FORM 51-102F3
Material Change Report

Item 1 Name and Address of Issuers

UE WATERHEATER INCOME FUND (the "Fund")
UE WATERHEATER OPERATING TRUST (the "Trust")
2 Lansing Square
12^{th} Floor
Toronto, Ontario
M2J 4P8

Item 2 Date of Material Change

April 16, 2007

Item 3 News Release

A news release was issued through CNW Group on April 16, 2007. A copy of the news release is attached.

Item 4 Summary of Material Change

The Fund and Alinda Capital Partners LLC ("Alinda") announced on April 16, 2007 that the Fund and the Trust, on the one hand, and 3216444 Nova Scotia Company (the "Purchaser"), together with certain affiliates of Alinda, on the other hand, have entered into a definitive agreement (the "Purchase Agreement") under which the Purchaser will acquire certain assets of the Fund and the Trust, including Union Energy Limited Partnership ("Union Energy") which, directly or indirectly, owns the Fund's water heater rental and security systems businesses, and certain assets of VOXCOM Income Fund, the acquisition of which was previously announced by the Fund, for an aggregate acquisition cost of approximately C$1.74 billion. Contemporaneously with the acquisition, the Purchaser will provide the Trust with sufficient funds to redeem or repay (or otherwise cause to be extinguished) the Fund's and the Trust's Outstanding Debt (as defined below) and will agree to discharge, perform and fulfil the obligations and liabilities of the Fund and the Trust. Immediately after the completion of the acquisition, all outstanding units of the Fund will be redeemed for $23.00 in cash per unit. Following the repayment, redemption or extinguishment of the Outstanding Debt (as defined below), assumption of liabilities and the redemption of the outstanding units of the Fund at $23.00 in cash per unit, each of the Fund and the Trust will be wound up.

The Board of Directors of the administrator (the "Board") of the Fund has determined, after receiving financial and legal advice, that it would be advisable and in the best interests of the Fund and the Fund's unitholders for the Board to support the transactions contemplated under the Purchase Agreement and the Board has unanimously resolved (i) to recommend that the Fund unitholders vote for the resolution(s) approving the transaction at the meeting of Fund unitholders called to approve the transaction, and (ii) that the Fund cooperate with the Purchaser and take all reasonable action to support the transactions contemplated by the Purchase Agreement.

The Fund's financial advisor, Genuity Capital Markets, has provided an opinion to the Board of the Fund that the consideration to be received by the Fund's unitholders under the transaction is fair from a financial point of view to such unitholders.

The special meeting of Fund unitholders is expected to be held by mid-June, 2007 and transaction is expected to close by the end of June, 2007.

Item 5 Full Description of Material Change

The Fund and Alinda announced on April 16, 2007 that the Fund, the Trust, the Purchaser, and affiliates of Alinda entered into the Purchase Agreement, pursuant to which the Purchaser will acquire certain assets of the Fund and the Trust, including Union Energy which, directly or indirectly, owns the Fund's water heater rental and security systems businesses, and VOXCOM Income Fund, the acquisition of which was previously announced by the Fund, for an aggregate acquisition cost of approximately C$1.74 billion. Immediately after the completion of the acquisition and certain other steps (as outlined below), all outstanding units of the Fund will be redeemed for $23.00 in cash per unit and the Fund and the Trust will be wound up.

The Board of the Fund has determined, after receiving financial and legal advice, that it would be advisable and in the best interests of the Fund and the Fund's unitholders for the Board to support the transactions contemplated under the Purchase Agreement and the Board has unanimously resolved (i) to recommend that the Fund unitholders vote for the resolution(s) approving the transaction at the meeting of Fund unitholders called to approve the transaction, and (ii) that the Fund cooperate with the Purchaser and take all reasonable action to support the transactions contemplated by the Purchase Agreement.

The Fund's financial advisor, Genuity Capital Markets, has provided an opinion to the Board of the Fund that the consideration to be received by the Fund's unitholders under the transaction is fair from a financial point of view to such unitholders.

Under the Purchase Agreement, subject to the satisfaction of certain conditions, including Fund unitholder approval, the Purchaser will, among other things, acquire at closing the following assets of the Trust:

- all of the outstanding limited partnership units of Union Energy; and
- all of the outstanding common shares and the secured subordinated promissory note of 4211782 Canada Inc. in the amount of $532,677,500.

The Purchaser will also acquire from the Fund all of the outstanding shares of 2035881 Ontario Inc.

In consideration therefor, the Purchaser shall pay to the Trust and the Fund a purchase price equal to the sum of (i) the product obtained by multiplying $23.00 by the number of Fund units outstanding; plus (ii) the amount required to redeem or repay (or otherwise cause to be extinguished):

- the Series 1 Senior Secured 4.145% Notes and Series 2 Senior Secured 4.722% Notes of the Trust;
- the revolving bank credit facilities of the Trust;

(collectively, the "Outstanding Debt");

together with the Purchaser's agreement to discharge, perform and fulfill the Fund's and Trust's accounts payable and all other liabilities and obligations, with certain specified exceptions.

The aggregate consideration to be paid to Fund unitholders is expected to be paid by way of a redemption of all the outstanding units of the Fund at a redemption amount of $23.00 in cash per Fund unit. Following the repayment of the Outstanding Debt, assumption of other Fund and Trust liabilities and the redemption of the Fund units at $23.00 in cash per Fund unit, it is expected that the Fund and the Trust will be wound-up.

The redemption amount paid to unitholders of the Fund will be in addition to any regular monthly cash distributions of $0.08825 per Fund unit declared by the Fund in the normal course. The Fund will continue to declare and pay regular monthly cash distributions of $0.08825 per Fund unit for each month up to, but not including, the month in which the closing of the transaction takes place.

The transaction is subject to approval by the Fund's unitholders, regulatory approvals and certain other closing conditions. An annual and special meeting of Fund unitholders is expected to be held in June 2007. Fund unitholder approval of the transaction, including the redemption of Fund units at $23.00 in cash per unit and the winding-up of the Trust and the Fund, will require the affirmative vote of holders of more than 66 2/3% of the units of the Fund represented and voted at the annual and special meeting upon the resolution.

The Purchase Agreement contains customary provisions prohibiting the Fund from soliciting competing acquisition proposals, but, in certain circumstances, allows the Board to accept and recommend a Superior Proposal (as defined in the Purchase Agreement) if not doing so would, in the Board's good faith determination, breach its fiduciary duties and upon payment of a termination fee of $30 million.

Please refer to the attached news release regarding this material change and to the Purchase Agreement, a copy of which is filed on SEDAR at www.sedar.com, for the complete provisions of the Purchase Agreement.

Item 6 Reliance on subsection 7.1(2) or (3) of National Instrument 51-102

Not applicable

Item 7 Omitted Information

No significant facts remain confidential in, and no information has been omitted from, this report.

Item 8 Executive Officer

For further information, please contact Catherine David Nolan, Chief Financial Officer of the Fund at (416) 499-7098.

Item 9 Date of Report

April 23, 2007

For immediate release
April 16, 2007

Alinda Capital Partners LLC to acquire assets of UE Waterheater Income Fund; UE unitholders to receive C$23.00 per unit

NOT FOR DISTRIBUTION IN THE UNITED STATES OR OVER UNITED STATES WIRE SERVICES.

TORONTO, ONTARIO--(April 16, 2007) - UE Waterheater Income Fund (the "Fund" or "UE") (TSX: UWH.UN) and Alinda Capital Partners LLC (“Alinda”) today announced that UE has entered into a definitive agreement with affiliates of Alinda providing for the acquisition by Alinda of all of the assets of UE for a total acquisition cost of approximately C$1.74 billion including the previously announced VOXCOM Income Fund transaction. Immediately after completion of the acquisition, the units of UE will be redeemed for $23.00 per unit in cash. That value represents a 46% premium to the April 13, 2007 closing price and a 50% premium to the previous 30-day weighted average trading price for the UE units.

The Board of Directors of the administrator of UE having received a fairness opinion from Genuity Capital Markets, has unanimously approved, and resolved to recommend that the Fund's unitholders approve, the proposed transaction.

The transaction is subject to the approval of the Fund unitholders, the receipt of regulatory approvals and other customary closing conditions. In connection with the transaction, it is anticipated that Alinda will assume the Fund’s liabilities, UE will redeem or repay its Senior Secured Notes and the Fund will be wound up on closing. A circular describing the proposed transaction will be mailed to Fund unitholders for a unitholder meeting (anticipated to be held in June, 2007) to consider the transaction. Closing of the transaction is scheduled to occur shortly thereafter. UE unitholders will continue to receive distributions for all months ending prior to the month in which closing of the transaction occurs.

“Since its inception, UE Waterheater Income Fund, through the efforts of its many dedicated employees, has delivered great value to its investors and customers. Under Alinda’s ownership, Union Energy LP will be able to access additional resources to further develop and grow the business,” says Roger Rossi, President and CEO, UE Waterheater Income Fund.

“The Board of Directors unanimously supports this transaction which offers unitholders a significant premium over the historical trading price of the units of UE Waterheater Income Fund” says Patrick Lavelle, Chairman of the Board. “This premium value is a clear endorsement of the excellent quality of the business and services that the management and employees have been able to build at UE Waterheater."

"As a well established business with a long operating history, a reputation for customer service excellence, a strong management team and dedicated employees, this is an excellent strategic fit for us," said Chris Beale, Managing Partner of Alinda. "Union Energy currently serves 1.3 million residential and commercial rental water heater and security customers in Ontario, Quebec and British Columbia and with its pending acquisition of VOXCOM will have a customer base across Canada with excellent prospects for growth. This transaction will be seamless to customers, who will continue to receive the same high quality service."

Genuity Capital Markets is acting as exclusive financial advisor, and Borden Ladner Gervais LLP is acting as legal advisor, to UE in connection with the transaction.

RBC Capital Markets is acting as exclusive financial advisor, and Torys LLP is acting as legal advisor, to Alinda in connection with the transaction.

In connection with this release, the Fund will hold a conference call to discuss this transaction and the previously announced VOXCOM Income Fund transaction. Details to access the conference call will follow shortly.

Forward Looking Statements

> This release includes certain forward-looking statements including, without limitation, statements concerning the value of any redemption of Fund units, the projected costs and plans and objectives of management for future operations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue" or the negative thereof or variations thereon or similar terminology. Although the Fund believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will provide to be correct. These forward-looking statements are subject to a number of risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements.

About UE Waterheater Income Fund

UE Waterheater Income Fund is an unincorporated, open-ended, limited purpose trust established under the laws of Ontario, that indirectly holds, through the UE Waterheater

Operating Trust, the water heater rental business of Union Energy Limited Partnership (Union Energy LP) and its related commercial activities as well as the security monitoring business. Each Unit of the Fund represents an indirect ownership interest in Union Energy LP, which operates the Union Energy business.

Union Energy LP's main business is the rental and service of a portfolio of more than one million residential water heaters in Ontario which is Canada's second largest portfolio of rental water heaters in a program that was initiated in the 1960s. In addition, Union Energy LP has related commercial activities that complement the water heater rental business, being the retail sale, rental, service and maintenance, and financing of heating, ventilation and air conditioning equipment as well as electronic security system sales, installation, rental, service, monitoring, and related commercial activities. The businesses operate under the Union Energy, Reliance Home Comfort, Reliance Protectron Security Systems, UEI Financial and Reliance Commercial Solutions brand names.

For more information on the UE Waterheater Income Fund, visit the web site at www.ueincomefund.com.

For further information, please contact:

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About Alinda Capital Partners LLC

Alinda Capital Partners LLC is a privately-held investment firm specializing in investments in infrastructure assets that provide essential services to communities, businesses and governments. Last month, Alinda, along with GE Energy Financial Services, acquired Kinder Morgan Retail, the US natural gas retail distribution business of Kinder Morgan, Inc., for approximately US$710 million. The main assets of Kinder Morgan Retail are three regulated gas utilities in Colorado, Nebraska and Wyoming. Last October, Alinda acquired the concession to operate the Detroit-Windsor Tunnel. For more information, visit www.alinda.com.

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