# Enercare Solutions Inc.

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

## Second Quarter ended June 30, 2015

## Dated August 7, 2015

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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 June 30, 2015. 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 June 30, 2015, Enercare Solutions was a wholly-owned subsidiary of Enercare. Enercare Solutions' business is the rental of water heaters, furnaces, air conditioners and other HVAC rental products, protection plans and related services (collectively, known as "Home Services").*

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

## FORWARD-LOOKING INFORMATION

This MD&A, dated August 7, 2015, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with Enercare Solutions' 2014 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, 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.

Please see the section entitled "*Risk Factors*" in this MD&A for a thorough discussion in respect of the material risks relating to the business and structure of Enercare Solutions.

## OVERVIEW

Enercare Solutions, primarily through acquisition, has become a multi-product company since its origins in 2002 as the Trust, which primarily financed rental equipment originated and serviced by DE. On October 20, 2014, Enercare Solutions purchased the Ontario home and small commercial services business from DE and effectively reunited the business separated in 2002 with the creation of the Trust. Enercare Solutions, through its subsidiaries, operates the Home Services business.

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

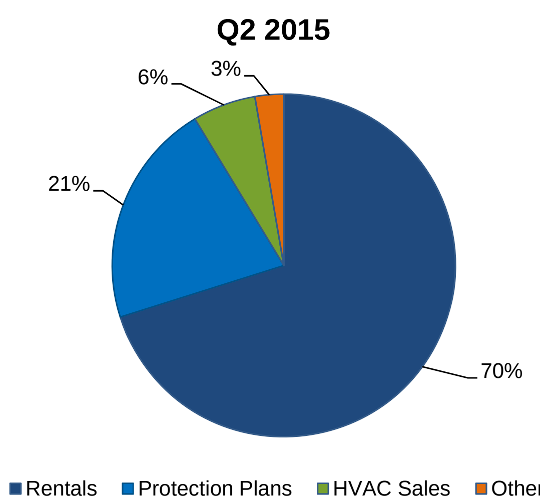
## BUSINESS SUMMARY

Prior to October 20, 2014, Enercare Solutions was mainly comprised of the rental of water heater and HVAC rental products, primarily subject to the origination and servicing arrangements with DE. Since the Acquisition, the business includes the other revenue sources discussed below.

There are four main business activities within Enercare Solutions: Rentals, Protection Plans, HVAC Sales and Other (which includes duct cleaning, chargeable plumbing work and other chargeable services). The following diagram shows the breakdown of customer contracts for each such activity ending in the second quarter of 2015.


Of the four main business activities, the Rentals component produces the largest portion of revenue, followed by Protection Plans, HVAC Sales and Other, as illustrated in more detail by the following chart.

**Home Services Revenue By Category**




**Rentals**

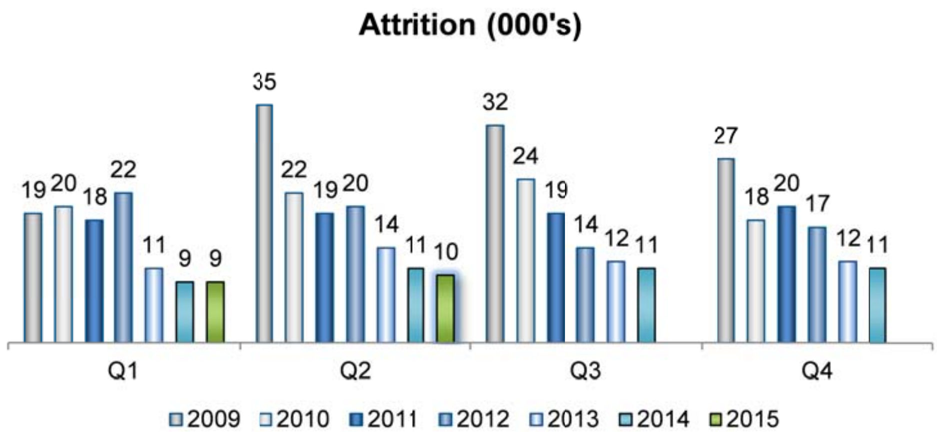
Prior to the Acquisition, Enercare Solutions had expanded its business through a number of acquisitions and origination arrangements with various parties, however, approximately 90% of the Rentals revenue was subject to the Co-ownership Agreement.

For the portfolios under the Co-ownership Agreement, Enercare Solutions was entitled to 65% of the revenue and other payments and DE was entitled to 35% of the revenue. For DE's portion of the revenue, it was responsible for servicing and maintaining the assets. Through its origination agreement with DE, Enercare Solutions essentially incurred the capital expenditures in respect of the portfolio. Following the Acquisition, Enercare Solutions now receives 100% of the revenues and is responsible for the service and maintenance obligations associated with those assets.

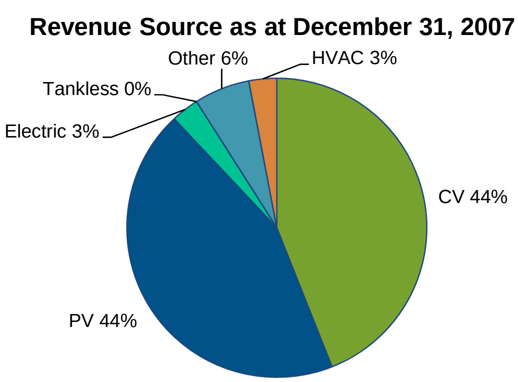
Over the last several years, Enercare Solutions has experienced higher than normal Attrition on the water heater rental portfolios. This was largely a result of greater competition through aggressive D2D campaigns. Enercare Solutions has implemented many programs, including continued consumer education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

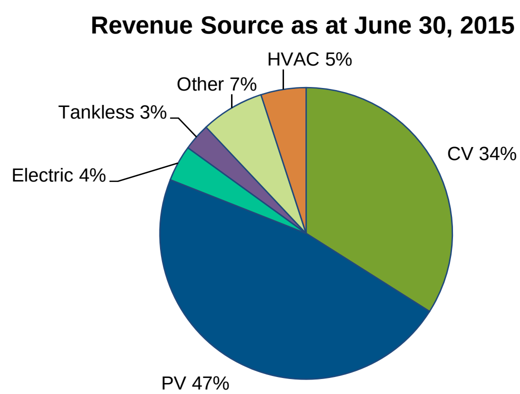
Attrition decreased in the second quarter of 2015 by 1,000 units or 9% and by 1,000 units or 5% year to date, compared to the same periods in 2014. Attrition has improved year-over-year since 2009 (see table below). On April 1, 2015, Bill 55 came into effect (see "Recent Developments - Stronger Protection for Ontario Consumers Act, 2013"). While the full impact of Bill 55 is as yet not certain, Enercare Solutions has experienced a sequential decline in Attrition month-over-month in the second quarter of 2015.

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.

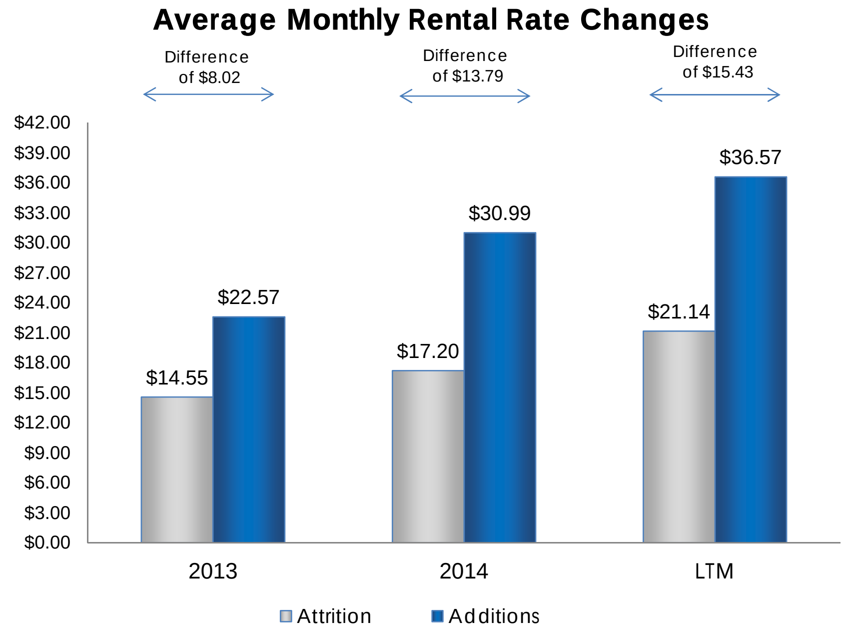



Partially offsetting Attrition is the movement in asset mix to units with higher returns. One of Enercare Solutions' growth platforms has been to focus on single family and multi-residential HVAC rental units. Although the results have a small impact on the unit continuity, HVAC units provide three to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

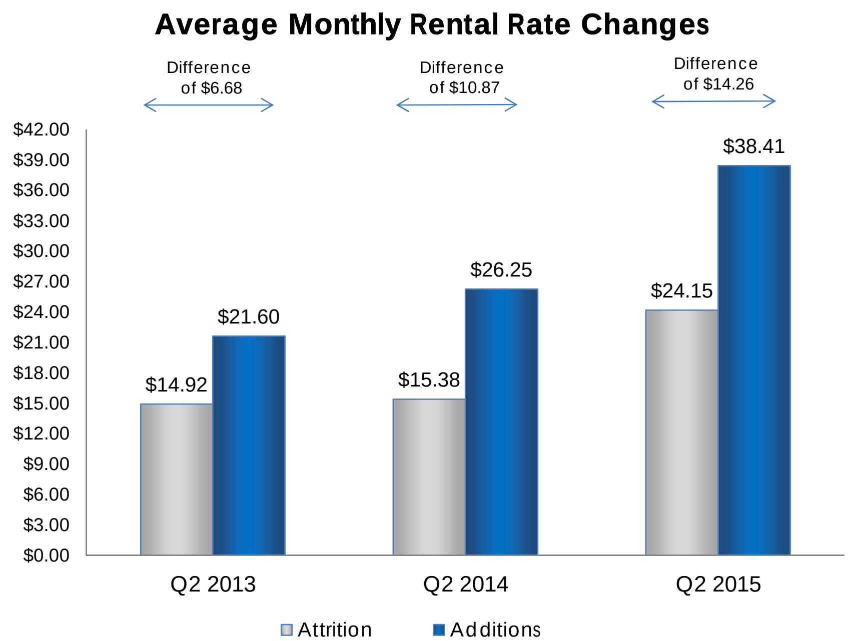



The impact of changes in product mix over time is outlined further in the graph below which shows revenue for the last twelve months to June 30, 2015 from unit additions contributing approximately $15.43 per unit more than revenue from units lost on account of Attrition. New customers are worth approximately 1.7 times that of a lost customer.



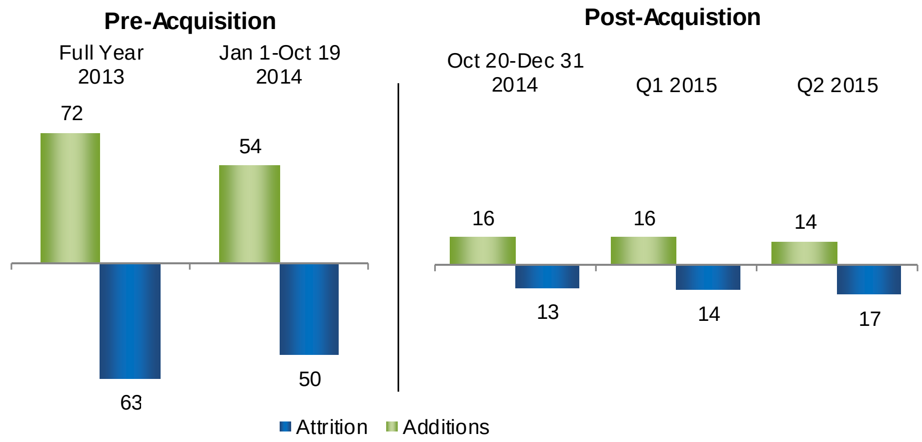

This difference in rental rates applicable to new and lost customers has increased steadily over the past three years, with the second quarter of 2015 revenue spread widening to $14.26, an increase of $3.39 over the same period in 2014.




### Protection Plans

Enercare Solutions sells a variety of plans covering such items as furnaces, air conditioning, plumbing and appliances. There are essentially two types of protection plans: maintenance protection plans and full service protection plans. Maintenance protection plans essentially only provide for maintenance services, whereas full service protection plans provide a broader suite of protections, such as parts and labour. The plans are typically one year in length with monthly, quarterly or annual payment options. One contract unit represents approximately 1.4 services. Due to the annual nature of the contract, the protection plans tend to have a higher churn rate. The following chart depicts the additions and attrition for the category.

**Protection Plan Additions & Attrition (000's)**




During the second quarter of 2015, Enercare Solutions experienced higher net attrition in protection plans as a result of changes in promotional offers. In particular, the “3 in 1” and the “Total Home Plan” were promoted during the first and second quarter of 2015. As a result, these upgraded plans impacted the unit continuity and contributed approximately 50% of the net attrition. The remaining net attrition is attributed to the cooler than normal Ontario weather in June, which resulted in lower overall sales.

As announced last quarter, Enercare Solutions launched an Extended Protection Plan program on Heating and Air Conditioning sales. Prior to the launch of this program, these types of plans were outsourced to a third party extended warranty provider. These Enercare Solutions plans not only allow Enercare Solutions to retain the customer relationship, but also provide for ongoing maintenance, whereas the outsourced arrangement covered only limited parts and labour. These plans augment the customer value proposition when a customer chooses to purchase rather than rent. During the second quarter, there were 727 plans sold, representing approximately 69% of HVAC unit sales since the launch of the program.

The following tables illustrate the protection plan contract continuity for the three and six months ended June 30, 2015.

| | Three months ended June 30, | |
|---|---|---|
| | **Post-Acquisition** | Pre-Acquisition |
| Protection Plan Unit Continuity (000’s) | **2015** | 2014 |
| Contracts - start of period | **555** | 554 |
| Portfolio additions | **14** | 14 |
| Protection Plan Attrition | **(17)** | (14) |
| Contracts - end of period | **552** | 554 |
| % change in units during the period | **(0.5%)** | -% |
| % of units from start of period: | | |
| Portfolio additions | **2.5%** | 2.5% |
| Protection Plan Attrition | **(3.1%)** | (2.5%) |

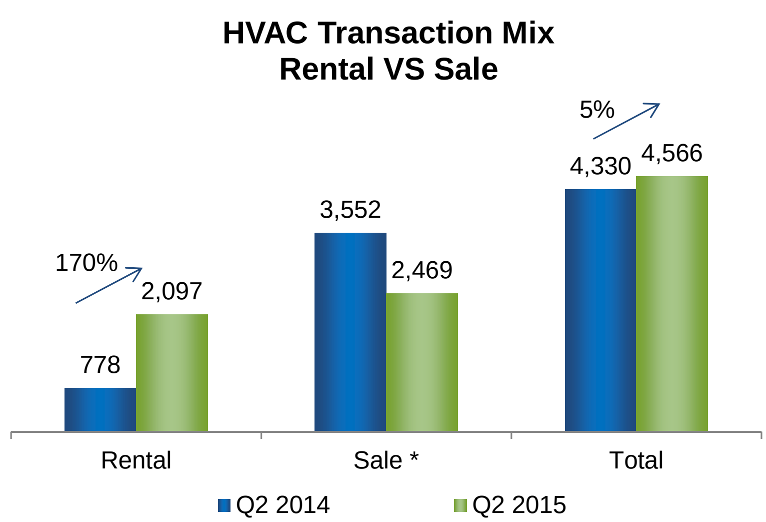
| | Six months ended June 30, | |
|---|---|---|
| | **Post-Acquisition** | Pre-Acquisition |
| Protection Plan Unit Continuity (000's) | **2015** | 2014 |
| Contracts - start of period | **553** | 546 |
| Portfolio additions | **30** | 33 |
| Protection Plan Attrition | **(31)** | (25) |
| Contracts - end of period | **552** | 554 |
| % change in units during the period | **(0.2%)** | 1.5% |
| % of units from start of period: | | |
| Portfolio additions | **5.4%** | 6.0% |
| Protection Plan Attrition | **(5.6%)** | (4.6%) |

**HVAC Sales and Rentals**

A customer can acquire an HVAC asset through a sale, comprised of an outright purchase or financing through a third party. Typically, most HVAC sales occur during the heating and cooling seasons of the year.

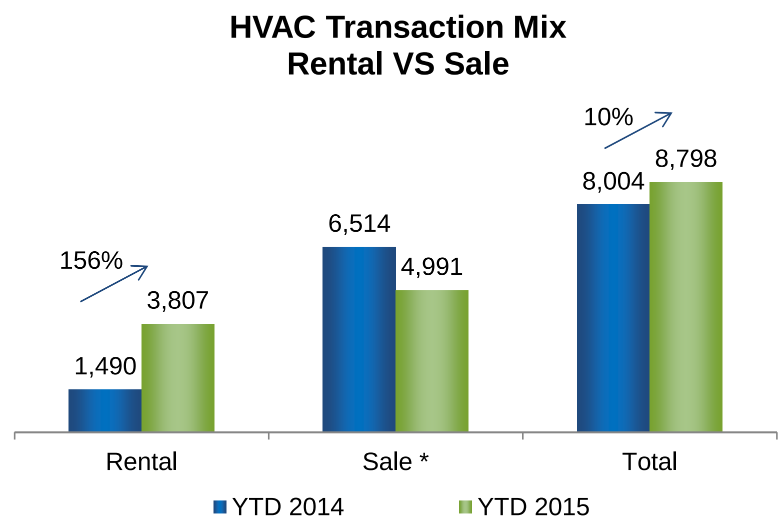
As part of Enercare Solutions' strategy to grow its recurring revenue customer base, Enercare Solutions in 2013 re-launched its HVAC rental program. Converting a customer from an outright sale to a long-term rental product is capital intensive and creates a short-term reduction in the income statement as instead of a one-time in year gain on margin the rental HVAC creates a long-term customer revenue stream. However, the rental relationship provides greater cross-selling opportunities and is therefore more valuable than a one-time sale. Enercare Solutions estimates that a rental unit is worth approximately 2.5 times that of a sale on a discounted cash flow basis.

Despite the cooler than normal Ontario weather in June, during the second quarter of 2015, Enercare Solutions rented approximately 2,097 new units, an increase of 170% over the prior year and sold approximately 2,469 units for a total of 4,566 HVAC transactions, compared to 4,330 units in the prior year, an increase of 5%. A second quarter comparison between 2015 and 2014 is outlined in the chart below.




* The historical HVAC sale information is being provided as an illustration of the improvement in the overall HVAC segment. Enercare Solutions was not party to HVAC sales before the close of the Acquisition. However, Enercare Solutions did originate the historical HVAC rentals in 2014.

On a year-to-date basis, Enercare Solutions rented approximately 3,807 new units, an increase of 156% over the prior year and sold approximately 4,991 units for a total of 8,798 HVAC transactions, compared to 8,004 units in the prior year, an increase of 10%. A year to date comparison between 2015 and 2014 is outlined in the chart below.




* The historical HVAC sale information is being provided as an illustration of the improvement in the overall HVAC segment. Enercare Solutions was not party to HVAC sales before the close of the Acquisition. However, Enercare Solutions did originate the historical HVAC rentals in 2014.

### Other

The Other category includes ancillary services such as duct cleaning, plumbing work and other non-contracted chargeable services provided by Enercare Solutions.

## SECOND QUARTER 2015 HIGHLIGHTS

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (000's) | **2015** | 2014 | **2015** | 2014 |
| Revenue | **$106,373** | $49,224 | **$210,386** | $97,860 |
| Dividend income | **863** | 860 | **1,726** | 1,720 |
| Investment income | **44** | 75 | **116** | 109 |
| Total revenues | **$107,280** | $50,159 | **$212,228** | $99,689 |
| EBITDA[1] | **56,128** | 40,853 | **107,200** | 80,419 |
| Adjusted EBITDA[1] | **57,700** | 43,224 | **110,524** | 86,202 |
| Acquisition Adjusted EBITDA[1] | **59,477** | 43,224 | **112,913** | 86,202 |
| Earnings before income taxes | **14,317** | 9,340 | **23,668** | 18,018 |
| Current tax (expense) | **(1,297)** | (6,203) | **(3,131)** | (11,989) |
| Deferred income tax (expense) recovery | **(484)** | 3,941 | **(2,845)** | 7,529 |
| Net earnings | **$ 12,536** | $ 7,078 | **$ 17,692** | $13,558 |

The following highlights compare results for the second quarter of 2015 with the second quarter of 2014.

- Total revenues of $107,280 increased by 114% in the second quarter of 2015. Revenues were $106,373, greater than the prior year by $57,149, of which approximately $55,800 of revenue was added through the Acquisition. The remaining increase of approximately $1,300 was primarily as a result of rental rate increases, improved billing completeness and asset mix changes. Dividend income relates to an investment in ECI preferred shares of $50,000.
- EBITDA increased by $15,275 to $56,128 in the second quarter of 2015, driven principally by improved total revenues and lower losses on disposal of equipment, partially offset by higher cost of goods sold and SG&A costs primarily associated with integration costs related to the Acquisition. Adjusted EBITDA

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

of $57,700 increased by $14,476 after removing from EBITDA the impact of the loss on disposal of equipment. After removing integration costs associated with the Acquisition of $1,777, Acquisition Adjusted EBITDA was $59,477 in the second quarter of 2015, an increase of $16,253 over the same period in 2014.

- Net earnings of $12,536 in the second quarter of 2015 increased by $5,458 or 77% compared to the same period in 2014, reflecting increased EBITDA and lower total taxes payable offset by higher amortization expenses and increased interest expenses primarily from the increase in the promissory note resulting from the Acquisition.
- Attrition in the Rentals portfolio of 0.8% or 10,000 units for the second quarter of 2015 was 1,000 units or 9% lower than the same period in 2014. As of the end of 2014, Attrition had improved year-over-year since 2009 and for twelve consecutive quarters, year-over-year.

## RECENT DEVELOPMENTS

### *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.

On March 7, 2014 and October 10, 2014, the Ontario Ministry of Consumer Services (the "Ministry") issued proposals for regulations to implement Bill 55 and invited public consultation on the proposals. Enercare Solutions submitted its comments on the proposals to the Ministry in respect of both consultations.

The amendments to the *Consumer Protection Act* (Ontario) pursuant to Bill 55 came into force on April 1, 2015.

Among other things, Bill 55 provides the following changes in respect of direct agreements for the supply of water heaters:

- Doubles the existing 10-day cooling-off period to 20 days, providing consumers with more time to consider their decision;
- Subject to certain exceptions, including where the consumer initiates contact with the supplier, bans the delivery and installation of water heaters during the new 20-day cooling-off period; and
- Provides new consumer protection when the rules are not followed, such as requiring the supplier to reimburse the customer for all cancellation, return or removal fees when the 20-day cooling-off period is not observed.

Concurrently with the coming into force of Bill 55, new or amended regulations under the *Consumer Protection Act* (the "Regulations") are also to come into effect. Among other things, the Regulations require the following in respect of direct agreements for the supply of water heaters:

- Companies must confirm sales by making scripted and recorded telephone calls to the customer, subject to certain exceptions including where the consumer initiates contact with the supplier; and
- Enhanced disclosure, including the requirement to include mandatory cover pages and the comparable retail price, rental rate, total amounts payable under the contract and any termination charges.

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.

### *Senior Management Changes*

On April 27, 2015, Colleen Bailey Moffitt was appointed Vice President, Human Resources of Enercare and

Enercare Solutions and each of their respective subsidiary entities.

***Enercare Annual General Meeting of Shareholders***

At Enercare's Annual General Meeting of Shareholders held on April 30, 2015, shareholders re-elected all of management's director nominees. The directors of Enercare are also the directors of Enercare Solutions.

***Enercare Solutions Launches Extended Protection Plan Program***

On May 1, 2015, Enercare Solutions launched an Extended Protection Plan program on heating and air conditioning sales. Prior to May 1, 2015, these types of plans were outsourced to a third party extended warranty provider. These plans not only allow Enercare Solutions to retain the customer relationship, but also provide ongoing maintenance whereby the outsourced arrangement covered only limited parts and labour. These plans augment the customer value proposition when a customer chooses to purchase rather than rent. During the second quarter of 2015, there were 727 plans sold representing an approximately 69% uptake on HVAC unit sales since the launch of the program.

## 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, 2014 remain unchanged.

## RESULTS OF OPERATIONS

***Earnings Statement***

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (000's) | **2015** | 2014 | **2015** | 2014 |
| **Revenues:** | | | | |
| Contracted revenue | **$ 97,325** | $49,192 | **$190,978** | $97,794 |
| Sales and other services | **9,048** | 32 | **19,408** | 66 |
| *Dividend income* | **863** | 860 | **1,726** | 1,720 |
| *Investment income* | **44** | 75 | **116** | 109 |
| Total revenues | **$107,280** | $50,159 | **$212,228** | $99,689 |
| **Expenses:** | | | | |
| Cost of goods sold: | | | | |
| Maintenance & servicing costs | **14,360** | - | **28,748** | - |
| Sales and other services | **6,073** | 15 | **13,401** | 44 |
| Total cost of goods sold | **20,433** | 15 | **42,149** | 44 |
| SG&A expenses | **28,240** | 5,985 | **57,713** | 12,022 |
| Amortization expense | **29,256** | 23,260 | **58,370** | 46,264 |
| Net loss on disposal | **1,572** | 2,371 | **3,324** | 5,375 |
| Interest expense | **13,462** | 9,188 | **27,004** | 18,374 |
| Total expenses | **92,963** | 40,819 | **188,560** | 82,079 |
| Other income | **-** | - | **-** | 408 |
| Earnings before income taxes | **14,317** | 9,340 | **23,668** | 18,018 |
| Current tax (expense) | **(1,297)** | (6,203) | **(3,131)** | (11,989) |
| Deferred tax (expense)/recovery | **(484)** | 3,941 | **(2,845)** | 7,529 |
| Net earnings | **$ 12,536** | $ 7,078 | **$ 17,692** | $13,558 |
| EBITDA | **$ 56,128** | $40,853 | **$107,200** | $80,419 |
| Adjusted EBITDA | **$ 57,700** | $43,224 | **$110,524** | $86,202 |
| Acquisition Adjusted EBITDA | **$ 59,477** | $43,224 | **$112,913** | $86,202 |

***Revenues***

Total revenues of $107,280 for the second quarter of 2015 increased by $57,121 or 114% and by $112,539 or 113% to $212,228 year-to-date compared to the same periods in 2014.

Revenues, excluding investment income, increased during the quarter by $57,149 to $106,373 and by $112,526 to $210,386 year to date, compared to the same periods in 2014, primarily as a result of additional revenue added through the Acquisition of approximately $55,800 for the second quarter and $110,100 year-to-date. The remaining increase of approximately $1,300 for the second quarter and $2,400 year to date were primarily due to a rental rate increase implemented in January 2015, improved billing completeness and changes in asset mix. Contracted revenue represents revenue generated by the Rentals portfolio and protection plan contracts, while sales and other services revenue mainly pertains to one-time sales and installations of residential furnaces, boilers and air conditioners as well as duct cleaning and other services.

Dividend income for the three and six months ended June 30, 2015 were $863 and $1,726, respectively, both consistent with the same periods in 2014.

Investment income was $44 in the second quarter of 2015 and $116 year to date, a decrease of $31 and increase of $7, respectively, compared to the same periods in 2014. The change in investment income was primarily attributable to higher investment balances in the first quarter of 2015, primarily from Enbridge's settlement of Enercare Solutions' December billings in advance of its normal settlement dates.

***Cost of Goods Sold***

Total cost of goods sold increased by $20,418 in the second quarter of 2015 and $42,105 year to date, compared to the same periods in 2014, primarily due to expenses resulting from the increased scope of the business following the Acquisition offset by approximately $1,300 relating to supplier reimbursements and other items. Maintenance and servicing costs primarily consist of protection plan expenses and servicing costs related to the rental portfolio, while sales and other services expenses mainly pertain to one-time sales and installations of residential furnaces, boilers, air conditioners and small commercial products as well as duct and other cleaning services.

***Selling, General & Administrative Expenses***

Total SG&A expenses of $28,240 in the second quarter and $57,713 year to date, increased by $22,255 and $45,691, respectively, compared to the same periods in 2014, primarily due to additional expenses resulting from the increased scope of the business following the Acquisition. The $22,255 increase in the second quarter was primarily as a result of approximately $9,100 in wages and benefits, $4,000 in selling expenses, $3,500 of billing and servicing costs, $2,100 in office expenses, $720 in bad debts, $380 in claims expenses, $200 in professional fees and $2,300 in charges from Enercare. The $45,691 year to date increase was primarily as a result of approximately $16,300 in wages and benefits, $11,600 of billing and servicing costs, $6,400 in selling expenses, $3,900 in office expenses, $1,500 in bad debts, $500 in professional fees, $230 in claims expenses and $5,200 in charges from Enercare. In the quarter, there were one-time items totaling approximately $500, resulting in improvements to SG&A expenses.

During the second quarter and year to date 2015, SG&A expenses included $1,777 and $2,389, respectively, of integration costs associated with the Acquisition, primarily from marketing spend related to rebranding activities. In 2014, SG&A expenses in both the second quarter and year to date included $702 of Acquisition expenditures primarily consisting of professional fees associated with the entering into of the Asset Purchase Agreement.

**Amortization Expense**

Amortization expense increased by $5,996 or 26% to $29,256 in the second quarter of 2015 and by $12,106 or 26% to $58,370 year to date, over the same periods in 2014, primarily due to additional Acquisition related amortization from intangible and capital assets of $5,025 and $971, respectively, in the second quarter or $10,070 and $2,036, respectively, year to date.

### *Loss on Disposal of Equipment*

Enercare Solutions reported a net loss on disposal of equipment of $1,572 in the second quarter of 2015 and $3,324 year to date, reductions of $799 or 34% and $2,051 or 38%, respectively, over the same periods in 2014. 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*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (000's) | **2015** | 2014 | **2015** | 2014 |
| Interest expense payable in cash | **$ 6,430** | $5,662 | **$12,941** | $11,323 |
| Interest on subordinated debt | **875** | 873 | **1,750** | 1,746 |
| Interest on promissory note | **5,674** | 2,500 | **11,348** | 5,000 |
| Non-cash items: | | | | |
| Notional interest on employee benefit plans, net | **274** | - | **548** | - |
| Amortization of OCI and financing costs | **209** | 153 | **417** | 305 |
| Interest expense | **$13,462** | $9,188 | **$27,004** | $18,374 |

Interest expense payable in cash increased by $768 to $6,430 in the second quarter of 2015 and by $1,618 to $12,941 year to date, compared to the same periods in 2014, primarily due to the increase in the New Term Loan related to the financing of the Acquisition. Interest on the $50,000 Subordinated Debt was consistent with the prior period. The Acquisition resulted in an increase of the Subordinated Promissory Notes from $250,000 to $567,367, which drove higher interest expense in the second quarter of 2015. Notional interest of $274 in the second quarter and $548 year to date in 2015 relates to the employee benefits plans acquired as part of the Acquisition. Amortization of financing costs includes the previously unamortized costs associated with the 2012 Notes, 2013 Notes and in 2015, the New Term Loan.

### *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 current tax expenses of $1,297 in the second quarter of 2015 and $3,131 year to date, reductions of $4,906 and $8,858, respectively, over the same periods in 2014, primarily as a result of a one year tax deferral available through a subsidiary of Enercare Solutions. The deferred income tax expenses of $484 in the second quarter of 2015 and $2,845 year to date, increases of $4,425 and $10,374, respectively, compared to the deferred tax recoveries recorded in the same periods in 2014, were primarily as a result of temporary difference reversals.

### *Net Earnings*

Net earnings in were $12,536 in the second quarter of 2015 and $17,692 year to date, increases of $5,458 and $4,134, respectively, compared to the same periods in 2014, as previously described.

### *EBITDA, Adjusted EBITDA and Acquisition Adjusted EBITDA*

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

| (000's) | **Q2/15** | Q1/15 | Q4/14 | Q3/14 | Q2/14 | Q1/14 | Q4/13 | Q3/13 |
|---|---|---|---|---|---|---|---|---|
| Net earnings | **$ 12,536** | $ 5,156 | $ 3,202 | $ 4,031 | $ 7,078 | $ 6,480 | $ 5,230 | $ 6,291 |
| Deferred tax expense/(recovery) | **484** | 2,361 | (4,473) | (7,046) | (3,941) | (3,588) | (3,472) | (3,442) |
| Current tax expense | **1,297** | 1,834 | 5,923 | 8,462 | 6,203 | 5,786 | 6,069 | 5,410 |
| Amortization expense | **29,256** | 29,114 | 28,609 | 23,514 | 23,260 | 23,004 | 24,028 | 23,763 |
| Interest expense | **13,462** | 13,542 | 12,845 | 9,980 | 9,188 | 9,186 | 9,207 | 9,206 |
| Dividend (income) | **(863)** | (863) | (870) | (870) | (860) | (860) | (869) | (870) |
| Other (income) | **-** | - | - | - | - | (408) | (769) | (2,000) |
| Investment (income) | **(44)** | (72) | (67) | (66) | (75) | (34) | (35) | (20) |
| EBITDA | **56,128** | 51,072 | 45,169 | 38,005 | 40,853 | 39,566 | 39,389 | 38,338 |
| Add: Net loss on disposal | **1,572** | 1,752 | 2,180 | 2,304 | 2,371 | 3,004 | 2,666 | 2,633 |
| Add: Other income | **-** | - | - | - | - | 408 | 769 | 2,000 |
| Adjusted EBITDA(1) | **57,700** | 52,824 | 47,349 | 40,309 | 43,224 | 42,978 | 42,824 | $42,971 |
| Add: Acquisition SG&A | **1,777** | 612 | 4,138 | 3,584 | - | - | - | - |
| Acquisition Adjusted EBITDA | **$59,477** | $53,436 | $51,487 | $43,893 | $43,224 | $42,978 | $42,824 | $42,971 |

(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 and the Acquisition results commencing in the fourth quarter of 2014.
2. Increasing current taxes from higher taxable income. Commencing in the first quarter of 2015, current taxes reflect the impact of a one year tax deferral available through a subsidiary of Enercare Solutions.
3. In the third quarter of 2014, additional interest expense was incurred as part of the Acquisition, related to the bridge financing. Commencing in the fourth quarter of 2014, interest expense reflects higher debt related to the financing of the Acquisition.
4. Amortization and loss on disposal of equipment are primarily driven by unit continuity activity such as Attrition, exchanges and outstanding units. Commencing in the fourth quarter of 2014, amortization reflects increases from the amortization of capital assets and intangibles following the Acquisition.
5. Other income relates to settlements with DE on account of installation and billing matters.

## LIQUIDITY AND CAPITAL RESOURCES

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (000's) | **2015** | 2014 | **2015** | 2014 |
| Cash flow from operating activities | **$46,409** | $28,347 | **$41,738** | $47,590 |
| Net change in non-cash working capital | **(1,619)** | 574 | **42,353** | 10,383 |
| Operating Cash Flow[2] | **44,790** | 28,921 | **84,091** | 57,973 |
| Capital expenditures: excluding acquisitions | **(23,558)** | (18,148) | **(45,784)** | (35,893) |
| Proceeds on disposal of equipment | **2,017** | 1,389 | **3,697** | 2,559 |
| Net capital expenditures | **(21,541)** | (16,759) | **(42,087)** | (33,334) |
| Acquisition – Niagara portfolio | **-** | - | **-** | (3,035) |
| Acquisition – CNI | **-** | - | **(880)** | - |
| Cash used in investing activities | **(21,541)** | (16,759) | **(42,967)** | (36,369) |
| Dividends paid | **(19,308)** | (10,598) | **(30,409)** | (20,767) |
| Other financing activities | **(302)** | - | **(470)** | - |
| Cash (used in)/provided by financing activities | **(19,610)** | (10,598) | **(30,879)** | (20,767) |
| Cash and equivalents – end of period | **$ 20,747** | $ 8,253 | **$20,747** | $8,253 |

[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 $44,790 in the second quarter of 2015 increased by $15,869 and by $26,118 to $84,091 year to date, compared to the same periods in 2014, primarily as a result of improved revenues, partially offset by increased cost of goods sold, SG&A and interest expenses. On a year to date basis, cash used in operating activities and the change in non-cash working capital were both influenced by the Enbridge prepayment of approximately $30,000, on December 30, 2014, for December's Enercare Solutions billings in advance of its normal settlement dates. Under the OBA cash is typically paid 21 days after billing.

Net capital expenditures of $21,541 in the second quarter of 2015, increased by $4,782 and by $8,753 to $42,087 year to date, compared to the same periods in 2014, due to increased HVAC rentals and changes in asset mix. The acquisition of $880 represents the purchase of the CNI rental portfolio in the first quarter of 2015, while the $3,035 represents the purchase of the ESN rental portfolio in the first quarter of 2014.

Other financing activities for the second quarter of 2015 primarily reflect the repayment of obligations under finance leases during the period.

Available credit of $100,000 under the New Revolver was not drawn as at June 30, 2015.

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 available credit to meet its 2015 obligations, including capital expenditures, financing activities and working capital requirements for its businesses.

***Capital Expenditures***

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

| Installed Asset Unit Continuity | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (000's) | **2015** | 2014 | **2015** | 2014 |
| Units – start of period | **1,127** | 1,143 | **1,129** | 1,145 |
| Portfolio additions | **8** | 6 | **14** | 11 |
| Acquisitions | **-** | - | **1** | 2 |
| Attrition | **(10)** | (11) | **(19)** | (20) |
| Units – end of period | **1,125** | 1,138 | **1,125** | 1,138 |
| Asset exchanges – units retired and replaced | **12** | 13 | **25** | 26 |
| % change in units during the period | **(0.2%)** | (0.4%) | **(0.4%)** | (0.6%) |
| % of units from start of period: | | | | |
| Portfolio additions (net of acquisitions) | **0.7%** | 0.5% | **1.2%** | 1.0% |
| Attrition | **(0.9%)** | (1.0%) | **(1.7%)** | (1.7%) |
| Units retired and replaced | **1.1%** | 1.1% | **2.2%** | 2.3% |

In the second quarter of 2015, the portion of net capital expenditures related to unit additions and asset exchanges, net of proceeds on disposal, were $20,523 in the second quarter of 2015 and $39,285 year to date, increasing by 22% or $3,764 and 18% or $5,951, respectively, when compared to the same periods in 2014, primarily as a result of increased HVAC rentals.

Attrition decreased in the second quarter of 2015 by 1,000 units or 9% and 1,000 units or 5% year to date compared to the same periods in 2014. Enercare Solutions has 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 "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, periodic financing of Enercare Solutions' indebtedness and share issuances. During the second quarter of 2015, Enercare Solutions' financing activity was comprised of dividend payments and repayments of obligations under finance leases.

| Capitalization<br>(000's) | Six months ended June 30,<br>**2015** | <br>2014 |
|---|---|---|
| Cash and cash equivalents | **$ 20,747** | $ 8,253 |
| Net investment in working capital | **47,017** | (203) |
| Cash, net of working capital | **67,764** | 8,050 |
| Total senior debt | **682,295** | 532,426 |
| Promissory note | **567,367** | 250,000 |
| Subordinated debt | **50,000** | 50,000 |
| Shareholder's equity | **(166,486)** | (244,871) |
| Total capitalization – book value | **$1,133,176** | $587,555 |

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

At June 30, 2015, total debt was comprised of the 2012 Notes, the 2013 Notes and the New Term Loan.

Enercare Solutions is subject to a number of covenant requirements. The following discussion outlines the principal covenants.

### *Debt Financing*

The Previous Revolver and Previous Term Loan each contained terms, representations, warranties, covenants and events of default that were customary for credit facilities of this kind, including financial covenants discussed below, 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 Previous Revolver and Previous Term Loan included a cross-default provision and the occurrence of a change of control of Enercare or Enercare Solutions. Enercare Solutions' obligations under the Previous Revolver and Previous Term Loan were guaranteed by all of Enercare Solutions' direct and indirect subsidiaries.

The New Debt Financing is an amendment and restatement of Enercare Solutions' Previous Revolver, with substantially similar terms to that facility but with the following material additions and revisions made to reflect the inclusion of the New Term Loan and contemplation of the Acquisition: (i) the addition of the New Term Loan commitments, (ii) the addition of EHCS LP and the general partner of EHCS LP as guarantors, (iii) the revision to the definition of "Adjusted EBITDA" to include add-backs for Acquisition-related transaction expenses, one-time rebranding costs and information technology system harmonization costs not to exceed $23,500, (iv) increase in the "basket" sizes permitted under certain covenants and events of default (to take into account the increase of assets under management due to the Acquisition), and (iv) favourable changes to the financial covenants as described below.

The Previous Revolver and Previous Term Loan contained 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 Previous Revolver and Previous Term Loan defined (i) "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 with DE (as assigned to Enercare Solutions in connection with the Acquisition), amortization and depreciation expenses, income taxes and any other non-cash items, losses on hedging contracts, proceeds of disposal of water heaters in the ordinary course of business, determined on a consolidated basis. The Previous Revolver and Previous Term Loan essentially defined "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 New Debt Financing contains financial covenants that are more favourable than the Previous Revolver and Previous Term Loan. The ratio of total debt (other than subordinated debt) to Adjusted EBITDA described in (ii) above must now only be less than 4.75:1, and the financial covenant pertaining to the ratio of Adjusted EBITDA less capital expenditures to Cash Interest Expense described in (iv) above has been removed entirely. The New Debt Financing also contains substantially similar definitions to those of the Previous Revolver and Previous Term Loan except that "Adjusted EBITDA" adds back certain specified items incurred with respect to the Acquisition, including transaction expenses, one-time rebranding costs and information technology system harmonization costs, not to exceed $23,500.

Enercare Solutions was in compliance with the covenants within the New Revolver and New Term Loan as of June 30, 2015. No amounts were drawn under the New Revolver at June 30, 2015.

***2012 Notes and 2013 Notes – Incurrence Test***

The covenants in respect of the 2012 Notes and 2013 Notes are contained in the Senior Unsecured Indenture. Under the terms of the Senior Unsecured Indenture, Enercare Solutions may not incur additional senior debt other than certain refinancing debt and certain working capital debt if the Incurrence Test is less than 3.8 to 1.

On June 30, 2015, Enercare Solutions exceeded this minimum and had the capacity under the covenant to raise more than $300,000 additional senior debt should it elect to do so.

## SUMMARY OF QUARTERLY RESULTS

| (000's) | **Q2/15** | Q1/15 | Q4/14 | Q3/14 | Q2/14 | Q1/14 | Q4/13 | Q3/13 |
|---|---|---|---|---|---|---|---|---|
| Total revenues | **$107,280** | $104,948 | $96,257 | $50,090 | $50,159 | $49,530 | $48,719 | $48,138 |
| Net earnings | **12,536** | 5,156 | 3,202 | 4,031 | 7,078 | 6,480 | 5,230 | 6,291 |
| Dividends declared | **$ 19,308** | $ 11,987 | $16,648 | $ 8,486 | $10,600 | $10,312 | $10,161 | $10,019 |

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, the temporary difference reversals of deferred income tax and the impact of the Acquisition in the fourth quarter of 2014. Dividends declared primarily reflect the change in outstanding Shares over time as well as the dividend increases implemented in the first quarters of 2013, 2014 and 2015, and the third quarter of 2013.

## SUMMARY OF CONTRACTUAL DEBT AND LEASE OBLIGATIONS

The following schedule summarizes the contractual debt and lease obligations of Enercare Solutions at June 30, 2015:

| Period | Debt | | Finance Leases | | Operating |
|---|---|---|---|---|---|
| (000's) | Principal | Interest | Principal | Interest | Leases |
| Due in 2015 | $ - | $11,240 | $1,059 | $111 | $ 686 |
| Due in 2016 | - | 21,215 | 1,897 | 170 | 1,389 |
| Due in 2017 | 250,000 | 21,100 | 1,582 | 108 | 619 |
| Due in 2018 | 210,000 | 10,350 | 1,162 | 58 | 85 |
| Due in 2019 | - | 10,350 | 689 | 23 | - |
| Thereafter | 225,000 | 5,175 | 251 | 5 | - |
| Total | $685,000 | $79,430 | $6,640 | $475 | $2,779 |

As at June 30, 2015, 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. The New Term Loan, maturing on October 20, 2018 bears interest at a variable rate based upon the banker's acceptance rate plus 1%, which was 2% at June 30, 2015.

At June 30, 2015, no amounts were drawn on the New Revolver. The New Revolver bears a standby charge of 0.20%, which has not been included in the above schedule.

The obligations under finance leases are secured by the leased vehicles and bear floating interest rates that are 2.5% above the one month banker's acceptance rate, per annum, which are contingent on market rates. The finance leases mature at dates ranging between July 2015 and May 2021.

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

## ENERCARE SOLUTIONS SHARES ISSUED AND OUTSTANDING

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

At June 30, 2015, there were 1,169 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 June 30, 2015.

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.

**EBITDA, Adjusted EBITDA and Acquisition Adjusted EBITDA should not be construed as alternatives to net income determined in accordance with IFRS as indicators of Enercare Solutions'**

**performance.**

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, Adjusted EBITDA and Acquisition 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, (see "*Results of Operations – EBITDA, Adjusted EBITDA and Acquisition Adjusted EBITDA*" in this MD&A).

***Acquisition Adjusted EBITDA***

This measure reflects the same components as Adjusted EBITDA, however, eliminates the additional one-time costs associated with the Acquisition, including equity bridge financing fees, professional fees associated with due diligence, pre and post-merger integration, expenditures associated with rebranding, severance and other costs in SG&A. This is one metric that can be used to determine Enercare Solutions' ability to service its ongoing debt, finance capital expenditures, and provide for the payment of dividends to shareholders. Acquisition Adjusted EBITDA is reconciled with net earnings, an IFRS measure, in the section *"Results of Operations – EBITDA, Adjusted EBITDA and Acquisition 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 the financial strength of Enercare Solutions. Operating Cash Flow is reconciled with cash flow from operating activities, an IFRS measure, in the section "*Liquidity and Capital Resources"* in this MD&A.

***Measures Regarding Debt Covenants***

As at June 30, 2015, Enercare Solutions was in compliance with all covenants under the 2012 Notes, 2013 Notes, New Revolver and New Term Loan. A summary of the financial covenants in respect of such debt, together with those of the New Debt Financing, can be found in "*Liquidity and Capital Resources – Debt Financing*".

***New Revolver and New Term Loan***

Under the New Revolver and New Term Loan agreements, Enercare Solutions is subject to three principal financial covenants as described in the section *"Liquidity and Capital Resources – Debt Financing"* in this MD&A. The covenants address interest and debt coverage. Enercare Solutions complied with these covenants on June 30, 2015. No amounts were drawn under the New Revolver at June 30, 2015.

***2012 Notes and 2013 Notes – Incurrence Test***

The covenants under the 2012 Notes and 2013 Notes are contained in the Senior Unsecured Indenture. Under the terms of the Senior Unsecured Indenture, Enercare Solutions may not incur additional senior debt other than certain refinancing debt and certain working capital debt if the Incurrence Test is less than 3.8 to 1.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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. Management applies judgment in its assessment of Enercare Solutions' arrangements with customers when determining the classification of leases and the extent to which the risks and rewards incidental to ownership lie with the company or the customer. In addition to leases, other estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following items are of significance for the period.

*Revenue Accruals*

At June 30, 2015, Enercare Solutions recorded a revenue accrual of approximately $44,000 (2014 - $1,000) reflecting accrued service periods. Unbilled protection plans comprise approximately $26,500 (2014 - $0) of this balance which is predominantly made up of protection plans sold in franchisee service areas which are recognized as royalty revenue at inception but are invoiced over a period of twelve months. The remaining unbilled revenues reflect accrued service periods for rental water heaters and other products.

*Bad Debt Provisions*

Enercare Solutions is exposed to credit risk in the normal course of business for customers who are billed directly by Enbridge within its service territory and secondarily when billed by Enercare Solutions or are billed by Enbridge outside of its service territory. For billing within the Enbridge service territory, Enercare Solutions was guaranteed payment by Enbridge for 99.49% in 2015 and 99.56% in 2014 of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued. For the remaining billings, Enercare Solutions considers several factors in the determination of the accounts receivable provision. Changes in any of these factors may result in a materially different recoverable amount.

*Leases*

Management applies judgment in its assessment of Enercare Solutions' arrangements with customers when determining the classification of leases and the extent to which the risks and rewards incidental to ownership lie with the company or the customer.

*Impairment of Non-Financial Assets and Goodwill*

Impairment tests are conducted at least annually, or as warranted by prevailing circumstances at the time of reporting. The recoverable amount is based upon a number of assumptions, including but not limited to: discount rates, billing suites, cash flows and expenses. Changes in any of these assumptions may result in a materially different recoverable amount.

*Employee Benefit Plans*

Enercare Solutions maintains active employee defined benefit pension plans which are closed to new members. The balances related to these plans are subject to a number of assumptions. The actuarial valuations rely on estimates and assumptions including those for wage escalation, mortality, health care and dental costs inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have a material impact on the employee benefit plans liability and employee benefit plan costs.

*Recoverability of Deferred Tax Assets*

Deferred tax assets are recognized to the extent that realization is considered probable. Judgments regarding projected future income and tax planning strategies are considered in making this assessment.

*Business Combination*

With respect to the preliminary estimated fair value of acquired assets and assumed liabilities and other adjustments related to the Acquisition, these consolidated financial statements have been prepared using the acquisition method of accounting, in accordance with IFRS 3R, Business Combinations, under which, the total fair value of the consideration transferred has been assigned to the assets acquired and liabilities assumed based on their estimated fair values at the date of the Acquisition, with any excess purchase price allocated to goodwill. Changes may be expected as additional information becomes available following the closing date of October 20, 2014. Accordingly, the final fair value determinations may differ from those set forth in these consolidated financial statements and such differences may be material.

## 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. Enercare Solutions has used the Internal Control – Integrated Framework (2013) from The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in order to assess the effectiveness of Enercare Solutions' internal control over financial reporting. There are no material weaknesses relating to the design of either DC&P or ICFR at June 30, 2015. There have been no changes to our ICFR during the quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, Enercare Solutions' ICFR.

Enercare Solutions has limited the scope of its design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of EHCS LP, which acquired OHCS on October 20, 2014. This relates to approximately 52% of revenues and 68% of net earnings for the second quarter of 2015 and approximately 52% of revenues and 51% of net earnings year to date in 2015. In addition, it relates to approximately 41% and 38% of the consolidated current assets and current liabilities, respectively, and approximately 48% and 4% of consolidated long term assets and long term liabilities, respectively.

Enercare Solutions is currently in the process of documenting and evaluating the controls, policies and procedures in respect of EHCS LP. The financial statements include OHCS results since Acquisition at October 20, 2014.

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 the 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, 2014. 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.

*Adoption of New Accounting Standards*

Enercare Solutions has adopted new or revised standards, effective January 1, 2015.

IAS 19, “Employee Benefits” (“IAS 19”), was amended in November 2013. The amendments include changes to the accounting treatment of employee or third-party contributions to defined benefit plans under certain circumstances. This standard is required to be applied for accounting periods beginning on or after January 1, 2015. Enercare Solutions implemented the standard and has determined that it did not have an impact on the consolidated financial statements.

*Accounting Standards Issued But Not Yet Applied*

The following are accounting policy changes to be implemented by Enercare Solutions in future years:

*Revenue Recognition*

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”), provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. Enercare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

*Financial Instruments*

The final version of IFRS 9, “Financial Instruments” (“IFRS 9”), was issued by the IASB in July 2014 and will replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. Enercare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Financial Instruments Disclosures

IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for periods beginning on or after January 1, 2018. Enercare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

*Presentation of Financial Statements*

IAS 1, "Presentation of Financial Statements" ("IAS 1") was amended by the IASB to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment gives guidance that information within the consolidated statements of financial position and consolidated statements of income should not be aggregated or disaggregated in a manner that obscures useful information, and that disaggregation may be required in the consolidated statements of income in the form of additional subtotals as they are relevant to understanding the entity's financial position or performance. The amendments to IAS 1 are effective for periods beginning on or after January 1, 2016. Enercare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

## 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.

### Home Services Integration

The purchase of OHCS has been transformative for Enercare Solutions. The Acquisition has allowed Enercare Solutions to have direct access to its customers, control over all aspects of its operations and larger financial scale. Our priority for the first twelve months remains the reunification of the two businesses, which has been successful to-date. In the first six months of 2015, Enercare Solutions has been pleased with the distributable cash accretion from the transaction, which is ahead of target.

We have made excellent progress with our re-branding initiatives during the first half of 2015. We recently introduced a new brand platform, featuring a new logo and visual style for Enercare. New Enercare branded workforce uniforms have been deployed to over 700 front line employees and a fleet of over 650 vehicles have been redesigned and rebranded. A re-designed Enercare Home Services web site has been launched featuring an enhanced visual style, simplified navigational structure, responsive design format and improved functionality.

During the second half of the year, Enercare will continue to roll out its rebranding plan. In August the Direct Energy Centre at Exhibition Place in Toronto was rebranded to the Enercare Centre and in the fall Enercare Solutions plans to launch a fully integrated mass marketing campaign featuring TV, radio and digital media as well as media outreach programs.

The Transition Services Agreement regarding the decoupling from DE's information technology platform is progressing well. The first phase of de-coupling was completed in the quarter and ahead of schedule, and the second phase of on-boarding is on-track. Enercare Solutions anticipates that this phase will be complete prior to the expiration of the Transition Services Agreement.

One of the synergy opportunities identified in respect of the Home Services business was a revised logistics and supply chain strategy. During the second quarter we developed a plan to move away from the current completely outsourced model to a hybrid model with the majority of logistics being insourced. We anticipate the plan will take 12 to 18 months to fully implement. Management believes there will be improved customer service and savings with the new model.

An important strategic rationale for the Acquisition was to facilitate growth, including through enhancing the customer experience. In July 2015, Enercare Solutions achieved the highest month's customer service rating since the current system of measurement was introduced over 5 years ago. Since elevating the customer experience is key to long term growth, these initiatives will remain a focus.

**Growth Initiatives - Home Services**

Our key priority for the Home Services business in 2015 is to grow its annuity contracts. We believe that we have the opportunity to continue to grow the number of contracts, in excess of Attrition and also to increase the average revenue per contract.

Enercare Solutions continues to experience improved results through improved rental customer retention and increased average monthly rental rates, largely as a result of our rental HVAC strategy. We continue to believe that the factors contributing to the decline in Attrition, including improved customer awareness, an enhanced customer experience, Bill 55 (effective April 1, 2015) and actions taken in respect of competitive activity, will create a favourable environment for further improvement in customer retention. We are very pleased that in July unit growth surpassed Attrition for the first time since 2008.

Enercare Solutions will continue to focus on growing its HVAC rental customer base. While converting a customer from an outright sale to a long-term rental product is capital intensive and creates a short-term reduction to the income statement, the rental HVAC creates a long-term customer relationship. This relationship provides greater cross-selling opportunity and generates more income through time than the sale of an HVAC unit.

In the instances where consumers want to purchase an HVAC unit outright, we are focused on maintaining the customer relationship through protection plans. To this end, on May 1st, we introduced a new extended protection plan to provide the HVAC warranty, an on-going service for a contracted period of time beyond the sale.

Enercare Solutions intends to launch a new rental proposition for water softeners, which is complementary to our water heater rental product. Similar to water heaters, water softeners have a useful life of approximately 16 years and have the benefits of enhancing the useful life of water heaters in hard water areas. The product will be launched in a phased roll-out approach and is expected to be launched in the fourth quarter.

Enercare Solutions intends to introduce an HVAC financing program currently anticipated for the fourth quarter. Approximately 20% of HVAC transactions are financed and Enercare Solutions estimates that it will invest $10,000 to $20,000 over the next eighteen months on this initiative.

# GLOSSARY OF TERMS

| Defined Term | Definition |
|---|---|
| Acquisition | The acquisition of the OHCS business of DE by Enercare Solutions on October 20, 2014 through EHCS LP pursuant to the Asset Purchase Agreement. |
| Asset Purchase Agreement | The agreement dated July 24, 2014 between Enercare, EHCS LP and DE regarding the Acquisition. |
| Attrition | Termination of customer relationships, including buyouts, in the Rentals portfolio. |
| Bill 55 | Stronger Protection for Ontario Consumers Act, 2013. |
| CBA | The collective bargaining agreement negotiated and ratified in 2012 and 2014 by DE with Unifor Local 975. |
| CNI | Cobourg Network Inc. |
| Conversion | The conversion of the Fund and the Trust, income trusts, to Enercare and Enercare Solutions, respectively. |
| 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, as assigned by DE to EHCS LP on October 20, 2014, and further amended on January 1, 2015 and assigned by CIBC Mellon Trust Company to EHCS GP, as successor custodian. |
| 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.). |
| EHCS GP | Enercare Home and Commercial Services Inc. |
| EHCS LP | Enercare Home and Commercial Services Limited Partnership, the limited partnership formed to own OHCS following the closing of the Acquisition, an indirect wholly-owned subsidiary of Enercare Solutions. |
| ESLP | Enercare Solutions Limited Partnership (formerly Waterheater Operating Limited Partnership). |
| ESN | Energy Services Niagara Inc. |
| Enbridge | Enbridge Gas Distribution Inc. |
| Enercare | Enercare Inc., formerly the Fund. |
| Enercare Solutions | Enercare Solutions Inc., formerly the Trust. |
| Fund | The Consumers' Waterheater Income Fund, predecessor to Enercare prior to the conversion of the Fund from an income trust to corporate structure pursuant to a plan of arrangement on January 1, 2011. |
| Guarantors | Collectively, ESLP, Rentco, WGP Inc., EHCS LP and the general partner of EHCS LP. |
| HVAC | Heating, ventilation and air conditioning. |
| Home Services | Enercare Solutions business, which provides rental water heaters, furnaces, air conditioners and other HVAC products and, as of October 20, 2014, also provides protection plans, HVAC sales and related services. |
| 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 International Accounting Standards Board. |
| Incurrence Test | 2009 Notes and 2012 Notes Incurrence EBITDA to Net Interest Expense. |
| MD&A | Management's Discussion and Analysis. |
| New Debt Financing | The debt financing of Enercare Solutions in respect of the Acquisition consisting of an unsecured (i) 4-year variable rate, non-revolving term loan facility in the amount of $210,000 and (ii) 5-year variable rate, revolving credit facility in the maximum amount of $100,000. |
| New Revolver | The 5-year variable rate, revolving credit facility in the maximum amount of $100,000 issued under the New Debt Refinancing. |
| New Term Loan | The 4-year variable rate, non-revolving term loan facility in the amount of $210,000 issued under the New Debt Financing. |
| OBA | Open bill access agreement with Enbridge. |
| OCI | Other Comprehensive Income. |
| OHCS | The Ontario home and small commercial services business of DE acquired by Enercare Solutions on October 20, 2014 pursuant to the Asset Purchase Agreement. |
| 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, as assigned by DE to EHCS LP on October 20, 2014. |
| Previous Revolver | $35,000 line of credit, with a maturity date of November 15, 2014, as amended and restated as of July 6, 2011, and further amended on November 15, 2012, February 26, 2013 and July 4, 2014 and replaced on October 20, 2014 with the New Revolver. |
| Previous Term Loan | $60,000 single draw, variable rate, interest only, open loan with a maturity date of January 28, 2016, which was repaid and terminated on October 20, 2014. |
| Protection Plan Attrition | Termination of customer relationships in the protection plan portfolio. |
| Rentals | Business that provides rental water heaters, furnaces, air conditioners and other HVAC products. |
| Rentco | 4483588 Canada Inc. (formerly, Direct Waterheater Rentals Inc.). |
| SG&A | Selling, general and administrative expenses. |
| S&P | Standard and Poor's Rating Services. |
| 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. |
| 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. |
| Transition Services Agreement | The agreement entered into on closing of the Acquisition in respect of the provision by DE of certain ongoing information technology transitional services and information technology decoupling services. |
| Trust | The Consumers' Waterheater Operating Trust. |

| Defined Term | Definition |
| --- | --- |
| 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. |