EnerCare Solutions Inc.

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

Second Quarter ended June 30, 2012

Dated August 13, 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 June 30, 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 August 13, 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.

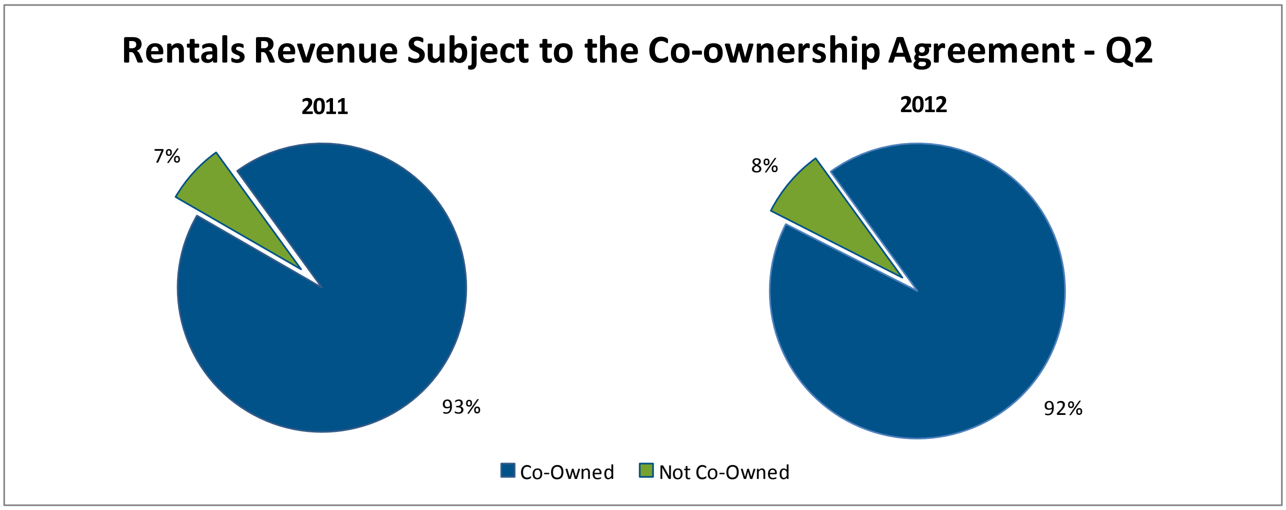
EnerCare Solutions, a wholly-owned subsidiary of EnerCare, owns a portfolio of approximately 1.2 million water heaters and other assets, rented primarily to residential customers in Ontario.

EnerCare Solutions has grown revenues steadily 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 8% of its revenue coming from portfolios which are not subject to the co-ownership agreement.

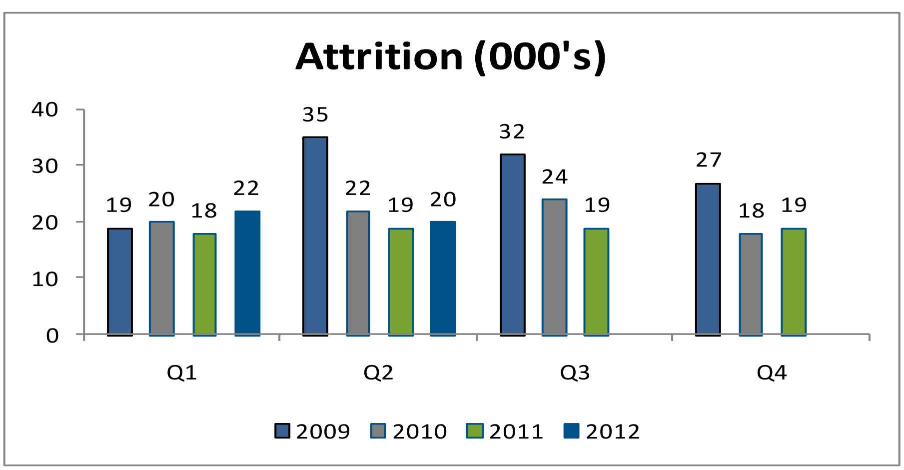


For the portfolios under the co-ownership agreement with DE, EnerCare Solutions is entitled to 65% of the revenue and other payments and DE is entitled to 35% of the revenue. For DE's portion of the revenue, they are responsible for servicing and maintaining the assets. This ensures that EnerCare Solutions 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.

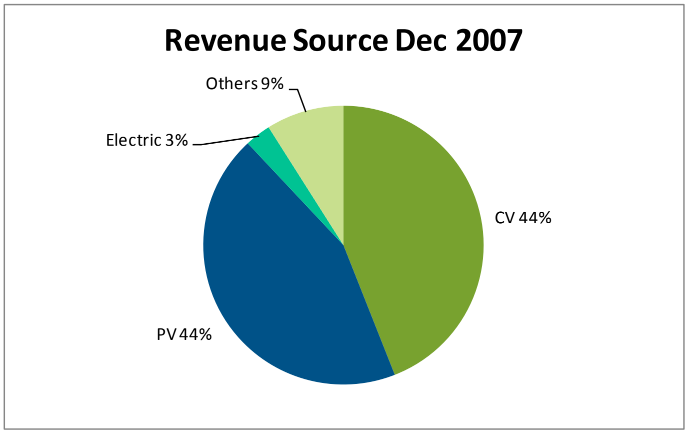
EnerCare Solutions monitors the business by reviewing new additions or customers to the portfolio, reductions or Attrition of existing customers and existing customers exchanging their rental product.

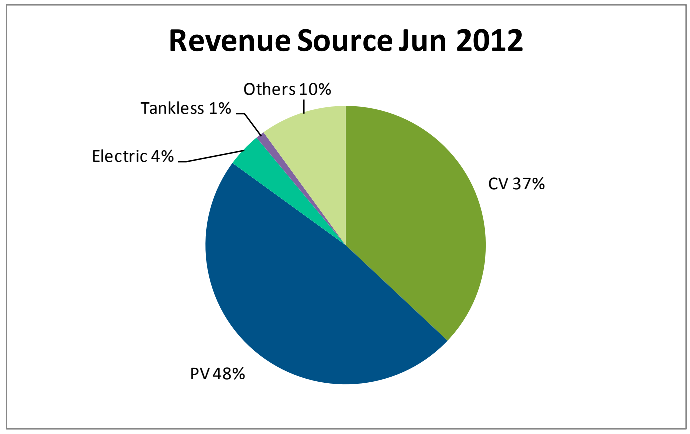
Over the last several years, EnerCare Solutions has experienced higher than normal Attrition on the water heater rental portfolios. This was largely a result of greater competition through aggressive D2D campaigns. EnerCare Solutions and DE have continued to educate consumers through direct mail and radio campaigns and other programs. Such initiatives, among others, have helped to significantly reduce Attrition over the last two years.

Attrition in the first and second quarter of 2012 were approximately 4,000 and 1,000 units higher than those periods in 2011, because of higher customer buyouts resulting from the introduction and subsequent withdrawal of new contract terms to a significant portion of customers in the portfolio in March 2012; buyouts in April 2012 were approximately three times higher than those in April 2011. However, buyouts have decreased dramatically in each month subsequent to April 2012, approaching near historical levels, and unit losses not attributed to buyouts (for example, removal of units by competitors) for the second quarter of 2012 were lower than such losses in the second quarter of 2011 by approximately 8%.



Partially offsetting Attrition is the movement in asset mix to units with higher returns. A comparison of the product mix 5 years ago to that of today reveals that the portfolio contains a higher percentage of power vent ("PV") and tankless units, both of which provide a higher return than conventional vent ("CV") units. This product mix movement has contributed significantly to growing revenue.





SECOND QUARTER 2012 HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2012**	2011	**2012**	2011
Rentals	**$ 46,735**	$ 46,745	**$ 93,582**	$ 93,640
Dividend income	**4,301**	-	**8,602**	-
Investment income	**59**	87	**199**	147
Total revenues	**51,095**	46,832	**102,383**	93,787
EBITDA[1]	**34,402**	36,014	**70,151**	71,082
Adjusted EBITDA[1]	**38,515**	40,875	**78,379**	80,583
Loss before income taxes	**(906)**	(1,118)	**(424)**	(1,771)
Current tax (expense)	**(2,035)**	(1,881)	**(5,289)**	(3,465)
Deferred income tax (expense)/recovery	**(1,382)**	1,849	**1,522**	3,363
Net loss	**$ (4,323)**	$ (1,150)	**$ (4,191)**	$ (1,873)

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

- Total revenues of $51,095 increased by 9% in the second quarter of 2012. Revenues, excluding dividend and investment income, were $46,735, marginally lower than the prior year primarily as a result of the changes in installed assets offset by rental rate increases. Dividend income relates to the 2011 investment in ECI preferred shares.
- EBITDA decreased by $1,612 to $34,402 in the second quarter of 2012 driven principally by increased SG&A expenses. Adjusted EBITDA of $38,515 decreased by $2,360 after removing from EBITDA the impact of a reduced loss on disposal of equipment in 2012.
- Net loss of $4,323 in 2012 increased by $3,173 as compared to the second quarter of 2011 reflecting, in addition to reduced EBITDA, increased intercompany interest expense on the Promissory Note and the Subordinated Debt and approximately $6,000 in tax expenses attributable to a change in the future tax rates by the Ontario government, partially offset by lower interest expense payable in cash due to the repayment of $60,000 of debt in April and lower amortization charges during the quarter primarily as a result of a lower asset unit count.

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

- Attrition in Rentals increased by 1,000 units for the second quarter of 2012 primarily due to an increase of buyouts over 2011 following the introduction and subsequent withdrawal of new contract terms in March 2012, with Buyouts in April 2012 being approximately three times higher than those in April 2011. However, buyouts have decreased dramatically in each month subsequent to April 2012, approaching near historical levels, and unit losses not attributed to buyouts (for example, removal of units by competitors) for the second quarter of 2012 were lower than such losses in the second quarter of 2011 by approximately 8%.

RECENT DEVELOPMENTS

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 and over 1.2 million door hangers were distributed during the second quarter.

On April 10, 2012, EnerCare Solutions launched its 2012 in-person consumer education 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. D2D water heater sales remain the second highest source of consumer complaints with the Ministry of Consumer Service. The campaign ended in early July and a new in-person consumer awareness campaign has been introduced.

Expansion of Commercial Rental Program to Nova Scotia

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.

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.

Subsequent Events

Receipt of Notice of Action

On July 10, 2012, EnerCare Solutions announced that it had been served with a Notice of Action (the "Action") from a competitor claiming unspecified damages based on allegations that EnerCare, its service provider, EcoSmart Home Services Inc., and others engaged in unlawful surveillance and other activities aimed at tracking the D2D sales efforts of that competitor. EnerCare Solutions ended the in-person consumer awareness campaign that was referenced in the Action in early July and is currently conducting an investigation into the allegations. The removal of the campaign is not expected to have an adverse effect on Attrition levels.

UPDATE TO RISK FACTORS

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

Litigation Risk

In the normal course of EnerCare Solutions' operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to, among other things, personal injuries, property damage, contract disputes and its business activities. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to EnerCare Solutions and as a result, could have a material adverse effect on its financial condition and results of operations and on its ability to satisfy its debt service obligations on its debt securities. Even if EnerCare Solutions prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from EnerCare Solutions' business operations which could have a material adverse effect on its financial condition and results of operations and on its ability to satisfy its debt service obligations on its debt securities. In particular, as described under "Recent Developments", EnerCare has been served with a Notice of Action by a competitor, the outcome of which, at this stage of the proceedings, is impossible to predict with any certainty. Furthermore, no assurance can be given that EnerCare or EnerCare Solutions won't become involved in litigation, whether as defendant or plaintiff, in other matters from time to time.

RESULTS OF OPERATIONS

Earnings Statement

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2012**	2011	**2012**	2011
Revenues:				
Rentals	**$ 46,735**	$ 46,745	**$ 93,582**	$ 93,640
Dividend income	**4,301**	-	**8,602**	-
Investment income	**59**	87	**199**	147
Total revenues	**51,095**	46,832	**102,383**	93,787
SG&A expense	**8,220**	5,870	**15,203**	13,057
Amortization expense	**24,162**	25,451	**49,122**	50,888
Loss on disposal of equipment	**4,113**	4,861	**8,228**	9,501
Interest on Subordinated Debt	**4,363**	-	**8,726**	-
Interest on Promissory Note	**2,000**	-	**4,000**	2,250
Interest expense	**9,143**	11,768	**19,028**	19,862
Total operating expenses	**52,001**	47,950	**104,307**	95,558
Other income	**-**	-	**1,500**	-
Loss before income taxes	**(906)**	(1,118)	**(424)**	(1,771)
Current tax expense	**2,035**	1,881	**5,289**	3,465
Deferred income tax expense/(recovery)	**1,382**	(1,849)	**(1,522)**	(3,363)
Net loss	**(4,323)**	(1,150)	**(4,191)**	(1,873)
EBITDA	**34,402**	36,014	**70,151**	71,082
Adjusted EBITDA	**$ 38,515**	$ 40,875	**$ 78,379**	$ 80,583

Revenues

Total revenues of $51,095 for the second quarter of 2012 increased by $4,263 or 9% and by $8,596 or 9% to $102,383 year to date, compared to the same periods in 2011. Revenues, excluding dividend and investment income, decreased marginally by $10 to $46,735 in the second quarter of 2012 and by $58 to $93,582 year to date compared to the same periods in 2011, 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 the second quarter of 2012, and $8,602 year to date, 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 Inc. amalgamated and are now ECI.

Investment income decreased by $28 to $59 during the second quarter of 2012 and was $52 more at $199 year to date compared to the same periods in 2011. The decrease in investment income in the current period was attributable to lower investment balances as a result of the repayment the $60,000 2009-1 Notes in April 2012.

Selling, General & Administrative Expenses

Total SG&A expenses were $8,220 in the second quarter of 2012, compared to $5,870 during the same period in 2011, an increase of $2,350. The increase in expense is primarily attributable to higher claims and bad expense of approximately $1,500, of which $1,300 relates to a recovery of previous bad debts recorded in 2011, professional fees of $500, employee compensation and benefits of $400 and selling expenses of $200, partially offset by a reduction in billing and servicing expenses of $200.

Year to date SG&A expenses were $15,203 in 2012, $2,146 greater than 2011. As noted for the current quarter, claims and bad debts increased by approximately $1,400 as a result of a recovery booked in 2011 in addition to greater employee compensation and benefits of $600, selling expenses of $300, professional fees of $100, partially offset by a reduction in billing and servicing expenses of $300.

Amortization Expense

Amortization expense decreased by $1,289 to $24,162 in the second quarter of 2012 and by $1,766 to $49,122 year to date, primarily due to a smaller installed asset base.

Loss on Disposal of Equipment

In the second quarter of 2012, EnerCare reported a loss on disposal of equipment of $4,113 and one of $8,228 year to date, reductions of $748 and $1,273, respectively, over the same periods in 2011. The loss on disposal amount is influenced by the number of assets retired, proceeds on disposal of equipment, changes in the retirement asset mix and the age of the assets retired. During the first and second quarters of 2012, additional proceeds on disposal of assets of $483 and $1,104, respectively, were recorded over the same periods in 2011. During the current year, approximately 7,000 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

(000's)	Three months ended June 30, **2012**	2011	Six months ended June 30, **2012**	2011
Interest expense payable in cash	**$ 8,054**	$ 10,551	**$ 16,717**	$ 17,429
Interest on Subordinated Debt	**4,363**	-	**8,726**	-
Interest on Promissory Note	**2,000**	-	**4,000**	2,250
Non-cash items: Amortization of OCI and financing costs	**1,089**	1,217	**2,311**	2,433
Interest expense	**$ 15,506**	$ 11,768	**$ 31,754**	$ 22,112

Interest expense payable in cash and intercompany interest expense on the Promissory Note decreased by $497 to $10,054 in the second quarter of 2012 and increased by $1,038 to $20,717 year to date, compared to $10,551 and $19,679, respectively, in the same periods in 2011. The decreases in interest expense payable in cash are primarily due to the repayment of $60,000 of debt at the end of April 2012 and interest on the Promissory Note issued at the time of Conversion.

The interest expense on the 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.

Amortization of OCI and financing costs for 2012 are modestly lower than 2011 primarily related to the repayment of the 2009-1 Notes.

Other Income

The year to date income of $1,500 represents a settlement reached by EnerCare Solutions and DE on account of billing for water heater installation costs.

Income Taxes

EnerCare Solutions reported a current tax expense of $2,035 for the second quarter of 2012 and $5,289 year to date, an increase of $154 and $1,824, over the same periods of 2011, primarily as a result of decreased loss carry forwards available to shelter taxable income. The deferred income tax expense of $1,382 and tax recovery of $1,522 for the second quarter and year to date 2012 were $3,231 and $1,841 greater than the deferred tax recoveries of $1,849 and $3,363 recorded in the same periods of 2011. The current period reflects approximately $6,000 of deferred tax expense as a result of the reversal of previously enacted future corporate tax rate reductions in the province of Ontario.

Net Loss

Losses before income taxes in the second quarter of 2012 were $906 and $424 year to date, an improvement of $212 and $1,347, respectively, compared to the same periods in 2011, as previously described.

The net loss of $4,323 for the second quarter of 2012 and $4,191 year to date, compared to $1,150 and $1,873, respectively, in the comparable periods of 2011, increased by approximately $6,000 primarily as a result of a change in the future tax rates by the Ontario government.

EBITDA and Adjusted EBITDA

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

(000's)	**Q2/12**	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10
Net (loss)/earnings	**$(4,323)**	$ 132	$(1,271)	$ 2,867	$(1,150)	$ (723)	$(1,871)	$ 1,430
Deferred tax expense/(recovery)	**1,382**	(2,904)	(1,639)	(4,703)	(1,849)	(1,514)	(2,958)	(4,567)
Current tax expense	**2,035**	3,254	783	1,132	1,881	1,584	-	-
Amortization expense	**24,162**	24,960	25,362	25,453	25,451	25,437	25,947	26,046
Interest expense	**15,506**	16,248	15,394	15,189	11,768	10,344	10,909	10,932
Dividend (income)	**(4,301)**	(4,301)	(4,348)	(4,112)	-	-	-	-
Other (income)	**-**	(1,500)	-	-	-	-	-	-
Investment (income)	**(59)**	(140)	(110)	(111)	(87)	(60)	(67)	(9)
EBITDA	**34,402**	35,749	34,171	35,715	36,014	35,068	31,960	33,832
Add: Loss on disposal of equipment	**4,113**	4,115	4,880	4,718	4,861	4,640	4,673	5,756
Adjusted EBITDA	**$38,515**	$39,864	$39,051	$40,433	$40,875	$39,708	$36,633	$39,588

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. In the second quarter 2012, deferred taxes resulting from a change in the future provincial corporate tax rates.
4. Amortization and loss on disposal of equipment are primarily driven by unit continuity activity such as Attrition, exchanges and outstanding units.
5. Interest expense commencing in the third quarter of 2011 reflects the impact of the $250,000 demand loan from ECI.
6. Dividend income commencing in the third quarter of 2011 reflects the impact of the $250,000 preferred share investment in ECI.
7. Other income in the first quarter of 2012 relates to the settlement of installation charges with DE.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2012**	2011	**2012**	2011
Cash flow from operating activities	**$ 18,001**	$ 26,119	**$ 43,729**	$ 60,266
Net change in non-cash working capital	**8,422**	2,411	**10,219**	(2,680)
Operating Cash Flow[2]	**26,423**	28,530	**53,948**	57,586
Capital expenditures – excluding growth capital and acquisitions	**(13,190)**	(15,054)	**(28,691)**	(30,406)
Proceeds on disposal of equipment	**1,493**	1,010	**3,185**	2,081
Net capital expenditures	**(11,697)**	(14,044)	**(25,506)**	(28,325)
Acquisitions	**-**	-	**(2,053)**	-
Growth capital	**(352)**	(175)	**(350)**	(174)
Cash used in investing activities	**(12,049)**	(14,219)	**(27,909)**	(28,499)
Dividends paid	**(9,658)**	(11,909)	**(18,983)**	(14,883)
Other financing activities	**(44,000)**	-	**(44,000)**	-
Cash (used in) financing activities	**(53,658)**	(11,909)	**(62,983)**	(14,883)
Cash and equivalents – end of period	**$ 3,240**	$ 35,029	**$ 3,240**	$ 35,029

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

Operating Cash Flow of $26,423 decreased by $2,107 in the second quarter of 2012 and by $3,638 year to date to $53,948, compared to the same periods in 2011. Cash flow from operating activities declined in 2012 primarily as a result of an increase in selling and general expenses and current taxes, partially offset by lower interest expense payable in cash.

Net capital expenditures in the second quarter of $11,697 and $25,506 year to date of 2012 were lower than the comparable periods in 2011, due to decreased asset exchange activity and greater buyout proceeds. Dividends paid reflect dividend payments made by EnerCare on outstanding Shares.

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

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, $2,000 of which was drawn as of August 10, 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	Three months ended June 30,		Six months ended June 30,	
(000's)	**2012**	2011	**2012**	2011
Units – start of period	**1,203**	1,255	**1,216**	1,267
Portfolio additions	**7**	6	**13**	12
Acquisitions	**-**	-	**3**	-
Attrition	**(20)**	(19)	**(42)**	(37)
Units – end of period	**1,190**	1,242	**1,190**	1,242
Asset exchanges – units retired and replaced	**11**	13	**25**	27
% change in units during the period	**(1.1%)**	(1.0%)	**(2.1%)**	(2.0%)
% of units from start of period:				
Portfolio additions (net of acquisitions)	**0.6%**	0.5%	**1.1%**	0.9%
Attrition	**(1.7%)**	(1.5%)	**(3.5%)**	(2.9%)
Units retired and replaced	**0.9%**	1.0%	**2.1%**	2.1%

Net capital expenditures include portfolio additions and asset exchanges, net of proceeds on disposal. Net capital expenditures were $11,697, decreasing by 17% or $2,347 during the second quarter of 2012 and $25,506, year to date, decreasing by $2,819 or 10% compared to the same periods in 2011. The net capital expenditures were lower in part due to fewer asset exchanges and greater buyout activity and related proceeds on disposal when compared to the same periods in 2011.

Attrition in the first and second quarters of 2012 were approximately 4,000 and 1,000 units higher than those periods in 2011, because of higher customer buyouts resulting from the introduction and subsequent withdrawal of new contract terms to a significant portion of customers in March 2012, with buyouts in April 2012 being approximately three times higher than those in April 2011. However, buyouts have decreased dramatically in each month subsequent to April 2012, approaching near historical levels, and unit losses not attributed to buyouts (for example, removal of units by competitors) for the second quarter of 2012 were lower than such losses in the second quarter of 2011 by approximately 8%.

Cash from Financing

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

Capitalization (000's)	Six months ended June 30, **2012**	 2011
Cash and cash equivalents	**$ 3,240**	$ 35,029
Net investment in working capital	**(6,807)**	(11,005)
Cash, net of working capital	**(3,567)**	24,024
Total senior debt	**508,632**	567,449
Promissory note	**100,000**	100,000
Subordinated Debt	**250,000**	-
Intercompany non-interest bearing note	**16,000**	-
Shareholder's equity	**(45,084)**	(8,759)
Total capitalization – book value	**$ 829,548**	$ 658,690

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

At June 30, 2012, total debt was comprised of the 2009-2 Notes and 2010 Notes, the Promissory Note and the 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 June 30, 2012. No amounts were drawn on the Revolver at June 30, 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 June 30, 2012, EnerCare Solutions exceeded this minimum and had the capacity under the covenant to raise approximately $80,000 to $100,000 additional senior debt should it elect to do so.

SUMMARY OF QUARTERLY RESULTS

(000's)	**Q2/12**	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10
Total revenues	**$51,095**	$51,288	$50,489	$51,076	$46,832	$46,955	$45,111	$46,960
Net (loss)/earnings	**(4,323)**	132	(1,271)	2,867	(1,150)	(723)	(1,871)	1,430
Dividends declared	**$ 9,706**	$ 9,424	$ 9,143	$ 9,047	$ 8,958	$ 8,918	$ 7,904	$ 7,905

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 reflect those declared by EnerCare, which are based upon changes in the number of outstanding Shares 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 June 30, 2012:

Period (000's)	Principal Payments	Interest Payments	Leases
Within the remainder of 2012	$ -	$ 15,413	$ 127
Due in 2013	240,000	24,525	255
Due in 2014	270,000	9,112	255
Due in 2015	-	-	370
Due in 2016	-	-	392
Due in 2017 and thereafter	-	-	70
Total	$510,000	$ 49,050	$ 1,469

As at June 30, 2012, long-term senior contractual obligations of EnerCare Solutions include debt service on the 2009-2 Notes and 2010 Notes bearing interest at 6.75% and 5.25%, respectively. Interest on the 2009-2 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 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 loaned the Subordinated Debt 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 June 30, 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 June 30, 2012, EnerCare Solutions was in compliance with all covenants under the 2009-2 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 June 30, 2012. No amounts were drawn on the Revolver at June 30, 2012.

2009-2 Notes and 2010 Notes – Incurrence Test

The covenants under the 2009-2 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. Additional accruals were recorded for the period as outlined below:

Billing and Servicing Matters

DE 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 approximately $1,200 in respect of such outstanding amount. At June 30, 2012, EnerCare Solutions has $1,500 accrued. During the quarter an increase in income of $640 was recorded. The balance is expected to be collected in 2012.

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.

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 June 30, 2012. There have been no changes to our ICFR during the quarter ended June 30, 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

EnerCare Solutions is pleased with the trend of reduced competitor removals of our products in the second quarter of 2012. DE and EnerCare Solutions attrition fighting programs have continued into the third quarter of 2012, including the mass media campaign described above.

EnerCare plans to increase efforts to grow its business organically, including through wider product offering and geographic expansion. In addition, EnerCare Solutions will continue to seek acquisition opportunities in its current or adjacent markets. Investments will focus on those which have long lived 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.

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 restricted 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., a subsidiary of DE, from which ESI acquired approximately 3,421 water heaters and HVAC equipment.
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.
Promissory Note	$100,000 subordinated promissory note of ESI owing to EnerCare, issued as part of the Conversion.
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)
Subordinated Debt	$250,000 intercompany subordinated loan of a subsidiary of ESI owed to ECI, bearing interest at 7% annually, payable on demand.
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.