EnerCare Solutions Inc.

EnerCare Solutions 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 Solutions Inc. are prepared in accordance with IFRS which became effective on January 1, 2011 with retroactive application to January 1, 2010. EnerCare Solutions' 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.

As of June 30, 2011, EnerCare Solutions was a wholly-owned subsidiary of EnerCare. EnerCare Solutions' business is the rental of water heaters and other equipment.

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 Solutions' 2010 audited consolidated financial statements. Additional information in respect to the Trust and EnerCare Solutions, 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 Solutions' 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 Solutions 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 Solutions 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.

A thorough discussion in respect of the material risks relating to the business and structure of EnerCare Solutions 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 $46,832 decreased by 5% over 2010 primarily as a result of the changes in overall assets partially offset by rental rate increases.
- EBITDA[1] decreased by 1% to $36,014 in 2011 driven principally by lower revenues and greater expenses. Adjusted EBITDA[1] of $40,875 decreased by 4%, after removing the impact of a reduced loss on disposal of equipment in 2011.
- Net losses were $1,150 in 2011, $4,437 lower than 2010 as a result of current tax expenses in 2011 of $1,881, lower income tax recoveries of $1,849 and higher interest expense, partially offset by other reductions in amortization and loss on disposal of equipment.
- 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.

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.

EnerCare Solutions 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.

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

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 Solutions' 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 Solutions 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 Solutions' 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

Consistent with our previously disclosed intentions, EnerCare Solutions 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
Investment income	**87**	3	**147**	4
Total revenues	**46,832**	49,118	**93,787**	95,583
SG&A expenses	**5,870**	6,710	**13,057**	12,466
Amortization expense	**25,451**	26,061	**50,888**	52,158
Loss on disposal of equipment	**4,861**	5,918	**9,501**	10,911
Interest expense	**11,768**	10,977	**22,112**	23,842
Total operating expenses	**47,950**	49,666	**95,558**	99,377
Loss before income taxes	**(1,118)**	(548)	**(1,773)**	(3,794)
Current tax (expense)	**(1,881)**	-	**(3,465)**	-
Deferred income tax recovery	**1,849**	3,835	**3,363**	8,038
Net (loss)/earnings	**(1,150)**	3,287	**(1,873)**	4,244
Adjusted EBITDA	**40,875**	42,405	**80,583**	83,113
EBITDA	**36,014**	$36,487	**71,082**	$72,202

Revenues

Total 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.

Investment income increased by $84 in the second quarter of 2011 to $87 and by $143 to $147 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 $5,870 in the second quarter of 2011, a decrease of $840 or 13% over the same period in 2010. The expense decrease is comprised of reductions in bad debt and claims of approximately $2,300, professional fees of $600 and billing and servicing charges of $150 partially offset by increased selling expenses, office and other expenses of approximately $1,700 and $550 in compensation. EnerCare Solutions reached an agreement in principal with DE to receive a payment of approximately $2,200 representing EnerCare Solutions' 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 $13,057 year to date in 2011, an increase of $591 or 5% over the same period in 2010. The expense increase is a result of higher costs in respect of selling, office and other of approximately $2,150 and compensation of $1,300, partially offset by reductions in bad debt and claims of $2,400 and billing and servicing charges of $400.

Amortization Expense

Amortization expense decreased by $610 to $25,451 in the second of quarter of 2011 and $1,270 to $50,888 year to date, primarily due to a smaller portfolio base in 2011.

Interest Expense

Interest Expense	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Interest expense payable in cash	**$10,551**	$ 9,752	**$19,679**	$20,031
Non-cash items:				
Amortization of bridge fees	**-**	-	**-**	1,440
Amortization of OCI and financing costs	**1,217**	1,225	**2,433**	2,371
Interest expense	**$11,768**	$10,977	**$22,112**	$23,842

Interest expense payable in cash increased nominally to $10,551 in the second quarter of 2011 and decreased by $352 to $19,679 year to date over the same periods in 2010. The decrease in interest expense payable in cash during 2011 is primarily related to the redemption of intercompany subordinated debt and issuance of promissory notes to EnerCare at the start of 2011 in connection with Conversion which is affected by the timing of EnerCare expense reimbursement. 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 in 2011 are consistent with 2010.

Loss on Disposal of Equipment

In the second quarter of 2011, EnerCare Solutions 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 Solutions 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 $1,849 for the second quarter of 2011 and $3,363 year to date 2011 decreased by $1,986 and $4,675, respectively, primarily as a result of temporary difference reversals.

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	**$(1,150)**	$ (723)	$(1,871)	$ 1,430	$ 3,287	$ 957	$19,473	$ (140)
Current Tax expense	**1,881**	1,584						
Deferred Tax (recovery)	**(1,849)**	(1,514)	(2,958)	(4,567)	(3,835)	(4,203)	(25,296)	(8,221)
Amortization expense	**25,451**	25,437	25,947	26,046	26,061	26,097	26,383	25,804
Interest expense	**11,768**	10,344	10,909	10,932	10,977	12,865	10,905	10,873
Interest (income)	**(87)**	(60)	(67)	(9)	(3)	(1)	(11)	(3)
EBITDA	**36,014**	35,068	31,960	33,832	36,487	35,715	31,454	28,313
Add: Loss on disposal of equipment	**4,861**	4,640	4,673	5,756	5,918	4,993	6,086	11,000
Adjusted EBITDA	**$40,875**	$39,708	$36,633	$39,588	$42,405	$40,708	$37,540	$39,313
Accounting basis	**IFRS**	IFRS	IFRS	IFRS	IFRS	IFRS	CGAAP	CGAAP

EBITDA of $36,014 for the second quarter of 2011 decreased by $473 and the year to date amount of $71,082 decreased by $1,120 compared to the same periods in 2010. This decrease was driven by reduced revenues, partially offset by reductions in SG&A and loss on disposal of equipment charges. Adjusted EBITDA decreased by $1,530 to $40,875 in the second quarter of 2011 and decreased by $2,530 to $80,583 year to date as a result of changes in loss on disposal of equipment.

Billing and Servicing Matters

Earnings Items

DE, through EGD, provides billing and collection services for substantially all of EnerCare Solutions' 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 Solutions' ICFR identified issues principally associated with DE's system conversion impacting EnerCare Solutions' 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 Solutions continues to work closely with DE to resolve billing issues as well as billing completeness.

EnerCare Solutions 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 Solutions 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 Solutions reached an agreement in principal with DE to receive a payment of approximately $2,200 representing EnerCare Solutions' 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 Solutions 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 Solutions continues to be in discussion with DE regarding certain amounts DE has billed EnerCare Solutions 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.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	**2011**	2010
Cash flow from operating activities	**$26,119**	$28,916	**$60,266**	$56,325
Net change in non-cash working capital	**2,411**	3,740	**(2,680)**	6,761
Operating Cash Flow	**28,530**	32,656	**57,586**	63,086
Net capital expenditures	**(14,219)**	(16,641)	**(28,499)**	(33,618)
Cash used in investing activities	**(14,219)**	(16,641)	**(28,499)**	(33,618)
Dividends paid	**(11,909)**	(7,061)	**(14,883)**	(14,137)
Net financing	**-**	(190)	**-**	(1,389)
Cash (used in)/provided by financing activities	**(11,909)**	(7,251)	**(14,883)**	(15,526)
Cash and equivalents – end of period	**$35,029**	$19,554	**$35,029**	$19,554

Operating Cash Flow of $28,530 and $57,586 decreased by $4,126 and $5,500 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 and year to date the decreases in cash flow from operating activities were largely a result of lower revenues and higher expenses. The Non-cash working capital reduction of approximately $1,300 in the second quarter of 2011 was primarily as a result of a decrease in accounts receivable. The year to date change of approximately $9,400 primarily consisted of a decrease in accounts receivable and increases in accounts payable and interest payable.

Capital investments in the second quarter of 2011 and year to date were lower primarily due to the positive impact of reduced asset exchanges. Dividends paid are consistent on a year to date basis in 2011 when compared to 2010; however, the timing of payments influenced the amount in the second quarter of 2011.

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 Solutions, there can be no assurance that this will be the case.

Management believes that EnerCare Solutions 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,**		Six months ended June 30,	
(in thousands)	**2011**	2010	**2011**	2010
Units – start of period	**1,255**	1,308	**1,267**	1,322
Portfolio additions	**6**	7	**12**	13
Acquisitions	**-**	-	**-**	-
Attrition	**(19)**	(22)	**(37)**	(42)
Units – end of period	**1,242**	1,293	**1,242**	1,293
Asset exchanges – units retired and replaced	**13**	15	**27**	32
% change in units during the period	**(1.0%)**	(1.1%)	**(2.0%)**	(2.2%)
% of units from start of period:				
Portfolio additions (net of acquisitions)	**0.5%**	0.5%	**0.9%**	1.0%
Attrition	**(1.5%)**	(1.7%)	**(2.9%)**	(3.2%)
Units retired and replaced	**1.0%**	1.1%	**2.1%**	2.4%

Net capital expenditures 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) were $14,219 and $28,499, respectively, decreasing by $2,422 and $5,119 when compared to the same periods in 2010. 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.

Attrition 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 Solutions and DE.

Cash from Financing

Financing activities for EnerCare Solutions reflect mainly dividends and periodic financing of EnerCare Solutions' indebtedness. During the three and six months ended June 30, 2011, EnerCare Solutions did not have any net financing activity. During the same period in 2010, net financing activity primarily related to the issuance of the 2010 Notes and changes in amounts drawn on the Revolver.

	Three months ended June 30,	
Capitalization	**2011**	2010
Cash and cash equivalents	**$ 35,029**	$ 19,554
Net investment in working capital	**(11,005)**	(3,957)
Cash, net of working capital	**24,024**	15,597
Total senior debt	**567,449**	578,622
Subordinated debt	**100,000**	381,755
Unitholder's equity	**(8,759)**	(258,043)
Total capitalization – book value	**$658,690**	$702,334

Typically, EnerCare Solutions maintains cash balances to provide sufficient cash reserves to satisfy short-term requirements, including interest payments, dividends and certain capital expenditures and acquisitions. EnerCare Solutions held $35,029 of cash and cash equivalents at June 30, 2011, an increase of $15,475 from the prior year, comprised of positive cash flows offset by the repayment of the Revolver.

At June 30, 2011, total debt was comprised of the 2009 Notes and 2010 Notes and a promissory note payable to EnerCare.

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	**$46,832**	$46,955	$45,111	$46,960	$49,118	$46,465	$43,033	$43,805
Net (loss)/earnings	**(1,150)**	(723)	(1,871)	1,430	3,287	957	19,473	(140)
Dividends declared	**$ 8,958**	$ 8,918	$ 7,904	$ 7,905	$ 7,352	$ 7,082	$ 7,032	$12,319
Accounting basis	**IFRS**	IFRS	IFRS	IFRS	IFRS	IFRS	CGAAP	CGAAP

Revenues reflect rate increases 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.

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.

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	$ 60,000	$34,545	$ 336
1 to 2 years	240,000	30,825	248
2 to 3 years	270,000	18,225	248
3 to 4 years	-	-	294
4 to 5 years	-	-	386
Thereafter	-	-	257
Total	$570,000	$83,595	$1,769

Long-term senior contractual obligations of EnerCare Solutions 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.

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 are primarily comprised of premises.

ENERCARE SHARES ISSUED AND OUTSTANDING

EnerCare Solutions articles of incorporation provide for the issuance of an unlimited number of common shares.

At June 30, 2011, there were 1,001 shares issued and outstanding.

IFRS

Effective January 1, 2011, EnerCare Solutions adopted IFRS for publicly traded enterprises. IFRS accounting principles and financial data has been applied retroactively to 2010. There were no significant accounting policy choices or financial statement impacts as a result of the conversion to IFRS.

NON-GAAP FINANCIAL AND PERFORMANCE MEASURES

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

EnerCare Solutions reports on certain Non-GAAP measures that are used by management to evaluate performance of EnerCare Solutions 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 Solutions makes two principal types of investments to grow its installed base of water heaters: 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 Solutions' 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.

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 Solutions' 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 Solutions. 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 Solutions 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 Solutions' 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 Solutions 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. 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 Solutions 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.

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. EnerCare Solutions' intangible assets are amortized over 16 years on a straight-line basis in conjunction with the related equipment.

EnerCare Solutions 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 Solutions' 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 Solutions, including its consolidated subsidiaries, is made known to them by others; and (ii) information required to be disclosed by EnerCare Solutions in its annual filings, interim filings and other reports filed or submitted by EnerCare Solutions under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As well, EnerCare Solutions' 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 Solutions' 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 Solutions intends to take whatever steps are necessary to minimize the consequences thereof.

CHANGES IN ACCOUNTING POLICIES

The interim consolidated financial statements of EnerCare Solutions 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 Solutions has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

OUTLOOK

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

EnerCare Solutions 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 Solutions' and DE's business practices, will enhance our ability to compete.

EnerCare Solutions 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.

GLOSSARY OF TERMS

Defined Term	Definition
AIF	Annual Information Form of EnerCare Solutions dated May 9, 2011.
Attrition	Termination of customer relationships, including buyouts.
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.
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.
EGD	Enbridge Gas Distribution Inc.
EnerCare	EnerCare Inc., formerly the Fund.
EnerCare Shares	Common shares of EnerCare.
EnerCare Solutions	EnerCare Solutions Inc., formerly the Trust.
Fund	The Consumers' Waterheater Income Fund.
Fund Units	Units of the 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.
OCI	Other Comprehensive Income.
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.
Trust	The Consumers' Waterheater Operating Trust.
Units	Units of the Trust.
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.