

**The Consumers' Waterheater Income Fund**

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

**Third Quarter Ended September 30, 2010**

**Dated November 5, 2010**

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*The interim consolidated financial statements of The Consumers' Waterheater Income Fund are prepared in accordance with Canadian GAAP. CWIF's accounting policies are summarized in detail in note 2 of the annual consolidated financial statements. Unless otherwise specified, amounts are reported in this MD&A in thousands, except customers, unit and "per Unit" amounts and percentages. Dollar amounts are expressed in Canadian currency.*

*The Fund operates its businesses in two divisions: Rentals - rentals of water heaters and other equipment and Sub-metering – provision of sub-metering equipment and billing services.*

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

## FORWARD-LOOKING INFORMATION

This MD&A, dated November 5, 2010, contains certain forward-looking statements that involve various risks and uncertainties and should be read in conjunction with the Fund's 2009 audited consolidated financial statements. Additional information in respect of CWIF, including the AIF, can be found on SEDAR at [www.sedar.com](http://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](http://www.sedar.com). The risk factors remain unchanged from the date of the AIF except as updated in the information circular of the Fund dated October 22, 2010 under the headings "Risk Factors-Risk Factors Relating to the Conversion" and "Appendix "G"-Information Concerning the Fund-Update to Risk Factors", which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and which sections are incorporated by reference herein.

## HIGHLIGHTS – THIRD QUARTER 2010

The following highlights compare results for the third quarter of 2010 with the third quarter of 2009.

- Attrition decreased by approximately 25% from 2.3% of the portfolio in the third quarter of 2009 to 1.8% in the third quarter of 2010. The total asset portfolio declined by 1.0% in the third quarter of 2010 compared to a decline of 1.7% in the third quarter of 2009. Attrition for October 2010 improved significantly over October 2009 decreasing by over 35%.
- Total revenues of \$49,676 increased by 8% over the third quarter in 2009. Revenues in the Rentals business increased 7% or \$3,146 to \$46,951, as a result of the impact of the 2010 rental rate increase. Sub-metering revenues increased by \$325 or 14% to \$2,638, due to a modest increase in billing accounts and related commodity revenues.
- EBITDA<sup>1</sup> increased by 38% to \$33,222 in the third quarter of 2010, primarily due to lower Attrition and asset exchanges. Adjusted EBITDA<sup>1</sup> increased by 1% to \$38,978. The improvement in Adjusted EBITDA was driven by higher revenues from the Rentals business.
- Net earnings were \$1,296 in the third quarter of 2010, approximately \$7,300 greater than reported in the third quarter of 2009. Reductions in losses on disposal, amortization and impairment charges were the main contributors to the net earnings improvement.
- The Payout Ratio<sup>2</sup> improved to 58% in the third quarter of 2010 from 107% in the third quarter of 2009 primarily as a result of the change in distributions announced in September 2009 and higher Distributable Cash<sup>2</sup>.

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<sup>1</sup> EBITDA and Adjusted EBITDA are Non-GAAP financial measures. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

<sup>2</sup> Payout Ratio and Distributable Cash are Non-GAAP financial measures. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

- With the acquisition of Enbridge Electric Connections Inc. (now EnerCare Connections Inc.) on October 1, 2010 the Fund doubled the number of billing units in its sub-metering portfolio.
- Cash and equivalents increased by approximately \$28,500 in the third quarter primarily due to the public offering of Convertible Debentures and Units in June and July 2010.

## **RECENT DEVELOPMENTS**

### **Executive Officer Changes**

On September 7, 2010, R. Stephen Bower, resigned as the Chief Financial Officer of the Fund and its subsidiaries.

On September 8, 2010, Chris Cawston was appointed interim Chief Financial Officer of the Fund and its subsidiaries on a six month contract basis.

### **Acquisition of Enbridge Electric Connections Inc. (now EnerCare Connections Inc.)**

On October 1, 2010, a wholly-owned subsidiary of the Fund completed the acquisition of all of the outstanding shares of EECI for approximately \$23,200 in cash, subject to a potential adjustment based on working capital at close. EECI is principally engaged in the provision of equipment and services under long-term contracts with customers to allow sub-metering and remote measurement of electricity and water in multi-unit condominium complexes and apartment buildings in Ontario. With approximately 30,000 billing customers, EECI's business is complementary to the Fund's existing sub-metering business conducted through Stratacon. EECI's customer base is predominantly in the new and retro-fit condominium market segments, while Stratacon's core market focus is in the retro-fit rental apartment sector.

### **Corporate Conversion**

On October 12, 2010, the Fund approved the planned Conversion of the Fund from an income trust to a dividend-paying corporation on a tax free "roll-over" basis for Canadian federal income tax purposes, effective January 1, 2011. The Conversion is being contemplated as a result of legislative changes to the tax treatment of income trusts. The Conversion must be approved by not less than 66 $\frac{2}{3}$ % of the votes cast by unitholders at a special meeting to be held on November 25, 2010 in Toronto. On or about November 2, 2010 an information circular of the Fund dated October 22, 2010 relating to the Conversion and special meeting was mailed to unitholders of record on October 12, 2010. In conjunction with the Conversion, the Fund will change its business name and branding. The name of the successor corporation to the Fund will be EnerCare Inc. and the name of the successor corporation to the Trust will be EnerCare Solutions Inc. The Fund's recently acquired EECI has changed its name to EnerCare Connections Inc.

If the Conversion is approved, it is expected that EnerCare will maintain the Fund's current distribution level of \$0.648 per Unit annually as monthly dividends of \$0.054 per EnerCare Share, with the first dividend payable to shareholders of record on January 31, 2011. The dividend level is intended to allow for internally generated cash flow to support organic growth, maintain a strong balance sheet and provide sustainable monthly dividends to shareholders. However, the amount of any dividends payable by EnerCare will be at the discretion of its board of directors and will be evaluated periodically and may be revised depending on, among other factors, EnerCare's earnings, the financial requirements of EnerCare's operations, the satisfaction of solvency tests imposed by corporate law for the declaration and payment of dividends and other conditions that may exist from time to time.

The Conversion, which will be undertaken pursuant to a statutory plan of arrangement under the Canada Business Corporations Act, is subject to customary conditions, including approval of unitholders of record on October 12, 2010, the Toronto Stock Exchange and the Ontario Superior Court of Justice. The Fund will hold a special meeting of unitholders on Thursday, November 25, 2010 at Ivey - ING Leadership Centre, the Exchange Tower, 130 King Street West, Toronto, Ontario at 9:00 a.m. (ET).

If approved, the Conversion will result in, among other things, the following occurring on the effective date of the Conversion, which is expected to be January 1, 2011:

- Each Unit of the Fund will be exchanged for one common share of EnerCare.
- EnerCare will assume the Convertible Debentures, which will become convertible into EnerCare Shares on the same terms as they are currently convertible into Units (being a current conversion price of \$6.48 per EnerCare Share).
- The Trust will be dissolved and EnerCare Solutions will assume the Trust's 2009 Notes and 2010 Notes.
- The Fund will be dissolved.
- The EnerCare Shares and the EnerCare Convertible Debentures will, subject to customary listing conditions, be listed on the Toronto Stock Exchange in substitution for the Units and Convertible Debentures.

In addition, based on discussions with the Fund and Trust's credit agencies, management of the Fund believes that the Conversion will have no impact upon the Fund's and Trust's credit ratings.

### **Sub-metering-Regulatory Developments**

In October, 2010 the Government of Ontario published Regulations under the Energy Act and RTA regarding suite sub-metering. The Regulations and the Energy Act (collectively, the "Legislation") will come into force January 1, 2011. The Fund's subsidiaries, Stratacon and EnerCare Connections Inc., through the sub-metering working group, provided comments on the draft Legislation. The Legislation permits individual suite sub-metering in apartment buildings, condominium complexes and commercial buildings in Ontario. Among other things, the Legislation:

- amends the RTA to permit sub-metering, subject to first providing tenants with required information and subject to receiving consent from a sitting tenant;
- confirms the right of sub-metering providers to shut off the distribution of electricity for non-payment, subject to prescribed conditions and exceptions;
- provides the OEB with oversight over security deposit policies and rates chargeable by sub-metering providers and imposes licensing requirements on sub-metering providers; however the Regulations do not currently provide for fee regulations by the OEB;
- requires the installation of suite meters in "new" residential buildings (except in new social and subsidized affordable housing projects);
- sets information, rent reduction and refrigerator efficiency requirements;
- disallows suite metering of electric heat in residential rental buildings, except in respect of currently installed sub-meters, subject to certain conditions; and
- transitions existing suite meter arrangements and existing licenses of sub-meter providers into the new regime.

## RESULTS OF OPERATIONS

<b>Earnings Statement</b>	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	<b>2010</b>	2009	<b>2010</b>	2009
Revenues				
Rentals	\$ 46,951	\$ 43,805	\$ 142,530	\$ 134,818
Sub-metering	2,638	2,313	7,625	8,629
Investment income	87	3	94	72
<b>Total revenues</b>	<b>49,676</b>	46,121	<b>150,249</b>	143,519
Cost of sales and SG&A expenses				
Rentals	5,835	3,682	16,116	11,961
Sub-metering	3,241	3,200	9,672	11,355
Corporate	1,535	815	3,779	3,190
<b>Total cost of sales and SG&amp;A expenses</b>	<b>10,611</b>	7,697	<b>29,567</b>	26,506
Amortization expense	27,601	31,203	83,395	84,125
Loss on disposal of equipment	5,756	11,000	16,667	19,515
Impaired assets	-	3,398	-	3,398
Interest expense	10,693	10,069	33,131	28,315
Other income	1,015	-	1,015	-
Loss before income taxes	(3,970)	(17,246)	(11,496)	(18,340)
Income tax recovery	5,266	11,242	15,071	24,159
<b>Net earnings</b>	<b>1,296</b>	(6,004)	<b>3,575</b>	5,819
<b>EBITDA</b>	<b>33,222</b>	24,023	<b>103,921</b>	94,028
<b>Adjusted EBITDA</b>	<b>\$ 38,978</b>	\$ 38,421	<b>\$ 120,588</b>	\$ 116,941

### **Revenues**

Total revenues of \$49,676 for the third quarter of 2010 increased by \$3,555 or 8% and by \$6,730 or 5% to \$150,249 year to date compared to the same period in 2009. Rentals revenues increased by \$3,146 to \$46,951 in the third quarter of 2010, and by \$7,712 to \$142,530 year to date compared to the same period in 2009 primarily due to higher rental rates and lower Attrition. Sub-metering revenues were \$2,638 during the third quarter of 2010 and \$7,625 for the first nine months of 2010, representing an increase of approximately \$325 and a decrease of \$1,004, respectively, compared to same period for 2009, due to a modest increase in billing accounts and related commodity charges. Pass through commodity charges for the same periods in 2010 were approximately \$1,631 and \$4,555, respectively.

Investment income during the third quarter of 2010 was \$87 as a result of improved investment income earned on the greater investment balances during the quarter.

### **Cost of Sales and Selling, General and Administrative Expenses**

Cost of sales and SG&A expenses for the Rentals business and the corporate segment was \$7,370 during the third quarter of 2010, an increase of approximately \$2,900 over the same period in 2009. The increase primarily relates to approximately \$900 increased marketing programs supplementing Direct Energy's marketing and customer communications programs, claims expense of \$900, compensation of \$800 related to increased employee counts and employee severance and \$500 in greater collection provisions and related costs. Year to date costs of \$19,895 compared to \$15,151 over the same period in 2009 primarily reflect increases in the areas of marketing and customer communications programs of approximately \$2,200, \$1,700 in bad debts, \$1,000 for each of compensation and professional fees, and \$400 in claims, offset by reductions of \$900 in capital taxes.

Sub-metering cost of sales and SG&A expenses of \$3,241 in the third quarter of 2010 was similar to the same period in 2009. Year to date reductions of \$1,683 to \$9,672 in 2010 over 2009 primarily reflect lower costs of approximately \$700 in commodity charges and \$700 in bad debts.

### ***Amortization Expense***

Amortization expense decreased by \$3,602 in the third quarter of 2010 to \$27,601 and by \$730 to \$83,395 year to date over 2009 primarily due to the third quarter 2009 amortization adjustment of approximately \$4,600 as part of the purchase price allocation in connection with the acquisition of Stratacon and valuation adjustments in the Rentals business that originated in 2002 and expired in the fourth quarter of 2009.

### ***Interest Expense***

<b>Interest Expense</b>	<b>Three months ended Sept. 30,</b>		<b>Nine months ended Sept. 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Interest expense payable in cash	<b>\$ 9,347</b>	\$ 8,943	<b>\$27,951</b>	\$24,914
Non-cash items:				
(Gain) on interest rate Hedge	-	-	-	(509)
Amortization of bridge fees	-	-	<b>1,440</b>	1,107
Amortization of OCI and financing costs	<b>1,346</b>	1,126	<b>3,740</b>	2,803
<b>Interest expense</b>	<b>\$10,693</b>	\$10,069	<b>\$33,131</b>	\$28,315

Interest expense payable in cash increased by \$404 to \$9,347 in the three months ending September 30, 2010 over the same period in 2009 primarily due to interest cost on the Convertible Debentures. Year to date, an amount of \$27,951 increased by \$3,037 over the same period in 2009. The increase relates to the full year impact of the Trust's 2009 Notes, the Convertible Debenture issuance and fees paid in 2010 to draw on the 2009 Bridge.

In the first quarter of both 2010 and 2009, the Fund used proceeds from the issuance of long-term debt to retire bridge facilities resulting in the amortization of deferred financing amounts. Amortization of OCI and financing costs reflects the impact of deferred financing transaction costs related to the 2009 Notes, hedge loss amortization, 2010 Notes and the Convertible Debentures. The increase of \$937 in the year to date amount of \$3,740 is primarily the result of the shorter amortization period in the first quarter of 2009 when the 2009 Notes were issued and financing costs related to the 2010 Notes and the Convertible Debentures.

### ***Loss on Disposal of Equipment***

In the third quarter of 2010, the Fund reported a loss on disposal of equipment of \$5,756, and a year to date amount of \$16,667 representing decreases of \$5,244 and \$2,848, respectively, recorded in the same periods in 2009. The loss on disposal amount is influenced by the number of assets retired, changes in the provision of backlogged accounts, retirement asset mix, and the age of the assets retired.

### ***Income Tax Recovery***

The Fund reported a future income tax recovery in the third quarter of 2010 of \$5,266 and \$15,071 year to date, lower than the same periods in 2009 by \$5,976 and \$9,088, respectively. These recovery amounts are mainly the result of temporary difference reversals and recoveries relating to tax losses in Stratacon.

### ***Adjusted EBITDA and EBITDA***

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

<b>Quarterly Earnings Before Interest, Taxes and Amortization (EBITDA)</b>								
	<b>Q3/10</b>	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q4/08
Net earnings/(loss)	<b>\$ 1,296</b>	\$ 2,346	\$ (67)	\$15,784	\$ (6,004)	\$ 7,556	\$ 4,267	\$ 4,079
Tax (recovery)/expense	<b>(5,266)</b>	(4,856)	(4,949)	(28,065)	(11,242)	(9,697)	(3,220)	(1,900)
Amortization expense	<b>27,601</b>	27,891	27,903	28,414	31,203	26,540	26,382	26,814
Interest expense	<b>10,693</b>	10,325	12,113	10,107	10,069	9,962	8,284	6,648
Interest (income)	<b>(1,102)</b>	(5)	(2)	(14)	(3)	(3)	(66)	(81)
EBITDA	<b>33,222</b>	35,701	34,998	26,226	24,023	34,358	35,647	35,560
Add: Loss on disposal of equipment	<b>5,756</b>	5,918	4,993	6,086	11,000	5,081	3,434	3,796
Add: Impaired assets	-	-	-	4,106	3,398	-	-	-
Adjusted EBITDA	<b>\$38,978</b>	\$41,619	\$39,991	\$36,418	\$38,421	\$39,439	\$39,081	\$39,356

Adjusted EBITDA increased by \$557 during the third quarter of 2010 over the prior year. Most of the improvement in Adjusted EBITDA was driven by higher revenues from the Rentals business. EBITDA of \$33,222 for the third quarter of 2010 improved by \$9,199 over the comparable period in 2009 due to increased revenue and a reduction in loss on disposal of Rentals assets resulting from lower Attrition. On a quarterly basis there are small fluctuations in Adjusted EBITDA as a result of the timing of SG&A expenses and customer claims. In 2009, Adjusted EBITDA declined due to the impact of Attrition.

### ***Billing and Servicing Matters***

Direct Energy, through EGD, provides billing and collection services for substantially all the Fund's water heaters and other Rentals assets. Following the September 2009 billing system conversion implemented by Direct Energy, which coincided with a billing system conversion by EGD, the Fund's ICFR identified issues principally associated with Direct Energy's system conversion impacting the Fund's customers, including issues in respect of the allocation of customer payments, customer collections, billing in respect of new customers and implementation of new rental rates. The Fund has been working closely with Direct Energy to identify and rectify these issues.

In the third quarter of 2010, the Fund has estimated and recorded revenues of \$2,100 (versus second quarter 2010 accruals of \$2,655) in respect of customer billings and adjustments that have not been completed by Direct Energy. The reduction in the accrual reflects the release of a component of the accrual related to certain payment processing issues where progress was made in the current quarter offset in part by the continued accumulation during the quarter of billings associated with new customer additions and billing rate increases.

During the current quarter, (see "Cost or Sales and Selling, General and Administrative Expenses") further analysis and review has revealed collection exposures for which an additional \$500 provision was required related to customers outside the EDG gas customer areas.

The Fund is actively working with DE to resolve all these billing issues to eliminate the need for these accruals and advance billing analysis and collection efforts. However, the timing of this resolution is difficult to determine at this stage.

The Fund is also in discussion with Direct Energy regarding its billings to the Fund in respect of applicable amounts to be paid by the Fund in respect of water heater installations. The amount at issue totalled approximately \$2,500 at the end of the third quarter of 2010. Settlement with Direct Energy for a lower amount than billed would result in a reduction to previously stated capital expenditure amounts.

## DISTRIBUTABLE CASH AND PAYOUT RATIO

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2010	2009	2010	2009
Cash flow from operating activities	\$ 36,651	\$ 32,639	\$ 93,112	\$ 99,726
Net change in non-cash working capital	(5,918)	(3,158)	634	(7,627)
Operating Cash Flow <sup>3</sup>	30,733	29,481	93,746	92,099
Capital expenditures - excluding acquisitions and Sub-metering	(16,532)	(18,064)	(51,911)	(53,949)
Proceeds on disposal of equipment	1,168	992	2,929	2,629
Distributable Cash	15,369	12,409	44,764	40,779
Distributions declared	(8,867)	(13,322)	(25,194)	(45,265)
Net cash retained/(distributed) by the Fund	\$ 6,502	\$ (913)	\$ 19,570	\$ (4,486)
Payout Ratio	57.7%	107.4%	56.3%	111.0%

The Payout Ratio, after capital expenditures (excluding acquisitions and Sub-metering capital investment) was approximately 58% for the third quarter of 2010 compared to 107% for the same period in 2009. In the 2010 periods, the Payout Ratios improved as a result of the reduction in distributions in September 2009 and increased Distributable Cash due to improved margins, offset by the additional Units issued in June 2010.

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 for the third quarter of 2010 of \$299 and \$1,484 year to date (\$441 and \$3,043 for 2009) had been deducted from Distributable Cash, the Payout Ratios for 2010 would have increased to 59% and 111%, in the third quarter of 2010 and 2009, and 58% and 120% for the year to date periods. The Fund intends to finance its capital expenditures with cash flows from operations and cash on hand.

## LIQUIDITY AND CAPITAL RESOURCES

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2010	2009	2010	2009
Cash flow from operating activities	\$ 36,651	\$ 32,639	\$ 93,112	\$ 99,726
Net change in non-cash working capital	(5,918)	(3,158)	634	(7,627)
Operating Cash Flow	30,733	29,481	93,746	92,099
Net capital expenditures	(15,364)	(17,072)	(48,982)	(51,320)
Growth capital – Sub-metering	(299)	(441)	(1,484)	(3,043)
Cash used in investing activities	(15,663)	(17,513)	(50,466)	(54,363)
Distributions paid to Unitholders	(8,867)	(15,971)	(24,912)	(47,915)
Net financing	(10,182)	(278)	35,371	31,808
Cash (used in)/provided by financing activities	(19,049)	(16,249)	10,459	(16,107)
Cash and equivalents – end of period	\$ 78,444	\$ 49,922	\$ 78,444	\$ 49,922

Operating Cash Flow of \$30,733 for the third quarter of 2010 increased by approximately \$1,252 or 4% compared to the same period in 2009, largely as a result of increased revenues in the Rentals business, other income partially offset by increased cost of sales and G&A expenses. For the nine months ended September 30, 2010, Operating Cash Flow was in line with the prior year. Cash flow from operating activities is a GAAP measure which is impacted by the timing of net changes in non-cash working capital. The net change in non-cash working capital is primarily related to the timing of interest payments on debt and in the case of the nine months ending September 30, 2010, an increase in accounts receivable.

<sup>3</sup> Operating Cash Flow is a Non-GAAP financial measure. Refer to the Non-GAAP Financial and Performance Measures section in this MD&A.

Capital investments in 2010 are lower in the Rentals business, while investments in Sub-metering slowed after the first quarter of 2009 as a result of the OEB Order. Reductions in asset exchanges in the Rentals business during 2010 contributed to the lower net capital expenditures. Net financing activity for 2010 primarily reflects the impact of the offering of Units and Convertible Debentures.

The Trust is subject to a number of covenants and has the ability to incur additional senior debt as described in Liquidity and Capital Resources – Cash from Financing.

Management believes that the Fund has sufficient cash flow, cash on hand and credit available to meet its 2010 obligations, including the working capital requirements of the Sub-metering business and capital expenditures for the Rentals and Sub-metering businesses.

### Capital Expenditures

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

Asset Unit Continuity (in thousands)	Three months ended September 30,					
	2010			2009		
Segment	Rentals	Sub-metering	Total	Rentals	Sub-metering	Total
Units – start of period	1,293	43	1,336	1,367	40	1,407
Portfolio additions	8	2	10	7	1	8
Attrition (2009 restated for backlog)	(24)		(24)	(32)		(32)
Units – end of period	1,277	45	1,322	1,342	41	1,383
Asset exchanges – units retired and replaced	13		13	18		18
% change in units during the period			(1.0%)			(1.7%)
% of units from start of period:						
Portfolio additions (net of acquisitions)			0.7%			0.6%
Attrition (2009 restated for backlog)			(1.8%)			(2.3%)
Units retired and replaced			1.0%			1.3%

Asset Unit Continuity (in thousands)	Nine months ended September 30,					
	2010			2009		
Segment	Rentals	Sub-metering	Total	Rentals	Sub-metering	Total
Units – start of period	1,322	35	1,357	1,409	33	1,442
Portfolio additions	21	10	31	19	8	27
Attrition (2009 restated for backlog)	(66)		(66)	(86)		(86)
Units – end of period	1,277	45	1,322	1,342	41	1,383
Asset exchanges – units retired and replaced	45		45	56		56
% change in units during the period			(2.6%)			(4.0%)
% of units from start of period:						
Portfolio additions (net of acquisitions)			2.3%			1.9%
Attrition (2009 restated for backlog)			(4.9%)			(6.0%)
Units retired and replaced			3.3%			3.9%

Net capital expenditures in the Rentals business include portfolio additions and asset exchanges, net of proceeds on disposal. In 2010, net capital expenditures in the Rentals business were \$15,364 during the third quarter and \$48,982 year to date, decreasing by approximately \$1,700 for the quarter and \$2,300 year to date when compared to 2009. Total Rentals portfolio additions and asset exchanges in 2010 decreased

by approximately 9,000 year to date and 4,000 in the third quarter when compared to 2009 largely contributing to the decrease in capital expenditures.

Attrition for 2009 was restated to reflect a processing backlog as described in the 2009 MD&A. Attrition peaked in the second quarter of 2009 and declined through the first quarter of 2010 in part due to customer communications and marketing programs delivered by the Fund and Direct Energy. Attrition increased modestly in the second and third quarter of 2010 due mostly to seasonal factors associated with much higher competitor door to door sales activity; however, Attrition is approximately 25% lower in the third quarter and year to date 2010 when compared to 2009.

The Fund and Direct Energy continued to extend their customer communications, awareness and loyalty program initiatives in the third quarter with customer subscriptions to the Loyalty Program increasing to more than 134,000 customers. The Fund also launched two new marketing and communications initiatives in the third quarter to counter Rentals Attrition.

### ***Cash from Financing***

Financing activities for the Fund reflect mainly Unitholder distributions, refinancing of the Trust's indebtedness, the Fund's issuance of Units and Convertible Debentures, and to a much lesser extent funding of the Sub-metering business. The Fund has historically generated sufficient cash flows to maintain operations and invest in growth opportunities. During 2009, distributions were reduced to allow the Fund to finance capital investments to grow its Sub-metering and Rentals businesses, support marketing programs to defend its customer base and strengthen its financial position. The net financing activity for the third quarter of 2010 primarily reflects the repayment of the New Revolver. The year to date amount includes the impact from the gross proceeds of the offering of Units and Convertible Debentures. Financing activities in the 2009 year to date amount reflect the increase in short term borrowings on the revolving line of credit.

<b>Capitalization</b>	Nine months ended September 30,	
	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 78,444	\$ 49,923
Net investment in working capital	(8,507)	(8,496)
Cash, net of working capital	<b>69,937</b>	41,427
Total debt	<b>600,258</b>	611,681
Unitholders' equity	<b>171,674</b>	156,618
Total capitalization – book value	<b>\$ 771,932</b>	\$ 768,299

Typically, the Fund maintains cash balances to provide cash reserves sufficient to fund short-term requirements, including interest payments, Unitholder distributions and certain capital expenditures and acquisitions. The Fund held \$78,444 of cash on hand at September 30, 2010, an increase of approximately \$28,500 from the prior year, comprised of the proceeds of the Unit and Convertible Debenture issues, partially offset by a reduction of bank indebtedness.

At September 30, 2010, total debt was comprised of the 2009 Notes, 2010 Notes, Convertible Debentures and the Stratacon secured debt. The 2003 Notes and 2009 Bridge were repaid in the first quarter of 2010 and the New Revolver was repaid in the third quarter of 2010.

The Trust is subject to a number of covenant requirements as described in the AIF. The following discussion outlines the principal covenants.

## ***New Revolver***

Under the New Revolver, the Trust is subject to three principal financial covenants as described in the AIF. The covenants address interest and debt coverage. The Trust complied with these covenants on September 30, 2010. No funds were drawn on the New Revolver at September 30, 2010.

## ***2009 Notes and 2010 Notes – Incurrence Test***

The covenants under the 2009 Notes and 2010 Notes are contained in a master trust indenture and supplemental indentures effective January 29, 2010 and February 19, 2010, as applicable. Under the terms of these indentures, the Trust may not incur additional senior debt other than certain refinancing debt and certain working capital debt if the Incurrence Test (as described in the AIF) is less than 3.8 to 1. On September 30, 2010 the Trust exceeded this minimum and has the capacity under the covenant to raise approximately \$14,000 additional senior debt should it elect to do so.

## **Summary of Quarterly Results**

	<b>Q3/10</b>	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q4/08
Total revenues	<b>\$49,676</b>	\$51,450	\$49,123	\$44,727	\$46,121	\$48,208	\$49,190	\$46,517
Net earnings/(loss)	<b>1,296</b>	2,346	(67)	15,784	(6,004)	7,556	4,267	4,079
Unitholder distributions declared	<b>8,867</b>	8,304	8,023	8,023	13,322	15,972	15,972	15,972
Average Units outstanding	<b>54,734</b>	50,841	49,524	49,524	49,524	49,524	49,524	49,524
Per Unit								
Basic/diluted net (loss)/earnings	<b>\$ 0.02</b>	\$ 0.05	\$ 0.00	\$ 0.32	(\$0.12)	\$ 0.15	\$ 0.09	\$ 0.08
Unitholder distributions declared	<b>\$0.162</b>	\$0.163	\$0.162	\$0.162	\$0.269	\$0.323	\$0.323	\$0.323

Revenues in the Rentals business reflect rate increases implemented generally in January of each year and changes in the portfolio over time. Revenues declined through much of 2009 due to the impact of Attrition in the Rentals portfolio and as a result of a lower billing base in the Sub-metering business due primarily to the OEB Order.

Differences in net earnings between quarters reflect the profile of certain expenses, as well as the timing and amount of the future income tax recoveries. During 2009, the impact of the loss on disposal of equipment has been significant due to the combined impact of Attrition and exchanges in the Rentals business. In addition, during the same periods, operating results reflect both the impact of the final Stratacon purchase price allocation and impairment charges. Commencing in the fourth quarter of 2009, Unitholder distributions reflect the full impact of the distribution reduction effected in September 2009.

## **SUPPLEMENTARY ANALYSIS**

The following table outlines the trend of installed units in the Sub-metering business.

Sub-metering Units (in thousands)	<b>Q3/10</b>	Q2/10	Q1/10	Q4/09	Q3/09
Installed units	<b>45</b>	43	41	35	41

Third quarter 2010 installations were modest, in large part due to the regulatory uncertainty in respect of sub-metering.

Billing units in the Sub-metering business are typically lower due to the time required for existing tenants to consent to sub-metering.

In September 2010, the Fund and the vendors under the share purchase agreement pursuant to which the Fund acquired Stratacon reached a settlement in respect of various claims for indemnification made by the Fund pursuant to the share purchase agreement. The settlement included the release of \$1,000 plus

interest to the Fund from the escrow account established at the time of acquisition and a reduction of 15% to amounts to be paid to the vendors pursuant to the earn-out under the share purchase agreement.

## SUMMARY OF CONTRACTUAL DEBT OBLIGATIONS

The following schedule summarizes the contractual debt obligations of the Fund at September 30, 2010:

Year	Principal Payments	Interest Payments
Remainder of 2010	\$ 296	\$ 12,181
2011	1,204	37,205
2012	61,247	35,249
2013	241,323	26,724
2014	271,383	11,182
2015 and thereafter	31,232	4,740
Total	\$ 606,685	\$ 127,281

Long-term senior contractual obligations of the Fund include debt service on the 2009-1 Notes, 2009-2 Notes and 2010 Notes bearing interest at 6.20%, 6.75% and 5.25%, respectively. Interest on the 2009 Notes is payable semi-annually on April 30 and October 30 and on March 15 and September 15 in respect of the 2010 Notes. The Stratacon secured debt of \$8,802 was issued in 14 series with maturity dates ranging from 4 to 14 years, ending in 2022. The interest rate on the secured debt ranges from 7.5% to 8.75% and is paid monthly.

At September 30, 2010, \$35,000 of the New Revolver was available to be drawn. The New Revolver bears a standby fee of 0.825% which is included in the above schedule until maturity in January 2013.

The Convertible Debentures bear interest at 6.25% with interest payable semi-annually on June 30 and December 31 until maturity in June 2017.

## FUND UNITS ISSUED AND OUTSTANDING

CWIF's Declaration of Trust provides that an unlimited number of 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: Units and Special Trust Units. At the date of this MD&A, 54,734,092 Units were issued and outstanding, and no Special Trust Units were outstanding. The number of issued and outstanding Units was 49,524,092 prior to the June 2010 offering of 5,210,000 additional Units. Gross proceeds from the Unit offering were \$25,008.

## IFRS

Effective January 1, 2011, Canadian GAAP will change to adopt International Financial Reporting Standards for publicly traded enterprises, including the Fund and the Trust. The Fund's initial reporting under IFRS will be for the first quarter of 2011 with comparative data for 2010.

Key stakeholders and investors will continue to be updated on a regular basis and through the Fund's quarterly filings and investor presentations.

### *Business Activities*

The Fund is reviewing its two acquisitions to assess how these transactions will be impacted by the transition to IFRS. In particular, the Fund is assessing the impact from the different treatment of contingent consideration and transaction costs. The Fund is also considering the impact of IFRS on covenants

associated with long-term financial instruments. The Fund does not expect any significant changes in its overall business strategy from the impact of the transition to IFRS.

### *Information Technology*

Management does not expect a significant impact on its method of capturing, recording and communicating its financial information through information technology. There are no other significant changes planned for the Fund's or its service provider's information technology infrastructure relating to the transition to IFRS.

### *Internal Controls over Financial Reporting*

As the transition project progresses and policy choices are finalized, appropriate changes to ensure an adequate level of internal control is achieved may be required. Additional internal controls regarding financial reporting may be required to meet the specific activities and requirements surrounding the first-time adoption. When the Fund has finalized the impact of adopting IFRS on its financial statements, it will be in a position to define and implement changes, if any, to ICFR and DC&P. Activities will include process and documentation changes, as well as training and support for the Fund's finance and accounting team, the Disclosure Committee, Audit Committee and the Board of Trustees. Management does not currently believe there will be material changes to ICFR. Management will complete its assessment and implement any changes required by December 31, 2010. For changes to DC&P, management will ensure the appropriate training and support has been secured from independent experts and appropriate documentation has been implemented by December 31, 2010.

### *Training*

Training sessions have already been provided to key personnel of the Fund to ensure a sufficient level knowledge of IFRS policies has been achieved to implement the transition. Management and the audit committee have been briefed on the major differences and expected impact of these differences that may affect the Fund's financial statements. Formal and informal training for the individuals involved in the changeover to IFRS, as well as other senior management and the Board of Trustees of the Fund is continuing based on the experience and needs of each individual. Additional training will be provided as required, including for any new IFRS standards that are promulgated in the future.

### *Accounting Policies*

Management has substantially completed detailed component evaluation analysis ("CE"), which determines the appropriate IFRS policies, disclosure and presentation for each financial statement line item based on accounting standards that have been issued by the International Accounting Standards Board ("IASB"). These CEs have been provided to the Fund's auditors for their review and comment, and in addition, on November 5, 2010, a summary of all materials issues contained in the CEs was presented to the Fund's Audit Committee for comment and follow up. An updated draft of the January 1, 2010 opening balance sheet and revised note disclosure is under review by our auditors and was presented to the Audit Committee. Some limited work remains to estimate the impact of some potential changes in the measurement and recognition in the following areas; contingent consideration in business combinations, impairment and contingent liabilities and consequential impacts on income taxes. The Fund intends to finalize the CEs, opening balance sheet and financial statement disclosures in the fourth quarter. Management is working through its detailed plan to convert its financial statements to IFRS, and reports progress on a quarterly basis to the Audit Committee.

In anticipation of IFRS adoption and possible changes, the Trust's borrowing agreements, including those related to the 2009 Notes, 2010 Notes, and New Revolver, determine covenants and coverage ratios based on Canadian GAAP prior to adopting IFRS. Accordingly, the adoption of IFRS is not expected to have any direct impact on the Fund's financial covenants. The Convertible Debentures do not have covenants that would be affected by IFRS. Management believes the implementation of IFRS will have a minimal impact

on contractual arrangements and compensation plans. Covenants relating to any future indebtedness will be negotiated based on IFRS.

The evaluation and preliminary conclusions regarding the significant standards applicable to the Fund's accounting policies are as follows:

#### *IFRS 1- First-time Adoption of IFRS*

Management has reviewed its available exemptions under IFRS 1 – First time adoption of IFRS and has concluded that it will use the elective exemptions for business combinations. Business combinations completed prior to transition will not be restated retroactively: in particular, the acquisition of Stratacon incurred transaction costs that were included in the purchase price allocation. Under IFRS these costs would have been expensed as incurred.

Transition costs related to the October 1<sup>st</sup>, 2010 EECI acquisition will be deferred under Canadian GAAP and reported accordingly in our annual 2010 financial statements. Upon transition to IFRS, these costs will be expensed, resulting in a charge against retained earnings.

#### *IFRS 3 - Business Combinations*

Management has identified that treatment of business combinations under IFRS may result in an impact on its results of operations when compared to its current policies under GAAP. Costs attributed to an acquisition transaction are expensed in the period incurred under IFRS whereas under GAAP, the Fund defers and allocates such costs to identifiable assets or goodwill in the purchase equation once the acquisition has closed. In addition, management identified that if future business combinations contain contingent consideration, the treatment under IFRS will involve measurement and recognition of subsequent changes in the fair value of contingent consideration that differs from the treatment under GAAP. Management will maintain detailed records of its deferred charges to quantify this difference in its interim financial statements in 2011.

The acquisition of Stratacon in 2008 contains contingent consideration that was not initially recognized in the financial statements under GAAP. In our transitional statements in 2011 the contingent consideration will be valued and recorded in the company's statements with changes in its fair value being recognized on a quarterly basis.

#### *IAS 12 – Income Taxes*

The Fund recognizes that, under IFRS, its basis for recognition, measurement and presentation of future tax assets and liabilities may differ from its current presentation under GAAP. The adoption of IFRS will not affect the internal processes over calculating and maintaining tax records as this data is readily available using current systems.

#### *IAS 16 – Property and Equipment*

Under IFRS, after initial recognition, it is possible to measure property and equipment using the cost model or the revaluation model. The revaluation model is not allowed under GAAP. The Fund will continue to use the cost model.

#### *IAS 18 – Revenue Recognition*

Management has performed its component evaluation on IAS 18 – Revenue Recognition and has concluded that there will be no significant impact on revenue recognition from the transition to IFRS. To ensure completeness of its evaluation, management analyzed each source of the Fund's revenue and determined whether it meets the criteria for revenue recognition under IFRS. Management concluded that all sources of currently recognized revenue under GAAP would continue to be recognized under IFRS.

### *IAS 36 – Impairments*

The Fund is required to perform impairment tests on its intangible assets and any goodwill on an annual basis. Management is currently identifying its cash-generating units on the basis of independent cash inflows for impairment testing. Impairment tests as at December 31, 2009 are in process on the water heater equipment and related intangible assets recorded on its balance sheet. No impairment is expected at this time but final work and analysis is not yet complete.

### *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*

IAS 37 requires a provision to be recognized when: (i) there is a present obligation as a result of a past transaction or event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. The threshold for recognition of a provision under GAAP is higher than under IFRS. It is possible, therefore, that some contingent liabilities which would not have been recognized under GAAP may meet the criteria for recognition as a provision under IFRS.

In addition to the sections noted above, there are generally more extensive presentation and disclosure requirements under IFRS as compared to GAAP. These have been noted in the Fund's detailed analysis and are included in the draft IFRS materials reviewed by our auditors and presented to the Audit Committee.

On an ongoing basis, management is monitoring the International Accounting Standard Board's activities, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and GAAP.

## **NON-GAAP FINANCIAL AND PERFORMANCE MEASURES**

The consolidated financial statements of the Fund are prepared in accordance with Canadian GAAP. CWIF's accounting policies are summarized in detail in note 2 of 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, sub-meters and other assets: capital expenditures and acquisitions.

## **Measures of Financial Performance**

### ***EBITDA***

This measure comprises net earnings plus income taxes, interest expense 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 expense, amortization expense, impairment losses 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- Adjusted EBITDA and EBITDA*" in this MD&A.

### ***Distributable Cash***

Distributable Cash 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 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, 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 to distributions declared 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. 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 was in compliance with all covenants as at September 30, 2010. A summary of the current covenants as described in the AIF is discussed below.

### ***New Revolver***

Under the New Revolver, the Trust is subject to three principal financial covenants as described in the AIF. The covenants address interest and debt coverage. The Trust complied with these covenants and has the ability to draw on the New Revolver.

## ***2009 Notes and 2010 Notes – Incurrence Test***

The covenants under the 2009 Notes and 2010 Notes are contained in a master trust indenture and supplemental indentures effective January 29, 2010 and February 19, 2010, as applicable. Under the terms of these indentures, the Trust may not incur additional senior debt other than certain refinancing debt and certain working capital debt if the Incurrence Test (as described in the AIF) 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 equipment and intangible assets. During the third quarter of 2010, additional accruals were recorded (see "Billing and Servicing Matters").

### ***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 and acquisition costs. There exists measurement uncertainty with respect to the useful life of the installed rental assets; accordingly, 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***

For the Rentals business 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. Rentals intangible assets are amortized 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.

Intangibles relating to the purchase of the Sub-metering business are comprised of cash flows related to customer contracts and relationships, and the benefits from certain contractual arrangements. Customer Contracts and relationships are amortized over 16 years on a straight-line basis while other contractual arrangements are amortized on a straight-line basis between 2 and 5 years.

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, and assessed the design of, a system of DC&P to provide reasonable assurance that (i) material information relating to CWIF, including its consolidated subsidiaries, is made known to them by others; and (ii) information required to be disclosed by the Fund in its annual filings, interim filings and other reports filed or submitted by CWIF under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As well, CWIF's certifying officers have designed, and assessed the design of, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There are no material weaknesses relating to the design of either DC&P or ICFR at September 30, 2010. There have been no changes to our ICFR during the quarter

ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Fund's ICFR.

Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, the Fund intends to take whatever steps are necessary to minimize the consequences thereof.

## **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. Refer to the IFRS section in this MD&A.

## **OUTLOOK**

### *Continued Effort in Reducing Rental Attrition*

While the Fund is pleased to see continued progress in Attrition levels, we will continue to counter customer loss aggressively. In the third quarter, the Fund resumed a heavy radio and newspaper media campaign that will continue into the fourth quarter. The print media campaign has been expanded to be longer in duration than previous campaigns and now extends to non-English publications.

### *Introduction of a Venting Rental Program*

Since the inception of a regulatory change on plastic venting (S636 standard) customers have been required to upgrade their venting system upon replacement of their power vented water heater. Recently, the Fund, in conjunction with Direct Energy, introduced a "venting rental program" whereby for a monthly rental charge the customer can elect to rent their new venting as opposed to paying for the upgrade upfront.

The Fund believes this program supports greater customer satisfaction and potentially retention.

### *Favourable Sub-metering Regulations Published*

The Energy Act and Regulations come into force on January 1, 2011, which we believe is the final hurdle to allow Ontario's landlords to take full advantage of this important energy conservation tool. The recently announced Regulations are very favourable to sub-metering and provide the clarity required to allow owners and tenants to make informed decisions.

The Legislation comes at a time of heightened concern about energy conservation and rising energy costs. Implementing sub-metering allows residents to manage their electricity consumption and helps landlords control their costs. With electricity rate increases implemented and announced in Ontario of 26% and electricity consumption reductions of between 20-35% available through sub-metering, the value of sub-metering has never been more apparent.

The Fund's sub-metering subsidiaries, Stratacon and EnerCare Connections Inc., will be reaching out to clients and prospects in the fourth quarter to promote the benefits of sub-metering and explain the Legislation with the goal of re-establishing sales momentum in this market.

During the third quarter, the Fund entered into a sub-metering agreement in respect of a newly acquired property with O'Shanter Developments, a large, Toronto based landlord with a strong record on energy efficiency and conservation in its multi-residential rental portfolio. Following the acquisition of this rental property, O'Shanter made sub-metering one its first priorities.

### *Integration of Sub-metering businesses*

The Fund is integrating its sub-metering businesses, with full consolidation and impact on expenses expected by mid-2011.

### *Conversion to a Corporation*

As discussed in the recent developments section, the Fund intends to convert to a dividend paying corporation on January 1, 2011 with a monthly dividend at current levels. The dividend level of \$0.648 per share annually represents \$0.47 of after-tax income per share for taxable Canadian retail investors (assuming the current marginal tax rate in Ontario), versus the \$0.36 after-tax equivalent income under the income trust structure, an approximate 30% increase in the after-tax income per share for such investors.

The Fund estimates that EnerCare will pay approximately \$6,000 to \$8,500 in cash taxes for the fiscal year ended December 31, 2011. This estimate is based on taxable income comparable to current levels, shielded by unrestricted tax losses in the Rental and Sub-metering businesses and a corporate tax rate of 28.25%. Taxable income is principally impacted by changes in revenue, operating expenses, appropriate tax planning and capital expenditures through the capital cost allowance deduction. No assurance can be given, however, that this estimate will reflect actual cash taxes payable by EnerCare in 2011.

### *Rebranding*

The “Consumers’ Waterheater” brand was appropriate when the Fund was created and clearly communicated to the market the nature of our business. The acquisition of direct customers and introduction of new products other than water heaters coupled with our move into sub-metering have added new dimensions to our business. We have become more “consumer facing” and now have many thousands of direct customer relationships and interactions.

On January 1, 2011, we will adopt the EnerCare brand. EnerCare eloquently portrays the nature of our current as well as anticipated offerings to all stakeholders: customers, investors and employees. We expect that the EnerCare brand will:

- enhance sales and marketing performance for customer acquisition and retention;
- paint a clearer picture of the nature of our business and future opportunities to investors; and
- increase employee engagement.

## GLOSSARY OF TERMS

Defined Term	Definition
AIF	Annual Information Form of the Fund dated March 29, 2010.
Attrition	Termination of customer relationships including buyouts.
CICA	Canadian Institute of Chartered Accountants.
Conversion	The planned conversion of the Fund from an income trust to a dividend-paying corporation.
Convertible Debentures	\$27,883 principal amount of 6.25% convertible unsecured subordinated debentures of the Fund, which mature on June 30, 2017. Each Debenture is convertible into Units at the option of the holder at a conversion price of \$6.48 (or 154.3210 Units per \$1,000 principal amount of Convertible Debentures).
DC&P	Disclosure Controls and Procedures as defined under National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings.
Direct Energy	Direct Energy Marketing Limited.
EECI	Enbridge Electric Connections Inc. (now EnerCare Connections Inc.).
EGD	Enbridge Gas Distribution Inc.
EnerCare	EnerCare Inc.
EnerCare Convertible Debentures	The Convertible Debentures of the Fund following Conversion.
EnerCare Shares	The common shares of EnerCare.
EnerCare Solutions	EnerCare Solutions Inc.
Energy Act	The Energy Consumer Protection Act, 2010.
Fund or CWIF	The Consumers’ Waterheater Income Fund.
GAAP	Generally Accepted Accounting Principles.
Incurrence Test	2009 Notes and 2010 Notes Incurrence EBITDA to Net Interest Expense.
ICFR	Internal Control Over Financial Reporting as defined under National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings.
IFRS	International Financial Reporting Standards.
Legislation	The regulations published under the Energy Act and RTA relating to sub-metering, and the Energy Act.
MD&A	Management’s Discussion and Analysis.
New Revolver	\$35,000 line of credit, with a maturity date of January 28, 2013 obtained by the Trust December in 2009.
OBA Agreement	Open Bill Access agreement entered into between EGD and Direct Energy in 2010.
OCI	Other Comprehensive Income.
OEB Order	Ontario Energy Board decision and order issued August 13, 2009.
Regulations	Regulations published by the Government of Ontario under the Energy Act and the RTA. 2006.
Rentals	Business division that rents water heaters and other equipment.
RTA	Residential Tenancies Act, 2006.
SG&A	Selling, general and administrative expenses.
Stratacon	Stratacon Inc., which was acquired by the Fund in August 2008.
Sub-metering	Business division (Stratacon and EECI) that provides sub-metering equipment and billing services.
Trust	The Consumers’ Waterheater Operating Trust, a subsidiary of the Fund.
Units	Units of the Fund.
2003 Notes	\$225,000 of 5.245% Series 2003 A-2 Senior Secured Notes, which were repaid on January 28, 2010.
2009 Bridge	\$240,000 bridge credit facility, with a maturity date of January 28, 2011.
2009-1 Notes	\$60,000 of 6.20% Series 2009 -1 Senior Notes of the Trust, which mature on April 30, 2012.
2009-2 Notes	\$270,000 of 6.75% Series 2009 -2 Senior Notes of the Trust, which mature on April 30, 2014.
2009 Notes	Collectively, the 2009-1 Notes and 2009-2 Notes.
2010 Notes	\$240,000 of 5.25% Series 2010 -1 Senior Unsecured Notes of the Trust, which mature on March 15, 2013.