

THE CONSUMERS' WATERHEATER INCOME FUND

Price (September 2, 2009) **\$5.22**
 52-Week Range **\$10.95-\$5.15**
 Shares O/S **49.52 million**
 Market Cap **\$258.5 million**
 50-day Average Volume **202,400**
 200-day Average Volume **156,700**
 Year-End **December 31**
 Symbol **TSX: CWLUN**

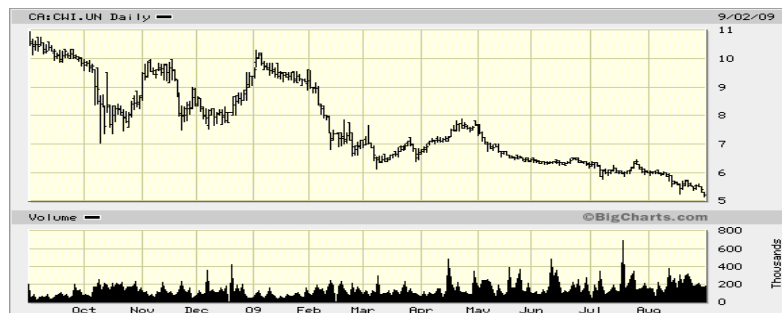
Financial Data

Selected Income/Cash Flow			
C\$millions; 12 months to	Dec-07	Dec-08	Jun-09
Revenues	\$166,703	\$179,750	\$189,012
EBIT	\$48,633	\$54,470	\$52,265
Net Income	\$18,252	\$19,514	\$24,165
Cash Flow (CF) From Ops	\$125,611	\$134,473	\$130,180
Selected Balance Sheet			
	At Dec-07	At Dec-08	At Jun-09
Cash (& Equivalents)	\$29,461	\$20,667	\$51,046
Total Debt	\$530,869	\$558,639	\$611,765
Unitholders' Equity	\$255,974	\$188,073	\$175,012
Total Assets	\$1,027,747	\$1,018,167	\$1,027,125
Enterprise Value	\$1,234,363	\$1,003,498	\$735,731
Working Capital	(\$284,978)	(\$332,903)	(\$234,159)
Working Capital Ratio	0.14x	0.11x	0.24x
Key Ratios			
	At Dec-07	At Dec-08	At Jun-09
EBIT Margin	29.2%	30.3%	27.7%
Return on Equity (ROE)	7.1%	10.4%	13.8%
Return on Assets (ROA)	1.8%	1.9%	2.4%
Total Debt/Total Capital	67.5%	74.8%	77.8%
Cash Flow/Total Debt	0.24x	0.24x	0.21x
Earnings Per Share	\$0.37	\$0.39	\$0.49
Cash Flow Per Share	\$2.54	\$2.72	\$2.63
Enterprise Value Per Share	\$24.92	\$20.26	\$14.86
Multiples			
	At Dec-07	At Dec-08	At Jun-09
Price/EPS	40.16x	23.86x	12.93x
Price/EBIT	15.07x	8.55x	5.98x
Price/Cash Flow	5.84x	3.46x	2.40x
Distributions/Pay-Out			
Distributable Cash	\$64,103	\$69,255	\$61,226
Distributions Declared	\$63,392	\$63,886	\$63,886
Distributions Per Unit	\$1.10	\$1.10	\$1.10
Pay-Out Ratio	98.9%	92.2%	104.3%

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Note: Report prepared with public information only.



Source: www.bigcharts.com

PROFILE

The Consumers' Waterheater Income Fund (the "Fund") owns a portfolio of 1.4 million installed water heaters and other assets, which are rented primarily to residential customers in Ontario, Canada. Direct Energy Marketing Limited provides service support to the Fund's portfolio, in exchange for 35% of aggregate rental revenues. In 2008, Direct Energy rented water heaters in about 40% of Ontario households connected to the gas distribution system.

The Fund also owns Stratacon Inc., a "smart" sub-metering company that has metering contracts (about 45,000) for condominium and apartment suites in Alberta, Ontario and elsewhere in Canada. Stratacon, which measures electricity, heat and water resources, was acquired in August 2008, to provide additional growth and entry into new markets for the Fund across Canada.

STRATEGY

The Fund is undertaking a number of initiatives to improve performance in rentals and sub-metering, and is looking at complementary investments in assets or businesses that would contribute positively to unitholder value.

The Fund also has to assess the implications of the Ontario Energy Board's recent order requiring residential landlords to obtain new consents from each of the sub-metered tenants in buildings where a sub-metering system was installed after November 3, 2005. The requirement could result in billing disruptions and a number of Stratacon's existing customers choosing not to continue with smart sub-metering, which could have a material adverse impact on Stratacon's financial condition and results of operations. (See Recent Developments, August 14, 2009, page 3 of this report.)

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INVESTMENT CONSIDERATIONS

Strengths

Positive factors for the Fund include the following:

- Predictable monthly revenues from established base of long-term customers.
- Stable cash flow.
- Potential growth and entry into new markets across Canada from Stratacon acquisition.
- Attractive annual yield on the units of 24.7%. (See Challenges below.)

Challenges

Risks the Fund faces include the following:

- Increased competitive pressure and a resulting increase in the attrition rate (that is, customer buyouts and terminations). The 2008 attrition rate was 3.2% compared with 2.1% in 2007. There are new entrants in the Fund's traditional market area, as well as increased penetration in this market area by the Fund's major competitor (see Competition on page 3).
- Demand for water-heater rentals is linked to new home construction, with the Fund being affected by difficult economic conditions in the Province of Ontario.
- Possibility of a shift in consumer habits and preferences, whereby purchase of water heaters could replace rentals.
- Uncertainties in the sub-metering business (Stratacon), which is in the early stages of development (see Recent Developments, page 3). There are also concerns connected with future billing services to Stratacon's customers that could have an adverse effect on the distributable cash generated by the Fund.
- High pay-out ratio suspect; weak balance sheet and liquidity squeeze suggest distribution cut.

UNITHOLDER RISKS

Among the risks in an investment in the Units are the following:

- Cash distributions are not guaranteed and depend on many factors, including the Fund's profitability.
- Tax-related risks, including proposed legislative changes, could have a potential negative impact on the Fund.
- Uncertainty as to the level of dividends to be paid after the Fund converts to a corporation.

2008 RESULTS

The Fund reported increases in total revenues, EBITDA, net earnings and distributable cash for the full year 2008 compared with 2007. Revenue was up 7.4%, from \$168.1 million to \$180.5 million, while EBITDA grew 3.4%, from \$141.7 million to \$146.5 million. Net earnings rose 6.9%, from \$18.3 million to \$19.5 million.

Distributable cash increased from \$64.1 million in 2007 to \$69.3 million in 2008. The Fund made distributions to unitholders in 2008 amounting to \$63.9 million (a payout ratio of 92.2%) compared with \$63.4 million (payout ratio of 98.9%) in 2007.

Rental Increase

Monthly rental rates on the Company's portfolio of residential rental water heaters were increased an average 3.9% effective January 1, 2009.

Income Statement (\$000s except per share)	Year		% Change
	Dec. 31 2007	Dec. 31 2008	
Revenue	\$166,703	\$179,750	8%
EBIT	\$48,633	\$54,470	12%
EBIT Margin	29.2%	30.3%	n/a
Net Income	\$18,252	\$19,514	7%
Net Income Margin	10.9%	10.9%	n/a
EPS	\$0.37	\$0.39	7%
Cash Flow	\$125,611	\$134,473	7%
Cash Flow/Share	\$2.54	\$2.72	7%
Revenue/Share	\$3.37	\$3.63	8%
EBIT/Share	\$0.98	\$1.10	12%
Avg. Shares O/S (000s)	49,524	49,524	0%

Source: Company & eResearch

SECOND-QUARTER 2009 RESULTS

The Fund reported Q2/09 results (ended June 2009), with growth in total revenues and net earnings compared with Q2/08, but a decline in EBITDA. The growth in revenues (to \$48.2 million from \$44.3 million) was attributable to growth in the rentals business and the addition of the sub-metering businesses.

The slight decline in EBITDA (to \$34.4 million from \$36.7 million) was in part due to higher losses on disposals in the rentals business. Adjusted EBITDA (that is, EBITDA excluding the non-cash loss on disposal of equipment) rose slightly to \$39.4 million from \$39.3 million.

The losses on disposals in the rentals business result from increased losses to competitors in 2009. Loss on disposal occurs when water-heaters are retired from service before book value has been fully amortized or recovered when exchanged, terminated or bought out by customers. There was no loss on disposal in the sub-metering business.

Operating cash flow was \$30.6 million in Q2, down 9.3% from \$33.7 million in the same period last year. Cash provided by operating activities was \$34.1 million, down from \$37.9 million in the year-earlier period. The Fund should have sufficient cash flow and cash on hand to meet its obligations, including the working capital requirements of the sub-metering business.

Distributable cash in Q2 was \$13.7 million. Distributions amounted to \$15.97 million (\$0.323 per Unit), for a payout ratio of 116.9%. The high payout ratio reflected: (a) higher capital expenditures on replacement assets; (b) operating losses in the sub-metering business; and (c) higher interest expense. As these factors are expected to continue throughout 2009, the payout ratio is expected to remain at levels higher than in previous years.

Income Statement (\$000s except per share)	6 Mos.	6 Mos.	% Change
	Jun. 30 2008	Jun. 30 2009	
Revenue	\$88,067	\$97,329	11%
EBIT	\$27,803	\$25,598	-8%
EBIT Margin	31.6%	26.3%	n/a
Net Income	\$7,172	\$11,823	65%
Net Income Margin	8.1%	12.1%	n/a
EPS	\$0.14	\$0.24	65%
Cash Flow	\$67,048	\$62,618	-7%
Cash Flow/Share	\$1.35	\$1.26	-7%
Revenue/Share	\$1.78	\$1.97	11%
EBIT/Share	\$0.56	\$0.52	-8%
Avg. Shares O/S (000s)	49,524	49,524	0%

Source: Company & eResearch

COMMENT: See additional financial data, page 6.

RECENT DEVELOPMENTS

August 14, 2009: The Consumers' Waterheater Income Fund announced that the Ontario Energy Board (OEB) had issued a decision and order pursuant to its May 6, 2009 notice of proceeding, authorizing "exempt

distributors" (landlords) to conduct discretionary metering activities under the Electricity Act (Ontario) in respect of certain residential complexes and commercial buildings. According to the OEB, these discretionary metering activities include the Fund's subsidiary Stratacon's sub-metering activities, which it provides to exempt distributors.

The Fund's August 14 update, available on SEDAR at www.sedar.com, provides further details on the OEB's order and the potential effect on Stratacon. The requirement of the order to obtain new consents from customers could result in (a) billing disruptions, and (b) a number of Stratacon's customers electing not to continue with smart sub-metering which, in turn, could have a material adverse impact on Stratacon's financial condition and the results of operations. In the near term, the number of Stratacon's customers affected by the order represents less than 1% of the Fund's overall customer base.

The Fund recognizes that the order clarifies sub-metering in residential complexes and commercial buildings and reopens these markets.

August 13, 2009: The Fund announced that it had advised DBRS Limited and Standard & Poor's Rating Services to discontinue the Fund's stability ratings. The decision to discontinue the stability ratings stems from: (a) the Fund's equity investors' declining need for this information; (b) changes in expectations in the income trust industry; and (c) the modest cost savings the Fund can achieve as a result of the decision. There will continue to be ratings on The Consumers' Waterheater Operating Trust's publicly-traded debt.

COMPETITION

As mentioned earlier, there are new entrants in the Fund's traditional market area, as well as increased penetration in this market area by the Fund's major competitor, Reliance Home Comfort. The latter, which in 2007 acquired another competitor of the Fund (Ozz Corporation), offers a water-heater rental program in Ontario, operating similarly to the Fund's rental program. In 2008, a number of competitors made their way into the water-heater rental business, including National Energy Corporation (National Home Services) and Planet Energy Corp. (LivClean).

Competition also comes from the customer's option to purchase a water heater instead of rent. Water heaters can be purchased from small HVAC contractors or large retailers. Enbridge Finance Services' offers a competitive financing option to rentals in its HVAC financing program.

FUTURE INCOME TAXES

The Consumers' Waterheater Income Fund is an open-ended investment trust. The Fund is currently taxable only on any amount not distributed to unitholders. Distributions of the Fund are taxed in the hands of unitholders. The income tax rules applicable to publicly-traded trusts were, however, significantly modified in 2007, with a trust to be taxed similarly to a corporation. Application of the rules was delayed to the 2011 taxation year for trusts publicly traded prior to November 1, 2006.

FUTURE DIVIDENDS

The Fund's distribution payout ratio was 92.2% in 2008, 108.6% in Q1/09, and 116.9% in Q2/09. At \$0.323 for the quarter, the annualized rate is \$1.29 per Unit. There are various factors to consider in looking at any future dividend rate, including the possibility that the distributable cash of the fund may be materially reduced. The Fund announced on August 20 its regular monthly distribution of \$0.1075 per Unit, payable September 30, 2009.

Distributions/Pay-Out

	<i>(\$000 except per unit)</i>			
	Distributable Cash	Distributions Declared	Distributions Per Unit	Payout Ratio
Q2/09	\$13,658	\$15,972	\$0.323	116.9%
Q1/09	\$14,712	\$15,972	\$0.323	108.6%
Total 2008	\$69,255	\$63,886	\$1.29	92.2%
Q4/08	\$15,328	\$15,972	\$0.323	104.2%
Q3/08	\$17,307	\$15,972	\$0.323	92.3%
Q2/08	\$18,317	\$15,972	\$0.323	87.2%
Q1/08	\$18,082	\$15,972	\$0.323	88.3%
Total 2007	\$64,103	\$63,392	\$1.28	98.9%
Q4/07	\$15,116	\$15,972	\$0.323	105.7%
Q3/07	\$16,585	\$15,972	\$0.323	96.3%
Q2/07	\$16,219	\$15,972	\$0.323	98.5%
Q1/07	\$16,183	\$15,476	\$0.31	98.6%

Source: Company Reports

The following table shows the possibility of dividend payouts by The Consumers' Waterheater Income Fund in 2012, the first year after converting to a corporation. The assumptions for this table are as follows:

- Pre-tax cash (i.e. simulating "distributable cash") ranging between \$60 million and \$75 million (for comparative purposes, distributable cash over the last five years ranged between \$61 million in 2004 and \$69 million in 2008);
- A combined federal-provincial tax rate of 31%;
- A contingency of 15% (equivalent to a 85% payout ratio after income taxes paid); and
- Units outstanding converted to common shares, and totalling (rounded) 49.5 million.

Dividend Projections: 2012

All figures 000s, except per share

	\$60,000	\$65,000	\$70,000	\$75,000
Pre-Tax Cash Flow	\$60,000	\$65,000	\$70,000	\$75,000
Tax @ 31.0%	(\$18,600)	(\$20,150)	(\$21,700)	(\$23,250)
Contingency @ 15%	(\$9,000)	(\$9,750)	(\$10,500)	(\$11,250)
Available for Dividends	\$32,400	\$35,100	\$37,800	\$40,500
Shares O/S	49,524	49,524	49,524	49,524
Dividends Per Share	\$0.65	\$0.71	\$0.76	\$0.82

Source: eResearch

With reference to the above table, using 2008's distributable cash of \$69.255 million as a proxy for the 2012 pre-tax cash flow, dividends in 2012 could be in the \$0.75 per share range. On the downside, using the lower end of the pre-tax cash flow range of \$60.0 million indicates dividends of \$0.65 per share.

SHARE PRICE POTENTIAL

Set out below are various potential share prices for the converted corporation based on the 75-cent and 65-cent dividend scenarios and assumed stock yields ranging from 5% to 10%.

Potential Share Price after Conversion Based on Various Yields of 5% to 10%

- (1) Assuming Dividend Per Share of \$0.75; and
- (2) Assuming Dividend Per Share of \$0.65

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Current Unit Price	\$5.22					
Current Unit Distribution	\$1.29					
Current Unit Yield	24.7%					
Potential Dividend Per Share	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
Potential Stock Yield	10%	9%	8%	7%	6%	5%
Potential Stock Price	\$7.50	\$8.33	\$9.38	\$10.71	\$12.50	\$15.00
Potential Appreciation (times)	1.44	1.60	1.80	2.05	2.39	2.87
Potential Dividend Per Share	\$0.65	\$0.65	\$0.65	\$0.65	\$0.65	\$0.65
Potential Stock Yield	10%	9%	8%	7%	6%	5%
Potential Stock Price	\$6.50	\$7.22	\$8.13	\$9.29	\$10.83	\$13.00
Potential Appreciation (times)	1.25	1.38	1.56	1.78	2.08	2.49

COMMENT: *In our opinion, after the Fund has converted to a taxable corporation in 2012, the stock will sell on a 7%-8% yield basis, which suggests the shares will trade between \$8.13 and \$10.71 depending upon whether the dividend is either of our assumed pay-outs of \$0.65 or \$0.75 per share.*

OVERVIEW

Increasing competition, falling margins, and a weak balance sheet, all within the context of challenging economic conditions, suggest a gloomy near-term outlook for the units of the Fund. In addition, unless there is improvement soon in the Fund's financial prospects, the current yield on the units of 25% is suspect.

BOARD OF TRUSTEES

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Jerry Patava, *Chair of the Governance Committee*

Roy J. Pearce, *Chair of the Investment Committee*

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CORPORATE INFORMATION

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The Consumers'
Waterheater Income Fund

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OPERATING PERFORMANCE: SALIENT STATISTICS

\$000s Except Per Share	Q2	Q1	YEAR	Q4	Q3	Q2	Q1	YEAR	Q4	Q3	Q2	Q1
	2009	2009	2008	2008	2008	2008	2008	2007	2007	2007	2007	2007
Operating Revenues	48,205	49,124	179,750	45,517	45,247	44,104	43,963	166,703	42,503	41,790	41,702	41,053
Cost of Sales/G&A	(8,766)	(10,043)	(21,689)	(7,080)	(5,291)	(4,783)	(4,535)	(16,553)	(4,772)	(4,158)	(3,857)	(3,766)
EBITDA	39,439	39,081	158,061	38,437	39,956	39,321	39,428	150,150	37,731	37,632	37,845	37,287
EBITDA Margin	81.8%	79.6%	87.9%	84.4%	88.3%	89.2%	89.7%	90.1%	88.8%	90.1%	90.8%	90.8%
Amortization	(26,540)	(26,382)	(103,591)	(26,814)	(25,831)	(25,337)	(25,609)	(101,517)	(25,733)	(25,591)	(25,512)	(24,681)
EBIT	12,899	12,699	54,470	11,623	14,125	13,984	13,819	48,633	11,998	12,041	12,333	12,606
EBIT Margin	26.8%	25.9%	30.3%	25.5%	31.2%	31.7%	31.4%	29.2%	28.2%	28.8%	29.6%	30.7%
Interest Expense	(9,962)	(8,284)	(26,253)	(6,648)	(6,770)	(5,823)	(7,012)	(27,100)	(6,891)	(6,868)	(6,784)	(6,557)
Other Income/Expense	(5,078)	(3,368)	(10,804)	(3,715)	(2,807)	(2,372)	(1,910)	(7,051)	1,719	(1,465)	(1,874)	(1,993)
EBT	(2,141)	1,047	17,413	1,260	4,548	5,789	4,897	14,482	6,826	3,708	3,675	4,056
EBT Margin	-4.4%	2.1%	9.7%	2.8%	10.1%	13.1%	11.1%	8.7%	16.1%	8.9%	8.8%	9.9%
Income (Taxes)/Recovery	9,697	3,220	2,101	1,900	3,715	(7,200)	3,686	3,770	23,340	3,470	(26,802)	3,762
Net Earnings	7,556	4,267	19,514	3,160	8,263	(1,411)	8,583	18,252	30,166	7,178	(23,127)	7,818
Net Margin	15.7%	8.7%	10.9%	6.9%	18.3%	-3.2%	19.5%	10.9%	71.0%	17.2%	-55.5%	19.0%
Net Earnings Per Share	\$0.15	\$0.09	\$0.39	\$0.06	\$0.17	(\$0.03)	\$0.17	\$0.37	\$0.61	\$0.14	(\$0.47)	\$0.16
EBT Per Share	(\$0.04)	\$0.02	\$0.35	\$0.03	\$0.09	\$0.12	\$0.10	\$0.29	\$0.14	\$0.07	\$0.07	\$0.08
Operating Cash Flow	30,594	32,024	134,473	32,515	34,910	33,772	33,276	125,611	31,244	31,349	31,670	31,348
Cash Flow Per Share	\$0.62	\$0.65	\$2.72	\$0.66	\$0.70	\$0.68	\$0.67	\$2.54	\$0.63	\$0.63	\$0.64	\$0.63

Source: Company & eResearch

BALANCE SHEET

(\$000s; As At December 31:)	2008	2007	2006	2005
Cash & Equivalents	20,667	29,461	39,248	31,479
Receivables	21,989	17,624	16,907	16,361
Total Current Assets	42,656	47,085	56,155	47,840
Property & Equipment	477,881	467,772	448,071	456,893
Intangibles	497,630	512,890	539,833	584,091
TOTAL ASSETS	1,018,167	1,027,747	1,044,059	1,088,824
Bank Debt	322,900	30,869	0	0
Current Portion, LTD	1,084	275,000	0	0
Payables	26,555	26,194	18,293	17,825
Other	25,020	0	6,049	6,768
Total Current Liabilities	375,559	332,063	24,342	24,593
Long-Term Debt (LTD)	234,655	225,000	500,000	500,000
Future Income Taxes	219,880	214,710	218,384	249,228
TOTAL LIABILITIES	830,094	771,773	742,726	773,821
Unitholders' Equity	188,073	255,974	301,333	315,003
TOTAL LIABILITIES/EQUITY	1,018,167	1,027,747	1,044,059	1,088,824

RATIO ANALYSIS/STATISTICS

Total Capital	746,712	786,843	801,333	815,003
% Debt in Total Capital	74.8%	67.5%	62.4%	61.3%
CashFlow/Total Debt	0.24	0.24	0.24	0.23
Working Capital	(332,903)	(284,978)	31,813	23,247
Working Capital Ratio	0.11	0.14	2.31	1.95

Source: Company & eResearch

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