Q2

2014 SECOND QUARTER
REPORT TO SHAREHOLDERS

just energy™

Highlights of continuing operations for the three months ended September 30, 2013 included:

- Gross customer additions of 341,000, the eighth successive quarter where additions exceeded 300,000. Net additions of 37,000 resulted in an ending customer base of 4.6 million, up 9% from a year earlier.
- Gross margin of $128.5 million, up 12%.
- Base EBITDA from continuing operations of $39.1 million, up 37%.
- Base Funds from continuing operations was $28.8 million, up 129%.
- Future embedded gross margin of $2.3 billion, up 9%.
- Payout ratio on Base Funds from operations was 107% for the quarter versus 352% for the three months ended September 30, 2012.
- Second quarter and year-to-date results are consistent with achieving the Company's published guidance for Base EBITDA of $220 million in fiscal 2014.

Message from the Chief Executive Officer

Fellow Shareholders,

I am very pleased to report a second quarter of excellent results for Just Energy. We continue to deliver strong operating results and an improving cash flow profile based on investments made in previous years. At last fiscal year-end, Just Energy provided guidance of $220 million in Base EBITDA for fiscal 2014, up from $175.1 million in fiscal 2013. Our second quarter results are again consistent with this guidance.

Generating double-digit cash flow growth in a time of low inflation is indicative of two things: a high growth industry and a sound business model. Just Energy has both. The second quarter followed a quarter that saw a 53% growth in Base EBITDA. This quarter was again ahead of our 26% annual growth target for fiscal 2014 at 37% growth versus the second quarter of fiscal 2013. Base Funds from operations ("FFO") followed suit as it grew 129% to $28.8 million. Our payout ratio on FFO in a seasonally slower quarter fell to 107%, down from 352% a year ago. Our guidance also called for a payout ratio on FFO of less than 100% for the year and we are on track to meet that expectation as well.

Three months ended September 30
($ millions, except where indicated and per share amounts)

	Fiscal 2014	Fiscal 2013
Sales	$ 853.0	$ 713.2
Gross margin	128.5	114.3
Administrative expenses	35.2	33.4
Selling and marketing expenses	48.0	50.3
Finance costs	22.3	18.4
Profit (loss) from continuing operations	(114.4)	24.0
Profit (loss) from discontinued operations	2.9	(0.9)
Profit (loss)	(111.5)	23.1
Earnings (loss) per share from continuing operations – basic	(0.80)	0.17
Earnings (loss) per share from continuing operations – diluted	(0.80)	0.17
Dividends/distributions	30.9	44.4
Base EBITDA from continuing operations	39.1	28.6
Base Funds from continuing operations	28.8	12.6
Payout ratio on Base EBITDA from continuing operations	79%	155%
Payout ratio on Base Funds from continuing operations	107%	352%

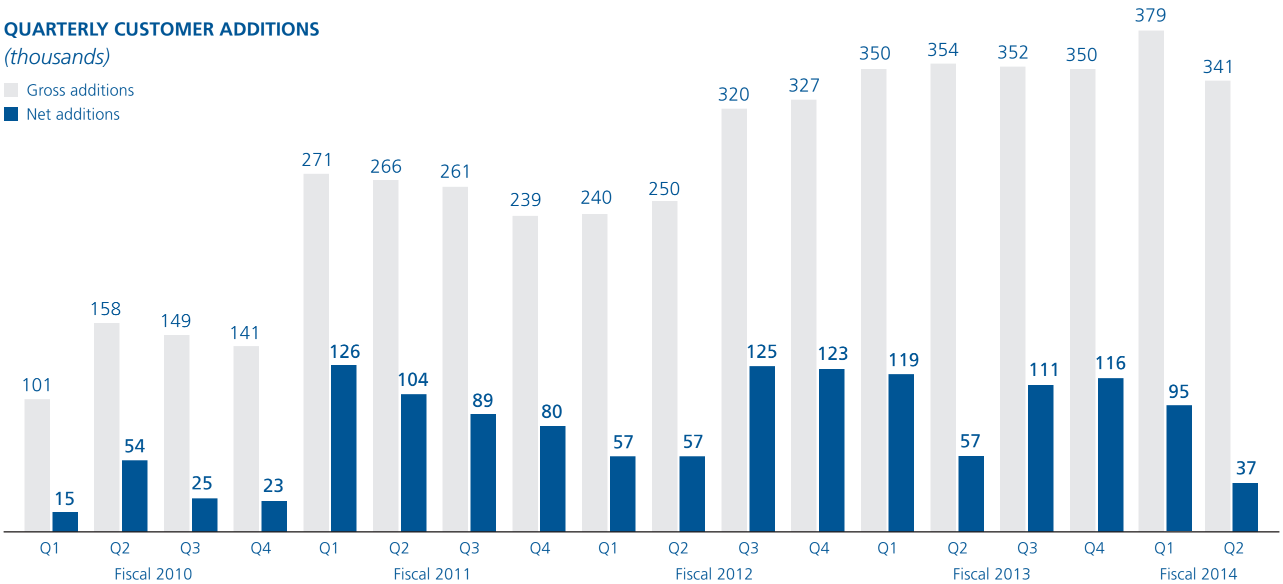
Six months ended September 30
($ millions, except where indicated and per share amounts)

	Fiscal 2014	Fiscal 2013
Sales	$ 1,599.1	$ 1,370.1
Gross margin	247.9	227.9
Administrative expenses	71.2	67.2
Selling and marketing expenses	100.4	108.8
Finance costs	44.8	34.7
Profit (loss) from continuing operations	(154.2)	356.5
Profit (loss) from discontinued operations	0.7	(4.8)
Profit (loss)	(153.5)	351.7
Earnings (loss) per share from continuing operations – basic	(1.08)	2.56
Earnings (loss) per share from continuing operations – diluted	(1.08)	2.18
Dividends/distributions	61.6	88.8
Base EBITDA from continuing operations	68.3	47.6
Base Funds from continuing operations	42.1	13.7
Payout ratio on Base EBITDA from continuing operations	90%	187%
Payout ratio on Base Funds from continuing operations	146%	649%
Embedded gross margin	2,324.0	2,129.5
Energy customers (RCEs)	4,322,000	4,024,000
Home Services customers (installed units)	275,000	187,000
Total customers (RCEs and installed units)	4,597,000	4,211,000

Growth

Customer additions in the second quarter were 341,000, the eighth consecutive quarter where additions have exceeded 300,000. Prior to two years ago, the Company had never aggregated 300,000 customers in a quarter. This level of customer additions has resulted in the total Just Energy customer base at September 30, 2013 increasing to 4.6 million, up 9% from a year earlier.

QUARTERLY CUSTOMER ADDITIONS
(thousands)



New additions were equally split between Consumer and Commercial divisions with 164,000 and 160,000 additions, respectively, as both divisions realized marketing success. The Home Services division saw a 47% year over year growth in total installations, resulting in 275,000 customers at September 30, 2013. This included 19,000 smart thermostats installed either in product bundles or on a stand-alone basis. Net additions were 37,000, resulting in a customer base at September 30, 2013 of 4.6 million, up 9% from a year earlier. Net additions in the quarter were impacted by management's decision to carefully monitor new customer margins with the intent of maintaining margins at historical levels. The result was lower short-term additions but will result in greater long-term profitability.

CUSTOMER AGGREGATION

	July 1, 2013	Additions	Attrition	Failed to renew	Sept. 30, 2013	% increase (decrease)	Sept. 30, 2012	% increase (decrease)
Consumer Energy								
Gas	785,000	45,000	(44,000)	(15,000)	771,000	(2)%	819,000	(6)%
Electricity	1,207,000	119,000	(95,000)	(25,000)	1,206,000	0%	1,171,000	3%
Total Consumer RCEs	1,992,000	164,000	(139,000)	(40,000)	1,977,000	(1)%	1,990,000	(1)%
Commercial Energy								
Gas	213,000	11,000	(4,000)	(15,000)	205,000	(4)%	206,000	0%
Electricity	2,097,000	149,000	(28,000)	(78,000)	2,140,000	2%	1,828,000	17%
Total Commercial RCEs	2,310,000	160,000	(32,000)	(93,000)	2,345,000	2%	2,034,000	15%
Total Energy Marketing RCEs	4,302,000	324,000	(171,000)	(133,000)	4,322,000	0%	4,024,000	7%
Home Services								
Water heaters	224,000	12,000	–	–	236,000	5%	174,000	36%
Air conditioners/ Furnaces	19,000	1,000	–	–	20,000	5%	13,000	54%
Smart thermostats[1]	15,000	4,000	–	–	19,000	27%	–	–
Total installs	258,000	17,000	–	–	275,000	7%	187,000	47%
Combined RCEs and installs	4,560,000	341,000	(171,000)	(133,000)	4,597,000	1%	4,211,000	9%

[1] Of the smart thermostat installations as of September 30, 2013, 58% were bundled with energy or furnace contracts and the remaining 42% were sold as stand-alone units.

Traditional door-to-door marketing accounted for only 31% of second quarter customer additions, while non-door-to-door channels contributed the remaining 69%. Prior to the acquisition of Hudson Energy in fiscal 2011, the vast majority of new customers were signed through door-to-door marketing. These figures provide clear evidence of the success of the Company's efforts to diversify its sales efforts. With the opening of new markets such as the U.K. in fiscal 2013, Just Energy's sales capacity remains at its highest level in history.

The attrition rate was 13% on a trailing 12-month basis, down from 14% in the prior year period, with the consumer markets higher and commercial markets lower. Overall attrition remains at target levels.

Renewal rates were 72% on a trailing 12-month basis, up from the Company's target level of 70% realized a year earlier. Management believes that there is an opportunity for further improvement in renewal rates; however, commercial renewal rates can be volatile on a quarter to quarter basis.

Profitability

Operating profits rose sharply in the quarter. Gross margin for the quarter was $128.5 million, up 12% from $114.3 million in fiscal 2013. Base EBITDA was $39.1 million, up 37% from $28.6 million in the prior comparable period. Base Funds from operations were $28.8 million, up 129% from $12.6 million a year earlier. Given that the first two quarters are traditionally the lowest consumption quarters of the year, Base EBITDA remains on track to meet the Company's published guidance of $220 million for the year. The increase in Base Funds from operations is consistent with the Company's goal to reduce its payout ratio below 100% for fiscal 2014.

The following factors drove quarterly profitability:

- The 9% year over year growth in customers led to a 12% increase in gross margin. This disparity in growth rates is due to improved profitability of the gas book compared to fiscal 2013.
- Selling and marketing costs declined 5% versus the second quarter of fiscal 2013. Selling costs declined due to fewer gross additions and the growing use of lower cost aggregation channels. Only 31% of the customers added in the quarter came from traditional door-to-door sales.
- Administrative costs per customer were an annualized $30.64, down from $31.71 a year earlier. Quarterly administrative expenses were $35.2 million, down from $36.0 million in the first quarter and $36.7 million in the fourth quarter of fiscal 2013. Management sees the quarterly decline in costs despite a growing customer base to be a positive trend.
- Bad debt amounted to 2.1% of relevant sales, down from 2.3% in the second quarter of fiscal 2013. Nominal bad debt expense of $11.9 million was up 54% due to customer growth in markets where the Company bears credit risk.
- Financing costs were $22.3 million for the quarter, up from $18.4 million in the prior comparable period. The increase reflects inclusion of the new $105 million unsecured debentures and growth in NHS and HES non-recourse financing.
- Just Energy maintained its position as a leader in sales of green energy in North America. 27% of new consumer customers over the past year took green supply for an average of 84% of their annual consumption. Green supply now composes 18% of the Consumer division electricity portfolio and 9% of the Consumer division natural gas supply.

Just Energy has focused on building long-term value for its shareholders. While cash flow has grown significantly over the past two quarters, the best measure of long-term expectations remains embedded gross margin. Embedded gross margin is an estimate of cash flow from existing contracts based on the spread between contract price and underlying supply price. The table below shows the change in this value over the quarter and the last year. While, over the past three months, the amount is down slightly due to the decline in the U.S. dollar versus the Canadian dollar, the annual growth of 9% matches the growth of the customer base.

EMBEDDED GROSS MARGIN

(millions of dollars)

Management's estimate of the future embedded gross margin is as follows:

	As at Sept. 30, 2013	As at June 30, 2013	Sept. vs. June 2013 variance	As at Sept. 30, 2012	2013 vs. 2012 variance
Energy marketing[1]	$ 1,668.5	$ 1,711.7	(3)%	$ 1,618.8	3%
Home Services	655.5	628.9	4%	510.7	28%
Total embedded gross margin	$ 2,324.0	$ 2,340.6	(1)%	$ 2,129.5	9%

[1] Energy Marketing also includes embedded gross margin related to Hudson Energy Solar.

DIVIDEND POLICY

Dividends were $0.21 per share in the quarter. Payout ratio on Base Funds from operations was 107%, down from 352% a year earlier. Based on results to date, management continues to believe that the payout ratio on Base Funds from operations will be less than 100% for fiscal 2014, down from 184% in fiscal 2013. In changing the dividend for fiscal 2014, management and the Board of Directors concluded that the new monthly $0.07 per share level met the criteria of providing adequate funding of growth expenditures and making a necessary contribution to the cash repayment of future debt maturities. The combination of anticipated future growth and this lower dividend level is expected to allow the Company to reduce its debt to EBITDA to a target range of 3.5 to 4.0 times by the end of fiscal 2016.

Outlook

Continued strong customer additions with the corresponding positive impact on embedded margin and management's efforts for tight cost control have resulted in a second quarter of positive results for Just Energy.

The Company's published guidance calls for $220 million in Base EBITDA for fiscal 2014, up from the $175 million realized in fiscal 2013. Results to date are consistent with this level of growth, although investors should note that the first two quarters are traditionally the lowest consumption quarters of the year and that results from the third and fourth quarters will be more meaningful in defining the year's growth.

We have built and broadened the base of our business over the past two years. This has involved both geographic expansion and the introduction of new, low cost marketing channels. These additions came with an upfront cost which depressed our Base EBITDA last year. At the same time, we were confident that they would pay off in improved cash flow and a more solid financial position for Just Energy. The second quarter is clear evidence that we are on the right track and we expect future periods to show the same positive trend.

The second quarter reaffirms the growth guidance we have provided to the market. Our investments in growth are paying off and our shareholders will be the benefactors. Just Energy is off to an excellent start in fiscal 2014 and we are confident that this performance will continue for the remainder of the year.

I thank my fellow shareholders for their continued support.

Yours sincerely,

Ken Hartwick

Ken Hartwick
Chief Executive Officer

Management's discussion and analysis ("MD&A") – November 7, 2013

Overview

The following discussion and analysis is a review of the financial condition and results of operations of Just Energy Group Inc. ("JE" or "Just Energy" or the "Company") for the three and six months ended September 30, 2013, and has been prepared with all information available up to and including November 7, 2013. This analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended September 30, 2013. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are expressed in Canadian dollars. Quarterly reports, the annual report and supplementary information can be found on Just Energy's corporate website at www.justenergygroup.com. Additional information can be found on SEDAR at www.sedar.com or at the U.S. Securities Exchange Commission's website at www.sec.gov.

Just Energy is a corporation established under the laws of Canada and holds securities and distributes the income of its directly or indirectly owned operating subsidiaries and affiliates. Just Energy's business primarily involves the sale of natural gas and/or electricity to residential and commercial customers under long-term fixed-price, price-protected or variable-priced contracts. Just Energy markets its gas and electricity contracts in Canada, the United States and the United Kingdom, under the following trade names: Just Energy, Hudson Energy, Commerce Energy, Smart Prepaid Electric, Amigo Energy, Tara Energy and Green Star Energy. By fixing the price of natural gas or electricity under its fixed-price or price-protected program contracts for a period of up to five years, Just Energy's customers offset their exposure to changes in the price of these essential commodities. Variable rate products allow customers to maintain competitive rates while retaining the ability to lock into a fixed price at their discretion. Just Energy derives its margin or gross profit from the difference between the price at which it is able to sell the commodities to its customers and the related price at which it purchases the associated volumes from its suppliers.

Just Energy also offers green products through its JustGreen program. The electricity JustGreen product offers customers the option of having all or a portion of their electricity sourced from renewable green sources such as wind, run of the river hydro or biomass. The gas JustGreen product offers carbon offset credits that allow customers to reduce or eliminate the carbon footprint of their homes or businesses. Additional green products allow customers to offset their carbon footprint without buying energy commodity products and can be offered in all states and provinces without being dependent on energy deregulation.

In addition, Just Energy rents and sells high efficiency and tankless water heaters, air conditioners and furnaces to Ontario and Quebec residents through a subsidiary operating under the trade name National Home Services ("NHS"). Just Energy also offers smart thermostats as a bundled product with commodity or furnace contracts as well as a stand-alone unit. Just Energy also operates a Network Marketing division under the trade name Momentis. Just Energy's subsidiary, Hudson Energy Solar Corp. ("HES"), and its subsidiaries provide solar project development platforms operating in New Jersey, Pennsylvania and Massachusetts, under the trade name Hudson Energy Solar. Just Energy also holds a 50% ownership in Just Ventures LLC and Just Ventures L.P. (collectively, "Just Ventures"), a jointly controlled entity, which is primarily involved in the Internet-based marketing of Just Energy's gas and electricity contracts as well as a 15% ownership in ecobee Inc. ("ecobee"), a company that designs, manufactures and distributes smart thermostats to residential and commercial customers throughout North America.

Included in the MD&A is an analysis of the above operations. The analysis enclosed in the MD&A also reflects a retrospective change in disclosure with the energy marketing operational segments now representing the Consumer Energy and Commercial Energy divisions to align with changes effective fiscal 2014 in internal reporting and analysis prepared for senior management. As at March 31, 2013, Terra Grain Fuels, which produces and sells ethanol, was available for sale and is expected to be divested by the end of fiscal 2014. As a result, it is classified as discontinued operations and the financial results from operations for prior periods have been restated to reflect results from continuing and discontinued operations for comparative purposes.

Forward-looking information

This MD&A contains certain forward-looking information pertaining to customer additions and renewals, customer consumption levels, EBITDA, Base EBITDA, Funds from Operations, Base Funds from Operations and treatment under governmental regulatory regimes. These statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated. These risks include, but are not limited to, levels of customer natural gas and electricity consumption, extreme weather conditions, rates of customer additions and renewals, customer attrition, fluctuations in natural gas and electricity prices, changes in regulatory regimes, decisions by regulatory authorities, competition, the results of litigation, and dependence on certain suppliers. Additional information on these and other factors that could affect Just Energy's operations, financial results or dividend levels are included in the May 31, 2013 Annual Information Form and other reports on file with security regulatory authorities, which can be accessed on our corporate website at www.justenergygroup.com or through the SEDAR website at www.sedar.com or at the U.S. Securities Exchange Commission's website at www.sec.gov.

Key terms

"$90m convertible debentures" represents the $90 million in convertible debentures issued by Universal Energy Group Ltd. ("Universal") in October 2007. Just Energy assumed the obligations of the debentures as part of the Universal acquisition on July 1, 2009. See "Debt and financing for continuing operations" on page 29 for further details.

"$100m convertible debentures" represents the $100 million in convertible debentures issued by the Company to finance the purchase of Fulcrum Retail Holdings, LLC, effective October 1, 2011. See "Debt and financing for continuing operations" on page 29 for further details.

"$330m convertible debentures" represents the $330 million in convertible debentures issued by Just Energy to finance the purchase of Hudson Energy Services, LLC, effective May 1, 2010. See "Debt and financing for continuing operations" on page 29 for further details.

"attrition" means customers whose contracts were terminated prior to the end of the term either at the option of the customer or by Just Energy.

"customer" does not refer to an individual customer but instead an RCE (see Key Term below).

"failed to renew" means customers who did not renew expiring contracts at the end of their term.

"gross margin per RCE" represents the energy gross margin realized on Just Energy's customer base, including gains/losses from the sale of excess commodity supply.

"LDC" means a local distribution company; the natural gas or electricity distributor for a regulatory or governmentally defined geographic area.

"RCE" means residential customer equivalent, which is a unit of measurement equivalent to a customer using, as regards natural gas, 2,815 m^3 (or 106 GJs or 1,000 Therms or 1,025 CCFs) of natural gas on an annual basis and, as regards electricity, 10 MWh (or 10,000 kWh) of electricity on an annual basis, which represents the approximate amount of gas and electricity, respectively, used by a typical household in Ontario.

NON-IFRS FINANCIAL MEASURES

Just Energy's consolidated financial statements are prepared in compliance with IFRS. All non-IFRS financial measures do not have standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

EBITDA

"EBITDA" represents earnings before finance costs, taxes, depreciation and amortization. This is a non-IFRS measure that reflects the pre-tax profitability of the business.

BASE EBITDA

"Base EBITDA" represents EBITDA adjusted to exclude the impact of mark to market gains (losses) arising from IFRS requirements for derivative financial instruments on future supply positions as well as reflecting an adjustment for share-based compensation. This measure reflects operational profitability as the non-cash share-based compensation expense is treated as an equity issuance for the purpose of this calculation, as it will be settled in shares and the mark to market gains (losses) are associated with supply already sold in the future at fixed prices.

Just Energy ensures that customer margins are protected by entering into fixed-price supply contracts. Under IFRS, the customer contracts are not marked to market but there is a requirement to mark to market the future supply contracts. This creates unrealized gains (losses) depending upon current supply pricing. Management believes that these short-term mark to market non-cash gains (losses) do not impact the long-term financial performance of Just Energy and management has therefore excluded it from the Base EBITDA calculation.

FUNDS FROM OPERATIONS

"Funds from Operations" refers to the cash flow generated by operations. Funds from Operations is calculated by Just Energy as gross margin adjusted for cash items including administrative expenses, selling and marketing expenses, bad debt expenses, finance costs, corporate taxes, capital taxes and other items. The gross margin used includes a seasonal adjustment for the gas markets in Ontario, Quebec, Manitoba and Michigan in order to include cash received.

BASE FUNDS FROM OPERATIONS

"Base Funds from Operations" refers to the Funds from Operations adjusted for capital expenditures purchased to maintain productive capacity. Capital expenditures to maintain productive capacity represent the capital spend relating to capital assets and spending relating to contract initiation costs to maintain embedded gross margin at the current level.

EMBEDDED GROSS MARGIN

"Embedded gross margin" is a rolling five-year measure of management's estimate of future contracted energy gross margin as well as the margin associated with the remaining life of National Home Services' customer contracts. The energy marketing embedded gross margin is the difference between existing energy customer contract prices and the cost of supply for the remainder of the term, with appropriate assumptions for customer attrition and renewals. It is assumed that expiring contracts will be renewed at target margin and renewal rates.

The energy marketing embedded gross margin also includes an estimate of the future margin on residual payments on non-energy products sold to the current Momentis customer base as well as the completed contracts for Hudson Energy Solar. The embedded gross margin for HES represents gross margin associated with Solar Power Purchase Agreements ("PPAs") and Solar Renewable Energy Credits ("SRECs") for a rolling five-year period generated from its completed projects.

Financial highlights

For the three months ended September 30
(thousands of dollars, except where indicated and per share amounts)

	Fiscal 2014	% increase (decrease)	Fiscal 2013
Sales	$ 853,013	20%	$ 713,190
Gross margin	128,500	12%	114,286
Administrative expenses	35,217	5%	33,390
Selling & marketing expenses	47,962	(5)%	50,268
Finance costs	22,326	21%	18,436
Profit (loss) from continuing operations[1]	(114,395)	NMF[3]	23,964
Profit (loss) from discontinued operations	2,875	NMF[3]	(877)
Profit (loss)[1]	(111,520)	NMF[3]	23,087
Earnings (loss) per share from continuing operations – basic	(0.80)	NMF[3]	0.17
Earnings (loss) per share from continuing operations – diluted	(0.80)	NMF[3]	0.17
Dividends/distributions	30,850	(31)%	44,409
Base EBITDA from continuing operations[2]	39,135	37%	28,624
Base Funds from continuing operations[2]	28,818	129%	12,606
Payout ratio on Base EBITDA from continuing operations	79%		155%
Payout ratio on Base Funds from continuing operations	107%		352%

[1] Profit (loss) for the period includes the impact of unrealized gains (losses), which represents the mark to market of future commodity supply acquired to cover future customer demand. The supply has been sold to customers at fixed prices, minimizing any realizable impact of mark to market gains and losses.
[2] See "Non-IFRS financial measures" on page 7.
[3] Not a meaningful figure.

For the six months ended September 30
(thousands of dollars, except where indicated and per share amounts)

	Fiscal 2014	% increase (decrease)	Fiscal 2013
Sales	$ 1,599,136	17%	$ 1,370,527
Gross margin	247,914	9%	227,943
Administrative expenses	71,237	6%	67,228
Selling & marketing expenses	100,382	(8)%	108,834
Finance costs	44,846	29%	34,746
Profit (loss) from continuing operations[1]	(154,165)	NMF[3]	356,508
Profit (loss) from discontinued operations	696	NMF[3]	(4,782)
Profit (loss)[1]	(153,469)	NMF[3]	351,726
Earnings (loss) per share from continuing operations – basic	(1.08)	NMF[3]	2.56
Earnings (loss) per share from continuing operations – diluted	(1.08)	NMF[3]	2.18
Dividends/distributions	61,606	(31)%	88,799
Base EBITDA from continuing operations[2]	68,270	43%	47,611
Base Funds from continuing operations[2]	42,118	208%	13,688
Payout ratio on Base EBITDA from continuing operations	90%		187%
Payout ratio on Base Funds from continuing operations	146%		649%
Embedded gross margin[2]	2,324,000	9%	2,129,500
Energy customers (RCEs)	4,322,000	7%	4,024,000
Home Services customers (installed units)	275,000	47%	187,000
Total customers (RCEs and installed units)	4,597,000	9%	4,211,000

[1] Profit (loss) for the period includes the impact of unrealized gains (losses), which represents the mark to market of future commodity supply acquired to cover future customer demand. The supply has been sold to customers at fixed prices, minimizing any realizable impact of mark to market gains and losses.
[2] See "Non-IFRS financial measures" on page 7.
[3] Not a meaningful figure.

Continuing operations

CONSUMER ENERGY DIVISION

The sale of gas and electricity to customers consuming 15 RCEs and less is undertaken by the Consumer Energy division. Marketing of the energy products of this division is primarily done door-to-door through 1,200 independent contractors, the Momentis network marketing operation and Internet-based marketing and telemarketing efforts. Approximately 43% of Just Energy's customer base resides within the Consumer Energy division, which is currently focused on longer-term price-protected and variable rate offerings of commodity products and JustGreen. To the extent that certain markets are better served by shorter-term or enhanced variable rate products, the Consumer Energy's sales channels also offer these products. In addition, the Consumer Energy division has commenced marketing bundled products in Ontario and Texas, offering certain commodity products along with a smart thermostat.

Just Energy owns and operates Momentis, a network marketing company operating in Canada, the U.S. and the U.K. which is also included in the Consumer Energy segment disclosure. Independent representatives educate consumers about the benefits of energy deregulation and sell them products offered by Just Energy as well as a number of other products. Independent representatives are rewarded through commissions earned based on new customers added.

COMMERCIAL ENERGY DIVISION

Customers with annual consumption over 15 RCEs are served by the Commercial Energy division. These sales are made through three main channels: sales through the broker channel using the commercial platform acquired with the Hudson purchase; door-to-door commercial independent contractors; and inside commercial sales representatives. Commercial customers make up approximately 51% of Just Energy's customer base. Products offered to commercial customers can range from standard fixed-price offerings to "one off" offerings, which are tailored to meet the customer's specific needs. These products can be either fixed or floating rate or a blend of the two, and normally have terms of less than five years. Gross margin per RCE for this division is lower than consumer margins but customer aggregation costs and ongoing customer care costs are lower as well on a per RCE basis. Commercial customers tend to have combined attrition and failed-to-renew rates that are lower than those of consumer customers.

HOME SERVICES DIVISION

National Home Services provides Ontario and Quebec residential customers with a long-term water heater, furnace and air conditioning rental, offering high efficiency conventional and power vented tank and tankless water heaters and high efficiency furnaces and air conditioners. In addition, National Home Services has commenced marketing smart thermostats in Ontario. The thermostats are being sold independently in Ontario or also offered in a bundled product offering with the rental of air conditioners or furnaces. NHS customers make up approximately 6% of Just Energy's customer base. NHS markets through approximately 500 independent contractors in Ontario and Quebec.

SOLAR DIVISION

Hudson Energy Solar, a solar project development company operating in New Jersey, Pennsylvania and Massachusetts, brings renewable energy directly to consumers, enabling them to reduce their environmental impact and energy costs. HES installs solar systems on residential and commercial sites, maintaining ownership of the system and providing maintenance and monitoring of the system for a period of up to 20 years. HES sells the energy generated by the solar panels back to the customer. This division will contribute to operating metrics through commodity sales, renewable energy credit offset sales and tax incentives. As of September 30, 2013, the division has made cumulative commitments of approximately $106.9 million with the status of the associated projects ranging from contracted to completed.

ABOUT THE ENERGY MARKETS

NATURAL GAS

Just Energy offers natural gas customers a variety of products ranging from month-to-month variable-price offerings to five-year fixed-price contracts. For fixed-price contracts, Just Energy purchases gas supply through physical or financial transactions with market counterparts in advance of marketing, based on forecast customer aggregation for residential and small commercial customers. For larger commercial customers, gas supply is generally purchased concurrently with the execution of a contract. Variable rate products allow customers to maintain competitive rates while retaining the ability to lock into a fixed price at their discretion.

The LDC provides historical customer usage which, when normalized to average weather, enables Just Energy to purchase the expected normal customer load. Furthermore, Just Energy mitigates exposure to weather variations through active management of the gas portfolio, which involves, but is not limited to, the purchase of options including weather derivatives. Just Energy's ability to mitigate weather effects is limited by the severity of weather from normal. To the extent that balancing requirements are outside the forecast purchase, Just Energy bears the financial responsibility for fluctuations in customer usage. To the extent that supply balancing is not fully covered through active management or the options employed, Just Energy's customer gross margin may be reduced or increased depending upon market conditions at the time of balancing. Under some commercial contract terms, this balancing may be passed onto the customer.

Ontario, Quebec, British Columbia and Michigan

In Ontario, Quebec, British Columbia and Michigan, the volumes delivered for a customer typically remain constant throughout the year. Just Energy does not recognize sales until the customer actually consumes the gas. During the winter months, gas is consumed at a rate that is greater than delivery and, in the summer months, deliveries to LDCs exceed customer consumption. Just Energy receives cash from the LDCs as the gas is delivered, which is even throughout the year.

Alberta

In Alberta, the volume of gas delivered is based on the estimated consumption for each month. Therefore, the amount of gas delivered in winter months is higher than in the spring and summer months. Consequently, cash received from customers and the LDC will be higher in the winter months.

Other gas markets

In New York, Illinois, Indiana, Ohio, California, Georgia, New Jersey, Pennsylvania, Manitoba and Saskatchewan, the volume of gas delivered is based on the estimated consumption and storage requirements for each month. Therefore, the amount of gas delivered in winter months is higher than in the spring and summer months. Consequently, cash flow received from these states/provinces is greatest during the third and fourth (winter) quarters, as cash is normally received from the LDCs in the same period as customer consumption.

ELECTRICITY

In Ontario, Alberta, New York, Texas, Illinois, Pennsylvania, New Jersey, Maryland, Michigan, California, Ohio, Delaware, Massachusetts and the United Kingdom, Just Energy offers a variety of solutions to its electricity customers, including fixed-price and variable-price products on both short-term and longer-term electricity contracts. Some of these products provide customers with price-protection programs for the majority of their electricity requirements. Customers may experience either a small balancing charge or credit (pass-through) on each bill due to fluctuations in prices applicable to their volume requirements not covered by a fixed price. Just Energy uses historical usage data for all enrolled customers to predict future customer consumption and to help with long-term supply procurement decisions.

Just Energy purchases power supply through physical or financial transactions with market counterparties in advance of marketing to residential and small commercial customers based on forecast customer aggregation. Power supply is generally purchased concurrently with the execution of a contract for larger commercial customers. The LDC provides historical customer usage, which, when normalized to average weather, enables Just Energy to purchase to expected normal customer load. Furthermore, Just Energy mitigates exposure to weather variations through active management of the power portfolio, which involves, but is not limited to, the purchase of options including weather derivatives.

The Company's ability to mitigate weather effects is limited by the severity of weather from normal. In certain markets, to the extent that balancing requirements are outside the forecast purchase, Just Energy bears the financial responsibility for excess or short supply caused by fluctuations in customer usage. To the extent that supply balancing is not fully covered through customer pass-throughs or active management or the options employed, Just Energy's customer gross margin may be impacted depending upon market conditions at the time of balancing.

JUSTGREEN

Customers also have the ability to choose an appropriate JustGreen program to supplement their electricity and natural gas contracts, providing an effective method to offset their carbon footprint associated with the respective commodity consumption.

JustGreen programs for electricity customers involve the purchase of power from green generators (such as wind, solar, run of the river hydro or biomass) via power purchase agreements and renewable energy certificates. JustGreen programs for gas customers involve the purchase of carbon offsets from carbon capture and reduction projects.

The Company currently sells JustGreen gas in the eligible markets of Ontario, British Columbia, Alberta, Saskatchewan, Michigan, New York, Ohio, Illinois, New Jersey, Maryland, Pennsylvania and California. JustGreen electricity is sold in Ontario, Alberta, New York, Texas, Maryland, Massachusetts, Ohio and Pennsylvania. Of all consumer customers who contracted with Just Energy in the past year, 27% took JustGreen for some or all of their energy needs. On average, these customers elected to purchase 84% of their consumption as green supply. For comparison, as reported in the second quarter of fiscal 2013, 28% of consumer customers who contracted with Just Energy chose to include JustGreen for an average of 80% of their consumption. Overall, JustGreen now makes up 9% of the Consumer gas portfolio, down from 11% a year ago. JustGreen makes up 18% of the Consumer electricity portfolio, up from 11% a year ago.

Discontinued operations

ETHANOL DIVISION

Terra Grain Fuels ("TGF") is a 150-million-litre capacity ethanol plant located in Belle Plaine, Saskatchewan. The plant produces wheat-based ethanol and high protein distillers' dried grain ("DDG"). TGF was acquired in 2009 as part of the Universal acquisition. Since then, management has considered TGF to be a non-core division and management continued to operate based on the intention of the plant maintaining cash flow neutral operations at a minimum. In March 2013, Just Energy formally commenced the process to dispose of TGF. The business of TGF has been operating in an unpredictable product environment, making it difficult for management to derive real growth and profitability from the segment. It is expected that TGF will be divested by the end of fiscal 2014. TGF was classified as held for sale and as discontinued operations as of March 31, 2013. See page 26 for more information on the financial results from operations.

EBITDA

For the three months ended September 30
(thousands of dollars)

	Fiscal 2014	Fiscal 2013
Reconciliation to interim condensed consolidated statements of income (loss)		
Profit (loss) for the period from continuing operations	$ (114,395)	$ 23,964
Add:		
Finance costs	22,326	18,436
Provision for income taxes	3,671	6,895
Amortization	22,077	28,126
Profit (loss) attributable to non-controlling interest	208	509
EBITDA from continuing operations	$ (66,113)	$ 77,930
Add (subtract):		
Change in fair value of derivative instruments	103,784	(52,462)
Share-based compensation	1,464	3,156
Base EBITDA from continuing operations	$ 39,135	$ 28,624
EBITDA		
Gross margin per interim condensed consolidated financial statements	$ 128,500	$ 114,286
Add (subtract):		
Administrative expenses	(35,217)	(33,390)
Selling and marketing expenses	(47,962)	(50,268)
Bad debt expense	(11,883)	(7,714)
Amortization included in cost of sales/selling and marketing expenses	8,148	5,226
Other income	19	2,676
Proportionate share of loss from the joint venture	(2,678)	(2,701)
Profit attributable to non-controlling interest	208	509
Base EBITDA from continuing operations	$ 39,135	$ 28,624
Base EBITDA from continuing operations payout ratio	79%	155%
Dividends/distributions		
Dividends	$ 29,987	$ 43,206
Distributions for share-based awards	863	1,203
Total dividends/distributions	$ 30,850	$ 44,409

EBITDA

For the six months ended September 30
(thousands of dollars)

	Fiscal 2014	Fiscal 2013
Reconciliation to interim condensed consolidated statements of income (loss)		
Profit (loss) for the period from continuing operations	$ (154,165)	$ 356,508
Add:		
Finance costs	44,846	34,746
Provision for income taxes	7,829	39,592
Amortization	45,183	56,388
Profit attributable to non-controlling interest	333	342
EBITDA from continuing operations	$ (55,974)	$ 487,576
Add (subtract):		
Change in fair value of derivative instruments	120,943	(446,353)
Share-based compensation	3,301	6,388
Base EBITDA from continuing operations	$ 68,270	$ 47,611
EBITDA		
Gross margin per interim condensed consolidated financial statements	$ 247,914	$ 227,943
Add (subtract):		
Administrative expenses	(71,237)	(67,228)
Selling and marketing expenses	(100,382)	(108,834)
Bad debt expense	(21,715)	(16,354)
Amortization included in cost of sales/selling and marketing expenses	17,637	10,624
Other income	510	4,978
Proportionate share of loss from the joint venture	(4,790)	(3,860)
Profit attributable to non-controlling interest	333	342
Base EBITDA from continuing operations	$ 68,270	$ 47,611
Base EBITDA from continuing operations payout ratio	90%	187%
Dividends/distributions		
Dividends	$ 59,860	$ 86,403
Distributions for share-based awards	1,746	2,396
Total dividends/distributions	$ 61,606	$ 88,799

Base EBITDA differs from EBITDA in that the impact of the mark to market gains (losses) from the financial instruments is removed. This measure reflects operating profitability as mark to market gains (losses) are associated with supply already sold in the future at fixed prices. Just Energy ensures that the value of customer contracts is protected by entering into fixed-price supply contracts. Under IFRS, the value of the customer contracts is not marked to market but there is a requirement to mark to market the future supply contracts. This creates unrealized gains (losses) depending upon current supply pricing volatility. Management believes that these short-term mark to market non-cash gains (losses) do not impact the long-term financial performance of Just Energy.

Base EBITDA amounted to $39.1 million for the three months ended September 30, 2013, an increase of 37% from $28.6 million in the prior comparable quarter. Gross margin increased 12% overall with the increase coming primarily from the Consumer Energy and Home Services divisions. Gross margin from the Consumer Energy division increased by 21% while gross margin from the Home Services division increased by 55% over the prior comparable period. The increase in gross margin for the Consumer Energy division is a result of an increase in margins earned on variable products as well as the loss on sale of excess gas that occurred in the prior comparable period. The increase in gross margin for NHS is a result of the 37% increase in water heaters, furnace and air conditioner installations and contractual price increases. Commercial Energy and Solar divisions margins were $32.8 million and $0.7 million for the quarter, respectively, versus $38.0 million and $0.1 million in the prior comparable period. The decrease in gross margin for the Commercial Energy division is a result of higher capacity costs in the northeast U.S. markets, impacting customer profitability. The increase in gross margin for Solar is a result of the completion of projects over the past 12 months.

Administrative expenses increased by 5% from $33.4 million to $35.2 million. The increase over the prior comparable quarter was due to a 9% growth in the energy customer base as well as the NHS's 37% growth in installed water heater, air conditioner and furnace units. Administrative expenses were 2% lower than the first quarter of fiscal 2014.

Selling and marketing expenses for the three months ended September 30, 2013 were $48.0 million, a 5% decrease from $50.3 million reported in the prior comparable quarter. This decrease is attributable to the 6% decrease in customer additions for energy marketing.

Bad debt expense was $11.9 million for the three months ended September 30, 2013, an increase of 54% from $7.7 million recorded for the prior comparable quarter. The increase in bad debt expense is attributable to the 49% increase in revenue in the markets where Just Energy bears credit risk. For the six months ended September 30, 2013, the bad debt expense of $21.7 million represents approximately 2.1% of revenue in the jurisdictions where the Company bears the credit risk, down from the 2.3% of revenue reported for the six months ended September 30, 2012. This improving trend is attributable to improving economic conditions in the Company's key markets.

Dividends and distributions paid for the three months ended September 30, 2013 were $30.9 million, a decrease of 31% from the prior comparable quarter as a result of a reduction in the annual dividend from $1.24 to $0.84 effective with the April 2013 dividend. The payout ratio on Base EBITDA was 79% for the three months ended September 30, 2013 versus 155% in the second quarter of fiscal 2013.

For the six months ended September 30, 2013, Base EBITDA from continuing operations amounted to $68.3 million, an increase of 43% from $47.6 million in the prior comparable period. For the current six-month period, gross margin increased by 9%. Dividends and distributions for the six months ended September 30, 2013 were $61.6 million, a decrease of 31% from the prior comparable period. For the six months ended September 30, 2013, the payout ratio on Base EBITDA was 90%, compared with 187% in the prior comparable period.

For more information on the changes in the gross margin, please refer to "Segmented Base EBITDA" on page 18 and "Administrative expenses", "Selling and marketing expenses", "Bad debt expense" and "Finance costs", which are further clarified on pages 24 through 25.

EMBEDDED GROSS MARGIN

(millions of dollars)

Management's estimate of the future embedded gross margin is as follows:

	As at Sept. 30, 2013	As at June 30, 2013	Sept. vs. June 2013 variance	As at Sept. 30, 2012	2013 vs. 2012 variance
Energy marketing[1]	$ 1,668.5	$ 1,711.7	(3)%	$ 1,618.8	3%
Home Services	655.5	628.9	4%	510.7	28%
Total embedded gross margin	$ 2,324.0	$ 2,340.6	(1)%	$ 2,129.5	9%

[1] Energy marketing also includes embedded gross margin related to Hudson Energy Solar.

Management's estimate of the embedded gross margin amounted to $2,324.0 million as of September 30, 2013, a decrease of 1% over embedded gross margin as of June 30, 2013 and an increase of 9% over the last 12 months. The Canadian dollar strengthened against the U.S. dollar during the past quarter, resulting in a decrease of $25.1 million in embedded gross margin when the U.S. energy marketing future gross margin is stated in Canadian dollars. The 9% increase for the past year matches the 9% increase in customer base over the same period.

Embedded gross margin is shown to reflect the margin expected to be realized from existing customers. The measure of future gross margin is not discounted to present value nor is it intended to take into account administrative and other costs necessary to realize this margin.

Funds from Operations

For the three months ended September 30
(thousands of dollars)

	Fiscal 2014	Fiscal 2013
Cash inflow from operations	$ 15,818	$ (20,740)
Add (subtract):		
Increase in non-cash working capital	19,646	34,925
Cash flows used in operating activities of discontinued operations	(3,194)	(881)
Profits attributable to non-controlling interest	208	509
Tax adjustment	(484)	(307)
Funds from continuing operations	$ 31,994	$ 13,506
Less: maintenance capital expenditures	(3,176)	(900)
Base Funds from continuing operations	$ 28,818	$ 12,606
Base Funds from operations		
Gross margin from interim condensed consolidated financial statements	$ 128,500	$ 114,286
Add (subtract):		
Adjustment required to reflect net cash receipts from gas sales	12,319	1,312
Administrative expenses	(35,217)	(33,390)
Selling and marketing expenses	(47,962)	(50,268)
Bad debt expense	(11,883)	(7,714)
Current income tax recovery (provision)	(354)	(521)
Amortization included in cost of sales/sales and marketing expenses	8,148	5,226
Other income	19	2,676
Financing charges, non-cash	3,280	2,579
Finance costs	(22,326)	(18,436)
Proportionate share of loss from the joint venture	(2,678)	(2,701)
Other non-cash adjustments	148	457
Funds from continuing operations	$ 31,994	$ 13,506
Less: maintenance capital expenditures	(3,176)	(900)
Base Funds from continuing operations	$ 28,818	$ 12,606
Base Funds from continuing operations payout ratio	107%	352%

Funds from Operations

For the six months ended September 30
(thousands of dollars)

	Fiscal 2014	Fiscal 2013
Cash inflow from continuing operations	$ 37,192	$ 1,270
Add (subtract):		
Increase in non-cash working capital	13,118	13,694
Cash flows used in operating activities of discontinued operations	(2,603)	1,271
Profits attributable to non-controlling interest	333	342
Tax adjustment	(133)	1,040
Funds from continuing operations	$ 47,907	$ 17,617
Less: maintenance capital expenditures	(5,789)	(3,929)
Base Funds from continuing operations	$ 42,118	$ 13,688
Base Funds from continuing operations		
Gross margin from interim condensed consolidated financial statements	$ 247,914	$ 227,943
Add (subtract):		
Adjustment required to reflect net cash receipts from gas sales	18,162	483
Administrative expenses	(71,237)	(67,228)
Selling and marketing expenses	(100,382)	(108,834)
Bad debt expense	(21,715)	(16,354)
Current income tax recovery (provision)	(315)	(778)
Amortization included in cost of sales/sales and marketing expenses	17,637	10,624
Other income	510	4,978
Financing charges, non-cash	6,756	5,081
Finance costs	(44,846)	(34,746)
Proportionate share of loss from the joint venture	(4,790)	(3,860)
Other non-cash adjustments	213	308
Funds from continuing operations	$ 47,907	$ 17,617
Less: maintenance capital expenditures	(5,789)	(3,929)
Base Funds from continuing operations	$ 42,118	$ 13,688
Base Funds from continuing operations payout ratio	146%	649%

Base Funds from continuing operations, which represents Funds from continuing operations reduced by the maintenance capital expenditures, were $28.8 million, an increase of 129% compared with $12.6 million for the second quarter of fiscal 2013. The increase in the current quarter is due to the 37% increase in Base EBITDA from continuing operations compared to lower increases in finance costs and cash taxes. For the six months ended September 30, 2013, Base Funds from continuing operations were $42.1 million, compared to $13.7 million in the prior comparable period.

The payout ratio on Base Funds from continuing operations was 107% for the three months ended September 30, 2013, down sharply from 352% in the second quarter of fiscal 2013. For the six months ended September 30, 2013, the payout ratio was 146%, significantly improved from 649% in the prior comparable period. The first and second quarters are traditionally the lowest earning quarters and, therefore, result in the highest payout ratios, typically over 100%.

Summary of quarterly results for continuing operations

(thousands of dollars, except per share amounts)

	Q2 fiscal 2014	Q1 fiscal 2014	Q4 fiscal 2013	Q3 fiscal 2013
Sales	$ 853,013	$ 746,123	$ 907,275	$ 736,562
Gross margin	128,500	119,414	157,655	140,270
Administrative expenses	35,217	36,020	36,739	34,888
Selling and marketing expenses	47,962	52,420	49,277	49,918
Finance costs	22,326	22,520	22,221	18,184
Profit (loss) for the period from continuing operations	(114,395)	(39,770)	203,391	41,806
Profit (loss) for the period	(111,520)	(41,949)	137,691	40,238
Profit (loss) for the period from continuing operations per share – basic	(0.80)	(0.28)	1.45	0.30
Profit (loss) for the period from continuing operations per share – diluted	(0.80)	(0.28)	1.36	0.29
Dividends/distributions paid	30,850	30,756	44,965	44,636
Base EBITDA from continuing operations	39,135	29,135	72,309	55,160
Base Funds from continuing operations	28,818	13,300	47,314	35,897
Payout ratio on Base EBITDA from continuing operations	79%	106%	62%	81%
Payout ratio on Base Funds from continuing operations	107%	231%	95%	124%

	Q2 fiscal 2013	Q1 fiscal 2013	Q4 fiscal 2012	Q3 fiscal 2012
Sales	$ 713,190	$ 657,337	$ 827,435	$ 733,134
Gross margin	114,286	113,657	170,651	140,941
Administrative expenses	33,390	33,838	32,143	29,882
Selling and marketing expenses	50,268	58,566	58,580	48,866
Finance costs	18,436	16,310	14,854	14,757
Profit (loss) for the period from continuing operations	23,964	332,544	(75,640)	(100,636)
Profit (loss) for the period	23,087	328,639	(76,895)	(97,386)
Profit (loss) for the period from continuing operations per share – basic	0.17	2.39	(0.55)	(0.72)
Profit (loss) for the period from continuing operations per share – diluted	0.17	2.00	(0.55)	(0.72)
Dividends/distributions paid	44,409	44,390	44,152	43,934
Base EBITDA from continuing operations	28,624	18,987	77,677	59,938
Base Funds from continuing operations	12,606	1,082	54,598	44,972
Payout ratio on Base EBITDA from continuing operations	155%	234%	57%	73%
Payout ratio on Base Funds from continuing operations	352%	NMF[1]	81%	98%

[1] Not a meaningful figure

Just Energy's results reflect seasonality, as electricity consumption is slightly greater in the first and second quarters (summer quarters) and gas consumption is significantly greater during the third and fourth quarters (winter quarters). While quarter over quarter comparisons are relevant, sequential quarters will vary materially. The main impact of this will be higher Base EBITDA and Base Funds from operations and lower payout ratios in the third and fourth quarters and lower Base EBITDA and Base Funds from operations and higher payout ratios in the first and second quarters. This impact is lessening as current net customer additions are concentrated in electricity, which traditionally experiences less seasonality than natural gas.

ANALYSIS OF THE SECOND QUARTER

Sales increased by 20% quarter over quarter to $853.0 million from $713.2 million. Consumer Energy's sales increased by 34% primarily as a result of additional revenue earned in the Consumer Energy division's electricity markets. The sales for this period and past periods have been restated to reflect a change in the recognition of revenue to include transmission/distribution changes in Texas. Traditionally, Just Energy has passed these costs through to the consumer customer directly and, therefore, these changes were recorded on the statement of financial changes only. However, these costs are now included in the base price included in contract offerings and, therefore, will be included in revenue and cost of sales.

Commercial Energy sales increased by 6% for the three months ended September 30, 2013 compared with the second quarter of fiscal 2013, which was below the 15% increase in the customer base due to lower prices on commercial contracts during the past 12 months. NHS sales increased by 52% reflecting a 37% increase in installed units as well as contractual price increases.

Gross margin was $128.5 million, an increase of 12% from the prior comparable quarter. The growth in gross margin from Consumer Energy and NHS was offset somewhat by lower gross margin contributions from Commercial Energy. The Commercial Energy margins were compressed versus the prior comparable quarter due to an increase in capacity costs in northeastern U.S. markets. Historically these costs have been lower and relatively stable. In the past year, these costs have increased significantly, thereby compressing margins. Going forward, the Company is expanding the product suite to offer options that pass these costs onto the customer as well as more closely align Just Energy's hedging strategies with its obligations. This is expected to mitigate future impact to gross margin.

The change in fair value of derivative instruments due to lower forward electricity and natural gas prices resulted in a loss of $103.8 million for the current quarter, compared to a gain of $52.5 million recorded in the second quarter of fiscal 2013. The loss from continuing operations for the three months ended September 30, 2013 was $114.4 million, representing a loss per share of $0.80 on a basic and diluted basis. For the prior comparable quarter, the profit from continuing operations was $24.0 million, representing earnings per share of $0.17 on a basic and diluted basis. The fair value of derivative instruments represents the mark to market of future commodity supply acquired to cover future customer demand. The supply has been sold to customers in the future at fixed prices, minimizing any impact of mark to market gains and losses.

Base EBITDA from continuing operations was $39.1 million for the three months ended September 30, 2013, a 37% increase from $28.6 million in the prior comparable quarter. Base Funds from continuing operations were $28.8 million for the current quarter, an increase of 129% from $12.6 million recorded for the three months ended September 30, 2012. Both increases are primarily a result of higher gross margin contribution from the Energy Marketing and Home Services divisions and lower selling and marketing expenses.

Dividends/distributions paid were $30.9 million, a decrease of 31% over the prior comparable quarter as a result of the change in annual dividend rate from $1.24 to $0.84 effective April 2013. The payout ratio on Base EBITDA from continuing operations was 79% for the three months ended September 30, 2013, compared with 155% in the prior comparable quarter. The payout ratio on Base Funds from continuing operations was 107% for the three months ended September 30, 2013, significantly lower than the 352% a year prior due to cash flow growth of the business and a lower dividend rate.

Segmented Base EBITDA[1]

For the three months ended September 30

					Fiscal 2014
	Consumer division	Commercial division	Home Services division	Solar division	Consolidated
Gross margin per interim condensed consolidated financial statements	$ 80,765	$ 32,750	$ 14,282	$ 703	$ 128,500
Add (subtract):					
Administrative expenses	(21,613)	(7,741)	(5,638)	(225)	(35,217)
Selling and marketing expenses	(33,993)	(11,422)	(2,547)	–	(47,962)
Bad debt expense	(9,440)	(2,424)	(19)	–	(11,883)
Amortization included in cost of sales/selling and marketing expenses	–	3,827	3,918	403	8,148
Other income (loss)	108	(89)	–	–	19
Proportionate share of loss from joint venture	(2,678)	–	–	–	(2,678)
Profit attributable to non-controlling interest	208	–	–	–	208
Base EBITDA from continuing operations	$ 13,357	$ 14,901	$ 9,996	$ 881	$ 39,135

					Fiscal 2013
	Consumer division	Commercial division	Home Services division	Solar division	Consolidated
Gross margin per interim condensed consolidated financial statements	$ 66,901	$ 38,031	$ 9,236	$ 118	$ 114,286
Add (subtract):					
Administrative expenses	(21,742)	(6,921)	(4,231)	(496)	(33,390)
Selling and marketing expenses	(34,952)	(14,045)	(1,271)	–	(50,268)
Bad debt expense	(5,369)	(2,309)	(36)	–	(7,714)
Amortization included in cost of sales/selling and marketing expenses	–	2,660	2,566	–	5,226
Other income (loss)	2,649	27	(2)	2	2,676
Proportionate share of loss from joint venture	(2,701)	–	–	–	(2,701)
Minority interest	509	–	–	–	509
Base EBITDA from continuing operations	$ 5,295	$ 17,443	$ 6,262	$ (376)	$ 28,624

[1] The definitions of each segment are provided on page 9.

Segmented Base EBITDA[1]

For the six months ended September 30

					Fiscal 2014
	Consumer division	Commercial division	Home Services division	Solar division	Consolidated
Gross margin per interim condensed consolidated financial statements	$ 151,081	$ 68,368	$ 27,267	$ 1,198	$ 247,914
Add (subtract):					
Administrative expenses	(43,953)	(15,209)	(11,050)	(1,025)	(71,237)
Selling and marketing expenses	(65,771)	(28,511)	(6,100)	–	(100,382)
Bad debt expense	(17,004)	(4,672)	(39)	–	(21,715)
Amortization included in cost of sales/selling and marketing expenses	–	8,599	7,912	1,126	17,637
Other income (loss)	668	(158)	–	–	510
Proportionate share of loss from joint venture	(4,790)	–	–	–	(4,790)
Profit attributable to non-controlling interest	333	–	–	–	333
Base EBITDA from continuing operations	$ 20,564	$ 28,417	$ 17,990	$ 1,299	$ 68,270

					Fiscal 2013
	Consumer division	Commercial division	Home Services division	Solar division	Consolidated
Gross margin per interim condensed consolidated financial statements	$ 134,244	$ 75,862	$ 17,715	$ 122	$ 227,943
Add (subtract):					
Administrative expenses	(44,409)	(13,644)	(8,023)	(1,152)	(67,228)
Selling and marketing expenses	(78,264)	(28,218)	(2,352)	–	(108,834)
Bad debt expense	(12,074)	(4,238)	(42)	–	(16,354)
Amortization included in cost of sales/selling and marketing expenses	–	5,233	5,391	–	10,624
Other income (loss)	3,303	(25)	–	1,700	4,978
Proportionate share of loss from joint venture	(3,860)	–	–	–	(3,860)
Profit attributable to non-controlling interest	342	–	–	–	342
Base EBITDA from continuing operations	$ (718)	$ 34,970	$ 12,689	$ 670	$ 47,611

[1] The definitions of each segment are provided on page 9.

Base EBITDA from continuing operations amounted to $39.1 million for the three months ended September 30, 2013, an increase of 37% from $28.6 million in the prior comparable quarter. Consumer Energy contributed $13.4 million to Base EBITDA from continuing operations for the second quarter, an increase from $5.3 million in the three months ended September 30, 2012. The large increase was a result of two main factors: margins realized during the second quarter of fiscal 2013 were adversely impacted by a large volume of utility financial reconciliations from the prior year's winter warm weather; and realized fiscal 2014 margin/RCE were higher due to efforts by management to maximize gross margin earned in key U.S. markets. Consumer administrative costs were also down 1% in the current quarter, reflecting continued cost management efforts. Consumer selling and marketing expenses were down 3% primarily due to a slight decrease in customers added.

Commercial Energy contributed $14.9 million to Base EBITDA from continuing operations, a decrease of 15% from the three months ended September 30, 2012, when the segment contributed $17.4 million. The decrease is a result of lower margins due to competitive pricing pressures in major markets and higher capacity costs in the northeast U.S. offset by lower net selling and marketing expenses due to 10% lower gross adds in the current quarter. Administrative costs were up 12% largely due to the 15% increase in Commercial customers year over year, slightly offset by economies of scale.

NHS contributed $10.0 million to Base EBITDA for the second quarter of fiscal 2014, an increase of 60% from $6.3 million in the prior comparable quarter due to an increase in gross margin from the 37% increase in its customer base and contractual price increases. HES contributed $0.9 million to Base EBITDA for the current quarter, compared with a loss of $0.4 million contributed in the second quarter of fiscal 2013, due to the completion and resultant cash flow of a number of solar projects during the past 12 months.

For the six months ended September 30, 2013, Base EBITDA from continuing operations was $68.3 million, an increase of 43% from $47.6 million recorded in the first half of fiscal 2013. The increase over the prior comparable period reflects higher Base EBITDA from Consumer Energy with $20.6 million recorded year to date versus a loss of $0.7 million for the six months ending September 30, 2012. The increase is a result of a 13% increase in gross margin and a 16% decrease in selling and marketing expenses.

For further information on each division, please refer to "Energy Marketing" on page 21, "Home Services division" and "Solar division" on page 23.

Customer aggregation

	July 1, 2013	Additions	Attrition	Failed to renew	Sept. 30, 2013	% increase (decrease)	Sept. 30, 2012	% increase (decrease)
Consumer Energy								
Gas	785,000	45,000	(44,000)	(15,000)	771,000	(2)%	819,000	(6)%
Electricity	1,207,000	119,000	(95,000)	(25,000)	1,206,000	0%	1,171,000	3%
Total Consumer RCEs	1,992,000	164,000	(139,000)	(40,000)	1,977,000	(1)%	1,990,000	(1)%
Commercial Energy								
Gas	213,000	11,000	(4,000)	(15,000)	205,000	(4)%	206,000	0%
Electricity	2,097,000	149,000	(28,000)	(78,000)	2,140,000	2%	1,828,000	17%
Total Commercial RCEs	2,310,000	160,000	(32,000)	(93,000)	2,345,000	2%	2,034,000	15%
Total Energy Marketing RCEs	4,302,000	324,000	(171,000)	(133,000)	4,322,000	0%	4,024,000	7%
Home Services								
Water heaters	224,000	12,000	–	–	236,000	5%	174,000	36%
Air conditioners/ Furnaces	19,000	1,000	–	–	20,000	5%	13,000	54%
Smart thermostats[1]	15,000	4,000	–	–	19,000	27%	–	–
Total installs	258,000	17,000	–	–	275,000	7%	187,000	47%
Combined RCEs and installs	4,560,000	341,000	(171,000)	(133,000)	4,597,000	1%	4,211,000	9%

[1] Of the smart thermostat installations as of September 30, 2013, 58% were bundled with energy or furnace contracts and the remaining 42% were sold as stand-alone units.

Gross customer additions for the quarter were 341,000, a decrease of 4% from the 354,000 customers added in the second quarter of fiscal 2013. This total includes customer additions from both energy marketing and from National Home Services. In addition to these new customers added, Just Energy renewed 224,000 existing customers during the quarter.

Gross energy marketing customer additions for the quarter were 324,000, a decrease of 6% from the 344,000 customers added in the second quarter of fiscal 2013. Net additions were 20,000 for the quarter. The smaller number of additions was largely a result of lower customer aggregation by the Commercial division in an attempt to ensure that customers meet the Company's margin expectations. This has resulted in redeployment of resources toward markets with a stronger customer value proposition. The Company is currently reviewing its active customer base to ensure that profitability levels of products support our earnings profile, which may lead to a period of lower renewal rates and gross additions.

NHS installed 12,000 water heaters and 1,000 air conditioners and furnaces in the second quarter of fiscal 2014, compared with 9,000 water heaters and 1,000 air conditioner and furnace units installed in the prior comparable quarter. The increase in installations is due to expansion into the province of Quebec, a market that NHS had not yet entered in the prior comparable quarter.

Consumer customer additions amounted to 164,000 for the second quarter of fiscal 2014, a 1% decrease from 166,000 gross customer additions recorded in the prior comparable quarter. Commercial customer additions were 160,000 for the current quarter, a 10% decrease from 178,000 gross customer additions in the prior comparable quarter. Included in the consumer energy customer base is 9,000 smart thermostat customers bundled with a commodity contract. This is a growing segment of Just Energy's business and represents increased economic value to the Company with lower attrition profile. The sale of this product is currently being marketed in Texas and Ontario.

For the three months ended September 30, 2013, 31% of total consumer and commercial energy marketing customer additions were generated from door-to-door sales, 40% from commercial brokers and 29% from Internet based and other non-door-to-door channels. Prior to the acquisition of Hudson Energy in fiscal 2011, the vast majority of customer additions were generated door-to-door.

The Consumer Energy customer base decreased by 1% over the past three months and was effectively unchanged from a year earlier. The Commercial customer base increased by 2% during the second quarter of fiscal 2014 and 15% from a year earlier.

The new U.K. operations generated 15,000 customer additions in the quarter, the highest number of customers added since the market entry in July 2012.

As of September 30, 2013, the U.S., Canadian and U.K., segments accounted for 73%, 26% and 1% of the energy marketing customer base, respectively. At the end of the prior comparable quarter, the U.S. and Canadian segments represented 70% and 30% of the energy marketing customer base, respectively.

ATTRITION

	Trailing 12-month attrition Sept. 30, 2013	Trailing 12-month attrition Sept. 30, 2012
Consumer	24%	21%
Commercial	4%	8%
Total attrition – Consumer & Commercial divisions	13%	14%

The combined attrition rate for Just Energy was 13% for the trailing 12 months ended September 30, 2013, a decrease from the 14% overall rate reported a year prior. This decrease in attrition levels is primarily attributable to improved attrition in the Commercial Energy division's gas and electricity markets. The attrition in the Consumer Energy division's gas markets remained consistent year over year while the electricity attrition increased by 8% as the Company remains focused on ensuring that all customers meet base profitability profiles even if this results in higher attrition of low margin or variable rate customers.

RENEWALS

	Trailing 12-month renewal Sept. 30, 2013	Trailing 12-month renewal Sept. 30, 2012
Consumer	76%	67%
Commercial	70%	70%
Total renewals – Consumer and Commercial divisions	72%	70%

The Just Energy renewal process is a multifaceted program that aims to maximize the number of customers who choose to renew their contract prior to the end of their existing contract term. Efforts begin up to 15 months in advance, allowing a customer to renew for an additional period. Overall, the renewal rate was 72% over the last 12 months, compared to management's targeted renewal rates of 70% realized a year earlier.

The renewal rates for the Consumer Energy improved to 76%, up from 67% a year earlier. This increase reflects an improved renewal environment with the steady movement of existing customer prices towards current market prices.

Renewal rates for the Commercial division were 70%, the same as the prior comparable quarter. Renewal rates for commercial customers are expected to be more volatile than those of consumer customers as a commercial renewal is often a function of a competitive bid process and these customers regularly change suppliers.

ENERGY CONTRACT RENEWALS

This table shows the percentage of customers up for renewal in each of the following fiscal periods:

	Consumer		Commercial	
	Gas	Electricity	Gas	Electricity
Remainder of 2014	10%	11%	18%	18%
2015	19%	29%	27%	32%
2016	17%	17%	23%	24%
2017	15%	13%	14%	12%
Beyond 2017	39%	30%	18%	14%
Total	100%	100%	100%	100%

Note: All month-to-month customers, which represent 422,000 RCEs, are excluded from the table above.

Energy marketing

GROSS MARGIN

For the three months ended September 30
(thousands of dollars)

	Fiscal 2014			Fiscal 2013		
	Consumer	Commercial	Total	Consumer	Commercial	Total
Gas	$ 10,570	$ 299	$ 10,869	$ 5,512	$ (111)	$ 5,401
Electricity	69,626	32,451	102,077	56,851	38,142	94,993
Network marketing (non-energy)	569	–	569	4,538	–	4,538
	$ 80,765	$ 32,750	$ 113,515	$ 66,901	$ 38,031	$ 104,932
Increase (decrease)	21%	(14)%	8%			

For the six months ended September 30
(thousands of dollars)

	Fiscal 2014			Fiscal 2013		
	Consumer	Commercial	Total	Consumer	Commercial	Total
Gas	$ 25,355	$ 6,343	$ 31,698	$ 17,024	$ 3,030	$ 20,054
Electricity	124,918	62,025	186,943	105,107	72,832	177,939
Network marketing (non-energy)	808	–	808	12,113	–	12,113
	$ 151,081	$ 68,368	$ 219,449	$ 134,244	$ 75,862	$ 210,106
Increase (decrease)	13%	(10)%	4%			

CONSUMER ENERGY

Gross margin for the Consumer Energy division was $80.8 million, an increase of 21% from the $66.9 million recorded in the prior comparable quarter. The gross margin for gas and electricity increased by 92% and 22%, respectively, with these increases being offset by the $4.0 million decline in network marketing non-energy gross margin. These non-energy margins are largely derived from initial sign-up revenue from new independent representatives, where additions have been lower in the current year. The prior comparable quarter was during a period of high growth for Momentis with the intention of building a significant base of independent representatives.

For the first half of fiscal 2014, gross margin for the Consumer Energy division was $151.1 million, an increase of 13% from $134.2 million recorded for the six months ended September 30, 2012. The gross margin contribution from the gas and electricity markets increased by 49% and 19%, respectively.

Average realized gross margin for the Consumer Energy division after all balancing costs for the rolling 12 months ended September 30, 2013 was $170/RCE representing an increase from $163/RCE reported in the prior comparable quarter. The GM/RCE value includes an appropriate allowance for bad debt expense in Illinois, Texas, Georgia, Michigan, Pennsylvania and Massachusetts.

Gas

Gross margin from gas customers in the Consumer Energy division was $10.6 million for the three months ended September 30, 2013, an increase of 92% from $5.5 million recorded in the prior comparable quarter. Gross margin increased despite the 6% decrease in customer base during the past year. Instead, the increase is because of the impact of the warmest winter on record (fiscal 2012) on the prior comparable quarter. For the gas markets, when consumption is lower than expected (as was the case in the winter of 2011/2012), there are additional financial reconciliations, which impact gross margin primarily in the subsequent two quarters. For the current quarter, there was minimal impact from financial reconciliation as the previous winter (fiscal 2013) was close to normal.

For the first half of fiscal 2014, the gross margin contribution from the gas markets increased by 49% over the prior comparable period to $25.4 million despite the decrease in customer base, as a result of the negative impact from financial reconciliations in the first half of fiscal 2013.

Electricity

Gross margin from electricity customers in the Consumer Energy division was $69.6 million for the three months ended September 30, 2013, an increase of 22% from $56.9 million recorded in the prior comparable quarter. While the customer base only increased by 3% over the past year, the gross margin was favourably impacted by attractive pricing on variable rate and JustGreen products throughout the U.S. markets. In addition, electricity gross margin increased in Texas as a result of additional fee-based revenue based on the recovery of certain costs to serve.

For the six months ended September 30, 2013, gross margin from electricity markets increased 19% to $124.9 million. This increase is due to the growth in customer base as well as higher margins earned in the U.S. markets.

Network marketing (non-energy)

Gross margin from network marketing was $0.6 million for the three months ended September 30, 2013, compared with $4.5 million recorded in the second quarter of fiscal 2013. The decrease in gross margin relates to lower sign-up revenue as fewer independent representatives joined Momentis. Energy-related gross margin from Momentis sales is included in gas and/or electricity as applicable for the Consumer Energy or Commercial Energy divisions.

COMMERCIAL ENERGY

Gross margin for the Commercial Energy division was $32.8 million, a decrease of 14% from the $38.0 million recorded in the prior comparable quarter. The Commercial Energy customer base increased by 15% during the past year; however, realized gross margins were lower per RCE due to competitive pricing pressure and higher capacity charges in the northeast U.S. states.

For the first half of fiscal 2014, gross margin for Commercial Energy was $68.4 million, a decrease of 10% from $75.9 million recorded for the six months ended September 30, 2012. The gross margin contribution from gas markets for the six months ended September 20, 2013 increased by 109% while the contribution from the electricity market was 15% lower than the prior comparable period.

Average realized gross margin after all balancing costs for the rolling 12 months ended September 30, 2013 was $70/RCE, a decrease from $103/RCE due largely to the impact to gross margin from higher capacity costs for electricity customers. The GM/RCE value includes an appropriate allowance for bad debt expense in Illinois, Texas, Georgia, Michigan and California.

Gas

Gas gross margin for the Commercial Energy division was $0.3 million, up from a loss of $0.1 million for the three months ended September 30, 2013, resulting in an increase of $0.4 million, although the gas customer base remained relatively consistent year over year. The increase in gross margin was due to the financial reconciliations associated with the lower consumption in the warm weather experienced during the 2011/2012 winter months. The higher fiscal 2014 gross margin reflects contracted prices with no weather-related balancing as a result of normal weather during the 2012/2013 winter months.

For the first half of fiscal 2014, the gross margin contribution from the gas markets increased by 109% over the prior comparable period to $6.3 million primarily due to the negative impact from financial reconciliations in fiscal 2013.

Electricity

Electricity gross margin for the Commercial Energy division was $32.5 million, a decrease of 15% from the $38.1 million recorded in the prior comparable quarter. The electricity customer base has increased by 17% over the past year. Despite this increase, the gross margin realized in the current quarter was compressed in comparison with the second quarter of fiscal 2013 due to the competitive pricing pressure reducing margin for new customers added. In addition, gross margins were further compacted by increased capacity costs in the northeastern U.S., the same issue that has impacted electricity margins for the past two quarters. Going forward, the Company is structuring its contracts to pass these costs on to the customer as well as better hedge capacity costs to mitigate future impact to gross margin.

For the first half of fiscal 2014, gross margin for the Commercial electricity markets was $62.0 million, a decrease of 15% from $72.8 million recorded in the six months ended September 30, 2012. The gross margin contribution decreased due to the continuing higher capacity costs experienced for the past three quarters.

Gross margin earned through marketing efforts

The table below depicts the annual margins on contracts of consumer and commercial customers signed during the quarter. This table reflects all margin earned on new additions and renewals including both the brown commodity and JustGreen.

ANNUAL GROSS MARGIN PER CUSTOMER[1]

	Q2 Fiscal 2014	Number of customers	Q2 Fiscal 2013	Number of customers
Consumer customers added and renewed in the period	$ 168	280,000	$ 183	218,000
Consumer customers lost in the period	178	178,000	177	163,000
Commercial customers added and renewed in the period	72	268,000	71	230,000
Commercial customers lost in the period	83	126,000	50	134,000

[1] Customer sales price less cost of associated supply and allowance for bad debt.

For the three months ended September 30, 2013, the average gross margin per RCE for the customers added and renewed by the Consumer Energy division was $168/RCE, a decrease from $183/RCE in the prior comparable period. The average gross margin per RCE for the consumer customers lost during the three months ended September 30, 2013 was $178/RCE, compared with $177/RCE in the three months ended September 30, 2012. Lower new customer margins reflect market conditions in the Company's active markets.

For the Commercial Energy division, the average gross margin per RCE for the customers signed during the three months ended September 30, 2013 was $72/RCE, a slight increase from $71/RCE in the prior comparable period. Commercial additions were lower as management is focused on increasing the future margin contribution per RCE from commercial customers. Customers lost through attrition and failure to renew during the three months ended September 30, 2013 were at an average gross margin of $83/RCE, compared with $50/RCE lost in the prior comparable period. The prior comparable quarter reflects a large, low-margin customer that failed to renew.

Home Services division ("NHS")

NHS provides Ontario residential customers with long-term water heater rental programs that offer conventional tanks, power vented tanks and tankless water heaters in a variety of sizes as well as high efficiency furnaces and air conditioners.

As NHS is a high growth, relatively capital-intensive business, Just Energy's management believes that, in order to maintain stability of cash flows, separate non-recourse financing of this capital is appropriate. NHS entered into a long-term financing agreement with Home Trust Company ("HTC") for the funding of the water heaters, furnaces and air conditioners.

Management's strategy for NHS is to self-fund the business through its growth phase, building value within the customer base. This way, NHS will not require significant cash from Just Energy's core operations nor will Just Energy rely on NHS's cash flow to fund its capital requirements. The result will be an asset that will generate strong cash returns following repayment of the HTC financing.

The average water heater contract is for a period of 15 years with the average all-in cost of an installation being approximately $1,000. Under the HTC agreement, NHS receives funds equal to the amount of the five-, seven- or ten-year cash flow (at its option) of the water heater, furnace and air conditioner contracts discounted at the contracted rate, which is currently 7.99%. The loan amount per unit from HTC exceeds the full installation costs of the unit regardless of term. HTC is then paid an amount that is approximately equal to the customer rental payments (excluding annual contractual rate increases) on the water heaters for the next five, seven or ten years as applicable. This funding is used for the upfront capital costs, billing and other general operating costs during the first five, seven or ten years.

The embedded gross margin within the NHS contracts grew 28% to $655.5 million during the past 12 months and up 4% from $628.9 million as at June 30, 2013.

Just Energy has started selling smart thermostats through its Consumer Energy and Home Services divisions. The thermostats are currently being marketed through a cross-sell opportunity to Just Energy's existing customer base in Ontario and Texas as well as in bundled product offerings with commodity or furnace rentals. This new initiative was launched late in fiscal 2013 with approximately 19,000 installations completed as of September 30, 2013. The majority of the installations have been through cross-sell opportunities with Consumer Energy customers. To date, the sale of thermostats has resulted in lower customer attrition with bundled products than that experienced with customers purchasing only a single product.

RESULTS FROM OPERATIONS

For the three months ended September 30, 2013, NHS had sales of $18.2 million and gross margin of $14.3 million, an increase of 52% and 55%, respectively, from $12.0 million in sales and $9.2 million gross margin reported in the prior comparable quarter. The increase in sales was due to the growth in customer base. The higher growth of sales versus installed customers reflects the growth of furnace and air conditioner installations on an annual basis as well as an increase in rates. Revenue associated with furnace and air conditioner installations is approximately 2.4 times that of a water heater unit. Administrative costs, which relate primarily to administrative staff compensation and warehouse expenses, were $5.6 million for the three months ended September 30, 2013, an increase of 33% quarter over quarter due to the 37% increase in installed units.

Base EBITDA for the Home Services division for the second quarter of fiscal 2014 amounted to $10.0 million, an increase of 60% from $6.3 million in the prior comparable quarter. This increase is attributable to the increase in gross margin offset by higher administrative expenses.

Finance costs amounted to $5.0 million for the three months ended September 30, 2013, a 50% increase from $3.3 million expensed during the second quarter of fiscal 2013. As at September 30, 2013, the balance of NHS financing outstanding was $272.2 million, with an average term of six years.

For the six months ended September 30, 2013, NHS had sales of $35.0 million and gross margin of $27.3 million, an increase of 53% and 54%, respectively, from $22.9 million and $17.7 million in the prior comparable period. For the six months ended September 30, 2013, finance costs were $9.9 million, an increase of 56% from $6.3 million in the prior comparable period. The Home Services division achieved Base EBITDA of $18.0 million for the six months ended September 30, 2013, an increase of 42% from $12.7 million in the prior comparable period.

Solar division

Hudson Energy Solar installs solar systems on residential and commercial sites, maintaining ownership of the system and providing maintenance and monitoring of the system for a period of up to 20 years. HES has entered into a number of financing arrangements in order to support the capital-intensive costs to install the solar systems. Just Energy benefits from this division by the revenue generated by the PPAs and SRECs as well as the various tax incentives supporting green energy, including accelerated depreciation.

Base EBITDA generated by the HES division amounted to $0.9 million for the three months ended September 30, 2013. Gross margin generated by the Solar division amounted to $0.7 million and represents proceeds from PPAs related to completed sites, as well as SRECs.

For the six months ended September 30, 2013, Base EBITDA was $1.3 million, an increase of 94% from $0.7 million in the prior comparable period. The increase is attributable to the completion of a number of projects over the past 12 months.

As at September 30, 2013, the division has made commitments of $106.9 million, with project statuses ranging from contracted to completed.

Overall consolidated results from continuing operations

ADMINISTRATIVE EXPENSES

	Three months ended Sept. 30, 2013	Three months ended Sept. 30, 2012	% increase (decrease)	Six months ended Sept. 30, 2013	Six months ended Sept. 30, 2012	% increase (decrease)
Consumer Energy	$ 21,613	$ 21,742	(1)%	$ 43,953	$ 44,409	(1)%
Commercial Energy	7,741	6,921	12%	15,209	13,644	11%
Home Services	5,638	4,231	33%	11,050	8,023	38%
Solar	225	496	(55)%	1,025	1,152	(11)%
Total administrative expenses	$ 35,217	$ 33,390	5%	$ 71,237	$ 67,228	6%

The Consumer Energy administrative expenses were $21.6 million, slightly lower compared with the second quarter of fiscal 2013, reflecting continued cost management efforts. Commercial Energy administrative costs were up 12% largely due to the 15% year over year increase in Commercial customers offset by economies of scale. Combined, the energy marketing related administrative expenses were higher by 2% while the customer base increased by 7% quarter over quarter.

For the three months ended September 30, 2013, administrative expenses for NHS increased by 33% to $5.6 million. The increase in expenses for the Home Services division is a result of servicing costs to support the 37% larger installed base.

Management is focused on the management of Just Energy's administrative expenses and ensuring the continued achievement of economies of scale with its growth. Just Energy is working to streamline processes and reporting structures with the intent of removing overhead costs where appropriate. Overall administrative costs were $35.2 million in the second quarter of fiscal 2014, 2% lower than administrative costs of $36.0 million in the first quarter of fiscal 2014 and 4% lower than the $36.7 million of costs recorded in the fourth quarter of fiscal 2013. The reduced run rate is a trend expected to continue despite anticipated customer growth.

For the six months ended September 30, 2013, administrative expenses were $71.2 million, an increase of 6% over the $67.2 million of administrative expenses recorded in the prior comparable period. The increase in administrative costs is directly attributable to the increase in customer base in the Commercial and Home Services divisions.

SELLING AND MARKETING EXPENSES

	Three months ended Sept. 30, 2013	Three months ended Sept. 30, 2012	% increase (decrease)	Six months ended Sept. 30, 2013	Six months ended Sept. 30, 2012	% increase (decrease)
Consumer Energy	$ 33,993	$ 34,952	(3)%	$ 65,771	$ 78,264	(16)%
Commercial Energy	11,422	14,045	(19)%	28,511	28,218	1%
Home Services	2,547	1,271	100%	6,100	2,352	159%
Total selling and marketing expenses	$ 47,962	$ 50,268	(5)%	$ 100,382	$ 108,834	(8)%

Selling and marketing expenses, which consist of commissions paid to independent sales contractors, brokers and independent representatives as well as sales-related corporate costs, were $48.0 million, a decrease of 5% from $50.3 million in the second quarter of fiscal 2013. Energy marketing customer additions decreased by 6% for the current quarter, compared with the three months ended September 30, 2012. For the six months ended September 30, 2013, the selling and marketing expenses were $100.4 million, a decrease of 8% from $108.8 million recorded in the prior comparable period. Energy marketing customer additions for the first half of fiscal 2014 were 688,000, an increase of 1% from the 682,000 energy marketing customer additions recorded in the six months ended September 30, 2012. The decrease in selling and marketing costs year over year is a reflection of a variation in the sales channels, with the increasing use of lower cost sales channels and more residual commission-based sales channels.

The selling and marketing expenses for the Consumer Energy division were $34.0 million for the three months ended September 30, 2013, a decrease of 3% from the selling and marketing expenses of $35.0 million recorded in the prior comparable quarter. Selling costs declined due to the use of lower cost aggregation channels. During the second quarter of fiscal 2014, the customer additions by the Consumer Energy sales force totalled 164,000, a slight decrease compared to 166,000 customers added through these sales channels in the prior comparable quarter. For the six months ended September 30, 2013, selling and marketing expenses were $65.8 million, a 16% decrease from $78.3 million recorded in the first half of fiscal 2013 as a result of lower cost sales channels, particularly due to lower selling and promotional expenses associated with the Momentis network marketing operations, and the introduction of a residual commission-based commission structure in some consumer sales channels similar to commercial residual-based structures.

The selling and marketing expenses for the Commercial Energy division were $11.4 million for the three months ended September 30, 2013, a 19% decrease from the selling and marketing expenses of $14.0 million recorded in the prior comparable quarter. During the second quarter of fiscal 2014, the customer additions by the Commercial Energy sales force totalled 160,000, a decrease of 10% compared to 178,000 customers added through our sales channels in the prior comparable quarter. In addition, the selling and marketing expense for the Commercial Energy division includes amortization of the commission capitalized in other periods through contract initiation costs, which increased by 44% to $3.8 million. The residual commission expense paid to brokers in the three months ended September 30, 2013 decreased by 6% to $6.7 million compared with the residual commission paid in the prior comparable quarter. For the six months ended September 30, 2013, the selling and marketing expenses were $28.5 million, a slight increase from $28.2 million expensed in the prior comparable period, while total Commercial Energy customers added was lower by less than 1%.

Selling and marketing expenses deducted to reach Base EBITDA excludes amortization related to the contract initiation costs for Hudson, Fulcrum and NHS. For the three and six months ended September 30, 2013, this amortization amounted to $4.7 million and $10.3 million, respectively, an increase of 57% and 63% from the prior comparable periods.

The aggregation costs per customer for the last 12 months for consumer customers signed by independent representatives and commercial customers signed by brokers were as follows:

	Fiscal 2014		Fiscal 2013	
	Consumer	Commercial	Consumer	Commercial
Natural gas	$ 174/RCE	$ 34/RCE	$ 184/RCE	$ 34/RCE
Electricity	$ 152/RCE	$ 32/RCE	$ 152/RCE	$ 32/RCE
Average aggregation costs	$ 160/RCE	$ 32/RCE	$ 163/RCE	$ 32/RCE

The decline in the per customer aggregation costs for the Consumer energy division continues a trend of lower costs seen in recent quarters. The Company has focused on increasing sales through lower cost channels and expects that trend to continue.

The aggregation cost per RCE for the Consumer Energy division listed above includes a small but growing proportion of customers generated by affinity and internet marketing programs where commissions are paid on a residual basis as the customer flows. This would tend to slightly decrease current period average costs but will increase future period average costs in comparison as commissions will be paid on customers that have already been counted in customer aggregation totals.

The $32 average aggregation cost for the Commercial energy division customers is based on the expected average annual cost for the respective customer contracts. It should be noted that commercial broker contracts are paid further commissions averaging $32 per year for each additional year that the customer flows. Assuming an average life of 2.8 years, this would add approximately $58 (1.8 x $32) to the year's $32 average aggregation cost reported above. For the prior comparable period, the total aggregation costs of commercial brokers were $32/RCE.

BAD DEBT EXPENSE

In Illinois, Alberta, Texas, Pennsylvania, California, Massachusetts, Michigan and Georgia, Just Energy assumes the credit risk associated with the collection of customer accounts. In addition, for commercial direct-billed accounts in British Columbia, New York and Ontario, Just Energy is responsible for the bad debt risk. NHS has also assumed credit risk for customer account collection for certain territories within Ontario and HES assumes credit risk for all of its billings. Credit review processes have been established to manage the customer default rate. Management factors default from credit risk into its margin expectations for all of the above-noted markets. During the six months ended September 30, 2013, Just Energy was exposed to the risk of bad debt on approximately 64% of its sales.

Bad debt expense is included in the consolidated income statement under other operating expenses. Bad debt expense for the three months ended September 30, 2013, was $11.9 million, an increase of 54% from $7.7 million expensed for the prior quarter ended September 30, 2012. The bad debt expense increase is a result of the 49% increase in revenue earned in markets where Just Energy bears credit risk. Management integrates its default rate for bad debts within its margin targets and continuously reviews and monitors the credit approval process to mitigate customer delinquency.

For the six months ended September 30, 2013, the bad debt expense of $21.7 million represents 2.1% of relevant revenue, lower than the 2.3% reported for the prior comparable period with $16.4 million of bad debt expense.

Management expects that bad debt expense will remain in the range of 2% to 3% of relevant revenue from markets where the Company bears credit risk. For each of Just Energy's other markets, the LDCs provide collection services and assume the risk of any bad debt owing from Just Energy's customers for a regulated fee.

FINANCE COSTS

Total finance costs for the three months ended September 30, 2013 amounted to $22.3 million, an increase of 21% from $18.4 million for the three months ended September 30, 2012. The financing costs incurred by NHS increased by 50% from $3.3 million during the three months ended September 30, 2012 to $5.0 million in the current quarter. In addition, HES incurred $0.7 million in financing costs for the three months ended September 30, 2013, compared with $0.1 million in the prior comparable quarter. All other financing costs were $16.6 million, an increase of 11% from $15.0 million expensed during the three months ended September 30, 2012. This increase is a result of the issuance of the $105 million senior unsecured note in December 2012.

For the six months ended September 30, 2013, finance costs were $44.8 million, an increase of 29% from the prior comparable period. NHS and HES finance costs increased to $9.9 million and $1.5 million, respectively, from $6.3 million and $0.1 million in the prior comparable period. All other financing costs were $33.4 million, an increase of 18% from $28.3 million recorded in the first half of fiscal 2013. The increase for NHS and HES both relate to higher funding for its upfront capital costs while increased borrowings on the credit facility and the issuance of the $105 million senior unsecured note in December 2012 contributed to the 18% increase for other finance costs.

FOREIGN EXCHANGE

Just Energy has an exposure to U.S. dollar exchange rates as a result of its U.S. operations. Any changes in the applicable exchange rate may result in a decrease or increase in other comprehensive income. For the three months ended September 30, 2013, a foreign exchange unrealized loss of $7.3 million was reported in other comprehensive income versus a loss of $10.6 million in the prior comparable quarter. For the six months ended September 30, 2013, a foreign exchange unrealized gain of $5.9 million was recorded compared to the loss of $7.5 million in the prior comparable period.

Overall, a weaker U.S. dollar decreases the value of U.S. sales and gross margin in Canadian dollars but this is partially offset by lower operating costs denominated in U.S. dollars. Just Energy retains sufficient funds in the U.S. to support ongoing growth and surplus cash is repatriated to Canada. U.S. cross border cash flow is forecasted, and hedges for cross border cash flow are placed.

PROVISION FOR INCOME TAX

(thousands of dollars)

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Current income tax provision	$ 354	$ 521	$ 315	$ 778
Deferred tax provision	3,317	6,374	7,514	38,814
Provision for income tax	$ 3,671	$ 6,895	$ 7,829	$ 39,592

Just Energy recorded a current income tax expense of $0.4 million for the second quarter of fiscal 2014, versus an income tax expense of $0.5 million in the same period of fiscal 2013. A current tax expense of $0.3 million has been recorded for the first six months of fiscal 2014, versus a current tax expense of $0.8 million for the same period in fiscal 2013. The decrease in current tax expense is mainly due to lower U.S. state income tax expense recorded in this quarter than in the same period of the prior fiscal year.

During the first half of fiscal 2014, a deferred tax expense of $7.5 million has been recorded, versus a deferred tax expense of $38.8 million in the same period of fiscal 2013. The lower deferred tax expense in fiscal 2014 is a result of the decline of the cumulative mark to market losses from financial instruments as a result of a change in fair value of these derivative instruments during this period, which was less than the similar decline of the same period in the prior year.

Just Energy is taxed as a taxable Canadian corporation. Therefore, the deferred tax asset or liability associated with Canadian assets and liabilities recorded on the consolidated balance sheets as at that date will be realized over time as the temporary differences between the carrying value of assets in the consolidated financial statements and their respective tax bases are realized. Current Canadian income taxes are accrued to the extent that there is taxable income in Just Energy and its underlying corporations. For fiscal 2014, Canadian corporations under Just Energy are subject to a tax rate of approximately 26%.

Under IFRS, Just Energy recognized income tax liabilities and assets based on the estimated tax consequences attributable to the temporary differences between the carrying value of the assets and liabilities on the consolidated financial statements and their respective tax bases, using substantively enacted income tax rates. A deferred tax asset will not be recognized if it is not anticipated that the asset will be realized in the foreseeable future. The effect of a change in the income tax rates used in calculating deferred income tax liabilities and assets is recognized in income during the period in which the change occurs.

Discontinued Operations

ETHANOL DIVISION (TGF)

In March 2013, Just Energy formally commenced the process to dispose of TGF. The business of TGF has been operating in an unpredictable product environment, making it difficult for management to derive real growth and profitability from the segment. It is expected that TGF will be divested by the end of fiscal 2014. At March 31, 2013, TGF was classified as held for sale. Accordingly, it has been identified as a discontinued operation along with its related non-recourse debt. Just Energy has no expectation of cash recovery above outstanding debt on the sale.

RESULTS OF OPERATIONS

For the three months ended September 30, 2013, TGF had sales of $28.2 million, a decrease of 4% from $29.3 million in the prior comparable quarter. The decrease in sales is a result of lower production during the quarter. In the second quarter of fiscal 2014, the plant produced 26.5 million litres of ethanol and 26,008 metric tonnes of DDG, resulting in a productive capacity of 71% compared with the second quarter of fiscal 2013 when 29.5 million litres of ethanol and 27,954 metric tonnes of DDG were produced resulting in productivity of 79%. Gross margin amounted to $6.1 million, an increase of 107% from $2.9 million, even with lower production levels, reflecting more favourable ethanol and feedstock pricing. Ethanol prices were, on average, $0.73 per litre, an increase of 9% from the prior comparable quarter, and wheat prices averaged $236 per metric tonne as of September 30, 2013, a decrease of 3% from the prior comparable quarter.

Profit from discontinued operations for the three months ended September 30, 2013 was $2.9 million, compared to a loss of $0.9 million in the prior comparable quarter. As a result of TGF being classified as held for sale as of March 31, 2013, its assets were fair valued at that date and no amortization has been deducted for fiscal 2014. This has contributed to the higher profit recorded in the current fiscal year.

For the six months ended September 30, 2013, TGF had sales of $59.0 million, an increase of 12% from $52.8 million. Gross margin was $7.7 million, a 117% increase from $3.6 million in the prior comparable period. For the six months ended September 30, 2013, TGF reported a profit from discontinued operations of $0.7 million, compared with a $4.8 million loss in the prior comparable period.

TGF receives a federal subsidy based on the volume of ethanol produced related to the ecoEnergy for Biofuels Agreement initially signed on February 17, 2009. The subsidy is $0.06 per litre for fiscal 2014 and declines to $0.05 per litre of ethanol produced in fiscal 2015, the last year of the agreement.

TGF CREDIT FACILITY

A credit facility of up to $50 million was established with a syndicate of Canadian lenders led by Conexus Credit Union and was arranged to finance the construction of the ethanol plant in 2007. The facility represents a fixed repayment term of ten years, commencing March 1, 2009, which includes interest costs at a prime rate plus 3%. Principal repayments commenced March 1, 2010. The credit facility is secured by a demand debenture agreement, a first priority security charge on all assets and undertakings of TGF, a mortgage on title to the land owned by TGF and a general security interest on all other current and acquired assets of TGF. The credit facility includes certain financial covenants, the most significant of which relate to current ratio, debt to equity ratio, debt service coverage and minimum shareholders' capital. Pursuant to a forbearance agreement dated as of June 1, 2013, the lenders have agreed that TGF shall not be required to make any principal payments until December 31, 2013. The lenders have no recourse to Just Energy or any other subsidiary of Just Energy.

TGF DEBENTURES

A debenture purchase agreement with a number of private parties providing for the issuance of up to $40 million aggregate principal amount of debentures was entered into in 2006. On April 1, 2011, the interest rate was increased to 12%. The agreement includes certain financial covenants, the more significant of which relate to current ratio, debt to capitalization ratio, debt service coverage, debt to EBITDA and minimum shareholders' equity. Compliance with the new covenants has been extended to May 15, 2014, with a call right any time after April 1, 2013. Pursuant to a waiver and forbearance agreement made as of June 24, 2013, the debenture holders have agreed to waive any principal and interest payments up to and including January 1, 2014. The lenders have no recourse to Just Energy or any other subsidiary of Just Energy.

TGF has a working capital operating line of $7,000 bearing interest at a rate of prime plus 2%. In addition to the $0.6 million in bank indebtedness, TGF has total letters of credit issued of $0.3 million.

Liquidity and capital resources

SUMMARY OF CASH FLOWS

(thousands of dollars)

	Three months ended Sept. 30, 2013	Three months ended Sept. 30, 2012	Six months ended Sept. 30, 2013	Six months ended Sept. 30, 2012
Operating activities	$ 12,624	$ (21,621)	$ 34,589	$ 2,541
Investing activities	(22,345)	(50,329)	(45,630)	(85,180)
Financing activities, excluding dividends	26,426	99,435	49,866	157,253
Effect of foreign currency translation	1,086	(714)	1,050	(799)
Increase in cash before distributions	17,791	26,771	39,875	73,815
Dividends/distributions (cash payments)	(29,576)	(41,098)	(56,345)	(85,446)
Decrease in cash	(11,785)	(14,327)	(16,470)	(11,631)
Increase (decrease) in cash from discontinued operations and cash reclassified to assets held for sale	(2)	(2,737)	166	(1,653)
Cash and cash equivalents – beginning of period	33,981	57,000	38,498	53,220
Cash and cash equivalents – end of period	$ 22,194	$ 39,936	$ 22,194	$ 39,936

OPERATING ACTIVITIES

Cash inflow from operating activities for the three months ended September 30, 2013, was $12.6 million, compared with the cash outflow of $21.6 million in the prior comparable quarter. The increase is due to an improved working capital position, increased net cash receipts from gas deliveries and increased gross margin quarter over quarter. For the six months ended September 30, 2013, cash inflow from operating activities was $34.6 million, a significant increase from $2.5 million reported for the prior comparable period primarily due to an increase in gross margin and net cash receipts from gas deliveries.

INVESTING ACTIVITIES

Just Energy purchased capital assets totalling $10.5 million during the second quarter of the fiscal year, a decrease from $30.2 million in the second quarter of the prior fiscal year. Just Energy's capital spending related primarily to installations for the Home Services and Solar divisions. Contract initiation cost additions amounted to $11.0 million for the three months ended September 30, 2013, an increase from $7.7 million recorded in the prior comparable quarter. The increase is a result of higher customer additions of the Home Services division and Commercial sales channels where commissions are paid upfront and then amortized over the period when the related revenue is recognized.

FINANCING ACTIVITIES

Financing activities, excluding dividends, relates primarily to the issuance and repayment of long-term debt. During the three months ended September 30, 2013, $166.0 million in long-term debt was issued, with the majority relating to the advances on the credit facility and issuance of additional financing in our Home Services and Solar divisions, with repayments of long-term debt amounting to $142.9 million for the three months ended September 30, 2013. In the prior comparable quarter, $213.8 million was issued in long-term debt primarily relating to the increase in NHS and HES financing with $114.7 million being repaid.

For the six months ended September 30, 2013, $292.5 million was issued in long-term debt with repayments amounting to $250.4 million, resulting in net borrowing of $42.1 million, primarily related to additional financing for the Home Services and Solar divisions. For the six months ended September 30, 2012, $280.3 million was issued in long-term debt with $123.4 million being repaid, resulting in net borrowings of $156.9 million, related to the credit facility and NHS financing.

As of September 30, 2013, Just Energy had a credit facility of $370 million expiring on December 31, 2013. On October 2, 2013, Just Energy reached an agreement with its syndicate of lenders to renew and extend its revolving credit facility for a period of two years from the closing date. Based on projected operating requirements, the line has been set at $300 million with an option for Just Energy to draw up to $340 million between the closing date and February 28, 2014.

Just Energy's liquidity requirements are driven by the delay from the time that a customer contract is signed until cash flow is generated. For residential customers, signed by independent contractors, approximately 60% of the commission payment is made following reaffirmation or verbal verification of the customer contract, with most of the remaining 40% being paid after the energy commodity begins flowing to the customer. Margins associated with these customers are realized over the term of the contract. For commercial customers, commissions are paid either as the energy commodity flows throughout the contract or partially upfront once the customer begins to flow.

The elapsed period between the time a customer is signed and receipt of the first payment from the customer varies with each market. The time delays per market are approximately two to nine months. These periods reflect the time required by the various LDCs to enroll, flow the commodity, bill the customer and remit the first payment to Just Energy. In Alberta and Texas, Just Energy receives payment directly from the customer.

DIVIDENDS (CASH PAYMENTS)

Investors should note that due to the dividend reinvestment plan ("DRIP"), a portion of dividends declared are not paid in cash. Under the program, shareholders can elect to receive their dividends in shares at a 2% discount on the prevailing market price rather than the cash equivalent. For the six months ended September 30, 2013, dividends paid in shares under the DRIP amounted to $5.2 million, an increase from $3.2 million of dividends paid in shares during the first half of fiscal 2013. The DRIP program was suspended from the start of fiscal 2013 through to August 2012.

During the three months ended September 30, 2013, Just Energy paid cash dividends to its shareholders and holders of restricted share grants and deferred share grants in the amount of $29.6 million, compared to $41.1 million in the prior comparable period. For the six months ended September 30, 2013, cash dividends were $56.3 million, a decrease from $85.4 million paid in dividends in the prior comparable period, due to the reduction in the annual dividend from $1.24 to $0.84 effective the April 2013 dividend.

Just Energy's current annual dividend rate is $0.84 per share. The current dividend policy provides that shareholders of record on the 15th of each month (or the first business day following the 15th if it falls on a weekend or statutory holiday) receive dividends at the end of the month.

Just Energy will continue to utilize its cash resources for expansion into new markets, growth in its existing energy marketing customer base and in the Solar and Home Services divisions as well as provide dividends to its shareholders.

Balance sheet as at September 30, 2013, compared to March 31, 2013

Cash decreased from $38.5 million as at March 31, 2013, to $22.2 million. The utilization of the credit facility increased from $110.1 million to $134.0 million during the six months ended September 30, 2013, as a result of normal seasonal working capital requirements. Working capital requirements in the U.S. and Alberta are a result of the timing difference between customer consumption and cash receipts. For electricity, working capital is required to fund the lag between settlement with the suppliers and settlement with the LDCs.

As at September 30, 2013, trade receivables and unbilled revenue amounted to $408.5 million and $89.9 million, respectively, compared to six months earlier when the trade receivables and unbilled revenue amounted to $315.6 million and $129.2 million, respectively. Trade payables have increased from $301.8 million to $374.5 million in the past six months. This increase in current trade receivables and payables is a result of the normal seasonality of Just Energy's operations.

As at September 30, 2013, Just Energy had delivered more gas to the LDCs than had been consumed by customers in Ontario, Manitoba, Quebec and Michigan, resulting in gas delivered in excess of consumption and deferred revenue of $18.9 million and $43.8 million, respectively. Deferred revenue also includes approximately $11.8 million related to grants received by the Solar division. The build-up of gas inventory at the LDCs is in the normal course of operations and will decrease over the remaining winter months as consumption by customers continues to exceed deliveries.

At March 31, 2013, Just Energy had more gas consumed by customers than Just Energy had delivered to the LDCs, which is consistent with the seasonality of deliveries and customer consumption. As a result, Just Energy recognized an accrued gas receivable and accrued gas payable for $34.0 million and $28.5 million, respectively, as at March 31, 2013. In addition, gas in storage increased from $11.1 million as at March 31, 2013, to $34.8 million as at September 30, 2013, due to the seasonality of gas consumption.

Other assets and other liabilities relate entirely to the fair value of the financial derivatives. The mark to market gains and losses can result in significant changes in net income and, accordingly, shareholders' equity from quarter to quarter due to commodity price volatility. Given that Just Energy has purchased this supply to cover future customer usage at fixed prices, management believes that these non-cash quarterly changes are not meaningful.

Property, plant and equipment increased from $258.0 million to $274.1 million during the six months ended September 30, 2013, due to capital expenditures related to HES solar panel installations and NHS's water heater, furnace and air conditioner installations, offset by the amortization expense for the period.

Intangible assets include goodwill, acquired customer contracts as well as other intangibles such as brand, broker network and information technology systems, primarily related to the Fulcrum, Hudson and Universal purchases. The total intangible asset balance decreased to $420.6 million from $447.3 million as at March 31, 2013, as a result of amortization.

Long-term debt (excluding the current portion) has decreased from $795.2 million to $719.3 million in the six months ended September 30, 2013, primarily as a result of classifying the $90 million convertible debentures as current at September 30, 2013 offset by increases to NHS and HES financing.

Shareholders' equity remains in a deficit position of $1.5 billion, higher than the deficit of $1.3 billion at March 31, 2013. Just Energy's profit includes an amount relating to the change in fair value of derivative instruments. Under IFRS, the customer margins are not marked to market but there is a requirement to mark to market the future supply contracts. This creates unrealized non-cash gains or losses depending upon current supply pricing.

Debt and financing for continuing operations

(thousands of dollars)

	Sept. 30, 2013	March 31, 2013
Just Energy credit facility	$ 133,970	$ 110,121
$105 million senior unsecured note	105,000	105,000
NHS financing	272,191	257,427
$90m convertible debentures	88,411	87,610
$330m convertible debentures	301,132	297,928
$100m convertible debentures	88,485	87,579
HES financing		
Credit facility	11,591	11,431
Construction loan	2,995	9,776
Term loan	11,043	–

JUST ENERGY CREDIT FACILITY

As of September 30, 2013, Just Energy held a $370 million credit facility to meet working capital requirements. On October 2, 2013, ("the closing date") Just Energy reached an agreement with its syndicate of lenders to renew and extend its revolving credit facility for a period of two years from the closing date. Based on projected operating requirements, the line has been set at $300 million with an option for Just Energy to draw up to $340 million between the closing date and February 28, 2014. The pricing of the renewed facility is the same as that of the previous extension. The current syndicate of lenders includes Canadian Imperial Bank of Commerce, Royal Bank of Canada, National Bank of Canada, HSBC Bank of Canada, The Bank of Nova Scotia, The Toronto-Dominion Bank and Alberta Treasury Branches.

Under the terms of the credit facility, Just Energy was able to make use of Bankers' Acceptances and LIBOR advances at stamping fees that vary between 2.88% and 4.00%, prime rate advances at rates of interest that vary between bank prime plus 1.88% and 3.00%, and letters of credit at rates that vary between 2.88% and 4.00%. Interest rates are adjusted quarterly based on certain financial performance indicators.

Just Energy's obligations under the credit facility are supported by guarantees of certain subsidiaries and affiliates, excluding, among others, TGF, NHS, HES and the U.K. operations and secured by a pledge of the assets of Just Energy and the majority of its operating subsidiaries and affiliates. Just Energy is required to meet a number of financial covenants under the credit facility agreement. During the six months ended September 30, 2013, certain financial covenants were amended to accommodate the growth of the business. As at September 30, 2013, all of the covenants had been met.

$105 MILLION SENIOR UNSECURED NOTE

The $105 million senior unsecured note bears interest at 9.75% and matures in June 2018. The $105 million senior unsecured note is subject to certain financial and other covenants. As of September 30, 2013, all of these covenants have been met.

In conjunction with the covenant requirements associated with the issuance of senior unsecured notes, the following represents select financial disclosure for the "Restricted Subsidiaries" as defined within the Note Indenture, which generally excludes NHS, TGF, HES, Momentis and the U.K. operations.

	Three months ended Sept. 30, 2013	Six months ended Sept. 30, 2013
Base EBITDA	$ 30,144	$ 54,695
Selling and marketing expenses to add gross margin	9,397	26,120
Share-based compensation	1,385	3,124
Maintenance capital expenditures	3,077	5,690

NHS FINANCING

NHS has a long-term financing agreement with HTC for the funding of new and existing rental water heater, furnace and air conditioner contracts. Pursuant to the agreement, NHS will receive financing of an amount equal to the net present value of the five, seven or ten years (at its option) of monthly rental income, discounted at the agreed upon financing rate of 7.25% to 7.99%, and is required to remit an amount equivalent to the rental stream from customers on the water heater, air conditioner and furnace contracts for the five, seven or ten years, respectively. NHS has provided security over the water heaters, furnace and air conditioner equipment and rental contracts, subject to the financing rental agreement, as collateral for performance of the obligation.

The financing agreement is subject to a holdback provision of 3% to 5%. Once all of the obligations of NHS are satisfied or expired, the remaining funds in the holdback account will immediately be released to NHS. NHS is required to meet a number of non-financial covenants under the agreement and, as at September 30, 2013, all of these covenants had been met. The current balance under this arrangement is $243.2 million.

NHS assumed debt relating to the acquisition of customer contracts in the prior year. The current outstanding debt of $29.0 million bears interest at 7.5% to 11.0%, is secured by the underlying assets and will be satisfied through blended monthly payments up to August of 2022.

$90M CONVERTIBLE DEBENTURES

In conjunction with the acquisition of Universal on July 1, 2009, Just Energy assumed the obligations of the convertible unsecured subordinated debentures issued by Universal in October 2007, which have a face value of $90 million. The fair value of the convertible debenture was estimated by discounting the remaining contractual payments at the time of acquisition. This discount will be accreted using an effective interest rate of 8%. These instruments mature on September 30, 2014, unless converted prior to that date, and bear interest at an annual rate of 6%, payable semi-annually on March 31 and September 30 of each year. As at September 30, 2013, each $1,000 principal amount of the $90m convertible debentures is convertible at any time prior to maturity or on the date fixed for redemption, at the option of the holder, into approximately 41.23 Just Energy common shares, representing a conversion price of $24.25 per share. Pursuant to the $90m convertible debentures, if Just Energy fixes a record date for the payment of a dividend on its shares, the conversion price shall be adjusted in accordance therewith.

Prior to the maturity date, the $90m convertible debentures are redeemable, in whole or in part, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at Just Energy's sole option on not more than 60 days' and not less than 30 days' prior notice.

$330M CONVERTIBLE DEBENTURES

To fund an acquisition in May 2010, Just Energy issued $330 million of convertible extendible unsecured subordinated debentures. The $330m convertible debentures bear an interest rate of 6.0% per annum payable semi-annually in arrears on June 30 and December 31 in each year, with maturity on June 30, 2017. Each $1,000 of principal amount of the $330m convertible debentures is convertible at any time prior to maturity or on the date fixed for redemption, at the option of the holder, into approximately 55.6 shares of Just Energy, representing a conversion price of $18 per share.

Prior to June 30, 2015, the debentures may be redeemed by Just Energy, in whole or in part, on not more than 60 days' and not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price on the date on which notice of redemption is given is not less than 125% of the conversion price. On or after June 30, 2015, and prior to the maturity date, the debentures may be redeemed by Just Energy, in whole or in part, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest.

$100M CONVERTIBLE DEBENTURES

On September 22, 2011, Just Energy issued $100m of convertible unsecured subordinated debentures, which were used to purchase Fulcrum Energy effective October 1, 2011. The $100m convertible debentures bear interest at an annual rate of 5.75%, payable semi-annually on March 31 and September 30 in each year, and have a maturity date of September 30, 2018. Each $1,000 principal amount of the $100m convertible debentures is convertible at the option of the holder at any time prior to the close of business on the earlier of the maturity date and the last business day immediately preceding the date fixed for redemption, into 56.0 common shares of Just Energy, representing a conversion price of $17.85 per share.

The $100m convertible debentures are not redeemable at the option of the Company on or before September 30, 2014. After September 30, 2014, and prior to September 30, 2016, the $100m convertible debentures may be redeemed in whole or in part from time to time at the option of the Company on not more than 60 days' and not less than 30 days' prior notice, at a price equal to their principal amount plus accrued and unpaid interest, provided that the weighted average trading price of the common shares of Just Energy on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given is at least 125% of the conversion price. On or after September 30, 2016, the $100m convertible debentures may be redeemed in whole or in part from time to time at the option of the Company on not more than 60 days' and not less than 30 days' prior notice, at a price equal to their principal amount plus accrued and unpaid interest.

HES FINANCING

HES, through a subsidiary, entered into a US$30 million financing agreement to assist with the construction of certain solar projects. The credit facility matures August 1, 2014, with no prepayment permitted, bearing interest, and payable quarterly, at U.S. prime plus 6.9% or Eurodollar rate plus 7.9%.

HES, through a subsidiary, has entered into an arrangement providing access to construction loans to fund certain specified projects. As at September 30, 2013, $3.0 million has been advanced under these loans. The construction loans bear interest at 10% and are due upon completion of the underlying solar projects. Upon completion of the solar projects, the construction loan will be settled from the proceeds of a term loan to be received from the same counterparty and an investment from an institutional investor. The term loan to be received will bear interest at 8% and mature in six years. The investment will provide the institutional investor with a significant portion of the tax incentives generated by the projects funded.

As at September 30, 2013, HES has $11.0 million owing under term loans which were used to satisfy prior construction loans. The term loans bear interest at 8% and mature in May and June 2019. In addition, during the six months ended September 31, 2013, HES received $9.9 million from an institutional investor. The proceeds received have been recorded as a contribution from a non-controlling interest. The minority shareholder owns approximately 49% interest in certain projects and is entitled to a significant portion of the tax incentives generated by these projects. The minority shareholder's interest will decrease to 5% in approximately five years from the original investment.

Contractual obligations

In the normal course of business, Just Energy is obligated to make future payments for contracts and other commitments that are known and non-cancellable.

PAYMENTS DUE BY PERIOD

(thousands of dollars)

	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Trade and other payables	$ 374,532	$ 374,532	$ –	$ –	$ –
Long-term debt (contractual cash flow)	1,057,131	287,326	96,591	610,087	63,127
Interest payments	230,976	61,382	100,049	63,377	6,168
Premises and equipment leasing	32,790	7,629	11,808	7,895	5,458
Royalty payments	45,782	–	2,244	9,477	34,061
Long-term gas and electricity contracts	2,717,240	1,335,087	1,141,545	229,805	10,803
	$ 4,458,451	$ 2,065,956	$ 1,352,237	$ 920,641	$ 119,617

OTHER OBLIGATIONS

In the opinion of management, Just Energy has no material pending actions, claims or proceedings that have not been included in either its accrued liabilities or in the consolidated financial statements. In the normal course of business, Just Energy could be subject to certain contingent obligations that become payable only if certain events were to occur. The inherent uncertainty surrounding the timing and financial impact of any events prevents any meaningful measurement, which is necessary to assess any material impact on future liquidity. Such obligations include potential judgments, settlements, fines and other penalties resulting from actions, claims or proceedings.

Transactions with related parties

Just Energy does not have any material transactions with any individuals or companies that are not considered independent of Just Energy or any of its subsidiaries and/or affiliates.

Off balance sheet items

The Company has issued letters of credit in accordance with its credit facility totalling $126.2 million to various counterparties, primarily utilities in the markets it operates in, as well as suppliers.

Pursuant to separate arrangements with Westchester Fire Insurance Company, Travelers Casualty, Surety Company of America, The Hanover Insurance Group and Charter Brokerage LLC, Just Energy has issued surety bonds to various counterparties including states, regulatory bodies, utilities and various other surety bond holders in return for a fee and/or meeting certain collateral posting requirements. Such surety bond postings are required in order to operate in certain states or markets. Total surety bonds issued as at September 30, 2013 was $35.0 million.

Critical accounting estimates

The consolidated financial statements of Just Energy have been prepared in accordance with IFRS. Certain accounting policies require management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, cost of sales, selling and marketing, and administrative expenses. Estimates are based on historical experience, current information and various other assumptions that are believed to be reasonable under the circumstances. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of critical accounting estimates is not meant to be exhaustive. Just Energy might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Just Energy performed its annual impairment test as at March 31, 2013 and considered impairment for its revised segments that were reported for fiscal 2014. Just Energy considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. As at March 31, 2013, the market capitalization of Just Energy was above the book value of its equity, indicating that a potential impairment of goodwill and intangibles with indefinite lives does not exist.

The recoverable amount of each of the units has been determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period. The projections for the first three years have been approved by the Audit Committee; the assumptions used in the following two years have been approved by senior management. The calculation of the value-in-use for each unit is most sensitive to the following assumptions:

- Customer consumption assumptions used in determining gross margin;
- New customer additions, attrition and renewals;
- Selling and marketing costs;
- Discount rates; and
- Growth rates used to extrapolate cash flows beyond the budget period.

The gross margin and customer consumption included in the financial projections is based on normal weather. Management has estimated normal weather based on historical weather patterns covering 10 to 30 years. In the past, weather has deviated from normal and can impact the expected performance of the Company. Past experience has shown that deviations from normal weather can have an impact of up to $35 million, both positively and negatively, on expected margins. Derivative instruments are used to mitigate the risk of weather deviating from normal and are entered into prior to the start of a peak consumption season (winter and summer for gas and electricity markets, respectively). An average customer consumption growth rate of 9% was used in the projections. An isolated 5% decrease in the consumption assumptions would not have an impact on the results of the impairment test.

New customer additions and attrition and renewal rate estimates are based on historical results and are adjusted for new marketing initiatives that are included in the budget. A 9% average increase in the overall customer base was used in the projections. An isolated 5% decrease annually in the overall customer base would not have an impact on the results of the impairment test.

Selling and marketing costs fluctuate with customer additions, renewals and attrition. Selling and marketing costs used in the financial forecast are based on assumptions consistent with the above new customer additions, renewals and attritions. Rates used are based on historical information and are adjusted for new marketing initiatives included in the budget. An average increase of 9% was applied to selling costs in the projections. An isolated 5% increase annually in selling and marketing costs would not have an impact on the results of the impairment test.

Discount rates represent the current market assessment of the risks specific to the Company, regarding the time value of money and individual risks of the underlying assets. The discount rate calculation is based on the specific circumstances of Just Energy and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by Just Energy's investors and the cost of debt is based on the interest bearing borrowings the Company is obliged to service. Just Energy used a discount rate of 9%. An isolated 5% increase in the WACC would not have an impact on the results of the impairment test.

In addition to the above assumptions, the expected forecasted performance assumes that there will not be any new legislation that will have a negative impact on Just Energy's ability to market our products in the jurisdictions in which it currently operates. Any changes in legislation would only impact the respective jurisdiction. This item is out of the control of management and cannot be predicted. Management has used all information available to prepare its financial projections.

DEFERRED TAXES

In accordance with IFRS, Just Energy uses the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are recognized on the differences between the carrying amounts of assets and liabilities and its respective income tax basis.

Preparation of the consolidated financial statements involves determining an estimate of, or provision for, income taxes in each of the jurisdictions in which Just Energy operates. The process also involves making an estimate of taxes currently payable and taxes expected to be payable or recoverable in future periods, referred to as deferred income taxes. Deferred income taxes result from the effects of temporary differences due to items that are treated differently for tax and accounting purposes. The tax effects of these differences are reflected in the consolidated statements of financial position as deferred income tax assets and liabilities. An assessment must also be made to determine the likelihood that our future taxable income will be sufficient to permit the recovery of deferred income tax assets. To the extent that such recovery is not probable, deferred income tax assets must be reduced. The reduction of the deferred income tax asset can be reversed if the estimated future taxable income improves. No assurances can be given if any reversal will occur or the amount or timing of any such reversal. Management must exercise judgment in its assessment of continually changing tax interpretations, regulations and legislation to ensure deferred income tax assets and liabilities are complete and fairly presented. Differing assessments and applications than our estimates could materially impact the amount recognized for deferred income tax assets and liabilities.

Deferred income tax assets of $18.3 million and $24.9 million have been recorded on the consolidated statements of financial position as at September 30, 2013 and March 31, 2013, respectively. These assets primarily relate to mark to market losses on our derivative financial instruments. We believe there will be sufficient taxable income that will permit the use of these future tax assets in the tax jurisdictions where they exist. When evaluating the future tax position, Just Energy assesses its ability to use deferred tax assets based on expected taxable income in future periods. Just Energy's Solar division creates additional tax benefits that will allow the Company to have lower taxable income in the U.S. in future periods. As at September 30, 2013 a valuation allowance of $94.2 million was taken against the Company's deferred tax assets in the U.S. If the Company's taxable income is higher than expected these deferred tax assets will be used.

Deferred income tax liabilities of $31.9 million and $31.3 million have been recorded on the consolidated statements of financial position as at September 30, 2013 and March 31, 2013, respectively. These liabilities are primarily due to the excess of the book value of property, plant and equipment over their tax basis.

Fluctuations in deferred tax balances are primarily driven by changes in the fair value of derivative financial instruments. Any increase or decrease in the fair value of the derivative financial instruments will decrease or increase the net tax asset position by the effective tax rate of the entity.

USEFUL LIFE OF KEY PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Each significant component is depreciated over its estimated useful life. A component can be separately identified as an asset and is expected to provide a benefit of greater than one year. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand, the potential for technological obsolescence and regulations. The useful lives of property, plant and equipment and depreciation rates used are reviewed at least annually to ensure they continue to be appropriate.

Depreciation and amortization expense for the three and six months ended September 30, 2013 in the consolidated statements of income (loss) was $26.7 million and $52.5 million, respectively, a decrease from $41.6 million and $83.3 million recorded for the three and six months ended September 30, 2012.

FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Just Energy has entered into a variety of derivative financial instruments as part of the business of purchasing and selling gas, electricity and JustGreen supply. Just Energy enters into contracts with customers to provide electricity and gas at fixed prices and provide comfort to certain customers that a specified amount of energy will be derived from green generation or carbon destruction. These customer contracts expose Just Energy to changes in market prices to supply these commodities. To reduce the exposure to the commodity market price changes, Just Energy uses derivative financial and physical contracts to secure fixed-price commodity supply to cover its estimated fixed-price delivery or green commitment.

Just Energy's objective is to minimize commodity risk, other than consumption changes, usually attributable to weather. Accordingly, it is Just Energy's policy to hedge the estimated fixed-price requirements of its customers with offsetting hedges of natural gas and electricity at fixed prices for terms equal to those of the customer contracts. The cash flow from these supply contracts is expected to be effective in offsetting Just Energy's price exposure and serves to fix acquisition costs of gas and electricity to be delivered under the fixed-price or price-protected customer contracts. Just Energy's policy is not to use derivative instruments for speculative purposes.

Just Energy's U.S. operations introduce foreign exchange-related risks. Just Energy enters into foreign exchange forwards in order to hedge its exposure to fluctuations in cross border cash flows.

The consolidated financial statements are in compliance with IAS 32, Financial Instruments: Presentation; IAS 39, Financial Instruments: Recognition and Measurement; and IFRS 7, Financial Instruments: Disclosure. Effective July 1, 2008, Just Energy ceased the utilization of hedge accounting. Accordingly, all the mark to market changes on Just Energy's derivative instruments are recorded on a single line on the consolidated income statement. Due to commodity volatility and to the size of Just Energy, the quarterly swings in mark to market on these positions will increase the volatility in Just Energy's earnings.

The Company's financial instruments are valued based on the following fair value ("FV") hierarchy:

LEVEL 1

The fair value measurements are classified as Level 1 in the FV hierarchy if the fair value is determined using quoted unadjusted market prices. Just Energy values its cash and cash equivalents, current trade and other receivables, unbilled revenues, bank indebtedness, and trade and other payables under Level 1.

LEVEL 2

Fair value measurements that require inputs other than quoted prices in Level 1, either directly or indirectly, are classified as Level 2 in the FV hierarchy. This could include the use of statistical techniques to derive the FV curve from observable market prices. However, in order to be classified under Level 2, inputs must be substantially observable in the market. Just Energy values its New York Mercantile Exchange ("NY MEX") financial gas fixed-for-floating swaps under Level 2.

LEVEL 3

Fair value measurements that require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs are classified as Level 3 in the FV hierarchy. For the supply contracts, Just Energy uses quoted market prices as per available market forward data and applies a price-shaping profile to calculate the monthly prices from annual strips and hourly prices from block strips for the purposes of mark to market calculations. The profile is based on historical settlements with counterparties or with the system operator and is considered an unobservable input for the purposes of establishing the level in the FV hierarchy. For the natural gas supply contracts, Just Energy uses three different market observable curves: i) Commodity (predominately NY MEX), ii) Basis and iii) Foreign exchange. NY MEX curves extend for over five years (thereby covering the length of Just Energy's contracts); however, most basis curves only extend 12 to 15 months into the future. In order to calculate basis curves for the remaining years, Just Energy uses extrapolation, which leads natural gas supply contracts to be classified under Level 3.

FAIR VALUE MEASUREMENT INPUT SENSITIVITY

The main cause of changes in the fair value of derivative instruments are changes in the forward curve prices used for the fair value calculations. Below is a sensitivity analysis of these forward curves. Other inputs, including volatility and correlations, are driven off historical settlements.

COMMODITY PRICE RISK

Just Energy is exposed to market risks associated with commodity prices and market volatility where estimated customer requirements do not match actual customer requirements. Management actively monitors these positions on a daily basis in accordance with its Risk Management Policy. This policy sets out a variety of limits, most importantly, thresholds for open positions in the gas and electricity portfolios which also feed a Value at Risk limit. Should any of the limits be exceeded, they are closed expeditiously or express approval to continue to hold is obtained. Just Energy's exposure to market risk is affected by a number of factors, including accuracy of estimation of customer commodity requirements, commodity prices, volatility and liquidity of markets. Just Energy enters into derivative instruments in order to manage exposures to changes in commodity prices. The derivative instruments that are used are designed to fix the price of supply for estimated customer commodity demand and thereby fix margins such that shareholder dividends can be appropriately established. Derivative instruments are generally transacted over the counter. The inability or failure of Just Energy to manage and monitor the above market risks could have a material adverse effect on the operations and cash flows of Just Energy. Just Energy mitigates the exposure for variances in customer requirements that are driven by changes in expected weather conditions, through active management of the underlying portfolio, which involves, but is not limited to, the purchase of options including weather derivatives. Just Energy's ability to mitigate weather effects is limited by the severity of weather from normal.

COMMODITY PRICE SENSITIVITY – ALL DERIVATIVE FINANCIAL INSTRUMENTS

If all the energy prices associated with derivative financial instruments including natural gas, electricity, verified emission-reduction credits and renewable energy certificates had risen (fallen) by 10%, assuming that all the other variables had remained constant, income before income taxes for the six months ended September 30, 2013 would have increased (decreased) by $206.1 million ($204.1 million) primarily as a result of the change in fair value of Just Energy's derivative instruments.

COMMODITY PRICE SENSITIVITY – LEVEL 3 DERIVATIVE FINANCIAL INSTRUMENTS

If the energy prices associated with only Level 3 derivative instruments including natural gas, electricity, verified emission-reduction credits and renewable energy certificates had risen (fallen) by 10%, assuming that all the other variables had remained constant, income before income taxes for the six months ended September 30, 2013 would have increased (decreased) by $195.9 million ($194.1 million) primarily as a result of the change in fair value of Just Energy's derivative instruments.

RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for uncollectible accounts reflects Just Energy's best estimates of losses on the accounts receivable balances. Just Energy determines the allowance for doubtful accounts on customer receivables by applying loss rates based on historical results to the outstanding receivable balance. Just Energy is exposed to customer credit risk in Alberta, Texas, Illinois, British Columbia, New York, Massachusetts, California, Michigan, Georgia and commercial direct-billed accounts in British Columbia, New York and Ontario. Just Energy also has credit risk associated with all HES billings and NHS billings within certain territories in Ontario. Credit review processes have been implemented to perform credit evaluations of customers and manage customer default. If a significant number of customers were to default on their payments, it could have a material adverse effect on the operations and cash flows of Just Energy. Management factors default from credit risk in its margin expectations for all the above markets.

Revenues related to the sale of energy are recorded when energy is delivered to customers. The determination of energy sales to individual customers is based on systematic readings of customer meters generally on a monthly basis. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and corresponding unbilled revenue is recorded. The measurement of unbilled revenue is affected by the following factors: daily customer usage, losses of energy during delivery to customers and applicable customer rates.

Increases in volumes delivered to the utilities' customers and favourable rate mix due to changes in usage patterns in the period could be significant to the calculation of unbilled revenue. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date would also have an effect on the measurement of unbilled revenue; however, total operating revenues would remain materially unchanged.

Just Energy common shares

As at November 7, 2013, there were 143,408,169 common shares of Just Energy outstanding.

Normal course issuer bid

During the 12-month period of February 14, 2013 and ending February 13, 2014, Just Energy has the ability to make a normal course issuer bid to purchase for cancellation up to 10,000,000 shares, representing approximately 7.4% of the public float. The maximum number of shares that Just Energy may purchase on a daily basis is 107,182 shares, or approximately 25% of the average daily trading volume of the previous six months trading activity on the Toronto Stock Exchange. As at November 7, 2013, Just Energy has not repurchased any shares for cancellation.

In addition, Just Energy has approval to make a normal course issuer bid for the $330m convertible debentures and $100m convertible debentures during the 12-month period of February 22, 2013 through to February 21, 2014. For the $330m convertible debentures, a total of $33 million, representing 10% of the public float, may be purchased for cancellation with up to $158,993 being available to purchase on a daily basis. For the $100m convertible debentures, the daily limit is set at $24,548 with up to $10 million being available for cancellation, representing 10% of the public float. As of November 7, 2013, Just Energy has not repurchased any of the convertible debentures for cancellation.

Legal proceedings

Just Energy's subsidiaries are party to a number of legal proceedings. Other than as set out below, Just Energy believes that each proceeding constitutes a routine legal matter incidental to the business conducted by Just Energy and that the ultimate disposition of the proceedings will not have a material adverse effect on its consolidated earnings, cash flows or financial position.

The State of California has filed a number of complaints to the Federal Energy Regulatory Commission ("FERC") against many suppliers of electricity, including Commerce Energy Inc. ("CEI"), a subsidiary of Just Energy, with respect to events stemming from the 2001 energy crisis in California. Pursuant to the complaints, the State of California is challenging the FERC's enforcement of its market-based rate system. Although CEI did not own generation facilities, the State of California is claiming that CEI was unjustly enriched by the run-up in charges caused by the alleged market manipulation of other market participants. On March 18, 2010, the Administrative Law Judge in the matter granted a motion to strike the claim for all parties in one of the complaints, holding that California did not prove that the reporting errors masked the accumulation of market power. California has appealed the decision. On June 13, 2012, FERC denied the plaintiff's request for a rehearing, affirming its initial decision. California has appealed to the United States Courts for the Ninth Circuit. CEI continues to vigorously contest this matter.

On December 17, 2012, NHS was served with a statement of claim from the Ontario Superior Court Justice by Reliance Comfort Limited Partnership seeking damages in the amount of $60 million and related declaratory and injunctive relief, based on allegations that NHS engaged in unfair trade practices and misleading representations in its marketing and sale of water heaters. Reliance also made a formal complaint to the Competition Bureau with similar allegations. NHS believes the action and complaint are attempts by Reliance to deflect attention from allegations of anti-competitive conduct made against Reliance by the Commissioner of Competition. Following a formal investigation, on December 20, 2012, the Commissioner of Competition brought applications against Reliance Home Comfort and Direct Energy alleging that each company was abusing its dominant position through conduct that intentionally suppresses competition and restricts consumer choice. On September 11, 2013, Just Energy was served with an amended claim issued by Reliance which added JEGI as a defendant. Just Energy believes that it is not a proper defendant in the proceedings and that the allegations against it are a continued attempt by Reliance to deflect attention from the Commissioner's allegation of anti-competive conduct made against it. NHS and Just Energy will vigorously defend themselves against the action and NHS has counterclaimed for $60 million in damages for claims of misleading advertising, breaches of the Competition Act, breaches of the Consumer Protection Act and defamation. In response to the formal complaint by Reliance, the Commissioner of Competition has commenced an inquiry with respect to NHS and its competitors.

On August 12, 2013, Fulcrum Power Services L.P. ("FPS") filed a lawsuit against Just Energy. Just Energy (U.S.) Corp. and Fulcrum Retail Holdings LLC ("FRH"), for up to $20 million in connection with FRH failing to achieve an earn-out target under the Purchase and Sales Agreement dated August 24, 2011 for the purchase of FRH from FPS. FPS alleges that Just Energy conducted itself in a manner that was intended to or reasonably likely to reduce or avoid the achievement of the earn-out target. Just Energy will vigorously defend itself against this claim.

Controls and procedures

As of September 30, 2013, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company, along with the assistance of senior management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to Just Energy is made known to the CEO and CFO, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

During the three and six months ended September 30, 2013, there were no changes in Just Energy's internal controls over financial reporting that occurred that have significantly affected, or are reasonably likely to significantly affect, the Company's internal controls over financial reporting.

CORPORATE GOVERNANCE

Just Energy is committed to transparency in its operations and ensuring its approach to governance meets all recommended standards. Full disclosure of Just Energy's compliance with existing corporate governance rules is available at www.justenergygroup.com and is included in Just Energy's May 17, 2013 Management Proxy Circular. Just Energy actively monitors the corporate governance and disclosure environment to ensure timely compliance with current and future requirements.

Outlook

The cash flow impacts of the Company's marketing success in recent periods continue to result in substantial growth in Base EBITDA from continuing operations and Base Funds from continuing operations. Entering fiscal 2014, management provided guidance for Base EBITDA of $220 million for the year, up from $175.1 million (26%) recorded in fiscal 2013. This growth was predicated on cash flow from the record customer additions in fiscal 2013, the fact that the Company's customer aggregation costs per customer are declining and that administrative costs were expected to be flat or lower than the fiscal 2013 fourth quarter run date for fiscal 2014 despite expected customer base growth.

Base EBITDA for the second quarter was $39.1 million, up 37% from the second quarter of fiscal 2013. After six months, Base EBITDA of $68.3 million is 43% ahead of the $47.6 million recorded at the same point in fiscal 2013. This is slightly ahead of pace to meet the $220 million Base EBITDA guidance provided by management for the fiscal year. It should be noted that, due to seasonality, the first two quarters generate the lowest margin and Base EBITDA and the final two quarters will need to show strong growth in order to meet this target. Based on the Company's embedded gross margin for the coming periods, management expects Base EBITDA growth to slow in the third and fourth quarters but, assuming normal winter weather, remains confident that the guidance will be achieved.

Base Funds from continuing operations increased again in the second quarter, rising 129% from $12.6 million to $28.8 million in the second quarter of fiscal 2014. This increase tracks the growth of Base EBITDA and Just Energy remains on track to have a payout ratio on Base Funds from continuing operations of less than 100% for fiscal 2014. In the current quarter, the payout ratio was 107%, down from 352% in the comparable quarter of fiscal 2013. The third and fourth quarters are also expected to show payout ratios lower than the payout ratios reported for the first and second quarters.

Margin for the quarter was up 12% year over year to $128.5 million. The margin growth was less than the 20% growth in sales as lower margin commercial customers become a larger portion of the customer base. Growth of margin in the future is anticipated to be slowed somewhat by continued customer energy efficiency gains. In key Just Energy markets, the average consumption of electricity per square foot is down more than 10% over the past three years. This requires the Company to continue to alter its supply assumptions and results in reduced profit per customer. The current levels of margin per new customer have stabilized at a point which is consistent with expectations built into the Company's guidance.

Customer additions of 341,000 were lower than the record level seen in the first quarter of fiscal 2014 but aggregation remains strong. This was the eighth consecutive quarter with over 300,000 additions and the 9% year over year growth in the customer base drives the double-digit growth seen in Base EBITDA and Base Funds from continuing operations. The Company has made a conscious effort to reduce the number of low margin customers signed or renewed and ensures customer margins are consistent with target expectation. This has impacted both gross and net additions and it is intended to ensure customer margins are consistent with target expectations. Despite this, management expects continued aggregation at recent levels for the foreseeable future.

Embedded gross margin of $2.3 billion was effectively flat over the quarter as the effect of net customer growth for the quarter was offset by the impact of the appreciation of the U.S. dollar against the Canadian dollar in the three months ended September 30, 2013. Longer term, management believes embedded gross margin will grow with the customer base.

Two important drivers of Base EBITDA growth are controlled administrative expenses and lower selling and marketing costs. Both were in place in the second quarter. Administrative costs of $35.2 million were lower than those seen in the first quarter of fiscal 2014 and the fourth quarter of last year. Selling and marketing costs of $48.0 million were down 5% versus last year's second quarter. Year to date selling and marketing costs of $100.4 million are down 8% despite the growth in the customer base. During the quarter, 31% of total consumer and commercial customers were aggregated through the traditional door-to-door sales with the remaining 69% coming through non-door-to-door channels (40% through commercial brokers and the remaining 29% from other channels such as Internet sales and telemarketing). Management anticipates that the percentage of customers gained through door-to-door sales will continue to decline.

Attrition rates have declined steadily over the past three years as commodity market prices have come in line with the Company's current contract offerings. Management expects attrition to remain stable going forward. The Company's calculation of embedded margin does not assume any further improvement in attrition rates.

Renewal rates were above target level at 72% for the last 12 months, an improvement from the 70% seen in the first quarter of fiscal 2014 and a year ago. Efforts to strengthen the customer relationship through the bundled sale of both commodities and products such as smart thermostats should result in both higher renewals and lower attrition in the Consumer Energy division. Renewals of Commercial Energy division's customers will remain volatile as the Company's efforts to maintain per customer margins at or above current levels will inevitably result in non-renewal of some larger volume, low margin customers. Management's analysis of this trade off indicates that Just Energy will optimize commercial profits under this strategy.

In March 2013, Just Energy formally commenced the process to dispose of the Terra Grain Fuels ethanol plant. The business of TGF has been operating in an unpredictable product environment, making it difficult for management to derive real growth and profitability from the segment. It is expected that TGF will be divested by the end of fiscal 2014. At March 31, 2013, TGF was classified as held for sale. Accordingly, it has been identified as a discontinued operation along with its related non-recourse debt. Just Energy has no expectation of cash recovery above outstanding debt on the sale.

In changing the dividend for fiscal 2014, management and the board of directors concluded that the new monthly $0.07 per share level met the criteria of providing adequate funding of growth expenditures and making a necessary contribution to the cash repayment of future debt maturities. The combination of anticipated future growth and this lower dividend level is expected to allow the Company to reduce its debt to EBITDA to a target range of 3.5 to 4.0 times by the end of fiscal 2016.

Interim condensed consolidated statements of financial position

As at
(in thousands of Canadian dollars)

	Notes	Sept. 30, 2013	March 31, 2013
		(unaudited)	(audited)
ASSETS			
Non-current assets			
Property, plant and equipment		$ 274,088	$ 258,003
Intangible assets		420,554	447,333
Contract initiation costs		67,314	58,446
Other non-current financial assets	7	11,517	31,305
Non-current receivables		10,696	11,046
Investments	6	9,036	9,000
Deferred tax asset		18,309	24,858
		811,514	839,991
Current assets			
Inventory		8,541	6,073
Gas delivered in excess of consumption		18,896	5,224
Gas in storage		34,811	11,051
Current trade and other receivables		408,535	315,551
Accrued gas receivables		1,268	33,989
Unbilled revenues		89,860	129,166
Prepaid expenses and deposits		26,001	15,874
Other current assets	7	15,410	33,005
Corporate tax recoverable		9,581	9,761
Restricted cash		13,477	13,320
Cash and cash equivalents		22,194	38,498
		648,574	611,512
Assets classified as held for sale	5	73,401	77,439
		721,975	688,951
TOTAL ASSETS		$ 1,533,489	$ 1,528,942
DEFICIT AND LIABILITIES			
Deficit attributable to equity holders of the parent			
Deficit		$(1,515,022)	$(1,300,280)
Accumulated other comprehensive income	8	48,682	47,155
Shareholders' capital	9	1,029,949	1,018,082
Equity component of convertible debentures		25,795	25,795
Contributed surplus		67,588	70,893
Shareholders' deficit		(343,008)	(138,355)
Non-controlling interest		9,032	(702)
TOTAL DEFICIT		(333,976)	(139,057)
Non-current liabilities			
Long-term debt	10	719,305	795,224
Provisions		3,967	3,773
Deferred lease inducements		929	1,044
Other non-current financial liabilities	7	108,008	85,380
Deferred tax liability		31,904	31,327
		864,113	916,748
Current liabilities			
Trade and other payables		374,532	301,820
Accrued gas payable		516	28,476
Deferred revenue		43,838	13,017
Income taxes payable		5,048	5,143
Current portion of long-term debt	10	285,737	162,474
Provisions		2,944	3,063
Other current financial liabilities	7	217,866	159,819
		930,481	673,812
Liabilities relating to assets classified as held for sale	5	72,871	77,439
		1,003,352	751,251
TOTAL LIABILITIES		1,867,465	1,667,999
TOTAL DEFICIT AND LIABILITIES		$ 1,533,489	$ 1,528,942

Commitments and Guarantees (Note 16)

See accompanying notes to the interim condensed consolidated financial statements

Interim condensed consolidated statements of income (loss)

(unaudited in thousands of Canadian dollars, except where indicated and per share amounts)

	Notes	Three months ended Sept. 30, 2013	Three months ended Sept. 30, 2012	Six months ended Sept. 30, 2013	Six months ended Sept. 30, 2012
CONTINUING OPERATIONS					
SALES	13	$ 853,013	$ 713,190	$ 1,599,136	$ 1,370,527
COST OF SALES	12(b)	724,513	598,904	1,351,222	1,142,584
GROSS MARGIN		128,500	114,286	247,914	227,943
EXPENSES					
Administrative expenses		35,217	33,390	71,237	67,228
Selling and marketing expenses		47,962	50,268	100,382	108,834
Other operating expenses	12(a)	27,276	33,770	52,562	68,506
		110,455	117,428	224,181	244,568
Operating (loss) profit before the following		18,045	(3,142)	23,733	(16,625)
Finance costs	10	(22,326)	(18,436)	(44,846)	(34,746)
Change in fair value of derivative instruments	7	(103,784)	52,462	(120,943)	446,353
Proportionate share of loss from joint venture	6	(2,678)	(2,701)	(4,790)	(3,860)
Other income		19	2,676	510	4,978
Income (loss) before income taxes		(110,724)	30,859	(146,336)	396,100
Provision for income taxes	11	3,671	6,895	7,829	39,592
PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		$ (114,395)	$ 23,964	$ (154,165)	$ 356,508
DISCONTINUED OPERATIONS					
Income (loss) for the period from discontinued operations	5	2,875	(877)	696	(4,782)
PROFIT (LOSS) FOR THE PERIOD		$ (111,520)	$ 23,087	$ (153,469)	$ 351,726
Attributable to:					
Shareholders of Just Energy		$ (111,312)	$ 23,596	$ (153,136)	$ 352,068
Non-controlling interest		(208)	(509)	(333)	(342)
PROFIT (LOSS) FOR THE PERIOD		$ (111,520)	$ 23,087	$ (153,469)	$ 351,726
Earnings (loss) per share from continuing operations	14				
Basic		$ (0.80)	$ 0.17	$ (1.08)	$ 2.56
Diluted		$ (0.80)	$ 0.17	$ (1.08)	$ 2.18
Earnings (loss) per share available to shareholders					
Basic		$ (0.78)	$ 0.17	$ (1.07)	$ 2.53
Diluted		$ (0.78)	$ 0.16	$ (1.07)	$ 2.15

See accompanying notes to the interim condensed consolidated financial statements

Interim condensed consolidated statements of comprehensive income (loss)

(unaudited in thousands of Canadian dollars)

	Notes	Three months ended Sept. 30, 2013	Three months ended Sept. 30, 2012	Six months ended Sept. 30, 2013	Six months ended Sept. 30, 2012
Profit (loss) for the period		$ (111,520)	$ 23,087	$ (153,469)	$ 351,726
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:	8				
Unrealized gain (loss) on translation of foreign operations		(7,294)	(10,562)	5,925	(7,485)
Amortization of deferred unrealized gain of discontinued hedges net of income taxes of $49 (2012 – $1,573) and $450 (2012 – $3,862) for the three and six months ended September 30, 2013, respectively		(1,297)	(7,177)	(4,398)	(16,469)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods, net of tax		(8,591)	(17,739)	1,527	(23,954)
Total comprehensive income (loss) for the period, net of tax		$ (120,111)	$ 5,348	$ (151,942)	$ 327,772
Total comprehensive income (loss) attributable to:					
Shareholders of Just Energy		$ (119,903)	$ 5,857	$ (151,609)	$ 328,114
Non-controlling interest		(208)	(509)	(333)	(342)
Total comprehensive income (loss) for the period, net of tax		$ (120,111)	$ 5,348	$ (151,942)	$ 327,772

See accompanying notes to the interim condensed consolidated financial statements

Interim condensed consolidated statements of changes in shareholders' deficit

For the six months ended September 30
(unaudited in thousands of Canadian dollars)

	Notes	2013	2012
ATTRIBUTABLE TO THE SHAREHOLDERS			
Accumulated earnings (deficit)			
Accumulated earnings (deficit), beginning of period		$ 87,496	$ (442,812)
Profit (loss) for the period, attributable to the shareholders		(153,136)	352,068
Accumulated earnings (deficit), end of period		(65,640)	(90,744)
DIVIDENDS			
Dividends, beginning of period		(1,387,776)	(1,209,376)
Dividends	15	(61,606)	(88,799)
Dividends, end of period		(1,449,382)	(1,298,175)
DEFICIT		$(1,515,022)	$(1,388,919)
ACCUMULATED OTHER COMPREHENSIVE INCOME	8		
Accumulated other comprehensive income, beginning of period		$ 47,155	$ 70,293
Other comprehensive income (loss)		1,527	(23,954)
Accumulated other comprehensive income, end of period		$ 48,682	$ 46,339
SHAREHOLDERS' CAPITAL	9		
Shareholders' capital, beginning of period		$ 1,018,082	$ 993,181
Share-based compensation awards exercised		6,668	859
Dividend reinvestment plan		5,199	3,269
Shareholders' capital, end of period		$ 1,029,949	$ 997,309
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES			
Balance, beginning of period		$ 25,795	$ 25,795
Balance, end of period		$ 25,795	$ 25,795
CONTRIBUTED SURPLUS			
Balance, beginning of period		$ 70,893	$ 62,147
Add: Share-based compensation awards	12(a)	3,301	6,388
Non-cash deferred share grant distributions		62	84
Less: Share-based awards exercised		(6,668)	(859)
Balance, end of period		$ 67,588	$ 67,760
NON-CONTROLLING INTEREST			
Balance, beginning of period		$ (702)	$ (637)
Investment by minority shareholder	10(h)	9,949	–
Foreign exchange impact on non-controlling interest		118	(502)
Profit (loss) attributable to non-controlling interest		(333)	(342)
Balance, end of period		$ 9,032	$ (1,481)
TOTAL DEFICIT		$ (333,976)	$ (253,197)

See accompanying notes to the interim condensed consolidated financial statements

Interim condensed consolidated statements of cash flows

(unaudited in thousands of Canadian dollars)

	Notes	Three months ended Sept. 30, 2013	Three months ended Sept. 30, 2012	Six months ended Sept. 30, 2013	Six months ended Sept. 30, 2012
Net outflow of cash related to the following activities					
OPERATING					
Income (loss) before income taxes		$ (110,724)	$ 30,859	$ (146,336)	$ 396,100
Items not affecting cash					
Amortization of intangible assets and related supply contracts		12,814	21,686	25,352	43,459
Amortization of contract initiation costs		4,736	3,007	10,348	6,345
Amortization of property, plant and equipment		1,115	1,214	2,194	2,305
Amortization included in cost of sales		3,411	2,219	7,288	4,279
Share-based compensation	12(a)	1,464	3,156	3,301	6,388
Financing charges, non-cash portion		3,280	2,579	6,756	5,081
Other		(60)	(52)	(120)	(34)
Change in fair value of derivative instruments		103,784	(52,462)	120,943	(446,353)
Cash flows used in operating activities of discontinued operations		3,194	881	2,603	(1,271)
		133,738	(17,772)	178,665	(379,801)
Adjustment required to reflect net cash receipts from gas sales		12,319	1,312	18,162	483
Changes in non-cash working capital		(19,646)	(34,925)	(13,118)	(13,694)
		15,687	(20,526)	37,373	3,088
Income tax recovered (paid)		131	(214)	(181)	(1,818)
Cash inflow (outflow) from operating activities		15,818	(20,740)	37,192	1,270
INVESTING					
Purchase of property, plant and equipment		(10,456)	(30,157)	(24,098)	(54,484)
Purchase of intangible assets		(681)	(1,008)	(2,815)	(2,550)
Receipts from (advances of) long-term receivables		(248)	(1,017)	350	(1,835)
Investments		–	(8,942)	–	(8,942)
Settlement of contingent consideration		–	(1,551)	–	(1,551)
Cash flows used in investing activities of discontinued operations		(86)	(220)	(86)	(221)
Contract initiation costs		(10,960)	(7,654)	(19,067)	(15,818)
Cash outflow from investing activities		(22,431)	(50,549)	(45,716)	(85,401)
FINANCING					
Dividends paid		(29,576)	(41,098)	(56,345)	(85,446)
Issuance of long-term debt		166,014	213,803	292,462	280,305
Repayment of long-term debt		(142,903)	(114,666)	(250,392)	(123,350)
Restricted cash		–	1,251	–	1,251
Debt issuance costs		(517)	(953)	(2,153)	(953)
Investment made by minority shareholder		3,832	–	9,949	–
Cash flows provided by financing activities of discontinued operations		(3,110)	(3,398)	(2,351)	235
Cash inflow (outflow) from financing activities		(6,024)	54,939	(8,830)	72,042
Effect of foreign currency translation on cash balances		1,086	(714)	1,050	(799)
Net cash outflow		(11,787)	(17,064)	(16,304)	(12,888)
Cash and cash equivalents reclassified to assets held for sale		–	–	–	(396)
Cash and cash equivalents, beginning of period		33,981	57,000	38,498	53,220
Cash and cash equivalents, end of period		$ 22,194	$ 39,936	$ 22,194	$ 39,936

See accompanying notes to the interim condensed consolidated financial statements

Notes to the interim condensed consolidated financial statements

For the six months ended September 30, 2013
(unaudited in thousands of Canadian dollars, except where indicated and per share amounts)

1. ORGANIZATION

Just Energy Group Inc. ("JEGI", "Just Energy" or the "Company") is a corporation established under the laws of Canada to hold securities and to distribute the income of its directly or indirectly owned operating subsidiaries and affiliates.The registered office of Just Energy is First Canadian Place, 100 King Street West, Toronto, Ontario, Canada. The interim condensed consolidated financial statements consist of Just Energy and its subsidiaries and affiliates. The interim condensed consolidated financial statements were approved by the Board of Directors on November 7, 2013.

2. OPERATIONS

Just Energy's business involves the sale of natural gas and/or electricity to residential and commercial customers under long-term fixed-price, price-protected or variable-priced contracts. Just Energy markets its gas and electricity contracts in Canada, the United States and the United Kingdom, under the following trade names: Just Energy, Hudson Energy, Commerce Energy, Amigo Energy, Tara Energy and Green Star Energy. By fixing the price of natural gas or electricity under its fixed-price or price-protected program contracts for a period of up to five years, Just Energy's customers offset their exposure to changes in the price of these essential commodities. Variable rate products allow customers to maintain competitive rates while retaining the ability to lock into a fixed price at their discretion. Just Energy derives its margin or gross profit from the difference between the price at which it is able to sell the commodities to its customers and the related price at which it purchases the associated volumes from its suppliers.

Just Energy also offers green products through its JustGreen programs. The electricity JustGreen product offers customers the option of having all or a portion of their electricity sourced from renewable green sources such as wind, run of the river hydro or biomass. The gas JustGreen product offers carbon offset credits that allow customers to reduce or eliminate the carbon footprint of their homes or businesses. Additional green products that allow customers in certain jurisdictions to offset their carbon footprint without purchasing commodity products, can be offered in all states and provinces and are not dependent on energy deregulation.

In addition, Just Energy sells and rents high efficiency and tankless water heaters, air conditioners and furnaces to Ontario and Quebec residents through a subsidiary operating under the trade name National Home Services ("NHS"). Just Energy also operates a network marketing division under the trade name Momentis. Just Energy's subsidiary, Hudson Energy Solar Corp. ("HES"), and its subsidiaries, provide a solar project development platform operating in New Jersey, Pennsylvania and Massachusetts, under the trade name Hudson Energy Solar. Through its subsidiary, Terra Grain Fuels, Inc. ("TGF"), Just Energy produces and sells wheat-based ethanol. As at March 31, 2013, TGF has been classified as held for sale; see Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

(b) Basis of presentation and interim reporting

These unaudited interim condensed consolidated financial statements should be read in conjunction with and follow the same accounting policies and methods of application as those used in the audited consolidated financial statements for the years ended March 31, 2013 and 2012, except for the adoption of new standards and interpretations effective April 1, 2013 as disclosed in Note 3(d).

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, the functional currency of Just Energy, and all values are rounded to the nearest thousand.

The unaudited interim operating results are not necessarily indicative of the results that may be expected for the full year ending March 31, 2014, due to seasonal variations resulting in fluctuations in quarterly results. Gas consumption by customers is typically highest in October through March and lowest in April through September. Electricity consumption is typically highest in January through March and July through September. Electricity consumption is lowest in October through December and April through June. For the 12 months ended September 30, 2013, the consumer and commercial segments, where the seasonal impact is recognized, reported gross margin of $491,510 (2012 – $506,483) and profit of $98,735 (2012 – $238,373).

(c) Principles of consolidation

The unaudited interim condensed consolidated financial statements include the accounts of Just Energy and its directly or indirectly owned subsidiaries and affiliates as at September 30, 2013. Subsidiaries and affiliates are consolidated from the date of acquisition and control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries and affiliates are prepared for the same reporting period as Just Energy, using consistent accounting policies. All intercompany balances, sales, expenses and unrealized gains and losses resulting from intercompany transactions are eliminated on consolidation.

(d) New standards, interpretations and amendments adopted by the Company during the quarter

The following new accounting standards applied or adopted had no material impact on the interim condensed consolidated financial statements. Please see Note 4 (II) – Accounting standards issued but not yet applied in the audited consolidated financial statements for the years ended March 31, 2013 and 2012 for further details.

- IAS 1, Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7
- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements, and IAS 28, Investment in Associates and Joint Ventures
- IFRS 12, Disclosure of Interests in Other Entities
- IFRS 13, Fair Value Measurement
- IAS 28, Investments in Associates and Joint Ventures
- IAS 32, Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
- IAS 34, Interim Financial Reporting and Segment Information for Total Assets and Liabilities

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the unaudited interim condensed consolidated financial statements requires the use of estimates and assumptions to be made in applying the accounting policies that affect the reported amounts of assets, liabilities, income, expenses and the disclosure of contingent liabilities. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis for making the assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Judgments made by management in the application of IFRS that have a significant impact on the unaudited interim condensed consolidated financial statements relate to the following:

Impairment of non-financial assets

Just Energy's impairment test is based on value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and are sensitive to the discount rate used as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Deferred taxes

Significant management judgment is required to determine the amount of deferred tax assets and liabilities that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax-planning strategies.

Useful life of key property, plant and equipment and intangible assets

The amortization method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by Just Energy.

Provisions for litigation

The State of California has filed a number of complaints to the Federal Energy Regulatory Commission ("FERC") against many suppliers of electricity, including Commerce, a subsidiary of Just Energy, with respect to events stemming from the 2001 energy crisis in California. Pursuant to the complaints, the State of California is challenging the FERC's enforcement of its market-based rate system. At this time, the likelihood of damages or recoveries and the ultimate amounts, if any, with respect to this litigation are not certain; however, an estimated amount has been recorded in these unaudited interim condensed consolidated financial statements as at September 30, 2013. In the general course of operations, Just Energy has made additional provisions for litigation matters that have arisen.

On December 17, 2012, and then amended on September 11, 2013, NHS was served with a $60 million claim from a competitor for unfair trade practices and misleading marketing. Just Energy has issued a counterclaim for $60 million and will vigorously defend itself against this claim. Just Energy believes the claim is without merit and has not included an accrual in its provisions for this claim.

On August 12, 2013, Fulcrum Power Services L.P. ("FPS") filed a lawsuit against Just Energy and Fulcrum Retail Holdings LLC ("FRH"), for up to $20 million in connection with FRH failing to achieve an earn-out target under the Purchase and Sales Agreement dated August 24, 2011 for the purchase of FRH from FPS. FPS alleges that Just Energy conducted itself in a manner that was intended to or reasonably likely to reduce or avoid the achievement of the earn-out target. Just Energy will vigorously defend itself against this claim. Just Energy believes the claim is without merit and has not included an accrual in its provisions for this claim.

Trade receivables
Just Energy reviews its individually significant receivables at each reporting date to assess whether an impairment loss should be recorded in the interim condensed consolidated statements of income (loss). In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, Just Energy makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the interim condensed consolidated statements of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to Note 7 for further details about the assumptions as well as sensitivity analysis.

5. DISCONTINUED OPERATIONS

In March 2013, Just Energy formally commenced the process to dispose of TGF. The business of TGF has been operating in an unpredictable product environment, making it difficult for management to derive real growth and profitability from the segment. In addition, it has been viewed as a non-core business since it was acquired with the Universal Energy acquisition in 2009. The disposal of TGF is due to be completed within the current fiscal year. As at September 30, 2013, TGF is classified as held for sale and as a discontinued operation.

The results of TGF for the three and six months ended September 30 are presented below:

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Sales	$ 28,182	$ 29,300	$ 58,956	$ 52,837
Cost of sales	22,068	26,351	51,256	49,286
Gross margin	6,114	2,949	7,700	3,551
Expenses				
Administrative and operating expenses	1,622	2,294	3,888	5,231
Operating income (loss)	4,492	655	3,812	(1,680)
Finance costs	(1,617)	(1,532)	(3,116)	(3,102)
PROFIT (LOSS) FOR THE PERIOD FROM DISCONTINUED OPERATIONS	$ 2,875	$ (877)	$ 696	$ (4,782)
Earnings (loss) per share				
Basic earnings (loss) per share from discontinued operations	$ 0.02	$ (0.01)	$ 0.00	$ (0.03)
Diluted earnings (loss) per share from discontinued operations	$ 0.02	$ (0.01)	$ 0.00	$ (0.03)

The major classes of assets and liabilities of TGF classified as held for sale are as follows:

	Notes	As at Sept. 30, 2013	As at March 31, 2013
Assets			(audited)
Non-current assets			
Property, plant and equipment		$ 63,332	$ 63,289
Intangible assets		40	39
Current assets			
Inventory		4,394	7,666
Current trade and other receivables		3,921	5,215
Prepaid expenses and deposits		1,602	1,068
Cash and cash equivalents		112	162
Assets classified as held for sale		$ 73,401	$ 77,439
Current liabilities			
Bank indebtedness		$ 588	$ 5,191
Trade and other payables		3,806	6,013
Deferred revenue		9	19
Debt	10	68,468	66,216
LIABILITIES RELATING TO ASSETS CLASSIFIED AS HELD FOR SALE		$ 72,871	$ 77,439

Following the classification as discontinued operations, an impairment loss of $64,729 was recognized in the prior fiscal year, to reduce the carrying amount of the assets in the disposal group to the fair value less costs to sell. This loss was recognized in discontinued operations in the statement of income (loss).

TGF has commitments for each of the next five years as follows:

COMMITMENTS

	Less than 1 year	1 to 3 years	4 to 5 years	Total
As at September 30, 2013				
Premises and equipment leasing	$ 415	$ 45	$ 851	$ 1,311
Grain production contracts	15,601	664	–	16,265
	$ 16,016	$ 709	$ 851	$ 17,576

6. INVESTMENTS

(i) Just Energy has a 50% interest in Just Ventures LLC and Just Ventures L.P. (collectively "Just Ventures"), jointly controlled entities that are involved in the marketing of Just Energy products. The marketing efforts of Just Ventures are primarily Internet and telemarketing-based, which differs from Just Energy's traditional sales channels.

Just Ventures is currently funded by its investors and all advances are recorded as additional capital contributions.

	2013	2012
Share of the associate's revenue and loss		
Revenue eliminated on consolidation	$ 6,215	$ 1,332
Loss	$ (4,790)	$ (3,860)
Carrying amount of the investment	$ –	$ –

At any time subsequent to the second anniversary of the joint venture agreements, the other participant in the joint venture has the ability to sell part or all of its interest in Just Ventures (the "Put"). The amount is determined based on the fair value of the previous month's billed customers. As at September 30, 2013, the Put was estimated to have a nominal value.

(ii) In August 2012, the Company issued a US$2,500 promissory note to its joint venture partner. The promissory note receivable matures on August 24, 2037, and bears interest at the annual federal rate established by the Internal Revenue Service.

(iii) In August 2012, Just Energy through a subsidiary acquired a 15% interest in ecobee Inc., a private company that designs, manufactures and distributes smart thermostats, for an amount of $6,460. The Company intends to market these smart thermostats in all its core markets linking them to commodity and home service sales.

7. FINANCIAL INSTRUMENTS

(a) Fair value

The fair value of financial instruments is 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 (i.e., an exit price). Management has estimated the value of electricity, unforced capacity, heat rates, heat rate options, renewable and gas swap and forward contracts using a discounted cash flow method, which employs market forward curves that are either directly sourced from third parties or are developed internally based on third party market data. These curves can be volatile thus leading to volatility in the mark to market with no impact to cash flows. Gas options have been valued using the Black option value model using the applicable market forward curves and the implied volatility from other market traded gas options.

Effective July 1, 2008, Just Energy ceased the utilization of hedge accounting. Accordingly, all the mark to market changes on Just Energy's derivative instruments are recorded on a single line on the interim condensed consolidated statements of income (loss). Due to the commodity volatility and size of Just Energy, the swings in mark to market on these positions will increase the volatility in Just Energy's earnings.

The following table illustrates gains (losses) related to Just Energy's derivative financial instruments classified as fair value through profit and loss and recorded on the interim condensed consolidated statements of financial position as other assets and other liabilities, with their offsetting values recorded in change in fair value of derivative instruments.

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Change in fair value of derivative instruments				
Fixed-for-floating electricity swaps (i)	$ 10,335	$ 54,982	$ (5,428)	$ 139,654
Renewable energy certificates (ii)	(2,221)	506	3,430	1,648
Verified emission-reduction credits (iii)	883	(36)	868	1,335
Options (iv)	104	44	451	699
Physical gas forward contracts (v)	14,728	53,060	26,994	124,377
Physical electricity forward contracts (viii)	(103,319)	(58,677)	(118,801)	101,751
Transportation forward contracts (vi)	(2,581)	2,183	(926)	7,176
Fixed financial swaps (vii)	3,412	34,540	(12,484)	78,791
Unforced capacity forward contracts (ix)	441	(607)	803	(910)
Unforced capacity physical contracts (x)	(5,290)	(1,250)	925	1,544
Heat rate swaps (xi)	(18,118)	(32,589)	(12,907)	(9,228)
Weather derivative	–	(2,689)	–	–
Foreign exchange forward contracts (xii)	1,018	820	145	504
Amortization of deferred unrealized gains on discontinued hedges	1,346	8,750	4,848	20,331
Share swap	(870)	(678)	(1,459)	(7,694)
Amortization of derivative financial instruments related to acquisitions	(3,652)	(13,431)	(7,302)	(26,937)
Prepayment option on long-term debt	–	–	(100)	–
Change in fair value of contingent consideration	–	7,534	–	13,312
Change in fair value of derivative instruments	$ (103,784)	$ 52,462	$ (120,943)	$ 446,353

The following table summarizes certain aspects of the financial assets and liabilities recorded in the interim condensed consolidated statements of financial position as at September 30, 2013:

	Other assets (current)	Other assets (non-current)	Other financial liabilities (current)	Other financial liabilities (non-current)
Fixed-for-floating electricity swaps (i)	$ 1,462	$ 1,054	$ 48,106	$ 37,643
Renewable energy certificates (ii)	2,172	5,564	2,204	2,347
Verified emission-reduction credits (iii)	230	802	592	606
Options (iv)	34	–	307	42
Physical gas forward contracts (v)	269	–	45,926	16,301
Physical electricity forward contracts (viii)	47	–	65,676	27,637
Transportation forward contracts (vi)	583	–	1,001	715
Fixed financial swaps (vii)	3	–	33,412	22,106
Unforced capacity forward contracts (ix)	–	–	1,190	–
Unforced capacity physical contracts (x)	6,094	2,055	672	611
Heat rate swaps (xi)	4,516	1,742	651	–
Foreign exchange forward contracts (xii)	–	–	341	–
Share swap	–	–	17,374	–
Cash-out option on stock-based compensation	–	–	414	–
Prepayment option on long-term debt	–	300	–	–
As at September 30, 2013	$ 15,410	$ 11,517	$ 217,866	$ 108,008

The following table summarizes certain aspects of the financial assets and liabilities recorded in the consolidated statements of financial position as at March 31, 2013:

	Other assets (current)	Other assets (non-current)	Other financial liabilities (current)	Other financial liabilities (non-current)
Fixed-for-floating electricity swaps (i)	$ 2,632	$ 1,421	$ 42,959	$ 38,524
Renewable energy certificates (ii)	1,413	686	1,326	1,033
Verified emission-reduction credits (iii)	60	73	568	579
Options (iv)	214	–	909	67
Physical electricity forward contracts (viii)	10,970	16,515	2,804	51
Physical gas forward contracts (v)	2	–	63,284	25,586
Transportation forward contracts (vi)	970	437	1,557	51
Fixed financial swaps (vii)	4,052	23	27,350	19,200
Unforced capacity forward contracts (ix)	456	–	2,134	289
Unforced capacity physical contracts (x)	2,008	3,865	113	–
Heat rate swaps (xi)	10,228	7,885	–	–
Foreign exchange forward contracts (xii)	–	–	486	–
Share swap	–	–	15,915	–
Prepayment option on long-term debt	–	400	–	–
Cash-out option on stock-based compensation	–	–	414	–
As at March 31, 2013	$ 33,005	$ 31,305	$ 159,819	$ 85,380

The following table summarizes financial instruments classified as fair value through profit and loss as at September 30, 2013, to which Just Energy has committed:

	Contract type	Notional volume	Total remaining volume	Maturity date	Fixed price	Fair value favourable/ (unfavourable)	Notional value
(i)	Fixed-for-floating electricity swaps	0–76.90 MWh	20,386,946 MWh	October 1, 2013 December 31, 2019	$0.03–$129.05	($83,233)	$940,812
(ii)	Renewable energy certificates	10–160,000 MWh	7,769,668 MWh	December 31, 2013 December 31, 2018	$0.30–$280.00	$3,185	$39,319
(iii)	Verified emission-reduction credits	2,000–73,082 tonnes	936,000 tonnes	December 31, 2013 December 31, 2016	$1.50–$11.50	($166)	$5,766
(iv)	Options	985–40,000 GJ/month	352,531 GJ	October 31, 2013 December 31, 2014	$3.70–$10.99	($315)	($72)
(v)	Physical gas forward contracts	0.35–5,076.00 GJ/day	40,353,212 GJ	July 1, 2013 December 31, 2018	$2.50–$11.88	($61,958)	$210,061
(vi)	Transportation forward contracts	1–155,000 GJ/day	30,491,684 GJ	October 1, 2013 December 31, 2016	$0.00–$3.70	($1,133)	$75,154
(vii)	Fixed financial swaps	930–600,000 GJ/month	82,245,581 GJ	October 31, 2013 December 31, 2018	$2.62–$7.65	($55,515)	$353,781
(viii)	Physical electricity forwards contracts	0.20–200.00 MWh	20,618,558 MWh	October 1, 2013 December 31, 2018	$25.50–$74.67	($93,266)	$973,214
(ix)	Unforced capacity forward contracts	4,200–4,650 MWCap	36,450 MWCap	May 31, 2014 May 31, 2014	$60.57–$60.57	($1,190)	$2,284
(x)	Unforced capacity physical contracts	1–210 MWCap	8,175 MWCap	October 31, 2013 May 31, 2016	$6–$15,700	$6,866	$65,662
(xi)	Heat rate swaps	1–20 MWh	1,192,616 MWh	October 31, 2013 October 31, 2016	$25.20–$51.48	$5,607	$43,194
(xii)	Foreign exchange forward contracts	US$1,000,000–$4,000,000	n/a	October 1, 2013 July 7, 2014	$1.00–$1.06	($341)	$26,500

The estimated amortization of deferred gains and losses on the discontinued hedges reported in accumulated other comprehensive income that is expected to be amortized to the interim condensed consolidated statements of income (loss) within the next 12 months is a gain of approximately $8,031.

These derivative financial instruments create a credit risk for Just Energy since they have been transacted with a limited number of counterparties. Should any counterparty be unable to fulfill its obligations under the contracts, Just Energy may not be able to realize the other assets balance recognized in the interim condensed consolidated financial statements.

Share swap agreement

The Company has entered into a share swap agreement to manage the risks associated with the Company's restricted share grant and deferred share grant plans. The value, on inception, of the 2,500,000 shares under this share swap agreement was approximately $33,803. Net monthly settlements received under the share swap agreement are recorded in other income. The Company marks to market the fair value of the share swap agreement and has included that value as other current financial liabilities on the interim condensed consolidated statements of financial position. Changes in the fair value of the share swap agreement are recorded through the interim condensed consolidated statements of income (loss) as a change in fair value of derivative instruments.

Fair value ("FV") hierarchy

Level 1

The fair value measurements are classified as Level 1 in the FV hierarchy if the fair value is determined using quoted unadjusted market prices. Just Energy values its cash and cash equivalents, current trade and other receivables, unbilled revenues, trade and other payables under Level 1.

Level 2

Fair value measurements that require inputs other than quoted prices in Level 1, either directly or indirectly, are classified as Level 2 in the FV hierarchy. This could include the use of statistical techniques to derive the FV curve from observable market prices. However, in order to be classified under Level 2, inputs must be directly or indirectly observable in the market. Just Energy values its New York Mercantile Exchange ("NY MEX") financial gas fixed-for-floating swaps under Level 2.

Level 3

Fair value measurements that require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs are classified as Level 3 in the FV hierarchy. For the supply contracts, Just Energy uses quoted market prices as per available market forward data and applies a price-shaping profile to calculate the monthly prices from annual strips and hourly prices from block strips for the purposes of mark to market calculations. The profile is based on historical settlements with counterparties or with the system operator and is considered an unobservable input for the purposes of establishing the level in the FV hierarchy. For the natural gas supply contracts, Just Energy uses three different market observable curves: i) Commodity (predominately NY MEX), ii) Basis and iii) Foreign exchange. NY MEX curves extend for over five years (thereby covering the length of Just Energy's contracts); however, most basis curves only extend 12 to 15 months into the future. In order to calculate basis curves for the remaining years, Just Energy uses extrapolation, which leads natural gas supply contracts to be classified under Level 3. The carrying value of TGF has been adjusted to the fair value less costs to sell based on management's expected selling price.

Fair value measurement input sensitivity

The main cause of changes in the fair value of derivative instruments are changes in the forward curve prices used for the fair value calculations. Just Energy provides a sensitivity analysis of these forward curves under the market risk section of this note. Other inputs, including volatility and correlations, are driven off historical settlements.

The following table illustrates the classification of financial assets (liabilities) in the FV hierarchy as at September 30, 2013:

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	$ –	$ –	$ 26,927	$ 26,927
Discontinued operations (Note 5)	–	–	73,401	73,401
Financial liabilities				
Derivative financial liabilities	–	(31,316)	(294,558)	(325,874)
Discontinued operations (Note 5)	–	–	(72,871)	(72,871)
Total net derivative liabilities	$ –	$ (31,316)	$ (267,101)	$ (298,417)

The following table illustrates the classification of financial assets (liabilities) in the FV hierarchy as at March 31, 2013:

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	$ –	$ –	$ 64,310	$ 64,310
Discontinued operations (Note 5)	–	–	77,439	77,439
Financial liabilities				
Derivative financial liabilities	–	(32,243)	(212,956)	(245,199)
Discontinued operations (Note 5)	–	–	(77,439)	(77,439)
Total net derivative liabilities	$ –	$ (32,243)	$ (148,646)	$ (180,889)

The following table illustrates the changes in net fair value of financial assets (liabilities) classified as Level 3 in the FV hierarchy for the six months ended September 30, 2013 and the year ended March 31, 2013:

	Sept. 30, 2013	March 31, 2013
Balance, beginning of period	$ (148,646)	$ (819,354)
Total gains (losses)	(85,336)	79,853
Purchases	(55,004)	49,885
Sales	1,647	(525)
Settlements	20,238	541,495
Transfer out of Level 3	–	–
Balance, end of period	$ (267,101)	$ (148,646)

(b) Classification of financial assets and liabilities

Long-term debt recorded at amortized cost has a fair value of $949,594.

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Interest expense on financial liabilities not classified as fair value through profit and loss	$ 22,326	$ 18,436	$ 44,846	$ 34,746

As at September 30, 2013 and March 31, 2013, the carrying value of cash and cash equivalents, restricted cash, current trade and other receivables, unbilled revenues and trade and other payables approximates their fair value due to their short-term nature.

The carrying value of long-term debt approximates its fair value as the interest payable on outstanding amounts is at rates that vary with Bankers' Acceptances, LIBOR, Canadian bank prime rate or U.S. prime rate, with the following exceptions:

(i) the $90 million, $330 million and $100 million convertible debentures, which are fair valued based on market value, and,

(ii) the carrying value of the senior unsecured note, which approximates fair value due to the limited time that has passed since its issuance.

(c) Management of risks arising from financial instruments

The risks associated with Just Energy's financial instruments are as follows:

(i) Market risk

Market risk is the potential loss that may be incurred as a result of changes in the market or fair value of a particular instrument or commodity. Components of market risk to which Just Energy is exposed are discussed below.

Foreign currency risk

Foreign currency risk is created by fluctuations in the fair value or cash flows of financial instruments due to changes in foreign exchange rates and exposure as a result of investments in U.S. operations.

A portion of Just Energy's income is generated in U.S. dollars and is subject to currency fluctuations. The performance of the Canadian dollar relative to the U.S. dollar could positively or negatively affect Just Energy's income. Due to its growing operations in the U.S., Just Energy expects to have a greater exposure to U.S. fluctuations in the future than in prior years. Just Energy has economically hedged between 0% and 50% of certain forecasted cross border cash flows that are expected to occur within the next 13 to 24 months and between 50% and 90% of forecasted cross border cash flows that are expected to occur within the next 12 months. The level of hedging is dependent on the source of the cash flow and the time remaining until the cash repatriation occurs.

Just Energy may, from time to time, experience losses resulting from fluctuations in the values of its foreign currency transactions, which could adversely affect its operating results. Translation risk is not hedged.

With respect to translation exposure, if the Canadian dollar had been 5% stronger or weaker against the U.S. dollar for the six months ended September 30, 2013, assuming that all the other variables had remained constant, loss for the period would have been $3,000 higher/lower and other comprehensive income would have been $3,300 lower/higher.

Interest rate risk

Just Energy is also exposed to interest rate fluctuations associated with its floating rate credit facility. Just Energy's current exposure to interest rates does not economically warrant the use of derivative instruments. Just Energy's exposure to interest rate risk is relatively immaterial and temporary in nature. Just Energy does not currently believe that long-term debt exposes it to material financial risks but has set out parameters to actively manage this risk within its Risk Management Policy.

A 1% increase (decrease) in interest rates would have resulted in a decrease (increase) of approximately $603 in income before income taxes for the period ended September 30, 2013.

Commodity price risk

Just Energy is exposed to market risks associated with commodity prices and market volatility where estimated customer requirements do not match actual customer requirements. Management actively monitors these positions on a daily basis in accordance with its Risk Management Policy. This policy sets out a variety of limits, most importantly, thresholds for open positions in the gas and electricity portfolios which also feed a Value at Risk limit. Should any of the limits be exceeded, they are closed expeditiously or express approval to continue to hold is obtained. Just Energy's exposure to market risk is affected by a number of factors, including accuracy of estimation of customer commodity requirements, commodity prices, volatility and liquidity of markets. Just Energy enters into derivative instruments in order to manage exposures to changes in commodity prices. The derivative instruments that are used are designed to fix the price of supply for estimated customer commodity demand and thereby fix margins such that shareholder dividends can be appropriately established. Derivative instruments are generally transacted over the counter. The inability or failure of Just Energy to manage and monitor the above market risks could have a material adverse effect on the operations and cash flows of Just Energy. Just Energy mitigates the exposure for variances in customer requirements that are driven by changes in expected weather conditions, through active management of the underlying portfolio, which involves, but is not limited to, the purchase of options including weather derivatives. Just Energy's ability to mitigate weather effects is limited by the severity of weather from normal.

Commodity price sensitivity – all derivative financial instruments
If all the energy prices associated with derivative financial instruments including natural gas, electricity, verified emission-reduction credits and renewable energy certificates had risen (fallen) by 10%, assuming that all of the other variables had remained constant, income before income taxes for the six months ended September 30, 2013 would have increased (decreased) by $206,059 ($204,086) primarily as a result of the change in fair value of Just Energy's derivative financial instruments.

Commodity price sensitivity – Level 3 derivative financial instruments
If the energy prices associated with only Level 3 derivative financial instruments including natural gas, electricity, verified emission-reduction credits and renewable energy certificates had risen (fallen) by 10%, assuming that all of the other variables had remained constant, income before income taxes for the six months ended September 30, 2013 would have increased (decreased) by $195,899 ($194,148) primarily as a result of the change in fair value of Just Energy's derivative financial instruments.

(ii) Credit risk
Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Just Energy is exposed to credit risk in two specific areas: customer credit risk and counterparty credit risk.

Customer credit risk
In Alberta, Texas, Illinois, British Columbia, Massachusetts, California, Michigan and Georgia, Just Energy has customer credit risk and, therefore, credit review processes have been implemented to perform credit evaluations of customers and manage customer default. If a significant number of customers were to default on their payments, it could have a material adverse effect on the operations and cash flows of Just Energy. Management factors default from credit risk in its margin expectations for all the above markets.

The aging of the accounts receivable from the above markets was as follows:

	Sept. 30, 2013	March 31, 2013
Current	$ 98,548	$ 86,604
1–30 days	29,542	33,944
31–60 days	9,406	7,893
61–90 days	6,990	4,340
Over 91 days	35,936	31,853
	$ 180,422	$ 164,634

Changes in the allowance for doubtful accounts were as follows:

	Sept. 30, 2013	March 31, 2013
Balance, beginning of period	$ 40,190	$ 34,926
Provision for doubtful accounts	21,715	30,850
Bad debts written off	(8,906)	(23,120)
Other	(180)	(2,466)
Balance, end of period	$ 52,819	$ 40,190

In the remaining markets, the local distribution companies ("LDCs") provide collection services and assume the risk of any bad debts owing from Just Energy's customers for a fee. Management believes that the risk of the LDCs failing to deliver payment to Just Energy is minimal. There is no assurance that the LDCs that provide these services will continue to do so in the future.

Counterparty credit risk
Counterparty credit risk represents the loss that Just Energy would incur if a counterparty fails to perform under its contractual obligations. This risk would manifest itself in Just Energy replacing contracted supply at prevailing market rates, thus impacting the related customer margin. Counterparty limits are established within the Risk Management Policy. Any exceptions to these limits require approval from the Board of Directors of JEGI. The Risk Department and Risk Committee monitor current and potential credit exposure to individual counterparties and also monitor overall aggregate counterparty exposure. However, the failure of a counterparty to meet its contractual obligations could have a material adverse effect on the operations and cash flows of Just Energy.

As at September 30, 2013, the estimated counterparty credit risk exposure amounted to $207,349 representing the risk relating to the Company's derivative financial assets and accounts receivable.

(iii) Liquidity risk
Liquidity risk is the potential inability to meet financial obligations as they fall due. Just Energy manages this risk by monitoring detailed weekly cash flow forecasts covering a rolling six-week period, monthly cash forecasts for the next 12 months, and quarterly forecasts for the following two-year period to ensure adequate and efficient use of cash resources and credit facilities.

The following are the contractual maturities, excluding interest payments, reflecting undiscounted disbursements of Just Energy's financial liabilities as at September 30, 2013:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Trade and other payables	$ 374,532	$ 374,532	$ 374,532	$ –	$ –	$ –
Long-term debt*	1,005,042	1,057,131	287,326	96,591	610,087	63,127
Derivative instruments	325,874	2,717,240	1,335,087	1,141,545	229,805	10,803
	$ 1,705,448	$ 4,148,903	$ 1,996,945	$ 1,238,136	$ 839,892	$ 73,930

As at March 31, 2013:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Trade and other payables	$ 301,820	$ 301,820	$ 301,820	$ –	$ –	$ –
Long-term debt*	957,698	1,014,227	162,474	189,801	403,946	258,006
Derivative instruments	245,199	2,549,866	1,372,855	993,719	182,020	1,272
	$ 1,504,717	$ 3,865,913	$ 1,837,149	$ 1,183,520	$ 585,966	$ 259,278

* Included in long-term debt are the $330,000, $100,000 and $90,000 relating to convertible debentures, which may be settled through the issuance of shares at the option of the holder or Just Energy upon maturity.

In addition to the amounts noted above, at September 30, 2013, the contractual net interest payments over the term of the long-term debt with scheduled repayment terms are as follows:

	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Interest payments	$ 61,382	$ 100,049	$ 63,377	$ 6,168

(iv) Supplier risk
Just Energy purchases the majority of the gas and electricity delivered to its customers through long-term contracts entered into with various suppliers. Just Energy has an exposure to supplier risk as the ability to continue to deliver gas and electricity to its customers is reliant upon the ongoing operations of these suppliers and their ability to fulfill their contractual obligations. Just Energy has discounted the fair value of its financial assets by $1,890 to accommodate for its counterparties' risk of default.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2013	Foreign currency translation adjustments	Cash flow hedges	Total
Balance, beginning of period	$ 34,726	$ 12,429	$ 47,155
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized foreign currency translation adjustment	5,925	–	5,925
Amortization of deferred unrealized gain on discontinued hedges, net of income taxes of $450	–	(4,398)	(4,398)
Balance, end of period	$ 40,651	$ 8,031	$ 48,682

For the six months ended September 30, 2012	Foreign currency translation adjustments	Cash flow hedges	Total
Balance, beginning of period	$ 31,419	$ 38,874	$ 70,293
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Unrealized foreign currency translation adjustment	(7,485)	–	(7,485)
Amortization of deferred unrealized gain on discontinued hedges, net of income taxes of $3,862	–	(16,469)	(16,469)
Balance, end of period	$ 23,934	$ 22,405	$ 46,339

9. SHAREHOLDERS' CAPITAL

Just Energy is authorized to issue an unlimited number of common shares and 50,000,000 preference shares both with no par value. Shares outstanding have no preferences, rights or restrictions attached to them. Details of issued and outstanding shareholders' capital as at September 30, 2013, with comparatives as at March 31, 2013, are as follows:

Issued and outstanding	Six months ended Sept. 30, 2013		Year ended March 31, 2013	
	Shares	Amount	Shares	Amount
Balance, beginning of period	142,029,340	$ 1,018,082	139,348,926	$ 993,181
Share-based awards exercised	508,507	6,668	235,301	3,320
Dividend reinvestment plan[(i)]	777,850	5,199	2,444,284	21,574
Shares issued for cash	–	–	829	7
Balance, end of period	143,315,697	$ 1,029,949	142,029,340	$ 1,018,082

(i) Dividend reinvestment plan

Under Just Energy's dividend reinvestment plan ("DRIP"), shareholders holding a minimum of 100 common shares can elect to receive their dividends in common shares rather than cash at a 2% discount to the simple average closing price of the common shares for the five trading days preceding the applicable dividend payment date, providing that the common shares are issued from treasury and not purchased on the open market. The DRIP was suspended as of February 1, 2012, but was re-instated as of September 30, 2012.

(ii) Repurchase and cancellation of shares and debentures

During the 12-month period commencing February 14, 2013 and ending February 13, 2014, Just Energy has approval to make a normal course issuer bid ("NCIB") to purchase up to 10,000,000 common shares. Just Energy commenced another NCIB on February 22, 2013 with an expiration of February 21, 2014 for the 6% convertible extendible unsecured subordinated debentures due June 30, 2017 (the "6% $330 million debentures") and the 5.75% convertible unsecured subordinated debentures due September 30, 2018 (the "5.75% $100 million debentures"). Under the NCIB, Just Energy may purchase such convertible debentures, up to $33,000 of the 6% $330 million convertible extendible unsecured subordinated debentures and $10,000 of the 5.75% $100 million debentures. No shares or convertible debentures have been purchased yet under these plans.

10. LONG-TERM DEBT AND FINANCING

	Sept. 30, 2013	March 31, 2013
Credit facility (a)	$ 133,970	$ 110,121
Less: debt issue costs (a)	(46)	(427)
$105 million senior unsecured note (b)	105,000	105,000
Less: debt issue costs (b)	(6,774)	(7,335)
TGF credit facility (c)(i)	28,571	28,571
TGF debentures (c)(ii)	39,897	37,645
NHS financing (d)	272,191	257,427
$90 million convertible debentures (e)	88,411	87,610
$330 million convertible debentures (f)	301,132	297,928
$100 million convertible debentures (g)	88,485	87,579
HES financing (h)		
Credit facility	11,591	11,431
Construction loan	2,995	9,776
Term loan	11,043	–
Less: debt issue costs	(3,297)	(1,884)
Capital leases (i)	341	472
	1,073,510	1,023,914
Less: transfer of discontinued operations	(68,468)	(66,216)
Less: current portion	(285,737)	(162,474)
	$ 719,305	$ 795,224

Future annual minimum repayments are as follows:

	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years	Total
Credit facility (a)	$ 133,970[1]	$ –	$ –	$ –	$ 133,970
$105 million senior unsecured note (b)	–	–	105,000	–	105,000
NHS financing (d)	48,523	95,959	74,457	53,252	272,191
$90 million convertible debentures (e)	90,000	–	–	–	90,000
$330 million convertible debentures (f)	–	–	330,000	–	330,000
$100 million convertible debentures (g)	–	–	100,000	–	100,000
HES financing – Credit facility (h)	11,591	–	–	–	11,591
HES financing – Construction loan (h)	2,756	–	–	–	2,756
HES financing – Solar term loan (h)	239	538	630	9,875	11,282
Capital leases (i)	247	94	–	–	341
	$ 287,326	$ 96,591	$ 610,087	$ 63,127	$ 1,057,131

[1] On October 2, 2013, Just Energy reached an agreement with its syndicate of lenders to renew and extend its revolving credit facility for a period of two years from the closing date of October 2, 2013.

The following table details the finance costs for the three and six months ended September 30. Interest is expensed at the effective interest rate.

	Three months ended Sept. 30, 2013	Three months ended Sept. 30, 2012	Six months ended Sept. 30, 2013	Six months ended Sept. 30, 2012
Credit facility (a)	$ 3,460	$ 4,878	$ 6,799	$ 8,072
$105 million senior unsecured note (b)	2,824	–	6,086	–
NHS financing (d)	4,983	3,312	9,857	6,332
$90 million convertible debentures (e)	1,752	1,722	3,500	3,440
$330 million convertible debentures (f)	6,582	6,448	13,104	12,840
$100 million convertible debentures (g)	1,891	1,854	3,781	3,708
HES financing (h)	742	136	1,543	136
Capital lease interest (i)	19	23	34	72
Unwinding of discount on provisions	73	63	142	146
	$ 22,326	$ 18,436	$ 44,846	$ 34,746

(a) As at September 30, 2013, Just Energy has a $370 million credit facility to meet working capital requirements. On October 2, 2013 ("the closing date"), Just Energy reached an agreement with its syndicate of lenders to renew and extend its revolving credit facility for a period of two years from the closing date. Based on projected operating requirements, the line has been set at $300 million with an option for Just Energy to draw up to $340 million between the closing date and February 28, 2014. The pricing of the renewed facility is the same as that of the previous extension. The syndicate of lenders includes Canadian Imperial Bank of Commerce, Royal Bank of Canada, National Bank of Canada, The Bank of Nova Scotia, The Toronto-Dominion Bank, HSBC Bank of Canada and Alberta Treasury Branches.

Interest is payable on outstanding loans at rates that vary with Bankers' Acceptance rates, LIBOR, Canadian bank prime rate or U.S. prime rate. Under the terms of the operating credit facility, Just Energy is able to make use of Bankers' Acceptances and LIBOR advances at stamping fees that vary between 2.88% and 4.00%. Prime rate advances are at rates of interest that vary between bank prime plus 1.88% and 3.00% and letters of credit are at rates that vary between 2.88% and 4.00%. Interest rates are adjusted quarterly based on certain financial performance indicators.

As at September 30, 2013, the Canadian prime rate was 3.0% and the U.S. prime rate was 3.25%. As at September 30, 2013, Just Energy had drawn $133,970 (March 31, 2013 – $110,121) against the facility and total letters of credit outstanding amounted to $126,175 (March 31, 2013 – $115,466). As at September 30, 2013, unamortized debt issue costs relating to the facility are $46 (March 31, 2013 – $427). As at September 30, 2013, Just Energy has $109,855 of the facility remaining for future working capital and security requirements. Just Energy's obligations under the credit facility are supported by guarantees of certain subsidiaries and affiliates and secured by a general security agreement and a pledge of the assets and securities of Just Energy and the majority of its operating subsidiaries and affiliates excluding, among others, NHS, HES, TGF and the U.K. operations. Just Energy is required to meet a number of financial covenants under the credit facility agreement. During the six months ended September 30, 2013, certain financial covenants were amended to accommodate the growth of the business. As at September 30, 2013, all of these covenants had been met.

(b) On December 12, 2012, the Company issued $105,000 in senior unsecured notes ("$105,000 senior unsecured note") bearing interest at 9.75% and maturing in June 2018. As at September 30, 2013, unamortized debt issue costs are $6,774. These costs will be charged to operations as finance costs over the term of the debt. The $105,000 senior unsecured note is subject to certain financial and other covenants. As at September 30, 2013, all of these covenants have been met.

In conjunction with the covenant requirements associated with the issuance of the senior unsecured note, the following represents select financial disclosure for the "Restricted Subsidiaries" as defined within the Note Indenture, which generally excludes NHS, TGF, HES, Momentis and the U.K. operations.

	Three months ended Sept. 30, 2013	Six months ended Sept. 30, 2013
Sales	$ 817,578	$ 1,533,464
Gross margin	111,401	216,483
Finance costs	16,600	33,445
Profit for the period	128,652	180,968
Non-cash financing costs	3,017	6,397
Intercompany interest charges	–	18,148
Share-based compensation	1,385	3,124
Income tax paid (recovered)	(131)	181
Dividends paid from unrestricted subsidiaries	–	–

(c) The debt obligations of TGF, have been reclassified to liabilities relating to assets held for sale and currently comprise the following separate facilities:

(i) TGF credit facility

A credit facility of up to $50,000 was established with a syndicate of Canadian lenders led by Conexus Credit Union and was arranged to finance the construction of the ethanol plant in 2007. The facility represents a fixed repayment term of ten years, commencing March 1, 2009, which includes interest costs at a rate of prime plus 3% with principal repayments commencing on March 1, 2010. The credit facility is secured by a demand debenture agreement, a first priority security interest on all assets and undertakings of TGF, a mortgage on title to the land owned by TGF and a general security interest on all other current and acquired assets of TGF. The credit facility includes certain financial covenants, the most significant of which relate to current ratio, debt to equity ratio, debt service coverage and minimum shareholders' capital. As at September 30, 2013, the amount owing under this facility amounted to $28,571. Pursuant to a forbearance agreement dated as of June 1, 2013, the lenders have agreed that TGF shall not be required to make any principal payments until December 31, 2013. The lenders have no recourse to Just Energy or any other subsidiary of Just Energy.

(ii) TGF debentures

A debenture purchase agreement with a number of private parties providing for the issuance of up to $40,000 aggregate principal amount of debentures was entered into in 2006. On April 1, 2011, the interest rate was increased to 12%. The agreement includes certain financial covenants, the more significant of which relate to current ratio, debt to capitalization ratio, debt service coverage, debt to EBITDA and minimum shareholders' equity. The maturity date has been extended to May 15, 2014 with a call right any time after April 1, 2013. Pursuant to a waiver and forbearance agreement made as of June 24, 2013, the debenture holders have agreed to waive any principal and interest payments to and including January 1, 2014. As at September 30, 2013, the amount owing under this debenture agreement amounted to $39,897. The debenture holders have no recourse to Just Energy or any other subsidiary of Just Energy.

(iii) TGF has a working capital operating line of $7,000 bearing interest at a rate of prime plus 2%. In addition to the amount shown in Note 5 as bank indebtedness, TGF has total letters of credit issued of $250.

(d) NHS has a long-term financing agreement for the funding of new and existing rental water heater and furnace and air conditioner contracts. Pursuant to the agreement, NHS receives financing of an amount equal to the present value of the five, seven or ten years of monthly rental income, discounted at the agreed upon financing rate of 7.25% to 7.99%, and is required to remit an amount equivalent to the rental stream from customers on the water heater, furnace and air conditioner contracts for the five, seven or ten years. NHS has provided security over the water heaters, furnace and air conditioner equipment and rental contracts, subject to the financing rental agreement, as collateral for performance of the obligation.

The financing agreement is subject to a holdback provision, of 3% to 5%. Once all obligations of NHS are satisfied or expired, the remaining funds in the holdback account will immediately be released to NHS. NHS has $243,156 owing under this agreement, including $9,299 relating to the holdback provision, recorded in non-current receivables.

NHS assumed debt, relating to the acquisition of customer contracts in the prior year. The current outstanding debt of $29,035 bears interest at 7.5% to 11.0%, is secured by the underlying assets and will be satisfied through blended monthly payments up to August of 2022. NHS has $2,168 in restricted cash as at September 30, 2013 related to this debt.

NHS is required to meet a number of non-financial covenants under these agreements. As at September 30, 2013, all of these covenants had been met.

(e) In conjunction with an acquisition, the Company also acquired the obligations of the convertible unsecured subordinated debentures (the "$90 million convertible debentures") issued in October 2007. The fair value of the $90 million convertible debentures was estimated by discounting the remaining contractual payments at the time of acquisition. This discount will be accreted using an effective interest rate of 8%. These instruments have a face value of $90,000 and mature on September 30, 2014, unless converted prior to that date, and bear interest at an annual rate of 6% payable semi-annually on March 31 and September 30 of each year. Each $1,000 principal amount of the $90 million convertible debentures is convertible at any time prior to maturity or on the date fixed for redemption, at the option of the holder, into approximately 41.23 common shares, representing a conversion price of $24.25 per common share as at September 30, 2013. Pursuant to the $90 million convertible debentures, if the Company fixes a record date for the payment of a dividend, the conversion price shall be adjusted in accordance therewith. During the six months ended September 30, 2013, interest expense amounted to $3,500.

Prior to the maturity date, the $90 million convertible debentures are redeemable in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest at Just Energy's sole option on not more than 60 days' and not less than 30 days' prior notice.

The Company may, at its option, on not more than 60 days' and not less than 30 days' prior notice, subject to applicable regulatory approval and provided no event of default has occurred and is continuing, elect to satisfy its obligation to repay all or any portion of the principal amount of the $90 million convertible debentures that are to be redeemed or that are to mature, by issuing and delivering to the holders thereof that number of freely tradable common shares determined by dividing the principal amount of the $90 million convertible debentures being repaid by 95% of the current market price on the date of redemption or maturity, as applicable.

(f) Just Energy issued $330 million of convertible extendible unsecured subordinated debentures (the "$330 million convertible debentures"). The $330 million convertible debentures bear interest at a rate of 6% per annum payable semi-annually in arrears on June 30 and December 31, with a maturity date of June 30, 2017. Each $1,000 principal amount of the $330 million convertible debentures is convertible at any time prior to maturity or on the date fixed for redemption, at the option of the holder, into approximately 55.6 common shares of the Company, representing a conversion price of $18 per share. During the period ended September 30, 2013, interest expense amounted to $13,104. The $330 million convertible debentures are not redeemable prior to June 30, 2013, except under certain conditions after a change of control has occurred. On or after June 30, 2013, but prior to June 30, 2015, the $330 million convertible debentures may be redeemed by the Company, in whole or in part, on not more than 60 days' and not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price (as defined herein) on the date on which notice of redemption is given is not less than 125% of the conversion price ($22.50). On and after June 30, 2015, and prior to maturity, the $330 million convertible debentures may be redeemed by Just Energy, in whole or in part, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest.

The Company may, at its own option, on not more than 60 days' and not less than 40 days' prior notice, subject to applicable regulatory approval and provided that no event of default has occurred and is continuing, elect to satisfy its obligation to repay all or any portion of the principal amount of the $330 million convertible debentures that are to be redeemed or that are to mature, by issuing and delivering to the holders thereof that number of freely tradable common shares determined by dividing the principal amount of the $330 million convertible debentures being repaid by 95% of the current market price on the date of redemption or maturity, as applicable.

The conversion feature of the $330 million convertible debentures has been accounted for as a separate component of shareholders' deficit in the amount of $33,914. Upon initial recognition of the convertible debentures, Just Energy recorded a deferred tax liability of $15,728 and reduced the value of the equity component of convertible debentures by this amount. The remainder of the net proceeds of the $330 million convertible debentures has been recorded as long-term debt, which will be accreted up to the face value of $330,000 over the term of the $330 million convertible debentures using an effective interest rate of 8.8%. If the $330 million convertible debentures are converted into common shares, the value of the Conversion will be reclassified to share capital along with the principal amount converted.

(g) Just Energy issued $100 million of convertible unsecured subordinated debentures (the "$100 million convertible debentures"), which was used to purchase Fulcrum. The $100 million convertible debentures bear interest at an annual rate of 5.75%, payable semi-annually on March 31 and September 30 in each year and have a maturity date of September 30, 2018. Each $1,000 principal amount of the $100 million convertible debentures is convertible at the option of the holder at any time prior to the close of business on the earlier of the maturity date and the last business day immediately preceding the date fixed for redemption into 56.0 common shares of Just Energy, representing a conversion price of $17.85. The $100 million convertible debentures are not redeemable at the option of the Company on or before September 30, 2014. After September 30, 2014 and prior to September 30, 2016, the $100 million convertible debentures may be redeemed by the Company, in whole or in part, on not more than 60 days' and not less than 30 days' prior notice, at a price equal to their principal amount plus accrued and unpaid interest, provided that the weighted average trading price of the common shares is at least 125% of the conversion price. On or after September 30, 2016, the $100 million convertible debentures may be redeemed in whole or in part from time to time at the option of the Company on not more than 60 days' and not less than 30 days' prior notice, at a price equal to their principal amount plus accrued and unpaid interest.

The Company may, at its option, on not more than 60 days' and not less than 30 days' prior notice, subject to applicable regulatory approval and provided no event of default has occurred and is continuing, elect to satisfy its obligation to repay all or any portion of the principal amount of the $100 million convertible debentures that are to be redeemed or that are to mature, by issuing and delivering to the holders thereof that number of freely tradable common shares determined by dividing the principal amount of the $100 million convertible debentures being repaid by 95% of the current market price on the date of redemption or maturity, as applicable.

The conversion feature of the $100 million convertible debentures has been accounted for as a separate component of shareholders' deficit in the amount of $10,188. Upon initial recognition of the convertible debentures, Just Energy recorded a deferred tax liability of $2,579 and reduced the equity component of the convertible debenture by this amount. The remainder of the net proceeds of the $100 million convertible debentures has been recorded as long-term debt, which will be accreted up to the face value of $100,000 over the term of the $100 million convertible debentures using an effective interest rate of 8.6%. If the $100 million convertible debentures are converted into common shares, the value of the Conversion will be reclassified to share capital along with the principal amount converted.

(h) Effective August 2012, HES, through a subsidiary, entered into a US$30 million financing agreement to assist with the construction of certain solar projects. The credit facility matures August 1, 2014 with no prepayment permitted, bearing interest, and payable quarterly, at U.S. prime plus 6.9% or Eurodollar rate plus 7.9%. As at September 30, 2013, HES had drawn $11,591 and had unamortized debt issue costs relating to the facility of $758.

HES, through a subsidiary, has entered into an arrangement providing access to construction loans to fund certain specified projects. As at September 30, 2013, HES has $2,995 owing under these loans and had unamortized debt issue costs of $505. The construction loans bear interest at 10% and are due upon completion of the underlying solar projects. Upon completion of the solar projects, the construction loan will be settled from the proceeds of a term loan to be received from the same counterparty and an investment from an institutional investor. The term loan to be received will bear interest at 8% and mature in six years. The investment will provide the institutional investor with a significant portion of the tax incentives generated by the projects funded.

As at September 30, 2013, HES has $11,043 owing under term loans used to satisfy prior construction loans and has unamortized debt issue costs of $2,034. The term loans bear interest at 8% and mature between May and June 2019. In addition, during the six months ended September 30, 2013, HES received $9,949 from an institutional investor under this arrangement. The proceeds received have been recorded as a contribution from a non-controlling interest. The minority shareholder has approximately 49% interest in certain projects and is entitled to a significant portion of the tax incentives generated by these projects. The minority shareholder's interest will decrease to 5% in approximately five years from the original investment.

(i) The Company, through its subsidiaries, leases certain computer and office equipment and software. These financing arrangements bear interest at rates ranging from 0% to 29% and mature between October 1, 2013 and January 31, 2015.

11. INCOME TAXES

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Current income tax expense	$ 354	$ 521	$ 315	$ 778
Deferred tax expense	3,317	6,374	7,514	38,814
Provision for income taxes	$ 3,671	$ 6,895	$ 7,829	$ 39,592

12. OTHER INCOME, EXPENSES AND ADJUSTMENTS

(a) Other operating expenses

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Amortization of gas contracts	$ 2,059	$ 3,930	$ 4,119	$ 7,889
Amortization of electricity contracts	1,640	9,360	3,276	18,831
Amortization of acquired water heaters and HVAC contracts	1,131	411	2,185	825
Amortization of other intangible assets	7,984	7,985	15,772	15,914
Amortization of property, plant and equipment	1,115	1,214	2,194	2,305
Bad debt expense	11,883	7,714	21,715	16,354
Share-based compensation (i)	1,464	3,156	3,301	6,388
	$ 27,276	$ 33,770	$ 52,562	$ 68,506

(i) During the six months ended September 30, 2013, the Company issued approximately 520,000 restricted share grants, performance bonus grants and deferred share grants to employees and directors. These share-based payments had a grant date fair value of approximately $6.51 and will be expensed over their vesting period, which is approximately three years. These equity instruments are valued based on the grant date value of the underlying shares. Performance bonus grants ("PBGs") are a new share-based compensation plan. PBGs have all the same characteristics as restricted share grants except Just Energy can elect that holders of PBGs receive cash or common shares when their PBGs are vested.

(b) Amortization and cost of inventories included in cost of sales in the interim condensed consolidated statements of income (loss)

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Amortization	$ 3,411	$ 2,219	$ 7,288	$ 4,279
Direct energy costs and other	721,102	596,685	1,343,934	1,138,305
	$ 724,513	$ 598,904	$ 1,351,222	$ 1,142,584

(c) Included in change in fair value of derivative instruments

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Amortization of gas contracts	$ 2,514	$ 3,215	$ 5,028	$ 6,434
Amortization of electricity contracts	1,138	10,216	2,274	20,503

(d) Employee benefits expense

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Wages, salaries and commissions	$ 52,626	$ 51,821	$ 110,083	$ 110,826
Benefits	5,423	4,332	11,068	9,338
	$ 58,049	$ 56,153	$ 121,151	$ 120,164

13. REPORTABLE BUSINESS SEGMENTS

Effective April 1, 2013, Just Energy revised its reportable segments to include the following: consumer energy marketing, commercial energy marketing, ethanol (TGF), home services (NHS) and solar (HES). Previously Just Energy presented its reportable segments to include gas energy marketing, electricity energy marketing, home services and other. This revised presentation is consistent with the organizational alignment and management structure. This change reflects the Company's evolution to attract a more diverse client base consisting of both consumer and commercial customers. This change in segment reporting had no impact on the Company's interim condensed consolidated statements of financial position, income (loss) or cash flows for the periods. The prior year segmented disclosure has been restated to conform to the current period presentation.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the interim condensed consolidated financial statements. Just Energy is not considered to have any key customers.

The following tables present Just Energy's results by operating segments:

For the three months ended September 30, 2013	Consumer division	Commercial division	Ethanol	Home services	Solar	Consolidated
Sales	$ 433,872	$ 399,838	$ –	$ 18,198	$ 1,105	$ 853,013
Gross margin	80,765	32,750	–	14,282	703	128,500
Amortization of property, plant and equipment	805	240	–	70	–	1,115
Amortization of intangible assets	5,390	6,292	–	1,132	–	12,814
Administrative expenses	21,613	7,741	–	5,638	225	35,217
Selling and marketing expenses	33,993	11,422	–	2,547	–	47,962
Other operating expenses	11,575	1,692	–	80	–	13,347
Operating profit for the period	$ 7,389	$ 5,363	$ –	$ 4,815	$ 478	$ 18,045
Finance costs	(5,965)	(10,635)	–	(4,983)	(743)	(22,326)
Change in fair value of derivative instruments	(88,743)	(13,945)	–	–	(1,096)	(103,784)
Proportionate share of loss from joint venture	(2,678)	–	–	–	–	(2,678)
Other income (loss)	108	(89)	–	–	–	19
Recovery of (provision for) income taxes	(3,616)	(287)	–	232	–	(3,671)
Profit (loss) for the period	$ (93,505)	$ (19,593)	$ –	$ 64	$ (1,361)	$ (114,395)
Discontinued operations	$ –	$ –	$ 2,875	$ –	$ –	$ 2,875
Profit (loss) for the period	$ (93,505)	$ (19,593)	$ 2,875	$ 64	$ (1,361)	$ (111,520)
Capital expenditures	$ 106	$ 147	$ –	$ 8,340	$ 1,863	$ 10,456

For the three months ended September 30, 2012	Consumer division	Commercial division	Ethanol	Home services	Solar	Consolidated
Sales	$ 322,865	$ 378,211	$ –	$ 11,996	$ 118	$ 713,190
Gross margin	66,901	38,031	–	9,236	118	114,286
Amortization of property, plant and equipment	758	320	–	55	81	1,214
Amortization of intangible assets	5,202	16,072	–	411	1	21,686
Administrative expenses	21,742	6,921	–	4,231	496	33,390
Selling and marketing expenses	34,952	14,045	–	1,271	–	50,268
Other operating expenses	9,258	1,200	–	412	–	10,870
Operating profit (loss) for the period	$ (5,011)	$ (527)	$ –	$ 2,856	$ (460)	$ (3,142)
Finance costs	(5,958)	(9,028)	–	(3,314)	(136)	(18,436)
Change in fair value of derivative instruments	44,801	7,531	–	130	–	52,462
Proportionate share of loss from joint venture	(2,701)	–	–	–	–	(2,701)
Other income (loss)	2,649	27	–	(2)	2	2,676
Recovery of (provision for) income taxes	(13,487)	7,361	–	(769)	–	(6,895)
Profit (loss) from continued operations	20,293	5,364	–	(1,099)	(594)	23,964
Discontinued operations	–	–	(877)	–	–	(877)
Profit (loss) for the period	$ 20,293	$ 5,364	$ (877)	$ (1,099)	$ (594)	$ 23,087
Capital expenditures	$ 125	$ 114	$ –	$ 8,953	$ 20,965	$ 30,157

For the six months ended September 30, 2013	Consumer division	Commercial division	Ethanol	Home services	Solar	Consolidated
Sales	$ 847,192	$ 714,574	$ –	$ 35,046	$ 2,324	$ 1,599,136
Gross margin	151,081	68,368	–	27,267	1,198	247,914
Amortization of property, plant and equipment	1,537	520	–	137	–	2,194
Amortization of intangible assets	11,024	12,142	–	2,186	–	25,352
Administrative expenses	43,953	15,209	–	11,050	1,025	71,237
Selling and marketing expenses	65,771	28,511	–	6,100	–	100,382
Other operating expenses	20,212	4,626	–	178	–	25,016
Operating profit for the period	$ 8,584	$ 7,360	$ –	$ 7,616	$ 173	$ 23,733
Finance costs	(13,263)	(20,182)	–	(9,857)	(1,544)	(44,846)
Change in fair value of derivative instruments	(106,393)	(17,416)	–	–	2,866	(120,943)
Proportionate share of loss from joint venture	(4,790)	–	–	–	–	(4,790)
Other income (loss)	668	(158)	–	–	–	510
Provision for income taxes	(6,133)	(1,081)	–	(615)	–	(7,829)
Loss from continuing operations	$ (121,327)	$ (31,477)	$ –	$ (2,856)	$ 1,495	$ (154,165)
Discontinued operations	–	–	696	–	–	696
Profit (loss) for the period	$ (121,327)	$ (31,477)	$ 696	$ (2,856)	$ 1,495	$ (153,469)
Capital expenditures	$ 581	$ 579	$ –	$ 17,364	$ 5,574	$ 24,098
Total goodwill	$ 213,181	$ 44,140	$ –	$ 283	$ –	$ 257,604
Total assets	$ 729,953	$ 333,219	$ 73,401	$ 283,996	$ 112,920	$ 1,533,489
Total liabilities	$ 1,027,820	$ 421,703	$ 72,871	$ 308,960	$ 36,111	$ 1,867,465

For the six months ended September 30, 2012	Consumer division	Commercial division	Ethanol	Home services	Solar	Consolidated
Sales	$ 647,532	$ 699,953	$ –	$ 22,920	$ 122	$ 1,370,527
Gross margin	134,244	75,862	–	17,715	122	227,943
Amortization of property, plant and equipment	1,481	620	–	112	92	2,305
Amortization of intangible assets	10,331	32,302	–	825	1	43,459
Administrative expenses	44,409	13,644	–	8,023	1,152	67,228
Selling and marketing expenses	78,264	28,218	–	2,352	–	108,834
Other operating expenses	17,415	4,415	–	912	–	22,742
Operating profit (loss) for the period	$ (17,656)	$ (3,337)	$ –	$ 5,491	$ (1,123)	$ (16,625)
Finance costs	(10,303)	(17,972)	–	(6,335)	(136)	(34,746)
Change in fair value of derivative instruments	327,718	118,810	–	(175)	–	446,353
Proportionate share of loss from joint venture	(3,860)	–	–	–	–	(3,860)
Other income (loss)	3,303	(25)	–	–	1,700	4,978
Provision for income taxes	(9,232)	(4,070)	–	(26,290)	–	(39,592)
Profit (loss) from continued operations	$ 289,970	$ 93,406	$ –	$ (27,309)	$ 441	$ 356,508
Discontinued operations	–	–	(4,782)	–	–	(4,782)
Profit (loss) for the period	$ 289,970	$ 93,406	$ (4,782)	$ (27,309)	$ 441	$ 351,726
Capital expenditures	$ 1,103	$ 1,002	$ –	$ 18,104	$ 34,275	$ 54,484
As at March 31, 2013						
Total goodwill	$ 212,572	$ 43,527	$ –	$ 283	$ –	$ 256,382
Total assets	$ 800,271	$ 276,835	$ 77,439	$ 266,933	$ 107,464	$ 1,528,942
Total liabilities	$ 955,055	$ 307,678	$ 77,439	$ 294,401	$ 33,426	$ 1,667,999

Geographic information

Sales from external customers

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
Canada	$ 143,628	$ 160,116	$ 309,141	$ 338,148
United States	700,011	552,842	1,274,456	1,032,147
United Kingdom	9,374	232	15,539	232
Total sales per interim consolidated statements of income (loss)	$ 853,013	$ 713,190	$ 1,599,136	$ 1,370,527

The sales are based on the location of the customer.

Non-current assets

Non-current assets by geographic segment consist of property, plant and equipment and intangible assets and are summarized as follows:

	As at Sept. 30, 2013	As at March 31, 2013
Canada	$ 388,564	$ 391,420
United States	304,911	312,823
United Kingdom	1,167	1,093
Total	$ 694,642	$ 705,336

14. EARNINGS (LOSS) PER SHARE

	For the three months ended Sept. 30, 2013	For the three months ended Sept. 30, 2012	For the six months ended Sept. 30, 2013	For the six months ended Sept. 30, 2012
BASIC EARNINGS (LOSS) PER SHARE				
Profit (loss) from continuing operations	$ (114,395)	$ 23,964	$ (154,165)	$ 356,508
Profit (loss) available to shareholders	(111,312)	23,596	(153,136)	352,068
Basic shares outstanding	142,858,118	139,383,216	142,565,083	139,367,769
Basic earnings (loss) per share from continuing operations	$ (0.80)	$ 0.17	$ (1.08)	$ 2.56
Basic earnings (loss) per share available to shareholders	$ (0.78)	$ 0.17	$ (1.07)	$ 2.53
DILUTED EARNINGS (LOSS) PER SHARE				
Profit (loss) from continuing operations	$ (114,395)	$ 23,964	$ (154,165)	$ 356,508
Profit (loss) available to shareholders	(111,312)	23,596	(153,136)	352,068
Adjustment for dilutive impact of convertible debentures	7,562[1]	7,302[1]	15,067[1]	14,552
Adjusted earnings (loss) from continuing operations	$ (106,833)	$ 31,266	$ (139,098)	$ 371,060
Adjusted earnings (loss) available to shareholders	$ (103,750)	$ 30,898	$ (138,069)	$ 366,620
Basic shares outstanding	142,858,118	139,383,216	142,565,083	139,367,769
Dilutive effect of:				
Restricted share grants	3,900,911	3,732,826	3,982,649	3,722,903
Deferred share grants	154,780	146,452	161,918	146,161
Convertible debentures	27,646,914[1]	27,170,657[1]	27,646,914[1]	27,170,657
Shares outstanding on a diluted basis	174,560,723	170,433,151	174,356,564	170,407,490
Diluted earnings (loss) per share from continuing operations	$ (0.80)	$ 0.17	$ (1.08)	$ 2.18
Diluted earnings (loss) per share available to shareholders	$ (0.78)	$ 0.16	$ (1.07)	$ 2.15

[1] The assumed conversion into shares results in an anti-dilutive position; therefore, this conversion has not been included in computation of diluted earnings (loss) per share.

15. DIVIDENDS PAID AND PROPOSED

For the three months ended September 30, 2013, dividends of $0.21 (2012 – $0.31) per share were declared by Just Energy. These dividends amounted to $30,850 (2012 – $44,409), which was approved throughout the period by the Board of Directors and was paid out during the quarter. For the six months ended September 30, 2013, dividends of $0.42 (2012 – $0.62) per share were declared and paid by Just Energy. This amounted to $61,606 (2012 – $88,799), which was approved throughout the period by the Board of Directors and was paid out during the period.

Declared dividends subsequent to quarter end

On October 3, 2013, the Board of Directors of Just Energy declared a dividend in the amount of $0.07 per common share ($0.84 annually). The dividend was paid on October 31, 2013 to shareholders of record at the close of business on October 15, 2013.

On November 4, 2013, the Board of Directors of Just Energy declared a dividend in the amount of $0.07 per common share ($0.84 annually). The dividend will be paid on November 29, 2013 to shareholders of record at the close of business on November 15, 2013.

16. COMMITMENTS AND GUARANTEES

Commitments for each of the next five years and thereafter are as follows:

As at September 30, 2013

	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years	Total
Premises and equipment leasing	$ 7,629	$ 11,808	$ 7,895	$ 5,458	$ 32,790
Royalty payments	–	2,244	9,477	34,061	45,782
Long-term gas and electricity contracts	1,335,087	1,141,545	229,805	10,803	2,717,240
	$ 1,342,716	$ 1,155,597	$ 247,177	$ 50,322	$ 2,795,812

Just Energy has entered into leasing contracts for office buildings and administrative equipment. These leases have a leasing period of between one and eight years. For the main office building of Just Energy, there is a renewal option for an additional five years. No purchase options are included in any major leasing contracts. Royalty payments represent the future payments NHS is required to make on revenue earned on its current installed base. Just Energy is also committed under long-term contracts with customers to supply gas and electricity. These contracts have various expiry dates and renewal options.

Guarantees

Pursuant to separate arrangements with various entities, Just Energy has issued surety bonds to various counterparties including states, regulatory bodies, utilities and various other surety bond holders in return for a fee and/or meeting certain collateral posting requirements. Such surety bond postings are required in order to operate in certain states or markets. Total surety bonds issued as at September 30, 2013 was $35,000.

As at September 30, 2013, Just Energy had total letters of credit outstanding in the amount of $126,175 (Note 10(a)).

17. COMPARATIVE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Certain figures from the comparative interim condensed consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period's interim condensed consolidated financial statements.

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