

Q3

REPORT

*Nine Months Ended December 31, 2004*

## MESSAGE FROM THE CHAIR

I am pleased to present the results of our third quarter ended December 31, 2004. Your management team is dedicated to providing solid results on a quarterly basis and this quarter is no exception. Our customer additions once again exceeded the rate necessary to surpass our published target for fiscal 2005. Our gross margin and distributable cash were at an all time high for a quarter. And we have delivered our 19<sup>th</sup> increase in annual distribution rate in the 45 months since our IPO.

Over that entire period, we have told investors that we want to be a unique Canadian Income Fund, one that grows. Energy Savings' business model calls for a high return on the money invested in customer marketing, with in all cases, a payback of less than a year on our five year contracts. This allows us to both grow and pay out predictable distributions. This, inevitably, leads to higher distributions as our customer base grows.

We believe that our track record over the past four years clearly shows that this growth has been delivered. We also recognise that our Unitholders will gain the maximum value from this growth if we can also provide them with predictability and consistency.

Our business is, by its nature, predictable. Energy Savings' back to back matched five year contracts provide stable, reliable cash flow over their term. Our team of independent sales agents provides consistent new customer aggregation quarter after quarter.

In order to aid investors and analysts in developing their own expectations about the business, we regularly provide key information on management's expectations for the business going forward. We believe that our disclosure is clear and detailed and provides an accurate picture both of Energy Savings' past results and future expectations. Components of this disclosure include:

1. Each year, we publish customer aggregation targets for the markets in which we operate. For example, this year's targets totaled 260,000 gross customer additions and 160,000 net customer additions.
2. We provide our target annual margins for newly signed customers over the five year term. These have been \$170 for Canadian natural gas customers, \$100 for electricity customers and \$120 for Illinois gas customers. Should our actual experience vary from these targets or should the targets change, we would disclose any such change. During the four years since our IPO, there have been no changes to these targets nor have margins for our quarterly customer additions ever been other than at or above these target levels.

3. We provide target per customer aggregation costs. These are currently \$160 for an Ontario natural gas customer, \$140 for other Canadian gas customers, \$85 for electricity customers and \$90 for Illinois gas customers. To the extent that our actual results vary from these targets, we disclose the variances. For every quarter to date, our actual customer aggregation costs have been at or below our targets.
4. We provide our expected levels of attrition and our expected loss on contracts renewal. Attrition has varied between 7% and 10% on an annual basis. We currently use 10% as a target. We utilise 80% renewals as a target and our historical and current renewal rates have been at or above that level.
5. We provide clear guidance that investment to enter new markets will result in increased General and Administrative costs of \$2-3 million annually per new market. We also advise that these costs begin nine months to a year before significant cash flow is realised from that new market.
6. We have advised the market that our policy is, over time, to match our growth in distributions to our growth in distributable cash. Management will advise the market of any change to this policy. There has been no change.

With this information, investors and analysts can see a clear picture of where Energy Savings has come from and where it is going. Your management team is committed to making the business transparent to the investor so that the consistency and predictability of our growth can be fairly valued in the market place.

I believe the chart below illustrates this.

SIF.UN	2001	2002	2003	2004
<b>Total</b>	<b>95%</b>	<b>56%</b>	<b>126%</b>	<b>43%</b>

*Note: Returns through distributions and capital appreciation on the TSX. Assumes reinvestment of distributions.*

While past performance is no assurance of future performance, the clear message is that Energy Savings has provided consistent high returns for its Unitholders. The investments made in infrastructure for Illinois, Quebec, British Columbia and Alberta are soon going to provide us with returns. We have a number of other exciting growth opportunities coming in fiscal 2006 and beyond. I want to encourage all our current and future Unitholders to join with management for what should be a very bright future

I want to thank my fellow Unitholders for their continued support.

Yours sincerely,



**Rebecca MacDonald,**  
CHAIR & CHIEF EXECUTIVE OFFICER

## HIGHLIGHTS

- Gross margin of \$42.2 million up 16% year over year.
- Premarketing distributable cash of \$34.8 million (\$0.33 per unit) up 13% year over year. This is the highest quarterly distributable cash in the Fund's history.
- Distributions were up 15% year over year and payout ratios were 65% before marketing and 97% after marketing.
- Entered the Alberta market through the EPCOR acquisition.
- Q3 gross customer additions (excluding the EPCOR acquisition) were 77,000 and net additions were 37,000. Year to date gross additions are 225,000 and net additions were 140,000. Published targets for the year are gross additions of 260,000 and net additions of 160,000.
- Announced the Fund's 19<sup>th</sup> increase in annual distribution rate, up \$0.02 to \$0.885 payable on April 30, 2005 to Unitholders of record at the close of business on April 15, 2005.

## OVERVIEW

The following is a discussion of the consolidated financial condition and results of operations of Energy Savings Income Fund ("Energy Savings", the "Company" or the "Fund") for the three and nine months ended December 31, 2004 and has been prepared with all information available up to and including February 2, 2005. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended December 31, 2004 and the audited consolidated financial statements and MD&A for the year ended March 31, 2004 included in the Fund's 2004 Annual Report to Unitholders.

Copies of financial data and other publicly filed documents are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at [www.sedar.com](http://www.sedar.com).

All amounts in this MD&A are in Canadian dollars.

Energy Savings is an open-ended, limited-purpose trust established under the laws of Ontario to hold securities and to distribute the income of its wholly owned subsidiaries and affiliates: Ontario Energy Savings Corp. ("OESC"), Energy Savings (Manitoba) Corp. ("ESMC"), Energy Savings (Quebec) L.P. ("ESPQ"), ES (B.C.) Limited Partnership ("ES (BC) L.P."), Alberta Energy Savings L.P. ("ES Alta L.P.") and U.S. Energy Savings Corp. ("USESC"), (collectively "Energy Savings Group"). Through its subsidiaries and affiliates, Energy Savings markets natural gas to residential customers and small to mid-sized commercial businesses in Ontario, Manitoba, Alberta and Illinois and solely to commercial customers in Quebec and British Columbia. Energy Savings also markets electricity to mid-sized commercial and small industrial customers in Ontario and Alberta, including residential in Alberta.

The Fund meets the estimated energy requirements of its customers by purchasing matching volumes of gas and electricity. Customers eliminate their exposure to price escalations and the Fund locks in its margins by entering into long term, fixed price contracts for gas and electricity supply.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## FINANCIAL HIGHLIGHTS

FOR THE THREE MONTHS ENDED DECEMBER 31

(thousands of dollars except where indicated and per unit amount)

	2004		2003		Change
	\$	Per Unit	\$	Per Unit	
Gross margin available for distribution <sup>1</sup>	42,238	\$0.40	36,256	\$0.34	16%
Amount available for distribution <sup>1</sup>					
• Before selling expense	34,757	\$0.33	30,881	\$0.29	13%
• After selling expense	23,430	\$0.22	22,474	\$0.21	4%
Distributions	22,691	\$0.21	19,763	\$0.19	15%
General and administrative	7,041	\$0.07	5,244	\$0.05	34%
Payout ratio <sup>1</sup>					
• Before selling expense	65%		64%		
• After selling expense	97%		88%		

FOR THE NINE MONTHS ENDED DECEMBER 31

(thousands of dollars except where indicated and per unit amount)

	2004		2003		Change
	\$	Per Unit	\$	Per Unit	
Gross margin available for distribution <sup>1</sup>	117,760	\$1.11	101,224	\$0.96	16%
Amount available for distribution <sup>1</sup>					
• Before selling expense	95,419	\$0.90	87,563	\$0.83	9%
• After selling expense	64,454	\$0.61	63,761	\$0.61	1%
Distributions	66,146	\$0.62	57,244	\$0.55	16%
General and administrative	21,576	\$0.20	13,177	\$0.13	64%
Payout ratio <sup>1</sup>					
• Before selling expense	69%		65%		
• After selling expense	103%		90%		

<sup>1</sup>Seasonally Adjusted (see "Seasonally Adjusted Analysis")

## OPERATIONS

### Gas – Canadian markets

Currently in Ontario, Manitoba, Quebec, British Columbia and Alberta, Energy Savings is required to deliver gas to the local distribution companies (Enbridge Consumers Gas, Union Gas, Gaz Metro, Terasen and ATCO, collectively the "LDCs") for its customers throughout the year.

In Ontario, Quebec and British Columbia, the volumes delivered for a customer remain constant throughout the year. The Company's accounting policy accounts for sales when the customer actually consumes the gas. Therefore, during the winter months, gas is consumed at a rate which is greater than delivery and in the summer months gas is delivered in excess of gas consumed. The Company receives cash from the LDCs as the gas is delivered.

In Manitoba and Alberta, the volume of gas delivered is not constant throughout the year. More gas is delivered in winter months in comparison to the spring and summer months. Consequently, cash received will be higher in the winter months.

In Alberta, Energy Savings receives cash only when the customer has ultimately consumed the gas. Alberta's regulatory environment is different from the other Canadian markets whereby Energy Savings is required to invoice and receive payments directly from customers. Energy Savings has entered into a five year agreement with EPCOR Utilities Inc. ("EPCOR") for the provision of billing and collection services in Alberta. EPCOR has been and will continue to be the billing agent for all of the Alberta customers purchased by Energy Savings (see "Customer Aggregation – Long Term Customers").

### Gas – Illinois

Energy Savings receives cash from Nicor (the "Illinois LDC") only when the customer has paid Nicor for the consumed gas. Cash flows from the Illinois operations is greater in the Fund's third and fourth quarters assuming cash is received from the Illinois LDC in the same period as customer consumption. Management anticipates that the majority of future U.S. markets that Energy Savings may enter will function in a manner similar to Illinois.

### Electricity – Canadian markets

In Ontario and Alberta, electricity accounts are automatically balanced daily. In real-time, any supply greater than consumption is immediately sold off into the open market at the spot price, while any shortfall is immediately purchased in the open market at the spot price.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## OPERATIONS *(cont'd)*

### *Seasonally Adjusted Analysis*

Presently, management believes the best basis for analysing both the Fund's operating results and the amount available for distribution is to focus on amounts actually received ("seasonally adjusted"). The following analysis eliminates this seasonal variance and illustrates the gas actually delivered to LDCs, the cash received and associated margins. Management utilizes this non-GAAP financial measure to determine future distributions. These non-GAAP financial measures do not have any standardised meaning prescribed by GAAP and may not be comparable to similar measures presented by other issuers. As the Fund continues to further expand into other U.S. and Canadian markets and enters Alberta, seasonal working capital requirements will increase. This working capital requirement is directly attributable to the fact that in certain markets the Company must purchase and deliver gas supply in advance of customer consumption and the receipt of cash from the LDCs.

In anticipation of the future working capital requirements, the Fund through its direct and indirect wholly owned subsidiaries OESC and USESC, has entered into a \$60.0 million operating credit facility. See "Liquidity and Capital Resources" for further details.

No such seasonally adjusted analysis is required for electricity as electricity is consumed at the same time as delivery.

## RECONCILIATION TO SEASONALLY ADJUSTED GROSS MARGIN FOR THE THREE MONTHS ENDED DECEMBER 31

*(thousands of dollars)*

	2004	2003
Gross margin per financial statements		
Gas	\$ 29,706	\$ 26,381
Electricity	9,996	7,964
Total	<u>\$ 39,702</u>	<u>\$ 34,345</u>
Opening deferred revenues net of gas delivered in excess of consumption	(14,774)	(13,948)
Closing deferred revenues net of gas delivered in excess of consumption	<u>17,310</u>	<u>15,859</u>
	<u>2,536</u>	<u>1,911</u>
Gross margin available for distribution	<u>\$ 42,238</u>	<u>\$ 36,256</u>

## FOR THE NINE MONTHS ENDED DECEMBER 31

*(thousands of dollars)*

	2004	2003
Gross margin per financial statements		
Gas	\$ 65,268	\$ 52,228
Electricity	28,097	19,092
Total	<u>\$ 93,365</u>	<u>\$ 71,320</u>
Opening unbilled revenues net of accrued gas accounts payable	7,085	12,295
Closing deferred revenues net of gas delivered in excess of consumption	<u>17,310</u>	<u>15,859</u>
	<u>24,395</u>	<u>28,154</u>
Gross margin before balancing	117,760	99,474
Balancing allowance <i>(Note 1)</i>	<u>—</u>	<u>1,750</u>
Gross margin available for distribution	<u>\$117,760</u>	<u>\$101,224</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## AMOUNT AVAILABLE FOR DISTRIBUTION

FOR THE THREE MONTHS ENDED DECEMBER 31

(thousands of dollars except per unit amount)

	2004	Per Unit (Note 2)	2003	Per Unit (Note 2)
Gross margin available for distribution	\$ 42,238		\$ 36,256	
Less:				
General and administrative	7,041		5,244	
Capital tax	(3)		175	
Other expense (income) (Note 3)	443		(44)	
	<u>7,481</u>		<u>5,375</u>	
Available for distribution before selling expenses	34,757	\$0.33	30,881	\$0.29
Selling expenses	<u>11,327</u>		<u>8,407</u>	
Amount available for distribution	<u>\$ 23,430</u>	\$0.22	<u>\$ 22,474</u>	\$0.21
<b>Reconciliation to Statement of Cash Flows</b>				
Cash flow from operations	\$ 20,880		\$ 20,135	
Management incentive program	2,197		2,250	
Income taxes (Note 4)	353		89	
Amount available for distribution	<u>\$ 23,430</u>		<u>\$ 22,474</u>	
<b>Distributions</b>				
Management incentive program	\$ 2,197		\$ 2,250	
Unitholder distributions	20,483		17,232	
Unit appreciation rights distributions	11		–	
	<u>22,691</u>		<u>19,482</u>	
Non-cash distributions – Class B preference shares	–		281	
Total distributions	<u>\$ 22,691</u>	\$0.21	<u>\$ 19,763</u>	\$0.19

## AMOUNT AVAILABLE FOR DISTRIBUTION

FOR THE NINE MONTHS ENDED DECEMBER 31

(thousands of dollars except per unit amount)

	2004	Per Unit (Note 2)	2003	Per Unit (Note 2)
Gross margin available for distribution	\$117,760		\$101,224	
Less:				
General and administrative	21,576		13,177	
Capital tax	497		848	
Other expense (income) (Note 3)	268		(364)	
	<u>22,341</u>		<u>13,661</u>	
Available for distribution before selling expenses	95,419	\$0.90	87,563	\$0.83
Selling expenses	<u>30,965</u>		<u>23,802</u>	
Amount available for distribution	<u>\$ 64,454</u>	\$0.61	<u>\$ 63,761</u>	\$0.61
<b>Reconciliation to Statement of Cash Flows</b>				
Cash flow from operations	\$ 57,061		\$ 55,094	
Management incentive program	6,875		6,503	
Income taxes (Note 4)	518		414	
	<u>64,454</u>		<u>62,011</u>	
Balancing allowance (Note 1)	–		1,750	
Amount available for distribution	<u>\$ 64,454</u>		<u>\$ 63,761</u>	
<b>Distributions</b>				
Management incentive program	\$ 6,875		\$ 6,503	
Unitholder distributions	59,239		49,209	
Unit appreciation rights distributions	32		–	
	<u>66,146</u>		<u>55,712</u>	
Non-cash distributions – Class B preference shares	–		1,532	
Total distributions	<u>\$ 66,146</u>	\$0.62	<u>\$ 57,244</u>	\$0.55

Note 1 – The balancing provision amounted to \$nil for the three and nine months ended December 31, 2004. Management believes that all prior period balancing for which the allowance was originally established has already occurred and a provision is no longer required. All current period balancing costs flow through the Statement of Operations.

Note 2 – Diluted average number of units amounted to 106.4 and 106.2 million for the three and nine months ended December 31, 2004. For comparative purposes the diluted number of units was 105.3 and 105.0 million for the three and nine months ended December 31, 2003. All comparative unit and per unit data have been adjusted retroactively to reflect the impact of the unit split which was effective January 30, 2004.

Note 3 – Other income relates to interest earned on investments. Other expense relates to foreign exchange, interest and other service charges, net of interest income. This balance excludes any income/loss from changes in fair market values of derivative financial instruments which are marked to market.

Note 4 – Income taxes payable relate primarily to large corporation tax. The Fund has minimal income taxes owing as a result of the deduction of certain acquisition costs.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## SUMMARY OF QUARTERLY RESULTS

(thousands of dollars except per unit amount)

	F2005			F2004
	Q3	Q2	Q1	Q4
Sales per financial statements	\$ 213,649	\$ 114,290	\$ 186,073	\$ 312,905
Net income (loss)	5,639	(4,235)	4,141	21,255
Net income (loss) per unit – Basic	\$0.06	\$(0.05)	\$0.04	\$0.23
Net income (loss) per unit – Diluted	0.06	(0.05)	0.04	0.22
Amount available for distribution				
• Before selling expense	\$ 34,757	\$ 32,677	\$ 27,985	\$ 28,828
• After selling expense	23,430	22,002	19,022	22,455
Payout ratio				
• Before selling expense	65%	68%	76%	70%
• After selling expense	97%	101%	112%	90%

	F2004			F2003
	Q3	Q2	Q1	Q4
Sales per financial statements	\$ 181,803	\$ 106,096	\$ 132,300	\$ 225,125
Net income (loss)	3,872	(8,504)	769	21,740
Net income (loss) per unit – Basic	\$0.04	\$(0.10)	\$(0.01)	\$0.28
Net income (loss) per unit – Diluted	0.04	(0.10)	(0.01)	0.23
Amount available for distribution				
• Before selling expense	\$ 30,881	\$ 27,138	\$ 29,544	\$ 30,281
• After selling expense	22,474	20,707	20,580	25,875
Payout ratio				
• Before selling expense	64%	69%	63%	53%
• After selling expense	88%	91%	91%	62%

## SALES, GROSS MARGINS AND MARKETING RESULTS

FOR THE THREE MONTHS ENDED DECEMBER 31

(thousands of dollars)

Per Financial Statements	Sales	Cost of Sales	Gross Margin
<b>Gas</b>			
• 2004	\$ 143,759	\$ 114,053	\$ 29,706
• 2003	124,797	98,416	26,381
Increase	18,962	15,637	3,325
<b>Electricity</b>			
• 2004	\$ 69,890	\$ 59,894	\$ 9,996
• 2003	57,006	49,042	7,964
Increase	12,884	10,852	2,032
Total increase	\$ 31,846	\$ 26,489	\$ 5,357
<b>Seasonally Adjusted</b>			
<b>Gas</b>			
• 2004	\$ 161,911	\$ 129,669	\$ 32,242
• 2003	146,545	118,253	28,292
Increase	15,366	11,416	3,950
<b>Electricity</b>			
• 2004	\$ 69,890	\$ 59,894	\$ 9,996
• 2003	57,006	49,042	7,964
Increase	12,884	10,852	2,032
Total increase	\$ 28,250	\$ 22,268	\$ 5,982

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## SALES, GROSS MARGINS AND MARKETING RESULTS *(cont'd)*

FOR THE NINE MONTHS ENDED DECEMBER 31

*(thousands of dollars)*

Per Financial Statements	Sales	Cost of Sales	Gross Margin
<b>Gas</b>			
• 2004	\$ 322,344	\$ 257,076	\$ 65,268
• 2003	267,805	215,577	52,228
Increase	<u>54,539</u>	<u>41,499</u>	<u>13,040</u>
<b>Electricity</b>			
• 2004	\$ 191,668	\$ 163,571	\$ 28,097
• 2003	152,394	133,302	19,092
Increase	<u>39,274</u>	<u>30,269</u>	<u>9,005</u>
Total increase	<u>\$ 93,813</u>	<u>\$ 71,768</u>	<u>\$ 22,045</u>

Seasonally Adjusted	Sales	Cost of Sales	Gross Margin
<b>Gas</b>			
• 2004	\$ 447,172	\$ 357,509	\$ 89,663
• 2003	396,877	314,745	82,132
Increase	<u>50,295</u>	<u>42,764</u>	<u>7,531</u>
<b>Electricity</b>			
• 2004	\$ 191,668	\$ 163,571	\$ 28,097
• 2003	152,394	133,302	19,092
Increase	<u>39,274</u>	<u>30,269</u>	<u>9,005</u>
Total increase	<u>\$ 89,569</u>	<u>\$ 73,033</u>	<u>\$ 16,536</u>

Sales have increased \$31.8 million (18%) on a financial statement basis and \$28.3 million (14%) on a seasonally adjusted basis for the three months ended December 31, 2004 as compared to the same period in the prior year. Financial statement margins have increased \$5.4 million (16%) and \$6.0 million (16%) seasonally adjusted for the same comparative period.

For the nine month period ended December 31, 2004, sales have increased \$93.8 million (22%) on a financial statement basis and \$89.6 million (16%) on a seasonally adjusted basis as compared to the same comparative period. Margins have increased \$22.0 million (31%) on a financial statement basis and \$16.5 million (16%) on a seasonally adjusted basis.

## FINANCIAL STATEMENTS – GROSS MARGIN

### Gas

Sales increased 15% and 20% respectively for the quarter and nine month period ended December 31, 2004 compared to the prior year. The increase in sales is primarily due to an increase in long term customers versus the previous comparative quarter. See "Customer Aggregation" for further details.

Financial statement gas gross margin increased 13% for the quarter and 25% for the nine months ended December 31, 2004. The increase in margin for the quarter is primarily attributable to the increase in customers offset slightly by warmer than normal Ontario temperatures and consequently, consumption, in October and November. Unconsumed gas is sold into the market, generally at lower margins than sales to the customer. The increase in margin for the nine month period ended December 31, 2004 is primarily due to the increase in customers. Customers aggregated in both the three months and the nine months generate margins at or above Energy Savings' target margins of \$170/RCE and \$120/RCE for Canada and the United States, respectively.

### Electricity

Electricity sales increased by 23% and 26% for the three and nine month period ended December 31, 2004. The increase in sales is directly attributable to the increase in long term customers year over year. See "Customer Aggregation" for further details.

Electricity margins were \$10.0 million for the quarter and \$28.1 million for the nine months ended December 31, 2004, an increase of 26% and 47% respectively over the prior year. Margins increased by a higher percentage than sales because a significant number of the low margin First Source Energy Corp.'s customer contracts acquired in the prior year which management chose not to renew expired within this current fiscal year.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## SEASONALLY ADJUSTED – GROSS MARGIN

The Fund has separated the gross margin received from the LDCs (this number eliminates both seasonality and other weather variances) and the gross margin attributable to balancing activities (the approximate impact of weather variance for the period) for the gas business. These components are added to electricity gross margin (electricity balancing costs are primarily passed on to the customer) and extraction revenue (sale of liquids extracted from gas) to equal total gross margin.

	F2005			F2004	
	Q3	Q2	Q1	Q4	Q3
Customer margins from LDCs	\$ 30,951	\$ 27,701	\$ 28,443	\$ 26,850	\$ 28,805
Balancing adjustments	1,173	2,140	(924)	(599)	(619)
Balancing allowance	-	-	-	750	-
Extraction revenue	118	51	10	33	106
<i>Total gas margins</i>	32,242	29,892	27,529	27,034	28,292
<i>Electricity margins</i>	9,996	9,378	8,723	8,501	7,964
<i>Total margin</i>	<u>\$ 42,238</u>	<u>\$ 39,270</u>	<u>\$ 36,252</u>	<u>\$ 35,535</u>	<u>\$ 36,256</u>

### Gas

On a seasonally adjusted basis, total gas margins for the quarter were \$32.2 million, up from \$28.3 million (14%) in the prior comparative quarter. The increase in margins is primarily the result of the increase in customers (24%) offset by lower margin percentage generated by acquired customers. Margins from customers were \$31.0 million, up from \$28.8 million (7%) in the prior comparative quarter. Sale of unconsumed gas generated a positive balancing adjustment of \$1.2 million during the quarter.

As previously mentioned, in various markets, balancing results when gas consumption is either less or greater than gas delivered as directed by the LDC. Balancing results in two effects, either excess or short gas inventory. Energy Savings receives payment once gas is delivered to the LDC. In the case of lower than expected consumption, Energy Savings must refund the LDC for any unconsumed gas. This excess gas can be sold in the open market only during times permitted by the LDC; therefore gas balancing is limited during the winter months as transportation is at capacity. Consequently there may be a timing difference when the two balancing effects occur affecting the quarterly balancing gain (loss).

In the case of greater than expected gas consumption, Energy Savings must purchase the short supply at the market price which may reduce the margin Energy Savings would typically realise. Since excess gas was consumed by the customer, the LDC would forward these funds once the customer accounts are reconciled which may also result in a timing difference affecting the quarterly balancing gain (loss).

Information published by Union Gas in its regulatory filings indicated that, adjusting out the effects of weather, Ontario residential consumption of gas has declined by 4% over the past two years. Because Energy Savings pays its commissions and estimates its target margins based on volume, aggregation cost and margins per RCE are not impacted. Energy Savings will continue to monitor the consumption pattern in the Ontario market and its impact on the Company's business.

While the Fund has operated in Illinois, Quebec and British Columbia for most of the nine months of this fiscal year, due to normal delays between customer sign-up and cash flow receipt, margins from these markets are only now starting to be recognised. The Company entered the Alberta market on December 1, 2004. Similar to other markets, the contribution to margins for the one month during the quarter was not significant.

### Electricity

Seasonally adjusted electricity margins were \$10.0 million and \$28.1 million for the three and nine month period ended December 31, 2004, the same as on a financial statement basis. Refer to "Financial Statements – Gross Margin" for details.

## DISTRIBUTABLE CASH

Pre-marketing distributable cash for the three months ended December 31, 2004 was \$34.8 million (\$0.33 per unit) up 13% from \$30.9 million (\$0.29 per unit) in the prior comparable quarter. The increase in pre-marketing distributable cash was primarily due to increased customer numbers in both gas and electricity resulting in a 16% year over year increase in gross margin. The increase in distributable cash after selling expense was less than the increase in margin due to higher general and administrative costs attributable to the Company's expansion into the new markets of Quebec, British Columbia, Illinois and Alberta. These markets have not yet generated material margin. See "General and Administrative Costs" and "Outlook".

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## DISTRIBUTABLE CASH *(cont'd)*

For the nine months ended December 31, 2004, pre-marketing distributable cash was \$95.4 million up 9% year over year. The higher margins were offset by general and administrative costs associated with the opening of new markets. General and administrative costs increased 64% year over year. The main increases in cost were in customer service, information technology and operations.

Distributable cash after selling expenses (marketing costs) was \$23.4 million for the quarter up from \$22.5 million (4%) in the prior year. Successful customer aggregation, particularly in new markets, resulted in selling expenses increasing by 35% year over year. Cash flow from these new customers is realised three to nine months after signing depending on the market. For the nine months, distributable cash after marketing expenses was up 1% year over year. Again, a 30% increase in new customer aggregation costs and the resulting delayed cash flow are the reasons for the minimal increase in distributable cash after selling expenses.

Payout ratios before marketing costs were 65% for the quarter and 69% for the nine months versus 64% and 65% respectively for the prior comparative periods. After selling expenses, the payout ratio was 97% for the quarter and 103% for the nine months versus 88% and 90% for the comparable periods. For the quarter, payout ratio before selling expenses remained in the 60% to 70% target range while the payout after marketing expenses for the nine month period was slightly above 100%. This resulted in a small drawdown in cash on hand. See "Liquidity and Capital Resources" for further details.

## CUSTOMER AGGREGATION

FOR THE THREE MONTHS ENDED DECEMBER 31, 2004

### *Long Term Customers*

During the quarter, Energy Savings entered its fifth Canadian market, Alberta, through the acquisition of approximately 45,000 gas and 90,000 electricity long term residential customer equivalents ("RCEs") from EPCOR. It is estimated that approximately 50% of the acquired customers will not renew upon expiration of their current contracts. Therefore, long term customers have increased by 23,000 and 45,000 for gas and electricity, respectively with the remaining RCEs being allocated to Customers Not Expected to Renew.

The rate of customer aggregation in the quarter supports the Fund's ability to meet or exceed published targets on both a gross and net basis. Gross additions were 77,000 and net

additions were 37,000 (excluding the customers acquired in Alberta). This level of customer aggregation was achieved in the quarter which includes the expected reduction in customer aggregation in all markets during the December holiday season.

The Fund's published targets for fiscal 2005 were gross additions of 260,000 and net additions of 160,000. For the nine months ended December 31, 2004, the Fund has gross additions of 225,000 and net additions of 140,000 (excluding the customers acquired in Alberta).

	Beginning	Additions	Acquired	Attrition <sup>1</sup>	Failed to Renew <sup>2</sup>	Ending
<b>Gas</b>						
Ontario	653,000	21,000	-	24,000	7,000	643,000
New Markets – Canada <sup>3</sup>	47,000	30,000	23,000	1,000	-	99,000
Illinois	21,000	16,000	-	1,000	-	36,000
Total Gas	721,000	67,000	23,000	26,000	7,000	778,000
<b>Electricity</b>						
Ontario	375,000	10,000	-	7,000	-	378,000
Alberta	-	-	45,000	-	-	45,000
Total Electricity	375,000	10,000	45,000	7,000	-	423,000
Combined	1,096,000	77,000	68,000	33,000	7,000	1,201,000

<sup>1</sup>Attrition – Customers whose contracts were terminated primarily due to relocation

<sup>2</sup>Failed to Renew – Customers who did not renew expiring contracts at the end of their term

<sup>3</sup>Quebec, British Columbia, Manitoba and Alberta

### *Key terms:*

*Long Term Customers* – Customers that management expects to retain.

*RCE* – Residential Customer Equivalent or the "Customer" which is a unit of measurement equivalent to a customer using, as regards natural gas 2,815 m<sup>3</sup> (or 106 GJs) of natural gas on an annual basis and, as regards electricity, 10,000 kWh of electricity on an annual basis, which represents the approximate amount of gas and electricity used by a typical Ontario household.

### *Customers Not Expected to Renew*

In addition to the long term customers, Energy Savings has an additional 111,000 customers (42,000 gas and 69,000 electricity) which were acquired through various acquisitions of customer contracts. Management believes that the vast majority of the customers in this category will not renew upon the expiration of their current contract. These customers generate substantially less margin than typically realised on customers aggregated by Energy Savings and generally have less than 2.5 years remaining until the end of their contract. Included in the above balance are 22,000 gas and 45,000 electricity customers from the EPCOR acquisition that are in the Not Expected to Renew category, as management estimated that approximately 50% of the customers acquired will not renew upon the expiration of their contract.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## MARKETING

### *Ontario – Gas*

As noted in the table on the previous page, total gross customer additions were 21,000 customers during the quarter and 74,000 for the nine month period ended December 31, 2004. Additions for the quarter reflect the expected slowdown in agent marketing during the holiday season.

The Fund remains on track to achieve its fiscal 2005 published target of 100,000 gas customer additions in Ontario (74% to date). As was made clear at the time the target was set, this level of growth in Ontario will offset expected attrition and failure to renew in Ontario. Management believes the Province of Ontario continues to be a growth market and the natural gas market continues to be receptive towards the Energy Savings' product. Ontario gas customers signed during the period were matched with supply to generate margins at or above Energy Savings' \$170 per year gas target margin.

### *New Markets – Canada*

New markets include the aggregation of customers outside the Province of Ontario, which presently include Manitoba, Quebec, British Columbia and Alberta. Energy Savings began offering its product in Manitoba in January 2003, in Quebec in April 2004, and in British Columbia in July 2004. Energy Savings entered the Alberta market in December 2004 through the acquisition of 23,000 long term gas customers from EPCOR. Total customers aggregated in Manitoba, Quebec and British Columbia were 30,000 for the quarter and 68,000 for the nine months ended December 31, 2004, surpassing the fiscal 2005 target of 60,000 gross RCEs (113%). The gas customers added through marketing efforts during the period were matched with supply to generate margins at or above Energy Savings' \$170 per year target margin. The book of customers acquired from EPCOR generates margins which are lower than Energy Savings' standard target margins. It is the Company's expectation that margins for renewing acquired customer or aggregating new customers in Alberta will be consistent with our target \$170/RCE margin in the other Canadian markets.

All new customers secured in Alberta will undergo a credit verification process performed by EPCOR. The credit process will be approved in advance by Energy Savings. The historical default rate in Alberta for utility bills is approximately 0.8%.

### *New Markets – U.S.*

Energy Savings aggregated 16,000 RCEs in the State of Illinois during the quarter and 37,000 RCEs for the nine months ended December 31, 2004 (74% of the published annual target). The ramp up of marketing efforts continued with the opening of a third sales office on October 15, 2004. Based on current aggregation rates and the current size of the sales force, management believes that the published 50,000 gross customer addition target for fiscal 2005 will be surpassed by March 31, 2005. The Illinois gas customers signed during the period were matched with supply to generate margins at or above Energy Savings' \$120 per year target margin for Illinois.

The Illinois gas market requires the Company to bear the credit risk associated with customers' payment obligations. The default payment rate in the Nicor territory is approximately 1.1%. Energy Savings maintains a strong credit approval process to mitigate the risk of customer non-payment. Even though the Fund has implemented a credit approval process, given Energy Savings is new to the Illinois marketplace, management has chosen to provide an allowance of approximately \$0.08 million (calculated using Nicor's default rate) against potential uncollectible accounts.

### *Electricity – Ontario*

Total gross electricity additions were 10,000 for the quarter and 46,000 for the nine months ended December 31, 2004, (92% of the published target). The third quarter saw lower levels of customer aggregation than in previous quarters which more accurately reflect management's expectation given the current state of the electricity market in Ontario. The Company continues to monitor the implementation of Bill 100 and the related regulations that will govern the re-opening of the electricity retail market in Ontario. It is expected that some element of the market will re-open in the spring of 2005. The electricity customers signed during the period were matched with supply to generate margins at or above Energy Savings' \$100 per year target margin. See "Outlook" for potential electricity customer opportunities.

### *Electricity – Alberta*

Energy Savings entered the Alberta electricity market through the acquisition of 45,000 long term customers in December 2004. This book of customers is matched with supply to generate margins which are lower than Energy Savings' standard margins.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## MARKETING *(cont'd)*

### *Attrition*

Attrition in the natural gas customer book for the quarter was an annualised 14% compared to 7% in the previous quarter. Management believes that attrition will vary on a quarterly basis as it is only recognised annually, based on when customers started to flow. The volatility in attrition over the past four quarters reflects the Fund's expectations. The average attrition in the natural gas customer book remained at an annualised 10% for the nine months ended December 31, 2004, on target with the Fund's planning basis.

Attrition for the electricity customer book was an annualised 7%, reflecting the fact that the majority of electricity customers are commercial, a group which has a much lower propensity to move. Overall, the combined annual attrition for both gas and electricity was below the 10% customer attrition rate used for internal purposes. Management continues to monitor attrition to ensure its 10% rate remains appropriate for planning purposes.

## SELLING EXPENSES

Selling expenses, which primarily consist of upfront costs of signing new customers, were \$11.3 million for the quarter and \$31.0 million for the nine months ended December 31, 2004, compared to \$8.4 million and \$23.8 million respectively for the prior comparable periods. The increase in selling expenses (35% for the quarter) is attributable to the combination of an increase in aggregated customers (approximately 30% of the 35% increase) and an increase in the aggregation cost per Ontario gas customer (approximately 5% of the 35% increase) versus the prior comparative periods. The aggregation costs for each additional gas customer are approximately \$160 in Ontario, \$140 in New Markets – Canada, \$90 in the U.S. and \$85 for each additional electricity customer.

## GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs were \$7.0 million for the quarter and \$21.6 million for the nine months ended December 31, 2004. These costs were up 34% from the prior comparative quarter and 10% from the second quarter. The increase in general and administrative costs over the same comparable period was primarily driven by the costs associated with the expansion into new markets, including Manitoba, Quebec, British Columbia and Illinois, as well as planning costs for other new markets and the EPCOR acquisition. Management believes it currently has the infrastructure in place to support the Fund's continued growth in these new markets. Entry into a new market generally requires the addition of \$2-3 million in annual incremental general and administrative costs, the majority of which will be ongoing.

## UNIT BASED COMPENSATION

Compensation in the form of units (non-cash) granted by the Fund to the directors, officers, full-time employees and service providers of its subsidiaries and affiliates pursuant to the Unit Option Plan, the Unit Appreciation Rights Plan and the Directors' Deferred Compensation Plan amounted to \$0.7 million for the quarter and \$2.2 million for the nine months ended December 31, 2004 versus \$1.5 million and \$4.2 million for the prior comparative periods.

## MANAGEMENT INCENTIVE PROGRAM

Each of the holders of the Class A Preference Shares is entitled to receive, on a quarterly basis, a management bonus equal to the amount paid or payable to a Unitholder on a comparable number of units. The total amount expensed was \$2.2 million for the quarter and \$6.9 million for the nine months ended December 31, 2004, versus \$2.3 million and \$6.5 million for the prior comparative periods.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## LIQUIDITY AND CAPITAL RESOURCES

On November 1, 2004, OESC and USESC entered into a \$60.0 million operating credit facility agreement with a group of financial institutions (the "lenders") for a term of 364 days plus a one year term-out option. All obligations under the former \$10.0 million credit facility have been terminated and all outstanding letters of credit have been transferred to the new credit facility. As at quarter end, a total of \$6.2 million in letters of credit have been issued to suppliers in support of future commodity purchases. No amounts have been drawn against the operating credit facility as at December 31, 2004.

The new operating credit facility will be used to meet working capital requirements as the Fund continues to expand into the Alberta market and other new markets within the United States. To complement the operating credit facility, Coral Energy Canada Inc. and the lenders have entered into an intercreditor agreement whereby Coral Energy Canada Inc. and the lenders jointly hold security over a majority of the assets of the Energy Savings Group of Companies.

Primary sources of liquidity and capital resources for the Fund are monies generated from operations, cash on hand, the operating credit facility and the ability to issue units. These resources are used to satisfy our capital requirements, growth in operations and payment of Unitholder distributions. Cash inflow from operations totaled \$20.9 million for the quarter and \$57.1 million for the nine months ended December 31, 2004, an increase of 4% from the prior comparable periods. The increase is primarily attributable to the increase in gross margin year over year as a result of an increase in the number of flowing customers.

During the quarter, Energy Savings acquired both gas and electricity long term fixed price contracts in Alberta at a purchase price of \$10.3 million, which was funded out of cash on hand. The primary uses of cash beyond selling costs and the acquisition of EPCOR customers included the Unitholder distributions totaling \$20.5 million and \$58.5 million and general and administrative costs of \$7.0 million and \$21.6 million for the three and nine month period ended December 31, 2004 respectively. These uses of cash are consistent with the overall business strategy of the Fund.

At December 31, 2004, the Fund had a cash balance of \$22.2 million. Our entry into new markets will require the utilisation of some of the Fund's accumulated cash resources to meet working capital requirements associated with selling costs and inventory storage requirements. The \$60.0 million credit facility will also support the Fund in its expansion into new markets.

Energy Savings purchased capital assets totaling \$1.8 million for the quarter and \$4.1 million for the nine months ended December 31, 2004. The purchases were primarily for information technology systems supporting the Fund's entry into new markets. Capital asset additions are anticipated to remain at this level for the fourth quarter as further information technology developments will be required to support the Fund's expanding customer base within the various geographical segments.

In understanding the Fund's liquidity requirements, it is important to note that customers aggregated in a quarter do not generate cash flow during that period. However, approximately 60% of an agent's commission payment is made following reaffirmation with the remaining 40% being paid after the energy commodity begins flowing to the customer.

The elapsed period between the times when a customer is signed to when the first payment is received from the customer varies with each market. The time delays per market are approximately:

Ontario – Electricity	2-3 months
Ontario – Gas	4-5 months
Manitoba	3-6 months
Quebec	4-5 months
British Columbia	4-6 months
Illinois	2-3 months

These periods reflect the time required by the different LDCs to enroll, flow the commodity, bill the customer and remit the first payment to Energy Savings.

## DISTRIBUTIONS

Distributions amounted to \$22.7 million (\$0.21 per unit) and \$66.1 million (\$0.62 per unit) for the three and nine months ended December 31, 2004, an increase of 15% and 16% respectively. At the end of the quarter, the annual rate for distributions per unit was \$0.865.

The annual rate of distribution was subsequently increased to \$0.885 effective for the distribution payable in April, 2005.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## BALANCE SHEET DECEMBER 31, 2004

### COMPARED TO MARCH 31, 2004

As is normal at the end of the third quarter, most gas delivered to the LDCs was not consumed by our customers. Since the Fund is paid for this gas when delivered yet recognises revenue only when the gas is consumed by the customer, the result on the balance sheet is gas delivered and paid for in excess of consumption in the amount of \$70.0 million and deferred revenues of \$87.3 million.

Other assets and liabilities represent the estimated fair value of various derivative financial instruments for which hedge accounting in accordance with AcG-13 Hedging Relationships has not been applied. These assets and liabilities are marked to market and any changes to the fair value are recorded in other income (expense). Hedge accounting has been applied to the Fund's electricity fixed-for-floating swaps which represent the vast majority of derivative instruments in terms of notional value. The gains or losses on these swaps are recognised as a component of cost of sales when the hedged electricity costs are incurred. See "Fair Value of Derivative Instruments and Risk Management" for further details.

The increase in accounts receivable from \$18.6 million to \$58.7 million and accounts payable from \$13.3 million to \$50.0 million is primarily attributable to the acquisition of customer contracts from EPCOR on December 1, 2004. In the Province of Alberta, Energy Savings receives payments directly from customers, not the LDC. Energy Savings will pay EPCOR for the commodity, transportation and service fees. In this regard, both accounts receivable and accounts payable balances will be higher compared to the other markets. Management expects the balances will further increase in the fourth quarter.

As outlined in the financial statements, to complement the new operating credit facility, Coral and the lenders have entered into an intercreditor agreement whereby Coral and the lenders ("Secured Creditors") jointly hold security over a majority of the assets of the Fund. All LDC receipts are now directed to the Collateral Agent, one of the financial institutions in the syndicate. The Collateral Agent holds the monies in trust in a lock box account for the Secured Creditors. All commodity suppliers invoice Energy Savings directly. On a monthly basis, Energy Savings will direct the Collateral Agent to deduct the cost of commodity and related costs from the lock box account and remit the remaining proceeds to Energy Savings.

The entry into Alberta as well as the intercreditor agreement will result in the increase in both accounts receivable and accounts payable. Under the previous Supplier arrangement, the net accounts receivable (Canadian LDC receipts less cost of supply) was remitted to Energy Savings on a monthly basis. This increase is simply an administrative reclassification and does not reflect an increase in risk for uncollectible amounts.

## RELATED PARTY TRANSACTIONS

On April 1, 2003, the Fund, through its subsidiary OESC, entered into Marketing Fee Payment Agreements ("Marketing Agreements") with three officers. The Marketing Agreements expire, at the earliest on March 31, 2007. Each person is entitled to receive annual marketing fees or commissions equal to the greater of an individual's percentage of Energy Savings' incremental gross margin and an individual's specified guaranteed amount, payable on March 31 in each year, as to, 50% in cash and 50% in fully paid unit appreciation rights ("UARs") which vest on the first, second and third anniversary day of the grant date when they become exchangeable units on a one for one basis.

## CONTRACTUAL OBLIGATIONS

In the normal course of business, the Fund is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancelable.

Payments due by period (thousands of dollars)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Property & equipment lease agreements	\$ 13,957	\$ 1,888	\$ 4,003	\$ 3,939	\$ 4,127
Marketing agreement obligations	6,123	2,041	4,082	-	-
EPCOR billing, collection & supply agreements	13,600	1,400	10,800	1,400	-
Gas & electricity supply purchase commitments	2,179,534	195,209	1,255,636	636,653	92,036
	<u>\$ 2,212,214</u>	<u>\$ 200,538</u>	<u>\$ 1,274,521</u>	<u>\$ 641,992</u>	<u>\$ 96,163</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

## ALBERTA SERVICES AGREEMENTS

Energy Savings through its subsidiary, ES Alta L.P., entered into a long term arrangement with subsidiaries of EPCOR effective December 1, 2004. The arrangement includes a five year Master Services Agreement, a Wholesale Natural Gas and Financial Electricity Swap Agreement, a Prudential Support Agreement and supply agreements (as a result of the acquired customers). As specified in these agreements, on behalf of ES Alta L.P., EPCOR will:

1. Provide gas and electricity supply up to a predetermined volume threshold for future marketing requirements in addition to providing the energy supply for the acquired customers.
2. Post and monitor any credit support requirements with the Alberta Electric System Operator ("AESO"), wire service providers and gas distributors. ES Alta LP will pay EPCOR a fee for the credit support services. If and to the extent that there is a collateral call by the secured parties, ES Alta LP will either post directly or reimburse EPCOR.
3. Provide customer call centre services, financial reporting and reconciliation, customer enrollment and billing and collection services. The services will be provided for customers secured in the Province of Alberta only. Energy Savings has established defined performance levels for each of the service areas. To the extent service levels are not achieved, ES Alta LP has the right to certain payments or to terminate the Master Service Agreement.

## FAIR VALUE OF DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

Energy Savings hedges its obligations to deliver gas and electricity to its customers through entering into physical and financial derivative instruments which lock in the cost of its supply. These derivative instruments currently consist of physical gas forward contracts, financial fixed-for-floating swaps and put and call options.

Effective April 1, 2004, the Fund was required to implement an accounting standard that calls for the recognition of financial derivative instruments in the financial statements unless certain requirements for hedge accounting are fulfilled and documentation is maintained. If these requirements are fulfilled and adequate documentation is maintained by the Fund, then the financial derivative instrument is eligible for

hedge accounting and recognised at the same time as the revenue it was intended to hedge. If the requirements for hedge accounting are not met, the financial derivative is an economic hedge and the fair value of the financial instrument must be determined and recorded in the balance sheet. Differences between fair values for each reporting period are booked to the Statement of Operations as other income (expense).

Energy Savings has primarily entered into financial derivative instruments that are eligible for hedge accounting. These continue to be recognised in the Statement of Operations when the related energy costs are incurred provided they continue to meet the requirements of the new standard. There are, however, some financial derivative instruments that do not qualify and are therefore classified as economic hedges. As at December 31, 2004, Energy Savings had booked the fair value of these economic hedges, \$5.8 million in other assets and \$1.7 million in other liabilities with the associated income (expense) recorded in other income in the Consolidated Statements of Operations.

The Fund's physical derivative instruments are not covered by these new requirements and continue to be recognised at the time of delivery.

## TRUST UNITS OF THE FUND AND PREFERENCE SHARES OF OESC

As at February 2, 2005, the number of preference shares of OESC and Units of the Fund outstanding were 10,168,695 and 94,951,614 respectively.

## OUTLOOK

Bill 100, The Electricity Restructuring Act, 2004 received Royal Assent on December 9, 2004. The Act provides the Ontario Energy Board with the authority to administer a market-based pricing plan for small business (1.5 million RCEs) and residential consumers (4.0 million RCEs) which ensures that consumers pay the true cost of power over time. The Ontario Energy Board contemplates implementation of the new pricing plan on or about April 1, 2005. While final details of the OEB pricing plan have not been finalised, including which consumers will be eligible for the plan, Energy Savings stands to benefit by offering its competitive long term electricity offering to a larger number of consumers.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

February 2, 2005

### OUTLOOK *(cont'd)*

Energy Savings was granted a natural gas and an electricity license in Alberta to enable it to market gas and electricity contracts in Alberta. The Alberta gas and electricity markets are open for both residential and commercial customers and Energy Savings anticipates the commencement of marketing activities in February 2005.

As discussed above, the new markets of Quebec, British Columbia and Illinois have not generated significant margin to date. Based on customers signed to date and matching commodity supply, management believes that, beginning in Q4, margins from new markets will begin to be realised.

Energy Savings continues to actively monitor the progress of the deregulated markets in various jurisdictions including Indiana, New York, Virginia and Maryland.

With the continued growth in customers and corresponding margin, it is anticipated that Energy Savings may become taxable in the upcoming quarter. Energy Savings continues to explore options to reduce potential future income taxes.

Energy Savings has been and remains a marketing company. While the Fund has more than 1.2 million customer equivalents under long term contracts at locked-in margins, its future results are dependent upon its ability to continue to add new customers both in existing and future new markets. Management believes that these growth opportunities will continue to exist.

### FORWARD-LOOKING INFORMATION

This Management Discussion and Analysis contains certain forward-looking information statements pertaining to customer additions that are based on the Fund's current expectations, estimates, projections and assumptions that were made by management given recent experience and historical trends. Forward-Looking statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated.

## CONSOLIDATED BALANCE SHEETS

*(Unaudited – thousands of dollars)*

	Dec. 31, 2004	March 31, 2004
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 22,189	\$ 40,241
Restricted cash <i>(Note 4)</i>	5,862	7,163
Accounts receivable	58,677	18,627
Gas delivered in excess of consumption	70,023	–
Gas in storage <i>(Note 5)</i>	2,789	–
Unbilled revenues	–	37,495
Prepaid expenses	1,985	1,803
	161,525	105,329
<b>GAS CONTRACTS</b> <i>(less accumulated amortization - \$186,082; March 31, 2004 - \$149,363)</i>	57,899	90,730
<b>ELECTRICITY CONTRACTS</b> <i>(less accumulated amortization - \$2,116; March 31, 2004 - \$890)</i>	9,603	4,448
<b>GOODWILL</b>	94,576	94,576
<b>CAPITAL ASSETS</b> <i>(less accumulated amortization \$2,850; March 31, 2004 - \$1,702)</i>	9,467	6,493
<b>OTHER ASSETS</b> <i>(Note 2a)</i>	5,836	–
	<b>\$ 338,906</b>	<b>\$ 301,576</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 50,030	\$ 13,318
Customer rebates payable <i>(Note 4)</i>	5,862	7,163
Management incentive program payable	1,164	1,218
Unit distribution payable	6,835	6,103
Corporate taxes payable	140	485
Deferred revenues	87,333	–
Accrued gas accounts payable	–	30,410
	151,364	58,697
<b>OTHER LIABILITIES</b> <i>(Note 2a)</i>	1,695	–
<b>FUTURE INCOME TAXES</b>	17,182	29,856
	170,241	88,553
<b>EQUITY</b>		
Preference shares of OESC <i>(Note 8)</i>	25,422	29,078
Trust units <i>(Note 9)</i>	137,687	177,323
Contributed surplus <i>(Note 10)</i>	5,556	6,622
	168,665	213,023
	<b>\$ 338,906</b>	<b>\$ 301,576</b>



**CONSOLIDATED STATEMENTS  
OF UNITHOLDERS' EQUITY**  
FOR THE NINE MONTHS ENDED DECEMBER 31

(Unaudited – thousands of dollars)

	2004	2003
UNITHOLDERS' EQUITY, BEGINNING OF PERIOD	\$ 177,323	\$ 208,078
Trust units exchanged	3,656	833
Trust unit options exercised	10,434	11,625
NET INCOME (LOSS)	5,545	(3,863)
DISTRIBUTIONS	(59,271)	(50,741)
CLASS B PREFERENCE DISTRIBUTIONS EXCHANGEABLE INTO TRUST UNITS	-	1,532
UNITHOLDERS' EQUITY, END OF PERIOD	<u>\$ 137,687</u>	<u>\$ 167,464</u>

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited – thousands of dollars except per unit amount)

	Three months ended December 31		Nine months ended December 31	
	2004	2003	2004	2003
<b>SALES</b>	\$ 213,649	\$ 181,803	\$ 514,012	\$ 420,199
<b>COST OF SALES</b>	173,947	147,458	420,647	348,879
<b>GROSS MARGIN</b>	<u>39,702</u>	<u>34,345</u>	<u>93,365</u>	<u>71,320</u>
<b>EXPENSES</b>				
General and administrative expenses	7,041	5,244	21,576	13,177
Capital tax	(3)	175	497	848
Selling expenses	11,327	8,407	30,965	23,802
Unit based compensation (Note 8)	749	1,542	2,184	4,171
Management incentive program	2,197	2,250	6,875	6,503
Amortization of gas contracts	12,413	14,171	36,720	41,360
Amortization of electricity contracts	692	283	1,226	781
Amortization of capital assets	438	267	1,148	700
	<u>34,854</u>	<u>32,339</u>	<u>101,191</u>	<u>91,342</u>
<b>INCOME (LOSS) BEFORE OTHER INCOME</b>	<u>4,848</u>	<u>2,006</u>	<u>(7,826)</u>	<u>(20,022)</u>
<b>OTHER INCOME</b>	1,115	44	1,215	364
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<u>5,963</u>	<u>2,050</u>	<u>(6,611)</u>	<u>(19,658)</u>
<b>PROVISION FOR (RECOVERY OF) INCOME TAX</b>	324	(1,822)	(12,156)	(15,795)
<b>NET INCOME (LOSS)</b>	<u>\$ 5,639</u>	<u>\$ 3,872</u>	<u>\$ 5,545</u>	<u>\$ (3,863)</u>
Net income (loss) per unit (Note 10)				
Basic	\$ 0.06	\$ 0.04	\$ 0.06	\$ (0.06)
Diluted	\$ 0.06	\$ 0.04	\$ 0.06	\$ (0.06)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited – thousands of dollars)

	Three months ended December 31		Nine months ended December 31	
	2004	2003	2004	2003
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>				
<b>OPERATING</b>				
Net income (loss)	\$ 5,639	\$ 3,872	\$ 5,545	\$ (3,863)
<b>Items not affecting cash</b>				
Amortization of gas contracts	12,413	14,171	36,720	41,360
Amortization of electricity contracts	692	283	1,226	781
Amortization of capital assets	438	267	1,148	700
Unit based compensation	749	1,542	2,184	4,171
Future income taxes	(29)	(1,911)	(12,674)	(16,209)
Other income	(1,558)	-	(1,483)	-
	<u>12,705</u>	<u>14,352</u>	<u>27,121</u>	<u>30,803</u>
Adjustments required to reflect net cash receipts from gas sales	2,536	1,911	24,395	28,154
<b>Cash inflow from operations</b>	<u>20,880</u>	<u>20,135</u>	<u>57,061</u>	<u>55,094</u>
Changes in non-cash working capital	(109)	(1,615)	(9,366)	(6,289)
	<u>20,771</u>	<u>18,520</u>	<u>47,695</u>	<u>48,805</u>
<b>FINANCING</b>				
Exercise of trust unit options	1,921	-	7,183	8,548
Distributions paid to Unitholders	(20,472)	(16,910)	(58,539)	(48,165)
	<u>(18,551)</u>	<u>(16,910)</u>	<u>(51,356)</u>	<u>(39,617)</u>
<b>INVESTING</b>				
Purchase of capital assets	(1,779)	(755)	(4,122)	(2,255)
Acquisition of customer contracts	(10,269)	(4,006)	(10,269)	(11,393)
	<u>(12,048)</u>	<u>(4,761)</u>	<u>(14,391)</u>	<u>(13,648)</u>
<b>NET CASH OUTFLOW</b>	<u>(9,828)</u>	<u>(3,151)</u>	<u>(18,052)</u>	<u>(4,460)</u>
<b>CASH, BEGINNING OF PERIOD</b>	<u>32,017</u>	<u>33,413</u>	<u>40,241</u>	<u>34,722</u>
<b>CASH, END OF PERIOD</b>	<u>\$ 22,189</u>	<u>\$ 30,262</u>	<u>\$ 22,189</u>	<u>\$ 30,262</u>
<b>Supplemental Information</b>				
Interest paid	\$ 35	\$ 53	\$ 69	\$ 97
Income taxes paid	\$ 363	\$ -	\$ 863	\$ 575

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – thousands of dollars except where indicated and per unit amount)

## 1. INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the audited consolidated financial statements and notes thereto included in the Fund's annual report for fiscal 2004. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements and follow the same accounting policies and methods in their applications as the most recent annual financial statements, except as indicated in Note 2.

## 2. NEW ACCOUNTING POLICIES

### (a) Other Assets (Liabilities)

Effective April 1, 2004, the Fund adopted the new Canadian accounting guideline AcG-13, Hedging Relationships and EIC-128, Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments. As a result, the Fund's various derivative financial instruments have been accounted for under AcG-13 where they meet the guideline's criteria. Otherwise, they have been recognised at fair value in the financial statements in accordance with EIC-128.

For derivative financial instruments accounted for under AcG-13, the Fund formally documents the relationship between hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative financial instruments to anticipated transactions. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

The Fund enters into hedges of its cost of sales relating to its fixed price electricity sales by entering into fixed-for-floating electricity swap contracts with electricity suppliers. The Fund uses the settlement method of hedge accounting for these swap contracts whereby the gain or loss incurred upon settlement is recognised in cost of sales. The timing of these settlements matches the timing of the recognition of the anticipated electricity sales which these swaps hedge. Changes in the fair value of these swaps are not recognised in the financial statements.

Derivative financial instruments accounted for in accordance with EIC-128 have been entered into for the purpose of economically hedging the cost of sales relating to the Fund's fixed price gas sales. These derivative financial instruments have been recorded on the balance sheet as either an other asset or other liability measured at fair value, with changes in fair value recognised in income as other income (expense). These changes in fair value may be referred to as mark to market gains (losses). In addition, the premiums and settlements for these derivative financial instruments are recognised in cost of sales, when incurred. A gain of \$1,558 and \$1,483 has been recorded in other income for the three and nine months ended December 31, 2004 as a result of the changes in fair value of these derivative financial instruments (see Note 11).

### (b) Employee Future Benefits

On October 1, 2004 and effective April 1, 2004 the Fund established a long term incentive plan (the "Plan") for all permanent full time and part time Canadian employees (working more than 20 hours per week) of its affiliates and subsidiaries. The Plan consists of two components, a Deferred Profit Sharing Plan ("DPSP") and an Employee Profit Sharing Plan ("EPSP"). For participants of the DPSP, the Fund contributes an amount equal to a maximum of 2% per annum of an employee's base earnings. For the EPSP, the Fund contributes an amount up to a maximum of 2% per annum of an employee's base earnings towards the purchase of trust units of the Fund, on a matching one for one basis.

Participation in either plan is voluntary. The plan has a two year vesting period beginning from the later of the plan's effective date and the employee's starting date. The cost of the Fund's contribution to the plan is expensed as services are rendered by each employee. An expense of \$103 and \$289 has been recorded for the three and nine months ended December 31, 2004.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – thousands of dollars except where indicated and per unit amount)

### 3. SEASONALITY OF OPERATIONS

The Fund's operations are seasonal. Gas consumption by customers is typically highest in the fall and winter quarters, October through March and lowest in the spring and summer quarters, April through September. Electricity consumption is typically highest in the winter and summer quarters, January through March and July through September. Electricity consumption is lowest in the fall and spring quarters, October through December and April through June.

### 4. RESTRICTED CASH/CUSTOMER REBATES PAYABLE

Restricted cash represents rebate monies received from Local Distribution Companies (LDCs) as provided by the Independent Market Operator (IMO). Ontario Energy Savings Corp. ("OESC") is obligated to disperse the monies to eligible end-use customers in accordance with the Market Power Mitigation Agreement as part of OESC's Retailer License conditions.

### 5. GAS IN STORAGE

Gas in storage represents the gas delivered to Nicor ("the Illinois LDC"). The balance will fluctuate as gas is injected or withdrawn from storage. Injections occur in the spring and summer quarters, April through September and withdrawals occur during the fall and winter quarters, October through March. Gas in storage is stated at the lower of cost and net realisable value.

### 6. ACQUISITION OF CUSTOMER CONTRACTS

On December 1, 2004, Energy Savings purchased effective November 1, 2004, approximately 45,000 residential customer equivalents (RCEs) of deregulated gas customers and 90,000 RCEs of deregulated electricity customers from EPCOR Utilities Inc. ("EPCOR"), the Edmonton based integrated energy services and utility holding company.

The purchase price has been allocated as follows:

<b>Assets acquired:</b>	
Gas contracts	\$ 3,888
Electricity contracts	<u>6,381</u>
	<u>\$ 10,269</u>
<b>Consideration:</b>	
Cash	<u>\$ 10,269</u>

The entire purchase price will be amortized over the average remaining life of the contracts.

### 7. RELATED PARTY TRANSACTION

On April 1, 2003, the Fund, through its subsidiary OESC, entered into Marketing Fee Payment Agreements ("Marketing Agreements") with three officers (see Note 15(b)). The Marketing Agreements expire, at the earliest, on March 31, 2007. Each person is entitled to receive annual marketing fees or commissions equal to the greater of an individual's percentage of Energy Savings' incremental gross margin and an individual's specified guaranteed amount, payable on March 31 in each year, as to, 50% in cash and 50% in fully paid unit appreciation rights ("UARs"), which vest on the first, second and third anniversary day of the grant date when they become exchangeable into units on a one for one basis. In the event of a change of control; i) each officer is entitled to a lump sum payment declining to zero at March 31, 2007 and ii) all UARs vest and are exchangeable into units on a one for one basis.

### 8. PREFERENCE SHARES OF OESC

#### *Authorised*

Unlimited Class A preference shares, non-voting, exchangeable into trust units on a one to one basis in accordance with the OESC shareholders' agreement, with no priority on dissolution.

Unlimited Class B preference shares, non-voting, exchangeable into trust units at a price of \$2.50 per Class B preference share together with all accrued and unpaid dividends in accordance with the OESC shareholders' agreement, with no priority on dissolution. Pursuant to the terms of the OESC shareholders' agreement, all outstanding shareholder exchange rights relating to Class B preference shares were exercised by January 1, 2004. Consequently, there are no Class B preference shares outstanding.

Pursuant to the "Declaration of Trust" which governs the Fund, the holders of Class A and Class B preference shares are entitled to vote in all votes of Unitholders as if they were the holders of the number of units which they would receive if they exercised all of their shareholder exchange rights.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – thousands of dollars except where indicated and per unit amount)

### 8. PREFERENCE SHARES OF OESC (cont'd)

Authorised (cont'd)

Issued and Outstanding	2004		2003	
	Shares	\$	Shares	\$
<b>Class A Preference Shares</b>				
Balance, beginning of period	11,631,178	29,078	11,827,478	29,569
Cancelled/exchanged into units	(1,462,483)	(3,656)	(140,038)	(350)
Balance, end of period	<u>10,168,695</u>	<u>25,422</u>	<u>11,687,440</u>	<u>29,219</u>
<b>Class B Preference Shares</b>				
Balance, beginning of period	–	–	1,652,128	4,130
Cancelled/exchanged into units	–	–	(193,260)	(483)
Balance, end of period	<u>–</u>	<u>–</u>	<u>1,458,868</u>	<u>3,647</u>
Combined balance, end of period	<u>10,168,695</u>	<u>25,422</u>	<u>13,146,308</u>	<u>32,866</u>

### 9. TRUST UNITS

An unlimited number of units may be issued. Each unit is transferable, voting and represents an equal undivided beneficial interest in any distributions from the Fund whether of net income, net realised capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund.

Issued and Outstanding	2004		2003	
	Units	\$	Units	\$
Balance, beginning of period	91,093,142	177,323	86,038,534	208,078
Options exercised	2,379,322	10,434	2,619,984	11,625
Exchanged from Class A preference shares	1,462,483	3,656	140,038	350
Exchanged from Class B preference shares	–	–	193,260	483
Additional units from exchange of Class B preference shares	–	–	10,620	226
Net income (loss)	–	5,545	–	(3,863)
Distributions	–	(59,271)	–	(50,741)
Class B preference distributions paid	–	–	–	(226)
Class B preference distributions exchangeable into units	–	–	–	1,532
Balance, end of period	<u>94,934,947</u>	<u>137,687</u>	<u>89,002,436</u>	<u>167,464</u>

### 10. UNIT PLANS

(a) Unit option plan

The Fund grants awards under its 2001 unit option plan to directors, officers, full-time employees and service providers (non-employees) of its subsidiaries and affiliates. In accordance with the unit option plan and as a result of the unit splits which took effect July 29, 2002 and January 30, 2004, the Fund may grant options to a maximum of 11,300,000 units. As at December 31, 2004 there were 1,189,166 options still available for grant under the plan. Of the options issued, 2,351,505 options remain outstanding at quarter end. The exercise price of the unit options equals the closing market price of the Fund's units on the last business day preceding the grant date. The unit options will vest over periods ranging from three to five years from the grant date and expire after five or ten years from the grant date.

A summary of the changes in the Fund's unit option plan during the nine month period and status at December 31, 2004 is outlined below:

	Outstanding Options	Range of Exercise prices	Weighted average exercise price <sup>1</sup>	Weighted average grant date fair value <sup>2</sup>
Balance, beginning of period	4,651,660	\$2.50 – \$15.45	\$5.17	
Granted	115,000	\$15.50 – \$17.48	\$17.11	\$2.67
Forfeited/cancelled	(35,833)	\$11.25 – \$16.58	\$11.62	
Exercised	<u>(2,379,322)</u>	\$2.50 – \$10.68	\$3.02	
Balance, end of period	<u>2,351,505</u>	\$2.50 – \$17.48	\$7.83	

<sup>1</sup>The weighted average exercise price is calculated by dividing the exercise price of options granted by the number of options granted.

<sup>2</sup>The weighted average grant date fair value is calculated by dividing the fair value of options granted by the number of options granted.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – thousands of dollars except where indicated and per unit amount)

### 10. UNIT PLANS (cont'd)

#### (a) Unit option plan (cont'd)

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$2.50 – \$3.24	213,332	1.35	\$2.55	213,332	\$2.55
\$4.24 – \$6.09	1,124,674	2.09	\$5.06	41,333	\$4.93
\$7.29 – \$7.58	100,000	2.48	\$7.52	13,333	\$7.29
\$8.75 – \$12.17	785,999	7.40	\$11.82	256,666	\$11.91
\$14.25 – \$17.48	127,500	4.38	\$16.83	3,333	\$14.25
Balance, end of period	<u>2,351,505</u>	3.94	\$7.83	<u>527,997</u>	\$7.48

#### Options Available for Grant

Available for grant	11,300,000
Less: granted in prior years	(10,913,000)
Add: cancelled/forfeited in prior years	<u>881,333</u>
Balance, beginning of period	1,268,333
Less: granted during the period	(115,000)
Add: cancelled/forfeited during the period	<u>35,833</u>
Balance, end of period	<u>1,189,166</u>

The Fund uses a binomial option pricing model to estimate the fair values. The binomial model was chosen because of the yield associated with the units. Fair values of employee unit options are estimated at grant date. Fair values of non-employee unit options are estimated and revalued each reporting period until a measurement date is achieved. The following weighted average assumptions have been used in the valuations:

Risk free rate	3.4 – 5.6%
Expected volatility	22.80% – 26.18%
Expected life	3 – 5 years
Expected distributions	\$0.30 – \$0.865 per year

#### (b) Unit appreciation rights

The Fund grants awards under its 2004 unit appreciation rights plan to senior officers or service providers of its subsidiaries and affiliates in the form of fully paid UARs. In accordance with the unit appreciation rights plan, the Fund may grant UARs to a maximum of 1,000,000. As at

December 31, 2004 there were 950,408 UARs still available for grant under the plan. Except as otherwise provided, (i) the UARs vest from two to five years from the grant date, (ii) expire no later than ten years from the grant date, (iii) a holder of UARs is entitled to distributions as if a UAR were a unit, and (iv) when vested, the holder of a UAR may exchange one UAR for one unit.

#### UARs Available for Grant

Available for grant	1,000,000
Less: granted during the period	<u>(49,592)</u>
Balance, end of period	<u>950,408</u>

#### (c) Deferred unit grants

The Fund grants awards under its 2004 Directors' deferred compensation plan to all independent directors of OESC. In accordance with the deferred compensation plan, the Fund may grant deferred unit grants ("DUGs") to a maximum of 100,000. The DUGs vest the earlier of the date of the Director's resignation or three years following the date of grant and expire ten years following the date of grant. As of December 31 2004, there were 93,106 DUGs available for grant under the plan.

#### DUGs Available for Grant

Available for grant	100,000
Less: granted during the period	<u>(6,894)</u>
Balance, end of period	<u>93,106</u>

Total amounts credited to contributed surplus in respect of unit-based compensation awards, UARs and DUGs amounted to \$749 for the three months ended December 31, 2004 (2003 – \$1,542), and \$2,184 for the nine months ended December 30, 2004 (2003 – \$4,171).

Total amounts reclassified from contributed surplus to units with respect to the awards exercised during the three months ended December 31, 2004 amounted to \$164 (2003 – \$nil) and \$3,250 for the nine months ended December 31, 2004 (2003 – \$3,077).

Cash received from options exercised for the three and nine months ended December 31, 2004 amounted to \$1,921 (2003 – \$nil) and \$7,184 (2003 – \$8,548), respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – thousands of dollars except where indicated and per unit amount)

### 11. FINANCIAL INSTRUMENTS

#### (a) Fair value

The Fund has a variety of gas and electricity supply contracts that are considered derivative financial instruments. The fair value of derivative financial instruments is the estimated amount the Fund would pay or receive to dispose of these supply contracts in the market. Management has estimated the value of electricity and gas swap contracts using a discounted cash flow method which employs a forward curve compiled by management for electricity and market information for gas (electricity information is based on market). Gas options have been valued using the Black option value model using the implied volatility from other market traded gas options.

At December 31, 2004, the Fund had electricity fixed-for-floating swap contracts designated as hedges of the Fund's anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and flat)	5 – 75 MW/h
Total notional volume (peak, flat and load following)	11,253,873 MW
Maturity dates	January 31, 2005 – May 31, 2011
Fixed price per MW (in dollars)	\$39.25 – \$78.50
Fair value	\$24,804 gain
Notional value	\$644,680

Since hedge accounting has been applied to these swaps, no recognition of the mark to market gain has been recognised in these financial statements. The electricity fixed for floating contracts related to the Province of Alberta are load following, wherein the quantity of electricity contained in the supply contract "follows" the usage of customers designated by the supply contract. Notional volumes associated with these contracts are estimates and subject to change with customer usage requirements.

At December 31, 2004, the Fund has a fixed-for-floating gas swap contract which has been marked to market with the following terms:

Notional volume	1,000 GJ/day
Total notional volume	334,000 GJ
Maturity date	November 30, 2005
Fixed price per GJ (in dollars)	\$5.23
Fair value	\$351 gain
Notional value	\$1,747

The loss of \$307 and gain of \$351 for the three and nine months ended December 31, 2004 respectively has been recorded in other assets with its offsetting value being recorded in other income.

At December 31, 2004, the Fund has a floating-for-fixed gas swap contract which has been marked to market with the following terms:

Notional volume	1,000 GJ/day
Total notional volume	334,000 GJ
Maturity date	November 30, 2005
Fixed price per GJ (in dollars)	\$7.26
Fair value	\$375 gain
Notional value	\$2,425

The gain of \$375 for the three and nine months ended December 31, 2004 respectively has been recorded in other assets with its offsetting value being recorded in other income.

At December 31, 2004, the Fund had other gas puts and calls in Manitoba which have been marked to market with the following terms:

Notional volume	125 – 400 GJ/day
Total notional volume	892,400 GJ
Maturity dates	January 31, 2005 – October 31, 2008
Fixed price per GJ (in dollars)	\$5.48 – \$5.55
Fair value	\$946 loss

The gain of \$91 and the loss of \$946 for the three and nine months ended December 31, 2004 respectively have been recorded in other liabilities with its offsetting value being recorded in other income. The fair value of the options is net of the present value of premiums which have yet to be paid.

At December 31, 2004, the Fund had other gas puts and calls in Alberta which have been marked to market with the following terms:

Notional volume	500 – 114,000 GJ/month
Total notional volume	2,680,000 GJ
Maturity dates	January 31, 2005 – October 31, 2009
Fixed price per GJ (in dollars)	\$5.50 – \$7.20
Fair value	\$749 loss

The loss of \$749 for the three and nine months ended December 31, 2004 has been recorded in other liabilities with its offsetting value being recorded in other income. The fair value of the options is net of the present value of premiums which have yet to be paid.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – thousands of dollars except where indicated and per unit amount)

### 11. FINANCIAL INSTRUMENTS (cont'd)

#### (a) Fair value (cont'd)

At December 31, 2004, the Fund had other gas put and call options in the United States which have been marked to market with the following terms:

Notional volume	500 – 45,000 MmBTU/month
Total notional volume	5,541,500 MmBTU
Maturity dates	January 31, 2005 – February 28, 2010
Fixed price per MmBTU (in dollars)	\$7.13 – \$8.30 (US\$5.50 – US\$6.40)
Fair value	\$206 loss (US\$171)

The fair value is net of prepaid premiums of \$2,658. These premiums are included in other assets. The loss of \$511 and \$206 for the three and nine months ended December 31, 2004 has been recorded in other liabilities with its offsetting value being recorded in other income.

These derivative financial instruments create a credit risk for the Fund since they have been transacted with a limited number of counterparties. Should any counterparty be unable to fulfill its obligations under the contracts, the Fund may not be able to realise the other asset balance recognised in the financial statements.

The Fund's physical gas supply contracts are not considered derivative financial instruments and a fair value has therefore not been assessed.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, management incentive program payable and unit distribution payable approximates their fair value due to their short term liquidity.

#### (b) Interest rate risk

On November 1, 2004, OESC and U.S. Energy Savings Corp. (each a direct and indirect wholly owned subsidiary of the Fund) entered into a \$60,000 operating credit facility agreement with a group of financial institutions for a term of 364 days plus a one year term-out option. The operating line of credit bears interest at bank prime plus 0.5% and letters of credit bear interest at 1.5%. All obligations under the former \$10,000 credit facility have been terminated and all outstanding letters of credit have been transferred to the new credit facility. The new operating credit facility will be used to meet working capital requirements as the Fund continues to expand into new markets. Total letters of credit outstanding as at December 31, 2004 amount to \$6,188.

To complement the new operating credit facility, Coral Energy Inc. ("Coral") and the lenders have entered into an intercreditor agreement whereby Coral and the lenders ("Secured Creditors") jointly hold security over a majority of the assets of the Fund. All LDC receipts are directed to the Collateral Agent, one of the financial institutions in the syndicate. The Collateral Agent holds the monies in trust in a lock box account for the Secured Creditors. All commodity suppliers invoice Energy Savings directly. On a monthly basis, Energy Savings will direct the Collateral Agent to deduct the cost of commodity from the lock box account and remit the remaining proceeds to Energy Savings.

#### (c) Foreign currency risk

The Fund has an exposure to foreign currency exchange rates, as a result of its investment in U.S. operations. Changes in the applicable exchange rate may result in a decrease or increase in income. A non-cash loss of \$537 and \$643 for the three and nine months ended December 31, 2004 has been recorded in other income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – thousands of dollars except where indicated and per unit amount)

### 12. INCOME (LOSS) PER UNIT

	Three months ended December 31		Nine months ended December 31	
	2004	2003	2004	2003
<b>Basic income (loss) per unit</b>				
Net income (loss)	\$ 5,639	\$ 3,872	\$ 5,545	\$ (3,863)
Class B preference distributions exchangeable into units	–	(281)	–	(1,532)
Net income (loss) available to Unitholders	\$ 5,639	\$ 3,591	\$ 5,545	\$ (5,395)
Average number of units outstanding	94,700	89,002	93,432	88,108
Basic income (loss) per unit	\$ 0.06	\$ 0.04	\$ 0.06	\$ (0.06)
<b>Diluted income (loss) per unit<sup>1</sup></b>				
Net income (loss)	\$ 5,639	\$ 3,872	\$ 5,545	\$ (3,863)
Management incentive program (net of tax – 36%)	1,406	1,440	4,400	4,162
Diluted income available to Unitholders	\$ 7,045	\$ 5,312	\$ 9,945	\$ 299
Average number of units outstanding	94,700	89,002	93,432	88,108
Dilutive effect of:				
Class A preference shares	10,169	11,687	11,071	11,733
Class B preference shares	–	1,459	–	1,555
Class B preference shares additional unit entitlement	–	59	–	59
Unit options	1,448	3,138	1,642	3,552
Unit appreciation rights	50	–	50	–
Units outstanding on a diluted basis	106,367	105,345	106,195	105,007
Diluted income (loss) per unit	\$ 0.06	\$ 0.04	\$ 0.06	\$ (0.06)

<sup>1</sup>Conversion of exchangeable securities is anti-dilutive to income (loss) per unit for the three and nine month periods ended December 31, 2004 and 2003.

### 13. REPORTABLE BUSINESS SEGMENTS

The Fund operates in two reportable business segments, which are the reselling of gas and electricity to end-use customers. The Fund operates in two geographic areas, Canada and the United States. The results from operations in the United States were insignificant for the three month and nine month periods ended December 31, 2004 and therefore have not been separately disclosed.

The Fund evaluates segment performance based on gross margin.

The Fund's business segments are strategic business units that offer a distinct product. Each geographic segment has senior level executives responsible for the performance of the segment.

The following tables present the Fund's results from continuing operations by reportable segment:

#### THREE MONTHS ENDED DECEMBER 31, 2004

	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	\$ 143,759	\$ 69,890	\$ –	\$ 213,649
Gross margin	\$ 29,706	\$ 9,996	\$ –	\$ 39,702
Expenses	–	–	(34,854)	(34,854)
Other income	–	–	1,115	1,115
Provision for income tax	–	–	(324)	(324)
Net income (loss)	\$ 29,706	\$ 9,996	\$ (34,063)	\$ 5,639
Additions to capital assets	\$ 522	\$ 1	\$ 1,256	\$ 1,779

#### THREE MONTHS ENDED DECEMBER 31, 2003

	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	\$ 124,797	\$ 57,006	\$ –	\$ 181,803
Gross margin	\$ 26,381	\$ 7,964	\$ –	\$ 34,345
Expenses	–	–	(32,339)	(32,339)
Other income	–	–	44	44
Recovery of income tax	–	–	1,822	1,822
Net income (loss)	\$ 26,381	\$ 7,964	\$ (30,473)	\$ 3,872
Additions to capital assets	\$ 180	\$ 85	\$ 490	\$ 755



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – thousands of dollars except where indicated and per unit amount)

### 13. REPORTABLE BUSINESS SEGMENTS (cont'd)

#### NINE MONTHS ENDED DECEMBER 31, 2004

	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	\$ 322,344	\$ 191,668	\$ –	\$ 514,012
Gross Margin	\$ 65,268	\$ 28,097	\$ –	\$ 93,365
Expenses	–	–	(101,191)	(101,191)
Other income	–	–	1,215	1,215
Recovery of income tax	–	–	12,156	12,156
Net income (loss)	\$ 65,268	\$ 28,097	\$ (87,820)	\$ 5,545
Additions to capital assets	\$ 1,906	\$ 57	\$ 2,159	\$ 4,122
Total goodwill	\$ 94,576	\$ –	\$ –	\$ 94,576
Total assets	\$ 260,616	\$ 35,486	\$ 42,804	\$ 338,906

#### NINE MONTHS ENDED DECEMBER 31, 2004

	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	\$ 267,805	\$ 152,394	\$ –	\$ 420,199
Gross Margin	\$ 52,228	\$ 19,092	\$ –	\$ 71,320
Expenses	–	–	(91,342)	(91,342)
Other income	–	–	364	364
Recovery of income tax	–	–	15,795	15,795
Net income (loss)	\$ 52,228	\$ 19,092	\$ (75,183)	\$ (3,863)
Additions to capital assets	\$ 185	\$ 385	\$ 1,685	\$ 2,255
Total goodwill	\$ 94,576	\$ –	\$ –	\$ 94,576
Total assets	\$ 276,303	\$ 16,180	\$ 39,284	\$ 331,767

### 14. GUARANTEES

#### (a) Officers and Directors

Corporate indemnities have been provided by the Fund to all directors and certain officers of its subsidiaries and affiliates for various items including, but not limited to, all costs to settle suits or actions due to their association with the Fund and its subsidiaries and/or affiliates, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. Each indemnity, subject to certain exceptions, applies for so long as the indemnified person is a director or officer of one of the Fund's subsidiaries and/or affiliates. The maximum amount of any potential future payment cannot be reasonably estimated.

#### (b) Operations

In the normal course of business, the Fund and/or the Fund's subsidiaries and affiliates have entered into agreements that include guarantees in favour of third parties, such as purchase and sale agreements, leasing agreements and transportation agreements. These guarantees may require the Fund and/or its subsidiaries and affiliates to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The maximum amount of these liabilities is estimated to be \$15,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – thousands of dollars except where indicated and per unit amount)

### 15. COMMITMENTS

(a) Commitments for premises and equipment under operating lease obligation for each of the next five years are as follows:

2005	\$	1,888
2006		1,991
2007		2,011
2008		2,008
2009		1,932
	\$	<u>9,830</u>

(b) Commitments under the Marketing Agreements for each of the next three years are as follows:

2005	\$	2,041
2006		2,041
2007		2,041
	\$	<u>6,123</u>

(c) Commitments under the Master Service agreement with EPCOR for each of the next four years are as follows (see Note 16):

2005	\$	1,400
2006		5,400
2007		5,400
2008		1,400
	\$	<u>13,600</u>

(d) Commitments under long-term gas and electricity contracts with various suppliers for each of the next five years are as follows:

2005	\$	195,209
2006		705,905
2007		549,731
2008		407,732
2009		228,921
	\$	<u>2,087,498</u>

Energy Savings is also committed under long-term contracts with customers to supply gas and electricity. These contracts have various expiry dates and renewal options.

### 16. ALBERTA SERVICES AGREEMENTS

On December 1, 2004, Energy Savings, through its subsidiary Alberta Energy Savings L.P. ("ES Alta LP"), entered into long term arrangements with subsidiaries of EPCOR. These arrangements include a five year Master Services Agreement, a Wholesale Natural Gas and Financial Electricity Swap Agreement, a Prudential Support Agreement and supply agreements (in respect of the acquired customers).

(a) Master Services Agreement

ES Alta LP and EPCOR have entered into a Master Services Agreement. Services to be provided include customer call centre services, financial reporting and reconciliation, customer enrollment and billing and collection services. The services will be provided for customers secured in the Province of Alberta only. Energy Savings has established defined performance levels for each of the service areas. To the extent service levels are not achieved, ES Alta LP has the right to certain payments or to terminate the Master Service Agreement.

(b) Wholesale Natural Gas Purchase and Financial Electricity Swap Agreement

In addition to providing the energy supply for the acquired customers, EPCOR will provide gas and electricity supply up to a predetermined volume threshold for ES Alta LP's future marketing requirements.

(c) Prudential Support Agreement

EPCOR will post and monitor, on behalf of ES Alta LP, any credit support requirements with the Alberta Electric System Operator ("AESO"), wire service providers and gas distributors. ES Alta LP will pay EPCOR a fee for the credit support services. If and to the extent that there is a collateral call by the secured parties, ES Alta LP will either post directly or reimburse EPCOR.

## OFFICERS AND DIRECTORS

### REBECCA MACDONALD

*Chair and Chief Executive Officer*

### BRENNAN R. MULCAHY

*President*

### JOHN PANNETON

*President, Goodman Private Wealth Management*

### HUGH D. SEGAL

*President, Institute for Research on Public Policy*

### BRIAN R.D. SMITH

*Federal Chief Treaty Negotiator and Energy Consultant*

### THE HON. MICHAEL J.L. KIRBY

*Member of Senate of Canada and Corporate Director*

### THE HON. DONALD S. MACDONALD

*Senior Policy Advisor, Lang Michener*

### JOHN A. BRUSSA

*Partner, Burnet, Duckworth & Palmer LLP*

### Officers (non Board)

#### DEBBIE S. WERNET

*President – U.S. Energy Savings Corp.*

#### KEN HARTWICK, C.A.

*Chief Financial Officer*

#### PAUL DEVRIES

*Chief Operating Officer*

### SHARES LISTED

Toronto Stock Exchange, Trading Symbol: SIF.UN

### TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada

100 University Avenue

Toronto, Ontario M5J 2Y1

### FOR FINANCIAL INFORMATION CONTACT

Ken Hartwick, C.A.

*Chief Financial Officer*

*Telephone: 905-795-3557*

### FOR FURTHER INFORMATION CONTACT

Rebecca MacDonald

*Chair & Chief Executive Officer*

*Telephone: 416-367-2872*

### HEAD OFFICE

Energy Savings Income Fund

First Canadian Place, 100 King Street West

Suite 2630, P. O. Box 355, Toronto, ON M5X 1E1

Telephone: 416-367-2998 Fax: 416-367-4749

[www.esif.ca](http://www.esif.ca)