enercare™

Enercare Solutions Inc.

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2017 and March 31, 2016

Dated May 11, 2017

Enercare Solutions Inc.
Consolidated Statements of Financial Position

(in thousands of Cdn $)		(unaudited) March 31, 2017		(unaudited) December 31, 2016
Assets				
Current assets				
Cash and cash equivalents (note 4)	**$**	**18,305**	$	36,446
Accounts and other receivables (note 5)		**115,422**		116,984
Financing receivables (note 6)		**487**		319
Inventory (note 7)		**15,542**		15,168
Prepaid expenses		**9,416**		9,134
Collateral deposits (note 11)		**9,735**		9,842
Investment in Enercare Connections Inc. preferred shares (note 17)		**50,000**		50,000
		218,907		237,893
Capital assets (note 8)		**585,933**		577,442
Intangible assets (note 9)		**676,530**		692,039
Employee benefit plan assets (note 18)		**4,384**		6,246
Goodwill (note 10)		**377,167**		378,137
Deferred tax asset		**7,397**		5,727
Long-term financing receivables (note 6)		**4,110**		2,557
Other assets		**2,134**		1,994
	$	**1,876,562**	$	1,902,035
Liabilities				
Current liabilities				
Current portion of long-term debt (note 14)	**$**	**-**	$	250,000
Accounts payable and accrued liabilities (note 12)		**91,135**		136,004
Obligation under finance leases (note 13)		**7,448**		11,216
Related party payable (note 26)		**5,125**		5,572
Insurance claim provisions (note 11)		**8,209**		7,990
Other Provisions		**1,096**		1,107
Interest payable		**3,473**		4,742
Deferred revenue and service obligation (note 15)		**42,730**		41,400
Subordinated debt (note 17)		**50,000**		50,000
		209,216		508,031
Long-term debt (note 14)		**1,017,298**		716,274
Long-term subordinated promissory notes (note 16)		**705,479**		708,379
Long-term obligations under finance leases (note 13)		**17,691**		14,408
Employee benefit plan obligation (note 18)		**23,263**		22,028
Deferred tax liability		**99,239**		104,296
		2,072,186		2,073,416
Shareholder's equity				
Share capital (note 19)		**189,076**		189,076
Contributed surplus		**920**		728
Accumulated other comprehensive income		**5,489**		8,618
Deficit		**(391,109)**		(369,803)
		(195,624)		(171,381)
	$	**1,876,562**	$	1,902,035

Commitments and contingent liabilities are found in notes 20 and 21 respectively.

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

Enercare Solutions Inc.
Consolidated Statements of Income

(unaudited) (in thousands of Cdn $)	Three months ended March 31, **2017**	2016
Revenues		
Contracted revenue	**$ 115,779**	$ 100,331
Sales and other services	**122,923**	6,098
Dividend income	**862**	863
Investment income	**259**	78
Total revenues	**239,823**	107,370
Expenses		
Cost of goods sold and services provided (note 23)		
Maintenance and servicing costs	**25,353**	16,268
Sales and other services	**80,928**	5,281
Selling, general & administrative (note 24)	**77,677**	30,528
Foreign exchange loss	**75**	20
Depreciation and amortization		
Capital assets (note 8)	**16,610**	13,371
Intangible assets (note 9)	**19,420**	16,665
Loss on disposal of equipment	**1,926**	1,940
Gain on retirement of finance lease obligations	**(79)**	(15)
Interest		
Interest expense (note 14)	**18,652**	13,097
Make-whole charge on early redemption of debt (note 14)	**5,049**	-
	245,611	97,155
(Loss) / earnings for the period before income taxes	**(5,788)**	10,215
Tax expense		
Current tax expense	**4,542**	11,965
Deferred income tax (recovery)	**(6,090)**	(9,694)
Total tax (recovery) / expense	**(1,548)**	2,271
Net (loss) / earnings for the period	**$ (4,240)**	$ 7,944

Enercare Solutions Inc.
Consolidated Statements of Comprehensive (Loss) / Income

(in thousands of Cdn $)	Three months ended March 31, **2017**	2016
Net (loss) / earnings for the period	**$ (4,240)**	$ 7,944
Items that will not be reclassified to (loss) / earnings		
Remeasurements of defined benefit plans (note 18)	**(2,383)**	(2,478)
Tax effect of remeasurements of defined benefit plans	**631**	657
Items that will be reclassified to earnings		
Net investment hedge of US dollar loans (note 22)	**1,165**	-
Foreign currency translation differences from foreign operations	**(2,542)**	-
Comprehensive income for the period	**$ (7,369)**	$ 6,123

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

Enercare Solutions Inc.
Consolidated Statements of Changes in Equity

(unaudited)	Three months ended March 31,	
(in thousands of Cdn $)	**2017**	2016
Share Capital		
Balance - beginning of period	**$ 189,076**	$ 189,076
Share Capital - end of year (note 19)	**189,076**	189,076
Contributed Surplus		
Balance - beginning of period	**728**	201
Equity contribution from parent	**192**	101
Contributed Surplus - end of period	**920**	302
Accumulated Other Comprehensive Income		
Balance - beginning of period	**8,618**	103
Remeasurements of defined benefit plans (note 18)	**(2,383)**	(2,478)
Net investment hedge of US dollar loans (note 22)	**1,165**	-
Foreign currency translation differences from foreign operations	**(2,542)**	-
Tax effect of remeasurements of defined benefit plans	**631**	657
Accumulated Other Comprehensive Income - end of period	**5,489**	(1,718)
Deficit		
Balance - beginning of period	**(369,803)**	(374,863)
Net earnings for the period	**(4,240)**	7,944
Dividends	**(17,066)**	(12,314)
Deficit - end of period	**(391,109)**	(379,233)
Shareholder's equity - end of period	**$ (195,624)**	$ (191,573)

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

Enercare Solutions Inc.
Consolidated Statements of Cash Flows

(unaudited) (in thousands of Cdn $)	Three months ended March 31, **2017**	 2016
Cash provided by/(used in):		
Operating activities		
Net (loss) / earnings for the period	**$ (4,240)**	$ 7,944
Items not affecting cash		
Depreciation and amortization		
Capital assets (note 8)	**16,610**	13,371
Intangible assets (note 9)	**19,420**	16,665
Loss on disposal of equipment	**1,926**	1,940
Gain on retirement of finance lease obligations	**(79)**	(15)
Non-cash foreign exchange expense	**30**	-
Non-cash interest expense	**1,149**	418
Non-cash interest income	**(77)**	(42)
Defined benefit plan expense	**1,209**	1,148
Employee share options and stock purchase plan	**192**	101
Deferred income tax (recovery) / expense	**(6,090)**	(9,694)
Deferred customer inducements	**(140)**	(161)
Financing receivables	**(1,721)**	(365)
Contributions to defined benefit pension plan	**(645)**	(639)
	27,544	30,671
Net change in non-cash working capital (note 25)	**(44,272)**	7,333
Cash (used in) / provided by operating activities	**(16,728)**	38,004
Investing activities		
Purchase of capital assets (note 8)	**(32,620)**	(27,102)
Purchase of intangible assets (note 9)	**(1,130)**	-
Acquisition of Church Services (note 30)	**(1,144)**	-
Proceeds from disposal of vehicle leases	**297**	24
Proceeds from disposal of equipment - warranty recoveries	**473**	615
Proceeds from disposal of equipment - buyout receipts	**2,356**	1,328
Cash used in investing activities	**(31,768)**	(25,135)
Financing activities		
Dividends to shareholders	**(17,066)**	(11,702)
Proceeds from revolving credit facility	**40,000**	-
Repayment of line of credit	**(25,000)**	-
Repayment of subordinated promissory notes (note 16)	**(2,900)**	(6,000)
Proceeds from issuance of long-term debt (note 14)	**500,000**	-
Repayment of obligations under finance leases	**(1,793)**	(575)
Repayment of long-term debt (note 14)	**(460,000)**	-
Financing costs on long-term debt	**(2,559)**	-
Cash provided by / (used in) financing activities	**30,682**	(18,277)
Effect of foreign currency on cash and cash equivalents	**(327)**	-
(Decrease) in cash and cash equivalents	**(17,814)**	(5,408)
Cash and cash equivalents - beginning of period	**36,446**	17,581
Cash and cash equivalents - end of period (note 4)	**$ 18,305**	$ 12,173
Supplementary information		
Interest paid	**$ 23,821**	$ 12,280
Income taxes paid	**$ 38,866**	$ 2,127

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 29), which owned the business operated under the Service Experts brands ("Service Experts"). Enercare Solutions purchased 100% of the outstanding shares of SEHAC. 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 head office of Enercare Solutions is located at 4000 Victoria Park Avenue, Toronto, Ontario, M2H 3P4.

2. Basis of Preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim consolidated financial statements (the "interim financial statements") should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016. 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 interim financial statements have been presented in Canadian dollars, which is Enercare Solutions' functional currency and presentation currency. Certain subsidiaries acquired through the SE Transaction have a functional currency of US dollars.

Enercare Solutions' operations and earnings for interim periods, in particular the Service Experts segment, can be affected by seasonal fluctuations and accordingly, result in changes in demand for its products and services.

Certain comparative amounts have been reclassified to conform to the current period's presentation. Additionally, as a result of the SE Transaction, certain balances in the consolidated statement of financial position as at December 31, 2016 have been revised by measurement period adjustments recognized in the three months ended March 31, 2017. These have been included in the measurement period adjustments as disclosed in note 29.

These interim financial statements were approved and authorized for issue by the board of directors on May 11, 2017.

Basis of Measurement

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

Critical Accounting Estimates and Judgments

Enercare Solutions makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of these interim financial statements. Management continually evaluates estimates and judgments which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following items are of significance for the period.

Revenue Accruals

At March 31, 2017, the Enercare Home Services segment recorded a revenue accrual of approximately $43,900 reflecting accrued service periods, compared to $45,900 at March 31, 2016. Unbilled protection plans comprise approximately $27,300 of this balance, compared to $28,300 at March 31, 2016. 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 March 31, 2017, the Service Experts segment recorded a revenue accrual of approximately $2,700 reflecting accrued revenue for contracts in progress, compared to $nil at March 31, 2016.

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 2017 and 2016 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 $5,500 at March 31, 2017, compared to approximately $5,000 at end of 2016. 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 29), these interim 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.

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.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these interim financial statements are consistent with those policies in effect at December 31, 2016. In addition, Enercare Solutions has adopted the following significant accounting policies in the three months ended March 31, 2017:

Adoption of New Accounting Standards

Enercare Solutions has adopted new or revised standards as required by IFRS, effective January 1, 2017.

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 these interim financial statements and has modified its debt disclosure to include movements in net debt between changes arising from cash flows and non-cash changes.

Accounting Standards Issued But Not Yet Applied

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

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 entity’s 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

	March 31, 2017	December 31, 2016
Cash at bank	**$18,305**	$36,446
Ending balance	**$18,305**	$36,446

5. Accounts and Other Receivables

	March 31, 2017	December 31, 2016
Billed accounts receivable	**$ 70,755**	$ 71,373
Unbilled accounts receivable	**46,717**	48,676
Current taxes receivable	**3,476**	1,984
Bad and doubtful debt provision	**(5,526)**	(5,049)
Accounts and other receivables (net of provision)	**$115,422**	$116,984
Bad and doubtful debt provision:		
Opening balance	**$ 5,049**	$ 6,055
Charge/(write-off) for the period	**477**	(1,006)
Provision ending balance	**$ 5,526**	$ 5,049

Unbilled accounts receivable of $27,267 (2016 - $28,179), 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 three months ended March 31, 2017 and year ended December 31, 2016:

	March 31, 2017	December 31, 2016
Balance as at January 1	**$2,876**	$ -
Financing receivables added in the period	**2,368**	3,172
Prepayments	**(647)**	(296)
Balance, end of period	**$4,597**	$2,876

7. Inventory

	March 31, 2017	December 31, 2016
Inventory	**$16,466**	$16,036
Less: inventory obsolescence	**(924)**	(868)
Inventory (net of provision)	**$15,542**	$15,168
Inventory obsolescence provision:		
Opening balance	**$ 868**	$ 781
Charge for the period	**56**	87
Provision ending balance	**$ 924**	$ 868

During the three months ended March 31, 2017, $41,370 (2016 - $3,433) 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	Other	Total
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 29)	-	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**
Additions	$ 31,357	$ 1,770	$ -	$ -	$ 1,450	$ 34,577
Loss on disposal before proceeds	(3,974)	(228)	-	-	(846)	(5,048)
Acquisition – Church Services (note 30)	-	-	-	-	261	261
Transfers of work in progress to intangibles	-	-	-	-	(4,403)	(4,403)
Foreign exchange	-	(188)	(28)	(23)	(47)	(286)
Depreciation for the period	(12,980)	(2,443)	(66)	-	(1,121)	(16,610)
At March 31, 2017	$ 539,749	$29,252	$3,146	$2,622	$11,164	$ 585,933
At March 31, 2017:						
Cost	$ 999,783	$40,666	$3,379	$2,622	$18,694	$1,065,144
Accumulated depreciation	(460,034)	(11,414)	(233)	-	(7,530)	(479,211)
Net book value	**$ 539,749**	**$29,252**	**$3,146**	**$2,622**	**$11,164**	**$ 585,933**

During the three months ended March 31, 2017, the non-cash portion of additions consisted of an increase of $424 (2016 - $1,197 increase) for rental equipment. Included within the additions is $1,770 (2016 - $693) related to the purchases of vehicles under finance lease, which has also increased the respective obligations under finance leases by $1,533 (2016 - $692). Repayment of obligations under finance leases of $1,792 for the three months ended March 31, 2017 (2016 - $575) has been included within the statements of cash flows.

9. Intangible Assets

	Customer Relationships	Brands	Software	Total
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 29)	$ 161,450	$73,621	$ -	$ 235,071
Foreign exchange	5,521	2,555	-	8,076
Amortization for the year	(73,937)	-	-	(73,937)
At December 31, 2016	$ 615,863	$76,176	$ -	$ 692,039
At December 31, 2016:				
Cost	$1,313,650	$76,176	$ -	$1,389,826
Accumulated depreciation	(697,787)	-	-	(697,787)
Net book value	**$ 615,863**	**$76,176**	**$ -**	**$ 692,039**
Acquisition – Church Services (note 30)	$ 209	$ -	$ -	$ 209
Additions	-	-	1,130	1,130
Transfers of software from capital assets	-	-	4,403	4,403
Foreign exchange	(1,250)	(585)	4	(1,831)
Amortization for the period	(19,415)	-	(5)	(19,420)
At March 31, 2017	$ 595,407	$75,591	$5,532	$ 676,530
At March 31, 2017:				
Cost	$1,312,565	$75,591	$5,537	$1,393,693
Accumulated depreciation	(717,158)	-	(5)	(717,163)
Net book value	**$ 595,407**	**$75,591**	**$5,532**	**$ 676,530**

10. Goodwill

The following table provides details by reporting segment regarding the changes in the carrying amounts of goodwill for the three months ended March 31, 2017 and year ended December 31, 2016.

	Enercare Home Services	Service Experts	Total
Opening balance January 1, 2016	$142,666	$ -	$142,666
Acquisition – Service Experts (Note 29)	$ -	227,459	227,459
Foreign exchange	-	8,012	8,012
At December 31, 2016	**$142,666**	**$235,471**	**$378,137**
Acquisition – Church Services (Note 30)	$ -	$ 849	$ 849
Foreign exchange	-	(1,819)	(1,819)
At March 31, 2017	**$142,666**	**$234,501**	**$377,167**

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.

	March 31, 2017	December 31, 2016
Collateral Deposits		
Opening balance January 1	**$9,842**	$ -
Acquisition – Service Experts (note 29)	**-**	9,122
Additional deposits during the period	**851**	3,391
Claims spending during the period	**(872)**	(3,040)
Foreign exchange	**(86)**	369
Ending balance	**$9,735**	$9,842
Insurance Claim Provisions		
Opening balance January 1	**$7,990**	$ -
Acquisition – Service Experts (note 29)	**-**	8,234
Additional provisions charged to the consolidated statement of income	**1,159**	2,483
Claims spending during the period	**(872)**	(3,040)
Foreign exchange	**(68)**	313
Ending balance	**$8,209**	$7,990

12. Accounts Payable and Accrued Liabilities

	March 31, 2017	December 31, 2016
Accounts payable	**$37,534**	$ 37,669
Current taxes payable	**-**	32,850
Accruals and other payables	**44,485**	46,059
Compensation payable	**9,116**	19,426
Ending balance	**$91,135**	$136,004

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 0.97% 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 April 2017 and September 2023. During the three months ended March 31, 2017, Enercare Solutions recognized $166 (2016 - $61) of interest expense related to the obligations under finance leases.

	March 31, 2017	December 31, 2016
Obligations under finance leases	**$ 25,139**	$ 25,624
Less: current portion	**(7,448)**	(11,216)
	$ 17,691	$ 14,408

Future minimum lease payments under finance leases are as follows:

	Principal	Interest	Lease Payments
Due in 2017	$ 5,615	$ 443	$ 6,058
Due in 2018	6,960	423	7,383
Due in 2019	6,112	251	6,363
Due in 2020	4,510	111	4,621
Due in 2021	1,705	30	1,735
Thereafter	237	5	242
	$25,139	$1,263	$26,402

14. Debt

Current and long term debts:

	As at December 31, 2015		Cash flows		Non-cash changes			As at December 31, 2016	
	Current	Non-current	Net Draws/ (Repayments)	Deferred Financing Costs on New Debt	Foreign Exchange	Transfer to Current Portion	Amortization of Financing Costs	Current	Non-current
2014 Revolver	$ -	$50,000	$ (35,000)	$ -	$ -	$ -	$ -	$ -	$ 15,000
2012 Notes	-	250,000	-	-	-	250,000	-	250,000	-
2013 Notes	-	225,000	-	-	-	-	-	-	225,000
2014 Term Loan	-	210,000	-	-	-	-	-	-	210,000
2016 Term Loan	-	-	258,320	(1,009)	10,220	-	-	-	268,540
Financing fees		(2,282)					1,025		(2,266)
Total	**$ -**	**$732,718**	**$223,320**	**$ (1,009)**	**$10,220**	**$250,000**	**$ 1,025**	$250,000	$716,274

	As at December 31, 2016		Cash flows		Non-cash changes			**As at March 31, 2017**	
	Current	Non-current	Net Draws/ (Repayments)	Deferred Financing Costs on New Debt	Foreign Exchange	Transfer to Current Portion	Amortization of Financing Costs	**Current**	**Non-current**
2014 Revolver	$ -	$ 15,000	$ 15,000	$ -	$ -	$ -	$ -	**$ -**	**$ 30,000**
2012 Notes	250,000	-	(250,000)	-	-	-	-	**-**	**-**
2013 Notes	-	225,000	-	-	-	-	-		**225,000**
2014 Term Loan	-	210,000	(210,000)	-	-	-	-	**-**	**-**
2016 Term Loan	-	268,540	-	-	(2,340)	-	-	**-**	**266,200**
2017 Notes	-	-	500,000		-		-	**-**	**500,000**
Financing fees		(2,266)	-	(2,559)	-	-	923	**-**	**(3,902)**
Total	**$250,000**	**$716,274**	**$ 55,000**	**$(2,559)**	**$ (2,340)**	**$ -**	**$ 923**	**$ -**	**$1,017,298**

The senior debt includes 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 February 3 and August 3 in each year. On March 23, 2017, the $250,000 4.30% 2012-1 Senior Unsecured Notes (the “2012 Notes”) were redeemed. The remaining unamortized financing costs of $364 were amortized into interest expense upon the repayment of the 2012 Notes.

The senior debt also includes Enercare Solutions’ completed debt offering on February 21, 2017 of $500,000 aggregate principal amount, consisting of $275,000 of "2017-1 Notes" and $225,000 of “2017-2 Notes” (together, the “2017 Notes”), maturing on February 21, 2022 and February 21, 2024, respectively. The 2017-1 Notes were sold at a price of 99.982% of the principal amount, with an effective yield of 3.38% 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 3.99% per annum if held to maturity. Deferred financing costs of $2,559 are in relation to the issuance of the 2017-1 Notes and 2017-2 Notes.

The proceeds of the offering were used to repay the 2014 Term Loan on February 23, 2017, redeem the 2012 Notes on March, 23 2017, and repay a portion of the 2014 Revolver.

The 2014 Term Loan was repaid on February 23, 2017 and consisted of a $210,000 non-revolving, non-amortizing variable rate term loan (the “2014 Term Loan”). The 2014 Term Loan bore interest at a variable rate based upon the prime rate plus 0.25%, which was 2.95% at the time of repayment. The remaining unamortized financing costs of $406 were amortized into interest expense upon the repayment of the 2014 Term Loan.

On October 20, 2014, 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%. During the fourth quarter of 2016, Enercare Solutions increased the 2014 Revolver limit to $200,000, maintaining the same terms. At March 31, 2017, a total of $30,000 was drawn bearing interest at a variable rate based upon the banker's acceptance rate plus 1.25%, which was 2.20% at March 31, 2017.

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 2.37% at March 31, 2017. Deferred financing costs of $1,009 in 2016 are in relation to the 2016 Term Loan entered into in conjunction with the SE Transaction.

The 2014 Revolver and 2016 Term Loan contain the following financial covenants (i) all additional incurrences of senior debt, with certain exceptions, must, on the date of incurrence, result in a pro forma ratio equal to or greater than 3.8 to 1.0 of Incurrence EBITDA (as defined in the indenture) to Net Interest Expense (as defined in the indenture); (ii) the ratio of total debt (other than subordinated debt) to "Adjusted EBITDA" must be less than 4.75:1; and (iii) the ratio of Adjusted EBITDA to "Cash Interest Expense" must be greater than 3.00:1.

Enercare Solutions was in compliance with all covenants under the 2013 Notes, 2014 Revolver, 2016 Term Loan and 2017 Notes as at March 31, 2017.

Interest Expense:

	Three months ended March 31,	
(000's)	**2017**	2016
Interest expense payable in cash	**$9,656**	$6,551
Interest on subordinated debt	**875**	875
Interest on promissory note	**6,972**	5,064
Equity bridge financing fees	**-**	189
Make whole payment on early repayment of senior debt	**5,049**	-
Non-cash items:		
Notional interest on employee benefit plans	**210**	210
Amortization of financing costs	**939**	208
Interest expense	**$23,701**	$13,097

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. A make whole payment for the early redemption of the 2012 Notes, during the first quarter of 2017, resulted in $5,049 of one time interest expense.

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:

	Three months ended March 31,	
	2017	2016
Revenue	**$30,157**	$19,084

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

	March 31, 2017	December 31, 2016
Deferred revenue	**$36,155**	$32,054
Service obligations	**6,575**	9,346
Deferred revenue and service obligations	**$42,730**	$41,400

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

	March 31, 2017	December 31, 2016
Opening balance as of January 1	**$ 9,346**	$ -
Additions to obligations through acquisition of Service Experts	**-**	25,393
Released during the period	**(2,691)**	(16,549)
Foreign exchange	**(80)**	502
Service obligation	**$ 6,575**	$ 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. During 2016, $27,492 of the Subordinated Promissory Notes was repaid. The Subordinated Promissory Notes bear interest at rates notified by the holder. The notes have no fixed repayment terms, but are redeemable at the option of Enercare Solutions at a price equal to the principal amount thereof plus accrued and unpaid interest to the date of redemption. On May 11, 2016, a $227,504 subordinated promissory note was issued by Enercare as part of the SE Transaction (see Note 29). 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 March 31, 2017, $50,000 of the preferred shares and Subordinated Debt are outstanding.

18. Employee Benefit Plans

In connection with the DE Acquisition, DE established a mirror pension plan (“RPP”) to their current registered pension 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. 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 employees provide service to Enercare Solutions and the obligation for these plans were measured individually at March 31, 2017 and December 31, 2016, 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 Solutions generally bears the risks associated with the defined benefit plans. Sources of risks for Enercare Solutions' defined benefit plans as at March 31, 2017 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:

	Three months ended March 31,	
	2017	2016
Pension		
Current service cost	**$969**	$922
Interest (income)	**(77)**	(42)
Administrative expenses	**31**	18
	$923	$898
OPEB		
Current service cost	**$ 209**	$ 208
Net interest cost	**226**	210
	$ 435	$418

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

	Three months ended March 31,	
	2017	2016
Pension		
Actuarial gain	**$1,574**	$1,233
OPEB		
Actuarial gain	**$ 809**	$1,245
	$2,383	$2,478

19. Share Capital

	March 31, 2017		December 31, 2016	
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, 2011, Enercare Solutions converted to a corporation pursuant to a plan of arrangement. As at March 31, 2017, there were 1,169 shares issued and outstanding.

20. 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 March 31,	**2017**
Due in 2017	**$ 7,619**
Due in 2018	**6,958**
Due in 2019	**4,513**
Due in 2020	**3,224**
Due in 2021	**4,590**
Thereafter	**255**
Total commitments under non-cancellable operating leases	**$27,159**

The operating lease and sponsorship payments recognized in the consolidated statement of income for the three months ended March 31, 2017 were $3,097 (2016 - $741).

21. Contingent Liabilities

Enercare Solutions is 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.

22. 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 March 31, 2017, a provision for all amounts at risk of collection and impairment has been made in these interim 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 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 2013 Notes and 2017 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 March 31, 2017.

The principal covenant tests under the 2014 Revolver and 2016 Term Loan 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 Management’s Discussion and Analysis. Enercare Solutions was in compliance with these covenants at March 31, 2017.

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	$ 1,889	$ 24,168	$ 5,615	$ 443	$ 7,504	$24,611
Due in 2018	-	35,595	6,960	423	6,960	36,018
Due in 2019	-	35,595	6,112	251	6,112	35,846
Due in 2020	491,200	26,442	4,510	111	495,710	26,553
Due in 2021	30,000	18,908	1,705	30	31,705	18,938
Thereafter	500,000	20,541	237	5	500,237	20,546
Total	$1,023,089	$161,249	$25,139	$1,263	$1,048,228	$162,512

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 March 31, 2017 and December 31, 2016. The estimated fair values of the financial instruments are at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

	March 31, 2017		December 31, 2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 18,305**	**$ 18,305**	$ 36,446	$ 36,446
Accounts and other receivables	**115,422**	**115,422**	116,984	116,984
Financing receivables	**4,597**	**4,597**	2,876	2,876
Collateral deposits	**9,735**	**9,735**	9,842	9,842
Investment in preferred shares	**50,000**	**50,000**	50,000	50,000
Total financial assets	**$ 198,059**	**$ 198,059**	$ 216,148	$ 216,148
Financial liabilities measured at amortized cost:				
Senior borrowings	**$ 725,000**	**$ 751,433**	$ 475,000	$ 491,850
Revolving credit facility	**30,000**	**30,000**	15,000	15,000
Term Loans	**266,200**	**266,200**	478,540	478,540
Long term subordinated promissory notes	**705,479**	**705,479**	708,379	708,379
Subordinated debt	**50,000**	**50,000**	50,000	50,000
Obligations under finance lease	**25,139**	**25,139**	25,624	25,624
Total borrowings	**$1,801,818**	**$1,828,251**	$1,752,543	$1,769,393
Other obligations and payables	**151,768**	**151,768**	448,335	448,335
Total financial liabilities	**$1,953,586**	**$1,980,019**	$2,200,878	$2,217,728

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 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 $4,033 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 $97 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 Solutions' 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 amount 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 for the three months ended March 31, 2017 and 2016:

	Effect on Net Earnings		**Effect on Equity**	
Three months ended March 31,	**2017**	2016	**2017**	2016
10% strengthening	**$(427)**	-	**$ 373**	-
10% weakening	**$ 427**	-	**$(373)**	-

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 and makes adjustments as appropriate to such variables as cash on hand, additional capital expenditures, debt capacity, available credit facilities and covenant restrictions. Enercare Solutions' capital management strategy, objectives, and definitions have not materially changed during the three months ended March 31, 2017.

Enercare Solutions was in compliance with all covenants under the 2013 Notes, 2014 Revolver, 2016 Term Loan and 2017 Notes as at March 31, 2017.

23. Cost of Goods Sold

	For the three months ended March 31,	
	2017	2016
Labour and benefits	**$ 54,943**	$ 17,170
Parts	**41,370**	3,477
Other	**9,968**	902
Total	**$ 106,281**	$ 21,549

24. Selling, General and Administrative

	For the three months ended March 31,	
	2017	2016
Employee wages and benefits	**$39,244**	$ 9,581
Employee long-term compensation	**2,098**	172
Professional fees	**1,537**	3,356
Selling, office and other	**21,101**	5,114
Billing and servicing	**7,560**	5,841
Claims and bad debt	**3,032**	1,828
Charges from Enercare	**3,105**	4,636
Total	**$77,677**	$30,528

25. 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 three months ended March 31,	
	2017	2016
Accounts receivable	**$ (3,404)**	$3,549
Inventory	**(589)**	(26)
Prepaid expenses	**(333)**	(105)
Collateral deposits	**21**	-
Deferred revenue and service obligation	**1,551**	972
Accounts payable and accrued liabilities	**(44,779)**	1,475
Other provisions	**(11)**	(41)
Insurance claim provisions	**289**	-
Related party payable	**4,252**	1,110
Interest payable	**(1,269)**	399
Total	**$(44,272)**	$7,333

26. Related Parties

Key Management

Key management of Enercare Solutions includes officers of Enercare. External directors' 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 three months ended March 31,	
	2017	2016
Salaries and short-term benefits	**$2,231**	$1,158
Other employment benefits	**74**	59
Long term benefits	**961**	430
Total	**$3,266**	$1,647

Related Party Payables

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

	March 31, 2017	December 31, 2016
Related party payables	**$5,125**	$5,572

27. Compensation Plans

Effective November 1, 2014, Enercare Solutions implemented the Employee Share Purchase Plan 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 March 31, 2017, there was no restricted cash on hand (2016 - $nil).

28. 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).

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 29).

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 three months ended March 31, 2017				For the three months ended March 31, 2016			
Segment Information	**Enercare Home Services**	**Service Experts**	**Corporate**	**Total**	Enercare Home Services	Service Experts	Corporate	Total
Revenues:								
Contracted sales	**$ 104,402**	**$ 11,377**	**$ -**	**$ 115,779**	$ 100,331	$ -	$ -	$ 100,331
Sales and other services	**6,546**	**116,377**	**-**	**122,923**	6,098	-	-	6,098
Dividend income	**-**	**-**	**862**	**862**	-	-	863	863
Investment Income	**249**	**10**	**-**	**259**	78	-	-	78
Total revenue	**$ 111,197**	**$ 127,764**	**$ 862**	**$ 239,823**	$ 106,507	$ -	$ 863	$ 107,370
Expenses:								
Cost of goods & services:								
Cost of services	**$ (16,264)**	**$ (9,089)**	**$ -**	**$ (25,353)**	$ (16,268)	$ -	$ -	$ (16,268)
Cost of goods sold	**(5,551)**	**(75,377)**	**-**	**(80,928)**	(5,281)	-	-	(5,281)
SG&A	**(27,699)**	**(46,873)**	**(3,105)**	**(77,677)**	(25,892)	-	(4,636)	(30,528)
Foreign exchange	**(78)**	**3**	**-**	**(75)**	(20)	-	-	(20)
Other income	**-**	**-**	**-**	**-**	-	-	-	-
Net (loss)/gain on disposal	**(1,863)**	**16**	**-**	**(1,847)**	(1,925)	-	-	(1,925)
EBITDA[1]	**59,742**	**(3,556)**	**(3,105)**	**53,081**	57,121	-	(4,636)	52,485
Amortization	**(30,880)**	**(5,150)**		**(36,030)**	(30,036)			(30,036)
Interest expense				**(23,701)**				(13,097)
Current taxes				**(4,542)**				(11,965)
Deferred tax recovery				**6,090**				9,694
Net earnings				**(4,240)**				7,944
Segment assets[2]	**1,245,039**	**581,523**	**50,000**	**1,876,562**	1,251,359	-	50,000	1,301,359
Capital additions	**$ 31,727**	**$ 2,850**	**$ -**	**$ 34,577**	$ 28,991	$ -	$ -	$ 28,991

(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.

	For the three months ended March 31,	
Geographic Information	**2017**	2016
Revenues[4]		
Canada	**$ 132,321**	$ 107,370
United States	**107,502**	-
	$ 239,823	$ 107,370
	March 31, 2017	December 31, 2016
Segment Assets[5]		
Canada	**$1,371,540**	$1,374,362
United States	**505,022**	527,673
	$1,876,562	$1,902,035

(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.

29. 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 final allocation of total consideration allocated to the net assets acquired. The allocation of the purchase price included certain working capital adjustments and tax balances and is finalized.

	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	(4,078)	235,071
Collateral deposits (note 11)	9,122	-	9,122
Goodwill (note 10)	223,920	3,539	227,459
Total assets acquired	$558,770	$ 404	$559,174
Less:			
Accounts payable and accrued liabilities	$115,917	$ 1,679	$117,596
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	(400)	5,482
Total net assets acquired	$387,997	$ (2,396)	$385,601
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)	1,462	(55,865)
Cash consideration (net of closing adjustments)	$387,997	$ (2,396)	$385,601

* 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 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.

30. Acquisition of Church Services

On February 13, 2017, Enercare Solutions, through its wholly owned subsidiary, Service Experts completed the acquisition of certain assets in Austin, Texas from CS Operating LLC ("Church Services"), an HVAC and plumbing company. Service Experts acquired the assets for USD $875 or $1,144 and paid the purchase price using cash on hand.