

**TSX: SIF.UN**

- **FOR IMMEDIATE RELEASE**

**PRESS RELEASE**

**Energy Savings Reports Record Third Quarter Results –  
Record Margin and Distributable Cash – 16<sup>th</sup> Distribution Increase**

---

TORONTO, ONTARIO - - February 12, 2004 - -

*Highlights for the 3 Months ended December 31, 2003 (after removing effects of seasonality and adjusting for the 2 for 1 unit split effective January 30, 2004.) included:*

- Record gross margin of \$36.3 million up 31% year over year.
- Record premarketing distributable cash of \$30.9 million (\$0.29 per unit) up 24% year over year.
- An accretive acquisition of 20,000 long term gas customers from Union Energy for a total cost of \$4.2 million funded out of cash on hand.
- Gross natural gas customer additions were 60,000 of which 20,000 were acquired from Union Energy Inc. Excluding acquired customers, year to date gross gas customer additions are 119,000, or 129% of the published target additions for the entirety of Fiscal 2004.
- Gross electricity customer additions of 52,000 of which 28,000 were customers signed by First Source agents but processed and reaffirmed by Energy Savings. Excluding these customers, year to date gross electricity customer additions are 107,000 or 134% of the published target additions for the entirety of Fiscal 2004.
- At the end of the quarter, Energy Savings had 967,000 long term customers up from 690,000 at March 31, 2003 and 217,000 at its April 30, 2001 IPO. Total customers exceeded 1,000,000.

## Energy Savings Third Quarter Results

Energy Savings Income Fund announced its results for the third quarter ended December 31, 2003.

### Three months ended December 31 (\$ millions)

	Per Financial Statements			Seasonally Adjusted		
	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Margin</u>	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Margin</u>
▪ 2003	\$181.8	\$147.5	\$34.3	\$203.6	\$167.3	\$36.3
▪ 2002	130.7	104.5	26.2	125.4	97.7	27.7
Increase	51.1	43.0	8.1	78.2	69.6	8.6

### Nine months ended December 31 (\$ millions)

	Per Financial Statements			Seasonally Adjusted		
	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Margin</u>	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Margin</u>
▪ 2003	\$420.1	\$348.8	\$71.3	\$549.3	\$448.1	\$101.2
▪ 2002	313.5	251.8	61.7	360.6	282.3	78.3
Increase	106.6	97.0	9.6	188.7	165.8	22.9

Management believes that the best basis for analyzing the Fund's operating results and the amount available for distribution is to focus on amounts actually received which are relatively stable month to month, rather than sales which reflect seasonal variance ("seasonally adjusted"). Management utilizes this non-GAAP financial measure to determine future distributions. Therefore, the ensuing discussion will focus on the seasonally adjusted information. Management includes in its MD&A a complete reconciliation from financial statement gross margin to seasonally adjusted gross margin.

				Per Unit
Sales				
Gross Margin				
Distributable Cash				
- Premarketing				\$0.24
- Post Marketing				\$0.16
Distributions				\$0.15
Long Term Customers				

				Per Unit
Sales				
Gross Margin				
Distributable Cash				
- Premarketing				\$0.69
- Post Marketing				\$0.51
Distributions				\$0.40
Long Term Customers				

<sup>1</sup> Seasonally adjusted

The quarter saw continued success in customer aggregation. The Fund had annual published targets of 80,000 gross Ontario gas customer additions, 80,000 gross Ontario electricity customer additions and 12,000 gross Manitoba gas customer additions. During the third quarter, the Fund had gross additions of 60,000 new gas customers (of which 20,000 were acquired from Union Energy Inc. and 2,000 were aggregated in Manitoba) and 52,000 new electricity customers (of which 28,000 relate to First Source). As of the end of the third quarter, sales force marketed customer additions were 119,000 and 107,000 for gas and electricity respectively (129% and 134% of the respective annual targets). Including acquired long term customers, the Fund has added 173% of

its annual gas customer target and 243% of the annual electricity target after three quarters.

Premarketing distributable cash was a record \$30.9 million (\$0.29 per unit) versus \$25.0 million (\$0.24 per unit) an increase of 24% year over year. Energy Savings is an Income Fund and it reports in the attached Management's Discussion and Analysis a detailed calculation of distributable cash both before and after marketing expenditures to expand the Fund's customer base.

General and administrative costs were \$5.2 million up from \$2.9 million in Q3 F2003. The increase in costs is largely due to the set-up of U.S. operations in anticipation of our Illinois roll-out and additional back-office personnel to administer new customers acquired and aggregated over the last 12 months.

Distributions to Unitholders were \$19.8 million in the quarter (\$0.19 per unit) up 29% versus the third quarter of Fiscal 2003. The Fund increased its distribution rate during the quarter from \$0.75 per unit (\$1.50 per unit pre-split) annually to \$0.775 (\$1.55 per unit pre-split) effective the December distribution. With this release, the Fund announces its 16<sup>th</sup> increase in distribution rate rising \$0.03 per unit to \$0.805 (\$1.61 pre-split) annually effective the April 2004 distribution.

Rebecca MacDonald, CEO of Energy Savings, stated: "Our management team is pleased to announce another record quarter and another increase in our distribution rate. With our seasonally adjusted margins, distributable cash and distributions up well over 20% both for the third quarter and the nine months, we remain on a very solid financial footing. I want to particularly point out the tremendous accomplishment of President Brennan Mulcahy, our marketing team and agents. We continue to generate remarkably consistent customer additions and have substantially exceeded our annual targets after just three quarters. The benefits to our Unitholders are obvious through our performance on the TSX."

"Past performance is not what has us excited today. We have entered our first United States market, Illinois, in January and we are eagerly awaiting the results of our initial sales efforts. We have decided to time our distribution increase to follow the receipt of our first cash flow from Illinois. With distributions up 42% over the comparative nine month period, we have maintained our policy of increases tracking our cash flow growth. We expect this policy to continue going forward."

### *The Fund*

Energy Savings' business, which is conducted in Ontario, Manitoba and most recently, Illinois, involves the sale of natural gas to residential, small to mid-size commercial and small industrial customers under long term, irrevocable fixed price contracts. Energy Savings also supplies electricity to Ontario customers under contracts secured prior to the November 11, 2002 price freeze and to

certain large volume users who do not fall under the Government's price cap. By fixing the price of natural gas or electricity under its fixed price contracts for a period of three to five years, Energy Savings' customers eliminate 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. For the purpose of its disclosure, Energy Savings defines a "customer" as a residential customer equivalent consuming 106 GJs of gas or 10,000 kWh of electricity per year.

### *Forward-Looking Statements*

The Fund's press releases may contain forward-looking statements including statements pertaining to customer revenues and margins, 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 securities regulatory authorities which can be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com) or through the Fund's website at [www.esif.ca](http://www.esif.ca)

The Toronto Stock Exchange has neither approved nor disapproved of the contents of this release.

FOR FURTHER INFORMATION, PLEASE CONTACT:

Ms. Rebecca MacDonald  
Chair and Chief Executive Officer  
Phone: (416) 367-2872

or

Mr. James H. McKelvie C.A.  
Chief Financial Officer  
Phone: (905) 795-4202

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

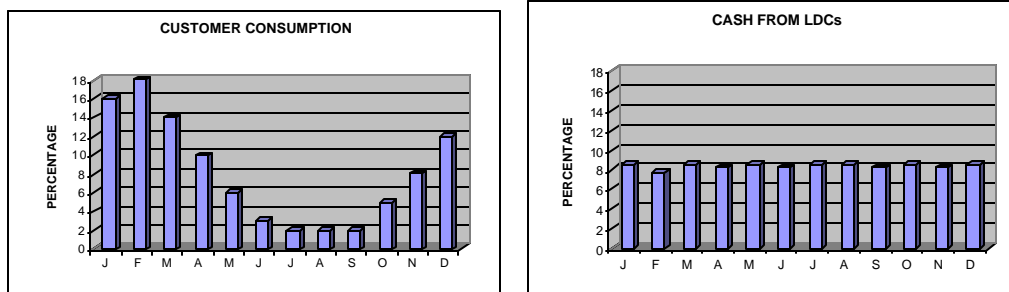
**Overview**

The following analysis relates to the operating results of Energy Savings Income Fund ("Energy Savings" or the "Fund") for the three and nine month periods ended December 31, 2003. Note that the Fund subdivided its Units on a 2 for 1 basis effective January 30, 2004. All information relating to per unit data, including comparative figures, have been adjusted retroactively to reflect the impact of the unit split.

	<b>Financial Highlights</b>							
	<b>Three Months Ended</b>				<b>Nine Months Ended</b>			
	<b>December 31,</b>							
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
(thousands of dollars except where indicated and per unit amount)	\$	Per Unit	\$	Per Unit	\$	Per Unit	\$	Per Unit
Amount available for distribution								
▪ Before selling expense	30,881	0.29	24,980	0.24	87,563	0.83	69,389	0.69
▪ After selling expense	22,474	0.21	16,436	0.16	63,761	0.61	50,748	0.51
Distributions	19,763	0.19	15,275	0.15	57,244	0.55	40,213	0.40
General and administrative	5,244	0.05	2,916	0.03	13,177	0.13	8,850	0.09
Payout Ratio								
▪ Before selling expense	64%		61%		65%		58%	
▪ After selling expense	88%		93%		90%		79%	
Selling Price at end of Quarter								
▪ Gas	29.5¢/m <sup>3</sup>		28¢/m <sup>3</sup>					
▪ Electricity	6.9¢/kWh		7.2¢/kWh					

As noted in past quarterly statements, the Fund's wholly owned subsidiary, Ontario Energy Savings Corp., ("OESC" or the "Company") delivers gas to the local distribution companies (Enbridge Consumers Gas and Union Gas, collectively the "LDCs") for its customers throughout the year. The volume delivered for a customer remains relatively constant throughout the year. The Company receives cash from the LDCs as the gas is delivered. The Company's accounting policy accounts for sales when the customer actually consumes the gas. Therefore, as is illustrated in the tables below which depicts a "normalized" weather year, during the winter months gas is consumed at a rate which is greater than delivery and in the summer months gas is delivered in excess of gas consumed. Gas accounts are balanced at least once a year and managed continuously.

Electricity accounts are balanced daily. Any supply greater than consumption is immediately sold off into the open market at the spot price. Under their contracts, customers bear all electricity balancing costs and retain any profit on balancing sales.



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 (effectively expected annual consumption per customer divided by 12) which is relatively stable month to month, rather than sales which reflect seasonal variance in the consumption of gas ("seasonally adjusted"). The following analysis eliminates this seasonal variance and illustrates the gas actually delivered to LDCs, the revenue received and associated margins. Management utilizes this non-GAAP financial measure to determine future distributions. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

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

**Reconciliation to Seasonally Adjusted Gross Margin**  
*(thousands of dollars)*

***Three months ended December 31***

	<u><b>2003</b></u>	<u><b>2002</b></u>
Gross Margin Per Financial Statements (Note 12)		
Gas	\$26,381	\$22,841
Electricity	7,964	3,420
Total	<u>\$34,345</u>	<u>\$26,261</u>
Opening deferred revenues/gas delivered in excess	(13,948)	(9,631)
Closing deferred revenues/gas delivered in excess	15,859	11,521
	<u>1,911</u>	<u>1,890</u>
Other adjustments	-	(484)
Gross margin available for distribution	<u><u><b>\$36,256</b></u></u>	<u><u><b>\$27,667</b></u></u>

***Nine months ended December 31***

	<u><b>2003</b></u>	<u><b>2002</b></u>
Gross Margin Per Financial Statements		
Gas	\$52,228	\$56,396
Electricity	19,092	5,350
Total	<u>\$71,320</u>	<u>\$61,746</u>
Opening unbilled revenues/accrued gas accounts payable	12,295	217
Opening gas in storage	-	2,128
Opening Sunoco inventory	-	(54)
Closing deferred revenues/gas delivered in excess	15,859	11,521
	<u>28,154</u>	<u>13,812</u>
Other adjustments	-	3,524
Gross margin before balancing	99,474	79,082
Balancing allowances (Note 2)	<u>1,750</u>	<u>(750)</u>
Gross margin available for distribution	<u><u><b>\$101,224</b></u></u>	<u><u><b>\$78,332</b></u></u>

**Amount Available for Distribution (thousands of dollars except per unit amount)**

	<u>Three months ended December 31,</u>				<u>Nine months ended December 31,</u>			
	<u>2003</u>	<u>Per Unit</u> <u>(Note 1)</u>	<u>2002</u>	<u>Per Unit</u>	<u>2003</u>	<u>Per Unit</u> <u>(Note 1)</u>	<u>2002</u>	<u>Per Unit</u>
Gross margin available for distribution	\$36,256		\$27,667		\$101,224		\$78,332	
Less:								
General and administrative	5,244		2,916		13,177		8,850	
Capital tax	175		(75)		848		470	
Other income	(44)		(154)		(364)		(377)	
	<u>5,375</u>		<u>2,687</u>		<u>13,661</u>		<u>8,943</u>	
Available for distribution before selling expenses	30,881	\$0.29	24,980	\$0.24	87,563	\$0.83	69,389	\$0.69
Selling expenses	<u>8,407</u>		<u>8,544</u>		<u>23,802</u>		<u>18,641</u>	
Amount available for distribution	<u>\$22,474</u>	\$0.21	<u>\$16,436</u>	\$0.16	<u>\$63,761</u>	\$0.61	<u>\$50,748</u>	\$0.51

**Reconciliation to Statement of Cash Flow**

Cash flow from operations	\$20,135		\$13,795		\$55,094		\$41,702	
Management incentive program	2,250		2,985		6,503		8,474	
Income taxes	<u>89</u>		<u>140</u>		<u>414</u>		<u>980</u>	
	<u>22,474</u>		<u>16,920</u>		<u>62,011</u>		<u>51,156</u>	
Allowance for balancing (Note 2)	-		-		1,750		(750)	
Other	<u>-</u>		<u>(484)</u>		<u>-</u>		<u>342</u>	
	<u>-</u>		<u>(484)</u>		<u>1,750</u>		<u>(408)</u>	
Amount available for distribution	<u>\$22,474</u>		<u>\$16,436</u>		<u>\$63,761</u>		<u>\$50,748</u>	

**Distributions Paid**

Management incentive program	\$2,250		\$2,985		\$6,503		\$8,474	
Unitholder distribution	<u>17,232</u>		<u>11,574</u>		<u>49,209</u>		<u>30,102</u>	
	19,482		14,559		55,712		38,576	
Non-cash distributions – Class B preference Shares	<u>281</u>		<u>716</u>		<u>1,532</u>		<u>1,637</u>	
Total distributions paid	<u>\$19,763</u>	\$0.19	<u>\$15,275</u>	\$0.15	<u>\$57,244</u>	\$0.55	<u>\$40,213</u>	\$0.40

Note 1

Diluted average number of units amounted to 105.3 and 105.0 million for the three and nine months ended December 31, 2003. For comparative purposes the diluted average number of units was 103.2 and 100.4 million for the three and nine months ended December 31, 2002. Note that the Fund subdivided its Units on a 2:1 basis effective January 30, 2004. All unit and per unit data have been adjusted retroactively to reflect the impact of the unit split.

Note 2

The Fund had reduced amounts otherwise available for distribution by an allowance for balancing costs in aggregate of \$1.75 million to December 31, 2003. The remaining allowance of \$0.75 million remains unchanged for the quarter. The allowance was determined by a forecast of the projected gas position of the Company when balancing will occur. This allowance is not required for financial statement purposes since revenue is recognized when gas is consumed by the customer.



## Sales, Gross Margins, Customers and Marketing Results

### Three months ended December 31

<u>Gas</u>	<u>Per Financial Statements</u>			<u>Seasonally Adjusted</u>		
	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Margin</u>	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Margin</u>
▪ 2003	\$124,797	\$98,416	\$26,381	\$146,545	\$118,253	\$28,292
▪ 2002	112,947	90,106	22,841	107,704	83,457	24,247
Increase	11,850	8,310	3,540	38,841	34,796	4,045
 <u>Electricity</u>						
▪ 2003	57,006	49,042	7,964	57,006	49,042	7,964
▪ 2002	17,742	14,322	3,420	17,742	14,322	3,420
Increase	39,264	34,720	4,544	39,264	34,720	4,544
Total increase	\$51,114	\$43,030	\$8,084	\$78,105	\$69,516	\$8,589

### Nine months ended December 31

<u>Gas</u>	<u>Per Financial Statements</u>			<u>Seasonally Adjusted</u>		
	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Margin</u>	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Margin</u>
▪ 2003	\$267,805	\$215,577	\$52,228	\$396,877	\$314,745	\$82,132
▪ 2002	282,158	225,762	56,396	329,231	256,249	72,982
Increase (decrease)	(14,353)	(10,185)	(4,168)	67,646	58,496	9,150
 <u>Electricity</u>						
▪ 2003	152,394	133,302	19,092	152,394	133,302	19,092
▪ 2002	31,385	26,035	5,350	31,385	26,035	5,350
Increase	121,009	107,267	13,742	121,009	107,267	13,742
Total increase	\$106,656	\$97,082	\$9,574	\$188,655	\$165,763	\$22,892

### Sales

As noted above, sales have increased \$51.1 million (39%) on a financial statement basis and \$78.1 million (62%) on a seasonally adjusted basis for the three months ended December 31, 2003 as compared to same period in the prior year. Financial statement margins have increased \$8.1 million (31%) and \$8.6 million seasonally adjusted (31%) for the same comparative period.

For the nine month period ended December 31, 2003 sales have increased \$106.7 million (34%) on a financial statement basis and \$188.7 million (52%) on a seasonally adjusted basis as compared to the same period in the prior year. Financial statement margins have increased \$9.6 million (16%) and increased \$22.9 million seasonally adjusted (29%) for the same comparative period.

## **Financial statements – Gross Margin**

### Gas

Gas margins were \$26.4 million for the three months, up from \$22.8 million in the prior comparable quarter largely due to the following:

1. Despite a 25% increase in gas customers year over year, the weather during the quarter was approximately 15% warmer than Q3 of fiscal 2003.
2. In this quarter, sales and the cost of sales for the predominately industrial customers acquired from Toronto Hydro amounted to \$20.1 million and \$19.5 million respectively, resulting in a gross margin of \$0.6 million, a substantially lower margin percentage than that traditionally realized by OESC.

The combined effect of the above was a 15% increase in gross margin year over year versus a 10% increase in sales.

Gas margins were \$52.2 million for the nine months, a decrease from \$56.4 million in the prior comparable period. During the nine month comparative period, a large number of industrial customers acquired from Sunoco (whose gas consumption is much less seasonal) generated substantial financial statement margin. OESC chose not to renew most of these customers; therefore this margin was not replicated in the current period.

### Electricity

Electricity margins were \$8.0 million, up from \$3.4 million in the prior comparable quarter. Consumption balancing is completed by Energy Savings for the customers' account. The increase in electricity margins was due to an increase in electricity customers with quarter end customers of 338,000, up from 149,000 in the prior comparative quarter.

## **Seasonally adjusted – Gross Margin**

As outlined in the Q2 MD&A, the Fund has modified its disclosure to provide more detail on gross margin. For its natural gas business, it has separated the gross margin received from the LDCs (this number eliminates both seasonality and other weather variances) and the gross margin attributable to balancing activities in the quarter (the approximate impact of weather variance for the period). These components are added to electricity gross margin (electricity balancing costs are passed on to the customer) and extraction revenue (sale of liquids extracted from gas) to equal total gross margin.

The table below shows the impact of these changes for the past five quarters.

	<b>Q3 F2004</b>	<b>Q2 F2004</b>	<b>Q1 F2004</b>	<b>Q4 F2003</b>	<b>Q3 F2003</b>
Customer margins from LDCs	\$28,805	\$28,064	\$25,620	\$25,047	\$25,015
Balancing adjustments	(619)	(2,861)	1,017	4,531	(881)
Balancing allowance	-	250	1,500	700	-
Extraction revenue	106	148	102	127	113
<i>Total gas margins</i>	<u>28,292</u>	<u>25,601</u>	<u>28,239</u>	<u>30,405</u>	<u>24,247</u>
<i>Electricity margins</i>	<u>7,964</u>	<u>6,119</u>	<u>5,009</u>	<u>3,898</u>	<u>3,420</u>
<i>Total margin</i>	<u>\$36,256</u>	<u>\$31,720</u>	<u>\$33,248</u>	<u>\$34,303</u>	<u>\$27,667</u>

### Gas

On a seasonally adjusted basis, margins from long term customers were \$28.8 million, up from \$25.0 million (15%) in Q3 of fiscal 2003. When compared to Q2 of fiscal 2004, margins from long term customers were up 3%. These increases were due to increases in customers versus the comparable periods. Total gas margins (including balancing adjustments and extraction revenue) were \$28.3 million up from \$24.2 million (17%). Balancing adjustments of negative \$0.6 million in the quarter were largely related to financial reconciliations with utilities. Over the past five quarters, net balancing adjustments totaled a positive \$1.2 million. The Fund maintains a \$0.75 million reserve against future negative balancing adjustments.

### Electricity

Seasonally adjusted electricity margins for the quarter were \$8.0 million, the same as on a financial statement basis. This was up 133% over the comparable quarter of fiscal 2003 and up 30% from Q2 of fiscal 2004. Both increases were due to higher numbers of flowing electricity customers during the quarter.

## Customers

### Quarterly Additions – Long Term Customers

	<b>Beginning</b>	<b>Additions</b>	<b>Attrition <sup>2</sup></b>	<b>Failed to Renew <sup>3</sup></b>	<b>Ending</b>
<i>Gas</i>					
OESC	596,000	40,000	(16,000)	(11,000)	609,000
Union Energy	-	20,000 <sup>1</sup>	-	-	20,000
<i>Total</i>	596,000	60,000	(16,000)	(11,000)	629,000
<i>Electricity</i>					
OESC	288,000	52,000 <sup>4</sup>	(2,000)	-	338,000
<i>Total</i>	288,000	52,000	(2,000)	-	338,000

### Quarterly Additions – Customers Not Expected to Renew

	<b>Beginning</b>	<b>Additions</b>	<b>Attrition</b>	<b>Failed to Renew</b>	<b>Ending</b>
<i>Gas</i>					
Toronto Hydro	80,000	-	(5,000)	(4,000)	71,000
<i>Total</i>	80,000	-	(5,000)	(4,000)	71,000
<i>Electricity</i>					
First Source	52,000	-	(7,000)	-	45,000
<i>Total</i>	52,000	-	(7,000)	-	45,000

- (1) Additions – Customers acquired October 16, 2003 from Union Energy Inc. Unlike past acquisitions, none of the Union Energy customers fall into the “Customers not Expected to Renew” classification.
- (2) Attrition – Customers whose contracts were terminated due to relocation or death
- (3) Failure to Renew – Customers who did not renew expiring contracts at the end of their term
- (4) 28,000 additions relate to First Source Customers. At the time of acquisition, 113,000 RCEs were estimated to be acquired. By the end of processing and reaffirmation of pending First Source customers not flowing at the time of acquisition, total acquired RCEs were 141,000, of which 52,000 were not expected to renew.

## Marketing

During the quarter, Energy Savings had gross customer additions of 40,000 for natural gas (excluding 20,000 customers acquired from Union Energy) and 52,000 gross customer additions for electricity.

As in past quarters, the natural gas market remained very receptive to the Energy Savings five year fixed price offering. Management believes that due to reduced competition, Energy Savings gained the vast majority of new Ontario gas customers signed during the quarter. Management has experienced no decrease in demand for long-term gas contracts in Ontario. During the quarter, the Company only marketed electricity to larger commercial customers (consumption over 250,000 kwh) and saw lower total additions of these customers compared to Q2 of fiscal 2004. Management believes this reflects pent-up demand being tapped in Q2 following the elimination of the price cap for these customers. Accordingly, it is believed that ongoing quarterly additions of these large commercial customers will be consistent with the Q3 totals rather than the Q2 totals. See “Outlook” for potential other electricity customer opportunities.

Management provided published targets for Gross Customer Additions for each of its business units. The following table shows the progress in meeting these targets after the third quarter.

				<b>% Realized</b>
Natural Gas				
- Aggregated				129%
- Acquired				
<b>Total</b>				<b>173%</b>
Electricity				
- Aggregated				134%
- Acquired				
<b>Total</b>				<b>243%</b>

<sup>1</sup> Allocates 28,000 First Source customers processed and reconfirmed since the acquisition to acquired customers as opposed to aggregated.

Management is carefully monitoring trends in electricity demand and the impacts that actions by the new Ontario government will have on the electricity market (see “Outlook”).

Attrition in the natural gas customer book for the quarter was in excess of 10% on an annualized basis, less than the second quarter but higher than the long term historical average of 7%. Management believes that the abnormally high volume this year may have resulted from record low mortgage rates and record number of house sales in Ontario, resulting in more moves. Management believes that overall moves of natural gas customers will return to historical averages in future periods but that, overall, Fiscal 2004 will see higher attrition than in prior periods. Annualized quarterly attrition for the electricity customer book was 2.5% reflecting the fact that the vast majority of electricity customers are commercial, a group which has much lower propensity to move. Overall, the combined annualized attrition for the quarter for both gas and electricity was 7.8%, consistent with our annual target.

Selling expenses, which primarily consist of one-time costs of signing new customers, were \$8.4 million for the quarter and \$23.8 million for the nine months, compared to \$8.5 million and \$18.6 million for the prior comparative period respectively. This change in aggregation costs reflects the numbers of new customers added, and the mix of gas and electricity customers signed.

### **General and Administration**

General and administrative costs were \$5.2 million for the quarter and \$13.2 million for the nine months. These costs were up 80% from the prior comparative quarter and 21% from the second quarter. The increase is primarily attributable to the following:

1. Costs associated with the Fund’s expansion into the U.S.;
2. Additional back office employees required for the growth in the Funds customer base due to both acquisitions and new marketing efforts.

### **Selling Price**

Natural gas selling price at the end of the quarter was 29.5¢/m<sup>3</sup>, a decrease from 32.5¢/m<sup>3</sup> at the end of the second quarter. The Fund’s electricity price was 6.9¢/kWh for large commercial customers at the end of the quarter, a decrease from 7.2¢/kWh at the end of the second quarter, with our customers still retaining the right to the Ontario Government’s mandated rebate. The decrease in price was a direct result of two factors: 1) lower commodity prices, and 2) competitive conditions. The Company continues to meet or exceed target margins of \$170 for new gas customers and \$100 for new electricity customers.

### **Gas Supply**

The Fund had an allowance for balancing costs of \$0.75 million at December 31, 2003, which remains unchanged from the previous quarter. Management believes that the Fund remains effectively matched for both its gas and electricity contractual obligations at the end of the quarter.

### **Liquidity and Capital Resources**

In the prior year, the Company established an operating line of credit in the amount of \$10 million. The operating line is primarily utilized to provide credit support to various suppliers. As at December 31, 2003, the Company had provided letters of credit totaling \$7.1 million predominately in support of future commodity purchases.

As at December 31, 2003, cash balances were \$30.3 million, a decrease of \$3.1 million from September 30, 2003. The \$4.2 million cost of the acquisition of Union Energy’s natural gas contracts during the quarter was offset by cash generated from operations net of distributions.

### **Distributions**

The Fund paid distributions of \$19.8 million and \$57.2 million for the quarter and the nine months ended December 31, 2003. This compared to \$15.3 million and \$40.2 million for the comparable period, increases of 29% and 42% respectively. Payout ratios before marketing costs were 64% for the quarter and 65% for the nine months versus 61% and 58% respectively for the prior comparative quarter. After marketing costs, the payout ratio was 88% for the quarter and 90% for the nine months versus 93% and 79% for the prior comparative period.

The Fund increased its level of monthly distributions during the quarter, to \$1.55 per annum (\$0.13 per month) effective with the December distribution. The Fund has increased the rate of distributions 15 times since its IPO.

## **Balance Sheet compared to March 31, 2003**

As is normal at the end of the third quarter, a substantial portion of the gas delivered to the LDCs was not consumed by our customers. Since the Company is paid for this gas when delivered yet recognises revenue when the gas is consumed by the customer, the result on the balance sheet is the deferred revenue amount of \$82.1 million and gas delivered in excess of consumption of \$66.2 million. These balances will be recognized in the income statement as this delivered gas is consumed during the remainder of the winter.

Cash decreased from \$34.7 million to \$30.3 million. The decrease is inclusive of the \$11.4 million used to fund the First Source, Toronto Hydro and Union Energy acquisitions as well as the \$8.5 million received as a result of options exercised.

The carrying value of Electricity contracts increased by \$5.8 million due to the acquisition of the First Source electricity customers but was reduced by \$0.8 million of non-cash amortization.

The carrying value of Gas contracts increased by \$5.6 million due to the acquisitions of both Toronto Hydro and Union Energy gas customers but was reduced by \$41.4 million of non-cash amortization.

Because the Fund expenses all costs of aggregating new customer contracts as selling expenses, increases in the balance sheet carrying value do not occur through these efforts despite the associated growth in overall customers under contract.

## **Risks and Uncertainties**

The Company operates in the deregulated gas market in Ontario and Manitoba, as well as the deregulated electricity market in Ontario. Any significant change to the legislative environment may affect the Company's ability to grow or maintain its market position. On June 28, 2002, the Government of Ontario passed Bill 58, the Reliable Energy and Consumer Protection Act, 2002 ("Bill 58") which, among other things, added certain consumer protections with respect to the marketing of long term electricity and natural gas contracts in the Province. Bill 58 came into effect July 1, 2002. The management of Energy Savings believes that its pre-existing internal consumer protection policies and procedures are more stringent than those contemplated under Bill 58. Accordingly, the passage of the Bill did not meaningfully alter the Company's business model or its operating procedures.

To date, the regulations under Bill 58 have added some costs to the signing of new customers and the renewal of existing customers. These costs are being passed along to the customer and have not resulted in lower new customer aggregation rates. Customer renewals will not reduce targeted margin per customer. Management believes that the vast majority of customers can be renewed at costs in line with the Company's estimates. For internal planning purposes, the Company anticipated that an average \$40 cost per five year renewal would be required to maintain near-historical renewal rates. To date, renewal costs are in line with this estimate.

On November 25, 2003, the newly elected Ontario government introduced new legislation. The purpose of the proposed legislation, entitled the Ontario Energy Board Amendment Act, 2003, is to ensure a fair and predictable approach to electricity pricing.

Beginning April 1, 2004 under the proposed plan, an interim pricing plan would be implemented effectively removing the current 4.3¢/kWh in favour of a pricing structure that better reflects the true cost of electricity in Ontario. The first 750 kWh consumed in any month would be priced at 4.7¢/kWh with consumption above that level priced at a higher rate of 5.5¢/kWh. The above pricing plan would remain in place until the independent regulator, the Ontario Energy Board (OEB), develops new mechanics for setting prices in the future. The OEB's new pricing mechanism should be in place no later than May 1, 2005.

On December 17, 2003, the Illinois Commerce Commission granted Energy Savings an Alternative Gas Supplier License. The level of aggregation and profitability that will be realized in the U.S. remains uncertain at this time. There are certain risks associated with operating in the United States including exchange rate fluctuations, more litigious business marketplace and differences in commodity procurement and regulatory environment. These risks will be delineated in greater detail as the Fund's United States operations become a meaningful portion of its overall business.

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

## Outlook

Two major opportunities face the Fund over the near term. The first is the possible move of electricity pricing in Ontario to a market-based price as opposed to the continuation of an artificial price cap. Comments from government officials have indicated that they are very seriously considering the regulation of electricity prices under Ontario Energy Board jurisdiction in a manner similar to the very successful deregulated natural gas market, which has been in place in Ontario for the past 17 years. To the extent that the electricity moves to OEB administered market-based pricing for the small business segment (1.5 million Residential Customer Equivalents) and/or the residential market (4.0 million RCEs), Energy Savings, as the most active electricity marketer in the Province, stands to benefit through a much larger available market for its electricity offering. Opening of a portion of this market could occur as soon as April 1, 2004. The Fund targets (and has generated) margins of \$100/year for each RCE aggregated.

The second opportunity is geographic expansion. 2003 saw the entry into Manitoba, a smaller market ideally suited to test the Company's back office ability to handle non-Ontario marketing and customer service. With the success of that test, the Fund entered the Illinois natural gas market in January 2004. The size of the Illinois market (3.1 million RCEs) is very similar to Ontario; however, due to the relatively short history of deregulation, penetration of deregulated contracts in Illinois is approximately 6% compared to approximately 50% in Ontario. Fund management believes that a controlled expansion into Illinois and, subsequently, other U.S. states, represents a realistic, profitable growth opportunity for both the near and the long term. Management's intention is to limit the capital risked in establishing the Illinois market to \$2.0 million until such time as the market is cash flow positive. Only at that time will other States be pursued and further capital risked.

In Canada, each of Alberta (gas and electricity), Quebec (gas) and B.C. (gas) are nearing the point where regulations allow the profitable pursuit of Energy Savings' business model. Management anticipates that the Fund will enter a further Canadian market prior to the end of fiscal 2005. Each of these markets is larger than Manitoba and all have the potential to meaningfully contribute to the Fund's cash flow.

Energy Savings has been and remains a marketing company. While the Fund has more than one million customer equivalents under long term contracts at locked-in margins, its outlook and prospects are dependent upon its ability to continue to add new customers both in Ontario and new markets. Management believes that these growth opportunities exist and will continue to exist. The Company's marketing team has produced consistent customer additions at consistent margins regardless of market conditions. This gives Management confidence that Energy Savings will continue to successfully and profitably tap this growth in the future.



# ENERGY SAVINGS INCOME FUND

## CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

*(Unaudited - thousands of dollars)*

### FOR THE NINE MONTHS ENDED DECEMBER 31

---

2002

-	71,123
833	10,932
(3,863)	(3,877)
(50,741)	(31,739)

---

\$ 175,623

---



# ENERGY SAVINGS INCOME FUND

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited - thousands of dollars)

	Three months ended December 31		Nine months ended December 31			
	\$	181,803	\$	313,543		
				61,746		
		5,244	2,916	8,850		
		175	(75)	470		
		8,407	8,544	18,641		
		1,542	(42)	1,689		
		2,250	2,985	8,474		
		14,721	14,461	43,283		
				81,407		
				(19,661)		
				(19,284)		
				\$ (3,877)		
Basic	\$	0.04	\$	0.01	\$	(0.08)
Diluted	\$	0.04	\$	0.01	\$	(0.08)

# ENERGY SAVINGS INCOME FUND

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - thousands of dollars)

	Three months ended December 31		Nine months ended December 31			
	2002		2002			
Net income (loss)	\$	3,872	\$	1,460	\$	(3,877)
Amortization		14,721		14,461		43,283
Unit based compensation		1,542		(42)		1,689
Future income taxes		(1,911)		(3,974)		(13,206)
		14,352		10,445		31,766
Adjustments required to reflect net cash receipts from gas sales						13,813
		20,135		13,795		41,702
						(13,976)
						27,726
						48,909
						(68,689)
						7,946
					\$	27,136

### Supplemental Information

Income taxes paid	\$	-	\$	575	\$	654
-------------------	----	---	----	-----	----	-----

# ENERGY SAVINGS INCOME FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

---

### 1. INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the audited consolidated financial statements and notes thereto included in the Fund's annual report for fiscal 2003. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements and follow the same accounting policies and methods in their applications as the most recent annual financial statements, except as indicated in Note 2.

### 2. NEW ACCOUNTING POLICY

#### Electricity contracts

Electricity contracts represent the original fair value of existing sales and supply contracts acquired by the Fund's wholly owned subsidiary, Ontario Energy Savings Corp. ("OESC"), on the acquisition of First Source Energy Corp.'s fixed price electricity contracts. These contracts will be amortized over their expected life.

### 3. SEASONALITY OF OPERATIONS

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

### 4. RESTRICTED CASH/CUSTOMER REBATES PAYABLE

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

### 5. ACQUISITIONS OF CUSTOMER CONTRACTS

#### (a) Acquisition of First Source Energy Corp.'s Electricity Contracts

On May 21, 2003, OESC purchased effective May 1, 2003, fixed price electricity contracts from First Source Energy Corp. for \$5,800. Pursuant to the agreement, OESC acquired approximately 113,000 residential customer equivalents.

The purchase price has been allocated as follows:

#### Assets acquired:

Electricity contracts	\$ <u>5,800</u>
-----------------------	-----------------

#### Consideration:

Cash	\$ <u>5,800</u>
------	-----------------

The entire purchase price will be amortized and is deductible at various rates for tax purposes.

# ENERGY SAVINGS INCOME FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

---

### 5. ACQUISITIONS OF CUSTOMER CONTRACTS (cont'd)

#### (b) Acquisition of Toronto Hydro Energy Inc.'s Natural Gas Contracts

On July 31, 2003, OESC purchased effective June 1, 2003, approximately 31,500 deregulated natural gas fixed price customer contracts from Toronto Hydro Energy Services Inc. for \$1,414.

The purchase price has been allocated as follows:

Assets acquired:

Natural gas contracts	\$ <u>1,414</u>
-----------------------	-----------------

Consideration:

Cash	\$ <u>1,414</u>
------	-----------------

The entire purchase price will be amortized and is deductible at various rates for tax purposes.

#### (c) Acquisition of Union Energy Inc.'s Natural Gas Contracts

On October 16, 2003, OESC purchased effective August 1, 2003, approximately 20,000 deregulated natural gas residential customer equivalents as well as the associated natural gas supply from Union Energy Inc., a marketing subsidiary of Epcor Utilities Inc. for \$4,179.

The purchase price has been allocated as follows:

Assets acquired:

Natural gas contracts	\$ <u>4,179</u>
-----------------------	-----------------

Consideration:

Cash	\$ <u>4,179</u>
------	-----------------

The entire purchase price will be amortized and is deductible at various rates for tax purposes.

### 6. UNIT AND SHARE SPLIT

On January 20, 2004, the Board of Directors approved a subdivision of the Fund's units on a two for one basis. All information relating to the units and per unit data, including comparative figures have been adjusted retroactively to reflect the impact of the unit split in these interim consolidated financial statements. Trading of the units on a split basis became effective on January 30, 2004. On January 20, 2004, a certificate of amendment was issued to OESC subdividing on a two for one basis all of the outstanding common shares and Class A preference shares. No certificate of amendment was required for the Class B preference shares as the remaining shares were exchanged into units prior to the two for one split.

### 7. PREFERENCE SHARES OF OESC

Authorized

Unlimited Class A preference shares, non-voting, exchangeable into trust units and/or Class B preference shares of OESC in accordance with the OESC shareholders' agreement, with no priority on dissolution.

Unlimited Class B preference shares, non-voting, exchangeable into trust units in accordance with the OESC shareholders' agreement, with no priority on dissolution. The Class B preference shares are redeemable at the option of OESC and retractable at the option of the holder, at a price of \$2.50 (post split) per Class B preference share together with all accrued and unpaid dividends subject to consent of the holder or OESC, respectively. Pursuant to the terms of the OESC shareholders' agreement, all shareholder exchange rights relating to Class B preference shares must have been exercised prior to or on January 1, 2004.

# ENERGY SAVINGS INCOME FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Issued and Outstanding	Shares	\$
<u>Class A Preference Shares</u>		
Balance, beginning of period	5,913,739	29,569
Share split effective January 20, 2004	5,913,739	-
Balance subsequent to share split	11,827,478	29,569
Cancelled/exchanged into units	<u>(140,038)</u>	<u>(350)</u>
Balance, end of period	<u>11,687,440</u>	<u>29,219</u>
<u>Class B Preference Shares</u>		
Balance, beginning of period	826,064	4,130
Share split effective January 20, 2004	826,064	-
Balance subsequent to share split	1,652,128	4,130
Cancelled/exchanged into units	<u>(193,260)</u>	<u>(483)</u>
Balance, end of period	<u>1,458,868</u>	<u>3,647</u>
Combined balance, end of period	<u>13,146,308</u>	<u>32,866</u>

### 8. TRUST UNITS

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

Balance, beginning of period		
Unit split effective January 30, 2004	<u>43,019,267</u>	<u>-</u>

167,464

# ENERGY SAVINGS INCOME FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### 9. UNIT OPTION PLAN

The Fund grants awards under its 2001 unit option plan to directors, officers, full-time employees and service providers (non-employees) of OESC. In accordance with the unit option plan subsequent to the unit split which took effect January 30, 2004, the Fund may grant options to a maximum of 11,300,000 units. As at December 31, 2003 there are 5,163,322 options outstanding and 1,273,334 options are available for grant under the plan (post split). The exercise price of the unit options equals the closing market price of the Fund's units on the last business day preceding the grant date. The unit options will vest as to one-third of the units granted on each of the first, second and third anniversaries of the date of the grant and expire on the fifth anniversary date of the grant date.

During the period, the Fund implemented a unit appreciation right plan, which is subject to TSX approval and Unitholder ratification. Under the plan, certain officers and consultants are granted unit option awards whose value is contingent upon increases in the Fund's gross margin per unit year over year. Unit appreciation rights will vest as to one-third of the units granted on each of the first, second and third anniversaries of the date of grant. Each unit appreciation right may be exchanged into one unit from the date it vests until the third anniversary of the date of the grant.

A summary of the status of the Fund's unit option plan is outlined below.

Opening, beginning of period                      3,731,987

Balance, end of period

- (1) The weighted average exercise price is calculated by dividing the exercise price of options granted by the number of options granted.  
(2) The weighted average grant date fair value is calculated by dividing the fair value of options granted by the number of options granted.

---

#### Options Outstanding

#### Options Exercisable

	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price
1,862,668	3.09	2,666	\$4.24
180,000	3.49	<u>6,666</u>	\$7.29
844,000	4.58		
<u>10,000</u>	4.88		
			<u>\$2.70</u>

# ENERGY SAVINGS INCOME FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

---

### 9. UNIT OPTION PLAN (cont'd)

#### Options Available for Grant

Add: cancelled/forfeited in prior years	346,666
Less: granted in prior years	<u>(10,054,000)</u>
Balance, beginning of period	1,592,666
Add: cancelled/forfeited during the period	534,667
Less: granted during the period	<u>(854,000)</u>
	<u>1,273,333</u>

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

Risk free rate	3.6 - 5.6%
Expected volatility	22.80% - 26.18%
Expected life	3 years
Expected distributions	\$0.30 - \$0.78 per year

Total amounts credited to contributed surplus in respect of unit-based compensation awards and unit appreciation rights amounted to \$4,171 for the nine months ended December 31, 2003, and \$1,542 for the three months ended December 31, 2003.

Total amounts charged to contributed surplus in respect of awards exercised during the nine months ended December 31, 2003 amounted to \$3,077 and \$nil for the three months ended December 31, 2003.

Cash received from options exercised for the nine month period ended December 31, 2003 amounted to \$8,548.

### 10. FINANCIAL INSTRUMENTS

#### Interest rate risk

During the last fiscal year, OESC entered into a \$10,000 operating facility agreement to finance general requirements. The operating line of credit bears interest at bank prime plus 0.5% and letters of credit bear interest at 1.5%. Total letters of credit outstanding as at December 31, 2003 amounted to \$7,051. The letters of credit are primarily to suppliers in support of future commodity purchases.

During the third quarter, the operating facility agreement was amended whereby a portion was allocated for use by OESC's wholly owned subsidiary, U.S. Energy Savings Corp. ("USESC"). USESC was required to provide security to the Illinois Commerce Commission as part of its license application as an Alternative Natural Gas Supplier. The total allocation to USESC for the security requirement amounted to \$500USD (\$648CDN, using the exchange rate in effect on December 31, 2003). OESC has guaranteed USESC's obligations under the operating facility agreement.

# ENERGY SAVINGS INCOME FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### 11. INCOME (LOSS) PER UNIT

	Three months ended December 31		Nine months ended December 31	
<b><u>Basic income (loss) per unit</u></b>				
Net income (loss)	\$ 3,872	\$ 1,460	\$ (3,863)	\$ (3,877)
Net income (loss) available to Unitholders	\$ 3,591	\$ 744	\$ (5,395)	\$ (5,514)
	<u>89,002</u>	<u>74,603</u>	<u>88,108</u>	<u>71,542</u>
	<u>\$ 0.04</u>	<u>\$ 0.01</u>	<u>\$ (0.06)</u>	<u>\$ (0.08)</u>
<b><u>Diluted income (loss) per unit (1)</u></b>				
Net income (loss)	\$ 3,872	\$ 1,460	\$ (3,863)	\$ (3,877)
	<u>5,312</u>	<u>3,311</u>	<u>299</u>	<u>1,377</u>
	1,459	4,740	1,555	4,368
	<u>3,138</u>	<u>3,666</u>	<u>3,552</u>	<u>3,666</u>
	<u>105,345</u>	<u>103,151</u>	<u>105,007</u>	<u>100,429</u>
	<u>\$ 0.04</u>	<u>\$ 0.01</u>	<u>\$ (0.06)</u>	<u>\$ (0.08)</u>

(1) Conversion of convertible securities is anti-dilutive to income (loss) per unit for the three and nine month periods ended December 31, 2003 and 2002.



# ENERGY SAVINGS INCOME FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### 12. REPORTABLE BUSINESS SEGMENTS

OESC operates in two reportable business segments, which are the reselling of gas and electricity to end-use customers. OESC operates in two geographic areas, Ontario and Manitoba. The results from operations in Manitoba were insignificant for the three month and the nine month periods ended December 31, 2003 and therefore have not been separately disclosed.

OESC evaluates segment performance based on gross margin.

OESC business segments are strategic business units that offer a distinct product. Each segment has senior level executives responsible for the performance of the segment.

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

#### 3 months ended December 31, 2003

			\$	34,345		
	-	(32,339)		(32,339)		
	-	44		44		
	-	1,822		1,822		
	\$	7,964	\$	(30,473)	\$	3,872
			\$	755		

#### 3 months ended December 31, 2002

			\$	26,261		
	-	(28,789)		(28,789)		
	-	154		154		
	-	3,834		3,834		
	\$	3,420	\$	(24,801)	\$	1,460
			\$	876		

# ENERGY SAVINGS INCOME FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

#### Nine months ended December 31, 2003

			\$	71,320
-		(91,342)		(91,342)
-		364		364
-		15,795		15,795
\$	19,092	\$	(75,183)	\$ (3,863)
				\$ 2,255
				\$ 331,767

#### Nine months ended December 31, 2002

			\$	61,746
-		(81,407)		(81,407)
-		377		377
-		15,407		15,407
\$	5,350	\$	(65,623)	\$ (3,877)
				\$ 5,125
				\$ 328,210

### 13. GUARANTEES

Effective April 1, 2003, the Fund adopted the new Canadian accounting guideline AcG-14, which requires certain disclosures of guarantees.

(a) Directors and Officers

Indemnity has been provided to all directors and certain officers of OESC and its subsidiaries for various items including, but not limited to, all costs to settle suits or actions due to their association with OESC and its subsidiaries, subject to certain restrictions. OESC has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined and the maximum amount of any potential future payment cannot be reasonably estimated.

(b) Financial Guarantee

During the quarter, the Fund entered into a financial guarantee securing all of OESC's financial obligations, present or future to certain commodity transportation suppliers. The aggregate liability of the guarantee amounts to \$950. The guarantee is continuing until complete performance by OESC of its obligation under the various contracts and payment in full of all payment obligations.

# ENERGY SAVINGS INCOME FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

---

### 14. COMMITMENTS

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

2004	\$	1,485
2005		1,744
2006		1,638
2007		1,492
2008		<u>1,306</u>
	\$	<u>7,665</u>

- (b) OESC is committed under long-term gas and electricity supply contracts with various suppliers for the next five years as follows:

2004	\$	543,917
2005		536,635
2006		432,546
2007		312,106
2008		<u>214,322</u>
	\$	<u>2,039,526</u>

OESC is also committed under long-term contracts with customers to supply gas and electricity. Both the purchase and sales contracts have various expiry dates and renewal options.

Gas and electricity are delivered to the end-use customers by local distribution companies under contract with OESC. OESC has entered into irrevocable letter agreements for the assignment of local distribution company proceeds to which it would otherwise be entitled in favour of Coral Energy Canada Inc. ("Coral"). Coral holds the monies in trust and deducts the portion relating to commodity cost and remits the remaining proceeds to the Company.

### 15. SUBSEQUENT EVENTS

- (a) On January 1, 2004, the remaining Class B preference shares were exchanged into units of the Fund. Including the additional unit entitlement as per the share exchange agreement, 1,517,782 (post split) additional Trust units were issued.
- (b) The Illinois Commerce Commission granted the Fund an Alternative Gas Supplier License on December 17, 2003. USESC began marketing fixed price natural gas contracts in the State of Illinois on January 28, 2004.