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Management's discussion and analysis

May 18, 2005

Overview

The following is a discussion of the consolidated financial condition and results of operations of Energy Savings Income Fund ("Energy Savings" or the "Fund") for the year ended March 31, 2005 and has been prepared with all information available up to and including May 18, 2005. All amounts in this MD&A are in Canadian dollars.

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.

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: Ontario Energy Savings Corp. ("OESC"), Energy Savings (Manitoba) Corp. ("ESMC"), Energy Savings (Quebec) L.P. ("ESPQ"), ES (B.C.) Limited Partnership ("ESBC"), Alberta Energy Savings L.P. ("AESLP") and U.S. Energy Savings Corp. ("USESC"). Through its subsidiaries, 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 small and mid-sized commercial customers in Ontario and Alberta, including residential customers 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.

Financial highlights

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

	2005			2004			2003	
	$	**Per Unit**	**Change**	$	Per Unit	Change	$	Per Unit
Amount available for distribution[1]								
Before selling expense	**124,007**	**$1.17**	**7 %**	116,027	$1.10	18%	98,440	$0.97
After selling expense	**84,013**	**$0.79**	**(2)%**	85,852	$0.82	14%	75,393	$0.74
Distributions	**89,161**	**$0.84**	**17 %**	75,949	$0.72	38%	55,214	$0.54
General and administrative	**28,905**	**$0.27**	**47 %**	19,684	$0.19	56%	12,633	$0.13
Payout ratio								
Before selling expense	**72%**			65%			56%	
After selling expense	**106%**			88%			73%	

[1]*Prior years' amounts have been reclassified to reflect income taxes paid. See "Amount available for distribution".*

Included in the fiscal 2005 payout ratios is a provision of $10.5 million relating to a corporate tax liability. Excluding this provision, the payout ratios before and after selling expenses were 66% and 94%, respectively. The Fund targets a payout ratio of 65% to 70% before selling expenses.

Operations

Canadian markets – Gas

In each of the markets in which Energy Savings operates, it 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 typically remain constant throughout the year. Energy Savings accounts for sales when the customer actually consumes the gas. 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. Energy Savings receives cash from the LDCs as the gas is delivered.

In Manitoba and Alberta, the volume of gas delivered in winter months is higher than the spring and summer months. Consequently, cash received from customers will be higher in the winter months.

In Alberta, Energy Savings receives cash only when the customer has paid for the consumed gas. Alberta's regulatory environment is different from the other Canadian provincial markets whereby Energy Savings is required to invoice and receive payments directly from customers. In December 2004 Energy Savings 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").

Canadian markets – Electricity

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. Cash flows from electricity operations will be greatest during the summer and winter quarters as electricity consumption is typically highest during these periods.

U.S. market – Gas

In 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 are greatest in the Fund's third and fourth quarters as normally 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.

Seasonally adjusted analysis

Management believes the best basis for analyzing 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 seasonal variances 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 standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other issuers. No such seasonally adjusted analysis is required for electricity as electricity is consumed at the same time as delivery.

As the Fund continues to further expand into other U.S. markets and grow in Alberta, seasonal working capital requirements will increase. This working capital requirement is directly attributable to the fact that in certain markets Energy Savings 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.

Reconciliation of revenue received and associated margin

For the years ended March 31
(thousands of dollars)

	2005	2004	2003
Gas margin – Canada	**$ 122,648**	$ 101,456	$ 109,836
Opening unbilled revenues/accrued gas accounts payable	**7,085**	12,295	217
Opening gas in storage	**–**	–	2,074
Closing unbilled revenues/accrued gas accounts payable	**(9,636)**	(7,085)	(12,295)
	(2,551)	5,210	(10,004)
Other adjustments[1]	**–**	–	3,605
Gas gross margin – Canada before balancing	**120,097**	106,666	103,437
Balancing allowance[2]	**–**	2,500	(50)
Seasonally adjusted gas gross margin – Canada	**120,097**	109,166	103,387
Electricity margin – Canada	**38,864**	27,593	9,248
Gross margin – Canada	**158,961**	136,759	112,635
Gross margin – U.S.	**4,737**	–	–
Gross margin available for distribution	**$ 163,698**	$ 136,759	$ 112,635

[1]*Included in other adjustments for the year ended March 31, 2003 were amounts owing to LDCs for over-delivered gas during the year which was subsequently sold to third parties.*

[2]*The initial balancing allowance set up in 2002 was in anticipation of balancing costs associated with the 2002 warm winter. Management believes that all those balancing transactions have already occurred and a provision is no longer required.*

Amount available for distribution

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

	2005	Per Unit[1]	2004	Per Unit[1]	2003	Per Unit[1]
Gross margin available for distribution	$ 163,698		$ 136,759		$ 112,635	
Less:						
General and administrative	28,905		19,684		12,633	
Capital tax	704		1,198		820	
Income tax[2]	10,475		394		1,230	
Other expense (income)[3]	190		(514)		(488)	
Loss on foreign exchange	(583)		(30)			
	39,691		20,732		14,195	
Available for distribution before selling expenses	124,007	$ 1.17	116,027	$ 1.10	98,440	$ 0.97
Selling expenses	39,994		30,175		23,047	
Amount available for distribution	$ 84,013	$ 0.79	$ 85,852	$ 0.82	$ 75,393	$ 0.74
Reconciliation to Statement of cash flows						
Cash flow from operations before working capital	$ 80,731		$ 80,173		$ 71,003	
Tax effect on distributions paid to Class A preference shareholders[4]	3,282		3,179		4,017	
	84,013		83,352		75,020	
Allowance for balancing[5]	–		2,500		(50)	
Other[6]	–		–		423	
	–		2,500		373	
Amount available for distribution	$ 84,013		$ 85,852		$ 75,393	
Distributions						
Unitholder distributions	$ 80,014		$ 67,147		$ 43,195	
Class A preference share distributions	9,088		8,802		11,123	
Unit appreciation rights	56		–		–	
	89,158		75,949		54,318	
Non-cash distributions – Deferred unit grants	3		–		–	
Non-cash distributions – Class B preference shares	–		–		896	
Total distributions	$ 89,161	$ 0.84	$ 75,949	$ 0.72	$ 55,214	$ 0.54

Notes

[1]Diluted average number of units amounted to 106.3 million for the year ended March 31, 2005. For comparative purposes the diluted number of units was 105.2 million for the year ended March 31, 2004 and 101.8 million for the year ended March 31, 2003. In fiscal 2004, the Fund subdivided its units on a two for one basis effective January 30, 2004. In fiscal 2003, the Fund also subdivided its units on a two for one basis effective July 30, 2002. All comparable unit and per unit data has been adjusted retroactively to reflect the impact of these unit splits.

[2]As anticipated by management, the Fund became taxable during the year. See "Income taxes" for further discussion on taxes. The prior comparative years utilized the deduction of acquisition costs to reduce taxable income. As a result, the income tax amounts of prior years relate to large corporation tax ("LCT") only. Management has reclassified the 2004 and 2003 "Amount available for distribution" to include the impact of the LCT.

[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.

[4]Energy Savings adopted Emerging Issues Committee Abstract 151 ("EIC-151"), "Exchangeable Securities Issued by Subsidiaries of Income Trusts", effective April 1, 2004. All Class A preference shares are included as part of Unitholders' equity on the consolidated financial statements of the Fund. In addition, the distributions paid to the Class A preference shareholders (previously included in the Statement of operations as Management Incentive Program) are now included as distributions on the Fund's Statement of Unitholders' equity net of tax. The comparative amounts of prior periods have been adjusted accordingly. See "New accounting standards" for further details.

[5]The initial balancing allowance set up in 2002 was in anticipation of balancing costs associated with the 2002 warm winter. Management believes that all those balancing transactions have already occurred and a provision is no longer required.

[6]Included in other adjustments for the year ended March 31, 2003 were amounts owing to LDCs for over-delivered gas during the year which was subsequently sold to third parties.

Selected consolidated financial data

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

The consolidated financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. The following table provides selected financial information for the last three fiscal years.

Statement of operations data

For the years ended March 31

	2005	2004	2003
Sales	$ 920,913	$ 733,104	$ 538,668
Net income[1]	37,205	23,015	24,968
Net income per unit[1]			
Basic	0.36	0.23	0.27
Diluted	0.35	0.22	0.25

Balance sheet data

As at March 31

	2005	2004	2003
Total assets	$ 340,998	$ 301,576	$ 340,946
Long-term liabilities	21,664	29,856	40,706

[1] *Prior years' amounts have been restated to reflect the adoption of EIC-151. See "New accounting standards".*

2005 compared with 2004

The increase in sales is primarily a result of the increase in long-term customers from 993,000 to 1,235,000.

The increase in net income and net income per unit are a result of an increase in gross margin due to customer growth, offset by increases in selling and general and administrative costs. The increase in expenses is directly attributable to the Fund's expansion into new markets, including the aggregation of customers and the development of infrastructure and capabilities to operate in these new markets.

Total assets increased largely as a result of the terms of the new operating credit facility agreement. Under the previous supplier arrangement, the net accounts receivable (Canadian LDC receipts less commodity supply) was remitted to Energy Savings. The current arrangement requires Energy Savings to receive payment from the LDC or customers directly followed by payment to the supplier for commodity purchases.

Long-term liabilities are primarily future income taxes. The decrease is attributable to the decrease in the difference between the tax and accounting cost basis of the acquired gas and electricity contracts. The majority of these assets are deducted for tax at a rate greater than that for accounting.

2004 compared with 2003

The increase in sales over the prior year is primarily a result of the overall increase in long-term customers from approximately 690,000 to 993,000.

The decrease in net income year over year is attributable to the lower margin percentage associated with the customer contracts acquired from third parties, an overall increase in expense to support new market expansion and a larger customer base, which resulted in a lower percentage increase in net income compared to sales, although these higher costs were offset somewhat by an increase in income tax recovery.

Net income per unit decreased primarily as a result of an increase in the number of units outstanding during the year compared to the prior year.

Long-term liabilities relate entirely to future income taxes. The decrease in future income taxes is attributable to the difference between the tax and accounting cost basis for the gas and electricity contracts. The majority of these assets are deducted for tax at a rate greater than that used for accounting.

Summary of quarterly results

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

2005	Q1	Q2	Q3	Q4	Total
Sales per financial statements	$ 186,073	$ 114,290	$ 213,649	$ 406,901	$ 920,913
Net income (loss)	5,649	(2,754)	7,042	27,268	37,205
Net income (loss) per unit – Basic	$ 0.05	$ (0.03)	$ 0.07	$ 0.26	$ 0.36
Net income (loss) per unit – Diluted	0.05	(0.03)	0.07	0.26	0.35
Amount available for distribution					
Before selling expense	$ 27,825	$ 32,769	$ 34,930	$ 28,483	$ 124,007
After selling expense	18,862	22,094	23,603	19,454	84,013
Payout ratio					
Before selling expense	77%	68%	65%	81%	72%
After selling expense	113%	100%	96%	118%	106%

2004	Q1	Q2	Q3	Q4	Total
Sales per financial statements	$ 132,300	$ 106,096	$ 181,803	$ 312,905	$ 733,104
Net income (loss)[1]	2,102	(7,120)	5,309	22,724	23,015
Net income (loss) per unit – Basic[1]	$ 0.01	$ (0.08)	$ 0.05	$ 0.22	$ 0.23
Net income (loss) per unit – Diluted[1]	0.01	(0.07)	0.05	0.21	0.22
Amount available for distribution					
Before selling expense[2]	$ 29,364	$ 26,993	$ 30,792	$ 28,878	$ 116,027
After selling expense[2]	20,400	20,562	22,385	22,505	85,852
Payout ratio					
Before selling expense	64%	70%	64%	70%	65%
After selling expense	92%	92%	88%	90%	88%

[1]*Restated to reflect the adoption of EIC-151. See "New accounting standards".*

[2]*Reclassified to reflect change in presentation of income taxes.*

Analysis of the fourth quarter

Sales are typically higher in the fourth quarter given gas consumption is at the highest level during the winter months and more than 65% of the current customer base represents gas customers. The 30% increase in sales compared to the prior comparable quarter is primarily attributable to the increase in customers year over year. Net income increased by 20% despite the corporate income tax provision of $10.0 million for the quarter. The higher net income reflected the higher sales and margins due to higher customer levels.

The increase in the payout ratios both before and after selling expenses from the prior comparable quarter is attributable to the corporate tax liability for fiscal 2005 recognized during the fourth quarter as the majority of income is generated during that quarter. Excluding this provision, the payout ratios before and after selling expenses were 60% and 78%, respectively, for the quarter.

Sales, gross margins and marketing results

For the years ended March 31
(thousands of dollars)

	Per Financial Statements			Seasonally Adjusted		
	Sales	Cost of Sales	Gross Margin	Sales	Cost of Sales	Gross Margin
Gas						
Canada	$ 621,837	$ 499,189	$ 122,648	$ 608,796	$ 488,699	$ 120,097
United States	26,853	22,116	4,737	26,853	22,116	4,737
2005	648,690	521,305	127,385	635,649	510,815	124,834
2004	525,497	424,041	101,456	535,004	425,838	109,166
Increase	123,193	97,264	25,929	100,645	84,977	15,668
Electricity						
2005	272,223	233,359	38,864	272,223	233,359	38,864
2004	207,607	180,014	27,593	207,607	180,014	27,593
Increase	64,616	53,345	11,271	64,616	53,345	11,271
Total increase	$ 187,809	$ 150,609	$ 37,200	$ 165,261	$ 138,322	$ 26,939

Financial statements – Gross margin

As noted above, sales have increased $187.8 million (26%) on a financial statement basis and $165.3 million (22%) on a seasonally adjusted basis for the year ended March 31, 2005 as compared to the prior year. Margins have increased $37.2 million (29%) on a financial statement basis and $26.9 million (20%) on a seasonally adjusted basis for the same comparative period.

Gas

Gas sales were $648.7 million for the year, up 23% from $525.5 million in fiscal 2004. Gas margins were $127.4 million for the year, up 26% from $101.5 million in the prior year. The increase in sales and margin is primarily attributable to the fact that long-term customers increased 26% from the previous year. See "Customer aggregation" for further details.

Electricity

Electricity sales were $272.2 million for the year, up 31% from $207.6 million in fiscal 2004. Electricity margins were $38.9 million in 2005, up from $27.6 million (41%) in fiscal 2004. The increase in sales and margins is primarily the result of an increase in long-term customers of 22% from the previous year. See "Customer aggregation" for further details. The higher increase in margin compared to number of long-term customers reflects stable margin per long-term customer and positive margin impact from acquired customers not expected to renew.

Seasonally adjusted – Gross margin

The Fund has separated the gross margin received from customers (this number eliminates both seasonality and other weather variances) and the gross margin attributable to balancing activities in the quarter (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.

Fiscal 2005	**Q1**	**Q2**	**Q3**	**Q4**	**YTD**
Customer margins from LDCs	$ 28,443	$ 27,701	$ 30,951	$ 33,642	$ 120,737
Balancing adjustments	(924)	2,140	1,173	1,379	3,768
Balancing allowance	–	–	–	–	–
Extraction revenue	10	51	118	150	329
Total gas margins	27,529	29,892	32,242	35,171	124,834
Electricity margins	8,723	9,378	9,996	10,767	38,864
Total margin	$ 36,252	$ 39,270	$ 42,238	$ 45,938	$ 163,698

Fiscal 2004	Q1	Q2	Q3	Q4	YTD
Customer margins from LDCs	$ 25,620	$ 28,064	$ 28,805	$ 26,850	$ 109,339
Balancing adjustments	1,017	(2,861)	(619)	(599)	(3,062)
Balancing allowance	1,500	250	–	750	2,500
Extraction revenue	102	148	106	33	389
Total gas margins	28,239	25,601	28,292	27,034	109,166
Electricity margins	5,009	6,119	7,964	8,501	27,593
Total margin	$ 33,248	$ 31,720	$ 36,256	$ 35,535	$ 136,759

Gas

On a seasonally adjusted basis, margins from customers were $120.7 million, up from $109.3 million (10%) in the prior year. The increase in margins is primarily the result of an increase in long-term customers of 26% offset by lower margin percentage generated by acquired customers. Total gas margins for the year (including balancing adjustments and extraction revenue) was $124.8 million, up from $109.2 million (14%) in 2004. The lower percentage increase in margin versus the percentage increase in long-term customers is attributable to the fact that more than half of the new customers were added in new markets and that few of these new market customers flowed more than a few months during the year.

Customer margin per residential customer equivalent ("RCE") for Canada in 2005 was $182/RCE excluding contracts purchased through various acquisitions, a decrease from $195/RCE for the prior year but well above the $170 target. The decrease in margin over the prior year is a result of the expiration of certain low cost supply contracts during the early part of the year. Margins per new customer are targeted at or above the target of $170 per year. The margin per RCE in Canada including acquisitions amounted to $160/RCE, compared to the margin of $177/RCE from the prior year.

Customer margin per RCE for Illinois was $184/RCE, compared to the target margin of $120/RCE. Management had established a conservative margin target due to uncertainties upon entrance into the marketplace and the need to operate through an annual gas balancing cycle. Management has set a revised annual gross margin target for the new U.S. customers at $140/RCE. While this target is lower than the limited experience to date, in the view of management, the rapid growth expected from the U.S. combined with the entry into New York, a new market, makes a conservative target appropriate.

Balancing adjustments for the year resulted in an increase in margin of $3.8 million. These reconciliations are performed on the annual anniversary of each customer contract. In various markets, balancing results when actual gas consumption is either less or greater than gas delivered, which is 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. 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 realize. 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).

While the Fund has operated in Illinois, Quebec and British Columbia for most of the fiscal year, due to normal delays between customer sign-up and cash flow receipt, margins from these markets only started to be recognized in the latter part of the year. Margin from the Alberta customers did not significantly contribute due to the fact that the customers were acquired on December 1, 2004 and new marketing commenced in mid-February 2005.

Electricity

Seasonally adjusted electricity margins for the year were $38.9 million, the same as on a financial statement basis. For additional information, see “Financial statements – Gross margin” section above.

Electricity gross margin per RCE for 2005 amounted to $124, excluding the customers purchased through various acquisitions. This amount is above the prior year margin of $115/RCE and the target margin of $100/RCE. Including the low margin acquired customers, the margin per RCE was $96, higher than the margin of $90/RCE which was achieved in 2004. The increase over the prior year is attributable to lower margin customers not renewing their contracts at the end of their contract terms.

Distributable cash

Pre-marketing distributable cash for the year was $124.0 million ($1.17 per unit) up 7% from $116.0 million ($1.10 per unit) in the prior comparable year. Included in the fiscal 2005 payout ratios is a tax provision of $10.5 million. Excluding this provision, the payout ratios before and after selling expenses were 66% and 94%, respectively. The increase in pre-marketing distributable cash (seasonally adjusted) was primarily due to increased customer numbers in both gas and electricity resulting in a 20% year over year increase in gross margin. The increase in distributable cash before selling expense was less than the increase in margin due to the income taxes owing as well as higher general and administrative costs attributable to the Fund’s increased presence in Illinois and its expansion into the new markets of Quebec, British Columbia and Alberta as well as preparation for other new markets in the United States. These markets have not yet generated a material margin. See “General and administrative” and “Outlook”.

Distributable cash after selling expenses (marketing costs) was $84.0 million for the year down from $85.9 million (2%) in the prior year. Successful customer aggregation, particularly in new markets, resulted in selling expenses increasing by 33% year over year. Cash flow from these new customers is realized three to nine months after signing depending on the market.

Payout ratios before marketing costs were 72% for the year versus 65% for the prior comparative year, slightly higher than management’s target of 60% to 70%. After selling expenses, the payout ratio was 106% for the year versus 88% for the comparable year. As mentioned above, the increase in the payout ratios both before and after selling expenses is directly attributable to higher gross margin partially offset by the increase in income taxes.

Customer aggregation

Long-term customers

During the year, Energy Savings expanded its operations into three new provinces, Quebec, British Columbia and Alberta, as well as significantly increasing the size of its sales force in its first U.S. market, Illinois.

Energy Savings entered the Alberta market through the acquisition of approximately 45,000 gas and 90,000 electricity RCEs from EPCOR. Management estimates 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.

	Beginning	Additions	Acquired	Attrition[3]	Failed to Renew[4]	Ending
Gas						
Ontario	635,000	96,000	–	(65,000)	(22,000)	644,000
New Markets – Canada[1]	10,000	89,000	23,000[2]	(4,000)	–	118,000
Illinois	–	52,000	–	(3,000)	–	49,000
Total – Gas	645,000	237,000	23,000	(72,000)	(22,000)	811,000
2004	536,000	146,000	43,000	(55,000)	(25,000)	645,000
Increase						26%
Electricity						
Ontario	348,000	52,000	–	(22,000)	–	378,000
Alberta	–	1,000	45,000[2]	–	–	46,000
Total – Electricity	348,000	53,000	45,000	(22,000)	–	424,000
2004	154,000	149,000	60,000	(15,000)	–	348,000
Increase						22%
Combined						
2005	993,000	290,000	68,000	(94,000)	(22,000)	1,235,000
2004	690,000	295,000	103,000	(70,000)	(25,000)	993,000
Increase						24%

[1]*Includes Quebec, British Columbia, Manitoba and Alberta.*

[2]*Energy Savings acquired approximately 23,000 gas and 45,000 electricity long-term RCEs from EPCOR.*

[3]*Attrition – Customers whose contracts were terminated primarily due to relocation or death.*

[4]*Failed to renew – Customers who did not renew expiring contracts at the end of their term.*

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^3 (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 98,000 customers (35,000 gas and 63,000 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 is typically realized on customers aggregated by Energy Savings and on average have approximately two years remaining until the end of their contract. Included in the above balance are 22,000 gas and 45,000 electricity customers from the Alberta acquisition from EPCOR that are in the "Not Expected to Renew" category.

Attrition

Attrition in the gas customer book for the year was 10%, on target with management's estimates for planning purposes. Attrition for the electricity customer book was 6%, 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.

Renewals

In 2005, Energy Savings implemented a multifaceted program aimed at maximizing the number of customers which renew at the end of their contract term. Efforts begin up to 15 months in advance with contracts proposing renewal of the existing agreements for an additional five years. To the extent customers do not renew under this recontracting program, additional processes such as mail and telemarketing renewals take place closer to the contract expiry date. Customers who do not positively elect either renewal or termination receive a one-year fixed price for the coming year. The table below shows the percentage of long-term customers up for renewal in each of the coming years.

Fiscal Year	Gas	Electricity
2006	8%	21%
2007	14%	8%
2008	15%	37%
2009	20%	24%
2010	38%	10%
Beyond 2010	5%	–%
Total	100%	100%

With the increased customer contracts now up for renewal, Energy Savings implemented a marketing program with an expectation of achieving an 80% customer renewal rate. Based on our experience to date and the marketing program, management believes that an 80% renewal target will be achieved.

Marketing (excluding acquisitions)

Energy Savings' published targets for fiscal 2005 were gross customer additions excluding acquisitions of 260,000 and net customer additions of 160,000. The following table shows the results of operations compared with these targets.

Gross Customer Additions	F2005	Published Target	% Realized
Gas			
Ontario	96,000	100,000	96%
New markets – Canada	89,000	60,000	148%
U.S.	52,000	50,000	104%
Total	237,000	210,000	113%
Electricity	53,000	50,000	106%
Total – Gross additions	290,000	260,000	112%
Total – Net additions	174,000	160,000	109%

Gas

Ontario

Total gross customer additions in Ontario were 96,000, essentially on target. As was stated at the time the target was set, this level of growth in Ontario is expected to offset attrition and failure to renew. The success of other marketing programs and the relocation of selected agents to new markets detracted somewhat from Ontario gas additions.

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. It is anticipated that the number of new gas customer additions will continue to replace those lost through attrition and non-renewal. Ontario gas customers signed during the year were matched with supply to generate margins expected at or above Energy Savings' $170 per year gas target margin.

New markets – Canada

Total customers aggregated in New markets – Canada were 89,000 for the year, surpassing the target of 60,000 gross RCEs (148%). New markets include the aggregation of customers outside the Province of Ontario, which presently includes customers in Manitoba, Quebec, British Columbia and Alberta. Energy Savings began offering its product in Manitoba in January 2003, Quebec in April 2004 and 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 and began marketing efforts in February 2005.

The book of customers acquired in Alberta generates margins which are lower than Energy Savings' standard target margins. It is the Fund's expectation that margins for renewing acquired customers 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. The historical default rate in Alberta for utility bills is approximately 0.8%.

New markets – U.S.
Energy Savings aggregated 52,000 RCEs in the State of Illinois during the year, surpassing its target of 50,000 RCEs (104%). At the beginning of the year, there were 18 independent sales agents operating out of one sales office. By March 31, 2005, there were 125 agents and three sales offices. In addition, a fourth office is expected to open in the first quarter of fiscal 2006. The Illinois gas customers signed during the year were matched with supply to generate margins at or above our target of $170/RCE.

The Illinois gas market requires Energy Savings 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 provided an allowance of approximately $0.1 million against potential uncollectible accounts.

Electricity
Total gross electricity additions were 53,000 for the year, surpassing the published target of 50,000 (106%). In March 2005, Energy Savings announced that it will re-enter the Ontario small business and residential electricity markets. Energy Savings commenced marketing to the small commercial business segment in May 2005. It is expected that the residential market will be opened during fiscal 2006 once the Ontario Ministry of Energy specifies the effective date of new residential retail contracts. Energy Savings entered the Alberta electricity market through the acquisition of 45,000 long-term customers in December 2004. The Company began initial marketing under the Energy Savings brand in February 2005.

The electricity customers signed during the year were matched with supply to generate margins expected at or above Energy Savings' $100 per year target margin.

General and administrative
General and administrative costs were $29.0 million for the year. These costs represent an increase of 47% from fiscal 2004. The increase in general and administrative costs over the prior year was primarily driven by the costs associated with the expansion into new markets, including Quebec, British Columbia and Alberta, as well as planning costs for other new markets in the United States. Energy Savings has begun to prepare for entry into a second U.S. jurisdiction. Investments to support this expansion began in the fourth quarter of 2005 and will continue through the first and second quarters of fiscal 2006. 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 $2.0 million to $3.0 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 $3.5 million for the year ended March 31, 2005 (2004 – $6.0 million).

Class A preference share distributions
Each of the holders of the OESC 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. Total amounts paid during the year amounted to $9.1 million (2004 – $8.8 million).

As a result of the adoption of EIC-151, these distributions are now reflected in the Statement of Unitholders' equity of the Fund's consolidated financial statements, net of their tax effect.

Income taxes

Although higher revenues and income result in an increase in taxes, they provide an additional benefit to Unitholders. As was anticipated by management and due to the continued success within the Ontario market, Energy Savings had taxable income in the fourth quarter of fiscal 2005. A provision of $10.0 million relating to corporate tax liability was made in the fourth quarter of fiscal 2005. In previous years, Energy Savings utilized the deduction of various acquisition costs to reduce taxable income in addition to interest on intercompany debt. Management continues to investigate various tax minimizing strategies. For additional information, see the "Proposed reorganization" section below.

Liquidity and capital resources

During the year, 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 year end, a total of $6.1 million in letters of credit have been issued. No amounts have been drawn against the operating credit facility as at March 31, 2005.

To complement the new operating credit facility, Coral Energy Canada Inc. ("Coral") and the lenders have entered into an intercreditor agreement whereby Coral and the lenders jointly hold security over a majority of the assets of Energy Savings.

As Energy Savings continues to expand in the United States markets, Ontario electricity and Alberta there will be increased requirements to fund working capital and prudential requirements. These requirements are driven primarily by the number of customers aggregated and to a lesser degree by the number of new markets. Based on the new markets we are currently in and those we expect to enter, funding requirements will be supported through the bank facility.

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 before working capital totaled $80.7 million for the year ended March 31, 2005, essentially unchanged from the prior year. The increase in gross margin was offset partially by an increase in general and administrative costs associated with the expansion into new markets, an increase in marketing expenses to sign new customers and an increase in income taxes.

During the year, 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 were the Unitholder distributions totaling $89.2 million and general and administrative costs of $29.0 million. These uses of cash are consistent with the overall business strategy of the Fund.

During the year AESLP entered into a prudential support agreement with EPCOR whereby EPCOR will post and monitor on behalf of AESLP any credit support requirements with the Alberta Electric System Operator, wire service providers and gas distributors. AESLP pays EPCOR a fee for the credit support service. To the extent that there would be a collateral call by the secured parties, AESLP would either post directly or reimburse EPCOR. During fiscal 2005 EPCOR provided on average $17 million in credit support to the various parties.

At March 31, 2005, the Fund had a cash balance of $16.1 million. During the first quarter of fiscal 2006 management paid approximately $10.0 million ($0.5 million of installments was paid during fiscal 2005) of corporate taxes relating to income earned primarily in the fourth quarter of fiscal 2005. Furthermore, the Fund's entry into new markets will require the utilization 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 $5.6 million for fiscal 2005, compared with $4.0 million in the prior comparable year. The purchases were primarily for information technology systems supporting 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 of the customer contract 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:

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

During the year, the Fund made distributions of $89.2 million (including the management incentive program distributions) compared to $76.0 million in the prior year, an increase of 17%. Energy Savings will continue to utilize its cash resources for expansion into other U.S. markets as well as distributions to its Unitholders. The rapid pace of customer growth and corresponding selling expense and working capital requirements will be assessed in relation to the future distribution increases. Management continues to target its payout ratios before selling expenses in the range of 65% to 70%.

At the end of the year, the annual rate for distributions per unit was $0.885. The distribution rate per unit was $0.775 at the beginning of the year.

Balance sheet as at March 31, 2005 compared to 2004

Cash decreased from $40.2 million to $16.1 million as a result of the expenses relating to the expansion into Quebec, British Columbia, Alberta and Illinois. In addition, the acquisition of the customer contracts from EPCOR for $10.3 million was funded out of cash on hand.

The increase in accounts receivable from $18.6 million to $101.6 million and accounts payable from $13.3 million to $76.5 million is primarily attributable to the terms of the new operating credit facility. During the year, Coral and the lenders have entered into an intercreditor agreement whereby Coral and the lenders (the "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. This new arrangement 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.

At the end of the year, customers had consumed more gas than was supplied to the LDCs for their use. Since Energy Savings is paid for this gas when delivered yet recognizes revenue when the gas is consumed by the customer, the result on the balance sheet is the unbilled revenue amount of $50.5 million and accrued gas accounts payable of $40.9 million. The increase over the prior comparable amounts is a result of increased consumption due to a larger customer base.

The carrying values of gas contracts and electricity contracts increased by $3.8 million and $6.5 million, respectively, as a result of the Alberta customer acquisition but were reduced by $49.1 million and $2.2 million, respectively, of non-cash amortization.

Corporate taxes payable increased to $10.0 million in 2005, and as previously mentioned $0.5 million of installments were paid during the year. In prior years, Energy Savings was able to substantially reduce taxable income by the deduction of various acquisition costs.

Other assets and liabilities represent the estimated fair value of various derivative financial instruments for which hedge accounting in accordance with CICA Accounting Guidelines 13 ("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 majority of derivative instruments in terms of notional value. The gains or losses on these swaps are recognized 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.

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	$ 12,507	$ 2,060	$ 4,163	$ 3,818	$ 2,466
Marketing agreement obligations	4,082	2,041	2,041	–	–
EPCOR billing, collections & supply commitments	12,200	5,400	6,800	–	–
Gas & electricity supply purchase commitments	2,249,567	763,842	1,077,305	395,843	12,577
	$ 2,278,356	$ 773,343	$ 1,090,309	$ 399,661	$ 15,043

Alberta services agreements

During the year, Energy Savings through its subsidiary, AESLP, entered into a long-term arrangement with subsidiaries of EPCOR. 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 AESLP, 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. AESLP 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, AESLP will either post directly or reimburse EPCOR; and

3. Provide customer call center 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, AESLP has the right to certain payments or to terminate the Master Services Agreement.

Other obligations

The Fund is also subject to certain contingent obligations that become payable only if certain events or rulings were to occur. The inherent uncertainty surrounding the timing and financial impact of these events or rulings prevents any meaningful measurement, which is necessary to assess any material impact on future liquidity. Such obligations include potential judgments, settlements, fines, and other penalties resulting from lawsuits, claims or proceedings. In the opinion of management, the Fund has no material pending lawsuits, claims or proceedings which have not been either included in its accrued liabilities or in the financial statements.

Transactions with related parties

Energy Savings 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 for 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. For the year ended March 31, 2005, non-cash payments to the three officers amounted to $1.4 million.

Proposed reorganization

Due to the success of the business and customer aggregation levels, OESC generates significant cash flows resulting in taxable income. The current organizational structure of the Fund creates the potential for corporate income taxation at the OESC level, which could reduce future cash flows available for the Fund to distribute to its Unitholders.

The proposed reorganization is intended to create a flow-through structure which effectively results in distributions received from OESC not being taxed at the corporation level. Instead, distributions received by the Fund would be taxed at the Unitholder level once the distributions are paid to the Unitholder. The proposed reorganization amends the current structure from a "trust on corporation" structure to a "trust on trust on partnership" structure.

The reorganization is contingent on the following: a favorable advance tax ruling from the Canada Revenue Agency; approval by 66⅔% of votes cast by Unitholders at the Annual and Special Meeting of Unitholders to be held on June 29, 2005; and certain other judicial, regulatory and third party approvals. In addition, the trustee, OESC, may decide not to proceed with the reorganization should factors or events occur that, in the opinion of OESC, would reduce or eliminate the expected benefits of the reorganization. Such conditions, factors and events as well as information regarding the reorganization are described in detail in the Fund's Management Information Circular dated May 20, 2005, which can be accessed at www.sedar.com.

Critical accounting estimates

The consolidated financial statements of the Fund have been prepared in accordance with GAAP. Certain accounting policies require management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, cost of sales and selling and general and administrative expenses. Estimates are based on historical experience, current information and various other assumptions that are believed to be reasonable under the circumstances. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of critical accounting estimates is not meant to be exhaustive. The Fund might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Unbilled revenues/accrued gas accounts payable

Unbilled revenues result when customers consume more gas than has been delivered by Energy Savings to the LDCs. These estimates are stated at net realizable value. Accrued gas accounts payable represents Energy Savings' obligation to the LDC with respect to gas consumed by customers in excess of that delivered. This obligation is also valued at net realizable value. This estimate is required for the gas business unit only, since electricity is consumed at the same time as delivery. Management uses the current average customer contract price and the current average supply cost as a basis for the valuation.

Gas delivered in excess of consumption/deferred revenues

Gas delivered to LDCs in excess of consumption by customers is valued at the lower of cost and net realizable value. Collections from LDCs in advance of their consumption result in deferred revenues which are valued at net realizable value. This estimate is required for the gas business unit only since electricity is consumed at the same time as delivery. Management uses the current average customer contract price and the current average supply cost as a basis for the valuation.

Goodwill

In assessing the value of goodwill for potential impairment, assumptions are made regarding Energy Savings' future cash flows. If the estimates change in the future, the Fund may be required to record impairment charges related to goodwill. An impairment review of goodwill was performed during fiscal 2005 and, as a result of the review, it was determined that no impairment of goodwill existed at March 31, 2005.

Fair value of derivative instruments and risk management

The Fund has entered into a variety of derivative instruments as part of the business of purchasing and selling gas and electricity. Energy Savings enters into contracts with customers to provide electricity and gas at fixed prices. These contracts expose Energy Savings to changes in market prices to supply these commodities. To reduce the exposure to the commodity market price changes, Energy Savings uses derivative financial and physical contracts to secure fixed price commodity supply matching its delivery obligations.

The Fund's business model objective is to minimize commodity risk other than consumption, usually attributable to weather. Accordingly, it is Energy Savings' policy to hedge the estimated requirements of its customers with offsetting volumes of natural gas and electricity at fixed prices for terms equal to those of the customer contracts.

The Fund is also planning further expansion into the United States marketplace. This will introduce foreign exchange related risks. Similar to the gas and electricity commodities, it is the intent of Energy Savings to hedge this exposure through the use of foreign exchange strategies. There are currently no derivative instruments in place as all monies generated from U.S. operations have been redeployed to fund continued operations and further expansion.

The estimation of the fair value of certain electricity and gas supply contracts requires considerable judgment. The estimation of the fair value is based on market prices or management's best estimates if there is no market and/or if the market is illiquid. Effective April 1, 2004, the Fund adopted AcG-13, "Hedging Relationships". AcG-13 establishes criteria to be satisfied before hedge accounting may be applied.

Adoption of new accounting policies

Employee future benefits

Energy Savings established a long-term incentive plan (the "Plan") for all permanent full-time and part-time Canadian employees. 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. 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 $0.4 million to both plans, which was paid in full during the year.

Other assets (liabilities)

Energy Savings' various derivative financial instruments have been accounted for under AcG-13, where they meet the guideline's criteria and otherwise have been recognized at fair value in the financial statements in accordance with EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments".

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 with electricity suppliers. Energy Savings uses the settlement method of hedge accounting for these swap contracts whereby the gain or loss incurred upon settlement is recognized 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 recognized 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 Energy Savings' fixed price gas sales. These derivative financial instruments have been recorded on the balance sheet as either other asset or other liability measured at fair value, with changes in fair value recognized in income as other income (expense). These changes in fair value may be referred to as marked to market gains (losses). In addition, the premiums and settlements for these derivative financial instruments are recognized in cost of sales, when incurred.

New accounting standards

Consolidation of variable interest entities

AcG-15, "Consolidation of Variable Interest Entities", is effective for interim periods or year ends beginning on or after November 1, 2004. Using this guidance, the Fund may be required to include in its consolidated financial statements the results of any variable interest entity ("VIE"), defined as an entity that is controlled other than through majority voting rights. No VIEs existed at March 31, 2005.

Exchangeable securities

During the year, Energy Savings adopted EIC-151, relating to the presentation of exchangeable securities issued by subsidiaries of income funds. The new 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 by the Unitholders 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 a fixed period 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 in the amount of $25,422 (2004 – $29,078) meet these criteria and have been reclassified as Unitholders' equity. Previously, these preference shares were identified as a separate class of shares within the equity section of the balance sheet. This recommendation is applied retroactively with restatement of prior periods.

This change has also resulted in the reclassification of $5,806 (2004 – $5,623) net of tax of the management incentive program (a form of distribution) paid to Class A preference shareholders from the income statement to Unitholders' equity. Gross distributions paid to Class A preference shareholders amounted to $9,088 in 2005 (2004 – $8,802). This change in accounting policy resulted in an increase in net income for the year ended March 31, 2004 in the amount of $5,623.

The management incentive program is a special bonus paid quarterly in arrears to Class A preference shareholders. The bonus is equal to the distribution amount received by a Unitholder. The management incentive program is additional compensation paid to senior management of OESC (Class A preference shareholders) and is deductible for tax purposes.

Risks and uncertainties

Energy Savings operates in the deregulated gas market in Ontario, Manitoba, Quebec, British Columbia, Alberta and Illinois, as well as the deregulated electricity market in Ontario and Alberta. Any significant change to the legislative environment may affect Energy Savings' ability to grow or maintain its market position.

The Fund is subject to a number of risks which are detailed within its Annual Information Form available to investors from SEDAR through its website at www.sedar.com. Among the risks detailed is the fact that the Fund purchases the vast majority of its commodity supply through Coral Energy Canada Inc. (Shell Oil Company). To the extent that Coral were to default on the contract, the Fund would have to find new suppliers and there would be no assurance that the terms and profitability under the new arrangements would be comparable to those established with Coral. The Fund is currently pursuing alternative suppliers to diversify its sources of commodity.

Outlook

In March 2005, Energy Savings announced its plan to re-enter the small business and residential electricity markets in Ontario. Energy Savings began offering five-year fixed price contracts to small commercial customers beginning in May 2005. Marketing to residential customers is expected towards the later part of fiscal 2006.

In May 2005, Energy Savings announced its intention to enter the New York gas and electricity markets beginning in mid-fiscal 2006. The Fund continues to actively monitor the progress of the deregulated markets in various jurisdictions including Indiana, Virginia and Maryland.

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. To that end, management announced customer aggregation targets for fiscal 2006 totaling 350,000 gross additions and 214,000 net additions for the year. There can be no assurance that these targets will be realized; however, they represent the expectations of management.

Energy Savings continues to review potentially accretive acquisitions. In May 2005, the Fund acquired 187,000 Ontario electricity customers from EPCOR for a price of $7.0 million. Management's analysis indicates that this acquisition should be accretive to the Fund's distributable cash.

Expenditures on this acquisition, the substantial cost of Energy Savings' targeted 2006 marketing program and the pending ruling regarding the Fund's tax reorganization combine to make a distribution increase imprudent at this time despite the substantial increase in customer base. The Fund's distribution policy has consistently placed continued high return customer growth ahead of increased distributions.

Preference shares of OESC and trust units

As at May 11, 2005 there were 10,168,695 preference shares of OESC outstanding and 95,515,617 units of the Fund outstanding.

Forward-looking information

This MD&A contains certain forward-looking information statements pertaining to customer additions that are based on the Fund's current expectations, estimates, projections, forecasts 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, uncertainties and assumptions, which could cause actual results to differ materially from those anticipated.

Auditors' report

To the Unitholders of
Energy Savings Income Fund

We have audited the consolidated balance sheets of Energy Savings Income Fund as at March 31, 2005 and 2004 and the consolidated statements of operations, Unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 misstatements. 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 Fund as at March 31, 2005 and 2004 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 (signed)
Toronto, Canada, May 18, 2005

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 Company'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 Deloitte & Touche 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.

Brennan R. Mulcahy (signed)
Chief Executive Officer

Ken Hartwick, C.A. (signed)
Chief Financial Officer

Consolidated balance sheets

As at March 31
(thousands of dollars)

	2005	2004
		Restated Note 4
ASSETS		
Current		
Cash	$ 16,058	$ 40,241
Restricted cash (Note 6)	5,682	7,163
Accounts receivable	101,631	18,627
Gas in storage	414	–
Unbilled revenues	50,536	37,495
Prepaid expenses	2,108	1,803
	176,429	105,329
Gas contracts (less accumulated amortization – $198,483; 2004 – $149,363)	45,446	90,730
Electricity contracts (less accumulated amortization – $3,040; 2004 – $890)	8,794	4,448
Goodwill	94,576	94,576
Capital assets (Note 8)	10,279	6,493
Other assets (Note 14A)	5,474	–
	$ 340,998	$ 301,576
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 76,505	$ 13,318
Customer rebates payable (Note 6)	5,682	7,163
Management incentive program payable	1,173	1,218
Unit distribution payable	7,039	6,103
Corporate taxes payable	10,048	485
Accrued gas accounts payable	40,900	30,410
	141,347	58,697
Other liabilities (Note 14A)	644	–
Future income taxes (Note 9)	21,020	29,856
	163,011	88,553
EQUITY		
Unitholders' equity (Note 12)	173,106	206,401
Contributed surplus (Note 13)	4,881	6,622
	177,987	213,023
	$ 340,998	$ 301,576

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

Rebecca MacDonald (signed)
Executive Chair

Michael J. Kirby (signed)
Corporate Director

Consolidated statements of Unitholders' equity

For the years ended March 31
(thousands of dollars)

	2005	2004 *Restated* NOTE 4
Unitholders' equity, beginning of year	$ 206,401	$ 243,535
Trust unit options exercised	15,379	14,379
Net income	37,205	23,015
Distributions on units	(80,073)	(67,147)
Class A preference share distributions, net of tax (gross distributions of $9,088; 2004 – $8,802) (NOTE 12)	(5,806)	(5,623)
Class B preference share distributions	–	(1,758)
Unitholders' equity, end of year	$ 173,106	$ 206,401

Consolidated statements of operations

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

	2005	2004 *Restated* NOTE 4
Sales	$ 920,913	$ 733,104
Cost of sales	754,664	604,055
Gross margin	166,249	129,049
Expenses		
General and administrative expenses	28,905	19,684
Capital tax	704	1,198
Selling expenses	39,994	30,175
Unit based compensation (NOTE 13)	3,462	5,980
Amortization of gas contracts	49,120	54,823
Amortization of electricity contracts	2,150	890
Amortization of capital assets	1,856	1,070
	126,191	113,820
Income before other income	40,058	15,229
Other income	2,068	514
Income before income tax	42,126	15,743
Provision for (recovery of) income tax (NOTE 9)	4,921	(7,272)
Net income	$ 37,205	$ 23,015
Net income per unit (NOTE 15)		
Basic	$ 0.36	$ 0.23
Diluted	$ 0.35	$ 0.22

Consolidated statements of cash flows

For the years ended March 31
(thousands of dollars)

	2005	2004 Restated NOTE 4
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating		
Net income	$ 37,205	$ 23,015
Items not affecting cash		
Amortization of gas contracts	49,120	54,823
Amortization of electricity contracts	2,150	890
Amortization of capital assets	1,856	1,070
Unit based compensation	3,462	5,980
Loss on disposal of capital assets	–	5
Future income taxes	(8,836)	(10,850)
Loss on foreign exchange (unrealized)	583	30
Other income (unrealized)	(2,258)	–
	46,077	51,948
Adjustments required to reflect net cash receipts from gas sales (NOTE 20)	(2,551)	5,210
Cash inflow from operations before changes in working capital	80,731	80,173
Changes in non-cash working capital (NOTE 21)	(13,589)	412
Cash inflow from operations	67,142	80,585
Financing		
Exercise of trust unit options (NOTE 13)	10,172	11,136
Distributions paid to Unitholders	(79,134)	(65,884)
Distributions paid to Class A preference shareholders	(9,088)	(8,802)
Tax effect on distributions paid to Class A preference shareholders	3,282	3,179
	(74,768)	(60,371)
Investing		
Purchase of capital assets	(5,642)	(4,016)
Acquisition of customer contracts	(10,332)	(10,663)
Proceeds on disposal of capital assets	–	14
	(15,974)	(14,665)
Loss on foreign exchange (unrealized)	(583)	(30)
Net cash inflow (outflow)	(24,183)	5,519
Cash, beginning of year	40,241	34,722
Cash, end of year	$ 16,058	$ 40,241
Supplemental information		
Interest paid	$ 104	$ 111
Income taxes paid	$ 907	$ 575

Notes to the consolidated financial statements

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

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 wholly owned subsidiaries: Ontario Energy Savings Corp. ("OESC"), Energy Savings (Manitoba) Corp. ("ESMC"), Energy Savings (Quebec) L.P. ("ESPQ"), ES (B.C.) Limited Partnership ("ESBC"), Alberta Energy Savings L.P. ("AESLP") and U.S. Energy Savings Corp. ("USESC"), (collectively the "Energy Savings Group").

OESC Exchangeco Inc. ("Exchangeco II")

Exchangeco II was incorporated on February 23, 2005 prior to the amalgamation of OESC and OESC Exchange Inc. on March 1, 2005. Exchangeco II's purpose is to facilitate the transfer of units to the holders of Class A preference shares of OESC upon the exercise of the shareholder exchange rights to which the preference shareholders are entitled under the terms of the OESC shareholders' agreement. Exchangeco II is consolidated within the Fund's financial statements.

2. Operations

Energy Savings Group

Energy Savings' business involves the sale of long-term, irrevocable fixed price contracts. Through its subsidiaries and affiliates, Energy Savings sells 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 sells electricity to small and mid-sized commercial and small industrial customers in Ontario and Alberta, including residential customers in Alberta.

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 escalations for the commodity. It is the Fund's policy to match 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. The Fund derives its gross margin from the difference between the fixed price at which it is able to sell the commodities to its customers and the fixed price at which it purchases the matching physical or notional volumes from its suppliers.

3. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include the accounts of Energy Savings Income Fund and its wholly owned subsidiaries.

(b) Cash and cash equivalents

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

Gas delivered to local distribution companies 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.

(d) 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 typically occur from April through September and withdrawals occur from October through March. 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 as follows:

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

(f) Asset retirement obligation

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, 2005 and 2004.

(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)

Energy Savings' various derivative financial instruments have been accounted for under AcG-13, "Hedging Relationships", where they meet the guideline's criteria and otherwise have been recognized at fair value in the financial statements in accordance with EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments".

For derivative financial instruments accounted for under AcG-13, 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.

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 with electricity suppliers. Energy Savings uses the settlement method of hedge accounting for these swap contracts whereby the gain or loss incurred upon settlement is recognized 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 recognized 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 Energy Savings' fixed price gas sales. 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). These changes in fair value may be referred to as marked to market gains (losses). In addition, the premiums and settlements for these derivative financial instruments are 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 financial contracts ("electricity derivative contracts"). These electricity derivative contracts are fixed-for-floating swaps whereby 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. 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.

Realized and unrealized gains and losses on electricity derivative contracts designated as hedging instruments are deferred and recognized over the term of the contract based on the timing of the underlying hedged transactions and are recorded in cost of sales. Any electricity derivative contracts which do not qualify for hedge accounting or are dedesignated 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 (loss). Any gains or losses accumulated up to the date that the electricity derivative contract is terminated or dedesignated as a hedge are deferred and recorded in cost of sales when the hedged customer electricity contract affects income. Electricity supply contracts are recorded in cost of sales when the physical electricity is purchased. Any gains and losses on early settlement of these contracts are recorded immediately in other income (loss).

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.

Energy Savings uses physical forwards ("physical gas supply contracts"), financial fixed-for-floating gas swaps 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. Under the financial fixed-for-floating swaps, Energy Savings agrees to exchange the difference between the variable or indexed price and the fixed price on a notional quantity of natural gas for a specified time frame. Other financial instruments are comprised primarily of 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.

Realized and unrealized gains and losses on financial gas supply contracts designated as hedging instruments are deferred and recognized over the term of the contract based on the timing of the underlying hedged transactions and are recorded in cost of sales. Any contracts which do not qualify for hedge accounting or are dedesignated as a hedge are valued at fair market value with the changes in fair value recorded in current period income as a component of other income. Any gains or losses accumulated up to the date that the financial gas supply contract is terminated or dedesignated as a hedge are deferred and recorded in cost of sales when the hedged customer gas contract affects income. Physical gas supply contracts are recorded in cost of sales when the physical gas is purchased. Any gains and losses on early settlement of these contracts are recorded immediately in other income.

(l) Revenue recognition

Energy Savings delivers gas and/or electricity to end-use customers who have entered into irrevocable 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 two jurisdictions – Alberta and Illinois – where credit review processes are in place prior to commodity flowing to the customer.

(m) Selling 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

Energy Savings' currency of measurement in its consolidated financial statements is the Canadian dollar. All U.S. subsidiaries are considered integrated. Monetary assets and liabilities are translated at the exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities and related income statement charges are translated at historical rates. All other revenue and expense accounts are translated at the average rate for the year. Foreign exchange gains and losses are included in net income for the year.

(o) Per unit amounts

The computation of income per unit is based on the weighted average number of units outstanding during the year.

Energy Savings has adopted EIC-151, "Exchangeable Securities Issued by Subsidiaries of Income Trusts", effective April 1, 2004. All comparative amounts have been restated to reflect the new accounting policy. See Note 4 for further details.

(p) Unit based compensation

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 related to the Fund's unit based compensation are exercised, the amounts previously credited to contributed surplus are reversed and credited to Unitholders' equity. The amount of cash received from participants is also credited to Unitholders' equity.

(q) Employee future benefits

During the year, 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 $367 to both plans, which was paid in full during the year.

(r) Use of estimates

The preparation of the financial statements, in conformity with Canadian generally accepted accounting principles, 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.

4. Change in accounting policy

Exchangeable securities

During the year, Energy Savings adopted EIC-151, relating to the presentation of exchangeable securities issued by subsidiaries of income funds. The new 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 by 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 a fixed period 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 in the amount of $25,422 (2004 – $29,078) meet these criteria and have been reclassified as Unitholders’ equity. Previously, these preference shares were identified as a separate class of shares within the equity section of the balance sheet. This recommendation is applied retroactively with restatement of prior periods.

This change has also resulted in the reclassification of $5,806 (2004 – $5,623) net of tax of the management incentive program (a form of distribution) paid to Class A preference shareholders from the income statement to Unitholders' equity. Gross distributions paid to Class A preference shareholders amounted to $9,088 in 2005 (2004 – $8,802). This change in accounting policy resulted in an increase in net income for the year ended March 31, 2004 in the amount of $5,623.

The management incentive program is a special bonus paid quarterly in arrears to Class A preference shareholders. The bonus is equal to the distribution amount received by a Unitholder. The management incentive program is additional compensation paid to senior management of OESC (Class A preference shareholders) and is deductible for tax purposes.

5. 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.

6. Restricted cash/customer rebates payable

Restricted cash and customer rebates payable represent rebate monies received from local distribution companies ("LDCs") in Ontario as provided by the Independent Market Operator. 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 Electricity Retailer License conditions.

7. Acquisitions of customer contracts

(a) Acquisition of EPCOR Utilities Inc.'s gas and electricity 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, for $10,332.

The purchase price has been allocated as follows:

Assets acquired	
Gas contracts	$ 3,836
Electricity contracts	6,496
	$ 10,332
Consideration	
Cash	$ 10,332

The entire purchase price will be amortized over the average remaining life of the contracts, which at the time of acquisition was 2.5 years.

(b) Acquisition of Union Energy Inc.'s gas contracts

On October 16, 2003, Energy Savings purchased, effective August 1, 2003, approximately 20,000 deregulated gas residential customer equivalents as well as the associated gas supply from Union Energy Inc., a marketing subsidiary of EPCOR Utilities Inc., for $4,128.

The purchase price has been allocated as follows:

Assets acquired		
Gas contracts	$	4,128
Consideration		
Cash	$	4,128

The entire purchase price will be amortized over the average remaining life of the contracts, which at the time of acquisition was 3.5 years.

(c) Acquisition of Toronto Hydro Energy Services Inc.'s gas contracts

On July 31, 2003, Energy Savings purchased, effective June 1, 2003, approximately 31,500 deregulated gas fixed price customer contracts from Toronto Hydro Energy Services Inc. for $1,197.

The purchase price has been allocated as follows:

Assets acquired		
Gas contracts	$	1,197
Consideration		
Cash	$	1,197

The entire purchase price will be amortized over the average remaining life of the contracts, which at the time of acquisition was 1.5 years.

(d) Acquisition of First Source Energy Corp.'s electricity contracts

On May 21, 2003, Energy Savings purchased, effective May 1, 2003, fixed price electricity contracts from First Source Energy Corp. for $5,338. Pursuant to the agreement, Energy Savings acquired approximately 113,000 residential customer equivalents.

The purchase price has been allocated as follows:

Assets acquired		
Electricity contracts	$	5,338
Consideration		
Cash	$	5,338

The entire purchase price will be amortized over the average remaining life of the contracts, which at the time of acquisition was 5 years.

8. Capital assets

2005	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 2,014	$ 461	$ 1,553
Office equipment	1,664	399	1,265
Computer equipment	2,438	938	1,500
Commodity billing and settlement system	5,120	1,116	4,004
Leasehold improvements	2,601	644	1,957
	$ 13,837	$ 3,558	$ 10,279

The commodity billing and settlement system includes costs that have been capitalized but not yet amortized in the amount of $471. These costs will be amortized when the related system is out of development and available for use.

2004	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 863	$ 218	$ 645
Office equipment	1,288	190	1,098
Computer equipment	1,932	577	1,355
Commodity billing and settlement system	2,419	386	2,033
Leasehold improvements	1,693	331	1,362
	$ 8,195	$ 1,702	$ 6,493

During 2004, Energy Savings disposed of assets with cost and accumulated amortization balances of $29 and $10, respectively. This resulted in a loss on disposal in the amount of $5. Energy Savings did not dispose of any assets in 2005.

9. Income taxes

The Fund is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustee 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% (2004 – 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.

	2005	2004
		Restated NOTE 4
Net income before income tax	$ 42,126	$ 15,743
Income tax expense at the combined basic rate of 36% (2004 – 36%)	15,165	5,667
Taxes on income attributable to Unitholders	(13,501)	(18,329)
Large corporations tax	–	485
Benefit of U.S. accounting losses not recognized	842	–
Non-deductible expenses	2,415	2,165
Increase/reduction in future income taxes resulting from change in tax rate	–	2,740
Income tax provision (recovery)	$ 4,921	$ (7,272)

Components of Energy Savings' net future income tax liability are as follows:

	2005	2004
		Restated NOTE 4
Carrying value of gas and electricity contracts in excess of tax value	$ 15,700	$ 29,350
Other	5,320	506
	$ 21,020	$ 29,856

U.S. based corporate subsidiaries are subject to tax on their taxable income at a rate of 40% (2004 – 40%). At March 31, 2005, the U.S. subsidiaries of Energy Savings had $4,000 in combined operating losses available to be carried forward until 2025 to reduce taxable income. The tax benefit of these losses has not been recognized in these financial statements.

Future taxes of $3,282 relating to the reclassification of the distribution paid to Class A preference shareholders have been credited to the Unitholders' equity at March 31, 2005 (2004 – $3,179).

10. Related party transaction

On April 1, 2003, Energy Savings entered into Marketing Fee Payment Agreements ("Marketing Agreements") with three officers through its subsidiary OESC (see Note 18b). 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. For the year ended March 31, 2005, cash payments to the three officers amounted to $1,425 (2004 – $1,425).

11. Unit and share split

On January 20, 2004, the Board of Directors approved a subdivision of the Fund's units on a two for one basis. All information relating to units and per unit data, including comparative figures, has been adjusted retroactively to reflect the impact of the unit split in these consolidated financial statements. Trading of the units on a split basis became effective on January 30, 2004. On January 20, 2004, a certificate of amendment was issued to OESC subdividing on a two for one basis all of its outstanding common shares and Class A preference shares. All Class B preference shares were exchanged for units prior to the two for one split.

12. Unitholders' equity

As explained in Note 4, the Fund adopted EIC-151 relating to the exchangeable securities issued by subsidiaries of an income fund. As a result of the adoption of this policy, the Preference shares of OESC have been reclassified to the Statement of Unitholders' equity. Distributions paid to the holders of Class A preference shares have also been reclassified to Unitholders' equity net of tax.

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.

Preference shares of OESC

Unlimited Class A preference shares are non-voting for OESC, non-cumulative and exchangeable into trust units in accordance with the OESC shareholders' agreement, 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 which they would receive if they exercised their shareholder exchange rights. Class A preference shareholders have equal entitlement to distributions from the Fund as Unitholders.

Unlimited Class B preference shares, non-voting for OESC, non-cumulative, exchangeable into trust units 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.

	2005		2004	
				Restated NOTE 4
Issued and Outstanding	**Units/Shares**	$	Units/Shares	$
Trust units				
Balance, beginning of year	**91,093,142**	**177,323**	86,038,534	208,078
Options exercised	**2,959,992**	**15,379**	3,136,646	14,379
Exchanged from Class A preference shares	**1,462,483**	**3,656**	196,300	491
Exchanged from Class B preference shares	**–**	**–**	1,652,128	4,130
Additional units from exchange of Class B preference shares	**–**	**–**	69,534	1,758
Balance before income and distributions	**95,515,617**	**196,358**	91,093,142	228,836
Class A preference shares				
Balance, beginning of year	**11,631,178**	**29,078**	11,827,478	29,569
Exchanged into units	**(1,462,483)**	**(3,656)**	(196,300)	(491)
Balance, end of year	**10,168,695**	**25,422**	11,631,178	29,078
Class B preference shares				
Balance, beginning of year	**–**	**–**	1,652,128	4,130
Exchanged into units	**–**	**–**	(1,652,128)	(4,130)
Balance, end of year	**–**	**–**	–	–
Combined balance, end of year	**105,684,312**	**221,780**	102,724,320	257,914
Net income	**–**	**37,205**	–	23,015
Distributions[1]	**–**	**(85,879)**	–	(72,770)
Class B preference share distributions paid	**–**	**–**	–	(1,758)
Unitholders' equity, end of year	**105,684,312**	**173,106**	102,724,320	206,401

[1]*Unitholders are entitled to receive distributions. The holders of Class A preference shares, unit appreciation rights and deferred unit grants are also entitled to receive distributions equal to the amount receivable if their shares/rights were exchanged into units of the Fund. Pre-tax distributions for the years ended March 31, 2005 and 2004 are as follows:*

	2005	2004
Unitholders	**$ 80,014**	$ 67,147
Class A preference shareholders before tax	**9,088**	8,802
Unit appreciation rights	**56**	–
	89,158	75,949
Deferred unit grants	**3**	–
	$ 89,161	$ 75,949

13. 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, 2005, there were 1,134,166 options still available for grant under the plan. Of the options issued, 1,825,835 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 status of the Fund's unit option plan is outlined below.

	Outstanding Options	Range of Exercise Prices	Weighted Average Exercise Price[1]	Weighted Average Grant Date Fair Value[2]
Balance, April 1, 2003	7,463,974	\$2.50–\$7.58	\$ 3.72	
Granted	859,000	\$8.75–\$15.45	\$ 11.80	\$ 1.49
Forfeited/canceled	(534,668)	\$5.01–\$6.09	\$ 5.04	
Exercised	(3,136,646)	\$2.50–\$7.58	\$ 3.55	
Balance, March 31, 2004	4,651,660	\$2.50 –\$15.45	\$ 5.17	
Granted	170,000	\$15.50–\$18.70	\$ 17.33	\$ 2.63
Forfeited/canceled	(35,833)	\$11.25–\$16.58	\$ 11.62	
Exercised	(2,959,992)	\$2.50–\$11.25	\$ 3.44	
Balance, March 31, 2005	1,825,835	\$2.50–\$18.70	\$ 8.99	

[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.*

2005			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**
\$2.50–\$3.24	199,998	1.08	\$ 2.50	199,998	\$ 2.50
\$4.24–\$6.09	574,005	1.85	\$ 5.10	60,667	\$ 5.91
\$7.29–\$7.58	100,000	2.23	\$ 7.52	13,333	\$ 7.29
\$8.75–\$12.17	769,332	7.24	\$ 11.83	240,000	\$ 11.95
\$14.25–\$18.70	182,500	3.91	\$ 17.12	3,000	\$ 14.65
Balance, end of year	1,825,835	4.26	\$ 8.99	516,998	\$ 7.48

2004			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
$2.50–$3.24	2,266,654	2.09	$ 2.52	173,332	$ 2.50
$4.24–$6.09	1,346,006	2.85	$ 5.09	56,000	$ 6.00
$7.29–$7.58	180,000	3.24	$ 7.54	6,666	$ 7.29
$8.75–$12.17	844,000	4.33	$ 11.75	–	$ –
$14.25–$15.45	15,000	4.71	$ 14.65	–	$ –
Balance, end of year	4,651,660	2.77	$ 5.17	235,998	$ 3.47

Options Available for Grant	**2005**	2004
Balance, beginning of year	**1,268,333**	1,592,665
Add: canceled/forfeited during the year	**35,833**	534,668
Less: granted during the year	**(170,000)**	(859,000)
Balance, end of year	**1,134,166**	1,268,333

The Fund uses a binomial option pricing model to estimate the fair values of options granted. 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 when calculating valuations for 2005:

Risk free rate	3.3%–4.1%
Expected volatility	25.59%–26.03%
Expected life	3.5–5 years
Expected distributions	$0.805–$0.865 per year

(b) Unit appreciation rights

The Fund grants awards under its 2004 unit appreciation rights ("UARs") 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 March 31, 2005 there were 759,574 UARs still available for grant under the plan. UARs were accrued in fiscal 2004 but not granted until 2005. Except as otherwise provided, (i) the UARs vest from two to five years from the grant date, (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	**2005**
Balance, beginning of year	**1,000,000**
Granted	**(240,426)**
Balance, end of year	**759,574**

(c) Deferred unit grants

The Fund grants awards under its 2004 Directors' deferred compensation plan to all independent directors. 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 March 31, 2005, there were 90,635 DUGs available for grant under the plan. No DUGs were granted during fiscal 2004.

DUGs Available for Grant	2005
Balance, beginning of year	**100,000**
Granted	**(9,365)**
Balance, end of year	**90,635**

Total amounts credited to contributed surplus in respect of the unit based compensation plans amounted to $3,462 for the year ended March 31, 2005 (2004 – $5,980).

Total amounts charged to contributed surplus in respect of awards exercised during the year ended March 31, 2005 amounted to $5,203 (2004 – $3,243).

Cash received from options exercised for the year ended March 31, 2005 amounted to $10,172 (2004 – $11,136).

14. Financial instruments

(a) Fair value

Energy Savings 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 Energy Savings 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 market forward curves as well as a forward curve compiled by management for Alberta electricity (Alberta electricity information is based on market). Gas options have been valued using the Black option value model using applicable market forward curves and the implied volatility from other market traded gas options.

(i) At March 31, 2005, Energy Savings had electricity fixed-for-floating swap contracts designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and flat)	5–75 MWh
Total estimated notional volume (peak, flat and load following)	10,942,004 MWh
Maturity dates	April 30, 2005–May 31, 2011
Fixed price per MWh (in dollars)	$39.25–$82.25
Fair value	$38,218 gain
Notional value	$611,434

Since hedge accounting has been applied to these swaps, no recognition of the marked to market gain has been recognized 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.

(ii) At March 31, 2005, Energy Savings 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	244,000 GJ
Maturity date	November 30, 2005
Fixed price per GJ (in dollars)	$5.23
Fair value	$716 gain
Notional value	$1,276

The gain of $716 for the year ended March 31, 2005 has been recorded in other assets with its offsetting value being recorded in other income.

(iii) At March 31, 2005, Energy Savings 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	244,000 GJ
Maturity date	November 30, 2005
Fixed price per GJ (in dollars)	$7.26
Fair value	$171 loss
Notional value	$1,771

The loss of $171 for the year ended March 31, 2005 has been recorded in other assets with its offsetting value being recorded in other income.

(iv) At March 31, 2005, Energy Savings has gas puts and calls in Manitoba which have been marked to market with the following terms:

Notional volume	1,500–54,137 GJ/month
Total notional volume	1,562,800 GJ
Maturity dates	April 30, 2005–October 31, 2008
Fixed price per GJ (in dollars)	$5.48–$6.03
Fair value	$644 loss

The loss of $644 for the year ended March 31, 2005 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.

(v) At March 31, 2005, Energy Savings had gas puts and calls in Alberta which have been marked to market with the following terms:

Notional volume	500–95,500 GJ/month
Total notional volume	2,666,500 GJ
Maturity dates	April 30, 2005–February 28, 2011
Fixed price per GJ (in dollars)	$5.50–$8.30
Fair value	$1 gain

The gain of $1 for the year ended March 31, 2005 has been recorded in other assets 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.

(vi) At March 31, 2005, Energy Savings has 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	6,017,500 MmBTU
Maturity dates	April 30, 2005–April 30, 2010
Fixed price per MmBTU (in dollars)	\$6.65–\$7.74 (US\$5.20–US\$6.05)
Fair value	\$2,356 gain (US\$1,949)

The fair value is net of prepaid premiums of \$2,570 (US\$2,125). These premiums are included in other assets. The gain of \$2,356 for the year ended March 31, 2005 has been recorded in other assets with its offsetting value being recorded in other income.

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.

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

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

(b) Interest rate risk

During the year, OESC and USESC 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 is being used to meet working capital requirements as Energy Savings continues to expand into new markets. Total letters of credit outstanding as at March 31, 2005 amount to \$6,120. Energy Savings is required to meet a number of financial covenants under the credit facility agreement. At March 31, 2005, all of these covenants have been met.

To complement the new operating credit facility, Coral Energy Canada Inc. ("Coral") and the lenders entered into an intercreditor agreement whereby Coral and the lenders ("Secured Creditors") jointly hold security over a majority of the assets of Energy Savings. 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, and related administration fees, from the lock box account and remit the remaining proceeds to Energy Savings.

(c) Customer credit risk

In Illinois and Alberta, Energy Savings assumes the credit risk associated with the collection of its customers. Credit review processes have been put in place for these markets where Energy Savings has credit risk. 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.

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. 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.

(d) 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 income. A non-cash loss of $583 for the year ended March 31, 2005 (2004 – $30) has been recorded in other income.

15. Income per unit

As explained in Note 4, Energy Savings has adopted EIC-151. As a result of the adoption of this policy, the comparative basic and diluted income per unit calculations for the year ended March 31, 2004 have been restated to reflect the change.

	2005	2004
		Restated Note 4
Basic income per unit		
Net income available to Unitholders	$ 37,205	$ 23,015
Weighted average number of units outstanding	93,868,000	88,787,000
Weighted average number of Class A preference shares	10,848,000	11,722,000
Weighted average number of Class B preference shares	–	1,169,000
Basic units and shares outstanding	104,716,000	101,678,000
Basic income per unit	$ 0.36	$ 0.23
Diluted income per unit[1]		
Net income available to Unitholders	$ 37,205	$ 23,015
Basic units and shares outstanding	104,716,000	101,678,000
Dilutive effect of:		
Unit options	1,506,000	3,496,000
Unit appreciation rights	55,000	–
Units outstanding on a diluted basis	106,277,000	105,174,000
Diluted income per unit	$ 0.35	$ 0.22

[1]*For the year ended March 31, 2005, the conversion of unit options and unit appreciation rights is dilutive. For the year ended March 31, 2004, the exercise of unit options is dilutive.*

16. Reportable operating segments

Energy Savings operates in two reportable geographic segments, Canada and the United States. Reporting by geographic region is in line with the Company's performance measurement parameters. Each segment has senior level executives responsible for the performance of the segment. The Canadian operations have both gas and electricity business segments while the U.S. operations have gas only. The results from operations in the United States were not significant for the year ended March 31, 2004 and therefore have not been separately disclosed.

In prior years, Energy Savings disclosed its reportable operating segments based on the division between its two product lines, gas and electricity. Due to the fact that the comparative figures for the U.S. operations are insignificant, Energy Savings has also disclosed the results of operations for the years ended March 31, 2005 and 2004 based on product lines.

Energy Savings evaluates segment performance based on gross margin.

The following table presents Energy Savings' results from continuing operations by geographic segment:

2005	Canada	United States	Consolidated
Sales from external customers and third parties	$ 894,060	$ 26,853	$ 920,913
Gross margin	161,512	4,737	166,249
Interest expense	(104)	–	(104)
Amortization of gas contracts	(49,120)	–	(49,120)
Amortization of electricity contracts	(2,150)	–	(2,150)
Amortization of capital assets	(1,798)	(58)	(1,856)
Other expenses	(64,406)	(8,555)	(72,961)
Other income	529	1,539	2,068
Provision for income tax	(4,921)	–	(4,921)
Net income (loss)	$ 39,542	$ (2,337)	$ 37,205
Additions to capital assets	$ 5,540	$ 102	$ 5,642
Total goodwill	$ 94,576	$ –	$ 94,576
Total assets	$ 323,250	$ 17,748	$ 340,998

The following table presents Energy Savings' results from continuing operations by product line:

2005	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	$ 648,690	$ 272,223	$ –	$ 920,913
Gross margin	127,385	38,864	–	166,249
Interest	–	–	(104)	(104)
Amortization of gas contracts	(49,120)	–	–	(49,120)
Amortization of electricity contracts	–	(2,150)	–	(2,150)
Amortization of capital assets	(287)	(378)	(1,191)	(1,856)
Other expenses	–	–	(72,961)	(72,961)
Other income	–	–	2,068	2,068
Provision for income tax	–	–	(4,921)	(4,921)
Net income (loss)	$ 77,978	$ 36,336	$ (77,109)	$ 37,205
Additions to capital assets	$ 2,352	$ 162	$ 3,128	$ 5,642
Total goodwill	$ 94,576	$ –	$ –	$ 94,576
Total assets	$ 273,287	$ 28,102	$ 39,609	$ 340,998

2004 (Restated – see Note 4)	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	$ 525,497	$ 207,607	$ –	$ 733,104
Gross margin	101,456	27,593	–	129,049
Interest	–	–	(111)	(111)
Amortization of gas contracts	(54,823)	–	–	(54,823)
Amortization of electricity contracts	–	(890)	–	(890)
Amortization of capital assets	(16)	(351)	(703)	(1,070)
Other expenses	–	–	(56,926)	(56,926)
Other income	–	–	514	514
Recovery of income tax	–	–	7,272	7,272
Net income (loss)	$ 46,617	$ 26,352	$ (49,954)	$ 23,015
Additions to capital assets	$ 935	$ 409	$ 2,672	$ 4,016
Total goodwill	$ 94,576	$ –	$ –	$ 94,576
Total assets	$ 233,355	$ 13,158	$ 55,063	$ 301,576

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 favor 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 payable under these guarantees is estimated to be $15,000.

18. Commitments

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

2006	$ 2,060
2007	2,085
2008	2,079
2009	2,003
2010	1,816
	$ 10,043

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

2006	$ 2,041
2007	2,041
	$ 4,082

(c) Commitments under the Master Services Agreement with EPCOR for the duration of the agreement are as follows (see Note 19):

2006	$ 5,700
2007	5,900
2008	1,625
2009	200
	$ 13,425

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

2006	$ 763,842
2007	619,328
2008	457,977
2009	273,743
2010	122,100
	$ 2,236,990

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.

19. Alberta services agreements

On December 1, 2004, Energy Savings, through its subsidiary, AESLP, 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), each of which is described below:

(a) Master Services Agreement

AESLP and EPCOR have entered into a Master Services Agreement. Services to be provided include customer call center 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, AESLP has the right to certain payments or to terminate the Master Services 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 AESLP's future marketing requirements.

(c) Prudential Support Agreement

EPCOR will post and monitor, on behalf of AESLP, any credit support requirements with the Alberta Electric System Operator, wire service providers and gas distributors. AESLP 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, AESLP will either post directly or reimburse EPCOR.

20. Adjustments required to reflect net cash receipts from gas sales

		2005		2004
Changes in:				
Accrued gas accounts payable	$	10,490	$	(4,297)
Unbilled revenues		(13,041)		9,507
	$	(2,551)	$	5,210

21. Changes in non-cash working capital

		2005		2004
Management incentive program payable	$	(45)	$	(177)
Prepaid expenses		(305)		(755)
Gas in storage		(414)		–
Corporate taxes payable		9,563		(90)
Accounts payable and accrued liabilities		63,186		257
Accounts receivable		(83,004)		1,177
Other		(2,570)		–
	$	(13,589)	$	412

22. Economic dependence

A significant portion of gas and electricity purchases by Energy Savings are contracted with Coral Energy Canada Inc., an affiliate of Shell Oil Company, and gas and electricity is delivered to end-use customers by local distribution companies.

The ongoing operations of Energy Savings depend on the ability of Coral to service the gas and electricity sales agreement and on the ability of the local distribution companies to deliver gas and electricity to end-use customers.

23. Subsequent event

On May 19, 2005, OESC entered into a purchase and sale agreement to acquire 187,000 retail electricity customer contracts from EPCOR Utilities Inc. with an average remaining life of 1.5 years. The purchase price of the acquisition was $7,000 (subject to adjustments) and was funded out of working capital. As part of the acquisition arrangements Energy Savings also secured wholesale electricity to hedge the expected consumption requirements of the acquired customers.