

# Management's discussion and analysis ("MD&A")

May 17, 2007

## Overview

The following discussion and analysis is a review of the financial condition and results of operations of Energy Savings Income Fund ("Energy Savings" or the "Fund") for the year ended March 31, 2007, and has been prepared with all information available up to and including May 17, 2007. This analysis should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2007. The financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All dollar amounts are expressed in Canadian dollars. Quarterly reports, the annual report and supplementary information can be found under "reports and filings" on our corporate website at [www.esif.ca](http://www.esif.ca). Additional information can be found on SEDAR at [www.sedar.com](http://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 directly or indirectly wholly owned operating subsidiaries and affiliates: Ontario Energy Savings L.P. ("OESLP"), Energy Savings (Manitoba) L.P. ("ESMLP"), Energy Savings (Quebec) L.P. ("ESPQ"), ES (B.C.) Limited Partnership ("ESBC"), Alberta Energy Savings L.P. ("AESLP"), Illinois Energy Savings Corp. ("IESC"), New York Energy Savings Corp. ("NYESC") and Indiana Energy Savings Corp. ("INESC").

Energy Savings' business involves the sale of natural gas to residential and small to mid-size commercial customers under long-term, irrevocable fixed price contracts. Energy Savings also supplies electricity to Ontario, Alberta and New York customers. By fixing the price of natural gas or electricity under its fixed price contracts for a period of up to five years, Energy Savings' customers offset their exposure to changes in the price of these essential commodities. Energy Savings, which commenced business in July of 1997, derives its margin or gross profit 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 volumes from its suppliers.

## Forward-looking information

This MD&A contains certain forward-looking information statements pertaining to customer additions and renewals, customer consumption levels, distributable cash and treatment under governmental regulatory regimes. These statements are based on current expectations that involve a number of risks and uncertainties which could cause actual results to differ from those anticipated. These risks include, but are not limited to, levels of customer natural gas and electricity consumption, rates of customer additions and renewals, fluctuations in natural gas and electricity prices, changes in regulatory regimes and decisions by regulatory authorities, competition and dependence on certain suppliers. Additional information on these and other factors that could affect the Fund's operations, financial results or distribution levels are included in the Fund's annual information form and other reports on file with Canadian security regulatory authorities which can be accessed on our corporate website at [www.esif.ca](http://www.esif.ca) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).

## Key terms

"Customers not expected to renew" are generally large volume and/or low margin customers who are not part of Energy Savings' target market.

"Gross margin per RCE" represents the gross margin realized on Energy Savings' customer base, including both low margin customers acquired through various acquisitions and gains/losses from sales of excess supply.

"LDC" means local distribution company, the natural gas or electricity distributor for a regulatory or governmentally defined geographic area.

"Long-term customers" represents customers that meet management's required margin thresholds and therefore expect to have the opportunity to renew at the end of their contract.

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

"Small volume electricity customers" represents customers that consume less than 150,000 kWh of electricity.

## Non-GAAP financial measures

### Seasonally adjusted gross margin

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"). Seasonally adjusted gross margin is not a defined performance measure under Canadian GAAP. Seasonally adjusted analysis applies solely to the Canadian gas market and specifically to Ontario, Quebec and Manitoba.

No seasonal adjustment is required for electricity as the supply is balanced daily.

### Cash available for distribution

"Cash available for distribution" refers to the net cash available for distribution to Unitholders. Seasonally adjusted gross margin is the principal contributor to cash available for distribution. Distributable cash is calculated by the Fund as seasonally adjusted gross margin, adjusted for cash items including general and administrative expenses, marketing expenses, capital tax, bad debt expense, other income/expense and corporate taxes. Management believes that this is the most useful measure of performance as it provides investors with an indication of the amount of cash available for distribution to Unitholders. This non-GAAP measure may not be comparable to other income funds.

"Distributable cash after gross margin replacement" represents the net cash available for distribution to Unitholders as defined above. However, only the marketing expenses associated with maintaining the Fund's gross margin at a stable level equal to that in place at the beginning of the year are deducted. This methodology is comparable to distributable cash after customer replacement. The Fund previously matched each customer lost with the marketing cost associated with signing a new customer of the same type to recognize a constant customer base. See "Distributable cash" on page 24 for further details. This calculation is not defined under Canadian GAAP. This non-GAAP measure may not be comparable to other income funds.

## Financial highlights

For the years ended March 31

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

|   | 2007    |          |        | 2006    |          |        | 2005    |          |
|---|---------|----------|--------|---------|----------|--------|---------|----------|
|   | \$      | Per unit | Change | \$      | Per unit | Change | \$      | Per unit |
| Cash available for distribution                         |         |          |        |         |          |        |         |          |
| After gross margin replacement/<br>customer replacement | 152,788 | \$ 1.42  | 18%    | 130,021 | \$ 1.22  | 27%    | 102,133 | \$ 0.96  |
| After marketing expense                                 | 129,984 | \$ 1.21  | 28%    | 101,200 | \$ 0.95  | 20%    | 84,013  | \$ 0.79  |
| Distributions   | 108,652 | \$ 1.01  | 12%    | 96,758  | \$ 0.90  | 9%     | 89,161  | \$ 0.84  |
| General and administrative                              | 41,892  | \$ 0.39  | 22%    | 34,318  | \$ 0.32  | 20%    | 28,642  | \$ 0.27  |
| Payout ratio <sup>1</sup>                               |         |          |        |         |          |        |         |          |
| After gross margin replacement/<br>customer replacement | 71%     |          |        | 74%     |          |        | 87%     |          |
| After marketing expense                                 | 84%     |          |        | 96%     |          |        | 106%    |          |

<sup>1</sup> Management targets a payout ratio after all marketing expenses of less than 100%.

## Operations

### Gas

In each of the markets that Energy Savings operates, it is required to deliver gas to the LDCs for its customers throughout the year. Gas customers are charged a fixed price for the full term of their contract. Energy Savings purchases gas supply in advance of marketing. The LDC provides historical customer usage to enable Energy Savings to purchase back to back matched supply. Furthermore, in many markets, Energy Savings has an option strategy that covers forecast differences in customer consumption due to weather variations. The cost of this strategy is incorporated in the price to the customer. To the extent that balancing requirements are outside the options purchased, Energy Savings bears the financial responsibility for fluctuations in customer usage. Volume variances may result in either excess or short supply. Excess supply is sold in the spot market resulting in either a gain or loss compared to the weighted average cost of supply. In the case of greater than expected gas consumption, Energy Savings must purchase the short supply at the market price, which may reduce the customer gross margin typically realized.

#### *Ontario, Quebec and British Columbia*

In Ontario, Quebec and British Columbia, the volumes delivered for a customer typically remain constant throughout the year. Energy Savings does not recognize sales until 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, deliveries to LDCs exceed customer consumption. Energy Savings receives cash from the LDCs as the gas is delivered, which is even throughout the year.

#### *Manitoba and Alberta*

In Manitoba and Alberta, the volume of gas delivered is based on the estimated consumption for each month. Therefore, the amount of gas delivered in winter months is higher than in the spring and summer months. Consequently, cash received from customers and LDCs will be higher in the winter months.

Alberta's regulatory environment is different from the other Canadian provincial markets. In Alberta, Energy Savings is required to invoice and receive payments directly from customers. Energy Savings has entered into an 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 customers aggregated in Alberta.

#### *New York, Illinois and Indiana*

In New York, Illinois and Indiana, the volume of gas delivered is based on the estimated consumption for each month. Therefore the amount of gas delivered in winter months is higher than in the spring and summer months. Consequently, cash flow from the New York, Illinois and Indiana operations is greatest during the third and fourth (winter) quarters as, normally, cash is received from the LDC in the same period as customer consumption.

### Electricity

#### *Ontario, Alberta and New York*

Energy Savings does not bear the risk for variations in customer consumption in any of the markets in which it operates. In Ontario and New York, Energy Savings provides customers with price protection for approximately 95% of their electricity requirements. The customers experience either a small balancing charge or credit on each billing due to fluctuations in prices applicable to their volume requirements not covered by a fixed price. In Alberta, Energy Savings offers a load following product for which it has matched back to back load following supply and therefore does not have exposure to variances in customer consumption.

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

## Distributable cash and cash distributions

For the years ended March 31

(thousands of dollars except per unit amounts)

|  | 2007     |          | 2006     |          | 2005     |          |
|--|----------|----------|----------|----------|----------|----------|
|  | Per unit |          | Per unit |          | Per unit |          |
| <b>Cash available for distribution</b>   |          |          |          |          |          |          |
| Gross margin per financial statements  | \$       | 229,444  | \$       | 186,085  | \$       | 166,249  |
| Adjustments required to reflect net cash receipts from gas sales                           |          | 924      |          | 2,555    |          | (2,551)  |
| Seasonally adjusted gross margin   | \$       | 230,368  | \$       | 188,640  | \$       | 163,698  |
|  |          | \$ 2.15  |          | \$ 1.76  |          | \$ 1.54  |
| Less:  |          |          |          |          |          |          |
| General and administrative   |          | (41,892) |          | (34,318) |          | (28,642) |
| Capital tax expense  |          | (850)    |          | (691)    |          | (704)    |
| Bad debt expense   |          | (10,882) |          | (5,107)  |          | (263)    |
| Income tax recovery (provision)  |          | (539)    |          | 1,764    |          | (10,475) |
| Other (expense) income <sup>1</sup>  |          | (3,252)  |          | (850)    |          | 393      |
|  |          | (57,415) |          | (39,202) |          | (39,691) |
| Cash available for distribution before marketing expenses                                  |          | 172,953  |          | 149,438  |          | 124,007  |
| Marketing expenses to maintain gross margin  |          | (20,165) |          | (19,417) |          | (21,874) |
| <b>Cash available for distribution after gross margin replacement/customer replacement</b> |          |          |          |          |          |          |
|  |          | 152,788  |          | 130,021  |          | 102,133  |
|  |          | \$ 1.42  |          | \$ 1.22  |          | \$ 0.96  |
| Marketing expenses to add new gross margin/customers                                       |          | (22,804) |          | (28,821) |          | (18,120) |
| <b>Cash available for distribution</b>   | \$       | 129,984  | \$       | 101,200  | \$       | 84,013   |
|  |          | \$ 1.21  |          | \$ 0.95  |          | \$ 0.79  |
| <b>Reconciliation to statements of cash flow</b>   |          |          |          |          |          |          |
| Cash inflow from operations  | \$       | 98,354   | \$       | 69,582   | \$       | 67,142   |
| Add:   |          |          |          |          |          |          |
| Increase in non-cash working capital   |          | 28,311   |          | 28,277   |          | 13,589   |
| Tax effect on distributions paid to holders of Class A preference shares                   |          | 3,319    |          | 3,341    |          | 3,282    |
| Cash available for distribution  | \$       | 129,984  | \$       | 101,200  | \$       | 84,013   |
| <b>Distributions</b>   |          |          |          |          |          |          |
| Unitholder distributions   | \$       | 99,036   | \$       | 87,220   | \$       | 80,014   |
| Class A preference share distributions   |          | 9,188    |          | 9,251    |          | 9,088    |
| Unit appreciation rights distributions   |          | 411      |          | 277      |          | 56       |
|  |          | 108,635  |          | 96,748   |          | 89,158   |
| Non-cash distributions –   |          |          |          |          |          |          |
| Deferred unit grants   |          | 17       |          | 10       |          | 3        |
| <b>Total distributions</b>   | \$       | 108,652  | \$       | 96,758   | \$       | 89,161   |
|  |          | \$ 1.01  |          | \$ 0.90  |          | \$ 0.84  |
| Diluted average number of units outstanding  |          | 107.3m   |          | 107.0m   |          | 106.3m   |

<sup>1</sup> Other income relates to interest earned on cash balances. Other expense relates to interest paid on the credit facility as well as other bank charges.

## Sales and gross margin analysis

### Sales and gross margin – Per financial statements

For the years ended March 31

(thousands of dollars)

| Sales        | 2007         |               |              | 2006         |               |              |
|--------------|--------------|---------------|--------------|--------------|---------------|--------------|
|              | Canada       | United States | Total        | Canada       | United States | Total        |
| Gas          | \$ 782,506   | \$ 172,225    | \$ 954,731   | \$ 689,401   | \$ 97,779     | \$ 787,180   |
| Electricity  | 530,388      | 47,198        | 577,586      | 417,225      | 7,909         | 425,134      |
|              | \$ 1,312,894 | \$ 219,423    | \$ 1,532,317 | \$ 1,106,626 | \$ 105,688    | \$ 1,212,314 |
| Increase     | 19%          | 108%          | 26%          |              |               |              |
| Gross margin | Canada       | United States | Total        | Canada       | United States | Total        |
| Gas          | \$ 131,235   | \$ 26,128     | \$ 157,363   | \$ 131,042   | \$ 14,379     | \$ 145,421   |
| Electricity  | 70,202       | 1,879         | 72,081       | 40,020       | 644           | 40,664       |
|              | \$ 201,437   | \$ 28,007     | \$ 229,444   | \$ 171,062   | \$ 15,023     | \$ 186,085   |
| Increase     | 18%          | 86%           | 23%          |              |               |              |

#### Canada

Sales were \$1.3 billion for the year, up 19% from \$1.1 billion in fiscal 2006. Gross margins were \$201.4 million, an increase of 18%, from \$171.1 million in the prior comparable year. The increase in sales and margins is attributable to a 7% increase in customers year over year as well as an increase in the customer selling price and margin. Refer to “Sales and gross margin – Seasonally adjusted” below for further details.

#### United States

Sales in the U.S. were \$219.4 million for the year, an increase of 108% from \$105.7 million in fiscal 2006. Gross margins were \$28.0 million, up 86% from \$15.0 million in the prior comparable year. The increase in sales and margins reflects a 42% growth in the customer base as well as the increase in average sales price and margin per customer over the prior year. For additional information, see “Sales and gross margin – Seasonally adjusted” below.

### Sales and gross margin – Seasonally adjusted<sup>1</sup>

For the years ended March 31

(thousands of dollars)

| Sales                    | 2007         |               |              | 2006         |               |              |
|--------------------------|--------------|---------------|--------------|--------------|---------------|--------------|
|                          | Canada       | United States | Total        | Canada       | United States | Total        |
| Gas                      | \$ 782,506   | \$ 172,225    | \$ 954,731   | \$ 689,401   | \$ 97,779     | \$ 787,180   |
| Adjustments <sup>1</sup> | (2,232)      | –             | (2,232)      | 13,554       | –             | 13,554       |
|                          | \$ 780,274   | \$ 172,225    | \$ 952,499   | \$ 702,955   | \$ 97,779     | \$ 800,734   |
| Electricity              | 530,388      | 47,198        | 577,586      | 417,225      | 7,909         | 425,134      |
|                          | \$ 1,310,662 | \$ 219,423    | \$ 1,530,085 | \$ 1,120,180 | \$ 105,688    | \$ 1,225,868 |
| Increase                 | 17%          | 108%          | 25%          |              |               |              |
| Gross margin             | Canada       | United States | Total        | Canada       | United States | Total        |
| Gas                      | \$ 131,235   | \$ 26,128     | \$ 157,363   | \$ 131,042   | \$ 14,379     | \$ 145,421   |
| Adjustments <sup>1</sup> | 924          | –             | 924          | 2,555        | –             | 2,555        |
|                          | \$ 132,159   | \$ 26,128     | \$ 158,287   | \$ 133,597   | \$ 14,379     | \$ 147,976   |
| Electricity              | 70,202       | 1,879         | 72,081       | 40,020       | 644           | 40,664       |
|                          | \$ 202,361   | \$ 28,007     | \$ 230,368   | \$ 173,617   | \$ 15,023     | \$ 188,640   |
| Increase                 | 17%          | 86%           | 22%          |              |               |              |

<sup>1</sup> For Ontario, Manitoba and Quebec gas markets.

## Gross margin analysis

For the years ended March 31  
(thousands of dollars)

|  | 2007       |               |            | 2006       |               |            |
|--|------------|---------------|------------|------------|---------------|------------|
|  | Canada     | United States | Total      | Canada     | United States | Total      |
| <b>Gas</b>   |            |               |            |            |               |            |
| Customer margin  | \$ 134,112 | \$ 28,413     | \$ 162,525 | \$ 119,743 | \$ 11,113     | \$ 130,856 |
| Gain (loss) from dispositions<br>of excess supply <sup>1</sup> | (1,953)    | (2,285)       | (4,238)    | 13,854     | 3,266         | 17,120     |
| Gas margin   | \$ 132,159 | \$ 26,128     | \$ 158,287 | \$ 133,597 | \$ 14,379     | \$ 147,976 |
| <b>Electricity</b>   |            |               |            |            |               |            |
| Customer margin  | \$ 74,111  | \$ 3,597      | \$ 77,708  | \$ 42,432  | \$ 706        | \$ 43,138  |
| Loss from dispositions<br>of excess supply <sup>2</sup>        | (3,909)    | (1,718)       | (5,627)    | (2,412)    | (62)          | (2,474)    |
| Electricity margin   | \$ 70,202  | \$ 1,879      | \$ 72,081  | \$ 40,020  | \$ 644        | \$ 40,664  |
| <b>Total</b>   | \$ 202,361 | \$ 28,007     | \$ 230,368 | \$ 173,617 | \$ 15,023     | \$ 188,640 |

<sup>1</sup> Results from variances in customer demand.

<sup>2</sup> Results from excess supply purchased in advance of customer usage or fluctuations in customer usage attributable to acquired customers.

On a seasonally adjusted basis, sales were \$1.5 billion for the year, up 25% from \$1.2 billion in fiscal 2006. Margins were \$230.4 million for the year, up 22% from fiscal 2006. The increase in sales for both gas and electricity is attributable to a 10% increase in the customer base and the higher customer gross margin and sales price.

### Canada

Sales were \$1.3 billion for the year, up 17% from \$1.1 billion in fiscal 2006. Margins were \$202.4 million for the year, an increase of 17% from the previous year.

### Gas

Gas sales increased by 11% while margins decreased by 1% from the prior fiscal year. The increase in sales was attributable to the higher average customer sales price and the increase in customer base. Although customer gross margin increased 12% over the prior year, overall margin declined in comparison to fiscal 2006 as a result of balancing gains realized in the previous year compared with losses in the current year due to a declining gas price environment. Energy Savings disposed of excess supply resulting from warm winter weather in both the current and prior fiscal year. In the current year, Energy Savings sold excess volume to third parties at spot prices less than the price paid which resulted in a loss of \$2.0 million. In contrast, in the comparable prior year, the company recognized a gain of \$13.9 million from the sale of excess supply into a favorable spot market.

After allowance for the balancing and inclusive of acquisitions, gross margin per RCE ("GM/RCE") amounted to \$174/RCE, compared to \$181/RCE from the prior year. The GM/RCE value for Alberta includes a full allowance for the bad debt expense.

### Electricity

Electricity sales were \$530.4 million for the year, an increase of 27% from fiscal 2006. The increase in sales is directly attributable to a 17% increase in the customer base and a higher average sales price over the prior year. Gross margin increased by 75% from the prior year to \$70.2 million. The increase in gross margin was higher than the increase in sales due to the addition of new customers at margins substantially above the annual target margin. Also, the number of acquired low margin, load following customers decreased from the prior year.

During the year, management was able to generate higher margins on new contracts while providing competitive pricing due to the decline in the wholesale energy prices. In March 2007, Energy Savings announced a long-term electricity supply alliance with Bruce Power L.P. ("BPLP") in which BPLP agreed to supply a significant portion of the electricity for Energy Savings' price protected customer contracts in Ontario. As a result of the power purchase terms in the partnership with BPLP, Energy Savings has increased its Canadian electricity target margin effective fiscal 2008 to \$150/RCE, an increase of 36% over the previous target of \$110/RCE.

The decrease in the number of load following customers was also a positive. Several of the low margin acquired customer contracts from First Source Energy Corp. (“First Source”) and EPCOR expired in the year. A load following contract requires Energy Savings to bear the risk and benefits of fluctuation in consumption from the standard customer usage profile. In fiscal 2006, balancing these contracts resulted in higher supply costs and lower margin of \$2.5 million. During fiscal 2007, there was less volatility from the standard customer usage profile as well as fewer load following customers reducing the loss to \$1.1 million on this portfolio. As at March 31, 2007, approximately 7% of the load following electricity customers remain for which Energy Savings bears the consumption risk, and they have an average remaining life of less than one year.

In addition to the load following losses, the Fund bears a balancing risk on marketing supply purchased in anticipation of sales. As customer additions were less than anticipated the resulting impact was the sale of excess supply in a declining spot price environment. Balancing losses for the year amounted to \$3.9 million, an increase of 62% from losses of \$2.4 million in the prior comparable year.

Gross margin per RCE after all balancing and including acquisitions for fiscal 2007 in Canada amounted to \$99/RCE, up 50% compared to \$66/RCE from the prior year. The GM/RCE values for Alberta include a full allowance for the bad debt expense.

#### *United States*

Sales for fiscal 2007 were \$219.4 million, an increase of 108% from \$105.7 million in the prior comparable year. Margins were \$28.0 million, up 86% from \$15.0 million year over year. The increase in sales and margin relates to a 42% increase in customer base as well as the increase in customer margin and sales price.

#### *Gas*

Gas sales increased by 76% from \$97.8 million to \$172.2 million year over year. Gas margins increased 82% for fiscal 2007 to \$26.1 million from \$14.4 million. Energy Savings entered two new utility jurisdictions during the year, the National Fuel Gas (“NFG”) territory in New York as well as Northern Indiana Public Service Company (“NIPSCO”) in Indiana.

Customer margins increased by 156% to \$28.4 million in fiscal 2007 from \$11.1 million realized in fiscal 2006. A portion of this increase relates to the 39% increase in customer base year over year. In addition, new customers signed during the fiscal year generated margins well above the target margin of \$140/RCE.

The increase in customer sales and margin was partially offset by warmer than normal temperatures during the winter months, which resulted in excess supply. In addition to the warm weather, high attrition was experienced in New York due to customer mobility which reduced net customer additions and therefore consumption. A contest period was introduced in the ConEdison (“ConEd”) territory of New York during the third quarter of fiscal 2007, which management anticipates will mitigate the high attrition levels in fiscal 2008 and beyond (see “Attrition” on page 28 for further details). The excess volume during fiscal 2007 was sold at unfavorable prices in the spot market resulting in a balancing loss of \$2.3 million versus a balancing gain of \$3.3 million in the prior comparable year. In the prior comparable year, excess volumes were sold at favorable prices.

Gross margin after all balancing costs was \$162/RCE for fiscal 2007, up 10% year over year. In fiscal 2006, the gross margin was \$147/RCE. The GM/RCE value for Illinois includes a full allowance for the bad debt expense.

#### *Electricity*

Electricity sales and margin were \$47.2 million and \$1.9 million, respectively, for the current fiscal year. In fiscal 2006, sales and margin amounted to \$7.9 million and \$0.6 million, respectively. The increase in sales for the current year is related to the increase in the customer base. Marketing in New York commenced during the third quarter of fiscal 2006.

Gross margin from customer consumption was \$3.6 million for fiscal 2007, an increase from \$0.7 million in the prior comparable year. This increase is attributable to the 54% expansion in customer base year over year as well as higher margin per customer for contracts signed during the current year. During fiscal 2006, margins from electricity customers were only generated for approximately five months.

Customer margins were offset by the sale of excess supply at unfavorable pricing, which resulted in a loss of \$1.7 million for the current year. The excess supply was in consequence of the high volume of customer attrition as noted above. In fiscal 2006, balancing resulted in a loss of \$0.1 million.

Realized customer margin for electricity was \$65/RCE, below our target of \$100/RCE due to the balancing losses. The lower margin for the year is a result of the excess supply caused by lower than expected additions and higher than expected customer attrition being sold at low spot prices.

## Distributable cash

During the current fiscal year, management reviewed its disclosure of distributable cash with a focus on marketing expenses. The Fund previously matched each customer lost with the marketing cost associated with signing a new customer of the same type to recognize a constant customer base. In order to better reflect a constant state of operations, a decision was made to capture the costs of replacing the actual lost margin rather than the physical customer. Accordingly, a new measure has been developed, cash available for distribution after gross margin replacement.

In fiscal 2007, management was able to utilize favorable market conditions to secure supply at lower costs and therefore increase customer margins for contracts signed. Accordingly, gross margin per customer was significantly higher for those customers signed in fiscal 2007 to replace customers lost through attrition and failure to renew. The marketing costs to maintain the customer base have been allocated as required to maintain gross margin at a steady state. This adjustment is not necessary for prior periods as the margin gained on a new customer signed was not materially different than the gross margin lost through attrition and failure to renew.

The table below highlights the gross margin on new customers for fiscal 2007 versus the gross margin on customers lost during the year:

### Annual gross margin per customer<sup>1</sup>

|   | Fiscal 2007 | Annual target<br>fiscal 2007 |
|---|-------------|------------------------------|
| <b>Customers added in the year</b>            |             |                              |
| Canada – gas                                  | \$ 198      | \$ 175                       |
| Canada – electricity                          | \$ 182      | \$ 110                       |
| United States – gas                           | \$ 218      | \$ 140                       |
| United States – electricity                   | \$ 130      | \$ 110                       |
| <b>Customers lost in the year<sup>2</sup></b> |             |                              |
| Canada – gas                                  | \$ 167      |                              |
| Canada – electricity                          | \$ 87       |                              |
| United States – gas                           | \$ 144      |                              |
| United States – electricity                   | \$ 130      |                              |

<sup>1</sup> Customer sales price less cost of matched supply and allowance for bad debt and U.S. working capital. Annual amount is based on residential standard annual consumption of 2,815 m<sup>3</sup> (or 106 GJs) of natural gas and 10,000 kWh of electricity.

<sup>2</sup> Gross margin as calculated above for customers in place at March 31, 2006, and includes balancing and low margin acquired customers.

Cash available for distribution after gross margin replacement for the current fiscal year was \$152.8 million (\$1.42 per unit), an increase of 18% from \$130.0 million (\$1.21 per unit) in the prior comparable year. The increase is a result of the 22% increase in seasonally adjusted gross margin offset by higher general and administrative costs, bad debt and interest expense experienced in fiscal 2007. In fiscal 2006, there was a tax recovery of \$1.8 million versus a tax provision of \$0.5 million for the current fiscal year. Energy Savings spent \$20.2 million in marketing expenses to maintain its current level of gross margin, which represents 47% of the total marketing expense for the year.

Energy Savings paid out 71% of the cash available for distribution after gross margin replacement. This distribution level reflects the maintenance of current operational levels. In fiscal 2006, Energy Savings paid out 74% of the cash available for distribution after customer replacement.

Cash available after marketing expenses amounted to \$130.0 million (\$1.21 per unit) for fiscal 2007, an increase of 28% from \$101.2 million (\$0.95 per unit) in the prior year. The increase is attributable to the increase in gross margin as well as the 11% decrease in total marketing expense as a result of the lower customer additions realized during the fiscal year. After deduction of the marketing expenses, the payout ratio for the current year was 84%, versus 96% in the prior comparable year. Management targets a payout ratio after marketing expense of less than 100%.

As noted above, during the year Energy Savings paid out 84% of its distributable cash to Unitholders. The remaining cash available for distribution of \$21.3 million (16%) will be distributed prior to December 31, 2007, to eliminate the Fund's exposure to income taxes. The result may be a payout ratio in excess of 100% for the ensuing fiscal year and may also include a special one-time distribution.

## Net income

For the years ended March 31

(thousands of dollars)

### Reconciliation to statements of operations

|  | 2007              | 2006              | 2005             |
|--|-------------------|-------------------|------------------|
| Net income   | \$ 93,912         | \$ 51,563         | \$ 37,205        |
| Adjustments required to reflect net cash receipts from sales             | 924               | 2,555             | (2,551)          |
| Items not affecting cash   | 31,829            | 43,741            | 46,077           |
| Tax effect on distributions paid to holders of Class A preference shares | 3,319             | 3,341             | 3,282            |
| <b>Cash available for distribution</b>                                   | <b>\$ 129,984</b> | <b>\$ 101,200</b> | <b>\$ 84,013</b> |

Energy Savings had net income for fiscal 2007 in the amount of \$93.9 million, an increase of 82% over the prior comparable year. The net income for 2006 increased to \$51.6 million from \$37.2 million in fiscal 2005, an increase of 39%. The increase in income in 2007 as well as 2006 is primarily attributable to the increase in customers and gross margin, offset by the change in the market value of certain derivative financial statements. A non-cash expense of \$7.6 million was recognized during the 2007 fiscal year versus a \$1.7 million expense for the prior year. These instruments form part of the Fund's hedge positions intended to ensure stable margins over the term of customer contracts.

## 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 GAAP and are expressed in Canadian dollars. The following table provides selected financial information for the last three fiscal years.

### Statements of operations data

| For the years ended March 31   | 2007         | 2006         | 2005       |
|--------------------------------|--------------|--------------|------------|
| Sales per financial statements | \$ 1,532,317 | \$ 1,212,314 | \$ 920,913 |
| Net income                     | 93,912       | 51,563       | 37,205     |
| Net income per unit            |              |              |            |
| Basic                          | \$ 0.88      | \$ 0.49      | \$ 0.36    |
| Diluted                        | \$ 0.88      | \$ 0.48      | \$ 0.35    |

### Balance sheet data

| As at March 31        | 2007       | 2006       | 2005       |
|-----------------------|------------|------------|------------|
| Total assets          | \$ 357,227 | \$ 350,225 | \$ 340,998 |
| Long-term liabilities | \$ 19,509  | \$ 21,439  | \$ 21,664  |

### **2007 compared with 2006**

The increase in sales is primarily a result of the 10% increase in customers during the fiscal year as well as an increase in the average sales price. During fiscal 2007, Energy Savings entered two new utility jurisdictions, NFG in New York and NIPSCO in Indiana. In addition, Energy Savings had 12 months of results from the New York market compared with only five months in fiscal 2006 (entered during third quarter of fiscal 2006).

The increase in net income from \$51.6 million to \$93.9 million and in net income per unit is a result of an increase in gross margin per customer as well as the growth in the number of customers, offset by increases in bad debt expense, general and administrative costs and other expenses relating primarily to the change in market value of derivative financial instruments. The increase in bad debt expense is attributable to the growth in customer base while general and administrative expenses increased primarily as a result of the additional number of employees and infrastructure necessary to support the Fund's expansion into new utility jurisdictions.

Total assets increased by 2% primarily as a result of the increase in accounts receivable offset by a decrease in the book value of acquired gas and electricity contracts, as these contracts are amortized over their average remaining life.

Long-term liabilities are primarily future income taxes and other liabilities. The decrease in future income tax is attributable to the decrease in the difference between the tax and accounting cost base of the acquired gas and electricity contracts. The majority of these assets are deducted for tax at a rate greater than that for accounting. The increase in other liabilities is attributable to the change in fair value of derivative financial instruments.

### **2006 compared with 2005**

The increase in sales is primarily a result of the increase in customers from 1,171,000 to 1,502,000. During fiscal 2006, Energy Savings entered into New York (gas and electricity market) and expanded further in Illinois to two additional LDCs (Peoples Energy and North Shore). In addition, the financial results from the Alberta market (entered during the prior year) became more significant.

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 marketing and general and administrative costs to fund the customer base expansion. In addition, bad debt expense increased over the prior year as a result of the impact of the first full year of operations in Illinois and Alberta.

Total assets increased by 3% primarily as a result of the increase in accounts receivable as well as a recovery of corporate taxes paid in the prior year.

Long-term liabilities are primarily future income taxes. The decrease is attributable to the decrease in the difference between the tax and accounting cost base of the acquired gas and electricity contracts. The majority of these assets are deducted for tax at a rate greater than that for accounting. Also included in long-term liabilities are deferred charges which represent the fair value associated with the supply contracts purchased with the customer contracts from EPCOR.

## Summary of quarterly results

For the years ended March 31

(thousands of dollars except per unit amounts)

| 2007  | Q1         | Q2         | Q3         | Q4         | Total        |
|---|------------|------------|------------|------------|--------------|
| Sales per financial statements              | \$ 285,550 | \$ 236,127 | \$ 422,230 | \$ 588,410 | \$ 1,532,317 |
| Net income (loss)                           | 11,005     | (1,257)    | 14,112     | 70,052     | 93,912       |
| Net income (loss) per unit – Basic          | \$ 0.10    | \$ (0.01)  | \$ 0.13    | \$ 0.66    | \$ 0.88      |
| Net income (loss) per unit – Diluted        | 0.10       | (0.01)     | 0.13       | 0.66       | 0.88         |
| Amount available for distribution           |            |            |            |            |              |
| After gross margin replacement <sup>1</sup> | \$ 31,598  | \$ 26,490  | \$ 39,772  | \$ 54,928  | \$ 152,788   |
| After marketing expenses                    | 21,489     | 19,068     | 36,500     | 52,927     | 129,984      |
| Payout ratio                                |            |            |            |            |              |
| After gross margin replacement              | 81%        | 102%       | 69%        | 52%        | 71%          |
| After marketing expense                     | 119%       | 141%       | 75%        | 54%        | 84%          |
| 2006  | Q1         | Q2         | Q3         | Q4         | Total        |
| Sales per financial statements              | \$ 234,405 | \$ 180,049 | \$ 321,161 | \$ 476,699 | \$ 1,212,314 |
| Net income                                  | 11,125     | 9,396      | 13,217     | 17,825     | 51,563       |
| Net income per unit – Basic                 | \$ 0.11    | \$ 0.09    | \$ 0.12    | \$ 0.17    | \$ 0.49      |
| Net income per unit – Diluted               | 0.10       | 0.09       | 0.12       | 0.17       | 0.48         |
| Amount available for distribution           |            |            |            |            |              |
| After customer replacement                  | \$ 27,175  | \$ 26,465  | \$ 35,245  | \$ 41,136  | \$ 130,021   |
| After marketing expenses                    | 21,565     | 20,760     | 26,582     | 32,293     | 101,200      |
| Payout ratio                                |            |            |            |            |              |
| After customer replacement                  | 86%        | 91%        | 69%        | 61%        | 74%          |
| After marketing expense                     | 109%       | 116%       | 92%        | 77%        | 96%          |

<sup>1</sup> Allocation of marketing expenses has been restated to reflect the cost of maintaining customer gross margin versus historical method of customer replacement.

The Fund's results reflect greater seasonality as consumption is greatest during the third and fourth quarters (winter quarters). While year over year quarterly comparisons will remain appropriate, sequential quarters will vary materially. The main impact of this will be higher distributable cash with a lower payout ratio in the third and fourth quarters and lower distributable cash with a higher payout ratio in the first and second quarters.

### Analysis of the fourth quarter

Sales are typically higher in the fourth quarter because gas consumption is highest during the winter months and approximately 58% of the current customer base is gas customers. The 23% increase in sales compared to the prior comparable quarter is primarily attributable to the increase in customers year over year as well as the increase in sales price. Net income increased from \$17.8 million to \$70.1 million as a result of the increase in the customer base and higher gross margin per customer as well as the change in market value of the derivative financial instruments. During the fourth quarter of fiscal 2006, the change in fair value recognized was a loss of \$17.1 million. However, in the fourth quarter of fiscal 2007 an increase in fair value of \$3.6 million was realized.

The cash available for distribution after customer gross margin replacement was \$54.9 million, an increase of 34% from \$41.1 million in the prior comparable quarter. This increase is primarily attributable to the increase in gross margin per customer quarter over quarter. This increase was offset by a high number of customers lost primarily in the gas and electricity markets in New York prior to the implementation of the contest period.

Cash available for distribution was \$52.9 million, an increase of 64% from \$32.3 million in the prior comparable quarter. The higher growth of this measure was due to lower marketing expenses. As in the third quarter, the Fund signed fewer customers than targeted at the beginning of the year. One result was lower marketing expenses on a year over year comparison. Marketing expenses decreased 41% due to a 45% decrease in customer additions in comparison with the fourth quarter of fiscal 2006.

## Customer aggregation

### Long-term customers

|                                | Beginning | Additions | Acquired <sup>5</sup> | Attrition <sup>6</sup> | Failed to renew <sup>7</sup> | Ending    |
|--------------------------------|-----------|-----------|-----------------------|------------------------|------------------------------|-----------|
| <b>Canada</b>                  |           |           |                       |                        |                              |           |
| <b>Gas</b>                     |           |           |                       |                        |                              |           |
| Ontario                        | 614,000   | 30,000    |                       | (39,000)               | (23,000)                     | 582,000   |
| Other markets <sup>1</sup>     | 191,000   | 56,000    |                       | (17,000)               | (4,000)                      | 226,000   |
| Total – Gas                    | 805,000   | 86,000    |                       | (56,000)               | (27,000)                     | 808,000   |
| <b>Electricity<sup>2</sup></b> | 564,000   | 153,000   |                       | (49,000)               | (6,000)                      | 662,000   |
| <b>Total Canada</b>            | 1,369,000 | 239,000   |                       | (105,000)              | (33,000)                     | 1,470,000 |
| <b>United States</b>           |           |           |                       |                        |                              |           |
| <b>Gas<sup>3</sup></b>         | 107,000   | 77,000    |                       | (35,000)               | –                            | 149,000   |
| <b>Electricity<sup>4</sup></b> | 26,000    | 32,000    |                       | (18,000)               | –                            | 40,000    |
| <b>Total United States</b>     | 133,000   | 109,000   |                       | (53,000)               | –                            | 189,000   |
| <b>Combined</b>                | 1,502,000 | 348,000   |                       | (158,000)              | (33,000)                     | 1,659,000 |
| 2006                           | 1,171,000 | 424,000   | 50,000                | (121,000)              | (22,000)                     | 1,502,000 |
| <b>Increase</b>                |           |           |                       |                        |                              | 10%       |

<sup>1</sup> Includes Quebec, British Columbia, Manitoba and Alberta.

<sup>2</sup> Includes Ontario and Alberta.

<sup>3</sup> Includes Illinois, New York and Indiana.

<sup>4</sup> Includes New York only.

<sup>5</sup> In fiscal 2006, Energy Savings purchased approximately 187,000 Ontario electricity RCEs from EPCOR, of which 50,000 were expected to renew with Energy Savings upon expiration of their contracts.

<sup>6</sup> Attrition – Customers whose contracts were terminated primarily due to relocation or death, or canceled by Energy Savings due to delinquent accounts.

<sup>7</sup> Failed to renew – Customers who did not renew expiring contracts at the end of their term.

### Customers not expected to renew

In addition to the long-term customers, Energy Savings has an additional 50,000 electricity customers which were acquired through various acquisitions of customer contracts and which are not expected to renew at the end of their contracts.

### Attrition

#### Canada

Attrition in Canada was 7% for the current fiscal year and 10% in the prior year. While fiscal 2007 showed positive results, management continues to monitor whether this decrease represents an ongoing improvement in attrition levels. Management continues to target an attrition rate of 10% for planning purposes.

#### United States

Attrition in the U.S. was 33%, an increase from 18% in the prior fiscal year and above management's target of 15% to 20%. As previously disclosed, attrition in the U.S. has been higher due to customers lost as a result of higher customer mobility in New York prior to the implementation of the contest period in ConEd and the settlement with the Citizens Utility Board ("CUB") in Illinois.

In fiscal 2007, U.S. Energy Savings Corp. ("USESC"), a subsidiary of the Fund, settled a complaint filed before the Illinois Commerce Commission by the CUB regarding USESC's marketing practices. As part of the settlement, Energy Savings agreed to provide certain customers who mistakenly believed that USESC was affiliated with their local utility the opportunity to cancel their contracts without penalty and to be eligible for a limited refund. As a result of this, approximately 9,000 RCEs canceled their contracts, which represented less than 10% of Illinois gas customers.

In New York, the regulatory environment for the majority of the year allowed for customers to switch to a competing supplier with no ability to allow them to seamlessly return to their existing supplier. Effective December 2006, a contest period was introduced in the ConEd territory allowing suppliers to be advised of any pending switches of a customer to a competing supplier. Through this, retailers such as Energy Savings are given an opportunity to contact and retain existing customers. The effect of the contest period has been positive to date. However, given the date of implementation, the material impact on the attrition rate will be realized in the latter half of fiscal 2008. Based on experience to date, management has revised the U.S. attrition rate target to 20% from a range of 15% to 20%.

### Failed to renew

The renewal process is a multifaceted program and aims to maximize the number of customers who renew prior to the end of their contract term. Efforts begin up to 15 months in advance with contracts providing for renewal for an additional five years. Presently, the only contracts that have completed their term and therefore are eligible for renewal are the Ontario gas and electricity customers.

In the Ontario gas market, customers who do not positively elect to renew or terminate receive a one-year fixed price for the ensuing year. Renewals for the current year achieved a success rate of 82% of which 23% are for a one-year period. This renewal rate is a blend of one-year and five-year contracts. Management anticipates renewals for gas customers in fiscal 2008 to remain at 80% or above.

In the Ontario electricity market, there is no opportunity to renew a residential or small volume customer for a one-year term should the customer fail to positively renew or terminate their contract. As a result of the current market conditions, management targets a renewal rate for electricity customers of 60% for fiscal 2008. In fiscal 2007, 66% of all expiring electricity customer contracts were successfully renewed, of which 34% are for a one-year period. Approximately 4% of Energy Savings' electricity customer base was eligible for renewal in fiscal 2007.

Approximately 1% of all customers are currently enrolled under a one-year plan. The table below shows the percentage of long-term customers up for renewal in each of the following years:

| Fiscal year | Canada<br>gas | Canada<br>electricity | U.S.<br>gas | U.S.<br>electricity |
|-------------|---------------|-----------------------|-------------|---------------------|
| 2008        | 14%           | 33%                   | –           | –                   |
| 2009        | 16%           | 13%                   | 1%          | –                   |
| 2010        | 24%           | 6%                    | 20%         | 2%                  |
| 2011        | 24%           | 21%                   | 34%         | 24%                 |
| 2012        | 20%           | 24%                   | 34%         | 64%                 |
| Beyond 2012 | 2%            | 3%                    | 11%         | 10%                 |
| Total       | 100%          | 100%                  | 100%        | 100%                |

Energy Savings continuously monitors its customer renewal rates with the expectation of maximizing the number of customers who renew their contract. Management continues to be pleased with the success of its renewal program.

## Gross additions

Energy Savings' published targets for fiscal 2007 were gross customer additions, excluding acquisitions of 475,000 and net customer additions of 307,000. The following table shows the results of operations compared with these targets. In light of lower than expected additions, Energy Savings remained disciplined in the management of the gross margin targets, which resulted in margins substantially higher than target across all markets.

| Gross customer additions       | Fiscal 2007 | Published target | % realized |
|--------------------------------|-------------|------------------|------------|
| <b>Canada</b>                  |             |                  |            |
| <b>Gas</b>                     |             |                  |            |
| Ontario                        | 30,000      | 50,000           | 60%        |
| Other markets <sup>1</sup>     | 56,000      | 60,000           | 93%        |
| Total – Gas                    | 86,000      | 110,000          | 78%        |
| <b>Electricity<sup>2</sup></b> | 153,000     | 175,000          | 87%        |
| <b>Total Canada</b>            | 239,000     | 285,000          | 84%        |
| <b>United States</b>           |             |                  |            |
| <b>Gas<sup>3</sup></b>         | 77,000      | 100,000          | 77%        |
| <b>Electricity<sup>4</sup></b> | 32,000      | 90,000           | 36%        |
| <b>Total United States</b>     | 109,000     | 190,000          | 57%        |
| <b>Gross additions</b>         | 348,000     | 475,000          | 73%        |
| <b>Net additions</b>           | 157,000     | 307,000          | 51%        |

<sup>1</sup> Includes Quebec, British Columbia, Manitoba and Alberta.

<sup>2</sup> Includes Ontario and Alberta.

<sup>3</sup> Includes Illinois, New York and Indiana.

<sup>4</sup> Includes New York only.

### Canada

#### Gas

Total gross gas additions in Canada were 86,000, which represents 78% of the published target of 110,000. In fiscal 2006, 138,000 additions were achieved in the Canadian gas market. Additions in Ontario were 30,000 for the year, representing 60% of the published annual target of 50,000. Customers lost in Ontario due to attrition and failure to renew exceeded customer additions by 32,000 RCEs. In fiscal 2007, customer additions in Ontario were adversely impacted by agent turnover caused by tight labor markets and increased competition. Management is continuing its efforts to increase the independent sales agent base as well as to maximize the number of customer renewals.

In the rest of the Canadian markets, additions for the year amounted to 56,000, representing 93% of the published target of 60,000. Despite very tight labor markets, Alberta was the major contributor to this result. Management believes that both the Manitoba and Quebec markets are heavily penetrated and that future growth contribution from these markets will be minimal. It is anticipated that Alberta and British Columbia will continue to be the primary sources of net gas customer growth within Canada. Energy Savings began marketing natural gas to residential customers in British Columbia on May 1, 2007.

The Canadian gas customers added through marketing efforts during the year were matched with supply to generate margins of \$198/RCE over the life of the contract, 13% higher than target.

### *Electricity*

Total additions in the Canadian electricity market were 153,000 for the year, representing 87% of the published annual target of 175,000 RCEs. In fiscal 2006, 186,000 RCEs were added in the Canadian electricity market. The majority of the additions in the current year were in the Ontario electricity market however both the Ontario and Alberta electricity markets remain very receptive to Energy Savings' offering. The reduction of electricity additions relates primarily to the increased competition in the Ontario market and a very tight labor market, which resulted in high agent turnover. Management has intensified its efforts to increase our independent sales agent base.

The electricity customers signed during the year were matched with supply to generate margins of \$182/RCE over the life of the contract, 65% above target.

### **United States**

#### *Gas*

Additions in the U.S. gas market for fiscal 2007 were 77,000 while the published annual target was 100,000. Illinois was the primary contributor to additions during the fiscal year. Additions in Illinois were impacted by the CUB settlement and agent turnover. In New York, the high customer mobility prior to the contest period also negatively impacted the sales force. Management is continuing its efforts to rebuild its sales force.

The U.S. gas customers signed during the year were matched with supply to generate margins of \$218/RCE over the life of the contract, 56% above target.

#### *Electricity*

Electricity additions were 32,000 for the year, representing 36% of the published annual target of 90,000. The electricity market in New York was also negatively impacted by high customer mobility prior to the contest period. Management is pleased with the results of the implementation of a contest period in New York to date and believes that this will contribute to its effort in rebuilding its sales force.

The U.S. electricity customers signed during the year were matched with supply to generate margins of \$130/RCE over the life of the contract, 18% above target.

### **General and administrative expenses**

General and administrative costs were \$41.9 million for the year, representing an increase of 22% from \$34.3 million in fiscal 2006. Investment to support expansion into two new utility jurisdictions, NFG and NIPSCO, contributed to increased expenses during the year. The increase in general and administrative costs over the prior year was primarily driven by the increase in the number of employees and systems necessary to support the Fund's continued customer growth. Management estimates that the cost of entering a new market approximates \$3.0 million to \$4.0 million, of which a majority of these costs are 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 2001 unit option plan, the 2004 unit appreciation rights plan and the directors' deferred compensation plan amounted to \$3.9 million for the year ended March 31, 2007 (2006 – \$6.5 million). The reduced expense in fiscal 2007 was as a result of the departure of three members of senior management in the prior year and the cancellation of certain unvested unit appreciation rights.

## Marketing expenses

Marketing expenses, which consist of commissions paid to independent sales agents for signing new customers as well as corporate overhead, were \$43.0 million, a decrease of 11% from \$48.2 million in fiscal 2006. The decrease is due to the lower number of customers aggregated during the year partially offset by an increase in the aggregation costs per customer. The increase in target aggregation costs was as follows:

|                        | Fiscal 2007 | Fiscal 2006 |
|------------------------|-------------|-------------|
| <b>Gas</b>             |             |             |
| Ontario                | \$ 160/RCE  | \$ 160/RCE  |
| Other markets – Canada | \$ 160/RCE  | \$ 140/RCE  |
| United States          | \$ 110/RCE  | \$ 90/RCE   |
| <b>Electricity</b>     |             |             |
| Canada                 | \$ 95/RCE   | \$ 85/RCE   |
| United States          | \$ 100/RCE  | \$ 90/RCE   |

Actual aggregation costs in Canada for fiscal 2007 were \$163/RCE and \$92/RCE for gas and electricity customers, respectively. The aggregation costs for gas customers were slightly above target as a result of lower than expected additions for the year and, therefore, the corporate overhead costs allocated to each RCE was higher than anticipated. Approximately 30% of the total marketing expense relates to the costs associated with corporate overhead.

In the U.S., aggregation costs for fiscal 2007 were \$112/RCE and \$41/RCE for gas and electricity customers, respectively. The aggregation costs for gas customers were slightly above target as a result of the higher corporate allocation experienced from the lower than expected additions. In the electricity market, however, aggregation costs were significantly lower than target as a result of the customer mobility issues experienced prior to the implementation of the contest period. Although the costs associated with signing a customer are recognized once the customer has been approved by the LDC, the payout of commissions is only 60% upon signing the customer and approved by the LDC with another 30% being paid approximately 60 days after the customer begins to flow with the remaining 10% paid one year after flow. If a customer is lost within 60 days from the start of flow, the initial commission paid is deducted from future commissions earned by the independent sales agent. During the year, a portion of the customers signed in the prior year were lost through attrition and the commission expense recognized in the prior year was not realized in the current year, thereby reducing the total aggregation cost.

## Bad debt expense

In Illinois and Alberta, Energy Savings assumes the credit risk associated with the collection of its customers' accounts. Credit review processes have been established to manage the customer default rate. Management factors default from credit risk into its margin expectations for both Illinois and Alberta.

Bad debt expense for fiscal 2007 was \$10.9 million, representing approximately 3.3% of \$325.8 million in revenues, an increase from \$5.1 million, representing 2.7% of \$192.0 million of revenues in the prior year. The increase in bad debts during the current year reflects the increased customer base in both Alberta and Illinois. Management has integrated this default rate within its margin targets and continuously reviews and monitors the credit approval process to mitigate customer delinquency. Based on the improved results noted in the fourth quarter, management expects that bad debt expense will be approximately 3% of annual revenue earned in Alberta and Illinois during fiscal 2008.

For Energy Savings' other markets, the LDCs provide collection services and assume the risk of any bad debt owing from Energy Savings' customers for a fee.

## Bank indebtedness

As at March 31, 2007, Energy Savings had utilized \$38.6 million (2006 – \$25.2 million) of its operating line for working capital needs and \$5.1 million (2006 – \$22.0 million) in letters of credit were issued, primarily as security for commodity supply commitments. The operating line bears interest at bank prime plus 0.5% and letters of credit bear interest at 1.5%. BPLP joined the Intercreditor Agreement on March 14, 2007, at which time the existing letters of credit posted by Energy Savings were canceled.

Total interest expense amounted to \$3.9 million for the year (2006 – \$1.0 million). The increase in interest expense in fiscal 2007 is a result of increased utilization of the operating line. Energy Savings is required to meet a number of financial covenants under the credit facility agreement and as at March 31, 2007, all of these covenants have been met.

## Foreign exchange

Energy Savings has an exposure to U.S. dollar exchange rates as a result of its U.S. operations; changes in the applicable exchange rate may result in a decrease or increase in income. A non-cash gain of \$0.1 million versus a loss of \$0.5 million for fiscal 2007 and 2006, respectively, was recognized.

Energy Savings remains adequately hedged for any exposure to fluctuations in cross border cash flow. During the fiscal year, all monies earned in the U.S. have been redeployed in the U.S. to fund continued growth.

## Class A preference share distributions

Each of the holders of the Ontario Energy Savings Corp. (“OESC”) Class A preference shares (which are exchangeable into units on a 1:1 basis) is entitled to receive, on a quarterly basis, a payment equal to the amount paid or payable to a Unitholder on a comparable number of units. The total amount paid during the year amounted to \$9.2 million (2006 – \$9.3 million). These payments are reflected in the statement of Unitholders’ equity of the Fund’s consolidated financial statements, net of tax.

## Provision for (recovery of) income taxes

### Income tax breakdown

(thousands of dollars)

| For the years ended March 31           | 2007     | 2006       |
|--|----------|------------|
| Income tax provision (recovery)        | \$ 539   | \$ (1,764) |
| Amount credited to Unitholders’ equity | 3,319    | 3,341      |
| Current income tax provision           | 3,858    | 1,577      |
| Future tax recovery                    | (4,788)  | (4,632)    |
| Recovery of income tax                 | \$ (930) | \$ (3,055) |

In the current year, there is an income tax provision of \$0.5 million, versus a recovery of income tax in the amount of \$1.8 million in the prior year. The provision of the current year is primarily attributable to operations in Manitoba.

Included in the income tax provision is an amount relating to the tax portion of the distributions paid to the Class A shareholders of OESC. In accordance with EIC-151, “Exchangeable Securities Issued by Subsidiaries of Income Trusts”, all Class A preference shares are included as part of Unitholders’ equity and the distributions paid to the shareholders are included as distributions on the statement of Unitholders’ equity, net of tax. For the year ended March 31, 2007, the tax amount of these distributions amounted to \$3.3 million, the same as in the prior comparable year, based on a tax rate of 36%.

On March 30, 2007, Energy Savings received a favorable advance income tax ruling from the Canada Revenue Agency which enabled it to complete on April 30, 2007, an internal corporate reorganization of the Fund and certain of its affiliates. The reorganization was approved at the Fund’s June 29, 2005, Annual and Special Meeting of Unitholders. The effect of the reorganization is that post-April 30, 2007, the Fund will be organized in Canada as a trust on partnership rather than a trust on corporate structure so as to maximize funds available to grow the Fund’s customer base and to maximize distributions to Unitholders. The reorganization predates and is unaffected by the proposed imposition of a tax on trust distributions announced by the federal government on October 31, 2006.

The future tax recovery of \$4.8 million is primarily attributable to the corporate reorganization as outlined above. As a result of the conversion to a trust on partnership structure, Energy Savings has eliminated its exposure to Canadian income taxes. The future income tax liability will essentially be eliminated in the first quarter of fiscal 2008 as the reorganization becomes effective May 1, 2007.

## Liquidity and capital resources

### Summary of cash flow

(thousands of dollars)

| For the years ended March 31                  | 2007      | 2006      |
|---|-----------|-----------|
| Operating activities                          | \$ 98,354 | \$ 69,582 |
| Investing activities                          | (3,726)   | (10,073)  |
| Financial activities, excluding distributions | 17,526    | 32,746    |
| Gain (loss) on foreign exchange               | 82        | (454)     |
| Increase in cash before distributions         | 112,236   | 91,801    |
| Distributions (cash payments)                 | (107,113) | (96,196)  |
| Increase (decrease) in cash                   | 5,123     | (4,395)   |
| Cash – beginning of year                      | 11,663    | 16,058    |
| Cash – end of year                            | \$ 16,786 | \$ 11,663 |

#### Operating activities

Cash flow from operating activities increased in fiscal 2007 over the prior year primarily as a result of the increase in gross margin offset by increased general and administrative expenses and bad debts.

#### Investing activities

Energy Savings purchased capital assets totaling \$3.7 million, an increase from \$3.5 million in the prior year. The purchases in both years were primarily for information technology systems supporting the Fund's expanding customer base within the various geographical segments. In fiscal 2006, Energy Savings purchased the EPCOR Ontario electricity customer contracts for \$6.6 million (net of adjustments).

#### Financing activities

Financing activities excluding distributions relate primarily to the drawdown or repayment of the operating line for working capital requirements. During fiscal 2007, Energy Savings had drawn an additional \$13.4 million (2006 – \$25.2 million) against the credit facility for a total bank indebtedness of \$38.6 million as at March 31, 2007.

As Energy Savings continues to expand in the United States markets and Alberta, the need to fund working capital and security requirements will increase driven primarily by the number of customers aggregated and to a lesser extent by the number of new markets. Based on the new markets in which Energy Savings currently operates and those we expect to enter, funding requirements will be supported through the credit facility.

The operating credit facility was increased from \$100.0 million to \$120.0 million in October 2006 and to \$150.0 million in December 2006 to support the Fund's growth needs.

The Fund's liquidity requirements are driven by the delay from the time that a customer contract is signed until cash flow is generated. 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 two to six months. These periods reflect the time required by the various LDCs to enroll, flow the commodity, bill the customer and remit the first payment to Energy Savings. In Alberta, Energy Savings receives payment directly from the customer.

## **Distributions (cash payments)**

During the year, the Fund made distributions to its Unitholders in the amount of \$107.1 million (including \$9.2 million to holders of the OESC Class A preference shares), compared to \$96.2 million in the prior year, an increase of 11%. Energy Savings will continue to utilize its cash resources for expansion into new markets including growth in its customer base as well as distributions to its Unitholders.

At the end of the year, the annual rate for distributions per unit was \$1.065. The distribution rate per unit at the beginning of the year was \$0.945. The annual rate for distributions increased on April 2, 2007, to \$1.115 per unit for the distribution payable on April 30, 2007.

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

## **Balance sheet as at March 31, 2007, compared to 2006**

Cash increased from \$11.7 million in 2006 to \$16.8 million. The operating line of credit also increased from \$25.2 million to \$38.6 million as a result of working capital requirements in the U.S. and Alberta as well as the electricity business segment. Working capital in the U.S. and Alberta results from the timing difference between customer consumption and cash receipts as receipts lag consumption. For electricity, working capital is required to fund the lag between settlements with the supplier and settlement with the LDC.

The increase in accounts receivable from \$149.4 million to \$176.5 million is primarily attributable to the improved margin and increased customers for both gas and electricity. Accounts payable and accrued liabilities slightly decreased from \$113.1 million to \$113.0 million. Supplier costs were favorable, thereby reducing the accounts payable balances in fiscal 2007.

Gas in storage primarily represents the gas delivered to the LDCs in the State of Illinois and results from the fact that customer consumption was less than that which had been delivered to the LDCs. The balance at March 31, 2007, was \$5.9 million, an increase from \$4.8 million at March 31, 2006, due to the increase in the customer base year over year. In addition, a portion of the gas in storage relates to operations in the Province of Alberta. There is a month to month carryover which represents the difference between the gas delivered to the LDC within a month and customer consumption.

At the end of the year, customers in Ontario, Manitoba and Quebec had consumed more gas than was supplied to the LDCs for their use. Since Energy Savings is paid for this gas in these markets 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 \$39.2 million and accrued gas accounts payable of \$33.1 million. The increase from the prior year is a result of higher consumption with a larger customer base.

The carrying values of gas contracts decreased by \$15.4 million due to the amortization based on the average remaining life of the contracts. The Ontario gas contracts acquired by Energy Savings have substantially been amortized.

Other assets and liabilities represent the estimated fair value of various derivative financial instruments for which hedge accounting in accordance with AcG-13, "Hedging Relationships", has not been applied. These assets and liabilities are marked to market and any changes to the fair value are recorded in other income (expense). Hedge accounting has been applied to the Fund's electricity fixed-for-floating swaps which represent the majority of derivative financial 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 financial instruments and risk management" for further details.

## Contractual obligations

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

### Payments due by period

| <i>(thousands of dollars)</i>                        | Total               | Less than<br>1 year | 1–3 years           | 4–5 years         | After<br>5 years |
|--|---------------------|---------------------|---------------------|-------------------|------------------|
| Property and equipment lease agreements              | \$ 29,197           | \$ 4,309            | \$ 9,075            | \$ 6,791          | \$ 9,022         |
| EPCOR billing, collections and<br>supply commitments | 25,546              | 9,580               | 15,966              | –                 | –                |
| Gas and electricity supply purchase commitments      | 3,636,316           | 1,195,074           | 1,709,841           | 705,392           | 26,009           |
|  | <u>\$ 3,691,059</u> | <u>\$ 1,208,963</u> | <u>\$ 1,734,882</u> | <u>\$ 712,183</u> | <u>\$ 35,031</u> |

### 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 access 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 that have not been either included in its accrued liabilities or in the financial statements.

## Transactions with related parties

The Fund does not have any transactions with any individuals or companies that are not considered independent to the Fund or any of its subsidiaries and/or affiliates.

## Critical accounting estimates

The consolidated financial statements of the Fund have been prepared in accordance with Canadian GAAP. Certain accounting policies require management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, cost of sales, marketing 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 results 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 flow. 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 2007 and as a result of the review, it was determined that no impairment of goodwill existed at March 31, 2007.

## Fair value of derivative financial instruments and risk management

The Fund has entered into a variety of derivative financial 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.

Energy Savings' expansion in the U.S. has introduced foreign exchange related risks. Energy Savings has entered into foreign exchange forwards in order to hedge the exposure to fluctuations in cross border cash flow. The estimation of the fair value of certain electricity and gas supply contracts and foreign exchange risks requires considerable judgment and is based on market prices or management's best estimates if there is no market and/or if the market is illiquid.

The financial statements are in compliance with AcG-13, which requires a determination of fair value for certain derivative financial instruments that do not meet hedge accounting requirements. This fair value is determined using market information at the end of each quarter. Management believes the Fund remains effectively hedged operationally across all jurisdictions.

## Preference shares of OESC and trust units

As at May 17, 2007, there were 8,706,212 Class A preference shares of OESC outstanding and 98,082,535 units of the Fund outstanding.

## Taxability of distributions

Cash distributions received in calendar 2007 were allocated as 100% other income. Additional information can be found on our website at [www.esif.ca](http://www.esif.ca). Management estimates the distributions for calendar 2008 to be allocated in a similar manner to that of 2007.

## Adoption of new accounting policies

There have been no new accounting policies adopted by the Fund for the period of April 1, 2006, to March 31, 2007. Commencing April 1, 2007, Energy Savings will be required to comply with five new standards: Hedge Accounting; Financial Instruments – Recognition and Measurement; Comprehensive Income; Equity; and Financial Instruments – Disclosure and Presentation. These standards will require all derivative financial instruments as well as gas and transportation contracts to be fair valued and recognized in other assets as opposed to recognizing only the fair value of derivative financial instruments that do not meet hedge accounting requirements, as is currently the case. Changes in the fair value will flow through the new statement of other comprehensive income for the effective portion of the hedges. Due to the size of the electricity derivative financial instruments and the gas and transportation contracts, which are not currently recognized in other assets, these new standards will have a significant impact on the other assets caption of the balance sheet. Due to the volatility of market prices, it is expected that there will be significant changes flown through other comprehensive income on a quarterly basis. There will be no change to management's hedge strategy as the plans are effective; the change in measurement is simply the adoption of the new accounting standards.

## Competition

### Industry competition – Natural gas

Energy Savings offers its customers protection against price volatility through various fixed price, fixed term and price protected supply arrangements. The Fund does not view LDCs as true competitors, but rather as a supplier of last resort for customers. The LDCs are currently not permitted to make a profit on the sale of the gas commodity to their supply customers.

With respect to alternative retailers supplying residential and small to mid-size commercial customers, Energy Savings' largest competitors in Canada are Direct Energy, which is owned by Centrica plc, and Universal Energy Corporation. In addition, each U.S. market in which Energy Savings and/or its affiliates operates has regional competitors.

Management believes that the Fund has significant competitive advantages over other retailers in that it has (i) a marketing and sales organization which has achieved significant success in commodity sales; (ii) an excellent customer care and customer service process; (iii) a disciplined management of commodity purchases; and (iv) an offering priced to achieve stable margin growth versus customer growth. The industry credibility of the Fund's subsidiaries and affiliates is based on the long-term experience of its management team relating to the deregulation of natural gas and their innovations in providing consumer choices within the direct purchase market.

### Industry competition – Electricity

Current competition in the target electricity market in Ontario and Alberta is limited. Management believes the current active competitors in the electricity market to be Universal Energy Corporation and Direct Energy. New York has a large number of smaller regional competitors.

### Energy source competition

Natural gas enjoys advantages over electricity and other fossil fuels, including the fact that it is readily available through vast transmission and distribution systems and has significant environmental advantages compared to other fossil fuels, which should result in consumers continuing to switch to natural gas for their energy needs. However, the price advantage that natural gas at one time enjoyed over these other forms of energy will be diminished if the price of natural gas continues to increase and, to the extent that consumers have the capacity to switch to the use of other forms of energy, such increases in the price of natural gas could result in other sources of energy providing more significant competition to the Fund's natural gas offering. With regard to the Fund's customer base, while some of its mid-sized industrial and commercial customers may be in a position to select an alternate energy source, this option would normally not be available to its residential, small to mid-size commercial and small industrial customers without significant capital cost. Accordingly, while major industrial users (a market segment not served by Energy Savings) can indeed change from one source of energy to another to take advantage of commodity price differentials, this requires installation of equipment that is generally not economic for residential or small to mid-size commercial and small industrial users.

## Risk factors

### Electricity supply – Balancing risk

It is Energy Savings' policy to match the estimated electricity requirements of its customers by entering into offsetting electricity swaps in advance of obtaining customers. Depending on several factors, including weather, Energy Savings customers may use more or less electricity than the volume purchased by the Fund for delivery to them. Energy Savings is able to invoice its existing electricity customers for balancing charges when the amount of energy used is greater than or less than the amount of energy that Energy Savings has estimated. In certain circumstances, there can be balancing issues for which Energy Savings is responsible when customer aggregation forecasts are not realized.

### Natural gas supply – Balancing risk

It is Energy Savings' policy to match the estimated gas requirements of its customers by entering into offsetting gas physical forwards in advance of obtaining customers. Depending on several factors, including weather, Energy Savings customers may use more or less gas than the volume purchased by the Fund for delivery to them. Energy Savings does not invoice its natural gas customers for balancing and, accordingly, bears the risk of fluctuation in customer consumption. The Fund monitors gas consumption and has an options strategy that covers forecast differences in customer consumption due to weather variations as well as forecast LDC balancing requirements. The cost of this strategy is incorporated in the price to the customer. To the extent that forecast balancing requirements are outside the options purchased, Energy Savings will bear financial responsibility, be exposed to market risk and, furthermore, may also be exposed to penalties by the LDCs. The inability or failure of Energy Savings to manage and monitor these balancing risks could have a material adverse effect on its operations and cash flow.

### Market risks

Market risk is the potential loss that may be incurred as a result of changes in the market or fair value of a particular instrument or commodity. Energy Savings is exposed to market risks associated with commodity prices and market volatility where estimated customer requirements do not match actual customer requirements. The Fund through its subsidiaries and affiliates is also exposed to interest rates associated with its credit facility and foreign currency exchange rates associated with repatriation of U.S. denominated funds for Canadian denominated distributions. The Fund's exposure to market risk is affected by a number of factors, including accuracy of estimation of customer requirements, commodity prices, volatility and liquidity of markets, and the absolute and relative levels of interest rates and foreign currency exchange rates. The Fund through its subsidiaries and affiliates enters into derivative instruments in order to manage exposures to changes in commodity prices and foreign currency rates; current exposure to interest rates does not economically warrant the use of derivative instruments. The derivative instruments that are used are designed to fix the price of supply for estimated customer demand in Canadian dollars and thereby fix margin such that Unitholder distributions can be appropriately established. Derivative instruments are generally transacted over the counter. The inability or failure of Energy Savings to manage and monitor the above market risks could have a material adverse effect on the operation and cash flow of the Fund.

### Commodity alternatives

To the extent that natural gas and electricity enjoy a price advantage over other forms of energy, such price advantage may be transitory and consumers may switch to the use of another form of energy. The recent volatility in natural gas and electricity prices could result in these other sources of energy providing more significant competition to Energy Savings.

### Volatility of commodity prices – Enforcement

A key risk to the business model is a sudden and significant drop in the market price of gas or electricity resulting in customers leaving their contracts. The Fund's subsidiaries and affiliates may encounter difficulty or political resistance for enforcement of liquidated damages and/or enactment of force majeure provisions in such a situation and be exposed to spot prices with a material adverse impact to cash flow. Continual monitoring of margin and exposure allows management time to adjust strategies, pricing and communications to mitigate.

### Energy trading inherent risks

Energy trading subjects the Fund's subsidiaries and affiliates to some inherent risks associated with future contractual commitments, including market and operational risks, counterparty credit risk, product location differences, market liquidity and volatility. There is continuous monitoring and reporting of the valuation of identified risks to the Risk Committee and the Audit Committee of the Board of Directors. The failure or inability of Energy Savings to monitor and address the energy trading inherent risks could have a material adverse effect on its operations and cash flow.

### Availability of supply

The risk of supply default is mitigated through credit and supply diversity arrangements. The business model is based on contracting for supply to lock in margin. There is a risk that counterparties could not deliver due to business failure or not deliver due to supply shortage or that the Fund's subsidiaries and affiliates could not find alternatives to their major energy supplier, Coral Energy ("Coral"). The Fund continues to investigate opportunities to identify additional gas suppliers and electricity suppliers. In addition to Coral, the Fund's subsidiaries and affiliates have contracts with other commodity suppliers including BP, EPCOR Merchant and Capital L.P., Bruce Power L.P. and Constellation Energy Commodities Group Inc.

### Dependence on Coral Energy

While Energy Savings has the ability to select alternate commodity suppliers, subject to certain limitations contained in its agreement with Coral Energy, approximately 70% of its gas and 65% of its electricity supply contracts are currently with Coral and its affiliates. Should any one of these Coral entities experience financial difficulties or be otherwise unable to perform its obligations under its natural gas and electricity agreement with Energy Savings, the ability of Energy Savings to meet its obligations to its customers and, therefore, its ability to earn margins on gas and electricity sales could be adversely affected.

### Disruptions to infrastructure

Customers are reliant upon the LDCs to deliver their contracted commodity. LDCs are reliant upon the continuing availability of the distribution infrastructure. Any disruptions in this infrastructure would result in counterparties and thereafter Energy Savings enacting the force majeure clauses of their contracts. Under such severe circumstances there would be no revenue or associated cost of sales to report for the affected areas.

### **Governance**

Energy Savings has adopted a corporate-wide Risk Management Policy governing its market risk management and any derivative trade activities. A Risk Committee, consisting of senior officers, oversees company-wide energy risk management activities as well as foreign exchange and interest rate activities. The Risk Office and the Risk Committee monitor the results and ensure compliance with the Risk Management Policy. The Risk Office is responsible for ensuring that the Fund and its subsidiaries and affiliates manage the market, credit and operational risks within limitations imposed by the Board of Directors in accordance with its Risk Management Policy. Market risks are monitored by the Risk Office, utilizing industry accepted mark to market techniques and analytical methodologies in addition to company-specific measures. The Risk Office operates and reports independently of the traders. The failure of the Fund to comply with and monitor its Risk Management Policy could have an adverse effect on the operations and cash flow of Energy Savings.

### **Foreign exchange risk**

Affiliates of the Fund have an exposure to foreign currency exchange rates, as a result of their investments in U.S. operations. While the Fund has entered into foreign exchange forward contracts to hedge some of its exposure to fluctuation in cross border cash flow, changes in the applicable exchange rate may result in a decrease or increase in the Fund's income.

### **Counterparty credit risk**

Counterparty credit risk represents the loss that Energy Savings would incur if a counterparty fails to perform under its contractual obligations. This risk would manifest itself in Energy Savings replacing contracted supply at prevailing market rates, thus impacting the related customer margin or replacing contracted foreign exchange at prevailing market rates, thus impacting the related Canadian dollar dominated distributions. Counterparty limits are established within the Risk Management Policy. Any exception to these limits requires approval from the Board of Directors. The Risk Office monitors current and potential credit exposures to individual counterparties and also monitors overall aggregate counterparty exposure. However, the failure of a counterparty to meet its contractual obligations could have a material adverse effect on the operations and cash flow of Energy Savings.

### **Customer credit risk**

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

For the remaining markets, the LDCs provide collection services and assume the risk of any bad debts owing from Energy Savings' customers. Management believes that the risk of the LDCs failing to deliver payment to Energy Savings is minimal. There is no assurance that the LDCs that provide these services will continue to do so in the future.

### **Availability of credit**

The Fund operates in the U.S. and Alberta markets, which provide for payment by LDCs only when the customer has paid for the consumed commodity (rather than when the commodity is delivered). Also, in the Illinois market, the Fund's subsidiary must inject gas inventory into storage in advance of payment. These factors, along with the seasonality of customer consumption, create working capital requirements necessitating the use of Energy Savings' available credit. In addition, some of the Fund's subsidiaries and affiliates are required to post collateral in connection with commodity supply contracts, license obligations and obligations owed to certain LDCs. Cash flow and distributions could be impacted by the ability of Energy Savings to fund such requirements or to provide other satisfactory collateral for such obligations. To mitigate credit availability risk and its potential impact to cash flow, Energy Savings has security arrangements in place pursuant to which commodity suppliers and the lenders under the credit facility hold security over substantially all of the assets of Energy Savings (other than Alberta Energy Savings). Other commodity suppliers' security requirements are met through cash margining, guarantees and letters of credit. The most significant assets of Energy Savings consist of its contracts with customers, which may not be suitable as security for some creditors and commodity suppliers. To date, the credit facility and related security agreements have met the collateral posting requirements of the business. Energy Savings continues to monitor its credit and security requirements. Energy Savings' business may be adversely affected if it's unable to meet its collateral posting requirements.

### **Reliance on third party service providers**

In all jurisdictions in which Energy Savings operates, the LDCs currently perform billing and collection services except as follows: in the Province of Alberta, where Energy Savings is required to invoice and receive payments directly from its customers; in Illinois, where Energy Savings is responsible for collection of defaulted amounts; and in Ontario, where Energy Savings is responsible for billing and collection of defaulted amounts in respect of certain large volume users in one utility territory. To date, no defaults have been experienced in this last category. In 2005, Energy Savings entered into a five-year agreement with EPCOR for the provision of enrollment, billing and collection services for all of Energy Savings' customers in Alberta. If the LDCs or EPCOR cease to perform these services, Energy Savings would have to seek an alternative third party billing provider or develop internal systems to perform these functions. There is no assurance that the LDCs and EPCOR will continue to provide these services in the future.

### **Information technology systems**

The subsidiaries and affiliates of the Fund operate in a high volume business with an extensive array of data interchanges and market requirements. Energy Savings is dependent on its management information systems to track, monitor and correct or otherwise verify a high volume of data to ensure the reported financial results are accurate. Management also relies on its management information systems to provide its independent contractors with compensation information and to electronically record each customer telephone interaction. Energy Savings information systems also help management forecast new customer enrollments and their energy requirements, which helps ensure that the Fund is able to match all of its new customers' estimated average energy requirements without exposing the Fund to the spot market. The failure of Energy Savings to install and maintain these systems could have a material adverse effect on the operations and cash flow of Energy Savings.

### **Dependence on independent sales agents**

Energy Savings must retain qualified independent sales agents although competition for independent sales agents is strong. If the Fund is unable to attract independent sales agents, Energy Savings sales may decrease and the Fund may not be able to execute its business strategy.

The continued growth of Energy Savings is reliant on the services of approximately 560 independent sales agents to sign up new customers. There can be no assurance that competitive conditions will allow these independent sales agents, who are not employees of Energy Savings, to achieve these customer additions. Although commission expenses are only incurred in connection with new flowing contracts which are secured by its independent sales agents, lack of success in these marketing programs could limit future growth of the cash flow of Energy Savings.

### **Electricity contract renewals and attrition rates**

As at March 31, 2007, Energy Savings held long-term electricity contracts reflecting approximately 702,000 long-term electricity RCEs, of which 31% renew in the year ending March 31, 2008, 12% renew in 2009, 6% renew in 2010, 21% renew in 2011, 26% in 2012 and 3% beyond 2012. Since the vast majority of the electricity contracts owned by Energy Savings are for three- to five-year terms, approximately 4% of electricity contracts have come up for renewal to date. Currently regulations prevent the automatic renewal of electricity accounts in Ontario for consumers using less than 150,000 kWh and the terms and conditions of acquired contracts in Alberta also restrict Energy Savings' ability to automatically renew the contracts at the end of their existing terms. Although Energy Savings has experienced electricity contract attrition rates of less than 8% per year, there can be no assurance that this rate of annual attrition will not increase in the future or that Energy Savings will be able to renew its existing electricity contracts at the expiration of their terms. Changes in customer behavior, government regulation or increased competition may affect (potentially adversely) attrition and renewal rates in the future and these changes could adversely impact the future cash flow of the Fund.

### **Gas contract renewals and attrition rates**

As at March 31, 2007, Energy Savings had long-term gas contracts reflecting approximately 957,000 long-term gas RCEs, of which 11% renew in the year ending March 31, 2008, 13% renew in 2009, 23% renew in 2010, 26% renew in 2011, 23% in 2012 and 4% renew beyond 2012. The experience of Energy Savings is that approximately 80% of customers renew at the expiry of the term of their gas contract. Although Energy Savings has experienced gas contract attrition rates of approximately 7% per year, there can be no assurance that this rate of annual attrition will not increase in the future or that Energy Savings will be able to renew its existing gas contracts at the expiration of their terms. Changes in customer behavior, government regulation or increased competition may affect (potentially adversely) attrition and renewal rates in the future and these changes could adversely impact the future cash flow of the Fund.

### Competition

Although Energy Savings believes it is one of the largest alternative retailers of natural gas and electricity contracts in North America based on the number of contracted customers, management estimates that approximately five other companies (Direct Energy, Superior Energy Management, Summit Energy, Universal Energy Corporation and CEG Energy Options) compete with it in the Canadian residential, small to mid-size commercial and small industrial market. In addition, numerous regional competitors exist in our U.S. markets. It is possible that new entrants may enter the market and compete directly for the customer base that the Fund's subsidiaries and affiliates target, slowing or reducing their market share. If the LDCs are permitted by changes in the current regulatory framework to sell natural gas at prices other than cost, their existing customer bases could provide them with a significant competitive advantage. This may limit the number of customers available for alternative retailers including the Fund's subsidiaries and affiliates.

### Expansion strategy and future acquisitions

The Fund plans to grow its business by expansion into additional deregulated markets through organic growth and acquisitions. The expansion into additional markets is subject to a number of risks, any of which could prevent Energy Savings from realizing its business strategy.

Acquisitions involve numerous risks, any one of which could harm the Fund's business, including difficulties in integrating the operations, technologies, products, existing contracts, accounting processes and personnel of the target and realizing the anticipated synergies of the combined businesses; difficulties in supporting and transitioning customers, if any, or assets of the target company may exceed the value the Fund realizes, or the value it could have realized if it had allocated the purchase price or other resources to another opportunity; risks of entering new markets or areas in which Energy Savings has limited or no experience or are outside its core competencies; potential loss of key employees, customers and strategic alliances from either Energy Savings' current business or the business of the target; assumption of unanticipated problems or latent liabilities, such as problems with the quality of the products of the target; and inability to generate sufficient revenue to offset acquisition costs.

Future acquisitions or expansion could result in the incurrence of additional debt and related interest expense, as well as unforeseen liabilities, all of which could have a material adverse effect on the Fund's business, results of operations and financial condition. The failure to successfully evaluate and execute acquisitions or otherwise adequately address the risks associated with acquisitions could have a material adverse effect on Energy Savings' business, results of operations and financial condition. Energy Savings may require additional financing should an appropriate acquisition be identified and it may not have access to the funding required for the expansion of its business or such funding may not be available to Energy Savings on acceptable terms. There is no assurance that Energy Savings will determine to pursue any acquisition or that such an opportunity, if pursued, will be successful.

### Legislative and regulatory environment

The Fund, through its subsidiaries and affiliates, operates in the highly regulated natural gas and electricity retail sales industry in the Provinces of Ontario, Manitoba, Quebec, British Columbia and Alberta, and in the States of Illinois, Indiana and New York. They must comply with the legislation and regulations in these jurisdictions in order to maintain their licensed status and continue their operations. There is potential for changes to these legislative and regulatory measures that may, favorably or unfavorably, impact the Fund's business model. As part of doing business as a door to door marketing company, Energy Savings receives complaints from consumers which may involve sanctions from regulatory and legal authorities including those which issue marketing licenses. Similarly, changes to consumer protection legislation in those provinces and states where Energy Savings markets to non-commercial customers may, favorably or unfavorably, impact Energy Savings' business model. The Fund has a dedicated team of in-house regulatory advisors to ensure adequate knowledge of the legislation and regulations in order that operations may advise of regulations pursuant to which procedures are required to be implemented and monitored to maintain license status. When new markets are entered, the internal team assesses the market and determines if additional expertise (internal or external) is required.

### **Changes in legislation**

There can be no assurance that the treatment of mutual fund trusts will not be changed in a manner that adversely affects Unitholders. If the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, the units will cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans and registered retirement income funds and registered education savings plans.

### **Cash distributions are not guaranteed and will fluctuate with the performance of Energy Savings**

Although Energy Savings intends to distribute the interest and other income it earns less expenses and amounts, if any, paid by Energy Savings in connection with the redemption of units, there can be no assurance regarding the amounts of income to be generated by the Fund’s affiliates and paid, directly or indirectly, to the Fund. The ability to distribute and the actual amount distributed in respect of the units will depend upon numerous factors, including profitability, fluctuations in working capital, debt service requirements (including compliance with credit facility obligations), the sustainability of margins, the ability of Energy Savings to match, at favorable prices, their commitment to supply natural gas and electricity to their customers, the ability of Energy Savings to secure additional fixed price gas contracts and retail electricity contracts and other factors beyond the control of Energy Savings. Management of Energy Savings cannot make any assurances that the Fund’s affiliates will be able to pass any additional costs arising from legislative changes (or any amendments thereto) on to the customers. Cash distributions are not guaranteed and will fluctuate with the performance of the Fund’s affiliates and other factors.

### **Investment eligibility**

Energy Savings will endeavor to ensure that the units continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans and registered retirement income funds and registered education savings plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments.

### **Nature of units**

Securities such as the units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The units do not represent a direct investment in the natural gas or electricity wholesale business and should not be viewed by investors as shares or securities in any of the Fund’s subsidiaries and affiliates. As holders of units, subject to the Trust Beneficiaries’ Liability Act, 2004, Unitholders do not have the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring “oppression” or “derivative” actions. The units represent a fractional interest in the Fund. The Fund’s primary assets are its direct and indirect equity interests in its subsidiaries and affiliates. The price per unit is, among other things, a function of anticipated distributable income.

### **Redemption right**

It is anticipated that the redemption right will not be the primary mechanism for Unitholders to liquidate their investments. OESC Notes, OESC Exchangeco II Inc. and ESIF Commercial Trust I Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no established market is expected to develop for such OESC Notes, OESC Exchangeco II Inc. Notes or ESIF Commercial Trust I Notes. Cash redemptions are subject to limitations.

### **Unitholder limited liability**

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its assets or obligations and, in the event that a court determines that Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder’s share of the Fund’s assets.

The Declaration of Trust further provides that the trustee and the Fund shall make all reasonable efforts to include as a specific term of any obligations or liabilities being incurred by the Fund or the trustee on behalf of the Fund a contractual provision to the effect that neither the Unitholders nor the trustee have any personal liability or obligations in respect thereof. The Administration Agreement contains such provisions. Personal liability may also arise in respect of claims against the Fund that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. As the Fund’s activities are generally limited to investing in securities issued by its affiliates, the possibility of any personal liability of this nature arising is considered remote.

On December 16, 2004, the Government of Ontario passed the Trust Beneficiaries' Liability Act, 2004, which limits the liability of holders of trust units, in a manner similar to that afforded to holders of shares of Ontario incorporated limited liability corporations. The legislation provides that the beneficiaries of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust or any of its trustees that arises after the Act became law if, when the act or default occurs or the obligation or liability arises: (a) the trust is a reporting issuer under the Securities Act (Ontario); and (b) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the Securities Act (Ontario) and is governed by the laws of Ontario. However, the courts have not yet had an opportunity to consider this legislation.

The operations of the Fund are and will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the Unitholders for claims against the Fund.

#### **Distribution of common shares and notes on termination of the Fund**

Upon termination of the Fund, the trustee may distribute the Common Shares, OESC Exchangeco II Inc. Common Shares and OESC Exchangeco II Inc. Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Common Shares, OESC Exchangeco II Inc. Common Shares, OESC Exchangeco II Inc. Notes or ESIF Commercial Trust I Notes. In addition, the Common Shares, OESC Exchangeco II Inc. Common Shares, OESC Exchangeco II Inc. Notes and ESIF Commercial Trust I Notes are not freely tradable and are not currently listed on any stock exchange.

#### **The Fund may issue additional units diluting existing Unitholders' interests**

The Declaration of Trust authorizes the administrator to cause the Fund to issue an unlimited number of units for such consideration and on such terms and conditions as shall be established by the administrator without the approval of any Unitholders. Additional units have been and will be issued by the Fund on the exercise of the OESC Exchangeco II Inc. Exchange Rights relating to the Class A preference shares upon the exercise of options to acquire units under the Fund's 2001 unit option plan, the exchange of fully paid unit appreciation rights for units under the Fund's unit appreciation rights plan and the issue of units to directors of OESC under the directors' deferred compensation plan.

#### **Tax related risks**

On December 21, 2006, the Minister of Finance (Canada) (the "Minister") released draft legislation (the "Proposals") relating to the federal income taxation of publicly traded trusts and partnerships. On March 29, 2007, the Minister introduced Bill C-52 in the House of Commons to implement these Proposals. The Proposals are contemplated to apply to a publicly traded trust that is a specified investment flow-through entity (a "SIFT") that was listed before November 1, 2006 ("Existing Trust"), commencing with taxation years ending in or after 2011.

Certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT attributable to direct foreign investment income or dividend income or as a return of capital will not be subject to this tax. There will be circumstances where an Existing Trust may lose its transitional relief where its equity capital grows beyond certain dollar limits measured by reference to the Existing Trust's market capitalization at the close of trading on October 31, 2006.

The Fund is a SIFT as defined in the Proposals. If enacted, the Fund would be subject to taxes on certain income earned from investments in its subsidiaries. The tax payable by the Fund on those distributions will result in a corresponding decrease to the cash flow distributed to the Unitholders. The Fund would also be required to recognize future income tax assets and liabilities with respect to the temporary differences of its assets and liabilities and those of its flow-through subsidiaries that are expected to reverse in or after 2011. It is anticipated that the recognition of these future income tax assets and liabilities will result in an increase in the net future tax liability of the Fund with a corresponding decrease in net Unitholders' equity.

## Corporate governance

Energy Savings is committed to transparency in our operations and our approach to governance meets all recommended standards. Full disclosure of our compliance with existing corporate governance rules is available on our website at [www.esif.ca](http://www.esif.ca) and is included in the Fund's May 17, 2007, management proxy circular. Energy Savings actively monitors the corporate governance and disclosure environment to ensure timely compliance with current and future requirements.

### Controls and procedures

Energy Savings maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. Our Chief Executive Officer and Chief Financial Officer caused an evaluation under their direct supervision of the design and effectiveness of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at March 31, 2007, and have concluded that such disclosure controls and procedures are operating effectively.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, senior management, and affected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our Chief Executive Officer and Chief Financial Officer assessed, or caused an assessment under their direct supervision of, the design of our internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at March 31, 2007.

Note, however, that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

## Outlook

While the Fund has more than 1.6 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. As a result, management announced customer aggregation targets for fiscal 2008 totaling 415,000 gross additions and 125,000 net additions for the year. Meeting the target would represent an 8% increase in customers. There can be no assurance that these targets will be realized; however, they represent the expectations of management.

### Canada

|             |         |
|-------------|---------|
| Gas         | 100,000 |
| Electricity | 115,000 |
|             | 215,000 |

### United States

|             |         |
|-------------|---------|
| Gas         | 110,000 |
| Electricity | 90,000  |
|             | 200,000 |
|             | 415,000 |

Management believes the customer addition targets are reasonable given:

- a) an increase in the number of independent sales agents in the field since the third quarter to 560 and measures taken to continue to increase the number of trained agents;
- b) improved customer additions in the key growth markets of Illinois and New York, particularly in light of the introduction of a contest period in the ConEd territory;
- c) positive initial results in the British Columbia residential markets; and
- d) a very attractive new market in Texas.

Energy Savings continues to actively monitor the progress of the deregulated markets in various jurisdictions, including Massachusetts, Maryland, New Jersey and Michigan.

While the October 31, 2006, announcement to tax income trusts does not affect existing income trusts until 2011, the announcement has had a material impact on the trading value of Energy Savings' units. While the price declines have been felt across the entire income fund sector, management believes that the current unit price is not representative of the financial strength and sustainability inherent in the Energy Savings model. Management is presently investigating alternative corporate forms and is committed to reinstating value to Unitholders. Any conversion would be intended to increase the long-term value of Energy Savings.

Any conversion to corporate form may have tax implications for holders. No decision has been made and the Fund directors may conclude that maintaining the current structure until 2011 is in the best interests of Unitholders.

In an attempt to reflect both inflation and increased effort required to secure customers, management has increased its target per customer aggregation costs. To offset these additional costs, the Fund has increased its prices to generate higher target margins than in the past. The overall impact is that every market will continue to repay customer aggregation costs in less than 12 months. Management does not believe that higher prices and margins will adversely impact customer additions as it forecasts record aggregation in fiscal 2008.

The new targets are as follows:

|                      | Target aggregation cost/RCE | Target margin/RCE |
|----------------------|-----------------------------|-------------------|
| <b>Canada</b>        |                             |                   |
| Gas                  | \$ 170                      | \$ 175            |
| Electricity          | \$ 120                      | \$ 150            |
| <b>United States</b> |                             |                   |
| Gas                  | \$ 120                      | \$ 160            |
| Electricity          | \$ 120                      | \$ 125            |

On May 17, 2007, Energy Savings agreed to purchase the partnership units of Just Energy Texas LP, including all of its electricity contracts, for \$34.0 million. The major benefit of the purchase is to gain an established platform for Energy Savings' entry into the vast Texas electricity market. There are in excess of 20 million electricity RCEs available in Texas. This acquisition provides Energy Savings with experienced management, a proven billing engine and a supply platform for Texas. Pursuant to the agreement, Energy Savings will also acquire approximately 130,000 RCEs of short-term or month to month customers. The Fund will recognize these acquired customers as they are converted to long-term contracts at Energy Savings' margins. The acquisition will be funded through a credit facility drawdown of US\$16.0 million and the remaining US\$18.0 million will be funded through the issue of units of the Fund from treasury. Energy Savings is in the process of building a marketing force in Texas and management believes that this will be a high growth market.

Energy Savings continues to review other possible acquisitions with a view to completing those that are accretive to Unitholders.

Based on continued growth in both customers and distributable cash, the Fund announced its 26th distribution increase, \$0.05 to \$1.115 per annum. The rate increase was effective for the April 30, 2007, payment.

On May 1, 2007, Energy Savings began marketing gas to residential customers in British Columbia on the opening of that market. Approximately 700,000 British Columbia residential RCEs are available.