enercare™

Enercare Solutions Inc.

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

Third Quarter ended September 30, 2016

Dated November 9, 2016

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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 September 30, 2016. Unless otherwise specified, amounts are reported in this MD&A in thousands, except customers, units and "per unit" amounts, Shares and "per Share" amounts, SE Subscription Receipts and percentages (except as otherwise noted). Unless otherwise specified, dollar amounts are expressed in Canadian dollars.

As at September 30, 2016, Enercare Solutions was a wholly-owned subsidiary of Enercare. Enercare Solutions operates its businesses in two segments: Enercare Home Services – provision of water heaters, furnaces, air conditioners and other HVAC rental products, protection plans and related services and Service Experts – provision of sales, installation, maintenance and repair of HVAC systems through Enercare Solutions' Service Experts subsidiary.

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 November 9, 2016, contains certain forward-looking statements within the meaning of applicable Canadian securities laws ("forward-looking statements" or "forward-looking information") that involve various risks and uncertainties and should be read in conjunction with Enercare Solutions' 2015 audited consolidated financial statements. Additional information in respect of Enercare Solutions can be found on SEDAR at www.sedar.com.

Statements other than statements of historical fact contained in this MD&A may be forward-looking statements, including, without limitation, management's expectations, intentions and beliefs concerning anticipated future events, results, circumstances, economic performance or expectations with respect to Enercare Solutions, including Enercare Solutions' business operations, business strategy and financial condition. When used herein, the words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "goal", "intends", "may", "might", "outlook", "plans", "projects", "schedule", "should", "strive", "target", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. These forward-looking statements may reflect the internal projections, expectations, future growth, results of operations, performance, business prospects and opportunities of Enercare Solutions and are based on information currently available to Enercare Solutions and/or assumptions that Enercare Solutions believes are reasonable. Many factors could cause actual results to differ materially from the results and developments discussed in the forward-looking information.

In developing these forward-looking statements, certain material assumptions were made. These forward-looking statements are also subject to certain risks. These factors include, but are not limited to:

- actual future market conditions being different than anticipated by management;
- the failure to realize the anticipated benefits of the SE Transaction, strategic initiatives and tax efficiencies; and
- the risks and uncertainties described under *"Risk Factors"* in this MD&A.

Material factors or assumptions that were applied to drawing a conclusion or making an estimate set out in forward-looking statements, including pro forma financial information, include:

- the view of management regarding current and anticipated market conditions;
- industry trends remaining unchanged;
- the financial and operating attributes of Enercare Solutions and Service Experts as at the date hereof and the anticipated future performance of Enercare Solutions and Service Experts;
- assumptions regarding the volume and mix of business activities remaining consistent with current trends;
- assumptions regarding the interest rates of the 2014 Term Loan and 2016 Term Loan, foreign exchange rates and commodity prices;
- the extent to which the SE Transaction is accretive, which may be impacted by the realization and timing of synergies and the operating performance of Enercare Solutions and Service Experts;
- assumptions regarding non-recurring transaction costs estimated to be incurred by Enercare Solutions in connection with the SE Transaction;
- assumptions regarding future selling, general and administration costs estimated to be incurred by Enercare, including in connection with the running of the Service Experts segment; and
- the number of Shares outstanding remaining constant.

There can be no assurance that the anticipated strategic benefits and operational, competitive and cost synergies from the SE Transaction will be realized.

Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Accordingly, readers should not place undue reliance on such forward-looking statements and assumptions as management cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, Enercare Solutions. All forward-looking information in this MD&A is made as of the date of this MD&A. These forward-looking statements are subject to change as a result of new information, future events or other circumstances, in which case they will only be updated by Enercare Solutions where required by law.

Please see the section entitled *"Risk Factors"* in this MD&A for a 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-segment and 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 Enercare Home Services business.

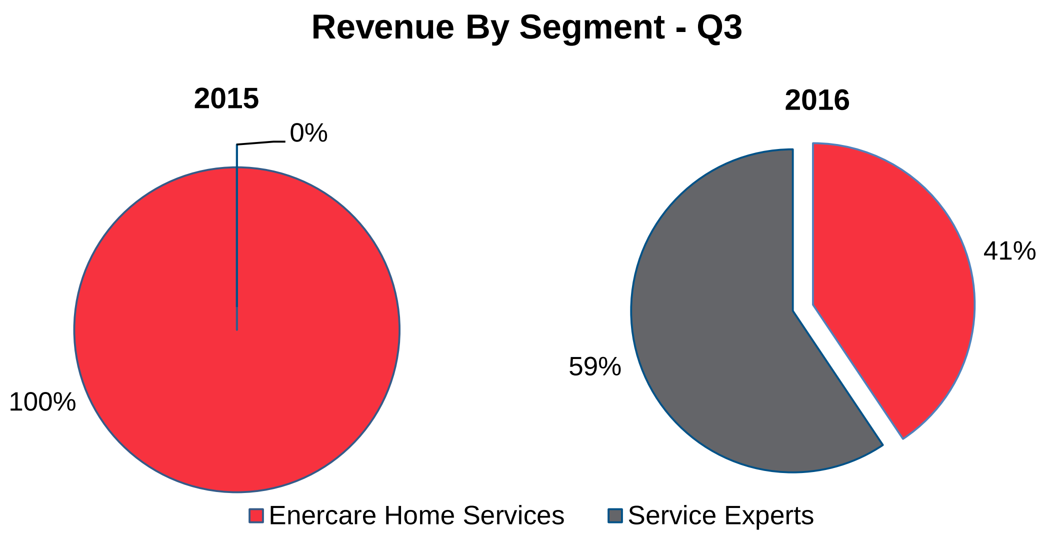
On May 11, 2016, Enercare Solutions acquired, through a merger, SEHAC Holdings Corporation ("Service Experts") (the "SE Transaction"). Enercare Solutions purchased 100% of the outstanding shares of Service Experts. Service Experts provides sales, installation, maintenance and repair of HVAC systems directly to residential and light commercial customers. There are 90 Service Experts locations in the United States and Canada. The interim financial statements reflect Enercare Solutions' ownership of Service Experts for the period from May 11, 2016 to September 30, 2016.

Through its Enercare Home Services and Service Experts businesses, Enercare Solutions provides intelligent and energy-efficient products, services, programs and solutions that enable homeowners, multi-unit owners and tenants to make a substantial contribution to North America's growing culture of energy conservation.

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/stable from S&P and DBRS, respectively.

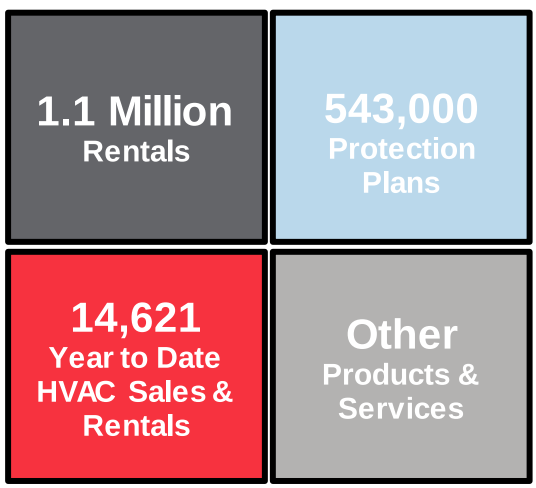
PORTFOLIO SUMMARY

Enercare Solutions' primary businesses are comprised of Enercare Home Services and Service Experts. As seen by the graph below, the Enercare Home Services business accounted for 41% of the overall revenue during the third quarter of 2016, compared to 100% during the same period in 2015, due to the acquisition of the Service Experts business on May 11, 2016. The primary business activities within each of the Enercare Home Services and Service Experts segments are discussed below.



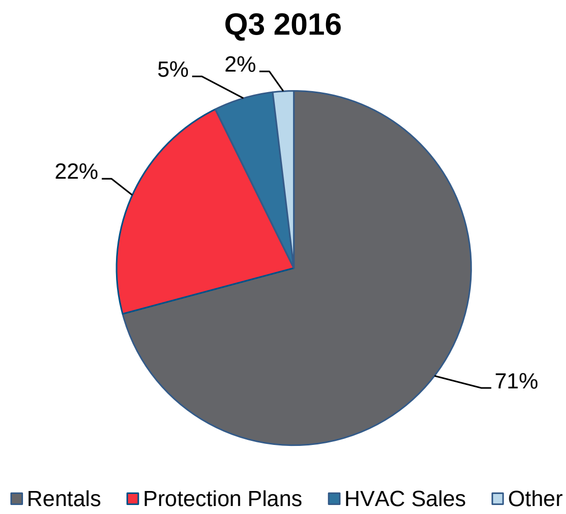
Enercare Home Services Business

There are four main business activities within Enercare Home Services: Rentals, Protection Plans, HVAC Sales and Other (which includes duct cleaning and chargeable services). The following diagram shows the breakdown of customer contracts for each such activity ending in the third quarter of 2016.



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.

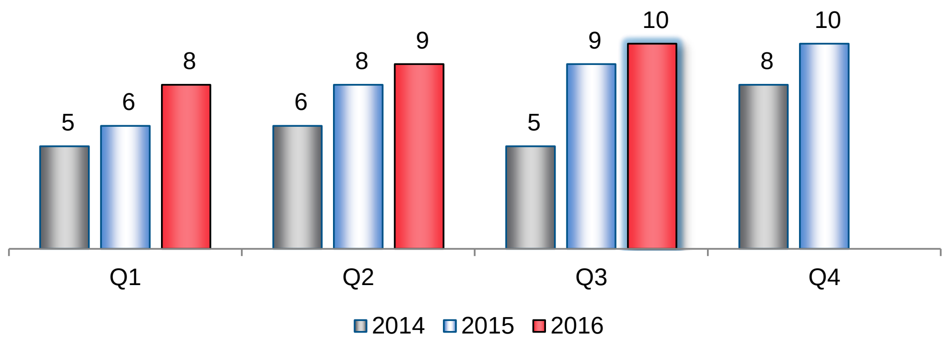
Home Services Revenue By Category



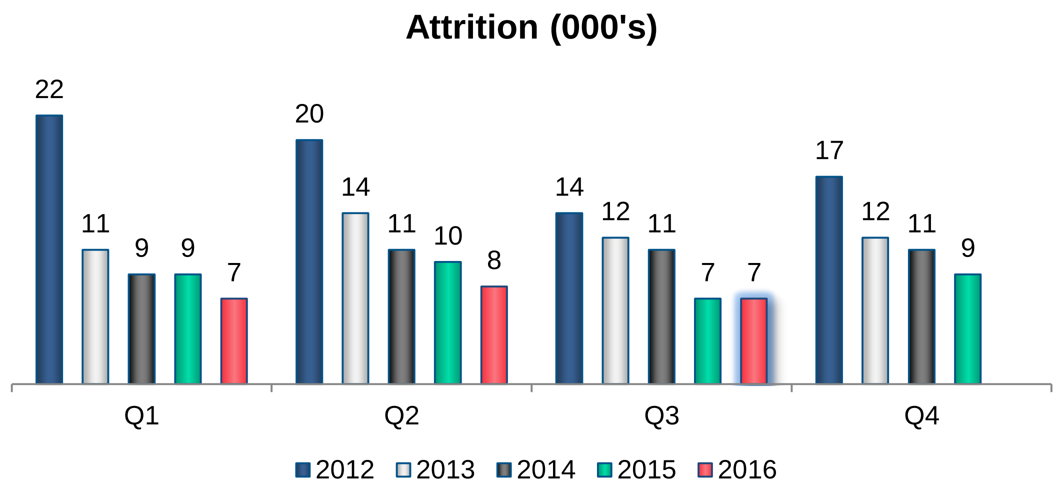
Rentals

Enercare Home Services is focused on growing its rental portfolio by increasing originations and reducing Attrition. Originations are primarily obtained from the new home builder market and new customers identified through its field technicians. New products, such as rental HVAC (discussed further below in the section entitled "HVAC Sales and Rentals"), have contributed significantly to increasing total originations. As seen in the graph below, additions were 10,000 units in the third quarter of 2016, an increase of 11%, compared to the same period in 2015.

Rental Additions (000's)

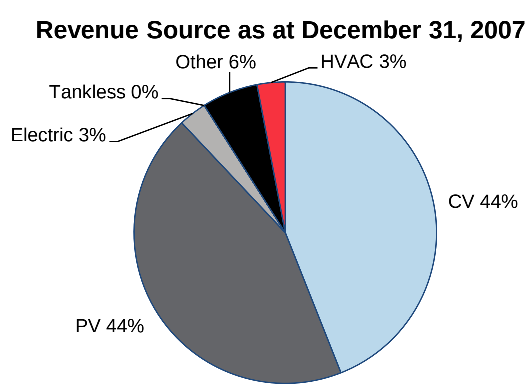


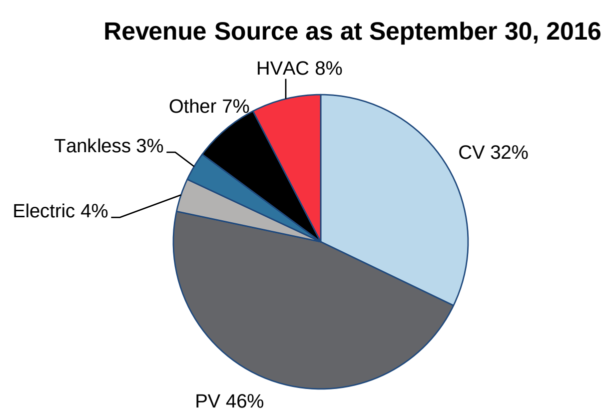
To aid in the reduction of Attrition, Enercare Home Services has implemented many programs, including continued consumer education campaigns. Such initiatives, coupled with enhancements to our customer value proposition (for example, the "same day service campaign") and the coming into effect of Bill 55 on April 1, 2015, have helped to significantly reduce Attrition. Attrition of approximately 6,900 units in the third quarter of 2016 improved by 5% compared to approximately 7,300 units in the same period in 2015. Attrition has improved year-over-year since 2009. The chart below illustrates Attrition trends since 2012.



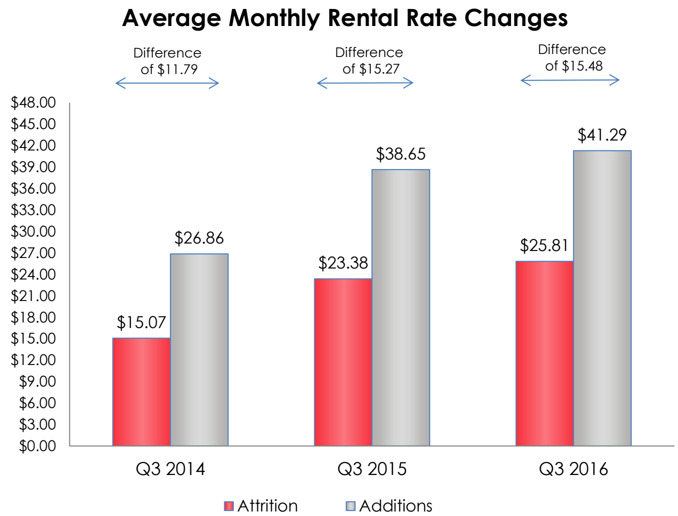
Rental unit growth surpassed Attrition during the third and fourth quarters of 2015 and the first three quarters of 2016 by approximately 8,000 units in total, the first five consecutive quarters of net unit growth for Enercare Solutions in over a decade.

In recent years changes in water heater technology and consumer trends have led to an increase in the origination of higher value products. 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 nine years ago to that of today reveals that the portfolio contains a higher percentage of power vent ("PV"), HVAC and tankless rental 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 that the difference in rental rates applicable to new and lost customers has increased steadily over the past three years, with the third quarter of 2016 revenue spread widening to $15.48, an increase of $0.21 over the same period in 2015. In the third quarter of 2016, new customers were worth approximately 1.6 times that of a lost customer.



Subsequent to the DE Acquisition, Enercare Home Services offers the following additional products and services:

Protection Plans

Enercare Home Services 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. Due to the annual nature of the contract, the protection plans tend to have a higher churn rate.

As announced in the first quarter of 2015, Enercare Home Services 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 plans not only allow Enercare Home Services to retain the customer relationship, but also provide for on-going 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. Since inception, approximately 79% of residential HVAC unit sales included an extended protection plan.

While Enercare Home Services' protection plan base remained stable during the second and third quarters of 2016, protection plan additions increased by approximately 4,000 plans in each of these quarters, compared to the same periods in 2015. Higher protection plan additions are a direct result of new customer acquisition and improved customer retention programs and product offerings.

Overall protection plan attrition remained stable during the third quarter of 2016, despite the loss of approximately 2,600 protection plans, 6,700 year to date, as a result of them being replaced by rentals as part of the Enercare Home Services growth strategy. HVAC unit additions continued, in the third quarter of 2016, to be more through rentals than sales. As a result, the opportunities for protection plan sales were fewer as rentals already include a service component. The execution of our HVAC rental strategy is a key component of the long term growth of the business, as we continue to grow our recurring revenue base, including service offerings that allow us to provide a valuable experience for customers while positioning ourselves for future cross selling opportunities.

The following table illustrates the protection plan contract continuity for the three months ended September 30, 2016 and 2015.

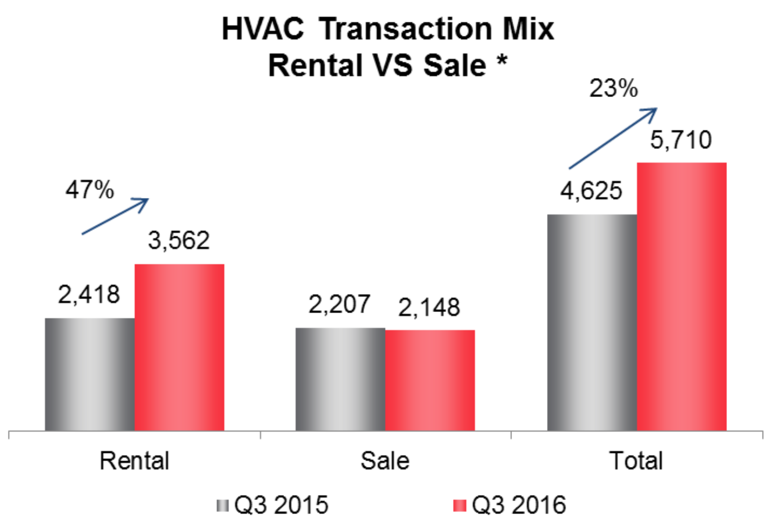
	Three months ended September 30,	
Protection Plan Unit Continuity (000's)	**2016**	2015
Contracts - start of period	**543**	552
Portfolio additions	**21**	17
Protection plan attrition	**(21)**	(21)
Contracts - end of period	**543**	548
% change in units during the period	**- %**	(0.7%)

HVAC Sales and Rentals

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

As part of Enercare Home Services' strategy to grow its recurring revenue customer base, in 2013 Enercare Home Services 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 opposed to 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 Home Services estimates that a rental unit is worth approximately 2.5 times that of a sale on a discounted cash flow basis.

A third quarter comparison between 2016 and 2015 is outlined in the chart below.



* HVAC rental and sales units presented include residential, commercial and multi-residential rental additions and sales. HVAC rental additions and sales reported in Enercare's quarterly reports prior to the fourth quarter of 2015 represented only residential units and excluded commercial and multi-residential.

During the third quarter, Enercare Home Services rented approximately 3,562 new units, an increase of 47% over the same period in the prior year, and sold approximately 2,148 units for a total of 5,710 HVAC units, compared to 4,625 units in the prior year, an increase of 23%. Favourable warm weather trends during the third quarter led to higher cooling degree days[1], which were 71% higher than the 25 year average. The warmer weather, combined with strong sales execution, resulted in a significant increase in air conditioning sales and rentals year over year.

The strategy to convert HVAC sales into Rentals has resulted in increases to our recurring revenue. During the third quarter of 2016, HVAC rental revenue accounted for an increase of approximately $2,600, or $7,000 year to date, compared to the same periods in 2015. Nevertheless, Enercare Solutions continues to be financially impacted by this strategy in the short-term. Enercare Solutions estimates that the increase in the number of rental HVAC originations from 2,418 in the third quarter of 2015 to 3,562 in the third quarter of 2016 resulted in reductions of $3,900 and $1,600 to revenues and EBITDA, respectively, compared to the same period in 2015. Furthermore, had all 3,562 new HVAC rental additions during the third quarter of 2016 been sales as opposed to rentals, revenues and EBITDA during the quarter would have increased by approximately $10,600 and $4,700, respectively. These estimates take into account the impact of lost one-time sales revenues from corporate sales and royalty revenues earned on franchisee sales, both net of rental revenues earned during the quarter, and capitalized costs which would have otherwise been included in cost of goods sold had these new HVAC rental additions been sales as opposed to rentals.

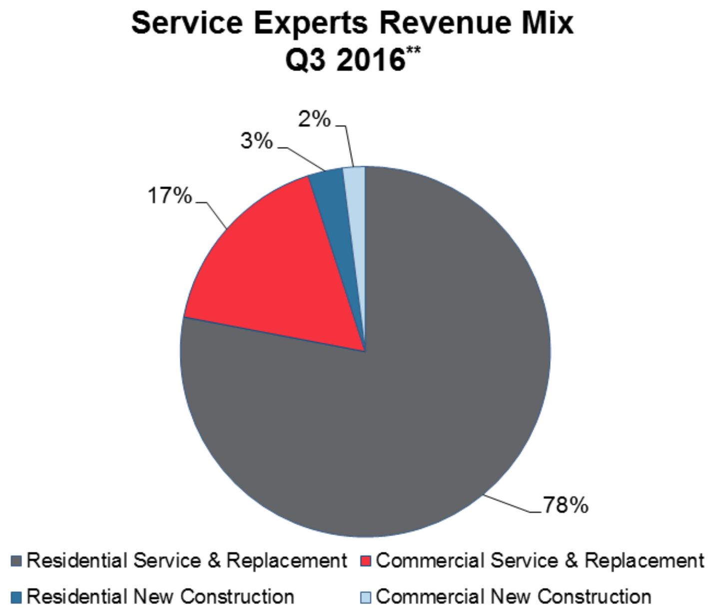
Other

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

[1] Heating/cooling degree days for a given day represent the number of Celsius degrees that the mean temperature is above or below a given base temperature, in this case 18°C. If the temperature is equal to 18°C, then the number will be zero. Values above or below the base of 18°C are used primarily to estimate the heating and cooling requirements of buildings. Temperatures below 18°C result in higher heating degree days (lower cooling degree days), while those above 18°C result in lower heating degree days (higher cooling degree days).

Service Experts Business

Enercare expanded into the U.S. marketplace through its acquisition of Service Experts in May 2016. Service Experts is a leading provider of HVAC equipment and servicing to residential and light commercial customers and operates in 29 states in the United States and three provinces in Canada with a total of 90 branch locations. Service Experts has an average local brand age of more than 50 years and conducts over 645,000 customer appointments per year.



** Service Experts' revenue mix during the period from the May 11, 2016 acquisition date to June 30, 2016 was 80% Residential Service & Replacement, 16% Commercial Service & Replacement, 2% Residential New Construction and 2% Commercial New Construction. These percentages have been restated compared to the revenue mix presented in Enercare's quarterly report for the second quarter of 2016 but are consistent with the revenue mix presented in the chart above.

As illustrated in the chart above, during the third quarter, residential service and replacement made up 78% of revenues (80% for the period May 11, 2016 to June 30, 2016), while commercial service and replacement made up 17% (16% for the period May 11, 2016 to June 30, 2016). Commercial service and replacement is comprised of both services to commercial customers at Service Experts' local centres as well as commercial services to its national account customers that are managed through Service Experts' national accounts group. The major business activities within both the residential and commercial businesses consist of HVAC Sales and Servicing and Maintenance Contracts.

HVAC Sales and Servicing

HVAC sales and servicing includes service and replacement, which consists of demand, tune-up and HVAC unit replacements and upgrades, commercial HVAC service and replacement, and HVAC installations in commercial and residential new construction.

HVAC repair and replacement activities comprise the majority of the Service Experts business and are considered essential services to both residential and commercial customers. This revenue stream has minimal exposure to new construction and in recent years has been positively affected by the housing stock growth and significant pent-up demand from residential recession-era replacement deferrals in the United States. Additionally, Service Experts has focused on various growth initiatives, including expanding outbound calling and online marketing to increase the number of customer contacts which convert to booked calls and ultimately result in a larger recurring customer base.

Service Experts installed approximately 17,411 HVAC units during the third quarter of 2016, an increase of 6% compared to the 16,392 HVAC sales units during the same pre-acquisition period in 2015. Favourably warm weather conditions across the United States during the third quarter led to a significant increase in the demand for air conditioning sales and demand service for repairs. Temperatures across the United States in July, August and September were each one of the top three warmest, compared to the same months, in the past 25 years[2]. Service Experts sales in Eastern Canada were also positively impacted by the same weather trends experienced by the Enercare Home Services segment. Higher revenues were also driven by Service Experts initiatives to shift sales towards higher value products which have contributed to improvements in the average selling prices of installed units. A third quarter comparison between 2016 and 2015 HVAC sales is outlined in the chart below.

HVAC Sales Three months ended September 30,	**2016**	2015
Installations	**17,411**	16,392
% change	**6%**	-%

* Historical HVAC sales information is provided as an illustration of the improvement in Service Experts' HVAC sales. Enercare was not party to Service Experts' HVAC sales before the closing of the SE Transaction on May 11, 2016.

Maintenance Contracts

Maintenance contracts generally consist of annual or semi-annual maintenance contracts predominantly to a recurring customer base. These maintenance plans not only generate recurring revenue but also promote the development of customer loyalty and provide the opportunity for cross-marketing of Service Experts' other products and services to such customers.

Service Experts currently has two types of maintenance contracts in respect of HVAC equipment. The first is a maintenance only contract where semi-annual or annual maintenance visits are conducted to perform diagnostics over HVAC equipment while the second is a full service plan that includes repair services along with certain parts and labour. Approximately 200,000 customers have ongoing maintenance contracts covering approximately 217,000 pieces of equipment. Although the total number of maintenance contracts can fluctuate from quarter to quarter as a result of the timing of contract renewals and the number of new HVAC unit installations initiated by customers with maintenance contracts, in recent years, Service Experts has experienced modest annual growth of approximately 1% in maintenance contracts. This longer-term growth trend is driven by a continued focus on contract renewals. The following table illustrates the maintenance contracts continuity for the three months ended September 30, 2016.

Maintenance Contract Unit Continuity (000's)	Three months ended September 30, **2016**
Contracts - start of period	**218**
Portfolio additions	**26**
Portfolio attrition	**(27)**
Contracts - end of period	**217**
% change in units during the period	**(-%)**

[2] Weather trends from Weather Trends International.

THIRD QUARTER 2016 HIGHLIGHTS

(000's)	Three months ended Sept. 30, 2016	2015	Nine months ended Sept. 30, 2016	2015
Enercare Home Services	**$110,977**	$106,820	**$325,395**	$317,206
Service Experts	**162,350**	-	**264,559**	-
Dividend income	**863**	863	**2,589**	2,589
Investment income	**18**	38	**256**	154
Total revenue	**$274,208**	$107,721	**$592,799**	$319,949
EBITDA Excluding Intercompany Income[3]	**$ 75,196**	$ 55,644	**$196,260**	$162,960
Adjusted EBITDA[2]	**75,930**	56,645	**199,850**	167,285
Acquisition Adjusted EBITDA[2]	**80,277**	60,412	**213,044**	173,441
Earnings before income taxes	**$ 23,803**	$ 13,475	**$ 54,927**	$ 37,143
Current tax (expense)	**(14,396)**	(1,089)	**(40,679)**	(4,220)
Deferred income tax recovery/(expense)	**7,754**	(1,755)	**25,361**	(4,600)
Net earnings	**$ 17,161**	$ 10,631	**$ 39,609**	$ 28,323

The following highlights compare results for the third quarter of 2016 with the third quarter of 2015.

- Total revenues of $274,208 increased by 155% in the third quarter of 2016. Revenues, excluding dividend and investment income, were $273,327, greater than the prior year by $166,507, primarily as a result of $162,350 of revenues added through the SE Transaction. Revenues in the Enercare Home Services business were $110,977, greater than the prior year by $4,157, primarily as a result of rental rate increases, asset mix changes and growth in rental HVAC units. Service Experts revenues of $162,350 were stronger than anticipated, assisted by warmer temperatures across the United States and Canada, which resulted in higher air conditioning sales. Dividend income relates to an investment in ECI preferred shares of $50,000.
- EBITDA Excluding Intercompany Income increased by $19,552 to $75,196 in the third quarter of 2016, driven primarily by improved total revenues partly offset by higher SG&A costs, primarily from $4,189 of acquisition and integration costs incurred during the quarter associated with the SE Transaction. Service Experts contributed $14,810 of the increase in EBITDA Excluding Intercompany Income during the quarter. Adjusted EBITDA of $75,930 increased by $19,285 after removing from EBITDA Excluding Intercompany Income, the impact of the net loss on disposal of equipment.
- After removing $4,189 of acquisition and integration related expenditures associated with the SE Transaction and $158 of integration and business transformation costs related to the DE Acquisition, Acquisition Adjusted EBITDA was $80,277 in the third quarter of 2016, an increase of $19,865 compared to the same period in 2015, primarily as a result of the SE Transaction.
- During the third quarter of 2016, HVAC customer installations continued to be more through rentals than sales as a result of the success of the HVAC rental program. Emphasizing HVAC rentals over one-time sales resulted in lower Enercare Home Services revenues and EBITDA of approximately $3,900 and $1,600, respectively, in the third quarter of 2016 compared to the same period in 2015.
- Net earnings of $17,161 in the third quarter of 2016 increased by $6,530 or 61% compared to the same period in 2015, reflecting higher EBITDA Excluding Intercompany Income offset by higher total taxes, amortization and interest from the 2016 Term Loan.
- Attrition in the Rentals portfolio of approximately 6,900 units in the third quarter of 2016 improved by 5% compared to approximately 7,300 units in the same period in 2015 and has improved year-over-year since 2009. Rental unit growth surpassed Attrition during the third and fourth quarters of 2015 and the first three quarters of 2016 by approximately 8,000 units in total; such periods have been the first five consecutive quarters of net unit growth in over a decade.

[3] EBITDA Excluding Intercompany Income, 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.

RECENT DEVELOPMENTS

Enercare Launches New Community Program to Give Families in Need a Fresh Start

On September 13, 2016, Enercare announced the launch of the Enercare Fresh Start Program, a signature new corporate social responsibility program designed to help families transitioning between temporary shelters and a home of their own.

One of Enercare's key objectives with the Fresh Start Program is to give back to the communities where it operates by partnering with local organizations to help disadvantaged families living in a shelter due to unfortunate and unforeseen circumstances. The Enercare Fresh Start Program helps families get back on their feet by providing simple necessities, small luxuries and professional home tips essential to starting a new beginning in a new home.

Enercare Solutions Launches Industry First Mobile App for Customers

On September 27, 2016, Enercare Solutions announced that it had become the first Canadian home services company to launch a self-service mobile app, offering customers an easy-to-use, real-time tracking tool to manage their service appointments and enhance their overall experience with Enercare.

Enercare Solutions Honoured for HR Excellence with the Accompass Award for HR Team of the Year

On September 29, 2016, Enercare Solutions announced that it had been honoured by HRM Canada, a leading human resources publication, with the Accompass Award for HR Team of the Year. The prize, which is awarded annually to an organization with 500 or more employees in Canada, recognizes Enercare's high performance and focus on talent amid a period of exponential growth of its workforce.

Enercare Solutions Commends the Introduction of the Putting Consumers First Act, 2016

On November 7, 2016, Enercare Solutions commended the Ontario Government for strengthening protections for Ontario consumers with its introduction of the Putting Consumers First Act (Consumer Protection Statute Law Amendment), 2016 ("Bill 59"). The government stated that Bill 59 is intended to protect consumers against 'aggressive door-to-door sales marketers who use high-pressure tactics to sell certain products and services.' Among other things, if passed as introduced and described, Bill 59 is expected to:

- Ban unsolicited door-to-door sales of prescribed appliances such as water heaters, furnaces, air conditioners and water filters;

- Void all contracts resulting from unsolicited door-to-door sales of the prescribed appliances;

- Enable consumers to demand a refund from the supplier up to one year after the payment was made under the void contract; and

- Provides consumers with a 10-day cooling off period to reconsider their decision in respect of consumer-initiated contracts related to prescribed appliances signed in their home.

As Bill 59 is a framework act, its substance will be contained in regulations passed under it. As a result, the details of the act, including the specific appliances to which Bill 59 will apply and any exceptions to the ban on door-to-door sales will be found in regulations, which have yet to be published.

The new rules for water heater door-to-door sales that came into effect on April 1, 2015, coupled with various Enercare Solutions initiatives to educate consumers and enhance its customer value proposition, have helped to significantly reduce attrition in its rental water heater business. If passed, Enercare Solutions believes that Bill 59 will positively impact its rental water heater, HVAC and water treatment systems business.

RESULTS OF OPERATIONS

Earnings Statement

Three months ended September 30,				**2016**				2015
(000's)	**Enercare Home Services**	**Service Experts**	**Corporate**	**Total**	Enercare Home Services	Service Experts	Corporate	Total
Revenues:								
Contracted revenue	**$ 103,010**	**$ 6,741**	**$ -**	**$109,751**	$ 97,987	$ -	$ -	$ 97,987
Sales and other services	**7,967**	**155,609**	**-**	**163,576**	8,833	-	-	8,833
Dividend income	**-**	**-**	**863**	**863**	-	-	863	863
Investment income	**77**	**(59)**	**-**	**18**	38	-	-	38
Total revenue	**$ 111,054**	**$162,291**	**$ 863**	**$274,208**	$106,858	$ -	$ 863	$107,721
Expenses:								
Cost of goods sold:								
Maintenance & servicing costs	**17,065**	**4,942**	**-**	**22,007**	16,522	-	-	16,522
Sales and other services	**5,508**	**98,672**	**-**	**104,180**	6,119	-	-	6,119
Total cost of goods sold	**22,573**	**103,614**	**-**	**126,187**	22,641	-	-	22,641
SG&A expenses	**23,818**	**43,956**	**3,536**	**71,310**	24,772	-	2,778	27,550
Foreign exchange (gain)/loss	**(37)**	**(45)**	**-**	**(82)**	22	-	-	22
Amortization expense	**30,729**	**5,229**	**-**	**35,958**	29,646	-	-	29,646
Net loss/(gain) on disposal	**778**	**(44)**	**-**	**734**	1,001	-	-	1,001
Interest expense				**16,298**				13,386
Total expenses				**250,405**				94,246
Earnings before income taxes				**23,803**				13,475
Current tax (expense)				**(14,396)**				(1,089)
Deferred tax recovery/(expense)				**7,754**				(1,755)
Net earnings				**$ 17,161**				$ 10,631
EBITDA Excluding Intercompany Income	**$ 63,922**	**$ 14,810**	**$(3,536)**	**$ 75,196**	$ 58,422	$ -	$(2,778)	$ 55,644
Adjusted EBITDA	**$ 64,700**	**$ 14,766**	**$(3,536)**	**$ 75,930**	$ 59,423	$ -	$(2,778)	$ 56,645
Acquisition Adjusted EBITDA	**$ 64,858**	**$ 18,955**	**$(3,536)**	**$ 80,277**	$ 63,190	$ -	$(2,778)	$ 60,412

Nine months ended September 30,				2016				2015
(000's)	**Enercare Home Services**	**Service Experts**	**Corporate**	**Total**	Enercare Home Services	Service Experts	Corporate	Total
Revenues:								
Contracted revenue	**$305,060**	**$ 8,486**	**$ -**	**$313,546**	$288,965	$ -	$ -	$288,965
Sales and other services	**20,335**	**256,073**	**-**	**276,408**	28,241	-	-	28,241
Dividend income	**-**	**-**	**2,589**	**2,589**	-	-	2,589	2,589
Investment income	**238**	**18**	**-**	**256**	154	-	-	154
Total revenue	**$325,633**	**$264,577**	**$2,589**	**$592,799**	$317,360	$ -	$ 2,589	$319,949
Expenses:								
Cost of goods sold:								
Maintenance & servicing costs	**49,738**	**6,344**	**-**	**56,082**	45,270	-	-	45,270
Sales and other services	**16,101**	**157,935**	**-**	**174,036**	19,520	-	-	19,520
Total cost of goods sold	**65,839**	**164,279**	**-**	**230,118**	64,790	-	-	64,790
SG&A expenses	**73,226**	**75,376**	**11,705**	**160,307**	77,247	-	7,944	85,191
Foreign exchange (gain)/loss	**(15)**	**(50)**	**-**	**(65)**	94	-	-	94
Amortization expense	**90,910**	**8,565**	**-**	**99,475**	88,016	-	-	88,016
Net loss on disposal	**3,587**	**3**	**-**	**3,590**	4,325	-	-	4,325
Interest expense				**44,447**				40,390
Total expenses				**537,872**				282,806
Earnings before income taxes				**54,927**				37,143
Current tax (expense)				**(40,679)**				(4,220)
Deferred tax recovery/(expense)				**25,361**				(4,600)
Net earnings				**$39,609**				28,323
EBITDA Excluding Intercompany Income	**$182,996**	**$ 24,969**	**$(11,705)**	**$196,260**	$170,904	$ -	$(7,944)	$162,960
Adjusted EBITDA	**$186,583**	**$ 24,972**	**$(11,705)**	**$199,850**	$175,229	$ -	$(7,944)	$167,285
Acquisition Adjusted EBITDA	**$188,895**	**$ 35,854**	**$(11,705)**	**$213,044**	$181,385	$ -	$(7,944)	$173,441

Revenues

Total revenues of $274,208 for the third quarter of 2016 increased by $166,487 or 155% and by $272,850 or 85% to $592,799 year to date compared to the same periods in 2015 primarily as a result of the SE Transaction.

Enercare Home Services revenues, excluding investment income, increased during the quarter by $4,157 to $110,977 and by $8,189 to $325,395 year to date, compared to the same periods in 2015, primarily as a result of a rental rate increase implemented in January 2016, changes in asset mix and growth in rental HVAC units. Contracted revenue in Enercare Home Services 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 plumbing, duct cleaning and other services. Favourable warm weather trends during the third quarter led to higher cooling degree days, which were 71% higher than the 25 year average. This resulted in a significant increase in the demand for air conditioning sales and rentals.

Enercare Solutions' strategy to emphasize HVAC rentals over outright sales resulted in significant increases in recurring revenue at the expense of sales and other services revenue.

Service Experts revenues, excluding investment income, of $162,350 for the third quarter of 2016 and $264,559 since the May 11, 2016 acquisition date were stronger than anticipated, driven primarily by favourably warm weather conditions across the United States and higher average dollars per contract. Temperatures across the United States in July, August and September were each one of the top three warmest, compared to the same months, in the past 25 years. Service Experts sales in Eastern Canada were also positively impacted by the same weather trends experienced by the Enercare Home Services segment. Service Experts revenues were lowered by $6,698 during the third quarter of 2016 and $14,534 year to date, as a result of purchase accounting adjustments of deferred revenue associated with the SE Transaction.

Dividend income for 2016 was $863 consistent with the same period in 2015.

Investment income was $18 in the third quarter of 2016 and $256 year to date, a decrease of $20 and an increase of $102, respectively, when compared to the same periods in 2015. The change in investment income was primarily attributable to non-recurring interest earned in the second quarter of 2016 from the SE Subscription Receipts proceeds received in connection with the SE Transaction combined with interest income from the registered pension plan, which was in an asset balance instead of a net obligation during 2016.

Cost of Goods Sold

Total cost of goods sold for the third quarter of 2016 was $126,187, and $230,118 year to date, an increase of $103,546 or 457%, and $165,328 or 255%, respectively, compared to the same periods in 2015, primarily as a result of the SE Transaction.

Enercare Home Services cost of goods sold decreased by $68 in the third quarter of 2016, and increased by $1,049 year to date, compared to the same periods in 2015, primarily from approximately $1,300 of non-recurring supplier reimbursements and other items recorded in the second quarter of 2015. Maintenance and servicing costs in Enercare Home Services 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 plumbing, duct cleaning and other cleaning services.

Service Experts cost of goods sold amounted to $103,614 in the third quarter of 2016 and $164,279 since the May 11, 2016 acquisition date. Service Experts cost of goods sold were lowered by $5,239 during the third quarter of 2016 and $11,552 year to date, as a result of purchase accounting adjustments for the service obligation associated with the SE Transaction.

Selling, General & Administrative Expenses

Total SG&A expenses were $71,310 in the third quarter of 2016 and $160,307 year to date, increases of $43,760 and $75,116, respectively, compared to the same period in 2015.

Enercare Home Services SG&A expenses of $23,818 in the third quarter and $73,226 year to date, decreased by $954 and $4,021, respectively, compared to the same periods in 2015. The $954 decrease in the third quarter was primarily as a result of approximately $1,700 in selling expenses and $1,000 in professional fees, both primarily from one time integration and rebranding activities in 2015, partly offset by higher office expenses of $1,200, primarily from higher rent and utility costs related to the opening of new staging facilities, and wages and benefits of $500. The $4,021 year to date decrease was primarily as a result of approximately $3,100 in lower selling expenses, $1,800 of professional fees, both primarily from one time integration and rebranding activities in 2015, $1,100 of billing and servicing costs and $400 of claims expenses, partly offset by increases of $1,500 in wages and benefits, $800 in office expenses and $200 in bad debts. During the third quarter of 2016, there were acquisition related items totaling $930, compared to $1,400 in the same period of 2015, resulting in improvements to SG&A expense. The improvements in both periods arose from revisions to estimates. Enercare Home Services SG&A expenses in the third quarter of 2016 included $158 and $2,312 year to date of integration and business transformation costs related to the DE Acquisition primarily from information technology integration activities to optimize the information technology platforms and marketing spend related to continued rebranding. In 2015, SG&A expenses in the third quarter and year to date included $3,767 and $6,156, respectively, of integration costs associated with the DE Acquisition, primarily from marketing spend related to rebranding activities.

Service Experts SG&A expenses in the third quarter of 2016 amounted to $43,956 and $75,376 since the May 11, 2016 acquisition date. During the third quarter of 2016 there were acquisition related items totaling $1,600 resulting in improvements to SG&A expense. These improvements arose from revisions to opening balance sheet estimates related to the SE Transaction. Included in SG&A expenses in the third quarter and year to date were $4,189 and $10,882, respectively, of acquisition related expenditures associated with the

SE Transaction, primarily related to professional fees and integration costs. The year to date costs included $2,834 of pre-acquisition expenditures incurred by Enercare Home Services.

Corporate SG&A expenses of $3,536 in the third quarter and $11,705 year to date, increased by $758 and $3,761, respectively, compared to the same periods in 2015. Corporate SG&A expenses primarily relate to charges from Enercare.

Amortization Expense

Amortization expense increased by $6,312 or 21% to $35,958 in the third quarter of 2016 and by $11,459 or 13% to $99,475 year to date, over the same periods in 2015, primarily due to an increasing capital asset base from asset mix changes in the Rentals portfolio and the SE Transaction.

Net Loss on Disposal of Equipment

Enercare Solutions reported a net loss on disposal of equipment of $734 in the third quarter of 2016 and $3,590 year to date, a decrease of $267 or 27% and $735 or 17%, respectively, over the same periods in 2015. The net 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 Sept. 30,		Nine months ended Sept. 30,	
(000's)	**2016**	2015	**2016**	2015
Interest expense payable in cash	**$ 7,950**	$ 6,369	**$22,245**	$19,310
Interest on subordinated debt	**875**	875	**2,625**	2,625
Interest on promissory note	**6,986**	5,657	**18,219**	17,005
Non-cash items:				
Notional interest on employee benefit plans, net	**210**	274	**630**	822
Amortization of other comprehensive income and financing costs	**277**	211	**728**	628
Interest expense	**$16,298**	$13,386	**$44,447**	$40,390

Interest expense payable in cash of $7,950 in the third quarter of 2016 was $1,581 higher that than same period in 2015 from the addition of the 2016 Term Loan related to the financing of the SE Transaction.

Interest on the $50,000 Subordinated Debt was consistent with the prior period.

The SE Transaction resulted in an increase of the Subordinated Promissory Notes of $227,504, partly offset by repayments of $7,000 during the third quarter and $27,492 year to date. This increase in the balance of the Subordinated Promissory Notes resulted in higher interest expenses starting in the second quarter of 2016 compared to the same period in 2015.

Notional interest of $210 in the third quarter and $630 year to date in 2016 relate to the defined benefit employee benefits plans. Amortization of financing costs includes the previously unamortized costs associated with the 2012 Notes, 2013 Notes, the 2014 Term Loan and 2016 Term Loan.

Income Taxes

Enercare Solutions reported current tax expenses of $14,396 in the third quarter of 2016 and $40,679 year to date, increases of $13,307 and $36,459, respectively, over the same periods in 2015, primarily as a result of a one year tax deferral recognized in 2015, available through a subsidiary of Enercare Solutions. The deferred income tax recoveries of $7,754 in the third quarter of 2016 and $25,361 year to date, increases of $9,509 and $29,961, respectively, compared to the deferred tax expenses recorded in the same periods in 2015, were primarily as a result of temporary difference reversals in the Enercare Home Services business.

Net Earnings

Net earnings were $17,161 in the third quarter of 2016 and $39,609 year to date, increases of $6,530 and $11,286, respectively, compared to the same periods in 2015, as previously described.

EBITDA Excluding Intercompany Income, 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 Excluding Intercompany Income, Adjusted EBITDA and Acquisition Adjusted EBITDA.

(000's)	**Q3/16**	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14
Net earnings	**$17,161**	$14,504	$ 7,944	$ 8,445	$10,631	$12,536	$ 5,156	$ 3,202
Deferred tax (recovery)/expense	**(7,754)**	(7,913)	(9,694)	814	1,755	484	2,361	(4,473)
Current tax expense	**14,396**	14,318	11,965	2,786	1,089	1,297	1,834	5,923
Amortization expense	**35,958**	33,481	30,036	29,995	29,646	29,256	29,114	28,609
Interest expense	**16,298**	15,052	13,097	13,047	13,386	13,462	13,542	12,845
Less: Dividend (income)	**(863)**	(863)	(863)	(863)	(863)	(863)	(863)	(870)
EBITDA Excluding Intercompany Income[(a)]	**75,196**	68,579	52,485	54,224	55,644	56,172	51,144	45,236
Add: Net loss on disposal	**734**	931	1,925	1,029	1,001	1,572	1,752	2,180
Adjusted EBITDA[(b)]	**75,930**	69,510	54,410	55,253	56,645	57,744	52,896	47,416
Add: Acquisition SG&A	**4,347**	5,240	3,607	3,012	3,767	1,777	612	4,138
Acquisition Adjusted EBITDA	**$80,277**	$74,750	$58,017	$58,265	$60,412	$59,521	$53,508	$51,554

(a) Historical EBITDA Excluding Intercompany Income has been conformed to the current presentation which includes investment income, other income and excludes related party dividend income.

(b) Historical Adjusted EBITDA has been conformed to the current presentation which includes investment income and other income and excludes related party dividend income and net loss on disposal.

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, as well as the SE Transaction results commencing in the second quarter of 2016 and the DE Acquisition results commencing in the fourth quarter of 2014.
2. Increasing current taxes from higher taxable income. During 2015, current taxes reflect the impact of a one year tax deferral available through a subsidiary of Enercare Solutions which was not available for 2016 and accordingly, results in a higher current tax expense during 2016.
3. During the first and second quarters of 2016 additional interest expense was incurred as part of the SE Transaction, related to the 2016 Term Loan, bridge financing and the treatment of SE Subscription Receipts for accounting purposes. In the third quarter of 2014, additional interest expense was incurred as part of the DE Acquisition, related to the bridge financing. Commencing in the fourth quarter of 2014, interest expense reflects higher debt related to the 2014 Term Loan incurred to finance the DE Acquisition.
4. Amortization and net loss on disposal of equipment are primarily driven by unit continuity activity such as Attrition, exchanges and outstanding units. Increases in amortization of capital assets and intangibles relate primarily to increased additions.

LIQUIDITY AND CAPITAL RESOURCES

(000's)	Three months ended Sept. 30, 2016	2015	Nine months ended Sept. 30, 2016	2015
Cash flow provided by operating activities	**$ 60,927**	$45,864	**$95,871**	$87,602
Net change in non-cash working capital	**(14,293)**	(2,864)	**23,099**	39,489
Operating Cash Flow[4]	**46,634**	43,000	**118,970**	127,091
Capital expenditures: excluding acquisitions	**(32,914)**	(23,762)	**(90,334)**	(68,912)
Proceeds on disposal of equipment	**2,991**	1,868	**7,648**	5,565
Net capital expenditures	**(29,923)**	(21,894)	**(82,686)**	(63,347)
Acquisition – Service Experts	**-**	-	**(375,163)**	-
Acquisition – Cobourg Network Inc.	**-**	-	**-**	(880)
Cash used in investing activities	**(29,923)**	(21,894)	**(457,849)**	(64,227)
Dividends paid	**(12,075)**	(19,283)	**(36,705)**	(49,692)
Other financing activities	**(9,325)**	(5,551)	**413,146**	(6,655)
Cash (used in)/provided by financing activities	**(21,400)**	(24,834)	**376,441**	(56,347)
Cash and equivalents – end of period	**$ 32,751**	$19,883	**$32,751**	$19,883

Operating Cash Flow of $46,634 in the third quarter of 2016 increased by $3,634 and decreased by $8,121 to $118,970 year to date, compared to the same periods in 2015, primarily due to acquisition related expenditures in SG&A, an increase in current tax expense due to the SE Transaction and the impact of a one year tax deferral available in 2015 through a subsidiary of Enercare Solutions which was not available in 2016.

Net capital expenditures of $29,923 in the third quarter of 2016, increased by $8,029 and by $19,339 to $82,686 year to date, compared to the same periods in 2015, due to increased HVAC rentals and changes in asset mix. The acquisition amount of $375,163 represents the purchase consideration net of cash received for the acquisition of Service Experts. Dividends paid reflect dividend payments on outstanding common shares.

Of the available credit of $100,000 under the 2014 Revolver, $10,000 was drawn as at September 30, 2016.

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 2016 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.

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

Installed Asset Unit Continuity	Three months ended Sept. 30,		Nine months ended Sept. 30,	
(000's)	**2016**	2015	**2016**	2015
Units – start of period	**1,130**	1,125	**1,128**	1,129
Portfolio additions	**10**	9	**27**	23
Acquisitions	**-**	-	**-**	1
Attrition	**(7)**	(7)	**(22)**	(26)
Units – end of period	**1,133**	1,127	**1,133**	1,127
Asset exchanges – units retired and replaced	**11**	10	**34**	35
% change in units during the period	**0.3%**	(0.2%)	**0.4 %**	(0.2%)
% of units from start of period:				
Portfolio additions (net of acquisitions)	**0.9%**	0.8%	**2.4%**	2.0%
Attrition	**(0.6%)**	(0.6%)	**(2.0%)**	(2.3%)
Units retired and replaced	**1.0%**	0.9%	**3.0%**	3.1%

In the third quarter of 2016, the portion of net capital expenditures in Enercare Home Services related to unit additions and asset exchanges, net of proceeds on disposal were $26,707 in the third quarter of 2016 and $76,795 year to date, increasing by 25% or $5,278 and 26% or $16,018, respectively, when compared to the same periods in 2015, primarily as a result of increased HVAC rentals.

In the Enercare Home Services business, Attrition of approximately 6,900 units in the third quarter of 2016 improved by 5% compared to approximately 7,300 units in the same period in 2015. Enercare Solutions has implemented many programs, including continued consumer education campaigns. Such initiatives, coupled with Bill 55 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 third quarter of 2016, EnerCare Solutions' financing activity was comprised of dividend payments, repayments of obligations under finance leases and the repayment of $7,000 of the Subordinated Promissory Notes.

Capitalization	Nine months ended September 30,	
(000's)	**2016**	2015
Cash and cash equivalents	**$ 32,751**	$ 19,883
Net investment in working capital	**(35,321)**	45,029
Cash, net of working capital	**(2,570)**	64,912
Total senior debt	**954,777**	682,506
Promissory note	**708,379**	562,367
Subordinated debt	**50,000**	50,000
Shareholder's equity	**(181,213)**	(174,704)
Total capitalization – book value	**$1,531,943**	$1,120,169

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 September 30, 2016, total debt was comprised of the 2012 Notes, the 2013 Notes, the 2014 Term Loan, the 2014 Revolver and the 2016 Term Loan.

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

Debt Financing

The 2014 Revolver and 2014 Term Loan each contain terms, representations, warranties, covenants and events of default that are 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 2014 Revolver and 2014 Term Loan include a cross-default provision and the occurrence of a change of control of Enercare or Enercare Solutions. Enercare Solutions' obligations under the 2014 Revolver and 2014 Term Loan are guaranteed by all of Enercare Solutions' direct and indirect subsidiaries.

The 2014 Term Loan bears interest at a rate of bankers' acceptances plus 125 basis points or prime plus 50 basis points at Enercare Solutions' credit rating as of the date hereof.

In conjunction with the 2016 Term Loan, the 2014 Revolver and 2014 Term Loan contain 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 4.75:1; and (iii) the ratio of Adjusted EBITDA to "Cash Interest Expense" must be greater than 3.00:1.

The 2014 Revolver and 2014 Term Loan define "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, proceeds of disposal of water heaters in the ordinary course of business, and with respect to the DE Acquisition, transaction expenses, one-time rebranding costs and information technology system harmonization costs up to $23,500 in the aggregate, determined on a consolidated basis. The 2014 Revolver and 2014 Term Loan essentially define "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.

In conjunction with the SE Transaction, Enercare Solutions entered into an amendment to the 2014 Debt Financing to give effect to the SE Transaction and 2016 Term Loan which included, among other things (i) modifying the definition of Adjusted EBITDA to exclude SE Transaction and integration costs up to $10,300 in the aggregate, (ii) adding Service Experts and its subsidiaries as guarantors, (iii) increasing certain of the "basket" sizes permitted under certain covenants and events of default (to take into account the increase of assets under management due to the SE Transaction) and (iv) the enhancement of certain financial covenants as described above.

Enercare Solutions was in compliance with the covenants within the 2014 Revolver and 2014 Term Loan as of September 30, 2016. A total of $10,000 was drawn under the 2014 Revolver at September 30, 2016.

The 2016 Term Loan, which is on substantially the same terms as the 2014 Term Loan, was entered into by Enercare Solutions to partially fund the SE Transaction. The 2016 Term Loan comprises two 4-year non-revolving, non-amortizing variable rate term credit facilities in the aggregate amount of US$200,000 with a maturity date of May 11, 2020. The full amount of the 2016 Term Loan was drawn for the purpose of financing the SE Transaction. The 2016 Term Loan contains representations, warranties, covenants and events of default that are customary for credit facilities of this kind and on substantially the same terms as the 2014 Term Loan, as the 2014 Term Loan was modified in conjunction with the SE Transaction. Enercare Solutions' obligations under the 2016 Term Loan are guaranteed by all of Enercare Solutions' direct and indirect subsidiaries, including Service Experts and its subsidiaries.

The 2016 Term Loan is payable interest only until maturity and is pre-payable in whole or in part at any time without penalty. The 2016 Term Loan bears interest at a rate of LIBOR plus 125 basis points or base rate plus 25 basis points at Enercare Solutions' credit rating as of the date hereof.

The amendment to the 2014 Debt Financing included enhancements to certain of the financial covenants described under "Liquidity and Capital Resources – Debt Financing" in this MD&A as follows: (i) the ratio of total debt (other than subordinated debt) to Adjusted EBITDA must now only be equal to or less than 4.75:1 and (ii) the ratio of Adjusted EBITDA to Cash Interest Expense must now only be equal to or greater than 3.00:1.

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 September 30, 2016, 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)	**Q3/16**	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14
Total revenues	**$274,208**	$211,221	$107,370	$110,160	$107,721	$107,280	$104,948	$96,257
Net earnings	**17,161**	14,504	7,944	8,445	10,631	12,536	5,156	3,202
Dividends declared	**$ 12,075**	$ 6,160	$ 12,314	$ 18,705	$ 19,245	$ 19,308	$ 11,987	$16,648

In addition to quarterly comments found under "*Results of Operations – EBITDA Excluding Intercompany Income 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 DE Acquisition in the fourth quarter of 2014 and the SE Transaction in the second quarter of 2016. Cash payments to Enercare are comprised of the corporate charges from Enercare, interest and debt repayments on the Subordinated Promissory Notes and dividend payments. Dividends declared primarily reflect the additional cash required to fund dividends paid by Enercare.

SUMMARY OF CONTRACTUAL DEBT AND LONG TERM OBLIGATIONS

The following schedule summarizes the contractual debt and long term obligations of Enercare Solutions at September 30, 2016:

Period	Debt		Finance Leases		Operating
(000's)	Principal	Interest	Principal	Interest	Leases
Due in 2016	$ -	$7,986	$ 1,882	$ 165	$ 2,330
Due in 2017	252,219	31,336	7,097	544	7,802
Due in 2018	210,000	19,627	6,488	364	5,381
Due in 2019	10,000	15,938	5,615	206	3,002
Due in 2020	487,340	7,175	3,994	81	1,892
Thereafter	-	-	1,303	17	2,205
Total	$959,559	$82,062	$26,379	$1,377	$ 22,612

As at September 30, 2016, 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 2014 Term Loan, maturing on October 20, 2018, bears interest at a variable rate based upon the applicable banker's acceptance rate plus 1.25%, which was 2.13% at September 30, 2016.

At September 30, 2016, $10,000 was drawn on the 2014 Revolver. The 2014 Revolver bears a standby charge of 0.25% and interest on amounts drawn at a variable rate based upon the applicable banker's acceptance rate plus 1.25% which was 2.12%, at September 30, 2016.

The 2016 Term Loan is payable interest only until maturity and is pre-payable in whole or in part at any time without penalty. The 2016 Term Loan bears interest at a rate of LIBOR plus 125 basis points or base rate plus 25 basis points at Enercare Solutions' credit rating as of the date hereof. As at September 30, 2016 the 2016 Term Loan bears interest of 2.07%.

The obligations under finance leases bear floating interest rates that are either 2.5% above the one month banker's acceptance rate, per annum or are equal to the yield of interest rate swaps as quoted in the Federal Reserve system, per annum. Additional obligations under finance leases acquired during the period bear fixed interest rates of 1.05% to 2.44% and at floating interest rates that are 2.5% above the three month banker's acceptance rate, or are 0.35% above the one month LIBOR rate, per annum. The finance leases mature at dates ranging between July 2016 and January 2022.

Other obligations include long term sponsorship, premises and office equipment. Substantially all of the future expense obligations are the result of naming rights for the Enercare Centre and 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 September 30, 2016, 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 September 30, 2016.

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 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 Excluding Intercompany Income, Adjusted EBITDA, Acquisition Adjusted EBITDA, Operating Cash Flow and Capital Expenditures and Acquisitions 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, in addition to the Non-IFRS financial measures 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 Excluding Intercompany Income

This measure is comprised of net earnings plus income taxes, interest expense and amortization expense, less intercompany 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 Excluding Intercompany Income is reconciled with net earnings, an IFRS measure, in the section *"Results of Operations – EBITDA Excluding Intercompany Income, Adjusted EBITDA and Acquisition Adjusted EBITDA"* in this MD&A. The calculation of EBITDA Excluding Intercompany Income includes investment and other income with the exception of intercompany income which continues to be excluded. Comparatives have been restated accordingly.

Adjusted EBITDA

This measure is comprised of net earnings plus income taxes, interest expense, amortization expense, impairment losses and loss on disposal of equipment less related party 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 Excluding Intercompany Income, 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 DE Acquisition and the SE Transaction, including equity bridge financing fees, professional fees associated with due diligence, pre and post-merger integration, expenditures associated with business transformation initiatives, 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 (see *"Results of Operations – EBITDA Excluding Intercompany Income, 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 (see "*Liquidity and Capital Resources"* in this MD&A).

Measures Regarding Debt Covenants

As at September 30, 2016, Enercare Solutions was in compliance with all covenants under the 2012 Notes, 2013 Notes, 2014 Revolver, 2014 Term Loan and 2016 Term Loan. For a summary of the financial covenants in respect of such debt see "*Liquidity and Capital Resources – Debt Financing*" in this MD&A.

2014 Revolver and 2014 Term Loan

Under the 2014 Revolver and 2014 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 September 30, 2016. There was $10,000 drawn under the 2014 Revolver at September 30, 2016.

2016 Term Loan

Under the 2016 Term Loan agreement, Enercare Solutions is subject to representations, warranties, covenants and events of default that are customary for credit facilities of this kind and on substantially the same terms as the 2014 Term Loan (see *"Liquidity and Capital Resources – Debt Financing"* in this MD&A). Enercare Solutions' obligations under the 2016 Term Loan are guaranteed by all of Enercare Solutions' direct and indirect subsidiaries, including Service Experts and its subsidiaries.

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's 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 September 30, 2016, the Enercare Home Services segment recorded a revenue accrual of approximately $44,300 reflecting accrued service periods, compared to $42,900 at September 30, 2015. Unbilled protection plans comprise approximately $26,700 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, compared to $25,900 at September 30, 2015. The remaining unbilled revenues reflect accrued service periods for rental water heaters and other products.

At September 30, 2016, the Service Experts segment recorded a revenue accrual of approximately $4,224 reflecting accrued revenue for contracts in progress, compared to $nil at September 30, 2015.

Bad Debt Provisions

The Enercare Home Services segment is exposed to credit risk in the normal course of business for customers who are billed directly by EGD within its service territory and secondarily when billed by Enercare Solutions or are billed by EGD outside of its service territory. For billing within the EGD service territory, Enercare Solutions is guaranteed payment by EGD for 99.51% in 2016 and 99.49% in 2015 of the amount billed (subject to certain exceptions) 21 calendar days after the invoices are issued.

Management evaluates a number of factors and assumptions in the determination of the bad debt provision. The total bad debt provision comprising the Enercare Home Services and Service Experts segments was approximately $4,100 at September 30, 2016, compared to approximately $6,100 at the end of 2015. Changes in any of the variables or assumptions may result in a materially different 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 resides with the company or the customer.

Impairment of Non-Financial Assets and Goodwill

Impairment tests are conducted at least annually, or when events or circumstances indicate impairment may exist. The recoverable amount is based upon a number of assumptions, including but not limited to: discount rates, billable units, 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 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 fair value of acquired assets and assumed liabilities and other adjustments related to the acquisition Service Experts, these condensed interim 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 May 11, 2016. Accordingly, the final fair value determinations may differ from those set forth in the condensed interim consolidated financial statements and such differences may be material.

Estimation of Insurance Claims

Insurance liabilities are subject to measurement uncertainty. The recognized amounts of such items are based on Enercare Solutions' best information and judgment. Estimates and other judgments are continuously evaluated based on management's experience and expectations about future events, including insurance claims for events that have occurred but not yet been reported to management.

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 September 30, 2016. There have been no changes to our ICFR during the quarter and year to date ended September 30, 2016 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 Service Experts which was acquired on May 11, 2016.

Service Expert's contribution to Enercare Solutions' condensed interim consolidated financial statements for the three months ended September 30, 2016 was approximately 59% of revenues and 28% of net earnings. Year to date, Service Expert's contribution to Enercare Solutions' condensed interim consolidated financial statements was approximately 45% of revenues and 21% of net earnings. In addition, Service Expert's current assets and current liabilities were approximately 40% and 48% of the consolidated current assets and current liabilities, respectively, and its long term assets and long term liabilities were approximately 30% and 8% 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 Service Experts.

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, 2015. 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 as required by IFRS, effective January 1, 2016.

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 implemented the standard and has determined that it did not have any impact.

Accounting Standards Issued But Not Yet Applied

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

Statement of Cash flows

IAS 7, "Statement of cash flows" ("IAS 7"), has been amended by the IASB to introduce additional disclosure that will allow users to understand changes in liabilities arising from financing activities. This amendment to IAS 7 is effective for annual periods beginning or after January 1, 2017. Enercare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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, 2018, 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.

Leases

IFRS 16, "Leases" ("IFRS 16"), sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12-months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. Enercare Solutions is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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, 2015 remain unchanged except that the SE Transaction was completed on May 11, 2016.

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. Please see the section entitled *"Forward-looking Information"* in this MD&A.

Enercare Home Services Segment

- Our strategy to emphasize HVAC rentals over outright sales in order to create a long-term customer revenue stream and provide valuable cross-selling opportunities continues to be successful. While this strategy has resulted in a significant increase in recurring HVAC rental revenues, we anticipate the short-term impact on non-recurring sales and other services revenue to continue throughout 2016.
- In October 2016, Enercare Solutions launched the Enercare Finance Plan ("ECFP") to consumers across Ontario. Replacing our current external finance provider, ECFP is a new in-house financing program that provides finance options to residential HVAC customers who choose to purchase their equipment from Enercare. By bringing financing in-house, we retain a customer relationship and enhance the customer experience, by completing the entire sales transaction conveniently with one service provider.
- One of our key strategies is to continue to transform the customer experience through digital enhancements such as Enercare Solutions' new mobile and iPad apps. In late September 2016, Enercare Solutions became the first Canadian home services company to launch a self-service mobile app, enabling customers who in the past would have contacted the call centre, to now use the mobile app to easily access their personalized account details, book maintenance, plumbing or service appointments and to be notified when a technician is on route to their home or business. In early October 2016, Enercare Solutions launched its new iPad app that makes processing finance credit applications and rental credit approvals more convenient and efficient for customers. Both of these initiatives significantly improve the ease with which customers can use digital tools to manage their experience with Enercare Solutions and enables us to improve the customer experience by providing a faster and more efficient and convenient experience, while reducing calls to the service centers. As we continue to invest in new and innovative digital tools, and differentiate the customer experience through technology solutions, we feel we are well positioned to offer our customers more products and services through an interactive experience.

Service Experts Segment

- Consistent with previous guidance, the SE Transaction is expected to be 25% accretive to Normalized Pro Forma Distributable Cash per common share of Enercare in 2016, while cost synergies relating to the SE Transaction are estimated to be in the range of $0.05 to $0.08 per common share of Enercare on an annualized basis by the end of 2017, primarily as a result of a reduction in sourcing costs.
- Our priority for the first 12-months continues to be focusing on successfully integrating the Service Experts operations both in the United States and Canada.
- In October 2016, Service Experts introduced a rental program for HVAC and water heaters in several centers within Canada. While the program is still in the very early stages, Enercare is encouraged by the initial results and the Canadian rollout will continue over the fourth quarter of 2016. Service Experts intends to extend this pilot program into select states in the United States in the first half of 2017.
- The business of Service Experts is subject to greater seasonality than Enercare Home Services as a result of fewer recurring revenue sources. Revenue and EBITDA tend to be seasonally highest in the second quarter of the year, followed by the third quarter, and substantially less in the fourth and first

quarters, due primarily to the geography where Service Experts operates and weather patterns. The heating season (roughly November through February) and cooling season (roughly May through August) are periods when consumers transition their buying patterns from one season to the next. In most of the states that Services Experts operates, cooling equipment as opposed to heating equipment represents a substantial portion of its annual HVAC sales and service revenue. Conversely, in the 3 provinces that Service Experts operates, heating equipment represents a large portion of its Canadian sales and service revenue. The sales are also impacted by seasonal weather patterns; in periods of extreme heat and cold, installation and demand service revenue tend to increase. This results in higher sales in the second and third quarters due to the higher volume in the cooling season relative to the heating season and the lowest revenue and substantially reduced EBITDA, relative to other quarters, in the first quarter. As a result, the working capital needs are generally greater in the first quarter, followed by higher operating cash inflows in the second and third quarters.

2016 Income Taxes

- Enercare Solutions' current 2016 income taxes are expected to be in the range of $50 million to $55 million, revised from the previous range of $46 million to $53 million, as a result of the stronger performance of Service Experts.
- The SE Transaction was structured to permit Enercare Solutions to "step up" the tax basis of Service Experts' assets in the United States through a "338 election" under US tax rules. At acquisition, Enercare Solutions estimated the resulting tax shelter value to be approximately US$65 million on a net present value basis. This tax shelter is estimated to result in a reduction of US taxable income of approximately $24 million to $28 million per year for the next 15 years.
- Enercare Solutions is assessing corporate expenses expected to be incurred in Canada to manage and benefit the US operations of Service Experts, which Enercare Solutions estimates will result in a favourable expense reimbursement of between $2 million and $5 million per year.

2016 Capital Investments

- Enercare Solutions is targeting a range of between $107 million and $124 million in capital investments in 2016, excluding Service Experts, revised from the previous range of between $86 million and $115 million, primarily reflecting higher unit costs due to higher end product originations and higher sales volume. Management targets an Internal Rate of Return from capital investments in its core businesses of between 15% and 20%.

Capex[(1)]	Target Range for 2016
HVAC rentals	$40M - $47M
In-house financing	$2M - $4M
Water heater additions	$32M – $36M
Water heater exchanges	$33M – $37M
Total Range	$107M – $124M[(2)]

(1) Excludes acquisitions.
(2) The target range of capital spend for Enercare Home Service is largely based on the number and type of equipment originated (assumed to be approximately 24,000 water heater and water treatment rental additions, 45,000 water heater exchanges and 13,000 HVAC rental additions) and the mix between rental, sales and financing arrangements similar to actual results experienced in the last 9 months of operations.

GLOSSARY OF TERMS

Defined Term	Definition
Attrition	Termination of customer relationships, including buyouts, in the Rentals portfolio.
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.
DBRS	DBRS Limited.
DC&P	Disclosure Controls and Procedures as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.
DE	Direct Energy Marketing Limited.
DE Acquisition	The acquisition of the OHCS business of DE by Enercare Solutions on October 20, 2014 through EHCS LP.
ECI	Enercare Connections Inc. (formerly Stratacon, Enbridge Electric Connections Inc. and Triacta Power Technologies 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 DE Acquisition, an indirect wholly-owned subsidiary of Enercare Solutions.
ESLP	Enercare Solutions Limited Partnership (formerly Waterheater Operating Limited Partnership).
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 IASB.
Incurrence Test	2012 Notes and 2013 Notes Incurrence EBITDA to Net Interest Expense.
MD&A	Management's Discussion and Analysis.
Merger Agreement	The agreement dated March 7, 2016 between, among others, Enercare Solutions and Service Experts regarding the SE Transaction.
OHCS	The Ontario home and small commercial services business of DE acquired by Enercare Solutions on October 20, 2014 in the DE Acquisition.
Rentals	Component of the Enercare Home Services business that provides rental water heaters, furnaces, air conditioners and other HVAC products.
Rentco	4483588 Canada Inc. (formerly Direct Waterheater Rentals Inc.).
SE Subscription Receipts	$231,947 (net of underwriters' fees) of subscription receipts issued by Enercare on a bought deal basis in relation to the SE Transaction.
SE Transaction	The acquisition of Service Experts by Enercare Solutions, through an indirect wholly-owned subsidiary, pursuant the Merger Agreement which was completed on May 11, 2016.
SG&A	Selling, general and administrative expenses.
S&P	Standard and Poor's Rating Services.
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.
Service Experts	SEHAC Holdings Corporation which operates under the brand "Service Experts"
Shares	Common shares of Enercare.
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, an additional $150,000 subordinated promissory note of Enercare Solutions owing to Enercare which was issued on September 28, 2012, and additional $227,504 of subordinated promissory notes of Enercare Solutions owing to Enercare which were issued on May 11, 2016, less periodic repayments.
Trust	The Consumers' Waterheater Operating Trust.
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.
2014 Debt Financing	The debt financing of Enercare Solutions in respect of the DE 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.
2014 Revolver	The 5-year variable rate, revolving credit facility in the maximum amount of $100,000 issued under the 2014 Debt Financing.
2014 Term Loan	The 4-year variable rate, non-revolving term loan facility in the amount of $210,000 issued under the 2014 Debt Financing.
2016 Term Loan	Two 4-year non-revolving, non-amortizing variable rate term credit facilities in the aggregate amount of US$200,000.