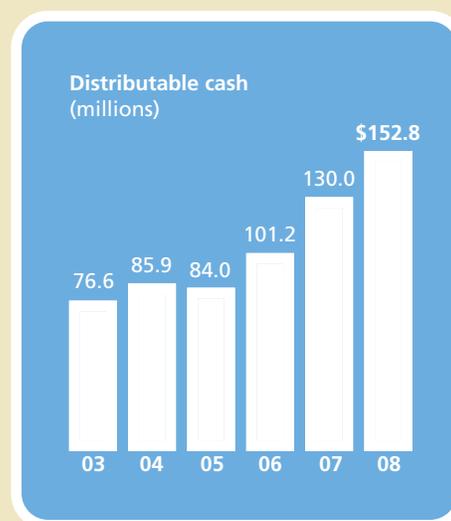


MD&A AT-A-GLANCE

This MD&A at-a-glance highlights some of the more significant information found in the management's discussion and analysis, which follows on page 17. It is not intended to provide a complete summary of Energy Savings' strategies, business environment or performance.



The 18% increase in seasonally adjusted gross margin during fiscal 2008 was primarily attributable to an increase in the customer base and higher per customer gross margins.



The 18% increase in distributable cash during fiscal 2008 was due to higher gross margin and lower bad debt expense offset by higher marketing and general and administrative expenses.

HIGHLIGHTS

- Both seasonally adjusted gross margin and distributable cash increased 18% year over year, in line with previously published and reaffirmed guidance of 15% to 20% for the year.
- Ordinary distributions to Unitholders rose 19% over the previous year, ending the year at \$1.21 per unit following three rate increases. Including a \$0.41 Special Distribution, distributions were up 60% year over year.
- We made significant infrastructure improvements, including the opening of a new 450-seat call centre in Mississauga, Ontario.
- Energy Savings made its first U.S. acquisition with the purchase of Just Energy in Texas. The acquisition brought a fully operational platform to accelerate our entry into the vast Texas electricity market and a proven experienced executive team.
- Late in the year, we introduced Green Energy Option ("GEO") products that were well-received by customers. We believe that these products will not only add to profits but will also increase sales receptivity and improve renewal rates.

Gross customer additions

This table shows the percentage of long-term customers up for renewal in each of the following years:

| Customer Additions | Fiscal 2008 | Published target | % Realized |
|----------------------------|----------------|------------------|-------------|
| Canada | | | |
| Gas | 45,000 | 100,000 | 45% |
| Electricity | 95,000 | 115,000 | 83% |
| Total Canada | 140,000 | 215,000 | 65% |
| United States | | | |
| Gas | 119,000 | 110,000 | 108% |
| Electricity | 83,000 | 90,000 | 92% |
| Total United States | 202,000 | 200,000 | 101% |
| Gross additions | 342,000 | 415,000 | 82% |

In fiscal 2008, 342,000 new customers were added, down 1% from the previous year when 348,000 customers were added. This was 82% of the target of 415,000 additions. The shortfall was primarily from Canada where the newly opened British Columbia residential gas market was over-marketed due to heavy competition, while both Ontario and Alberta suffered from tight labour markets and, accordingly, difficulty in independent sales contractor recruitment.

In light of lower than targeted additions, we remained disciplined in the management of gross margin targets, which resulted in higher margins than targeted across all markets.

| Annual gross margin per customer ¹ | Customers signed fiscal 2008 | Annual target fiscal 2008 |
|---|------------------------------|---------------------------|
| Customers added in the year | | |
| Canada – gas | \$ 190 | \$ 175 |
| Canada – electricity | \$ 156 | \$ 150 |
| United States – gas | \$ 188 | \$ 160 |
| United States – electricity | \$ 145 | \$ 125 |

¹ 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 m³ (or 106 GJs or 1,000 Therms or 1,025 CCFs) of natural gas and 10,000 kWh of electricity.

Attrition rates

| | |
|--------------------|-----|
| Canadian customers | 11% |
| U.S. customers | 29% |

Attrition in Canada was 11% on an annualized basis, slightly above management's target of 10%. In the U.S., attrition was 29%, on an annualized basis, a decrease from the 33% rate noted at March 31, 2007, but above management's annual target of 20%.

Renewal rates

In fiscal 2008, only customers in the Ontario market were eligible for renewal; in other markets, customers have not yet completed the term of their contract.

Gas

The Ontario gas renewal rate was 82% in fiscal 2008, slightly above the 80% target.

Electricity

In fiscal 2008, 55% of all expiring electricity customer volumes were renewed. 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 his or her contract. As a result, management targets a 60% renewal rate for electricity customers in fiscal 2009.

Outlook

Management's best estimation is that Energy Savings will again grow its key operating measures during fiscal 2009.

Electricity volumes are expected to increase by approximately 15% and gas volumes by 5%. The United States is expected to generate the vast majority of growth. We intend to supplement this growth with selective accretive acquisitions.

Based on the expected growth in volumes, both gross margin and distributable cash after gross margin replacement are expected to grow organically by approximately 10%. Distributable cash after marketing expenses is expected to grow at a slightly lower rate due to increased marketing expenses associated with the higher forecasted volume additions.

| | Target aggregation cost/ unit volume | Target margin/ unit volume |
|--------------------|---|-------------------------------|
| Gas (GJs) | \$ 1.60 | \$ 1.60 |
| Electricity (MWhs) | \$ 14.25 | \$ 14.25 |

Corporate governance

The Chief Executive Officer and Chief Financial Officer assessed, or caused an assessment 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, 2008, and have concluded that such disclosure controls and procedures are operating effectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

May 15, 2008

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, 2008, and has been prepared with all information available up to and including May 15, 2008. This analysis should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2008. 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. Additional information can be found on SEDAR at www.sedar.com.

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

Energy Savings' business involves the sale of natural gas and electricity to residential and commercial customers under long-term fixed-price and price protected contracts. By fixing the price of natural gas or electricity under its fixed-price or price protected program 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 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 or through the SEDAR website at 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 customers acquired through various acquisitions and gains/losses from sales of excess commodity 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 management expects to have the opportunity to renew at the end of their contract.

"RCE" means a residential customer equivalent or the "customer", which is a unit of measurement equivalent to a customer using, as regards natural gas, 2,815 m³ (or 106 GJs or 1,000 Therms or 1,025 CCFs) 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 have annual usage of less than 150,000 kWh of electricity.

Non-GAAP financial measures

All non-GAAP financial measures do not have standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

Seasonally adjusted sales and 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 sales and gross margin are not defined performance measures 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. In the other gas markets, payments for supply by the utilities are aligned with customer consumption.

Cash Available for Distribution

"Distributable cash after marketing expense" 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, interest expense, corporate taxes and other adjustments. 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 which was used in calculations prior to fiscal 2007. 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. Management believes this is more representative of the operating performance of the Fund and a measure used internally. Management believes that this information will be more useful for analysis. This non-GAAP measure may not be comparable to other income funds.

For reconciliation to cash from operating activities, please refer to the "Cash Available for Distribution and distributions" analysis on page 21.

Standardized Distributable Cash

Standardized Distributable Cash is a non-GAAP measure developed to provide a consistent and comparable measurement of distributable cash across entities.

"Standardized Distributable Cash" is defined as cash flows from operating activities, as reported in accordance with GAAP, less an adjustment for total capital expenditures as reported in accordance with GAAP and restrictions on distributions arising from compliance with financial covenants restrictive at the date of the calculation of Standardized Distributable Cash.

For reconciliation to cash from operating activities, please refer to the "Standardized Distributable Cash and Cash Available for Distribution" analysis on page 23.

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

| | Fiscal 2008 | | | Fiscal 2007 | | | Fiscal 2006 | |
|--|-------------|----------|--------|-------------|----------|--------|-------------|----------|
| | \$ | Per unit | Change | \$ | Per unit | Change | \$ | Per unit |
| Sales | 1,738,690 | \$ 16.04 | 13% | 1,532,317 | \$ 14.28 | 26% | 1,212,314 | \$ 11.33 |
| Net income | 152,761 | \$ 1.41 | 63% | 93,912 | \$ 0.88 | 82% | 51,563 | \$ 0.48 |
| Distributable cash | | | | | | | | |
| After gross margin/customer replacement | 169,997 | \$ 1.57 | 11% | 152,788 | \$ 1.42 | 18% | 130,021 | \$ 1.22 |
| After marketing expense | 152,834 | \$ 1.41 | 18% | 129,984 | \$ 1.21 | 28% | 101,200 | \$ 0.95 |
| Distributions | | | | | | | | |
| (including Special Distribution ¹) | 173,531 | \$ 1.60 | 60% | 108,652 | \$ 1.01 | 12% | 96,758 | \$ 0.90 |
| Distributions | | | | | | | | |
| (excluding Special Distribution) | 128,840 | \$ 1.19 | 19% | 108,652 | \$ 1.01 | 12% | 96,758 | \$ 0.90 |
| General and administrative | 51,638 | \$ 0.48 | 23% | 41,892 | \$ 0.39 | 22% | 34,318 | \$ 0.32 |
| Distributable cash payout ratio ² | | | | | | | | |
| (including Special Distribution) | | | | | | | | |
| After gross margin/customer replacement | 102% | | | 71% | | | 74% | |
| After marketing expense | 114% | | | 84% | | | 96% | |
| Distributable cash payout ratio ² | | | | | | | | |
| (excluding Special Distribution) | | | | | | | | |
| After gross margin/customer replacement | 76% | | | 71% | | | 74% | |
| After marketing expense | 84% | | | 84% | | | 96% | |

¹ The Fund declared a Special Distribution in December 2007, in addition to its regular monthly distributions. Refer to "Special Distribution" on page 35 for further information.

² Management targets an annual payout ratio after all marketing expenses (excluding any Special Distributions) 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 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 or increase 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.

New York, Illinois and Indiana

In New York, Illinois and Indiana, the volume of gas delivered is based on the estimated consumption and storage requirements 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 cash is received from the LDCs in the same period as customer consumption.

Electricity

Ontario, Alberta, New York and Texas

Energy Savings does not bear the risk for variations in customer consumption in any of the markets in which it operates other than the commercial customers acquired in Texas. In Ontario and New York, Energy Savings provides customers with price protection for the majority 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. As part of the integration of Just Energy Texas LP ("Just Energy") into Energy Savings, substantially all offerings for Texas residential and small commercial customers will be a load balanced product and Energy Savings will not bear the risk for variations in customer consumption.

Cash flow from electricity operations is greatest during the second and fourth (summer and winter) quarters as electricity consumption is typically highest during these periods.

Cash Available for Distribution and distributions

For the years ended March 31

(thousands of dollars, except per unit amounts)

| | Fiscal 2008 | | Fiscal 2007 | | Fiscal 2006 | |
|---|-------------|----------------|-------------|----------------|-------------|----------------|
| | Per unit | | Per unit | | Per unit | |
| Reconciliation to statements of cash flow | | | | | | |
| Cash inflow from operations | \$ | 136,007 | \$ | 98,354 | \$ | 69,582 |
| Add: | | | | | | |
| Increase in non-cash working capital | | 11,879 | | 28,311 | | 28,277 |
| Tax effect on distributions paid to holders of Class A preference shares | | 4,948 | | 3,319 | | 3,341 |
| Cash available for distribution | \$ | 152,834 | \$ | 129,984 | \$ | 101,200 |
| Cash available for distribution | | | | | | |
| Gross margin per financial statements | \$ | 274,800 | \$ | 229,444 | \$ | 186,085 |
| Adjustments required to reflect net cash receipts from gas sales | | (2,620) | | 924 | | 2,555 |
| Seasonally adjusted gross margin | \$ | 272,180 | \$ | 230,368 | \$ | 188,640 |
| Less: | | | | | | |
| General and administrative | | (51,638) | | (41,892) | | (34,318) |
| Capital tax expense | | (827) | | (850) | | (691) |
| Bad debt expense | | (6,951) | | (10,882) | | (5,107) |
| Income tax recovery (expense) | | 757 | | (539) | | 1,764 |
| Interest expense | | (5,346) | | (3,942) | | (1,367) |
| Other adjustments ¹ | | 780 | | 690 | | 517 |
| | | (63,225) | | (57,415) | | (39,202) |
| Distributable cash before marketing expenses | | 208,955 | | 172,953 | | 149,438 |
| Marketing expenses to maintain gross margin | | (38,958) | | (20,165) | | (19,417) |
| Distributable cash after gross margin replacement/customer replacement | \$ | 169,997 | \$ | 152,788 | \$ | 130,021 |
| Marketing expenses to add new gross margin/customers | | (17,163) | | (22,804) | | (28,821) |
| Cash available for distribution | \$ | 152,834 | \$ | 129,984 | \$ | 101,200 |
| Distributions (includes Special Distribution) | | | | | | |
| Unitholder distributions | \$ | 158,511 | \$ | 99,036 | \$ | 87,220 |
| Class A preference share distributions | | 13,699 | | 9,188 | | 9,251 |
| Unit appreciation rights and deferred unit grants distributions | | 1,321 | | 428 | | 287 |
| Total distributions | \$ | 173,531 | \$ | 108,652 | \$ | 96,758 |
| Distributions (excludes Special Distribution) | | | | | | |
| Unitholder distributions | \$ | 117,720 | \$ | 99,036 | \$ | 87,220 |
| Class A preference share distributions | | 10,130 | | 9,188 | | 9,251 |
| Unit appreciation rights and deferred unit grants distributions | | 990 | | 428 | | 287 |
| Total distributions | \$ | 128,840 | \$ | 108,652 | \$ | 96,758 |
| Diluted average number of units outstanding | | 108.4m | | 107.3m | | 107.0m |

¹ Other adjustments relates to interest income and other items.

Distributable cash

Throughout fiscal 2008, management was able to utilize favourable market conditions to secure supply at costs that facilitated increased customer margins for contracts signed. Accordingly, average gross margin per customer was higher for customers signed in fiscal 2008 to replace customers that were lost through attrition and failure to renew.

The table below highlights the gross margin on new customers for fiscal 2008 versus the gross margin for the customers lost during the year:

Annual gross margin per customer¹

| | Fiscal 2008 | Annual target fiscal 2008 |
|---|-------------|------------------------------|
| Customers added in the year | | |
| Canada – gas | \$ 190 | \$ 175 |
| Canada – electricity | 156 | 150 |
| United States – gas | 188 | 160 |
| United States – electricity | 145 | 125 |
| Customers lost in the year² | | |
| Canada – gas | 178 | |
| Canada – electricity | 105 | |
| United States – gas | 180 | |
| United States – electricity | 120 | |

¹ 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 m³ (or 106 GJs or 1,000 Therms or 1,025 CCFs) of natural gas and 10,000 kWh of electricity.

² Gross margin as calculated above for customers in place at March 31, 2007; includes balancing and low margin acquired customers.

Distributable cash after gross margin replacement for the current year was \$170.0 million (\$1.57 per unit), an increase of 11% from \$152.8 million (\$1.42 per unit) in fiscal 2007. The increase in distributable cash after gross margin replacement is due to higher customer gross margins and a small increase in the customer base. The increase was partially offset by higher spending on marketing costs on a per customer basis to renew and replace expiring or lost customers and higher general and administrative expenditures. The number of customers up for renewal in the year was 151% higher than the previous year, with the largest number of renewals in Ontario electricity. Energy Savings spent \$39.0 million in marketing expenses to maintain its current level of gross margin, which represents 69% of the total marketing expense for fiscal 2008. General and administrative costs increased by 23% in the current year due to infrastructure investment, additional employees within our Texas operations, which will support the Fund's geographical growth into retailer consolidated billing markets, and the departure costs related to two senior executives. Bad debt expenses decreased by 36% due to effective credit and collection processes implemented during fiscal 2008.

Energy Savings paid out 76% (102% including special distribution) of the cash available for distribution after gross margin replacement. The comparable payout ratio in fiscal 2007 was 71%.

Distributable cash after marketing expenses amounted to \$152.8 million (\$1.41 per unit) for fiscal 2008, an increase of 18% from \$130.0 million (\$1.21 per unit) in the prior comparable year. The increase is attributable to the higher gross margin and lower bad debt expense, offset by increased marketing and general and administrative expenses.

Excluding the special distribution, the payout ratio after marketing expenses for the year ended March 31, 2008, was 84%, unchanged from the prior year.

Standardized Distributable Cash and Cash Available for Distribution*For the years ended March 31**(thousands of dollars, except per unit amounts)*

| | Fiscal 2008 | Fiscal 2007 |
|--|-------------------|-------------------|
| Reconciliation to statements of cash flow | | |
| Cash inflow from operations | \$ 136,007 | \$ 98,354 |
| Capital expenditures ¹ | (7,842) | (3,726) |
| Standardized Distributable Cash | \$ 128,165 | \$ 94,628 |
| Adjustments to Standardized Distributable Cash | | |
| Change in non-cash working capital ² | \$ 11,879 | \$ 28,311 |
| Tax effect on holders of Class A preference shares ³ | 4,948 | 3,319 |
| Capital expenditures ¹ | 7,842 | 3,726 |
| Cash available for distribution | \$ 152,834 | \$ 129,984 |
| Standardized Distributable Cash – per unit basic | 1.19 | 0.89 |
| Standardized Distributable Cash – per unit diluted | 1.18 | 0.88 |
| Payout ratio based on Standardized Distributable Cash ⁴ (includes Special Distribution) | 135% | 115% |
| Payout ratio based on Standardized Distributable Cash (excludes Special Distribution) | 100% | 115% |

¹ The vast majority of capital expenditures are for expansion rather than maintenance of the Fund's productive capacity and are funded out of the Credit Facility.

² Change in non-cash working capital is excluded from the calculation of Cash Available for Distribution as the Fund currently has a \$150.0 million credit facility, which is available for use to fund working capital requirements. This eliminates the potential impact of timing distortions relating to the respective items.

³ Payments to the holders of Class A preference shares are equivalent to distributions. The number of Class A preference shares outstanding is included in the denominator of any per unit calculation.

⁴ The special distribution relating to calendar 2007 has significantly increased the overall payout ratios for fiscal 2008. Refer to "Special Distribution" on page 35 for further details.

In accordance with the Canadian Institute of Chartered Accountants' ("CICA") July 2007 interpretive release "Standardized Distributable Cash in Income Trusts and other Flow-Through Entities", the Fund has amended the distributable cash calculation to conform to the current guidance. In summary, for the purposes of the Fund, Standardized Distributable Cash is defined as the periodic cash flows from operating activities as reported in the GAAP financial statements, including the effects of changes in non-cash working capital less total capital expenditures as reported in the GAAP financial statements.

Financing strategy

The Fund's \$150.0 million credit facility will be sufficient to meet the Fund's short-term working capital and capital expenditure requirements. Working capital requirements can vary widely due to seasonal fluctuations and U.S.-related growth. In the long-term, the Fund may be required to access the equity or debt markets in order to fund significant acquisitions.

Productive capacity

Energy Savings' business involves the sale of natural gas and electricity to residential and commercial customers under long-term, fixed-price contracts. As such, the Fund's productive capacity is determined by the gross margin earned from the contract price and the underlying matched supply cost.

The productive capacity of the Fund is achieved through the retention of existing customers and the addition of new customers to replace those lost through attrition or that have not been renewed. The productive capacity of the Fund is maintained through our independent contractors, call centre renewal efforts and various mail campaigns to achieve customer growth.

All marketing costs associated with the customer contracts are expensed immediately but fall into two categories. The first represents marketing expenses to maintain gross margin at pre-existing levels and therefore maintain productive capacity. The second category is marketing expenditures to add new margin and expand productive capacity.

Discussion of distributed cash

For the years ended March 31
(in thousands of dollars)

| | Fiscal 2008 | Fiscal 2007 | Fiscal 2006 |
|---|-------------|-------------|-------------|
| Cash flow from operations ¹ (A) | \$ 136,007 | \$ 98,354 | \$ 69,582 |
| Net income (B) | 152,761 | 93,912 | 51,563 |
| Total distributions (C) ² | 173,531 | 108,652 | 96,758 |
| Shortfall of cash flows from operating activities over distributions paid (A–C) | (37,524) | (10,298) | (27,176) |
| Shortfall of net income over distributions paid (B–C) | (20,770) | (14,740) | (45,195) |

¹ Includes non-cash working capital balances.

² Includes a one-time special distribution of \$44.7 million declared during the third quarter of fiscal 2008.

As can be seen in the table above, the Fund has historically paid out annual distributions that were higher than both financial statement net income and operating cash flow. In the view of management, the non-GAAP measure, distributable cash, has been an appropriate measure of the Fund's ability to distribute funds, as the cost of carrying incremental working capital necessary for the growth of the business has been deducted in the distributable cash calculation. Capital has not been deducted from Distributable Cash but the cost of financing the capital has been deducted. As noted above, the vast majority of the Fund's capital expenditures are for expansion, rather than maintenance of productive capacity. Further, investment in the addition of new customers intended to increase cash flow is expensed in the financial statements while the original customer base was capitalized. The Fund declared a Special Distribution in December 2007, relating to the underdistribution of cash in prior periods. Refer to "Special Distribution" on page 35 for further information.

Net income includes non-cash gains and losses associated with the changes in the fair value of some of Energy Savings' financial instruments. These instruments form part of the Fund's commodity matching policy and, as such, quarterly changes in value do not impact the distribution policy.

The timing differences created by the cost of carrying incremental working capital due to business seasonality and expansion are funded by the operating credit facility.

Financial statement analysis**Sales and gross margin – per financial statements**

For the years ended March 31

(thousands of dollars)

| Sales | Fiscal 2008 | | | Fiscal 2007 | | |
|--------------|--------------|---------------|--------------|--------------|---------------|--------------|
| | Canada | United States | Total | Canada | United States | Total |
| Gas | \$ 785,788 | \$ 247,463 | \$ 1,033,251 | \$ 782,506 | \$ 172,225 | \$ 954,731 |
| Electricity | 544,278 | 161,161 | 705,439 | 530,388 | 47,198 | 577,586 |
| | \$ 1,330,066 | \$ 408,624 | \$ 1,738,690 | \$ 1,312,894 | \$ 219,423 | \$ 1,532,317 |
| Increase | 1% | 86% | 13% | | | |
| Gross margin | Canada | United States | Total | Canada | United States | Total |
| Gas | \$ 140,443 | \$ 38,149 | \$ 178,592 | \$ 131,235 | \$ 26,128 | \$ 157,363 |
| Electricity | 79,804 | 16,404 | 96,208 | 70,202 | 1,879 | 72,081 |
| | \$ 220,247 | \$ 54,553 | \$ 274,800 | \$ 201,437 | \$ 28,007 | \$ 229,444 |
| Increase | 9% | 95% | 20% | | | |

Canada

Sales were \$1.3 billion for the year, an increase of 1% over the prior comparable year. Gross margin was \$220.2 million for fiscal 2008, up 9% from \$201.4 million in fiscal 2007. The increase in sales is attributable to an increase in the average customer selling price but was offset by a decline in the customer base and a shift of that existing base toward lower revenue electricity customers. The relatively greater increase in gross margin is attributable to higher realized margin per customer. Refer to "Seasonally adjusted analysis" on page 26 for further details.

United States

Sales in the U.S. were \$408.6 million for fiscal 2008, an increase of 86% from \$219.4 million last year. Gross margin increased 95% from \$28.0 million in fiscal 2007 to \$54.6 million. The increase in sales and gross margin reflects 68% growth in the customer base as well as the increase in average sales price and realized gross margin per customer over the prior year. The acquisition of Just Energy completed on May 24, 2007, has positively impacted both sales and gross margin for the year. For additional information, see "Seasonally adjusted analysis" on page 26.

Seasonally adjusted analysis**Sales and gross margin – seasonally adjusted¹**

For the years ended March 31

(thousands of dollars)

| Sales | Fiscal 2008 | | | Fiscal 2007 | | |
|--------------------------|---------------|----------------------|--------------|---------------|----------------------|--------------|
| | Canada | United States | Total | Canada | United States | Total |
| Gas | \$ 785,788 | \$ 247,463 | \$ 1,033,251 | \$ 782,506 | \$ 172,225 | \$ 954,731 |
| Adjustments ¹ | (8,085) | – | (8,085) | (2,232) | – | (2,232) |
| | \$ 777,703 | \$ 247,463 | \$ 1,025,166 | \$ 780,274 | \$ 172,225 | \$ 952,499 |
| Electricity | 544,278 | 161,161 | 705,439 | 530,388 | 47,198 | 577,586 |
| | \$ 1,321,981 | \$ 408,624 | \$ 1,730,605 | \$ 1,310,662 | \$ 219,423 | \$ 1,530,085 |
| Increase | 1% | 86% | 13% | | | |
| Gross margin | Canada | United States | Total | Canada | United States | Total |
| Gas | \$ 140,443 | \$ 38,149 | \$ 178,592 | \$ 131,235 | \$ 26,128 | \$ 157,363 |
| Adjustments ¹ | (2,620) | – | (2,620) | 924 | – | 924 |
| | \$ 137,823 | \$ 38,149 | \$ 175,972 | \$ 132,159 | \$ 26,128 | \$ 158,287 |
| Electricity | 79,804 | 16,404 | 96,208 | 70,202 | 1,879 | 72,081 |
| | \$ 217,627 | \$ 54,553 | \$ 272,180 | \$ 202,361 | \$ 28,007 | \$ 230,368 |
| Increase | 8% | 95% | 18% | | | |

¹ For Ontario, Manitoba and Quebec gas markets.**Gross margin analysis**

For the years ended March 31

(thousands of dollars)

| | Fiscal 2008 | | | Fiscal 2007 | | |
|--|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | Canada | United States | Total | Canada | United States | Total |
| Gas | | | | | | |
| Customer margin | \$ 143,649 | \$ 40,179 | \$ 183,828 | \$ 134,112 | \$ 28,413 | \$ 162,525 |
| Loss from dispositions of excess supply and financial reconciliations ¹ | (5,826) | (2,030) | (7,856) | (1,953) | (2,285) | (4,238) |
| Gas margin | \$ 137,823 | \$ 38,149 | \$ 175,972 | \$ 132,159 | \$ 26,128 | \$ 158,287 |
| Electricity | | | | | | |
| Customer margin | \$ 84,087 | \$ 16,607 | \$ 100,694 | \$ 74,111 | \$ 3,597 | \$ 77,708 |
| Loss from dispositions of excess supply ² | (4,283) | (203) | (4,486) | (3,909) | (1,718) | (5,627) |
| Electricity margin | \$ 79,804 | \$ 16,404 | \$ 96,208 | \$ 70,202 | \$ 1,879 | \$ 72,081 |
| Total | \$ 217,627 | \$ 54,553 | \$ 272,180 | \$ 202,361 | \$ 28,007 | \$ 230,368 |

¹ Results from variances in customer demand and associated gas reconciliations.² Results from excess supply purchased in advance of customer usage or fluctuations in customer usage attributable to acquired customers on load following contracts.

On a seasonally adjusted basis, sales increased by 13% to \$1.7 billion as compared to \$1.5 billion in fiscal 2007. Margins were \$272.2 million in fiscal 2008, up 18% from the comparable prior year. The increase in sales for both gas and electricity is attributable to an overall 2% increase in the customer base and the higher realized average customer gross margin and sales price.

Canada

Sales were \$1.3 billion for the year, up slightly from the same comparable period in fiscal 2007. Margins were \$217.6 million in fiscal 2008, an increase of 8% from \$202.4 million in the prior fiscal year.

Gas

Gas sales in fiscal 2008 were flat as compared to fiscal 2007 and totalled \$777.7 million. Gross margin increased by 4% for the year to \$137.8 million. The increase in customer gross margin was attributable to higher average margins during the fiscal year and increased Alberta customer consumption offsetting a decreased customer base.

Excess volumes sold during the year due to lower than anticipated additions as well as higher than expected customer attrition and financial reconciliations for past periods resulted in a balancing loss of \$5.8 million versus a \$2.0 million loss in the comparable prior year. The losses were higher in the current year due to the depressed gas spot market which existed until the fourth quarter. Prices have subsequently moved to much higher levels.

After allowance for balancing and inclusive of acquisitions, average gross margin per RCE ("GM/RCE") for the 12 months ended March 31, 2008, amounted to \$193/RCE, compared to \$174/RCE from the prior year. The GM/RCE value for Alberta includes a full allowance for bad debt expense.

Electricity

Electricity annual sales increased by 3%, from \$530.4 million to \$544.3 million despite a decline in the customer base in both Ontario and Alberta. The increase in sales is attributable to pricing for new customers. Total gross margin increased by 14% from the prior year to \$79.8 million. The increase was due to higher margin per customer and the expiry of acquired load following customers that produce low margins and were not expected to renew. The increase in margin per customer significantly exceeded the increase in selling price due to long-term supply purchases at attractive 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' new price protected customer contracts in Ontario.

Most of the acquired low margin, load following customer contracts from First Source Energy Corp. ("First Source") and EPCOR in Ontario expired or were converted to Energy Savings contracts during fiscal 2008. A load following contract requires Energy Savings to bear the risk and benefits of fluctuation in consumption from the standard customer usage profile.

During the year, excess volume due to lower than expected customer additions resulted in supply being sold in the spot market at unfavourable prices. Balancing losses for the year due to lower customer consumption amounted to \$4.3 million, a increase of 10% from a loss of \$3.9 million in the prior year.

Average gross margin per RCE after all balancing and including acquisitions for fiscal 2008 amounted to \$124/RCE, up 25% compared to \$99/RCE from the prior year. The GM/RCE values for Alberta include a full allowance for bad debt expense.

United States

Sales for the 2008 fiscal year were \$408.6 million, an increase of 86% from \$219.4 in the prior comparable period. Gross margin was \$54.6 million, up 95% from \$28.0 million in fiscal 2007. The increase in sales and gross margin relates to a 68% increase in the U.S. customer base, contribution from the acquired Texas contracts, as well as an increase in the average customer selling price and contract margin.

The significant decline in the United States dollar versus the Canadian dollar had a limited negative impact on the overall Fund's operating results during fiscal 2008. The decline in the U.S. dollar adversely impacted sales and gross margin but resulted in lower operating costs and commissions when translated to Canadian dollars. The net impact was not material. The Fund continues to reinvest operating cash flow into the United States to fund continued growth.

Gas

Gas sales in the U.S. increased by 44% from \$172.2 million to \$247.5 million, year over year. Gas margin increased 46% for the year ended March 31, 2008, to \$38.1 million from \$26.1 million in fiscal 2007. The increase in sales and gross margin for the 2008 fiscal year is related to the 43% increase in the customer base and increased per customer margin offset by lower exchange rates.

Excess volumes were sold during the year at unfavourable prices in the spot market resulting in a current year balancing loss of \$2.0 million versus \$2.3 million in the prior comparable year.

Average gross margin after all balancing costs was \$175/RCE, an increase of 8% above the prior year of \$162/RCE. The GM/RCE value for Illinois includes a full allowance for bad debt expense.

Electricity

Electricity sales and margin were \$161.2 million and \$16.4 million, respectively, for the current fiscal year. In fiscal 2007, sales and gross margin amounted to \$47.2 million and \$1.9 million, respectively. The increase in both sales and gross margin was due to a 160% increase in customers versus the prior year and higher margins per customer offset by lower exchange rates. Texas customers acquired with Just Energy showed lower attrition and better renewals than anticipated on acquisition. This contributed to higher sales and gross margin and a number of these Texas customers have been subsequently added to the Energy Savings long-term customer base. In addition, we have lower margin short-term Texas customers, which generated gross margin of approximately \$7.6 million for the year, which are not expected to renew and are not included as long-term customers.

Customer margins were offset by the sale of excess supply in the current year resulting in a loss of \$0.2 million versus \$1.7 million in the prior year.

Customer margin for electricity was \$102/RCE including acquisitions, compared to \$65/RCE from the prior year comparable period. The GM/RCE value for Texas includes a full allowance for bad debt expense.

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

| | 2008 | 2007 | 2006 |
|--------------------------------|--------------|--------------|--------------|
| Sales per financial statements | \$ 1,738,690 | \$ 1,532,317 | \$ 1,212,314 |
| Net income | \$ 152,761 | \$ 93,912 | \$ 51,563 |
| Net income per unit – basic | \$ 1.42 | \$ 0.88 | \$ 0.49 |
| Net income per unit – diluted | \$ 1.41 | \$ 0.88 | \$ 0.48 |

Balance sheet data

As at March 31

| | 2008 | 2007 | 2006 |
|-----------------------|------------|------------|------------|
| Total assets | \$ 709,115 | \$ 357,227 | \$ 350,225 |
| Long-term liabilities | \$ 246,248 | \$ 19,509 | \$ 21,439 |

2008 compared with 2007

The increase in sales is primarily a result of the increase in the average sales price and customer base. Energy Savings acquired Just Energy in Texas on May 24, 2007, which contributed to the sales increase. The Fund also had a full 12 months of results from National Fuel Gas ("NFG") in New York and Northern Indiana Public Service Company ("NIPSCO") in Indiana, which were two new jurisdictions entered in 2007.

The increase in net income from \$93.9 million to \$152.8 million and in net income per unit is a result of an increase in gross margin per customer as well as a decrease in bad debt expense, offset by increases in general and administrative costs, marketing expenses and other expenses relating primarily to the change in market value of derivative financial instruments. Effective credit and collection processes implemented during the year have reduced the bad debt expense. In addition, collections from the prior year's winter billings were higher than anticipated which resulted in a reduction in the associated reserve. 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 Texas. The increase in marketing expenses is due to higher overhead costs associated with opening additional offices and additional recruiting expenses.

Total assets increased by 99% primarily as a result of the implementation of a new accounting standard for derivative financial instruments. Energy Savings was required to record other assets and liabilities representing the estimated fair value on a mark to market basis of all financial instruments effective fiscal 2008. In fiscal 2007, only certain financial instruments were required to be fair valued and recorded in the financial statements.

Long-term liabilities increased in fiscal 2008 primarily due to the increase in other liabilities – long-term as a result of the implementation of a new accounting standard for derivative financial instruments. In addition, there was a reclassification of the debt from current to long-term on the change of the credit facility renewal period to three years from a previous annual renewal term.

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 the related increase 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.

Summary of quarterly results*(thousands of dollars, except per unit amounts)*

| Fiscal 2008 | Q1 | Q2 | Q3 | Q4 | Total |
|---|------------|------------|-------------------|------------|-------------------|
| Sales per financial statements | \$ 352,869 | \$ 283,531 | \$ 449,673 | \$ 652,617 | \$ 1,738,690 |
| Net income | 25,918 | 4,754 | 28,064 | 94,025 | 152,761 |
| Net income per unit – basic | \$ 0.24 | \$ 0.05 | \$ 0.26 | \$ 0.87 | \$ 1.42 |
| Net income per unit – diluted | 0.24 | 0.04 | 0.26 | 0.87 | 1.41 |
| Amount available for distribution | | | | | |
| After gross margin replacement | \$ 30,832 | \$ 37,589 | \$ 47,242 | \$ 54,334 | \$ 169,997 |
| After marketing expense | 26,690 | 29,690 | 42,462 | 53,992 | 152,834 |
| Payout ratio | | | | | |
| After gross margin replacement | 99% | 86% | 164% ¹ | 61% | 102% ¹ |
| After marketing expense | 114% | 109% | 183% ¹ | 61% | 114% ¹ |
| Fiscal 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 ² | \$ 31,598 | \$ 26,490 | \$ 39,772 | \$ 54,928 | \$ 152,788 |
| After marketing expense | 21,489 | 19,068 | 36,500 | 52,927 | 129,984 |
| Payout ratio | | | | | |
| After gross margin replacement ² | 81% | 102% | 69% | 52% | 71% |
| After marketing expense | 119% | 141% | 75% | 54% | 84% |

¹ Includes the special distribution. If the special distribution figure of \$44.7 million is removed the payout ratios would be 70% after gross margin replacement and 77% after marketing expense for Q3. For fiscal 2008, the payout ratio would be 76% after gross margin replacement and 84% after marketing expense.

² 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 seasonality, as consumption is greatest during the third and fourth quarters (winter quarters). While year over year quarterly comparisons are relevant, 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 excluding any special distribution.

Analysis of the fourth quarter

Sales are typically higher in the third and fourth quarters because gas consumption is highest during the winter months and approximately 58% of the current customer base are gas customers. The 11% increase in sales compared to the prior comparable quarter is primarily attributable to the increase in the average customer sales price. Net income for the fourth quarter of fiscal 2008 increased by 34% over the prior comparable quarter to \$94.0 million in fiscal 2008, primarily due to the decrease in unit based compensation and bad debt expenses, an increase in other income and an \$11.2 million non-cash, non-operating tax recovery. Excluding this recovery, earnings would have been \$82.8 million (\$0.76 per unit), an increase of 18% year over year. Management believes this is the more appropriate measure of operating performance.

Unit based compensation decreased due to fewer unit option grants and the issuance of fewer unit appreciation rights ("UARs"). Bad debt expense decreased as a result of effective collection changes implemented earlier in the fiscal year. The increase in other income is a result of the change in fair value associated with certain financial instruments.

The distributable cash after customer gross margin replacement was \$54.3 million, slightly below the \$54.9 million recorded in the prior comparable quarter. Distributable cash after marketing expenses was \$54.0 million, an increase of 2% from \$52.9 million in the prior comparable quarter. The increase in gross margin was offset by higher general and administrative and marketing expenses resulting in flat distributable cash.

Customer aggregation**Long-term customers**

| | Beginning | Additions | Attrition ¹ | Failed to renew ² | Ending |
|--------------------------|------------------|----------------|------------------------|------------------------------|------------------|
| Canada | | | | | |
| Gas ³ | 808,000 | 45,000 | (71,000) | (21,000) | 761,000 |
| Electricity ⁴ | 662,000 | 95,000 | (83,000) | (65,000) | 609,000 |
| Total Canada | 1,470,000 | 140,000 | (154,000) | (86,000) | 1,370,000 |
| United States | | | | | |
| Gas ⁵ | 149,000 | 119,000 | (55,000) | – | 213,000 |
| Electricity ⁶ | 40,000 | 83,000 | (19,000) | – | 104,000 |
| Total U.S. | 189,000 | 202,000 | (74,000) | – | 317,000 |
| Combined | 1,659,000 | 342,000 | (228,000) | (86,000) | 1,687,000 |
| Fiscal 2007 | 1,502,000 | 348,000 | (158,000) | (33,000) | 1,659,000 |

¹ Attrition – customers whose contracts were terminated primarily due to relocation or delinquency.

² Failed to renew – customers who did not renew expiring contracts at the end of their term.

³ Includes Ontario, Quebec, British Columbia, Manitoba and Alberta.

⁴ Includes Ontario and Alberta.

⁵ Includes Illinois, New York and Indiana.

⁶ Includes New York and Texas.

Attrition

Attrition in Canada was 11% on an annualized basis, slightly above management's target of 10%. In the U.S., attrition was 29%, on an annualized basis, a decrease from the 33% rate noted at March 31, 2007, but above management's annual target of 20%. The previously favourable downward trend in U.S. attrition reversed in the fourth quarter as adverse news coverage surrounding perceived high fixed prices and aggressive independent sales contractor practices resulted in high levels of cancellations in Illinois and New York. Higher spot commodity prices since year end have improved the attractiveness of the fixed-price option, and management is optimistic that U.S. attrition will improve in subsequent quarters.

Failed to renew

The Energy Savings' renewal process is a multi-faceted program that aims to maximize the number of customers who remain with Energy Savings rather than transfer to system supply or obtain supply through a competitor. The process includes both customers who sign a new contract prior to the end of their existing contract term and those who renew their existing contract. Efforts begin up to 15 months in advance of a customer's end of term through the recontract program (which allows a customer to recontract for an additional four or five years). Presently, the only contracts that have completed their term and therefore are eligible for recontract or renewal are the Ontario gas and electricity customers and an immaterial number of Manitoba customers.

In the Ontario gas market, customers who do not positively elect to renew or terminate their contract receive a one-year fixed-price for the ensuing year. During the year, renewals on an annualized basis were 82%. This renewal rate is a blend of one-year and four- or five-year contracts, and 30% of these customers have renewed for a one-year term. Management continues to anticipate that renewals for gas customers in fiscal 2009 will be 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 his or her contract. As a result of current market conditions, management targets a renewal rate for electricity customers of 60%. For the fiscal year ended March 31, 2008, 55% of all expiring electricity customer volumes were successfully renewed.

Gas and electricity contract renewals

This table shows the percentage of long-term customers up for renewal in each of the following years:

| Fiscal year | Canada – gas | Canada – electricity | U.S. – gas | U.S. – electricity |
|-------------|-----------------|-------------------------|---------------|-----------------------|
| 2009 | 17% | 15% | 2% | 26% |
| 2010 | 24 | 6 | 13 | 19 |
| 2011 | 24 | 23 | 21 | 10 |
| 2012 | 19 | 23 | 18 | 17 |
| 2013 | 14 | 31 | 43 | 24 |
| Beyond 2013 | 2 | 2 | 3 | 4 |
| Total | 100% | 100% | 100% | 100% |

Energy Savings continuously monitors its customer renewal rates with the goal of maximizing the number of customers who renew their contracts.

Customer additions

Energy Savings' published targets for fiscal 2008 were gross customer additions of 415,000 and net customer additions of 125,000. There were a large number of Ontario electricity customers up for renewal in the third quarter representing the five-year anniversary of the first marketing campaign following deregulation.

The Fund fell short of its annual target for both gross and net additions for the 2008 fiscal year. Growth was lower than expected in both New York and B.C., delays were experienced in the opening of our Texas offices and Ontario performance in both gas and electricity was below forecast. Energy Savings remains disciplined in the management of the gross margin targets, which has resulted in higher margins than targeted across all markets. These higher margins per customer have offset any shortfall in net additions allowing the Fund to meet its published guidance for both gross margin and distributable cash.

| Customer additions | Fiscal 2008 | Published target | % realized |
|----------------------------|----------------|---------------------|-------------|
| Canada | | | |
| Gas ¹ | 45,000 | 100,000 | 45% |
| Electricity ² | 95,000 | 115,000 | 83% |
| Total Canada | 140,000 | 215,000 | 65% |
| United States | | | |
| Gas ³ | 119,000 | 110,000 | 108% |
| Electricity ⁴ | 83,000 | 90,000 | 92% |
| Total United States | 202,000 | 200,000 | 101% |
| Gross additions | 342,000 | 415,000 | 82% |
| Net additions | 28,000 | 125,000 | 22% |

¹ Includes Ontario, Quebec, British Columbia, Manitoba and Alberta.

² Includes Ontario and Alberta.

³ Includes Illinois, New York and Indiana.

⁴ Includes New York and Texas. The figure includes 29,000 Texas customers acquired with Just Energy who have been renewed by Energy Savings at margins at or above the \$120 annual target for U.S. electricity customers or are customers under long-term contract at or above these margins that have remained current under Energy Savings' billing.

Canada

Gas

Total gross gas additions in Canada were 45,000 representing 45% of the annual published target of 100,000. Additions for the year were lower than expected as a result of heavy competition in the B.C. residential market as well as tight markets for independent sales contractors. Customers lost in Canadian gas markets due to attrition and failure to renew exceeded customer additions by 47,000 RCEs. Management is continuing its efforts to increase sales channels as well as maximizing the number of customer renewals.

The Canadian gas customers added through marketing efforts during the year were matched with supply to generate margins of \$190/RCE over the life of the contract, 9% higher than the published target.

Electricity

Additions in the Canadian electricity market were 95,000 for the year, representing 83% of the published annual target of 115,000. In addition to the new customers, significant effort was applied to renewing our existing book of Ontario customers. A large number of customers were up for renewal during this fiscal year which resulted in high customer loss. Management believes that the additions have fallen short of targeted levels as a result of adverse current market pricing, increased competition in the Ontario market and a very tight labour market for new sales contractors.

The electricity customers signed during the year were matched with supply to generate margins of \$156/RCE, consistent with the targeted rate of \$150/RCE.

United States

Gas

Fiscal 2008 additions in the U.S. gas market for fiscal 2008 were 119,000, representing 108% of the published annual target of 110,000. Illinois and New York continued to produce strong customer additions during the quarter, following the successful rebuilding of the respective independent sales forces in those jurisdictions.

The U.S. gas customers signed during the year were matched with supply to generate margins of \$188/RCE over the life of the contract, 18% higher than target. The higher realized total customer gross margin is directly related to the continued decline in the attrition rate and lower spot gas prices used to balance customer load.

Electricity

Electricity additions in New York and Texas were 83,000 for the year, representing 92% of the published annual target of 90,000.

The U.S. electricity customers added during the year were matched with supply to generate margins of \$145/RCE over the life of the contract, 16% higher than target.

General and administrative expenses

General and administrative costs were \$51.6 million for the year, representing a 23% increase from \$41.9 million in fiscal 2007. The increase in general and administrative costs over the prior comparable year was primarily driven by the planned investment in infrastructure and employees within the Texas operations, which will support the Fund's continued geographical customer growth into retailer consolidated billing markets. Also included in the increased expense were departure costs related to two senior executives.

Marketing expenses

Marketing expenses, which consist of commissions paid to independent sales contractors for signing new customers as well as an allocation of corporate overhead, were \$56.1 million, an increase from \$43.0 million last year. Marketing expenses increased as a result of a greater number of customer contracts up for renewal with the associated commission, marketing and customer service expense related to the successful renewals. Furthermore, overhead costs associated with opening additional offices and the related recruiting expenses resulted in increased costs. Also, increased aggregation costs noted below, which were reset to reflect market conditions at the end of fiscal 2007 have contributed to the increased expense.

The increase in target aggregation costs was as follows:

| | Fiscal 2008 | Fiscal 2007 |
|----------------------|-------------|-------------|
| Canada | | |
| Gas | \$ 170/RCE | \$ 160/RCE |
| Electricity | \$ 120/RCE | \$ 95/RCE |
| United States | | |
| Gas | \$ 120/RCE | \$ 110/RCE |
| Electricity | \$ 120/RCE | \$ 100/RCE |

Actual aggregation costs in Canada for fiscal 2008 were \$215/RCE and \$147/RCE for gas and electricity customers, respectively. The aggregation costs for Canadian gas and electricity customers were above target as a result of lower than expected additions and therefore, higher corporate, marketing and customer service costs were allocated to each RCE addition. Approximately 36% of the total marketing expense relates to the costs associated with this overhead.

In the U.S., aggregation costs for fiscal 2008 were \$160/RCE and \$141/RCE for gas and electricity customers (excluding additions recognized from the Texas acquisition), respectively. Overhead costs in the U.S. associated with opening new offices that were not producing significant RCE additions in the year increased the aggregation costs above targeted levels.

Although the costs associated with signing a customer are recognized once the customer has been approved by the LDC, the payout of commissions is approximately 60% upon signing by the customer and approval by the LDC. A further 30% is paid approximately 60 days after the customer begins to flow and 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 that may be earned by the independent sales contractor. Retention of the independent contractors is critical to the success of the company. Compensation arrangements have been implemented, which the Fund believes will result in higher independent contractor retention levels.

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 \$3.1 million (2007 – \$3.9 million). The decreased expense in fiscal 2008 is a result of fewer options and UARs awarded during the year.

Bad debt expense

In Illinois, Alberta and Texas, 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.

Bad debt expense for fiscal 2008 was \$7.0 million (2007 – \$10.9 million), representing approximately 1.5% of \$453.5 million in revenues in these markets for the year. In fiscal 2007, the bad debt expense was 3.3% on \$325.8 million in revenues. Effective credit and collection processes implemented during the year have reduced the bad debt expense. In addition, collections from the prior year's winter billings were higher than anticipated which resulted in a reduction in the associated reserve.

Management integrates its default rate for bad debts within its margin targets and continuously reviews and monitors the credit approval process to mitigate customer delinquency. Management expects that bad debt expense will be approximately 2.0% to 3.0% of annual revenue earned in Alberta, Illinois and Texas during fiscal 2009.

For each of 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.

Interest expense

Total interest expense for the 12 months ended March 31, 2008 amounted to \$5.3 million (2007 – \$3.9 million). The increase in interest expense 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, 2008 and 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 and any changes in the applicable exchange rate may result in a decrease or increase in other comprehensive income (loss) for fiscal 2008. In fiscal 2007, any change was reported in the Statement of Operations. For the twelve months ended March 31, 2008, the foreign exchange gain of \$4.0 million was reported in other comprehensive income (loss) compared with a gain of \$0.1 million reported in the Statement of Operations for fiscal 2007. The operations of the Fund's U.S.-based subsidiaries became self-sustaining effective April 1, 2007. See discussion under "Adoption of new accounting policies" on page 40 for further details.

Energy Savings remains adequately hedged for any exposure to fluctuations in cross border cash flow. In fiscal 2008, all monies earned in the U.S. were 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 an equal number of units. The total Class A distributions in fiscal 2008 amounted to \$13.7 million (2007 – \$9.2 million). The payments are reflected in the Statement of Unitholders' Equity of the Fund's consolidated financial statements, net of tax.

Special distribution

The Fund's regular monthly distributions were not sufficient to offset its taxable income. In order to ensure all of the taxable income was distributed to its Unitholders, Energy Savings declared a special distribution in December 2007, in addition to its monthly distributions. The special distribution of \$44.7 million (\$0.41 per unit) included a combination of 50% cash and 50% units.

The cash portion of the special distribution was paid in three equal installments on the last day of January, February and March 2008. The unit portion of the special distribution will be issued equally on the last day of June, September and December 2008. No fractional units will be issued.

Recovery of income tax

Income tax breakdown

For the years ended March 31
(thousands of dollars)

| | Fiscal 2008 | Fiscal 2007 |
|--|-------------|-------------|
| Income tax provision (recovery) | \$ (757) | \$ 539 |
| Portion of tax provision credited to Unitholders' equity | 4,948 | 3,319 |
| Current income tax provision | 4,191 | 3,858 |
| Future tax recovery | (18,692) | (4,788) |
| Recovery of income tax | \$ (14,501) | \$ (930) |

In fiscal 2007, a tax provision of \$0.5 million was recorded versus a recovery of \$0.8 million for the current year. The change is mainly attributable to the corporate reorganization noted below.

The income tax recovery has been reduced by the tax portion of the distributions paid to the holders of Class A preference shares of OESC. The tax benefit related to this distribution has been credited to Unitholders' equity. 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, 2008, the tax amount of these distributions amounted to \$4.9 million (2007 – \$3.3 million), based on a tax rate of 36%.

On March 30, 2007, Energy Savings received a favourable 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 after April 30, 2007, the Fund now is organized in Canada as a trust on partnership rather than a trust on corporation 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 imposition of a tax on certain income distributed by certain trusts which was announced by the federal government on October 31, 2006, and enacted on June 22, 2007.

The future tax recovery totalling \$18.7 million for the year ended March 31, 2008 includes \$7.5 million attributable to the corporate reorganization as outlined above. As a result of the conversion to a trust on partnership structure, Energy Savings has virtually eliminated its exposure to Canadian corporate income taxes for the period prior to January 1, 2011. The remaining \$11.2 million relates to the value of past years' U.S. tax losses, which have been included in the current year's Statement of Operations as a result of an increase in the current fair market value of certain future commodity positions.

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

Liquidity and capital resources

Summary of cash flows

For the years ended March 31
(thousands of dollars)

| | Fiscal 2008 | Fiscal 2007 |
|---|-------------|-------------|
| Operating activities | \$ 136,007 | \$ 98,354 |
| Investing activities | (41,242) | (3,726) |
| Financing activities, excluding distributions | 58,033 | 17,526 |
| Gain on foreign exchange | 707 | 82 |
| Increase in cash before distributions | 153,505 | 112,236 |
| Distributions (cash payments) | (142,981) | (107,113) |
| Increase in cash | 10,524 | 5,123 |
| Cash – beginning of year | 16,786 | 11,663 |
| Cash – end of year | \$ 27,310 | \$ 16,786 |

Operating activities

Cash flow from operating activities increased in fiscal 2008 over the prior year primarily as a result of the increase in gross margin slightly offset by increased marketing and general and administrative expenses.

Investing activities

The Fund purchased capital assets totalling \$7.8 million during the year, an increase from \$3.7 million in fiscal 2007. The purchases in both years were primarily for information technology systems associated with customer service operations supporting the Fund's expanding customer base within the various geographical segments.

Energy Savings completed the acquisition of Just Energy, including all of its electricity contracts in the first quarter of fiscal 2008 for a total, net of cash, of \$33.4 million, of which \$18.1 million involved the issuance of units of the Fund on October 9, 2007.

Financing activities

Financing activities excluding distributions relate primarily to the drawdown of the operating line for working capital requirements and the issue of \$18.1 million in trust units relating to the Texas acquisition. During fiscal 2008, Energy Savings had drawn a total of \$29.0 million against the credit facility versus \$13.4 million in the last year for a total long-term debt of \$67.6 million as at March 31, 2008.

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 that management expects to enter, funding requirements will be supported through the \$150.0 million credit facility.

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 independent sales contractor's commission payment is made following reaffirmation or verbal verification of the customer contract with the remaining 40% being paid after the energy commodity begins flowing to the customer.

The elapsed period between the time 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 and Texas, 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 \$143.0 million (including \$11.8 million to holders of the OESC Class A preference shares), compared to \$107.1 million in the prior year, an increase of 33% primarily due to the Special Distribution explained on page 35 and three increases in the ordinary distribution rate during the year. 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 \$1.21. At a meeting of Unitholders on December 20, 2007, the creation of a distribution reinvestment program ("DRIP") was approved. Under the program, Unitholders can elect to receive their distributions in units at a 5% discount to the prevailing market price rather than the cash equivalent.

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 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, 2008 compared to 2007

Cash increased from \$16.8 million as at March 31, 2007 to \$27.3 million. The credit facility also increased from \$38.6 million to \$67.6 million as a result of the acquisition of Just Energy, normal injection of gas into storage and various other working capital requirements. Under the terms of the credit facility, Energy Savings is able to make use of Bankers' Acceptances and LIBOR advances at stamping fees of 150 basis points, prime rate advances at Canadian and U.S. prime plus 0.5%, and letters of credit at 1.5%. On October 26, 2007, the Fund renewed its credit facility agreement with its lenders for a three-year term expiring on October 29, 2010, versus previous annual renewals, and as a result, the debt has been reclassified to a long-term liability. Working capital requirements in the U.S. and Alberta result from the timing difference between customer consumption and cash receipts. For electricity, working capital is required to fund the lag between settlements with the suppliers and settlement with the LDCs.

The increase in accounts receivable from \$176.5 million to \$207.8 million is primarily attributable to the improved margin and increased customers for both gas and electricity. Accounts payable has also increased from \$113.0 million to \$128.7 million relating to increased 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 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 \$47.3 million (2007 – \$39.2 million) and accrued gas accounts payable of \$38.5 million (2007 – \$33.1 million). The increase from the prior year is a result of higher consumption with a larger customer base.

Gas in storage has decreased from \$5.9 million to \$4.3 million for the year ended March 31, 2008. The decreased balance reflects increased customer consumption due to colder temperatures.

The Ontario gas contracts acquired by Energy Savings were fully amortized as at March 31, 2007. The acquisition of Just Energy during fiscal 2008 included the purchase of electricity contracts valued at \$8.2 million which will be amortized over the average remaining life of the contracts, estimated to be 14 months from the acquisition date.

As of April 1, 2007, Energy Savings was required to record other assets and liabilities representing the estimated fair value on a mark to market basis of all financial instruments. Where the financial instruments qualify for hedge accounting, any changes to the fair value are calculated and the effective portion of the change is recorded in other comprehensive income. All other changes in fair value are recorded in other income (expense). Hedge accounting has been applied to most of the Fund's fixed-for-floating swaps and forward contracts but certain other financial instruments, such as options, do not qualify for this treatment. The settlements of all these contracts are recognized as a component of cost of sales when settled. As at March 31, 2007, only certain of Energy Savings' financial instruments were required to be fair valued and recorded in the financial statements.

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-cancellable.

Payments due by period

(thousands of dollars)

| | Total | Less than 1 year | 1–3 years | 4–5 years | After 5 years |
|--|--------------|---------------------|--------------|------------|---------------|
| Long-term debt | \$ 67,583 | \$ – | \$ 67,583 | \$ – | \$ – |
| Property and equipment lease agreements | 27,037 | 5,183 | 8,870 | 5,818 | 7,166 |
| EPCOR billing, collections and supply commitments | 14,293 | 8,576 | 5,717 | – | – |
| Gas and electricity supply purchase commitments | 3,437,830 | 1,251,191 | 1,656,943 | 518,724 | 10,972 |
| | \$ 3,546,743 | \$ 1,264,950 | \$ 1,739,113 | \$ 524,542 | \$ 18,138 |

Other obligations

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

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 estimate 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 2008 and as a result of the review, it was determined that no impairment of goodwill existed at March 31, 2008.

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, electricity and the green energy option ("GEO"). Energy Savings enters into contracts with customers to provide electricity and gas at fixed prices and provide comfort to certain customers that a specified amount of energy will be derived from green generation. These customer 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 or green commitment 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 hedges of natural gas and electricity at fixed prices for terms equal to those of the customer contracts. The cash flow from these supply contracts is expected to be effective in offsetting the Funds' price exposure and serves to fix acquisition costs of gas and electricity to be delivered under the fixed-price or price protected customer contracts. Energy Savings' policy is not to use derivative instruments for speculative purposes.

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 flows.

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 Sections 3855 and 3865 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, which require a determination of fair value for all derivative financial instruments with further calculation for qualified and designated accounting hedges to determine the effective and ineffective portion of the hedge. This fair value and, where applicable, the ineffectiveness, is determined using market information at the end of each quarter. Management believes the Fund remains effectively hedged operationally across all jurisdictions.

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

Preference shares of OESC and trust units

As at May 15, 2008, there were 6,706,212 Class A preference shares of OESC outstanding and 102,315,426 units of the Fund outstanding.

Taxability of distributions

Cash and unit distributions received in calendar 2007 were allocated as 100% other income. Additional information can be found on our website at 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 several new accounting policies adopted by the Fund for the period of April 1, 2007 to March 31, 2008.

Effective April 1, 2007, Energy Savings adopted the recommendations of the CICA Handbook sections 1530, Comprehensive Income; 3251, Equity; 3855, Financial Instruments – Recognition and Measurement; 3861, Financial Instruments – Disclosure and Presentation; and 3865, Hedges. These recommendations apply prospectively to fiscal years beginning on or after October 1, 2006, and there have been no restatements of prior period results. The recommendations provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, non-financial derivatives and embedded derivatives, and describe when and how hedge accounting may be applied. Section 1530 establishes standards for reporting and presenting comprehensive income. These standards and the impact on the financial position and results of operations are discussed in Notes 3(II) and 3(III) of the audited consolidated financial statements.

The operations of the Fund's U.S.-based subsidiaries became self-sustaining effective April 1, 2007. Accordingly, monetary assets and liabilities of foreign subsidiaries are translated into Canadian dollars at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the average rate of exchange for the period. The resulting gains and losses are accumulated as a separate component of Unitholders' equity called accumulated other comprehensive income. Prior to April 1, 2007, the Fund's U.S.-based subsidiaries were accounted for as an integrated operation, and therefore, foreign exchange gains and losses were included in net income for the period.

Recently issued accounting standards

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

Capital Disclosures – CICA Section 1535

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

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

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

Goodwill and Intangible Assets – CICA Section 3064

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

Risk factors

Availability of supply and dependence on Shell Energy

The risk of supply default is mitigated through credit and supply diversity arrangements. The Energy Savings' business model is based on contracting for supply to lock in margin. While Energy Savings has the ability to select alternative commodity suppliers, subject to certain limitations contained in its agreement with Shell Energy, approximately 59% of its gas and 51% of its electricity supply contracts are currently with the Shell entities. There is a risk that counterparties could not deliver due to business failure, supply shortage or be otherwise unable to perform their obligations under their agreements with Energy Savings, or that Energy Savings could not identify alternatives to Shell Energy. Energy Savings continues to investigate opportunities to identify or secure additional gas suppliers and electricity suppliers. In addition to the Shell entities, Energy Savings has contracts with other commodity suppliers including the BP entities, EPCOR, Bruce Power, Fortis and Constellation, and over the past three years has reduced its dependency on the Shell entities by 36% (natural gas) and 14% (electricity).

Volatility of commodity prices – enforcement

A key risk to the Energy Savings' business model is a sudden and significant drop in the market price of gas or electricity resulting in some customers renouncing their contracts. Energy Savings 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 of Energy Savings time to adjust strategies, pricing and communications to mitigate this risk.

Availability of credit

Energy Savings operates in the Illinois, Texas, Indiana 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 and Indiana markets, Energy Savings 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 Energy Savings' 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 flows, 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 AESLP). 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 is unable to meet its collateral posting requirements.

Legislative and regulatory environment

Energy Savings 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, New York and Texas. It must comply with the legislation and regulations in these jurisdictions in order to maintain its licensed status and to continue its operations. There is potential for changes to this legislation and these regulatory measures that may, favourably or unfavourably, impact Energy Savings' 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 licences. See "Legal proceedings" on page 47 for information on Energy Savings' litigation. Similarly, changes to consumer protection legislation in those provinces and states where Energy Savings markets to non-commercial customers may, favourably or unfavourably, impact Energy Savings' business model. Energy Savings has a dedicated team of in-house regulatory advisors to ensure adequate knowledge of the legislation and regulations in order that operations may be advised of regulations pursuant to which procedures are required to be implemented and monitored to maintain license status. When new markets are entered, the team assesses the market and determines if additional expertise (internal or external) is required.

In addition to the complaints and class actions referenced herein and litigation in the ordinary course of business, we may in the future be subject to class actions, other litigation and other actions arising in relation to our consumer contracts and marketing practices. See the "Legal proceedings" section on page 47 of this report. This litigation is, and any such additional litigation could be, time consuming and expensive and could distract our executive team from the conduct of Energy Savings' daily business. The adverse resolution of any specific lawsuit could have a material adverse effect on our ability to favourably resolve other lawsuits and on our financial condition and liquidity.

Market risk

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. Energy Savings is also exposed to interest rates associated with its credit facility and foreign currency exchange rates associated with the repatriation of U.S. denominated funds for Canadian denominated distributions. Energy Savings' exposure to market risk is affected by a number of factors, including accuracy of estimation of customer commodity requirements, commodity prices, volatility and liquidity of markets, and the absolute and relative levels of interest rates and foreign currency exchange rates. Energy Savings 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 commodity demand in Canadian dollars and thereby fix margins 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 operations and cash flow of Energy Savings.

Governance

Energy Savings has adopted a corporate-wide Risk Management Policy governing its market risk management and any derivative trading activities. A Risk Committee, consisting of senior officers of Energy Savings 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 Energy Savings manages 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 and Risk Committee 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 or inability of Energy Savings to comply with and monitor its Risk Management Policy could have an adverse effect on the operations and cash flow of Energy Savings.

Energy trading inherent risks

Energy trading subjects Energy Savings 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.

Information technology systems

Energy Savings operates 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 enrolments and their energy requirements, which help 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.

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 and state of Texas, 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 would be responsible for 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 billing and collection services for all of Energy Savings' customers in Alberta. If the LDCs cease to perform these services, Energy Savings would have to seek a 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.

Customer credit risk

In Alberta, Texas and Illinois, credit review processes have been implemented to manage customer default 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 affect on the operations and cash flow of Energy Savings. Management factors default from credit risk in its margin expectations for Illinois, Texas and Alberta.

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

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 impacting the related Canadian dollar denominated distributions. Counterparty limits are established within the Risk Management Policy. Any exception to these limits requires approval from the Board of Directors of OESC. The Risk Office and Risk Committee monitor current and potential credit exposure to individual counterparties and also monitor 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.

Competition

Although Energy Savings believes it is currently either the largest or the second largest marketer of natural gas and electricity contracts in Canada based on the number of contracted customers, management estimates that a number of other companies (Direct Energy, Superior Energy, MX Energy and Universal Energy among them) and incumbent utility subsidiaries compete with it in the residential, small to mid-sized commercial and small industrial market. It is possible that new entrants may enter the market as marketers and compete directly for the customer base that Energy Savings targets, slowing or reducing its 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 marketers including Energy Savings.

Dependence on independent sales contractors

Energy Savings must retain qualified independent sales contractors although competition among Energy Savings' competitors is strong. If Energy Savings is unable to attract a sufficient number of independent sales contractors, Energy Savings' revenues may decrease and the Fund may not be able to execute its business strategy. The continued growth of Energy Savings is reliant on distribution channels, including the services of its independent sales contractors. There can be no assurance that competitive conditions will allow these independent contractors, who are not employees of Energy Savings or its affiliates, to achieve these customer additions. Although commission expenses are only incurred in connection with new flowing contracts which are secured by its independent sales contractors, lack of success in these marketing programs would limit future growth of the cash flow of Energy Savings.

Energy Savings has consistently taken the position that its independent sales contractors act independently pursuant to their contracts for service, which provide that Energy Savings does not control how, where or when they provide their services. On occasion, an independent contractor may make a claim that they are entitled to a benefit pursuant to legislation even though they have entered into a contract with Energy Savings that provides that they are not entitled to such benefits normally available to employees and Energy Savings must respond to that claim. Energy Savings' position has been confirmed by regulatory bodies in many instances but Energy Savings is currently appealing the findings of two regulatory bodies (one in Canada and one in the U.S.). Should Energy Savings be unsuccessful in its appeals, Energy Savings would be required to remit unpaid amounts plus interest and might be assessed a penalty. It could also mean that Energy Savings would have to reassess its position in respect of other regulatory matters affecting its independent sales contractors such as income tax treatment. Such a decision could have a material adverse effect on the operations and cash flow of Energy Savings.

Electricity contract renewals and attrition rates

As at March 31, 2008, Energy Savings held long-term electricity contracts reflecting approximately 713,000 long-term electricity RCEs, of which 16% renew in 2009, 8% renew in 2010, 21% renew in 2011, 22% in 2012, 30% in 2013 and 3% beyond 2013. Although Energy Savings has experienced electricity contract attrition rates of approximately 14% 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 expiry of their terms. Changes in customer behaviour, 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 Energy Savings. See discussion under "Failed to renew" on page 31. Energy Savings' experience is that approximately 55% of its electricity customers have renewed at the expiry of the term of their contract.

Gas contract renewals and attrition rates

As at March 31, 2008, Energy Savings had long-term gas contracts reflecting approximately 974,000 long-term gas RCEs, of which 13% renew in 2009, 21% renew in 2010, 23% renew in 2011, 19% in 2012, 21% in 2013 and 3% renew beyond 2013. The experience of Energy Savings is that approximately 80% of gas customers renew at the expiry of the term of their contract. Although Energy Savings has experienced gas contract attrition rates of approximately 13% 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 behaviour, 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 Energy Savings. See discussion under "Failed to renew" on page 31.

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 favourable prices, its commitment to supply natural gas and electricity to its customers, the ability of Energy Savings to secure additional gas and 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) on to customers. Cash distributions are not guaranteed and will fluctuate with the performance of the Fund's affiliates and other factors.

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 inherent volatility of natural gas and electricity prices could result in these other sources of energy providing more significant competition to Energy Savings.

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, 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 and there is no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time.

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 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 interests in the securities of its 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, Notes of OESC Exchangeco II Inc. ("Exchangeco II"), a wholly owned subsidiary of the Fund, and the Fund Notes (of which none are outstanding), 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, Exchangeco II Notes and the Fund 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 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, Exchangeco common shares, OESC Notes, Exchangeco II Notes and the Fund Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the common shares, Exchangeco common shares, Exchangeco II Notes, OESC Notes, or the Fund Notes. In addition, the common shares, Exchangeco common shares, Exchangeco II Notes, OESC Notes and the Fund 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 OESC as 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 Exchangeco II Exchange Rights relating to the Class A preference shares.

Restrictions on potential growth

The payout by the Fund's affiliates of the vast majority of all of their operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of Energy Savings and its cash flow.

Changes in legislation

There can be no assurance that the treatment of mutual fund trusts will not be changed in a manner which 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, registered retirement income funds and registered education savings plans.

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 flows, changes in the applicable exchange rate may result in a decrease or increase in the Fund's income.

Capital asset and replacement risk

The Fund does not invest in a significant capital asset program and the vast majority of capital asset expenditures are with respect to information technology including telephony. The capital asset expenditure cash flow in fiscal 2008 represents 7% of operating cash flow and has been funded through operations. Replacement of capital assets is not considered significant.

Material debt arrangements

The Fund's credit facility is in the amount of \$150.0 million. There are various covenants pursuant to the Credit Facility that govern most of the Fund's subsidiaries and affiliates. In addition, the Fund is required to submit monthly reporting covering, among other things, mark to market exposure, borrowing base certificate and a supply/demand projection. To date, the Fund has met the requirements of the credit facility. Should the credit facility be unavailable, there would be a significant material adverse effect as the likely result would be either a replacement facility with increased costs or an inability to operate.

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 Energy Savings for delivery to them. Energy Savings is able to invoice its existing electricity customers for balancing charges or credits 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 Energy Savings 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. Energy Savings 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 financing 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.

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.

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 the Fund 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.

Legal proceedings

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

On March 3, 2008, the Citizen's Utility Board, AARP and Citizen Action/Illinois filed a complaint before the Illinois Commerce Commission alleging claims very similar to those in the Illinois AG Complaint.

On March 20, 2008, an Indiana resident filed a proposed consumer class action against IESC in Illinois also based on allegations similar to those made by the Illinois Attorney General.

In New York, we are in discussions with the attorney general's office in Buffalo concerning the contract and practices of NYESC; no legal proceedings have been initiated by the New York Attorney General; however, we do anticipate making changes to our business operations as a result of these discussions.

On April 4, 2008, NYESC was served with a complaint initiated by a commercial customer in New York that proposes a class action against NYESC, the Fund and the LDC (Consolidated Edison) on behalf of residents of New York City.

Energy Savings will resolve or vigorously contest the claims in these matters. Management believes that the pending legal actions against IESC, NYESC or the Fund are not expected to have a material impact on the financial condition and liquidity of the Fund at this time.

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 Co-Chief Executive Officers 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, 2008, and have concluded that such disclosure controls and procedures are operating effectively.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our Co-Chief Executive Officers 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, 2008, and based on that assessment, determined that our internal controls over financial reporting were appropriately designed.

During the year, there have been no changes in the Fund's policies and procedures that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

The Fund continually reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, the Fund's management acknowledges that its disclosure controls and procedures will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

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 and is included in the Fund's May 15, 2008 management proxy circular. Energy Savings actively monitors the corporate governance and disclosure environment to ensure timely compliance with current and future requirements.

Outlook

In past years, the Fund has published guidance on expected growth in gross margin, distributable cash and customer additions. The Fund intends to continue its geographic expansion into new markets in the United States both through organic growth and focused acquisitions. Management has concluded that this expansion should also include a broadening of the Energy Savings' product offering to include some shorter term contract options as well as products that will appeal to larger industrial and commercial customers.

The continued growth of the business outside Ontario makes, in the view of management, the continued use of Ontario RCEs as a customer measurement inappropriate. With larger commercial and industrial customers and new markets where customer usage is materially different than Ontario, the Fund believes a move to straight volumetric measurement of the customer base (annual GJ for natural gas and annual MWh for electricity) will provide better information for analysis purposes. The Fund plans to report volumetric measures for gas and electricity in Canada and the United States on a go forward basis.

The Fund will also be changing from a distributable cash target to distributable cash after gross margin replacement as this is the measure that management believes is more representative of the short-term performance of Energy Savings and a measure used internally. Management believes that this information will be more useful for analysis.

Consistent with past published guidance, management's best estimation is that Energy Savings will again grow its key operating measures during fiscal 2009. Electricity volumes are expected to grow by approximately 15% and gas volumes by 5%. The U.S. is expected to generate the vast majority of growth. Management intends to supplement this growth with selected accretive acquisitions.

In an attempt to reflect both inflation and the increased effort required to secure customers, management has increased its target for customer aggregation costs. The Fund has included a slight increase in its prices to generate higher target gross margins with the expectation that every market will continue to repay customer aggregation costs in one year. Consistent with management's new volumetric guidance, the new targets for both aggregation costs and gross margins are as follows:

| | Target aggregation cost/ unit volume | Target margin/ unit volume |
|-------------------|---|----------------------------------|
| Gas (GJ) | \$ 1.60 | \$ 1.60 |
| Electricity (MWh) | \$ 14.25 | \$ 14.25 |

Based on this growth in volumes, both gross margin and distributable cash after gross margin replacement are expected to organically grow by approximately 10%. Distributable cash after marketing expenses is expected to grow at a slightly lower rate due to increased marketing expenses associated with the higher forecasted volume additions.

On April 28, 2008, Energy Savings began electricity marketing in the National Grid region in New York. Approximately 1.6 million eligible customer accounts are available.

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

Sales of the Fund's GEO product were very strong since the programs inception in the second quarter with 29% of new customers electing GEO units with average take-up of 3.1 units per customer (63% of total consumption). It is management's expectation that customers who purchase GEO will have lower attrition rates with a higher level of customer loyalty, and therefore there is an increased likelihood of renewal at end of term. As GEO participation grows, gross margin from the product will meaningfully add to distributable cash in future periods.

While the October 31, 2006 announcement to tax income trusts does not affect existing income trusts until 2011, except as noted in the "Future tax provision" discussion, 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. Like many income trusts, Energy Savings is actively analyzing potential restructuring options which would see Energy Savings convert to corporate status.

The timing and design of any restructuring will be dependent on announcement of further details of tax treatment of conversions and analysis of the relative market value of Energy Savings units versus the potential value after reorganization. Any reorganization 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's directors may conclude that maintaining the current structure until 2011 is in the best interests of Unitholders.