EnerCare Inc.

EnerCare Inc.

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

Year Ended December 31, 2012

Dated February 27, 2013

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The 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 consolidated financial statements for the period ended December 31, 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 February 27, 2013, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with EnerCare's 2012 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.

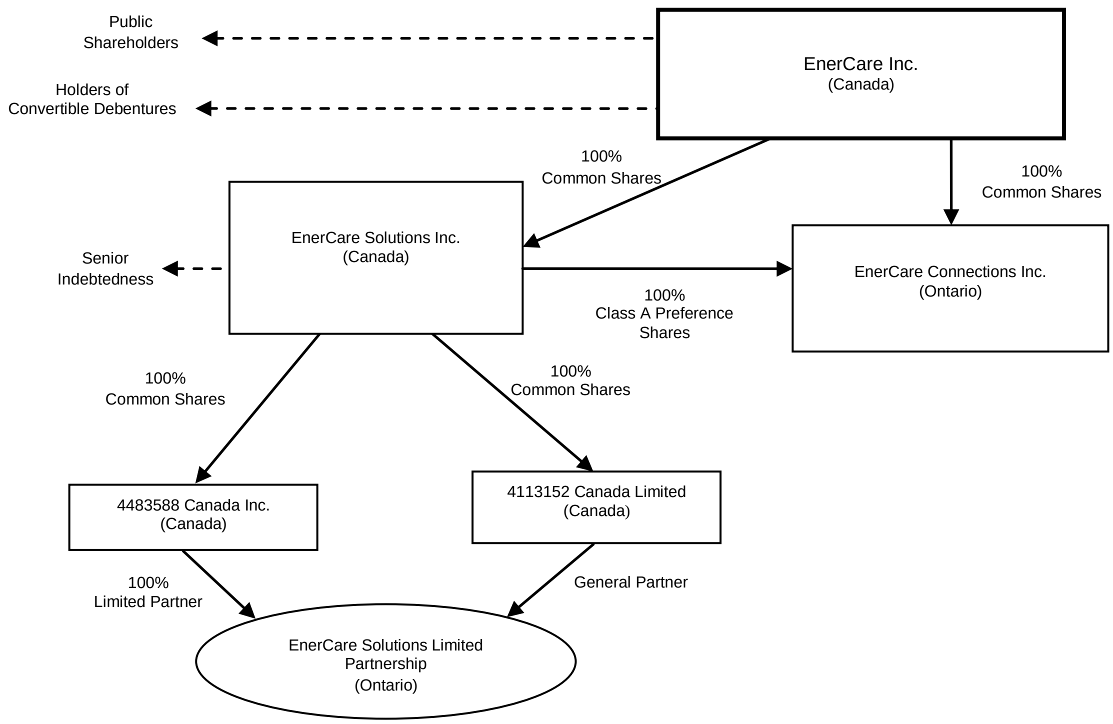
EnerCare also owns EnerCare Connections Inc. (a successor by amalgamation effective January 1, 2012 to Stratacon Inc. and EnerCare Connections Inc. ECI provides sub-metering services for electricity, heat and water to condominiums and apartments in Ontario, Alberta and elsewhere in Canada.

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 BBB(high) stable 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.

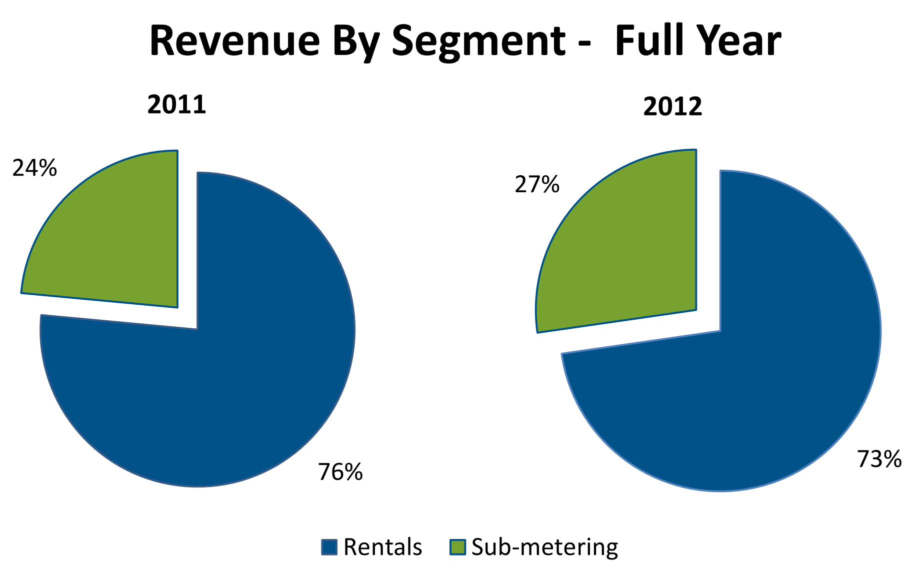
Corporate structure as at December 31, 2012.

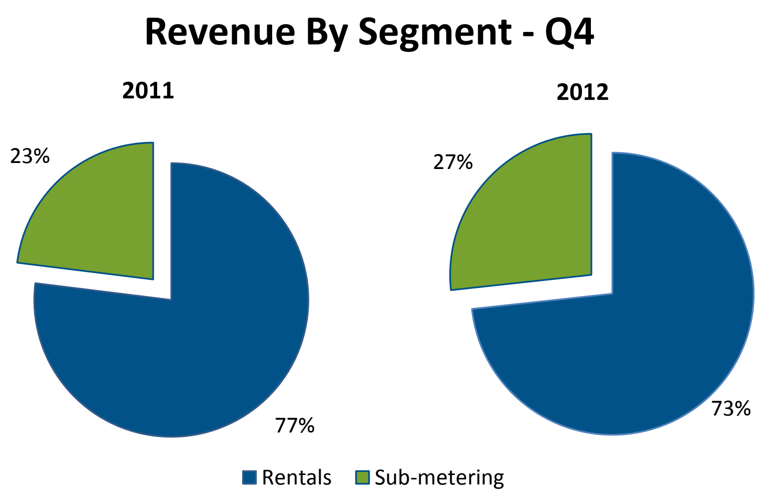


PORTFOLIO SUMMARY

EnerCare has two primary businesses, its Rentals portfolio and its Sub-metering business. As seen by the graph below, the Rentals business accounted for 73% 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 fourth quarter of 2012 and flow through commodity costs.

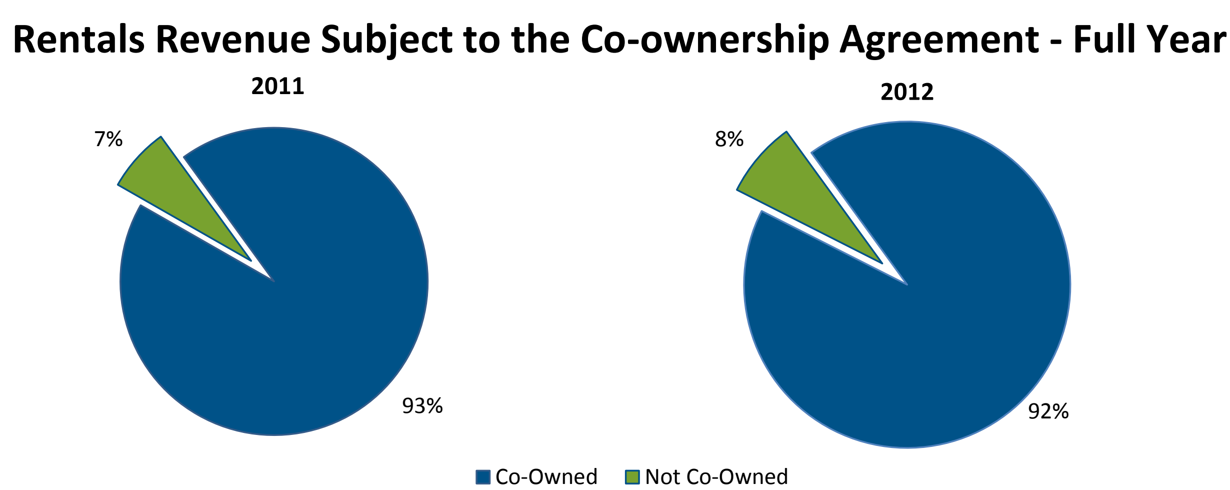




Rentals Business

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 five acquisitions and origination arrangements with various parties, EnerCare has successfully expanded its Rentals business. EnerCare has 8% of its Rentals revenue coming from portfolios which are not subject to the co-ownership agreement.

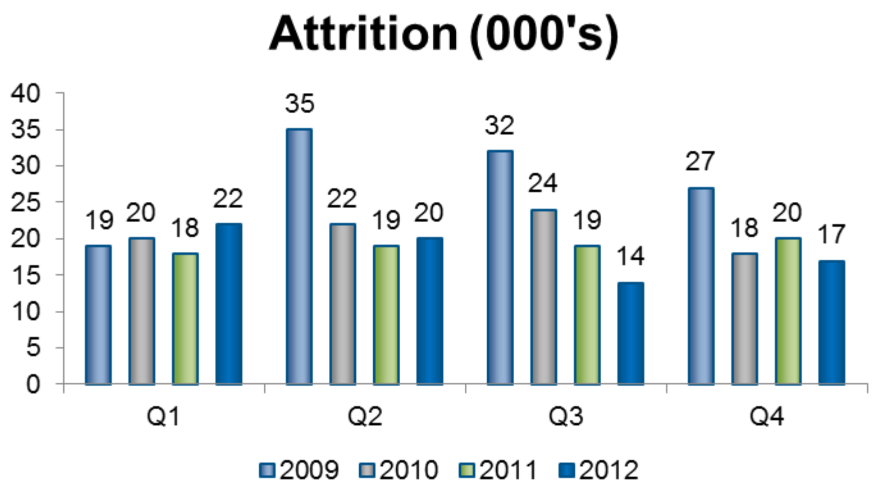


For the portfolios under the co-ownership agreement with DE, EnerCare is entitled to 65% of the revenue and other payments and DE is entitled to 35% of the revenue. For DE's portion of the revenue, it is responsible for servicing and maintaining the assets. This ensures that EnerCare is effectively insulated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

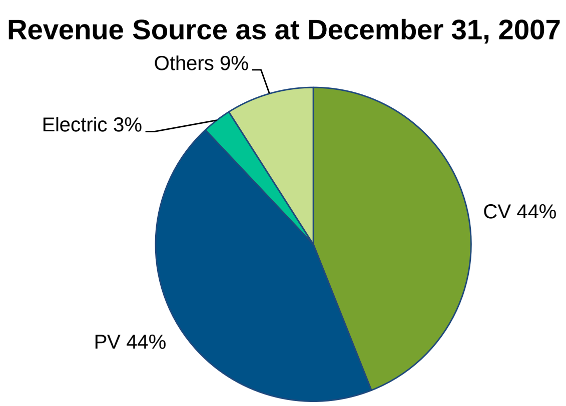
EnerCare monitors the business by reviewing new additions or customers to the portfolio, reductions or Attrition of existing customers and existing customers exchanging their rental product.

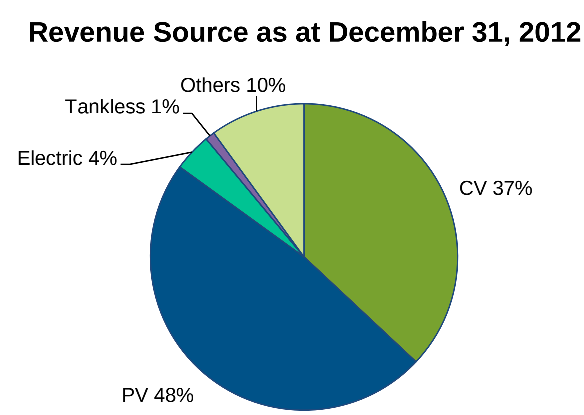
Over the last several years, EnerCare has experienced higher than normal Attrition on the water heater rental portfolios. This was largely a result of greater competition through aggressive D2D campaigns. EnerCare and DE have continued to educate consumers through direct mail and radio campaigns and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

Attrition decreased in 2012 by 3,000 units or 4% over that in 2011. Attrition for the fourth quarter was approximately 17,000 units, an improvement of approximately 3,000 units or 15% compared to the fourth quarter of 2011. Attrition has improved year over year (see below table) since 2009.



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 revenue than conventional vent ("CV") units. This product mix movement has contributed significantly to growing revenue.



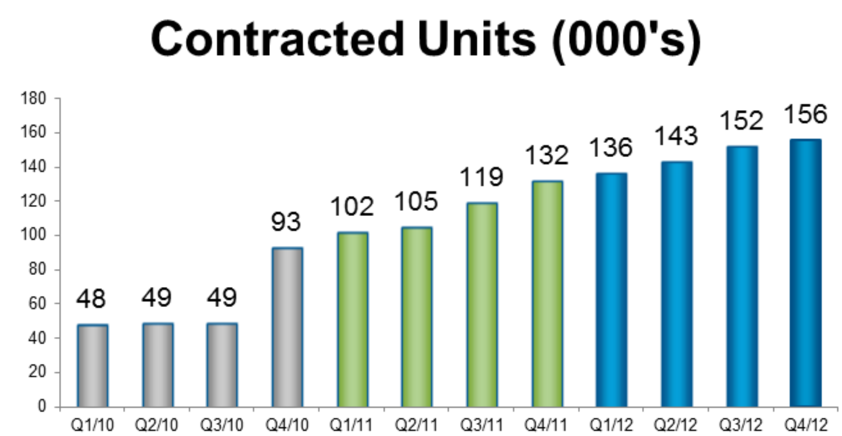


Sub-metering Business

EnerCare entered the multi-residential Sub-metering business through two acquisitions in the last three years. There are two main market segments for 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 the first two quarters 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 156,000 contracted units. Of those contracted units, 115,000 have meters installed and 71,000 units are billing. We expect to experience continued revenue growth as these contracted units are turned into installed units and subsequently Billable units.



2012 HIGHLIGHTS

(000's)	**2012**	2011	Change	Percent Change
Rentals	**$186,288**	$186,524	$ (236)	0%
Sub-metering	**69,837**	57,383	12,454	22%
Investment income	**457**	594	(137)	(23%)
Total revenues	**256,582**	244,501	12,081	5%
EBITDA[1]	**145,306**	143,971	1,335	1%
Adjusted EBITDA[1]	**160,454**	163,528	(3,074)	(2%)
Earnings before income taxes	**5,375**	178	5,197	2920%
Current tax (expense)	**(14,548)**	(5,708)	(8,840)	(155%)
Deferred income tax recovery	**5,998**	9,513	(3,515)	(37%)
Net earnings/(loss)	**$ (3,175)**	$ 3,983	$(7,158)	(180%)
Payout Ratio[2]	**63%**	55%	8%	15%

[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 2012 results with those of 2011.

- Total revenues of $256,582 increased by 5% in 2012. Revenues in the Rentals business were $186,288, consistent with the prior year primarily as a result of the changes in installed assets offset by rental rate increases. Sub-metering revenues increased to $69,837 from $57,383, primarily as a result of an increase in Billable units and flow through commodity costs.
- EBITDA increased by $1,335 to $145,306 in 2012, driven principally by improved total revenues and loss on disposal of equipment, partially offset by higher SG&A costs. Adjusted EBITDA of $160,454 decreased by $3,074 after removing from EBITDA the impact of a reduced loss on disposal of equipment and impairments in 2012.
- Net losses increased by $7,158 compared to 2011, reflecting $12,355 of additional total taxes, partially offset by lower interest expense due to the repayment of $60,000 of debt in April, lower amortization primarily as a result of a lower asset unit count and improved EBITDA.
- Attrition in the Rentals portfolio decreased by 3,000 units or 4% compared to the same period in 2011. Attrition has improved year over year since 2009.
- The Payout Ratio increased to 63% in 2012 from 55% in 2011, primarily due to the increase in current taxes, and higher dividend payments.

RECENT DEVELOPMENTS – 2012 AND 2013 TO DATE

Corporate Activities

Appointment of Directors

On March 16, 2012, Grace Palombo was appointed to EnerCare's board. Ms. Palombo had been put forward as a candidate for consideration as a nominee to the board by DE pursuant to its rights under a nomination agreement. Ms. Palombo is currently Senior Vice-President, Human Resources at TD Bank Group and from 2004 to 2010 was Senior Vice-President, Human Resources-Corporate at CanWest Global Communications.

On March 20, 2012, William M. Wells was appointed to EnerCare's board. Mr. Wells is the founder and chairman of Evizone Limited, a privately held online communications service firm, and served as Chief Executive Officer of Biovail, a pharmaceutical company, from 2008 until its merger with Valeant in 2010.

Dividend Increase

In March 2012, EnerCare increased its monthly dividend to shareholders of record on March 30, 2012 to $0.056, representing a 2% increase from the previous dividend of $0.055.

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

On April 30, 2012, EnerCare announces 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.

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.

Ratings Update

On September 12, 2012, EnerCare announced that DBRS changed its ratings on EnerCare Solutions' outstanding senior notes from "A(low)" with a negative outlook, to "BBB(high)", with a stable outlook. According to DBRS, the rating change is predominantly driven by EnerCare Solutions' Attrition levels and the continuing competitive challenges faced by EnerCare Solutions. The rating assumes that EnerCare Solutions' Attrition rate will decrease gradually and its customer base will stabilize as a result of a number of initiatives to defend EnerCare Solutions' market position. DBRS noted that EnerCare Solutions' key credit metrics remained stable for the six months ended June 30, 2012, as increased rental rates and higher margin products entering the portfolio largely offset the decrease in earnings from the smaller customer base.

Resignation of Vice-President, Sales and Marketing

Tom Cooper, Vice-President, Sales and Marketing, resigned effective October 31, 2012.

Issuance of the 2012 Notes and Redemption of the 2010 Notes

On November 21, 2012, EnerCare Solutions completed a public offering of $250,000 aggregate principal amount of 4.30% Series 2012-1 Senior Unsecured Notes due November 30, 2017. The 2012 Notes were sold at a price of 99.918% of the principal amount, with an effective yield of 4.318% per annum if held to maturity. The notes received ratings of "BBB(high)", with a "stable" trend from DBRS and "A-", with a "stable" outlook from S&P.

The proceeds of the offering were used primarily by EnerCare Solutions to fund the redemption on December 21, 2012 of its outstanding $240,000 aggregate principal amount 5.25% Series 2010-1 Senior Unsecured Notes due March 15, 2013, for an aggregate redemption price of approximately $245,268, which includes interest and a make-whole payment of $1,920. The balance of the proceeds of the offering will be used by EnerCare Solutions for general corporate purposes.

2013 Shareholders' Meeting and Changes to By-Laws

On December 13, 2012, EnerCare announced that its annual and special meeting of shareholders will be held on June 3, 2013. The board fixed April 24, 2013 as the record date for the meeting.

In connection with calling the meeting, EnerCare's board of directors conducted a review of the company's by-laws and approved certain amendments that are consistent with recent policy updates published by Institutional Shareholder Services (ISS) and Glass Lewis & Co., two leading independent proxy advisors. The amendments to the by-laws increase the quorum at meetings of shareholders to two persons holding 25% of the eligible vote and require advance notice of director nominations by shareholders.

The "advance notice" by-law fixes a deadline by which shareholders must submit director nominations prior to any meeting of shareholders. In the case of annual meetings, advance notice must be delivered to EnerCare not less than 30 nor more than 65 days prior to the date of the meeting. The by-law also requires any shareholder making a director nomination to provide certain important information about its nominees with its advance notice. The board of directors believes that all shareholders should be provided with sufficient disclosure and time to make appropriate decisions on the election of their board representatives. The advance notice by-law provides a transparent, structured, and fair director nomination process, consistent with ISS and Glass Lewis guidelines. The by-law will also ensure that shareholders are provided with important information pertaining to proposed director nominees within a specified time frame, allowing shareholders to fully participate in the director election process in an informed and effective manner.

Rentals Activities

Consent Order

Following the expiry of the Consent Order on February 20, 2012, EnerCare and DE began to implement a number of changes in the operation of the Rentals business, including:

- New procedures requiring customers to confirm their decision to terminate prior to returning their rental water heater;
- Enhancements to the verification procedures at water heater return locations;
- Changes to water heater return locations and operating hours; and
- Introduction of consumer promotional offers.

Additionally, early in March 2012, DE sent communication packages to approximately 600,000 water heater rental customers advising them of proposed amendments to the terms and conditions of their rental water heater agreement. The proposed changes provided, among other things, that if a customer wished to terminate their contract before the end of its term, they would need to buyout their rental water heater. In exchange DE provided a service guarantee and a commitment to cap future rental rate increases at the prevailing rate of inflation. Customers were given approximately one month to contact DE if they wished not to accept the amendments and remain on their existing terms and conditions.

Following the deployment of this customer communication, decidedly negative media coverage fanned by competitors drove significant levels of customer concern resulting in significant increases in customer call volumes to DE's call centers and a resulting back log of orders from customers requesting to stay on their current terms and conditions, buyout their water heater or simply register a complaint about the proposed contract changes. On March 16, 2012, the offer to amend was withdrawn from the market.

Purchase of Water Heaters from GreenSource Capital Inc.

On February 29, 2012, EnerCare acquired approximately 3,421 water heaters and HVAC equipment from GreenSource, a subsidiary of DE, for cash consideration of $2,053, subject to post-closing adjustments. The rental revenue from the GreenSource units is not subject to the Co-ownership Agreement, and EnerCare entered into a transitional services agreement with DE to provide service support to customers on a fee-for-service basis.

Awareness Campaigns

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. A further four week radio and print campaign was launched on July 12, 2012 and EnerCare distributing 250,000 door hangers during the week of August 2012.

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. The campaign ended in early July and a new in-person consumer awareness campaign was introduced in August 2012. Water heater sales remain the second highest source of consumer complaints with the Ministry of Consumer Services (Ontario).

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.

Same Day Service Campaign

On October 1, 2012, DE announced the launch of a new, industry-leading, same day service campaign. Available to EnerCare water heater customers serviced by DE, the same day service program assures that if a call is received by 5:00 p.m., a DE technician will do everything possible to attend and provide service on the same day.

Legal Proceedings

EnerCare has been named in legal proceedings commenced by certain competitors seeking specified and unspecified damages based on allegations that EnerCare, its service provider, EcoSmart Home Services Inc., and others engaged in unlawful surveillance and other activities aimed at tracking the D2D sales efforts of the competitors.

EnerCare is a party to a number of product liability claims and lawsuits in the ordinary course of business. Management is of the opinion that any liabilities that may arise from these lawsuits have been adequately provided for in these consolidated financial statements.

Competition Bureau Matters

In December 2012, the Interim Commissioner of Competition (the "Commissioner") filed applications with the Competition Tribunal against both DE and Reliance Comfort Limited Partnership under the *Competition Act* (Canada) alleging that they each hold dominant positions in the supply of certain types of water heaters in certain areas of Ontario and that they have each engaged in a practice of anti-competitive acts through their respective water heater return policies and procedures.

DE has denied the allegations and has publically stated that "it will vigorously defend its position before the Tribunal." It also stated that "the allegations made by the Competition Bureau question certain of DE's practices and procedures that are designed to inform and empower consumers. DE strongly believes that all customers and homeowners deserve to have all of the necessary information for them to make informed and intelligent choices. Such practices and procedures do not inhibit competition."

While the return policies and procedures are a key component to fostering consumer awareness and protection, provided that the Tribunal strikes an appropriate balance between competition and consumer protection, EnerCare does not believe that changes to DE's return practices and procedures as a result of the Commissioner's application, if any, will have a material adverse effect on Attrition over the long-term.

Open Bill Access Agreement

Effective December 21, 2012, EnerCare and DE each entered into amended and restated open bill access billing and collection services agreements (each, a "New OBA") with EGD. Pursuant to the New OBAs, EGD will provide billing and collection services to each of DE (including in respect of water heaters and other assets that are serviced by DE) and EnerCare (in respect of Enercare's other water heaters and other assets) for a term ending in December 2013. The New OBAs are on substantially similar terms as the open bill access billing and collection services agreements that expired in December 2012.

Sub-metering Developments

Amendments to the Sub-metering Code

In March 2012, the Ontario Energy Board issued amendments to the Sub-metering Code, which will come into force on March 15, 2013. These amendments require unit sub-meter providers to, among other things; adopt customer protection measure similar to those provided to consumers of licensed distributors reading disconnection, security deposits, and consumer complaints. EnerCare's operations have been modified to reflect these amendments.

New Customer Care System

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 allows greater automation and consistency of process and allows EnerCare to take advantage of greater economies of scale.

Sub-metering Sales

On September 6, 2012, EnerCare announced that it had been awarded substantial new Sub-metering business by two preeminent landlords in August. The awards include the installation of sub-metering systems, as well as the on-going provision of billing and collection services to approximately 4,500 rental apartment suites in Ontario.

Subsequent Events

Issuance of 2013 Notes, Term Loan, Redemption of 2009-2 Notes and Amendments to Revolver

As part of a series of transactions, on January 28, 2013, EnerCare Solutions entered into a $60,000 term credit facility (the "Term Loan") with the Canadian chartered bank affiliate of National Bank Financial Inc. The Term Loan is payable interest only until maturity in January 2016 and is payable in whole or in part at any time without penalty. The Term Loan bears interest at a rate of bankers' acceptances plus 120 basis points or prime plus 20 basis points at EnerCare Solutions' current credit rating. EnerCare Solutions drew the full amount available under the Term Loan on February 4, 2013.

On February 1, 2013, EnerCare Solutions completed a public offering of $225,000 aggregate principal amount of 4.60% Series 2013-1 Senior Unsecured Notes due February 3, 2020. The 2013 Notes were sold at a price of 99.94% of the principal amount, with an effective yield of 4.61% per annum if held to maturity. The notes received ratings of "BBB(high)", with a "stable" trend from DBRS and "A-", with a "stable" outlook from S&P.

The proceeds of the offering and the drawdown of the Term Loan will be used by EnerCare Solutions to redeem on March 6, 2013 its outstanding $270,000 aggregate principal amount of 6.75% Series 2009-2 Senior Unsecured Notes due April 30, 2014 for an aggregate redemption price of approximately $290,095, which includes interest and a make-whole payment of $13,754.

On February 26, 2013 the Revolver pricing was amended to reflect a 20% reduction in standby fees on the unused portion of the facility and a 30 basis point reduction in margin on borrowings at EnerCare Solutions' current debt ratings.

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 proceedings, 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 – 2012 And 2013 To Date", EnerCare has been named in legal proceedings commenced by certain competitors, the outcomes of which, at this stage of the proceedings, are 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

Overview

Consolidated Financial Highlights (000's)	**2012**	2011	2010
Total revenues	**$256,582**	$244,501	$207,418
Earnings/(loss) before income taxes	**5,375**	178	(16,487)
Current tax expense	**(14,548)**	(5,708)	-
Deferred income tax recovery	**5,998**	9,513	18,208
Net earnings	**(3,175)**	$ 3,983	$ 1,721
EBITDA	**145,306**	143,971	134,678
Adjusted EBITDA	**160,454**	163,528	156,018
Per Share information			
Shareholder distributions declared	**$ 0.67**	$ 0.65	$ 0.65
Net earnings	**$ (0.06)**	$ 0.07	$ 0.03
Total assets	**802,046**	906,958	935,423
Total debt	**529,475**	591,562	600,361
Cash provided by operating activities	**96,090**	127,918	120,356
Distributable Cash	**$ 61,709**	$ 65,194	$ 55,143
Payout Ratio	**63%**	55%	62%
	IFRS	IFRS	IFRS

2012 vs. 2011

Total revenues increased by approximately 5% or $12,081 to $256,582 in 2012. The improved revenues were the result of increased billings in the Sub-metering business, which increased by $12,454 to $ 69,837 in 2012. Rentals revenue decreased slightly by $236 to $186,288, driven by the changes in installed assets offset by a rental rate increase effective January 2012. Investment income was lower by $137 to $457, primarily as a result of lower average invested funds following the repayment of $60,000 in debt in the second quarter of 2012. Net losses were $3,175 in 2012, $7,158 lower than in 2011 as a result of improved EBITDA and lower interest expense and amortization, offset by higher total taxes.

EBITDA increased by 1% or $1,335 due to improved Sub-metering revenues net of commodity expenses and lower losses on disposal of equipment, which was partially offset by an increase in SG&A expenses of approximately 14%. Adjusted EBITDA decreased by 3,074 or 2% after removing from EBITDA the impact of a reduced loss on disposal of equipment and impairments in 2012. Total assets decreased by approximately $104,912 in 2012, primarily due to the repayment of $60,000 in long term debt during the second quarter and amortization of intangible assets and equipment. Total debt decreased to $529,475 as a result of the repayment of $60,000 2009-1 Notes and the net impact of the new borrowings under the 2012 Notes, offset by reductions in Convertible Debentures with conversions into Shares. Cash flow from operating activities decreased by $31,828 in 2012, primarily as a result of increased current taxes and accounts receivable in the Sub-metering business. The Payout Ratio increased to 63% from 55%, primarily due to the increase in current taxes, lower Adjusted EBITDA and higher dividend payments as a result of the increased number of Shares outstanding from the conversion of Convertible Debentures to Shares and dividend increases in December 2011 and March 2012, partially offset by lower capital expenditures.

2011 vs. 2010

Total revenues increased by approximately 18% or $37,083 to $244,501 in 2011. The improved revenues were comprised of improvement in Sub-metering and investment income of $37,740 and $393, respectively, partially offset by a reduction of $1,050 in the Rentals business. The Rentals revenue decrease was driven by the net impact of Attrition and asset additions throughout the year, offset by a rental rate increase effective January 2011. Sub-metering revenues increased largely due to the acquisition of EECI on October 1, 2010. Net earnings were $3,983 in 2011, $2,262 greater than 2010 as a result of improved EBITDA, offset by lower future tax recoveries and higher current taxes expense incurred for the first time in 2011 as a result of the conversion from an income trust to a corporation.

EBITDA for 2011 increased by 7% or $9,293 due to improved Sub-metering revenues net of commodity expenses and reduction in Attrition, which was partially offset by an increase in SG&A expenses of approximately 2%. Adjusted EBITDA increased $7,510 or 5% as a result of EBITDA improvements partially reduced by the current year improvement in losses on disposal of $2,241. Total assets decreased by approximately $28,465 in 2011, primarily due to the amortization of intangible assets and equipment. Total debt decreased by $8,799 due to the conversion of Convertible Debentures into Shares. Cash flow from operating activities increased by $7,562 in 2011, primarily as a result of improved revenues net of commodity expenses. The Payout Ratio improved to 55% from 62% as a result of a Distributable Cash increase of $10,051 to $65,194, primarily as a result of improved cash flow from operating activities and lower capital expenditures of $8,476 attributable to fewer asset exchanges.

Earnings Statement

(000's)	**2012**	2011
Revenues:		
Rentals	**$186,288**	$186,524
Sub-metering	**69,837**	57,383
Investment income	**457**	594
Total revenues	**256,582**	244,501
Commodity charges	**52,048**	41,941
SG&A expenses:		
Rentals	**15,474**	16,109
Sub-metering	**12,007**	10,530
Corporate	**16,142**	11,799
Total SG&A expenses	**43,623**	38,438
Amortization expense	**101,622**	104,703
Loss on disposal of equipment	**15,148**	19,099
Impairment of assets	**-**	458
Interest expense	**40,759**	42,067
Total operating expenses	**253,200**	246,706
Other income	**1,993**	2,383
Earnings before income taxes	**5,375**	178
Current tax (expense)	**(14,548)**	(5,708)
Deferred income tax recovery	**5,998**	9,513
Net (loss) /earnings	**(3,175)**	3,983
Adjusted EBITDA	**160,454**	163,528
EBITDA	**$145,306**	$143,971

Revenues

Total revenues of $256,582 in 2012 increased by $12,081 or 5% compared to 2011. Rentals revenues decreased marginally by $236 to $186,288 in 2012, compared to 2011, primarily due to a reduction in installed assets, partially offset by a rental rate increase implemented in January 2012. Sub-metering revenues in 2012 were $69,837, an increase of $12,454 or 22% over the comparable period in 2011, as a result of increased commodity charges and Billable units. Revenue includes pass through energy charges of $52,048 in 2012, an increase of $10,107 over 2011.

Investment income decreased by $137 in 2012 compared to 2011. The decrease in investment income was attributable to lower investment balances as a result of the repayment of the $60,000 2009-1 Notes in April 2012, partially offset by the investment of the 2012 Notes proceeds for approximately 30 days prior to the redemption of the 2010 Notes in the fourth quarter of 2012.

Selling, General & Administrative Expenses

Total SG&A expenses were $43,623 in 2012, an increase of $5,185 or 14% compared to 2011. Sub-metering SG&A expenses were $12,007 in 2012, $1,477 more than the same period in 2011, primarily as a result of increased wages and benefits of approximately $800 associated with the internalization of customer care and billing functions, bad debts and provisions of $700 and $400 in higher consulting fees, partially offset by $200 in both selling costs and reductions in cost of goods. Rentals and corporate expenses of $31,616 increased by $3,708 in 2012 over that in 2011, primarily due to increases of approximately $1,850 for claims and bad debts ($1,300 credit from DE in 2011), professional fees of $1,200, wages and benefits of $1,100, partially offset by reductions in billing and inventory management fees of $300 and selling expenses of $150.

Amortization Expense

Amortization expense decreased by $3,081 or 3% to $101,622 in 2012, 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 2012, EnerCare reported a loss on disposal of equipment of $15,148, a reduction of $3,951 over 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. Proceeds on disposal of equipment in 2012 were $5,379 or $1,447 greater than 2011, primarily as a result of higher buyout activity during the first and second quarters of 2012 reflecting the additional buyout transactions recorded earlier in the year, many of which were on account of older assets with low buyout fees.

Interest Expense

(000's)	**2012**	2011
Interest expense payable in cash	**$36,123**	$36,807
Non-cash items: Amortization of OCI and financing costs	**4,636**	5,260
Interest expense	**$40,759**	$42,067

Interest expense payable in cash decreased by $684 to $36,123 in 2012, compared to 2011. The decrease is primarily related to the conversion of Convertible Debentures to Shares and the repayment of the $60,000 2009-1 Notes on April 30, 2012, partially offset by both a make-whole payment of approximately $1,920 associated with the 2010 Notes and $900 of additional interest created by the issuance on November 21, 2012 of the 2012 Notes, 30 days prior to the redemption of the 2010 Notes in December 2012. Amortization of OCI and financing costs for 2012 are lower than in 2011, primarily due to the declining outstanding balance of Convertible Debentures and reduced amortization with the repayment of the 2009-1 Notes in April 2012.

Other Income

Other income of $1,993 includes amounts recognized in the current year related to events originally occurring in another period. The amount for 2012 includes income of approximately $855, which represents the reversal of the liability in respect of the third and final earnout payable to the former principals of Stratacon, $1,500 on account of a settlement reached by EnerCare and DE on account of billing for water heater installation costs, $200 from DE on account of billing shortfalls and a reduction of $600 related to reversal of billed amounts from EGD following the billing conversions. Other income in 2011 represents the reduction in the estimated liability of the third and final earnout payable to the former Stratacon shareholders, which was established in 2010 under the transition to IFRS.

Income Taxes

EnerCare reported a current tax expense of $14,548 for 2012, an increase of $8,840 over 2011, primarily as a result of decreased loss carry forwards available to shelter taxable income in the Rentals business. The deferred income tax recovery of $5,998 for 2012 was $3,515 lower than the deferred tax recoveries of $9,513 recorded in 2011. In the second quarter of 2012, deferred taxes increased by approximately $6,000 as a result of the reversal of previously enacted future corporate tax rate reductions in the Province of Ontario.

Net Losses

Earnings before income taxes in 2012 were $5,375, $5,197 lower than in 2011, as described above. Net losses of $3,175 in 2012 increased by $7,158 compared to earnings of $3,983 in 2011, primarily as a result of changes in total taxes of approximately $12,355, as described above.

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)	**Q4/12**	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11
Net earnings/(loss)	**$(2,096)**	$ 2,154	$ (3,064)	$ (169)	$ (2,256)	$ 5,618	$ 1,682	$ (1,061)
Deferred tax expense/(recovery)	**(4,155)**	(2,668)	1,766	(941)	(874)	(5,666)	(1,858)	(1,115)
Current tax expense	**5,217**	3,902	2,118	3,311	765	1,478	1,881	1,584
Amortization expense	**25,175**	25,407	25,166	25,874	26,234	26,126	26,103	26,240
Interest expense	**11,937**	9,035	9,457	10,330	10,377	10,433	10,566	10,691
Other expense/(income)	**362**	(855)	-	(1,500)	-	(254)	(2,129)	-
Investment (income)	**(180)**	(16)	(76)	(185)	(174)	(168)	(140)	(112)
EBITDA	**36,260**	36,959	35,367	36,720	34,072	37,567	36,105	36,227
Add: Loss on disposal of equipment	**3,523**	3,397	4,113	4,115	4,880	4,718	4,861	4,640
Add: Impairment of assets	**-**	-	-	-	458	-	-	-
Adjusted EBITDA	**$39,783**	$40,356	$39,480	$40,835	$39,410	$42,285	$40,966	$40,867

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

1. Net earnings are impacted by rental rate increases, generally implemented in January of each year, and accruals related to billing and servicing matters.
2. Increasing current taxes in 2012 as loss carry forwards are utilized.
3. In the second quarter 2012, deferred taxes resulting from a change in the future provincial corporate tax rates.
4. Amortization and loss on disposal of equipment are primarily driven by unit continuity activity such as Attrition, exchanges and outstanding units.
5. Impairment expense of $458 was taken on certain Sub-metering assets based on work in progress items which were no longer proceeding forward.
6. Other income in the first and fourth quarters of 2012 relate to settlements with DE on account of installation and billing matters. The fourth quarter of 2012 also includes a bill reversal from EGD following the billing conversion. Other income in other periods primarily relate to changes in the liability of EnerCare's estimated obligation payable to the former Stratacon shareholders in respect of the final earnout payment. Amounts taken back into income in 2011 and 2012 reflect reductions in the amounts payable.

DISTRIBUTABLE CASH AND PAYOUT RATIO

(000's)	**2012**	2011
Cash provided by operating activities	**$96,090**	$127,918
Net change in non-cash working capital	**15,492**	(6,155)
Operating Cash Flow[3]	**111,582**	121,763
Capital expenditures - excluding growth capital and acquisitions	**(57,885)**	(60,501)
Proceeds on disposal of equipment	**5,379**	3,932
DE Settlements (see other income)	**(1,138)**	-
Extraordinary proxy solicitation expenses	**1,697**	-
Early redemption of 2010 Notes net of tax	**1,929**	-
Distributable Cash	**61,564**	65,194
Dividends declared	**(38,605)**	(36,066)
Net cash retained	**$22,959**	$ 29,128
Payout Ratio	**63%**	55%

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

The Payout Ratio, after capital expenditures (excluding growth capital and acquisitions) increased to 63% for 2012, compared to 55% in 2011, primarily due to increased dividends as a result of conversion of Convertible Debentures into Shares and higher dividends per Share, higher current tax expense and lower Adjusted EBITDA, partially offset by lower capital expenditures and greater proceeds on disposal of equipment.

The early redemption of the 2010 Notes net of tax of $1,929 represents the sum of a make-whole payment of approximately $1,920 and overlapping interest expense of $884 less investment income of $179.

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

LIQUIDITY AND CAPITAL RESOURCES

(000's)	**2012**	2011
Cash flow from operating activities	**$96,090**	$127,918
Net change in non-cash working capital	**15,492**	(6,155)
Operating Cash Flow	**111,582**	121,763
Capital expenditures – excluding growth capital and acquisitions	**(57,885)**	(60,501)
Proceeds on disposal of equipment	**5,379**	3,932
Net capital expenditures	**(52,506)**	(56,569)
Acquisitions	**(1,944)**	-
Payment of contingent consideration on Stratacon acquisition	**-**	(1,062)
Growth capital	**(12,940)**	(14,166)
Cash used in investing activities	**(67,390)**	(71,797)
Dividends paid	**(38,447)**	(32,975)
Other financing activities	**(52,917)**	(351)
Cash (used in) financing activities	**(91,364)**	(33,326)
Cash and equivalents – end of period	**$12,626**	$ 75,290

Operating Cash Flow of $111,582 decreased by $10,181 in 2012 compared to 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 higher revenue and lower interest expense.

Net capital expenditures in 2012 were lower than 2011, due to decreased asset exchange activity and greater buyout proceeds. Acquisitions of $1,944 in 2012 relate to the GreenSource acquisition in the Rentals business. Growth capital investments decreased modestly to $12,940 or by $1,189 during 2012, which include additional Sub-metering installations and costs associated with the internalization of the customer care and billing systems and enhancements to our computer systems. 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's Conversion.

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. The $240,000 2010 Notes, which would have matured on March 15, 2013, were redeemed in the fourth quarter of 2012 following the issuance of the $250,000 2012 Notes.

EnerCare's Revolver has a credit limit of $35,000; no amounts were drawn as of the date of this MD&A.

Management believes that EnerCare has sufficient cash flow, cash on hand and credit available to meet its 2013 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)			**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	**25**	**21**	**46**	25	17	42
Acquisitions	**3**	**-**	**3**	-	-	-
Attrition	**(73)**	**-**	**(73)**	(76)	-	(76)
Units – end of period	**1,171**	**115**	**1,286**	1,216	94	1,310
Asset exchanges – units retired and replaced	**47**	**-**	**47**	51	-	51
% change in units during the period			**(1.8%)**			(2.5%)
% of units from start of period:						
Portfolio additions (net of acquisitions)			**3.5%**			3.1%
Attrition			**(5.6%)**			(5.7%)
Units retired and replaced			**3.6%**			3.8%
Billable units	**1,171**	**71**	**1,242**	1,216	57	1,273
Contracted units	**-**	**156**	**-**	-	132	-

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 $52,506, decreasing by 7% or $4,100 in 2012, compared to 2011. Net capital expenditures were lower in part due to fewer asset exchanges and greater buyout activity and related proceeds on disposal when compared to 2011.

Installations in the Sub-metering business were approximately 4,000 units or 24% higher in 2012 when compared to 2011.

Following increased buyout activity of approximately 5,000 units in the first half of 2012 resulting from the offer to amend Rentals contract (see Recent Developments – Rentals Activities – Consent Order), Attrition decreased significantly in the third and fourth quarters resulting in an improvement in Attrition of 3,000 units or 4% over that in 2012. Excluding the impact of increased buyouts, Attrition would have been reduced by 8,000 units or 11% in 2012. Attrition for the fourth quarter was approximately 17,000 units, an improvement of approximately 3,000 units or 15% compared to the same period in 2011.

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 71,000 increased by 14,000 units in 2012 compared to 2011, primarily due to additional installations and increased penetration in the rental apartment market.

Sub-metering sales activity in 2012 remained strong with new sales representing approximately 24,000 suites contracted during the period.

Cash from Financing

Financing activities for EnerCare may reflect dividend payments, 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 2012, EnerCare recorded financing repayments, net of dividends, of $52,917**,** related to the repayment of the 2009-1 Notes and the 2010 Notes and the issuance of the 2012 Notes and the on-going principal payments on the Stratacon Debt.

Capitalization (000's)	**2012**	2011
Cash and cash equivalents	**$ 12,626**	$ 75,290
Net investment in working capital	**(496)**	(16,685)
Cash, net of working capital	**12,130**	58,605
Total debt	**529,475**	591,562
Shareholder's equity	**95,637**	123,407
Total capitalization – book value	**$625,112**	$714,969

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 December 31, 2012, total debt was comprised of the 2009-2 Notes and 2012 Notes, Convertible Debentures and the 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 December 31, 2012. No amounts were drawn on the Revolver at December 31, 2012.

2009 Notes and 2012 Notes – Incurrence Test

The covenants under the 2009 Notes and 2012 Notes are contained in a master trust indenture and supplemental indentures effective January 29, 2010 and November 21, 2012, 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 December 31, 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)	**Q4/12**	Q3/12	Q2/12	Q1/11	Q4/11	Q3/11	Q2/11	Q1/11
Total revenues	**$63,128**	$66,720	$63,229	$63,505	$59,988	$63,032	$60,069	$61,412
Net earnings/(loss)	**(2,096)**	2,154	(3,064)	(169)	(2,256)	5,618	1,682	(1,061)
Dividends declared	**9,747**	9,728	9,706	9,424	9,143	9,047	8,958	8,918
Average Shares outstanding	**57,995**	57,860	57,526	56,554	55,981	55,728	55,206	54,952
Per Share								
Basic/diluted net earnings/(loss)	**(0.04)**	0.04	($0.05)	($0.00)	($0.04)	$0.10	$0.03	($0.02)
Dividends declared	**$0.168**	$0.168	$0.168	$0.166	$0.163	$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 the impact of 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 December 31, 2012:

Period (000's)	Principal Payments	Interest Payments	Leases
Due in 2013	$ 1,198	$30,081	$ 319
Due in 2014	271,251	20,574	255
Due in 2015	1,299	11,359	370
Due in 2016	1,003	11,261	392
Due in 2017	257,011	10,791	70
Thereafter	205	21	-
Total	$531,967	$84,087	$1,406

As at December 31, 2012, long-term senior contractual obligations of EnerCare included debt service on the 2009-2 Notes and 2012 Notes bearing interest at 6.75% and 4.30%, respectively. Interest on the 2009-2 Notes was payable semi-annually on April 30 and October 30 and on May 30 and November 30, in respect of the 2012 Notes. The $240,000 2010 Notes, which would have matured on March 15, 2013, were redeemed in the fourth quarter of 2012 following the issuance of $250,000 2012 Notes. The Stratacon Debt of $5,571 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 December 31, 2011, $35,000 of the Revolver was available to be drawn. The Revolver bears a standby fee of 0.375%, which has not been included in the above schedule, until maturity in January 2014.

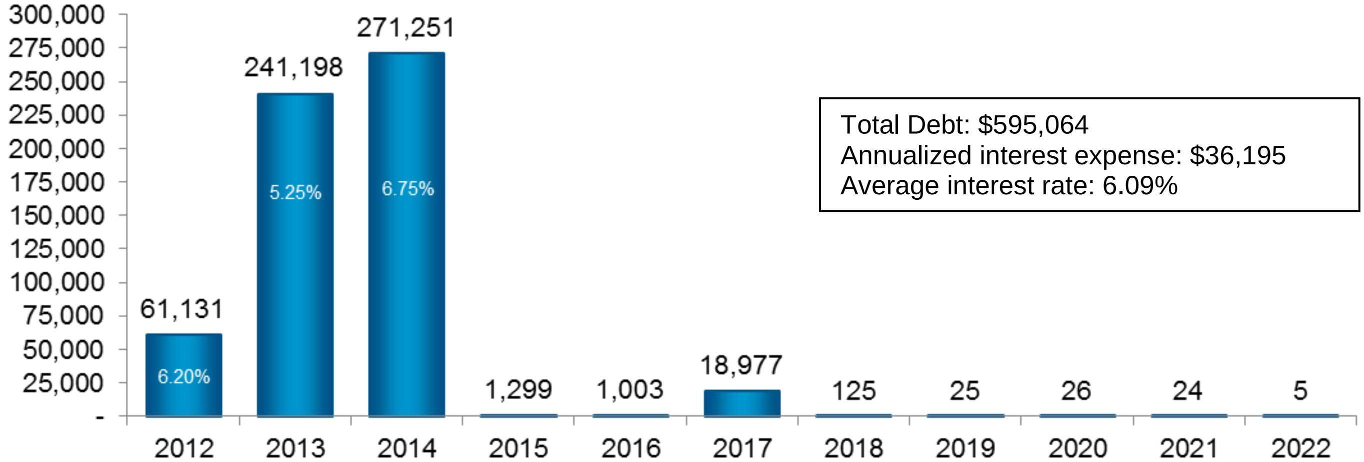
Lease obligations include premises and office equipment. Substantially all of the future expense obligations are the result of leased premises.

The $270,000 2009-2 Notes which were to mature on April 30, 2014 will be redeemed on March 6, 2013 through proceeds of the $225,000 2013 Notes, which mature on February 3, 2020, and the $60,000 drawdown on the Term Loan, which matures on January 28, 2016. Consequently, the contractual debt and lease obligations schedule would be approximately as follows assuming a 2.50% rate on the Term Loan and that all debt was outstanding on December 31, 2012.

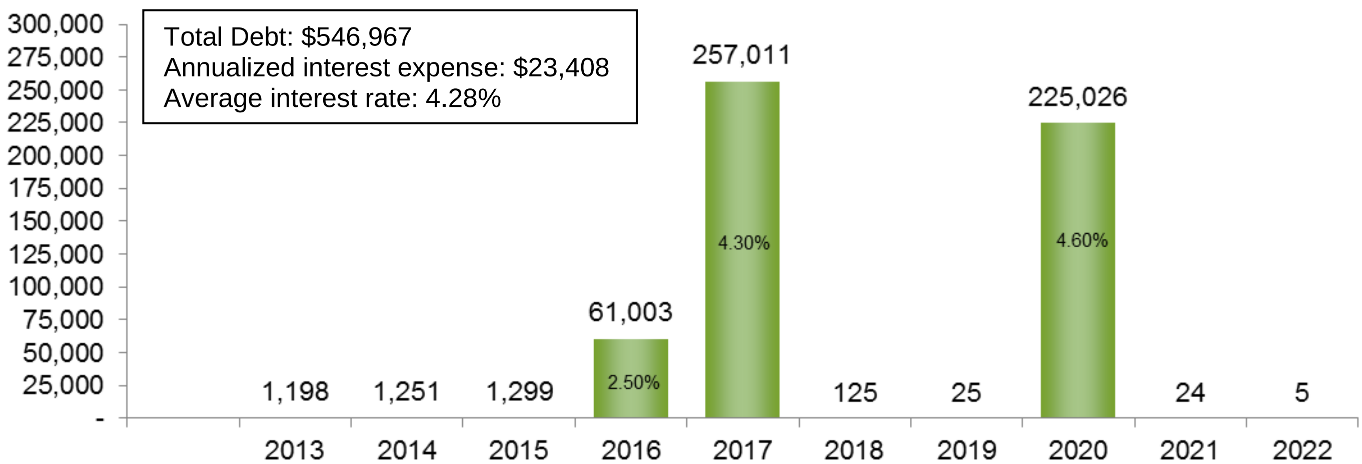
Period (000's)	Principal Payments	Interest Payments	Leases
2013	$ 1,198	23,706	$ 319
2014	1,251	23,312	255
2015	1,299	23,209	370
2016	61,003	21,861	392
2017	257,011	21,141	70
Thereafter	225,205	10,371	-
Total	$546,967	$123,600	$1,406

The following graph depicts the repayment and issuance of debt through 2012 and the first quarter of 2013.

As at December 31, 2011



As at February 27, 2013



In connection with the debt refinancing leading up to February 27, 2013, make-whole payments were incurred with the early redemption of the 2010 Notes and the 2009-2 Notes for approximately $1,920 and $13,754, respectively.

ENERCARE SHARES ISSUED AND OUTSTANDING

EnerCare's authorized share capital consists of an unlimited number of Shares and 10,000,000 preferred shares. At December 31, 2012, there were 58,011,527 Shares (56,203,523 at December 31, 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.

FOURTH QUARTER RESULTS OF OPERATIONS

Earnings Summary (000's)	**2012**	2011
Revenues:		
Rentals	**$46,125**	$46,031
Sub-metering	**16,823**	13,783
Investment income	**180**	174
Total revenues	**63,128**	59,988
Commodity charges	**12,163**	9,934
SG&A expenses:		
Rentals	**3,814**	4,261
Sub-metering	**3,301**	2,810
Corporate	**3,887**	3,399
Total SG&A expenses	**11,002**	10,470
Amortization expense	**25,175**	26,234
Loss on disposal of equipment	**3,523**	4,880
Impairment of assets	**-**	458
Interest expense	**11,937**	10,377
Total operating expenses	**63,800**	62,353
Other income	**(362)**	-
(Loss) before income taxes	**(1,034)**	(2,365)
Current tax expense	**(5,217)**	(765)
Income tax recovery	**4,155**	874
Net (loss)	**$ (2,096)**	$ (2,256)
EBITDA	**36,260**	34,072
Adjusted EBITDA	**$39,783**	$39,410

Fourth Quarter Overview

Unless stated otherwise, the narrative in this section is in reference to the operating results for the fourth quarter of 2012 as compared to the same period in 2011.

Revenues

Total revenues of $63,128 in 2012 increased by $3,140 or 5% compared to 2011. Rentals revenue for the period increased slightly to $46,125, primarily due to the January rate increase and improved billing performance by DE, partially offset by the impact of net Attrition. Sub-metering revenues improved by $3,040 or 22% in 2012, due to increases in the number of Billable units and increased pass-through commodity changes.

Investment income was $180, marginally greater than in 2011, primarily due to investment of the proceeds of the 2012 Note offering prior to the redemption of the 2010 Notes in December 2012.

Selling, General & Administrative Expenses

SG&A expenses increased by $532 or 5% from 2011 to $11,002. Sub-metering costs increased by $491, primarily as a result of further costs associated with the implementation of a new billing and customer care platform and bad debt provisions. Rentals and corporate costs decreased by $41, comparatively flat to 2011.

Amortization Expense

Amortization expense of $25,175 was $1,059 lower than in 2011, primarily the result of cumulative portfolio

Attrition in the Rentals business, offset by additions to amortization in the Sub-metering business.

Loss on Disposal of Equipment

Loss on disposal of equipment for the period was $3,523, a decrease of $1,357 or 28% over 2011. The net decreased loss was primarily the result of lower Attrition and exchanged assets during the period.

Impaired assets

An impairment provision of $458 was taken on certain Sub-metering assets during the fourth quarter of 2011. The provision covered assets in work in progress which were no longer proceeding forward under a contract and some equipment which may never have become income generating property for EnerCare.

Interest Expense

In 2012, interest expense of $11,937 was $1,560 higher than in 2011, primarily as a result of a $1,920 make-whole payment on the redemption of the $240,000 2010 Notes, additional interest expense associated with the issuance of the $250,000 2012 Notes, partially offset by the repayment of the 2009-1 Notes and lower Convertible Debenture interest payments stemming from the conversion of debentures into Shares.

Net Loss

Losses before income taxes in 2012 were $1,034, $1,331 better than 2011, as previously described. Net losses decreased marginally by $160 in 2012, primarily as a result of higher current taxes as a result of decreased loss carry forwards available to shelter taxable income in the Rentals business, partially offset by the timing of deferred tax reversals.

NON-IFRS FINANCIAL AND PERFORMANCE MEASURES

The consolidated financial statements of EnerCare are prepared in accordance with IFRS. EnerCare's accounting policies are summarized in detail in note 3 of the 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 December 31, 2012, EnerCare was in compliance with all covenants under the 2009-2 Notes, 2012 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 December 31, 2012. No amounts were drawn on the Revolver at December 31, 2012.

2009-2 Notes and 2012 Notes – Incurrence Test

The covenants under the 2009-2 Notes and 2012 Notes are contained in a master trust indenture and supplemental indentures effective January 29, 2010 and November 21, 2012, 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 consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts in the 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 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. In September 2009, DE implemented a billing system conversion which coincided with a billing system conversion by EGD. Further, in late 2011, DE began utilizing a third party billing system for new assets and in August 2012 also employed the billing system for non-EGD territory accounts. EnerCare's ICFR identified issues principally associated with DE's original system conversion as well as the third party conversion, primarily in respect of completeness of billing, customer collections and allocation of customer payments. During the fourth quarter of 2012 and in January 2013, a number of billing issues were resolved with the third party billing system.

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. At December 31, 2012, EnerCare has accrued approximately $800 in respect of outstanding billing amounts.

Buyout processing from 2010 remains 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. During the third and fourth quarters of 2012, EnerCare reduced the backlog of non-billing customer accounts in a number of areas, however, in addition to normal account accruals, a number of customer accounts required accruals for additional service periods resulting in a total revenue accrual of approximately $5,600 and related commodity charges of $4,300.

As a result of the billing backlog, EnerCare modified some of its collection programs in the latter half of 2012. Subsequent to year end, enhanced collection procedures were implemented. Based on management's best estimate, the bad debt provision was increased during the fourth quarter to reflect the increase in receivables caused by the recent back-billing and our modified collection practices. Bad debt charges and provisions were approximately $1,577 for 2012 and $855 for 2011.

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 December 31, 2012. There have been no changes to our ICFR during the year ended December 31, 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. The certifying officers have evaluated the effectiveness of the EnerCare's DC&P and ICFR at December 31, 2012 and are satisfied that EnerCare's DC&P and ICFR were both effective as at December 31, 2012. Management also did not identify any material weaknesses in EnerCare's ICFR at December 31, 2012.

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 consolidated financial statements of EnerCare are prepared in accordance with IFRS as issued by IASB applicable to the preparation of consolidated financial statements. 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 reviewed the standard and has determined that it will not have an impact on current reporting.

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 reviewed the standard and has determined that it will not have an impact on current reporting.

OUTLOOK

EnerCare continued to experience improved customer retention in the Rentals business during the fourth quarter of 2012. Overall, we are encouraged by the positive trend in the last half of 2012. We expect that we will see Attrition levels continue to have mild volatility from quarter to quarter. Going forward we continue to believe that the factors that have led to the decline in Attrition over the last three years, including improving consumer awareness, will create a more favourable environment for further improvement in customer retention. We will continue to explore new initiatives and modifications of existing programs, as well as enhanced customer product offerings and service programs.

We continued to have additional expenses in the fourth quarter in association with the completion of the transition to our new customer care and billing system and expect some continuation of transition costs in the first 120 days of 2013. However, we have shown a reduction in costs to administer sub-metering customer accounts from the third quarter of 2012 and expect that we will see further sustained cost reduction going forward.

We are very pleased with our reduction in total debt following the repayment of the 2009-1 Notes in April of 2012 and our recent refinancing of the 2010 Notes in November of 2012 and the 2009-2 Notes in February of 2013. With these financing activities, we have successfully extended and laddered our maturities and provided some flexibility to allow for further potential reductions in our future leverage and secured a significant reduction in future interest expense. As outlined in the "Summary of Contractual Debt and Lease Obligations", we estimate that the annual interest savings is approximately $12,800.

EnerCare estimates that it will pay approximately $19,000 to $22,000 in current taxes for the fiscal year ended December 31, 2013. This estimate is based on taxable income comparable to current levels, shielded by unrestricted tax losses and a corporate tax rate of approximately 26.25%. EnerCare's current taxes for 2012 were $14,548. Taxable income is principally impacted by changes in revenue, operating expenses, potential acquisitions or divestitures, appropriate tax planning and capital expenditures through the capital cost allowance deduction.

In January 2013, EnerCare increased its weighted average rental rate by 3%.

EnerCare intends to increase its monthly dividend to $0.057 per Share, an increase of 1.8%, effective in respect of the dividend payable to shareholders of record on the applicable date in March 2013, which dividend will be paid in April 2013. EnerCare increased its dividend due to strong performance in 2012, its long-term stable financial structure, reductions in Attrition and the confidence the board has in the company moving forward.

As previously announced, EnerCare has set its annual and general and special meeting for June 3, 2013. Jim Pantelidis, Chairman of the board, and management will provide an update to shareholders on EnerCare's achievements in 2012 and strategy.

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	Consent Order issued by the Competition Bureau in 2002 and expired in February 2012 that 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.
HVAC	Heating, ventilation and air conditioning.
Incurrence Test	2009 Notes and 2012 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.
OEB	Ontario Energy Board
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, and further amended on November 15, 2012 and February 26, 2013.
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.
Term Loan	$60,000 single draw, variable rate, interest only, open loan with a maturity date of January 28, 2016.
Trust	The Consumers' Waterheater Operating Trust.
Units	Trust Units of the Fund.
2009-1 Notes	$60,000 of 6.20% Series 2009-1 Senior Notes of EnerCare Solutions, which matured and were repaid on April 30, 2012.
2009-2 Notes	$270,000 of 6.75% Series 2009-2 Senior Notes of EnerCare Solutions, which mature on April 30, 2014 and will be redeemed on March 6, 2013
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 EnerCare Solutions, which were redeemed on December 21, 2012.
2012 Notes	$250,000 of 4.30% Series 2012-1 Senior Unsecured Notes of EnerCare Solutions, which mature on November 30, 2017.
2013 Notes	$225,000 of 4.60% Series 2013-1 Senior Unsecured Notes of EnerCare Solutions, which mature on February 3, 2020.