EnerCare Solutions Inc.

EnerCare Solutions Inc.

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

First Quarter ended March 31, 2013

Dated May 13, 2013

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The condensed interim consolidated financial statements of EnerCare Solutions are prepared in accordance with IFRS which became effective on January 1, 2011 with retroactive application to January 1, 2010. 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, 2013. 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 13, 2013, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with EnerCare Solutions' 2012 audited consolidated financial statements. Additional information in respect to the Trust and EnerCare Solutions 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 actual 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.

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.

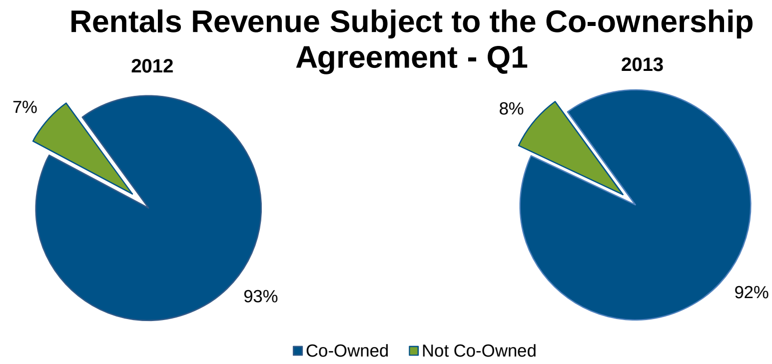
EnerCare Solutions, a wholly-owned subsidiary of EnerCare, through its subsidiaries, owns a portfolio of approximately 1.2 million water heaters and other assets, rented primarily to residential customers in Ontario.

EnerCare Solutions has grown revenues 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 BBB(high) stable rating from S&P and DBRS, respectively.

PORTFOLIO SUMMARY

The business is comprised of the rental of water heater and HVAC equipment primarily to single family residential homes.

EnerCare Solutions originally had 100% of its business subject to the Co-ownership Agreement. Through five acquisitions and origination arrangements with various parties, EnerCare Solutions has successfully expanded its business. EnerCare Solutions has 8% of its rentals revenue coming from portfolios which are not subject to the Co-ownership Agreement.



For the portfolios under the Co-ownership Agreement, 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, it is responsible for servicing and maintaining the assets. This ensures that EnerCare Solutions is effectively insulated from any operating risks from this portfolio. Through the Origination Agreement, 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 implemented many programs, including continued consumer education through direct mail and radio campaigns. Such initiatives, coupled with broader consumer awareness and a leveling of the playing field in respect of the expiry of the Consent Order, as well as enhancements to our customer value proposition (for example, the "DE same day service campaign"), have helped to significantly reduce Attrition during the quarter.

Attrition decreased in the first quarter of 2013 by 11,000 units or 50% over the same period in 2012. Last year, EnerCare Solutions did see additional buyout activity of 4,000 units following the introduction and subsequent withdrawal of new contract terms for a significant portion of our co-owned portfolio. Attrition declined 35% or 6,000 units from the fourth quarter of 2012. Attrition has improved year over year (see table below) since 2009.

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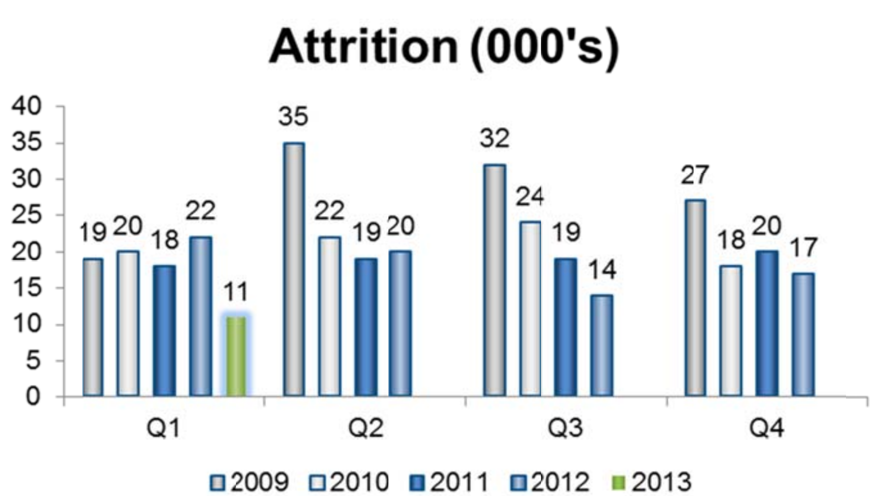
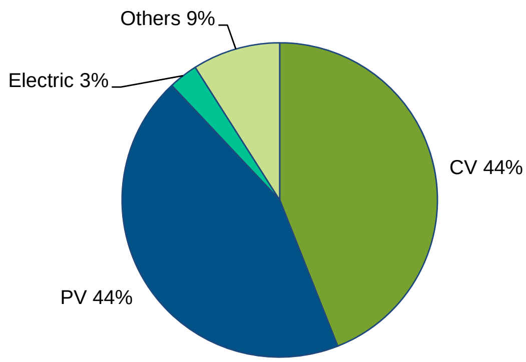
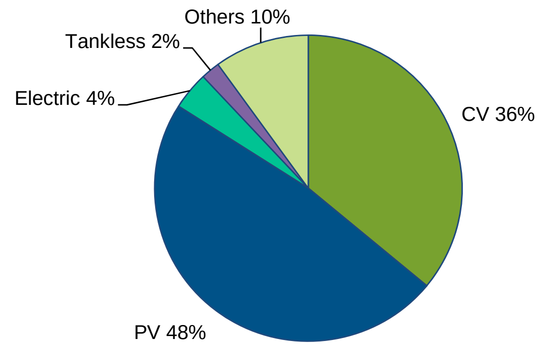


Partially offsetting Attrition is the movement in asset mix to units with higher returns. One of EnerCare Solutions' growth platforms has been to focus on single family and multi-residential HVAC rental units. Although results are small on the unit continuity, HVAC units provide three to five times more rental revenue than that of a water heater. A comparison of the product mix 6 years ago to that of today reveals that the portfolio contains a higher percentage of PV and tankless units, both of which provide a higher revenue than conventional vent ("CV") units. This product mix movement has contributed significantly to growing revenue.

Revenue Source as at December 31, 2007



Revenue Source as at March 31, 2013



FIRST QUARTER 2013 HIGHLIGHTS

	Three months ended March 31,	
(000's)	**2013**	2012
Rentals	**$47,082**	$46,847
Dividend income	**860**	4,301
Investment income	**268**	140
Total revenues	**$48,210**	$51,288
EBITDA[1]	**38,225**	35,749
Adjusted EBITDA[1]	**41,117**	39,864
(Loss)/earnings before income taxes	**(13,885)**	482
Current tax (expense)	**(5,481)**	(3,254)
Deferred income tax recovery	**8,233**	2,904
Net (loss)/earnings	**$(11,133)**	$ 132

The following highlights compare results for the first quarter of 2013 with the first quarter of 2012.

- Total revenues of $48,210 decreased by 6% in the first quarter of 2013. Revenues, excluding dividend and investment income, were $47,082, slightly greater than the prior year primarily as a result of rental rate increases partially offset by changes in installed assets. Dividend income relates to an investment in ECI preferred shares which declined to $50,000 from $250,000 during 2012.
- EBITDA increased by $2,476 to $38,225 in the first quarter of 2013, driven principally by a reduced loss on disposal of equipment and lower SG&A expenses. Adjusted EBITDA of $41,117 increased by $1,253 after removing from EBITDA the impact of a reduced loss on disposal of equipment in 2012.
- Net loss of $11,133 increased by $11,265 compared to the first quarter of 2012, reflecting $9,789 of additional interest expense caused by the non-recurring make-whole payment of $13,754, $2,227 of additional current taxes and lower dividend income, partially offset by increased deferred income tax recoveries, lower amortization and loss on disposal of equipment.

[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 decreased by 50% to 11,000 units for the first quarter of 2013.

RECENT DEVELOPMENTS

Corporate Activities

Issuance of 2013 Notes, Term Loan, Redemption of 2009-2 Notes and Amendments to Revolver

As part of a series of transactions, on January 28, 2013, EnerCare Solutions entered into a $60,000 term credit facility with the Canadian chartered bank affiliate of National Bank Financial Inc. The Term Loan is payable interest only until maturity in January 2016 and is payable in whole or in part at any time without penalty. The Term Loan bears interest at a rate of bankers' acceptances plus 120 basis points or prime plus 20 basis points at EnerCare Solutions' current credit rating. EnerCare Solutions drew the full amount available under the Term Loan on February 4, 2013.

On February 1, 2013, EnerCare Solutions completed a public offering of $225,000 aggregate principal amount of 2013 Notes. The 2013 Notes were sold at a price of 99.94% of the principal amount, with an effective yield of 4.61% per annum if held to maturity. The 2013 Notes received ratings of "BBB(high)", with a "stable" trend from DBRS and "A-", with a "stable" outlook from S&P.

The proceeds of the offering and the drawdown of the Term Loan were used by EnerCare Solutions to redeem on March 6, 2013 its outstanding $270,000 aggregate principal amount of the 2009-2 Notes for an aggregate redemption price of approximately $290,095, which includes interest and a make-whole payment of $13,754.

On February 26, 2013, the Revolver pricing was amended to reflect a 20% reduction in standby fees on the unused portion of the facility and a 30 basis point reduction in margin on borrowings at EnerCare Solutions' current debt ratings.

Senior Management Changes

On March 25, 2013, Laima Cers was appointed Vice President, Marketing and Business Development of EnerCare and EnerCare Solutions and each of their respective subsidiary entities.

On April 15, 2013, Ross Garland was appointed Senior Vice President and General Manager of EnerCare and EnerCare Solutions and each of their respective subsidiary entities.

Rentals Activities

In January, EnerCare Solutions re-introduced an in-person consumer education program targeting the Greater Toronto Area. This program ran throughout the first quarter of 2013. As part of the program, educational flyers, outlining consumer rights with respect to D2D sales, were distributed.

Subsequent Events

In April 2013, the Ontario Government introduced the *Stronger Protection for Ontario Consumers Act, 2013* ("Bill 55"). Bill 55 is a direct response by the Ontario Government to quell complaints to the Ontario Ministry of Consumer Services about rental agreements for water heaters entered into through door-to-door sales, which complaints were second on the Ministry's consumer complaints list in both 2012 and 2011.

Among other things, if passed as introduced, Bill 55 will:

➢ Double the existing 10-day cooling-off period to 20 days, providing consumers with more time to consider their decision;

- Ban the delivery and installation of water heaters during the new 20-day cooling-off period;
- Provide new consumer protection when the rules are not followed, such as requiring the supplier to pay all cancellation fees when the 20-day cooling-off period is not observed and giving the consumer a set-off right against any amounts owing to the supplier for those fees; and
- Give enhanced authority to the Minister to make regulations governing supplier conduct and agreement content, such as a requirement that companies confirm sales by making scripted and recorded telephone calls to the customer.

As of May 13, 2013, Bill 55 was in second reading.

If passed, EnerCare Solutions believes that Bill 55 is very much a positive development for its customers and its business and will greatly assist in its continued efforts to combat Attrition.

RESULTS OF OPERATIONS

Earnings Statement

	Three months ended March 31,	
(000's)	**2013**	2012
Revenues:		
Rentals	**$47,082**	$46,847
Dividend income	**860**	4,301
Investment income	**268**	140
Total revenues	**$48,210**	$51,288
SG&A expense	**5,965**	6,983
Amortization expense	**23,126**	24,960
Loss on disposal of equipment	**2,892**	4,115
Interest expense:		
Interest expense payable in cash		
Make-whole payment on early redemption of debt	**13,754**	-
Interest on subordinated debt	**873**	4,363
Interest on promissory notes	**2,500**	2,000
Non-cash interest expense	**12,985**	9,885
Total Interest expense	**30,112**	16,248
Total operating expenses	**62,095**	52,306
Other income	**-**	1,500
(Loss)/earnings before income taxes	**(13,885)**	482
Current tax (expense)	**(5,481)**	(3,254)
Deferred income tax recovery	**8,233**	2,904
Net (loss)/earnings	**(11,133)**	132
EBITDA	**$38,225**	$35,749
Adjusted EBITDA	**$41,117**	$39,864

Revenues

Total revenues of $48,210 for the first quarter of 2013 decreased by $3,078 or 6% compared to the same period of 2012. Rentals revenues increased marginally by $235 to $47,082 in the first quarter of 2013, primarily due to a rental rate increase implemented in January 2013 partially offset by a reduction in installed assets.

Dividend income of $860 in 2013 is related to a $50,000 investment in preferred shares of ECI. During 2012 the investment in preferred shares of ECI was $250,000.

Investment income increased by $128 in the first quarter of 2013 to $268 compared to $140 in the same period of 2012. The increase in investment income was primarily attributable to greater investment balances as a result of the issuance of the 2013 Notes and the drawdown of the Term Loan approximately 30 days prior to the redemption of the 2009-2 Notes during the first quarter of 2013.

Selling, General & Administrative Expenses

Total SG&A expenses were $5,965 in the first quarter of 2013, a decrease of $1,018 or 15% compared to the same period in 2012, primarily due to decreases of approximately $400 in wages and benefits, $900 for professional fees and selling expenses partially offset by an increase of approximately $300 for claims and bad debts.

Amortization Expense

Amortization expense decreased by $1,834 or 7% to $23,126 in the first quarter of 2013, primarily due to a smaller installed asset base.

Loss on Disposal of Equipment

In the first quarter of 2013, EnerCare Solutions reported a loss on disposal of equipment of $2,892, a reduction of $1,223 over the same period in 2012. 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. In 2012, loss on disposal was elevated primarily as a result of higher buyout activity and Attrition.

Interest Expense

	Three months ended March 31,	
(000's)	**2013**	2012
Interest expense payable in cash	**$8,079**	$ 8,663
Make-whole payment on early redemption of debt	**13,754**	-
Interest on subordinated debt	**873**	4,363
Interest on promissory note	**2,500**	2,000
Non-cash items: Amortization of OCI and financing costs	**4,906**	1,222
Interest expense	**$30,112**	$16,248

Interest expense payable in cash decreased by $584 to $8,079 in the first quarter of 2013, compared to $8,663 in the first quarter of 2012. The decrease is primarily related to the repayment of the $60,000 2009-1 Notes on April 30, 2012 and the redemption of the 2010 Notes in the fourth quarter of 2012 with the proceeds from the offering of the 2012 Notes. The make-whole payment of $13,754 was incurred upon the early redemption of the 2009-2 Notes associated with the issuance of the 2013 Notes and the drawdown of the Term Loan. Amortization of OCI and financing costs for 2013 include the previously unamortized costs associated with the 2009-2 Notes and $4,023 of accumulated OCI which has been fully reclassified to earnings in the current period.

Other Income

In 2012, EnerCare Solutions and DE reached a settlement of $1,500 on account of billing for water heater installation costs.

Income Taxes

EnerCare Solutions reported a current tax expense of $5,481 for the first quarter of 2013 which was $2,227 greater than the same period in 2012, primarily as a result of decreased loss carry forwards available to shelter taxable income. The deferred income tax recovery of $8,233 for 2013 increased by $5,329, primarily as a result of temporary difference reversals, including the make-whole payment inclusion through April 30, 2014.

Net Losses

Losses before income taxes in the first quarter of 2013 were $13,885, an increase of $14,367, compared to the same period in 2012, as previously described. The net loss was impacted by increases in current taxes of $2,227 and tax recoveries of $5,329, resulting in a net loss of $11,133, $11,265 lower than the same period in 2012.

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)	**Q1/13**	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11
Net (loss)/earnings	**$(11,133)**	$(2,316)	$ 337	$(4,323)	$ 132	$(1,271)	$ 2,867	$(1,150)
Deferred tax expense/(recovery)	**(8,233)**	(5,109)	(3,065)	1,382	(2,904)	(1,639)	(4,703)	(1,849)
Current tax expense	**5,481**	4,786	3,821	2,035	3,254	783	1,132	1,881
Amortization expense	**23,126**	24,024	24,115	24,162	24,960	25,362	25,453	25,451
Interest expense	**30,112**	15,697	12,701	15,506	16,248	15,394	15,189	11,768
Dividend (income)	**(860)**	(870)	(870)	(4,301)	(4,301)	(4,348)	(4,112)	-
Other expense/(income)	**-**	362	-	-	(1,500)	-	-	-
Investment (income)	**(268)**	(189)	(14)	(59)	(140)	(110)	(111)	(87)
EBITDA	**38,225**	36,385	37,025	34,402	35,749	34,171	35,715	36,014
Add: Loss on disposal of equipment	**2,892**	3,523	3,397	4,113	4,115	4,880	4,718	4,861
Adjusted EBITDA	**$41,117**	$39,908	$40,422	$38,515	$39,864	$39,051	$40,433	$40,875

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. Increasing current taxes as loss carry forwards, which were utilized from 2011 until mid-2012.
3. The make-whole payment of $13,754 made in the first quarter of 2013.
4. In the second quarter of 2012, deferred taxes resulting from a change in the future provincial corporate tax rates.
5. Amortization and loss on disposal of equipment, which are primarily driven by unit continuity activity such as Attrition, exchanges and outstanding units.
6. Other income in the first and fourth quarters of 2012, which relate to settlements with DE on account of installation and billing matters. The fourth quarter of 2012 also included a bill reversal from EGD following the billing conversion.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended March 31,	
(000's)	**2013**	2012
Cash flow from operating activities	**$ 5,526**	$25,728
Net change in non-cash working capital	**6,032**	1,797
Operating Cash Flow[2]	**11,558**	27,525
Capital expenditures – excluding growth capital and acquisitions	**(14,876)**	(15,499)
Proceeds on disposal of equipment	**917**	1,692
Net capital expenditures	**(13,959)**	(13,807)
Acquisitions	**-**	(2,053)
Cash used in investing activities	**(13,959)**	(15,860)
Dividends paid	**(6,500)**	(9,325)
Other financing activities	**15,468**	-
Cash provided by/(used in) financing activities	**8,968**	(9,325)
Cash and equivalents – end of period	**$ 4,152**	$50,946

Operating Cash Flow of $11,558 decreased by $15,967 in the first quarter of 2013 compared to the same period in 2012. Cash flow from operating activities declined in 2013, primarily as a result of the make-whole payment of $13,754 associated with the redemption of the 2009-2 Notes and greater current taxes of $2,277.

Net capital expenditures in first quarter of 2013 were lower than the same period in 2012, due to decreased asset additions and exchange activity. Acquisitions of $2,053 in 2012 relate to GreenSource. Dividends paid reflect dividend payments to EnerCare.

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*".

Other financing activities reflect EnerCare Solutions' repayment of the $270,000 2009-2 Notes on March 6, 2013 with proceeds from the 2013 Notes and the drawdown on the Term Loan.

The Revolver has a credit limit of $35,000, of which $2,000 was drawn at March 31, 2013 and was repaid on April 19, 2013.

Management believes that EnerCare Solutions has sufficient cash flow, cash on hand and credit available to meet its 2013 obligations, including capital expenditures, financing activities and working capital requirements for its business.

Capital Expenditures

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

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

Installed Asset Unit Continuity (000's)	**2013**	2012
Units – start of period	**1,171**	1,216
Portfolio additions	**5**	6
Acquisitions	**-**	3
Attrition	**(11)**	(22)
Units – end of period	**1,165**	1,203
Asset exchanges – units retired and replaced	**12**	14
% change in units during the period	**(0.5%)**	(1.1%)
% of units from start of period:		
Portfolio additions (net of acquisitions)	**0.4%**	0.5%
Attrition	**(0.9%)**	(1.8%)
Units retired and replaced	**1.0%**	1.2%

Net capital expenditures include portfolio additions and asset exchanges, net of proceeds on disposal. In the first quarter of 2013, net capital expenditures were $13,959, increasing by 1% or $152 when compared to the same period in 2012. Capital expenditures decreased by $623, in part due to fewer asset additions and exchanges offset by lower proceeds on disposal of $775 following the heightened activity of 2012.

Attrition decreased in the first quarter of 2013 by 11,000 units or 50% over the same period in 2012. Last year, EnerCare Solutions did see additional buyout activity of 4,000 units following the introduction and subsequent withdrawal of new contract terms for a significant portion of our co-owned portfolio. EnerCare Solutions and DE have implemented many programs, including continued consumer education through direct mail and radio campaigns. Such initiatives, coupled with broader consumer awareness and a leveling of the playing field in respect of the expiry of the Consent Order, as well as enhancements to our customer value proposition (for example, the "DE same day service campaign"), have helped to significantly reduce Attrition during the quarter.

Cash from Financing

During the first quarter of 2013, EnerCare Solutions recorded financing repayments, net of dividends, of $15,468**,** related to the repayment of the 2009-2 Notes and the issuance of the 2013 Notes and Term Loan.

Capitalization	Three months ended March 31,	
(000's)	**2013**	2012
Cash and cash equivalents	**$ 4,152**	$ 50,946
Net investment in working capital	**(4,607)**	(10,256)
Cash, net of working capital	**(455)**	40,690
Total senior debt	**831,859**	568,354
Promissory note	**250,000**	100,000
Subordinated debt	**50,000**	250,000
Shareholder's equity	**(228,623)**	(31,866)
Total capitalization – book value	**$903,236**	$886,488

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 March 31, 2013, total debt was comprised of the 2012 Notes, the 2013 Notes, $2,000 drawn under the Revolver and Term Loan.

The following discussion outlines the principal covenants.

Revolver and Term Loan

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

Under the terms of the Revolver and the Term Loan, EnerCare Solutions is subject to certain financial covenants, which address interest and debt coverage as described below:

The Revolver contains the following financial covenants (i) all additional incurrences of senior debt, with certain exceptions, must, on the date of incurrence, result in a pro forma ratio equal to or greater than 3.8 to 1.0 of Incurrence EBITDA (as defined in the Senior Unsecured Indenture) to Net Interest Expense (as defined in the Senior Unsecured Indenture); (ii) the ratio of total debt (other than subordinated debt) to "Adjusted EBITDA" must be less than 4.25:1; (iii) the ratio of Adjusted EBITDA to "Cash Interest Expense" must be greater than 3.00:1; and (iv) the ratio of Adjusted EBITDA less capital expenditures to Cash Interest Expense must be greater than 1.75:1.

The Revolver essentially defines "Adjusted EBITDA" as the consolidated net income of EnerCare Solutions and any losses on dispositions of assets less, to the extent included in calculating such net income, all interest income and income tax recoveries, gains on hedging contracts and all extraordinary, non-recurring and unusual income items, plus, to the extent deducted in calculating such net income, amounts for total interest expense, fees payable under the Origination Agreement, amortization and depreciation expenses, income taxes and any other non-cash items, losses on hedging contracts, and proceeds of disposal of water heaters in the ordinary course of business, determined on a consolidated basis. The Revolver essentially defines "Cash Interest Expense" as the aggregate amount of interest and other financing charges payable in cash and expensed by EnerCare Solutions with respect to debt (other than subordinated debt between EnerCare Solutions and EnerCare or any subsidiary of EnerCare Solutions or between subsidiaries of EnerCare Solutions), but excluding any make-whole, prepayment, penalty or premium or other yield maintenance amount with respect to debt.

The Term Loan has substantially similar terms as the Revolver, as amended, with respect to its representation, warranties, covenants, events of default and guarantors. The Term Loan is payable interest only until maturity in January 2016 and is pre-payable in whole or in part at any time without penalty.

EnerCare Solutions was in compliance with the covenants within the Revolver and the Term Loan as of March 31, 2013. $2,000 was drawn on the Revolver at March 31, 2013 and subsequently repaid.

2012 Notes and 2013 Notes

The covenants under the 2012 Notes and 2013 Notes are contained in the Senior Unsecured Indenture. The Senior Unsecured Indenture contains terms, covenants and events of default that are customary for senior unsecured indebtedness, including financial covenants, restrictions on asset sales, a cross-default provision and a negative pledge. The Senior Notes are redeemable at the option of EnerCare Solutions, in whole or in part, at any time, upon not less than 30 nor more than 60 days' prior written notice. The redemption price for each series of Senior Notes to be redeemed will be equal to the greater of (a) the principal amount thereof as at the date set for redemption, and (b) the applicable Canada yield price in respect thereof, together, in each case, with accrued and unpaid interest to the date of redemption. EnerCare Solutions' obligations under the Senior Notes and the Senior Unsecured Indenture are guaranteed by all of EnerCare Solutions' direct and indirect subsidiaries. Under the terms of the Senior Unsecured Indenture, EnerCare Solutions is precluded from incurring additional indebtedness (other than certain refinancing debt, working capital debt in the amount of up to $35,000 and unsecured indebtedness of any of

EnerCare Solutions and its subsidiaries which is expressly subordinate and postponed in right of payment to the Senior Indebtedness) if, after giving pro forma effect to such incurrence (including the application or use of the resulting net proceeds), the ratio of “Incurrence EBITDA” to “Net Interest Expense” is equal to or greater than 3.8 to 1.0 at such time.

The Senior Unsecured Indenture essentially defines “Incurrence EBITDA” as the aggregate of consolidated net earnings of EnerCare Solutions, excluding (a) interest income and expense, (b) income tax expense or recovery, (c) depreciation and amortization expense, (d) extraordinary or non-recurring items, (e) losses on disposal of property and equipment, and (f) non-cash gains or losses on hedging contracts generated (i) on a 100% basis from direct or indirect investments in portfolios of water heaters, gas fired equipment and renewable energy equipment and the cash flows generated therefrom and any related assets, and (ii) on a 50% basis from all other investments. The Senior Unsecured Indenture essentially defines “Net Interest Expense” as the interest expense with respect to debt of EnerCare Solutions and the Guarantors less the amount of interest income on permitted investments held thereby and less the amount of interest expense on unsecured indebtedness of any of EnerCare Solutions and its subsidiaries which is expressly subordinate and postponed in right of payment to the Senior Indebtedness and working capital debt of up to $35,000 and excluding amortization of gains or losses on hedging contracts.

On March 31, 2013, EnerCare Solutions exceeded the ratio of Incurrence EBITDA to Net Interest Expense 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)	**Q1/13**	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11
Total revenues	**$48,210**	$47,184	$47,465	$51,095	$51,288	$50,489	$51,076	$46,832
Net (loss)/earnings	**(11,133)**	(2,316)	337	(4,323)	132	(1,271)	2,867	(1,150)
Dividends declared	**$ (6,502)**	$(9,745)	$ 9,728	$ 9,706	$ 9,424	$ 9,143	$ 9,047	$ 8,958

In addition to quarterly comments found under “Results of Operations – EBITDA and Adjusted EBITDA”, differences in net earnings between quarters reflect the timing of expenses, current tax expense 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, first quarter of 2012 and the first quarter of 2013.

SUMMARY OF CONTRACTUAL DEBT AND LEASE OBLIGATIONS

The following schedule summarizes the contractual debt and lease obligations of EnerCare Solutions at March 31, 2013:

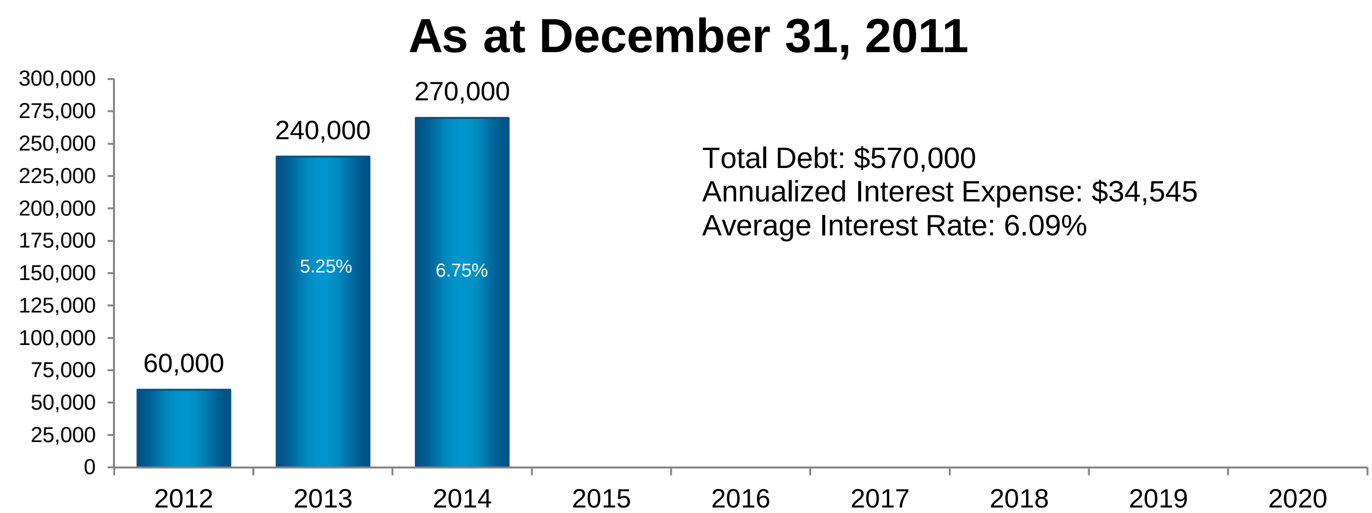
Period (000’s)	Principal Payments	Interest Payments	Leases
Due in 2013	$ -	$ 17,263	$ 198
Due in 2014	-	22,600	264
Due in 2015	-	22,600	379
Due in 2016	60,000	21,225	397
Due in 2017	250,000	21,100	70
Thereafter	225,000	25,875	-
Total	$535,000	$130,663	$1,308

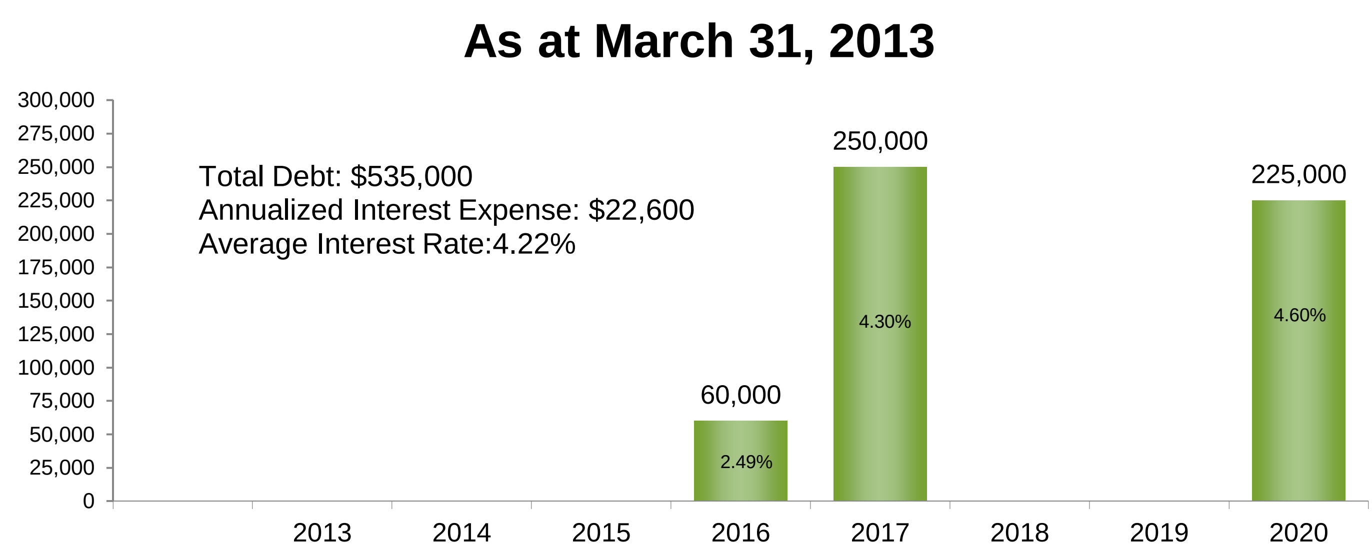
As at March 31, 2013, long-term senior contractual obligations of EnerCare Solutions included debt service on the 2012 and 2013 Notes bearing interest at 4.30% and 4.60%, respectively. Interest on the 2012 Notes is payable semi-annually on May 30 and November 30 and is payable semi-annually on February 3 and August 3, in respect of the 2013 Notes. In addition, the Term Loan of $60,000 due January 28, 2016 bears interest at a variable rate based upon the banker's acceptance rate or prime rate plus an interest spread which was 2.49% at March 31, 2013. The $270,000 2009-2 Notes, which would have matured on April 30, 2014, were redeemed on March 6, 2013, following the issuance of the 2013 Notes and the drawdown of the Term Loan.

At March 31, 2013, $2,000 of the $35,000 Revolver was drawn. The Revolver bears a standby fee of 0.24%, which has not been included in the above schedule, until maturity in July 2014. Amounts drawn on the Revolver are excluded from the contractual debt schedule and graphs immediately below.

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

The following graph depicts the repayment and issuance of senior debt through 2012 and the first quarter of 2013.





In connection with the debt refinancing make-whole payments were incurred with the early redemption of the 2010 Notes and the 2009-2 Notes for approximately $1,920 and $13,754, respectively.

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, 2013, there were 1,001 common shares issued and outstanding.

RISK FACTORS

The risks related to the business and structure of EnerCare Solutions are discussed below.

Risks Related to the Rental Portfolio Business and Industry

Billing Arrangements

As a result of the billing agreements, EnerCare Solutions is reliant on the personnel, expertise, technical resources, proprietary information and judgment of EGD, among others, in providing customer services in respect of the Rentals Portfolio to DE. EnerCare Solutions and its subsidiaries are therefore exposed to adverse developments in the business and affairs of EGD, and to its management and financial strength. Although EGD is required, under the New OBAs, to make the EGD Payment to EnerCare Solutions, thereby effectively guaranteeing EnerCare Solutions' collection of 99.42% (99.42% for 2012 and 99.47% for 2011) of the amount invoiced by EnerCare Solutions on the EGD bill, there can be no assurance that EGD will have the financial capability to honour such obligation.

In the event that EnerCare Solutions and DE do not enter into further arrangements with EGD upon expiration of the New OBAs, DE may provide the billing and collection services and issue stand-alone bills in the EGD billing territory, either itself or through contracts with other third parties.

Any provision of customer services in respect of the Rental Portfolio by DE and stand-alone billing could have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes as there can be no assurance that the customer services delivered by DE, or other third parties, will be of the same standard as those delivered under the New OBAs and stand-alone billing may result in increased bad debt. Bad debt experience may also increase if any arrangement relating to stand-alone billing and collection services does not include a collection guarantee. It is also possible that transitional issues may arise following a termination of the New OBAs and associated arrangements, and those issues may have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes.

Furthermore, any failure to maintain such billing and trust arrangements may have an adverse impact on the credit rating of EnerCare Solutions' outstanding indebtedness, EnerCare's and EnerCare Solutions' respective issuer credit ratings and EnerCare Solutions' ability to refinance any of its indebtedness.

Regulatory Matters

As the vast majority of EnerCare Solutions' customers are consumers, DE and EnerCare Solutions are subject to consumer protection laws and regulations (including the Consumer Protection Act, 2005 (Ontario)). Although EnerCare Solutions believes that DE and EnerCare Solutions are in compliance with such consumer protection laws and regulations in all material respects, given the likelihood that regulatory determinations are likely to favour consumers in the event of any ambiguity in such laws or regulations (of which there are many), no assurance can be given that DE or EnerCare Solutions will be able to comply with such laws or regulations. Furthermore, changes to any of the laws, rules, regulations or policies respecting the installation, contracting, servicing or billing practices in relation to water heaters could have a significant impact on ESLP's business. There can be no assurance that DE or EnerCare Solutions will be able to comply with any future laws, rules, regulations and policies. Failure by DE or EnerCare Solutions to comply with applicable laws, rules, regulations and policies may subject ESLP to civil or regulatory proceedings, including fines, injunctions, recalls or seizures, which may have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes.

In addition, although the Consent Order expired in accordance with its terms in February 2012 and EnerCare Solutions believes that the competitive landscape in the EGD gas distribution territory has significantly changed since the imposition of the Consent Order in 2002 (most particularly subsequent to 2008 no assurance can be given that DE and EnerCare Solutions will not in the future be subject to constraints on their respective business operations under the Competition Act (Canada) or otherwise in respect of the Rental Portfolio.

Attrition and Competition

EnerCare Solutions operates in a competitive environment and hence its growth and sustainability may be negatively impacted by loss of market share to new competition or due to change in consumers' behaviour. In 2009, EnerCare Solutions encountered increased competitive pressure and a resulting increase in the attrition rate (customer buy outs and terminations). The attrition rate for 2012 was 5.98% compared to 6.00% in 2011, 6.35% in 2010 and 8.02% in 2009. The attrition rate in 2008 was 3.2%. The higher attrition rates that began in 2009 are attributable principally to increased competition, from both traditional entities and new entrants. Some of these new market entrants used aggressive door to door promotion.

In the first quarter of 2012, EnerCare Solutions experienced higher attrition (1.85% compared to 1.41% for the first quarter of 2011) due to increased competitive door-to-door activity in anticipation of the expiry of the Consent Order on February 22, 2012 and a sharp spike in buy-out 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 Rentals Portfolio. Subsequent to March 31, 2012, buy-out activity fell sharply and while elevated from its historical norm is trending toward expected levels. Attrition decreased in the first quarter of 2013 by 11,000 units or 50% over the same period in 2012. Attrition declined 35% or 6,000 units from the fourth quarter of 2012.

As a result of these and other competitive pressures, EnerCare Solutions may experience increased attrition rates in the future as well as higher expenses in defense of the installed water heater customer base. Increased attrition rates could have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes.

Buy-outs and Returns of Water Heaters

Pursuant to the terms of the Custodial Rental Contracts and as required pursuant to the Consent Order, customers are permitted to purchase their installed water heaters at a price discounted based on the age of the water heater, determined with reference to the price of the water heater at the time of installation of the water heater. Since the third quarter of 2004, customers have been permitted to terminate their Custodial Rental Contract without charge. Prior to that time, in accordance with the Consent Order, the exit charge permitted to be charged to customers in the first five years following installation was not sufficient to cover the capital cost of the installed water heaters and, if the water heater was installed for over five years, there was no exit charge payable. In 2010, EnerCare Solutions implemented new terms and conditions for certain new customers pursuant to which EnerCare Solutions may require these customers to buy-out their water heaters at a pre-determined price if the contract is terminated prior to the end of the useful life of the applicable equipment. If customers choose to buy their installed water heaters or terminate their Custodial Rental Contracts, the number of installed water heaters and the composition of the portfolio of installed water heaters could change. Any loss of customers could have a material adverse effect on EnerCare

Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes.

Social or Technological Changes

Within Canada, the Province of Ontario marketplace is unique in that the vast majority of homeowners rent their water heaters. There can be no assurance that homeowners will continue to rent their water heaters for an indefinite period. It is also possible that more economical or efficient water heating technology than that which is currently used by customers will be developed or that the economic conditions in which the current technology is applied will change resulting in a reduction in the number of installed water heaters. Any material change in homeowners' rental practices or in technology may have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes. It is also possible that new types of water heaters will, for regulatory or competitive reasons, be required to be installed by DE that necessitates an adjustment to the relative entitlements to rents under the Custodial Rental Contracts to reflect changing servicing requirements in relation to this new type of water heater. Any reduction in EnerCare Solutions' entitlement to receive 65% of the aggregate rent paid by customers under the Custodial Rental Contracts could have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes.

Useful Life of Water Heaters

Past experience indicates that the average useful life of a water heater is approximately 16 years. However, there can be no assurance that water heaters will continue to have a useful life of that length. EnerCare Solutions, as indirect owner of water heaters, will be responsible for, among other things, the capital cost and installation fees related to the purchase and installation of replacement water heaters. There can be no assurance that EnerCare Solutions will have sufficient cash flow or financing capabilities to fund the purchase and installation of replacement water heaters. Lack of such funds could limit the ability of ESLP to maintain the portfolio of water heaters which could have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes.

Concentration of Suppliers, Product Faults and Costs

Although there are a number of manufacturers of water heaters outside Canada, DE relies principally on three suppliers for its supply of water heaters, GSW Inc., Rheem Canada Ltd. and Bradford White Corporation. Should any of these suppliers fail to deliver in a timely manner, the result could be delays or disruptions in the supply and installation of water heaters. In addition, as many of the installed water heaters are of the same or similar type manufactured by these two manufacturers, manufacturer's defects or product recalls relating to a particular production model or type of water heater could affect a material portion of the Rental Portfolio. Furthermore, different water heater manufacturers may, from time to time, source components from the same manufacturers for use in their water heaters. As a result, a parts defect relating to a commonly sourced component could affect water heaters produced by more than one manufacturer. DE does not insure against this risk of product defects or product recalls and EnerCare Solutions does similarly not insure. All water heaters manufactured by GSW Inc. that are purchased by DE are currently made in Canada. If GSW Inc. moved production out of Canada, the capital cost of their water heaters may increase. Rheem Canada Ltd. moved production to Mexico in June of 2006. Bradford White Corporation's production facilities are located in the United States.

ESLP's business will expose it to potential product liability and product defect risks that are inherent in the ownership of water heaters. While ESLP currently maintains what it believes to be suitable product liability insurance, there can be no assurance that ESLP will be able to maintain such insurance on acceptable terms or that any such insurance will provide adequate protection against potential liabilities. In the event of a successful claim against ESLP, a lack of sufficient insurance coverage could have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes. Moreover, even if ESLP maintains adequate insurance, any successful claim could have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes. DE does not insure against the risk of product defects or product recalls and EnerCare Solutions does similarly not insure.

While there are several major suppliers of water heaters, HVAC Equipment and other rented equipment, the cost of the equipment is affected by commodity prices, such as steel and copper, and currency fluctuations, mainly the U.S. currency relative to the Canadian currency. EnerCare Solutions and DE do not hedge these types of exposures, so in any given year, there can be no assurance that increases in capital costs will be able to be recovered fully in rental rates charged to customers.

Geographic Concentration and New Home Construction

Essentially all of the Rental Portfolio assets are located in the Province of Ontario as the Canadian water heater rental market is primarily limited to the Province of Ontario. Furthermore, most of the growth in the number of installed water heaters is principally as a result of new home construction, which is a particularly competitive section of the water heater rental industry in Ontario. Consequently, EnerCare Solutions is particularly reliant on the economy of the Province of Ontario to maintain and to grow the Rental Portfolio. The recent downturn and uncertainty in the Ontario economy and corresponding slowdown in new home construction has had in 2008 and 2009, and to a lesser extent in 2010, 2011 and 2012 an adverse effect on demand for water heaters.

Uninsured or Underinsured Risks

EnerCare Solutions' current insurance coverage in respect of potential liabilities of EnerCare Solutions and the accidental loss of value of the assets of EnerCare Solutions from risks is in the form of comprehensive property and casualty insurance in respect of claims for bodily injury or property damage arising out of assets or operations (subject to deductible amounts). However, not all risks are covered by insurance, and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of DE or ESLP.

Lack of Written Custodial Rental Contracts

In many cases, DE has not entered into written agreements with customers or has not entered into updated written agreements to reflect the current rental terms and conditions. As a result, those customers may assert a right to terminate their relationship with DE at any time or DE may be unable to enforce payment of certain charges payable by such customers. Any loss of customers or inability to enforce payment of certain charges paid by customers for installed water heaters could have a material adverse effect on EnerCare Solutions' financial condition and results of operations and on its ability to satisfy its debt service obligations on the Senior Notes.

Litigation Risk

In the normal course of EnerCare and EnerCare Solutions' operations, whether directly or indirectly, they 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 their 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 and EnerCare Solutions and as a result, could have a material adverse effect on their respective financial conditions and results of operations and on the ability of EnerCare Solutions to satisfy its debt service obligations on the Senior Notes. Even if EnerCare or EnerCare Solutions prevail in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from EnerCare and EnerCare Solutions' respective business operations which could have a material adverse effect on their respective financial conditions and results of operations and on the ability of EnerCare Solutions to satisfy its debt service obligations on the Senior Notes. In particular, EnerCare and a subsidiary of EnerCare Solutions have been named in legal proceedings commenced by certain competitors, the outcomes of which, at this stage of the proceedings, are impossible to predict with any certainty. Furthermore, no assurance can be given that EnerCare or EnerCare Solutions will not become involved in litigation, whether as defendant or plaintiff, in other matters from time to time.

Risks Related to the Structure of EnerCare Solutions

Reliance on DE

EnerCare Solutions is relying on DE's ability to originate water heaters, commercial water heaters and HVAC Equipment in order for the Rental Portfolio to be sustained and to grow, including the availability of its personnel, proprietary information and related information systems. DE's obligation to continue to originate new water heaters is dependent, in part, on terms proposed annually by DE to ESLP that are economic for DE, acceptable to ESLP and are commercially reasonable to customers, as determined by DE acting reasonably. There can be no assurance that terms that are economic for DE will continue to be commercially reasonable to customers or that ESLP will continue to accept the terms proposed by DE. Shareholders are also relying on DE to establish rental rates on installed water heaters subject to Custodial Rental Contracts in order for the portfolio of installed water heaters to generate the same level of cash flow as historically experienced by EnerCare Solutions. EnerCare Solutions is also relying on DE's personnel, good faith, expertise, historical performance, technical resources and information systems, proprietary information and judgment in servicing the Rental Portfolio. EnerCare Solutions is therefore exposed to adverse developments in the business and affairs of DE, to its management and financial strength and to its ability to operate its business profitably.

Reliance on DE itself will increase further in the event it directly provides customer services in respect of the Rental Portfolio.

In particular, following the September 2009 billing system conversion implemented by DE, which coincided with a billing system conversion by EGD, the Fund's internal controls identified issues principally associated with DE's system conversion impacting the Fund's customers, including issues in respect of the allocation of customer payments, customer collections, and billing issues, including completeness of billing, billing in respect of new customers and implementation of new rental rates. EnerCare Solutions has been working closely with DE to identify and rectify these issues.

Conflicts of Interest

The Trust was originally established at the initiative of DE. EnerCare Solutions is in part dependent on DE to originate water heaters, commercial water heaters and HVAC Equipment in order for EnerCare Solutions to be sustained and to grow, and are dependent on DE to service approximately 99% of the Rental Portfolio. Negotiations with respect to transactions and agreements among the Trust, DE and its affiliates should not be regarded as having been conducted on an arm's length basis. In addition, the former trustees of the Trust did not receive independent advice pertaining to the agreements that were entered into by the Trust and DE in connection with the investment in Rentco and the Fund's initial public offering and follow-on offerings of Units.

EnerCare Solutions may be subject to various conflicts of interest because DE, its directors, officers and associates, as well as the directors of EnerCare, are engaged in various business activities, some of which might compete with the business of EnerCare Solutions. EnerCare Solutions may become involved in transactions which conflict with the interests of the foregoing. From time to time, these persons may be competing with EnerCare Solutions for available investment opportunities. Certain conflicts of interest may arise as a result of DE or an affiliate thereof pursuing its own business interests, which may render DE and its affiliates in competition with EnerCare Solutions. The Non-competition Agreement contains provisions to address certain of these potential conflicts of interest.

Reliance on Management

EnerCare Solutions' operations and prospects are dependent upon the participation of key executives. The loss of their services and EnerCare Solutions' inability to attract and retain qualified and experienced personnel may materially affect EnerCare Solutions' ability to operate and grow.

Restrictive Covenants

EnerCare Solutions has significant debt service obligations under its Senior Indebtedness. The degree to which EnerCare Solutions is leveraged could have important consequences including (i) EnerCare Solutions' ability to obtain additional financing; (ii) a substantial portion of the cash flow from EnerCare Solutions will be dedicated to the payment of interest on its Senior Indebtedness; and (iii) EnerCare Solutions' failure to refinance its Senior Indebtedness will have a material adverse effect on EnerCare Solutions' ability to satisfy its debt service obligations on the Senior Notes.

The Senior Unsecured Indenture, Revolver and Term Loan contain restrictive covenants of a customary nature, including covenants that limit the discretion of the board of directors of EnerCare Solutions with respect to certain business matters. These covenants place restrictions on, among other things, the ability of EnerCare Solutions and the Guarantors to incur additional indebtedness, to pay distributions or make certain other payments, and to sell or otherwise dispose of significant assets or consolidate with another entity. In addition, there are also a number of financial covenants that require EnerCare Solutions to meet certain financial ratios and financial condition tests. A failure to comply with these obligations could result in an event of default which, if not cured or waived, could permit acceleration of the Senior Indebtedness. If the Senior Indebtedness were to be accelerated, there could be no assurance that the assets of EnerCare Solutions would be sufficient to repay in full the Senior Indebtedness. There can also be no assurance that the Senior Indebtedness or any other indebtedness will be able to be refinanced.

Credit Ratings and Credit Risk

There can be no assurance that any credit ratings assigned to the Senior Notes and EnerCare Solutions will remain in effect for any given period of time or that the ratings will not be withdrawn or revised by either or both of DBRS and S&P at any time. Real or anticipated changes in credit ratings on the Senior Notes and EnerCare Solutions may affect the market value of the Senior Notes. In addition, real or anticipated changes in credit ratings can affect the cost at which EnerCare Solutions can access the capital markets.

Market Value Fluctuations

Prevailing interest rates will affect the market value of the Senior Notes, as they carry a fixed interest rate. Assuming all other factors remain unchanged, the market value of the Senior Notes, which carry a fixed interest rate, will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

Reliance on Directors

In assessing the risk of an investment in EnerCare Solutions, potential investors should be aware that they will be relying on the good faith, experience and judgment of the board of directors of EnerCare Solutions. Although investments made by EnerCare Solutions are carefully chosen, there can be no assurance that such investments will earn a positive return in the short or long term or that losses may not be suffered by EnerCare Solutions from such investments.

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 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 - EBITDA and Adjusted 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 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 - EBITDA and Adjusted 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, 2013, EnerCare Solutions was in compliance with all covenants under the 2012 Notes, 2013 Notes, Revolver and Term Loan. A summary of the financial covenants in respect of such debt can be found in "*Liquidity and Capital Resources-Revolver and Term Loan*" and "*Liquidity and Capital Resources-2012 Notes and 2013 Notes*".

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:

DE Earnings Items

DE, through EGD, provides billing and collection services for substantially all of EnerCare Solutions' water heaters and other assets. In September 2009, DE implemented a billing system conversion which coincided with a billing system conversion by EGD. Further, in late 2011, DE began utilizing a third party billing system for new assets and in August 2012 also employed the billing system for non-EGD territory accounts. EnerCare Solutions' ICFR identified issues principally associated with DE's original system conversion as well as the third party conversion, primarily in respect of completeness of billing, customer collections and allocation of customer payments. During the fourth quarter of 2012 and in January 2013, a number of billing issues were resolved with the third party billing system.

At December 31, 2012, EnerCare Solutions estimated and recorded revenue accruals of $800 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. At March 31, 2013, EnerCare Solutions has accrued the same amount in respect of outstanding billing amounts.

Buyout processing from 2010 remains 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. For the Rentals business, costs include the purchase price of the water heaters and other assets, and installation allowances. There exists measurement uncertainty with respect to the useful life of the installed rental assets; accordingly, EnerCare 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. Rentals 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, 2013. There have been no changes to our ICFR during the quarter ended March 31, 2013 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, 2012. 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 except for the adoption of new accounting standards as described below:

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 implemented the standard and has determined that it did not have an impact on current reporting.

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 implemented the standard and has determined that it did not have an impact on current reporting.

OUTLOOK

The forward-looking statements contained in this section are not historical facts but, rather, reflect EnerCare Solutions' current expectations regarding future results or events and are based on information currently available to management. Certain material factors and assumptions were applied in providing these forward-looking statements. See "Forward-looking Information" in this MD&A.

EnerCare Solutions continued to experience improved customer retention during the first quarter of 2013. Overall, we are encouraged by the positive trend we have seen in the last three quarters. We continue to expect that Attrition levels will continue to have mild volatility from quarter to quarter. As discussed in the Recent Developments - Subsequent Events section of this MD&A, recently, the Ontario Government introduced consumer protection legislation in the Ontario legislature in respect of D2D sales. We strongly support the introduction of legislation that will help protect consumers from aggressive and questionable door-to-door sales activities. If passed, we believe that the proposed legislation is very much a positive development for consumers, our customers and our business and will greatly assist in our efforts to combat Attrition. Going forward we continue to believe that the factors that have led to the decline in Attrition over the last three years, including improving consumer awareness, and if passed, the proposed consumer protection legislation, will create a more favourable environment for further improvement in customer retention. We will continue to explore new initiatives and modifications of existing programs, as well as enhanced customer product offerings and service programs.

We are very pleased with our reduction in total debt following the repayment of the 2009-1 Notes in April of 2012 and our recent refinancing of the 2010 Notes in November of 2012 and the 2009-2 Notes in February of 2013. With these financing activities, we have successfully extended and laddered our maturities, provided flexibility to allow for further potential reductions in our future leverage and secured a significant reduction in future interest expense. As outlined in the "Summary of Contractual Debt and Lease Obligations section in this MD&A, we estimate that the annual interest savings is approximately $12,000.

For 2013, our key priorities and initiatives are to continue to improve Attrition by continuing to invest in the education and protection of consumers relating to D2D solicitation, enhancing our customer value proposition and supporting Bill 55 and growing the business through portfolio additions and new products by accelerating originations in respect of HVAC.

As previously announced, EnerCare has set its annual and special meeting for June 3, 2013. Jim Pantelidis, Chairman of the board, and management will provide an update to shareholders on EnerCare's achievements in 2012 and strategy for furthering shareholder value.

GLOSSARY OF TERMS

Defined Term	Definition
Amended Receivables Trust Agreement	The amended and restated proceeds transfer, serving and trust agreement effective February 4, 2010 between, among others, EGD, DE and CIBC Mellon Trust Company, as trustee, pursuant to which, among other things, collections on joint billing statements issued on behalf of DE and EGD pursuant to the amended and restated open bill access billing and collection services agreement between DE and EGD effective December 21, 2012, are transferred to CIBC Mellon Trust Company, as trustee, and allocated by EGD.
Attrition	Termination of customer relationships, including buyouts.
Consent Order	Consent Order issued by the Competition Bureau in 2002 and expired in February 2012 that 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.
Co-owners	The holders from time to time of the DE Co-ownership Interest and the EnerCare Co-ownership Interest.
Co-ownership Agreement	Co-ownership agreement dated December 17, 2002 between DE, Rentco, 4104285 Canada Limited and CIBC Mellon Trust company as custodian, as assigned by Rentco to ESLP on December 17, 2002, as amended on February 6, 2003, January 1, 2005, December 29, 2006, February 8, 2007 and April 25, 2007, and as may be further amended, modified, supplemented, restated or replaced from time to time.
Custodial Assets	Custodial Rental Contracts (including all receivables generated thereby on and after December 17, 2002), all customer records and information required for billing and collecting Rental Portfolio rentals and performing CIBC Mellon Trust Company's obligations as the custodian under the Custodial Rental Contracts (as updated from time to time by DE as the servicer), certain customer services agreements to the extent relating to collections under the Custodial Rental Contracts, the amended and restated open bill access billing and collection services agreements between DE and EGD effective December 21, 2012, Amended Receivables Trust Agreement, all product warranty rights from manufacturers relating to the Rental Portfolio which have not been assigned to ESLP, as owner of the Rental Portfolio, and a limited licence to use DE's trademarks in accordance with the terms of the Co-ownership Agreement.
Custodial Rental Contracts	All present and future rental contracts or arrangements with customers (whether or not in writing) relating to (i) water heaters (A) owned by Rentco on December 17, 2002, (B) originated and sold to Rentco or ESLP pursuant to the terms of the Origination Agreement, or (C) as the Co-owners may otherwise expressly agree, and (ii) certain other Rental Portfolio assets, but does not include present and future rental contracts and arrangements (whether or not in writing) relating to (x) the Toronto Hydro Water Heaters, Festival Water Heaters, Thunder Bay Water Heaters or HVAC Equipment purchased by ESLP pursuant to the HVAC Agreement, or (y) a water heater, commercial water heater or HVAC Equipment rented pursuant to a rental contract or arrangement with ESLP or an affiliate thereof in replacement of water heaters or commercial water heaters or HVAC Equipment that immediately prior thereto were water heaters, commercial water heaters or HVAC Equipment subject to (x).
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.
DE Co-ownership Interest	The undivided co-ownership interest in the Custodial Assets owned by DE under the Co-ownership Agreement.
ECI	EnerCare Connections Inc. (formerly Stratacon and Enbridge Electric Connections Inc.).
EGD	Enbridge Gas Distribution Inc.
EGD Payment	The payment made by EGD to DE pursuant to the New OBAs constituting, subject to certain exceptions, 99.42% (99.42% in 2012 and 99.47% for 2011) of all amounts invoiced to applicable customers on the EGD bill.
EnerCare	EnerCare Inc., formerly the Fund.
EnerCare Co-Ownership Interest	The undivided co-ownership interest in the Custodial Assets initially owned by 4104285 Canada Limited (now owned by the ESLP) under the Co-ownership Agreement.
EnerCare Solutions	EnerCare Solutions Inc., formerly the Trust.
EGNB	Enbridge Gas New Brunswick Limited Partnership.
ESLP	EnerCare Solutions Limited Partnership (formerly the Waterheater Operating Limited Partnership).
Fund	The Consumers' Waterheater Income Fund.
GreenSource	GreenSource Capital Inc., a subsidiary of DE.
Guarantors	Collectively, ESLP, Rentco and WGP Inc.
HVAC	Heating, ventilation and air conditioning.
HVAC Agreement	HVAC origination and servicing agreement dated as of April 25, 2007 between ESLP and DE, as the same may be amended, modified, supplemented, restated or replaced from time to time.
HVAC Equipment	Commercial and residential mechanical systems which provide heating, cooling, ventilation and/or domestic hot water within a building, to provide a controlled environment for the occupants, whether fuelled by natural gas, electricity or otherwise.
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.

Defined Term	Definition
MD&A	Management's Discussion and Analysis.
New OBAs	The amended and restated open bill access billing and collection services agreements effective December 21, 2012 between (i) DE and EGD; and (ii) EnerCare and EGD.
Non-competition Agreement	The agreement dated December 17, 2002 between DE and EnerCare which restricts DE from engaging in certain businesses, as amended on January 1, 2005 and December 29, 2006, and as may be further amended, modified, supplemented, restated or replaced from time to time.
OCI	Other Comprehensive Income.
Origination Agreement	The origination agreement dated December 17, 2002 between Rentco and DE providing for the sale to ESLP of rental water heaters originated by DE, as amended on January 1, 2005 and December 29, 2006, and as may be further amended, modified, supplemented, restated or replaced from time to time.
Rental Portfolio	Residential and commercial water heaters, HVAC Equipment and other related assets owned by ESLP.
Rentco	4483588 Canada Inc. (formerly, Direct Waterheater Rentals Inc.).
Revolver	$35,000 line of credit, with a maturity date of July 6, 2014, as amended and restated as of July 6, 2011, and further amended on November 15, 2012 and February 26, 2013.
Senior Indebtedness	Any indebtedness outstanding under the Senior Unsecured Indenture from time to time, including the 2012 Notes and the 2013 Notes, under the Revolver or the Term Loan.
Senior Notes	The 2012 Notes and the 2013 Notes and prior to March 6, 2013, the 2009-2 Notes, and prior to December 21, 2012, the 2010 Notes and prior to April 30, 2012, the 2009-1 Notes, and any other series of senior notes authorized, issued and certified in accordance with the terms of the Senior Unsecured Indenture and for the time being outstanding.
Senior Unsecured Indenture	The trust indenture dated as of January 29, 2010 between the Trust, as issuer, the Guarantors, as guarantors, and Computershare Company of Canada, as indenture trustee, as supplemented by the first supplemental indenture dated as of January 29, 2010, the second supplemental indenture dated as of February 19, 2010, the third supplemental indenture dated as of December 1, 2010, the fourth supplemental indenture dated as of January 1, 2011, the fifth supplemental indenture dated as of September 30, 2012, the sixth supplemental indenture dated as of November 21, 2012 and the seventh supplemental indentured dated as of February 1, 2013, as the same may be amended, modified, supplemented, restated or replaced from time to time. The Trust was wound-up and dissolved in connection with the reorganization of the Fund`s income trust structure to a corporate structure and all of the covenants and obligations of the Trust with respect to the Senior Unsecured Indenture were assumed by EnerCare Solutions.
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 Promissory Notes	$100,000 subordinated promissory note of EnerCare Solutions owing to EnerCare, issued as part of the Conversion and an additional $150,000 subordinated promissory note of ESI owing to EnerCare which was issued on September 28, 2012.
Subordinated Debt	$250,000 intercompany subordinated loan of a subsidiary of EnerCare Solutions owed to ECI, bearing interest at 7% annually, payable on demand, $200,000 of which was repaid in the third quarter of 2012.
Term Loan	$60,000 single draw, variable rate, interest only, open loan with a maturity date of January 28, 2016.
Trust	The Consumers' Waterheater Operating Trust.
Units	Trust Units of the Fund.
2009-1 Notes	$60,000 of 6.20% Series 2009-1 Senior Notes of EnerCare Solutions, which matured and were repaid on April 30, 2012.
2009-2 Notes	$270,000 of 6.75% Series 2009-2 Senior Notes of EnerCare Solutions, which were redeemed on March 6, 2013.
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 EnerCare Solutions, which were redeemed on December 21, 2012.
2012 Notes	$250,000 of 4.30% Series 2012-1 Senior Unsecured Notes of EnerCare Solutions, which mature on November 30, 2017.
2013 Notes	$225,000 of 4.60% Series 2013-1 Senior Unsecured Notes of EnerCare Solutions, which mature on February 3, 2020.