The Consumers'
Waterheater Income Fund

The Consumers' Waterheater Operating Trust

Interim Consolidated Financial Statements
(Unaudited)

Third Quarter Ended September 30, 2010

Dated November 5, 2010

The Consumers' Waterheater Waterheater Operating Trust

Interim Consolidated Balance Sheets

(in thousands)		**September 30, 2010** (unaudited)		December 31, 2009
Assets				
Current assets				
Cash and equivalents (note 3)	**$**	**19,536**	$	12,373
Accounts and other receivables		**19,022**		16,032
Intercompany receivables (note 4)		**535**		492
		39,093		28,897
Equipment (note 5)		**442,949**		454,042
Intangible assets (note 6)		**387,618**		422,414
	$	**869,660**	$	905,353
Liabilities				
Current liabilities				
Bank indebtedness (note 7)	**$**	**-**	$	27,438
Current portion of long-term debt (note 8)		**-**		225,000
Accounts payable and accrued liabilities		**16,575**		14,026
Interest payable		**10,025**		9,134
Distributions payable to Unitholders		**2,643**		2,345
		29,243		277,943
Long-term debt (note 8)		**566,547**		327,036
Subordinated debt (note 10)		**381,755**		381,755
Future income taxes		**155,701**		168,306
		1,133,246		1,155,040
Unitholders' deficiency		**(263,586)**		(249,687)
	$	**869,660**	$	905,353

See accompanying notes to the interim consolidated financial statements.

The Consumers' Waterheater Waterheater Operating Trust

Interim Consolidated Statements of Earnings

(unaudited) (in thousands)	**Three months ended September 30,** **2010**	 2009	**Nine months ended September 30,** **2010**	 2009
Revenues				
Rental revenue	**$ 46,951**	$ 43,805	**$ 142,530**	$ 134,819
Investment income	**9**	3	**13**	69
	46,960	43,808	**142,543**	134,888
Expenses				
Cost of sales and selling, general & administrative	**7,363**	4,492	**19,829**	15,118
Amortization	**26,046**	25,804	**78,204**	76,806
Loss on disposal of equipment	**5,756**	11,000	**16,667**	19,515
Interest				
Short-term	**100**	6,534	**3,387**	16,129
Long-term	**10,832**	4,339	**31,387**	14,560
	50,097	52,169	**149,474**	142,128
(Loss)/earnings before income taxes	**(3,137)**	(8,361)	**(6,931)**	(7,240)
Income tax recovery	**(4,567)**	(8,221)	**(12,605)**	(19,651)
Net earnings /(loss)for the period	**$ 1,430**	$ (140)	**$ 5,674**	$ 12,411

See accompanying notes to the interim consolidated financial statements.

The Consumers' Waterheater Waterheater Operating Trust

Interim Consolidated Statements of Unitholders' Equity

(unaudited) (in thousands)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Capital - Units beginning and end of period	**$ 79,614**	$ 79,614	**$ 79,614**	$ 79,614
Deficit				
Balance - beginning of period	**(324,818)**	(314,610)	**(314,628)**	(297,203)
Net earnings/(loss) for the period	**1,430**	(140)	**5,674**	12,411
Distributions declared	**(7,905)**	(12,319)	**(22,339)**	(42,277)
Deficit - end of period	**(331,293)**	(327,069)	**(331,293)**	(327,069)
Accumulated other comprehensive loss				
Balance - beginning of period	**(12,839)**	(16,537)	**(14,673)**	(23,596)
Ineffectiveness of hedge	**-**	-	**-**	5,671
Amortization (note 8)	**932**	932	**2,766**	2,320
Accumulated other comprehensive loss - end of period	**(11,907)**	(15,605)	**(11,907)**	(15,605)
Unitholders' deficiency	**$ (263,586)**	$ (263,060)	**$ (263,586)**	$ (263,060)

See accompanying notes to the interim consolidated financial statements.

The Consumers' Waterheater Waterheater Operating Trust

Interim Consolidated Statements of Comprehensive Income

(unaudited) (in thousands)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net earnings/(loss) for the period	**$ 1,430**	$ (140)	**$ 5,674**	$ 12,411
Ineffective hedge loss transferred to earnings	**-**	-	**-**	5,671
Amortization of accumulated other comprehensive losses	**932**	932	**2,766**	2,320
Comprehensive income for the period	**$ 2,362**	$ 792	**$ 8,440**	$ 20,402

See accompanying notes to the interim consolidated financial statements.

The Consumers' Waterheater Waterheater Operating Trust

Interim Consolidated Statements of Cash Flows

(unaudited) (in thousands)	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Cash provided by/(used in):				
Operating activities				
Net earnings/(loss) for the period	**$ 1,430**	$ (140)	**$ 5,674**	$ 12,411
Items not affecting cash				
Amortization	**26,046**	25,804	**78,204**	76,806
Loss on disposal of equipment	**5,756**	11,000	**16,667**	19,515
Non-cash interest expense	**1,234**	1,126	**5,045**	3,910
Net gain on derivative	**-**	-	**-**	(509)
Future income tax recovery	**(4,567)**	(8,221)	**(12,605)**	(19,651)
Operating cash flow	**29,899**	29,569	**92,985**	92,482
Net change in non-cash working capital	**5,728**	3,327	**(1,033)**	7,114
Cash provided by operating activities	**35,627**	32,896	**91,952**	99,596
Investing activities				
Purchase of equipment	**(16,532)**	(18,064)	**(51,911)**	(53,950)
Proceeds from disposal of equipment	**1,168**	992	**2,929**	2,629
Cash used in investing activities	**(15,364)**	(17,072)	**(48,982)**	(51,321)
Financing activities				
Distributions to Unitholders	**(7,904)**	(14,966)	**(22,041)**	(44,904)
Proceeds from line of credit	**-**	(8)	**-**	35,098
Repayment of subordinate debt	**-**	(2,500)		(7,500)
Repayment of line of credit	**(12,377)**	-	**(27,438)**	-
Proceeds from bridge facility	**-**	-	**240,000**	-
Repayment of bridge facility	**-**	-	**(240,000)**	(310,000)
Termination of hedge	**-**	-	**-**	(18,840)
Issuance of long-term debt	**-**	-	**240,000**	330,000
Repayment of long-term debt	**-**	-	**(225,000)**	-
Deferred financing costs on long-term debt	**-**	-	**(1,328)**	(3,640)
Cash used in financing activities	**(20,281)**	(17,474)	**(35,807)**	(19,786)
(Decrease)/Increase in cash and equivalents	**(18)**	(1,650)	**7,163**	28,489
Cash and equivalents - beginning of period	**19,554**	49,480	**12,373**	19,341
Cash and equivalents - end of period	**$ 19,536**	$ 47,830	**$ 19,536**	$ 47,830
Supplementary information				
Interest paid	**$ 7,451**	$ 7,142	**$ 28,838**	$ 21,759
Income taxes paid	**$ -**	$ -	**$ -**	$ -

See accompanying notes to the interim consolidated financial statements.

The Consumers' Waterheater Operating Trust
Notes to Interim Consolidated Financial Statements
(Unaudited)
September 30, 2010 and 2009
(in thousands of Canadian dollars)

1. Basis of Presentation

These unaudited interim consolidated financial statements of The Consumers' Waterheater Operating Trust ("CWOT" or "Trust") are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. They do not include all disclosures as required by GAAP for annual financial statements and consequently should be read in conjunction with the audited consolidated financial statements of the Trust for the year ended December 31, 2009. These interim financial statements have been prepared using the same accounting policies and their methods of application as the annual financial statements for the year ended December 31, 2009.

In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for a fair presentation of the financial position of the Trust as at September 30, 2010, and the results of operations and cash flows for the periods then ended, have been included in these interim statements.

2. Financial Instruments

Recognition and Measurement - The Trust's financial instruments consist of cash and equivalents, accounts and other receivables, current liabilities, and indebtedness. The Trust is exposed to interest and credit risks arising from these financial instruments. Financial assets are classified as either: (a) available-for-sale, (b) held-to-maturity, (c) held for trading or, (d) loans and receivables. Financial liabilities are recorded as other liabilities at amortized cost. Financial assets and financial liabilities are initially recorded on the balance sheet at cost, which approximates fair value. Subsequent measurement is determined by the classification of each financial asset and financial liability.

Comprehensive income measures net earnings for the period plus other comprehensive income ("OCI"). Amounts reported as OCI are accumulated in a separate component of Unitholder's equity as accumulated OCI. Unrealized gains and losses on financial assets that are held as available for sale are recorded in OCI until realized, at which time they are recorded in earnings. All derivatives are recorded at fair value in the balance sheet. Transaction costs related to financial liabilities are generally capitalized and amortized over the expected life of the financial instrument using the effective interest method. The Trust does not enter into financial instruments for trading or speculative purposes.

The financial assets and liabilities measured at fair value on the balance sheet consist of items classified as current and are amounts that are generally expected to be settled within one year. There are three levels of the fair value hierarchy as follows:

Level 1: Values based upon unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based upon quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based upon prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Current assets and liabilities have carrying amounts in the balance sheet that approximate fair value because of the short-term nature of these instruments. The fair value of the $60,000 of 6.20% Series 2009-1 Senior Notes and $270,000 of 6.75% Series 2009-2 Senior Notes (collectively, the "2009 Notes") and the $240,000 of 5.25% Series 2010-1 Senior Unsecured Notes ("2010 Notes") are determined by the market price on or near the balance sheet date and measured as level 1 of the fair value hierarchy. At September 30, 2010, the estimated fair value of the 2009 Notes and the 2010 Notes were $347,136, and $243,432, respectively. The Series 1 subordinated debt fair market value is indeterminable as outlined in Note 10.

Credit Risk - The Trust's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. For less than 5% of the Rentals portfolio, the Trust is exposed to credit risk in the normal course of business for customers who are not billed on Enbridge Gas Distribution Inc. ("EGD") invoices. For accounts receivable from customers billed on EGD invoices, the Trust is paid by EGD 99.42% of the amount billed by EGD (subject to certain exceptions) 21 calendar days after the invoices are issued. A related trust agreement also serves to mitigate the Trust's credit exposed on receivables owing from EGD.

Market Risk – The Trust, has traditionally issued fixed term debt. At September 30, 2010, the Trust had repaid its December 2009, three year, $35,000 revolving credit facility ("New Revolver"). The Trust would be subject to interest rate risks on any amounts drawn on the New Revolver as the interest rate varies in accordance with changes in the bankers' acceptance ("BA") rate.

Following the completion of financing activities through to July 2010, the Trust's borrowings are fixed rate obligations maturing in 2012, 2013, and 2014.

Liquidity Risk - The Trust measures liquidity risk through comparisons of current financial ratios with the financial covenants contained in its credit facility agreements, and Master Trust Indenture and Supplemental Trust Indentures as applicable. To reduce liquidity risk, the Trust has maintained financial ratios which comply with the financial covenants applicable to the borrowings.

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 loan documents is less than 3.8 to 1. The Trust exceeded this threshold requirement at September 30, 2010 and has the capacity under the covenants to raise approximately $14,000 additional senior debt and draw on the New Revolver should it elect to do so.

The Trust has also staggered its senior debt maturity dates through to April 30, 2014. While the Trust will assess various refinancing alternatives including bank financing/refinancing and capital markets well before expected debt maturities, no guarantees can be provided that refinancing of maturing debt will be available or at rates comparable to those on the current debt.

Derivative Financial Instruments - Derivatives are carried at fair value and are reported as assets where they have a positive fair value and liabilities where they have a negative fair value. Derivatives may be embedded in other financial instruments or contracts. Derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract unless such contracts relate to normal course operations and qualify for the normal purchase and sale exemption in accordance with the standards. Since February 2009, the Trust has held no derivatives and there were no embedded derivatives.

Hedge Accounting - Where derivatives are held for risk management purposes or when transactions meet the criteria, including documentation requirements, specified in the CICA Handbook Section 3865, hedge accounting may be applied to the risks being hedged. When hedge accounting is not

applied, the change in fair value of the derivative is recognized in earnings, including instruments used for economic hedging purposes that do not meet the requirements for hedge accounting.

Accumulated OCI - When hedge accounting is applied, changes in the fair value and losses on hedging instruments may be recorded in OCI until reported in earnings. Accumulated OCI forms part of Unitholders' equity.

3. Cash and Cash Equivalents

	September 30, 2010	December 31, 2009
Cash	**$ 19,536**	$ 6,375
Cash equivalents	**-**	5,998
Cash and cash equivalents	**$ 19,536**	$ 12,373

4. Related Party Transactions

The Trust entered into a purchase and sale agreement regarding encumbered receivables with 6814867 Canada Limited ("6814867"), a wholly-owned company of the Fund. Those receivables are sold to 6814867 at their fair market value and are repaid to the Trust at the same value when payment has been received. The Trust's remaining receivables are pledged as security for the Senior Secured Notes.

5. Equipment

	September 30, 2010	December 31, 2009
Cost	**$ 768,621**	$ 757,801
Accumulated amortization	**(325,672)**	(303,759)
Net	**$ 442,949**	$ 454,042

6. Intangible Assets

	September 30, 2010	December 31, 2009
Total cost	**743,336**	743,336
Accumulated amortization	**(355,718)**	(320,922)
Net	**$ 387,618**	$ 422,414

7. Bank Indebtedness

Under the New Revolver the Trust is subject to three principal financial covenants as defined in the loan documents. The covenants address interest and debt coverage. At September 30, 2010, the Trust complied with these covenants and had the ability to draw the full New Revolver limit of $35,000.

8. Long-term Debt

Long-term Debt	**September 30, 2010**	December 31, 2009
2003 Notes	**$ -**	$ 225,000
2009-1 Notes	**60,000**	60,000
2009-2 Notes	**270,000**	270,000
2010 Notes	**240,000**	
Total debt	**570,000**	555,000
Less: Deferred financing costs	**3,453**	2,964
Less: Current portion of debt	**-**	225,000
Long-term debt	**$ 566,547**	$ 327,036

At September 30, 2010, interest and principal payments on the total debt to maturity are:

Year	Interest	Principal
Remainder of 2010	$ 10,973	$ -
2011	34,545	-
2012	32,685	60,000
2013	24,525	240,000
2014	9,113	270,000
Thereafter	-	-
Total	$ 111,841	$ 570,000

In December 2009, the Trust closed a $275,000 bridge and revolving credit facility, comprising a one-year $240,000 non-revolving bridge facility ("2009 Bridge") and the New Revolver. The 2009 Bridge was drawn fully on January 27, 2010 to retire the $225,000 5.245% Series 2003 A-2 Notes on maturity. Security was released on January 29, 2010.

On February 19, 2010, the Trust issued new debt consisting of $240,000 5.25% 2010 Notes with semi-annual interest payments on March 15 and September 15 in each year, with a maturity date of March 15, 2013. The proceeds of the 2010 Notes were used to repay the $240,000 bridge credit facility entered into in 2009.

The 2009 senior debt consists of $60,000 6.20% 2009-1 Notes maturing April 30, 2012 and $270,000 6.75% 2009-2 Notes maturing April 30, 2014. Semi-annual interest payments are due on April 30 and October 30 in each year.

Interest expense on long-term debt includes the impact of amortization of unrealized losses on the Hedge previously recorded in OCI. The amortization of $932 from Accumulated OCI was recorded as interest expense in the third quarter of 2010. This charge is not included in the payments schedule above and will approximate $3,700 over the next 12 months.

9. Performance Unit Plan ("PUP")

The Trust implemented the PUP for its trustees and for senior management. The purpose of the PUP is to: (i) support the achievement of the Trust's performance objectives, (ii) ensure that interests of key persons are aligned with the success of the Trust, and (iii) provide compensation opportunities to attract retain and motivate senior management and trustees critical to the long-term success of the Trust.

The following table summarizes the active performance unit ("Phantom Units") grants:

PUP Grants (in thousands)	**2010**	2009	2008
Management	**114**	78	27
Trustees	**29**	20	13
Total	**143**	98	40

The PUP provides for payments in cash based on the number of Phantom Units awarded. Any Incentive amount awarded will vest at the end of a three year period after the award. Prior to 2009, Phantom Units awarded to management employees will be multiplied by a performance target percentage of between 75% and 125%, of the award, based on the increase in Distributable Cash and Unitholder return over this 3 year period. Vesting of the Phantom Units awarded under the 2009 and 2010 PUP is based on the achievement of a minimum distribution per Unit target.

Upon a participant's termination without cause or death, the vesting date will be deemed to be the date immediately before the date of the participant's death or termination of position, office or employment. If the participant ceases to be an eligible participant for any other reason, the Incentive amount allocated to a participant that has not vested is forfeited.

In accordance with the terms of the PUP grants, an amount of $67 related to the 2007 management grant was paid in 2010. The Phantom Units awarded in 2009 will likely not vest as the target requirements are very unlikely to be met as a result of the reduction in distributions in September 2009.

At December 31, 2009 and September 30, 2010, the Trust had accrued PUP costs of $141 and $341, respectively.

10. Subordinated Debt

At September 30, 2010, $381,755 Series 1 Notes (the "Notes") were outstanding to the Fund. The Notes bear interest at 1% per annum, are payable on demand, and are subordinate to the amounts due in respect of all senior indebtedness (see note 8). The Notes have no fixed repayment terms, but are redeemable at the option of the Trust at a price equal to the principal amount thereof plus accrued and unpaid interest to the date of redemption.

Interest payments due in each of the next five years are $3,818. The fair value of the Notes is not determinable, as no quoted market price exists for these instruments because they are not traded in an active and liquid market.

The Notes are characterized as long-term debt, because the Trustees may elect to issue Series 2 Notes, to settle the Trust's redemption obligation. The Series 2 Notes, none of which have been issued as at September 30, 2010, mature in one year from the date of issuance

11. Capital

The Trust views its capital as the combination of its indebtedness and equity balances. In general, the capital of the Trust is evaluated and determined in the context of its financial objectives, pending taxation in 2011 and its strategic plan. The following table summarizes the significant components of capital:

Capitalization	Nine months ended September 30,	
	2010	2009
Cash and cash equivalents	**$ 19,536**	$ 47,830
Net investment in working capital	**(9,686)**	(10,042)
Cash, net of working capital	**9,850**	37,788
Total debt	**948,302**	998,006
Unitholders' equity	**(263,586)**	(263,060)
Total capitalization – book value	**$ 684,716**	$ 734,946

While the Trust carries a level of cash on hand, this amount is generally modest in relation to its overall capital and is an amount determined in reference to its pending distribution obligations, short-term changes in non-cash working capital balances and possible investment opportunities. The level of indebtedness is determined in the context of its asset base, cash flows, financial ratios and covenants and the overall business risks. The Trust considers its overall capital to be adequate with current distributions and capital expenditures financed through existing cash flow.

The Trust is impacted by the Trust's indebtedness, subject to a number of covenants and restrictions including the requirement to meet certain financial ratios as discussed below. At September 30, 2010 the Trust was in compliance with all of its covenants.

The equity component of capital changes primarily based on the earnings of the Trust less distributions paid and non-cash future income taxes. The Trust will also review its level of equity in the context of the change in taxation impacting the Trust commencing in 2011.

12. Billing and Servicing Matters

Direct Energy Marketing Limited ("Direct Energy"), through Enbridge Gas Distribution Inc. ("EGD"), provides billing and collection services for substantially all the Trust'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 Trust's ICFR identified issues principally associated with Direct Energy's system conversion impacting the Trust'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 Trust has been working closely with Direct Energy to identify and rectify these issues.

In the third quarter of 2010, the Trust 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 Trust is also in discussion with Direct Energy regarding its billings to the Trust in respect of applicable amounts to be paid by the Trust 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.