officer, the Chief Operating Officer for Enercare Home Services, the Senior Vice President and General Manager for Sub-Metering, the President and Chief Executive Officer for Service Experts, the Chief Information Officer, the Chief Human Resource Officer, and the Chief Marketing Officer). Prior to the second quarter of 2016, the CODM was identified as the Chief Executive Officer.

The Executive Leadership Team evaluates and makes decisions on operating performance by business segment. The reportable operating segments derive their revenue primarily from (a) the rental of water heaters, HVAC and other equipment, protection plans, HVAC sales and other chargeable service offerings and (b) sales and services relating to HVAC units in the newly acquired Service Experts subsidiaries (see note 31).

The Enercare Home Services segment consists mainly of a portfolio of rental water heaters, HVAC and other assets, and contracted protection plans offered primarily to residential customers in Ontario. The Service Experts segment consists primarily of the sales and servicing of HVAC equipment to residential and light commercial customers in the United States and Canada. Corporate reports the costs for management oversight of the combined business, public reporting and filings, financing activities, intercompany dividends, corporate governance and related expenses.

The CODM assesses its performance of the operating segments using the measure of EBITDA as follows:

	For the year ended December 31, 2016				For the year ended December 31, 2015			
Segment Information	**Enercare Home Services**	**Service Experts[3]**	**Corporate**	**Total**	Enercare Home Services	Service Experts	Corporate	Total
Revenues:								
Contracted sales	**$ 410,018**	**$ 22,574**	**$ -**	**$ 432,592**	$ 390,509	$ -	$ -	$ 390,509
Sales and other services	**28,600**	**388,161**	**-**	**416,761**	35,962	-	-	35,962
Dividend income	**-**	**-**	**3,452**	**3,452**	-	-	3,452	3,452
Investment Income	**349**	**28**	**-**	**377**	186	-	-	186
Total revenue	**$ 438,967**	**$ 410,763**	**$ 3,452**	**$ 853,182**	$ 426,657	$ -	$ 3,452	$ 430,109
Expenses:								
Cost of goods & services:								
Cost of services	**$ (66,994)**	**$ (17,711)**	**$ -**	**$ (84,705)**	$ (61,164)	$ -	$ -	$ (61,164)
Cost of goods sold	**(22,274)**	**(239,415)**	**-**	**(261,689)**	(25,448)	-	-	(25,448)
SG&A	**(100,343)**	**(114,593)**	**(16,622)**	**(231,558)**	(104,858)	-	(12,542)	(117,400)
Foreign exchange	**215**	**(35)**	**-**	**180**	(107)	-	-	(107)
Other income	**-**	**-**	**-**	**-**	-	-	-	-
Net (loss)/gain on disposal	**(4,464)**	**(19)**	**-**	**(4,483)**	(5,354)	-	-	(5,354)
EBITDA[1]	**245,107**	**38,990**	**(16,622)**	**267,475**	229,726	-	(12,542)	217,184
Amortization	**(122,194)**	**(13,825)**		**(136,019)**	(29,646)			(118,011)
Interest expense				**(60,877)**				(53,437)
Current taxes				**(51,358)**				(7,006)
Deferred tax recovery				**31,318**				(5,414)
Net earnings				**53,991**				36,768
Segment assets[2]	**1,249,818**	**600,362**	**50,000**	**1,900,180**	1,272,556	-	50,000	1,322,556
Capital additions	**$ 126,586**	**$ 9,590**	**$ -**	**$ 136,176**	$ 103,404	$ -	$ -	$ 103,404

(1) EBITDA (excluding intercompany dividend income) is a Non-IFRS financial measure and is a metric that can be used to determine Enercare Solutions' ability to service its debt, finance capital expenditures, and provide for the payment of dividends to shareholders.

(2) Certain comparative balances have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2016 consolidated financial statements.

(3) Service Experts' segment information is from May 11, 2016 to December 31, 2016.

Geographic Information	Year ended December 31, **2016**	2015
Revenues[4]		
Canada	**$ 513,721**	$ 430,109
United States	**339,461**	-
	$ 853,182	$ 430,109

As at December 31,	**2016**	2015
Segment Assets[5]		
Canada	**$1,374,362**	$1,322,556
United States	**525,818**	-
	$1,900,180	$1,322,556

(4) Revenues are based on the country of delivery of the product or service sold.

(5) Segment assets include non-current capital and intangible assets, long-term financing receivables and other assets.

31. Acquisition of Service Experts

On May 11, 2016 Enercare Solutions acquired SEHAC Holdings Corporation (now SEHAC Holdings LLC), for consideration of USD$340,750 or CAD$440,113, excluding agreed upon closing adjustments regarding Enercare Solutions' assumption of certain liabilities and transaction costs (the "Consideration"), subject to final working capital and other adjustments. The acquired assets and liabilities assumed included components of working capital, capital assets, intangible assets, collateral deposits, goodwill, insurance claim provisions, deferred revenue and service obligations, deferred tax liability and obligations under finance leases. The SE Transaction is accounted for as a business combination.

The SE Transaction was financed through a combination of debt and equity, including approximately $241,478 of SE Subscription Receipts ($230,710 net of fees), inclusive of the concurrent private placement and USD$200,000 from the 2016 Term Loan (see Note 14).

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 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.

As part of the SE Transaction, Enercare Solutions has recorded total expenses of $13,900. Total expenses include $2,217 of interest expense from interest paid in respect of the SE Subscription Receipts issued, along with equity bridge financing fees of $198, all included within interest expense. SG&A expenses include $11,485 of costs associated with the SE Transaction, which consists predominantly of professional fees.

The following table summarizes the preliminary allocation of total consideration allocated to the net assets acquired. The allocation of the purchase price is preliminary for certain amounts including certain working capital adjustments and tax balances and is therefore subject to change.

	May 11, 2016	Adjustments	Revised
Cash and cash equivalents	$ 8,976	$ -	$ 8,976
Accounts receivable	31,805	(1,244)	30,561
Inventory	8,316	646	8,962
Prepaid expenses	6,205	82	6,287
Capital assets (note 8)	31,277	1,459	32,736
Intangible assets (note 9)	239,149	(1,292)	237,857
Collateral deposits (note 11)	9,122	-	9,122
Goodwill (note 10)	223,920	(2,661)	221,259
Total assets acquired	$558,770	$ (3,010)	$555,760
Less:			
Accounts payable and accrued liabilities	$115,917	$ 3,141	$119,058
Deferred revenue and service obligations (note 15)	25,393	-	25,393
Short-term obligations under finance lease (note 13)	4,477	960	5,437
Insurance claim provisions (note 11)	8,234	-	8,234
Long-term obligations under finance lease (note 13)	10,870	561	11,431
Deferred tax liability	5,882	(3,814)	2,068
Total net assets acquired	$387,997	$ (3,858)	$384,139
Consideration before closing adjustments	$440,113	$ -	$440,113
Working capital adjustments	5,211	(3,858)	1,353
	445,324	(3,858)	441,466
Less: Closing adjustments*	$ (57,327)	$ -	$(57,327)
Cash consideration (net of closing adjustments)	$387,997	$ (3,858)	$384,139

* Includes adjustments relating to share appreciation rights, taxes payable and other provisions.

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 US tax purposes.

Service Experts revenues of $410,763 and earnings of $17,322 are included in the statement of comprehensive income since May 11, 2016.

Enercare Solutions' consolidated revenues and net earnings for the year ended December 31, 2016 would have been higher by approximately $188,691 and $nil, respectively, had the SE Transaction occurred on January 1, 2016.

32. Subsequent Events

On February 13, 2017, Enercare, through its wholly-owned subsidiary, Service Experts completed the acquisition of certain assets in Austin, Texas from CS Operating LLC, an HVAC and plumbing company. Service Experts acquired the assets for USD $875 and paid the purchase price using cash on hand, net of a 15% holdback which is expected to be paid over the next 12 months.

On February 21, 2017, Enercare Solutions completed its offering of $500,000 aggregate principal amount of 2017 Notes consisting of $275,000 of "2017-1 Notes" and $225,000 of "2017-2 Notes". The 2017-1 Notes were sold at a price of 99.982% of the principal amount, with an effective yield of 3.384% per annum if held to maturity and the 2017-2 Notes were sold at a price of 99.982% of the principal amount, with an effective yield of 3.993% per annum if held to maturity.

The proceeds of the offering were used by Enercare Solutions to redeem the 2014 Term Loan on February 23, 2017 and will be used to redeem the 2012 Notes in 2017 with the balance to be used to repay a portion of the 2014 Revolver.