Q2

REPORT

Six Months Ended September 30, 2004

ENERGY SAVINGS INCOME FUND

MESSAGE FROM THE CEO

I am pleased to report the results of the second quarter ended September 30, 2004 of Energy Savings Income Fund's fiscal 2005. Last quarter, I noted that an exciting new chapter for Energy Savings was beginning, our expansion into major new markets outside Ontario. One quarter later, I have exciting news to report – for the first time in our history, new customer additions outside Ontario exceeded those within Ontario. Our additions in Illinois increased from 5,000 to 16,000. Our additions in Quebec, Manitoba and British Columbia increased from 9,000 to 29,000.

Gross Customer Additions	Second Quarter	First Quarter	Annual Target	% Realised
Gas				
Ontario	21,000	32,000	100,000	53%
New Markets – Canada[1]	29,000	9,000	60,000	63%
Illinois	16,000	5,000	50,000	42%
Electricity				
Ontario	13,000	23,000	50,000	72%
Total	**79,000**	**69,000**	**260,000**	**57%**

[1]*Quebec, Manitoba and British Columbia*

We are confident that we will realise our aggregation targets for this year. In particular, the potential reopening of the Ontario electricity market in the new year could be very positive for our fourth quarter customer additions.

Our growth in cashflow, which had dipped last quarter due to our spending on infrastructure for new markets, has returned to past levels. Our margins grew 24% year over year and were up 8% from Q1. While a portion of this growth was through sale of under-consumed gas into the spot market, continued high gas prices should give us ample opportunity to profitably adjust our balancing position in future quarters. As always, we attempt to be long rather than short in our commodity position, knowing that any excess supply can be marketed to new customers.

Premarketing distributable cash increased 20% year over year and 17% from the first quarter. Management believes that this is the best measure of the performance of our Fund and we are pleased with these results. Our payout ratio for the quarter on pre-marketing distributable cash was 68%, back within our preferred 60% to 70% range. Our liquidity and balance sheet remain strong.

Attrition through customer moves in our gas business remained at historical levels of 7% during the quarter. This is the second straight quarter at or near the historical average after having been 10% during the past winter and spring. Management is currently analysing attrition and will adjust our internal planning projection following completion of the review.

As discussed last quarter, controlling general and administrative costs at a time of rapid geographic expansion is a challenge. Our management team has made it a priority to carefully control these costs and the results this quarter show the effects of that effort. Our general and administrative costs were down 21% from the first quarter. While our continued growth in other new markets will result in some increased costs, we clearly recognise the importance of cost control to an Income Fund.

Let me say a few words about distributions. There may be some Unitholders who are disappointed that we have not announced our 19th distribution increase with this report. From its inception, Energy Savings has been run very conservatively. We have no external long term debt and our short term lines are used for seasonal working capital needs rather than an attempt to leverage returns. Our policy on distribution increases is simple: We will only increase if the additional distribution does not constrain our future profitable growth.

We spent a record amount on marketing in the past quarter and this is combined with the fact that we are in the process of completing a small acquisition which will require a drawdown of approximately $10 million from cash on hand. In this light and in consideration of our expectations for marketing in the coming quarter, our Board has concluded that a distribution increase would not be prudent at this time. This should not be considered as a negative. The funds we deploy into customer aggregation pay back in less than a year and our acquisition meets our return on investment hurdle rate. I remain optimistic about distributions in the future.

The Board of Directors of Energy Savings has always placed corporate governance as an absolute priority. Our Unitholders have always received full corporate disclosure about the business regardless of our structure as a Trust. We have ensured that you, our Unitholders, elect those directors and that the vast majority of them are independent from management. As governance standards have evolved, we have made regular changes to maintain our position at the cutting edge. As of April next year, we will take a further step.

As you are aware, I have held the titles of Chair and CEO (and previously President) since our IPO. It has worked well because of the many talented people who make up our management team. Current standards demand, however, that the roles be separated. Despite the fact that we have had a Lead Independent Director in John Panneton, the time has come to separate my titles. As such, effective the new fiscal year, I will take on the role of Executive Chair of Energy Savings and pass the title of CEO to one of those talented managers, Brennan Mulcahy, our President. Paul DeVries, our Chief Operating Officer, will become President – Canadian Operations at the same time. Debbie Wernet continues to lead our fast-growing U.S. operations as President – U.S. Operations.

Brennan has been my partner for 15 years. We were co-founders of Energy Savings in 1997 and he has been a leader in building the Company to where it is today. The steady predictable growth you see each quarter is generated by a sales force and marketing team which Brennan developed over the years. I believe his expertise in direct marketing is unmatched in the industry. Our outstanding customer service was also built by Brennan and his team.

Since joining with his team to build our electricity business, Paul has brought tremendous knowledge and talent to Energy Savings. Our operations and commodity procurement have become exponentially more complex with the opening of new markets and the sale of electricity as a second commodity. Under Paul's leadership, these areas have never run more smoothly. With the vast experience of Paul and Debbie running our operations, I have a great deal of confidence for the future.

I will be Executive Chairman with most of the same responsibilities I hold today. I will continue to Chair the Management Committee and, as such, will provide continued guidance on the day to day activities of Energy Savings' operations. I will continue to act as liaison with the Governments we deal with and our regulators. I will also continue to act as our primary contact with the investment community. I have convinced the Board to allow me to continue these reports to you on a quarterly basis although they will have to be retitled "Chair's Message". We have a great Company with a great team and you should not expect any changes.

We have very exciting times ahead. I want to thank my fellow Unitholders for their continued support.

Yours sincerely,

Rebecca MacDonald,
CHAIR & CHIEF EXECUTIVE OFFICER

HIGHLIGHTS

Strong operating performance

- Gross margin up 24% year over year
- Pre-marketing distributable cash up 20%
- Distributions up 17% - 68% payout ratio

Continued strong customer aggregation

Gas – Ontario
- 21,000 gross customer additions
- 53% of fiscal 2005 target after Q2

Electricity - Ontario
- 13,000 gross customer additions
- 72% of fiscal 2005 target after Q2

New Markets
- Illinois - 16,000 additions up from 5,000 in Q1
- Quebec, Manitoba and British Columbia – 29,000 additions up from 9,000 in Q1
- Ramp up rate well ahead of targets

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 1, 2004

OVERVIEW

The following is a discussion of the consolidated financial condition and results of operations of Energy Savings Income Fund ("Energy Savings", the "Company" or the "Fund") for the three and six months ended September 30, 2004 and has been prepared with all information available up to and including November 1, 2004. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended September 30, 2004 and the audited consolidated financial statements and MD&A for the year ended March 31, 2004 included in the Fund's 2004 Annual Report to Unitholders.

Copies of financial data and other publicly filed documents are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at www.sedar.com.

All amounts in this Management's Discussion and Analysis ("MD&A") are in Canadian dollars.

Energy Savings is an open-ended, limited-purpose trust established under the laws of Ontario to hold securities and to distribute the income of its wholly owned subsidiaries and affiliates: Ontario Energy Savings Corp. ("OESC"), Energy Savings (Manitoba) Corp. ("ESMC"), Energy Savings (Quebec) L.P. ("ESPQ"), ES (B.C.) Limited Partnership. ("ES (BC) L.P.") and U.S. Energy Savings Corp. ("USESC"), (collectively "Energy Savings Group"). Through its subsidiaries and affiliates, Energy Savings markets natural gas to residential customers and small to mid-sized commercial businesses in Ontario, Manitoba and Illinois and solely to commercial customers in Quebec and British Columbia. Energy Savings also markets electricity to mid-sized commercial and small industrial Ontario customers.

The Fund meets the estimated energy requirements of its customers by purchasing matching volumes of gas and electricity. Customers eliminate their exposure to price escalations and the Fund locks in its margins by entering into long term, fixed price contracts.

FINANCIAL HIGHLIGHTS

FOR THE THREE MONTHS ENDED SEPTEMBER 30

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

	2004		2003		
	$	Per Unit	$	Per Unit	Change
Gross margin available for distribution[1]	39,270	$0.37	31,720	$0.30	24%
Amount available for distribution[1]					
• Before selling expense	32,677	$0.31	27,138	$0.26	20%
• After selling expense	22,002	$0.21	20,707	$0.20	6%
Distributions	22,136	$0.21	18,855	$0.18	17%
General and administrative	6,402	$0.06	4,329	$0.04	48%
Payout ratio[1]					
• Before selling expense	68%		69%		
• After selling expense	101%		91%		

FOR THE SIX MONTHS ENDED SEPTEMBER 30

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

	2004		2003		
	$	Per Unit	$	Per Unit	Change
Gross margin available for distribution[1]	75,522	$0.71	64,968	$0.62	16%
Amount available for distribution[1]					
• Before selling expense	60,662	$0.57	56,682	$0.54	7%
• After selling expense	41,024	$0.39	41,287	$0.39	(1)%
Distributions	43,455	$0.41	37,481	$0.36	16%
General and administrative	14,535	$0.14	7,933	$0.07	83%
Payout ratio[1]					
• Before selling expense	72%		66%		
• After selling expense	106%		91%		

[1] *Seasonally Adjusted*

OPERATIONS

Gas – Canadian markets

Currently in Ontario, Manitoba, Quebec and British Columbia, Energy Savings is required to deliver gas to the local distribution companies (Enbridge Consumers Gas, Union Gas, Gaz Metro and Terasen, collectively the "LDCs") for its customers throughout the year. The Company receives cash from the LDCs as the gas is delivered.

In Ontario, Quebec and British Columbia, the volumes delivered for a customer remain constant throughout the year. The Company's accounting policy accounts for sales when the customer actually consumes the gas. Therefore, 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.

In Manitoba, the volume of gas delivered is not constant throughout the year. More gas is delivered in winter months in comparison to the spring and summer months. Consequently, cash received will be higher in the winter months.

Gas – Illinois

Energy Savings receives cash from Nicor (the "Illinois LDC") only when the customer has ultimately consumed that gas. Cash flows from operations will be greater in the Fund's third and fourth quarter assuming cash is received from the Illinois LDC in the same period as customer consumption. Management anticipates that the majority of future U.S. markets that Energy Savings may enter will function in a similar manner to Illinois.

Electricity – Ontario

Electricity accounts are automatically balanced daily. In real-time, any supply greater than consumption is immediately sold off into the open market at the spot price, while any shortfall is immediately purchased in the open market at the spot price. Under Energy Savings' aggregated contracts, customers bear all electricity balancing costs and retain any profit on balancing sales.

Seasonally Adjusted Analysis

Presently, management believes the best basis for analysing both the Fund's operating results and the amount available for distribution is to focus on amounts actually received ("seasonally adjusted"). The following analysis eliminates this seasonal variance and illustrates the gas actually delivered to LDCs, the revenue received and associated margins. Management utilises this non-GAAP financial measure to determine future distributions. These non-GAAP financial measures do not have any standardised meaning prescribed by GAAP and may not be comparable to similar measures presented by other issuers. As the Fund continues to further expand into other U.S. and Canadian markets, seasonal working capital requirements will increase. This working capital requirement is directly attributable to the fact that in certain markets the Company must purchase and deliver gas supply in advance of customer consumption and the receipt of cash from the LDCs.

In anticipation of the future working capital requirements, the Fund through its direct and indirect wholly owned subsidiaries OESC and USESC, has entered into a $60.0 million operating credit facility. See "Liquidity and Capital Resources" for further details.

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

RECONCILIATION TO SEASONALLY ADJUSTED GROSS MARGIN

FOR THE THREE MONTHS ENDED SEPTEMBER 30

(thousands of dollars)

	2004	2003
Gross margin per financial statements		
Gas	$ 12,527	$ 4,461
Electricity	9,378	6,119
Total	$ 21,905	$ 10,580
Opening unbilled revenues net of accrued gas accounts payable	2,591	6,942
Closing deferred revenues net of gas delivered in excess of consumption	14,774	13,948
	17,365	20,890
Gross margin before balancing	39,270	31,470
Balancing allowance *(Note 1)*	–	250
Gross margin available for distribution	$ 39,270	$ 31,720

FOR THE SIX MONTHS ENDED SEPTEMBER 30

(thousands of dollars)

	2004	2003
Gross margin per financial statements		
Gas	$ 35,562	$ 25,847
Electricity	18,101	11,128
Total	$ 53,663	$ 36,975
Opening unbilled revenues net of accrued gas accounts payable	7,085	12,295
Closing deferred revenues net of gas delivered in excess of consumption	14,774	13,948
	21,859	26,243
Gross margin before balancing	75,522	63,218
Balancing allowance *(Note 1)*	–	1,750
Gross margin available for distribution	$ 75,522	$ 64,968

AMOUNT AVAILABLE FOR DISTRIBUTION

FOR THE THREE MONTHS ENDED SEPTEMBER 30

(thousands of dollars except per unit amount)

	2004	Per Unit *(Note 2)*	2003	Per Unit *(Note 2)*
Gross margin available for distribution	$ 39,270		$ 31,720	
Less:				
General and administrative	6,402		4,329	
Capital tax	250		423	
Other income *(Note 3)*	(59)		(170)	
	6,593		4,582	
Available for distribution before selling expenses	32,677	$0.31	27,138	$0.26
Selling expenses	10,675		6,431	
Amount available for distribution	$ 22,002	$0.21	$ 20,707	$0.20
Reconciliation to Statement of Cash Flow				
Cash flow from operations	$ 19,688		$ 18,145	
Management incentive program	2,319		2,167	
Income taxes *(Note 4)*	(5)		145	
	22,002		20,457	
Balancing allowance *(Note 1)*	–		250	
Amount available for distribution	$ 22,002		$ 20,707	
Distributions				
Management incentive program	$ 2,319		$ 2,167	
Unitholder distributions	19,804		16,418	
Unit appreciation rights distributions	13		–	
	22,136		18,585	
Non-cash distributions – Class B preference shares	–		270	
Total distributions	$ 22,136	$0.21	$ 18,855	$0.18

AMOUNT AVAILABLE FOR DISTRIBUTION
FOR THE SIX MONTHS ENDED SEPTEMBER 30

(thousands of dollars except per unit amount)

	2004	Per Unit *(Note 2)*	2003	Per Unit *(Note 2)*
Gross margin available for distribution	$ 75,522		$ 64,968	
Less:				
General and administrative	14,535		7,933	
Capital tax	500		673	
Other income *(Note 3)*	(175)		(320)	
	14,860		8,286	
Available for distribution before selling expenses	60,662	$0.57	56,682	$0.54
Selling expenses	19,638		15,395	
Amount available for distribution	$ 41,024	$0.39	$ 41,287	$0.39
Reconciliation to Statement of Cash Flow				
Cash flow from operations	$ 36,181		$ 34,959	
Management incentive program	4,678		4,253	
Income taxes *(Note 4)*	165		325	
	41,024		39,537	
Balancing allowance *(Note 1)*	–		1,750	
Amount available for distribution	$ 41,024		$ 41,287	
Distributions				
Management incentive program	$ 4,678		$ 4,253	
Unitholder distributions	38,756		31,977	
Unit appreciation rights distributions	21		–	
	43,455		36,230	
Non-cash distributions – Class B preference shares	–		1,251	
Total distributions	$ 43,455	$0.41	$ 37,481	$0.36

Note 1 — The balancing provision amounted to $NIL for the three and six months ended September 30, 2004. Management believes that all prior period balancing for which the allowance was originally established has already occurred and a provision is no longer required. All current period balancing costs flow through the profit and loss statement.

Note 2 — Diluted average number of units amounted to 106.2 and 106.1 million for the three and six months ended September 30, 2004. For comparative purposes the diluted number of units was 105.2 and 104.8 million for the three and six months ended September 30, 2003. All comparative unit and per unit data have been adjusted retroactively to reflect the impact of the unit split which was effective January 30, 2004.

Note 3 — Other income relates to interest earned on investments. This balance excludes any income/loss from changes in fair market values of derivative financial instruments which are marked to market.

Note 4 — Income taxes payable relate solely to large corporation tax. The Fund does not have income taxes currently payable due to the deduction of certain acquisition costs.

SUMMARY OF QUARTERLY RESULTS
(thousands of dollars except per unit amount)

	F2005		F2004	
	Q2	Q1	Q4	Q3
Sales per financial statements	$ 114,290	$ 186,073	$ 312,905	$ 181,803
Net income (loss)	(4,235)	4,141	21,255	3,872
Net income (loss) per unit – Basic	$(0.05)	$0.04	$0.23	$0.04
Net income (loss) per unit – Diluted	(0.05)	0.04	0.22	0.04
Amount available for distribution				
• Before selling expense	$ 32,677	$ 27,985	$ 28,828	$ 30,881
• After selling expense	22,002	19,022	22,455	22,474
Payout ratio				
• Before selling expense	68%	76%	70%	64%
• After selling expense	101%	112%	90%	88%

	F2004		F2003	
	Q2	Q1	Q4	Q3
Sales per financial statements	$ 106,096	$ 132,300	$ 225,125	$ 130,689
Net income (loss)	(8,504)	769	21,740	1,460
Net income (loss) per unit – Basic	$(0.10)	$(0.01)	$0.28	$0.01
Net income (loss) per unit – Diluted	(0.10)	(0.01)	0.23	0.01
Amount available for distribution				
• Before selling expense	$ 27,138	$ 29,544	$ 30,281	$ 24,980
• After selling expense	20,707	20,580	25,875	16,436
Payout ratio				
• Before selling expense	69%	63%	53%	61%
• After selling expense	91%	91%	62%	93%

SALES, GROSS MARGINS AND MARKETING RESULTS

FOR THE THREE MONTHS ENDED SEPTEMBER 30
(thousands of dollars)

Per Financial Statements	**Sales**	**Cost of Sales**	**Gross Margin**
Gas			
• 2004	$ 52,654	$ 40,127	$ 12,527
• 2003	51,620	47,159	4,461
Increase (decrease)	1,034	(7,032)	8,066
Electricity			
• 2004	$ 61,636	$ 52,258	$ 9,378
• 2003	54,476	48,357	6,119
Increase	7,160	3,901	3,259
Total increase (decrease)	$ 8,194	$ (3,131)	$ 11,325

Seasonally Adjusted	**Sales**	**Cost of Sales**	**Gross Margin**
Gas			
• 2004	$ 141,913	$ 112,021	$ 29,892
• 2003	138,227	112,626	25,601
Increase (decrease)	3,686	(605)	4,291
Electricity			
• 2004	$ 61,636	$ 52,258	$ 9,378
• 2003	54,476	48,357	6,119
Increase	7,160	3,901	3,259
Total increase	$ 10,846	$ 3,296	$ 7,550

FOR THE SIX MONTHS ENDED SEPTEMBER 30
(thousands of dollars)

Per Financial Statements	**Sales**	**Cost of Sales**	**Gross Margin**
Gas			
• 2004	$ 178,585	$ 143,023	$ 35,562
• 2003	143,008	117,161	25,847
Increase	35,577	25,862	9,715
Electricity			
• 2004	$ 121,778	$ 103,677	$ 18,101
• 2003	95,388	84,260	11,128
Increase	26,390	19,417	6,973
Total increase	$ 61,967	$ 45,279	$ 16,688

Seasonally Adjusted	**Sales**	**Cost of Sales**	**Gross Margin**
Gas			
• 2004	$ 285,261	$ 227,840	$ 57,421
• 2003	250,332	196,492	53,840
Increase	34,929	31,348	3,581
Electricity			
• 2004	$ 121,778	$ 103,677	$ 18,101
• 2003	95,388	84,260	11,128
Increase	26,390	19,417	6,973
Total increase	$ 61,319	$ 50,765	$ 10,554

Sales have increased $8.2 million (8%) on a financial statement basis and $10.8 million (6%) on a seasonally adjusted basis for the three months ended September 30, 2004 as compared to the same period in the prior year. Financial statement margins have increased $11.3 million (107%) and $7.6 million (24%) seasonally adjusted for the same comparative period.

For the six month period ended September 30, 2004 sales have increased $62.0 million (26%) on a financial statement basis and $61.3 million (18%) on a seasonally adjusted basis as compared to the same comparative period. Margins have increased $16.7 million (45%) on a financial statement basis and increased $10.6 million (16%) on a seasonally adjusted basis.

FINANCIAL STATEMENTS – GROSS MARGIN

Gas

Sales increased 2% and 25% respectively for the quarter and six month period ended September 30, 2004 compared to the prior year. The increase in sales is primarily due to an increase in long term customers offset during the second quarter by a drop-off in acquired Toronto Hydro customers which had been classified as not expected to renew. See "Customer Aggregation" for further details.

Financial statement gas gross margin increased 181% for the quarter and 38% for the six months ended September 30, 2004. The increase in margin for the quarter is primarily attributable to the drop-off of low margin customer contracts which management did not expect to renew. The $9.7 million increase in margin for the six month period ended September 30, 2004 was primarily attributable to the increase in long term customers aggregated at Energy Savings' target margin of $170/RCE and a sale of surplus inventory in the market place.

Electricity

Electricity margins were $9.4 million for the quarter and $18.1 million for the six months ended September 30, 2004, an increase of 53% and 63% respectively over the prior year. Electricity sales increased by 13% and 28% for the three and six month period ended September 30, 2004. The increase in sales is directly attributable to the increase in long term customers year over year. See "Customer Aggregation" for further details.

Margins increased by a higher percentage than sales because a significant number of the low margin First Source customer contracts acquired in the prior year which management chose not to renew expired during the quarter.

SEASONALLY ADJUSTED – GROSS MARGIN

The Fund 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 (the approximate impact of weather variance for the period) for the gas business. These components are added to electricity gross margin (electricity balancing costs are primarily passed on to the customer) and extraction revenue (sale of liquids extracted from gas) to equal total gross margin.

	F2005		F2004		
	Q2	Q1	Q4	Q3	Q2
Customer margins from LDCs	$ 27,701	$ 28,443	$ 26,850	$ 28,805	$ 28,064
Balancing adjustments	2,140	(924)	(599)	(619)	(2,861)
Balancing allowance	–	–	750	–	250
Extraction revenue	51	10	33	106	148
Total gas margins	29,892	27,529	27,034	28,292	25,601
Electricity margins	9,378	8,723	8,501	7,964	6,119
Total margin	$ 39,270	$36,252	$ 35,535	$ 36,256	$ 31,720

Gas

On a seasonally adjusted basis, margins from long term customers were $27.7 million, down from $28.1 million (1%) in the prior comparative quarter. The slight decrease in margins is despite a significant increase in gas customers year over year.

Total gas margins for the quarter (including balancing adjustments and extraction revenue) were $29.9 million, up from $25.6 million (17%) in the prior comparative quarter.

Information recently published by Union Gas in its regulatory filings indicates that, adjusting out the effects of weather, Ontario residential consumption of gas has declined by 4% over the past two years. Energy Savings is examining the impact of this reduced consumption on its margin per customer and the total number of RCEs aggregated (which is calculated by net volume increase).

The result of this change for Energy Savings has been a slight over-delivery of gas during this quarter which, in turn was sold into the spot market replacing margin that would otherwise have been received from customers. This is reflected in the balancing margin of $2.1 million for the quarter versus a charge of $2.9 million in the same quarter in the prior year.

While the Fund operated in Illinois, Quebec and British Columbia during the quarter, due to normal delay between customer sign-up and cash flow receipt, no material margin was received from these markets during the six months ended September 30, 2004.

For other impacts of the decline in Ontario average residential consumption, see "Customer Aggregation" and "Outlook".

Electricity

Seasonally adjusted electricity margins were $9.4 million and $18.1 million for the three and six month period ended September 30, 2004, the same as on a financial statement basis. Refer to "Financial Statements – Gross Margin" for details.

DISTRIBUTABLE CASH

Pre-marketing distributable cash for the three months ended September 30, 2004 was $32.7 million ($0.31 per unit) up 20% from $27.1 million ($0.26 per unit) in the prior comparable quarter. The increase in pre-marketing distributable cash was primarily due to increased customer numbers in both gas and electricity resulting in a 24% year over year increase in gross margin. General and administrative costs increased 48% year over year resulting in a lower percentage increase in distributable cash versus margin. This resulted in the lower percentage increase in distributable cash as opposed to margin. As discussed in the Fund's past quarterly statements, increases in general and administrative costs largely relate to the opening of new markets which generated no material cashflow in the current period.

For the six months ended September 30, 2004, pre-marketing distributable cash was $60.7 million up 7% year over year. Again, higher margins from customers were offset by general and administrative costs associated with the opening of new markets.

Distributable cash after selling expenses (marketing costs) was $22.0 million for the quarter up slightly from $20.7 million in the prior year. Successful customer aggregation, particularly in new markets, resulted in selling expenses increasing by 66% year over year. Cash flow from these new customers is realised three to nine months after signing depending on the market. For the six months, distributable cash after marketing expenses was down 1% year over year. Again, a 28% increase in new customer aggregation costs was the reason for the change.

Payout ratios before marketing costs were 68% for the quarter and 72% for the six months versus 69% and 66% respectively for the prior comparative periods. After selling expenses, the payout ratio was 101% for the quarter and 106% for the six months versus 91% and 91% for the comparable periods. For the quarter, payout ratio before selling expenses returned to the normal 60% to 70% range after exceeding 70% for the first time in Q1. Payout after marketing expenses for the quarter was slightly above 100% due to greater than forecast marketing success. This resulted in a small drawdown on cash on hand accumulated in past periods. See "Liquidity and Capital Resources" for further details.

CUSTOMER AGGREGATION – RCE'S ADDED

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004

Long Term Customers

Overall, the rate of customer aggregation in the quarter supports the Fund's ability to meet or exceed published targets on both a gross and net basis. Gross additions were 79,000 and net additions were 51,000. This level of customer aggregation was achieved in the quarter with both our new markets in Canada and Illinois continuing to ramp up the sales organisations and back office infrastructure.

The Fund's published targets for fiscal 2005 were gross additions of 260,000 and net additions of 160,000. For the six months ended September 30, 2004, the Fund has gross additions of 148,000 and net additions of 103,000.

	Beginning	Additions	Attrition[1]	Failed to Renew[2]	Ending
Ontario	655,000	21,000	14,000	9,000	653,000
New Markets – Canada[3]	18,000	29,000	–	–	47,000
Illinois	5,000	16,000	–	–	21,000
Gas	678,000	66,000	14,000	9,000	721,000
Electricity	367,000	13,000	5,000	–	375,000
Combined	1,045,000	79,000	19,000	9,000	1,096,000

[1] *Attrition — Customers whose contracts were terminated primarily due to relocation*
[2] *Failure to Renew — Customers who did not renew expiring contracts at the end of their term*
[3] *Quebec, Manitoba and British Columbia*

Key terms:
Long term Customers – Customers that management expects to retain
RCE — Residential Customer Equivalent or the "Customer"

In addition to the long term customers, Energy Savings has an additional 55,000 customers (29,000 gas and 26,000 electricity) which were acquired through various acquisitions of customer contracts. It was management's expectation that the vast majority of these customers would not renew upon expiration of their current contract. These customers generate substantially less margin than typically realised on customers aggregated by Energy Savings. These customers have less than two years remaining until the end of their contract.

MARKETING

Ontario – Gas

As noted in the table above, total gross customer additions were 21,000 customers during the quarter and 53,000 for the six month period ended September 30, 2004. Additions for the quarter were lower than those typically recognised by Energy Savings due to the relocation of several high volume Ontario agents to new markets of Quebec and British Columbia as well as the initiation of the customer "Recontract Program" during the quarter. The Recontract Program involves the re-signing of customers whose current contract is near expiry at Energy Savings' current offering price. As the calculation of an RCE is based on volume consumed, to the extent that, consistent with the Union Gas regulatory filing, residential consumption per customer has continued to decline over the past two years, the number of customers aggregated during this and prior periods may be understated.

The Fund remains on track to achieve its fiscal 2005 published target of 100,000 gas customer additions in Ontario (53% to date). The natural gas market continues to be receptive towards the Energy Savings' product and management believes the Province of Ontario remains a strong growth market. All Ontario gas customers signed during the period were matched with supply to generate margins at or above Energy Savings' $170 per year gas target margin.

Ontario – Electricity

Total gross electricity additions were 13,000 for the quarter and 36,000 for the six months ended September 30, 2004, (72% of the published target). As projected in the first quarter MD&A, the second quarter saw lower levels of customer aggregation than those in Q1. Certain large volume customers were aggregated in Q1, skewing the additions for that quarter. The Q2 results more accurately reflect management's expectations given the current state of the electricity regulated market in Ontario. All electricity customers signed during the period were matched with supply to generate margins at or above Energy Savings' $100 per year target margin. See "Outlook" for potential electricity customer opportunities.

New Markets – Canada

New markets include the aggregation of customers outside the Province of Ontario, which presently includes Manitoba, Quebec and British Columbia. Energy Savings began offering its product in Manitoba in January 2003, in Quebec in April 2004 and in British Columbia in July 2004. Total gross additions for these markets were 29,000 for the quarter and 38,000 for the six months ended September 30, 2004. The Energy Savings' product has been well received in these provinces and management is confident that it will surpass its New Markets - Canada target of 60,000 RCEs gross additions for fiscal 2005 of which 63% has been achieved to date. All gas customers signed during the period were matched with supply to generate margins at or above Energy Savings' $170 per year target margin.

New Markets – U.S.

Energy Savings aggregated 16,000 RCEs in the State of Illinois during the quarter and 21,000 RCEs for the six months ended September 30, 2004 (42% of the published annual target). There are approximately 80 independent sales agents operating in Illinois as at September 30, 2004, an increase of approximately 100% over the prior quarter. A third sales office was opened on October 15, 2004. Based on current aggregation rates and the current size of the sales force, management believes that the published 50,000 gross customer addition target for fiscal 2005 will be achieved. All Illinois gas customers signed during the period were matched with supply to generate margins at or above Energy Savings' $120 per year Illinois target margin.

The Illinois gas market requires the Company to bear the credit risk associated with customers' payment obligations. The default payment rate in the Nicor territory is approximately 1.1%. Energy Savings maintains a strong credit approval process to mitigate the risk of customer non-payment. Even though the Fund has implemented a credit approval process, given Energy Savings is new to the Illinois marketplace and to be conservative, management has chosen to provide an allowance of approximately $0.02 million (calculated using Nicor's default rate) against potential uncollectible accounts.

Attrition

Attrition in the natural gas customer book for the quarter was an annualised 7%, below the Fund's planning basis of 10%. During the prior fiscal year, the Fund experienced attrition rates approximating 10%, primarily attributable to the low mortgage rates and record number of house sales in Ontario, which resulted in increased customer moves.

Attrition for the electricity customer book was an annualised 5%, reflecting the fact that the majority of electricity customers are commercial, a group which has a much lower propensity to move. Overall, the combined annual attrition for both gas and electricity was below the 10% customer attrition rate used for internal purposes. Management continues to monitor attrition to see if it has reverted to the long term historical average of 7% per annum.

SELLING EXPENSES

Selling expenses, which primarily consist of upfront costs of signing new customers, were $10.7 million for the quarter and $19.6 million for the six months ended September 30, 2004, compared to $6.4 million and $15.4 million respectively for the prior comparable periods. The increase in selling expenses is attributable to the combination of an increase in aggregated customers and an increase in the aggregation cost per customer in Ontario versus the prior periods. The aggregation costs for each additional gas customer are approximately $160 in Ontario, $140 in New Markets – Canada, $90 in the U.S. and $85 for each additional electricity customer.

During the quarter, Energy Savings introduced an advertising campaign in the Province of Ontario for the purpose of increasing brand awareness for its wholly owned subsidiary, Ontario Energy Savings Corp. As previously stated, the new marketing campaign in combination with the larger enhanced outbound calling program (effective Q1) resulted in an increase in customer aggregation costs for Ontario natural gas customers from $140 to $160 per new customer.

GENERAL AND ADMINISTRATIVE COSTS

As indicated in the first quarter, general and administrative costs declined from the level experienced in Q1. General and administrative costs were $6.4 million for the quarter and $14.5 million for the six months ended September 30, 2004. These costs were up 48% from the prior comparative quarter and down 21% from the first quarter. The increase in general and administrative costs over the same comparable period was primarily driven by the costs associated with the expansion into new markets, including Manitoba, Quebec, British Columbia and Illinois. Although these costs will fluctuate as the Fund continues to expand into new markets, management believes it currently has the infrastructure in place to support the Fund's continued growth into new markets.

UNIT BASED COMPENSATION

Compensation in the form of units (non-cash) paid by the Fund to the directors, officers, full-time employees and service providers of its subsidiaries and affiliates pursuant to the Unit Option plan, the Unit Appreciation Rights plan and the Directors' Deferred Compensation plan amounted to $1.0 million for the quarter and $1.4 million for the six months ended September 30, 2004 versus $1.0 million and $2.6 million for the prior comparative periods.

MANAGEMENT INCENTIVE PROGRAM

Each of the holders of the Class A Preference Shares is entitled to receive, on a quarterly basis, a management bonus equal to the amount paid or payable to a Unitholder on a comparable number of units. Total paid amounted to $2.3 million for the quarter and $4.7 million for the six months ended September 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

On November 1, 2004, OESC and USESC entered into a $60.0 million operating credit facility agreement with a group of financial institutions (the "lenders") for a term of 364 days plus a one year term out option. All obligations under the former $10.0 million credit facility have been terminated and all outstanding letters of credit have been transferred to the new credit facility. As at quarter end, a total of $6.3 million in letters of credit have been issued to suppliers in support of future commodity purchases. No amounts have been drawn against the operating credit facility as at September 30, 2004.

The new operating credit facility will be used to meet working capital requirements as the Fund continues to expand into new markets, primarily the United States. To complement the new operating credit facility, Coral Energy Canada Inc. and the lenders have entered into an intercreditor agreement whereby Coral Energy Canada Inc. and the lenders jointly hold security over a majority of the assets of the Energy Savings Group of Companies.

Primary sources of liquidity and capital resources for the Fund are monies generated from operations, cash on hand, the $60.0 million operating credit facility and the ability to issue units. These resources are used to satisfy our capital resource requirements, growth in operations and payment of Unitholder distributions. Cash inflow from operations totaled $19.7 million for the quarter and $36.2 million for the six months ended September 30, 2004, an increase of 9% and 3% respectively from the prior comparable periods. The increase is primarily attributable to the increase in gross margin year over year as a result of an increase in the number of flowing customers.

The primary uses of cash beyond selling costs included Unitholder distributions totaling $22.1 million and $43.5 million and general and administrative costs of $6.4 million and $14.5 million for the three and six month period ended September 30, 2004 respectively. These uses of cash are consistent with the overall business strategy of the Fund.

LIQUIDITY AND CAPITAL RESOURCES *(cont'd)*

At September 30, 2004, the Fund had a cash balance of $32.0 million. Our entry into new markets will require the utilisation of some of the Fund's accumulated cash resources to meet working capital requirements associated with selling costs and inventory storage requirements. The new $60.0 million credit facility will also assist the Fund in its ability to expand into new markets.

Energy Savings purchased capital assets totaling $0.7 million for the quarter and $2.3 million for the six months ended September 30, 2004. The purchases were primarily for information technology systems supporting the Fund's entry into new markets. Capital asset additions are anticipated to increase in third and fourth quarter compared to the second quarter. Further information technology developments will be required to support the Fund's expanding customer base within the various geographical segments.

In understanding the Fund's liquidity requirements, it is important to note that customers aggregated in a quarter do not generate cash flow during that period. However, approximately 60% of an agent's commission payment is made following reaffirmation 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 the time when the first payment is received from the customer varies with each market. The time delays per market are approximately:

Ontario – Electricity	2-3 months
Ontario – Gas	4-6 months
Manitoba	3-6 months
Quebec	4-5 months
British Columbia	4-8 months
Illinois	2-3 months

These periods reflect the time required by the different LDCs to enroll, flow the commodity, bill the customer and remit the first payment to Energy Savings.

DISTRIBUTIONS

Distributions amounted to $22.1 million ($0.21 per unit) and $43.5 million ($0.41) per unit for the three and six months ended September 30, 2004, an increase of 17% and 16% respectively. At the end of the quarter, the annual rate for distributions per unit was $0.865.

BALANCE SHEET SEPTEMBER 30, 2004 COMPARED TO MARCH 31, 2004

As is normal at the end of the second quarter, most gas delivered to the LDCs was not consumed by our customers. Since the Fund 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 gas delivered in excess of consumption in the amount of $54.4 million and deferred revenues of $69.2 million.

Other assets and liabilities represent the estimated fair value of various derivative financial instruments for which hedge accounting in accordance with AcG-13 Hedging Relationships has not been applied. These assets and liabilities are marked to market and any changes to the fair value are recorded in other income (expense). Hedge accounting has been applied to the Fund's electricity fixed-for-floating swaps which represent the vast majority of financial derivative instruments in terms of notional value. The gains or losses on these swaps are recognised as a component of cost of sales when the hedged electricity costs are incurred. See "Fair Value of Derivative Instruments and Risk Management" for further details.

The increase in restricted cash from $7.2 million to $11.4 million is principally due to an increase in accumulated electricity rebates due to First Source customers acquired in May 2003.

The increase in accounts receivable from $18.6 million to $26.7 million is attributable to an increase in gas and electricity margin resulting primarily from an increase in flowing customers.

The increase in accounts payable from $13.3 million to $17.1 million is mainly attributable to an increase in commissions payable to agents as a result of an increase in customer aggregation.

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

CONTRACTUAL OBLIGATIONS

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

Payments due by period *(thousands of dollars)*	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Property & equipment lease agreements	11,564	1,785	3,300	3,110	3,369
Marketing agreement obligations	6,123	2,041	4,082	–	–
Gas & electricity supply purchase commitments	2,028,042	345,747	1,092,269	530,830	59,196
	2,045,729	349,573	1,099,651	533,940	62,565

FAIR VALUE OF DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

Energy Savings hedges its obligations to deliver gas and electricity to its customers through entering into physical and financial derivative instruments which lock in the cost of its supply. These derivative instruments currently consist of physical forwards, financial fixed-for-floating swaps and put and call options.

Effective April 1, 2004, the Fund was required to implement an accounting standard that calls for the recognition of financial derivative instruments in the financial statements unless certain requirements for hedge accounting are fulfilled and documentation is maintained. If these requirements are fulfilled and adequate documentation is maintained by the Fund, then the financial derivative instrument is eligible for hedge accounting and recognised at the same time as the revenue it was intended to hedge. If the requirements for hedge accounting are not met, the financial derivative is an economic hedge and the fair value of the financial instrument must be determined and recorded in the balance sheet. Differences between fair value for each reporting period are thereafter booked to the Statement of Operations as other income (expense).

Energy Savings has primarily entered into financial derivative instruments that are eligible for hedge accounting. These continue to be recognised in the Statement of Operations when the related energy costs are incurred provided they continue to meet the requirements of the new standard. There are, however, some financial derivative instruments that do not qualify and are therefore only economic hedges. As at September 30, 2004, Energy Savings had booked the fair value of these economic hedges, $1.0 million in "Other assets" and $4.1 million in "Other liabilities" with the associated income (expense) recorded in "Other income (expenses)".

The Fund's physical derivative instruments are not covered by these new requirements and continue to be recognised at the time of delivery.

OUTLOOK

On June 15, 2004, the Ontario Ministry of Energy introduced in the Ontario Legislature, Bill 100, The Electricity Restructuring Act, 2004 which confirms the commitment of the Province of Ontario to ensure that consumers pay the true price of power. To the extent that the regulation of electricity moves to an Ontario Energy Board administered market-based pricing for the small business segment (1.5 million RCEs) 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. Management expects that any electricity customers made available by the new legislation will open for marketing in early 2005.

Energy Savings continues to actively monitor the progress of the deregulated markets in various jurisdictions including Alberta, Indiana, New York, Virginia and Maryland.

The reduction of gas consumption (excluding the impact of weather) by the average Ontario residence means that margins per new customer signed may see some pressure over the coming periods. Management believes that the current target margin of $170 per year for Ontario gas should be sustainable in coming quarters.

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 future results are dependent upon its ability to continue to add new customers both in Ontario and new markets. Management believes that these growth opportunities will continue to exist.

MANAGEMENT'S DISCUSSION AND ANALYSIS
November 1, 2004

TRUST UNITS OF THE FUND AND PREFERENCE SHARES OF OESC

As at November 1, 2004, the number of preference shares of OESC and units of the Fund outstanding were 10,168,695 and 94,622,281 respectively, unchanged from the amount outstanding at September 30, 2004.

FORWARD-LOOKING INFORMATION

This Management Discussion and Analysis contains certain forward-looking information statements pertaining to customer additions that are based on the Fund's current expectations, estimates, projections and assumptions that were made by management given recent experience and historical trends. Forward-Looking statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated.

CONSOLIDATED BALANCE SHEETS
(Unaudited — thousands of dollars)

	Sept. 30, 2004	March 31, 2004
ASSETS		
CURRENT		
Cash	$ 32,017	$ 40,241
Restricted cash *(Note 4)*	11,399	7,163
Accounts receivable	26,658	18,627
Gas delivered in excess of consumption	54,407	–
Gas in storage *(Note 5)*	1,636	–
Unbilled revenues	–	37,495
Prepaid expenses	1,717	1,803
	127,834	105,329
GAS CONTRACTS *(less accumulated amortisation – $173,670; 2004 – $149,363)*	66,423	90,730
ELECTRICITY CONTRACTS *(less accumulated amortisation –$1,424; 2004 – $890)*	3,915	4,448
GOODWILL	94,576	94,576
CAPITAL ASSETS *(less accumulated amortisation – $2,412; 2004 – $1,702)*	8,124	6,493
OTHER ASSETS *(Note 2a)*	4,122	–
	$ 304,994	$ 301,576
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 17,127	$ 13,318
Customer rebates payable *(Note 4)*	11,399	7,163
Management incentive program payable	1,227	1,218
Unit distribution payable	6,813	6,103
Corporate taxes payable	151	485
Deferred revenues	69,181	–
Accrued gas accounts payable	–	30,410
	105,898	58,697
OTHER LIABILITIES *(Note 2a)*	1,037	–
FUTURE INCOME TAXES	17,210	29,856
	124,145	88,553
EQUITY		
Preference shares of OESC *(Note 6)*	$ 25,422	$ 29,078
Trust units *(Note 7)*	150,456	177,323
Contributed surplus *(Note 8)*	4,971	6,622
	180,849	213,023
	$ 304,994	$ 301,576

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED SEPTEMBER 30

(Unaudited — thousands of dollars)

	2004	2003
UNITHOLDERS' EQUITY, BEGINNING OF PERIOD	$ 177,323	$ 208,078
Trust units exchanged	3,656	833
Trust unit options exercised	8,348	11,625
NET LOSS	(94)	(7,735)
DISTRIBUTIONS	(38,777)	(33,229)
CLASS B PREFERENCE DISTRIBUTIONS EXCHANGEABLE INTO TRUST UNITS	–	1,251
UNITHOLDERS' EQUITY, END OF PERIOD	$ 150,456	$ 180,823

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited — thousands of dollars except per unit amount)

	Three months ended September 30		Six months ended September 30	
	2004	2003	2004	2003
SALES	$ 114,290	$ 106,096	$ 300,363	$ 238,396
COST OF SALES	92,385	95,516	246,700	201,421
GROSS MARGIN	21,905	10,580	53,663	36,975
EXPENSES				
General and administrative expenses	6,402	4,329	14,535	7,933
Capital tax	250	423	500	673
Selling expenses	10,675	6,431	19,638	15,395
Unit based compensation *(Note 8)*	1,000	1,002	1,435	2,629
Management incentive program	2,319	2,167	4,678	4,253
Amortisation of gas contracts	12,153	13,752	24,307	27,189
Amortisation of electricity contracts	267	299	534	498
Amortisation of capital assets	377	229	710	433
	33,443	28,632	66,337	59,003
LOSS BEFORE OTHER (EXPENSES) INCOME	(11,538)	(18,052)	(12,674)	(22,028)
OTHER (EXPENSES) INCOME	(482)	170	100	320
LOSS BEFORE INCOME TAX	(12,020)	(17,882)	(12,574)	(21,708)
RECOVERY OF INCOME TAX	(7,785)	(9,378)	(12,480)	(13,973)
NET LOSS	$ (4,235)	$ (8,504)	$ (94)	$ (7,735)
Net loss per unit *(Note 10)*				
Basic	$ (0.05)	$ (0.10)	$ 0.00	$ (0.10)
Diluted	$ (0.05)	$ (0.10)	$ 0.00	$ (0.10)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited — thousands of dollars)

	Three months ended September 30		Six months ended September 30	
	2004	2003	2004	2003
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net loss	$ (4,235)	$ (8,504)	$ (94)	$ (7,735)
Items not affecting cash				
Amortisation of gas contracts	12,153	13,752	24,307	27,189
Amortisation of electricity contracts	267	299	534	498
Amortisation of capital assets	377	229	710	433
Unit based compensation	1,000	1,002	1,435	2,629
Future income taxes	(7,780)	(9,523)	(12,645)	(14,298)
Other expenses	541	–	75	–
	6,558	5,759	14,416	16,451
Adjustments required to reflect net cash receipts from gas sales	17,365	20,890	21,859	26,243
Cash inflow from operations	19,688	18,145	36,181	34,959
Changes in non-cash working capital	(3,555)	(3,837)	(9,257)	(4,675)
	16,133	14,308	26,924	30,284
FINANCING				
Exercise of trust unit options	163	3,322	5,262	8,548
Distributions paid to Unitholders	(19,498)	(16,176)	(38,067)	(31,254)
	(19,335)	(12,854)	(32,805)	(22,706)
INVESTING				
Purchase of capital assets	(744)	(646)	(2,343)	(1,500)
Acquisition of customer contracts	–	(1,414)	–	(7,387)
	(744)	(2,060)	(2,343)	(8,887)
NET CASH OUTFLOW	(3,946)	(606)	(8,224)	(1,309)
CASH, BEGINNING OF PERIOD	35,963	34,019	40,241	34,722
CASH, END OF PERIOD	$ 32,017	$ 33,413	$ 32,017	$ 33,413
Supplemental Information				
Interest paid	$ 15	$ 30	$ 34	$ 44
Income taxes paid	$ –	$ –	$ 500	$ 575

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 2004. 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

(a) Other Assets (Liabilities)

Effective April 1, 2004, the Fund adopted the new Canadian accounting guideline AcG-13, Hedging Relationships and EIC-128, Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments. As a result, the Fund's various derivative financial instruments have been accounted for under AcG-13 where they meet the guideline's criteria. Otherwise, they have been recognised at fair value in the financial statements in accordance with EIC-128.

For derivative financial instruments accounted for under AcG-13, the Fund formally documents the relationship between hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative financial instruments to anticipated transactions. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

The Fund enters into hedges of its cost of sales relating to its fixed price electricity sales by entering into fixed-for-floating electricity swap contracts with electricity suppliers. The Fund uses the settlement method of hedge accounting for these swap contracts whereby the gain or loss incurred upon settlement is recognised in cost of sales. The timing of these settlements matches the timing of the recognition of the anticipated electricity sales which these swaps hedge. Changes in the fair value of these swaps are not recognised in the financial statements.

Derivative financial instruments accounted for in accordance with EIC-128 have been entered into for the purpose of economically hedging the cost of sales relating to the Fund's fixed price gas sales. These derivative financial instruments have been recorded on the balance sheet as either an other asset or other liability measured at fair value, with changes in fair value recognised in income as other income (expense). These changes in fair value may be referred to as mark to market gains (losses). In addition, the premiums and settlements for these derivative financial instruments are recognised in cost of sales, when incurred. A loss of $541 and $75 have been recorded in other income (expense) for the three and six months ended September 30, 2004 as a result of the changes in fair value of these derivative financial instruments (see Note 9).

(b) Employee Future Benefits

On October 1, 2004 and effective April 1, 2004 the Fund established a long term incentive plan (the "Plan") for all permanent full time and part time Canadian employees (working more than 20 hours per week) of its affiliates and subsidiaries. The Plan consists of two components, a Deferred Profit Sharing Plan ("DPSP") and an Employee Profit Sharing Plan ("EPSP"). For participants of the DPSP, the Fund contributes an amount equal to a maximum of 2% per annum of an employee's base earnings. For the EPSP, the Fund contributes an amount up to a maximum of 2% per annum of an employee's base earnings towards the purchase of trust units of the Fund, on a matching one for one basis.

Participation in either plan is voluntary. The plan has a two year vesting period beginning from the later of the plan's effective date and the employee's starting date. The cost of the Fund's contribution to the plan is expensed as services are rendered by each employee. As at September 30, 2004, $186 has been recorded as an expense.

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.

(Unaudited — thousands of dollars except where indicated and per unit amount)

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. GAS IN STORAGE

Gas in storage represents the gas delivered to Nicor (the Illinois LDC). The balance will fluctuate as gas is injected or withdrawn from storage. Injections occur in the spring and summer quarters, April through September and withdrawals occur during the fall and winter quarters, October through March. Gas in storage is stated at the lower of cost and net realisable value.

6. PREFERENCE SHARES OF OESC

Authorised

Unlimited Class A preference shares, non-voting, exchangeable into trust units on a one to one basis in accordance with the OESC shareholders' agreement, with no priority on dissolution.

Unlimited Class B preference shares, non-voting, exchangeable into trust units at a price of $2.50 per Class B preference share together with all accrued and unpaid dividends in accordance with the OESC shareholders' agreement, with no priority on dissolution. Pursuant to the terms of the OESC shareholders' agreement, all outstanding shareholder exchange rights relating to Class B preference shares were exercised by January 1, 2004. Consequently, there are no Class B preference shares outstanding.

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.

	2004		2003	
Issued and Outstanding	**Shares**	**$**	**Shares**	**$**
Class A Preference Shares				
Balance, beginning of period	11,631,178	29,078	11,827,478	29,569
Cancelled/exchanged into units	(1,462,483)	(3,656)	(140,038)	(350)
Balance, end of period	10,168,695	25,422	11,687,440	29,219
Class B Preference Shares				
Balance, beginning of period	–	–	1,652,128	4,130
Cancelled/exchanged into units	–	–	(193,260)	(483)
Balance, end of period	–	–	1,458,868	3,647
Combined balance, end of period	10,168,695	25,422	13,146,308	32,866

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

	2004		2003	
Issued and Outstanding	**Units**	**$**	**Units**	**$**
Balance, beginning of period	91,093,142	177,323	86,038,534	208,078
Options exercised	2,066,656	8,348	2,619,984	11,625
Exchanged from Class A preference shares	1,462,483	3,656	140,038	350
Exchanged from Class B preference shares	–	–	193,260	483
Additional units from exchange of Class B preference shares	–	–	10,620	226
Net loss	–	(94)	–	(7,735)
Distributions	–	(38,777)	–	(33,229)
Class B preference distributions paid	–	–	–	(226)
Class B preference distributions exchangeable into units	–	–	–	1,251
Balance, end of period	94,622,281	150,456	89,002,436	180,823

8. UNIT OPTION PLANS

(a) Unit option plan

The Fund grants awards under its 2001 unit option plan to directors, officers, full-time employees and service providers (non-employees) of its subsidiaries and affiliates. 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 September 30, 2004 there were 1,183,333 options still available for grant under the plan. Of the options issued, 2,670,004 options remain outstanding at quarter end. The exercise price of the unit options equals the closing market price of the Fund's units on the last business day preceding the grant date. The unit options will vest over periods ranging from three to five years from the grant date and expire after five or ten years from the grant date.

(Unaudited — thousands of dollars except where indicated and per unit amount)

8. UNIT OPTION PLANS *(cont'd)*

(a) Unit option plan (cont'd)

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

	Outstanding Options	Range of Exercise prices	Weighted average exercise price[1]	Weighted average grant date fair value[2]
Balance, beginning of period	4,651,660	$2.50 – $15.45	$5.17	
Granted	85,000	$15.50 – $17.48	$17.05	$2.64
Exercised	(2,066,656)	$2.50 – $8.75	$2.55	
Balance, end of period	2,670,004	$2.50 – $17.48	$7.58	

[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	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.50 – $3.24	213,332	1.60	$2.55	213,332	$2.55
$4.24 – $6.09	1,339,340	2.35	$5.09	254,665	$5.20
$7.29 – $7.58	180,000	2.74	$7.54	93,333	$7.53
$8.75 – $12.17	837,332	7.41	$11.77	274,666	$11.82
$14.25 – $17.48	100,000	4.50	$16.69	–	–
Balance, end of period	2,670,004	3.98	$7.58	835,996	$6.96

Options Available for Grant

Available for grant	11,300,000
Add: cancelled/forfeited in prior years	881,333
Less: granted in prior years	(10,913,000)
Balance, beginning of period	1,268,333
Less: granted during the period	(85,000)
Balance, end of period	1,183,333

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	3.4 – 5.6%
Expected volatility	22.80% – 26.18%
Expected life	3 – 5 years
Expected distributions	$0.30 – $0.865 per year

(b) Unit appreciation rights

The Fund grants awards under its 2004 unit appreciation rights plan to senior officers or service providers of its subsidiaries and affiliates. In accordance with the unit appreciation rights plan, the Fund may grant unit appreciation rights ("UARs") to a maximum of 1,000,000. As at September 30, 2004 there were 965,568 UARs still available for grant under the plan. Except as otherwise provided, the UARs will vest over five years from the grant date and expire no later than ten years from the grant date.

UARs Available for Grant

Available for grant	1,000,000
Less: granted during the period	(34,432)
Balance, end of period	965,568

(c) Deferred unit grants

The Fund grants awards under its 2004 Director's deferred compensation plan to all independent directors of OESC. In accordance with the deferred compensation plan, the Fund may grant deferred unit grants ("DUGs") to a maximum of 100,000. The DUGs vest the earlier of the date of the Director's resignation or three years following the date of grant and expire ten years following the date of grant. As of September 30, 2004, no DUGs have been granted.

Total amounts credited to contributed surplus in respect of unit based compensation awards and unit appreciation rights amounted to $1,435 for the six months ended September 30, 2004 (2003 - $2,629), and $1,000 for the three months ended September 30, 2004 (2003 - $1,002).

Total amounts reclassified from contributed surplus to units with respect to the awards exercised during the six months ended September 30, 2004 amounted to $3,086 (2003 - $3,077) and $16 for the three months ended September 30, 2004 (2003 - $569).

Cash received from options exercised for the three and six months ended September 30, 2004 amounted to $163 (2003 - $3,322) and $5,262 (2003 - $8,548), respectively.

(Unaudited — thousands of dollars except where indicated and per unit amount)

9. FINANCIAL INSTRUMENTS

(a) Fair value

The Fund has a variety of gas and electricity supply contracts that are considered derivative financial instruments. The fair value of derivative financial instruments is the estimated amount the Fund would pay or receive to dispose of these supply contracts in the market. Management has estimated the value of electricity and gas swap contracts using a discounted cash flow method which employs a forward curve compiled by management for electricity and market information for gas (electricity information is based on market). Gas options have been valued using the Black option value model using the implied volatility from other market traded gas options.

At September 30, 2004, the Fund had electricity fixed-for-floating swap contracts designated as hedges of the Fund's anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and flat)	5 – 75 MW/h
Total notional volume	10,037,957 MW
Maturity dates	October 31, 2004 - July 31, 2009
Fixed price per MW (in dollars)	$39.25 – $73.78
Fair value	$26,133 gain
Notional value	$546,366

Since hedge accounting has been applied to these swaps, no recognition of the mark to market gain has been recognised in these financial statements.

At September 30, 2004, the Fund has a fixed-for-floating gas swap contract which has been marked to market with the following terms:

Notional volume	1,000 GJ/day
Total notional volume	426,000 GJ
Maturity date	November 30, 2005
Fixed price per GJ (in dollars)	$5.23
Fair value	$658 gain
Notional value	$2,228

The loss of $164 and the gain of $658 for the three and six months ended September 30, 2004 respectively have been recorded in other assets with its offsetting value being recorded in other income (expenses).

At September 30, 2004, the Fund had other gas puts and calls which have been marked to market with the following terms:

Notional volume	125 – 400 GJ/day
Total notional volume	949,950 GJ
Maturity dates	October 31, 2004 - October 31, 2008
Fixed price per GJ (in dollars)	$5.48 - $5.55
Fair value	$1,037 loss

The loss of $533 and $1,037 for the three and six months ended September 30, 2004 respectively have been recorded in other liabilities with its offsetting value being recorded in other income (expenses). The fair value of the options is net of the present value of premiums which have yet to be paid.

At September 30, 2004, the Fund had other gas put and call options in the United States which have been marked to market with the following terms:

Notional volume	4,000 - 45,000 MmBTU/month
Total notional volume	4,320,500 MmBTU
Maturity dates	November 30, 2004 - November 30, 2009
Fixed price per MmBTU (in dollars)	$6.94 - $7.70 (US$5.50 - US$6.10)
Fair value	$305 gain (US$239)

The fair value is net of prepaid premiums of $3,160. These premiums are also included in other assets. A gain resulting from the increase in fair value of $157 and $305 for the three and six months respectively has been recorded in other income (expenses).

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

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

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

(Unaudited — thousands of dollars except where indicated and per unit amount)

9. FINANCIAL INSTRUMENTS *(cont'd)*

(b) Interest rate risk

OESC entered into a $10,000 operating facility agreement for a term of 364 days, in order to finance general requirements. The facility expires on March 5, 2005. 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 September 30, 2004 amounted to $6,296. The letters of credit are primarily to suppliers in support of future commodity purchases. No amounts have been drawn against the operating facility agreement at September 30, 2004 or 2003. -

10. LOSS PER UNIT

	Three months ended September 30		Six months ended September 30	
	2004	2003	2004	2003
Basic loss per unit				
Net loss	$ (4,235)	$ (8,504)	$ (94)	$ (7,735)
Class B preference distributions exchangeable into units	–	(270)	–	(1,251)
Net loss available to Unitholders	$ (4,235)	$ (8,774)	$ (94)	$ (8,986)
Average number of units outstanding	93,325	88,245	92,792	87,659
Basic loss per unit	$ (0.05)	$ (0.10)	$ 0.00	$ (0.10)
Diluted loss per unit[1]				
Net loss	$ (4,235)	$ (8,504)	$ (94)	$ (7,735)
Management incentive program *(net of tax – 36%; 2003 – 34%)*	1,484	1,430	2,994	2,807
Diluted loss available to Unitholders	$ (2,751)	$ (7,074)	$ 2,900	$ (4,928)
Average number of units outstanding	93,325	88,245	92,792	87,659
Dilutive effect of:				
Class A preference shares	11,421	11,688	11,524	11,756
Class B preference shares	–	1,558	–	1,604
Class B preference shares additional unit entitlement	–	56	–	56
Unit options	1,429	3,698	1,740	3,760
Unit appreciation rights	34	–	34	–
Units outstanding on a diluted basis	106,209	105,245	106,090	104,835
Diluted loss per unit	$ (0.05)	$ (0.10)	$ 0.00	$ (0.10)

[1] *Conversion of convertible securities is anti-dilutive to loss per unit for the three and six month periods ended September 30, 2004 and 2003.*

11. REPORTABLE BUSINESS SEGMENTS

The Fund operates in two reportable business segments, which are the reselling of gas and electricity to end-use customers. The Fund operates in two geographic areas, Canada and the United States. The results from operations in the United States were insignificant for the three month period and the six month period ended September 30, 2004 and therefore have not been separately disclosed.

The Fund evaluates segment performance based on gross margin.

The Fund's business segments are strategic business units that offer a distinct product. Each geographic segment has senior level executives responsible for the performance of the segment.

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

THREE MONTHS ENDED SEPTEMBER 30, 2004

	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	$ 52,654	$ 61,636	$ –	$ 114,290
Gross margin	$ 12,527	$ 9,378	$ –	$ 21,905
Expenses	–	–	(33,443)	(33,443)
Other Expenses	–	–	(482)	(482)
Recovery of income tax	–	–	7,785	7,785
Net income (loss)	$ 12,527	$ 9,378	$ (26,140)	$ (4,235)
Additions to capital assets	$ 482	$ 2	$ 260	$ 744

THREE MONTHS ENDED SEPTEMBER 30, 2003

	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	$ 51,620	$ 54,476	$ –	$ 106,096
Gross margin	$ 4,461	$ 6,119	$ –	$ 10,580
Expenses	–	–	(28,632)	(28,632)
Other income	–	–	170	170
Recovery of income tax	–	–	9,378	9,378
Net income (loss)	$ 4,461	$ 6,119	$ (19,084)	$ (8,504)
Additions to capital assets	$ 5	$ 139	$ 502	$ 646

(Unaudited — thousands of dollars except where indicated and per unit amount)

11. REPORTABLE BUSINESS SEGMENTS *(cont'd)*

SIX MONTHS ENDED SEPTEMBER 30, 2004

	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	$ 178,585	$ 121,778	$ –	$ 300,363
Gross Margin	$ 35,562	$ 18,101	$ –	$ 53,663
Expenses	–	–	(66,337)	(66,337)
Other income	–	–	100	100
Recovery of income tax	–	–	12,480	12,480
Net income (loss)	$ 35,562	$ 18,101	$ (53,757)	$ (94)
Additions to capital assets	$ 1,384	$ 56	$ 903	$ 2,343
Total goodwill	$ 94,576	$ -	$ -	$ 94,576
Total assets	$ 230,748	$ 19,536	$ 54,710	$ 304,994

SIX MONTHS ENDED SEPTEMBER 30, 2003

	Gas	Electricity	Corporate	Consolidated
Sales from external customers and third parties	$ 143,008	$ 95,388	$ -	$ 238,396
Gross Margin	$ 25,847	$ 11,128	$ -	$ 36,975
Expenses	-	-	(59,003)	(59,003)
Other income	-	-	320	320
Recovery of income tax	-	-	13,973	13,973
Net income (loss)	$ 25,847	$ 11,128	$ (44,710)	$ (7,735)
Additions to capital assets	$ 5	$ 300	$ 1,195	$ 1,500
Total goodwill	$ 94,576	$ -	$ -	$ 94,576
Total assets	$ 264,386	$ 18,162	$ 44,845	$ 327,393

12. GUARANTEES

(a) Officers and Directors

Corporate indemnities have been provided by the Fund to all directors and certain officers of its subsidiaries and affiliates for various items including, but not limited to, all costs to settle suits or actions due to their association with the Fund and its subsidiaries and/or affiliates, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. Each indemnity, subject to certain exceptions, applies for so long as the indemnified person is a director or officer of one of the Fund's subsidiaries and/or affiliates. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Operations

In the normal course of business, the Fund and/or the Fund's subsidiaries and affiliates have entered into agreements that include guarantees in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with consultants, leasing agreements and service agreements. These guarantees may require the Fund and/or its subsidiaries and affiliates to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The maximum amount of any liability cannot be reasonably estimated under these guarantees.

The nature of these guarantees prevents the Fund from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Fund has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

(Unaudited — thousands of dollars except where indicated and per unit amount)

13. COMMITMENTS

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

2005	$	1,785
2006		1,722
2007		1,578
2008		1,595
2009 and beyond		4,884
	$	11,564

(b) The Company is committed under a marketing agreement for the next three years to the following minimum payments:

2005	$	2,041
2006		2,041
2007		2,041
	$	6,123

(c) The Company is committed under long term gas and electricity contracts with various suppliers for the next five years as follows:

2005	$	345,747
2006		616,102
2007		476,167
2008		347,052
2009 and beyond		242,974
	$	2,028,042

The Company is also committed under long term contracts with customers to supply gas and electricity. These 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 the Company. The Company has entered into irrevocable letter agreements for the assignment of local distribution company proceeds to which it would otherwise be entitled in favour of suppliers. The suppliers hold the monies in trust and deduct the portion relating to commodity cost and remit the remaining proceeds.

14. SUBSEQUENT EVENT

On November 1, 2004, Ontario Energy Savings Corp. and U.S. Energy Savings Corp. (each a direct and indirect wholly owned subsidiary of the Fund) entered into a $60,000 operating credit facility agreement with a group of financial institutions for a term of 364 days plus a one year term out option. The operating line of credit bears interest at bank prime plus 0.5% and letters of credit bear interest at 1.5%. All obligations under the former $10,000 credit facility have been terminated and all outstanding letters of credit have been transferred to the new credit facility. The new operating credit facility will be used to meet working capital requirements as the Fund continues to expand into new markets. To complement the new operating credit facility, Coral Energy Inc. ("Coral") and the lenders have entered into an intercreditor agreement whereby Coral and the lenders jointly hold security over a majority of the assets of the Fund.

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President

JOHN PANNETON
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HUGH D. SEGAL
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Member of Senate of Canada and Corporate Director

ALEK KRSTAJIC
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Partner, Burnet, Duckworth & Palmer LLP

Officers (non Board)

DEBBIE S. WERNET
President – U.S. Energy Savings Corp.

KEN HARTWICK, C.A.
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