

The Consumers'

Waterheater Income Fund

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

For the First Quarter Ended March 31, 2008

Dated as at April 30, 2008

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The unaudited interim 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 accompanying the annual consolidated financial statements. Unless otherwise specified, amounts reported in this Management's Discussion and Analysis ("MD&A") are in thousands of Canadian dollars, except "per unit" amounts. Asset units and Fund units outstanding are reported in whole numbers.

FORWARD-LOOKING INFORMATION

This MD&A, compiled as at April 30, 2008, contains certain forward-looking statements that involve various risks and uncertainties.

This MD&A should be read in conjunction with the 2007 audited consolidated financial statements and the accompanying notes of CWIF. Additional information about CWIF, including its current Annual Information Form dated March 31, 2008 ("AIF"), can be found on SEDAR at www.sedar.com. References in this MD&A to "management" refer both to CWIF's internal management, and, prior to December 1, 2007, management of CWIF's administrative agent (see "Transactions with Direct Energy" in the AIF).

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 of the material risks relating to the business and structure of CWIF can be found in the Fund's AIF, which is available on www.sedar.com. Except as described later in this MD&A under Update to Risk Factors, the risk factors remain unchanged from the date of the AIF.

RECENT DEVELOPMENTS

Increase in 2008 Rental Rates

CWIF implemented an increase in the monthly rental rates on the portfolio of residential rental water heaters, effective January 1, 2008. The increase on the residential co-owned portfolio averaged 3.9%.

Completion of Bridge Financing and Bond Forward Hedges

On January 24, 2008, the Fund's wholly-owned subsidiary, The Consumers' Waterheater Operating Trust (the "Trust"), entered into a credit agreement ("Bridge") with a Canadian chartered bank providing for a senior secured bridge loan facility in the amount of \$310,000. On January 28, 2008, the Trust drew \$310,000 under the Bridge and used the proceeds to repay its Series 2003-1 A-1 Secured Notes on January 28, 2008 as well as the amount borrowed under a \$35,000 revolving credit facility. The Bridge maturity date is January 24, 2009. Voluntary prepayments are permitted at any time without premium or penalty. The Bridge is secured equally and rateably with the Trust's outstanding Secured Notes, and the representations, warranties and covenants of CWIF under the Bridge are consistent with those of the Secured Notes.

The Bridge bears interest at a rate of 30 basis points above bankers' acceptance rate or the bank's prime interest rate if the Trust's debt rating is AA- or higher and 45 basis points above the bankers' acceptance rate or the bank's prime interest rate if the Trust's debt rating is equal to or less than A+ or is unrated. If funds drawn under the Bridge are still outstanding 120 days after the closing, the interest rate would increase by 12.5 basis points.

The Fund intends to replace the Bridge with a long-term facility as soon as market conditions are favourable for the transaction. In order to manage interest rate risk before this is done, the Fund entered into bond forward transactions to hedge the underlying bond interest rate risk over a seven-year period to May 2015. The Fund entered into transactions that had the effect of fixing the bond interest rate initially at a rate slightly higher than 3.34% by short selling \$23,800 of Government of Canada 5.0% bonds maturing June 1, 2014 and \$256,100 of Government of Canada 4.5% bonds maturing June 1, 2015.

The bond forward transactions will not isolate the Fund from all interest rate risks, as the hedge does not protect the difference between the Government of Canada ("GOC") bond rate and the eventual coupon rate payable by the Fund (the "Credit Spread"). The hedge matures May 1, 2008, and the Fund currently intends to extend the hedge until long-term financing is in place. When the long-term financing is finalized, the total interest rate will reflect the bond interest rate plus the Credit Spread negotiated at that time. The new bond forward hedge reflects an effective interest rate of approximately 3.5% with a target closing date of October 1, 2008.

RESULTS OF OPERATIONS

Overview

Financial Highlights (in thousands of dollars, except per Unit information)	Three months ended March 31,	
	2008	2007
Total revenues	\$ 44,212	\$ 41,442
Earnings before interest, taxes and amortization ("EBITDA") ¹	37,269	34,905
Earnings before tax	4,897	4,056
Income tax recovery	(3,686)	(3,762)
Net earnings	8,583	7,818
Per Unit information		
Unitholder distributions declared	\$0.32	\$0.31
Capital expenditures (net)	\$0.32	\$0.31
Net earnings	\$0.17	\$0.16
Total assets	1,013,411	1,058,555
Total debt	534,466	529,856
Cash flow from operating activities	24,704	25,461

Total revenues for the first quarter of 2008 increased by \$2,770 or 6.7%. The increase related to both rental rate increases, as well as the impact of the acquisition of the water heaters from Toronto Hydro Energy Services Inc. (the "TH Energy Units") and the water heaters from Festival Hydro Services Inc. (the "Festival Units") in February and November 2007, respectively. Earnings before tax were \$4,897 for Q1/08, compared to \$4,056 in 2007, an increase of \$841 or 20.7%. The \$2,770 increase in revenue and \$223 decrease in loss on disposal of property and equipment was partially offset by increases of: \$769 in cost of sales and general and administrative ("G&A") expenses, \$928 in amortization expense and \$455 higher interest expense.

Net earnings for Q1/08 were \$8,583 compared to \$7,818 for Q1/07, an increase of \$765. Future income tax recoveries were relatively comparable between periods, at a recovery of \$3,686 for Q1/08 and \$3,762 for 2007. Future income tax is typically a recovery in earnings from the reversal of timing differences in a subsidiary of the Fund. Distributions to Unitholders are currently taxable in the recipient's hands rather than the Fund.

Unitholder distributions increased by 4.9% to an annualized rate of \$1.29 per Unit and net capital expenditures remained constant at \$0.31 per Unit in Q1/08 as the increase in the number of new asset additions and asset exchanges was offset by lower tank costs. The 3.0% decrease in cash flow from operations is related to changes in non-cash working capital – primarily due to monthly interest payments on the Bridge, rather than semi-annual interest payments on the Series 2003 A-1 Secured Notes retired in early 2008.

In Q1/08, the Fund invested a total of \$15,865 in property and equipment, slightly lower than the \$15,991 invested in Q1/07. As well, in Q1/07, CWIF invested a total of \$41,030 to acquire the TH Energy Units.

Total assets declined by 1.4% to \$1,013,411 in Q1/08, as capital expenditures were less than amortization expense during the quarter. Total debt increased to \$534,466, including \$509,466 on the Bridge. The Bridge facility was used to retire the Series 2003 A-1 Secured Notes and the line of credit in January 2008.

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

Earnings

Earnings Summary (in thousands of dollars)	Three months ended March 31,	
	2008	2007
Total revenues	\$ 44,212	\$ 41,442
Amortization expense	25,609	24,681
Cost of sales and G&A expenses	4,535	3,766
Interest expense	7,012	6,557
Loss on disposal of property and equipment	2,159	2,382
Earnings before income taxes	4,897	4,056
Income tax recovery	(3,686)	(3,762)
Net earnings	8,583	7,818
EBITDA ¹	37,269	34,905

Revenues

Total revenues of \$44,212 for Q1/08 increased by \$2,770 or 6.7% compared to Q1/07. Rental revenues for Q1/08 of \$43,963 grew by \$2,910 or 7.0%. More than half of this increase in rental revenue relates to an increase in rental rates implemented in January 2008. The balance of the increase related to a full quarter of revenues from the TH Energy Units and to a much lesser extent the addition of the Festival Units and additions under the Fund's HVAC rental program. Rental revenues reflect CWIF's 65% interest in gross rental revenues under the Co-ownership Agreement with Direct Energy Marketing Limited ("DE") and 100% of the revenues generated by CWIF's other assets comprising the TH Energy Units, the Festival Units and the HVAC units. Assets operated under the Co-ownership Agreement represented approximately 94% of CWIF's installed base at March 31, 2008. Cost of sales and G&A expenses include the sales and service costs for the TH Energy Units and Festival Units since the dates of their acquisitions and the HVAC units.

Investment income is earned from the short-term investment of CWIF's cash on hand. The Fund generated investment income of \$249 in Q1/08, compared with \$389 for Q1/07 due to lower average interest rates on permitted investments in 2008.

Amortization Expense

Amortization expense of \$25,609 for Q1/08 was \$928 higher than Q1/07. Additional amortization from the addition of the TH Energy Units and the Festival Units caused this increase.

Cost of Sales and G&A Expenses

Cost of sales and G&A expenses of \$4,535 in the first quarter of 2008 were \$769 higher than the same quarter in 2007. The Q1/08 amounts include \$737 of servicing and billing costs related to the TH Energy Units, compared to \$422 in Q1/07. Additional costs were incurred by the Fund relating to the negotiation and implementation of the new billing and trust arrangements described in the AIF, offset by lower costs for extraordinary servicing events. As well, the Fund incurred \$304 of additional costs for routine customer claims.

No expense was recorded in either Q1/08 or Q1/07 related to the DE incentive fee payable pursuant to the Origination Agreement with DE.

Interest Expense

Interest expense was \$7,012 for Q1/08, compared to \$6,557 for Q1/07. Details follow:

	Three months ended March 31,	
	2008	2007
Interest payable in cash	\$ 6,507	\$ 6,294
Loss recognized on interest rate hedge	505	-
Amortization of deferred financing costs	-	263
Interest expense	\$ 7,012	\$ 6,557

The Fund incurred interest expenses on its \$275,000 of Series A-1 Secured Notes and \$225,000 of Series A-2 Secured Notes and borrowings under a \$35,000 line of credit in 2007. In January 2008, the Series A-1 Secured Notes and the line of credit were repaid with proceeds of \$310,000 from the Bridge. Following completion of its new billing and trust arrangements, the Fund entered into bond forward interest rate hedges to minimize the risk of interest rate fluctuations on a portion of the interest rate on the planned \$310,000 replacement financing. The interest rate on the hedge was initially slightly in excess of 3.34%, covering the bond rates of GOC instruments. The credit spread on the future financing has not been hedged. At March 31, 2008, due to a further drop in market interest rates, there was an unrealized loss amounting to \$2,769, of which \$505 was charged to earnings in the quarter and the balance reported in comprehensive income, in accordance with GAAP. The Fund currently intends to extend the interest rate hedge until the long-term financing is in place. For the three months ended March 31, 2007, interest expense included amortization of financing costs relating to the Secured Notes.

Loss on Disposal of Property and Equipment

In the first quarter of 2008, CWIF reported a loss of \$2,159 resulting from the retirement from service of water heaters whose book value had not been fully amortized or recovered through proceeds realized on disposition of the assets. For the first quarter of 2007, the loss was \$2,382. While the total number of asset disposals remained relatively constant on a year over year basis, the loss per unit declined due to the slightly older average age of tanks removed in the 2008 period.

Rental Unit Continuity (units in asset portfolio)	Three months ended March 31,	
	2008	2007
Units – start of period	1,421,520	1,332,933
Acquisition	-	86,420
Portfolio additions	5,421	5,473
Buyouts and terminations	(6,059)	(6,203)
Units – end of period	1,420,882	1,418,623
Assets exchanges – units retired and replaced	17,825	17,430
% growth in units during the period	-	6.4%
% of units (annualized, vs. start of period)		
Portfolio additions	1.5%	1.6%
Buyouts and terminations	(1.7%)	(1.9%)
Units retired and replaced	5.0%	5.2%

For the first quarter of 2008, 23,884 water heaters were taken from service, resulting from exchanges and customer-related removals, compared to 23,633 water heaters in the first quarter of 2007. Asset exchanges were 17,825 units for Q1/08, 395 units higher than Q1/07. While the total number of exchanges and removals were higher, both the attrition rate of the portfolio, and the rate of asset exchanges in the portfolio improved. Buyouts and terminations exceeded portfolio additions by 638 units for the quarter ended March 31, 2008, compared to a decline in the portfolio (excluding acquisitions) of 730 units in the comparable period of 2007.

Removals of 6,059 units for the first quarter of 2008 translate to an annualized attrition rate of 1.7% of the opening portfolio, compared to 6,203 assets, or 1.9% annualized in Q1/07. While the improvement in the attrition rate is encouraging, competitive pressures have increased the level of attrition in the portfolio in recent years, and these levels could increase in the future.

Income Taxes

The Fund reported a future income tax recovery of \$3,686 in Q1/08, comparable to the \$3,762 recovery in Q1/07.

CWIF's distributions are currently taxable in the Unitholders' hands. Charges for future income taxes are a non-cash charge, and will not relate to the amount of income taxes CWIF may expect to pay starting January 1, 2011, effective with the implementation of the federal government's SIFT tax. The SIFT tax is discussed more fully in the Fund's current AIF and its annual MD&A.

Earnings Before Interest, Taxes and Amortization ("EBITDA")

Earnings Before Interest, Taxes and Amortization ("EBITDA") (in thousands if dollars)	Three months ended March 31,	
	2008	2007
Reconciliation with net earnings		
Net earnings	\$ 8,583	\$ 7,818
Amortization expense	25,609	24,681
Interest expense	7,012	6,557
Interest income	(249)	(389)
Income tax recovery	(3,686)	(3,762)
EBITDA	\$ 37,269	\$ 34,905

Operating results as measured by EBITDA were \$37,269 for Q1/08 compared to \$34,905 in Q1/07. The \$2,364 improvement reflects the \$2,770 increase in total revenues and the \$223 decrease in loss on disposal of property and equipment, partially offset by the \$769 increased cost of sales and G&A expenses. EBITDA is a non-GAAP measure that is defined and discussed in the section "Non-GAAP Financial and Performance Measures" later in this MD&A.

EBITDA represented 84% of revenue in the first quarter of 2008, compared to 84% for Q1/07. The high percentage of EBITDA to revenue emphasizes the strength and stability of the cash earnings generated by the Fund.

DISTRIBUTABLE CASH AND PAYOUT RATIO²

The following table outlines the amount of distributable cash for CWIF in the reporting periods and reconciles such amounts to the GAAP measure - cash flow from operating activities:

Distributable Cash From Operations and Payout Ratio (in thousands of dollars)	Three months ended March 31,	
	2008	2007
Cash flow from operating activities	\$ 24,704	\$ 25,461
Net change in non-cash working capital	8,572	5,887
Capital expenditures (excluding acquisitions)	(15,865)	(15,991)
Proceeds on disposal of property and equipment	712	826
Units redeemed - LTIP	42	-
Distributable cash from operations ²	18,165	16,183
Distributions declared	(15,971)	(15,476)
Cash retained in the Fund	\$ 2,194	\$ 707
Payout ratio ²	87.9%	95.6%

The payout ratio after total capital expenditures was 87.9% for the first quarter of 2008 compared to 95.6% for Q1/07. Distributable cash from operations increased by \$1,982 or 12.2% in Q1/08 due mainly to the \$2,910 higher revenues partially offset by higher cost of sales and G&A expenses. Monthly distributions were increased in March 2007, so distributions increased by 3.2% in Q1/08.

The investment for the acquisition of the TH Energy Units in 2007 is excluded from the determination of distributable cash from operations due to its nature. If the amounts invested for the acquisitions had been included as a reduction in distributable cash, distributable cash would have been \$(22,746) for the quarter ended March 31, 2007.

² Distributable cash from operations, payout ratios and other financial metrics are non-GAAP financial measures. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

LIQUIDITY AND CAPITAL RESOURCES

Selected Cash Flow Items (in thousands of dollars)	Three months ended March 31,	
	2008	2007
Cash From Operating Activities		
Net earnings	\$ 8,583	\$ 7,818
Amortization	25,609	24,681
Future income tax recovery	(3,686)	(3,762)
Other non-cash items	2,770	2,611
Operating cash flow	33,276	31,348
Changes in non-cash working capital	(8,572)	(5,887)
Cash from operating activities	24,704	25,461
Purchase of property and equipment	(15,865)	(15,991)
Acquisitions	-	(41,030)
Cash invested	(15,153)	(56,195)
Distributions to Unitholders	(15,972)	(15,288)
Proceeds from bank indebtedness	309,466	30,644
Repayment of Secured Notes	(275,000)	-
Decrease in cash equivalents	(2,913)	(15,318)
Cash and equivalents – end of period	26,548	23,930

Operating cash flow³ (cash flow from operating activities excluding changes in non-cash working capital) increased by \$1,928 or 6.2% for Q1/08 compared to Q1/07. This increase is primarily a result of higher total revenues, partially offset by higher cost of sales and G&A expenses. The \$2,685 increased investment in non-cash working capital arose primarily from a \$1,956 decrease in interest payable, and a \$247 increase in accounts payable. The Series 2003 A-1 Secured Notes had semi-annual interest payments, while interest payments on the Bridge are made every 30 days or less.

Capital Expenditures

Capital expenditures of \$15,865 for Q1/08 were approximately \$126 lower than the level for Q1/07. The Q1/08 investment included 17,580 asset exchanges, at a capital cost of \$10,496, 5,176 asset additions in the residential new home construction and conversion market at a capital cost of \$4,454 and 245 commercial water heaters and HVAC units at a capital cost of \$915. Comparable figures for Q1/07 were \$15,991 total capital expenditures represented by 17,430 asset exchanges at a capital cost of \$10,716, 5,276 asset additions at a capital cost of \$4,711 (excluding the purchase of the TH Energy Units) and 220 commercial water heaters at a capital cost of \$564. As well, in Q1/07, CWIF purchased 85,845 TH Energy Units for \$41,030.

The decrease in capital expenditures in Q1/08, despite modest increases in commercial and HVAC capital expenditures, results from lower tank prices for 2008, partially offset by higher installation costs and builder allowances.

³ Operating cash flows and other financial metrics are non-GAAP financial measures. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

Capitalization (in thousands of dollars, except ratios and percentages)	Three months ended March 31,	
	2008	2007
Cash and cash equivalents	\$ 26,548	\$ 23,930
Net investment in non-cash working capital	53	(1,796)
Net investment in working capital	26,601	22,134
Total debt	534,466	529,856
Unitholders' equity	246,389	293,641
Total capitalization – book value	\$ 780,855	\$ 823,497
Debt to total capitalization ratio	68.4%	64.3%
Debt to total asset ratio	52.7%	50.1%
Net interest coverage ⁴	6.1x	6.5x
Net debt to net present value of cash flow ratio ⁴	50.1%	50.1%

At March 31, 2008, the net indebtedness of CWIF represented 50.1% of the net present value of total projected cash flows⁴. This ratio is significantly below the 70% limit set forth in the Supplemental Trust Indenture that limits additional borrowing that the Fund can undertake. The net interest coverage in 2007 was 6.1, well above the 3.6 required in the covenants.

CWIF had total assets of \$1,013,411 as at March 31, 2008, of which 96% was invested in the portfolio of rental water heaters and other portfolio assets. Current assets of \$45,384 are comprised of \$26,548 of cash and equivalents and \$18,816 of accounts and other receivables.

The Bridge is a current liability. In January 2008, both the line of credit and the \$275,000 current portion of long-term debt were refinanced from proceeds of the Bridge. It is the Fund's intention to refinance the Bridge into a long-term facility upon favourable market conditions.

At March 31, 2008, the balance of cash and equivalents less accrued interest and distribution payable amounted to \$18,715, and is referred to as cash reserves by the Fund. This is a non-GAAP measure. The amount of cash reserves retained by CWIF is subject to Trustee approval, and is generally regarded as a means of assisting CWIF to sustain the level of Unitholder distributions through periods where there may be fluctuations in CWIF's cash requirements from month to month, particularly with respect to short-term changes in the amount of capital expenditures. The amount of cash reserves, which represents approximately three and one-half months of Unitholder distributions, has not been accumulated in anticipation of any anticipated deterioration in cash flow from operating activities.

In Q1/07, CWIF had a \$35,000 revolving operating line of credit with a Canadian chartered bank. The facility matured on January 28, 2008, and amounts outstanding on this line were repaid. Outstanding amounts drawn on the facility were secured by the assets of CWIF, *pari passu* with the \$500,000 of Secured Notes. The Fund expects to obtain a new revolving line of credit in an amount of up to \$35,000 during the first half of 2008, under terms and conditions similar to those of the prior revolving line of credit, although no assurances can be given in this regard.

Debt to total capitalization has increased from 64.3% at March 31, 2007 to 68.4% at March 31, 2008. This increase results from the decrease in Unitholders' equity due to distributions to Unitholders, and the reduction in equity in 2007 from the impact of the SIFT tax. Changes in the level of equity are also impacted substantially by the amortization of intangible assets and by future income taxes, which are both non-cash items.

⁴ Net interest coverage, debt to net present value of total projected cash flows and other financial metrics are non-GAAP financial measures. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

Summary of Quarterly Results

(Unaudited)

(in thousands of dollars, except unit and per unit amounts)

	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Revenues	\$ 44,212	\$ 42,503	\$ 42,135	\$ 42,048	\$ 41,442	\$ 39,527	\$ 39,084	\$ 39,069
Net earnings	8,583	26,383	7,178	(23,127)	7,818	4,708	7,966	25,238
Unitholder distributions declared	15,971	15,972	15,972	15,972	15,476	15,228	14,813	14,605
Average Fund units outstanding	49,524,092	49,524,092	49,524,092	49,524,092	49,524,092	49,524,092	49,524,092	49,524,092
Per Unit								
Net earnings	\$ 0.533	\$ 0.533	\$ 0.145	\$ (0.467)	\$ 0.158	\$ 0.095	\$ 0.161	\$ 0.510
Unitholder distribution declared	0.323	0.323	0.323	0.323	0.312	0.307	0.299	0.295

The table presents revenues, net earnings and Unitholder distributions for each of the last eight quarters. The quarterly revenue profile within each fiscal year is relatively stable and reflects the non-seasonal nature of the business. The increase in the year-over-year quarterly revenue is until 2007, a function of rental rate increases that are generally implemented effective January 1 each year, growth in the size of the installed asset base and to a much lesser degree a change in the product mix towards higher priced power vented and larger capacity tanks. The increase in the 2007 and Q1/08 quarterly revenues compared with those reported in the same periods for 2006 represents the impact of rental rate increases combined with the addition of the TH Energy Units and Festival Units acquired in 2007, and the purchase of the PowerStream Units in December 2006.

Differences in net earnings as between the quarters largely reflect the timing of certain expenses, as well as the timing of the future income tax recoveries and other tax adjustments, which was particularly significant in the reporting of the results for the second and fourth quarters of 2007 and the second quarter of 2006. 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 absorbs the cost of operating the business and receives 35% of the gross rental revenue. This characteristic is discussed in greater detail in the EBITDA section of this MD&A.

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")								
(Unaudited)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
(in thousands of dollars)	2008	2007	2007	2007	2007	2006	2006	2006
Net earnings	\$ 8,583	\$ 26,383	\$ 7,178	\$(23,127)	\$ 7,818	\$ 4,708	\$ 7,966	\$ 25,238
Amortized expense	25,609	25,733	25,591	25,512	24,681	24,428	24,451	24,355
Interest expense	7,012	6,891	6,868	6,784	6,557	6,495	6,495	6,427
Interest income	(249)	(345)	(345)	(346)	(389)	(566)	(413)	(342)
Income tax recovery	(3,686)	(23,340)	(3,470)	26,802	(3,762)	(2,339)	(4,399)	(20,775)
EBITDA	\$ 37,269	\$ 35,322	\$ 35,822	\$ 35,625	\$ 34,905	\$ 32,726	\$ 34,100	\$ 34,903

As outlined in the table above, EBITDA for each year is relatively evenly distributed throughout each quarter. The increase in the amount of EBITDA in 2008 and 2007 is attributable to the increased revenue, partially offset by higher cost of sales and G&A expenses. The small fluctuations in EBITDA on a quarterly basis reflect the timing of acquisition related G&A expenses, as well as the timing of incentive payments for DE. This incentive is calculated on a quarterly basis, based on management's best estimates of the incentive to be earned at the end of the year, and can fluctuate from quarter to quarter. Details of the DE incentive fee are

contained in the Origination Agreement between DE and CWIF, summarized in the Transactions with Direct Energy section in the AIF

SUMMARY OF CONTRACTUAL OBLIGATIONS

The following schedule summarizes the contractual obligations of the Fund at March 31, 2008:

Summary of Contractual Obligations (in thousands of dollars)	Total	Less than 1 Year	2 Years
Long-term debt			
Principal	\$ 225,000	\$ -	\$ 225,000
Interest	17,753	11,801	5,952
Bridge credit facility			
Principal	309,466	309,466	-
Interest	504	504	-
Total	\$ 552,723	\$ 321,771	\$ 230,952

Long-term contractual obligations of the Fund include debt service on the \$225,000 of Secured Notes issued on January 22, 2003. These Secured Notes incur interest at 5.245%, payable semi-annually, and mature January 28, 2010.

As well, the Fund has drawn \$309,466 plus accrued interest under the Bridge facility. The Bridge maturity date is January 24, 2009. Voluntary prepayments are permitted at any time without premium or penalty. The Bridge is secured equally and rateably with the Fund's outstanding Secured Notes, and the representations, warranties and covenants of CWIF under the Bridge are consistent with those of the Secured Notes.

In order to fix interest rates on the refinancing of the Bridge, CWIF has entered into Bond Forward Agreements with its bank to hedge the GOC portion of the interest rate, for a seven-year term commencing May 1, 2008. This hedge is intended to fix the GOC portion of a future borrowing initially at a rate of slightly higher than 3.34%. CWIF currently intends to continue to hedge rates until the refinancing of the Bridge.

The Bridge bears interest at a rate of 30 basis points above the bankers' acceptance rate or the bank's prime interest rate if the Trust's debt rating is AA- or higher and 45 basis points above the bankers' acceptance rate or the bank's prime interest rate if the Trust's debt rating is equal to or less than A+ or is unrated. If funds drawn under the Bridge are still outstanding 120 days after the closing, the interest rate would increase by 12.5 basis points.

UNITS ISSUED AND OUTSTANDING

CWIF's Declaration of Trust provides that an unlimited number of Units of CWIF 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.

UPDATE TO RISK FACTORS

Except as noted below, the risks related to the business and structure of CWIF discussed in the AIF remain unchanged.

- **Refinancing.** The Fund has borrowed \$310,000 on the Bridge, which matures on January 24, 2009. Subject to market and other conditions, it is the Fund's current intention to repay the Bridge with long-term fixed rate debt as soon as markets permit. However, no assurance can be given that such will be the case.
- **Interest Rate Hedge.** CWIF has entered into an interest rate hedge with a Canadian Chartered Bank to hedge its exposure to risk relating to changes in interest rates in respect of the refinancing of the Bridge. Inherent in the process, the Fund has assumed credit risk with the counterparty to this hedge. As well, while CWIF fully intends the bond forward instruments to hedge the GOC portion of the future interest rate, uncertainties relating to the timing of this future debt offering can result in this hedge being partially ineffective. This could have the result of exposing the Fund's earnings, and possibly cash flows, to fluctuations relating to the portion of the hedge that is deemed "ineffective" in accordance with GAAP.

The Fund has made assumptions as to the amount, structure and term of the refinancing. As this is a future event, there can be no assurance that the hedge will be effective in protecting the Fund from interest rates if these assumptions prove to be incorrect.

As well, the Fund continues to be exposed to credit spreads specific to the Fund - the amount the Fund would be required to pay in excess of the GOC portion of future debt. Credit spreads are at rates well in excess of historical levels, and there can be no assurance that these rates will return to historical levels before the maturity of the Bridge.

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 a 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

Growth 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 2006 and 2007, CWIF has acquired units from other entities. In addition, capital expenditures in a period that are in excess of the amount required to maintain an asset pool's productive capacity are reported as growth capital expenditures.

Maintenance Capital Expenditures

Maintenance capital expenditures are the amount invested in new water heaters and other portfolio property and equipment for asset replacements and portfolio additions to maintain CWIF's asset portfolio, up to the number of units at the start of a period.

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, fund 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.

Distributable Cash from Operations

Distributable cash from operations is the amount of cash generated during a period and available to service debt, fund 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 & 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 fund distributions, cover 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 the Master Trust Indenture and Supplemental Indentures 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.

Adjusted EBITDA and Net Interest Coverage

Adjusted EBITDA is defined by the Supplemental Indenture that defines 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 Secured Notes are outstanding, the ratio of Adjusted EBITDA to Net Interest Expense must exceed 3.6 to 1. For this purpose, Adjusted 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 Future Cash Flows

The key measure that the Master Trust Indenture applies to determine how much additional debt can be incurred by the Fund is the ratio of Net Indebtedness of the Fund to the Net Present Value of Total Projected Cash Flows ("TPCF"). The Fund can increase its borrowings so long as the debt, including any new debt, does not exceed 70% of the TPCF.

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. TPCF 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.

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.

Property and Equipment

Property and equipment are stated at cost, adjusted to fair market value where cost exceeds the net recoverable amount. Costs include the purchase price of the water heater and installation costs, including labor. 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 appropriate to amortize the cost on a straight-line basis over 16 years.

Intangible Assets

Intangible assets represent the right to rental cash flows, both under the Co-ownership Agreement with DE and with the TH Energy Units, PowerStream Units and Festival Units. 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 founded on the basis of the historical success of replacing rental water heaters that have reached the end of their useful lives and the ability of DE or any alternative service provider under the Co-ownership Agreement to perpetuate the servicing, billing, cash

collection and marketing activities of the rental water heater business. 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. Impairment would be recognized when the estimated fair value of the intangible assets is lower than the 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 quarter ended March 31, 2008. 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 in the quarter ended March 31, 2008. Management has not evaluated the effectiveness of the internal controls over financial reporting.

CHANGES IN ACCOUNTING POLICIES

The CICA has issued the following accounting standards that were effective for CWIF as of January 1, 2008: *Section 3862, Financial Instruments – Disclosures, Section 3863, Financial Instruments – Presentation, Section 1535 Capital Disclosures, and Section 1506, Accounting Changes.*

Sections 3862 and 3863 replaced Section 3861, *Financial Instruments – Disclosure and Presentation*, and increase emphasis on disclosure of the risks arising from financial instruments, including hedging instruments, and how the entity manages such exposures.

Section 1535 requires supplementary disclosure regarding the Fund's capital management and compliance with any externally imposed capital requirements.

Section 1506 provides guidance, in particular, on the criteria for changing accounting policies, the appropriate accounting treatment in specific circumstances and the required disclosure.

OUTLOOK

CWIF will continue to execute on its business strategy. The finalization of the billing and trust arrangements allows for continuation on the EGD bill until at least mid-2009. Recent turbulence in the debt markets has caused CWIF to delay refinancing the Bridge facility. While the Fund can continue to enjoy the relatively inexpensive interest cost from the Bridge, and does not have to refinance this debt until January 2009, it is our intention to refinance the Bridge with a long-term facility once credit spreads return to more favourable levels.

In accordance with previously announced plans to expand its rental offerings, the Fund has introduced two additional products: rental Drain Waste Heat Recovery (DWHR) units in the new home market and the resumption of rentals of air handlers in residential and commercial markets. These new products will be maintained in accordance with the Co-ownership agreement between the Fund and DE. While the Fund does not expect significant portfolio growth from the addition of these products, these are examples of the opportunities the Fund is pursuing in order to grow the portfolio.

The Fund will continue to work closely with DE to develop opportunities to grow the core portfolios in areas such as small commercial and multi-tenant buildings, and will also consider other investment opportunities as they become available.

For further information, please contact:

R. Stephen Bower
CFO
+1.905.943.6292 or
+1.877.877.0142
E-mail: sbower@consumerswaterheaters.com