EnerCare Inc.

EnerCare Inc.

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

Year Ended December 31, 2013

Dated March 5, 2014

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The consolidated financial statements of EnerCare are prepared in accordance with IFRS. EnerCare's significant accounting policies are summarized in detail in note 3 of the consolidated financial statements for the period ended December 31, 2013. Unless otherwise specified, amounts are reported in this MD&A in thousands, except customers, units and "per unit" amounts, 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 March 5, 2014, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with EnerCare's 2013 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 actual 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 1.1 million water heaters and other assets, rented primarily to residential customers in Ontario.

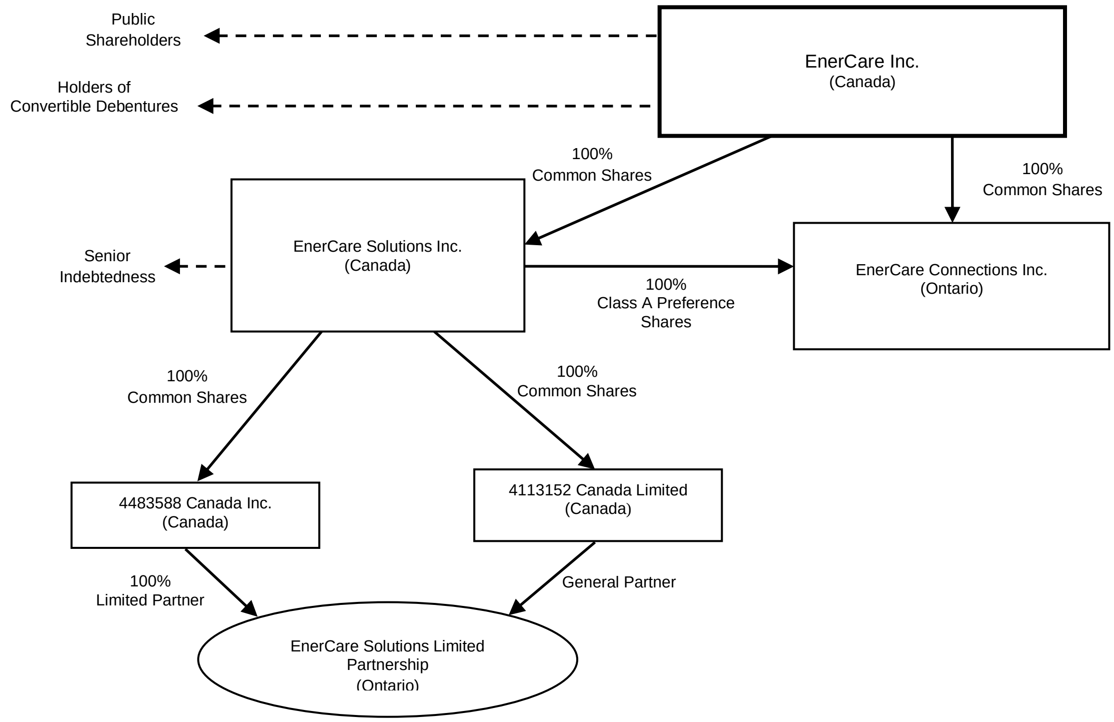
EnerCare also owns EnerCare Connections Inc. (a successor by amalgamation effective January 1, 2012 to Stratacon Inc. and EnerCare Connections Inc.). ECI provides sub-metering services for electricity, thermal, heat and water to condominiums and apartments in Ontario, Alberta and elsewhere in Canada.

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

EnerCare has grown revenues every year since its inception in 2002, generated stable cash flow and consistently maintained a high dividend yield. EnerCare has investment grade ratings of BBB+/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.

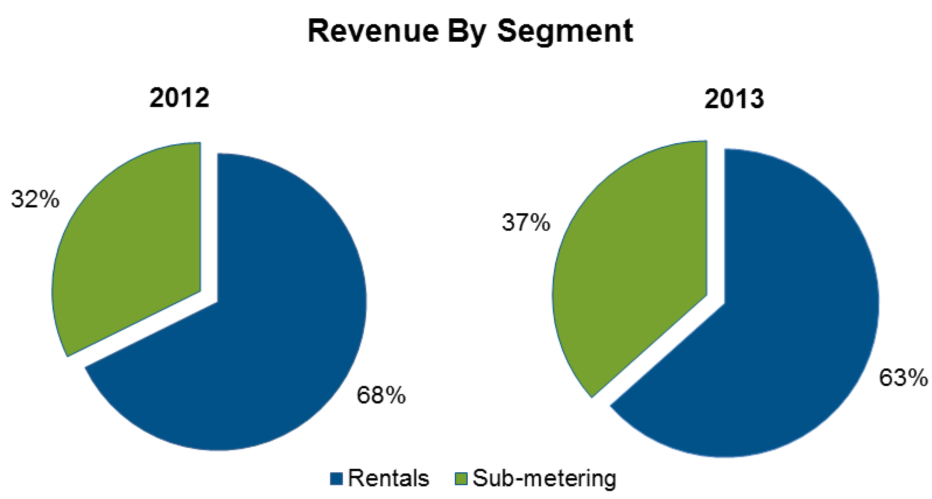
Corporate structure as at December 31, 2013.



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 63% of the overall revenue of EnerCare during the fourth quarter of 2013 and the year, respectively.

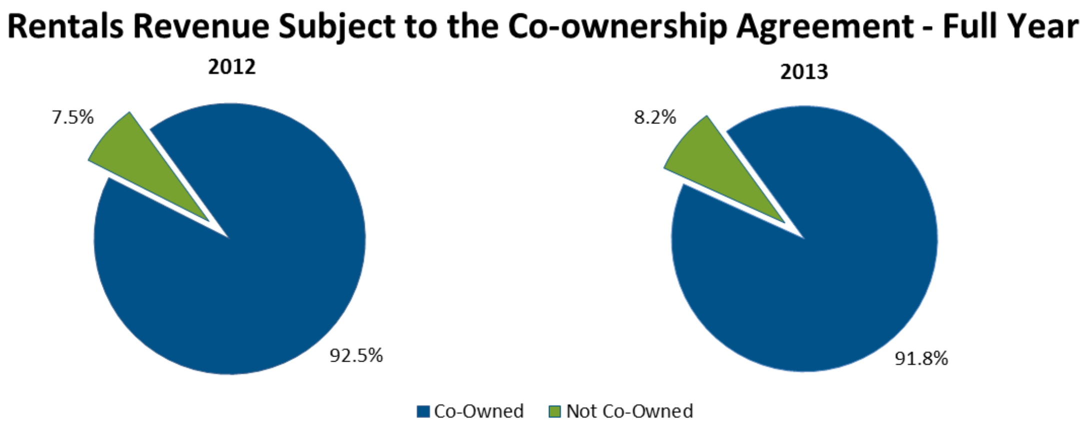
The increase in Sub-metering revenue, as shown below, is a result of an increase in billing units, commodity charges and penetration levels in our retro-fit buildings and new construction developments that were activated during 2013. See additional commentary under *"Results of Operations - Earnings Statement*".



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 the Co-ownership Agreement. 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.

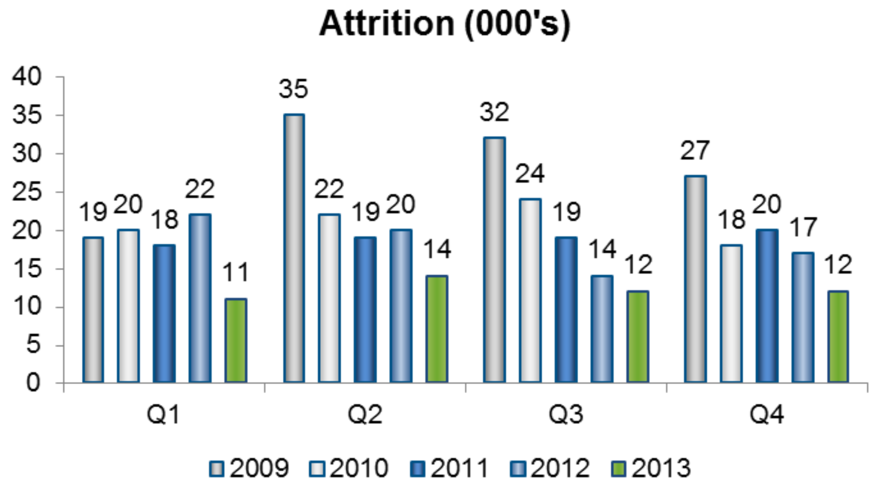


For the portfolios under the Co-ownership Agreement, EnerCare is entitled to 65% of the revenue and other payments and DE is entitled to 35% of the revenue. For DE's portion of the revenue, it is responsible for servicing and maintaining the assets. This ensures that EnerCare is effectively insulated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

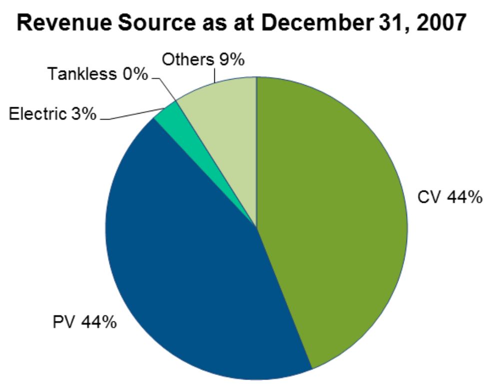
EnerCare monitors the business by reviewing new additions or customers to the portfolio, reductions or Attrition of existing customers and existing customers exchanging their rental product.

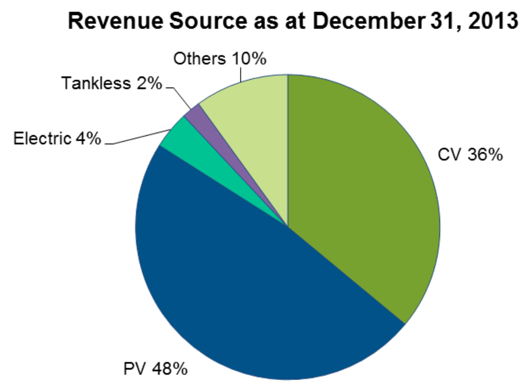
Over the last several years, EnerCare has experienced higher than normal Attrition on the water heater rental portfolios. This was largely a result of greater competition through aggressive D2D campaigns. EnerCare and DE have implemented many programs, including continued consumer education through direct mail and radio campaigns. Such initiatives, coupled with broader consumer awareness and a leveling of the playing field in respect of the expiry of the Consent Order, as well as enhancements to our customer value proposition (for example, the "DE same day service campaign"), have helped to significantly reduce Attrition in recent years.

Attrition decreased in the fourth quarter of 2013 by 5,000 units or 29% and by 24,000 units or 33% year to date, over the same periods in 2012. For 2012, EnerCare did see additional buyout activity of 5,000 units following the introduction and subsequent withdrawal of new contract terms for a significant portion of our co-owned Rentals portfolio. Attrition has improved year-over-year (see table below) since 2009 with Attrition in 2013 being the lowest in the past 5 years.

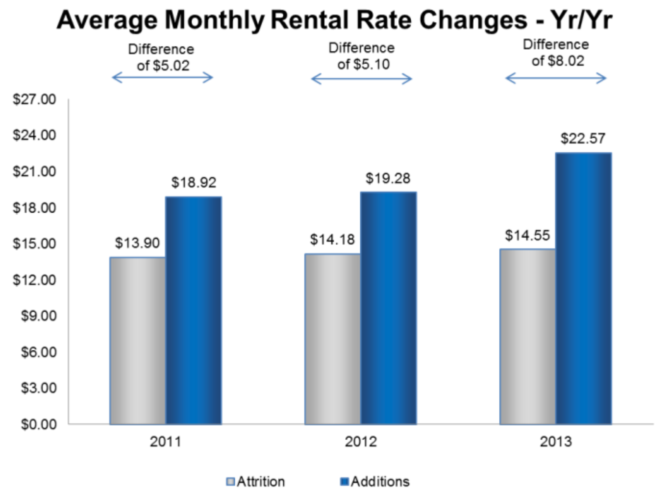


Partially offsetting Attrition is the movement in asset mix to units with higher returns. One of EnerCare's growth platforms has been to focus on single family and multi-residential HVAC rental units. Although results are small on the unit continuity, HVAC units provide three to five times more rental revenue than that of a water heater. A comparison of the product mix 6 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.

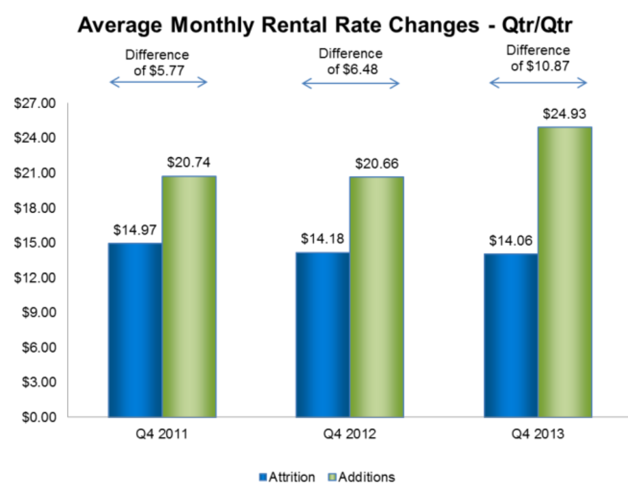




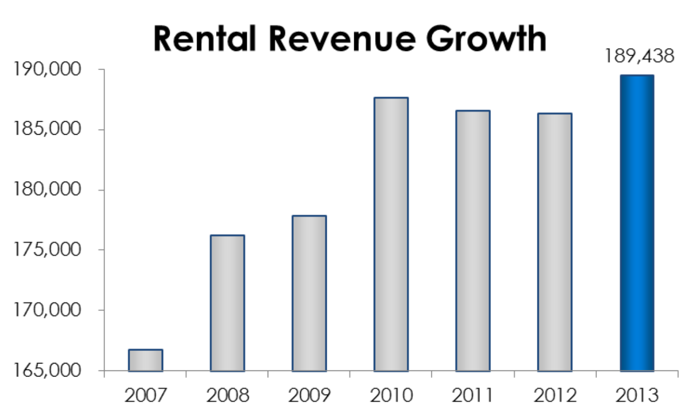
The impact of changes in product mix over time is outlined further in the graph below which shows revenue for 2013 from unit additions contributing approximately $8.00 per unit more than revenue from units lost on account of Attrition. New customers are worth approximately 1.6 times that of a lost customer.



This difference in rental rates applicable to new and lost customers has increased steadily in each quarter of 2013, with the fourth quarter revenue spread widening to $10.87, an increase of $4.39 or 68% over the same period in 2012.



Rentals revenue growth is flowing in the form of higher revenue from additions, offset by lower Attrition. As seen on the next chart, rental revenue for 2013 was $189.4 million, an increase of almost 2%, and for the fourth quarter revenue was $48 million, an increase of nearly 4% versus a rental rate increase for 2013 of 3%.



Sub-metering Business

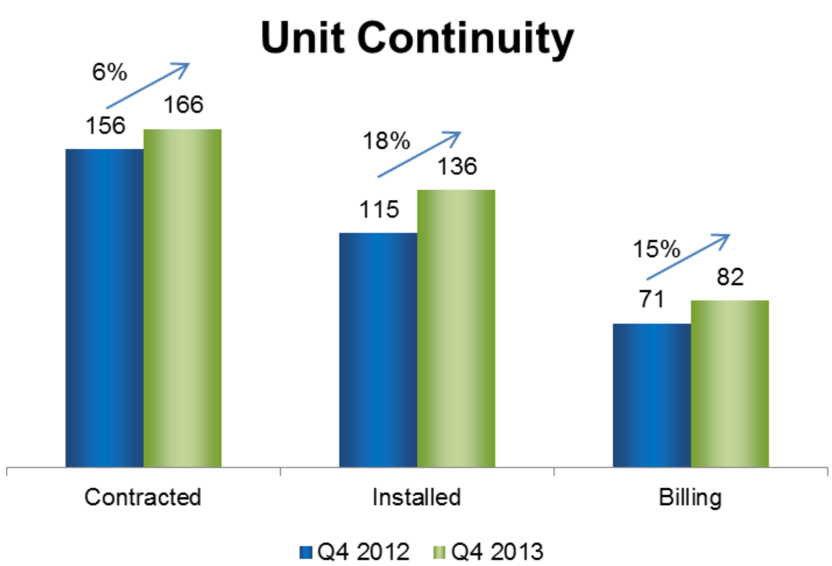
EnerCare entered the multi-residential Sub-metering business through two acquisitions made in the last five years. There are two main market segments for Sub-metering in the multi-residential market: retro-fit sub-metering and new build construction. Within each market, apartments and condos have significantly 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.

During 2012, the Sub-metering business deployed a new utility grade customer care and billing system, which consolidated all the Sub-metering customer care and billing functions onto one platform. As a result of this conversion, the Sub-metering business experienced operational disruptions, particularly in respect of billings and collections that impacted 2013 performance.

During the second half of 2013, our management team began the implementation of its Lean and continuous improvement program with the objectives of improving work flow, efficiencies and expanding capacity within Sub-metering.

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 166,000 contracted units. Of those contracted units, 136,000 have meters installed and 82,000 units are billing. We expect to experience continued revenue growth as these contracted units are turned into installed units and subsequently Billable units.



2013 HIGHLIGHTS

(000's)	2013	2012	Change	Percent Change
Rentals	**$189,438**	$186,288	$ 3,150	2%
Sub-metering	**109,338**	88,833	20,505	23%
Investment income	**373**	457	(84)	(18%)
Total revenues	**299,149**	275,578	23,571	9%
EBITDA[1]	**152,493**	145,306	7,187	5%
Adjusted EBITDA[1]	**168,580**	162,447	6,133	4%
Earnings before income taxes	**12,620**	5,375	7,245	135%
Current tax (expense)	**(21,852)**	(14,548)	(7,304)	50%
Deferred income tax recovery	**18,050**	5,998	12,052	201%
Net earnings/(loss)	**$ 8,818**	$ (3,175)	$11,993	378%
Payout Ratio - Maintenance[2]	**49%**	45%	4%	9%
Payout Ratio[2]	**78%**	63%	15%	24%

The following highlights compare 2013 results with those of 2012.

- Total revenues of $299,149 increased by $23,571 or 9% in 2013. Revenues in the Rentals business were $189,438, greater than the prior year by $3,150, primarily as a result of rental rate increases, improved billing completeness and asset mix changes, partially offset by fewer installed assets. Sub-metering revenues increased to $109,338 from $88,833, primarily as a result of an increase in Billable units and flow through commodity charges.
- EBITDA increased by $7,187 to $152,493 in 2013, driven principally by improved total revenues and a lower loss on disposal of equipment. Adjusted EBITDA of $168,580 increased by $6,133 after removing from EBITDA the impact of a reduced loss on disposal of equipment in 2013 and including other income.
- Net earnings of $8,818 in 2013, increased by $11,993 or 378% compared to 2012, reflecting increased EBITDA and other income and reductions in amortization and total taxes, partially offset by increased interest expense due to a non-recurring make-whole payment of $13,754.
- Attrition in the Rentals portfolio decreased by 33% or 24,000 units for 2013. Attrition has improved year-over-year since 2009.
- The Payout Ratio increased to 78% in 2013 from 63% in 2012, primarily as a result of higher capital expenditures and current taxes, partially offset by the combination of higher Operating Cash Flows and the early redemption of the 2009-2 Notes net of a tax amount of $11,751.
- The Payout Ratio - Maintenance, which includes only capital expenditures in respect of exchanged assets, was 49% in 2013 versus 45% in 2012. See additional commentary under "*Distributable Cash and Payout Ratios*".

RECENT DEVELOPMENTS - 2013 AND 2014 TO DATE

Corporate Activities

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

On January 28, 2013, EnerCare Solutions entered into a $60,000 term credit facility 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.

[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 Payout Ratio - Maintenance are Non-IFRS financial measures. Refer to the Non-IFRS Financial and Performance Measures section in this MD&A.

On February 1, 2013, EnerCare Solutions completed a public offering of $225,000 aggregate principal amount of 2013 Notes. 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 2013 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 were used by EnerCare Solutions to redeem on March 6, 2013 its outstanding $270,000 aggregate principal amount of the 2009-2 Notes for an aggregate redemption price of approximately $290,095, which included 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.

Dividend Increases

On March 2013, EnerCare increased its monthly dividend to shareholders of record on March 29, 2013 to $0.057 per Share, an increase of 2%.

In August 2013, EnerCare increased its monthly dividend to shareholders of record on September 30, 2013 to $0.058 per Share, an increase of 1.8%. The dividend increases reflected EnerCare's strong performance in 2013, its long-term stable financial structure and continued improvement in Attrition.

Senior Management Changes

On March 25, 2013, Laima Cers was appointed Vice President, Marketing and Business Development of EnerCare and EnerCare Solutions and each of their respective subsidiary entities.

On April 15, 2013, Ross Garland was appointed Senior Vice President and General Manager of EnerCare and EnerCare Solutions and each of their respective subsidiary entities.

Stronger Protection for Ontario Consumers Act, 2013

On November 27, 2013, the *Stronger Protection for Ontario Consumers Act, 2013* ("Bill 55") passed third reading in the Ontario Legislature. Bill 55 is a direct response by the Ontario Government to aggressive and deceptive door-to-door water heater rental sales, which ranked second on the Ontario Ministry of Consumer Services' consumer complaints list in both 2012 and 2011.

Among other things, Bill 55:

- Doubles the existing 10-day cooling-off period to 20 days, providing consumers with more time to consider their decision;
- Bans the delivery and installation of water heaters during the new 20-day cooling-off period;
- Provides new consumer protection when the rules are not followed, such as requiring the supplier to reimburse the customer for all cancellation, return or removal fees when the 20-day cooling-off period is not observed; and
- Gives enhanced authority to the Minister to make regulations governing supplier conduct and agreement content, such as a requirement that companies confirm sales by making scripted and recorded telephone calls to the customer.

EnerCare looks forward to Bill 55 being proclaimed into force along with the corresponding regulations.

EnerCare believes that Bill 55 is a strong enhancement in consumer protection that will provide necessary protection for its customers and greatly assist with EnerCare's continued efforts to combat attrition in its water heater business.

EnerCare Shareholders Re-elect All of Management's Director Nominees and Confirms New By-Laws

At EnerCare's Annual and Special Meeting of Shareholders held on June 3, 2013, shareholders re-elected all of management's director nominees and confirmed EnerCare's new by-laws, which increase quorum at meetings of shareholders to two persons holding 25% of the eligible votes and require advance notice of director nominations by shareholders.

Corporate Ratings Update

On November 19, 2013, S&P published its revised corporate ratings criteria. As a result of this criteria change, S&P lowered the long-term corporate credit rating on EnerCare and EnerCare Solutions and its debt rating on the 2012 Notes and 2013 Notes to 'BBB+' with a stable outlook from 'A-', while removing the rating from CreditWatch, where S&P placed them with negative implications on November 26, 2013, in conjunction with its global credit criteria redesign. S&P stated that the stable outlook is based on S&P's expectation that steady cash flow from the Rentals business will support the growth of the Sub-metering business and holding debt levels steady over their two-year rating horizon.

Rentals

Attrition Fighting Programs

In January, EnerCare re-introduced an in-person consumer education program targeting the Greater Toronto Area. This program ran throughout the first two quarters of 2013. As part of the program, educational flyers, outlining consumer rights with respect to D2D sales, were distributed.

HVAC Program

During the second quarter, EnerCare and DE re-launched their single-family HVAC rentals program. One of EnerCare's growth platforms has been to focus on single-family and multi-residential HVAC rental units. HVAC units provide three to five times more rental revenue than that of a water heater.

GTA Flooding

On July 8, 2013 heavy rains caused flooding in the GTA. As a result of this flooding, approximately 2,200 additional water heaters were exchanged with a capital cost of $1,600 and higher buyout revenues were received on account of damage and Attrition. The capital cost associated with the flooding increased the Payout Ratio and the Payout Ratio - Maintenance for the year by approximately 2% and 1%, respectively.

Enbridge Open Bill Access

In September 2013, Enbridge settled the terms of its open bill access ("OBA") program in respect of 2014 with its suppliers who invoice through the Enbridge bill. Effective January 6, 2014, suppliers are required to verify certain types of contracts through a sales verification call before such contracts may be billed on the Enbridge invoice. EnerCare believes that the sales verification requirement is a positive development for its customers and its Rentals business and will assist in its continued efforts to combat Attrition.

Sub-metering

Thermal Metering

During the second quarter, EnerCare completed the meter installation and commissioning on its first new construction thermal metering project. The new product is offered in conjunction with other sub-metering products, such as electricity and water sub-metering, to create a “whole building solution” for landlords and condominium boards.

Contracted Units

EnerCare Connections contracted approximately 5,400 additional sub-metering units in the first sixty days of 2014.

Acquisition of Water Heaters from Energy Services Niagara Inc.

In February 2014, EnerCare, through a subsidiary of EnerCare Solutions, acquired the rental portfolio of Energy Services Niagara Inc. (“ESN”), comprised of approximately 2,441 electric and gas-fired water heaters for cash consideration of $3,002, subject to post-closing adjustments. In connection with the acquisition, ESN and EnerCare entered into a transitional agreement, as well as an assignment, assumption and consent agreement with Enbridge in respect of the ESN OBA. At the time of acquisition, approximately 97% of ESN’s customers were billed through the OBA. The rental revenue from the ESN water heaters are not subject to the Co-ownership Agreement.

UPDATE TO RISK FACTORS

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

RESULTS OF OPERATIONS

Overview

Consolidated Financial Highlights (000’s)	**2013**	2012	2011
Total revenues	**$299,149**	$275,578	$254,907
Earnings before income taxes	**12,620**	5,375	178
Current tax expense	**(21,852)**	(14,548)	(5,708)
Deferred income tax recovery	**18,050**	5,998	9,513
Net earnings/(loss)	**$ 8,818**	$ (3,175)	$ 3,983
EBITDA	**152,493**	145,306	143,971
Adjusted EBITDA	**168,580**	162,447	165,911
Per Share information			
Shareholder distributions declared	**$ 0.69**	$ 0.67	$ 0.65
Net earnings/(loss)	**$ 0.15**	$ (0.06)	$ 0.07
Total assets	**778,880**	804,566	910,292
Total debt	**540,320**	529,475	591,562
Cash provided by operating activities	**116,558**	96,090	127,918
Distributable Cash	**$ 51,050**	$ 61,564	$ 65,194
Payout Ratio	**78%**	63%	55%

The definition of Adjusted EBITDA was changed in 2013 to include other income and expense in the calculation. As a result, relevant comparative amounts have been recalculated to conform to the current presentation.

2013 vs. 2012

For 2013 and 2012, certain comparative amounts have been reclassified to conform to the current period’s presentation: 1) Revenue related to charges to landlords on account of common area and suite consumption that was not billed to tenants has been reclassified from commodity charges. The related accounts receivable has been reclassified from accounts payable and accrued liabilities. These reclassifications resulted in an increase of $5,196 to both Sub-metering revenues and commodity charges for the fourth quarter of 2012 and $18,996 in 2012. These reclassifications did not result in any adjustments to previously reported net income, working capital or cash flows. 2) Where deferred tax assets and liabilities existed in the legal entities of EnerCare and its subsidiaries, these amounts were reclassified to either a net deferred tax asset or liability, as applicable. As such, for 2012 deferred tax assets and deferred tax liabilities declined by $2,676 on a consolidated basis. These reclassifications did not result in any adjustments to previously reported net income, working capital or cash flows.

Total revenues increased by approximately 9% or $23,571 to $299,149 in 2013. The improved revenues were the result of an increase in Billable units and commodity charges in the Sub-metering business, which increased Sub-metering revenues by $20,505 to $109,338 in 2013, and improvements in Rentals revenue by $3,150 or 2% to $189,438, driven primarily by a rental rate increase effective January 2013. Investment income was lower by $84 to $373, primarily as a result of lower average invested funds following the repayment of $60,000 in debt in the second quarter of 2012. Net earnings were $8,818 in 2013, $11,993 higher than 2012 as a result of improved EBITDA and other income, and reductions in amortization, partially offset by higher interest expense caused by a non-recurring make-whole payment of $13,754 and current taxes.

EBITDA increased by 5% or $7,187 as a result of improved Rentals revenues, increased Sub-metering revenues, net of commodity expenses, and lower losses on disposal of equipment, partially offset by an increase in SG&A expenses of $349 or approximately 1%. Adjusted EBITDA increased by $6,133 or 4% after removing from EBITDA the impact of a reduced loss on disposal of equipment and including other income.

Total assets decreased by approximately $25,686 in 2013, primarily due to the amortization of intangible assets and equipment. Total debt increased to $540,320 as a result of the debt refinancing in the first quarter of 2013, offset by reductions in Convertible Debentures with conversions into Shares. Cash flow from operating activities increased by $20,468 in 2013, primarily as a result of improved revenues net of commodity expenses and reductions in accounts receivable in the Sub-metering business. The Payout Ratio increased to 78% from 63% primarily from an increase in capital expenditures and current taxes, partially offset by improved Operating Cash Flow inclusive of the early redemption of the 2009-2 Notes net of tax amount of $11,751.

2012 vs. 2011

Total revenues increased by approximately 8% or $20,671 to $275,578 in 2012. The improved revenues were the result of increased billings in the Sub-metering business, which increased by $21,044 to $88,833 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 3,464 or 2% after removing from EBITDA the impact of a reduced loss on disposal of equipment and impairments in 2012 and including other income. Total assets decreased by approximately $105,726 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.

Earnings Statement

(000's)	**2013**	2012
Revenues:		
Rentals	**$189,438**	$186,288
Sub-metering	**109,338**	88,833
Investment income	**373**	457
Total revenues	**299,149**	275,578
Commodity charges	**90,671**	71,044
SG&A expenses:		
Rentals	**15,211**	15,474
Sub-metering	**13,943**	12,007
Corporate	**14,818**	16,142
Total SG&A expenses	**43,972**	43,623
Amortization expense	**99,720**	101,622
Loss on disposal of equipment	**11,640**	15,148
Interest expense	**44,973**	40,759
Total expenses	**290,976**	272,196
Other income	**4,447**	1,993
Earnings before income taxes	**12,620**	5,375
Current tax (expense)	**(21,852)**	(14,548)
Deferred income tax recovery	**18,050**	5,998
Net earnings/(loss)	**8,818**	(3,175)
EBITDA	**152,493**	145,306
Adjusted EBITDA	**$168,580**	$162,447

Revenues

Total revenues of $299,149 for 2013 increased by $23,571 or 9% compared to 2012. Rentals revenues increased by $3,150 to $189,438, compared to 2012, primarily due to a rental rate increase implemented in January 2013, improved billing completeness and changes in asset mix, partially offset by fewer installed assets. Sub-metering revenues in 2013 were $109,338, an increase of $20,505 or 23% over the comparable period in 2012, primarily as a result of increased Billable units and the associated commodity charges. Sub-metering revenue includes total pass through energy charges of $90,671 in 2013, an increase of $19,627 over the same period in 2012.

Investment income decreased by $84 to $373 in 2013. The change in investment income was primarily attributable to lower investment balances, particularly after the repayment of the $60,000 2009-1 Notes in April 2012.

Selling, General & Administrative Expenses

Total SG&A expenses were $43,972 in 2013, an increase of $349 or 1% compared to 2012. Sub-metering SG&A expenses were $13,943 or $1,936 greater in 2013 compared to 2012, primarily as a result of increased bad debt expenses of approximately $1,700, wages and benefits of $900 primarily associated with the completion of the transition to our new customer care and billing system, partially offset by reductions in cost of goods of $600 and other expense accounts. Rentals and corporate expenses of $30,029 decreased by $1,587 over 2012, primarily due to decreases of approximately $3,000 in selling expenses and $1,500 for professional fees, partially offset by increases of approximately $1,700 for wages and benefits, $700 on account of billing and servicing costs and $500 in bad debts and claims.

Amortization Expense

Amortization expense decreased by $1,902 or 2% to $99,720 in 2013, 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

EnerCare reported a loss on disposal of equipment of $11,640 in 2013, a reduction of $3,508 or 23% over the same period in 2012. 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. In 2012, loss on disposal was elevated primarily as a result of higher buyout activity and Attrition.

Interest Expense

(000's)	**2013**	2012
Interest expense payable in cash	**$25,784**	$34,203
Make-whole payment on early redemption of debt	**13,754**	1,920
Non-cash items: Amortization of OCI and financing costs	**5,435**	4,636
Interest expense	**$44,973**	$40,759

Interest expense payable in cash decreased by $8,419 to $25,784 in 2013 compared to 2012. The decrease is primarily related to the repayment of the $60,000 2009-1 Notes on April 30, 2012, conversion of Convertible Debentures to Shares and the redemption of the 2010 Notes in the fourth quarter of 2012 with the proceeds from the offering of the 2012 Notes. The make-whole payment of $13,754 was incurred upon the early redemption of the 2009-2 Notes associated with the issuance of the 2013 Notes and the drawdown of the Term Loan. Reductions in the interest rate associated with the 2013 Notes and Term Loan also contributed to lower interest expense payable in cash in 2013. Amortization of OCI and financing costs for 2013 include the previously unamortized costs associated with the 2009-2 Notes and $4,023 of accumulated OCI which was fully reclassified to earnings in 2013.

Other Income

During 2013, EnerCare realized settlements from DE of $4,447, including income of approximately $2,769 on account of water heater installation costs, billing and collection deficiencies and third-party claims, and $1,678 on account of billing and collection in respect of water heater buyouts. Other income in 2012 includes $855 representing the reversal of the liability in respect of the third and final earn out payable to the former principals of Stratacon, $1,500 on account of a settlement reached by EnerCare and DE on account of billing disputes for water heater installation costs, approximately $200 from DE on account of billing shortfalls and a reduction of $600 related to reversal of billed amounts from Enbridge following the billing conversion.

Income Taxes

EnerCare reported a current tax expense of $21,852 in 2013, an increase of $7,304 over 2012, primarily as a result of higher taxable income and decreased loss carry forwards available to shelter taxable income in the Rentals business. The deferred income tax recovery of $18,050 for 2013 was $12,052 higher than the deferred tax recoveries of $5,998 recorded in 2012, primarily as a result of temporary difference reversals in the Rentals and Sub-metering businesses, including the 2013 make-whole payment inclusion through April 30, 2014.

Net Earnings

Net earnings in 2013 were $8,818, or $11,993 higher than in 2012, as previously described.

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)	**Q4/13**	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12
Net earnings/(loss)	**$ 4,793**	$ 6,931	$ 7,482	$(10,388)	$(2,096)	$ 2,154	$ (3,064)	$ (169)
Deferred tax (recovery)/expense	**(3,552)**	(3,134)	(3,640)	(7,724)	(4,155)	(2,668)	1,766	(941)
Current tax expense	**6,148**	5,525	4,591	5,588	5,217	3,902	2,118	3,311
Amortization expense	**25,792**	25,228	24,344	24,356	25,175	25,407	25,166	25,874
Interest expense	**6,002**	6,022	5,976	26,973	11,937	9,035	9,457	10,330
Other (income)/expense	**(769)**	(2,000)	(1,678)	-	362	(855)	-	(1,500)
Investment (income)	**(35)**	(21)	(49)	(268)	(180)	(16)	(76)	(185)
EBITDA	**38,379**	38,551	37,026	38,537	36,260	36,959	35,367	36,720
Add: Loss on disposal of equipment	**2,666**	2,633	3,449	2,892	3,523	3,397	4,113	4,115
Add: Other income/(expense)	**769**	2,000	1,678	-	(362)	855	-	1,500
Adjusted EBITDA[(1)]	**$41,814**	$43,184	$42,153	$41,429	$39,421	$41,211	$39,480	$42,335

(1) Historical Adjusted EBITDA has been conformed to the current presentation which includes other income and expense.

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 as loss carry forwards, which were utilized by mid-2012.
3. Debt refinancing activities in the fourth quarter of 2012 and the first quarter of 2013 resulted in additional interest expense, which included make-whole payments of $1,920 and $13,754, respectively. Commencing in the second quarter of 2013 interest expense reflects the benefits of lower blended interest rates and non-cash fee amortization.
4. In the second quarter of 2012, deferred taxes resulting from a change in the future provincial corporate tax rates.
5. Amortization and loss on disposal of equipment, which are primarily driven by unit continuity activity such as Attrition, exchanges and outstanding units.
6. Other income relates to settlements with DE on account of installation and billing matters, except for the third quarter of 2012, which reflect changes in the liability of EnerCare's estimated obligation payable to the former Stratacon shareholders in respect of the final earn out payment which was taken back into income to reflect reductions in the amounts payable.

DISTRIBUTABLE CASH AND PAYOUT RATIOS

EnerCare plans to amend its payout ratio calculation in 2014. As a transition to the new calculation, EnerCare has chosen to show both the historical calculation, Payout Ratio and our new calculation, Payout Ratio - Maintenance. Historically, EnerCare included both the Rentals capital associated with maintaining the current customer base (exchanges) as well as the capital associated with acquiring new customers. With the significant improvement in Attrition over the last three years, combined with the success transitioning Rentals customers into higher revenue generating rental revenue products (as stated earlier in the MD&A, in the fourth quarter of 2013, new Rentals customers generate the revenue equivalent to 1.8 times that of lost customers), EnerCare successfully met its objective to grow its portfolio in the fourth quarter of 2013. As a result, EnerCare is changing the calculation to remove the capital required to acquire new Rentals customers. EnerCare believes that the new calculation better reflects the on-going cash requirements to maintain the revenue from the current Rentals customer base.

Historical Payout Ratio Presentation

Historical Payout Ratio (000's)	**2013**	2012
Cash provided by operating activities	**$116,558**	$96,090
Net change in non-cash working capital	**(8,786)**	15,492
Operating Cash Flow[3]	**107,772**	111,582
Capital expenditures: (excluding growth capital and acquisitions)		
Rentals additions	**(34,355)**	(27,211)
Rentals exchanges	**(34,391)**	(30,674)
Subtotal	**(68,746)**	(57,885)
Total proceeds on disposal of equipment	**4,720**	5,379
Net capital expenditures	**(64,026)**	(52,506)
Other income (net of Stratacon contingent consideration)	**(4,447)**	(1,138)
Early redemption of 2009-2 Notes net of tax	**11,751**	1,929
Extraordinary proxy solicitation expenses	**-**	1,697
Total reductions	**(56,722)**	(50,018)
Distributable Cash	**51,050**	61,564
Dividends declared	**(39,939)**	(38,605)
Net cash retained	**$ 11,111**	$22,959
Payout Ratio	**78%**	63%

The Payout Ratio, after capital expenditures (excluding growth capital for Sub-metering and acquisitions), increased to 78% for 2013, compared to 63% for 2012, primarily due to increased capital expenditures, current taxes and dividend payments.

The early redemption of the 2009-2 Notes net of tax of $11,751 represents the first quarter sum of a make-whole payment of approximately $13,754 and overlapping interest expense of $1,087, less investment income of $268 and the subsequent tax timing differences of ($2,822). The tax consequences of the make-whole payment will be recognized over the period to April 30, 2014. The make-whole payment was reflected as interest expense in the first quarter of 2013 and consequently directly impacted cash provided by operating activities for the balance of 2013.

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

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

Payout Ratio - Maintenance Presentation

Payout Ratio - Maintenance (000's)	**2013**	2012
Cash provided by operating activities	**$116,558**	$96,090
Net change in non-cash working capital	**(8,786)**	15,492
Operating Cash Flow	**107,772**	111,582
Capital expenditures: (excluding growth capital, additions and acquisitions)		
Rentals exchanges	**(34,391)**	(30,674)
Proceeds on disposal of equipment – warranty recoveries	**1,517**	1,629
Net capital expenditures	**(32,874)**	(29,045)
Other income (net of Stratacon contingent consideration)	**(4,447)**	(1,138)
Early redemption of 2009-2 Notes net of tax	**11,751**	1,929
Extraordinary proxy solicitation expenses	**-**	1,697
Total reductions	**(25,570)**	(26,557)
Distributable Cash - Maintenance	**82,202**	85,025
Dividends declared	**(39,939)**	(38,605)
Net cash retained	**$ 42,263**	$46,420
Payout Ratio - Maintenance	**49%**	45%

The Payout Ratio - Maintenance, which is calculated based upon capital expenditures associated with the exchange of assets for existing customers and excludes capital expenditures associated with obtaining new customers, was 49% in 2013, slightly higher than the 45% equivalent in 2012.

LIQUIDITY AND CAPITAL RESOURCES

(000's)	**2013**	2012
Cash flow from operating activities	**$116,558**	$96,090
Net change in non-cash working capital	**(8,786)**	15,492
Operating Cash Flow	**107,772**	111,582
Capital expenditures – excluding growth capital and acquisitions	**(68,746)**	(57,885)
Proceeds on disposal of equipment	**4,720**	5,379
Net capital expenditures	**(64,026)**	(52,506)
Acquisitions	**-**	(1,944)
Growth capital	**(11,400)**	(12,940)
Cash used in investing activities	**(75,426)**	(67,390)
Dividends paid	**(39,799)**	(38,447)
Other financing activities	**11,981**	(52,917)
Cash used in financing activities	**(27,818)**	(91,364)
Cash and equivalents – end of period	**$ 25,940**	$12,626

Operating Cash Flow of $107,772 decreased by $3,810 in 2013 compared to 2012, primarily as a result of increased current taxes, changes in non-cash working capital and interest expense, inclusive of the make-whole payment of $13,754 associated with the redemption of the 2009-2 Notes, partially offset by improved revenues and other income.

Net capital expenditures of $64,026 in 2013 were $11,520 greater than 2012, due to increases in HVAC rentals, exchange activity in part due to the flooding in the GTA which occurred in July and inclusion of venting costs previously borne by customers. The acquisition of $1,944 in 2012 relates to GreenSource. Growth capital investments were $11,400 for 2013, a decrease of $1,540 when compared to 2012. Growth capital expenditures were lower in 2013, primarily as a result of higher costs in 2012 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.

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*" in this MD&A.

Other financing activities for 2013 primarily reflect the scheduled repayment of the Stratacon Debt during the period and EnerCare Solutions' repayment of the $270,000 2009-2 Notes on March 6, 2013 with proceeds from the 2013 Notes and the drawdown on the Term Loan.

The Revolver has a credit limit of $35,000, which was not drawn as at December 31, 2013.

Management believes that EnerCare has sufficient cash flow, cash on hand and credit available to meet its 2014 obligations, including capital expenditures, financing activities and working capital requirements for its 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)			**2013**			2012
Segment	**Rentals**	**Sub-metering**	**Total**	Rentals	Sub-metering	Total
Units - start of period	**1,171**	**115**	**1,286**	1,216	94	1,310
Portfolio additions	**23**	**21**	**44**	25	21	46
Acquisitions	**-**	**-**	**-**	3	-	3
Attrition	**(49)**	**-**	**(49)**	(73)	-	(73)
Units - end of period	**1,145**	**136**	**1,281**	1,171	115	1,286
Asset exchanges – units retired and replaced	**54**	**-**	**54**	47	-	47
% change in units during the period			**(0.4%)**			(1.8%)
% of units from start of period:						
Portfolio additions (net of acquisitions)			**3.4%**			3.5%
Attrition			**(3.8%)**			(5.6%)
Units retired and replaced			**4.2%**			3.6%
Billable units	**1,145**	**82**	**1,227**	1,171	71	1,242
Contracted units		**166**	**-**		156	-

Net capital expenditures in the Rentals business include portfolio additions and asset exchanges, net of proceeds on disposal. In 2013, net capital expenditures in the Rentals business were $64,026, increasing by 22% or $11,520 when compared to 2012, primarily as a result of increased HVAC rentals, asset exchanges in part due to the flooding, as previously noted, and inclusion of venting costs previously borne by customers.

Installations in the Sub-metering business were approximately 21,000 units for both 2013 and 2012. Capital expenditures in 2013 were $10,307, approximately $1,505 greater than 2012 on account of installation and product mix.

Attrition decreased in 2013 by 24,000 units or 33% compared to 2012. EnerCare saw additional buyout activity of 5,000 units in the year to date 2012 figure, following the introduction and subsequent withdrawal of new contract terms for a significant portion of our co-owned Rentals portfolio. EnerCare and DE have implemented many programs, including continued consumer education through direct mail and radio campaigns. Such initiatives, coupled with broader consumer awareness and a leveling of the playing field in respect of the expiry of the Consent Order, as well as enhancements to our customer value proposition (for example, the "DE same day service campaign"), have helped to significantly reduce Attrition in recent years.

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 82,000 increased by 11,000 units in 2013 as compared to 2012, primarily due to additional installations and increased penetration in the rental apartment market.

Sub-metering sales activity was approximately 10,000 for 2013, reflecting improved sales in the fourth quarter of 2013.

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 2013, EnerCare recorded financing proceeds, net of dividends, of $11,981**,** primarily related to the redemption of the 2009-2 Notes and the issuance of the 2013 Notes and drawdown of the Term Loan and the scheduled repayment of the Stratacon Debt.

Capitalization (000's)	**2013**	2012
Cash and cash equivalents	**$ 25,940**	$ 12,626
Net investment in working capital	**(9,422)**	(496)
Cash, net of working capital	**16,518**	12,130
Total debt	**540,320**	529,475
Shareholder's equity	**71,296**	95,637
Total capitalization - book value	**$611,616**	$625,112

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, 2013, total debt was comprised of the 2012 Notes, the 2013 Notes, the Term Loan, 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 and Term Loan

Under the terms of these agreements, 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, 2013. No amounts were drawn under the Revolver at December 31, 2013.

2012 Notes and 2013 Notes – Incurrence Test

The covenants in respect of the 2012 Notes and 2013 Notes are contained in the Senior Unsecured Indenture. Under the terms of the Senior Unsecured Indenture, 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, 2013, EnerCare Solutions exceeded this minimum and had the capacity under the covenant to raise approximately $190,000 to $230,000 additional senior debt should it elect to do so.

SUMMARY OF QUARTERLY RESULTS

(000's)	**Q4/13**	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12
Total revenues	**$75,675**	$77,560	$71,604	$74,310	$68,324	$72,048	$67,339	$67,867
Net earnings/(loss)	**4,793**	6,931	7,482	(10,388)	(2,096)	2,154	(3,064)	(169)
Dividends declared	**10,161**	10,020	9,945	9,813	9,747	9,728	9,706	9,424
Average Shares outstanding	**58,356**	58,222	58,137	58,040	57,995	57,860	57,526	56,554
Per Share								
Basic/diluted net earnings/(loss)	**$0.08**	$0.12	$0.13	($0.18)	($0.04)	$ 0.04	($0.05)	($0.00)
Dividends declared	**$0.174**	$0.172	$0.171	$0.169	$0.168	$0.168	$0.168	$0.166

In addition to quarterly comments found under "Results of Operations – EBITDA and Adjusted 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, the first quarters of 2012 and 2013 and the third quarter of 2013.

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, 2013:

Period (000's)	Principal Payments	Interest Payments	Leases
Due in 2014	$ 1,213	$ 23,162	$ 264
Due in 2015	1,258	23,061	379
Due in 2016	60,992	21,591	397
Due in 2017	254,696	21,269	70
Due in 2018	126	10,359	-
Thereafter	225,081	15,535	-
Total	$543,366	$114,977	$1,110

As at December 31, 2013, long-term senior contractual obligations of EnerCare included debt service on the 2012 Notes and 2013 Notes bearing interest at 4.30% and 4.60%, respectively. Interest on the 2012 Notes is payable semi-annually on May 30 and November 30 and is payable semi-annually on February 3 and August 3, in respect of the 2013 Notes. In addition, the Term Loan of $60,000 due January 28, 2016 bears interest at a variable rate based upon the banker's acceptance rate or prime rate plus an interest spread which was 2.49% at December 31, 2013. The $270,000 2009-2 Notes, which would have matured on April 30, 2014, were redeemed on March 6, 2013, following the issuance of the 2013 Notes and the drawdown of the Term Loan. In connection with the debt refinancing, a make-whole payment of $1,920 was paid in respect of the early redemption of the 2010 Notes in 2012 and a make-whole payment of $13,754 was paid in respect of the early redemption of the 2009-2 Notes in 2013. The Stratacon Debt of $4,285, as at December 31, 2013, was originally 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%. Principal and interest 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, 2013, no amounts were drawn on the Revolver. The Revolver bears a standby fee of 0.24%, which has not been included in the above schedule, until maturity in July 2014.

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

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, 2013, there were 58,424,942 Shares (58,011,527 at December 31, 2012) 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.

From January 1, 2014 to March 3, 2014, approximately $242 principal amount of additional Convertible Debentures were converted to 37,343 Shares. The Convertible Debentures principal balance outstanding of $3,839 at March 3, 2014 may be converted to approximately 592,438 additional Shares.

FOURTH QUARTER RESULTS OF OPERATIONS

Earnings Summary (000's)	**2013**	2012
Revenues:		
Rentals	**$47,815**	$46,125
Sub-metering	**27,825**	22,019
Investment income	**35**	180
Total revenues	**75,675**	68,324
Commodity charges	**22,983**	17,359
SG&A expenses:		
Rentals	**3,377**	3,814
Sub-metering	**4,466**	3,301
Corporate	**3,769**	3,887
Total SG&A expenses	**11,612**	11,002
Amortization expense	**25,792**	25,175
Loss on disposal of equipment	**2,666**	3,523
Interest expense	**6,002**	11,937
Total expenses	**69,055**	68,996
Other income/(expense)	**769**	(362)
Earnings/(loss) before income taxes	**7,389**	(1,034)
Current tax (expense)	**(6,148)**	(5,217)
Income tax recovery	**3,552**	4,155
Net earnings/(loss)	**$ 4,793**	$ (2,096)
EBITDA	**38,379**	36,260
Adjusted EBITDA	**$41,814**	$39,421

Fourth Quarter Overview

Unless stated otherwise, the narrative in this section is in reference to the operating results for the fourth quarter of 2013 as compared to the same period in 2012.

Revenues

Total revenues of $75,675 in 2013 increased by $7,351 or 11% compared to 2012. Rentals revenue for the period increased by $1,690 to $47,815, primarily due to the January 2013 rate increase and improved billing performance by DE and asset mix changes, partially offset by the impact of net Attrition. Sub-metering revenues improved by $5,806 or 26% in 2013, due to increased pass-through commodity changes and additional Billable units.

Investment income was $35, $145 lower than 2012, primarily due to the additional interest earned in 2012 through the investment of 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 $610 or 6% from 2012 to $11,612. Sub-metering costs increased by $1,165, primarily as a result of an increase in the provision for bad debts as discussed in *"Critical Accounting Estimates - Sub-metering Billing and Customer Care System"*. Rentals and corporate costs decreased by $555, primarily as a result of reductions in professional fees of approximately $1,000 and $500 on account of bad debts and claims, partially offset by $700 in wages and benefits associated with the performance of the long term compensation plan and $200 in respect of billing and servicing costs.

Amortization Expense

Amortization expense of $25,792 was $617 higher than in 2012, primarily as a result of increased capital expenditures in the Rentals business, lower Attrition and amortization in the Sub-metering business, partially offset by a lower Rentals asset base.

Loss on Disposal of Equipment

Loss on disposal of equipment for the period was $2,666, a decrease of $857 or 24% over 2012. The net decreased loss was primarily the result of lower Attrition, partially offset by increased exchanged assets during the period.

Interest Expense

In 2013, interest expense of $6,002 was $5,935 lower than in 2012, primarily as a result of interest expense reductions associated with the issuance of the 2012 Notes and the 2013 Notes, the 2012 make-whole payment of $1,920 in respect of the redemption of the $240,000 2010 Notes and lower Convertible Debenture interest payments stemming from the conversion of debentures into Shares.

Net Earnings

Earnings before income taxes in 2013 were $7,389, $8,423 better than 2012, as previously described. Net earnings were $4,793, an increase of $6,889 in 2013, reflecting an increase of $931 in current taxes and lower deferred tax recoveries of $603 impacted 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 - EBITDA and Adjusted EBITDA"* in this MD&A.

Adjusted EBITDA

In 2013, Adjusted EBITDA has been amended to include other income and expense. Prior year amounts have been adjusted to conform to the current presentation.

This measure is comprised of net earnings plus income taxes, interest expense, amortization expense, impairment losses, loss on disposal of equipment, less investment 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 - EBITDA and Adjusted EBITDA"* in this MD&A.

Billable

Sub-metering Billable units represent assets or services in the case of multiple products, 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 or service 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 and Distributable Cash - Maintenance

Distributable Cash is one measure of the amount of cash generated during a period that is available to service debt, finance capital expenditures and provide for the payment of dividends to shareholders.

Historically, Distributable Cash comprised 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 – Maintenance is the same as the historical Distributable Cash, except that Rentals capital expenditures associated with new customer additions and buyout proceeds on disposal of equipment associated with lost customers are excluded. Growth expenditures under a Distributable Cash – Maintenance definition includes capital expenditures such as Rentals new customer equipment additions, Sub-metering equipment, acquisitions and infrastructure assets.

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, Payout Ratio and Payout Ratio - Maintenance

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 historical Payout Ratio is the percentage of Distributable Cash to dividends declared to shareholders during a period and represents the ability of EnerCare to pay dividends, finance capital expenditures and add to its cash reserves.

Payout Ratio - Maintenance is similar to the Payout Ratio, except that the ratio is calculated as the percentage of Distributable Cash – Maintenance to dividends declared to shareholders during the period and represents the ability of EnerCare to pay dividends, add to its cash reserves and illustrate the proportion of cash required to maintain its existing customer base.

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, 2013, EnerCare was in compliance with all covenants under the 2012 Notes, 2013 Notes, Revolver and Term Loan. A summary of the current covenants as described in the AIF is discussed below.

Revolver and Term Loan

Under the Revolver and Term Loan agreements, 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, 2013. No amounts were drawn under the Revolver at December 31, 2013.

2012 Notes and 2013 Notes – Incurrence Test

The covenants under the 2012 Notes and 2013 Notes are contained in the Senior Unsecured Indenture. Under the terms of the Senior Unsecured Indenture, 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 Enbridge, 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 Enbridge. 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-Enbridge 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 through 2013, a number of billing issues were resolved with the third party billing system.

Over the past 2 years, DE and EnerCare have reached settlements in respect of billing and collection matters and installation costs. During the second quarter of 2013, EnerCare and DE reached a settlement of $1,678 on account of billing and collection in respect of water heater buyouts. In the third quarter of 2013, EnerCare accrued $2,000 on account of water heater installation costs, billing and collection deficiencies and third-party claims, with an additional $769 being recognized upon settlement in the fourth quarter of 2013. These amounts were recorded as other income. EnerCare has not provided for any additional settlements that may materialize as they are not determinable. 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 other income amounts.

Sub-metering Billing and Customer Care System

During 2012, the Sub-metering business deployed a new utility grade customer care and billing system which consolidated all the Sub-metering customer care and billing functions onto one platform. As a result of this conversion, the Sub-metering business experienced operational disruptions, particularly in respect of billings and collections. During May and June of 2012, a number of bills required modification resulting in a delay mailing to residents and a backlog of move in and out processing, 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 accounts required accruals for additional service periods resulting in a total revenue accrual at December 31, 2012 of approximately $12,500. At December 31, 2013, EnerCare recorded a revenue accrual of approximately $14,350, reflecting accrued service periods, increases in billable units and pass through commodity charges.

As a result of the billing backlog, EnerCare modified some of its collection programs in the latter half of 2012 and implemented full collection procedures during the second quarter of 2013. During the fourth quarter of 2013, EnerCare reassessed the bad debts provision in light of the completion of the billing backlog. EnerCare analyzed the collection experience of its customer account segments since the second quarter of 2013, and based upon that information, the accounts receivable provision was increased by $2,046 for the fourth quarter, resulting in a bad debt expense of $3,246 for 2013 compared with $1,576 in 2012.

Capital Assets

Capital assets are 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, 2013. There have been no changes to our ICFR during the year ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, EnerCare's ICFR. The certifying officers have evaluated the effectiveness of the EnerCare's DC&P and ICFR at December 31, 2013 and are satisfied that EnerCare's DC&P and ICFR were both effective as at December 31, 2013. Management also did not identify any material weaknesses in EnerCare's ICFR at December 31, 2013.

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 except for the adoption of new accounting standards as described below.

On December 16, 2011, the IASB released Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The standard amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosure to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32. The standard requires a financial asset and a financial liability to be offset and the net amount presented in the statement of financial position when, and only when, an entity (1) currently has a legally enforceable right to set off the recognized amounts and (2) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. This standard is required to be applied for accounting periods beginning on or after January 1, 2013. EnerCare implemented the standard and has determined that it did not have an impact on current reporting.

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 implemented the standard and has determined that it did 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. EnerCare implemented the standard and has determined that it did not have an impact on current reporting.

OUTLOOK

The forward-looking statements contained in this section are not historical facts but, rather, reflect EnerCare’s current expectations regarding future results or events and are based on information currently available to management. Certain material factors and assumptions were applied in providing these forward-looking statements. See “*Forward-looking Information*” in this MD&A.

EnerCare continued to experience improved customer retention during the fourth quarter of 2013. Overall, we are encouraged by the positive trend we have seen in 2013, with a 33% reduction in year-over-year Attrition and the decreasing trend over the last six quarters. As discussed in the “Recent Developments” section of this MD&A, on November 27, 2013 Bill 55 passed third reading in the Ontario Legislature. EnerCare believes that Bill 55 is a strong enhancement in consumer protection that will provide necessary protection for its customers and greatly assist with EnerCare’s continued efforts to combat Attrition. Going forward we continue to believe that the factors that have led to the decline in Attrition over the last five years, including improving consumer awareness, as well as the new Enbridge OBA and Bill 55, 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.

As announced in the first quarter of 2013, our key priorities and initiatives in the business in 2013 were to continue to reduce Attrition by continuing to invest in the education and protection of consumers relating to D2D solicitation, enhancing our customer value proposition, supporting Bill 55 and growing the business through portfolio additions and new products by accelerating originations in respect of HVAC. We are pleased to report that we exceeded our targets in the Rentals business with respect to these objectives.

In respect of Sub-metering, our priorities and initiatives in 2013 to grow the business to be cash flow positive by year end by improving productivity and operating efficiencies, was not met as a result of the operational disruptions created by the transition to our new customer care and billing system.

We are pleased with the improved sales activity experienced in the fourth quarter of 2013 and beginning of 2014. The launch of e-billing, investing to improve client communication and furthering our “whole building” solution installed base are initiatives that will contribute to growth. Our operational priorities remain focused on improving productivity and operating efficiencies through our recently launched Lean program.

EnerCare estimates that it will pay approximately $23,000 to $26,000 in current taxes for the fiscal year ended December 31, 2014. This estimate is based on taxable income comparable to current levels, shielded by unrestricted tax losses and a corporate tax rate of approximately 26.50%. EnerCare’s current taxes for 2013 were $21,852. 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 2014, EnerCare increased its weighted average rental rate by 3%.

EnerCare intends to increase its monthly dividend to $0.0604 per Share, an increase of 4%, effective in respect of the dividend payable to shareholders of record on the applicable date in March 2014, which dividend will be paid in April 2014. This increase reflects EnerCare’s strong overall performance.

As previously announced, EnerCare has set its annual and general and special meeting for May 1, 2014. Jim Pantelidis, chair of the board and management will provide an update to shareholders on EnerCare’s achievements in 2013 and strategy.

GLOSSARY OF TERMS

Defined Term	Definition
AIF	Annual Information Form of EnerCare dated March 22, 2013.
Attrition	Termination of customer relationships, including buyouts.
Bill 55	Stronger Protection for Ontario Consumers Act, 2013.
Billable	EnerCare services that are 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).
Co-Ownership Agreement	Co-ownership agreement dated December 17, 2002 between DE, Rentco, 4104285 Canada Limited and CIBC Mellon Trust company as custodian, as assigned by Rentco to ESLP on December 17, 2002, as amended on February 6, 2003, January 1, 2005, December 29, 2006, February 8, 2007 and April 25, 2007, and as may be further amended, modified, supplemented, restated or replaced from time to time.
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).
Enbridge	Enbridge Gas Distribution Inc.
EnerCare	EnerCare Inc., formerly the Fund.
EnerCare Solutions	EnerCare Solutions Inc., formerly the Trust.
ESLP	EnerCare Solutions Limited Partnership (formerly the Waterheater Operating Limited Partnership).
Fund	The Consumers' Waterheater Income Fund.
GreenSource	GreenSource Capital Inc., formerly owned by DE.
GTA	The greater Toronto area.
HVAC	Heating, ventilation and air conditioning.
IASB	The International Accounting Standards Board.
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.
Incurrence Test	2009 Notes and 2012 Notes Incurrence EBITDA to Net Interest Expense.
LEAN	Lean is a set of "tools" and an operational discipline that assist in the identification and steady elimination of process waste - as waste is eliminated quality improves while cycle time and cost is reduced.
MD&A	Management's Discussion and Analysis.
OBA	The Enbridge open bill access agreement.
OCI	Other Comprehensive Income.
Rentals	Business division that rents water heaters and other equipment.
Rentco	4483588 Canada Inc. (formerly, Direct Waterheater Rentals Inc.).
Revolver	$35,000 line of credit, with a maturity date of July 6, 2014, as amended and restated as of July 6, 2011, and further amended on November 15, 2012 and February 26, 2013.
Senior Unsecured Indenture	The trust indenture dated as of January 29, 2010 between the Trust, as issuer, its subsidiaries, as guarantors, and Computershare Company of Canada, as indenture trustee, as supplemented by the first supplemental indenture dated as of January 29, 2010, the second supplemental indenture dated as of February 19, 2010, the third supplemental indenture dated as of December 1, 2010, the fourth supplemental indenture dated as of January 1, 2011, the fifth supplemental indenture dated as of September 30, 2012, the sixth supplemental indenture dated as of November 21, 2012 and the seventh supplemental indentured dated as of February 1, 2013, as the same may be amended, modified, supplemented, restated or replaced from time to time. The Trust was wound-up and dissolved in connection with the reorganization of the Fund`s income trust structure to a corporate structure and all of the covenants and obligations of the Trust with respect to the Senior Unsecured Indenture were assumed by EnerCare Solutions.
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 Notes	Collectively, the 2009-1 Notes and 2009-2 Notes.
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 were redeemed on March 6, 2013.
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.