MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Energy Savings Income Fund and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. The consolidated financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this annual report has been prepared on a consistent basis with that in the consolidated financial statements.

Energy Savings Income Fund maintains systems of internal accounting and administrative controls. These systems are designated to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Fund's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised entirely of non-management directors. The Audit Committee meets periodically with management and the external auditors, to discuss auditing, internal controls, accounting policy and financial reporting matters. The committee reviews the consolidated financial statements with both management and the external auditors and reports its findings to the Board of Directors before such statements are approved by the Board.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Unitholders. The external auditors have full and free access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

On behalf of Energy Savings Income Fund by Ontario Energy Savings Corp., as administrator.

Signed	Signed	Signed
Rebecca MacDonald *Co-Chief Executive Officer*	Ken Hartwick *Co-Chief Executive Officer*	Peter Bloch *Chief Financial Officer*

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Energy Savings Income Fund as at March 31, 2008 and 2007 and the consolidated statement of operations, unitholders' equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants
Toronto, Canada, May 14, 2008

CONSOLIDATED BALANCE SHEETS

As at March 31

(thousands of dollars)

	2008	2007
Assets		
Current		
Cash	$ 27,310	$ 16,786
Restricted cash *(Note 5)*	4,749	2,557
Accounts receivable	207,793	176,453
Gas in storage	4,268	5,877
Unbilled revenues	47,299	39,214
Prepaid expenses	2,343	2,115
Corporate taxes recoverable	2,665	4,326
Other assets – current *(Note 14a)*	193,398	–
	489,825	247,328
Gas contracts (less accumulated amortization – $243,929; 2007 – $243,752)	–	177
Electricity contracts (less accumulated amortization – $32,401; 2007 – $24,959)	1,527	1,462
Goodwill	116,146	94,576
Capital assets *(Note 7)*	16,637	11,885
Other assets – long term *(Note 14a)*	75,560	1,799
Future income tax assets *(Note 9)*	9,420	–
	$ 709,115	$ 357,227
Liabilities		
Current		
Bank indebtedness *(Note 8)*	$ –	$ 38,628
Accounts payable and accrued liabilities	128,682	112,950
Customer rebates payable *(Note 5)*	4,617	2,557
Management incentive program payable	2,235	1,254
Unit distribution payable *(Note 12)*	30,696	9,114
Accrued gas accounts payable	38,522	33,057
Other liabilities – current *(Note 14a)*	59,150	–
	263,902	197,560
Long-term debt *(Note 8)*	67,583	–
Other liabilities – long-term *(Note 13)*	159,207	7,909
Future income tax liabilities *(Note 9)*	19,458	11,600
	510,150	217,069
Equity		
Deficit	$ (211,931)	$ (197,628)
Accumulated other comprehensive income	40,789	–
	(171,142)	(197,628)
Unitholders' capital	358,103	328,153
Contributed surplus	12,004	9,633
Unitholders' equity	198,965	140,158
	$ 709,115	$ 357,227

Guarantees *(Note 17)* , Commitments *(Note 18)*, Contingency *(Note 19)*

See accompanying notes to consolidated financial statements.

Approved on behalf of Energy Savings Income Fund by Ontario Energy Savings Corp., as administrator.

Signed

Rebecca MacDonald
Executive Chair and Co-Chief Executive Officer

Signed

Michael Kirby
Corporate Director

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the years ended March 31
(thousands of dollars)

	2008	2007
Accumulated earnings		
Accumulated earnings, beginning of year	$ 237,802	$ 143,890
Adjustment for change in accounting policy – net of income taxes of $49 *(Note 3 (III))*	1,519	–
Net income	152,761	93,912
Accumulated earnings, end of year	392,082	237,802
Distributions		
Distributions, beginning of year	(435,430)	(330,097)
Distributions	(159,832)	(99,464)
Class A preference share distributions – net of income taxes of $4,948	(8,751)	(5,869)
Distributions, end of year	(604,013)	(435,430)
Deficit	(211,931)	(197,628)
Accumulated other comprehensive income		
Accumulated other comprehensive income, beginning of year	–	–
Transitional adjustment upon implementation – derivative instruments designated as cash flow hedges and derivative gains previously deferred – net of income taxes of $1,536 *(Note 3 (III))*	113,865	–
Adjustment upon conversion – unrealized losses on translation of self-sustaining foreign operations *(Note 3 (III))*	(87)	–
Other comprehensive loss	(72,989)	–
Accumulated other comprehensive income, end of year	40,789	–
Unitholders' capital *(Note 10)*		
Unitholders' capital, beginning of year	328,153	324,650
Trust units exchanged	5,000	3,656
Trust units issued on exercise/exchange of unit compensation *(Note 11d)*	4,793	3,503
Trust units issued	25,157	–
Class A preference shares exchanged	(5,000)	(3,656)
Unitholders' capital, end of year	358,103	328,153
Contributed surplus *(Note 11d)*	12,004	9,633
Unitholders' equity, end of year	$ 198,965	$ 140,158

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31
(thousands of dollars except per unit amount)

	2008	2007
Sales	$ 1,738,690	$ 1,532,317
Cost of sales	1,463,890	1,302,873
Gross margin	274,800	229,444
Expenses		
General and administrative expenses	51,638	41,892
Capital tax	827	850
Marketing expenses	56,121	42,969
Unit based compensation *(Note 11d)*	3,076	3,920
Bad debt expense	6,951	10,882
Amortization of gas contracts	177	15,438
Amortization of electricity contracts	7,384	6,597
Amortization of capital assets	5,110	3,104
	131,284	125,652
Income before interest and other income (expense)	143,516	103,792
Interest expense *(Note 8)*	(5,346)	(3,942)
Other income (expense)	90	(6,868)
Income before income tax	138,260	92,982
Recovery of income tax *(Note 9)*	(14,501)	(930)
Net income	$ 152,761	$ 93,912

See accompanying notes to consolidated financial statements.

	2008	2007
Income per unit *(Note 15)*		
Basic	$ 1.42	$ 0.88
Diluted	$ 1.41	$ 0.88

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31
(thousands of dollars)

	2008	2007
Net income	$ 152,761	$ 93,912
Unrealized gains on translation of self-sustaining operations	3,951	–
Unrealized and realized losses on derivative instruments designated as cash flow hedges (net of income taxes of $(15,266)) *(Note 14a)*	(76,940)	–
Other comprehensive loss	(72,989)	–
Comprehensive income	$ 79,772	$ 93,912

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31
(thousands of dollars)

	2008	2007
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	$ 152,761	$ 93,912
Items not affecting cash		
Amortization of gas contracts	177	15,438
Amortization of electricity contracts	7,384	6,597
Amortization of capital assets	5,110	3,104
Unit based compensation	3,076	3,920
Future income taxes *(Note 9)*	(18,692)	(4,788)
Gain on foreign exchange (unrealized)	–	(60)
Other	(298)	–
Other expenses (unrealized)	988	7,618
	(2,255)	31,829
Adjustments required to reflect net cash receipts from gas sales *(Note 20)*	(2,620)	924
Changes in non-cash working capital *(Note 21)*	(11,879)	(28,311)
Cash inflow from operations	136,007	98,354
Financing		
Exercise of trust unit options *(Note 11d)*	4,053	763
Issue of trust units *(Note 10)*	18,079	–
Distributions paid to Unitholders	(131,132)	(97,925)
Distributions on Class A preference shares	(11,849)	(9,188)
Tax impact on distributions to holders of Class A preference shares	4,948	3,319
Issuance of long-term debt and increase in bank indebtedness	97,294	65,191
Repayment of long-term debt and bank indebtedness	(68,303)	(51,747)
Increase in restricted cash	1,962	–
	(84,948)	(89,587)
Investing		
Purchase of capital assets	(7,842)	(3,726)
Acquisition of subsidiary *(Note 6)*	(33,400)	–
	(41,242)	(3,726)
Effect of foreign currency translation on cash balances	707	82
Net cash inflow	10,524	5,123
Cash, beginning of year	16,786	11,663
Cash, end of year	$ 27,310	$ 16,786
Supplemental Information		
Interest paid	$ 5,545	$ 3,860
Income taxes paid	$ 1,251	$ 1,581
Supplemental disclosure relating to non-cash financing and investing activities		
Acquisition of capital assets through lease inducements	$ 2,817	$ –

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008
(thousands of dollars except where indicated and per unit amounts)

NOTE 1

Organization

Energy Savings Income Fund ("Energy Savings" or the "Fund")

Energy Savings is an open-ended, limited-purpose trust established under the laws of the Province of Ontario to hold securities and to distribute the income of its directly or indirectly wholly owned operating subsidiaries and affiliates: Ontario Energy Savings L.P. ("OESLP"), Energy Savings (Manitoba) L.P. ("ESMLP"), Energy Savings (Quebec) L.P. ("ESPQ"), ES (B.C.) Limited Partnership ("ESBC"), Alberta Energy Savings L.P. ("AESLP"), Illinois Energy Savings Corp ("IESC"), New York Energy Savings Corp. ("NYESC"), Indiana Energy Savings Corp. ("INESC") and Energy Savings Texas Corp. ("ESTC") (collectively the "Energy Savings Group").

NOTE 2

Operations

The Energy Savings Group

Energy Savings' business involves the sale of long-term fixed-price and price protected energy contracts. Through its subsidiaries and affiliates, Energy Savings markets natural gas to residential and commercial customers in Ontario, Manitoba, British Columbia, Alberta, Illinois, New York and Indiana and solely to commercial customers in Quebec. Energy Savings also markets electricity to residential and commercial customers in Ontario, Alberta, New York and Texas.

By fixing the price of gas or electricity under fixed-price contracts up to a period of five years, customers eliminate their exposure to price volatility for the commodities. It is Energy Savings' policy to match most of the estimated requirements of its customers by purchasing offsetting physical or notional volumes of gas and electricity from suppliers at fixed-prices for the term of its related customer contracts.

NOTE 3

(I) Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), and include the accounts of Energy Savings Income Fund and its directly or indirectly wholly owned subsidiaries and affiliates.

(b) Cash

All highly liquid temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

(c) Unbilled revenues/accrued gas accounts payable or gas delivered in excess of consumption/deferred revenues

Unbilled revenues are stated at estimated realizable value and result when customers consume more gas than has been delivered by Energy Savings to local distribution companies ("LDCs"). Accrued gas accounts payable represents the obligation to the LDCs with respect to gas consumed by customers in excess of that delivered to the LDCs.

Gas delivered to LDCs in excess of consumption by customers is stated at the lower of cost and net realizable value. Collections from customers in advance of their consumption of gas result in deferred revenues.

Due to the seasonality of our operations, during the winter months, customers will have consumed more than what was delivered resulting in the recognition of unbilled revenues/accrued gas accounts payable; however, in the summer months, customers will have consumed less than what was delivered, resulting in the recognition of gas delivered in excess of consumption/deferred revenues.

These adjustments are applicable solely to the Ontario, Manitoba and Quebec gas markets.

(d) Gas in storage

Gas in storage primarily represents the gas delivered to the LDCs in the states of Illinois, Indiana and New York. The balance will fluctuate as gas is injected or withdrawn from storage. Injections typically occur from April through November and withdrawals occur from December through March.

In addition, a portion of the gas in storage relates to operations in the Province of Alberta. In Alberta, there is a month to month carryover, which represents the difference between the gas delivered to the LDC within a month and customer consumption. The delivery volumes in the following month are adjusted accordingly.

Gas in storage is stated at the lower of cost and net realizable value.

(e) Capital assets

Capital assets are recorded at cost. Amortization is provided over the estimated useful lives of the assets, with the half-year rule applied to acquisitions, as follows:

Asset	Basis	Rate
Furniture and fixtures	Declining balance	20%
Office equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Computer software	Declining balance	100%
Commodity billing and settlement systems	Straight line	5 years
Leasehold improvements	Straight line	Term of lease

(f) Asset retirement obligations

Asset retirement obligations, including any restoration costs required in connection with leased assets or properties, are recognized at fair value in the period in which the obligations are incurred and a reasonable estimate of fair value can be made. Energy Savings did not have any such obligations outstanding for the years ended March 31, 2008 and 2007.

(g) Goodwill

Goodwill, reflecting the excess of the acquisition and incremental costs over the fair value of assets purchased by the Fund, is not amortized. The carrying amount of goodwill is tested annually for impairment and is written down if impairment is determined.

(h) Gas contracts

Gas contracts represent the original fair value of existing sales and supply contracts acquired by Energy Savings on the acquisition of various gas contracts. These contracts are amortized over their average estimated remaining life.

(i) Electricity contracts

Electricity contracts represent the original fair value of existing sales and supply contracts acquired by Energy Savings on the acquisition of various electricity contracts. These contracts are amortized over their average estimated remaining life.

(j) Other assets (liabilities), other income (expense) and other comprehensive income (loss)

Energy Savings’ various derivative instruments have been accounted for under section 3855, Financial Instruments – Recognition and Measurement. Financial instruments that meet hedging requirements are accounted for under section 3865, Hedges.

For derivative instruments accounted for under section 3865, Energy Savings 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. Energy Savings 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 derivatives are measured at fair value and booked to the consolidated balance sheets. Changes in fair value between periods are booked to other comprehensive income for the effective portion of the hedge with the remaining change being booked to other income (expense).

Energy Savings enters into hedges of its cost of sales relating to its fixed-price electricity sales by entering into fixed-for-floating electricity swap contracts and physical forward contracts with electricity suppliers. These swaps and forwards are accounted for in accordance with section 3865, and in some limited circumstances, section 3855.

Energy Savings enters into hedges for its foreign exchange risk relating to its anticipated repatriation of U.S. denominated currency by entering into foreign exchange forward contracts with its lender. Energy Savings previously applied AcG-13 to these contracts and used the settlement method of accounting. As of December 31, 2006, these derivative financial instruments have been recorded on the balance sheet as either other assets or other liabilities measured at fair value, with changes in fair value recognized in income as other income (expense), and since April 1, 2007, has accounted for them in accordance with section 3855.

Energy Savings enters into hedges of its cost of sales relating to its fixed-price gas contracts by entering into a combination of physical gas forwards, physical transportation forwards and option contracts. Physical gas forwards and transportation forwards are accounted for in accordance with section 3865. Option contracts are accounted for in accordance with section 3855, with the premiums and settlements for these derivative instruments recognized in cost of sales, when incurred.

(k) Derivative instruments and hedge accounting

Electricity

Energy Savings has entered into contracts with customers to provide electricity at fixed-prices ("customer electricity contracts"). Customer electricity contracts include requirements contracts and contracts with fixed or variable volumes at fixed-prices. The customer electricity contracts expose Energy Savings to changes in market prices of electricity and consumption. To reduce its exposure to movements in commodity prices arising from the acquisition of electricity at floating rates, Energy Savings uses electricity derivative contracts ("electricity derivative contracts"). These electricity derivative contracts are fixed-for-floating swaps or physical electricity forward contracts.

Energy Savings agrees to exchange the difference between the variable or indexed price and the fixed-price on a notional quantity of electricity for a specified time frame in the fixed-for-floating contract arrangement. Energy Savings takes title to electricity at a fixed-price for scheduling into the power grid under the forward contracts. These contracts are expected to be effective as hedges of the electricity price exposure. Energy Savings continues to monitor its effective hedging relationship between retail consumption and its supply contracts, and where required for hedge accounting purposes, evaluates the effectiveness of this relationship on a quarterly basis.

The fair value of the electricity derivative contracts designated as hedging instruments are recorded in the consolidated balance sheet with changes in the fair value being recorded in other comprehensive income to the extent that the hedge measurement is effective with the remainder recorded in other income (expense). Any electricity derivative contracts that do not qualify for hedge accounting or are de-designated as a hedge are recorded at fair market value with the changes in fair value recorded in current period income as a component of other income (expense). Any gains or losses accumulated up to the date that the electricity derivative contract is terminated or de-designated as a hedge are deferred in accumulated other comprehensive income ("AOCI") then recorded in cost of sales when the hedged customer electricity contract affects income.

Gas

Energy Savings has entered into contracts with customers to provide gas at fixed-prices ("customer gas contracts"). The customer gas contracts expose Energy Savings to changes in market prices of gas and consumption. To reduce its exposure to movements in commodity prices and usage, Energy Savings uses gas physical and financial contracts ("gas supply contracts"). These gas supply contracts are expected to be effective as hedges of the gas price exposure.

Energy Savings continues to monitor its effective hedging relationship between retail consumption and its supply contracts and where required for hedge accounting purposes, evaluates the effectiveness of this relationship on a quarterly basis.

Energy Savings uses physical forwards, transportation forwards (together, "physical gas supply contracts") and other gas financial instruments to fix the price of its gas supply. Under the physical gas supply contracts, Energy Savings agrees to pay a specified price per volume of gas or transportation. Other financial instruments comprise financial puts and calls that fix the price of gas in jurisdictions where Energy Savings has scheduling responsibilities and therefore is exposed to commodity price risk on volumes above or below its base supply.

The fair value of physical gas contracts designated as hedging instruments are recorded in the consolidated balance sheet with changes in the fair value being recorded in other comprehensive income to the extent that the hedge measurement is effective with the remainder recorded in other income (expense). Any physical gas contract that does not qualify for hedge accounting or is de-designated as an accounting hedge together with the gas financial instruments are valued at fair market value with the changes in fair value recorded in current period income as a component of other income (expense). Any gains or losses accumulated up to the date that the physical gas supply contract is terminated or de-designated as a hedge are deferred in AOCI then recorded in cost of sales when the hedged customer gas contract affects income.

Foreign exchange

To reduce its exposure to movements in foreign exchange rates, Energy Savings uses foreign exchange forwards ("foreign exchange contracts"). These foreign exchange contracts were expected to be effective as hedges of the anticipated cross border cash flow but were found to not be effective under GAAP accounting requirements during fiscal 2007.

Up until September 30, 2006, unrealized gains on foreign exchange contracts up to the date of de-designation of the hedging relationship were deferred to be recognized over the term of the contract based on the timing of the underlying hedged transactions. As of December 31, 2006, these derivative financial instruments have been recorded on the balance sheet as either other assets or other liabilities measured at fair value, with changes in fair value recognized in income as other income (expense). The deferred gain was reclassified to AOCI as of April 1, 2007.

(l) Revenue recognition

Energy Savings delivers gas and/or electricity to end-use customers who have entered into long-term fixed-price contracts. Revenue is recognized when the commodity is consumed by the end-use customer or sold to third parties. The Fund assumes credit risk in only three jurisdictions – Alberta, Illinois and Texas, where credit review processes are in place prior to commodity flowing to the customer.

(m) Marketing expenses

Commissions and various other costs related to obtaining and renewing customer contracts are charged to income in the period incurred.

(n) Foreign currency translation

In fiscal 2008, the operations of the Fund's U.S.-based subsidiaries became self-sustaining due to the reassessment of its existing foreign currency translation policy. Accordingly, the assets and liabilities of foreign subsidiaries are translated into Canadian dollars at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the average rate of exchange for the period. The resulting gains and losses are accumulated as a component of Unitholders' equity within AOCI.

Prior to fiscal 2008, the Fund's investment in its U.S.-based subsidiaries was accounted for as integrated operations. Accordingly, monetary assets and liabilities were translated at the exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities and related income statement charges were translated at historical rates. All other revenue and expense accounts were translated at the average rate for the period. Foreign exchange gains and losses were included in net income for the period.

(o) Per unit amounts

The computation of income per unit is based on the weighted average number of units outstanding during the year. Diluted earnings per unit is computed in a similar way to basic earnings per unit except that the weighted average units outstanding are increased to include additional units assuming the exercise of unit options, unit appreciation rights and deferred unit grants, if dilutive.

(p) Unit based compensation plans

The Fund accounts for all of its unit based compensation awards using the fair value based method.

Awards are valued at grant date and are not subsequently adjusted for changes in the prices of the underlying unit and other measurement assumptions. Compensation for awards without performance conditions is recognized as an expense and a credit to contributed surplus over the related vesting period of the awards. Compensation for awards with performance conditions is recognized based on management's best estimate of whether the performance condition will be achieved.

When options and other unit based compensation awards are exercised or exchanged, the amounts previously credited to contributed surplus are reversed and credited to Unitholders' equity. The amount of cash, if any, received from participants is also credited to Unitholders' equity.

(q) Employee future benefits

Energy Savings 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, Energy Savings contributes an amount equal to a maximum of 2% per annum of an employee's base earnings. For the EPSP, Energy Savings 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. During the year Energy Savings contributed $647 (2007 – $545) to both plans, which was paid in full during the year.

(r) Exchangeable securities

Energy Savings follows the recommendations of the Emerging Issues Committee relating to the presentation of exchangeable securities issued by subsidiaries of income funds. The recommendations require that the exchangeable securities issued by a subsidiary of an income fund be presented on the consolidated balance sheet of the income fund as a part of Unitholders' equity, if the following criteria have been met:

- the holders of the exchangeable securities are entitled to receive distributions of earnings economically equivalent to distributions received on units of the income fund; and
- the exchangeable securities ultimately are required to be exchanged for units of the income fund as a result of the passage of fixed periods of time or the non-transferability to third parties of the exchangeable securities without first exchanging them for units of the income fund.

The Class A preference shares meet these criteria and have been classified as Unitholders' equity. In addition, all distributions paid to the Class A preference shareholders must be recorded in Unitholders' equity, net of tax. The management incentive program, which is a bonus equal to the distribution amount received by a Unitholder, is additional compensation to senior management of Ontario Energy Savings Corp. ("OESC"), a wholly owned subsidiary of the Fund.

(s) Use of estimates

The preparation of the financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. In particular, valuation techniques such as those used in the preparation of fair values are significantly affected by the assumptions used and the amount and timing of estimates. The aggregate fair value amounts represent point in time estimates only and should not be interpreted as being realizable in an immediate settlement of the supply contracts.

(t) Income taxes

The Fund is a taxable entity under the Income Tax Act (Canada) and is taxable only on Canadian income that is not distributed or distributable to the Fund's Unitholders. In the Trust structure, payments made between the Canadian operating entities and the Fund, ultimately transfer both income and future income tax liability to the Unitholders. The future income tax liability associated with Canadian assets recorded on the balance sheet is recovered over time through these payments. As the Canadian operating entities transfer all of their Canadian taxable income to the Fund, no provision for current Canadian income tax has been made by any Canadian operating entity.

Effective January 1, 2011, the Fund will be subject to a 28.0% Specified Investment Flow-Through entities ("SIFT") tax on Canadian income that has not been subject to a Canadian corporate income tax in the Canadian operating entities. Therefore, the future tax asset or liability associated with Canadian assets recorded on the balance sheet as at that date will be realized over time as the temporary differences between the carrying value of assets in the consolidated financial statements and their respective tax bases are realized. Current Canadian income taxes will be accrued for at that time to the extent that there is taxable income in the Trust or its underlying operating entities.

The U.S.-based corporate subsidiaries are subject to U.S. income taxes on its taxable income determined under U.S. income tax rules and regulations. As the U.S. subsidiaries had combined operating losses for tax purposes at March 31, 2008, no provision for current U.S. income tax has been made by those U.S. entities.

The Fund follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to the temporary differences between the carrying value of the assets and liabilities on the consolidated financial statements and their respective tax bases, using substantively enacted income tax rates. The effect of a change in these income tax rates on future income tax liabilities and assets is recognized in income during the period that the change occurs.

(II) Adoption of new accounting standards

On April 1, 2007, the Fund adopted five new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"); Handbook Section 1530, Comprehensive Income; Handbook Section 3251, Equity; Handbook Section 3855, Financial Instruments – Recognition and Measurement; Handbook Section 3861, Financial Instruments – Disclosure and Presentation, and Handbook Section 3865, Hedges. Energy Savings adopted these standards prospectively as required by the standards and did not restate comparative amounts for prior periods.

Comprehensive Income

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income ("OCI"). OCI represents changes in equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments. The cumulative changes in OCI are included in AOCI, which is presented as a new category of Unitholders' equity on the consolidated balance sheets.

Equity

Section 3251 describes the changes in reporting and disclosing equity and changes in equity as a result of the new requirements of Section 1530, including the changes in equity for the period arising from OCI. Accumulated changes in OCI are included in AOCI and are presented as a separate component of Unitholders' equity.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheets when Energy Savings becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. After initial recognition, items classified as held-for-trading or available-for-sale are revalued at fair values; items classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, the Fund records transaction costs as part of the underlying financial instrument and amortizes or accretes them into net income utilizing the effective interest method.

Derivative instruments are recorded on the consolidated balance sheets at fair value. Changes in the fair values of derivative instruments are recognized in net income with the exception of derivatives designated as effective cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation.

Upon adoption of these new standards, the Fund designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Long-term debt, accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Financial Instruments – Disclosure and Presentation

Section 3861 established standards for the presentation and disclosure of financial instruments and non-financial derivatives.

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. The revised standards require the Fund to record all derivatives at fair value. Changes in the fair value from one period to the next are booked to other comprehensive income to the extent that the hedges are effective with the remainder of the change being booked to the consolidated statement of operations.

(III) Impact of changes in significant accounting policies

As a result of adopting these standards, Energy Savings recorded the following:

Other Assets – current	$	132,456
Other Assets – long-term	$	151,804
Future Income taxes	$	1,487
Other Liabilities – current	$	36,228
Other Liabilities – long-term	$	131,161
Accumulated earnings (net of tax of $49)	$	1,519
Accumulated other comprehensive income (net of tax of $1,536)	$	113,952

The other assets and liabilities represent the fair value of the financial assets and liabilities upon the implementation of the standards on April 1, 2007. The increase to the opening Unitholders' equity represents the accumulated ineffective portion of qualified hedges at inception of the standard, and the AOCI represents the accumulated effective portion of qualified hedges at inception of the standard net of the related future income tax liability. While these entries are driven by the supply arrangements there has been no recognition given to the underlying customer contracts that are the offset to the supply arrangements.

(IV) Recently issued accounting standards

The following are the new standards, not yet in effect, which are required to be adopted by the Fund on the effective date:

Capital Disclosures – CICA Section 1535

As of April 1, 2008, the Fund will be required to adopt Section 1535, Capital Disclosures, which will require disclosure of information related to the objectives, policies and processes for managing capital. In addition, disclosures will include whether externally imposed capital requirements have been complied with. The new standard is effective for fiscal years beginning on or after October 1, 2007 and as this standard only addresses disclosure requirements, there will be no impact on the financial position of the Fund.

Financial Instruments – Disclosures (CICA Section 3862) and Financial Instruments – Presentation (CICA Section 3863)

As of April 1, 2008, the Fund will be required to adopt two new CICA standards, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation, which will replace Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standards carry forward the former presentation requirements and are effective for years beginning on or after October 1, 2007. As this standard only addresses presentation and disclosure requirements, there will be no impact on the financial position of the Fund.

Goodwill and Intangible Assets – CICA Section 3064

As of April 1, 2009, the Fund will be required to adopt Section 3064, Goodwill and Intangible Assets, which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard is effective for fiscal years beginning on or after October 1, 2008. The Fund has not yet determined the impact of this standard on its financial statements.

NOTE 4 Seasonality of operations

Energy Savings' operations are seasonal. Gas consumption by customers is typically highest in October through March and lowest in April through September. Electricity consumption is typically highest in January through March and July through September. Electricity consumption is lowest in October through December and April through June.

NOTE 5 Restricted cash/customer rebates payable

Restricted cash and customer rebates payable represent, (i) rebate monies received from LDCs in Ontario as provided by the Independent Electricity System Operator ("IESO"), and (ii) funds held as security for payment of certain monthly charges in Texas.

(i) OESLP is obligated to disperse the monies to eligible end-use customers in accordance with the Ontario Power Generation Rebate as part of OESLP's Retailer License conditions.

(ii) ESTC is required to post collateral to wire owners to secure payment of future expected charges under the Texas Electric Choice as required by the Public Utility Commission of Texas.

NOTE 6 Acquisition of Just Energy Texas L.P.

On May 24, 2007, Energy Savings completed the acquisition of Just Energy Texas LP ("Just Energy"), including all of its electricity contracts. The aggregate cost of this transaction, including transaction costs, was US$34,165 including cash acquired in the amount of US$3,373. Pursuant to the agreement, Energy Savings acquired approximately 130,000 Residential Customer Equivalents (RCEs). The acquisition was funded through a credit facility drawdown, of which $18,079 (US$18,362) including interest of $356 (US$362) was returned to the Fund on October 9, 2007 in exchange for 1,169,399 units of the Fund issued from treasury. The units are subject to the terms of an escrow agreement for the benefit of the Just Energy vendors, and are being released to the vendors over a three-year period.

The purchase price has been allocated as follows:

	US$	CAD$
Net assets acquired		
Working capital (including cash of US$3,373, CAD$3,659)	$ 7,236	$ 7,849
Electricity contracts	8,213	8,908
Goodwill	21,013	22,793
Capital assets	18	20
Long-term liabilities	(2,315)	(2,511)
	$ 34,165	$ 37,059
Consideration		
Cash	$ 34,165	$ 37,059

The acquisition of Just Energy has been accounted for using the purchase method of accounting. Energy Savings allocated the purchase price to the identified assets and liabilities acquired based on their fair values at the time of acquisition. The purchase price allocation is considered preliminary and as a result it may be adjusted during the next fiscal year. The electricity contracts acquired will be amortized over the average remaining life of the contracts, which at the time of acquisition was 14 months.

NOTE 7 Capital assets

2008	Cost	Accumulated amortization	Net book value
Furniture and fixtures	$ 3,345	$ 1,444	$ 1,901
Office equipment	9,051	2,433	6,618
Computer equipment	3,145	2,160	985
Computer software	1,196	603	593
Commodity billing and settlement system	6,563	5,477	1,086
Leasehold improvements	7,451	1,997	5,454
	$ 30,751	$ 14,114	$ 16,637

2007	Cost	Accumulated amortization	Net book value
Furniture and fixtures	$ 2,461	$ 1,105	$ 1,356
Office equipment	4,960	1,327	3,633
Computer equipment	2,970	1,816	1,154
Computer software	225	9	216
Commodity billing and settlement system	6,900	3,550	3,350
Leasehold improvements	3,527	1,351	2,176
	$ 21,043	$ 9,158	$ 11,885

NOTE 8 Bank indebtedness and long-term debt

A Credit Facility in the amount of $150,000 is available to Energy Savings to meet working capital requirements. Interest is payable on outstanding loans at rates that vary with Bankers' Acceptances, LIBOR, Canadian bank prime rate or U.S. prime rate. Under the terms of the operating credit facility, Energy Savings is able to make use of Bankers' Acceptances and LIBOR advances at stamping fees of 150 basis points, prime rate advances at bank prime plus 0.5%, and letters of credit at 1.5%. As at March 31, 2008, the Canadian and U.S. prime rates were both 5.25%. On October 26, 2007, the credit facility was renewed for a period of three years to October 29, 2010, and the debt was reclassified to long-term debt. As at March 31, 2008, Energy Savings had drawn $67,583 against the facility and total letters of credit outstanding amounted to $8,149. Energy Savings has $74,268 of the credit facility remaining for future working capital and security requirements. Energy Savings' obligations under the Credit Facility are supported by guarantees of certain subsidiaries and affiliates and secured by a pledge of the assets of Energy Savings and the majority of its operating subsidiaries and affiliates. Energy Savings is required to meet a number of financial covenants under the credit facility agreement. As at March 31, 2008 and 2007, all of these covenants have been met. Interest expense for the year ended March 31, 2008 was $5,346 (2007 – $3,942). Interest is expensed at the effective interest rate.

NOTE 9 Income taxes

The Fund is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustees will distribute all taxable income directly earned by the trust to the Unitholders and deduct such distributions for income tax purposes.

Canadian-based corporate subsidiaries are subject to tax on their taxable income at a rate of 36% (2007 – 36%).

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to the pre-tax income for Energy Savings and the income tax provision in the financial statements.

	2008	2007
Income before income tax	$ 138,260	$ 92,982
Income tax expense at the combined basic rate of 36% (2007 – 36%)	49,774	33,474
Taxes on income attributable to Unitholders	(49,883)	(36,853)
Tax impact of corporate reorganization	(7,021)	–
Benefit of U.S. tax losses and other tax assets not previously recognized	(7,371)	1,023
Non-deductible expenses	–	1,426
Recovery of income tax	$ (14,501)	$ (930)
Components of Energy Savings' income tax recovery are as follows:		
Income tax provision (recovery)	$ (757)	$ 539
Amount credited to Unitholders' equity	4,948	3,319
Current income tax provision	4,191	3,858
Future tax recovery	(18,692)	(4,788)
Recovery of income tax	$ (14,501)	$ (930)
Components of the Fund's net future income tax liability are as follows:		
Partnership income deferred for tax purposes and book carrying amount of investments in partnerships in excess of tax cost	$ 4,055	$ 11,600
Accumulated other comprehensive income	5,983	–
Future income tax liabilities (net)	$ 10,038	$ 11,600

U.S,-based corporate subsidiaries are subject to tax on their taxable income at a rate of 40% (2007 – 40%). At March 31, 2008, the U.S. subsidiaries of Energy Savings had $5,492 (US$5,350) in combined operating losses for tax purposes, all of which will expire by 2026. The tax benefit of these losses has been recognized in reducing the future taxes related to OCI of the U.S. subsidiaries in these financial statements.

On December 21, 2006, the Minister of Finance (Canada) (the "Minister") released draft legislation (the "SIFT Legislation") relating to the federal income taxation of publicly traded trusts and partnerships. On March 29, 2007, the Minister introduced Bill C-52 in the House of Commons to implement the SIFT Legislation. On June 22, 2007, Bill C-52 received royal assent.

The SIFT Legislation applies to a publicly traded trust that is a Specified Investment Flow-Through entity ("SIFT") that was listed before November 1, 2006 ("Existing Trust"). Commencing with taxation years ending in or after 2011, certain distributions of a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT attributable to direct foreign investment income or dividend income, or as a return of capital will not be subject to this tax. An Existing Trust may lose its transitional relief where its equity capital grows beyond certain dollar limits measured by reference to the Existing Trust's market capitalization at the close of trading on October 31, 2006.

The Fund is a Specified Investment Flow-Through entity as defined in the SIFT Legislation. Commencing with its taxation year ending December 31, 2011, assuming the Fund does not exceed "normal growth guidelines" (in which case transitional relief deferring the application of the SIFT tax to 2011 would be lost), the Fund will be subject to taxes on certain income earned from investments in its subsidiaries distributed to Unitholders. The Fund is also required to recognize future income tax assets and liabilities calculated with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities and those of its flow-through subsidiaries that are expected to reverse in or after 2011. The Fund expects that a portion of its aggregate temporary differences and those of its flow-through subsidiaries will reverse in or after 2011 and as a consequence it has recorded a future tax asset of $9,420 during the current year, of which substantially all is related to temporary differences with respect to items included in AOCI such as mark to market recording of derivative financial instruments. The Fund also anticipates possible material changes in such future tax amounts corresponding to the changes in the fair value of the financial instruments in future periods due to the volatile nature of such temporary differences. The Fund expects that it will not exceed its "normal growth" limitations, such that it will not be subject to tax on certain income distributed prior to 2011 and accordingly has not provided for future income taxes on the remaining portion of temporary differences which are expected to reverse prior to 2011. The SIFT Legislation does not affect the current and future tax amounts of the Fund's corporate subsidiaries.

NOTE 10 Unitholders' capital

Trust units of the Fund

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 realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund.

The Fund intends to make distributions to its Unitholders based on the cash receipts of the Fund, excluding proceeds from the issuance of additional Fund units, adjusted for costs and expenses of the Fund, amounts which may be paid by the Fund in connection with any cash redemptions or repurchases of units and any other amount that the Board of Directors considers necessary to provide for the payment of any costs which have been or will be incurred in the activities and operations of the Fund. The Fund's intention is for Unitholders of record on the 15th day of each month to receive distributions at the end of the month, excluding any Special Distributions (Note 12).

Class A preference shares of OESC

The terms of the unlimited Class A preference shares of OESC are non voting, non-cumulative and exchangeable into trust units in accordance with the OESC shareholders' agreement as restated and amended, with no priority on dissolution. Pursuant to the amended and restated Declaration of Trust which governs the Fund, the holders of Class A preference shares are entitled to vote in all votes of Unitholders as if they were the holders of the number of units that they would receive if they exercised their shareholder exchange rights. Holders of Class A preference shares have equal entitlement to distributions from the Fund as Unitholders.

		2008		2007
Issued and outstanding	Units/shares		Units/shares	
Trust units				
Balance, beginning of year	98,082,535	$ 306,387	96,391,991	$ 299,228
Options exercised	345,833	4,556	71,834	869
Deferred unit grants exchanged	–	–	2,695	36
Unit appreciation rights exchanged	17,868	237	153,532	2,598
Distribution reinvestment plan	536,559	7,078	–	–
Units issued from treasury	1,169,399	18,079	–	–
Exchanged from Class A preference shares	2,000,000	5,000	1,462,483	3,656
Balance, end of year	102,152,194	341,337	98,082,535	306,387
Class A preference shares				
Balance, beginning of year	8,706,212	21,766	10,168,695	25,422
Exchanged into units	(2,000,000)	(5,000)	(1,462,483)	(3,656)
Balance, end of year	6,706,212	16,766	8,706,212	21,766
Unitholders' capital, end of year	108,858,406	$ 358,103	106,788,747	$ 328,153

Distribution reinvestment plan

The Fund established a distribution reinvestment program ("DRIP") on December 19, 2007. Under the program, Unitholders holding a minimum of 100 units can elect to receive their distributions in units rather than cash at a 5% discount to the simple average closing price of the units for five trading days preceding the applicable distribution payment date.

NOTE 11 Unit based compensation 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 Energy Savings. In accordance with the unit option plan, the Fund may grant options to a maximum of 11,300,000 units. As at March 31, 2008, there were 698,666 options still available for grant under the plan. Of the options issued, 970,500 options remain outstanding at year 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 option plan during the year and status at March 31, 2008 is outlined below.

	Outstanding options	Range of exercise prices	Weighted average exercise price[1]	Weighted average grant date fair value[2]
Balance, beginning of year	1,202,333	$ 7.29–$18.70	$ 13.74	
Granted	158,000	$ 15.09–$16.70	$ 15.61	$ 1.92
Forfeited/cancelled	(44,000)	$ 15.45–$17.45	$ 16.33	
Exercised	(345,833)	$ 7.29–$12.17	$ 11.72	
Balance, end of year	970,500	$ 11.25–$18.70	$ 14.64	

[1] The weighted average exercise price is calculated by dividing the exercise price of options granted by the number of options granted.

[2] The weighted average grant date fair value is calculated by dividing the fair value of options granted by the number of options granted.

2008		Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life		Weighted average exercise price	Number exercisable		Weighted average exercise price
$11.25–$12.69	**360,000**	**0.53**	**$**	**12.10**	**356,000**	**$**	**12.09**
$15.09–$15.63	**335,500**	**2.72**	**$**	**15.46**	**112,600**	**$**	**15.61**
$15.90–$18.70	**275,000**	**2.76**	**$**	**16.99**	**84,000**	**$**	**17.10**
Balance, end of year	**970,500**	**1.92**	**$**	**14.64**	**552,600**	**$**	**13.57**

2007		Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life		Weighted average exercise price	Number exercisable		Weighted average exercise price
$7.29–$8.75	27,500	0.83	$	8.35	27,500	$	8.35
$10.68–$12.01	73,333	1.22	$	11.09	73,333	$	11.09
$12.17	600,000	1.00	$	12.17	600,000	$	12.17
$12.69–$18.70	501,500	3.18	$	16.30	101,500	$	16.34
Balance, end of year	1,202,333	1.92	$	13.74	802,333	$	12.46

Options available for grant	2008	2007
Balance, beginning of year	**812,666**	859,166
Add: cancelled/forfeited during the year	**44,000**	98,500
Less: granted during the year	**(158,000)**	(145,000)
Balance, end of year	**698,666**	812,666

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 for fiscal 2008:

Risk-free rate	3.76%–4.64%
Expected volatility	27.13%–27.18%
Expected life	3.35–5 years
Expected distributions	$1.115–$1.21 per year

(b) Unit appreciation rights

The Fund grants awards under its 2004 unit appreciation rights ("UARs") plan to senior officers, employees and service providers of its subsidiaries and affiliates in the form of fully paid UARs. During the Annual General and Special Meeting held on June 28, 2007, an amendment was made to the unit appreciation rights plan increasing the UARs that the Fund may grant from 1,000,000 to a maximum of 2,000,000. As at March 31, 2008, there were 804,170 UARs still available for grant under the plan. Of the UARs issued, 1,024,430 UARs remain outstanding at March 31, 2008. Except as otherwise provided, (i) the UARs vest from one to five years from the grant date providing, in most cases, on the applicable vesting date the UAR grantee continues as a senior officer, employee or service provider of the Fund or any affiliate thereof; (ii) the UARs 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	2008	2007
Balance, beginning of year	78,277	498,791
Less: granted during the year	(284,704)	(492,887)
Add: increase in UARs available for grant	1,000,000	–
Add: cancelled/forfeited during the year	10,597	72,373
Balance, end of year	804,170	78,277

(c) Deferred unit grants

The Fund grants awards under its 2004 Directors' deferred compensation plan to all independent directors on the basis each director is required to annually receive $15 of his compensation entitlement in deferred unit grants ("DUGs") and may elect to receive all or any portion of the balance of his annual compensation in DUGs. In accordance with the deferred compensation plan, the Fund may grant DUGs to a maximum of 100,000. The DUGs vest on 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 March 31, 2008, there were 56,537 DUGs available for grant under the plan. Of the DUGs issued, 37,561 DUGs remain outstanding at March 31, 2008.

DUGs available for grant	2008	2007
Balance, beginning of year	71,143	82,781
Less: granted during the year	(14,606)	(11,638)
Balance, end of year	56,537	71,143

(d) Contributed surplus

Amounts credited to contributed surplus include unit based compensation awards, UARs and DUGs. Amounts charged to contributed surplus are awards exercised during the year.

Contributed surplus	2008	2007
Balance, beginning of year	$ 9,633	$ 8,436
Add: unit based compensation awards	3,076	3,920
non-cash deferred unit grants distributions	35	17
Less: unit based awards exercised	(740)	(2,740)
Balance, end of year	$ 12,004	$ 9,633

Total amounts credited to Unitholders' capital in respect of unit options and deferred unit grants exercised or exchanged during the year ended March 31, 2008 amounted to $4,793 (2007 – $3,503).

Cash received from options exercised for the year ended March 31, 2008 amounted to $4,053 (2007 – $763).

NOTE 12 Unit distribution payable

The Fund would have under-distributed its taxable income in calendar 2007 based on normal course distribution of the Fund and would have been subject to tax at 46% for any undistributed taxable income. In order to ensure all of the taxable income is distributed to its Unitholders, the Board of Energy Savings concluded that it would be preferable to pay out a Special Distribution to effectively allocate all of the taxable income to the holders of units, Class A preference shares, UARs and DUGs. The Special Distribution was $44,691 ($0.41 per unit) and is payable as to 50% cash and 50% units. The cash portion was paid over three distributions on the last day of January, February and March 2008. The unit portion will be paid over three distributions on the last day of June, September and December 2008.

NOTE 13

Other liabilities – long-term

Other liabilities – long-term of the Fund consists of the following:

	2008	2007
Deferred lease inducement	$ 2,817	$ –
Financial instruments *(Note 14 (a))*	156,390	7,909
	$ 159,207	$ 7,909

NOTE 14

Financial instruments

(a) Fair value

The Fund has a variety of gas and electricity supply contracts that are captured under section 3855, Financial Instruments – Measurement and Recognition. Fair value is the estimated amount that Energy Savings would pay or receive to dispose of these supply contracts in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Management has estimated the value of electricity and gas swap and forward contracts using a discounted cash flow method, which employs market forward curves as well as a forward curve compiled by management for Alberta and Texas electricity (electricity information is based on market forward curves and available heat rates). Gas options have been valued using the Black option value model using the applicable market forward curves and the implied volatility from other market traded gas options.

(i) At March 31, 2008, Energy Savings had electricity fixed-for-floating swap contracts in its Canadian subsidiaries and affiliates, the majority of which are designated as hedges of Energy Savings' anticipated cost of sales with the remainder being classified as held-for-trading to which it has committed with the following terms:

	Designated as hedges	Held-for-trading
Notional volumes (peak, flat, off-peak and weekend)	0.000063–35.0 MWh	0.1–5 MWh
Total remaining notional volume (peak, flat, off-peak and weekend)	15,967,759 MWh	297,226 MWh
Maturity dates	April 30, 2008 – December 31, 2013	April 30, 2008 – August 31, 2013
Fixed price per MWh (in dollars)	$50.94–$128.13	$65.80–$102.74
Fair value	$158,264 unfavourable	$5,535 unfavourable
Notional value	$1,299,077	$30,164

With respect to the designated hedges, the loss of $158,264 (2007 – n/a) for year ended March 31, 2008, has been recorded in other liabilities. The offsetting values are recorded as to $93,273 loss in other comprehensive income, $4,057 gain in other income (expense) with the remainder being booked to AOCI upon implementation. Held-for-trading loss of $5,535 (2007 – n/a) for the year ended March 31, 2008 has been recorded in other liabilities with its offsetting value being recorded in other income (expense).

The electricity fixed-for-floating contracts related to the Province of Alberta are predominantly 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. There are also load shaped fixed-for-floating contracts in Ontario wherein the quantity of electricity is established but varies throughout the term of the contracts.

(ii) At March 31, 2008, Energy Savings had electricity fixed-for-floating swap contracts in its U.S. subsidiaries and affiliates which are designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and off-peak)	0.1–14.7 MWh
Total remaining estimated notional volume (peak, off-peak and load following)	1,324,217 MWh
Maturity dates	April 30, 2008 – January 31, 2013
Fixed price per MWh (in dollars)	$90.64–$116.97 (US$88.30–US$113.95)
Fair value	$2,590 (US$2,523) unfavourable
Notional value	$139,831 (US$136,221)

The loss of $2,590 (US$2,523) (2007 – n/a) for the year ended March 31, 2008, has been recorded in other liabilities. The offsetting values are recorded as to a gain of $18,821 (US$18,745) in other comprehensive income and a loss of $383 (US$423) in other income (expense) with the remainder being booked to AOCI upon implementation and exchange amounts being booked to other comprehensive income. There are load shaped fixed-for-floating contracts in New York wherein the quantity of electricity is established but varies throughout the term of the contracts.

(iii) At March 31, 2008, Energy Savings had electricity physical forward contracts in its U.S. subsidiaries and affiliates which are designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and off-peak)	1.0–15.0 MWh
Total remaining notional volume (peak and off-peak)	1,304,744 MWh
Maturity dates	April 4, 2008 – February 28, 2013
Fixed price per MWh (in dollars)	$46.04–$169.37 (US$44.85–US$165.00)
Fair value	$15,352 (US$14,956) favourable
Notional value	$93,561 (US$91,146)

The gain of $15,352 (US$14,956) (2007 – n/a) for the year ended March 31, 2008, has been recorded in other liabilities. The offsetting values are recorded as to a gain of $13,811 (US$14,344) in other comprehensive income with the remainder attributable to goodwill and the foreign exchange component of other comprehensive income for the year ended March 31, 2008.

(iv) At March 31, 2008, Energy Savings had unforced capacity contracts in its U.S. subsidiaries and affiliates which have been classified as held-for-trading and marked to market with the following terms:

Notional volume	55.1–83.8 MW/month
Total remaining notional volume	138.9 MW/month
Maturity dates	April 30, 2008
Fixed price per GJ (in dollars)	$1.08 (US$1.05)
Fair value	$43 (US$42) unfavourable
Notional value	$150 (US$146)

The loss of $43 (US$42) (2007 – n/a) for the year ended March 31, 2008, has been recorded in other liabilities with its offsetting values being recorded as to $39 (US$42) in other income (expense) with the remainder attributable to the foreign exchange component of other comprehensive income.

(v) As at March 31, 2008, Energy Savings had renewable energy certificates in its U.S. subsidiaries and affiliates which have been classified as held-for-trading and marked to market with the following terms:

Notional volume	10,000 MWh
Total remaining notional volume	90,000 MWh
Maturity dates	December 31, 2008 – December 31, 2012
Fixed price per MWh (in dollars)	$5.13–$6.16 (US$5.00–US$6.00)
Fair value	$77 (US$75) favourable
Notional value	$503 (US$490)

The gain of $77 (US$75) (2007 – n/a) for the year ended March 31, 2008, has been recorded in other assets with its offsetting values being recorded as to $75 (US$75) in other income (expense) with the remainder attributable to foreign exchange component of other comprehensive income.

(vi) As at March 31, 2008, Energy Savings had verified emission reduction certificates in its U.S. subsidiaries and affiliates which have been classified as held-for-trading and marked to market with the following terms:

Notional volume	10,000 MWh
Total remaining notional volume	80,000 MWh
Maturity dates	December 31, 2008 – December 31, 2012
Fixed price per MWh (in dollars)	$8.47 (US$8.25)
Fair value	$nil
Notional value	$677 (US$660)

There was no loss or gain recorded for the year ended March 31, 2008 (2007 – n/a). Future changes to the fair value will be recorded in other assets (liabilities) and the offsetting values will be recorded in other income (expenses).

(vii) As at March 31, 2008, Energy Savings had renewable energy certificates in its Canadian subsidiaries and affiliates which have been classified as held-for-trading and marked to market with the following terms:

Notional volume	10–39,638 MWh
Total remaining notional volume	327,340 MWh
Maturity dates	December 31, 2008 – December 31, 2013
Fixed price per MWh (in dollars)	$3.00–$9.00
Fair value	$854 favourable
Notional value	$1,445

The gain of $854 (2007 – n/a) for the year ended March 31, 2008, has been recorded in other assets with its offsetting values being recorded in other income (expense).

(viii) At March 31, 2008, Energy Savings had gas put and call options in its Canadian subsidiaries and affiliates which have been classified as held-for-trading and marked to market with the following terms:

Notional volume	33–47,250 GJ/month
Total remaining notional volume	8,962,956 GJ
Maturity dates	April 30, 2008 – April 30, 2013
Fixed price per GJ (in dollars)	$5.19–$13.20
Fair value	$5,379 unfavourable

The fair value is net of the present value of premiums which have yet to be paid. The loss of $530 (2007 – $3,600) for the year ended March 31, 2008, has been recorded in other liabilities with its offsetting values being recorded in other income (expense).

(ix) At March 31, 2008, Energy Savings had other gas put and call options in its U.S. subsidiaries and affiliates which have been classified as held-for-trading and marked to market with the following terms:

Notional volume	5–180,000 MmBTU/month
Total remaining notional volume	10,382,553 MmBTU
Maturity dates	April 30, 2008 – February 28, 2013
Fixed price per MmBTU (in dollars)	$5.65–$11.66 (US$5.50–US$11.36)
Fair value	$137 (US$133) favourable

The fair value is net of the present value of premiums which have yet to be paid. The gain of $139 (US$264) (2007 – $1,890 loss (US$1,637)) for the year ended March 31, 2008, has been recorded in other assets with its offsetting values being recorded in other income (expense) and other comprehensive income for amounts attributable to exchange.

(x) The Fund has foreign exchange forwards that are considered derivative financial instruments. The fair value of derivative financial instruments is the estimated amount that Energy Savings would pay or receive to dispose of these forwards at market. Management has estimated the value of its foreign exchange forwards using a discounted cash flow method that employs market forward curves. Hedge accounting was applied to most of these forwards up to September 30, 2006. However, the hedge was de-designated and a loss of $195 for the year ended March 31, 2007 was recorded in other liabilities. As the required hedge accounting effectiveness was achieved for certain quarters of fiscal 2007, a $1,933 gain has been deferred and recorded in AOCI and is being recognized in the Statement of Operations over the remaining term of each hedging relationship. At March 31, 2008, Energy Savings had foreign exchange forwards classified as held-for-trading to which it has committed with the following terms:

Notional amount	$2,258–$2,276 (US$2,000)
Total remaining notional amount	$54,408 (US$48,000)
Maturity dates	May 7, 2008 – April 7, 2010
Exchange rates	$1.1289–$1.1381
Fair value	$4,577 favourable

The gain of $4,772 (2007 – $195 loss) for the year ended March 31, 2008, has been recorded in other liabilities with the offsetting values being recorded in other income (expense).

(xi) At March 31, 2008, Energy Savings had physical gas forward contracts in its Canadian subsidiaries and affiliates which are designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volume	0.14–10,645 GJ/day
Total remaining notional volume	176,858,078 GJ
Maturity dates	April 7, 2008 – December 31, 2013
Fixed price per GJ (in dollars)	$5.05–$9.87
Fair value	$156,711 favourable
Notional value	$1,346,945

The gain of $156,711 (2007 – n/a) for the year ended March 31, 2008, has been recorded in other assets with a gain of $429,361 being recorded in other comprehensive income and the remainder being booked to AOCI upon implementation.

(xii) At March 31, 2008, Energy Savings had gas transportation forward contracts in its Canadian subsidiaries and affiliates which are designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volume	74–70,000 GJ/day
Total remaining notional volume	97,157,964 GJ
Maturity dates	April 30, 2008 – July 31, 2013
Fixed price per GJ (in dollars)	$0.01–$1.68
Fair value	$9,298 unfavourable
Notional value	$89,875

The loss of $9,298 (2007 – n/a) for the year ended March 31, 2008, has been recorded in other liabilities with a loss of $9,671 being recorded in other comprehensive income and the remainder being booked to AOCI upon implementation.

(xiii) At March 31, 2008, Energy Savings had physical gas forward contracts in its U.S. subsidiaries and affiliates, the majority of which are designated as hedges of Energy Savings' anticipated cost of sales with the remainder being classified as held-for-trading to which it has committed with the following terms:

Notional volume	3–4,663 MmBTU/day
Total remaining notional volume	55,118,014 MmBTU
Maturity dates	April 30, 2008 – May 31, 2013
Fixed price per GJ (in dollars)	$5.44–$11.73 (US$5.30–US$11.43)
Fair value	$56,707 (US$55,243) favourable
Notional value	$541,330 (US$527,355)

The gain of $56,707 (US$55,243) (2007 – n/a) for the year ended March 31, 2008, has been recorded in other liabilities with a loss of $69,739 (US$66,720) being recorded in other comprehensive income and the remainder attributable to AOCI upon implementation and the foreign exchange component of other comprehensive income.

(xiv) At March 31, 2008, Energy Savings had gas transportation forward contracts in its U.S. subsidiaries and affiliates, the majority of which are designated as hedges of Energy Savings' anticipated cost of sales with the remainder being classified as held-for-trading to which it has committed with the following terms:

Notional volume	180–21,392 MmBTU/day
Total remaining notional volume	25,988,403 MmBTU
Maturity dates	April 30, 2008 – January 31, 2013
Fixed price per GJ (in dollars)	$0.01–$0.26 (US$0.01–US$0.25)
Fair value	$nil
Notional value	$46 (US$45)

For the year ended March 31, 2008, no entry was recorded in the financial statements as there were no changes in fair value. Future changes to the fair value will be recorded in other assets (liabilities) and the offsetting values will be recorded in other comprehensive income and other income as applicable.

The following tables summarize certain aspects of the financial assets and liabilities recorded in the financial statements as at March 31, 2008.

Description	Other assets – current	Other assets – long-term	Other liabilities – current	Other liabilities – long-term
Canada				
Fixed-for-floating electricity swaps	$ 13,344	$ 12,517	$ 49,965	$ 139,695
Renewable energy certificates	222	632	–	–
Options	–	–	1,937	3,442
Physical gas forward contracts	125,669	36,270	–	5,228
Transportation forward contract	520	–	6,915	2,903
United States				
Fixed for floating electricity swaps	1,117	232	–	3,939
Physical electricity forwards	12,637	2,715	–	–
Unforced capacity forward contracts	–	≠–	43	–
Renewable energy certificates	10	67	–	–
Options	1,610	–	290	1,183
Physical gas forward contracts	35,832	20,875	–	–
Transportation forward contract	–	–	–	–
Foreign exchange forward contracts	2,325	2,252	–	–
As at March 31, 2008	$ 193,286	$ 75,560	$ 59,150	$ 156,390

Year ended March 31, 2008

Description	Gain (loss) on cash flow hedges transferred from other comprehensive income to the statement of operations	Unrealized gain (loss) recorded in other comprehensive income
Canada		
Fixed-for-floating electricity swaps	$ (93,999)	$ (9,490)
Physical gas forward contracts and transportation forward contracts	(523,116)	485,965
United States		
Fixed-for-floating swaps	(53,562)	72,339
Physical electricity forwards	(87,416)	101,215
Physical gas forward contracts	(165,012)	208,158
Amortization of deferred unrealized gains of discontinued hedges	3,244	–
Total realized and unrealized gains (losses)	$ (919,861)	$ 858,187

The estimated net amount of existing gains and losses reported in AOCI that is expected to be reclassified to net income within the next year is a gain of $117,216.

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

The carrying value of cash, restricted cash, 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.

In Illinois, Texas and Alberta, Energy Savings assumes the credit risk associated with cash collection from its customers. Credit review processes have been put in place for these markets where Energy Savings has credit risk to manage the customer default rate. If a significant number of customers were to default on their payments, it could have a material adverse effect on Energy Savings' operations and cash flow. Management factors default from credit risk in its margin expectations for Illinois, Texas and Alberta.

For the remaining markets in which Energy Savings operates, the LDCs provide collection services and assume the risk of any bad debts owing from Energy Savings' customers for a fee. Therefore, Energy Savings receives the collection of customer account balances directly from the LDCs. Management believes that the risk of the LDCs failing to deliver payment to Energy Savings is minimal.

(b) Supplier risk

Energy Savings purchases the majority of the gas and electricity delivered to its customers through long-term contracts entered into with various suppliers. Energy Savings has an exposure to supplier risk as the ability to continue to deliver gas and electricity to its customers is reliant upon the ongoing operations of these suppliers and their ability to fulfill their contractual obligations. Energy Savings has discounted the fair value of its financial assets and liabilities by $1,271 to accommodate for its counterparties' risk of default. A significant portion of these gas and electricity purchases is from Shell Energy North America.

(c) Foreign currency risk

Energy Savings 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 the AOCI. A non-cash gain for year ended March 31, 2008 of $3,951 has been recorded in the other comprehensive income. For the year ended March 31, 2007, a non-cash gain of $60 was recorded in other expense.

NOTE 15 Income per unit

	2008	2007
Basic income per unit		
Net income available to Unitholders	$ 152,761	$ 93,912
Weighted average number of units outstanding	98,830,000	97,499,000
Weighted average number of Class A preference shares	8,701,000	9,218,000
Basic units and shares outstanding	107,531,000	106,717,000
Basic income per unit	$ 1.42	$ 0.88
Diluted income per unit[1]		
Net income available to Unitholders	$ 152,761	$ 93,912
Basic units and shares outstanding	107,531,000	106,717,000
Dilutive effect of:		
Unit options	115,000	185,000
Unit appreciation rights	766,000	382,000
Deferred unit grants	28,000	17,000
Units outstanding on a diluted basis	108,440,000	107,301,000
Diluted income per unit	$ 1.41	$ 0.88

[1] For the year ended March 31, 2007, the conversion of unit options, unit appreciation rights and deferred unit grants is dilutive.

NOTE 16 Reportable business segments

Energy Savings operates in two reportable geographic segments, Canada and the United States. Reporting by geographic region is in line with Energy Savings' performance measurement parameters. Both the Canadian and the U.S. operations have gas and electricity business segments.

Energy Savings evaluates segment performance based on gross margin.

The following tables present Energy Savings' results by geographic segment:

2008	Canada	United States	Consolidated
Sales gas	$ 785,788	$ 247,463	$ 1,033,251
Sales electricity	544,278	161,161	705,439
Sales	$ 1,330,066	$ 408,624	$ 1,738,690
Gross margin	$ 220,247	$ 54,553	$ 274,800
Amortization of gas contracts	(177)	–	(177)
Amortization of electricity contracts	(1,284)	(6,100)	(7,384)
Amortization of capital assets	(3,647)	(1,463)	(5,110)
Other operating expenses	(66,438)	(52,175)	(118,613)
Interest expense	(2,174)	(3,172)	(5,346)
Other income (expense)	1,246	(1,156)	90
Recovery of income tax	3,353	11,148	14,501
Net income (loss)	$ 151,126	$ 1,635	$ 152,761
Additions to capital assets	$ 7,143	$ 699	$ 7,842
Total goodwill	$ 94,576	$ 21,570	$ 116,146
Total assets	$ 520,384	$ 188,731	$ 709,115

2007	Canada	United States	Consolidated
Sales gas	$ 782,506	$ 172,225	$ 954,731
Sales electricity	530,388	47,198	577,586
Sales	$ 1,312,894	$ 219,423	$ 1,532,317
Gross margin	$ 201,437	$ 28,007	$ 229,444
Amortization of gas contracts	(15,438)	–	(15,438)
Amortization of electricity contracts	(6,597)	–	(6,597)
Amortization of capital assets	(2,582)	(522)	(3,104)
Other operating expenses	(74,084)	(26,429)	(100,513)
Interest expense	(2,082)	(1,860)	(3,942)
Other expense	(4,831)	(2,037)	(6,868)
Recovery of income tax	930	–	930
Net income (loss)	$ 96,753	$ (2,841)	$ 93,912
Additions to capital assets	$ 3,124	$ 602	$ 3,726
Total goodwill	$ 94,576	$ –	$ 94,576
Total assets	$ 293,228	$ 63,999	$ 357,227

NOTE 17

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 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 payable under these guarantees is estimated to be $61,000.

NOTE 18 Commitments

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

2009	$ 5,183
2010	4,779
2011	4,091
2012	3,538
2013	2,280
Thereafter	7,166
	$ 27,037

(b) Commitments under the Master Services Agreement with EPCOR for the duration of the agreement are as follows:

2009	$ 8,576
2010	5,717
	$ 14,293

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

2009	$ 1,251,191
2010	969,894
2011	687,049
2012	374,829
2013	143,895
Thereafter	10,972
	$ 3,437,830

(d) The Fund has a commitment to repay the long-term debt in the amount of $67,583 by October 29, 2010.

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.

NOTE 19

Contingency

On February 7, 2008, the Attorney General for Illinois filed a complaint for damages (restitution to consumers and cancellation of contracts), civil penalties and injunctive relief against ILESC (the "Illinois AG Complaint"). The Illinois AG Complaint alleges that independent sales agents used deceptive practices in their sale of Energy Savings' contracts to Illinois customers. Energy Savings has commenced discussions with the Illinois Attorney General to address and defend the allegations and intends to seek a constructive resolution to the matter.

At this time, the likelihood of damages or recoveries and the ultimate amounts, if any, with respect to this litigation is not determinable. Accordingly, no amount has been recorded in these consolidated financial statements as at March 31, 2008.

NOTE 20

Adjustments required to reflect net cash receipts from gas sales

	2008	2007
Changes in		
Accrued gas accounts payable	$ 5,465	$ 3,156
Unbilled revenues	(8,085)	(2,232)
	$ (2,620)	$ 924

NOTE 21

Changes in non-cash working capital

	2008	2007
Accounts receivable	$ (14,887)	$ (27,029)
Gas in storage	1,609	(1,081)
Prepaid expenses	(134)	(636)
Corporate taxes recoverable	1,661	(400)
Accounts payable and accrued liabilities	(694)	(187)
Management incentive program payable	981	(6)
Other	(415)	1,028
	$ (11,879)	$ (28,311)

NOTE 22

Comparative consolidated financial statements

Certain figures from the comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year's consolidated financial statements.

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