First Quarter Report

Energy Savings Income Fund

For the three-month period ended June 30, 2005

Fund profile

Energy Savings markets natural gas to residential customers and small to mid-sized commercial businesses in Ontario, Manitoba, Alberta and Illinois, and solely to commercial customers in Quebec and British Columbia. Energy Savings also markets electricity to small and mid-sized commercial customers in Ontario and Alberta, and to residential customers in Alberta. By securing a fixed price for natural gas or electricity for a period of up to five years, Energy Savings' customers limit their exposure to changes in the price of these essential commodities. Energy Savings trades on the Toronto Stock Exchange under the symbol SIF.UN.

Highlights for the three months ended June 30, 2005:

- Q1 gross customer additions of 93,000, up 35% year over year.
- Gross margin of $42.7 million, up 18% year over year.
- Premarketing distributable cash of $32.3 million ($0.30 per unit) up 16% year over year.
- Net income of $11.1 million ($0.11 per unit) up 97% from $5.6 million ($0.05 per unit) year over year.
- Distributions were up 10% year over year.
- Acquisition of 50,000 long-term Ontario electricity customers from EPCOR.
- Completion of final testing for our entry into the New York market.
- Announced the Fund's 20th increase in annual distribution rate, up $0.03 to $0.915, payable September 30, 2005 to Unitholders of record at the close of business on September 15, 2005.

Message from the CEO

Fellow Unitholders,

I am pleased to present the results of our first quarter ended June 30, 2005. Your management team is proud of our results, which are consistent with the challenging growth targets we have set for fiscal 2006.

Let me begin with the core of our Company, our door-to-door marketing team. Once again, they delivered. The past quarter was the most successful marketing period in the Company's history. Our agents delivered 93,000 new customers, up 35% from Q1 of last year. While these customers have not yet contributed to our cash flow, they will begin flowing over the next two quarters, offering the prospect of continued solid cash flow growth.

In particular, we had success in our electricity marketing. Beginning in May, we were able to market to small commercial customers in Ontario and the result was immediate. We signed 40,000 electricity customers, up from 7,000 in Q4 of last year. And that is only commercial customers. We expect to be selling to residential customers in our third quarter.

Let me point out an interesting fact from the Alberta market where we can sell both gas and electricity to both residential and commercial customers. We introduced a "Dual Fuel" package, offering both fixed price gas and electricity. Our agents report that the vast majority of households sign up for both gas and electricity. The potential for this product in both Ontario and our newest market, New York, is very exciting.

The chart below illustrates our marketing results and where we are versus both our published targets and last year.

Market	Annual Published Target	F2006 Q1 Additions	% of Target	F2005 Q1 Additions
Ontario – Gas	80,000	17,000	21%	32,000
Other provinces – Gas	70,000	21,000	30%	9,000
United States	100,000	15,000	15%	5,000
Electricity	100,000	40,000	40%	23,000
Total	350,000	93,000	27%	69,000

After more than a year of building infrastructure for our geographic expansion into new markets, Q1 saw the financial benefits come through. Our gross margin from customers was up 18% year over year and our distributable cash was up 16%. At the same time, our G&A expenditures were only up 2%. I indicated in our Annual Report that management expects our margin to grow between 15% and 20% this year and that our distributable cash should grow by a comparable amount subject to receipt of a favorable ruling from the CRA allowing our tax reorganization. Obviously, we are right on track.

The quarter saw the acquisition of what will be 50,000 long-term Ontario electricity customers from EPCOR. We had hoped that we would be able to retain more of these customers but delays in the reopening of the residential electricity market made it uneconomic for us to renew customers whose contracts were completed prior to October of this year. Management expects the necessary government announcements for normal course electricity renewals by October. At any rate, the EPCOR acquisition meets the Fund's IRR target without any contract renewals.

Our United States expansion is proceeding on pace. We have been very careful to ensure that both regulators and consumers fully understand the benefits of the five year fixed price product. Combined with very careful credit screening, the result is that the percentage of flowing customers per submitted contract is significantly lower than in Canada.

Over time, we expect that consumer education and greater experience will bring this ratio into line with Canadian ratios. Overall, we are pleased with the results of the U.S. operations to date. So far, we have expended $13 million in building the business (including all agent commissions) and, to date, have locked in more than $40 million in U.S. margin over the next five years. It is this type of economics upon which the success of Energy Savings has been built. With our entry into a second Illinois utility territory, through Peoples Energy, and our entry into New York by the end of next quarter, our expansion into the U.S. is poised to provide growth for many years to come.

Lastly, I want to highlight our 20th distribution rate increase. The $0.03 increase brings our annual distributions to $0.915 per unit. Our ability to grow and still increase distributions is what has made, and will continue to make, Energy Savings a truly unique income fund.

I want to thank my fellow Unitholders for their continued support.

Yours sincerely,

Brennan R. Mulcahy
Chief Executive Officer

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

August 4, 2005

Overview

The following discussion and analysis is a review of the financial condition and results of operations of Energy Savings Income Fund ("Energy Savings" or the "Fund") for the first quarter ended June 30, 2005. This analysis should be read in conjunction with the unaudited interim consolidated financial statements for the first quarter ended June 30, 2005, as well as the audited consolidated financial statements and related MD&A contained in the 2005 Annual Report. The financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Unless indicated otherwise, all dollar amounts are expressed in Canadian dollars. Quarterly reports, the annual report and supplementary information can be found under "reports and filings" on our corporate website at www.esif.ca. Additional information can be found on SEDAR at www.sedar.com.

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

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

All share and Unit amounts relating to Preference Shares, Common Shares and Units reflect each of the 2:1 subdivisions effective July 29, 2002 and January 30, 2004.

Forward-looking information

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

Key terms

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

"Long-term Customers" represents customers that meet management's required margin thresholds and therefore expect to have the opportunity to renew at the end of their contract. "Customers not expected to renew" are generally large volume and/or low margin customers who are not part of Energy Savings' target market.

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

Financial highlights

For the quarters ended June 30

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

	2005		2004		
	$	**Per Unit**	$	Per Unit	Change
Amount available for distribution[1]					
Premarketing	**32,264**	**$ 0.30**	27,825	$ 0.26	16%
Post marketing	**21,565**	**$ 0.20**	18,862	$ 0.18	14%
Distributions	**23,463**	**$ 0.22**	21,319	$ 0.20	10%
Payout Ratio					
Premarketing	**73%**		77%		
Post marketing	**109%**		113%		

[1] *See "Distributable cash and cash distributions."*

Non-GAAP measures

Seasonally adjusted gross margin

Management believes the best basis for analyzing both the Fund's operating results and the amount available for distribution is to focus on amounts actually received ("seasonally adjusted"). Seasonally adjusted analysis applies solely to the Canadian gas market (excluding Alberta). In Canada (excluding Alberta), Energy Savings receives payment from the LDCs upon delivery of the commodity, not when the customer actually consumes the gas. Seasonally adjusted analysis eliminates seasonal commodity consumption variances and recognizes the amount available for distribution based on cash received from the LDCs.

In Alberta and Illinois (gas only), Energy Savings receives cash from the LDC only when the customer has paid the LDC for the consumed gas. Cash flows are greatest in the Fund's third and fourth quarters (the winter quarters) as natural gas cashflow is normally received from the LDC in the month following the month of customer consumption. It is important to note that, as Energy Savings' business grows in Alberta, Illinois and other U.S. states, the Fund's results will reflect greater and greater seasonality. While year over year quarterly comparisons will remain appropriate, sequential quarters will vary materially. The main impact of this will be higher distributable cash with a lower payout ratio in Q3 and Q4 and lower distributable cash with a higher payout ratio in Q1 and Q2. In addition, working capital and the credit line will be more heavily utilized in Q1 and Q2, while cash will accumulate in Q3 and Q4.

No seasonal adjustment is required for electricity, as accounts are automatically balanced daily. In real time, any excess/shortfall is immediately settled in the open market. Cash flows from electricity operations will be greatest during the summer (Q2) and winter quarters (Q4), as electricity consumption is typically highest during these periods.

Distributable cash

Distributable cash is not a defined term under Canadian GAAP. It refers to the net cash received by the Fund that is available for distributions to Unitholders. Seasonally adjusted gross margin is the principal contributor to cash available for distribution. Distributable cash is calculated by the Fund as seasonally adjusted gross margin, adjusted for cash items including, general and administrative expenses, marketing expenses, capital tax, bad debts, other income/expense and corporate taxes. Management believes that distributable cash is the most useful measure of performance, as it provides investors with an indication of the amount of cash available for distribution to Unitholders. This Non-GAAP measure may not be comparable to other income funds.

Distributable cash and cash distributions

For the quarters ended June 30
(thousands of dollars except per unit amounts)

	2005	Per Unit	2004	Per Unit
CASH AVAILABLE FOR DISTRIBUTION				
Gross margin				
per financial statements	$ 37,102	$ 0.35	$ 31,758	$ 0.30
Adjustments required to reflect				
net cash receipts from gas sales	5,564		4,494	
Seasonally adjusted gross margin	$ 42,666		$ 36,252	
General and administrative	(8,301)		(8,131)	
Capital tax	(207)		(250)	
Bad debts	(534)		(2)	
Corporate tax [1]	(1,347)		(170)	
Other (expense) income [2]	(13)		126	
	10,402		8,427	
Cash available for distribution				
before marketing expenses	32,264	$ 0.30	$ 27,825	$ 0.26
Marketing expenses	(10,699)		(8,963)	
Cash available for distribution	$ 21,565	$ 0.20	$ 18,862	$ 0.18
Reconciliation to statements of cash flow				
Cash inflow from operations	$ 10,656		$ 12,308	
Add:				
Increase in non-cash working capital	10,097		5,702	
Tax effect on distributions paid to the				
holders of Class A preference shares	812		852	
	$ 21,565		$ 18,862	
Distributions				
Unitholder distributions	$ 21,158		$ 18,952	
Preference A share distributions	2,248		2,359	
Unit appreciation rights distributions	55		8	
	23,461		21,319	
Non-cash distributions –				
deferred unit grants	2		–	
Total distributions	$ 23,463	$ 0.22	$ 21,319	$ 0.20
Diluted average number				
of units outstanding		106.7m		106.1m

[1] *The prior comparative quarter utilized the deduction of acquisition costs to reduce taxable income. As a result, the corporate tax amounts of prior quarters relate solely to large corporation tax ("LCT").*

[2] *Other income relates to interest earned on investments. Other expense relates to interest and other bank service charges.*

Summary of quarterly results

(thousands of dollars except per unit amounts)

	F2006			F2005
	Q1	Q4	Q3	Q2
Sales per financial statements	**$ 234,405**	$ 406,901	$ 213,649	$ 114,290
Net income (loss)	**11,125**	27,268	7,042	(2,754)
Net income (loss) per unit – Basic	**$ 0.11**	$ 0.26	$ 0.07	$ (0.03)
Net income (loss) per unit – Diluted	**0.10**	0.26	0.07	(0.03)
Amount available for distribution				
Premarketing	**$ 32,264**	$ 28,483	$ 34,930	$ 32,769
Post marketing	**21,565**	19,454	23,603	22,094
Payout ratio				
Premarketing	**73%**	81%	65%	68%
Post marketing	**109%**	118%	96%	100%

	F2005			F2004
	Q1	Q4	Q3	Q2
Sales per financial statements	$ 186,073	$ 312,905	$ 181,803	$ 106,096
Net income (loss)	5,648	22,724	5,309	(7,120)
Net income (loss) per unit – Basic	$ 0.05	$ 0.22	$ 0.05	$ (0.08)
Net income (loss) per unit – Diluted	0.05	0.21	0.05	(0.07)
Amount available for distribution				
Premarketing	$ 27,825	$ 28,878	$ 30,792	$ 26,993
Post marketing	18,862	22,505	22,385	20,562
Payout ratio				
Premarketing	77%	70%	64%	70%
Post marketing	113%	90%	88%	92%

Sales and gross margin analysis

For the quarters ended June 30
(thousands of dollars)

Sales and gross margin – per financial statements

			2005			2004
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$137,021**	**$ 6,612**	**$143,633**	$ 125,552	$ 379	$ 125,931
Electricity	**90,772**	**–**	**90,772**	60,142	–	60,142
	$227,793	**$ 6,612**	**$234,405**	$ 185,694	$ 379	$ 186,073
Increase	**23%**	**NMF[1]**	**26%**			

			2005			2004
Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 25,736**	**$ 941**	**$ 26,677**	$ 22,960	$ 75	$ 23,035
Electricity	**10,425**	**–**	**10,425**	8,723	–	8,723
	$ 36,161	**$ 941**	**$ 37,102**	$ 31,683	$ 75	$ 31,758
Increase	**14%**	**NMF[1]**	**17%**			

[1] *Non material factor.*

As noted above, total sales and margin were $234.4 million and $37.1 million for the quarter, up 26% and 17% respectively over the first quarter of fiscal 2005. The increase in sales and margin is primarily attributable to the fact that long-term customers increased 29% from the prior comparable quarter. See “Customer Aggregation” for further details.

Canada

Sales were $227.8 million for the quarter, up 23% from $185.7 million in fiscal 2005. Margins were $36.2 million for the quarter, up 14% from the same quarter in the previous year. The percentage increase in sales compared to margin over the prior comparable quarter is greater due to generally higher commodity costs and a higher number of flowing customers. Margins grew less than sales as a result of the lower target margins associated with electricity customers versus gas customers.

United States

Sales and margins were $6.6 million and $0.9 million for the quarter. The substantial increase in sales and margin reflects the growth in customer base over the past year. Energy Savings entered the Illinois market in January, 2004. The first quarter is the lowest usage period in Illinois, reflecting of the seasonality of customer usage of gas. The lower margin percentage compared to Canadian gas sales is consistent with the lower target margin expected from these customers.

Sales and gross margin – seasonally adjusted[1]

		2005			2004	
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$137,021**	**$ 6,612**	**$143,633**	$ 125,552	$ 379	$ 125,931
Adjustments	**28,643**	**–**	**28,643**	17,417	–	17,417
	$165,664	**$ 6,612**	**$172,276**	$ 142,969	$ 379	$ 143,348
Electricity	**90,772**	**–**	**90,772**	60,142	–	60,142
	$256,436	**$ 6,612**	**$263,048**	$ 203,111	$ 379	$ 203,490
Increase	**26%**	**NMF[2]**	**29%**			

		2005			2004	
Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 25,736**	**$ 941**	**$ 26,677**	$ 22,960	$ 75	$ 23,035
Adjustments	**5,564**	**–**	**5,564**	4,494	–	4,494
	$ 31,300	**$ 941**	**$ 32,241**	$ 27,454	$ 75	$ 27,529
Electricity	**10,425**	**–**	**10,425**	8,723	–	8,723
	$ 41,725	**$ 941**	**$ 42,666**	$ 36,177	$ 75	$ 36,252
Increase	**15%**	**NMF[2]**	**18%**			

[1] *For Canadian gas excluding Alberta.*
[2] *Non material factor.*

Canada

On a seasonally adjusted basis, sales were $256.4 million for the quarter, up 29% from $203.1 million in fiscal 2005. Margins were $41.7 million for the quarter, up 15% from the same quarter in the previous year. The increase in total sales and margin is directly attributable to the increase in long-term customers, but offset by the higher commodity prices. Margins grew less than sales as a result of the lower target margins associated with electricity customers versus gas customers

Customers aggregated during the period generated margins above Energy Savings' target margins of $170/RCE for gas and $100/RCE for electricity.

United States

Seasonally adjusted margins for the quarter were $0.9 million, the same as on a financial statement basis. For additional information, see "Sales and gross margin – per financial statements".

Customers aggregated during the period generated margins above Energy Savings' target margins of $140/RCE.

Distributable cash

Premarketing distributable cash for the quarter was $32.3 million ($0.30 per unit), up 16% from $27.8 million ($0.26 per unit) in the prior comparable quarter. The increase in premarketing distributable cash was primarily due to an increase in long-term customers, resulting in an 18% year over year increase in seasonally adjusted gross margin, offset slightly by a 2% increase in general and administrative costs, a corporate tax provision and an allowance for bad debt in Illinois and Alberta.

Distributable cash after marketing expenses was $21.6 million for the quarter, up 14% from $18.9 million the prior comparable quarter. Successful customer aggregation, particularly in new markets, resulted in marketing expenses increasing by 19% quarter over quarter. Cash flow from these new customers is realized three to six months after signing, depending on the market.

The payout ratio before marketing expense was 73% for the quarter, versus 77% for the prior comparative quarter. After marketing expenses, the payout ratio was 109% for the quarter, versus 113% for the comparable quarter. Increasingly, cash available for distributions will reflect the seasonality of customer usage in the United States and Alberta. Management is comfortable that the payout ratios on an annual basis will be within the target ranges of 65%–70% (before marketing) and less than 100% (after marketing) respectively. Customers added during the period will generate cash flow in future periods, bringing the ratios back down to our target range. Management is comfortable with the Fund's liquidity and believes it has adequate capital resources to fund both its growth and distributions going forward.

Long-term customers

	Beginning	Additions	Acquired	Attrition[3]	Failed to Renew[4]	Ending
CANADA						
Gas						
Ontario	644,000	17,000	–	(17,000)	(9,000)	635,000
New Markets[1]	118,000	21,000	–	(1,000)	–	138,000
Total – Gas	762,000	38,000	–	(18,000)	(9,000)	773,000
Electricity	424,000	40,000	50,000[2]	(10,000)	(1,000)	503,000
Total Canada	1,186,000	78,000	50,000	(28,000)	(10,000)	1,276,000
UNITED STATES						
Gas	49,000	15,000	–	(4,000)	–	60,000
COMBINED						
Total	1,235,000	93,000	50,000	(32,000)	(10,000)	1,336,000

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

[2] *Energy Savings acquired approximately 50,000 long-term RCEs from EPCOR.*

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

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

EPCOR acquisition

During the quarter, Energy Savings acquired approximately 187,000 Ontario electricity RCEs from EPCOR. While these were predominately residential and small commercial customers who fit within Energy Savings' target market, a significant portion of those customers will not be renewed because of regulatory requirements for a renewal reaffirmation. Management expected the announcement of changes to the mandatory customer renewal reaffirmation process in April. The government delayed this announcement, precluding economic residential renewals prior to the announcement date. Management expects the announcement to be made during the fall of 2005, although no date has been set at this writing.

Based on the remaining number of customers available for renewal post October 31, 2005, management estimates approximately 50,000 (27%) of the acquired customers can be expected to renew with Energy Savings upon expiration of their current contract. The EPCOR acquisition meets the Fund's IRR target without any customer renewals at contract end.

Customers not expected to renew

In addition to the long-term customers, Energy Savings has an additional 209,000 customers (28,000 gas and 181,000 electricity) which were acquired through various acquisitions of customer contracts. Management will not pursue renewals in this category of customers. These customers generate substantially less margin than is typically realized on customers aggregated by Energy Savings and on average have approximately one year remaining until the end of their contract. Included in the above balance are 137,000 Ontario electricity customers acquired from EPCOR.

Attrition

Overall attrition was 10% on an annualized basis, which is consistent with the customer attrition rate used for internal purposes. This reflects continued record home sales fuelled by continued low interest rates. Management continues to monitor attrition to ensure its 10% rate remains appropriate for planning purposes.

Gross additions (excluding acquisitions)

Energy Savings' published targets for fiscal 2006 were gross customer additions, excluding acquisitions of 350,000. The following table shows the aggregation date compared with these targets.

Gross customer additions

	Q1 F2006	Annual Published Target	% Realized to Date
CANADA			
Gas			
Ontario	17,000	80,000	21%
New Markets[1]	21,000	70,000	30%
Total – Gas	38,000	150,000	25%
Electricity	40,000	100,000	40%
Total Canada	78,000	250,000	31%
UNITED STATES			
Gas	15,000	100,000	15%
COMBINED	93,000	350,000	27%

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

Overall, Energy Savings aggregated 93,000 RCEs during the quarter, the most successful marketing quarter in the history of the Fund. The highly successful Ontario electricity marketing campaign, particularly after the opening of the small commercial market in May 2005, was the major contributor to the marketing achievement for the quarter. The published target includes the Fund's planned entry into New York, which is expected to contribute customers by the end of the second quarter.

Canada

Gas

Total gross gas customer additions in Canada were 38,000 (25% of the published annual target). Ontario additions were slightly behind pace, as would be expected during a period where Ontario agents were generating strong results in electricity. Other markets exceeded the target pace. The Canadian gas customers added through marketing efforts during the period were matched with supply to generate margins above Energy Savings' $170 per year target margins.

Management believes that Alberta and Ontario will continue to be growth markets. Growth in the Ontario gas market will replace attrition and customers not renewing. The Alberta market will be the primary contributor to net customer growth.

Electricity

Total electricity additions were 40,000 for the quarter (40% of the published annual target). Energy Savings began offering five-year fixed price contracts to small commercial customers in Ontario in May 2005. The Ontario market has been receptive to the Energy Savings' offering. It is anticipated that the marketing to residential customers in Ontario will begin during the third quarter. The electricity customers signed during the quarter were matched with supply to generate margins expected to be above Energy Savings' $100 per quarter target margin.

United States

Gas

Energy Savings aggregated 15,000 RCEs in the State of Illinois during the quarter (15% of the published annual target). Management expects to begin marketing in the Peoples Energy territory (the second Illinois gas utility) during Q2 of fiscal 2006. The Peoples Energy territory will add an additional 1.6 million potential RCEs within our target market. The published target includes customers expected to be signed in New York beginning in the latter part of the second quarter. With our entry into New York, management is confident that its annual published target will be met. The Illinois gas customers signed during the quarter were matched with supply to generate margins at or above the Fund's target of $140/RCE.

Renewals

In F2005, Energy Savings implemented a marketing program aimed at maximizing the number of customers who renew at the end of their contract term. Efforts begin up to 15 months in advance, with contracts proposing renewal of the existing agreements for an additional five years. To the extent that customers do not renew under this recontracting program, additional processes such as mail and telemarketing renewals will take place closer to the contract expiry date. Gas customers who do not positively elect either renewal or termination will receive a one-year fixed price for the coming year.

Based on our experience to date and the marketing program, management continues to believe that an 80% renewal target will be achieved.

General and administrative expenses

General and administrative costs were $8.3 million for the quarter. These costs were up slightly (2%) from the prior comparative quarter. The increased expense was primarily driven by the costs associated with the expansion into New York and a second LDC in Illinois (Peoples Energy). Management expects that a majority of the costs will be ongoing, as they relate to infrastructure required to support growth and customer maintenance in the new markets.

Unit based compensation

Compensation in the form of units (non-cash) granted by the Fund to the directors, officers, full-time employees and service providers of its subsidiaries and affiliates, pursuant to the 2001 Unit Option Plan, the 2004 Unit Appreciation Rights Plan and the Directors' Deferred Compensation Plan amounted to $1.2 million for the quarter ended June 30, 2005 (2004 – $0.04 million).

Marketing expenses

Marketing expenses, which primarily consist of commissions paid to independent sales agents upon signing new customers, were $10.7 million, a 19% increase over the prior comparative period. The increase is primarily attributable to the increase in customers aggregated during the quarter (29% compared to the same quarter last year). The increase in marketing expense was lower than the increase in customers aggregated because electricity accounted for 43% of the customers aggregated during the quarter and commissions for electricity contracts are substantially lower than commissions paid for gas contracts.

The expense associated with signing customers replaces customers lost to attrition and non-renewal as well as the net growth in customers. Approximately 40% of our annual marketing expense can be attributed to replacing lost customers. In addition, included in marketing expenses are ongoing fixed costs required to support and serve Energy Savings' existing customer base. This maintenance portion of marketing expense amounted to approximately $2.0 million for the quarter. Maintenance costs include payments for customer renewals, the outbound reaffirmation program, brochures and rent for the regional sales offices.

Bad debt expense

In Illinois and Alberta, Energy Savings assumes the credit risk associated with the collection of its customer accounts. Credit review processes have been put in place for these markets to prevent a significant customer default rate. Bad debt expense provided in the quarter was $0.5 million. This level of bad debt is consistent with customer defaults on bills from the winter heating season.

For the remaining markets in which Energy Savings operates, the LDCs provide collection services and assume the risk of any bad debt owing from Energy Savings' customers.

Interest expense

During the quarter, Energy Savings utilized $10.0 million of its operating line for working capital needs after the utilization of $6.7 million of its cash for the acquisition of the Ontario electricity customer contracts from EPCOR. In addition to utilization of the operating line, a total of $6.4 million in letters of credit have been issued. The operating line bears interest at bank prime plus 0.5% and letters of credit bear interest at 1.5%. Total interest expense amounted to $0.025 million for the quarter (2004 – $0.01 million).

Foreign exchange

Energy Savings has an exposure to foreign currency exchange rates as a result of its investment in U.S. operations. Changes in the applicable exchange rate may result in a decrease or increase in income. A non-cash loss of $0.2 million was recognized during the quarter (2004 – $0.01 million).

Income taxes (recovery)

Recovery of income taxes amounted to $1.8 million for the quarter. The balance is a culmination of a reduction in the future income tax liability offset by a $1.3 million provision for corporate taxes. The decrease in the future tax liability is attributable to the decrease in the difference between the tax and accounting cost basis for the acquired gas and electricity contracts. The majority of these assets are deducted for tax at a rate greater than that for accounting. See "Proposed reorganization" for further details.

Liquidity

Summary of cash flows

For the quarters ended June 30
(thousands of dollars)

	2005	2004
Operating activities	**$ 10,656**	$ 12,308
Investing activities	**(7,479)**	(1,599)
Financial activities, excluding distributions	**11,284**	5,099
Gain (loss) on foreign exchange	**181**	(10)
Increase in cash before distributions	**$ 14,642**	$ 15,798
Distributions (cash payments)	**(22,629)**	(20,076)
Decrease in cash	**$ (7,987)**	$ (4,278)
Cash – beginning of period	**$ 16,058**	$ 40,241
Cash – end of period	**$ 8,071**	$ 35,963

Operating activities

Cash flows from operating activities decreased compared to the prior comparative quarter, primarily due to payment of the $10.0 million 2005 corporate tax liability, offset by increased margin associated with the increased number of flowing customers.

Energy Savings generates significant cash flows from operations which are available to fund working capital requirements and distributions.

Investing activities

Energy Savings purchased capital assets totaling $0.7 million during the quarter, compared with $1.6 million in the prior comparable quarter. The purchases were primarily for information technology systems supporting the Fund's expanding customer base within the various geographical segments. In addition, Energy Savings purchased the EPCOR Ontario electricity customer contracts for $6.7 million (net of adjustments).

Financing activities

The increase in finance activities is directly related to the $10.0 million draw down of the credit facility to fund working capital needs resulting from the Fund's growth.

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

Distributions

During the quarter, the Fund made distributions of $23.5 million, compared to $21.3 million in the prior comparative quarter, an increase of 10%. Energy Savings will continue to utilize its cash resources for expansion into other U.S. markets as well as for distributions to its Unitholders. Management continues to target its payout ratios before marketing expenses in the range of 65%–70%.

As at the end of the quarter, the annual rate for distributions per unit was $0.885. The annual rate of distributions was subsequently increased to $0.915 per unit for the distribution payable in September 2005.

Balance sheet June 30, 2005 compared to March 31, 2005

Cash decreased from $16.1 million to $8.1 million. The decrease in cash is primarily attributable to acquisition of the Ontario electricity customer contracts from EPCOR for approximately $6.7 million (after adjustments) and payment of the $10.0 million 2005 corporate tax liability. Energy Savings utilized $10.0 million of the credit facility to assist with its working capital requirements.

The increase in accounts receivable from $101.6 million to $107.5 million and accounts payable from $76.5 million to $84.9 million is primarily attributable to the increase in margin associated with the increase in flowing customers.

At the end of the quarter, customers had consumed more gas than was supplied to the LDCs for their use. Since Energy Savings is paid for this gas when delivered, yet recognizes revenue when the gas is consumed by the customer, the result on the balance sheet is the unbilled revenue amount of $21.9 million and accrued gas accounts payable of $17.8 million.

The carrying values of electricity contracts increased by $14.7 million as a result of the Ontario electricity customer contract acquisition.

Corporate taxes payable decreased from $10.0 million to $1.8 million. The fiscal 2005 tax liability was paid during the quarter. The current balance relates predominantly to the tax liability for the current fiscal year.

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

Contractual obligations

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

Payments due by period

(thousands of dollars)

	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Property & equipment lease agreements	$ 12,237	$ 1,716	$ 7,002	$ 3,519	$ –
Marketing agreement obligations	4,762	2,041	2,721	–	–
EPCOR billing, collections & supply commitments	11,190	3,971	5,495	1,524	200
Commodity supply purchase commitments	2,571,180	632,625	1,673,264	265,291	–
	$ 2,599,369	$ 640,353	$1,688,481	$ 270,334	$ 200

Other obligations

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

Transactions with related parties

On April 1, 2003, Energy Savings entered into Marketing Fee Payment Agreements ("Marketing Agreements") with three officers. The Marketing Agreements expire, at the earliest, on March 31, 2007. Each person is entitled to receive annual marketing fees or commissions equal to the greater of an individual's percentage of Energy Savings' incremental gross margin and an individual's specified guaranteed amount, paid at the end of the first, second and third quarters and trued up at year end to reflect the year end financial results, as to, 50% in cash and 50% in fully paid unit appreciation rights ("UARs") which vest on the first, second and third anniversary day of the grant date when they become exchangeable for units on a one for one basis. In the event of a change of control: i) each officer is entitled to a lump sum payment declining to zero at March 31, 2007 and ii) all UARs vest and are exchangeable into units on a one for one basis. For the quarter ended June 30, 2005, cash and UAR payments made to the three officers amounted to $0.1 million and $0.2 million, respectively.

Critical accounting estimates

The consolidated financial statements of the Fund have been prepared in accordance with Canadian GAAP. Certain accounting policies require management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, cost of sales and marketing and general and administrative expenses. Estimates are based on historical experience, current information and various other assumptions that are believed to be reasonable under the circumstances. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. For a detailed discussion of the significant judgments and estimates used in the preparation of the Fund's interim consolidated financial statements, refer to the Fund's annual MD&A. There are no material updates to these estimates based on events from April 1, 2005 to August 4, 2005.

Financial instruments

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

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

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

The estimation of the fair value of certain electricity and gas supply contracts requires considerable judgment. The estimation of the fair value is based on market prices or management's best estimates if there is no market and/or if the market is illiquid.

Adoption of new accounting policies

There have been no new accounting policies adopted by the Fund for the period April 1, 2005 to August 4, 2005, nor are there changes pending or proposed.

Risks and uncertainties

The Fund is subject to a number of risks and uncertainties that could have a material adverse effect on the results of operations, business prospects, financial condition, distributions and the trading price of the Fund. A comprehensive discussion of these risks can be found in the Fund's Annual Information Form and in our 2005 Annual Report, which is available on our corporate website under "reports and filings" at www.esif.ca and from SEDAR through its website at www.sedar.com. There have been no material changes for the period April 1, 2005 to August 4, 2005 that require an update to the discussion of the applicable risks.

Corporate governance

Energy Savings is committed to transparency in our operations and our approach to governance meets all recommended standards. Full disclosure of our compliance with existing corporate governance rules is available on our website at www.esif.ca. Energy Savings actively monitors the corporate governance and disclosure environment to ensure timely compliance with current and future requirements.

Proposed reorganization

As previously outlined in the 2005 annual report, OESC generates significant cash flows which result in taxable income. Management had proposed a revised "trust on trust on partnership" structure which received Unitholder approval on June 29, 2005. The Fund has requested a tax ruling on certain aspects of the reorganization from the Canada Revenue Agency. As an interim step, Energy Savings has established a Limited Partnership (L.P.) entity in Ontario, which will conduct substantially all of the Ontario business effective August 1, 2005. The establishment of the L.P. for business activities in Ontario forward from August 1, 2005 is expected to result in increased flow-through of funds for the operation of the business.

Preference shares of OESC and trust units

As at August 4, 2005 there were 10,168,695 preference shares of OESC outstanding and 95,782,284 units of the Fund outstanding.

Taxability of 2005 distributions

We estimate that approximately 90% of the distributions pertaining to calendar 2005 will be taxable as other income, with the remainder classified as tax-deferred return of capital. The actual taxability of the distributions will be determined and reported to Unitholders prior to February 28, 2006.

Outlook

Based on growth in both customers and cash flow realized in this and prior quarters, the Fund announced its 20th distribution rate increase, \$0.03 to \$0.915 per annum, with these quarterly results. The increase will be effective with the September distribution. Based on the fact that few if any of the customers aggregated during the quarter generated cash flow, management is confident that the increase can be delivered while maintaining payout ratios of under 70% of pre-marketing distributable cash and under 100% after marketing expenses for the year. Investors should note that management believes that with the increased seasonality in the Fund's results, payout ratios higher than these levels should be expected for both Q1 and Q2 in this and future years but that stronger seasonal results in the winter quarters will reduce payout ratios back below our target maximums for the year.

The Fund expects to begin marketing in the New York gas and electricity markets prior to the end of the second quarter. The Fund continues to actively monitor the progress of the deregulated markets in various jurisdictions, including Indiana, Virginia and Maryland.

Energy Savings has been and remains a marketing company. While the Fund has more than 1.3 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 in both existing and future new markets. Management believes that these growth opportunities will continue to exist.

Consolidated balance sheets

(unaudited – thousands of dollars)

	June 30, 2005	March 31, 2005
ASSETS		
Current		
Cash	$ 8,071	$ 16,058
Restricted cash (Note 3)	16,239	5,682
Accounts receivable	107,460	101,631
Gas in storage	4,742	414
Unbilled revenues	21,893	50,536
Prepaid expenses	2,349	2,108
	160,754	176,429
Gas contracts (less accumulated amortization – $205,920; March 31, 2005 – $198,483)	38,009	45,446
Electricity contracts (less accumulated amortization – $4,790; March 31, 2005 – $3,040)	21,775	8,794
Goodwill	94,576	94,576
Capital assets (less accumulated amortization – $4,102; March 31, 2005 – $3,558)	10,472	10,279
Other assets (Note 8a)	6,947	5,474
	$ 332,533	$ 340,998
LIABILITIES		
Current		
Bank indebtedness (Note 8b)	$ 10,000	$ –
Accounts payable and accrued liabilities	84,886	76,505
Customer rebates payable (Note 3)	16,239	5,682
Management incentive program payable	1,192	1,173
Unit distribution payable	7,059	7,039
Corporate taxes payable	1,816	10,048
Accrued gas accounts payable	17,821	40,900
	139,013	141,347
Deferred charges (Note 4)	7,547	–
Other liabilities (Note 8a)	–	644
Future income taxes	17,055	21,020
	163,615	163,011
EQUITY		
Unitholders' equity (Note 6)	163,057	173,106
Contributed surplus	5,861	4,881
	168,918	177,987
	$ 332,533	$ 340,998

Consolidated statements of Unitholders' equity

(unaudited – thousands of dollars)

For the three months ended June 30

	2005	2004
Unitholders' equity, beginning of period	$ 173,106	$ 206,401
Trust unit options exercised (Note 7)	1,476	8,169
Net income	11,125	5,648
Distributions on units	(21,214)	(18,960)
Class A preference distributions, net of tax	(1,436)	(1,507)
Unitholders' equity, end of period	$ 163,057	$ 199,751

Consolidated statements of operations

(unaudited – thousands of dollars)

For the three months ended June 30

	2005	2004
Sales	$ 234,405	$ 186,073
Cost of sales	197,303	154,315
Gross margin	37,102	31,758
Expenses		
General and administrative expenses	8,301	8,131
Capital tax	207	250
Marketing expenses	10,699	8,963
Unit based compensation (Note 7)	1,172	435
Bad debt expense	534	2
Amortization of gas contracts	7,437	12,154
Amortization of electricity contracts	1,306	267
Amortization of capital assets	544	333
	30,200	30,535
Income before other income	6,902	1,223
Other income (Note 8)	2,417	582
Income before income tax	9,319	1,805
Recovery of income tax	(1,806)	(3,843)
Net income	$ 11,125	$ 5,648
Net income per unit (Note 9)		
Basic	$ 0.11	$ 0.05
Diluted	$ 0.10	$ 0.05

Consolidated statements of cash flows

(unaudited – thousands of dollars)
For the three months ended June 30

	2005	2004
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating		
Net income	$ 11,125	$ 5,648
Items not affecting cash		
Amortization of gas contracts	7,437	12,154
Amortization of electricity contracts	1,306	267
Amortization of capital assets	544	333
Unit based compensation	1,172	435
Future income taxes	(3,965)	(4,865)
(Gain) loss on foreign exchange (unrealized)	(181)	10
Other income (unrealized)	(2,249)	(466)
	4,064	7,868
Adjustments required to reflect net cash receipts from gas sales	5,564	4,494
	20,753	18,010
Changes in non-cash working capital	(10,097)	(5,702)
Cash inflow from operations	10,656	12,308
Financing		
Exercise of trust unit options (Note 7)	1,284	5,099
Distributions paid to Unitholders	(21,193)	(18,569)
Distributions to Class A preference shareholders	(2,248)	(2,359)
Tax impact on distributions to Class A preference shareholders	812	852
Bank indebtedness (Note 8b)	10,000	–
	(11,345)	(14,977)
Investing		
Purchase of capital assets	(740)	(1,599)
Acquisition of customer contracts (Note 4)	(6,739)	–
	(7,479)	(1,599)
Gain (loss) on foreign exchange (unrealized)	181	(10)
Net cash outflow	(7,987)	(4,278)
Cash, beginning of period	16,058	40,241
Cash, end of period	$ 8,071	$ 35,963
Supplemental Information		
Interest paid	$ 25	$ 19
Income taxes paid	$ 9,786	$ 500

Notes to the consolidated financial statements

(unaudited – thousands of dollars except where indicated and per unit amounts)
For the three months ended June 30

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 2005. 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.

2. Seasonality of operations

Energy Savings' operations are seasonal. Gas consumption by customers is typically highest in October through March and lowest in April through September. Electricity consumption is typically highest in January through March and July through September. Electricity consumption is lowest in October through December and April through June.

3. Restricted cash/customer rebates payable

Restricted cash represents rebate monies received from Local Distribution Companies (LDCs) in Ontario 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.

4. Acquisition of customer contracts

On May 19, 2005, Energy Savings purchased effective May 1, 2005, approximately 187,000 residential customer equivalents (RCEs) of deregulated electricity customers in Ontario from EPCOR Utilities Inc. ("EPCOR").

The purchase price has been allocated as follows:

Net assets acquired:		
Electricity contracts	$	14,731
Deferred charges		(7,992)
	$	6,739
Consideration:		
Cash	$	6,739

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

Cash consideration was determined by valuing the margin remaining on contracts acquired at their associated fixed prices. These fixed prices were not reflective of the market price of electricity at the time of acquisition. Canadian GAAP requires financial instruments to be fair valued upon acquisition. Customer contracts are not considered financial instruments, while supply contracts are. Deferred charges relate to the fair value associated with the acquired supply contracts.

5. Related party transaction

On April 1, 2003, Energy Savings entered into Marketing Fee Payment Agreements ("Marketing Agreements") with three officers through its subsidiary OESC (see Note 12b). The Marketing Agreements expire, at the earliest, on March 31, 2007. Each person is entitled to receive annual marketing fees or commissions equal to the greater of an individual's percentage of Energy Savings' incremental gross margin and an individual's specified guaranteed amount, payable on March 31 in each year, as to, 50% in cash and 50% in fully paid unit appreciation rights ("UARs"), which vest on the first, second and third anniversary day of the grant date when they become exchangeable into units on a one for one basis. In the event of a change of control: i) each officer is entitled to a lump sum payment declining to zero at March 31, 2007 and ii) all UARs vest and are exchangeable into units on a one for one basis. For the three months ended June 30, 2005, cash payments amounted to $113 (2004 – $356), while payments made in the form of UARs amounted to $244 (2004 – nil).

6. Unitholders' equity

Trust Units of the Fund

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

Preference Shares of OESC

Unlimited Class A preference shares, non-voting for OESC, non-cumulative, exchangeable into trust units in accordance with the OESC shareholders' agreement, with no priority on dissolution. Pursuant to the amended and restated "Declaration of Trust" which governs the Fund, the holders of Class A preference shares are entitled to vote in all votes of Unitholders as if they were the holders of the number of units which they would receive if they exercised their shareholder exchange rights. Class A preference shareholders have equal entitlement to distributions from the Fund as Unitholders.

		2005		2004
Issued and Outstanding	**Units/ Shares**	$	Units/Shares	$
Trust units				
Balance, beginning of period	**95,515,617**	**147,684**	91,093,142	177,323
Options exercised	**266,667**	**1,476**	2,013,324	8,169
Exchanged from Class A preference shares	–	–	196,300	491
Balance before income and distributions	**95,782,284**	**149,160**	93,302,766	185,983
Class A preference shares				
Balance, beginning of period	**10,168,695**	**25,422**	11,631,178	29,078
Exchanged into units	–	–	(196,300)	(491)
Balance, end of period	**10,168,695**	**25,422**	11,434,878	28,587
Combined balance, end of period	**105,950,979**	**174,582**	104,737,644	214,570
Net income	–	**11,125**	–	5,648
Distributions[1]	–	**(22,650)**	–	(20,467)
Unitholders' equity, end of period	**105,950,979**	**163,057**	104,737,644	199,751

[1] *Unitholders are entitled to receive distributions. The holders of Preference A shares, unit appreciation rights and deferred unit grants are also entitled to receive distributions equal to the amount receivable if their shares/rights were exchanged into units of the Fund.*

Pre-tax distributions for the three months ended June 30, 2005 and 2004 are as follows:

	2005	2004
Unitholders	$ **21,158**	$ 18,952
Class A preference share distributions	**2,248**	2,359
Unit appreciation rights	**55**	8
	23,461	21,319
Deferred unit grants	**2**	–
	$ **23,463**	$ 21,319

7. Unit based compensation plans

(a) Unit option plan

The Fund grants awards under its 2001 unit option plan to directors, officers, full-time employees and service providers (non-employees) of its subsidiaries and affiliates. In accordance with the unit option plan and as a result of the unit splits which took effect July 29, 2002 and January 30, 2004, the Fund may grant options to a maximum of 11,300,000 units. As at June 30, 2005 there were 984,166 options still available for grant under the plan. Of the options issued, 1,709,168 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.

A summary of the changes in the Fund's unit option plan during the three-month period and status at June 30, 2005 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	1,825,835	$ 2.50–$18.70	$ 8.99	
Granted	150,000	$ 15.63	$ 15.63	$ 2.19
Forfeited/canceled	–	–	–	
Exercised	(266,667)	$ 2.50–$8.75	$ 4.81	
Balance, end of period	1,709,168	$ 2.50–$18.70	$ 10.22	

[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.*

Range of Exercise Prices	Options Outstanding Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable Number Exercisable	Weighted Average Exercise Price
$2.50–$3.24	66,664	0.83	$ 2.50	66,664	$ 2.50
$4.24–$6.09	527,338	1.58	$ 5.02	14,000	$ 5.30
$7.29–$10.68	82,666	2.65	$ 9.17	51,334	$ 8.81
$11.25–$12.17	700,000	7.39	$ 12.05	263,335	$ 11.95
$14.25–$18.70	332,500	4.19	$ 16.45	19,500	$ 16.74
Balance, end of period	1,709,168	4.49	$ 10.22	414,833	$ 10.05

Options Available for Grant

Available for grant	11,300,000
Less: granted in prior years	(11,083,000)
Add: canceled/forfeited in prior years	917,166
Balance, beginning of period	1,134,166
Less: granted during the period	(150,000)
Add: canceled/forfeited during the period	–
Balance, end of period	984,166

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	3.5%
Expected volatility	25.62%
Expected life	5 years
Expected distributions	$0.885 per year

(b) Unit appreciation rights

The Fund grants awards under its 2004 unit appreciation rights ("UARs") plan to senior officers or service providers of its subsidiaries and affiliates in the form of fully paid UARs. In accordance with the unit appreciation rights plan, the Fund may grant UARs to a maximum of 1,000,000. As at June 30, 2005, there were 737,052 UARs still available for grant under the plan. Except as otherwise provided, (i) the UARs vest up to five years from the grant date, (ii) expire no later than ten years from the grant date, (iii) a holder of UARs is entitled to distributions as if a UAR were a unit, and (iv) when vested, the holder of a UAR may exchange one UAR for one unit.

UARs Available for Grant

Available for grant	1,000,000
Less: granted in prior years	(240,426)
Balance, beginning of period	759,574
Less: granted during the period	(22,522)
Balance, end of period	737,052

(c) Deferred unit grants

The Fund grants awards under its 2004 Directors' 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 June 30, 2005, there were 88,319 DUGs available for grant under the plan.

DUGs Available for Grant

Available for grant	100,000
Less: granted in prior years	(9,365)
Balance, beginning of period	90,365
Less: granted during the period	(2,046)
Balance, end of period	88,319

Total amounts credited to contributed surplus in respect of unit based compensation awards, UARs and DUGs amounted to $1,172 for the three months ended June 30, 2005 (2004 – $435).

Total amounts charged to units in respect of awards exercised during the three months ended June 30, 2005 amounted to $192 (2004 – $3,070).

Cash received from options exercised for the three months ended June 30, 2005 amounted to $1,284 (2004 – $5,099).

8. Financial instruments

(a) Fair value

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

(i) At June 30, 2005, Energy Savings had electricity fixed-for-floating swap contracts designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and flat)	5–50 MW/h
Total estimated notional volume (peak, flat and load following)	14,634,861 MWh
Maturity dates	July 31, 2005–December 31, 2011
Fixed price per MW (in dollars)	$39.25–$85.66
Fair value remaining in all contracts	$103,858 gain
Notional value	$848,838

Since hedge accounting has been applied to these swaps, no recognition of the mark to market gain has been recognized in these financial statements. The electricity fixed-for-floating contracts related to the Province of Alberta are load following, wherein the quantity of electricity contained in the supply contract "follows" the usage of customers designated by the supply contract. Notional volumes associated with these contracts are estimates and subject to change with customer usage requirements. There is also a load shaped fixed-for-floating contract in Ontario wherein the quantity of electricity is established but varies throughout the term of the contract.

(ii) At June 30, 2005, Energy Savings has a fixed-for-floating gas swap contract which has been marked to market with the following terms:

Notional volume	1,000 GJ/day
Total notional volume	153,000 GJ
Maturity date	November 30, 2005
Fixed price per GJ (in dollars)	$5.23
Fair value remaining in the contracts	$348 gain
Notional value	$800

The loss of $368 for the three months ended June 30, 2005 (2004 – gain of $822) has been recorded in other assets with its offsetting value being recorded in other income.

(iii) At June 30, 2005, Energy Savings has a floating-for-fixed gas swap contract which has been marked to market with the following terms:

Notional volume	1,000 GJ/day
Total notional volume	153,000 GJ
Maturity date	November 30, 2005
Fixed price per GJ (in dollars)	$7.26
Fair value remaining in the contracts	$21 gain
Notional value	$1,111

The gain of $192 for the three months ended June 30, 2005 (2004 – n/a) has been recorded in other assets with its offsetting value being recorded in other income.

(iv) At June 30, 2005, Energy Savings has gas puts and calls in Manitoba which have been marked to market with the following terms:

Notional volume	750–54,137 GJ/month
Total notional volume	1,603,600 GJ
Maturity dates	July 31, 2005–July 31, 2010
Fixed price per GJ (in dollars)	$5.48–$7.31
Fair value remaining in the contracts	$384 gain

The gain of $1,028 for the three months ended June 30, 2005 (2004 – $504 loss) has been recorded in other assets with its offsetting value being recorded in other income. The fair value of the options is net of the present value of premiums which have yet to be paid.

(v) At June 30, 2005, Energy Savings had gas puts and calls in Alberta which have been marked to market with the following terms:

Notional volume	500–95,500 GJ/month
Total notional volume	3,471,000 GJ
Maturity dates	September 30, 2005–December 31, 2010
Fixed price per GJ (in dollars)	$5.50–$9.60
Fair value remaining in the contracts	$311 gain

The gain of $310 for the three months ended June 30, 2005 (2004 – n/a) has been recorded in other assets with its offsetting value being recorded in other income. The fair value of the options is net of the present value of premiums which have yet to be paid.

(vi) At June 30, 2005, Energy Savings has gas put and call options in the United States which have been marked to market with the following terms:

Notional volume	500–45,000 MmBTU/month
Total notional volume	6,017,000 MmBTU
Maturity dates	November 30, 2005–May 31, 2010
Fixed price per MmBTU (in dollars)	$6.74–$8.46 (US$5.50–US$6.90)
Fair value remaining in the contracts	$3,444 gain (US$2,811)

The fair value is net of prepaid premiums of $2,438 (US$1,990). These premiums are included in other assets. The gain of $1,056 (US$862) for the three months ended June 30, 2005 has been recorded in other assets with its offsetting value being recorded in other income.

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

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

The carrying 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.

(b) Bank indebtedness

Energy Savings has available a $60,000 operating credit facility. During the quarter, $10,000 was drawn against the facility to assist with the acquisition of the EPCOR Ontario electricity customer contracts and other working capital requirements. In addition, outstanding letters of credit at June 30, 2005 amounted to $6,370. Energy Savings has $43,630 of the facility remaining for future working capital and security requirements. The operating line of credit bears interest at bank prime plus 0.5% and letters of credit bear interest at 1.5%.

(c) Customer credit risk

In Illinois and Alberta, Energy Savings assumes the credit risk associated with the collection of its customers. Credit review processes have been put in place for these markets where Energy Savings has credit risk. If a significant number of customers were to default on their payments, it could have a material adverse effect on Energy Savings' operations and cash flow.

For the remaining markets in which Energy Savings operates, the LDCs provide collection services and assume the risk of any bad debts owing from Energy Savings' customers. Therefore, Energy Savings receives the collection of customer account balances directly from the LDCs. Management believes that the risk of the LDCs failing to deliver payment to Energy Savings is minimal.

(d) Foreign currency risk

Energy Savings has an exposure to foreign currency exchange rates as a result of its investment in U.S. operations. Changes in the applicable exchange rate may result in a decrease or increase in income. A non-cash gain of $181 for the three months ended June 30, 2005 (2004 – $10 loss) has been recorded in other income.

9. Net income per unit

	2005	2004
BASIC INCOME PER UNIT		
Net income available to Unitholders	$ 11,125	$ 5,648
Weighted average number of units outstanding	95,586	92,365
Weighted average number of Class A preference shares	10,169	11,629
Basic units and shares outstanding	105,755	103,994
Basic income per unit	$ 0.11	$ 0.05
DILUTED INCOME PER UNIT		
Net income available to Unitholders	$ 11,125	$ 5,648
Basic units and shares outstanding	105,755	103,994
Dilutive effect of:		
Unit options	732	2,071
Unit appreciation rights	241	34
Deferred unit grants	9	–
Units outstanding on a diluted basis	106,737	$ 106,099
Diluted income per unit	$ 0.10	$ 0.05

10. Reportable business segments

Energy Savings operates in two reportable geographic segments, Canada and the United States. Reporting by geographic region is in line with Energy Savings' performance measurement parameters. Each segment has senior level executives responsible for the performance of the segment. The Canadian operations have both gas and electricity business segments, while the U.S operations have gas only.

Energy Savings evaluates segment performance based on gross margin.

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

Three months ended June 30, 2005	**Canada**	**United States**	**Consolidated**
Sales from external customers and third parties	$ 227,793	$ 6,612	$ 234,405
Gross Margin	$ 36,161	$ 941	$ 37,102
Amortization of gas contracts	7,437	–	7,437
Amortization of electricity contracts	1,306	–	1,306
Amortization of capital assets	531	13	544
Other expenses	16,427	4,486	20,913
Other income	(1,185)	(1,232)	(2,417)
Recovery of income tax	(1,806)	–	(1,806)
Net income (loss)	$ 13,451	$ (2,326)	$ 11,125
Additions to capital assets	$ 728	$ 12	$ 740
Total goodwill	$ 94,576	$ –	$ 94,576
Total assets	$ 315,979	$ 16,554	$ 332,553

Three months ended June 30, 2004	Canada	United States	Consolidated
Sales from external customers and third parties	$ 185,694	$ 379	$ 186,073
Gross Margin	$ 31,683	$ 75	$ 31,758
Amortization of gas contracts	12,154	–	12,154
Amortization of electricity contracts	267	–	267
Amortization of capital assets	317	16	333
Other expenses	16,993	788	17,781
Other income	(447)	(135)	(582)
Recovery of income tax	(3,843)	–	(3,843)
Net income (loss)	$ 6,242	$ (594)	$ 5,648
Additions to capital assets	$ 1,541	$ 58	$ 1,599
Total goodwill	$ 94,576	$ –	$ 94,576
Total assets	$ 271,403	$ 1,935	$ 273,338

11. Guarantees

(a) Officers and directors

Corporate indemnities have been provided by the Fund to all directors and certain officers of its subsidiaries 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, 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. 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 have entered into agreements that include guarantees in favor of third parties, such as purchase and sale agreements, leasing agreements and transportation agreements. These guarantees may require the Fund and/or its subsidiaries to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The maximum amount payable under these guarantees is estimated to be $15,000.

12. Commitments

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

2006	$ 1,716
2007	2,358
2008	2,358
2009	2,286
2010	2,102
	$ 10,820

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

2006	$ 2,041
2007	2,721
	$ 4,762

(c) Commitments under the Master Service agreement with EPCOR for the duration of the agreement are as follows:

2006	$ 3,971
2007	5,495
2008	1,524
2009	200
	$ 11,190

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

2006	$ 632,625
2007	724,403
2008	566,953
2009	381,908
2010	219,071
	$2,524,960

Energy Savings is also committed under long-term contracts with customers to supply gas and electricity. These contracts have various expiry dates and renewal options.

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Brennan R. Mulcahy
Chief Executive Officer

Ken Hartwick, C.A.
Chief Financial Officer

Paul DeVries
President – Canadian Operations

Debbie S. Wernet
President – U.S. Energy Savings Corp.

Independent directors

Hugh D. Segal
President, Institute for Research on Public Policy

Brian R.D. Smith
Federal Chief Treaty Negotiator and Energy Consultant

The Hon. Michael J.L. Kirby
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