EnerCare Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Second Quarter ended June 30, 2012

Dated August 13, 2012

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The condensed interim consolidated financial statements of EnerCare are prepared in accordance with IFRS which became effective on January 1, 2011 with retroactive application to January 1, 2010. EnerCare's significant accounting policies are summarized in detail in note 3 of the condensed interim consolidated financial statements for the period ended June 30, 2012. Unless otherwise specified, amounts are reported in this MD&A in thousands, except customers, units, Shares and "per Share" amounts and percentages (except as otherwise noted). Dollar amounts are expressed in Canadian currency.

EnerCare operates its businesses in two segments: Rentals – rentals of water heaters and other equipment and Sub-metering – provision of sub-metering equipment and billing services.

Certain definitions of key financial and operating terms used in this MD&A are located at the end of this MD&A under "Glossary of Terms".

FORWARD-LOOKING INFORMATION

This MD&A, dated August 13, 2012, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with EnerCare's 2011 audited consolidated financial statements. Additional information in respect to the Fund and EnerCare, including the AIF can be found on SEDAR at www.sedar.com.

When used herein, the words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information (see in particular "Outlook" section), although not all forward-looking information contains these identifying words. The forward-looking information in this MD&A includes statements that reflect management's expectation regarding EnerCare's growth, results of operations, performance, business prospects and opportunities. Such forward-looking information reflects management's current beliefs and is based on information available to them and/or assumptions management believes are reasonable. Many factors could cause results to differ materially from the results discussed in the forward-looking information. Although the forward-looking information is based on what management believes to be reasonable assumptions, EnerCare cannot assure investors that actual results will be consistent with this forward-looking information. All forward-looking information in this MD&A is made as of the date of this MD&A. Except as required by applicable securities laws, EnerCare does not intend and does not assume any obligations to update or revise the forward-looking information, whether as a result of new information, future events or otherwise.

Except as discussed under "Update to Risk Factors", a thorough discussion in respect of the material risks relating to the business and structure of EnerCare can be found in the AIF, which is available on SEDAR at www.sedar.com.

OVERVIEW

EnerCare is the successor to the Fund, following the conversion of the Fund from an income trust to a corporate structure pursuant to a plan of arrangement on January 1, 2011.

EnerCare Solutions, a wholly-owned subsidiary of EnerCare, through its subsidiaries, owns a portfolio of approximately 1.2 million water heaters and other assets, rented primarily to residential customers in Ontario.

EnerCare also owns EnerCare Connections Inc. (a successor by amalgamation effective January 1, 2012 to Stratacon Inc. and EnerCare Connections Inc. (formerly Enbridge Electric Connections Inc.)). ECI provides sub-metering services for electricity, heat and water to condominiums and apartments in Ontario, Alberta and elsewhere in Canada.

Through its Rental portfolio and Sub-metering business, EnerCare strives to provide intelligent and energy-efficient products, services, programs and solutions that enable homeowners and multiunit owners and tenants to make a substantial contribution to Canada's growing culture of energy conservation.

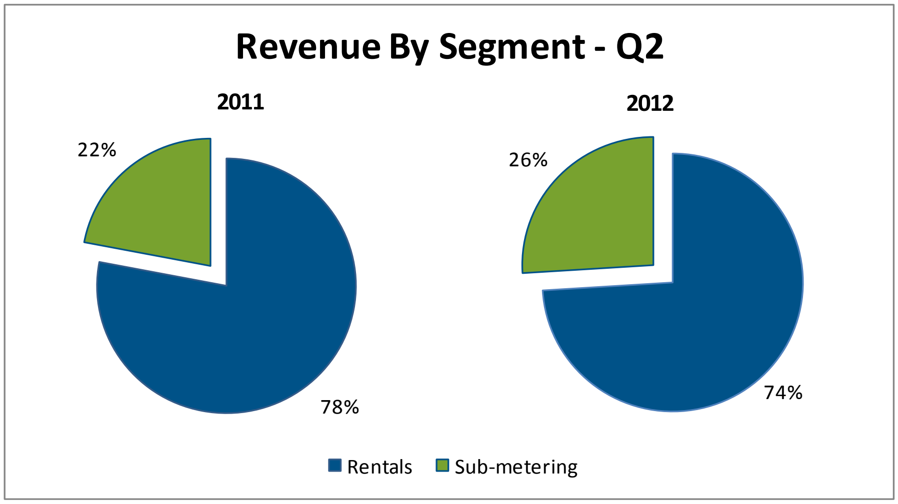
EnerCare has grown revenues every year since the Fund's inception in 2002, generated stable cash flow and consistently maintained a high dividend yield. EnerCare has investment grade ratings of A-/stable and A (low)/negative rating from S&P and DBRS, respectively.

EnerCare's Shares trade under the symbol ECI and its Convertible Debentures trade under the symbol ECI.DB on the Toronto Stock Exchange. EnerCare is a member of the S&P/TSX Small Cap Index.

PORTFOLIO SUMMARY

EnerCare has two primary businesses, its Rentals portfolio and its Sub-metering business. As seen by the graph below, the Rentals business accounted for 74% of the overall revenue of EnerCare during the current period.

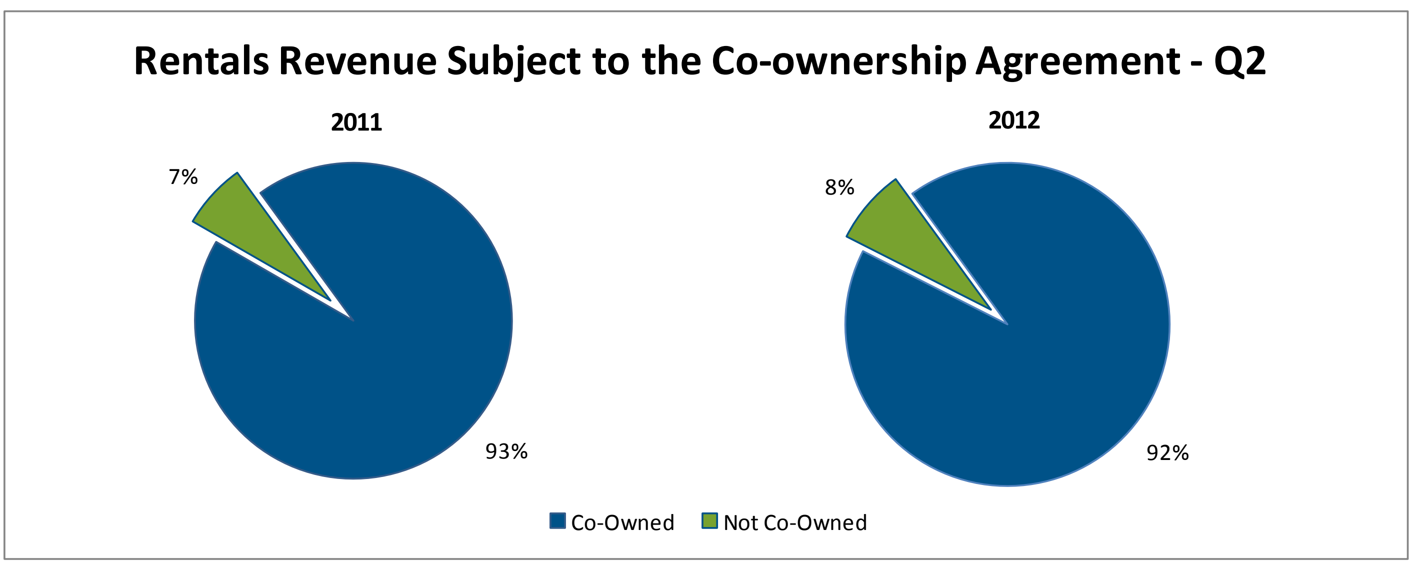
The increase in Sub-metering revenue, as shown below, is a result of an increase in billing units, caused by an increase in penetration levels in our retro-fit buildings and new construction developments that were activated during the second quarter of 2012 and flow through commodity costs.



Rentals Business

Dissecting the Rentals business further, the business is comprised of the rental of water heater and HVAC equipment primarily to single family residential homes.

EnerCare originally had 100% of its Rentals business subject to a co-ownership agreement with DE. Through four acquisitions and origination arrangements with various parties, EnerCare has successfully expanded its Rentals business. EnerCare has 8% of its Rental revenue coming from portfolios which are not subject to the co-ownership agreement.

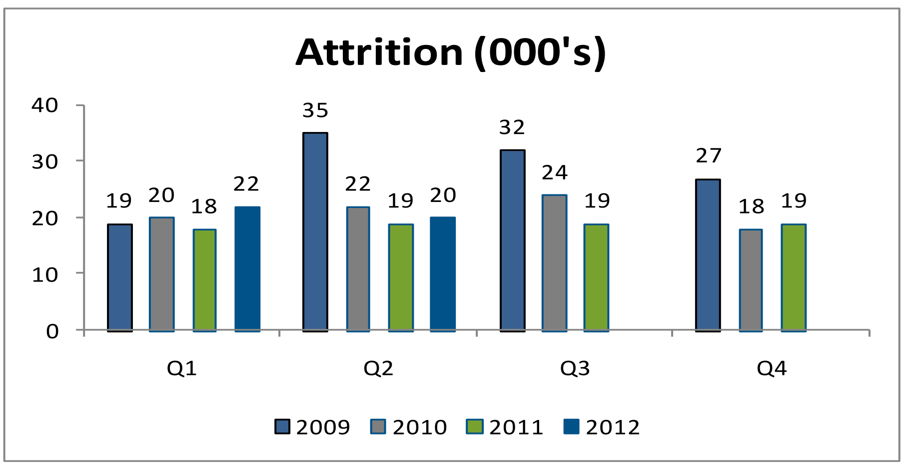


For the portfolios under the co-ownership agreement with DE, EnerCare is entitled to 65% of the revenue and other payments and DE is entitled to 35% of the revenue. For DE's portion of the revenue, they are responsible for servicing and maintaining the assets. This ensures that EnerCare is effectively insulated from any operating risks from this portfolio. Through its origination agreement with DE, EnerCare essentially incurs the capital expenditures in respect of the portfolio.

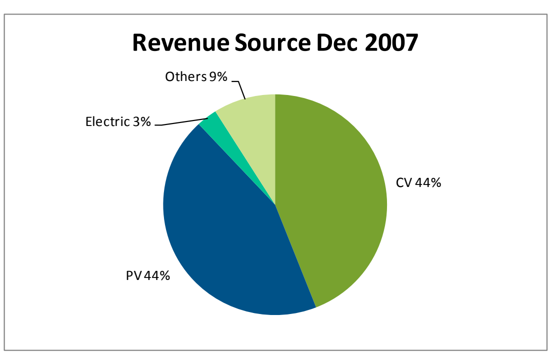
EnerCare monitors the business by reviewing new additions or customers to the portfolio, reductions or Attrition of existing customers and existing customers exchanging their rental product.

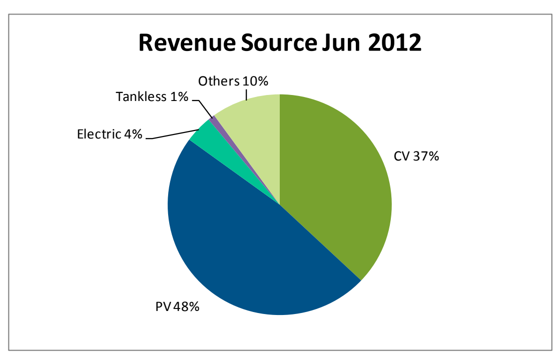
Over the last several years, EnerCare has experienced higher than normal Attrition on the water heater rental portfolios. This was largely a result of greater competition through aggressive D2D campaigns. EnerCare and DE have continued to educate consumers through direct mail and radio campaigns and other programs. Such initiatives, among others, have helped to significantly reduce Attrition over the last two years.

Attrition in the first and second quarter of 2012 were approximately 4,000 and 1,000 units higher than those periods in 2011, because of higher customer buyouts resulting from the introduction and subsequent withdrawal of new contract terms to a significant portion of customers in the Rentals portfolio in March 2012; buyouts in April 2012 were approximately three times higher than those in April 2011. However, buyouts have decreased dramatically in each month subsequent to April 2012, approaching near historical levels, and unit losses not attributed to buyouts (for example, removal of units by competitors) for the second quarter of 2012 were lower than such losses in the second quarter of 2011 by approximately 8%.



Partially offsetting Attrition is the movement in asset mix to units with higher returns. A comparison of the product mix 5 years ago to that of today reveals that the portfolio contains a higher percentage of power vent ("PV") and tankless units, both of which provide a higher return than conventional vent ("CV") units. This product mix movement has contributed significantly to growing revenue.



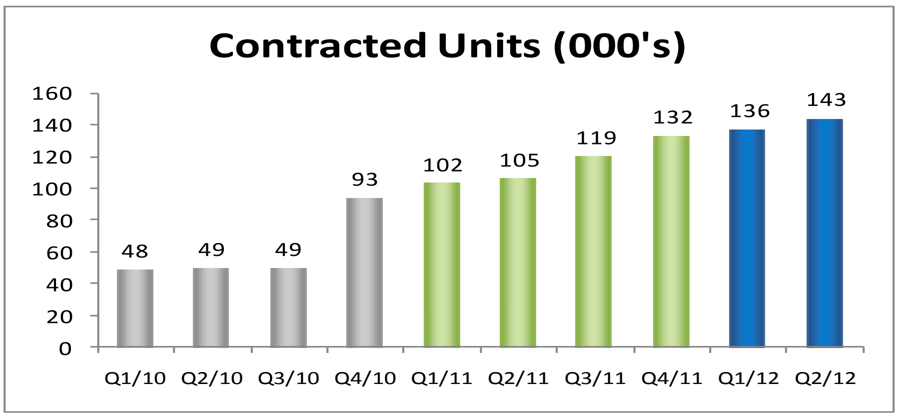


Sub-metering Business

EnerCare entered the multi-residential Sub-metering business through two acquisitions in the last three years. There are two types of Sub-metering in the multi-residential market: retro fit Sub-metering and new build construction. Within each market, apartments and condos have significantly different revenue streams.

Within the retro-fit revenue stream, after a contract is signed, the meters are typically installed within 6-10 weeks of signing. However, typically for a retro-fit installed unit to become Billable, EnerCare must wait for tenant turnover to occur. As a result, it can take many years for all units in a retro-fit building to become Billable. In the new build Sub-metering market, after a contract is signed, the meters are usually not installed for several years as installation occurs when the building is in its final construction stages. However, in this revenue stream, once the meters are installed they become Billable relatively quickly and revenue is at 100% penetration from that point onwards.

Through our Stratacon and EECI acquisitions and our subsequent growth in contracted units, many of the above mentioned up-front capital investments have been made. As seen in the graph below, currently we have 143,000 contracted units. Of those contracted units, 104,000 have meters installed and 66,000 units are billing. We expect to experience continued revenue growth as these contracted units are turned into installed units and subsequently Billable units.



SECOND QUARTER 2012 HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2012**	2011	**2012**	2011
Rentals	**$ 46,735**	$ 46,745	**$ 93,582**	$ 93,640
Sub-metering	**16,418**	13,184	**32,891**	27,589
Investment income	**76**	140	**261**	252
Total revenues	**63,229**	60,069	**126,734**	121,481
EBITDA[1]	**35,367**	36,105	**72,087**	72,332
Adjusted EBITDA[1]	**39,480**	40,966	**80,315**	81,833
Earnings before income taxes	**820**	1,705	**3,021**	1,113
Current tax (expense)	**(2,118)**	(1,881)	**(5,429)**	(3,465)
Deferred income tax (expense)/recovery	**(1,766)**	1,858	**(825)**	2,973
Net (loss)/earnings	**$ (3,064)**	$ 1,682	**$ (3,233)**	$ 621
Payout Ratio[2]	**53%**	50%	**57%**	53%

[1] EBITDA and Adjusted EBITDA are Non-IFRS financial measures. Refer to the Non-IFRS Financial and Performance Measures section in this MD&A.
[2] Payout Ratio and Distributable Cash are Non-IFRS financial measures. Refer to the Non-IFRS Financial and Performance Measures section in this MD&A.

The following highlights compare results for the second quarter of 2012 with the second quarter of 2011.

- Total revenues of $63,229 increased by 5% in the second quarter of 2012. Revenues in the Rentals business were $46,735, marginally lower than the prior year primarily as a result of the changes in installed assets offset by rental rate increases. Sub-metering revenues increased to $16,418 from $13,184, primarily as a result of an increase in billable units and flow through commodity costs.
- EBITDA decreased by $738 to $35,367 in the second quarter of 2012, driven principally by an increase in commodity charges and SG&A expenses, including extraordinary proxy solicitation costs, partially offset by increased Sub-metering revenues and a reduced loss on disposal of equipment. Adjusted EBITDA of $39,480 decreased by $1,486 after removing from EBITDA the impact of a reduced loss on disposal of equipment in 2012.
- Net loss of $3,064 in 2012, increased by $4,746 as compared to the second quarter of 2011 reflecting, in addition to reduced EBITDA, $3,861 additional total taxes, including approximately $6,000 attributable to a change in the future tax rates by the Ontario government, partially offset by lower interest expense due to the repayment of $60,000 of debt in April and lower amortization charges during the quarter primarily as a result of a lower asset unit count.
- Attrition in Rentals increased by 1,000 units for the second quarter of 2012 primarily due to an increase of buyouts over 2011 following the introduction and subsequent withdrawal of new contract terms in March 2012, with Buyouts in April 2012 being approximately three times higher than those in April 2011. However, buyouts have decreased dramatically in each month subsequent to April 2012, approaching near historical levels, and unit losses not attributed to buyouts (for example, removal of units by competitors) for the second quarter of 2012 were lower than such losses in the second quarter of 2011 by approximately 8%.
- The Payout Ratio increased to 53% in the second quarter of 2012 compared to 50% during the same period in 2011, primarily due to the increase in dividends as a result of the conversion of Convertible Debentures, the increase in current taxes and lower Adjusted EBITDA, partially offset by increased proceeds on disposal of equipment, exclusion of extraordinary proxy solicitation costs and lower capital expenditures in part due to a reduction of approximately 15% in unit exchange activity.

RECENT DEVELOPMENTS

Awareness Campaign

In concert with DE, EnerCare Solutions launched an eight week mass market radio and print campaign starting March 4, 2012 to reinforce anti-D2D awareness messages with consumers. Additionally, small 10 second spots were added to the radio campaign to emphasize the value of DE's service proposition. Print advertising was run in both community and ethnic papers to reach as broad a cross-section of consumers as possible and over 1.2 million door hangers were distributed during the second quarter.

On April 10, 2012, EnerCare launched its 2012 in-person consumer education campaign with the first of several EnerCare Solutions branded street teams visiting customer homes in the areas hardest hit by D2D sales activity to provide consumer awareness information to homeowners. The goal of the program is to engage customers directly in a conversation, provide information about how to recognize and respond to some of the most common D2D sales tactics, as well as highlight the consumer's rights under Ontario's consumer protection legislation. D2D water heater sales remain the second highest source of consumer complaints with the Ministry of Consumer Service. The campaign ended in early July and a new in-person consumer awareness campaign has been introduced.

Expansion of Commercial Rental Program to Nova Scotia

On April 24, 2012, EnerCare Solutions announced that, through DE, it will be originating commercial water heaters and HVAC equipment in Nova Scotia. Consumers and businesses in Nova Scotia have traditionally used fuel oil and electricity for their heating and water heating needs but the relatively recent introduction of natural gas in the province provides an opportunity for EnerCare Solutions' rental program as businesses seek to make the switch to more affordable natural gas appliances.

Repayment of 2009-1 Notes

On April 30, 2012 EnerCare Solutions repaid the $60,000 principal amount of the 2009-1 Notes on their maturity date from cash on hand.

EnerCare Shareholders Re-elect All of Management's Director Nominees

On April 30, 2012, EnerCare announced that it had received the support of shareholders for the re-election of all management's director nominees. A total of 34,906,002 Shares (representing approximately 61.54% of the issued and outstanding Shares) were represented in person or by proxy at the meeting. Shareholders defeated the Octavian Advisors, LP proposal to increase the size of the board to 10 and add 4 of their nominees by a vote of 19,192,789 Shares (or approximately 54.98% of the votes cast) against the proposal and 15,713,213 Shares (or approximately 45.02% of the votes cast) for the proposal, a difference of 3,479,576 Shares.

Sub-metering Developments

On May 25, 2012, EnerCare announced that it deployed a new utility grade customer billing system which consolidated on one platform all Sub-metering billing functions previously performed by two legacy systems inherited as part of the Stratacon and EECI acquisitions. Additionally, the consolidation of systems has permitted EnerCare to internalize its Sub-metering customer care delivery, previously provided by two external suppliers. The new customer care system will allow greater automation and consistency of process and allow EnerCare to take advantage of greater economies of scale.

Subsequent Events

Receipt of Notice of Action

On July 10, 2012, EnerCare announced that it had been served with a Notice of Action (the "Action") from a competitor claiming unspecified damages based on allegations that EnerCare, its service provider, EcoSmart Home Services Inc., and others engaged in unlawful surveillance and other activities aimed at tracking the D2D sales efforts of that competitor. EnerCare ended the in-person consumer awareness campaign that was referenced in the Action in early July and is currently conducting an investigation into the allegations. The removal of the campaign is not expected to have an adverse effect on Attrition levels.

UPDATE TO RISK FACTORS

The risks related to the business and structure of EnerCare discussed in the AIF remain unchanged except as discussed below.

Litigation Risk

In the normal course of EnerCare's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to, among other things, personal injuries, property damage, contract disputes and its business activities. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to EnerCare and as a result, could have a material adverse effect on its financial condition and results of operations and on its ability to satisfy its debt service obligations on its debt securities. Even if EnerCare prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from EnerCare's business operations which could have a material adverse effect on its financial condition and results of operations and on its ability to satisfy its debt service obligations on its debt securities. In particular, as described under “Recent Developments”, EnerCare has been served with a Notice of Action by a competitor, the outcome of which, at this stage of the proceedings, is impossible to predict with any certainty. Furthermore, no assurance can be given that EnerCare won’t become involved in litigation, whether as defendant or plaintiff, in other matters from time to time.

RESULTS OF OPERATIONS

Earnings Statement

	Three months ended June 30,		Six months ended June 30,	
(000’s)	**2012**	2011	**2012**	2011
Revenues:				
Rentals	**$ 46,735**	$ 46,745	**$ 93,582**	$ 93,640
Sub-metering	**16,418**	13,184	**32,891**	27,589
Investment income	**76**	140	**261**	252
Total revenues	**63,229**	60,069	**126,734**	121,481
Commodity charges	**12,149**	9,725	**24,332**	20,318
SG&A expenses:				
Rentals	**4,236**	4,284	**7,768**	8,118
Sub-metering	**2,649**	2,419	**5,433**	5,072
Corporate	**4,639**	2,535	**8,625**	5,888
Total SG&A expenses	**11,524**	9,238	**21,826**	19,078
Amortization expense	**25,166**	26,103	**51,040**	52,343
Loss on disposal of equipment	**4,113**	4,861	**8,228**	9,501
Interest expense	**9,457**	10,566	**19,787**	21,257
Total operating expenses	**62,409**	60,493	**125,213**	122,497
Other income	**-**	2,129	**1,500**	2,129
Earnings before income taxes	**820**	1,705	**3,021**	1,113
Current tax (expense)	**(2,118)**	(1,881)	**(5,429)**	(3,465)
Deferred income tax (expense)/recovery	**(1,766)**	1,858	**(825)**	2,973
Net (loss)/earnings	**(3,064)**	1,682	**(3,233)**	621
EBITDA	**35,367**	36,105	**72,087**	72,332
Adjusted EBITDA	**$ 39,480**	$ 40,966	**$ 80,315**	$ 81,833

Revenues

Total revenues of $63,229 for the second quarter of 2012 increased by $3,160 or 5% and by $5,253 or 4% to $126,734 year to date, compared to the same periods in 2011. Rentals revenues decreased marginally by $10 to $46,735 in the second quarter of 2012 and by $58 to $93,582 year to date compared to the same periods in 2011, primarily due to a reduction in installed assets, partially offset by an average rental rate increase of 2.75% implemented in January 2012. Sub-metering revenues in the second quarter of 2012 were $16,418, an increase of $3,234 or 25%, and $32,891 or 19% greater than the comparable periods in 2011, as a result of increased billing units and commodity charges. Revenue includes pass through energy charges of $12,149 in the second quarter and $24,332 year to date, increases of $2,424 and $4,014, respectively, over the same periods in 2011.

Investment income decreased by $64 to $76 during the second quarter of 2012 and was $9 more at $261 year to date compared to the same periods in 2011. The decrease in investment income in the current period was attributable to lower investment balances as a result of the repayment the $60,000 2009-1 Notes in April 2012.

Selling, General & Administrative Expenses

Total SG&A expenses were $11,524 in the second quarter of 2012, an increase of $2,286 or 25% over second quarter of 2011. Sub-metering SG&A expenses were $2,649 during the current period, $230 more than the same period in 2011, primarily as a result of increased wages and benefits of approximately $300 due to staffing requirements related to the internalization of our billing platform, partially offset by reduced expenses in a number of other areas. Rentals and corporate expenses of $8,875 increased by $2,056 over the second quarter of 2011, primarily due to the incurrence of approximately $1,200 in proxy solicitation costs, increased bad debt of $1,400 related to the reduction recorded in 2011 reflecting a recovery from DE, increased wages and benefits of $400 and increased claims of $300, partially offset by the timing of marketing program expenses and a number of smaller items.

Total SG&A expenses were $21,826 year to date in 2012, an increase of $2,748 over the same period in 2011. Sub-metering SG&A expenses were $5,433 year to date in 2012, an increase of $361 over that of year to date 2011. The expense increases are in line with the variances for the current quarter as noted above. Rentals and corporate SG&A expenses year to date were $16,393, an increase of $2,387 over the same period in 2011. In addition to the increased SG&A expenses noted above, in respect of the second quarter of 2012, the year to date increase of $2,387 reflects additional increases of approximately $600 in wages and benefits, proxy solicitation costs of $500, offset by a reduction in claims and bad debt of $300, professional fees of $200 and other smaller reductions.

Amortization Expense

Amortization expense decreased by $937 or 4% to $25,166 in the second quarter of 2012 and by $1,303 or 3% to $51,040 year to date, primarily due to a smaller installed asset base in the Rentals portfolio, partially offset by increased Sub-metering capital investments, which are amortized over a shorter life than the Rentals business.

Loss on Disposal of Equipment

In the second quarter of 2012, EnerCare reported a loss on disposal of equipment of $4,113 and one of $8,228 year to date, reductions of $748 and $1,273, respectively, over the same periods in 2011. The loss on disposal amount is influenced by the number of assets retired, proceeds on disposal of equipment, changes in the retirement asset mix and the age of the assets retired. During the first and second quarters of 2012, additional proceeds on disposal of assets of $483 and $1,104, respectively, were recorded over the same periods in 2011. During the current year, approximately 7,000 additional buyout transactions were recorded over the same period in 2011. Many of the buyout transactions were on account of older assets with low buyout fees.

Interest Expense

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2012**	2011	**2012**	2011
Interest expense payable in cash	**$ 8,336**	$ 9,253	**$ 17,383**	$ 18,619
Non-cash items: Amortization of OCI and financing costs	**1,121**	1,313	**2,404**	2,638
Interest expense	**$ 9,457**	$ 10,566	**$ 19,787**	$ 21,257

Interest expense payable in cash decreased by $917 to $8,336 in the second quarter of 2012 and by $1,236 to $17,383 year to date, compared to the same periods of 2011. The decreases are primarily related to the conversion of Convertible Debentures to Shares since June 30, 2011 and the repayment of the $60,000 2009-1 Notes on April 30, 2012. Amortization of OCI and financing costs for 2012 are modestly lower than 2011 primarily related to the declining outstanding balance of Convertible Debentures and reduced amortization with the repayment of the 2009-1 Notes.

Other Income

The year to date income of $1,500 represents a settlement reached by EnerCare and DE on account of billing for water heater installation costs.

Income Taxes

EnerCare reported a current tax expense of $2,118 for the second quarter of 2012 and $5,429 year to date, increases of $237 and $1,964, respectively, over the same periods of 2011, primarily as a result of decreased loss carry forwards available to shelter taxable income in the Rentals business. The deferred income tax expenses of $1,766 and $825 for the second quarter and year to date 2012 were $3,624 and $3,798 greater than the deferred tax recoveries of $1,858 and $2,973 recorded in the same periods of 2011. The current period reflects approximately $6,000 of deferred tax expense as a result of the reversal of previously enacted future corporate tax rate reductions in the province of Ontario.

Net Loss

Earnings before income taxes in the second quarter of 2012 were $820 and $3,021 year to date, a decrease of $885 and an increase of $1,908, respectively, compared to the same periods in 2011, as previously described. The net loss of $3,064 for the second quarter of 2012 and $3,233 year to date, compared to earnings of $1,682 and $621, respectively, in the comparable periods of 2011, increased by approximately $6,000 primarily as a result of a change in the future tax rates by the Ontario government.

EBITDA and Adjusted EBITDA

The following table summarizes comparative quarterly results for the last eight quarters, and reconciles net earnings, an IFRS measure, to EBITDA and Adjusted EBITDA.

(000's)	**Q2/12**	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10
Net (loss)/earnings	**$ (3,064)**	$ (169)	$(2,256)	$5,618	$1,682	$(1,061)	$(3,214)	$2,216
Deferred tax expense/(recovery)	**1,766**	(941)	(874)	(5,666)	(1,858)	(1,115)	(3,419)	(5,172)
Current tax expense	**2,118**	3,311	765	1,478	1,881	1,584	-	-
Amortization expense	**25,166**	25,874	26,234	26,126	26,103	26,240	26,620	27,287
Interest expense	**9,457**	10,330	10,377	10,433	10,566	10,691	10,666	10,693
Other (income)/expense	**-**	(1,500)	-	(254)	(2,129)	-	211	(1,715)
Investment (income)	**(76)**	(185)	(174)	(168)	(140)	(112)	(107)	(87)
EBITDA	**35,367**	36,720	34,072	37,567	36,105	36,227	30,757	33,222
Add: Loss on disposal of equipment	**4,113**	4,115	4,880	4,718	4,861	4,640	4,673	5,756
Add: Impairment of assets	**-**	-	458	-	-	-	-	-
Adjusted EBITDA	**$39,480**	$40,835	$39,410	$42,285	$40,966	$40,867	$35,430	$38,978

The variances over the last eight quarters are primarily due to the following:

1. The acquisition of EECI (now ECI) in the fourth quarter of 2010.
2. Net earnings are impacted by rental rate increases, generally implemented in January of each year, and accruals related to billing and servicing matters.
3. In 2011, current taxes as a result of Conversion to a corporation.
4. In the second quarter 2012, deferred taxes resulting from a change in the future provincial corporate tax rates.
5. Amortization and loss on disposal of equipment are primarily driven by unit continuity activity such as Attrition, exchanges and outstanding units.
6. As part of the conversion to IFRS, effective January 1, 2010, EnerCare estimated the obligation payable to the former Stratacon shareholders in respect of the final earn out payment. Amounts taken back into income in 2011 reflect reductions in the amounts payable. The 2010 amount is comprised of a settlement in respect of various claims for indemnification made by EnerCare

pursuant to the share purchase agreement.

7. Impairment expense of $458 was taken on certain Sub-metering assets based on work in progress items which were no longer proceeding forward.
8. Other income in the first quarter of 2012 relates to the settlement of installation charges with DE.

DISTRIBUTABLE CASH AND PAYOUT RATIO

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2012**	2011	**2012**	2011
Cash provided by operating activities	**$ 19,129**	$ 27,095	**$ 43,243**	$ 60,032
Net change in non-cash working capital	**9,997**	5,051	**16,085**	2,164
Operating Cash Flow[3]	**29,126**	32,146	**59,328**	62,196
Capital expenditures - excluding growth capital and acquisitions	**(13,542)**	(15,229)	**(29,041)**	(30,570)
Proceeds on disposal of equipment	**1,493**	1,010	**3,185**	2,081
Other income	**-**	-	**(1,500)**	-
Extraordinary proxy solicitation expenses	**1,164**	-	**1,642**	-
Distributable Cash	**18,241**	17,927	**33,614**	33,707
Dividends declared	**(9,706)**	(8,958)	**(19,130)**	(17,876)
Net cash retained	**$ 8,535**	$ 8,969	**$ 14,484**	$ 15,831
Payout Ratio	**53%**	50%	**57%**	53%

The Payout Ratio, after capital expenditures (excluding growth capital and acquisitions) increased to 53% for the second quarter of 2012 and 57% year to date, compared to 50% and 53%, respectively, for the same periods of 2011, primarily due to increased dividends, higher current tax expense and lower Adjusted EBITDA, partially offset by lower capital expenditures and greater proceeds on disposal of equipment. The increase in declared dividends is a result of the two dividend increases over the past two quarters as well as increases in outstanding Shares due to conversion of Convertible Debentures.

EnerCare intends to finance its recurring capital expenditures with cash flows from operations, cash on hand and available credit.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2012**	2011	**2012**	2011
Cash flow from operating activities	**$ 19,129**	$ 27,095	**$ 43,243**	$ 60,032
Net change in non-cash working capital	**9,997**	5,051	**16,085**	2,164
Operating Cash Flow	**29,126**	32,146	**59,328**	62,196
Capital expenditures – excluding growth capital and acquisitions	**(13,542)**	(15,229)	**(29,041)**	(30,570)
Proceeds on disposal of equipment	**1,493**	1,010	**3,185**	2,081
Net capital expenditures	**(12,049)**	(14,219)	**(25,856)**	(28,489)
Acquisitions	**-**	-	**(2,053)**	-
Growth capital	**(4,377)**	(4,113)	**(7,323)**	(6,071)
Cash used in investing activities	**(16,426)**	(18,332)	**(35,232)**	(34,560)
Dividends paid	**(9,658)**	(8,940)	**(18,983)**	(14,883)
Net financing	**(60,280)**	(268)	**(60,560)**	199
Cash (used in) financing activities	**(69,938)**	(9,208)	**(79,543)**	(14,684)
Cash and equivalents – end of period	**$ 3,758**	$ 63,283	**$ 3,758**	$ 63,283

[3] Operating Cash Flow is a Non-IFRS financial measure. Refer to the Non-IFRS Financial and Performance Measures section in this MD&A.

Operating Cash Flow of $29,126 decreased by $3,020 in the second quarter of 2012 and by $2,868 year to date to $59,328, compared to the same periods in 2011. Cash flow from operating activities declined in 2012 primarily as a result of an increase in current taxes and selling and general expenses and reductions in other income, partially offset by lower interest expense.

Net capital expenditures in the second quarter and year to date of 2012 were lower than the comparable periods in 2011, due to decreased asset exchange activity and greater buyout proceeds. Acquisitions of $2,053 in 2012 relate to the GreenSource acquisition in the Rentals business. Growth capital investments increased modestly to $4,377 during the second quarter of 2012. Year to date capital expenditures of $7,323 compared to $6,071 during 2011 include additional Sub-metering installation activity, costs associated with the development of our billing system internalization and computer systems and office furniture. Dividends paid reflect dividend payments on outstanding Shares. In 2011, dividends paid reflect only two payments during the first quarter, as two payments were made in December 2010 leading up to the Fund conversion to a corporation.

EnerCare Solutions is subject to a number of covenants and has the ability to incur additional senior debt as described in Liquidity and Capital Resources – Cash from Financing.

EnerCare Solutions repaid the $60,000 2009-1 Notes on their maturity date of April 30, 2012 from cash on hand. EnerCare Solutions is examining opportunities to refinance its 2010 Notes and 2009-2 Notes in order to take advantage of the current low interest environment. EnerCare's Revolver has a credit limit of $35,000, $2,000 of which was drawn as of August 10, 2012.

Management believes that EnerCare has sufficient cash flow, cash on hand and credit available to meet its 2012 obligations, including capital expenditures, debt repayments and working capital requirements for the Rentals and Sub-metering businesses.

Capital Expenditures

Capital expenditures typically have a significant impact on liquidity and are best understood with reference to the unit continuity analysis below.

Installed Asset Unit Continuity (000's)	Three months ended June 30, **2012**			2011		
Segment	**Rentals**	**Sub-metering**	**Total**	Rentals	Sub-metering	Total
Units – start of period	**1,203**	**98**	**1,301**	1,255	82	1,337
Portfolio additions	**7**	**6**	**13**	6	6	12
Acquisitions	**-**	**-**	**-**	-	-	-
Attrition	**(20)**	**-**	**(20)**	(19)	-	(19)
Units – end of period	**1,190**	**104**	**1,294**	1,242	88	1,330
Asset exchanges – units retired and replaced	**11**	**-**	**11**	13	-	13
% change in units during the period			(0.5%)			(0.5%)
% of units from start of period:						
Portfolio additions (net of acquisitions)			1.0%			0.9%
Attrition			(1.5%)			(1.4%)
Units retired and replaced			0.8%			1.0%

Installed Asset Unit Continuity (000's)		Six months ended June 30, **2012**				2011
Segment	**Rentals**	**Sub-metering**	**Total**	Rentals	Sub-metering	Total
Units – start of period	**1,216**	**94**	**1,310**	1,267	77	1,344
Portfolio additions	**13**	**10**	**23**	12	11	23
Acquisitions	**3**	**-**	**3**	-	-	-
Attrition	**(42)**	**-**	**(42)**	(37)	-	(37)
Units – end of period	**1,190**	**104**	**1,294**	1,242	88	1,330
Asset exchanges – units retired and replaced	**25**	**-**	**25**	27	-	27
% change in units during the period			**(1.2%)**			(1.0%)
% of units from start of period:						
Portfolio additions (net of acquisitions)			**1.8%**			1.7%
Attrition			**(3.2%)**			(2.8%)
Units retired and replaced			**1.9%**			2.0%
Billable units	**1,190**	**66**	**1,256**	1,242	54	1,296
Contracted units		**143**			105	

Net capital expenditures in the Rentals business include portfolio additions and asset exchanges, net of proceeds on disposal. Net capital expenditures in the Rentals business were $12,049, decreasing by 15% or $2,170 during the second quarter of 2012 and $25,856, year to date, decreasing by $2,633 or 9% compared to the same periods in 2011. The net capital expenditures were lower in part due to fewer asset exchanges and greater buyout activity and related proceeds on disposal when compared to the same periods in 2011.

Installations in the Sub-metering business increased in the second quarter of 2012 and consequently year to date to be in line with results for the same periods in 2011.

Attrition in the first and second quarters of 2012 were approximately 4,000 and 1,000 units higher than those periods in 2011, because of higher customer buyouts resulting from the introduction and subsequent withdrawal of new contract terms to a significant portion of customers in the Rentals portfolio in March 2012, with buyouts in April 2012 being approximately three times higher than those in April 2011. However, buyouts have decreased dramatically in each month subsequent to April 2012, approaching near historical levels, and unit losses not attributed to buyouts (for example, removal of units by competitors) for the second quarter of 2012 were lower than such losses in the second quarter of 2011 by approximately 8%.

For the Rentals business, changes in Billable units reflect the portfolio activity as reported in the continuity schedule. For the Sub-metering business, Billable units of 66,000 increased by 2,000 units in the second quarter of 2012 and 12,000 year to date as compared to the same periods in 2011, primarily due to additional installations and increased penetration in the rental apartment market.

Sub-metering sales activity in the second quarter of 2012 remained strong with new sales representing approximately 7,000 suites contracted during the period. The pipeline of sales prospects remained strong in the quarter.

Cash from Financing

Financing activities for EnerCare reflect mainly dividends, periodic financing of EnerCare Solutions' indebtedness, EnerCare's offering of Shares and Convertible Debentures, and to a much lesser extent financing of the Sub-metering business. During the second quarter of 2012, EnerCare recorded financing repayments, net of dividends, of $60,280, related to the April 30, 2012 $60,000 2009-1 Notes maturity and on-going principal payments on the Stratacon Debt.

Capitalization (000's)	Six months ended June 30, **2012**	 2011
Cash and cash equivalents	**$ 3,758**	$ 63,283
Net investment in working capital	**(747)**	(11,713)
Cash, net of working capital	**3,011**	51,570
Total debt	**522,184**	595,875
Shareholder's equity	**112,330**	131,760
Total capitalization – book value	**$ 634,514**	$ 727,635

Typically, EnerCare maintains cash balances and available credit to provide sufficient cash reserves to satisfy short-term requirements, including interest payments, dividends and certain capital expenditures and acquisitions**.**

At June 30, 2012, total debt was comprised of the 2009-2 Notes and 2010 Notes, Convertible Debentures and Stratacon Debt.

EnerCare Solutions is subject to a number of covenant requirements as described in the AIF. The following discussion outlines the principal covenants.

Revolver

Under the Revolver, EnerCare Solutions is subject to three principal financial covenants as described in the AIF. The covenants address interest and debt coverage. EnerCare Solutions complied with these covenants on June 30, 2012. No amounts were drawn on the Revolver at June 30, 2012.

2009 Notes and 2010 Notes – Incurrence Test

The covenants under the 2009 Notes and 2010 Notes are contained in a master trust indenture and supplemental indentures effective January 29, 2010 and February 19, 2010, respectively. Under the terms of these indentures, EnerCare Solutions may not incur additional senior debt other than certain refinancing debt and certain working capital debt if the Incurrence Test (as described in the AIF) is less than 3.8 to 1. On June 30, 2012, EnerCare Solutions exceeded this minimum and had the capacity under the covenant to raise approximately $80,000 to $100,000 additional senior debt should it elect to do so.

SUMMARY OF QUARTERLY RESULTS

(000's)	**Q2/12**	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10
Total revenues	**$63,229**	$63,505	$59,988	$63,032	$60,069	$61,412	$57,169	$49,676
Net (loss)/earnings	**(3,064)**	(169)	(2,256)	5,618	1,682	(1,061)	(3,214)	2,216
Dividends declared	**9,706**	9,424	9,143	9,047	8,958	8,918	8,867	8,867
Average Shares outstanding	**57,526**	56,554	55,981	55,728	55,206	54,952	54,734	54,734
Per Share								
Basic/diluted net (loss)/earnings	**($0.05)**	($0.00)	($0.04)	$0.10	$0.03	($0.02)	($0.06)	$0.04
Dividends declared	**$0.168**	$0.166	$0.163	$0.162	$0.162	$0.162	$0.162	$0.162

In addition to quarterly comments found under "Results of Operations – Adjusted EBITDA and EBITDA", differences in net earnings between quarters reflect the timing of expenses, current tax expense and the temporary difference reversals of future income tax recoveries. Dividends declared primarily reflect the change in outstanding Shares over time as well as the dividend increases implemented in the fourth quarter of 2011 as well as the first quarter of 2012.

The average number of Shares outstanding and the related per Share data reflect EnerCare's Share offering of June 2010. Commencing in 2011, Shares outstanding have increased with the conversion of Convertible Debentures.

SUMMARY OF CONTRACTUAL DEBT AND LEASE OBLIGATIONS

The following schedule summarizes the contractual debt and lease obligations of EnerCare at June 30, 2012:

Period (000's)	Principal Payments	Interest Payments	Leases
Within the remainder of 2012	$ 571	$ 15,900	$ 181
Due in 2013	241,198	25,429	328
Due in 2014	271,251	9,917	255
Due in 2015	1,299	702	370
Due in 2016	1,003	604	392
Due in 2017 and thereafter	8,707	307	70
Total	$ 524,029	$ 52,859	$ 1,596

As at June 30, 2012, long-term senior contractual obligations of EnerCare include debt service on the 2009-2 Notes and 2010 Notes bearing interest at 6.75% and 5.25%, respectively. Interest on the 2009-2 Notes is payable semi-annually on April 30 and October 30 and on March 15 and September 15, in respect of the 2010 Notes. The Stratacon Debt of $6,142 was issued in 14 series with maturity dates ranging from 4 to 14 years, ending in 2022. The interest rate on the Stratacon Debt ranges from 7.50% to 8.75% and is paid monthly.

The Convertible Debentures bear interest at 6.25%, with interest payable semi-annually on June 30 and December 31 until maturity in June 2017.

At June 30, 2011, $35,000 of the Revolver was available to be drawn. The Revolver bears a standby fee of 0.31%, which has not been included in the above schedule, until maturity in January 2014.

Lease obligations include premises and office equipment. Substantially all of the future expense obligations are the result of leased premises.

On April 30, 2012, the $60,000 Series 2009-1 Notes were repaid with cash on hand.

ENERCARE SHARES ISSUED AND OUTSTANDING

EnerCare's authorized share capital consists of an unlimited number of Shares and 10,000,000 preferred shares. At June 30, 2012, there were 57,819,873 Shares (55,430,845 at June 30, 2011) issued and outstanding, and no preferred shares were outstanding. Preferred shares may, at any time and from time to time, be issued in one or more series, with such rights, privileges, restrictions and conditions as may be determined by the directors. The preferred shares of each series shall, with respect to the payment of dividends and the distribution of assets, be entitled to preference over the Shares and any other share ranking junior to the preferred shares from time to time.

NON-IFRS FINANCIAL AND PERFORMANCE MEASURES

The condensed interim consolidated financial statements of EnerCare are prepared in accordance with IFRS. EnerCare's accounting policies are summarized in detail in note 3 of the condensed interim consolidated financial statements.

EnerCare reports on certain Non-IFRS measures that are used by management to evaluate performance of EnerCare and meet certain covenant requirements relating to its debt financing. Since Non-IFRS measures do not have standardized meanings prescribed by IFRS, securities regulations require that Non-IFRS measures be clearly defined, qualified, and reconciled with their nearest IFRS measure. These measures do not have standardized meanings or interpretations, and may not be comparable to similar terms and measures provided by other issuers.

Non-IFRS financial indicators used by EnerCare and reported in this MD&A include:

Measures of Asset Portfolio Performance

Capital Expenditures and Acquisitions

EnerCare makes two principal types of investments to grow its installed base of water heaters, sub-meters and other assets: capital expenditures and acquisitions.

Measures of Financial Performance

EBITDA

This measure is comprised of net earnings plus income taxes, interest expense and amortization expense, less investment and other income. It is one metric that can be used to determine EnerCare's ability to service its debt, finance capital expenditures, and provide for the payment of dividends to shareholders. EBITDA is reconciled with net earnings, an IFRS measure, in the section "*Results of Operations - Adjusted EBITDA and EBITDA*" in this MD&A.

Adjusted EBITDA

This measure is comprised of net earnings plus income taxes, interest expense, amortization expense, impairment losses and loss on disposal of equipment, less investment and other income. It is one metric that can be used to determine EnerCare's ability to service its debt, finance capital expenditures, and provide for the payment of dividends to shareholders. Adjusted EBITDA is reconciled with net earnings, an IFRS measure, in the section "*Results of Operations - Adjusted EBITDA and EBITDA*" in this MD&A.

Billable

Sub-metering Billable units represent assets for which an invoice has been issued to a customer in the past. From time to time there may be periods where no invoicing occurs in respect of such asset due to, for example, vacancy or delinquency. Billable Sub-metering assets are no longer Billable upon termination of the contractual agreement with the landlord or condominium corporation, as applicable. The Rentals portfolio is deemed to be fully Billable upon origination and removed from Billable upon asset termination.

Distributable Cash

Distributable Cash is the amount of cash generated during a period and available to service debt, finance capital expenditures and provide for the payment of dividends to shareholders. It comprises net earnings of EnerCare, plus non-cash items such as deferred income taxes, amortization and extraordinary non-recurring expenses, less capital expenditures and other non-recurring income. Capital expenditures outside of EnerCare's traditional Rentals asset purchases, such as Sub-metering equipment, acquisitions and infrastructure assets are considered by management to be growth expenditures. Distributable Cash is reconciled with cash flow from operating activities, an IFRS measure, in the section "Distributable Cash and Payout Ratio" in this MD&A.

Distributions and Payout Ratio

Dividends are declared and paid monthly to shareholders at the discretion of the board of directors of EnerCare. Among other things, the directors consider the level of Distributable Cash, the level of previous dividends, and the amount of cash they wish to retain in the company for contingencies and future growth. The Payout Ratio is the percentage of Distributable Cash to dividends declared to shareholders during a period. The Payout Ratio indicates the ability of EnerCare to pay dividends, finance capital expenditures and add to its cash reserves.

Operating Cash Flow

Operating Cash Flow is the cash flow from operating activities excluding changes in non-cash working capital. It represents the net cash generated in earnings, excluding non-cash items. It is one indicator of financial strength of EnerCare. Operating Cash Flow is reconciled with cash flow from operating activities, an IFRS measure, in the section "*Liquidity and Capital Resources*" in this MD&A.

Measures Regarding Debt Covenants

As at June 30, 2012, EnerCare was in compliance with all covenants under the 2009-2 Notes, 2010 Notes and Revolver. A summary of the current covenants as described in the AIF is discussed below.

Revolver

Under the Revolver, EnerCare Solutions is subject to three principal financial covenants as described in the AIF. The covenants address interest and debt coverage. EnerCare Solutions complied with these covenants on June 30, 2012. No amounts were drawn on the Revolver at June 30, 2012.

2009-2 Notes and 2010 Notes – Incurrence Test

The covenants under the 2009-2 Notes and 2010 Notes are contained in a master trust indenture and supplemental indentures effective January 29, 2010 and February 19, 2010, as applicable. Under the terms of these indentures, EnerCare Solutions may not incur additional senior debt other than certain refinancing debt and certain working capital debt if the Incurrence Test (as described in the AIF) is less than 3.8 to 1.

CRITICAL ACCOUNTING ESTIMATES

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts in the condensed interim consolidated financial statements and accompanying notes. These estimates are based on EnerCare's historical experience, probability analysis and various other assumptions that management considered under the circumstances, the results of which form the basis for making judgments about the reported amounts in the condensed interim consolidated financial statements that are not readily apparent from other sources. The critical accounting estimates for EnerCare are the estimated useful lives of equipment, intangible assets and provisions. Additional accruals were recorded for the period as outlined below:

DE Earnings Items

DE, through EGD, provides billing and collection services for substantially all of EnerCare's water heaters and other assets. Following the September 2009 billing system conversion implemented by DE, which coincided with a billing system conversion by EGD, EnerCare's ICFR identified issues principally associated with DE's system conversion impacting EnerCare's customers, including issues in respect of the allocation of customer payments, customer collections, and billing issues, including completeness of billing, billing in respect of new customers and implementation of new rental rates. EnerCare continues to work closely with DE to resolve billing issues as well as billing completeness.

At December 31, 2011, EnerCare estimated and recorded revenue accruals of $1,700 in respect of billings and adjustments expected to be recovered from customers, but did not include any amounts that EnerCare may recover from DE for lost revenues arising from the billing system conversion. During the first quarter of 2012, EnerCare collected approximately $1,200 in respect of such outstanding amount. At June 30, 2012, EnerCare has $1,500 accrued. During the quarter an increase in income of $640 was recorded. The balance is expected to be collected in 2012.

Buyout processing and other miscellaneous items from 2010 remain outstanding. EnerCare has recorded amounts expected to be charged to customers by DE and continues to work with DE to resolve issues relating to buyout processing.

Settlement with DE for an amount in excess of revenues recorded and recovery of any expenses accrued would result in an increase to previously stated EBITDA amounts.

Sub-metering Billing and Customer Care System

During May, 2012, the Sub-metering business deployed a new utility grade customer billing system which consolidated all sub-metering billing functions on to one platform. As a result of the transition, during May and June a number of bills required modification resulting in delayed mailings to residents and consequently a backlog of move in and out processing and establishment of new accounts and suspension of collection activities. EnerCare has accrued revenue of approximately $7,200 and commodity charges of $4,600 associated with these impacted customer accounts. EnerCare does not anticipate any significant provision adjustment at this time.

Equipment

Equipment is stated at cost, adjusted to fair market value where cost exceeds the net recoverable amount. For the Rentals business, costs include the purchase price of the water heaters and other assets, and installation allowances. There exists measurement uncertainty with respect to the useful life of the installed rental assets; accordingly, EnerCare periodically reviews the estimated useful lives of water heaters and believes it is currently appropriate to amortize the cost on a straight-line basis over 16 years.

Sub-metering equipment is comprised of sub-meters, installation costs, labour and direct materials. Sub-meters are amortized over their estimated useful lives of 10 years on a straight-line basis. Additional costs incurred as part of each executed contract are amortized on a straight-line basis over the term of the contract which varies from 10 to 25 years.

Intangible Assets

Intangible assets represent the right to rental cash flows. The intangible assets are stated at cost, adjusted to fair market value where cost exceeds the net recoverable amount. Rentals intangible assets are amortized over 16 years on a straight-line basis in conjunction with the related equipment.

Sub-metering intangible assets are comprised of cash flows related to customer contracts and relationships, and the benefits from certain contractual arrangements. Stratacon related customer contracts and relationships were initially amortized on a straight-line basis over the average estimated contract life of 16 years while other contractual arrangements are amortized on a straight-line basis between 2 and 5 years.

EnerCare reviews the intangible assets on an annual basis or at any other time when events or changes have occurred that would suggest an impairment of carrying amount.

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

EnerCare's certifying officers have designed, and assessed the design of, a system of DC&P to provide reasonable assurance that (i) material information relating to EnerCare, including its consolidated subsidiaries, is made known to them by others; and (ii) information required to be disclosed by EnerCare in its annual filings, interim filings and other reports filed or submitted by EnerCare under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As well, EnerCare's certifying officers have designed, and assessed the design of, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There are no material weaknesses relating to the design of either DC&P or ICFR at June 30, 2012. There have been no changes to our ICFR during the quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, EnerCare's ICFR, including as a result of the implementation of IFRS, as any changes were either immaterial or implemented in prior periods.

Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, EnerCare intends to take whatever steps are necessary to minimize the consequences thereof.

CHANGES IN ACCOUNTING POLICIES

The condensed interim consolidated financial statements of EnerCare are prepared in accordance with IFRS as issued by IASB applicable to the preparation of condensed interim consolidated financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011. EnerCare has consistently applied the same accounting policies and methods of computation throughout all periods presented, as if these policies had always been in effect.

IFRS 9, *Financial Instruments*, was issued in November 2009. It addressed classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return on investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with early adoption permitted. EnerCare has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10, *Consolidated Financial Statements,* was issued in May 2011. It introduces a single model in the control analysis to determining which investees should be consolidated. The consolidation procedures are carried forward from IAS 27 (2008). The control model is based on three elements: An investor controls an investee when (1) it is exposed or has rights to variable (e.g. residual) returns from its involvement with that investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between power and returns. The approach comprises a series of indicators of control, but no hierarchy is provided: preparers are required to analyze all facts and circumstances and apply their judgment in making the control assessment. Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee. In such a case that portion of the investee is a deemed separate entity (referred to as a silo) for the purpose of applying the consolidation requirements. In assessing control, the investor also needs to analyze substantial potential voting rights as well as currently exercisable potential voting rights. This is likely to change the control conclusion in some cases: currently exercisable potential voting rights might not be considered substantive and vice versa. Control is assessed on a continuous basis, i.e. it is reassessed as facts and circumstances change considerably. This standard is required to be applied for accounting periods beginning on or after January 1, 2013. EnerCare has not yet assessed the impact of the standard.

IFRS 13, *Fair Value Measurement*, was issued in May 2011. It defines “fair value” and sets out, in a single IFRS, a framework for measuring fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or liability at fair value, nor does it change what is measured at fair value in IFRSs or address how to present changes in fair value. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, but can, with early adoption permitted. EnerCare has not yet assessed the impact of the standard or whether it will adopt the standard early.

OUTLOOK

EnerCare is pleased with the trend of reduced competitor removals of our Rentals products in the second quarter of 2012. DE and EnerCare attrition fighting programs have continued into the third quarter of 2012, including the mass media campaign described above.

EnerCare implemented a new Sub-metering billing and customer care system in May 2012. This system replaces two outsourced contracts that were inherited as part of EnerCare’s Sub-metering acquisitions. Sub-metering SG&A costs are anticipated to continue to be higher than normal in the early part of the third quarter of 2012 due to continued transition activities. The new system allows for greater automation and consistency of processes, reduced duplication of efforts and greater economies of scale. We expect these factors to contribute to lower Sub-metering SG&A costs towards the end of the third quarter of 2012.

EnerCare plans to increase efforts to grow its business organically, including through wider product offering and geographic expansion. In addition, EnerCare Solutions will continue to seek acquisition opportunities in its current or adjacent markets. Investments will focus on those which have long lived asset life and long-term customer relationships and that will generate positive growth in revenues, earnings and/or cash flows within an appropriate horizon depending on the stage of the development of the business.

GLOSSARY OF TERMS

Defined Term	Definition
AIF	Annual Information Form of EnerCare dated March 28, 2012.
Attrition	Termination of customer relationships, including buyouts.
Billable	EnerCare property that is deemed to be billing (see Non-IFRS Financial and Performance Measures - "Measures of Financial Performance").
Consent Order	Issued by the Competition Bureau in 2002 and expired in February 2012 which restricted EnerCare's and DE's business practices.
Conversion	The conversion of the Fund and the Trust, income trusts, to EnerCare and EnerCare Solutions, respectively.
Convertible Debentures	6.25% convertible unsecured subordinated debentures of EnerCare (formerly the Fund), which mature on June 30, 2017, in the original aggregate principal amount of $27,883. Each Debenture is convertible into Shares at the option of the holder at a conversion price of $6.48 (or 154.3210 Shares per $1,000 principal amount of Convertible Debentures).
D2D	Door to door.
DBRS	DBRS Limited.
DC&P	Disclosure Controls and Procedures as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.
DE	Direct Energy Marketing Limited.
ECI	EnerCare Connections Inc. (formerly Stratacon and EECI).
EECI	Enbridge Electric Connections Inc. (now ECI).
EGD	Enbridge Gas Distribution Inc.
EnerCare	EnerCare Inc., formerly the Fund.
EnerCare Solutions	EnerCare Solutions Inc., formerly the Trust.
EGNB	Enbridge Gas New Brunswick Limited Partnership
Fund	The Consumers' Waterheater Income Fund.
GreenSource	GreenSource Capital Inc., a subsidiary of DE, from which ESI acquired approximately 3,421 water heaters and HVAC equipment.
HVAC	Heating, ventilation and air conditioning.
Incurrence Test	2009 Notes and 2010 Notes Incurrence EBITDA to Net Interest Expense.
ICFR	Internal Control Over Financial Reporting as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.
IFRS	International Financial Reporting Standards as adopted by the Canadian Institute of Chartered Accountants under Part I of the Handbook.
MD&A	Management's Discussion and Analysis.
OCI	Other Comprehensive Income.
Rentals	Business division that rents water heaters and other equipment.
Revolver	$35,000 line of credit, with a maturity date of January 28, 2014 as amended and restated as of July 6, 2011.
SG&A	Selling, general and administrative expenses.
S&P	Standard and Poor's Rating Services.
Shares	Common shares of EnerCare.
Stratacon	Stratacon Inc. (now ECI).
Stratacon Debt	Secured debt assumed with the acquisition of Stratacon.
Sub-metering	Business division (ECI) that provides sub-metering equipment and billing services.
TH Energy	Toronto Hydro Energy Services Inc.
Trust	The Consumers' Waterheater Operating Trust.
Units	Trust Units of the Fund.
2009 Bridge	$240,000 bridge credit facility, with a maturity date of January 28, 2011, which was repaid in March 2010.
2009-1 Notes	$60,000 of 6.20% Series 2009 -1 Senior Notes of the Trust, which matured and were repaid on April 30, 2012.
2009-2 Notes	$270,000 of 6.75% Series 2009 -2 Senior Notes of the Trust, which mature on April 30, 2014.
2009 Notes	Collectively, the 2009-1 Notes and 2009-2 Notes.
2010 Notes	$240,000 of 5.25% Series 2010 -1 Senior Unsecured Notes of the Trust, which mature on March 15, 2013.