EnerCare Inc.

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

Second Quarter Ended June 30, 2011

Dated August 8, 2011

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

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

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

On January 1, 2011, pursuant to a plan of arrangement the Fund converted to a dividend paying corporation, EnerCare Inc. and the Trust converted to EnerCare Solutions Inc. The Conversion was accounted for on a continuity of interest basis. Reporting prior to January 1, 2011 refers to units, unitholders and distributions, whereas from January 1, 2011 references are to shares, shareholders and dividends. References in this MD&A are in respect of EnerCare and EnerCare Solutions and shall be deemed to be such prior to January 1, 2011 when these entities were The Consumers' Waterheater Income Fund and The Consumers' Waterheater Operating Trust, respectively.

FORWARD-LOOKING INFORMATION

This MD&A, dated August 8, 2011, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with EnerCare's 2010 audited consolidated financial statements. Additional information in respect to the Fund and EnerCare, including the AIF can be found on SEDAR at www.sedar.com.

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

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

HIGHLIGHTS – SECOND QUARTER 2011

The following highlights compare results for the second quarter of 2011 with the second quarter of 2010.

- Total revenues of $60,069 increased by 17% over 2010. Revenues in the Rentals business decreased by 5% or $2,370 to $46,745, primarily as a result of the changes in overall assets partially offset by rental rate increases. Sub-metering revenues increased to $13,184 from $2,330, primarily due to the inclusion of ECI.
- EBITDA[1] increased by 1% to $36,105 in 2011 driven principally by improved total revenues and reduced loss on disposal of equipment partially offset by greater expenses. Adjusted EBITDA[1] of $40,966 decreased by 2% after removing the impact of a reduced loss on disposal of equipment in 2011.
- Net earnings were $1,682 in 2011, $884 lower than in 2010 as a result of current tax expenses in 2011 of $1,881 and lower income tax recoveries of $1,858 partially offset by other income of $2,129.
- Attrition in Rentals decreased by 3,000 units or 14% in 2011. Portfolio additions remain strong while unit exchanges declined by 2,000 to 13,000, resulting in both lower loss on disposal expenses and capital expenditures for the second quarter of 2011.
- The Payout Ratio[2] decreased to 50% in 2011 from 52% in 2010 due to an increase in Distributable Cash[2] which includes current taxes of $1,881, partially offset by higher dividend payouts caused by an increase in the number of Shares outstanding as a result of the Share offering in June 2010 and conversion of some of the Convertible Debentures.

RECENT DEVELOPMENTS

Results of a survey conducted by Pollara found that aggressive and questionable door-to-door water heater sales tactics have become a significant problem for Ontario residents.

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

EnerCare tasked Pollara, a leading polling company, with conducting quantitative research among Ontarians to understand consumers' familiarity and experiences with unsolicited water heater door-to-door salespeople. A report, entitled *The Truth About Door-to-Door Water Heater Sales Tactics in Ontario*, was released on June 7, 2011.

The survey results found that residents' experiences with door-to-door water heater salespeople were decidedly negative with many respondents reporting sales tactics that are aggressive and intrusive; including asking to see the current energy bill and saying they needed to come into the home. Of particular interest is the fact that only 20% of respondents said that door-to-door water heater salespeople identified the company they represented. Further, 23% of respondents believed they had been approached by DE or EGD, neither of which solicit water heater sales door-to-door, and 45% could not identify which company the salespeople represented.

Other key findings included:

- 65% of consumers who switched providers saw their monthly water heater rental charge increase, 75% of them by at least $3 per month; and
- more than 4-in-10 (41%) residents said the salesperson was pushy and pressured them to sign the contract.

Pollara's survey results are considered accurate within 2.83%, 19 times out of 20.

Appointment of New Chief Financial Officer

Effective August 15, 2011, Evelyn Sutherland has been appointed as chief financial officer for EnerCare and EnerCare Solutions and each of their respective subsidiary entities. Ms. Sutherland will succeed Chris Cawston, who is EnerCare's chief financial officer on an interim basis. Mr. Cawston will remain as chief financial officer until Ms. Sutherland's appointment and will provide transition assistance after this date.

Ms. Sutherland has more than 15 years of experience in finance and various marketing roles. She was the chief financial officer of Scott's REIT, a TSX listed issuer. Prior to joining Scott's REIT, Ms. Sutherland was the chief financial officer of the United Purchasing Group of Canada, a purchasing co-operative responsible for managing the supply chain system for all KFC, Taco Bell and Pizza Hut restaurants across Canada.

Ms. Sutherland is a Chartered Accountant (Ontario) and holds an Honours Bachelor of Commerce degree (Accounting) from the University of Windsor and a Bachelor of Arts from the University of Western Ontario.

New Brunswick

EnerCare Solutions Limited Partnership entered into an origination and servicing agreement with Enbridge Gas New Brunswick Limited Partnership ("EGNB"). Under the agreement, EGNB will originate and service water heaters and HVAC equipment in connection with EGNB's fuel switching programs in New Brunswick.

This is a milestone for EnerCare in that it represents the first expansion of the company's rental program outside of Ontario. It is expected that EGNB will commence offering EnerCare's rental solutions as part of its fuel switching program in mid-August in the 9 communities it serves.

Revolver

On July 6, 2011, the Revolver was amended, among other things, to decrease standby fees by approximately 60% and extend the term by one year to 2014. In addition, the covenant restriction of total debt to Adjusted EBITDA ratio as defined in the agreement was maintained at 4.25:1 throughout the term of the agreement. This ratio was originally scheduled to become 4.0:1 after March 31, 2012.

RESULTS OF OPERATIONS

Overview

The following results of operations include ECI Sub-metering from the date of acquisition on October 1, 2010. Accordingly, EnerCare's consolidated financial results include partial year Sub-metering results in 2010.

EnerCare is very pleased with the progress that has been made integrating ECI with our legacy Sub-metering business. Office space and data centers were consolidated in the second quarter of 2011. This quarter, both Sub-metering businesses, ECI and Stratacon, were again accretive to EBITDA.

Consistent with our previously disclosed intentions, EnerCare and Direct Energy executed a number of initiatives during the second quarter aimed at reducing Attrition. These initiatives were designed to raise customer awareness by highlighting the questionable sales tactics of some Door to Door sales agents. These initiatives used multiple channels, including television, radio, print and on-line to make millions of customer impressions. Efforts also included an Ignore the Door branded contest. In order to address our broad and diverse customer base, a number of campaigns were conducted in English, Cantonese, Mandarin and Punjabi.

EnerCare also deployed teams to provide information directly to consumers in the most active Door to Door sales areas and to promote the Ignore the Door contest.

Our efforts during the second quarter of 2011 were part of our full year integrated plan to continue to reduce Attrition.

Earnings Statement

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Revenues				
Rentals	**$46,745**	$49,115	**$93,640**	$95,579
Sub-metering	**13,184**	2,330	**27,589**	4,987
Investment income	**140**	5	**252**	7
Total revenues	**60,069**	51,450	**121,481**	100,573
Commodity charges	**9,725**	1,303	**20,318**	2,924
SG&A expenses:				
Rentals	**4,284**	5,747	**8,118**	10,281
Sub-metering	**2,419**	1,795	**5,072**	3,507
Corporate	**2,535**	981	**5,888**	2,244
Total SG&A expenses	**9,238**	8,523	**19,078**	16,032
Amortization expense	**26,103**	27,560	**52,343**	55,166
Loss on disposal of equipment	**4,861**	5,918	**9,501**	10,911
Interest expense	**10,566**	10,325	**21,257**	22,438
Total operating expenses	**60,493**	53,629	**122,497**	107,471
Other income	**2,129**	-	**2,129**	-
Earnings/(Loss) before income taxes	**1,705**	(2,179)	**1,113**	(6,898)
Current tax (expense)	**(1,881)**	-	**(3,465)**	-
Deferred income tax recovery	**1,858**	4,745	**2,973**	9,617
Net earnings	**$ 1,682**	$ 2,566	**$ 621**	$ 2,719
Adjusted EBITDA	**$40,966**	$41,619	**$81,833**	$81,610
EBITDA	**$36,105**	$35,701	**$72,332**	$70,699

Revenues

Total revenues of $60,069 for the second quarter of 2011 increased by $8,619 or 17% and by $20,908 or 21% to $121,481 year to date, compared to the same periods in 2010. Rentals revenues decreased by $2,370 to $46,745 in the second quarter of 2011 and by $1,939 or 2% to $93,640 year to date compared to the same periods in 2010 primarily due to changes in outstanding units partially offset by rental rate increases implemented in January 2011. Sub-metering revenues in the second quarter of 2011 were $13,184, an increase of $10,584, and $27,589 year to date, an increase of $22,602 over the same periods in 2010. The revenue growth resulted from an increase in the number of billing units in our legacy Sub-metering business, Stratacon combined with the inclusion of ECI units. Revenue increases include pass through commodity charges of $9,725 in the second quarter and $20,318 year to date.

Investment income increased by $135 in the second quarter of 2011 to $140 and by $245 to $252 year to date as a result of improved investment rates and larger investment balances during 2011.

Selling, General & Administrative Expenses

Total SG&A expenses were $9,238 in the second quarter of 2011, an increase of $715 or 8% over the same period in 2010. The expense increase is the result of the inclusion of the ECI business of approximately $1,300, and an increase in selling expenses of $1,450 and office expenses, compensation and professional fees of $800, partially offset by reductions in bad debt and claims of $2,500 and billing, servicing and inventory management charges of $300. EnerCare reached an agreement in principal with DE to receive a payment of approximately $2,200 representing EnerCare's entitlement to unremitted customer payments for rentals outside of the EGD territory. The settlement amount had an earnings impact of $1,300 recorded as a recovery of previous bad debts written off during 2010, with the remainder reflected as a change in financial position between outstanding customer receivables and an account receivable from DE.

Total SG&A expenses were $19,078 year to date in 2011, an increase of $3,046 or 19% over the same period in 2010. The inclusion of the ECI business, which accounted for approximately $2,800 of the amount, was the primary driver of the increase. Increases of $1,900 in selling expenses and $1,450 for office expenses, compensation and professional fees, partially offset by reductions in bad debt and claims of $2,300 and billing, servicing and inventory management charges of $800 accounted for the balance of the increase.

Amortization Expense

Amortization expense decreased by $1,457 to $26,103 in the second of quarter of 2011 and $2,823 to $52,343 year to date, primarily due to the expiration of the intangible assets related to the former shareholders of Stratacon, a smaller portfolio base and a change in the estimated useful lives of sub-meters that occurred in the fourth quarter of 2010.

Interest Expense

Interest Expense	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Interest expense payable in cash	**$ 9,253**	$ 9,077	**$18,619**	$18,604
Non-cash items:				
Amortization of bridge fees	**-**	-	**-**	1,440
Amortization of OCI and financing costs	**1,313**	1,248	**2,638**	2,394
Interest expense	**$10,566**	$10,325	**$21,257**	$22,438

Interest expense payable in cash increased nominally to $9,253 in the second quarter of 2011 and to $18,619 year to date over the same periods in 2010. The second quarter of 2011 increase is primarily related to the full quarter impact of the Convertible Debentures partially offset by the Revolver interest expense incurred in 2010. Year to date 2011 interest expense is consistent with amounts through June 2010. The amortization of bridge fees relates to the 2009 Bridge that was repaid when the 2010 Notes were issued in March 2010. Amortization of OCI and financing costs increased modestly in 2011 as a result of the full period impact of the 2010 Notes and the Convertible Debentures.

Loss on Disposal of Equipment

In the second quarter of 2011, EnerCare reported a loss on disposal of equipment of $4,861, representing a decrease of $1,057 or 18%. For the six months ended June 30, 2011, loss on disposal of equipment was $9,501 compared to $10,911 during the same period in 2010. The loss on disposal amount is influenced by the number of assets retired, changes in the retirement asset mix and the age of the assets retired. The primary reason for the decreased expenses relates to the lower unit Attrition and exchange activity in the Rentals business in 2011 when compared to 2010.

Income Taxes

EnerCare reported a current tax expense of $1,881 and $3,465 for the three months and six months ended June 30, 2011, respectively, related to the taxable status of the corporation effective January 1, 2011. The deferred income tax recovery of $1,858 for the second quarter of 2011 and $2,973 for the year to date 2011 decreased by $2,887 and $6,644, respectively, primarily as a result of temporary difference reversals in the Rentals and Sub-metering businesses.

Adjusted EBITDA and EBITDA

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

Quarterly Earnings Before Interest, Taxes and Amortization (EBITDA)

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q4/09	Q3/09
Net (loss)/earnings	**$1,682**	$(1,061)	$(3,214)	$ 2,216	$ 2,566	$ 153	$15,784	$(6,004)
Deferred Tax (recovery)/expense	**(1,858)**	(1,115)	(3,419)	(5,172)	(4,745)	(4,872)	(28,065)	(11,242)
Current Tax expense	**1,881**	1,584	-	-	-	-	-	-
Amortization expense	**26,103**	26,240	26,620	27,287	27,560	27,606	28,414	31,203
Interest expense	**10,566**	10,691	10,666	10,693	10,325	12,113	10,107	10,069
Other Income	**(2,129)**	-	-	-	-	-	-	-
Investment (income)	**(140)**	(112)	104	(1,802)	(5)	(2)	(14)	(3)
EBITDA	**36,105**	36,227	30,757	33,222	35,701	34,998	26,226	24,023
Add: Loss on disposal of equipment	**4,861**	4,640	4,673	5,756	5,918	4,993	6,086	11,000
Add: Impaired assets	**-**	-	-	-	-	-	4,106	3,398
Adjusted EBITDA	**$40,966**	$40,867	$35,430	$38,978	$41,619	$39,991	$36,418	$38,421
Accounting basis	**IFRS**	IFRS	IFRS	IFRS	IFRS	IFRS	CGAAP	CGAAP

EBITDA of $36,105 for the second quarter of 2011 increased by $404 and the year to date amount of $72,332 increased by $1,633 compared to the same periods in 2010. This improvement was driven by increases in Sub-metering and reductions in loss on disposal of equipment charges, partially offset by reduced revenues in Rentals. Adjusted EBITDA decreased by $653 to $40,966 in the second quarter of 2011 and increased by $223 to $81,833 for the year to date.

Billing and Servicing Matters

Earnings Items

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

EnerCare has estimated and recorded revenues of $1,100 ($2,665 – second quarter of 2010) in respect of customer billings and adjustments associated with transactions that have not been completed by DE. The accrual reflects the amount expected to be recovered from customers, but does not include any amounts EnerCare may recover from DE for lost revenues arising from these billing system conversion issues.

During the quarter ended June 30, 2011, DE has made some progress in respect of collection exposures and application of customer payments. As a result, EnerCare reached an agreement in principal with DE to receive a payment of approximately $2,200 representing EnerCare's entitlement to unremitted customer payments for rentals outside of the EGD territory. The settlement amount had an earnings impact of $1,300 recorded as a recovery of previous bad debts written off during 2010, with the remainder reflected as a change in financial position between outstanding customer receivables and an account receivable from DE. Payment and full settlement of this component of the DE billing issues should be completed for the third quarter of 2011.

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

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

Capital Items

EnerCare continues to be in discussion with DE regarding certain amounts DE has billed EnerCare for water heater installations that are reflected as capital additions. The amounts at issue totalled $3,200 ($2,200 – second quarter of 2010) at June 30, 2011. Settlement with DE for a lower amount than billed would result in a reduction to previously stated capital expenditure amounts.

DISTRIBUTABLE CASH AND PAYOUT RATIO

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Cash provided by operating activities	**$27,050**	$29,842	**$59,966**	$56,461
Net change in non-cash working capital	**5,051**	2,705	**2,164**	6,552
Operating Cash Flow[3]	**32,101**	32,547	**62,130**	63,013
Capital expenditures – growth capital	**(15,229)**	(17,474)	**(30,570)**	(35,379)
Proceeds on disposal of equipment	**1,010**	833	**2,081**	1,761
Distributable Cash	**17,882**	15,906	**33,641**	29,395
Dividends declared	**(8,958)**	(8,304)	**(17,876)**	(16,327)
Net cash retained/(distributed) by EnerCare	**$ 8,924**	$ 7,602	**$15,765**	$13,068
Payout Ratio	**50%**	52%	**53%**	55%

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

The Payout Ratio, after capital expenditures (excluding growth capital) was 50% for the second quarter of 2011 compared to 52% for the same period in 2010 primarily due to an increase in Distributable Cash, which includes current taxes of $1,881, partially offset by higher dividend payouts resulting from an increase in the number of Shares outstanding as a result of the Share offering in June 2010 and conversion of some of the Convertible Debentures. The year to date Payout Ratio of 53% for 2011 was slightly lower than 2010 due mainly as a result of the capital expenditure reductions driven by lower exchange activity.

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

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Cash flow from operating activities	**$27,050**	$29,842	**$59,966**	$56,461
Net change in non-cash working capital	**5,051**	2,705	**2,164**	6,552
Operating Cash Flow	**32,101**	32,547	**62,130**	63,013
Net capital expenditures	**(14,219)**	(16,641)	**(28,489)**	(33,618)
Growth capital	**(4,113)**	(536)	**(6,071)**	(1,185)
Cash used in investing activities	**(18,332)**	(17,177)	**(34,560)**	(34,803)
Dividends paid	**(8,940)**	(8,022)	**(14,883)**	(16,045)
Net financing	**(223)**	47,031	**265**	45,553
Cash (used in)/provided by financing activities	**(9,163)**	39,009	**(14,618)**	29,508
Cash and equivalents – end of period	**$63,283**	$76,505	**$63,283**	$76,505

Operating Cash Flow of $32,101 and $62,130 decreased by $446 and $883 for the three and six months ended June 30, 2011, respectively, compared to the same quarters in 2010. Cash flow from operating activities is a GAAP measure which is impacted by the timing of net changes in non-cash working capital. In the second quarter of 2011 non-cash working capital changed by approximately $2,300 to $5,051 primarily as a result of a decrease in accounts payable. For the six months end June 2011, the decrease of approximately $4,400 was primarily due to a decrease in accounts receivable and interest payable an increase in accounts payable.

Capital investments in the second quarter of 2011 and year to date were higher primarily due to installation activity in the Sub-metering businesses partially offset by the positive impact of reduced asset exchanges in the Rentals business. Net financing activity for 2011 primarily reflects principal repayments and the first quarter receipt of cash collateral in respect to the Stratacon Debt.

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

EnerCare Solutions expects to refinance or repay from cash on hand, in whole or part, its 2009-1 Notes on or before April 30, 2012 (their maturity date). While it is anticipated that EnerCare Solutions will refinance the debt at rates and terms acceptable to the EnerCare, there can be no assurance that this will be the case.

Management believes that EnerCare has sufficient cash flow, cash on hand and credit available to meet its 2011 obligations, including both capital expenditures and working capital requirements for the Rentals and Sub-metering businesses.

Capital Expenditures

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

Asset Unit Continuity	**Three months ended June 30,**					
(in thousands)	**2011**			2010		
Segment	**Rentals**	**Sub-metering**	**Total**	Rentals	Sub-metering	Total
Units – start of period	**1,255**	**82**	**1,337**	1,308	41	1,349
Portfolio additions	**6**	**6**	**12**	7	2	9
Attrition	**(19)**	**-**	**(19)**	(22)	-	(22)
Units – end of period	**1,242**	**88**	**1,330**	1,293	43	1,336
Asset exchanges – units retired and replaced	**13**	**-**	**13**	15	-	15
% change in units during the period			**(0.5%)**			(1.0%)
% of units from start of period:			**-**			-
Portfolio additions (net of acquisitions)			**0.9%**			0.7%
Attrition			**(1.4%)**			(1.6%)
Units retired and replaced			**1.0%**			1.1%

Asset Unit Continuity	**Six months ended June 30,**					
(in thousands)	**2011**			2010		
Segment	**Rentals**	**Sub-metering**	**Total**	Rentals	Sub-metering	Total
Units – start of period	**1,267**	**77**	**1,344**	1,322	35	1,357
Portfolio additions	**12**	**11**	**23**	13	8	21
Attrition	**(37)**	**-**	**(37)**	(42)	-	(42)
Units – end of period	**1,242**	**88**	**1,330**	1,293	43	1,336
Asset exchanges – units retired and replaced	**27**	**-**	**27**	32	-	32
% change in units during the period			**(1.0%)**			(1.5%)
% of units from start of period:						
Portfolio additions (net of acquisitions)			**1.7%**			1.5%
Attrition			**(2.8%)**			(3.1%)
Units retired and replaced			**2.0%**			2.4%
Billable units	**1,242**	**54**	**1,296**	1,293	18	1,311

Net capital expenditures in the Rentals business include portfolio additions and asset exchanges, net of proceeds on disposal. In the second quarter of 2011 and year to date, net capital expenditures (excluding acquisitions) in the Rentals business were $14,219 and $28,489, respectively, decreasing by $2,422 and $5,129 when compared to the same periods in 2010. Rentals asset exchanges decreased by 2,000 and 5,000 units for the three and six months ended June 30, 2011, respectively, over the same periods in 2010, which largely accounts for the decrease in capital expenditures.

Installations in the Sub-metering business improved during the second quarter and year to date in 2011 following increased sales activity in recent quarters.

Attrition in the Rentals business fell to 19,000 units during the second quarter of 2011 and 37,000 units year to date; a decrease of approximately 14% from the same periods in 2010. Attrition units and percentages on a year over year basis decreased in each of the past 5 quarters in part due to customer communications and marketing programs delivered by EnerCare and DE.

Cash from Financing

Financing activities for EnerCare reflect mainly dividends, periodic financing of EnerCare Solutions' indebtedness, the Fund's offering of Units and Convertible Debentures, and to a much lesser extent financing of the Sub-metering business. During the three and six months ended June 30, 2011, EnerCare reflected net financing activity of $223 and $265, respectively, related to on-going principal payments on Stratacon Debt and receipt of cash collateral in the first quarter also related to the Stratacon Debt. During the same period in 2010, net financing activity of $47,031 and $45,553, respectively, was primarily related to the issuance of Shares and Convertible Debentures in the second quarter of 2010.

	Six months ended June 30,	
Capitalization	**2011**	2010
Cash and cash equivalents	**$ 63,283**	$ 76,505
Net investment in working capital	**(11,713)**	(2,589)
Cash, net of working capital	**51,570**	73,916
Total debt	**595,875**	610,058
Shareholder's equity	**131,760**	158,180
Total capitalization – book value	**$727,635**	$768,238

Typically, EnerCare maintains cash balances to provide sufficient cash reserves to satisfy short-term requirements, including interest payments, dividends and certain capital expenditures and acquisitions. EnerCare held $63,283 of cash and cash equivalents at June 30, 2011, a decrease of $13,222 from the prior year, comprised of positive cash flows offset by the repayment of the Revolver and the purchase of EECI in October 2010.

At June 30, 2011, total debt was comprised of the 2009 Notes and 2010 Notes, Convertible Debentures and the Stratacon Debt.

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

Revolver

Under the Revolver, EnerCare Solutions is subject to three principal financial covenants as described in the AIF. The covenants address interest and debt coverage. EnerCare Solutions complied with these covenants on June 30, 2011. No amounts were drawn on the Revolver at June 30, 2011.

2009 Notes and 2010 Notes – Incurrence Test

The covenants under the 2009 Notes and 2010 Notes are contained in a master trust indenture and supplemental indentures effective January 29, 2010 and February 19, 2010, respectively. Under the terms of these indentures, EnerCare Solutions may not incur additional senior debt other than certain refinancing debt and certain working capital debt if the Incurrence Test (as described in the AIF) is less than 3.8 to 1. On June 30, 2011, EnerCare Solutions exceeded this minimum and has the capacity under the covenant to raise approximately $10,000 to $20,000 additional senior debt should it elect to do so.

Summary of Quarterly Results

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q4/09	Q3/09
Total revenues	$60,069	$61,412	$57,169	$49,676	$51,450	$49,123	$44,727	$46,121
Net earnings/(loss)	1,682	(1,061)	(3,214)	2,216	2,566	153	15,784	(6,004)
Dividends declared	8,958	8,918	8,867	8,867	8,304	8,023	8,023	13,322
Average Shares outstanding	55,206	54,952	54,734	54,734	50,841	49,524	49,524	49,524
Per Share								
Basic/diluted net (loss)/earnings	$0.03	($0.02)	($0.06)	$0.04	$0.05	$0.00	$0.32	($0.12)
Dividends declared	$0.162	$0.162	$0.162	$0.162	$0.163	$0.162	$0.162	$0.269
Accounting basis	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	CGAAP	CGAAP

Revenue increases during 2010 and 2011 were driven by the acquisition of EECI in the fourth quarter of 2010, rate increases in the Rentals business, generally implemented in January of each year, and accruals related to billing and servicing matters. These increases were partially offset by the impact of Attrition in the Rentals portfolio and as a result of a lower billing base in the Sub-metering business due primarily to the OEB Order.

Differences in net earnings between quarters reflect the profile of certain expenses, as well as the timing and amount of future income tax recoveries. Commencing in the fourth quarter of 2009, dividend payments reflect the full impact of the distribution reduction effected in September 2009. The average number of Shares outstanding and the related per Share data reflect the Fund's Unit offering of June 2010. Commencing in 2011 Shares outstanding have increased with the Conversion of Convertible Debentures.

SUMMARY OF CONTRACTUAL DEBT AND LEASE OBLIGATIONS

The following schedule summarizes the contractual debt and lease obligations of EnerCare at June 30, 2011:

Period	Principal Payments	Interest Payments	Leases
Within the next 12 months	$ 61,110	$36,556	$ 471
1 to 2 years	241,165	32,744	358
2 to 3 years	271,221	20,048	357
3 to 4 years	1,285	1,722	349
4 to 5 years	1,203	1,617	386
Thereafter	24,636	1,566	257
Total	$600,620	$94,253	$2,178

Long-term senior contractual obligations of EnerCare include debt service on the 2009-1 Notes, 2009-2 Notes and 2010 Notes bearing interest at 6.20%, 6.75% and 5.25%, respectively. Interest on the 2009 Notes is payable semi-annually on April 30 and October 30 and on March 15 and September 15, in respect of the 2010 Notes. The Stratacon Debt of $7,252 was issued in 14 series with maturity dates ranging from 4 to 14 years, ending in 2022. The interest rate on the Stratacon Debt ranges from 7.5% to 8.75% and is paid monthly.

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

At June 30, 2011, $35,000 of the Revolver was available to be drawn. The Revolver bore a standby fee of 0.90% which has not been included in the above schedule until maturity in January 2013. Subsequent to the quarter the Revolver was amended as outlined in "Recent Developments" in this MD&A.

Lease obligations include premises and office equipment. Substantially all of the future expense obligations are the result of 4 leased premises. Office equipment leases expire in 2011.

ENERCARE SHARES ISSUED AND OUTSTANDING

EnerCare's articles of incorporation provide for the issuance of an unlimited number of Shares and 10,000,000 preferred shares.

At June 30, 2011, there were 55,430,845 Shares issued and outstanding, and no preferred shares were outstanding.

UPDATE TO RISK FACTORS

The risks related to the business and structure of EnerCare discussed in the AIF remain unchanged except as discussed under IFRS (see *"IFRS" in this MD&A*).

IFRS

Effective January 1, 2011, EnerCare and EnerCare Solutions adopted IFRS for publicly traded enterprises. IFRS accounting principles and financial data has been applied retroactively to 2010. The significant accounting policy choices and financial statement impacts are discussed below.

Business Combinations and Contingent Consideration

EnerCare acquired Stratacon in August 2008. The Stratacon purchase included contingent consideration for the 3 year period ending July 31, 2011. As at January 1, 2010, management's estimate of this obligation was $5,000. This obligation was reflected on the balance sheet effective January 1, 2010 as a liability payable and charged through equity. Any difference between this estimate and the amount ultimately paid in 2011 will be reflected in the statement of earnings. During 2011, $2,129 has been reflected in other income to reflect a lower estimated payable.

The October 1, 2010 EECI acquisition was originally reported according to standards which were in accordance with IFRS and as such no adjustments related to the business combination are required.

Intangibles and Amortization

As at January 1, 2010, under CGAAP the carrying value of intangible assets was evaluated on an undiscounted cost recovery methodology. Under IFRS the value in use of these assets is assessed on a discounted basis resulting in an impairment charge of $18,565. Equity was reduced by $14,035 net of a reduction in deferred tax liabilities of $4,530. Under CGAAP amortization was based on greater intangible asset values in 2010, as such, amortization and deferred tax recoveries for 2010 have been reduced under IFRS to give effect to the impairment recorded January 1, 2010.

Convertible Debentures

The Convertible Debentures issued in June and July 2010 have been recorded as a liability with the value of the debentures being reduced to reflect the fair value of the conversion feature of these debentures. The reduction will be accreted to earnings over the term of the debentures using the effective interest method. For the period from the date of issue through to Conversion, the value of the conversion feature was reflected in other liabilities and revalued to fair value each reporting period. Changes in the fair value have been reflected through earnings. On January 1, 2011, the fair value of the conversion feature of $1,749 was transferred to equity of EnerCare and will no longer be subject to fair value adjustments each reporting period.

Accounting Polices

Under IFRS, after initial recognition, it is possible to measure property and equipment using the cost model or the revaluation model. EnerCare will continue to use the cost model.

The following table outlines the principal changes under IFRS for 2010. A detailed analysis can be found in note 4 of the interim consolidated financial statements of EnerCare for the second quarter ended June 30, 2011.

Changes in Accounts	Jan. 1/10	Q1/10	Q2/10	Q3/10	Q4/10	YTD/10
Assets						
Intangible assets – Opening balance	$(18,565)	$ -	$ -	$ -	$ -	$(18,565)
Intangible assets	-	297	331	314	314	1,256
Total Assets	(18,565)	297	331	314	314	(17,309)
Liabilities						
Other liabilities payable	-	-	-	4,300	-	4,300
Other long-term liabilities payable	5,000	-	-	(5,000)	-	-
Long-term debt	-	-	-	1,538	211	1,749
Deferred income liability	(4,530)	77	111	94	94	(4,154)
Equity						
Opening shareholders' equity	(19,035)	-	-	-	-	(19,035)
Convertible Debentures – Equity allocation	-	-	-	(1,538)	-	(1,538)
Retained earnings	-	220	220	920	9	1,369
Total Liabilities and Equity	(18,565)	297	331	314	314	(17,309)
Earnings						
Other Income/(loss)	-	-	-	700	(211)	489
Amortization- recovery	-	297	331	314	314	1,256
Deferred income tax expense	-	(77)	(111)	(94)	(94)	(376)
Total Earnings	$ -	$ 220	$ 220	$ 920	$ 9	$ 1,369

NON-GAAP FINANCIAL AND PERFORMANCE MEASURES

The interim consolidated financial statements of EnerCare are prepared in accordance with IFRS. EnerCare's accounting policies are summarized in detail in note 2 of the interim consolidated financial statements.

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

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

Measures of Asset Portfolio Performance

Capital Expenditures and Acquisitions

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

Measures of Financial Performance

Adjusted EBITDA

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

Billable

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

Distributable Cash

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

Distributions and Payout Ratio

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

EBITDA

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

Operating Cash Flow

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

Measures Regarding Debt Covenants

As at June 30, 2011, EnerCare was in compliance with all covenants under the 2009 Notes, 2010 Notes and Revolver. A summary of the current covenants as described in the AIF is discussed below.

Revolver

Under the Revolver, EnerCare Solutions is subject to three principal financial covenants as described in the AIF. The covenants address interest and debt coverage. EnerCare Solutions complied with these covenants and has the ability to draw on the Revolver.

2009 Notes and 2010 Notes – Incurrence Test

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts in the interim consolidated financial statements and accompanying notes. These estimates are based on EnerCare's historical experience, probability analysis and various other assumptions that management considered under the circumstances, the results of which form the basis for making judgments about the reported amounts in the interim consolidated financial statements that are not readily apparent from other sources. The critical accounting estimates for EnerCare are the estimated useful lives of equipment, intangible assets and provisions. During 2010 and 2011, additional accruals were recorded (see *"Billing and Servicing Matters" in this MD&A*).

Equipment

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

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

In the fourth quarter of 2010, the Fund changed an accounting estimate in respect of the useful lives of Stratacon's sub-metering equipment. The useful lives changed from 6 years to 10 years based upon management's belief that the recertification of meters may be accomplished less expensively than previously thought and may not result in new equipment replacement in every circumstance. The impact of reduced amortization in 2010 was approximately $270 with an estimated impact of $1,080 over 12 months.

Intangible Assets

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

Sub-metering intangible assets are comprised of cash flows related to customer contracts and relationships, and the benefits from certain contractual arrangements. Stratacon related customer contracts and relationships were initially amortized on a straight-line basis over the average estimated contract life of 16 years while other contractual arrangements are amortized on a straight-line basis between 2 and 5 years. On transition to IFRS a full provision against the carrying value of Stratacon customer relationships of $18,565 was recorded. A policy related to ECI intangibles has not been established until such time as the purchase price allocation has been completed. Additional details may be found in the notes to the financial statements.

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

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

EnerCare's certifying officers have designed, and assessed the design of, a system of DC&P to provide reasonable assurance that (i) material information relating to EnerCare, including its consolidated subsidiaries, is made known to them by others; and (ii) information required to be disclosed by EnerCare in its annual filings, interim filings and other reports filed or submitted by EnerCare under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As well, EnerCare's certifying officers have designed, and assessed the design of, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There are no material weaknesses relating to the design of either DC&P or ICFR at June 30, 2011. There have been no changes to our ICFR during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, EnerCare's ICFR, including as a result of the implementation of IFRS, as any changes were either immaterial or implemented in prior periods.

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

CHANGES IN ACCOUNTING POLICIES

The interim consolidated financial statements of EnerCare are prepared in accordance with IFRS, which became effective on January 1, 2011 with retroactive application to January 1, 2010. Transition elections and adjustments are summarized further in the IFRS section of this MD&A.

Accounting standard IFRS 9, Financial Instruments, was issued in November 2009. It addressed classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return on investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. EnerCare has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

OUTLOOK

EnerCare's financial and operating performance has continued to be strong, including the overall asset base, Payout Ratio, cash balances, and business model.

EnerCare is very pleased with the reduction in Attrition in the second quarter of 2011, the fifth successive quarter of year over year reduction in Attrition. We believe that our strategies to counter Attrition have been successful and consequently we will continue to invest in such programs.

We believe that the expiry in February 2012 of the Consent Order issued by the Competition Bureau, which restricts EnerCare's and DE's business practices, will enhance our ability to compete.

EnerCare plans to increase efforts to grow its business organically and, depending on opportunities that arise, by selective acquisitions in our current or adjacent markets. Investments will focus on those which have long asset life and long-term customer relationships that will generate positive growth in revenues, earnings and/or cash flows within an appropriate horizon depending on the stage of the development of the business acquired.

And while we are pleased with the business integration to date, we are planning further Sub-metering initiatives to reduce operating costs, including further office and warehouse space consolidation and reductions in billing platform expenses.

GLOSSARY OF TERMS

Defined Term	Definition
AIF	Annual Information Form of EnerCare dated March 29, 2011.
Attrition	Termination of customer relationships, including buyouts.
Billable	EnerCare property that is deemed to be billing (see – “Measures of Financial Performance”).
CGAAP	Generally Accepted Accounting Principles under part V of the Canadian Institute of Chartered Accountants handbook.
Conversion	The conversion of the Fund, an income trust, to EnerCare, a dividend-paying corporation.
Convertible Debentures	$27,883 principal amount of 6.25% convertible unsecured subordinated debentures of EnerCare (formerly the Fund), which mature on June 30, 2017. 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).
DC&P	Disclosure Controls and Procedures as defined under National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings.
DE	Direct Energy Marketing Limited.
ECI	EnerCare Connections Inc. (formerly EECI).
EECI	Enbridge Electric Connections Inc. (now ECI).
EGD	Enbridge Gas Distribution Inc.
EnerCare	EnerCare Inc., formerly the Fund.
EnerCare Solutions	EnerCare Solutions Inc., formerly the Trust.
Fund	The Consumers’ Waterheater Income Fund.
GAAP	Generally Accepted Accounting Principles.
Incurrence Test	2009 Notes and 2010 Notes Incurrence EBITDA to Net Interest Expense.
ICFR	Internal Control Over Financial Reporting as defined under National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings.
IFRS	International Financial Reporting Standards as adopted by the Canadian Institute of Chartered Accountants under Part I of the Handbook.
MD&A	Management’s Discussion and Analysis.
OEB	Ontario Energy Board.
OCI	Other Comprehensive Income.
OEB Order	OEB decision and order issued August 13, 2009.
Rentals	Business division that rents water heaters and other equipment.
Revolver	$35,000 line of credit, with a maturity date of January 28, 2014 as amended and restated as of July 6, 2011.
SG&A	Selling, general and administrative expenses.
Shares	Common shares of EnerCare.
Stratacon	Stratacon Inc., which was acquired by the Fund in August 2008.
Stratacon Debt	Secured debt assumed with the acquisition of Stratacon.
Sub-metering	Business division (Stratacon and ECI) that provides sub-metering equipment and billing services.
Trust	The Consumers’ Waterheater Operating Trust.
Units	Trust Units of the Fund.
2009 Bridge	$240,000 bridge credit facility, with a maturity date of January 28, 2011.
2009-1 Notes	$60,000 of 6.20% Series 2009 -1 Senior Notes of the Trust, which mature on April 30, 2012.
2009-2 Notes	$270,000 of 6.75% Series 2009 -2 Senior Notes of the Trust, which mature on April 30, 2014.
2009 Notes	Collectively, the 2009-1 Notes and 2009-2 Notes.
2010 Notes	$240,000 of 5.25% Series 2010 -1 Senior Unsecured Notes of the Trust, which mature on March 15, 2013.