Enercare Inc.

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

Second Quarter ended June 30, 2016

Dated August 5, 2016

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The condensed interim consolidated financial statements of Enercare are prepared in accordance with IFRS. Enercare's basis of presentation and significant accounting policies are summarized in detail in notes 2 and 3 of the condensed interim consolidated financial statements for the period ended June 30, 2016. Unless otherwise specified, amounts are reported in this MD&A in thousands, except customers, units and "per unit" amounts, Shares and "per Share" amounts, SE Subscription Receipts and percentages (except as otherwise noted). Unless otherwise specified, dollar amounts are expressed in Canadian dollars.

Enercare operates its businesses in three segments: Enercare Home Services – provision of water heaters, furnaces, air conditioners and other HVAC rental products, protection plans and related services, Sub-metering –provision of Sub-metering equipment and billing services and Service Experts – provision of sales, installation, maintenance and repair of HVAC systems through Enercare's Service Experts subsidiary.

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

FORWARD-LOOKING INFORMATION

This MD&A, dated August 5, 2016, contains certain forward-looking statements within the meaning of applicable Canadian securities laws ("forward-looking statements" or "forward-looking information") that involve various risks and uncertainties and should be read in conjunction with Enercare's 2015 audited consolidated financial statements. Additional information in respect of Enercare, including the AIF, can be found on SEDAR at www.sedar.com.

Statements other than statements of historical fact contained in this MD&A may be forward-looking statements, including, without limitation, management's expectations, intentions and beliefs concerning anticipated future events, results, circumstances, economic performance or expectations with respect to Enercare, including Enercare's business operations, business strategy and financial condition. When used herein, the words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "goal", "intends", "may", "might", "outlook", "plans", "projects", "schedule", "should", "strive", "target", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. These forward-looking statements may reflect the internal projections, expectations, future growth, results of operations, performance, business prospects and opportunities of Enercare and are based on information currently available to Enercare and/or assumptions that Enercare believes are reasonable. Many factors could cause actual results to differ materially from the results and developments discussed in the forward-looking information.

In developing these forward-looking statements, certain material assumptions were made. These forward-looking statements are also subject to certain risks. These factors include, but are not limited to:

- actual future market conditions being different than anticipated by management;
- the failure to realize the anticipated benefits of the SE Transaction, strategic initiatives and tax efficiencies; and
- the risks and uncertainties described under *"Risk Factors"* in this MD&A.

Material factors or assumptions that were applied to drawing a conclusion or making an estimate set out in forward-looking statements, including pro forma financial information, include:

- the view of management regarding current and anticipated market conditions;
- industry trends remaining unchanged;
- the financial and operating attributes of Enercare and Service Experts as at the date hereof and the anticipated future performance of Enercare and Service Experts;
- assumptions regarding the volume and mix of business activities remaining consistent with current trends;
- assumptions regarding the interest rates of the 2014 Term Loan and 2016 Term Loan, foreign exchange rates and commodity prices;
- the extent to which the SE Transaction is accretive, which may be impacted by the realization and timing of synergies and the operating performance of Enercare and Service Experts;
- assumptions regarding non-recurring transaction costs estimated to be incurred by Enercare in connection with the SE Transaction;
- assumptions regarding future selling, general and administration costs estimated to be incurred by Enercare, including in connection with the running of the SE Transaction; and
- the number of Shares outstanding remaining constant.

There can be no assurance that the anticipated strategic benefits and operational, competitive and cost synergies from the SE Transaction will be realized.

Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Accordingly, readers should not place undue reliance on such forward-looking statements and assumptions as management cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, Enercare. All forward-looking information in this MD&A is made as of the date of this MD&A. These forward-looking statements are subject to change as a result of new information, future events or other circumstances, in which case they will only be updated by Enercare where required by law.

Please see the section entitled *"Risk Factors"* in this MD&A for a discussion in respect of the material risks relating to the business and structure of Enercare.

OVERVIEW

Enercare, primarily through acquisition, has become a multi-segment and product company since its origins in 2002 as the Fund, which primarily financed rental equipment originated and serviced by DE. On October 20, 2014, Enercare purchased the Ontario home and small commercial services business from DE and effectively reunited the business separated in 2002 with the creation of the Fund. Enercare Solutions, a wholly-owned subsidiary of Enercare, through its subsidiaries, operates the Enercare Home Services business.

On May 11, 2016, Enercare through an indirect wholly-owned subsidiary of Enercare Solutions acquired, through a merger, SEHAC Holdings Corporation ("Service Experts") (the "SE Transaction"). Enercare purchased 100% of the outstanding shares of Service Experts. Service Experts provides sales, installation, maintenance and repair of HVAC systems directly to residential and light commercial customers. There are 90 locations in the United States and Canada. The interim financial statements reflect Enercare's ownership of Service Experts for the period of May 11, 2016 to June 30, 2016.

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, gas and water to condominiums and apartments in Ontario, Alberta and elsewhere in Canada. On July 15, 2015, ECI purchased and amalgamated with Triacta Power Technologies Inc., a company in the design and manufacturing of advanced, utility-grade energy management meters for multi-unit residential, commercial and institutional applications. Triacta's primary markets are Canada and the U.S.

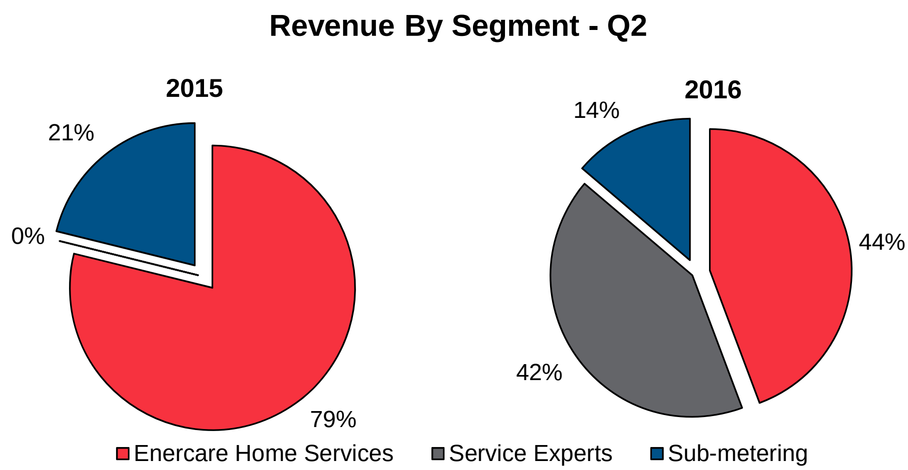
Through its Enercare Home Services, Sub-metering and Service Experts businesses, Enercare provides intelligent and energy-efficient products, services, programs and solutions that enable homeowners, multi-unit owners and tenants to make a substantial contribution to North America's growing culture of 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 from S&P and DBRS, respectively.

Enercare's Shares and Convertible Debentures trade under the symbols "ECI" and "ECI.DB", respectively, on the Toronto Stock Exchange. Enercare is a member of the S&P/TSX Composite Index, S&P/TSX Composite Low Volatility Index and the S&P/TSX Canadian Dividend Aristocrats Index.

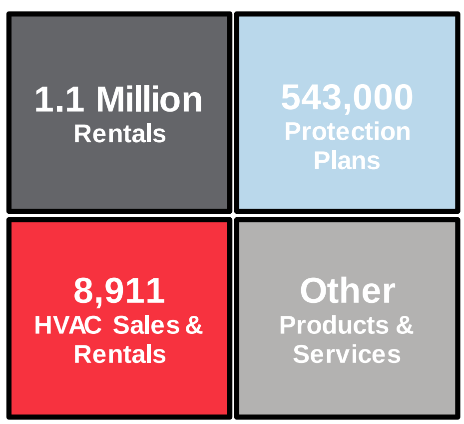
PORTFOLIO SUMMARY

Enercare's primary businesses are comprised of Enercare Home Services, Service Experts and Sub-metering. As seen by the graph below, the Enercare Home Services business accounted for 44% of the overall revenue during the second quarter of 2016, compared to 79% during the same period in 2015, due to the acquisition of the Service Experts business on May 11, 2016. The primary business activities within each of the Enercare Home Services, Service Experts and Sub-metering segments are discussed below.

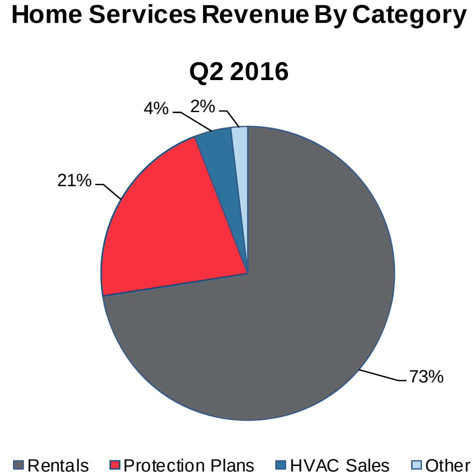


Enercare Home Services Business

There are four main business activities within Enercare Home Services: Rentals, Protection Plans, HVAC Sales and Other (which includes duct cleaning and chargeable services). The following diagram shows the breakdown of customer contracts for each such activity ending in the second quarter of 2016.

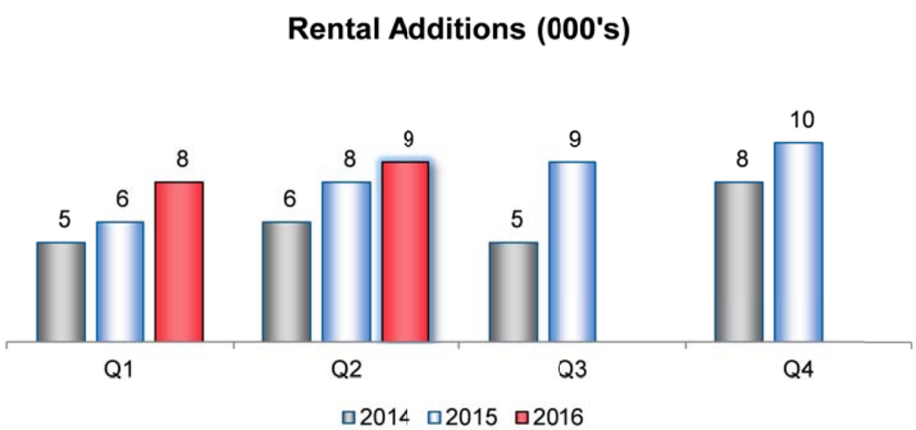


Of the four main business activities, the Rentals component produces the largest portion of revenue, followed by Protection Plans, HVAC Sales and Other, as illustrated in more detail by the following chart.

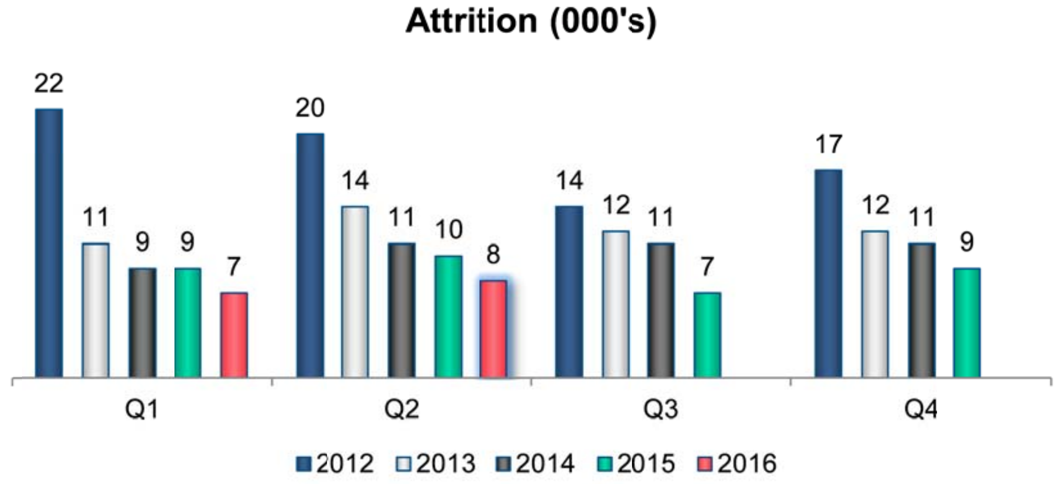


Rentals

Enercare Home Services is focused on growing its rental portfolio by increasing originations and reducing Attrition. Originations are primarily obtained from the new home builder market and new customers identified through its field technicians. New products, such as rental HVAC (discussed further below in the section entitled “HVAC Sales and Rentals”), have contributed significantly to increasing total originations. As seen in the graph below, additions were 9,000 units in the second quarter of 2016, an increase of 13%, compared to the same period in 2015.

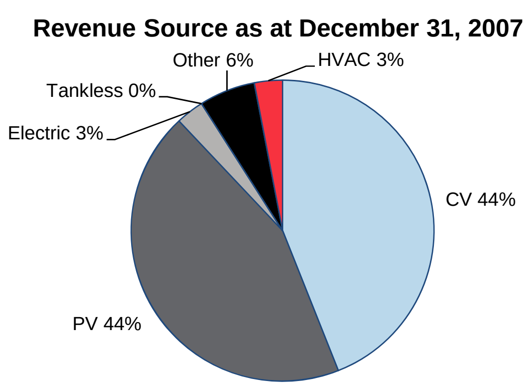


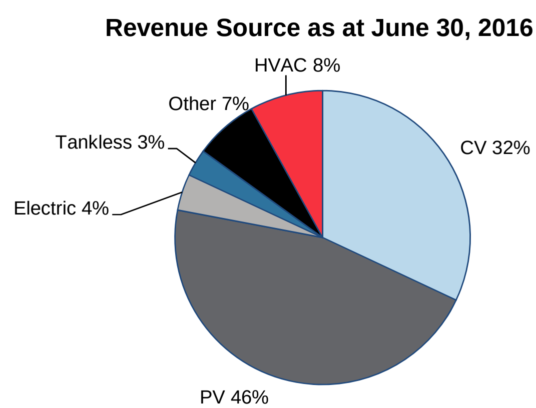
To aid in the reduction of Attrition, Enercare Home Services has implemented many programs, including continued consumer education campaigns. Such initiatives, coupled with enhancements to our customer value proposition (for example, the “same day service campaign”) and the coming into effect of Bill 55 on April 1, 2015, have helped to significantly reduce Attrition. Attrition decreased in the second quarter of 2016 by 2,000 units or 20%, compared to the same period in 2015. Attrition has improved year-over-year since 2009. The chart below illustrates Attrition trends since 2012.



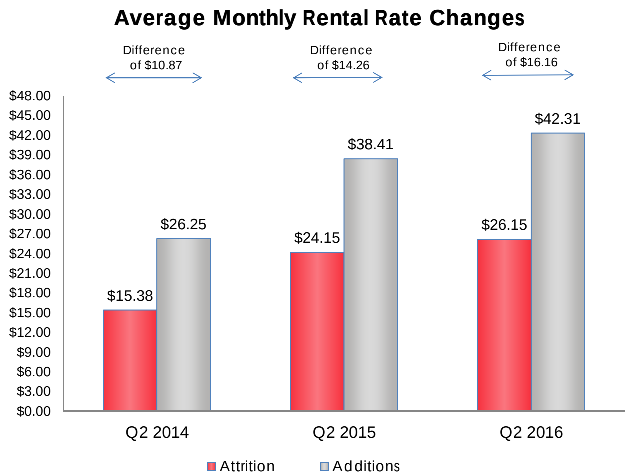
Rental unit growth has surpassed Attrition during the third and fourth quarters of 2015 and the first and second quarter of 2016 by approximately 5,000 units; the first four consecutive quarters of net unit growth in over a decade.

In recent years changes in water heater technology and consumer trends have led to an increase in the origination of higher value products. As discussed above, one of Enercare's growth platforms has been to focus on single family and multi-residential HVAC rental units. Although the results have a small impact 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 eight years ago to that of today reveals that the portfolio contains a higher percentage of power vent ("PV"), HVAC and tankless units, all 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 that the difference in rental rates applicable to new and lost customers has increased steadily over the past three years, with the second quarter of 2016 revenue spread widening to $16.16, an increase of $1.90 over the same period in 2015. New customers are worth approximately 1.7 times that of a lost customer.



Subsequent to the DE Acquisition, Enercare Home Services offers the following additional products and services:

Protection Plans

Enercare Home Services sells a variety of plans covering such items as furnaces, air conditioning, plumbing and appliances. There are essentially two types of protection plans: maintenance protection plans and full service protection plans. Maintenance protection plans essentially only provide for maintenance services, whereas full service protection plans provide a broader suite of protections, such as parts and labour. The plans are typically one year in length with monthly, quarterly or annual payment options. Due to the annual nature of the contract, the protection plans tend to have a higher churn rate.

As announced in the first quarter of 2015, Enercare Home Services launched an extended protection plan program on heating and air conditioning sales. Prior to the launch of this program, these types of plans were outsourced to a third party extended warranty provider. These plans not only allow Enercare Home Services to retain the customer relationship, but also provide for on-going maintenance, whereas the outsourced arrangement covered only limited parts and labour. These plans augment the customer value proposition when a customer chooses to purchase rather than rent. Since inception, approximately 78% of residential HVAC unit sales included an extended protection plan.

While Enercare Home Services' protection plan base remained stable during the second quarter of 2016, protection plan additions increased by approximately 4,000 plans compared to the same period in 2015. The introduction of initiatives focusing on new customer acquisition and programs targeting customers who have moved from their homes have contributed to the higher protection plan additions.

During the second quarter of 2016, approximately 2,000 protection plans, 4,000 year to date, were converted to rentals as part of the Enercare Home Services growth strategy resulting in higher protection plan attrition. HVAC unit additions continued, in the second quarter of 2016, to be more through rentals than sales and as a result the opportunities for protection plan sales were fewer as rentals already include a service component. The execution of our rental strategy is critical to the long term growth of the business, as we continue to grow our recurring revenue base, including service offerings that allow us to provide a valuable experience for customers while positioning ourselves for future cross selling opportunities.

The following table illustrates the protection plan contract continuity for the three months ended June 30, 2016 and 2015.

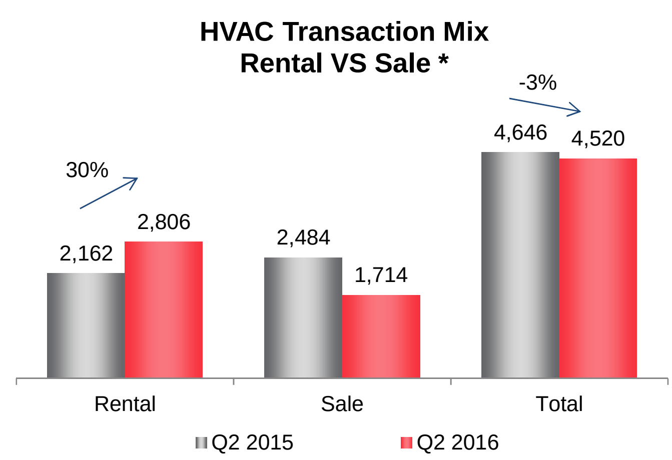
	Three months ended June 30,	
Protection Plan Unit Continuity (000's)	**2016**	2015
Contracts - start of period	**543**	555
Portfolio additions	**18**	14
Protection plan attrition	**(18)**	(17)
Contracts - end of period	**543**	552
% change in units during the period	**- %**	(0.5%)

HVAC Sales and Rentals

A customer can acquire an HVAC asset through a sale, comprised of an outright purchase or financing through a third party. Typically, most HVAC sales occur during the heating and cooling seasons of the year.

As part of Enercare Home Services' strategy to grow its recurring revenue customer base, in 2013 Enercare Home Services re-launched its HVAC rental program. Converting a customer from an outright sale to a long-term rental product is capital intensive and creates a short-term reduction in the income statement, as instead of a one-time in year gain on margin, the rental HVAC creates a long-term customer revenue stream. However, the rental relationship provides greater cross-selling opportunities and is therefore more valuable than a one-time sale. Enercare Home Services estimates that a rental unit is worth approximately 2.5 times that of a sale on a discounted cash flow basis.

A second quarter comparison between 2016 and 2015 is outlined in the chart below.



* HVAC rental and sales units presented include residential, commercial and multi-residential rental additions and sales. HVAC rental additions and sales reported in Enercare's previous quarterly reports represented only residential units and excluded commercial and multi-residential.

During the second quarter, Enercare Home Services rented approximately 2,806 new units, an increase of 30% over the prior year, and sold approximately 1,714 units for a total of 4,520 HVAC units, compared to 4,646 units in the prior year, a decrease of 3%. The onset of warmer spring weather during the second quarter was delayed, compared to historical norms, as measured by heating degree days[1] which were 11% higher than the 26 year average and the highest experienced in the past 12 years. The cooler weather resulted in lower demand for air conditioning sales and rentals in the early part of the quarter. Towards the

[1] Heating/cooling degree days for a given day represent the number of Celsius degrees that the mean temperature is above or below a given base temperature, in this case 18°C. If the temperature is equal to 18°C, then the number will be zero. Values above or below the base of 18°C are used primarily to estimate the heating and cooling requirements of buildings. Temperatures below 18°C result in higher heating degree days (lower cooling degree days), while those above 18°C result in lower heating degree days (higher cooling degree days).

end of the quarter, weather shifted in a more favourable direction leading to higher cooling degree days, which was 46% higher than the 26 year average and the highest since 2012. This resulted in a significant increase in the demand for air conditioning sales and rentals.

The strategy to convert HVAC sales into Rentals has resulted in increases to our recurring revenue. During the second quarter of 2016, HVAC rental revenue accounted for an increase of approximately $2,000, or $4,300 year to date, compared to the same periods in 2015. Nevertheless, Enercare continues to be financially impacted by this strategy in the short-term. Enercare estimates that the increase in the number of rental HVAC originations from 2,162 in the second quarter of 2015 to 2,806 in the second quarter of 2016 resulted in reductions of $1,900 and $800 to revenues and EBITDA, respectively, compared to the same period in 2015. Furthermore, had all 2,806 new HVAC rental additions during the second quarter of 2016 been sales as opposed to rentals, revenues and EBITDA during the quarter would have increased by approximately $8,100 and $3,500, respectively. These estimates take into account the impact of lost one-time sales revenues from corporate sales and royalty revenues earned on franchisee sales, both net of rental revenues earned during the quarter, and capitalized costs which would have otherwise been included in cost of goods sold had these new HVAC rental additions been sales as opposed to rentals.

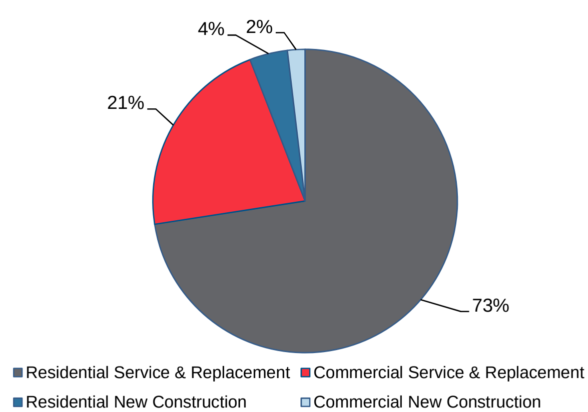
Other

The Other category includes ancillary services such as duct cleaning, plumbing work and other non-contracted chargeable services provided by Enercare Home Services.

Service Experts Business

Enercare expanded into the U.S. marketplace through its acquisition of Service Experts in May 2016. Service Experts is a leading provider of HVAC equipment and servicing to residential and light commercial customers and operates in 29 states in the United States and three provinces in Canada with a total of 90 branch locations. Service Experts has an average local brand age of more than 50 years and conducts over 645,000 customer appointments per year.

Service Experts Revenue Mix
May 11 - June 30, 2016



There are three main business activities within Service Experts: HVAC Sales and Servicing, Maintenance Contracts and Other.

HVAC Sales and Servicing

HVAC sales and servicing includes service and replacement, which consists of demand, tune-up and HVAC unit replacements and upgrades, commercial HVAC service and replacement, and HVAC installations in commercial and residential new construction.

HVAC repair and replacement activities comprise a majority of the Service Experts business and are considered essential services to both residential and commercial customers. This revenue stream has minimal exposure to new construction and in recent years has been positively affected by the housing stock growth and significant pent-up demand from residential recession-era replacement deferrals in the United States. Additionally, Service Experts has focused on various growth initiatives, including expanding outbound calling and online marketing to increase the number of customer contacts which convert to booked calls and ultimately result in a larger recurring customer base.

Service Experts installed approximately 11,624 HVAC units for the post-acquisition period from May 11 to June 30, 2016. Although unfavorably cooler weather conditions across the United States in May impacted HVAC sales during the early part of the month, the significantly warmer temperatures in late May and June led to higher air conditioning sales and demand service for repairs in the month resulting in strong overall sales during the post-acquisition period. May temperatures across the United States were the thirteenth coldest May in the past 25 years, while June temperatures were the second warmest June in 25 years[2]. Service Experts sales in Eastern Canada were also positively impacted by the same weather trends experienced by the Enercare Home Services segment while strong HVAC sales in Western Canada during the month of June were also partly the result of warmer weather conditions in this region, which saw the warmest temperatures in 25 years.

Maintenance Contracts

Maintenance contracts generally consist of annual or semi-annual maintenance contracts predominantly to a recurring customer base. These maintenance plans not only generate recurring revenue but also promote the development of customer loyalty and provide the opportunity for cross-marketing of Service Experts' other products and services to such customers.

Service Experts currently has two types of maintenance contracts in respect of HVAC equipment. The first is a maintenance only contract where semi-annual or annual maintenance visits are conducted to perform diagnostics over HVAC equipment while the second is a full service plan that includes repair services along with certain parts and labour. Approximately 200,000 customers have ongoing maintenance contracts covering approximately 218,000 pieces of equipment. The following table illustrates the maintenance contracts continuity for the period of May 11, 2016 to June 30, 2016.

Maintenance Contract Unit Continuity (000's)	For the period May 11 to June 30, 2016
Contracts - start of period	**218**
Portfolio additions	**12**
Portfolio attrition	**(12)**
Contracts - end of period	**218**
% change in units during the period	**-%**

Other

The Other category includes ancillary residential services such as indoor air quality, plumbing, duct cleaning and energy audits.

[2] Weather trends from Weather Trends International.

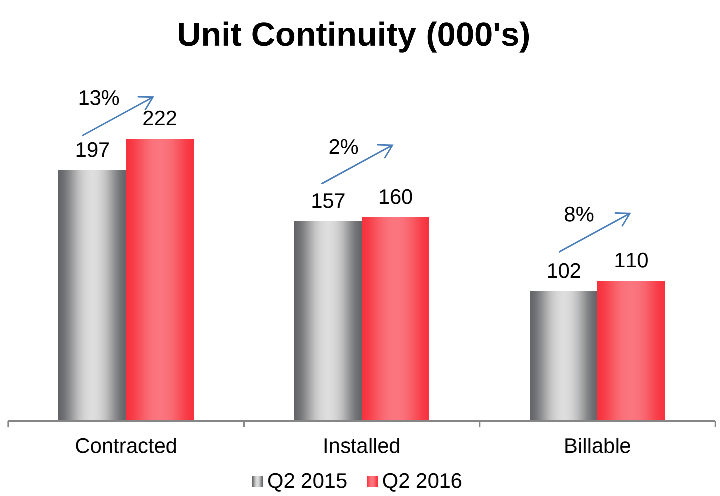
Sub-metering Business

Enercare entered the multi-residential Sub-metering business through two acquisitions made in the last seven 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 typically at 100% penetration from that point onwards.

Through acquisition 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 222,000 contracted units. Of those contracted units, 160,000 have meters installed and 110,000 units are billing. We expect to experience continued revenue growth as these contracted units are turned into installed units and subsequently Billable units.

Over the past two years, Enercare has implemented a number of LEAN and continuous improvement initiatives improving work flow, efficiencies and expanding capacity within Sub-metering. Automation of standard work as well as LEAN tools and practices are now part of the regular operating rigor within Sub-metering. These improvements have contributed to the success experienced in growing contracted units over past three quarters. Contracted units increased by approximately 9,000 units in the second quarter of 2016 and 17,000 units year to date. These results were consistent with the strong sales levels experienced in the second quarter of 2015 and reflected improvements of approximately 5,000 units or 42% year to date, compared to the same period in 2015.



On July 15, 2015, Enercare purchased Triacta, a leader in the design and manufacturing of advanced, utility-grade energy management meters for multi-unit residential, commercial and institutional applications. Triacta's installed base includes the U.S., Canada and off-shore markets.

SECOND QUARTER 2016 HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2016**	2015	**2016**	2015
Enercare Home Services	**$107,989**	$106,373	**$214,418**	$210,386
Service Experts	**102,209**	-	**102,209**	-
Sub-metering	**33,549**	28,516	**69,669**	66,238
Investment income	**355**	49	**455**	126
Total revenue	**$244,102**	$134,938	**$386,751**	$276,750
EBITDA[3]	**68,660**	57,882	**120,557**	109,607
Adjusted EBITDA[3]	**69,551**	59,454	**123,379**	112,931
Acquisition Adjusted EBITDA[3]	**74,679**	61,415	**132,800**	115,504
Earnings before income taxes	**23,677**	19,817	**34,914**	33,582
Current tax (expense)	**(15,259)**	(2,290)	**(27,515)**	(5,244)
Deferred income tax recovery/(expense)	**7,633**	(1,323)	**16,847**	(4,232)
Net earnings	**$ 16,051**	$ 16,204	**$ 24,246**	$ 24,106
Payout Ratio – Maintenance[4]	**52%**	44%	**56%**	46%
Payout Ratio[4]	**85%**	60%	**104%**	64%
Normalized Payout Ratio – Maintenance[5]	**47%**	49%	**49%**	52%
Normalized Payout Ratio[5]	**72%**	71%	**83%**	77%

The following highlights compare results for the second quarter of 2016 with the second quarter of 2015.

- Total revenues of $244,102 increased by $109,164 or 81% in the second quarter of 2016, primarily as a result of $102,209 of revenues added through the partial quarter impact of the SE Transaction. Revenues in the Enercare Home Services business were $107,989, greater than the prior year by $1,616, primarily as a result of rental rate increases, asset mix changes and growth in rental HVAC units. Service Experts revenues of $102,209 since the May 11, 2016 acquisition date were stronger than anticipated, assisted by warm June temperatures across the United States, which resulted in higher air conditioning sales. Sub-metering revenues increased to $33,549 from $28,516, primarily as a result of higher flow through commodity charges and increases in Billable units.
- EBITDA increased by $10,778 to $68,660 in the second quarter of 2016, driven primarily by improved total revenues partly offset by higher SG&A costs, primarily from $3,859 of acquisition and integration costs incurred during the quarter associated with the SE Transaction. Service Experts contributed $12,998 of the increase in EBITDA during the quarter, after adding back the $2,834 of acquisition costs that were incurred by Enercare Home Services. Adjusted EBITDA of $69,551 increased by $10,097 after removing from EBITDA the impact of the net loss on disposal of equipment.
- After removing $3,859 of acquisition and integration related expenditures associated with the SE Transaction and $1,269 of integration and business transformation costs related to the DE Acquisition, Acquisition Adjusted EBITDA was $74,679 in the second quarter of 2016, an increase of $13,264 compared to the same period in 2015.
- During the second quarter of 2016, HVAC customer installations continued to be more through rentals than sales as a result of the success of our HVAC rental program. Emphasizing HVAC rentals over one-time sales resulted in lower Enercare Home Services revenues and EBITDA of approximately $1,900 and $800, respectively, in the second quarter of 2016 compared to the same period in 2015.
- EBITDA for the Sub-metering business decreased by $355 or 10% in the second quarter of 2016, driven primarily by a one-time settlement of $580 from a supplier of sub-metering equipment during the second quarter of 2015.

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[3] EBITDA, Adjusted EBITDA and Acquisition Adjusted EBITDA are Non-IFRS financial measures. Refer to the Non-IFRS Financial and Performance Measures section in this MD&A.
[4] Payout Ratio – Maintenance and Payout Ratio are Non-IFRS financial measures. Refer to the Non-IFRS Financial and Performance Measures section in this MD&A.
[5] Normalized Payout Ratio – Maintenance and Normalized Payout Ratio are Non-IFRS financial measures which have been calculated by normalizing the distributable cash in both the Payout Ratio – Maintenance and Payout Ratio for the impact of the one year tax deferral in 2015, arising from the DE Acquisition, of approximately $4,750 during the first quarter and $9,500 year to date. On a full year basis, total tax expense was approximately $19,001 lower, during 2015, as a result of this one year deferral which will reverse in 2016.

- Net earnings of $16,051 in the second quarter of 2016 decreased by $153 or 1% compared to the same period in 2015, reflecting higher EBITDA offset by higher total taxes, amortization and interest from SE Subscription Receipts and the 2016 Term Loan.
- Attrition in the Rentals portfolio decreased by 20% or 2,000 units in the second quarter of 2016 and has improved year-over-year since 2009. Rental unit growth surpassed Attrition during the third and fourth quarters of 2015 and the first and second quarters of 2016 by approximately 5,000, the first four consecutive quarters of net unit growth in over a decade.
- The Payout Ratio – Maintenance, which includes only capital expenditures in respect of vehicles and exchanged rental and metering equipment, was 52% in the second quarter of 2016 compared to 44% during the same period in 2015, primarily from lower Operating Cash Flow[6]. When normalized for the impact of the one year tax deferral, the Normalized Payout Ratio - Maintenance improved to 47% for the second quarter of 2016, compared to 49% for the same period in 2015.
- The Payout Ratio was 85% in the second quarter of 2016, versus 60% for the same period in 2015 (see additional commentary under "*Distributable Cash and Payout Ratios*"). When normalized for the impact of the one year tax deferral, the Normalized Payout Ratio was 72% for the second quarter of 2016, compared to 71% for the same period in 2015.

RECENT DEVELOPMENTS

Enercare Connections and Starlight Investments Agree to Sub-metering Services for 6,264 Rental Units

On April 19, 2016, ECI announced an agreement with Starlight Investments Ltd. ("Starlight") for the renewal of electricity sub-metering services for 5,876 units across 79 rental properties and an additional 388 new units across five properties in Ontario. Starlight properties are equipped with meters from Triacta.

Enercare will continue to manage all metering, billing and customer service matters directly with residents.

Enercare Annual General Meeting of Shareholders

At Enercare's Annual General Meeting of shareholders held on April 28, 2016, shareholders re-elected all of management's director nominees and reappointed PricewaterhouseCoopers LLP as Enercare's external auditor for the ensuing year.

Enercare Completes Acquisition of Service Experts

On May 11, 2016, Enercare and Enercare Solutions announced that Enercare Solutions completed the SE Transaction for consideration of US$340,750 (the "Consideration"), excluding transaction costs and subject to final working capital and other adjustments. For more information regarding Service Experts, see the AIF.

The SE Transaction is expected to be 25% accretive to Normalized pro forma Distributable Cash per Share[7] in 2016. For the year ended 2015, if Service Experts and Enercare had been combined, the following would be the pro forma impact on certain of Enercare's metrics:

- pro forma revenue of approximately $1,118,854, an increase of 98%;
- pro forma Acquisition Adjusted EBITDA[7] of approximately $271,840, an increase of 16%;
- Normalized pro forma Distributable Cash[7] of approximately $124,289, an increase of 37%;
- Normalized pro forma Distributable Cash per Share[7] of approximately $1.18, an increase of 18%; and
- Normalized pro forma Payout Ratio[7] improves to 70% from 82%.

Debt Financing

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[6] Operating Cash Flow is a Non-IFRS financial measure. Refer to the Non-IFRS Financial and Performance Measures section in this MD&A.
[7] Excludes transaction costs and potential synergies in the SE Transaction. See "Non-IFRS Financial and Performance Measures" in this MD&A.

In order to finance a portion of the Consideration, Enercare Solutions entered into the 2016 Term Loan. The 2016 Term Loan comprises two 4-year non-revolving, non-amortizing variable rate term credit facilities in the aggregate amount of US$200,000 with a maturity date of May 11, 2020. The full amount of the 2016 Term Loan was drawn for the purpose of financing the SE Transaction. The 2016 Term Loan contains representations, warranties, covenants and events of default that are customary for credit facilities of this kind and on substantially the same terms as the 2014 Term Loan (see "Liquidity and Capital Resources – Debt Financing" in this MD&A), as the 2014 Term Loan was modified in conjunction with the SE Transaction as described below. Enercare Solutions' obligations under the 2016 Term Loan are guaranteed by all of Enercare Solutions' direct and indirect subsidiaries, including Service Experts and its subsidiaries.

The 2016 Term Loan is payable interest only until maturity and is pre-payable in whole or in part at any time without penalty. The 2016 Term Loan bears interest at a rate of LIBOR plus 125 basis points or base rate plus 25 basis points at Enercare Solutions' credit rating as of the date hereof.

In conjunction with the SE Transaction, Enercare Solutions entered into an amendment to the 2014 Debt Financing to give effect to the SE Transaction and 2016 Term Loan which included, among other things (i) modifying the definition of Adjusted EBITDA to exclude SE Transaction and integration costs up to $10,300 in the aggregate, (ii) adding Service Experts and its subsidiaries as guarantors, (iii) increasing certain of the "basket" sizes permitted under certain covenants and events of default (to take into account the increase of assets under management due to the SE Transaction) and (iv) the enhancement of certain financial covenants as described below.

The amendment to the 2014 Debt Financing included enhancements to certain of the financial covenants described under "Liquidity and Capital Resources – Debt Financing" in this MD&A as follows: (i) the ratio of total debt (other than subordinated debt) to Adjusted EBITDA must now only be equal to or less than 4.75:1 and (ii) the ratio of Adjusted EBITDA to Cash Interest Expense must now only be equal to or greater than 3.00:1.

Equity Financing

On March 30, 2016, Enercare announced that it had completed its previously announced offering of SE Subscription Receipts (the "Offering"). The Offering, which raised gross proceeds of approximately $239,800, was underwritten on a bought deal basis by a syndicate of underwriters co-led by National Bank Financial Inc. and TD Securities Inc. and included RBC Dominion Securities Inc., Scotia Capital Inc., Desjardins Securities Inc. and Goldman Sachs Canada Inc. A total of 15,725,600 SE Subscription Receipts (which included 1,429,600 SE Subscription Receipts sold as a result of the exercise in full of the over-allotment option by the underwriters) were sold at a price of $15.25 per SE Subscription Receipt (the "Offering Price").

The majority of the net proceeds from the Offering were used by Enercare to finance the remaining portion of the Consideration. In accordance with the terms of the agreement pursuant to which the SE Subscription Receipts were issued, each outstanding SE Subscription Receipt was exchanged for one Share, resulting in the issuance of 15,834,600 Shares (including 109,000 Shares issued to certain U.S. persons, including the Chief Executive Officer and certain other officers of Service Experts in exchange for the SE Subscription Receipts issued to them in a concurrent private placement) and a cash payment equal to $0.14 per SE Subscription Receipt. The cash payment was equal to the aggregate amount of dividends per Share for which record dates occurred since the issuance of the SE Subscription Receipts, less any withholding taxes, if any, to the date of closing of the SE Transaction. The Shares issued in exchange for the SE Subscription Receipts issued in the concurrent private placement are subject to a contractual hold period of six months from closing of the Offering.

Cautionary Note Regarding Forward-Looking Statements

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. Please see the section entitled "Forward-looking Information" in this MD&A.

Dividend Increase

On May 12, 2016, Enercare increased its monthly dividend to shareholders of record on May 31, 2016 to $0.077, an increase of 10%.

Termination of its Nomination Agreement with DE

On May 27, 2016, Enercare announced that it received notice from DE that DE had sold the remainder of the Shares originally issued to DE as partial consideration for the purchase by Enercare of the OHCS business. Enercare previously purchased for cancellation 3,846,154 Shares from DE by way of a block trade in November 2015 under its NCIB.

As a result of the sale, the nomination agreement between Enercare and DE entered into in connection with the DE Acquisition terminated. The nomination agreement provided that as long as DE controlled not less than 3,846,154 Shares, DE was entitled to nominate one individual for consideration by Enercare's governance committee and board. Scott Boose, who was nominated to the Enercare board by DE pursuant to the nomination agreement, resigned from the board of directors effective May 26, 2016.

Appointment of John Piercy as General Manager and Senior Vice President, Sub-metering

On June 1, 2016, Enercare appointed John Piercy as General Manager and Senior Vice President, Sub-metering.

Enercare Connections and Park Property Management Agree to Renew Sub-Metering Services for Over 6,900 Rental Units

On July 5, 2016, ECI announced an agreement with Park Property Management Inc. ("Park Property") for the renewal of electricity sub-metering services for over 6,900 units across 53 rental properties across Ontario. Park Property's buildings are equipped with meters from Triacta.

Enercare Connections Receives Accreditation by the Better Business Bureau

On July 12, 2016, ECI announced it had been accredited by the Better Business Bureau (BBB) serving Central Ontario and holds a BBB rating of A+.

Enercare Announces Renewal of its Normal Course Issuer Bid

On July 15, 2016, Enercare announced that it had received approval from the TSX for the renewal of its NCIB, pursuant to which Enercare may purchase for cancellation up to 10,286,906 of its Shares, representing approximately 10% of its public float of issued and outstanding Shares as of July 4, 2016. As of July 4, 2016, there were 103,836,505 Shares outstanding. The average daily trading volume from January 1, 2016 to June 30, 2016 was 320,937 Shares. Daily purchases will be limited to 80,234 Shares, other than block purchase exceptions. The purchases may commence on July 20, 2016, and will terminate on July 19, 2017, or on such earlier date as Enercare may complete its purchases under its NCIB. The purchases made by Enercare will be implemented through the facilities of the TSX, through alternative Canadian trading systems or by other means as may be permitted by the TSX or a securities regulatory authority, such as prearranged crosses, exempt offers and private agreements under an issuer bid exemption order issued by a securities regulatory authority. Purchases made on the open market through the facilities of the TSX and alternative trading systems will be at the prevailing market price at the time of acquisition. Purchases made by way of private agreement under an issuer bid exemption order may be at a discount to the prevailing market price as provided in the exemption order.

The actual amount of Shares that may be purchased under the NCIB is subject to, and cannot exceed, limits referred to above and the timing of such purchases will be determined by Enercare. All Shares purchased under the NCIB will be cancelled. Under the NCIB that expired on July 19, 2016, Enercare purchased a total of 4,400,154 Shares at a weighted average price of $15.36 per Share.

Enercare believes that, from time to time, the market price of its Shares does not fully reflect the value of its business and its future business prospects. As a result, Enercare believes that the purchase of its outstanding Shares represents an appropriate and desirable use of its available funds. In addition, purchases, including purchases under the NCIB, may increase the liquidity of the Shares.

RESULTS OF OPERATIONS

Earnings Statement

Three months ended June 30, (000's)	**Enercare Home Services**	**Service Experts**	**Sub-metering**	**Corporate**	**2016 Total**
Revenues:					
Contracted revenue	**$101,719**	**$ 1,745**	**$32,387**	**$ -**	**$135,851**
Sales and other services	**6,270**	**100,464**	**1,162**	**-**	**107,896**
Investment income	**83**	**77**	**3**	**192**	**355**
Total revenue	**$108,072**	**$102,286**	**$33,552**	**$ 192**	**$244,102**
Expenses:					
Cost of goods sold:					
Commodity	**-**	**-**	**(24,811)**	**-**	**(24,811)**
Maintenance & servicing costs	**(16,405)**	**(1,402)**	**-**	**-**	**(17,807)**
Sales and other services	**(5,312)**	**(59,263)**	**(579)**	**-**	**(65,154)**
Total cost of goods sold	**(21,717)**	**(60,665)**	**(25,390)**	**-**	**(107,772)**
SG&A expenses	**(23,516)**	**(31,420)**	**(4,966)**	**(6,959)**	**(66,861)**
Foreign Exchange	**(2)**	**5**	**27**	**52**	**82**
Amortization expense	**(30,145)**	**(3,336)**	**(1,653)**	**(662)**	**(35,796)**
Net (loss)/gain on disposal	**(884)**	**(47)**	**40**	**-**	**(891)**
Interest expense:					
Interest expense payable in cash					**(8,731)**
Non-cash interest expense					**(456)**
Total interest expense					**(9,187)**
Total expenses					**(220,425)**
Earnings before income taxes					**23,677**
Current tax (expense)					**(15,259)**
Deferred tax recovery					**7,633**
Net earnings					**$ 16,051**
EBITDA	**$ 61,953**	**$ 10,159**	**$ 3,263**	**$(6,715)**	**$ 68,660**
Adjusted EBITDA	**$ 62,837**	**$ 10,206**	**$ 3,223**	**$(6,715)**	**$ 69,551**
Acquisition Adjusted EBITDA	**$ 60,698**	**$ 16,899**	**$ 3,223**	**$(6,141)**	**$ 74,679**

Three months ended June 30, (000's)	**Enercare Home Services**	**Service Experts**	**Sub-metering**	**Corporate**	**2015 Total**
Revenues:					
Contracted revenue	**$ 97,325**	**$ -**	**$ 28,275**	**$ -**	**$125,600**
Sales and other services	**9,048**	**-**	**241**	**-**	**9,289**
Investment income	**44**	**-**	**5**	**-**	**49**
Total revenue	**$106,417**	**$ -**	**$ 28,521**	**$ -**	**$134,938**
Expenses:					
Cost of goods sold:					
Commodity	**-**	**-**	**(21,435)**	**-**	**(21,435)**
Maintenance & servicing costs	**(14,360)**	**-**	**-**	**-**	**(14,360)**
Sales and other services	**(6,073)**	**-**	**(183)**	**-**	**(6,256)**
Total cost of goods sold	**(20,433)**	**-**	**(21,618)**	**-**	**(42,051)**
SG&A expenses	**(25,967)**	**-**	**(3,878)**	**(4,179)**	**(34,024)**
Foreign Exchange	**-**	**-**	**13**	**(2)**	**11**
Amortization expense	**(29,256)**	**-**	**(1,393)**	**(395)**	**(31,044)**
Net (loss) on disposal	**(1,572)**	**-**	**-**	**-**	**(1,572)**
Interest expense:					
Interest expense payable in cash					**(6,530)**
Non-cash interest expense					**(491)**
Total interest expense					**(7,021)**
Total expenses					**(115,701)**
Other income			**580**		**580**
Earnings before income taxes					**19,817**
Current tax (expense)					**(2,290)**
Deferred tax (expense)					**(1,323)**
Net earnings					**$ 16,204**
EBITDA	**$ 58,445**	**$ -**	**$ 3,618**	**$(4,181)**	**$ 57,882**
Adjusted EBITDA	**$ 60,017**	**$ -**	**$ 3,618**	**$(4,181)**	**$ 59,454**
Acquisition Adjusted EBITDA	**$ 61,794**	**$ -**	**$ 3,802**	**$(4,181)**	**$ 61,415**

Six months ended June 30, (000's)	**Enercare Home Services**	**Service Experts**	**Sub-metering**	**Corporate**	**2016 Total**
Revenues:					
Contracted revenue	**$202,050**	**$ 1,745**	**$67,604**	**$ -**	**$271,399**
Sales and other services	**12,368**	**100,464**	**2,065**		**114,897**
Investment income	**161**	**77**	**25**	**192**	**455**
Total revenue	**$214,579**	**$102,286**	**$69,694**	**$ 192**	**$386,751**
Expenses:					
Cost of goods sold:					
Commodity	**-**	**-**	**(52,558)**	**-**	**(52,558)**
Maintenance & servicing costs	**(32,673)**	**(1,402)**	**-**	**-**	**(34,075)**
Sales and other services	**(10,593)**	**(59,263)**	**(943)**	**-**	**(70,799)**
Total cost of goods sold	**(43,266)**	**(60,665)**	**(53,501)**	**-**	**(157,432)**
SG&A expenses	**(49,408)**	**(31,420)**	**(9,656)**	**(15,515)**	**(105,999)**
Foreign exchange	**(22)**	**5**	**12**	**64**	**59**
Amortization expense	**(60,181)**	**(3,336)**	**(3,275)**	**(1,311)**	**(68,103)**
Net loss on disposal	**(2,809)**	**(47)**	**34**	**-**	**(2,822)**
Interest expense:					
Interest expense payable in cash					**(16,657)**
Non-cash interest expense					**(883)**
Total interest expense					**(17,540)**
Total expenses					**(351,837)**
Earnings before income taxes					**34,914**
Current tax (expense)					**(27,515)**
Deferred tax recovery					**16,847**
Net earnings					**$ 24,246**
EBITDA	**$119,074**	**$ 10,159**	**$ 6,583**	**$(15,259)**	**$120,557**
Adjusted EBITDA	**$121,883**	**$ 10,206**	**$ 6,549**	**$(15,259)**	**$123,379**
Acquisition Adjusted EBITDA	**$124,037**	**$ 16,899**	**$ 6,549**	**$(14,685)**	**$132,800**

Six months ended June 30, (000's)	Enercare Home Services	Service Experts	Sub-metering	Corporate	2015 Total
Revenues:					
Contracted revenue	**$190,978**	**$ -**	**$ 65,931**	**$ -**	**$256,909**
Sales and other services	**19,408**	**-**	**307**	**-**	**19,715**
Investment income	**116**	**-**	**10**	**-**	**126**
Total revenue	**$210,502**	**$ -**	**$ 66,248**	**$ -**	**$276,750**
Expenses:					
Cost of goods sold:					
Commodity	**-**	**-**	**(52,408)**	**-**	**(52,408)**
Maintenance & servicing costs	**(28,748)**	**-**	**-**	**-**	**(28,748)**
Sales and other services	**(13,401)**	**-**	**(242)**	**-**	**(13,643)**
Total cost of goods sold	**(42,149)**	**-**	**(52,650)**	**-**	**(94,799)**
SG&A expenses	**(52,476)**	**-**	**(7,589)**	**(9,486)**	**(69,551)**
Foreign exchange	**(72)**	**-**	**18**	**5**	**(49)**
Amortization expense	**(58,370)**	**-**	**(2,732)**	**(791)**	**(61,893)**
Net loss on disposal	**(3,324)**	**-**	**-**	**-**	**(3,324)**
Interest expense:					
Interest expense payable in cash					**(13,150)**
Non-cash interest expense					**(982)**
Total interest expense					**(14,132)**
Total expenses					**(243,748)**
Other income			**580**		**580**
Earnings before income taxes					**33,582**
Current tax (expense)					**(5,244)**
Deferred tax (expense)					**(4,232)**
Net earnings					**$ 24,106**
EBITDA	**$112,481**	**$ -**	**$ 6,607**	**$ (9,481)**	**$109,607**
Adjusted EBITDA	**$115,805**	**$ -**	**$ 6,607**	**$ (9,481)**	**$112,931**
Acquisition Adjusted EBITDA	**$118,194**	**$ -**	**$ 6,791**	**$ (9,481)**	**$115,504**

Revenues

Total revenues of $244,102 for the second quarter of 2016 increased by $109,164 or 81% and by $110,001 or 40% to $386,751 year to date compared to the same periods in 2015 primarily as a result of the SE Transaction.

Enercare Home Services revenues, excluding investment income, increased during the quarter by $1,616 to $107,989 and by $4,032 to $214,418 year to date, compared to the same periods in 2015, primarily as a result of a rental rate increase implemented in January 2016, changes in asset mix and growth in rental HVAC units. Contracted revenue in Enercare Home Services represents revenue generated by the Rentals portfolio and protection plan contracts, while sales and other services revenue mainly pertains to one-time sales and installations of residential furnaces, boilers and air conditioners as well as plumbing, duct cleaning and other services. The onset of warmer spring weather during the second quarter was delayed, compared to historical norms, as measured by heating degree days, which were 11% higher than the 26 year average and the highest experienced in the past 12 years. The cooler weather resulted in lower demand for air conditioning sales and rentals in the early part of the quarter. Consequently, Enercare had fewer HVAC sales opportunities, but nonetheless increased rentals over the comparable period in 2015.

Our strategy to emphasize HVAC rentals over outright sales resulted in significant increases in recurring revenue at the expense of sales and other services revenue.

Service Experts revenues, excluding investment income, of $102,209 since the May 11, 2016 acquisition date were stronger than anticipated driven primarily by warm June temperatures across the United States which resulted in higher HVAC sales from the strong demand for air conditioning sales. Although unfavorably cooler weather conditions across the United States in May impacted HVAC sales during the month, the significantly warmer temperatures in June led to higher HVAC sales in the month resulting in strong overall sales during the post-acquisition period from the high demand for air conditioning sales. May temperatures across the United States were the thirteenth coldest May in the past 25 years while June temperatures were the second warmest June in 25 years. Service Experts sales in Eastern Canada were also positively impacted by the same weather trends experienced by the Enercare Home Services segment while strong HVAC sales in Western Canada during the month of June were also partly the result of warmer weather conditions in this region which saw the warmest temperatures in 25 years. Service Experts revenues during the second quarter of 2016 were lower by $7,836 as a result of the reduction of deferred revenues resulting from the SE Transaction.

Sub-metering revenues, excluding investment income, in the second quarter of 2016, were $33,549, an increase of $5,033 or 18% with year to date revenues increasing $3,431 or 5% over the same periods in 2015 primarily as a result of higher billable units and revenues generated from the acquisition of Triacta. Sub-metering revenue includes total pass through energy charges of $24,811 in the second quarter, and $52,558 year to date in 2016, increases of $3,376 or 16% and $150 or flat, over the same periods in 2015. The acquisition of Triacta in the third quarter of 2015 resulted in $1,079 additional revenues in the quarter to date June 30, 2016 and $1,966 of additional revenues in the year to date June 30, 2016.

Investment income was $355 in the second quarter of 2016 and $455 year to date, an increase of $306 and $329, respectively, when compared to the same periods in 2015. The change in investment income was primarily attributable to non-recurring interest earned from the SE Subscription Receipts proceeds received in connection with the SE Transaction combined with interest income from the registered pension plan, which was in an asset balance instead of a net obligation during a portion of the second quarter of 2016.

Cost of Goods Sold

Total cost of goods sold for the second quarter of 2016 was $107,772 and $157,432 year to date, an increase of $65,721 or 156%, and $62,633 or 66%, respectively, compared to the same periods in 2015 primarily as a result of the SE Transaction.

Enercare Home Services cost of goods sold increased by $1,284 in the second quarter of 2016, and $1,117 year to date, compared to the same periods in 2015, primarily from approximately $1,300 of non-recurring supplier reimbursements and other items recorded in the second quarter of 2015. Maintenance and servicing costs in Enercare Home Services primarily consist of protection plan expenses and servicing costs related to the rental portfolio, while sales and other services expenses mainly pertain to one-time sales and installations of residential furnaces, boilers, air conditioners and small commercial products as well as plumbing, duct cleaning and other cleaning services.

Service Experts cost of goods sold amounted to $60,665 since the May 11, 2016 acquisition date. Service Experts cost of goods sold during the second quarter of 2016 were lowered by $6,313 as a result of the release of deferred service obligation provisions resulting from the SE Transaction.

Sub-metering cost of goods sold of $25,390 in the second quarter and $53,501 year to date in 2016, increased by $3,772 or 17% and $851 or 2%, as a result of an increase in pass through energy charges over the same periods in 2015. Sales and other services expenses for Sub-metering relate to the sale and installation of water conservation products in apartments and condominiums.

Selling, General & Administrative Expenses

Total SG&A expenses were $66,861 in the second quarter of 2016 and $105,999 year to date, increases of $32,837 and $36,448, respectively, compared to the same period in 2015.

Enercare Home Services expenses of $23,516 in the second quarter and $49,408 year to date, decreased by $2,451 and $3,067 respectively, compared to the same periods in 2015. The $2,451 decrease in the second quarter was primarily from lower professional fees of $3,100 and selling expenses of $1,300, partly offset by $1,700 of higher billing and servicing costs. During the second quarter of 2015, there were approximately $500 of one-time items resulting in improvements to SG&A expenses which did not recur in the second quarter of 2016. The $3,067 year to date decrease was primarily as a result of approximately $1,400 in lower selling expenses, $1,000 of billing and servicing costs, $800 of professional fees, $500 of office expenses and $300 of bad debts and claims expenses, partly offset by $1,000 of higher wages and benefits, partly driven by $300 of higher stock based compensation costs resulting from an increase in the Share price.

Enercare Home Services SG&A expenses in the second quarter of 2016 included $695 and $2,154 year to date of integration and business transformation costs related to the DE Acquisition primarily from marketing spend related to continued rebranding and information technology integration activities to optimize the information technology platforms. During the second quarter and year to date 2015, Enercare Home Services SG&A expenses included $1,777 and $2,389, respectively, of integration costs associated with the DE Acquisition, primarily from marketing spend related to rebranding activities.

Service Experts SG&A expenses in the second quarter of 2016 amounted to $31,420 since the May 11, 2016 acquisition date. Included in these costs were $6,693 of acquisition related expenditures associated with the SE Transaction, primarily related to professional fees and integration costs. These costs included $2,834 of pre-acquisition expenditures incurred by Enercare Home Services.

Sub-metering SG&A expenses in the second quarter of 2016 were $4,966, an increase of $1,088 over the same period in 2015, primarily from higher wages and benefits of $1,100. Year to date, Sub-metering SG&A expenses of $9,656 were $2,067 higher than the same period in 2015, primarily as a result of higher wages and benefits of $1,900 and selling expenses of $250, partly offset by $200 of lower bad debts. Sub-metering SG&A expenses in the second quarter of 2015 included $184 of costs associated with the acquisition of Triacta, primarily related to professional fees associated with entering into the purchase agreement.

Corporate expenses of $6,959 in the second quarter and $15,515 year to date, increased by $2,780 and $6,028, respectively, compared to the same periods in 2015. The $2,780 increase in the second quarter was primarily as a result of $1,900 in higher wages and benefits, driven by higher stock based compensation costs resulting from an increase in the Share price, and $1,000 of higher office expenses resulting from increased information technology costs. The $6,028 year to date increase was primarily as a result of $3,600 in higher wages and benefits, driven partly by $1,700 of higher stock based compensation costs resulting from an increase in the Share price, and $2,000 of higher office expenses resulting primarily from $1,700 of increased information technology costs.

Corporate SG&A expenses in the second quarter of 2016 included $574 of integration and business transformation costs related to the DE Acquisition, primarily from information technology integration activities to optimize the information technology platforms.

Amortization Expense

Amortization expense increased by $4,752 or 15% to $35,796 in the second quarter of 2016 and by $6,210 or 10% to $68,103 year to date, over the same periods in 2015, primarily due to an increasing capital asset base from asset mix changes in the Rentals portfolio, the addition of the Service Experts portfolio and increased Sub-metering capital investments, which are amortized over a shorter life than those of the Enercare Home Services business.

Loss on Disposal of Equipment

Enercare reported a net loss on disposal of equipment of $891 in the second quarter of 2016 and $2,822 year to date, a decrease of $681 or 43% and $502 or 15%, respectively, over the same periods in 2015. The net 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.

Interest Expense

(000's)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Interest expense payable in cash	**$7,613**	$6,530	**$14,242**	$13,150
Interest payable on subscription receipts	**1,109**	-	**2,217**	-
Equity bridge financing fees	**9**	-	**198**	-
Non-cash items:				
Notional interest on employee benefit plans, net	**210**	274	**420**	548
Amortization of financing costs	**246**	217	**463**	434
Interest expense	**$9,187**	$7,021	**$17,540**	$14,132

Interest expense payable in cash increased by $1,083 to $7,613 in the second quarter of 2016 and by $1,092 to $14,242 year to date, compared to the same periods in 2015. These increases are primarily related to the increase in the 2016 Term Loan related to the financing of the SE Transaction, partially offset by the conversion of Convertible Debentures to Shares.

Notional interest of $210 in the second quarter and $420 year to date in 2016 relate to the defined benefit employee benefits plans. Amortization of financing costs includes the previously unamortized costs associated with the 2012 Notes, 2013 Notes, Convertible Debentures, the 2014 Notes and 2016 Term Loan.

As part of the SE Transaction, SE Subscription Receipts were issued during the first quarter of 2016 and subsequently exchanged for Shares upon the closing of the SE Transaction on May 11, 2016. While the SE Subscription Receipts remained outstanding, they were classified as debt, resulting in an interest expense of $1,109 during the second quarter and $2,217 year to date, which were the equivalent to the dividend payments on such SE Subscription Receipts if they had been Shares. Equity bridge financing fees of $9 during the second quarter and $198 year to date were also incurred as part of the SE Transaction.

Other Income

During the second quarter of 2015, Enercare realized a one-time settlement of $580 from a supplier of sub-metering equipment.

Income Taxes

Enercare reported current tax expenses of $15,259 in the second quarter of 2016 and $27,515 year to date, increases of $12,969 and $22,271, respectively, over the same periods in 2015, primarily as a result of a one year tax deferral recognized in 2015, available through a subsidiary of Enercare Solutions. The deferred income tax recoveries of $7,633 in the second quarter of 2016 and $16,847 year to date, increases of $8,956 and $21,079, respectively, compared to the deferred tax expenses recorded in the same periods in 2015, were primarily as a result of temporary difference reversals in the Enercare Home Services and Sub-metering businesses.

Net Earnings

Net earnings were $16,051 in the second quarter of 2016 and $24,246 year to date, a decrease of $153 and an increase of $140, respectively, compared to the same periods in 2015, as previously described.

EBITDA, Adjusted EBITDA and Acquisition Adjusted EBITDA

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

(000's)	**Q2/16**	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Net earnings	**$16,051**	$8,195	$13,725	$13,124	$16,204	$ 7,902	$ 5,672	$ 2,133
Deferred tax (recovery)/ expense	**(7,633)**	(9,214)	1,069	2,376	1,323	2,909	(3,222)	(6,852)
Current tax expense	**15,259**	12,256	2,784	2,169	2,290	2,954	5,949	8,924
Amortization expense	**35,796**	32,307	31,917	31,606	31,044	30,849	30,319	25,186
Interest expense	**9,187**	8,353	6,988	6,955	7,021	7,111	7,129	9,827
EBITDA[(a)]	**68,660**	51,897	56,483	56,230	57,882	51,725	45,847	39,218
Add: Net loss/(gain) on disposal	**891**	1,931	(1,455)	1,001	1,572	1,752	2,180	2,304
Adjusted EBITDA[(b)]	**69,551**	53,828	55,028	57,231	59,454	53,477	48,027	41,522
Add: Acquisition SG&A	**5,128**	4,293	3,028	3,946	1,961	612	4,138	2,882
Acquisition Adjusted EBITDA	**$74,679**	$58,121	$58,056	$61,177	$61,415	$54,089	$52,165	$44,404

(a) Historical EBITDA has been conformed to the current presentation which includes investment income and other income.

(b) Historical Adjusted EBITDA has been conformed to the current presentation which includes investment income and other income and excludes net loss on disposal.

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, as well as the SE Transaction results commencing in the second quarter of 2016 and the DE Acquisition results commencing in the fourth quarter of 2014.
2. Increasing current taxes from higher taxable income. During 2015, current taxes reflect the impact of a one year tax deferral available through a subsidiary of Enercare Solutions which was not available for 2016 and accordingly, results in a higher current tax expense during 2016.
3. During the first and second quarter of 2016 additional interest expense was incurred as part of the SE Transaction, related to the 2016 Term Loan, bridge financing and the treatment of SE Subscription Receipts for accounting purposes. In the third quarter of 2014, additional interest expense was incurred as part of the DE Acquisition, related to the bridge financing. Commencing in the fourth quarter of 2014, interest expense reflects higher debt related to the 2014 Term Loan incurred to finance the DE Acquisition.
4. Amortization and net loss on disposal of equipment are primarily driven by unit continuity activity such as Attrition, exchanges and outstanding units. Increases in amortization of capital assets and intangibles relate primarily to increased additions and changes in mix to higher percentage of sub-metering assets which have a shorter useful life.
5. In the fourth quarter of 2015, net (gain)/loss on disposal reflects a $2,484 gain on disposal of sub-metering equipment resulting from a customer that exercised its buy-out option.

DISTRIBUTABLE CASH AND PAYOUT RATIOS

Enercare amended its payout ratio calculation in 2013. 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 (other than Sub-metering and acquisitions) the current customer base (exchanges) as well as the capital associated with acquiring new customers. With the significant improvement in Attrition over the last five years, combined with the success of transitioning Rentals customers into higher revenue generating rental products, Enercare has started to grow revenue beyond annual rate increases. As a result, Enercare changed 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.

In the second quarter of 2016, Enercare further changed its definition of Payout Ratio to include capital relating to vehicle additions. Historical figures have been restated to reflect the current definition.

Payout Ratio – (000's)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Cash provided by operating activities	**$ 3,357**	$ 56,047	**$43,076**	$53,327
Net change in non-cash working capital	**42,460**	(4,880)	**36,526**	42,233
Operating Cash Flow[8]	**45,817**	51,167	**79,602**	95,560
Capital expenditures: (excluding growth capital and acquisitions)				
Rentals additions	**(18,260)**	(13,412)	**(36,724)**	(24,949)
Rentals exchanges	**(9,267)**	(8,928)	**(18,227)**	(18,193)
Vehicle additions	**(498)**	(238)	**(1,191)**	(633)
Sub-metering maintenance capital	**(168)**	-	**(320)**	-
Subtotal	**(28,193)**	(22,578)	**(56,462)**	(43,775)
Total proceeds on disposal of equipment	**2,415**	1,986	**4,358**	3,634
Net capital expenditures	**(25,778)**	(20,592)	**(52,104)**	(40,141)
Other income	**-**	(580)	**-**	(580)
Acquisition, integration and business transformation related expenditures	**6,054**	1,961	**11,644**	2,573
Total reductions	**(19,724)**	(19,211)	**(40,460)**	(38,148)
Distributable Cash[8]	**26,093**	31,956	**39,142**	57,412
Dividends declared	**(22,135)**	(19,303)	**(40,595)**	(36,841)
Net cash retained	**$ 3,958**	$ 12,653	**$ (1,453)**	$20,571
Payout Ratio	**85%**	60%	**104%**	64%
Normalized Payout Ratio	**72%**	71%	**83%**	77%

The Payout Ratio, after capital expenditures (excluding growth capital for Sub-metering and acquisitions), increased to 85% for the second quarter of 2016 and 104% year to date, compared to 60% and 64% for the same periods in 2015, primarily as a result of lower operating cash flow, higher net capital expenditures and dividend payments as a result of the 10% dividend increase announced in the first quarter of 2016, and acquisition related costs related to the SE Transaction. Net capital expenditures increased related to rental additions, which resulted in increased revenues in our Enercare Home Services segment.

Acquisition and integration related expenditures associated with the SE Transaction during the second quarter and year to date were $4,785 and $8,916, respectively, primarily consisting of professional fees associated with the entering into of the Merger Agreement and post integration activities, and interest on SE Subscription Receipts.

Integration and business transformation costs related to the DE Acquisition were $1,269 and $2,728 during the second quarter and year to date, respectively. These costs were primarily driven by marketing spend related to rebranding and information technology integration activities. DE integration related expenditures of $1,777 and $2,389, during the second quarter and year to date, respectively of 2015, consisted of marketing spend related to rebranding activities. Also, during the second quarter of 2015 acquisition costs included $184 of costs associated with the acquisition of Triacta, primarily related to professional fees associated with entering into the purchase agreement. These amounts have been adjusted in the Payout Ratio to better reflect recurring Distributable Cash.

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

[8] Operating Cash Flow and Distributable Cash are 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 – (000's)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Cash (used in)/provided by operating activities	**$ 3,357**	$ 56,047	**$43,076**	$53,327
Net change in non-cash working capital	**42,460**	(4,880)	**36,526**	42,233
Operating Cash Flow[9]	**45,817**	51,167	**79,602**	95,560
Capital expenditures: (excluding growth capital, additions and acquisitions)				
Rentals exchanges	**(9,267)**	(8,928)	**(18,227)**	(18,193)
Vehicle additions	**(498)**	(238)	**(1,191)**	(633)
Sub-metering maintenance capital	**(168)**	-	**(320)**	-
Proceeds on disposal of equipment – warranty	**572**	500	**1,187**	1,063
Net capital expenditures	**(9,361)**	(8,666)	**(18,551)**	(17,763)
Other income	**-**	(580)	**-**	(580)
Acquisition related expenditures	**6,054**	1,961	**11,644**	2,573
Total reductions	**(3,307)**	(7,285)	**(6,907)**	(15,770)
Distributable Cash – Maintenance[9]	**42,510**	43,882	**72,695**	79,790
Dividends declared	**(22,135)**	(19,303)	**(40,595)**	(36,841)
Net cash retained	**$20,375**	$ 24,579	**$32,100**	$42,949
Payout Ratio - Maintenance	**52%**	44%	**56%**	46%
Normalized Payout Ratio - Maintenance	**47%**	49%	**49%**	52%

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, increased to 52% for the second quarter of 2016 and 56% year to date, compared to 44% and 46% respectively, in the equivalent periods in 2015.

When normalized for the impact of the one year tax deferral, The Payout Ratio - Maintenance decreased to 47% for the second quarter of 2016, compared to 49% for the same period in 2015. Year to date, the normalized Payout Ratio – Maintenance decreased to 49% from 52% from that in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

(000's)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Cash provided by operating activities	**$ 3,357**	$ 56,047	**$ 43,076**	$ 53,327
Net change in non-cash working capital	**42,460**	(4,880)	**36,526**	42,233
Operating Cash Flow	**45,817**	51,167	**79,602**	95,560
Capital expenditures: (excluding growth capital and acquisitions)	**(28,193)**	(22,578)	**(56,462)**	(43,775)
Proceeds on disposal of equipment	**2,415**	1,986	**4,358**	3,634
Net capital expenditures	**(25,778)**	(20,592)	**(52,104)**	(40,141)
Acquisitions	**(379,021)**	-	**(379,021)**	(880)
Growth capital	**(14,586)**	(3,065)	**(19,586)**	(6,128)
Cash used in investing activities	**(419,385)**	(23,657)	**(450,711)**	(47,149)
Dividends paid	**(20,298)**	(19,303)	**(38,756)**	(35,955)
Other financing activities	**446,811**	(831)	**446,398**	(1,560)
Cash used in financing activities	**426,513**	(20,134)	**407,642**	(37,515)
Cash and equivalents – end of period	**$ 28,472**	$ 36,718	**$ 28,472**	$ 36,718

Cash provided by operating activities decreased in the second quarter of 2016 due primarily to liabilities that Enercare assumed in the SE Transaction which were reflected as closing adjustments to the transaction price. The liabilities assumed on May 11, 2016 included $43,561 of share-based compensation, $12,422 of tax liabilities and $1,344 of liabilities related to an earn out provision, all of which were included in the cash consideration received by Enercare, which offset the acquisition price. These liabilities were

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

subsequently paid by Enercare, which reduced cash provided by operating activities by approximately $57,327 during the second quarter.

Operating Cash Flow of $45,817 in the second quarter of 2016 decreased by $5,350 and by $15,958 to $79,602 year to date, compared to the same periods in 2015, primarily due to acquisition related expenditures in SG&A and current taxes.

Net capital expenditures of $25,778 in the second quarter of 2016 increased by $5,186 and by $11,963 to $52,104 year to date, compared to the same periods in 2015, due to increased HVAC rentals and changes in asset mix. The acquisition amount of $379,021 represents the purchase consideration net of cash received for the acquisition of Service Experts. Growth capital investments were $14,586 for the second quarter of 2016 and $19,586 year to date, increases of $11,521 and $13,458, respectively, when compared to the same periods in 2015. Growth capital expenditures increased in 2016, primarily from Enercare's purchase of land and a building for the purposes of relocating Enercare's corporate headquarters to reduce future operating lease payments. Dividends paid reflect dividend payments on outstanding Shares.

Other financing activities in the second quarter of 2016 primarily reflect the scheduled repayment of the Stratacon Debt during the period.

Of the available credit of $100,000 under the 2014 Revolver, $10,000 was drawn as at June 30, 2016. Enercare 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.

Management believes that Enercare has sufficient cash flow, cash on hand and available credit to meet its 2016 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) Three months ended June 30,			**2016**			2015
Segment	**Enercare Home Services**	**Sub-metering**	**Total**	Enercare Home Services	Sub-metering	Total
Units - start of period	**1,129**	**159**	**1,288**	1,127	154	1,281
Portfolio additions	**9**	**1**	**10**	8	3	11
Acquisitions	**-**	**-**	**-**	-	-	-
Attrition	**(8)**	**-**	**(8)**	(10)	-	(10)
Units - end of period	**1,130**	**160**	**1,290**	1,125	157	1,282
Asset exchanges – units retired and replaced	**11**	**-**	**11**	12	-	12
% change in units during the period			**0.2%**			0.1%
% of units from start of period:						
Portfolio additions (net of acquisitions)			**0.8%**			0.9%
Attrition			**(0.6%)**			(0.8%)
Units retired and replaced			**0.9%**			0.9%
Billable units	**1,130**	**110**	**1,240**	1,125	102	1,227
Contracted units		**222**	**222**		197	197

Installed Asset Unit Continuity (000's) Six months ended June 30,			**2016**			2015
Segment	**Enercare Home Services**	**Sub-metering**	**Total**	Enercare Home Services	Sub-metering	Total
Units - start of period	**1,128**	**155**	**1,283**	1,129	151	1,280
Portfolio additions	**17**	**5**	**22**	14	6	20
Acquisitions	**-**	**-**	**-**	1	-	1
Attrition	**(15)**	**-**	**(15)**	(19)	-	(19)
Units - end of period	**1,130**	**160**	**1,290**	1,125	157	1,282
Asset exchanges – units retired and replaced	**23**	**-**	**23**	25	-	25
% change in units during the period			**0.5%**			0.2%
% of units from start of period:						
Portfolio additions (net of acquisitions)			**1.7%**			1.6%
Attrition			**(1.2%)**			(1.5%)
Units retired and replaced			**1.8%**			2.0%
Billable units	**1,130**	**110**	**1,240**	1,125	102	1,227
Contracted units		**222**	**222**		197	197

In the second quarter of 2016, the portion of net capital expenditures related to unit additions and asset exchanges, net of proceeds on disposal and excluding assets not yet commissioned, were $25,778 in the second quarter of 2016 and $52,104 year to date, increasing by 25% or $5,186 and 30% or $11,963, respectively, when compared to the same periods in 2015, primarily as a result of increased HVAC rentals.

In the Enercare Home Services business, Attrition decreased in the second quarter of 2016 by 2,000 units or 20% and 4,000 units or 21% year to date compared to the same period in 2015. Enercare has implemented many programs, including continued consumer education campaigns. Such initiatives, coupled with Bill 55 as well as enhancements to our customer value proposition (for example, the "same day service campaign"), have helped to significantly reduce Attrition in recent years.

Installations in the Sub-metering business were approximately 1,000 units in the second quarter of 2016 and 5,000 units year to date, lower by 2,000 units and 1,000 units, respectively, compared to the same periods in 2015. The lower installation results during the second quarter of 2016 were primarily the result of a six week drywall and framing strike in the greater Toronto area which delayed approximately 1,000 installations to the third quarter. The increased shift in contracted sales to a higher proportion of new construction condominiums has also partially contributed to lower installations as these buildings have yet to be constructed. Sub-metering capital expenditures, related to metering equipment, in the second quarter of 2016 were $1,582 and $10,781 year to date, approximately $426 lower and $7,027 higher, respectively, than in the same periods in 2015 on account of the timing and costs of projects underway.

For the Enercare Home Services units, changes in Billable units reflect the asset activity as reported in the continuity schedule. For the Sub-metering business, Billable units of 110,000 increased by 8,000 units in the second quarter of 2016 compared to the same period in 2015, primarily due to additional installations and increased penetration in the rental apartment market which resulted in approximately 14,000 new Billable units, partly offset by the removal of approximately 6,000 Billable units pursuant to buy-out terminations in the fourth quarter of 2015.

Sub-metering sales activity was approximately 9,000 units in the second quarter of 2016 and 17,000 units year to date. These results were consistent with the strong sales levels experienced in the second quarter of 2015 and reflected improvements of approximately 5,000 units or 42% year to date, compared to the same period in 2015.

Cash from Financing

Financing activities for Enercare may reflect dividend payments, periodic financing of Enercare Solutions' indebtedness, Enercare's offering of Subscription Receipts and Convertible Debentures, and to a much lesser extent financing of the Sub-metering business. During the second quarter of 2016, Enercare recorded $1,292 of financing repayments primarily related to the scheduled repayment of the Stratacon Debt, obligations under finance leases and the purchase of treasury Shares. These financing repayments excluded dividends to shareholders. During the second quarter of 2016, Enercare recorded financing of $230,742 (net of fees) in SE Subscription Receipts and $258,320 of additional debt as part of the financing for the SE Transaction and repaid $40,000 of the 2014 Revolver.

Capitalization	Six months ended June 30,	
(000's)	**2016**	2015
Cash and cash equivalents	**$ 28,472**	$ 36,718
Net investment in working capital	**(41,546)**	39,104
Cash, net of working capital	**(13,074)**	75,822
Total debt	**954,173**	687,533
Shareholders' equity	**602,885**	465,878
Total capitalization – book value	**$1,557,058**	$1,153,411

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

At June 30, 2016, total debt was comprised of the 2012 Notes, the 2013 Notes, the 2014 Term Loan, the 2014 Revolver, the 2016 Term Loan, Convertible Debentures and the Stratacon Debt.

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

Debt Financing

As described in the AIF, the 2014 Revolver and 2014 Term Loan each contain terms, representations, warranties, covenants and events of default that are customary for credit facilities of this kind, including financial covenants discussed below, restrictions on asset sales and reorganizations, a negative pledge and limits on distributions to Enercare (and, therefore, in effect, holders of Shares). Events of default under the 2014 Revolver and 2014 Term Loan include a cross-default provision and the occurrence of a change of control of Enercare or Enercare Solutions. Enercare Solutions' obligations under the 2014 Revolver and 2014 Term Loan are guaranteed by all of Enercare Solutions' direct and indirect subsidiaries.

The 2014 Term Loan bears interest at a rate of bankers' acceptances plus 125 basis points or prime plus 50 basis points at Enercare Solutions' credit rating as of the date hereof.

As described in the AIF, and as adjusted in conjunction with the 2016 Term Loan (see "Recent Developments – Enercare Completes Acquisition of Service Experts"), the 2014 Revolver and 2014 Term Loan contain the following financial covenants (i) all additional incurrences of senior debt, with certain exceptions, must, on the date of incurrence, result in a pro forma ratio equal to or greater than 3.8 to 1.0 of Incurrence EBITDA (as defined in the Senior Unsecured Indenture) to Net Interest Expense (as defined in the Senior Unsecured Indenture); (ii) the ratio of total debt (other than subordinated debt) to "Adjusted EBITDA" must be less than 4.75:1; and (iii) the ratio of Adjusted EBITDA to "Cash Interest Expense" must be greater than 3.00:1.

As described in the AIF, the 2014 Revolver and 2014 Term Loan define "Adjusted EBITDA" as the consolidated net income of Enercare Solutions and any losses on dispositions of assets less, to the extent included in calculating such net income, all interest income and income tax recoveries, gains on hedging contracts and all extraordinary, non-recurring and unusual income items, plus, to the extent deducted in calculating such net income, amounts for total interest expense, fees payable under the Origination Agreement, amortization and depreciation expenses, income taxes and any other non-cash items, losses on hedging contracts, proceeds of disposal of water heaters in the ordinary course of business, and with respect to the DE Acquisition, transaction expenses, one-time rebranding costs and information technology system harmonization costs up to $23,500 in the aggregate, determined on a consolidated basis. The 2014 Revolver and 2014 Term Loan essentially define “Cash Interest Expense” as the aggregate amount of interest and other financing charges payable in cash and expensed by Enercare Solutions with respect to debt (other than subordinated debt between Enercare Solutions and Enercare or any subsidiary of Enercare Solutions or between subsidiaries of Enercare Solutions), but excluding any make-whole, prepayment, penalty or premium or other yield maintenance amount with respect to debt.

Enercare Solutions was in compliance with the covenants within the 2014 Revolver and 2014 Term Loan as of June 30, 2016. A total of $10,000 was drawn under the 2014 Revolver at June 30, 2016.

The 2016 Term Loan, which is on substantially the same terms as the 2014 Term Loan, was entered into by Enercare Solutions to partially fund the SE Transaction. See “Recent Developments – Enercare Completes Acquisition of Service Experts”.

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 June 30, 2016, Enercare Solutions exceeded this minimum and had the capacity under the covenant to raise more than $300,000 additional senior debt should it elect to do so.

SUMMARY OF QUARTERLY RESULTS

(000’s)	**Q2/16**	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Total revenues	**$244,102**	$142,649	$141,621	$145,455	$134,938	$141,812	$126,012	$80,469
Net earnings	**16,051**	8,195	13,725	13,124	16,204	7,902	5,672	2,133
Dividends declared	**22,135**	18,460	18,693	19,229	19,303	17,538	16,648	10,607
Average Shares outstanding	**$ 96,619**	$ 87,899	$ 89,770	$ 91,634	$ 91,916	$ 91,898	$ 84,628	$ 58,532
Per Share								
Basic net earnings	**$0.17**	$0.09	$0.15	$0.14	$0.18	$0.09	$0.07	$0.04
Diluted net earnings	**$0.17**	$0.08	$0.15	$0.14	$0.18	$0.09	$0.07	$0.03
Dividends declared	**$0.224**	$0.21	$0.21	$0.21	$0.21	$0.191	$0.181	$0.181

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, the temporary difference reversals of deferred income tax and the impact of the DE Acquisition in the fourth quarter of 2014 and the SE Transaction in the second quarter of 2016. Dividends declared primarily reflect the change in outstanding Shares over time as well as the dividend increases implemented in the first quarter of 2015 and second quarter of 2016.

The average number of Shares outstanding and the related per Share data reflect the impact of the conversion of Convertible Debentures, purchases under the NCIB and issuances in connection with the DE Acquisition and SE Transaction.

SUMMARY OF CONTRACTUAL DEBT AND LONG TERM OBLIGATIONS

The following schedule summarizes the contractual debt and long term obligations of Enercare at June 30, 2016:

Period	Debt Principal	Debt Interest	Finance Lease Obligations Principal	Finance Lease Obligations Interest	Total Principal	Total Interest
Due in 2016	$ 447	$15,470	$ 3,456	$ 277	$ 3,903	$15,747
Due in 2017	253,000	30,818	5,845	425	258,845	31,243
Due in 2018	210,126	19,073	5,087	272	215,213	19,345
Due in 2019	10,025	15,381	4,201	144	14,226	15,525
Due in 2020	483,367	6,970	2,125	259	485,492	7,229
Thereafter	29	-	569	7	598	7
Total	$956,994	$87,712	$21,283	$1,384	$978,277	$89,096

As at June 30, 2016, 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. The 2014 Term Loan, maturing on October 20, 2018, bears interest at a variable rate based upon the banker's acceptance rate plus 1.25%, which was 2.16% at June 30, 2016.

At June 30, 2016, $10,000 was drawn on the 2014 Revolver. The 2014 Revolver bears a standby charge of 0.25% and interest on amounts drawn at a variable rate based upon the banker's acceptance rate plus 1.25% which was 2.12%, at June 30, 2016.

The Stratacon Debt of $1,269, as at June 30, 2016, 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.

The 2016 Term Loan is payable interest only until maturity and is pre-payable in whole or in part at any time without penalty. The 2016 Term Loan bears interest at a rate of LIBOR plus 125 basis points or base rate plus 25 basis points at Enercare Solutions' credit rating as of the date hereof. As at June 30, 2016 the 2016 Term Loan bears interest of 1.88%.

The obligations under finance leases bear floating interest rates that are either 2.5% above the one month banker's acceptance rate, per annum or are equal to the yield of interest rate swaps as quoted in the Federal Reserve system, per annum. Additional obligations under finance leases acquired during the period bear fixed interest rates of 1.05% to 2.44% and at floating interest rates that are 2.5% above the three month banker's acceptance rate, or are 0.35% above the one month LIBOR rate, per annum. The finance leases mature at dates ranging between July 2016 and January 2022.

Other obligations include long term sponsorship, premises and office equipment. Substantially all of the future expense obligations are the result of naming rights for the Enercare Centre and 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 June 30, 2016, there were 103,836,505 Shares (87,948,978 at December 31, 2015) issued and outstanding, and no preferred shares were outstanding. A total of 15,834,600 Shares were issued in exchange for the SE Subscription Receipts on May 11, 2016 in conjunction with the closing of the SE Transaction. 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 July 1, 2016 to August 5, 2016, approximately $89 principal amount of additional Convertible Debentures were converted into 13,734 Shares. The Convertible Debentures principal balance outstanding of $2,296 at August 5, 2016 may be converted into approximately 354,321 additional Shares.

NON-IFRS FINANCIAL AND PERFORMANCE MEASURES

The condensed interim consolidated financial statements of Enercare are prepared in accordance with IFRS. Enercare's basis of presentation and significant accounting policies are summarized in detail in notes 2 and 3 of the condensed interim consolidated financial statements for the period ended June 30, 2016.

Enercare reports on certain non-IFRS measures that are used by management to evaluate performance of Enercare and meet certain covenant requirements relating to 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.

EBITDA, Adjusted EBITDA, Acquisition Adjusted EBITDA, Distributable Cash, Distributable Cash–Maintenance, Normalized Distributable Cash, Normalized Distributable Cash-Maintenance, Payout Ratio, Payout Ratio-Maintenance, Normalized Pay Out Ratio, Normalized Pay Out Ratio-Maintenance, Operating Cash Flow, Billable, Pro forma Acquisition Adjusted EBITDA, Pro forma Distributable Cash, Pro forma Distributable Cash per Share, Normalized Pro forma Distributable Cash, Normalized Pro forma Payout Ratio and Normalized Pro forma Distributable Cash per Share should not be construed as alternatives to net income or earnings per Share determined in accordance with IFRS as indicators of Enercare's performance, or as alternatives to pro forma net earnings and pro forma earnings per Share.

Non-IFRS financial indicators used by Enercare and reported in this MD&A, in addition to the Non-IFRS financial measures described under "Recent Developments - Enercare Completes Acquisition of Service Experts" 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. 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, Adjusted EBITDA and Acquisition Adjusted EBITDA" in this MD&A. Previously EBITDA excluded investment and other income and beginning the first quarter of 2016, the calculation of EBITDA includes investment and other income. Comparatives have been restated accordingly.

Adjusted EBITDA

This measure is comprised of net earnings plus income taxes, interest expense, amortization expense, impairment losses and loss on disposal of equipment. 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 (see "Results of Operations – EBITDA, Adjusted EBITDA and Acquisition Adjusted EBITDA" in this MD&A).

Acquisition Adjusted EBITDA

This measure reflects the same components as Adjusted EBITDA, however, eliminates the additional one-time costs associated with the DE Acquisition, the SE Transaction and the acquisition of Triacta, including interest expense for accounting purposes on the SE Subscription Receipts and equity bridge financing fees, professional fees associated with due diligence, pre and post-merger integration, expenditures associated with business transformation initiatives, rebranding, severance and other costs in SG&A. This is one metric that can be used to determine Enercare's ability to service its ongoing debt, finance capital expenditures, and provide for the payment of dividends to shareholders. Acquisition Adjusted EBITDA is reconciled with net earnings, an IFRS measure (see "Results of Operations - EBITDA, Adjusted EBITDA and Acquisition Adjusted EBITDA" in this MD&A).

Distributable Cash and Distributable Cash - Maintenance

In the second quarter of 2016, Enercare changed its definition of Distributable Cash and Distributable Cash - Maintenance to include capital relating to vehicle additions. Historical figures have been restated to reflect the current definition.

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, defined benefit plan expense and non-recurring expenses related to the DE Acquisition and transition of OHCS, the SE Transaction and the acquisition of Triacta, less cash items of contributions to define benefit pension plan and deferred customer inducements plus the proceeds on disposal of rental equipment, less rental capital expenditures (excluding growth capital), vehicle additions 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 and are therefore not deducted in the determination of Distributable Cash.

Distributable Cash per Share is a measure of the amount of Distributable Cash calculated on a per Share basis.

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 for purposes of Distributable Cash - Maintenance definition include capital expenditures such as Rentals new customer equipment additions, Sub-metering equipment, acquisitions and infrastructure assets.

Distributable Cash is reconciled with cash provided by operating activities, an IFRS measure (see "Distributable Cash and Payout Ratios" 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 (excluding the exercise of the over-allotment option) 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 illustrates the proportion of cash required to maintain its existing customer base.

Normalized Distributable Cash, Normalized Distributable Cash-Maintenance, Normalized Payout Ratio and Normalized Payout Ratio-Maintenance

Normalized Distributable Cash takes Distributable Cash and eliminates the effect of a tax deferral obtained in 2015 as a result of the acquisition of OHCS. Management has presented Normalized Distributable Cash to illustrate Enercare's recurring cash generated from the business available to service debt, financial capital expenditures and provide payment of dividends to shareholders. Normalized Distributable Cash is reconciled with net earnings and cash from operating activities, IFRS measures.

The Normalized Payout Ratio is the percentage of Normalized 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.

Normalized Payout Ratio - Maintenance is similar to Normalized Payout Ratio, except that the ratio is calculated as the percentage of Normalized 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 illustrates 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 the financial strength of Enercare. Operating Cash Flow is reconciled with cash flow from operating activities, an IFRS measure (see "Liquidity and Capital Resources" 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, or where vacancy exceeds 6-months. The Rentals portfolio is deemed to be fully Billable upon origination and removed from Billable upon asset termination.

Measures of Financial Performance Associated with the SE Transaction

In addition to the Measures of Financial Performance outlined above, certain additional financial performance measures are applicable to the SE Transaction as follows:

Pro Forma financial measures with respect to the SE Transaction relate to the year-ended December 31, 2015. Additional information in respect of Enercare's final short-form prospectus as filed on March 22, 2016, can be found on SEDAR at www.sedar.com.

Pro Forma Acquisition Adjusted EBITDA

Pro Forma Acquisition Adjusted EBITDA is a pro forma measure comprised of pro forma net earnings plus income taxes, interest expense, amortization expense, impairment losses, loss on disposal of equipment, less investment income, however, eliminates the additional one-time costs associated with the acquisition of Service Experts, professional fees associated with due diligence, pre and post-merger integration, expenditures associated with business transformation initiatives, severance and other costs in SG&A. This measure further includes the SE Pro Forma Adjustments (as defined below). This is one metric that can be used to determine Enercare's ability to service its ongoing debt, finance capital expenditures, and provide for the payment of dividends to shareholders. Pro Forma Acquisition Adjusted EBITDA is reconciled with net earnings, an IFRS measure.

Pro Forma Distributable Cash and Pro Forma Distributable Cash per Share

Pro Forma Distributable Cash is a pro forma measure calculated from pro forma net earnings, plus non-cash items such as deferred income taxes, amortization, defined benefit plan expense, and non-recurring expenses related to the DE Acquisition and transition of OHCS, less contributions to defined benefit pension plan, deferred customer inducements plus the proceeds on disposal of rental equipment, less rental capital expenditures (excluding growth capital) and other non-recurring income. This measure further includes the cash impact of the SE Pro Forma Adjustments along with associated tax reductions. Pro Forma Distributable Cash is reconciled with net earnings and cash from operating activities, IFRS measures.

Pro Forma Distributable Cash per Share is a measure of the amount of the Pro Forma Distributable Cash calculated on a pro forma per Share basis (including the Offering and excluding the over-allotment option and concurrent private placement).

Normalized Pro Forma Distributable Cash, Normalized Pro Forma Payout Ratio and Normalized Pro Forma Distributable Cash per Share

Normalized Pro Forma Distributable Cash takes Pro Forma Distributable Cash and eliminates the effect of a $19,001 tax deferral obtained in 2015 as a result of the acquisition of OHCS. Management has presented Normalized Pro Forma Distributable Cash to illustrate Enercare's recurring cash generated from the business available to service debt, financial capital expenditures and provide payment of dividends to shareholders. Normalized Pro Forma Distributable Cash is reconciled with net earnings and cash from operating activities, IFRS measures.

Normalized Pro Forma Payout Ratio is the percentage of Normalized Pro Forma Distributable Cash to dividends declared to shareholders during a period (including the Offering and excluding the over-allotment option and Concurrent Private Placement). Management has presented Pro Forma Payout Ratio to illustrate Enercare's post SE Transaction ability to service debt, finance capital expenditures, and provide for the payment of dividends to shareholders.

Normalized Pro Forma Distributable Cash per Share is a measure of the amount of the Normalized Pro Forma Distributable Cash calculated on a pro forma per Share basis (including the Offering and excluding the over-allotment option and Concurrent Private Placement).

For the purposes of the Non-IFRS measures relating to the SE Transaction, "SE Pro Forma Adjustments" mean further adjustments to the identified measure to eliminate items that (i) were adjusted pursuant to the Merger Agreement and therefore will not be incurred by Enercare, or (ii) will not be incurred by Enercare subsequent to the closing of the SE Transaction. SE Pro Forma Adjustments include adjustments on account of management fees paid by Service Experts to its parent company and standby and other fees paid to the lender in a Service Experts credit facility that was not continued following the closing of the SE Transaction and, in the case of Pro Forma Adjusted EBITDA, stock appreciation rights granted to employees of Service Experts.

Measures Regarding Debt Covenants

As at June 30, 2016, Enercare was in compliance with all covenants under the 2012 Notes, 2013 Notes, 2014 Revolver, 2014 Term Loan and 2016 Term Loan. For a summary of the financial covenants in respect of such debt see "Liquidity and Capital Resources – Debt Financing" in this MD&A. For a summary of the financial covenants in respect of the 2016 Term Loan see "Recent Developments – Enercare Completes Acquisition of Service Experts".

2014 Revolver and 2014 Term Loan

Under the 2014 Revolver and 2014 Term Loan agreements, Enercare Solutions is subject to three principal financial covenants as described in the section "Liquidity and Capital Resources – Debt Financing" in this MD&A. The covenants address interest and debt coverage. Enercare Solutions complied with these covenants on June 30, 2016. There was $10,000 drawn under the 2014 Revolver at June 30, 2016.

2016 Term Loan

Under the 2016 Term Loan agreement, Enercare Solutions is subject to representations, warranties, covenants and events of default that are customary for credit facilities of this kind and on substantially the same terms as the 2014 Term Loan (see "Liquidity and Capital Resources – Debt Financing" in this MD&A). Enercare Solutions' obligations under the 2016 Term Loan are guaranteed by all of Enercare Solutions' direct and indirect subsidiaries, including Service Experts and its subsidiaries.

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 AND JUDGMENTS

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts in the condensed interim consolidated financial statements and accompanying notes. Management applies judgment in its assessment of Enercare's arrangements with customers when determining the classification of leases and the extent to which the risks and rewards incidental to ownership lie with the company or the customer. In addition to leases, other estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following items are of significance for the period.

Revenue Accruals

At June 30, 2016, the Enercare Home Services business recorded a revenue accrual of approximately $43,600 (2015 - $44,000) reflecting accrued service periods. Unbilled protection plans comprise approximately $27,100 (2015 - $26,500) of this balance which is predominantly made up of protection plans sold in franchisee service areas which are recognized as royalty revenue at inception but are invoiced over a period of 12-months. The remaining unbilled revenues reflect accrued service periods for rental water heaters and other products.

At June 30, 2016, the Sub-metering business recorded a revenue accrual of approximately $9,200 (2015 - $9,400), reflecting accrued service periods, increases in Billable units and pass through commodity charges.

At June 30, 2016, the Service Experts segment recorded a revenue accrual of approximately $2,214 (2015 - $nil) reflecting accrued revenue for contracts in progress.

Bad Debt Provisions

The Enercare Home Services business is exposed to credit risk in the normal course of business for customers who are billed directly by Enbridge Gas Distribution Inc. (“EGD”) within its service territory and secondarily when billed by Enercare or are billed by EGD outside of its service territory. For billing within the EGD service territory, Enercare is guaranteed payment by EGD for 99.51% in 2016 and 99.49% in 2015 of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued.

Management evaluates a number of factors and assumptions in the determination of the bad debt provision. The total bad debt provision was approximately $9,973 at June 30, 2016, compared to approximately $11,405 at the end of 2015. Changes in any of the variables or assumptions may result in a materially different amount.

Leases

Management applies judgment in its assessment of Enercare’s arrangements with customers when determining the classification of leases and the extent to which the risks and rewards incidental to ownership resides with the company or the customer.

Impairment of Non-Financial Assets and Goodwill

Impairment tests are conducted at least annually, or when events or circumstances indicate an impairment may exist. The recoverable amount is based upon a number of assumptions, including but not limited to: discount rates, billable units, cash flows and expenses. Changes in any of these assumptions may result in a materially different recoverable amount.

Employee Benefit Plans

Enercare maintains active employee defined benefit plans which are closed to new members. The balances related to these plans are subject to a number of assumptions. The actuarial valuations rely on estimates and assumptions including those for wage escalation, mortality, health care and dental costs inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have a material impact on the employee benefit plans liability and employee benefit plan costs.

Recoverability of Deferred Tax Assets

Deferred tax assets are recognized to the extent that realization is considered probable. Judgments regarding projected future income and tax planning strategies are considered in making this assessment.

Business Combination

With respect to the fair value of acquired assets and assumed liabilities and other adjustments related to the acquisition Service Experts, these condensed interim consolidated financial statements have been prepared using the acquisition method of accounting, in accordance with IFRS 3R, Business Combinations, under which, the total fair value of the consideration transferred has been assigned to the assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition, with any excess purchase price allocated to goodwill. Changes may be expected as additional information becomes available following the closing date of May 11, 2016. Accordingly, the final fair value determinations may differ from those set forth in these condensed interim consolidated financial statements and such differences may be material.

Estimation of insurance claims

Insurance liabilities are subject to measurement uncertainty. The recognized amounts of such items are based on the company's best information and judgment. Estimates and other judgments are continuously evaluated based on management's experience and expectations about future events, including insurance claims for events that have occurred but not yet been reported to management.

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. Enercare has used the Internal Control – Integrated Framework (2013) from The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in order to assess the effectiveness of Enercare's internal control over financial reporting. There are no material weaknesses relating to the design of either DC&P or ICFR at June 30, 2016. There have been no changes to our ICFR during the quarter and year to date ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, Enercare's ICFR.

Enercare has limited the scope of its design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Triacta which was acquired on July 15, 2015.

Triacta's contribution to Enercare's condensed interim consolidated financial statements for the three months ended June 30, 2016 was approximately 0.4% of revenues and (0.4%) of net earnings. Year to date, Triacta's contribution to Enercare's condensed interim consolidated financial statements were approximately 0.5% of revenues and (5.9%) of net earnings. In addition, Triacta's current assets and current liabilities were approximately 0.7% and 0.1% of the consolidated current assets and current liabilities, respectively, and its long term assets and long term liabilities were approximately 0.4% and 0.2% of consolidated long term assets and long term liabilities, respectively.

Enercare is currently in the process of documenting and evaluating the controls, policies and procedures in respect of Triacta.

Enercare has limited the scope of its design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Service Experts which was acquired on May 11, 2016.

Service Expert's contribution to Enercare's condensed interim consolidated financial statements for the three months ended June 30, 2016 was approximately 42% of revenues and 22% of net earnings. Year to date, Service Expert's contribution to Enercare's condensed interim consolidated financial statements were approximately 26% of revenues and 15% of net earnings. In addition, Service Expert's current assets and current liabilities were approximately 43% and 50% of the consolidated current assets and current liabilities, respectively, and its long term assets and long term liabilities were approximately 29% and 2% of consolidated long term assets and long term liabilities, respectively.

Enercare is currently in the process of documenting and evaluating the controls, policies and procedures in respect of Service Experts.

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

CHANGES IN ACCOUNTING POLICIES

The condensed interim consolidated financial statements of Enercare are prepared in accordance with IFRS as issued by IASB applicable to the preparation of condensed interim consolidated financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015. 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.

Adoption of New Accounting Standards

Enercare has adopted new or revised standards as required by IFRS, effective January 1, 2016.

IAS 1, “Presentation of Financial Statements” (“IAS 1”) was amended by the IASB to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment gives guidance that information within the consolidated statements of financial position and consolidated statements of income should not be aggregated or disaggregated in a manner that obscures useful information, and that disaggregation may be required in the consolidated statements of income in the form of additional subtotals as they are relevant to understanding the entity’s financial position or performance. The amendments to IAS 1 are effective for periods beginning on or after January 1, 2016. Enercare implemented the standard and has determined that it did not have any impact.

Accounting Standards Issued But Not Yet Applied

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

Statement of Cash flows

IAS 7, “Statement of cash flows” (“IAS 7”), has been amended by the IASB to introduce additional disclosure that will allow users to understand changes in liabilities arising from financing activities. This amendment to IAS 7 is effective for annual periods beginning or after January 1, 2017. Enercare is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Revenue Recognition

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”), provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Enercare is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Financial Instruments

The final version of IFRS 9, “Financial Instruments” (“IFRS 9”), was issued by the IASB in July 2014 and will replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. Enercare is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Financial Instruments Disclosures

IFRS 7, “Financial Instruments: Disclosures” (“IFRS 7”), has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for periods beginning on or after January 1, 2018. Enercare is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Leases

IFRS 16, “Leases” (“IFRS 16”), sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12-months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. Enercare is currently evaluating the impact of adopting this standard on the consolidated financial statements.

RISK FACTORS

The risks related to the business and structure of Enercare discussed in the AIF remain unchanged except that the SE Transaction was completed on May 11, 2016.

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. Please see the section entitled *“Forward-looking Information”* in this MD&A.

Enercare Home Services Segment

- Our strategy to emphasize HVAC rentals over outright sales in order to create a long-term customer revenue stream and provide valuable cross-selling opportunities continues to be successful. While this strategy has resulted in a significant increase in recurring HVAC rental revenues, we anticipate the short-term impact on non-recurring sales and other services revenue to continue throughout 2016.

- In December 2015, Enercare launched a pilot HVAC financing program, which was planned to be rolled out in phases within the operating territory during 2016. As this pilot program ran longer than anticipated, Enercare has revised the timing of its phased roll out to be completed in 2017.

Sub-metering Segment

- Approximately one-half of new contracted units in the first half of 2016 were generated from thermal and water meters and we anticipate this to continue. This trend should also contribute to lower billing costs over time as multiple products are billed on a single bill.
- Our Sub-metering sales opportunities continue to be strong and skewed towards multi-commodity products within the new construction and condominium segments. Approximately three-quarters of the newly contracted services over the past two quarters have come from new construction condominiums. Although the buildings related to these contracts have yet to be constructed and as a result the bulk of the capital and all of the related revenues will occur in 24 to 36 months, once constructed all units within these buildings will start billing on initial move-in. This is in contrast to retrofit apartment contracts for which billing starts sooner but penetration lags as it is reliant on turnover.

Service Experts Segment

- The Service Experts Transaction is expected to be 25% accretive to Normalized Pro Forma Distributable Cash per Share in 2016.
- Cost synergies relating to the SE Transaction are estimated to be in the range of $0.05 to $0.08 per Share on an annualized basis by the end of 2017, primarily as a result of a reduction in sourcing costs.
- Our priority for the first 12-months will continue to be to focus on successfully integrating the Service Experts operations both in the United States and Canada. In addition, Enercare intends to introduce a rental program for Service Experts within Canada during the fall of 2016 and extend this program into select states in the United States in the first half of 2017.
- The business of Service Experts is subject to greater seasonality than Enercare Home Services as a result of fewer recurring revenue sources. Revenue and profits tend to be seasonally highest in the second quarter of the year, followed by the third quarter, due primarily to the geography where Service Experts operates and weather patterns. The heating season (roughly November through February) and cooling season (roughly May through August) are periods when consumers transition their buying patterns from one season to the next. In most of the states that Services Experts operates, cooling equipment as opposed to heating equipment represents a substantial portion of its annual HVAC sales and service revenue. Conversely, in the 3 provinces that Service Experts operates, heating equipment represents a large portion of its Canadian sales and service revenue. The sales are also impacted by seasonal weather patterns; in periods of extreme heat and cold, installation and demand service revenue tend to increase. These seasonal influences, along with the location of operations, affect the mix and volume which can drive sales and related segment profit. This results in somewhat higher sales in the second and third quarters due to the higher volume in the cooling season relative to the heating season and the lowest revenue and substantially reduced profit, relative to other quarters, in the first quarter. As a result, the working capital needs are generally greater in the first quarter, followed by higher operating cash inflows in the second and third quarters.

2016 Income Taxes

- Current 2016 Canadian income taxes are expected to be in the range of $46 million to $53 million.
- The SE Transaction was structured to permit Enercare to “step up” the tax basis of Service Experts’ assets in the United States through a “338 election” under US tax rules. Enercare estimates the resulting tax shelter value to be approximately US$65 million on a net present value basis. This tax shelter is estimated to result in a reduction of US taxable income of approximately $24 million to $28 million per year for the next 15 years.

- Enercare is assessing corporate expenses expected to be incurred in Canada to manage and benefit the US operations of Service Experts, which Enercare estimates will result in a favourable expense reimbursement of between $2 million and $5 million per year.

2016 Capital Investments

- Enercare is targeting a range of between $111 million and $157 million in capital investments in 2016, excluding Service Experts. Management targets an Internal Rate of Return from capital investments in its core businesses of between 15% and 20%.

Capex[(1)]	Target Range for 2016
HVAC rentals	$30M - $40M
Sub-metering growth	$10M – $20M
In-house financing	$1M - $5M
Water heater additions	$25M – $30M
Water heater exchanges	$30M – $40M
Corporate	$3M – $6M
Building	$12M – $16M
Total Range	$111M – $157M[(2)]

(1) Excludes acquisitions.
(2) The target range of capital spend for Enercare Home Service is largely based on the number and type of equipment originated (assumed to be approximately 25,000 water heater and water treatment rental additions, 50,000 water heater exchanges and 10,000 HVAC rental additions) and the mix between rental, sales and financing arrangements similar to actual results experienced in the last 6 months of operations. The target range for capital spend in Sub-metering is based on the number and type of metering equipment installed during the year assumed to be approximately 17,000 units. Corporate capital includes IT software and hardware, furniture and fixtures and other capital projects. The building relates to a new head office purchased in Q2 of 2016.

GLOSSARY OF TERMS

Defined Term	Definition
AIF	Annual Information Form of Enercare dated March 21, 2016.
Attrition	Termination of customer relationships, including buyouts, in the Rentals portfolio.
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).
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).
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.
DE Acquisition	The acquisition of the OHCS business of DE by Enercare on October 20, 2014 through EHCS LP.
ECI	Enercare Connections Inc. (formerly Stratacon, EECI and Triacta).
EECI	Enbridge Electric Connections Inc. (now ECI).
EHCS LP	Enercare Home and Commercial Services Limited Partnership, the limited partnership formed to own OHCS following the closing of the DE Acquisition, an indirect wholly-owned subsidiary of Enercare.
EGD	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, predecessor to Enercare prior to the conversion of the Fund from an income trust to corporate structure pursuant to a plan of arrangement on January 1, 2011.
HVAC	Heating, ventilation and air conditioning.
Enercare Home Services	Enercare business, which provides rental water heaters, furnaces, air conditioners and other HVAC products and, as of October 20, 2014, also provides protection plans, HVAC sales and related services.
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 IASB.
Incurrence Test	2012 Notes and 2013 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.
Merger Agreement	The agreement dated March 7, 2016 between, among others, Enercare Solutions and Service Experts regarding the SE Transaction.
NCIB	Enercare's normal course issuer bid.
OHCS	The Ontario home and small commercial services business of DE acquired by Enercare on October 20, 2014 in the DE Acquisition.
Origination Agreement	The origination agreement dated December 17, 2002 between Rentco and DE providing for the sale to ESLP of rental water heaters originated by DE, as amended on January 1, 2005, December 29, 2006, January 1, 2013 and August 1, 2013, as assigned by DE to EHCS LP on October 20, 2014.
Rentals	Component of the Enercare Home Services business that provides rental water heaters, furnaces, air conditioners and other HVAC products.
Rentco	4483588 Canada Inc. (formerly Direct Waterheater Rentals Inc.).
SE Subscription Receipts	$231,947 (net of underwriters' fees) of subscription receipts issued by Enercare on a bought deal basis in relation to the SE Transaction.
SE Transaction	The acquisition of Service Experts by Enercare through an indirect wholly-owned subsidiary of Enercare Solutions, pursuant the definitive merger agreement which was completed on May 11, 2016.
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.
Service Experts	SEHAC Holdings Corporation which operates under the brand "Service Experts"
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 to partially finance the DE Acquisition.
Triacta	Triacta Power Technologies Inc., now ECI pursuant to an amalgamation effective July 15, 2015.
Trust	The Consumers' Waterheater Operating Trust.
TSX	Toronto Stock Exchange.
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.
2014 Debt Financing	The debt financing of Enercare Solutions in respect of the DE Acquisition consisting of an unsecured (i) 4-year variable rate, non-revolving term loan facility in the amount of $210,000 and (ii) 5-year variable rate, revolving credit facility in the maximum amount of $100,000.
2014 Revolver	The 5-year variable rate, revolving credit facility in the maximum amount of $100,000 issued under the 2014 Debt Financing.
2014 Term Loan	The 4-year variable rate, non-revolving term loan facility in the amount of $210,000 issued under the 2014 Debt Financing.
2016 Term Loan	Two 4-year non-revolving, non-amortizing variable rate term credit facilities in the aggregate amount of US$200,000.