EnerCare Solutions Inc.

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

First Quarter ended March 31, 2012

Dated May 14, 2012

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The condensed 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 condensed interim consolidated financial statements for the period ended March 31, 2012. Unless otherwise specified, amounts are reported in this MD&A in thousands, except customers, units, Shares and "per Share" amounts and percentages (except as otherwise noted). Dollar amounts are expressed in Canadian currency.

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

FORWARD-LOOKING INFORMATION

This MD&A, dated May 14, 2012, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with EnerCare Solutions' 2011 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 (see in particular "Outlook" section), although not all forward-looking information contains these identifying words. The forward-looking information in this MD&A includes statements that reflect management's expectation regarding EnerCare 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.

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 Solutions can be found in the AIF, which is available on SEDAR at www.sedar.com.

OVERVIEW

EnerCare Solutions is the successor to the Trust, following the conversion of the Trust from an income trust to a corporate structure pursuant to a plan of arrangement on January 1, 2011.

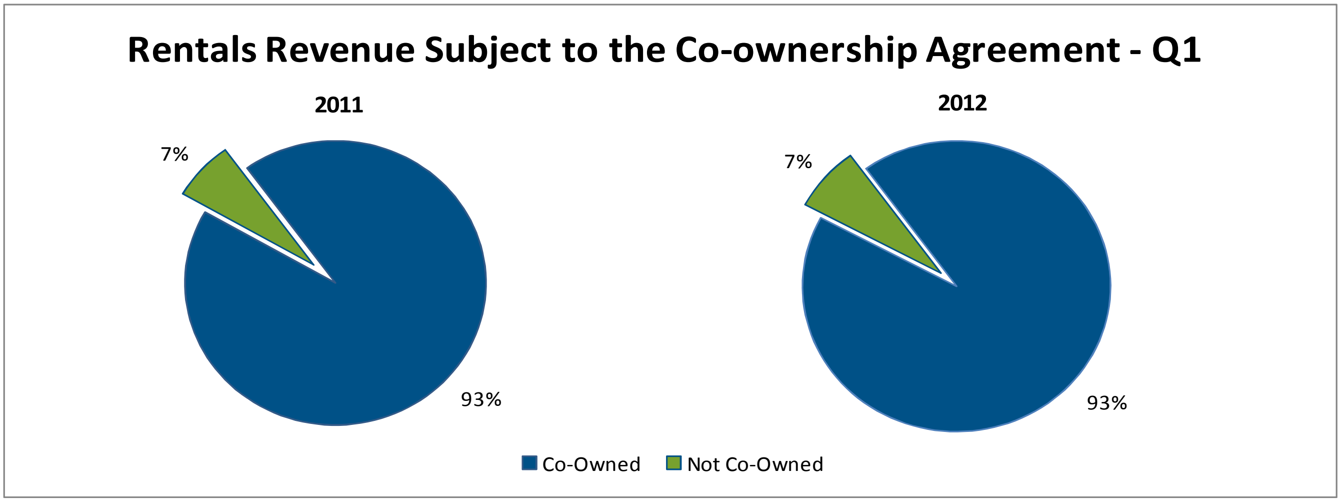
EnerCare Solutions, a wholly-owned subsidiary of EnerCare, owns a portfolio of approximately 1.2 million water heaters and other assets, rented primarily to residential customers in Ontario.

EnerCare Solutions has grown revenues every year since its inception in 2002, generated stable cash flow and consistently maintained a high dividend yield. EnerCare Solutions has investment grade ratings of A-/stable and A (low)/negative rating from S&P and DBRS, respectively.

PORTFOLIO SUMMARY

EnerCare Solutions' business is the rental of water heater and HVAC equipment primarily to single family residential homes.

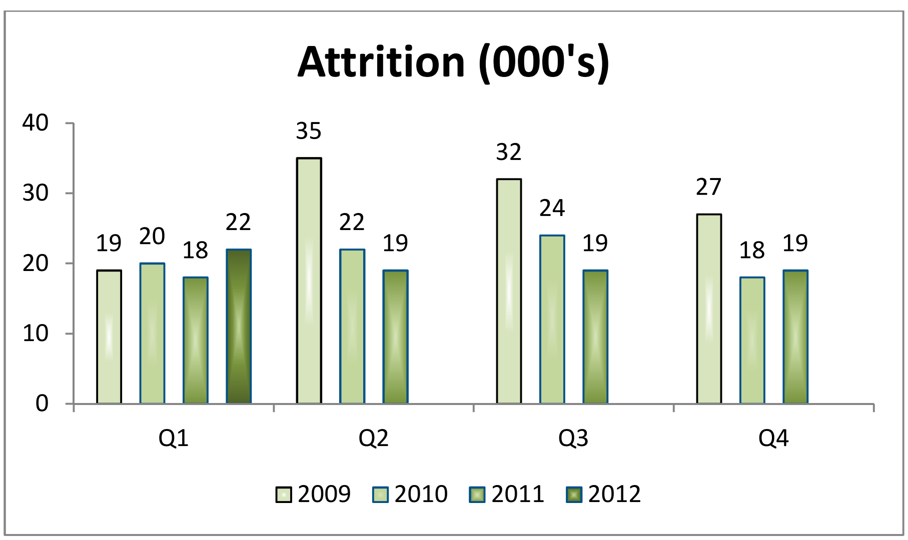
EnerCare Solutions originally had 100% of its business subject to a co-ownership agreement with DE. Through four acquisitions and origination arrangements with various parties, EnerCare Solutions has successfully expanded its business. EnerCare Solutions has 7% of its revenue coming from portfolios which are not subject to the co-ownership agreement.



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

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

Over the last several years, EnerCare Solutions has experienced higher than normal Attrition on the water heater rental portfolios. This was largely a result of greater competition through aggressive D2D campaigns. EnerCare Solutions and DE have continued to educate consumers through direct mail and radio campaigns and other programs. Such initiatives, among others, have helped to significantly reduce Attrition over the last two years. In the first quarter of 2012, EnerCare Solutions experienced higher Attrition due to increased competitive D2D activity in anticipation of the expiry of the consent order on February 22, 2012 and a sharp spike in buyout activity in late March as a result of the introduction and subsequent withdrawal of new contract terms to a significant portion of customers in the portfolio (see "Recent Developments – Consent Order").



FIRST QUARTER 2012 HIGHLIGHTS

(000's)	Three months ended March 31, **2012**	2011
Rentals	**$ 46,847**	$ 46,895
Dividend income	**4,301**	-
Investment income	**140**	60
Total revenues	**$ 51,288**	$ 46,955
EBITDA	**35,749**	35,068
Adjusted EBITDA Error! Bookmark not defined.	**39,864**	39,708
Earnings/(loss) before income taxes	**482**	(653)
Current tax (expense)	**(3,254)**	(1,584)
Deferred income tax recovery	**2,904**	1,514
Net earnings/(loss)	**$ 132**	$ (723)

The following highlights compare results for the first quarter of 2012 with the first quarter of 2011.

- Total revenues of $51,288 increased by 9% in the first quarter of 2012. Revenues, excluding dividend and investment income, were $46,847, slightly below the prior year primarily as a result of the changes in installed assets partially offset by rental rate increases. Dividend income relates to the 2011 investment in ECI preferred shares.
- EBITDA increased by $681 to $35,749 in the first quarter of 2012 driven principally by a reduced loss on disposal of equipment and SG&A expenses. Adjusted EBITDA of $39,864 increased after removing the impact of a reduced loss on disposal of equipment in 2012.
- Net earnings of $132 in 2012, were $855 better than the first quarter of 2011 reflecting, in addition to EBITDA, other income of $1,500 and lower amortization, partially offset by increased interest on the promissory note and net income tax expense.
- Attrition increased by 4,000 units for the first quarter of 2012 primarily due to significant buyout activity following the introduction and subsequent withdrawal of new contract terms. Portfolio additions were stable at 6,000 units, as were unit exchanges at 14,000 units, resulting in comparable capital expenditures, excluding acquisitions.

RECENT DEVELOPMENTS

Corporate Activities

Appointment of Directors

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

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

Repayment of 2009-1 Notes

On April 30, 2012, EnerCare Solutions repaid the $60,000 principal amount of the 2009-1 Notes on their maturity date from cash on hand and an interest free loan from EnerCare.

Rentals Activities

Consent Order

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

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

Additionally, early in March 2012, DE sent communication packages to approximately 600,000 water heater rental customers advising them of proposed amendments to the terms and conditions of their rental water heater agreement. The proposed changes provided among, other things, that if a customer wished to terminate their contract before the end of its term, they would need to buyout their rental water heater. In exchange DE provided a service guarantee and a commitment to cap future rental rate increases at the prevailing rate of inflation. Customers were given approximately 1 month to contact DE if they wished not to accept the amendments and remain on their existing terms and conditions.

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

Subsequent to the decision to rescind the changes, media coverage and competitor activity continued to drive additional customer churn in the form of increased levels of water heater buyouts and competitive attrition. Throughout March, processing backlogs associated with these customer requests were largely addressed by DE resulting in approximately 9,800 losses for the month. Subsequent to March 31, 2012, buyout activity fell sharply and while elevated from its historical norm is trending toward expected levels.

Marketing Programs

Awareness Campaign

In concert with DE, EnerCare Solutions launched an eight week mass market radio and print campaign starting March 4, 2012 to reinforce anti-D2D awareness messages with consumers. Additionally, small 10 second spots were added to the radio campaign to emphasize the value of DE's service proposition. Print advertising was run in both community and ethnic papers to reach as broad a cross-section of consumers as possible.

2012 Hand to Hand Campaign

On April 10, 2012, EnerCare Solutions launched its 2012 “hand to hand” campaign with the first of several EnerCare Solutions branded street teams visiting customer homes in the areas hardest hit by D2D sales activity to provide consumer awareness information to homeowners. The goal of the program is to engage customers directly in a conversation, provide information about how to recognize and respond to some of the most common D2D sales tactics, as well as highlight the consumer's rights under Ontario's consumer protection legislation.

EnerCare Solutions will also roll-out other related initiatives as part of this program over the coming months to ensure that these messages are received by consumers.

Nova Scotia Expansion

On April 24, 2012, EnerCare Solutions announced that, through DE, it will be originating commercial water heaters and HVAC equipment in Nova Scotia. Consumers and businesses in Nova Scotia have traditionally used fuel oil and electricity for their heating and water heating needs but the relatively recent introduction of natural gas in the province provides an opportunity for EnerCare Solutions' rental program as businesses seek to make the switch to more affordable natural gas appliances.

Purchase of Water Heaters from GreenSource Capital Inc.

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

UPDATE TO RISK FACTORS

The risks related to the business and structure of EnerCare Solutions discussed in the AIF remains unchanged except as discussed below.

DE Labour Relations Update

The collective agreement between DE and Local 975 Union expired on March 31, 2011. This agreement covers DE's installation and servicing crews in Ontario and the majority of clerical staff located in the Greater Toronto Area. The parties had been meeting regularly since late spring and negotiating since the fall. The parties were unsuccessful in negotiating a new collective agreement and on April 18, 2012, the union commenced strike action against DE.

DE and the union continued to negotiate with the assistance of a mediator and a tentative agreement was reached on April 29, 2012, with the union members ratifying the agreement on May 2, 2012, and returning to work on May 4, 2012.

RESULTS OF OPERATIONS

Overview

Consolidated Financial Highlights

(000's)	Three months ended March 31, 2012	2011
Total revenues	**$ 51,288**	$ 46,955
Earnings/(loss) before income tax	**482**	(653)
Current tax (expense)	**(3,254)**	(1,584)
Deferred income tax recovery	**2,904**	1,514
Net earnings/(loss)	**$ 132**	$ (723)
EBITDA	**$ 35,749**	$ 35,068
Adjusted EBITDA	**39,864**	39,708
Total assets	**1,071,234**	854,656
Total senior debt	**568,354**	567,150
Cash provided by operating activities	**$ 25,728**	$ 34,147

Attrition for the first quarter of 2012 increased in line with our expectation of elevated competitive D2D activity prior to the expiry of the Consent Order. EnerCare Solutions did, however, see additional Attrition generated by increases in buyout activity following the introduction and subsequent withdrawal of new contract terms for a significant portion of our Co-owned portfolio. Buyouts in the quarter were approximately two and a half times higher than the corresponding period in 2011 and were punctuated by a significant spike in late March at the height of media attention surrounding the new contract terms. Subsequent to March 31, 2012, buyout activity fell sharply and while still elevated from its historical norm is trending towards expected levels.

Earnings Statement

(000's)	Three months ended March 31, 2012	2011
Revenues:		
Rentals	**$ 46,847**	$ 46,895
Dividend income	**4,301**	-
Investment income	**140**	60
Total revenues	**$ 51,288**	$ 46,955
SG&A expense	**6,983**	7,187
Amortization expense	**24,960**	25,437
Loss on disposal of equipment	**4,115**	4,640
Interest on subordinated debt	**4,363**	-
Interest on promissory note	**2,000**	413
Interest expense	**9,885**	9,931
Total operating expenses	**52,306**	47,608
Other income	**1,500**	-
Earnings/(loss) before income taxes	**482**	(653)
Current tax (expense)	**(3,254)**	(1,584)
Deferred income tax recovery	**2,904**	1,514
Net earnings/(loss)	**132**	(723)
EBITDA	**$ 35,749**	$ 35,068
Adjusted EBITDA	**$ 39,864**	$ 39,708

Revenues

Total revenues of $51,288 for the first quarter of 2012 increased by $4,333 or 9% compared to the same period in 2011. Revenues, excluding dividend and investment income, decreased by $48 to $46,847 in the first quarter of 2012, primarily due to a reduction in installed assets, partially offset by an average rental rate increase of 2.75% implemented in January 2012.

Dividend income of $4,301 in 2012 is related to a $250,000 investment in preferred shares of ECI (formerly Stratacon, a subsidiary of EnerCare - on January 1, 2012, 1759857 Ontario Limited, Stratacon and EnerCare Connections amalgamated into ECI).

Investment income increased by $80 in the first quarter of 2012 to $140 compared to $60 in the same period in 2011, primarily as a result of larger investment balances during 2011.

Selling, General & Administrative Expenses

Total SG&A expenses were $6,983 in the first quarter of 2012, compared to $7,187 during the same period in 2011, a decrease of $204 or 3%. The decrease in expense is a result of a reduction in professional fees of $438, claims and bad debts of $37 and billing and servicing expenses of $31, partially offset by an increase in wages and benefits of $216, and selling, office and other expenses of $86.

Amortization Expense

Amortization expense decreased by $477 or 2% to $24,960 in the first quarter of 2012, primarily due to a smaller installed asset base.

Loss on Disposal of Equipment

In the first quarter of 2012, EnerCare Solutions reported a loss on disposal of equipment of $4,115, representing a decrease of $525 or 11% over the same period in 2011. 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. During the current period, approximately 4,200 additional buyout transactions were recorded over the same period in 2011. Many of the buyout transactions were on account of older assets with low buyout fees.

Interest Expense

	Three months ended March 31,	
(000's)	**2012**	2011
Interest expense payable in cash	**$ 8,663**	$ 8,715
Interest on subordinated debt	**4,363**	-
Interest on promissory note	**2,000**	413
Non-cash items: Amortization of OCI and financing costs	**1,222**	1,216
Interest expense	**$16,248**	$10,344

Interest expense payable in cash decreased to $8,663 in the first quarter of 2012, compared to $8,715 in the first quarter of 2011 primarily related to lower Revolver standby fees.

The interest expense on subordinated debt originated on July 6, 2011 when ECI provided a $250,000 loan to a subsidiary of EnerCare Solutions. The loan is a demand loan and bears interest at 7.00%. The subsidiary used the proceeds from the loan to repay existing obligations due to EnerCare Solutions from the subsidiary.

Interest on the promissory note increased by $1,587 in the first quarter of 2012 to $2,000 compared to the first quarter of 2011 related primarily to the change in principal amount owing at the time of conversion to a corporation.

Other Income

During the first quarter of 2012, EnerCare Solutions and DE reached a settlement of $1,500 on account of billing for water heater installation costs. See additional comments under “Billing and Servicing Matters”.

Income Taxes

EnerCare Solutions reported a current tax expense of $3,254 for the first quarter of 2012 which was $1,670 greater than the same period in 2011, primarily as a result of decreased loss carry forwards available to shelter taxable income. The deferred income tax recovery of $2,904 for 2012 increased by $1,390, primarily as a result of temporary difference reversals.

Net Earnings

Earnings before income taxes in the first quarter of 2012 were $482, an increase of $1,135, compared to the same period in 2011, as previously described. The net earnings were impacted by the increases in current taxes of $1,670 and tax recoveries of $1,390 resulting in a net earnings of $132 an improvement of $855 over the same period in 2011.

Adjusted EBITDA and EBITDA

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

(**000's**)	**Q1/12**	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Net earnings/(loss)	**$ 132**	$(1,271)	$ 2,867	$(1,150)	$ (723)	$(1,871)	$ 1,430	$ 3,287
Deferred tax (recovery)	**(2,904)**	(1,639)	(4,703)	(1,849)	(1,514)	(2,958)	(4,567)	(3,835)
Current tax expense	**3,254**	783	1,132	1,881	1,584	-	-	-
Amortization expense	**24,960**	25,362	25,453	25,451	25,437	25,947	26,046	26,061
Interest expense	**16,248**	15,394	15,189	11,768	10,344	10,909	10,932	10,977
Dividend (income)	**(4,301)**	(4,348)	(4,112)	-	-	-	-	-
Other (income)	**(1,500)**	-	-	-	-	-	-	-
Investment (income)	**(140)**	(110)	(111)	(87)	(60)	(67)	(9)	(3)
EBITDA	**35,749**	34,171	35,715	36,014	35,068	31,960	33,832	36,487
Add: Loss on disposal of equipment	**4,115**	4,880	4,718	4,861	4,640	4,673	5,756	5,918
Adjusted EBITDA	**$39,864**	$39,051	$40,433	$40,875	$39,708	$36,633	$39,588	$42,405

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

1. Net earnings are impacted by rental rate increases, generally implemented in January of each year, and accruals related to billing and servicing matters.
2. In 2011, current taxes as a result of Conversion to a corporation.
3. Amortization and loss on disposal of equipment are primarily driven by unit continuity activity such as Attrition, exchanges and outstanding units.
4. Interest expense commencing in the third quarter of 2011 reflects the impact of the $250,000 demand loan from ECI.
5. Dividend income commencing in the third quarter of 2011 reflects the impact of the $250,000 investment in ECI.
6. Other income in the first quarter of 2012 relates to the settlement of installation charges with DE.

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.

At December 31, 2011, EnerCare Solutions estimated and recorded revenue accruals of $1,700 in respect of billings and adjustments expected to be recovered from customers, but did not include any amounts that EnerCare Solutions may recover from DE for lost revenues arising from the billing system conversion. During the first quarter of 2012, EnerCare Solutions collected $1,200. At March 31, 2012, EnerCare Solutions has $860 accrued resulting in an increase in income in the quarter of $360. The remaining balance is expected to be collected in 2012.

As reported in the second quarter of 2011, EnerCare Solutions reached an agreement in principle 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 definitive agreement in respect of this settlement was entered into and payment in respect thereof was received in the first quarter of 2012. EnerCare Solutions continues to work with DE to resolve remaining billing, collection and remittance issues in respect of the non-EGD territory.

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

At December 31, 2011, EnerCare Solutions was in discussions with DE regarding $3,672 of certain installation costs billed by DE for water heater installations. EnerCare Solutions came to an agreement with DE on account of installation costs to be borne by EnerCare Solutions and received a $1,500 payment from DE which was recorded as other income. EnerCare Solutions subsequently released approximately $2,172 reflecting the net balance of amounts previously withheld.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended March 31,	
(000's)	**2012**	2011
Cash flow from operating activities	**$ 25,728**	$ 34,147
Net change in non-cash working capital	**1,797**	(5,091)
Operating Cash Flow	**27,525**	29,056
Capital expenditures – excluding growth capital and acquisitions	**(15,497)**	(15,341)
Proceeds on disposal of equipment	**1,692**	1,071
Net capital expenditures	**(13,805)**	(14,270)
Acquisitions	**(2,053)**	-
Growth capital	**(2)**	(10)
Cash used in investing activities	**(15,860)**	(14,280)
Dividends paid	**(9,325)**	(2,974)
Cash used in financing activities	**(9,325)**	(2,974)
Cash and equivalents – end of period	**$ 50,946**	$ 35,038

Operating Cash Flow of $27,525 decreased by $1,531 in the first quarter of 2012 compared to the same period in 2011. Cash flow from operating activities is an IFRS measure which is impacted by the timing of net changes in non-cash working capital. In the first quarter of 2012 non-cash working capital changed by $6,888 to $1,797 primarily as a result of a decrease in accounts payable and other liabilities, interest payable, and provisions offset by an increase in account receivables, net intercompany balances and prepaid and other assets.

Net capital expenditures in the first quarter of 2012 were comprised of a slight increase in capital spending offset by greater buyout proceeds as a result of increased unit activity during the period. Acquisitions of $2,053 in 2012 relate to the GreenSource acquisition. Dividends paid in the first quarter of 2012 reflect dividend payments on outstanding Shares. In 2011, dividends paid reflect only one payment during the period. Two dividend payments were made in December 2010 leading up to the Trust conversion to a corporation.

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

EnerCare Solutions repaid the $60,000 2009-1 Notes on their maturity date of April 30, 2012 from cash on hand and an interest free loan from EnerCare. EnerCare Solutions is examining opportunities to refinance its 2010 Notes and 2009-2 Notes in order to take advantage of the current low interest environment. EnerCare Solutions' Revolver has a credit limit of $35,000, $4,000 of which was drawn on as of May 14, 2012.

Management believes that EnerCare Solutions has sufficient cash flow, cash on hand and credit available to meet its 2012 obligations, including capital expenditures, debt repayments and working capital requirements.

Capital Expenditures

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

Installed Asset Unit Continuity (000's)	**2012**	2011
Units – start of period	**1,217**	1,267
Portfolio additions	**6**	6
Acquisitions	**3**	-
Attrition	**(22)**	(18)
Units – end of period	**1,204**	1,255
Asset exchanges – units retired and replaced	**14**	14
% change in units during the period	**(1.1%)**	(0.9%)
% of units from start of period:		
Portfolio additions (net of acquisitions)	**0.5%**	0.5%
Attrition	**(1.8%)**	(1.5%)
Units retired and replaced	**1.2%**	1.1%

Net capital expenditures include portfolio additions and asset exchanges, net of proceeds on disposal. In the first quarter of 2012, net capital expenditures were $13,805, decreasing by 3% or $465 when compared to the same period in 2011. The capital expenditures slightly increased in the quarter offset by greater buyout activity and related proceeds on disposal when compared to the same period in 2011.

During the first quarter of 2012, Attrition increased to 22,000 units, 4,000 units more than the same period in 2011. The Attrition increase in the quarter was primarily due to 4,200 additional buyout transactions. (see "Results of Operations – Overview")

Cash from Financing

During the first quarter of 2012 and 2011, net of dividends, EnerCare Solutions did not undertake any financing activities.

Capitalization	**Three months ended March 31,**	
(000's)	**2012**	2011
Cash and cash equivalents	**$ 50,946**	$ 35,038
Net investment in working capital	**(10,256)**	(16,410)
Cash, net of working capital	**40,690**	18,628
Total senior debt	**568,354**	567,150
Promissory note	**100,000**	100,000
Subordinated debt	**250,000**	-
Shareholder's equity	**(31,866)**	728
Total capitalization – book value	**$ 886,488**	$ 667,878

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.

At March 31, 2012, total debt was comprised of the 2009 Notes and 2010 Notes, a promissory note payable to EnerCare and subordinated debt owing to ECI.

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 March 31, 2012. No amounts were drawn on the Revolver at March 31, 2012.

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 March 31, 2012, EnerCare Solutions exceeded this minimum and had the capacity under the covenant to raise approximately $40,000 to $50,000 additional senior debt should it elect to do so.

SUMMARY OF QUARTERLY RESULTS

(000's)	**Q1/12**	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Total revenues	**$51,288**	$50,489	$51,076	$46,832	$46,955	$45,111	$46,960	$49,118
Net earnings/(loss)	**132**	(1,271)	2,867	(1,150)	(723)	(1,871)	1,430	3,287
Dividends declared	**$ 9,424**	$ 9,143	$ 9,047	$ 8,958	$ 8,918	$ 7,904	$ 7,905	$ 7,352

In addition to quarterly comments found under "Results of Operations – Adjusted EBITDA and EBITDA", differences in net earnings between quarters reflect the timing of expenses, current tax expense and the temporary difference reversals of future income tax recoveries. Dividends declared primarily reflect the change in outstanding Shares over time as well as the dividend increases implemented in the fourth quarter of 2011 as well as the first quarter of 2012.

SUMMARY OF CONTRACTUAL DEBT AND LEASE OBLIGATIONS

The following schedule summarizes the contractual debt and lease obligations of EnerCare Solutions at March 31, 2012:

Period (000's)	Principal Payments	Interest Payments	Leases
Within the remainder of 2012	$ 60,000	$ 26,385	$ 86,385
Due in 2013	240,000	24,525	264,525
Due in 2014	270,000	9,113	279,113
Due in 2015	-	-	-
Due in 2016	-	-	-
Due in 2017 and thereafter	-	-	-
Total	$570,000	$ 60,023	$630,023

As at March 31, 2012, 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 March 31, 2011, $35,000 of the Revolver was available to be drawn. The Revolver bears a standby fee of 0.31%, which has not been included in the above schedule, until maturity in January 2014.

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

On July 6, 2011, ECI provided a $250,000 loan to a subsidiary of EnerCare Solutions. The loan bears interest at 7.00% and is payable on demand. The loan principal and annual interest payments of $17,500 have not been included in the above schedule.

On April 30, 2012, the $60,000 Series 2009-1 Notes were repaid with cash on hand and an interest free loan from EnerCare.

ENERCARE SOLUTIONS SHARES ISSUED AND OUTSTANDING

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

At March 31, 2012, there were 1,001 shares issued and outstanding.

NON-IFRS FINANCIAL AND PERFORMANCE MEASURES

The condensed interim consolidated financial statements of EnerCare Solutions are prepared in accordance with IFRS. EnerCare Solutions' accounting policies are summarized in detail in note 3 of the condensed interim consolidated financial statements.

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

Non-IFRS financial indicators used by EnerCare Solutions 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 and other assets: capital expenditures and acquisitions.

Measures of Financial Performance

EBITDA

This measure is comprised of net earnings plus income taxes, interest expense and amortization expense, less dividend, investment and other 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, an IFRS measure, in the section "*Results of Operations - Adjusted EBITDA and EBITDA*" in this MD&A.

Adjusted EBITDA

This measure is comprised of net earnings plus income taxes, interest expense, amortization expense, impairment losses and loss on disposal of equipment, less dividend, investment and other 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, an IFRS measure, in the section "*Results of Operations - Adjusted EBITDA and EBITDA*" 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, an IFRS measure, in the section "*Liquidity and Capital Resources*" in this MD&A.

Measures Regarding Debt Covenants

As at March 31, 2012, 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 on March 31, 2012. No amounts were drawn on the Revolver at March 31, 2012.

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 condensed interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts in the condensed interim consolidated financial statements and accompanying notes. 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 condensed 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 2011 and 2012, 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. 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 IFRS. There are no material weaknesses relating to the design of either DC&P or ICFR at March 31, 2012. There have been no changes to our ICFR during the quarter ended March 31, 2012 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 condensed interim consolidated financial statements of EnerCare Solutions are prepared in accordance with IFRS as issued by IASB applicable to the preparation of condensed interim consolidated financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011. EnerCare Solutions has consistently applied the same accounting policies and methods of computation throughout all periods presented, as if these policies had always been in effect.

IFRS 9, *Financial Instruments*, was issued in November 2009. It addressed classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return on investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with early adoption permitted. EnerCare Solutions has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10, *Consolidated Financial Statements,* was issued in May 2011. It introduces a single model in the control analysis to determining which investees should be consolidated. The consolidation procedures are carried forward from IAS 27 (2008). The control model is based on three elements: An investor controls an investee when (1) it is exposed or has rights to variable (e.g. residual) returns from its involvement with that investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between power and returns. The approach comprises a series of indicators of control, but no hierarchy is provided: preparers are required to analyze all facts and circumstances and apply their judgment in making the control assessment. Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee. In such a case that portion of the investee is a deemed separate entity (referred to as a silo) for the purpose of applying the consolidation requirements. In assessing control, the investor also needs to analyze substantial potential voting rights as well as currently exercisable potential voting rights. This is likely to change the control conclusion in some cases: currently exercisable potential voting rights might not be considered substantive and vice versa. Control is assessed on a continuous basis, i.e. it is reassessed as facts and circumstances change considerably. This standard is required to be applied for accounting periods beginning on or after January 1, 2013. EnerCare Solutions has not yet assessed the impact of the standard.

IFRS 13, *Fair Value Measurement*, was issued in May 2011. It defines "fair value" and sets out, in a single IFRS, a framework for measuring fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or liability at fair value, nor does it change what is measured at fair value in IFRSs or address how to present changes in fair value. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, but can, with early adoption permitted. EnerCare Solutions has not yet assessed the impact of the standard or whether it will adopt the standard early.

OUTLOOK

We believe that the expiry of the Consent Order on February 20, 2012 represents the removal of a significant impediment to our business's ability to compete in Ontario. The immediate activities associated with the expiry of the Consent Order, including the closure of most return locations, a reduction in the hours of operation at the return locations and the implementation of a return authorization process were completed by the end of April 2012.

DE and EnerCare Solutions have increased Attrition fighting programs through April and May of 2012: these programs include mass media campaigns and personal contact with customers in areas where D2D sales activities are high.

EnerCare Solutions plans to increase efforts to grow its business organically, including through wider product offerings and geographic expansion, as it did recently with the introduction of a rental program in Nova Scotia. In addition, EnerCare Solutions will continue to seek acquisition opportunities in its current or adjacent markets. Investments will focus on those which have long asset life and long-term customer relationships and 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.

EnerCare Solutions is examining opportunities to refinance its 2009-2 Notes and 2010 Notes in order to take advantage of the current low interest rate environment.

As enacted, Ontario's general corporate income tax rate is scheduled to be reduced from 11.5% to 11% on July 1, 2012 and to 10% on July 1, 2013. The 2012 Ontario budget proposed to eliminate these scheduled reductions keeping the general corporate income tax rate at 11.5% until the budget is balanced. Legislation to enact such proposed amendments has yet to be tabled. As a result, the repeal of the corporate tax reductions is not considered substantively enacted for accounting purposes and is therefore not reflected in the deferred taxes. It is expected that legislation to repeal the scheduled reductions will be forthcoming soon. Once the proposals are substantially enacted, EnerCare Solutions anticipates that this will have an adverse impact on its deferred taxes.

GLOSSARY OF TERMS

Defined Term	Definition
AIF	Annual Information Form of EnerCare Solutions dated May 11, 2012.
Attrition	Termination of customer relationships, including buyouts.
Consent Order	Issued by the Competition Bureau in 2002 and expired in February 2012 which restricts EnerCare Solutions' and DE's business practices.
Conversion	The conversion of the Fund and the Trust, income trusts, to EnerCare and EnerCare Solutions, respectively.
D2D	Door to door.
DBRS	DBRS Limited.
DC&P	Disclosure Controls and Procedures as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.
DE	Direct Energy Marketing Limited.
ECI	EnerCare Connections Inc. (formerly Stratacon and Enbridge Electric Connections Inc.).
EGD	Enbridge Gas Distribution Inc.
EnerCare	EnerCare Inc., formerly the Fund.
EnerCare Solutions	EnerCare Solutions Inc., formerly the Trust.
EGNB	Enbridge Gas New Brunswick Limited Partnership
Fund	The Consumers' Waterheater Income Fund.
GreenSource	GreenSource Capital Inc.
HVAC	Heating, ventilation and air conditioning.
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.
OEB	Ontario Energy Board.
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.
S&P	Standard and Poor's Rating Services.
Shares	Common shares of EnerCare.
Stratacon	Stratacon Inc. (now ECI)
TH Energy	Toronto Hydro Energy Services Inc.
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, which was repaid in March 2010.
2009-1 Notes	$60,000 of 6.20% Series 2009 -1 Senior Notes of the Trust, which matured 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.