EnerCare Solutions Inc.

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

First Quarter ended March 31, 2014

Dated May 9, 2014

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The condensed interim consolidated financial statements of EnerCare Solutions are prepared in accordance with IFRS. EnerCare Solutions' basis of presentation and significant accounting policies are summarized in detail in notes 2 and 3 of the condensed interim consolidated financial statements for the period ended March 31, 2014. Unless otherwise specified, amounts are reported in this MD&A in thousands, except customers, units and "per unit" amounts, Shares and "per Share" amounts and percentages (except as otherwise noted). Dollar amounts are expressed in Canadian currency.

As at March 31, 2014, EnerCare Solutions was a wholly-owned subsidiary of EnerCare. EnerCare Solutions' business is the rental of water heaters and other equipment.

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

FORWARD-LOOKING INFORMATION

This MD&A, dated May 9, 2014, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with EnerCare Solutions' 2013 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.

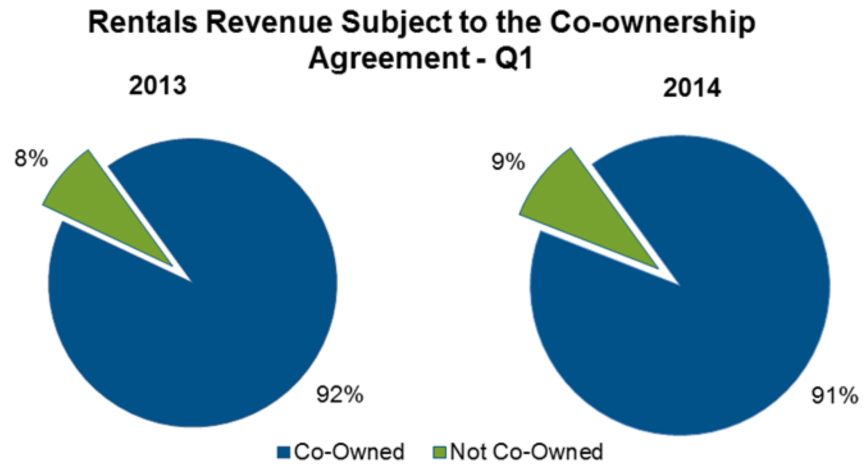
EnerCare Solutions, a wholly-owned subsidiary of EnerCare, through its subsidiaries, owns a portfolio of approximately 1.1 million water heaters and other assets, rented primarily to residential customers in Ontario.

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 BBB+/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 six acquisitions and origination arrangements with various parties, EnerCare Solutions has successfully expanded its business. EnerCare Solutions has 9% of its rentals revenue coming from portfolios which are not subject to the Co-ownership Agreement.

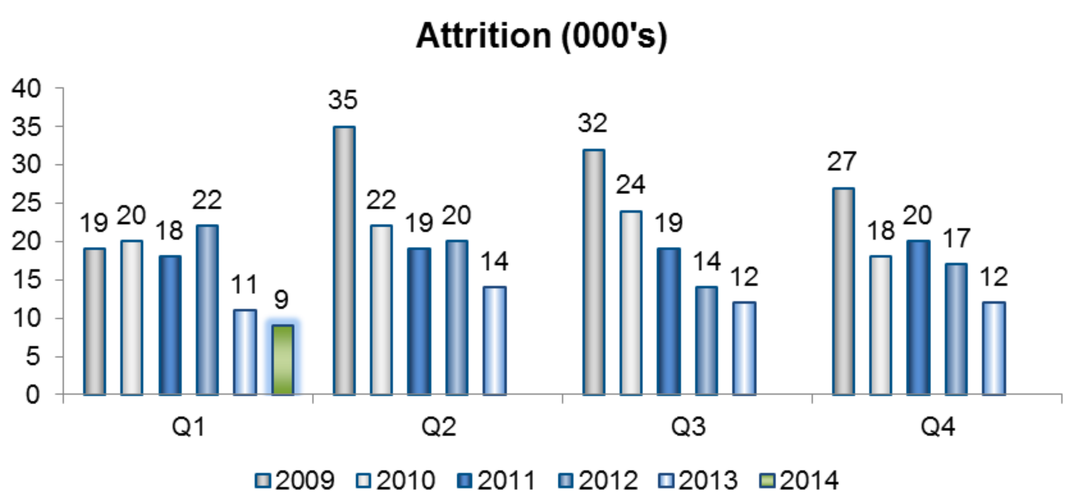


For the portfolios under the Co-ownership Agreement, EnerCare Solutions is entitled to 65% of the revenue and other payments and DE is entitled to 35% of the revenue. For DE's portion of the revenue, it is responsible for servicing and maintaining the assets. This ensures that EnerCare Solutions is effectively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

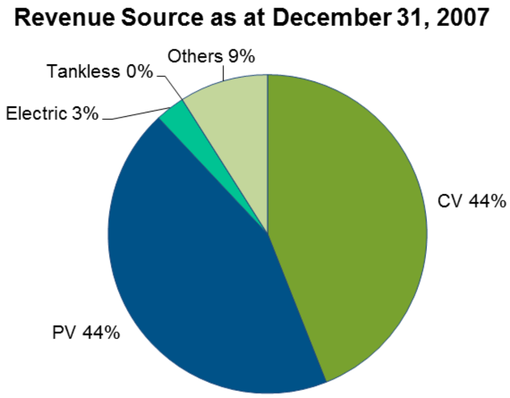
EnerCare Solutions monitors the business by reviewing new additions or customers to the portfolio, reductions or Attrition of existing customers and existing customers exchanging their rental product.

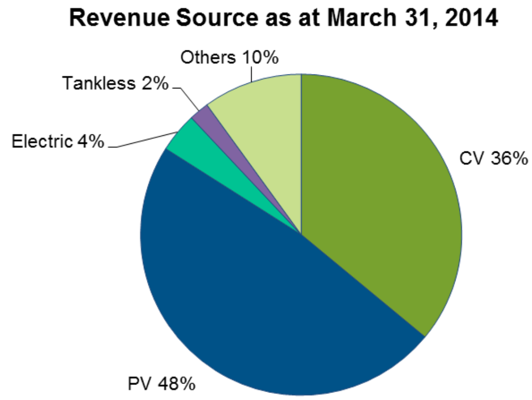
Over the last several years, EnerCare Solutions has experienced higher than normal Attrition on the water heater rental portfolios. This was largely a result of greater competition through aggressive D2D campaigns. EnerCare Solutions and DE have implemented many programs, including continued consumer education campaigns. Such initiatives, coupled with broader consumer awareness as well as enhancements to our customer value proposition (for example, the "DE same day service campaign"), have helped to significantly reduce Attrition in recent years.

Attrition decreased in the first quarter of 2014 by 2,000 units or 18% over the same period in 2013. Attrition has improved year-over-year since 2009 (see table below) with Attrition in 2014 being the lowest in the past six years.

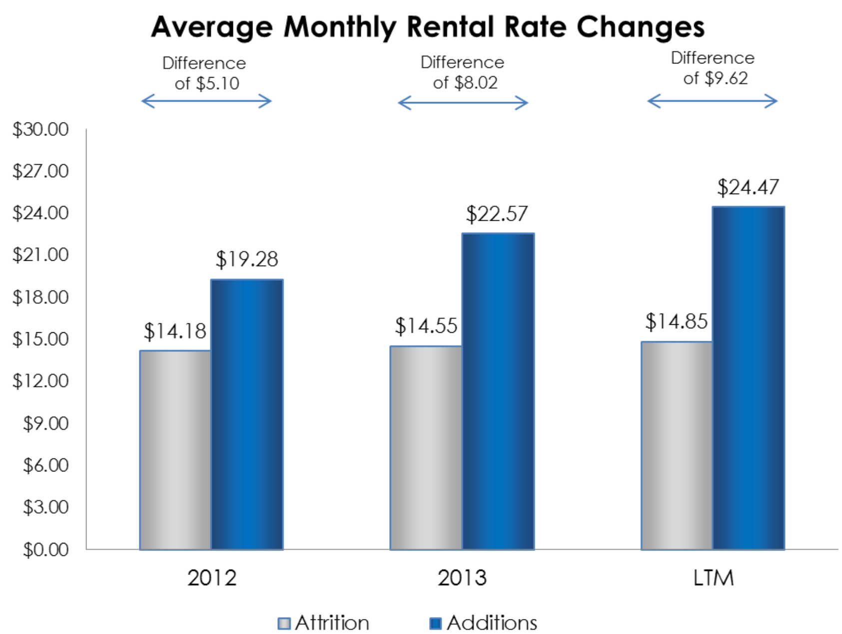


Partially offsetting Attrition is the movement in asset mix to units with higher returns. One of EnerCare Solutions' growth platforms has been to focus on single family and multi-residential HVAC rental units. Although results are small on the unit continuity, HVAC units provide three to five times more rental revenue than that of a water heater. A comparison of the product mix six 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 revenue than conventional vent ("CV") units.

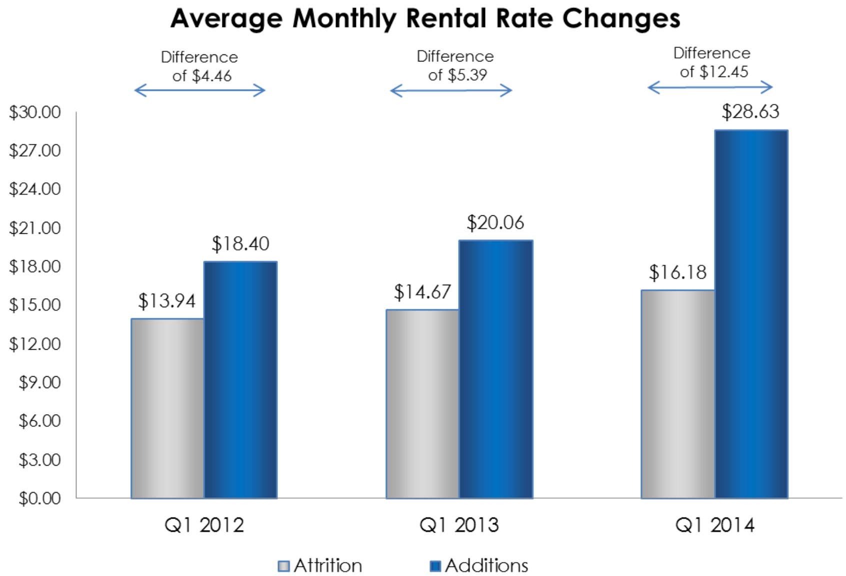




The impact of changes in product mix over time is outlined further in the graph below which shows revenue for the last twelve months to March 31, 2014 from unit additions contributing approximately $9.62 per unit more than revenue from units lost on account of Attrition. New customers are worth approximately 1.6 times that of a lost customer.



This difference in rental rates applicable to new and lost customers has increased steadily over the past three years, with the first quarter of 2014 revenue spread widening to $12.45, an increase of $7.06 over the same period in 2013.



FIRST QUARTER 2014 HIGHLIGHTS

	Three months ended March 31,	
(000's)	**2014**	2013
Rentals	**$48,636**	$47,082
Dividend income	**860**	860
Investment income	**34**	268
Total revenues	**$49,530**	$48,210
EBITDA[1]	**39,566**	38,225
Adjusted EBITDA[1]	**42,978**	41,117
Earnings/(loss) before income taxes	**8,678**	(13,885)
Current tax (expense)	**(5,786)**	(5,481)
Deferred income tax recovery	**3,588**	8,233
Net earnings/(loss)	**$6,480**	$(11,133)

The following highlights compare results for the first quarter of 2014 with the first quarter of 2013.

- Total revenues of $49,530 increased by 3% in the first quarter of 2014. Revenues, excluding dividend and investment income, were $48,636, greater than the prior year by $1,554, primarily as a result of rental rate increases, improved billing completeness and asset mix changes, partially offset by fewer installed assets. Dividend income relates to an investment in ECI preferred shares of $50,000.
- EBITDA increased by $1,341 to $39,566 in the first quarter of 2014, driven principally by improved rentals revenue. Adjusted EBITDA of $42,978 increased by $1,861 after removing from EBITDA the impact of the loss on disposal of equipment and including other income.
- Net earnings of $6,480 increased by $17,613 or 158% compared to the same period in 2013, reflecting increased EBITDA, other income and reductions in amortization, interest expense and the non-recurring make-whole payment of $13,754 incurred in 2013, partially offset by higher total tax payable.
- Attrition decreased by 18% or 2,000 units for the first quarter of 2014. Attrition has improved year-over-year since 2009.

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

RECENT DEVELOPMENTS

Acquisition of Water Heaters from Energy Services Niagara Inc.

In February 2014, a subsidiary of EnerCare Solutions acquired the rental portfolio of ESN, comprised of approximately 2,468 electric and gas-fired water heaters for cash consideration of $3,035 plus inventory of $38. In connection with the acquisition, ESN and EnerCare Solutions entered into a transitional agreement, as well as an assignment, assumption and consent agreement with Enbridge in respect of the ESN OBA. At the time of acquisition, approximately 97% of ESN's customers were billed through the OBA. The rental revenue from the ESN water heaters are not subject to the Co-ownership Agreement.

EnerCare Annual and Special Meeting of Shareholders

At EnerCare's Annual and Special Meeting of Shareholders held on May 1, 2014, shareholders reconfirmed EnerCare's rights plan, approved EnerCare's option plan and re-elected all of management's director nominees.

The primary objectives of the rights plan are (i) to provide the board of directors of EnerCare with additional time to explore and develop alternatives for maximizing shareholder value if an unsolicited take-over bid is made for the Shares, or any other shares in the capital of EnerCare that carry a right generally to vote in the election of directors, (ii) to provide every shareholder with an equal opportunity to participate in such a bid, and (iii) to ensure, to the extent possible, that all shareholders are treated fairly in connection with any take-over bid.

Stronger Protection for Ontario Consumers Act, 2013

On November 27, 2013, the *Stronger Protection for Ontario Consumers Act, 2013* ("Bill 55") passed third reading in the Ontario Legislature. Bill 55 is a direct response by the Ontario Government to aggressive and deceptive door-to-door water heater rental sales, which ranked second on the Ontario Ministry of Consumer Services' consumer complaints list in both 2012 and 2011.

On March 7, 2014, the Ministry of Consumer Services (the "Ministry") issued proposals for regulations to implement Bill 55 and invited pubic consultation on the proposals. EnerCare Solutions submitted its comments on the proposals to the Ministry on April 22, 2014.

EnerCare Solutions believes that Bill 55 is a strong enhancement in consumer protection that will provide necessary protection for its customers and greatly assist with EnerCare Solutions' continued efforts to combat attrition in its water heater business.

Direct Energy Collective Bargaining Agreement

On April 23, 2014, DE reached a tentative three-year Collective Agreement with Unifor Local 975, which was subsequently ratified by the union.

RISK FACTORS

The risks related to the business and structure of EnerCare Solutions discussed in its MD&A in respect of the year ended December 31, 2013 remain unchanged.

RESULTS OF OPERATIONS

Earnings Statement

	Three months ended March 31,	
(000's)	**2014**	2013
Revenues:		
Rentals	**$48,636**	$47,082
Dividend income	**860**	860
Investment income	**34**	268
Total revenues	**$49,530**	$48,210
SG&A expenses	**6,066**	5,965
Amortization expense	**23,004**	23,126
Loss on disposal of equipment	**3,004**	2,892
Interest expense:		
Interest expense payable in cash	**5,661**	8,079
Make-whole payment on early redemption of debt	**-**	13,754
Interest on subordinated debt	**873**	873
Interest on promissory note	**2,500**	2,500
Non-cash interest expense	**152**	4,906
Total interest expense	**9,186**	30,112
Total expenses	**41,260**	62,095
Other income	**408**	-
Earnings/(loss) before income taxes	**8,678**	(13,885)
Current tax (expense)	**(5,786)**	(5,481)
Deferred income tax recovery	**3,588**	8,233
Net earnings/(loss)	**6,480**	(11,133)
EBITDA	**39,566**	$38,225
Adjusted EBITDA	**$42,978**	$41,117

Revenues

Total revenues of $49,530 for the first quarter of 2014 increased by $1,320 or 3% compared to the same period in 2013. Rentals revenues increased by $1,554 to $48,636 in the first quarter of 2014 compared to the same period in 2013, primarily due to a rental rate increase implemented in January 2014, improved billing completeness and changes in asset mix, partially offset by fewer installed assets.

Dividend income for the first quarter of 2014 was $860, the same as in 2013.

Investment income decreased by $234 to $34 in the first quarter of 2014. The change in investment income was primarily attributable to higher investment balances in the first quarter of 2013 related to the issuance of the 2013 Notes approximately 30 days prior to the redemption of the 2009-2 Notes.

Selling, General & Administrative Expenses

SG&A expenses of $6,066 increased by $101 or 2% compared to the same period in 2013, primarily from increases of approximately $300 in wages and benefits, $200 in professional fees, $100 on account of billing and servicing costs and $100 in bad debts and claims, partially offset by reductions of $600 in selling expenses.

Amortization Expense

Amortization expense decreased by $122 or 1% to $23,004 in the first quarter of 2014 compared to the same period in 2013, primarily due to Attrition partially offset by asset mix changes.

Loss on Disposal of Equipment

EnerCare Solutions reported a loss on disposal of equipment of $3,004 in the first quarter of 2014, an increase of $112 or 4% over the same period in 2013. 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.

Interest Expense

(000's)	Three months ended March 31, **2014**	2013
Interest expense payable in cash	**$5,661**	$8,079
Make-whole payment on early redemption of debt	**-**	13,754
Interest on subordinated debt	**873**	873
Interest on promissory note	**2,500**	2,500
Non-cash items: Amortization of OCI and financing costs	**152**	4,906
Interest expense	**$9,186**	$30,112

Interest expense payable in cash decreased by $2,418 to $5,661 in the first quarter of 2014 compared to the same period in 2013. The decrease is primarily related to the reduction in interest rates with the early redemption in 2013 of the 2009-2 Notes associated with the issuance of the 2013 Notes. The make-whole payment of $13,754 was incurred upon the early redemption of the 2009-2 Notes and the drawdown of the Term Loan. Interest on the $250,000 Subordinated Promissory Notes and the $50,000 Subordinated Debt were consistent with the prior period. 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 was fully reclassified to earnings in 2013.

Other Income

During the first quarter of 2014, EnerCare Solutions realized a settlement of $408 from DE on account of the reclassification of certain water heaters under the Co-ownership Agreement to EnerCare Solutions' owned portfolio, originally associated with the Toronto Hydro Energy Services Inc. portfolio acquisition.

Income Taxes

EnerCare Solutions reported a current tax expense of $5,786 in the first quarter of 2014, an increase of $305 over the same period in 2013, primarily as a result of higher taxable income. The deferred income tax recovery of $3,588 for the first quarter of 2014 was $4,645 lower than the deferred tax recoveries of $8,233 recorded in 2013, primarily as a result of temporary difference reversals, including the impact of the 2013 make-whole payment.

Net Earnings

Net earnings in the first quarter of 2014 were $6,480, or $17,613 higher than in the same period in 2013 as previously described.

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)	**Q1/14**	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12
Net earnings/(loss)	**$ 6,480**	$ 5,230	$ 6,291	$ 6,397	$(11,133)	$(2,316)	$ 337	$(4,323)
Deferred tax (recovery)/expense	**(3,588)**	(3,472)	(3,442)	(3,480)	(8,233)	(5,109)	(3,065)	1,382
Current tax expense	**5,786**	6,069	5,410	4,725	5,481	4,786	3,821	2,035
Amortization expense	**23,004**	24,028	23,763	23,086	23,126	24,024	24,115	24,162
Interest expense	**9,186**	9,207	9,206	9,123	30,112	15,697	12,701	15,506
Dividend (income)	**(860)**	(869)	(870)	(860)	(860)	(870)	(870)	(4,301)
Other (income)/expense	**(408)**	(769)	(2,000)	(1,678)	-	362	-	-
Investment (income)	**(34)**	(35)	(20)	(29)	(268)	(189)	(14)	(59)
EBITDA	**39,566**	39,389	38,338	37,284	38,225	36,385	37,025	34,402
Add: Loss on disposal of equipment	**3,004**	2,666	2,633	3,449	2,892	3,523	3,397	4,113
Add: Other income/(expense)	**408**	769	2,000	1,678	-	(362)	-	-
Adjusted EBITDA(1)	**$42,978**	$42,824	$42,971	$42,411	$41,117	$39,546	$40,422	$38,515

(1) Historical Adjusted EBITDA has been conformed to the current presentation which includes other income and expense.

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 by mid-2012.
3. Debt refinancing activities in the fourth quarter of 2012 and the first quarter of 2013 resulted in additional interest expense, which included make-whole payments of $1,920 and $13,754, respectively. Commencing in the second quarter of 2013 interest expense reflects the benefits of lower blended interest rates and non-cash fee amortization.
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 relates to settlements with DE on account of installation and billing matters. The fourth quarter of 2012 also included a bill reversal from Enbridge following the billing conversion.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended March 31,	
(000's)	**2014**	2013
Cash flow from operating activities	**$19,210**	$5,526
Net change in non-cash working capital	**9,842**	6,032
Operating Cash Flow[2]	**29,052**	11,558
Capital expenditures: (excluding growth capital and acquisitions)		
Additions	**(9,033)**	(6,684)
Exchanges	**(8,679)**	(8,192)
Subtotal	**(17,712)**	(14,876)
Proceeds on disposal of equipment	**1,170**	917
Net capital expenditures	**(16,542)**	(13,959)
Acquisitions	**(3,035)**	-
Cash used in investing activities	**(19,577)**	(13,959)
Dividends paid	**(10,169)**	(6,500)
Other financing activities	**-**	15,468
Cash (used in)/provided by financing activities	**(10,169)**	8,968
Cash and equivalents – end of period	**$7,263**	$ 4,152

[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 $29,052 increased by $17,494 in the first quarter of 2014 compared to the same period in 2013, primarily as a result of improved revenues and other income, partially offset by increased current taxes, changes in non-cash working capital and interest expense, inclusive of the make-whole payment of $13,754 associated with the redemption of the 2009-2 Notes.

Net capital expenditures of $16,542 in the first quarter of 2014 were $2,583 greater than the same period in 2013, due to changes in asset mix, including increased HVAC rentals. The acquisition of $3,035 in 2014 represents the purchase of the ESN rental portfolio. Dividends paid reflect dividend payments to EnerCare.

Other financing activities for 2013 primarily 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, which was not drawn as at March 31, 2014.

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" in this MD&A.

Management believes that EnerCare Solutions has sufficient cash flow, cash on hand and credit available to meet its 2014 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.

Installed Asset Unit Continuity (000's)	**2014**	2013
Units - start of period	**$1,145**	$1,171
Portfolio additions	**5**	5
Acquisitions	**2**	-
Attrition	**(9)**	(11)
Units - end of period	**1,143**	1,165
Asset exchanges – units retired and replaced	**$ 13**	$ 13
% change in units during the period	**(0.2%)**	(0.5%)
% of units from start of period:		
Portfolio additions (net of acquisitions)	**0.4%**	0.4%
Attrition	**(0.8%)**	(0.9%)
Units retired and replaced	**1.1%**	1.0%

Net capital expenditures include portfolio additions and asset exchanges, net of proceeds on disposal. In the first quarter of 2014, net capital expenditures were $16,542, increasing by 19% or $2,583 when compared to the same period in 2013, primarily as a result of increased HVAC rentals.

Attrition decreased in the first quarter of 2014 by 2,000 units or 18% compared to the same period in 2013. EnerCare Solutions and DE have implemented many programs, including continued consumer education campaigns. Such initiatives, coupled with broader consumer awareness as well as enhancements to our customer value proposition (for example, the "DE same day service campaign"), have helped to significantly reduce Attrition in recent years.

Cash from Financing

Financing activities for EnerCare Solutions may reflect dividend payments and periodic financing of EnerCare Solutions' indebtedness. During the first quarter of 2014, EnerCare Solutions' financing activity was comprised of dividend payments.

Capitalization (000's)	Three months ended March 31, **2014**	2013
Cash and cash equivalents	**$ 7,263**	$ 4,152
Net investment in working capital	**(228)**	(4,607)
Cash, net of working capital	**7,035**	(455)
Total senior debt	**532,273**	831,859
Promissory note	**250,000**	250,000
Subordinated debt	**50,000**	50,000
Shareholder's equity	**(241,349)**	(228,623)
Total capitalization – book value	**$590,924**	$903,236

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, 2014, total senior debt was comprised of the 2012 Notes, the 2013 Notes and the Term Loan.

EnerCare Solutions is subject to a number of covenant requirements. 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 the 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 three principal 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 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, 2014. No amounts were drawn under the Revolver at March 31, 2014.

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, 2014, EnerCare Solutions exceeded the ratio of Incurrence EBITDA to Net Interest Expense and had the capacity under the covenant to raise approximately $300,000 additional senior debt should it elect to do so.

SUMMARY OF QUARTERLY RESULTS

(000's)	**Q1/14**	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12
Total revenues	**$49,530**	$48,719	$48,138	$48,182	$48,210	$47,184	$47,465	$51,095
Net earnings/(loss)	**6,480**	5,230	6,291	6,397	(11,133)	(2,316)	337	(4,323)
Dividends declared	**$10,312**	$10,161	$10,019	$ 6,632	$ 6,502	$ 9,745	$ 9,728	$ 9,706

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 cash required to fund dividends paid by EnerCare.

SUMMARY OF CONTRACTUAL DEBT AND LEASE OBLIGATIONS

The following schedule summarizes the contractual debt obligations of EnerCare Solutions at March 31, 2014:

Period (000's)	Principal Payments	Interest Payments
Due in 2014	$ -	$ 17,050
Due in 2015	-	22,600
Due in 2016	60,000	21,225
Due in 2017	250,000	21,100
Due in 2018	-	10,350
Thereafter	225,000	15,525
Total	$535,000	$107,850

As at March 31, 2014, long-term senior contractual obligations of EnerCare Solutions included debt service on the 2012 Notes 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 2.48% at March 31, 2014. 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. In connection with the debt refinancing, a make-whole payment of $1,920 was paid in respect of the early redemption of the 2010 Notes in 2012 and a make-whole payment of $13,754 was paid in respect of the early redemption of the 2009-2 Notes in 2013.

At March 31, 2014, no amounts were drawn on the Revolver. The Revolver bears a standby fee of 0.24%, which has not been included in the above schedule, until maturity in July 2014.

EnerCare Solutions is not party to any operating lease agreements. Operating leases for office premises and office equipment are borne by EnerCare.

ENERCARE SOLUTIONS SHARES ISSUED AND OUTSTANDING

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

At March 31, 2014, there were 1,001 common 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' basis of presentation and significant accounting policies are summarized in detail in notes 2 and 3 of the condensed interim consolidated financial statements for the period ended March 31, 2014.

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, loss on disposal of equipment, less investment 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, 2014, 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 Enbridge, provides billing and collection services for substantially all of EnerCare Solutions' water heaters and other assets.

Over the past two years, DE and EnerCare Solutions have reached settlements in respect of billing and collection matters and installation costs. During the first quarter of 2014, EnerCare Solutions realized a settlement of $408 from DE on account of the reclassification of certain water heaters under the Co-ownership Agreement to EnerCare Solutions' owned portfolio, originally associated with the Toronto Hydro Energy Services Inc. portfolio acquisition. These amounts were recorded as other income.

While EnerCare Solutions continues to work with DE in respect of outstanding billing and collection matters, EnerCare Solutions has not provided for any additional settlements that may materialize as they are not determinable.

Capital Assets

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

Intangible Assets

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

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

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

EnerCare Solutions' certifying officers have designed, and assessed the design of, a system of DC&P to provide reasonable assurance that (i) material information relating to EnerCare Solutions, including its consolidated subsidiaries, is made known to them by others; and (ii) information required to be disclosed by EnerCare Solutions in its annual filings, interim filings and other reports filed or submitted by EnerCare Solutions under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As well, EnerCare Solutions' certifying officers have designed, and assessed the design of, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There are no material weaknesses relating to the design of either DC&P or ICFR at March 31, 2014. There have been no changes to our ICFR during the quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, EnerCare Solutions' ICFR.

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, 2013. 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.

Accounting Standards Issued But Not Yet Applied

IFRS 9, Financial Instruments, was issued in November 2009 and further amended in October 2010 and November 2013. 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. IFRS 9 was amended to (i) include guidance on hedge accounting; (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income (without having to adopt the remainder of IFRS 9); and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption. EnerCare Solutions has not yet assessed the impact of the standard and will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

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 2014. Overall, we are encouraged by the positive trend we have seen over the past seven quarters. EnerCare Solutions believes that Bill 55 is a strong enhancement in consumer protection that will provide necessary protection for its customers and greatly assist with EnerCare Solutions' continued efforts to combat Attrition. Going forward we continue to believe that the factors that have led to the decline in Attrition over the last five years, including improving consumer awareness, as well as the new Enbridge OBA and Bill 55, 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.

Our key priorities and initiatives for the business in 2014 are to grow revenue in excess of annual rate increases, increase the number of unit additions, continue to improve Attrition and as a result, increase Adjusted EBITDA.

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, Enbridge, 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 Enbridge pursuant to the amended and restated open bill access billing and collection services agreement between DE and Enbridge effective December 21, 2012, are transferred to CIBC Mellon Trust Company, as trustee, and allocated by Enbridge.
Attrition	Termination of customer relationships, including buyouts.
Bill 55	Stronger Protection for Ontario Consumers Act, 2013.
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 Enbridge 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.
ECI	EnerCare Connections Inc. (formerly Stratacon and Enbridge Electric Connections Inc.).
Enbridge	Enbridge Gas Distribution Inc.
Enbridge Payment	The payment made by Enbridge to DE pursuant to the New OBAs constituting, subject to certain exceptions, 99.56% (99.46% for 2013 and 99.42% 2012) of all amounts invoiced to applicable customers on the Enbridge 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.
ESLP	EnerCare Solutions Limited Partnership (formerly the Waterheater Operating Limited Partnership).
ESN	Energy Services Niagara Inc.
Fund	The Consumers' Waterheater Income Fund.
GTA	The greater Toronto area.
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.
IASB	The International Accounting Standards Board.
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.
OBA	The Enbridge open bill access agreement.
New OBAs	The amended and restated open bill access billing and collection services agreements effective December 21, 2012, as amended and restated effective January 6, 2014 between (i) DE and Enbridge; and (ii) EnerCare and Enbridge.
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, December 29, 2006, January 1, 2013 and August 1, 2013 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.

Defined Term	**Definition**
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 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.
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 EnerCare Solutions owing to EnerCare which was issued on September 28, 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 Notes	Collectively, the 2009-1 Notes and 2009-2 Notes.
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.
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.