

The Consumers' Waterheater Income Fund

**Management's Discussion and Analysis of
Financial Condition and Results of Operations
("MD&A")**

Second Quarter Ended June 30, 2009

Dated July 29, 2009

Table of Contents

Forward-looking Information	1
Highlights – Second Quarter 2009.....	1
Recent Developments.....	2
Results of Operations	3
Distributable Cash and Payout Ratio	7
Liquidity and Capital Resources	8
Supplementary Analysis	12
Summary of Contractual Debt Obligations.....	12
Fund Units Issued and Outstanding.....	13
Non-GAAP Financial and Performance Measures	13
Critical Accounting Estimates	15
Disclosure and Internal Controls and Procedures.....	16
Changes in Accounting Policies.....	16
Outlook.....	16

The consolidated financial statements of The Consumers' Waterheater Income Fund ("CWIF" or the "Fund") are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). CWIF's accounting policies are summarized in detail in note 2 of the annual consolidated financial statements. Unless otherwise specified, amounts reported in this Management's Discussion and Analysis ("MD&A") are in thousands, except "per Unit" amounts and percentages. The number of asset units are also reported in thousands. Dollar amounts are expressed in Canadian currency.

FORWARD-LOOKING INFORMATION

This MD&A, dated July 29, 2009, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with the Fund's 2008 audited consolidated financial statements. Additional information in respect of CWIF, including its current Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com.

When used herein, the words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information in this MD&A includes statements that reflect management's expectation regarding CWIF's growth, results of operations, performance, business prospects and opportunities. Such forward-looking information reflects management's current beliefs and is based on information available to them and or assumptions management believes are reasonable. Many factors could cause results to differ materially from the results discussed in the forward-looking information. Although the forward-looking information is based on what management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with this forward-looking information. All forward-looking information in this MD&A is made as of the date of this MD&A. Except as required by applicable securities laws, CWIF does not intend and does not assume any obligations to update or revise the forward-looking information, whether as a result of new information, future events or otherwise.

A thorough discussion in respect of the material risks relating to the business and structure of CWIF can be found in the AIF, which is available on SEDAR at www.sedar.com. The risk factors remain unchanged from the date of the AIF.

HIGHLIGHTS – SECOND QUARTER 2009

The highlights below compare results for the second quarter of 2009 versus the second quarter of 2008 unless indicated otherwise.

- Total revenues increased by \$3,861 or 8.7% to \$48,208.
- EBITDA¹ declined by 6.4% or \$2,348 to \$34,358.
- Adjusted EBITDA¹, comprising EBITDA excluding loss on disposal of equipment, amounted to \$39,439.
- Net earnings were \$7,556 compared to a loss of \$1,411 in the second quarter of 2008.
- The attrition rate was 1.6%, up from 0.7% in the second quarter of 2008.
- The Payout Ratio¹ increased to 116.9% from 87.2%.
- Cash and equivalents increased by \$365 during the second quarter of 2009.

¹ EBITDA, Adjusted EBITDA and Payout Ratio are non-GAAP financial measures. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

RECENT DEVELOPMENTS

Ontario Energy Board Proceeding

On May 5, 2009, the compliance office of the Ontario Energy Board (the "OEB") issued a notice (the "Notice") to commence a written proceeding to determine whether, and if so, under what conditions, certain entities, including the Fund's subsidiary, Stratacon Inc. ("Stratacon"), should be authorized to conduct discretionary metering activities under the Electricity Act (Ontario) in respect of certain residential complexes and industrial, commercial and office buildings. According to the OEB, discretionary metering activities include Stratacon's sub-metering activities. The deadline for providing submissions to the OEB in this proceeding was May 26, 2009. The proceeding does not apply to any sub-metering activities in condominium complexes or to Stratacon's activities outside of Ontario. Ontario apartment customers comprise approximately half of Stratacon's installed units.

The Fund, through Stratacon, made written submissions to the hearings, both on its own behalf and as part of the sub-metering working group. The Fund looks forward to clarifying the regulatory regime relating to residential complexes and commercial buildings so that consumers together with Stratacon can contribute to fostering a culture of conservation in Ontario.

This Notice is further to the OEB bulletin issued March 24, 2009 regarding the installation of smart sub-meter and systems in certain residential complexes ("OEB Bulletin").

Open Bill Access and Collection Services Agreement

As described in the AIF, in accordance with the terms of the open bill access and collection services agreement ("OBA") between Direct Energy Marketing Limited ("DE") and Enbridge Gas Distribution Inc. ("EGD"), EGD in December 2008 provided DE with notice of termination of the OBA effective June 30, 2009. In March 2009, DE and EGD agreed that the term of the OBA will be extended beyond June 30, 2009 for such length of time as is reasonably necessary to ensure an appropriate transition to a new open bill access and collection services agreement ("New OBA"). DE and the Fund as well as other potential billers are currently in negotiations with EGD regarding a New OBA. The Fund has no reason to believe that joint billing arrangements on substantially similar terms as the OBA will not be entered into by DE and EGD concurrently with the termination of the OBA.

Appointment of David Clarke as a Trustee

Effective July 1, 2009 David Clarke, Chief Financial Officer of DE, succeeded Deryk I. King as DE's appointee to the board of trustees of the Fund. Mr. Clarke previously served as a DE appointee to the board of trustees of the Fund from May 2005 to June 2006. Mr. King, who retired as Chairman and Chief Executive Officer of DE on June 30th, had been a trustee of the Fund since its inception in 2002. Under the Fund's declaration of trust, DE is entitled to appoint one trustee to the board of trustees of the Fund so long as it services the Fund's assets.

Tom Cooper Appointed Vice-President, Sales and Marketing

Tom Cooper was appointed Vice President, Sales & Marketing of the Fund and its subsidiaries in June, 2009. Mr. Cooper is leading the sales and marketing activities of both the Rentals business, including water heaters and HVAC equipment, and the Sub-metering business. Mr. Cooper's primary focus includes working closely with DE to support the Fund's current customer base, combat attrition and to identify and implement new growth opportunities, both organic and other.

Craig McCandless Appointed Chief Operating Officer of Stratacon Inc.

Craig McCandless was appointed Chief Operating Officer of Stratacon in March, 2009 with leadership responsibility for the operations of the Sub-metering business. Mr. McCandless has over 15 years of experience in the metering industry. He joined Stratacon from ista North America Inc. (“ista”) where he had a number of senior roles, including responsibility for billing services to a portfolio of 2,500 buildings, sales management and head of learning & development. He was instrumental in the acquisition and integration of billing service providers into ista. Craig has a Masters of Business Administration and Bachelor in Computer Information Systems.

RESULTS OF OPERATIONS

The Fund operates its businesses in two divisions, rentals of water heaters and other equipment (“Rentals”) and provision of sub-metering equipment and billing services (“Sub-metering”). The Fund entered the Sub-metering business in August 2008 with the acquisition of Stratacon.

Overview

The following results of operations include Sub-metering results from the August 2008 acquisition of Stratacon. Accordingly, the Fund’s consolidated financial results for the second quarter and first half of 2009 include Sub-metering results, while the comparable periods in 2008 do not include results of the Sub-metering business.

Consolidated Financial Highlights	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Total revenues	\$ 48,208	\$ 44,347	\$ 97,398	\$ 88,559
Earnings before interest, taxes and amortization (“EBITDA”)	34,358	36,706	70,005	73,975
Adjusted EBITDA	39,439	39,321	78,520	78,749
Earnings before tax	(2,141)	5,789	(1,094)	10,686
Income tax (recovery)/expense	(9,697)	7,200	(12,917)	3,514
Net earnings/(loss)	7,556	(1,411)	11,823	7,172
Total assets	1,027,125	1,008,094	1,027,125	1,008,094
Total debt	611,765	534,176	611,765	534,176
Cash flow from operating activities	34,060	37,858	67,087	62,561
Distributable Cash ²	\$ 13,658	\$ 18,317	\$ 28,370	\$ 36,376
Payout Ratio	116.9%	87.2%	112.6%	87.8%

Total revenues for the second quarter of 2009 rose by \$3,861 or 8.7% and first half 2009 total revenues rose by \$8,839 or 10.0%. Sub-metering revenues of \$2,911 and \$6,316, and higher Rentals revenues, including the average rental rate increase of 3.9% effective January 2009 contributed to the improved revenues for the second quarter and six months ended June, 2009. Earnings before tax were (\$2,141) and (\$1,094), which are declines of \$7,930 and \$11,780 from the comparable periods in 2008. In the second quarter of 2009, earnings before tax were impacted by the following expense increases: \$4,139 higher interest expense, \$ 3,983 cost of sales and G&A, \$2,466 loss on disposal of equipment and \$1,203 increased amortization. These increases were partially offset by the higher revenues. For the six months ended June, 2009 the principal cost increases were interest expense, loss on disposal of equipment and amortization amounting to \$5,411, \$3,741 and \$1,976, respectively. Higher Cost of Sales and G&A net of

² Distributable Cash is a non-GAAP financial measure. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

revenue increases contributed to the remaining difference. The EBITDA operating loss in the Sub-metering business improved to \$634 from a loss of \$1,205 in the first quarter of 2009.

The Fund's cash position improved slightly by \$365 to \$51,046 in the second quarter of 2009. Indebtedness was essentially unchanged during the second quarter. In the first quarter of 2009, cash increased by \$30,014 to \$50,681 due mainly to the increase and draw on The Consumers' Waterheater Operating Trust's (the "Trust") existing line of credit (the "Line of Credit"). Also, the Trust issued \$60,000 of 6.20% Series 2009-1 Notes due April 30, 2012 and \$270,000 of 6.75% Series 2009-2 Notes due April 30, 2014 (collectively, the "Series 2009 Notes") and used the proceeds from the debt offering to retire the \$310,000 loan facility ("Bridge") and settle the bond forward transactions ("Hedge").

Earnings

Earnings Summary	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Revenues				
Rentals	\$ 45,294	\$ 44,104	\$ 91,013	\$ 88,067
Sub-metering	2,911	-	6,316	-
Interest revenue	3	243	69	492
Total revenues	48,208	44,347	97,398	88,559
Cost of sales and G&A expense				
Rentals	4,201	4,783	8,279	9,318
Sub-metering	3,545	-	8,155	-
Corporate	1,020	-	2,375	-
Total cost of sales and G&A expenses	8,766	4,783	18,809	9,318
Amortization expense				
Rentals	25,526	25,337	51,002	50,946
Sub-metering	1,014	-	1,920	-
Total amortization expenses	26,540	25,337	52,922	50,946
Interest expense	9,962	5,823	18,246	12,835
Loss on disposal of equipment	5,081	2,615	8,515	4,774
Earnings before income taxes	(2,141)	5,789	(1,094)	10,686
Income tax (recovery)/expense	(9,697)	7,200	(12,917)	3,514
Net earnings/(loss)	7,556	(1,411)	11,823	7,172
EBITDA	\$ 34,358	\$ 36,706	\$ 70,005	\$ 73,975

Revenues

Total revenues of \$48,208 for the second quarter of 2009 increased by \$3,861 or 8.7% compared to the second quarter of 2008. The improvement in 2009 of \$1,190 for the Rentals portfolio primarily related to January rental rate increases of approximately 3.9% for water heaters subject to the Co-ownership Agreement and a typical \$0.90 monthly rate increase for water heaters acquired from Toronto Hydro Energy Services ("TH Energy"). Revenue for the Sub-metering business was \$2,911, of which \$1,509 was commodity pass through charges.

For the six months ended June, 2009, total revenues improved by \$8,839 or 10.0%. The Sub-metering business earned revenues of \$6,316 for such period, of which \$3,734 was commodity, while the rental rate increases drove the growth in Rentals revenues.

Despite higher average cash balances, investment income declined in 2009 due to lower interest rates in the 2009 periods.

Cost of Sales and General and Administrative (“G&A”) Expenses

Cost of sales and G&A expenses for the Rentals business and the corporate segment totaled \$5,221 in the second quarter of 2009 and \$5,433 in the first quarter for a year-to-date total of \$10,654, representing increases of \$438 and \$1,336 respectively over the same periods in 2008. The increase in the current period is primarily related to a \$461 increase in capital tax paid by the Fund offset by reduced professional fees net of increased portfolio service fees related to assets not subject to the Co-ownership Agreement. Year-to-date increases also include claims expenses of approximately \$380 in 2009 and credits of \$441 recognized in 2008 related to favourable outcomes on supplier claims and incentives. In the three and six months ending June 2009, Sub-metering expenses of \$3,545 and \$8,155 include pass-through commodity charges to customers of \$1,509 and \$3,734, respectively.

Amortization Expense

Amortization expense of \$26,540 for the second quarter of 2009 and \$52,922 year-to-date was \$1,203 and \$1,976 higher respectively, than the same periods in 2008 primarily due to the combined impact of amortization related to equipment and intangibles in connection with the acquisition of the Sub-metering business. Sub-metering amortization includes the impacts of equipment assets and the intangible asset value associated with the Stratacon investment.

Interest Expense

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Interest payable in cash	\$ 8,848	\$ 5,823	\$ 15,971	\$ 12,330
(Gain)/loss on interest rate hedge	-	-	(509)	505
Amortization of Bridge fees	-	-	1,107	-
Amortization of OCI and financing costs	1,114	-	1,677	-
Interest expense	\$ 9,962	\$ 5,823	\$ 18,246	\$ 12,835

Interest expense payable in cash of \$8,848 increased by \$3,025 in the second quarter of 2009 and \$3,641 for the six months ended June 30, 2009. The increase primarily related to the combined impact of the higher interest rate on the Series 2009 Notes, effective February 13, 2009, increased borrowings and comparatively lower interest rates realized by the Trust in 2008 while it borrowed \$310,000 on the Bridge. The amortization of Other Comprehensive Income and financing costs of \$1,114 for the current quarter and \$1,677 year-to-date relate to the deferred financing transaction costs of the Series 2009 Notes and the amount of the Hedge loss accumulated in other comprehensive income. The amortized Bridge fees are comprised of \$1,107 in Bridge fees that were expensed upon settlement of the Bridge. Gains and losses on the Hedge reflect the ineffective portion of the change in fair market value of the Hedge.

Loss on Disposal of Equipment

In the second quarter of 2009, the Fund reported a loss on disposal of equipment of \$5,081, an increase of \$2,466 over the second quarter of 2008 and a year-to-date increase of \$3,741. The increase was due mainly to increased losses to competitors in 2009. Loss on disposal results from the retirement from service of water heaters whose book value had not been fully amortized or recovered when exchanged, terminated or bought out by customers. Proceeds realized on disposition of the assets reduce the net loss on disposal reported in earnings. There was no loss on disposal in the Sub-metering business as no assets were retired or replaced.

Income Tax Recovery

The Fund reported future income tax recoveries in the second quarter of 2009 of \$9,697 and of \$12,917 for the year-to-date. During the second quarter of 2009, approximately \$5,500 of tax recoveries were realized in a subsidiary, related to certain timing differences and greater intercompany interest expense, offsetting Hedge losses recognized in the Trust. Additional amounts in the 2009 year-to-date balance reflect the impact of reversals of temporary differences between income for accounting and tax purposes, tax recoveries from Sub-metering losses and to a lesser extent changes in provincial tax rates. During the second quarter of 2008, a future tax expense of \$7,200 was recognized to reflect changes in the Fund's tax status expected to occur starting January 1, 2011 with respect to the implementation of the federal government's specified investment flow through ("SIFT tax"), along with tax rate changes implemented during the periods.

CWIF's distributions are currently taxable in the Unitholders' hands. Current earnings charges for future income taxes are a non-cash charge, and will not relate to the amount of income taxes CWIF expects to pay starting January 1, 2011, effective with the implementation of the SIFT tax. The SIFT tax is discussed more fully in the AIF.

EBITDA

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

Quarterly Earnings Before Interest, Taxes and Amortization ("EBITDA")								
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	2009	2009	2008	2008	2008	2008	2007	2007
Earnings before tax	\$ (2,141)	\$ 1,047	\$ 2,179	\$ 4,548	\$ 5,789	\$ 4,897	\$ 3,043	\$ 3,708
Amortization expense	26,540	26,382	26,814	25,831	25,337	25,609	25,733	25,591
Interest expense	9,962	8,284	6,648	6,770	5,823	7,012	6,891	6,868
Interest income	(3)	(66)	(81)	(200)	(243)	(249)	(345)	(345)
EBITDA - quarter	34,358	35,647	35,560	36,949	36,706	37,269	35,322	35,822
Add: Loss on disposal of equipment	5,081	3,434	3,796	3,007	2,615	2,159	2,064	1,810
Adjusted EBITDA - quarter	\$39,439	\$39,081	\$39,356	\$39,956	\$39,321	\$39,428	\$37,386	\$37,632

As outlined in the table above, EBITDA has been relatively stable over the past eight quarters. The decline of \$2,348 from the second quarter of 2008 reflects higher losses on disposal and cost of sales and G&A expenses, offset partially by stronger revenues. The small fluctuations in EBITDA on a quarterly basis reflect the timing of G&A expenses, customer claims and recognition of losses on disposal on water heater assets. EBITDA since the third quarter of 2008 reflects Sub-metering results.

Revenues and EBITDA reflects the 65/35 allocation of revenues under the Co-ownership Agreement between the Fund and DE. The decrease in EBITDA since the second quarter of 2008 is primarily a result of increased losses on disposal and to a lesser extent higher cost of sales and G&A expenses in the Rentals business. Since the acquisition of Stratacon in August 2008, EBITDA has also been reduced by operating losses in the Sub-metering business, aggregating a total of approximately \$2,800 through June 30, 2009.

DISTRIBUTABLE CASH AND PAYOUT RATIO

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Cash flow from operating activities	\$ 34,060	\$ 37,858	\$ 67,087	\$ 62,561
Net change in non-cash working capital	(3,466)	(4,117)	(4,469)	4,350
Capital expenditures – excluding acquisitions and Sub-metering	(17,734)	(16,177)	(35,885)	(32,042)
Proceeds on disposal of equipment	798	753	1,637	1,465
Units redeemed - LTIP	-	-	-	42
Distributable Cash	13,658	18,317	28,370	36,376
Distributions declared	(15,972)	(15,972)	(31,943)	(31,943)
Cash retained in the Fund	\$ (2,314)	\$ 2,345	\$ (3,573)	\$ 4,433
Payout Ratio	116.9%	87.2%	112.6%	87.8%

The Payout Ratio after capital expenditures (other than acquisition and Sub-metering capital costs) was 116.9% for the second quarter of 2009 compared to 87.2% for the second quarter of 2008. Distributable Cash decreased by \$4,659 or 25.4% during the current quarter, comprising \$3,025 in higher interest expense after refinancing and \$1,557 higher capital expenditures. The decrease of \$8,006 during the six months ended June 2009 versus 2008 comprised \$3,843 higher capital expenditures, \$3,641 greater interest expense and \$1,839 cash operating losses in the Sub-metering business, due in part to the intervention of the OEB regarding the deployment of sub-metering services in the Ontario apartment market.

Expenditures on acquisitions and capital expenditures in the Sub-metering business have been defined as “growth capital” and excluded from the amounts above. If the Sub-metering capital expenditures of \$581 for the second quarter of 2009 (\$2,602 year-to-date) had been deducted from Distributable Cash, the Payout Ratio for the second quarter of 2009 would have increased to 122.1% (124.0% year-to-date). The Fund plans to finance the capital expenditures with cash on hand. Non-cash interest expense of \$1,114 (\$2,784 year-to-date) represents the amortization of costs that were indirectly paid through the net proceeds from financing activities. Had these costs been reflected through higher borrowing rates the payout ratio would have increased further to 133.5% (139.0% year-to-date).

	2005	2006	2007	2008	Six months to June 30, 2009	Total
Distributable Cash	\$ 64,741	\$ 69,219	\$ 64,103	\$ 69,255	\$ 28,370	295,688
Distributions	(55,625)	(59,003)	(63,392)	(63,886)	(31,943)	(273,849)
Cash retained	9,116	10,216	711	5,369	(3,573)	21,839
Payout ratio	86%	85%	99%	92%	113%	93%

In the four years to December 31, 2008, the Fund retained a total of \$25,412 of Distributable cash and used it to fund a portion of its growth investments. In the first half of 2009, the Fund's distributions were \$3,573 more than the amount of Distributable Cash generated during the period. At June 30, 2009, cash on hand amounted to \$51,046.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Cash flow from operating activities	\$ 34,060	\$ 37,858	\$ 67,087	\$ 62,561
Net change in non-cash working capital	(3,466)	(4,117)	(4,469)	4,350
Operating cash flow ³	30,594	33,741	62,618	66,911
Net capital expenditures	(16,936)	(15,424)	(34,248)	(30,577)
Growth capital – Sub-metering	(581)	-	(2,602)	-
Cash used in investing activities	(17,517)	(15,424)	(36,850)	(30,577)
Distributions to Unitholders	(15,972)	(15,972)	(31,944)	(31,943)
Net financing	(206)	(290)	32,086	3,218
Cash (used in)/from financing activities	(16,178)	(16,262)	142	(28,725)
Cash and equivalents – end of period	\$ 51,046	\$ 32,720	\$ 51,046	\$ 32,720
EBITDA/interest expense ⁴	3.4x	6.3x	3.8x	5.8x
Operating cash flow (annualized)/ indebtedness ⁴ (%)	20.0%	25.3%	20.5%	25.1%
Indebtedness/EBITDA (annualized) ⁴	4.5x	3.6x	4.4x	3.6x

Operating cash flow of \$30,594 in the second quarter of 2009 decreased by \$3,147 or 9.3% over the second quarter of 2008. For the second quarter of 2009, increased revenues were offset by greater interest expense and cost of sales and G&A expenses. While the net change in working capital is relatively comparable during these periods in 2008 and 2009, the Fund does experience periodic fluctuations in cash requirements (and changes in working capital) depending upon the interest payment dates on the \$225,000 Series 2003 A-2 Secured Notes (the “Series 2003 A-2 Notes”) and the Series 2009 Notes. During the first quarter of 2008, as reflected in the six month amount, interest on the \$275,000 Series 2003 A-1 Notes (the “Series 2003 A-1 Notes”) along with the Series 2003 A-2 Notes was paid resulting in a use of working capital. Management believes that the Fund has sufficient cash flows and cash on hand to meet its obligations, including the working capital requirements of the Sub-metering business and capital expenditures of the Rentals business.

Financial metrics such as EBITDA to interest expense, operating cash flow to indebtedness and indebtedness to EBITDA declined due to the overall increase of indebtedness and the prevailing interest rate differences. The Fund has retained much of the increased indebtedness in cash thus mitigating the absolute decrease in performance metrics.

Capital Expenditures

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

³ Operating cash flow is a non-GAAP financial measure. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

⁴ These ratios are based on non-GAAP financial measures typically used by analysts. They do not relate to existing Trust covenants.

Asset Unit Continuity	Three months ended June 30,			
			2009	2008
Segment	Rentals	Sub-metering	Total	Rentals
Units – start of period	1,401	39	1,440	1,421
Portfolio additions	7	1	8	7
Buy outs and terminations	(23)	-	(23)	(10)
Units – end of period	1,385	40	1,425	1,418
Asset exchanges – units retired and replaced	17	-	17	17
% change in units during the period			(1.0)%	(0.2)%
% of units from start of period				
Portfolio additions (net of acquisitions)			0.6%	0.5%
Attrition (buy outs and terminations)			(1.6)%	(0.7)%
Units retired and replaced			1.2%	1.2%

Asset Unit Continuity	Six months ended June 30,			
			2009	2008
Segment	Rentals	Sub-metering	Total	Rentals
Units – start of period	1,409	33	1,442	1,422
Portfolio additions	12	7	19	12
Buy outs and terminations	(36)	-	(36)	(16)
Units – end of period	1,385	40	1,425	1,418
Asset exchanges – units retired and replaced	38	-	38	35
% change in units during the period			(1.2)%	(0.3)%
% of units from start of period				
Portfolio additions (net of acquisitions)			1.3%	0.8%
Attrition (buyouts and terminations)			(2.5)%	(1.1)%
Units retired and replaced			2.6%	2.5%

Net capital expenditures in the Rentals business include portfolio additions and units retired and replaced offset by proceeds on disposal. Net capital expenditures in the Rentals business increased by \$1,512 from \$15,424 in the second quarter of 2008 to \$16,936 in the second quarter of 2009. The number of installations and asset exchanges in the second quarter were comparable to 2008; however, expenditures increased primarily due to higher tank costs, increased costs to obtain new business to supplement the builder market and lower realized proceeds on disposed equipment. For the six months ended June, 2009, the combined impact of portfolio additions and asset exchanges of 50 is comparable to the 47 units recorded in 2008.

The attrition rate of 1.6% for the second quarter in 2009 is higher than previously experienced. The increase in asset units lost during the quarter was 13 with a year-to-date total of 20. In the second quarter of 2009, DE launched awareness and communication initiatives through several channels in response to increased attrition from competitor activity. These initiatives included deployment of automated messaging directed at all inbound customer telephone calls as well as the distribution of informational material. As a result, more than 300 rental retention messages have been directed to customers since mid-June. These actions are on-going and are two of a number of activities initiated in June.

Additionally, DE and CWIF staff continue to be actively engaged in developing and executing a comprehensive strategy to effectively mitigate the activities of competitors. While a variety of specific tactics have been identified and development actions initiated, the most important aspect of the effort is the framework that has been established to develop, manage and execute our response. Specifically, the effort has been formalized with the following concepts in mind:

- Integrated management and oversight – the attrition program will be managed using established project management principles with the full and ongoing participation of senior DE and CWIF management to establish direction and adjust course as required.
- Targeted Response – each initiative will be designed with distinct tactics tailored for the appropriate customer, competitor or product segment being targeted.
- Effective and Efficient Initiatives – all tactical initiatives will be tested, measured and adjusted as required to ensure their effectiveness and efficiency before moving to full scale deployment.

Ultimately, the objective of these programs is to provide all of our Rental customers with complete, unbiased information about the services and support CWIF provides, including what is included in their rental price, and to ensure if they are considering an alternative supplier that they are fully informed before reaching a decision.

Sub-metering portfolio additions completed during the period related to installations in condominiums and work in progress prior to the issuance of the OEB Bulletin in March 2009. Installation activity has been significantly curtailed pending a decision in the related proceeding (see “Recent Developments – Ontario Energy Board Proceeding”).

Cash from Financing

Financing activities for the Fund are impacted primarily by the monthly Unitholder distributions, acquisitions, timing of the interest payments on debt and to a much lesser extent funding of the Sub-metering business. The Fund has historically generated sufficient cash to maintain operations and invest in growth opportunities. The net financing activity of \$32,086 in the six months ended June, 2009 primarily relates to \$35,000 (gross) additional cash drawn against the Line of Credit with the balance as the net proceeds from the Series 2009 Notes offering. Amounts for 2008 relate primarily to the net proceeds from the \$310,000 Bridge and repayment of the Series 2003 A-1 Notes and a previous line of credit.

Capitalization	Six months ended June 30,	
	2009	2008
Cash and cash equivalents	\$ 51,046	\$ 32,720
Net investment in non-cash working capital	(9,180)	(4,064)
Net investment in working capital	41,866	28,656
Total debt	611,765	534,176
Unitholders' equity	175,012	234,432
Total capitalization – book value	\$ 786,777	\$ 768,608
Trust borrowing/debt covenants (excludes Sub-metering)		
Net interest coverage ⁵ (minimum required 3.6x)	5.4x	6.3x
“NPV ratio” ⁵ (maximum permitted 70.0%)	61.9%	48.1%

Typically, the Fund maintains cash balances to provide cash reserves sufficient to fund short-term requirements, including periodic interest payments, Unitholder distributions and certain capital expenditures and acquisitions. The Fund held \$51,046 of cash on hand at June 30, 2009, partially as the result of borrowing activity completed during the first quarter of 2009, and partly due to cash retained in the Fund during prior years.

⁵ Net interest coverage and net debt to net present value of projected cash flows (“NPV”) are non-GAAP financial measures. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

Total debt is comprised of the Line of Credit, which is a current liability, as well as both the current and long-term portions of the Series 2003 A-2 Notes, Series 2009 Notes and the Stratacon secured debt. The Series 2003 A-1 Notes were repaid in the first quarter of 2008.

At June 30, 2009, the net indebtedness of the Trust (which excludes the Stratacon secured debt which is outside the Trust) represented 61.9% of the net present value of total projected cash flows (“NPV”) of assets under the Co-ownership Agreement. The recent increases in the NPV ratio are reflective of the increased net debt of the Trust, higher blended interest rates with the Series 2009 Notes, and a lower Consumer Price Index factor which impacts the future revenues variable in the NVP test. Until such time as the Series 2003 A-2 Notes are retired, the Fund, through the Trust, is subject to the net interest coverage and NPV tests. The Trust’s ability to raise additional funds through existing senior financing instruments, or future senior secured financing, is limited to a 55% NPV ratio when incurring new indebtedness (“Incurrence Test”). The Trust therefore cannot currently raise additional senior indebtedness as a result of the NPV ratio exceeding the 55% incurrence limit. The Trust must also maintain an NPV ratio of less than 70% to avoid a cash sweep event, as described in the AIF. The net interest coverage in 2009 (excluding the Stratacon debt) was 5.4x, well above the 3.6x required in the covenants.

Summary of Quarterly Results

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Total revenues	\$48,208	\$49,190	\$46,517	\$45,447	\$44,347	\$44,212	\$42,503	\$42,135
Net earnings/(loss)	7,556	4,267	4,079	8,263	(1,411)	8,583	26,383	7,178
Unitholder distributions declared	15,972	15,972	15,972	15,972	15,972	15,972	15,972	15,972
Average Fund Units outstanding	49,524	49,524	49,524	49,524	49,524	49,524	49,524	49,524
Per Unit								
Net earnings/(loss)	\$ 0.153	\$ 0.086	\$ 0.082	\$ 0.167	\$ (0.028)	\$ 0.173	\$ 0.533	\$ 0.145
Unitholder distributions declared	0.323	0.323	0.323	0.323	0.323	0.323	0.323	0.323

The table presents revenues, net earnings/(loss) and Unitholder distributions for each of the last eight quarters. The quarterly revenue profile has increased successively until the second quarter of 2009. Revenues in the Rentals business reflect rate increases in January each year and changes in the number and value of asset units rented. Sub-metering revenues have been reported since the acquisition of Stratacon in August 2008. Revenues declined slightly in the second quarter of 2009 from the first quarter of 2009 due to the small reduction in the Rentals portfolio and as a result of lower commodity revenues reported in the Sub-metering business. Since August 2008, net earnings have been reduced by approximately \$2,800 of operating losses in the sub-metering business (the net revenue less cost of sales and G&A of the Sub-metering business) since the acquisition of Stratacon Inc.

Differences in net earnings between quarters largely reflect the timing of certain expenses, as well as the timing of the future income tax recoveries and other tax adjustments, which were particularly significant in the reporting of the results for the fourth quarter of 2007 (SIFT taxes and rate changes) and the second quarter of 2008 (tax reorganization within the Fund) and 2009 (indirect tax recovery on Hedge loss). The pre-tax earnings of the business, like revenues, are also stable and reflect the structure of the relationship with DE, pursuant to the terms of the Co-ownership Agreement, whereby, subject to certain exceptions, DE incurs the cost of servicing and supporting approximately 94% of the Rentals customers and receives 35% of the gross rental revenue for these activities.

SUPPLEMENTARY ANALYSIS

Sub-metering

The portfolio of sub-meters is measured at various stages of completion as follows:

	June 30, 2009	March 31, 2009	August 1, 2008
Contracted	49	48	34
Installed	40	39	25
Billable	22	21	13

Contracted units increased by approximately 1 unit in the second quarter of 2009 and a total of 15 units since August 1, 2008. The lag in the number of units billable as opposed to contracted and installed is due primarily to the time required to plan, equip, install and verify the sub-meters and also the time required to transition apartment rental agreements to accept the metering of individual suites, primarily in the Ontario residential tenancy market. In addition, the OEB Bulletin regarding sub-metering of apartment buildings in Ontario has essentially frozen that portion of the business until a final decision is rendered in the related proceeding (see "Recent Developments – Ontario Energy Board Proceeding").

As part of the share purchase agreement, an annual earn out of \$400 per qualifying unit is payable for each of the three years commencing August 1, 2008 once contracted units exceed 10. During the second quarter of 2009, the accrual was increased by \$462 for a total to date of \$1,916.

SUMMARY OF CONTRACTUAL DEBT OBLIGATIONS

The following schedule summarizes the contractual debt obligations of the Fund at June 30, 2009:

Calendar Year	Principal Payments	Interest Payments
2009 (remainder of year)	\$ 544	\$ 17,696
2010	276,149	28,603
2011	1,204	22,574
2012	61,247	20,618
2013	1,323	18,657
2014	271,383	9,439
2015 and thereafter	3,350	383

Long-term contractual obligations of the Fund include debt service on the Series 2003 A-2 Notes. The Series 2003 A-2 Notes bear interest at 5.245%, payable semi-annually, and have a maturity date of January 28, 2010. The Series 2009-1 Notes and Series 2009-2 Notes bear interest at 6.20% and 6.75%, respectively. Interest on the Series 2009 Notes is payable semi-annually on April 30 and October 30 each year. The Series 2009-1 Notes and Series 2009-2 Notes mature on April 30, 2012 and 2014, respectively. With the acquisition of Stratacon, the Fund through a subsidiary, assumed secured debt of \$11,179. The debt was issued in 14 series with maturity dates ranging from four to fourteen years. The interest rate on the secured debt ranges from 7.5% to 8.75%. No new advances are anticipated. As of June 30, 2009, the debt balance was \$10,200.

Interest on the Line of Credit is BAs plus a margin of 150 BPs or Prime plus a margin of 50 BPs. At June 30, 2009, \$49,917 (\$50,000 gross) of funds had been advanced with an effective interest rate of 1.72%. Interest payments have been imputed at the current rate until the Line of Credit maturity date of January 28, 2010.

FUND UNITS ISSUED AND OUTSTANDING

CWIF's Declaration of Trust provides that an unlimited number of Fund Units may be issued. Each Unit is transferable and represents an equal and undivided beneficial interest in any distribution of the Fund and in the net assets of the Fund.

There are two classes of Units authorized: Fund Units and Special Trust Units. At the date of this MD&A, 49,524,092 Fund Units were issued and outstanding, and no Special Trust Units were outstanding. The number of issued and outstanding Units has not changed in 2009 or 2008.

NON-GAAP FINANCIAL AND PERFORMANCE MEASURES

The consolidated financial statements of CWIF are prepared in accordance with Canadian GAAP. CWIF's accounting policies are summarized in detail in note 2 accompanying the annual consolidated financial statements.

CWIF reports on certain non-GAAP measures that are used by management to evaluate performance of CWIF and meet certain covenant requirements relating to its debt financing. Since non-GAAP measures do not have standardized meanings prescribed by GAAP, securities regulations require that non-GAAP measures be clearly defined, and qualified, and reconciled with their nearest GAAP measure. These measures do not have standardized meanings or interpretations, and may not be comparable to similar terms and measures provided by other income funds or other issuers.

Non-GAAP financial indicators used by CWIF and reported in this MD&A include:

Measures of Asset Portfolio Performance

Capital Expenditures and Acquisitions

CWIF makes two principal types of investments to grow its installed base of water heaters and other assets: capital expenditures and acquisitions. In the current and past two years, CWIF acquired units from other entities and acquired Stratacon.

Measures of Financial Performance

EBITDA

This measure comprises net earnings plus income taxes, interest expenses and amortization expense, less interest income. It is one metric that can be used to determine the Fund's ability to service its debt, finance capital expenditures, and provide for the payment of distributions to Unitholders. EBITDA is reconciled with net earnings, a GAAP measure, in the section "Results of Operations" in this MD&A.

Adjusted EBITDA

This measure comprises net earnings plus income taxes, interest expenses, amortization expense and loss on disposal of equipment, less interest income. It is one metric that can be used to determine the Fund's ability to service its debt, finance capital expenditures, and provide for the payment of distributions to Unitholders. Adjusted EBITDA is reconciled with net earnings, a GAAP measure, in the section "Results of Operations" in this MD&A. The Fund has previously reported Adjusted EBITDA based on the definition of such terms in the Master Indenture (see "-Debt Covenants - Covenant EBITDA and Net Interest Coverage") and such prior reporting does not reflect Adjusted EBITDA as defined above, but, rather, is "Covenant EBITDA" in this MD&A.

Distributable Cash from Operations

Distributable Cash from operations is the amount of cash generated during a period and available to service debt, finance capital expenditures and provide for the payment of distributions to Unitholders. It comprises: net earnings of the Fund, plus non-cash items such as future income taxes and amortization, less capital expenditures. Distributable Cash from operations is reconciled with cash flow from operating activities, a GAAP measure, in the section "Distributable Cash and Payout Ratio" in this MD&A.

Distributions and Payout Ratio

Distributions are declared and paid monthly to Unitholders at the discretion of the Board of Trustees of the Fund. Among other things, the Trustees consider the level of distributable cash from operations, the level of previous distributions, and the amount of cash they wish to retain in the Fund for contingencies and future growth. The Payout Ratio is the percentage of distributable cash from operations that is declared as distributions to Unitholders during a period. The Payout Ratio indicates the ability of CWIF to pay distributions, finance capital expenditures and add to its cash reserves.

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, but including interest expense. It is one indicator of financial strength of the Fund. Operating cash flow is reconciled with cash flow from operating activities, a GAAP measure, in the section "Liquidity and Capital Resources" in this MD&A.

Measures Regarding Debt Covenants

The Fund is subject to the terms of a Master Trust Indenture and Supplemental Indentures pursuant thereto under which its long-term debt was issued, until maturity in January 2010. Among other things, the Fund must maintain a minimum net interest expense coverage test on a quarterly basis, and must also meet a threshold of future cash flows relative to net debt before incurring any additional debt. The interest coverage and debt incurrence test computations, which are summarized below, are defined in the agreements, but are not GAAP measures.

Debt Covenants - Covenant EBITDA and Net Interest Coverage

Covenant EBITDA is defined by the Master Indenture and sets forth minimum performance levels required of the Fund to comply with the terms under which the long-term debt was issued. Until January 2010, while the Series 2003 A-2 Notes are outstanding, the ratio of Covenant EBITDA to Net Interest Expense must exceed 3.6 to 1. For this purpose, Covenant EBITDA means, for the most recently completed four quarters:

Net earnings of the Fund:

Less: dividend and interest income and any unusual, non-recurring or extraordinary income included in net earnings;

Plus: interest expense, fees payable under the Origination Agreement, amortization expense, future taxes, certain administrative expenses and any non-cash items deducted in net earnings.

Net Interest Expense means, for the most recently completed four quarters, interest expense (other than on subordinated debt) less interest income.

Net Present Value of Total Projected Cash Flows

The key measure that the Master Trust Indenture applies to determine how much debt can be held by the Fund is the ratio of Net Indebtedness of the Fund to the Net Present Value of Total Projected Cash Flows (“NPV”). The limit is 70%.

Net Indebtedness is the debt outstanding (other than subordinated debt, if any) plus capital leases and hedging contracts, if any, less qualifying short-term investments. NPV is the present value of cash flows expected to be earned by the current portfolio of assets during their expected useful lives of 15 years, including a factor for rental rate increases of the prevailing rate of inflation, capped at 3% annually. The discount factor to calculate the net present value is the weighted average interest rate of the senior indebtedness issued by CWIF.

Post-Release Date

Upon the Series 2003-A-2 Notes and any other secured indebtedness (other than the Series 2009 Notes) no longer being outstanding, the above-described debt incurrence and maintenance covenants will no longer apply. Under the continuing covenants, there are no “maintenance” covenants that must be met regarding existing indebtedness, and additional senior indebtedness may be incurred provided the ratio of Incurrence EBITDA to Net Interest Expense (each term as defined in the Tenth Supplemental Indenture to the Master Indenture) is at least 3.8 to 1. Existing indebtedness may be refinanced even if the ratio is less than 3.8 to 1.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. These estimates are based on CWIF’s historical experience and various other assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts in the consolidated financial statements that are not readily apparent from other sources. The critical accounting estimates for CWIF are the estimated useful lives of property and equipment and intangible assets.

Equipment

Equipment is stated at cost, adjusted to fair market value where cost exceeds the net recoverable amount. Costs include the purchase price of the water heaters, sub-meters and other assets and, include installation costs, including labour. There exists measurement uncertainty with respect to the useful life of the installed rental assets; however, CWIF regularly conducts studies to verify the estimated useful lives of water heaters and believes it is currently appropriate to amortize the cost on a straight-line basis over 16 years for water heaters and 6 years for sub-meters.

Intangible Assets

Intangible assets represent the right to rental cash flows. The intangible assets are stated at cost, adjusted to fair market value where cost exceeds the net recoverable amount. CWIF amortizes the intangible asset amount over 16 years on a straight-line basis. This policy is based on the historical success of replacing rental water heaters that have reached the end of their useful lives and in the case of sub-metering, the initial typical 10 year agreements and expectations of renewals. CWIF reviews the intangible assets on an annual basis or at any other time when events or changes have occurred that would suggest an impairment of carrying amount.

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

CWIF's certifying officers have designed a system of disclosure controls and procedures to provide reasonable assurance that material information relating to CWIF, including its consolidated subsidiaries, is made known to them with respect to financial and operational conditions impacting disclosure with respect to the period ended June 30, 2009. As well, CWIF's certifying officers have made an assessment of the design of internal controls over financial reporting. The certifying officers have evaluated the effectiveness of the disclosure controls and procedures and are satisfied that all factors that impact on the financial condition of CWIF have been brought to their attention. As well, the certifying officers are satisfied that the system of internal controls over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. There have been no significant changes to our internal controls over financial reporting period ended June 30, 2009.

The Fund has limited the scope of its design of disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures relating to Stratacon, which was acquired in August 2008. CWIF has completed the documentation and evaluation of key controls, policies and procedures in respect of Stratacon. Management has implemented improvements in a number of areas, and will test their effectiveness during the remainder of 2009.

Transition to International Financial Reporting Standards

In 2008, the Accounting Standards Board ("ASB") confirmed that Canadian GAAP for publicly accountable companies will be converged with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective January 1, 2011. During the changeover period, both the ASB and IASB will continue to issue new accounting standards. The Fund's initial reporting under IFRS will be for the first quarter of 2011 with comparative data for 2010.

In order to meet the requirements to transition to IFRS, we have developed a three phased approach comprised of a diagnostic assessment, detailed analysis and education, and implementation. We completed our initial diagnostic during 2008. We are on track and will continue with our planned analysis and implementation phases throughout 2009. Due to the anticipated changes in IFRS over the implementation horizon and the required assessment of various conversion and reporting alternatives, we are not in a position to determine the impact on our financial results.

CHANGES IN ACCOUNTING POLICIES

The CICA has confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises, including the Fund. IFRS will replace Canada's current GAAP for those enterprises. The official change-over date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Entities adopting IFRS will be required to provide comparative IFRS information for the previous fiscal year. The Fund is currently evaluating the impact of adopting IFRS.

OUTLOOK

The Fund and DE revised policies and field processes to reduce exchanges in the second quarter of 2009 which has had a positive impact in the short term. The Fund intends to continue with and further refine such revised policies and processes for such time as they continue to prove successful.

The Fund and DE introduced a number of additional measures to combat attrition at the end of the second quarter with a particular focus on customer and employee communication and education activities. In the coming quarters both the Fund and DE have committed to allocate substantial additional resources to combat attrition.

The OEB Proceeding continued to have a negative impact on Sub-metering customer additions, revenues and bad debt expenses in the second quarter of 2009. Although the Sub-metering operating loss improved this quarter, our Sub-metering business will continue to be negatively affected by the OEB Proceeding. We expect Sub-metering operating losses will continue beyond the third quarter of 2009, assuming current performance levels and regulatory environment. The Fund hopes for a positive outcome from the process with the OEB, although no assurances can be given at this time. We have developed a comprehensive implementation plan to deal with the substantial backlog of billings, installations and contracts on-hold. Should the OEB decision be favourable, we intend to rapidly reenergize our Sub-metering operations.

The Payout Ratio was 116.9% in the second quarter of 2009, reflecting higher capital expenditures on replacement assets, operating losses in the Sub-metering business and higher interest expense. These factors are expected to continue for 2009, and in that case, the Payout Ratio will remain at levels higher than experienced in prior years. Management is undertaking a number of initiatives to mitigate many of these items and improve performance in Rentals and Sub-metering, including the hiring of experienced executives to lead sales and marketing efforts and Sub-metering operations.

The Fund continues to review complementary investments in assets or businesses that will contribute positively to Unitholder value.

For further information, please contact:

R. Stephen Bower, FCA
CFO
1.905.943.6292 or
1.877.877.0142
Email: sbower@consumerswaterheaters.com