ENERGY
SAVINGS INCOME FUND

Second Quarter Report

For the six-month period ended September 30, 2006

Fund profile

Energy Savings' business involves the sale of natural gas and electricity to residential and small commercial customers under long-term, irrevocable fixed price contracts (price protected for electricity). Energy Savings offers natural gas in Manitoba, Quebec, British Columbia, Illinois and Indiana and both gas and electricity in Ontario, Alberta and New York. By securing the price for natural gas or electricity under such contracts for a period of up to five years, Energy Savings' customers reduce or eliminate their exposure to changes in the price of these essential commodities. Energy Savings derives its gross margin from the difference between the price at which it is able to sell the commodities to its customers and the fixed price at which it purchases the matching volumes from its suppliers. Energy Savings trades on the Toronto Stock Exchange under the symbol SIF.UN.

Highlights for the three months ended September 30, 2006 included:

- Gross customer additions of 93,000. Year to date additions of 221,000, 47% of published target for the year.
- Gross margin of $44.2 million, up 12% year over year.
- Net loss of $1.3 million, down from net income of $9.8 million, primarily due to non-cash mark to market valuation of hedge positions.
- Distributable cash after customer replacement of $24.8 million ($0.23 per unit), down 6% year over year.
- 22nd and 23rd increase in annual distribution rate, to $0.975 payable effective the July payment and to $1.005 effective the August payment.
- Entered the Indiana natural gas market.
- Reaffirmation of management guidance for the fiscal 2007 annual results versus fiscal 2006:

– Gross customer additions	475,000
– Gross margin growth	15%–20%
– Distributable cash growth	15%–20%

Message from the CEO

Fellow Unitholders,

I am pleased to present the results of our second quarter ended September 30, 2006. We are pleased to announce that our operating results continue to be on track to meet our growth targets set forth in our published guidance for the year. This guidance would see the Fund generate 15% to 20% year over year growth in both gross margin and distributable cash flow.

Clearly, the recent announcement of the proposed taxation of income trusts has had a material impact on the trading value of our units. The price declines have been across the board rather than specific to Energy Savings. Given the growth inherent in our business, management is disappointed that Energy Savings' price has been hit as hard, or in cases, harder than slow growth or no growth funds whose value is entirely dependent on untaxed distribution streams. We commit to prove that Energy Savings' value as a growth business is as great or greater than the value seen as a trust and to have this value recognized over time in our unit price.

We remain committed to growth and we will grow. Our business model generates high returns on invested capital and generates cash flow, which tracks our growth. Our status as a trust has no impact on these solid business fundamentals. The future of Energy Savings continues to be bright. The growth we will realize in fiscal 2007 is only the beginning.

Operationally, we faced a number of challenges during the quarter. In particular, excess gas from last year's record warm winter in Ontario was released from local utility storage and was sold during a period of low spot prices. In the U.S., the growth of our business has been slowed because of credit screening of contracts in Illinois, and high customer losses prior to flow and heavy attrition in New York due to customer switching.

There is little that Energy Savings can do about lower gas consumption during warm winters and we cannot control the times at which excess gas is released from utility storage. Our risk management policy requires excess supply to be sold immediately. As has been stated in the past, we are exposed to the extent of 3% to 4% of our margin in a record warm winter. Despite this setback, we expect our year over year margin increase to be in the 15% to 20% range, assuming a normal winter season.

We have taken steps to deal with each of the U.S. issues. In Illinois, tight credit processes have been accepted by our independent sales agents and they are modifying their sales techniques accordingly. We expect a ramp-up in Illinois production, particularly as the agents expand their market territory to include newly opened Indiana.

In New York, we have worked collaboratively with the local utility and regulators to institute what is known in our other markets as a Contest Period. Many of our New York customers are being switched, without the opportunity to make an informed decision, to other suppliers. Without the ability to contest this switch, it is often several months before the customer can be returned to our service. This inconveniences suppliers, customers and the utility alike.

We are currently petitioning for a Contest Period system, with the support of the utility and many other industry participants, under which the existing suppliers to switched customers can contact the customer and receive authority to stop the switch. The results of experience in existing jurisdictions show lower attrition and an increase in the ratio of signed contracts submitted to contracts which eventually flow. Management is optimistic that a Contest Period will be approved prior to calendar year end.

Our expectation is that U.S. customer aggregation will ramp up in Q3 and Q4. While we will not reach our U.S. target of 190,000 new customers for the year, strong results in Canada (where we are 60% of the way to the published annual target after six months) sees us 47% of the way to our overall target of 475,000 gross additions and 307,000 net additions after the second quarter.

The chart below illustrates our marketing results in comparison to our published targets and the prior year.

Market	Published Target	F2007 Q2 Additions	F2007 YTD Additions	% of Target	F2006 YTD Additions
Ontario – Gas	50,000	**9,000**	**23,000**	46%	32,000
Other provinces – Gas	60,000	**17,000**	**40,000**	67%	43,000
Canada – Electricity	175,000	**41,000**	**108,000**	62%	85,000
United States – Gas	100,000	**20,000**	**37,000**	37%	34,000
United States – Electricity	90,000	**6,000**	**13,000**	14%	1,000
Total	475,000	**93,000**	**221,000**	47%	195,000
Net additions	307,000	**59,000**	**145,000**	47%	106,000

Overall, our customer base stands at 1,647,000, up 24% in the last 12 months. Customer aggregation, always the key to Energy Savings' success remains strong. We are very pleased to announce that, following successful test marketing, Energy Savings has entered the Indiana natural gas market with the opening of our first office in September. Because of its proximity to Illinois and a regulatory environment very close to Ontario, we believe Indiana will be a low cost but profitable market in the coming years.

Our business has become more seasonal and this shift toward Q3 and Q4 will continue as we grow in markets like the U.S. and Alberta. To aid our Unitholders' ability to understand the financial impact of this seasonality, we placed a presentation entitled "Business Seasonality" on our website, www.esif.ca.

This presentation looked at our published guidance of 15% to 20% growth in both gross margin and distributable cash and indicated the quarterly results necessary to meet the middle of our guidance based on expected seasonality. The table below highlights our position after the second quarter versus these necessary levels:

Gross Margin *(after bad debt)*	Q1	Q2	Q3	Q4	Year	Year over Year
Quarterly seasonality	20%	19%	28%	33%		
Pro rata	$44 m	$42 m	$60 m	$71 m	$217 m	17%
Actual	$47 m	$42 m				
Distributable Cash after Customer Replacement						
Quarterly seasonality	19%	17%	29%	35%		
Pro rata	$28 m	$26 m	$44 m	$54 m	$152 m	17%
Actual	$30 m[1]	$25 m				

[1] *Excludes $2.8 million tax recovery.*

As you can see, after two quarters, we are at a pace that would see us meet our guidance for the year. Our ability to actually do so will be dependent on some factors beyond our control, such as another record warm winter.

Our payout ratio after customer replacement is up year over year from 91% in Q2 last year to 109% this year. This is due to two factors: firstly, the greater seasonality this year versus last and, secondly, the inclusion of a tax recovery last year. Without this recovery, Q2 F2006 would have shown a 100% payout ratio. After all marketing, our ratio was 141%, up from 116% for the prior comparable period. Without the tax recovery, the prior comparable period would have been 132% after marketing.

Our payout ratio for the first six months was 95% after customer replacement versus 89% last year (91% excluding the tax recovery). Management is comfortable that the payout ratios on an annual basis will be within the target ranges of 75% to 80% for payout ratio after customer replacement and less than 100% for the payout ratio after the deduction of marketing expenses.

The history of Energy Savings is one of aggressive growth supported by conservative management. We have built an excellent team that delivers profitable growth year after year. Halfway through fiscal 2007, we are on track to meet another set of aggressive growth targets. Doing so will result in an increase in distributable cash and, consistent with our past policy, higher distributions. As we have done in the past, we will continue in the future.

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

Yours sincerely,

(signed)

Brennan R. Mulcahy
Chief Executive Officer

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

October 31, 2006

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 three and six months ended September 30, 2006. This analysis should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended September 30, 2006 as well as the audited consolidated financial statements and related MD&A for the year ended March 31, 2006 contained in the 2006 Annual Report. The financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All dollar amounts are expressed in Canadian dollars. Quarterly reports, the annual report and supplementary information can be found under "reports and filings" on our corporate website at www.esif.ca. Additional information can be found on SEDAR at www.sedar.com.

Energy Savings is an open-ended, limited-purpose trust established under the laws of Ontario to hold securities and to distribute the income of its wholly owned operating subsidiaries and affiliates: 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"), Illinois Energy Savings Corp. ("IESC"), New York Energy Savings Corp. ("NYESC") and Indiana Energy Savings Corp. ("INESC").

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

Forward-looking information

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

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

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

Cash available for distribution

Cash available for distribution 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 debt expense, other income/expense items and corporate taxes. Management believes that this is the most useful measure of performance as it provides investors with an indication of the amount of cash available for distribution to Unitholders. This non-GAAP measure may not be comparable to other income funds.

"Distributable cash before marketing expenses" represents the net cash available for distribution to Unitholders prior to marketing expenses and is calculated by deducting cash expenses, including general and administrative expense, bad debts, capital tax, income taxes and other expenses, from seasonally adjusted gross margin. This calculation is not defined under Canadian GAAP. This non-GAAP measure may not be comparable to other income funds.

"Distributable cash after customer replacement" represents the net cash available for distribution to Unitholders as defined above with the deduction of marketing expenses necessary to maintain the Fund's customer base at a stable level equal to that in place at the beginning of the year. This calculation is not defined under Canadian GAAP. This non-GAAP measure may not be comparable to other income funds.

"Distributable cash after marketing expenses" represents the net cash available for distribution to Unitholders as defined above after the deduction of marketing expenses utilized to both maintain and expand the Fund's customer base. This calculation is not defined under Canadian GAAP. This non-GAAP measure may not be comparable to other income funds.

Financial highlights

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

	2006			2005			
	$		**Per Unit**	$		Per Unit	Change
Cash available for distribution							
After customer replacement	**24,755**	**$**	**0.23**	26,465	$	0.25	(6)%
After marketing expense to add new customers	**19,068**	**$**	**0.18**	20,760	$	0.19	(8)%
Distributions	**26,891**	**$**	**0.25**	24,043	$	0.22	12%
Payout ratio							
After customer replacement	**109%**			91%			
After marketing expense to add new customers	**141%**			116%			

For the six months ended September 30
(thousands of dollars except where indicated and per unit amounts)

	2006			2005			
	$		**Per Unit**	$		Per Unit	Change
Cash available for distribution							
After customer replacement	**55,241**	**$**	**0.51**	53,640	$	0.49	3%
After marketing expense to add new customers	**40,557**	**$**	**0.38**	42,325	$	0.40	(4)%
Distributions	**52,450**	**$**	**0.49**	47,506	$	0.44	10%
Payout ratio							
After customer replacement	**95%**			89%			
After marketing expense to add new customers	**129%**			112%			

Operations

Gas – Canadian markets

Ontario, Quebec and British Columbia

In each of the markets that Energy Savings operates, it is required to deliver gas to the LDCs for its customers throughout the year. In Ontario, Quebec and British Columbia, the volumes delivered for a customer typically remain constant throughout the year. Energy Savings does not recognize sales until the customer actually consumes the gas. During the winter months, gas is consumed at a rate which is greater than delivery and in the summer months, deliveries to LDCs exceed customer consumption. Energy Savings receives cash from the LDCs as the gas is delivered, which is even throughout the year.

Manitoba and Alberta

In Manitoba and Alberta, the volume of gas delivered in winter months is higher than in the spring and summer months. Consequently, cash received from customers and LDCs is higher in the winter months.

Alberta's regulatory environment is different from the other Canadian provincial markets. In Alberta, Energy Savings is required to invoice and receive payments directly from customers. Energy Savings has entered into an agreement with EPCOR Utilities Inc. ("EPCOR") for the provision of billing and collection services in Alberta. EPCOR has been and will continue to be the billing agent for customers aggregated in Alberta.

Gas – U.S. markets

Cash flow from Illinois and New York operations is greatest during the third and fourth (winter) quarters as normally cash is received from the LDC in the same period as customer consumption.

Electricity – Canadian and U.S markets

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

Distributable cash and cash distributions

For the three months ended September 30

(thousands of dollars except per unit amounts)	**2006**	**Per Unit**	2005	Per Unit
Cash available for distribution				
Gross margin per financial statements	**$ 31,305**	**$ 0.29**	$ 23,124	$ 0.22
Adjustments required to reflect net cash receipts from gas sales	**12,940**		16,217	
Seasonally adjusted gross margin	**$ 44,245**	**$ 0.41**	$ 39,341	$ 0.37
General and administrative	**(10,999)**		(8,500)	
Capital tax expense	**(180)**		(207)	
Bad debt expense	**(2,441)**		(1,644)	
Income tax recovery	**–**		2,517	
Interest and other bank charges	**(868)**		(16)	
	(14,488)		(7,850)	
Cash available for distribution before marketing expenses	**29,757**	**$ 0.28**	31,491	$ 0.29
Marketing expenses to maintain customer base	**(5,002)**		(5,026)	
Cash available for distribution after customer replacement	**24,755**	**$ 0.23**	26,465	$ 0.25
Marketing expenses to add new customers	**(5,687)**		(5,705)	
Cash available for distribution	**$ 19,068**	**$ 0.18**	$ 20,760	$ 0.19
Reconciliation to statements of cash flow				
Cash inflow from operations	**$ 4,379**		$ 26,046	
Add:				
Increase (decrease) in non-cash working capital	**18,577**		(6,117)	
Tax effect on distributions paid to the holders of Class A preference shares	**800**		831	
Current income tax recovery	**(4,688)**		–	
	$ 19,068		$ 20,760	
Distributions				
Unitholder distributions	**$ 24,580**		$ 21,675	
Class A preference share distributions	**2,214**		2,301	
Unit appreciation rights distributions	**93**		64	
	26,887		24,040	
Non-cash distributions – deferred unit grants	**4**		3	
Total distributions	**$ 26,891**	**$ 0.25**	$ 24,043	$ 0.22
Diluted average number of units outstanding		**107.4m**		106.9m

Distributable cash and cash distributions

For the six months ended September 30

(thousands of dollars except per unit amounts)	**2006**	**Per Unit**	2005	Per Unit
Cash available for distribution				
Gross margin per financial statements	**$ 72,465**	**$ 0.67**	$ 60,226	$ 0.56
Adjustments required to reflect net cash receipts from gas sales	**19,893**		21,781	
Seasonally adjusted gross margin	**$ 92,358**	**$ 0.86**	$ 82,007	$ 0.77
General and administrative	**(21,490)**		(16,801)	
Capital tax expense	**(360)**		(414)	
Bad debt expense	**(3,718)**		(2,178)	
Income tax recovery	**–**		1,170	
Interest and other bank charges	**(1,084)**		(29)	
	(26,652)		(18,252)	
Cash available for distribution before marketing expenses	**65,706**	**$ 0.61**	63,755	$ 0.60
Marketing expenses to maintain customer base	**(10,465)**		(10,115)	
Cash available for distribution after customer replacement	**55,241**	**$ 0.51**	53,640	$ 0.50
Marketing expenses to add new customers	**(14,684)**		(11,315)	
Cash available for distribution	**$ 40,557**	**$ 0.38**	$ 42,325	$ 0.40
Reconciliation to statements of cash flow				
Cash inflow from operations	**$ 39,088**		$ 36,702	
Add:				
Increase in non-cash working capital	**7,311**		3,980	
Tax effect on distributions paid to the holders of Class A preference shares	**1,640**		1,643	
Current income tax recovery	**(7,482)**		–	
	$ 40,557		$ 42,325	
Distributions				
Unitholder distributions	**$ 47,712**		$ 42,833	
Class A preference share distributions	**4,539**		4,549	
Unit appreciation rights distributions	**192**		119	
	52,443		47,501	
Non-cash distributions – deferred unit grants	**7**		5	
Total distributions	**$ 52,450**	**$ 0.49**	$ 47,506	$ 0.44
Diluted average number of units outstanding		**107.4m**		106.9m

Sales and gross margin analysis

Sales and gross margin – Per financial statements

For the three months ended September 30

(thousands of dollars)			**2006**			2005
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 79,629**	**$ 13,559**	**$ 93,188**	$ 71,786	$ 6,031	$ 77,817
Electricity	**130,579**	**12,360**	**142,939**	102,194	38	102,232
	$ 210,208	**$ 25,919**	**$ 236,127**	$ 173,980	$ 6,069	$ 180,049
Increase	**21%**	**NMF[1]**	**31%**			

Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 11,734**	**$ 1,898**	**$ 13,632**	$ 13,594	$ 766	$ 14,360
Electricity	**16,834**	**839**	**17,673**	8,747	17	8,764
	$ 28,568	**$ 2,737**	**$ 31,305**	$ 22,341	$ 783	$ 23,124
Increase	**28%**	**NMF[1]**	**35%**			

[1] *Not Meaningful Figure.*

For the six months ended September 30

(thousands of dollars)			**2006**			2005
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 221,610**	**$ 32,257**	**$ 253,867**	$ 208,807	$ 12,643	$ 221,450
Electricity	**246,431**	**21,379**	**267,810**	192,966	38	193,004
	$ 468,041	**$ 53,636**	**$ 521,677**	$ 401,773	$ 12,681	$ 414,454
Increase	**16%**	**NMF[1]**	**26%**			

Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 36,241**	**$ 3,587**	**$ 39,828**	$ 39,330	$ 1,707	$ 41,037
Electricity	**31,346**	**1,291**	**32,637**	19,172	17	19,189
	$ 67,587	**$ 4,878**	**$ 72,465**	$ 58,502	$ 1,724	$ 60,226
Increase	**16%**	**NMF[1]**	**20%**			

[1] *Not Meaningful Figure.*

Canada

Sales were $210.2 million and $468.0 million for the three and six months ended September 30, 2006, up 21% and 16%, respectively, from the prior comparative periods. Margins were $28.6 million for the quarter, an increase of 28% over the prior comparative quarter. Margins for the six months ended September 30, 2006 were $67.6 million, an increase of 16% from the prior comparative period. Refer to “Sales and gross margin – Seasonally adjusted” for further details.

United States

Sales and margins were $25.9 million and $2.7 million for the three months ended September 30, 2006. For the six-month period, sales and margins amounted to $53.6 million and $4.9 million, respectively. The increase in sales and margin reflects the growth in customer base over the past year. Refer to “Sales and gross margin – Seasonally adjusted” for further details.

Sales and gross margin – Seasonally adjusted[1]

For the three months ended September 30

(thousands of dollars)			**2006**			2005
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 79,629**	**$ 13,559**	**$ 93,188**	$ 71,786	$ 6,031	$ 77,817
Adjustments	**93,929**	**–**	**93,929**	90,837	–	90,837
	$ 173,558	**$ 13,559**	**$ 187,117**	$ 162,623	$ 6,031	$ 168,654
Electricity	**130,579**	**12,360**	**142,939**	102,194	38	102,232
	$ 304,137	**$ 25,919**	**$ 330,056**	$ 264,817	$ 6,069	$ 270,886
Increase	**15%**	**NMF[2]**	**22%**			

Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 11,734**	**$ 1,898**	**$ 13,632**	$ 13,594	$ 766	$ 14,360
Adjustments	**12,940**	**–**	**12,940**	16,217	–	16,217
	$ 24,674	**$ 1,898**	**$ 26,572**	$ 29,811	$ 766	$ 30,577
Electricity	**16,834**	**839**	**17,673**	8,747	17	8,764
	$ 41,508	**$ 2,737**	**$ 44,245**	$ 38,558	$ 783	$ 39,341
Increase	**8%**	**NMF[2]**	**12%**			

For the six months ended September 30

(thousands of dollars)			**2006**			2005
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 221,610**	**$ 32,257**	**$ 253,867**	$ 208,807	$ 12,643	$ 221,450
Adjustments	**129,530**	**–**	**129,530**	119,480	–	119,480
	$ 351,140	**$ 32,257**	**$ 383,397**	$ 328,287	$ 12,643	$ 340,930
Electricity	**246,431**	**21,379**	**267,810**	192,966	38	193,004
	$ 597,571	**$ 53,636**	**$ 651,207**	$ 521,253	$ 12,681	$ 533,934
Increase	**15%**	**NMF[2]**	**22%**			

Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 36,241**	**$ 3,587**	**$ 39,828**	$ 39,330	$ 1,707	$ 41,037
Adjustments	**19,893**	**–**	**19,893**	21,781	–	21,781
	$ 56,134	**$ 3,587**	**$ 59,721**	$ 61,111	$ 1,707	$ 62,818
Electricity	**31,346**	**1,291**	**32,637**	19,172	17	19,189
	$ 87,480	**$ 4,878**	**$ 92,358**	$ 80,283	$ 1,724	$ 82,007
Increase	**9%**	**NMF[2]**	**13%**			

[1] *For Ontario, Manitoba and Quebec gas markets.*
[2] *Not Meaningful Figure.*

As noted above, total sales and margin for the three months ended September 30, 2006 were $330.1 million and $44.2 million, an increase of 22% and 12%, respectively, over the second quarter of fiscal 2006.

Total sales and margin for the six months ended September 30, 2006 were $651.2 million and $92.4 million for the quarter, up 22% and 13%, respectively, over the prior comparable period.

Canada

On a seasonally adjusted basis, sales were $304.1 million for the quarter, up 15% from $264.8 million in fiscal 2006. Margins were $41.5 million for the quarter, up 8% from the same quarter in the previous year. The increase in total sales and margin is directly attributable to the 18% increase in long-term customers. The increase in sales and margin was lower than the increase in customers primarily due to the changing customer base mix toward a higher percentage of electricity customers. Electricity customers, which have a lower target margin than gas, account for 44% of the long-term customers.

Gas

Gas sales increased by 7% from the prior comparable quarter to $173.6 million while margins decreased by 17% to $24.7 million. During the quarter, margins were reduced by $3.4 million as a result of dispositions of excess gas held in storage by the LDCs from prior year's warm winter. This excess gas can be sold in the open market only during times permitted by the LDCs. Dispositions occurred during a period of low spot prices, resulting in lost margin in excess of the weighted average cost of supply. In contrast, in the second quarter of the prior comparable year, the sale of excess gas supply resulted in an addition to gross margin of $2.9 million. On an annual basis, the impact of an unseasonably warm winter period could be 3% to 4% of gross margin.

Gas sales were $351.1 million for the six months ended September 30, 2006, an increase of 7% over the prior comparable period. Margins were $56.1 million, a decrease of 8% over the first six months of fiscal 2006.

Electricity

Electricity sales and margins for the three months ended September 30, 2006 increased by 28% and 92%, respectively. The increase in sales is attributable to the increase in long-term customers. The large increase in gross margin versus the prior comparable quarter is primarily a result of the improved profitability and reduction in the number of acquired load following customers and the renewal of low margin acquired customers to Energy Savings' target margin. In the prior comparable quarter, a loss of $1.3 million in balancing costs was realized on the load following portfolio. Load following results in Energy Savings bearing the risk and benefits of fluctuations in consumption from the standard customer usage profile. During the current fiscal year, there has been less volatility from the standard customer usage profile than the prior year. In addition, there were fewer load following customers than the prior comparable year due to the expiration of their contracts. At September 30, 2006, the acquired load following contracts account for approximately 7% of the electricity long-term customers; these contracts have an average remaining life of less than one year.

For the six months ending September 30, 2006, sales and margins were $246.4 million and $31.3 million, an increase of 28% and 63%, respectively.

Customers aggregated during the period generate margins at or above Energy Savings' average annual target margins of $175/RCE for gas and $110/RCE for electricity.

United States

Sales and margins for the quarter were $25.9 million and $2.7 million, the same as on a financial statement basis. Gas sales and margins were $13.6 million and $1.9 million, respectively. The increase in gas sales and margins over the prior comparable period reflects the fact that the customer base has increased by 82% from the prior comparative quarter.

Electricity sales and margins were $12.4 million and $0.8 million, respectively. Energy Savings entered the New York market in the fall of 2005.

For the six months ended September 30, 2006, sales and margins for the U.S. amounted to $53.6 million and $4.9 million, respectively.

Customers aggregated during the period generate margins at or above Energy Savings' average annual target margins of $140/RCE for gas and $110/RCE for electricity. The $140/RCE target margin in Illinois includes an allowance for anticipated bad debt expense.

Distributable cash

Distributable cash after customer replacement for the quarter was $24.8 million ($0.23 per unit), a decrease of 6% from $26.5 million ($0.25 per unit) in the second quarter of fiscal 2006. The decrease in distributable cash after customer replacement is primarily related to lower gas margins due to the warm winter in Ontario, higher general and administrative expenses reflecting the increased size of Energy Savings and a $2.5 million tax recovery recognized in the prior comparative period. In 2006, Energy Savings implemented a tax reorganization which is expected to result in an efficient flow-through of funds generated by the operations of the business. Consequently, management does not expect to pay any material Canadian income tax during the fiscal year. Based on the implementation of this reorganization, management does not expect to receive any additional recovery of income tax.

Marketing expenses to maintain the customer base were $5.0 million for the quarter, flat compared to the prior comparable quarter despite the fact that there were fewer customers lost due to attrition and failure to renew in the current quarter. Approximately 70% of the total marketing expenses represent commission paid to independent sales agents. The remaining 30% relates to other marketing expenses such as rent for sales offices, customer service sales support team and brochures. The non-commission related costs occur evenly throughout the year while customer additions vary from quarter to quarter. As a result, the aggregation cost per RCE will vary quarter by quarter. In addition, management increased its customer aggregation costs at the beginning of the fiscal year. Management believes that aggregation costs per RCE on an annual basis will approximate the targets of $160 and $95 for gas and electricity in Canada, respectively, and $110 and $100 for gas and electricity in the United States, respectively.

Distributable cash after customer replacement for the six months ended September 30, 2006 was $55.2 million ($0.51 per unit), an increase of 3% from $53.6 million in the prior comparable period. The income tax recovery from the first quarter has been removed from the year to date amounts.

Distributable cash after marketing expenses was $19.1 million ($0.18 per unit) for the quarter, a decrease of 8% from $20.8 million in the prior comparable quarter. The decrease is primarily attributable to the non-recurring tax recovery as indicated above.

Payout ratios after customer replacement were 109% and 95% for the three and six months ended September 30, 2006, respectively, compared with 91% and 89% in the prior comparable periods. Excluding the tax recovery, payout ratios after customer replacement would have been 100% and 91% for the three and six months ended September 30, 2005, respectively.

In line with management's expectations, payout ratios after marketing expenses were 141% and 129% for the three and six months ended September 30, 2006, compared with 116% and 112% in the prior comparable periods. Payout ratios in the prior year were assisted by the tax recovery. Excluding the tax recovery, payout ratios after marketing expenses for the three and six months ended September 30, 2005 would have been 132% and 115%, respectively.

The Fund's results reflect greater seasonality as consumption is greatest during the third and fourth quarters (winter quarters). While year over year quarterly comparisons will remain appropriate, sequential quarters will vary materially. The main impact of this will be higher distributable cash with a lower payout ratio in Q3 and Q4 and lower distributable cash with a higher payout ratio in Q1 and Q2. This seasonality has increased versus the prior year and will continue to increase as Energy Savings expands in Alberta and the U.S.

Management is comfortable that the payout ratios on an annual basis will be within the target ranges of 75% to 80% for payout ratio after customer replacement and less than 100% for the payout ratio after the deduction of marketing expenses.

Net income (loss)

Reconciliation to Statements of operations

	For the three months ended September 30		*For the six months ended September 30*	
(thousands of dollars)	**2006**	2005	**2006**	2005
Net income (loss)	**$ (1,257)**	$ 9,396	**$ 9,748**	$ 20,521
Adjustments required to reflect net cash receipts from sales	**12,940**	16,217	**19,893**	21,781
Items not affecting cash	**11,273**	(5,684)	**16,758**	(1,620)
Tax effect on distributions paid to holders of Class A preference shares	**800**	831	**1,640**	1,643
Current income tax recovery	**(4,688)**	–	**(7,482)**	–
Cash available for distribution	**$ 19,068**	$ 20,760	**$ 40,557**	$ 42,325

Energy Savings had net income (loss) for the three and six months ended September 30, 2006 of $(1.3) million (2005 – $9.4 million) and $9.7 million (2005 – $20.5 million), respectively. Net income has decreased over the prior comparative periods as a result of the change in the market value of certain derivative financial instruments. An expense of $5.3 million and $4.2 million was recognized during the current three- and six-month periods, respectively, versus income of $14.4 million and $16.8 million for the prior comparative three- and six-month periods. These instruments form part of the Fund's hedge positions intended to ensure stable margins over the term of customer contracts. The financial statements are in compliance with AcG-13, which requires a determination of fair value for certain derivative financial instruments that do not meet hedge accounting requirements. This fair value is determined using market information at the end of each quarter. Management believes the Fund remains effectively hedged operationally across all jurisdictions.

Summary of quarterly results

(thousands of dollars except per unit amounts)

	F2007			F2006
	Q2	Q1	Q4	Q3
Sales per financial statements	**$ 236,127**	$ 285,550	$ 476,699	$ 321,161
Net income (loss)	**(1,257)**	11,005	17,825	13,217
Net income (loss) per unit – basic	**$ (0.01)**	$ 0.10	$ 0.17	$ 0.12
Net income (loss) per unit – diluted	**(0.01)**	0.10	0.17	0.12
Amount available for distribution				
After customer replacement	**$ 24,755**	$ 30,486[1]	$ 41,136	$ 35,245
After marketing expense to add new customers	**19,068**	21,489[1]	32,293	26,582
Payout ratio				
After customer replacement	**109%**	84%[1]	61%	69%
After marketing expense to add new customers	**141%**	119%[1]	77%	92%

	F2006			F2005
	Q2	Q1	Q4	Q3
Sales per financial statements	$ 180,049	$ 234,405	$ 406,901	$ 213,649
Net income	9,396	11,125	27,268	7,042
Net income per unit – basic	$ 0.09	$ 0.11	$ 0.26	$ 0.07
Net income per unit – diluted	0.09	0.10	0.26	0.07
Amount available for distribution				
After customer replacement	$ 26,465	$ 27,175	$ 22,612[2]	$ 28,700[2]
After marketing expense to add new customers	20,760	21,565	19,454	23,603
Payout ratio				
After customer replacement	91%	86%	102%	79%
After marketing expense to add new customers	116%	109%	118%	96%

[1] *Restated to eliminate income tax recovery.*
[2] *Allocated based on the annual average for fiscal 2005.*

Energy Savings' operations are seasonal. Gas consumption is typically highest in the third and fourth quarters while electricity consumption is highest in the second and fourth quarters. As a result, quarter over quarter comparisons are a more reliable basis for analysis than sequential quarter comparisons, as results from quarter to quarter may vary materially due to seasonality.

Long-term customers

Canada	Beginning	Additions	Attrition[5]	Failed to Renew[6]	Ending
Gas					
Ontario	607,000	9,000	(3,000)	(5,000)	608,000
Other markets[1]	211,000	17,000	(2,000)	–	226,000
Total – Gas	818,000	26,000	(5,000)	(5,000)	834,000
Electricity[2]	622,000	41,000	(13,000)	(2,000)	648,000
Total – Canada	1,440,000	67,000	(18,000)	(7,000)	1,482,000
United States					
Gas[3]	118,000	20,000	(5,000)	–	133,000
Electricity[4]	30,000	6,000	(4,000)	–	32,000
Total – United States	148,000	26,000	(9,000)	–	165,000
Combined	1,588,000	93,000	(27,000)	(7,000)	1,647,000

[1] *Includes Quebec, British Columbia, Manitoba and Alberta.*
[2] *Includes Ontario and Alberta.*
[3] *Includes Illinois and New York.*
[4] *Includes New York only.*
[5] *Attrition – Customers whose contracts were terminated primarily due to relocation or death, or canceled by Energy Savings due to delinquent accounts.*
[6] *Failed to Renew – Customers who did not renew expiring contracts at the end of their term.*

Customers not expected to renew

In addition to the long-term customers, Energy Savings has an additional 70,000 electricity customers which were acquired through various acquisitions of customer contracts. These customers generate substantially less margin than is typically realized on customers aggregated by Energy Savings and on average have less than one year remaining until the end of their contracts. All gas contracts which were not expected to renew have expired as of September 30, 2006.

Attrition

Overall, attrition was 7% on an annualized basis. Attrition in Canada was 6%, which is below the 10% rate used for internal purposes. While this is a positive result from slowing housing sales, management continues to monitor whether this represents an ongoing improvement in attrition levels.

Attrition in the U.S. was 20%, at the upper end of management's target range of 15% to 20%. As was stated in the first quarter, the increase in the expected U.S. attrition rate from 15% to a range of 15% to 20% was attributable to the higher attrition level experienced to date in New York. The regulatory environment in New York provided for higher customer mobility. Management continues to work effectively with the regulators in New York as well as the local utility to modify the existing rules which govern customer mobility processes. Should the change occur, management expects the results will show a reduction in attrition rates as well as a reduction in the loss of customers between contract signature and flow.

Management continues to monitor attrition and is actively pursuing measures to minimize attrition in all markets.

Failed to renew

The renewal rate for gas customers who have completed the term of their contract remains above 80%. To date, less than 1% of electricity customers aggregated by Energy Savings have reached their first renewal date. The renewal process is multi-faceted and aims to maximize the number of customers which renew prior to the end of their contract term. Efforts begin up to fifteen months in advance with contracts providing for renewal for an additional five years. In the Ontario gas market, customers who do not positively elect, either renewal or termination, receive a one-year fixed price for the ensuing year. The 80% renewal rate is a blend of both one- and five-year fixed price contracts. Management continues to be pleased with the success of its renewal program.

Gross additions (excluding acquisitions)

Energy Savings' published targets for fiscal 2007 were gross customer additions, excluding acquisitions of 475,000. The following table shows the aggregation to date compared with these targets. Overall, Energy Savings aggregated 221,000 RCEs during the first half of the fiscal year. For the quarter, gross additions were 93,000 down from 102,000 in Q2 of fiscal 2006. Net additions were 59,000, up from 50,000, reflecting improved customer attrition rates. Overall, Energy Savings' customer base reached 1,647,000, up 24% from the year prior.

Gross Customer Additions	Q1 F2007	**Q2 F2007**	**YTD F2007**	Annual Published Target	Realized to Date	YTD F2006	Increase (Decrease)
Canada							
Gas							
Ontario	14,000	**9,000**	**23,000**	50,000	46%	32,000	(28%)
Other markets[1]	23,000	**17,000**	**40,000**	60,000	67%	43,000	(7%)
Total – Gas	37,000	**26,000**	**63,000**	110,000	57%	75,000	(16%)
Electricity[2]	67,000	**41,000**	**108,000**	175,000	62%	85,000	27%
Total – Canada	104,000	**67,000**	**171,000**	285,000	60%	160,000	7%
United States							
Gas[3]	17,000	**20,000**	**37,000**	100,000	37%	34,000	9%
Electricity[4]	7,000	**6,000**	**13,000**	90,000	14%	1,000	N/A
Total – United States	24,000	**26,000**	**50,000**	190,000	26%	35,000	43%
Combined	128,000	**93,000**	**221,000**	475,000	47%	195,000	13%

[1] *Includes Quebec, British Columbia, Manitoba and Alberta.*
[2] *Includes Ontario and Alberta.*
[3] *Includes Illinois and New York.*
[4] *Includes New York only.*

Canada

Gas

Total gross gas customer additions in Canada for the second quarter were 26,000, bringing the total additions to 63,000 for the six months ended September 30, 2006 (57% of the published annual target). Gas additions in Ontario are effectively on pace to meet the published annual target.
The number of customers signed in the Ontario gas market during the quarter was slightly above the number of customers lost through attrition and failure to renew. Other markets in Canada exceeded the target pace with 67% of the published annual target being achieved after the second quarter.

The Canadian gas customers added through marketing efforts during the period were matched with supply to generate margins at or above Energy Savings' average annual target margin of $175/RCE over the life of the contract.

Electricity
Total electricity additions were 41,000 for the quarter, bringing the total additions to 108,000 for the six months ended September 30, 2006 (62% of the published annual target). Electricity customer aggregation remains strong.

The Canadian electricity customers added through marketing efforts during the period were matched with supply to generate margins at or above Energy Savings' average annual target margin of $110/RCE over the life of the contract.

United States
Customer additions in the Illinois and New York gas markets were 20,000 for the quarter, bringing the total number of additions to 37,000 for the six months ended September 30, 2006, representing 37% of the published annual target. Customer additions in the New York electricity market were 6,000, bringing the total number of additions to 13,000, representing 14% of the published annual target.

While management is pleased with the progress being made in New York regarding customer mobility and related issues, the high attrition and loss of signed customers before flow experienced to date have directly impacted customer aggregation in the U.S. Energy Savings does not count a customer until it has been enrolled with the LDC and confirmed by its internal customer service department.

In Illinois, U.S. Energy Savings Corp. ("USESC"), a subsidiary of the Fund, has entered into discussions on a settlement with the Citizen's Utility Board ("CUB") to resolve a complaint filed before the Illinois Commerce Commission concerning USESC's marketing practices. Energy Savings does not believe the impact of the settlement will have a material impact on its U.S. business or guidance for 15% to 20% growth in fiscal 2007.

As a result of these operational challenges, customer aggregation in the first six months lag the levels necessary to meet our 190,000 customer aggregation target for the year. While aggregation levels are ramping up to date in Q3 and are expected to continue to rise particularly due to reduced mobility in New York, management does not believe that the fiscal 2007 U.S. aggregation target will be met. While the U.S. target will not be achieved, Canadian results remain strong. On a combined basis, Energy Savings is 47% of the way to the overall target of 475,000 gross additions.

The U.S. customers added through marketing efforts during the quarter were matched with supply to generate margins at or above Energy Savings' average annual target margin of $140/RCE for gas customers and $110/RCE for electricity customers over the life of the contract.

General and administrative expenses

General and administrative costs were $11.0 million for the three months ended September 30, 2006, representing an increase of 29% from the second quarter of the previous fiscal year. The increase in general and administrative costs over the prior comparable quarter was primarily driven by the additional infrastructure and support necessary to support the Fund's continued customer growth, up 24% year over year, as well as the expansion into a third U.S. market – Indiana.

General and administrative expenditures for the six months ended September 30, 2006 were $21.5 million, an increase of 28% from $16.8 million in the prior comparable period as a result of the additional costs listed above.

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 $0.9 million (2005 – $0.9 million) and $1.7 million (2005 – $2.0 million) for the three and six months ended September 30, 2006, respectively.

Marketing expenses

Marketing expenses, which consist of commissions paid to independent sales agents for signing new customers as well as corporate overhead, were $10.7 million for the three months ended September 30, 2006, the same amount as in the prior comparable quarter. Marketing expenses remained constant despite the fact that the number of customers aggregated was lower for the current quarter. Contributing to this is the fact that approximately 30% of the marketing costs relate to corporate overhead expenses which occur evenly throughout the year while customer additions vary quarter to quarter. In addition to this, management announced an increase in target aggregation costs per customer reflecting the impact of inflation and the increased effort required to secure customers at the beginning of the year. The increase in rates is as follows:

	F2006	F2007
Gas		
Ontario	$ 160/RCE	$ 160/RCE
Other markets – Canada	$ 140/RCE	$ 160/RCE
United States	$ 90/RCE	$ 110/RCE
Electricity		
Canada	$ 85/RCE	$ 95/RCE
United States	$ 90/RCE	$ 100/RCE

For the six months ended September 30, 2006, the marketing expense amounted to $25.1 million, an increase of 17% over the prior comparable period compared to a 13% increase in customers added.

Bad debt expense

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

Bad debt expense for the three and six months ended September 30, 2006 was $2.4 million and $3.7 million, respectively. The increase in bad debts during the second quarter reflects bad debts associated with the prior year's winter, for which the full impact has now been recognized. Based on results to date, management anticipates that bad debt expense for the year will approximate 4.0% of revenue earned in both Illinois and Alberta. Management has increased the default rate in its margin expectations to ensure target gross margins per RCE continue to be achieved, including the higher levels of bad debt. Management continuously reviews and monitors the credit approval process in order to mitigate customer delinquency.

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

Bank indebtedness

As at September 30, 2006, Energy Savings had utilized $39.6 million of its operating line for working capital needs and $41.9 million in letters of credit were issued, primarily as security for commodity supply commitments. The operating line bears interest at bank prime plus 0.5% and letters of credit bear interest at 1.5%. Total interest expense for the three and six months ending September 30, 2006 amounted to $0.5 million (2005 – $0.2 million) and $1.0 million (2005 – $0.02 million), respectively. Energy Savings is required to meet a number of financial covenants under the credit facility agreement. As at September 30, 2006, all of these covenants have been met.

On October 30, 2006, Energy Savings renewed the credit facility for a period of one year to October 31, 2007. The operating credit facility was also increased from $100 million to $120 million.

Foreign exchange

Energy Savings has an exposure to U.S. dollar exchange rates as a result of its U.S. operations. Changes in the applicable exchange rate may result in a decrease or increase in income. A non-cash loss of $0.4 million (2005 – $0.3 million) was recognized for the six months ended September 30, 2006.

Energy Savings has entered into foreign exchange forward contracts in order to hedge its exposure to fluctuations in cross border cash flow.

Class A preference share distributions

Each of the holders of the Ontario Energy Savings Corp. ("OESC") Class A preference shares (which are exchangeable into units on a 1:1 basis) is entitled to receive, on a quarterly basis, a payment equal to the amount paid or payable to a Unitholder on a comparable number of units. The total amount paid during the three- and six-month periods ending September 30, 2006 amounted to $2.2 million (2005 – $2.3 million) and $4.5 million (2005 – $4.5 million), respectively. These payments are reflected in the "Statement of Unitholders' Equity" of the Fund's consolidated financial statements, net of tax.

Income tax recovery

Income tax breakdown

(thousands of dollars)	*For the three months ended September 30* **2006**	2005	*For the six months ended September 30* **2006**	2005
Income tax recovery	**$ (4,688)**	$ (2,517)	**$ (7,482)**	$ (1,170)
Amount credited to Unitholders' equity	**800**	831	**1,640**	1,643
Current income tax provision (recovery)	**(3,888)**	(1,686)	**(5,842)**	473
Future tax recovery	**(652)**	(2,204)	**(1,205)**	(6,169)
Recovery of income tax	**$ (4,540)**	$ (3,890)	**$ (7,047)**	$ (5,696)

For the three and six months ended September 30, 2006, there was an income tax recovery in the amount of $4.7 million and $7.5 million, an increase from $2.5 million and $1.2 million, respectively, in the prior comparative period. It is anticipated that the earnings in the second half of the fiscal year will result in a tax provision which will offset the recovery recognized for the six months ended September 30, 2006. It is anticipated that there will be minimal income taxes owing at the end of the fiscal year as a result of taxable income in the Province of Manitoba.

Management expects to receive a ruling from the Canada Revenue Agency shortly in order to complete the final stage of the tax reorganization. As a result of the reorganization, Energy Savings will move from a "trust on corporation" structure to a "trust on trust on partnership" structure.

The decrease in the future tax liability of $0.7 million and $1.2 million for the three and six months ended September 30, 2006, respectively, is attributable to the decrease in the difference between the tax and accounting cost bases for the acquired gas and electricity contracts. The majority of these assets are deducted for tax at a rate greater than that for accounting purposes.

Liquidity and capital resources

Summary of cash flows

(thousands of dollars)	*For the three months ended September 30* **2006**	2005	*For the six months ended September 30* **2006**	2005
Operating activities	**$ 4,379**	$ 26,046	**$ 39,088**	$ 36,702
Investing activities	**(959)**	(1,107)	**(1,829)**	(8,586)
Financing activities, excluding distributions	**20,163**	(541)	**15,149**	10,743
Gain (loss) on foreign exchange	**18**	(448)	**(309)**	(267)
Increase in cash before distributions	**23,601**	23,950	**52,099**	38,592
Distributions (cash payments)	**(25,840)**	(22,960)	**(50,204)**	(45,589)
Increase (decrease) in cash	**(2,239)**	990	**1,895**	(6,997)
Cash – beginning of period	**15,797**	8,071	**11,663**	16,058
Cash – end of period	**$ 13,558**	$ 9,061	**$ 13,558**	$ 9,061

Operating activities

Cash flows from operating activities for the three months ended September 30, 2006 were $4.4 million, a decrease from $26.0 million in the prior comparative quarter. Cash flows from operating activities have decreased primarily due to the injection of gas into storage in Illinois. Cash flow from operating activities for the six months ended September 30, 2006 increased from $36.7 million in the prior comparable period to $39.1 million. Cash flows from operating activities have increased primarily as a result of the increase in gross margin, offset by an increase in gas in storage.

Investing activities

Energy Savings purchased capital assets totaling $1.0 million during the quarter, compared with $1.3 million in the prior comparable quarter. Capital asset purchases amounted to $1.8 million for the six months ended September 30, 2006, compared with $2.0 million in the prior comparable period. The purchases were primarily for information technology systems supporting the Fund's expanding customer base within the various geographical segments. In the prior comparable period, Energy Savings also purchased the EPCOR Ontario electricity customer contracts for $6.7 million (net of adjustments).

Financing activities

Financing activities excluding distributions relate primarily to the drawdowns or repayments of the operating line for working capital requirements. During the three months ended September 30, 2006, Energy Savings had drawn an additional $19.5 million of the operating line while during the three months ended September 30, 2005, Energy Savings had repaid $0.7 million.

As Energy Savings continues to expand in the United States markets and Alberta, the need to fund working capital and security requirements will increase driven primarily by the number of customers aggregated and to a lesser extent by the number of new markets. Based on the new markets in which Energy Savings currently operates and those it expects to enter, funding requirements will be supported through the credit facility. As a result, the credit facility was increased from $100 million to $120 million effective October 30, 2006.

The Fund's liquidity requirements are driven by the delay from the time that a customer contract is signed until cash flow is generated. Approximately 60% of an independent agent's commission payment is made following reaffirmation of the customer contract with the remaining 40% being paid after the energy commodity begins flowing to the customer.

The elapsed period between the times when a customer is signed to when the first payment is received from the customer varies with each market. The time delays per market are approximately two to six months. These periods reflect the time required by the various LDCs to enroll, flow the commodity, bill the customer and remit the first payment to Energy Savings. In Alberta, Energy Savings receives payment directly from the customer.

Distributions (cash payments)
The Fund made distributions of $25.8 million compared to $23.0 million in the prior comparative quarter, an increase of 13%. For the six months ended September 30, 2006, Energy Savings distributed $50.2 million, an increase of 10% from the prior comparable period. Energy Savings will continue to utilize its cash resources for expansion into new markets as well as distributions to its Unitholders. Management continues to target its payout ratios after customer replacement to be 75% to 80%.

As at the end of the quarter, the annual rate for distributions per unit was $1.005.

Balance sheet as at September 30, 2006 compared to March 31, 2006

Cash increased from $11.7 million to $13.6 million. The operating line of credit increased from $25.2 million to $39.6 million as a result of additional working capital requirements in the U.S as well as the electricity business segment. Working capital in the U.S. results from the timing difference between customer consumption and cash receipts as receipts lag consumption and injections of gas into storage for the Illinois segment from April through November, a period of low customer consumption. For electricity, working capital is required to fund the lag time between settlements with the supplier and settlement with the LDC.

The decrease in accounts receivable from $149.4 million to $117.6 million is primarily attributable to the decrease in margin associated with the period of lower gas consumption in the second quarter in comparison with the fourth quarter. The accounts payable and accrued liabilities also decreased due to lower consumption from $113.1 million to $106.5 million.

At the end of the quarter, Energy Savings had delivered more gas to the LDCs in Ontario, Manitoba and Quebec than customers had consumed. Since Energy Savings is paid for this gas upon delivery, yet recognizes revenue when the gas is consumed by the customer, the result on the balance sheet is the deferred revenue amount of $92.5 million and gas delivered in excess of consumption of $79.7 million. At March 31, 2006, customers had consumed more than had been delivered to the LDCs, thereby resulting in unbilled revenues amounting to $37.0 million and accrued gas accounts payable of $29.9 million.

Gas in storage has increased from $4.8 million to $28.9 million as a result of the lower customer consumption in the spring and summer than that experienced in the winter months. In addition, the balance reflects injections into storage which typically occur from April through September.

Corporate taxes recoverable increased from $4.3 million at March 31, 2006 to $12.2 million as at September 30, 2006 as a result of the lower sales and higher expenditures experienced in the first half of the year. Management anticipates that the income from the second half of the fiscal year will offset this, resulting in a small income tax payable position as a result of operations in Manitoba.

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 and equipment lease agreements	$ 17,202	$ 1,661	$ 6,576	$ 5,414	$ 3,551
EPCOR billing, collections and supply commitments	25,271	4,332	15,740	5,199	–
Commodity supply purchase commitments	3,815,479	652,072	1,954,121	1,093,324	115,962
	$3,857,952	$ 658,065	$1,976,437	$1,103,937	$ 119,513

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

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

Critical accounting estimates

The consolidated financial statements of the Fund have been prepared in accordance with Canadian GAAP. Certain accounting policies require management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, cost of sales 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, 2006 to October 31, 2006.

Derivative financial instruments

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

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

Energy Savings' entry into Illinois, New York and Indiana, as well as the intention for further expansion in the U.S., have introduced foreign exchange related risks. As a result, Energy Savings entered into foreign exchange forwards in order to hedge the exposure to fluctuations in cross border cash flow.

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

Adoption of new accounting policies

There have been no new accounting policies adopted by the Fund for the period April 1, 2006 to October 31, 2006. Commencing April 1, 2007, Energy Savings will be required to comply with three new standards: Hedge Accounting, Financial Instruments and Other Comprehensive Income. These standards will require all derivative financial instruments to be fair valued and recognized in Other Assets as opposed to recognizing only the fair value of derivative financial instruments that do not meet hedge accounting requirements as is currently the case. Changes in the fair value will flow through the new Statement of Other Comprehensive Income if hedges are effective. Due to the size of the electricity derivative financial instruments, which are not currently recognized in Other Assets, these new standards will have a significant impact on the Other Assets caption of the balance sheet. Due to the volatility of market prices, it is expected that there will be significant changes flowed through Other Comprehensive Income on a quarterly basis. There will be no change to management's hedge strategy as the plans are effective; the change in measurement is simply the adoption of the new accounting standards.

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 the 2006 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, 2006 to October 31, 2006 that require an update to the discussion of the applicable risks.

Tax related risks

On October 31, 2006 the Minister of Finance (Canada) announced a Tax Fairness Plan that proposes to enact legislation that will amend the taxation of Flow Through Entities ("FTEs"), including trusts. This plan proposes to tax distributions from existing trusts starting in 2011. In addition, the plan proposes to tax distributions from trusts received by foreign investors and tax-exempt entities differently than they are currently taxed. The release from the Minister of Finance (Canada) states, "The FTEs that will be subject to these new rules will be fully defined in the legislation to implement these measures. As a practical matter, however, it can be assumed that the rules will apply to any publicly-traded Income Trust (or publicly-traded partnership), other than one that only holds passive real estate investments". The pending legislation should clarify the meaning of this quote.

Corporate governance
Energy Savings is committed to transparency in its operations and its approach to governance meets all recommended standards. Full disclosure of its 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.

Class A preference shares of OESC and trust units
As at October 31, 2006 there were 8,902,512 Class A preference shares of OESC outstanding and 97,876,872 units of the Fund outstanding.

Taxability of 2006 Unitholder distributions
Management estimates that substantially all of the distributions paid to Unitholders during calendar 2006 will be taxable as interest and other income.

Outlook
While the recently proposed tax on income trusts does not affect existing income trusts until 2011, management will continue to investigate measures to mitigate its future tax exposure. Regardless of this proposed new tax structure, Energy Savings remains committed to growth.

Energy Savings opened a sales office and began test marketing in Indiana during September 2006. The Indiana market currently has approximately 0.9 million natural gas customers eligible for deregulated supply and no mobility. Results to date indicate strong receptivity to the five-year product offering. Ramp-up to full scale marketing will begin in the third quarter.

It is anticipated that overall aggregation in the U.S. will continue to ramp up during the second half of the fiscal year. Management anticipates a positive impact to customer aggregation and a reduction of customer attrition in New York should the regulatory change respecting customer mobility occur in New York.

In the ordinary course of its business, Energy Savings regularly reviews possible acquisition or merger opportunities. To the extent that management believes that such transactions are accretive to Unitholders in the near and long term, acquisitions may be used to expand the Fund’s customer base or to add other strategic assets.

Energy Savings continues to actively monitor the progress of the deregulated markets in various jurisdictions, including Virginia, Maryland, New Jersey, Michigan and Texas, as well as the residential gas market in British Columbia and the Illinois electricity market.

Consolidated balance sheets

(thousands of dollars)

(unaudited)	**September 30, 2006**	March 31, 2006
Assets		
Current		
Cash	**$ 13,558**	$ 11,663
Restricted cash *(Note 4)*	**2,414**	4,452
Accounts receivable	**117,555**	149,424
Gas delivered in excess of consumption	**79,736**	–
Gas in storage	**28,886**	4,796
Unbilled revenues	**–**	36,982
Prepaid expenses	**1,827**	1,479
Corporate taxes recoverable	**12,156**	4,308
	256,132	213,104
Gas contracts (less accumulated amortization – $236,033; March 31, 2006 – $228,314)	**7,896**	15,615
Electricity contracts (less accumulated amortization – $21,505; March 31, 2006 – $14,810)	**4,916**	11,611
Goodwill	**94,576**	94,576
Capital assets (less accumulated amortization – $7,491; March 31, 2006 – $6,054)	**11,655**	11,263
Other assets *(Note 9a)*	**1,374**	4,056
	$ 376,549	$ 350,225
Liabilities		
Current		
Bank indebtedness *(Note 5)*	**$ 39,648**	$ 25,184
Accounts payable and accrued liabilities	**106,545**	113,137
Customer rebates payable *(Note 4)*	**2,414**	4,452
Management incentive program payable	**1,075**	1,260
Unit distribution payable	**8,197**	7,591
Corporate taxes payable	**–**	382
Deferred revenue	**92,548**	–
Accrued gas accounts payable	**–**	29,901
	250,427	181,907
Deferred charges (less accumulated amortization – $7,104; March 31, 2006 – $4,440)	**888**	3,552
Other liabilities *(Note 9a)*	**1,885**	1,499
Future income taxes *(Note 6)*	**15,183**	16,388
	268,383	203,346
Equity		
Unitholders' equity	**$ 100,602**	$ 138,443
Contributed surplus *(Note 8d)*	**7,564**	8,436
	108,166	146,879
	$ 376,549	$ 350,225

Consolidated statements of Unitholders' equity

For the six months ended September 30 (thousands of dollars)

(unaudited)	Unitholders' Capital *(Note 7)*	Accumulated Earnings	Distributions	2006	2005
Unitholders' equity, beginning of period	**$ 324,650**	**$ 143,890**	**$(330,097)**	**$ 138,443**	$ 173,106
Trust units exchanged	**3,166**	**–**	**–**	**3,166**	–
Trust units issued on exercise/exchange of unit compensation *(Note 8)*	**3,221**	**–**	**–**	**3,221**	1,651
Class A preference shares exchanged	**(3,166)**	**–**	**–**	**(3,166)**	–
Net income	**–**	**9,748**	**–**	**9,748**	20,521
Distributions	**–**	**–**	**(47,911)**	**(47,911)**	(42,957)
Class A preference share distributions – net of tax	**–**	**–**	**(2,899)**	**(2,899)**	(2,906)
Unitholders' equity, end of period	**$ 327,871**	**$ 153,638**	**$(380,907)**	**$ 100,602**	$ 149,415

Consolidated statements of operations

(thousands of dollars except per unit amount)

(unaudited)	*For the three months ended September 30* 2006	2005	*For the six months ended September 30* 2006	2005
Sales	**$ 236,127**	$ 180,049	**$ 521,677**	$ 414,454
Cost of sales	**204,822**	156,925	**449,212**	354,228
Gross margin	**31,305**	23,124	**72,465**	60,226
Expenses				
General and administrative expenses	**10,999**	8,500	**21,490**	16,801
Capital tax	**180**	207	**360**	414
Marketing expenses	**10,689**	10,731	**25,149**	21,430
Unit based compensation *(Note 8)*	**918**	864	**1,658**	2,036
Bad debt expense	**2,441**	1,644	**3,718**	2,178
Amortization of gas contracts	**3,860**	7,479	**7,719**	14,916
Amortization of electricity contracts	**2,015**	2,008	**4,031**	3,314
Amortization of capital assets	**710**	579	**1,437**	1,123
	31,812	32,012	**65,562**	62,212
Income (loss) before other income (expense)	**(507)**	(8,888)	**6,903**	(1,986)
Other income (expense) *(Note 9a)*	**(5,290)**	14,394	**(4,202)**	16,811
Income (loss) before income tax	**(5,797)**	5,506	**2,701**	14,825
Recovery of income tax *(Note 6)*	**(4,540)**	(3,890)	**(7,047)**	(5,696)
Net income (loss)	**$ (1,257)**	$ 9,396	**$ 9,748**	$ 20,521
Net income (loss) per unit (Note 10)				
Basic	**$ (0.01)**	$ 0.09	**$ 0.09**	$ 0.19
Diluted	**$ (0.01)**	$ 0.09	**$ 0.09**	$ 0.19

Consolidated statements of cash flows

(thousands of dollars)

(unaudited)	*For the three months ended September 30* **2006**	2005	*For the six months ended September 30* **2006**	2005
Net inflow (outflow) of cash related to the following activities				
Operating				
Net income (loss)	**$ (1,257)**	$ 9,396	**$ 9,748**	$ 20,521
Items not affecting cash				
Amortization of gas contracts	**3,860**	7,479	**7,719**	14,916
Amortization of electricity contracts	**2,015**	2,008	**4,031**	3,314
Amortization of capital assets	**710**	579	**1,437**	1,123
Unit based compensation	**918**	864	**1,658**	2,036
Future income taxes	**(652)**	(2,204)	**(1,205)**	(6,169)
Loss (gain) on foreign exchange (unrealized)	**(15)**	448	**390**	267
Other (income) expenses (unrealized)	**4,437**	(14,858)	**2,728**	(17,107)
	11,273	(5,684)	**16,758**	(1,620)
Adjustments required to reflect net cash receipts from gas sales	**12,940**	16,217	**19,893**	21,781
	22,956	19,929	**46,399**	40,682
Changes in non-cash working capital	**(18,577)**	6,117	**(7,311)**	(3,980)
Cash inflow from operations	**4,379**	26,046	**39,088**	36,702
Financing				
Exercise of trust unit options *(Note 8)*	**619**	157	**685**	1,441
Distributions paid to Unitholders	**(24,426)**	(21,490)	**(47,305)**	(42,683)
Distributions to Class A preference shareholders	**(2,214)**	(2,301)	**(4,539)**	(4,549)
Tax impact on distributions to Class A preference shareholders	**800**	831	**1,640**	1,643
Bank indebtedness *(Note 5)*	**19,544**	(698)	**14,464**	9,302
	(5,677)	(23,501)	**(35,055)**	(34,846)
Investing				
Purchase of capital assets	**(959)**	(1,253)	**(1,829)**	(1,993)
Acquisition of customer contracts	**–**	146	**–**	(6,593)
	(959)	(1,107)	**(1,829)**	(8,586)
Gain (loss) on foreign exchange (unrealized)	**15**	(448)	**(390)**	(267)
Other income foreign exchange (unrealized)	**3**	–	**81**	–
Net cash inflow (outflow)	**(2,239)**	990	**1,895**	(6,997)
Cash, beginning of period	**15,797**	8,071	**11,663**	16,058
Cash, end of period	**$ 13,558**	$ 9,061	**$ 13,558**	$ 9,061
Supplemental information				
Interest paid	**$ 519**	$ 168	**$ 1,013**	$ 193
Income taxes paid	**$ 360**	$ 1,522	**$ 1,041**	$ 11,308

Notes to the consolidated financial statements

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

Note 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 2006. 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.

Note 2. Organization

Energy Savings Income Fund ("Energy Savings" or the "Fund")

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

Note 3. 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.

Note 4. Restricted cash/customer rebates payable

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

Note 5. Bank indebtedness

An operating credit facility in the amount of $100,000 is available to Energy Savings to meet working capital requirements. The operating line of credit bears interest at bank prime plus 0.5% and the letters of credit bear interest at 1.5%. As at September 30, 2006 the Canadian prime rate was 6.0% and the U.S. prime rate was 8.25%. As at September 30, 2006, Energy Savings had drawn $39,648 against the facility and total letters of credit outstanding amounted to $41,862. Energy Savings has $18,490 of the facility remaining for future working capital and security requirements. Energy Savings' obligations under the credit facility are supported by guarantees of certain subsidiaries and affiliates and secured by a pledge of the assets of Energy Savings and the majority of its operating subsidiaries and affiliates. Energy Savings is required to meet a number of financial covenants under the credit facility agreement. As at September 30, 2006 and 2005, all of these covenants have been met.
On October 30, 2006, the credit facility was renewed for a period of one year to October 31, 2007.
The operating credit facility was also increased from $100,000 to $120,000.

Note 6. Income taxes

The Fund is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustees will distribute all taxable income directly earned by the trust to the Unitholders and deduct such distributions for income tax purposes.

Canadian based corporate subsidiaries are subject to tax on their taxable income at a rate of 36% (2005 – 36%).

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to the pre-tax income for Energy Savings and the income tax provision in the financial statements.

	For the three months ended September 30		*For the six months ended September 30*	
	2006	2005	**2006**	2005
Net income (loss) before income tax	**$ (5,797)**	$ 5,506	**$ 2,701**	$ 14,825
Income tax expense at the combined basic rate of 36% (2005 – 36%)	**(2,087)**	1,982	**972**	5,337
Taxes on income attributable to Unitholders	**(5,947)**	(6,580)	**(13,336)**	(13,076)
Large corporations tax	**–**	76	**–**	95
Benefit of U.S. accounting losses not recognized	**3,137**	486	**4,689**	1,324
Non-deductible expenses	**357**	146	**628**	624
Recovery of income tax	**$ (4,540)**	$ (3,890)	**$ (7,047)**	$ (5,696)
Components of Energy Savings' income tax provision are as follows:				
Income tax recovery	**$ (4,688)**	$ (2,517)	**$ (7,482)**	$ (1,170)
Amount credited to Unitholders' equity	**800**	831	**1,640**	1,643
Current income tax provision (recovery)	**(3,888)**	(1,686)	**(5,842)**	473
Future tax recovery	**(652)**	(2,204)	**(1,205)**	(6,169)
Recovery of income tax	**$ (4,540)**	$ (3,890)	**$ (7,047)**	$ (5,696)

Components of Energy Savings' net future income tax liability are as follows:	**2006**	2005
Carrying value of gas and electricity contracts in excess of tax value	**$ 6,754**	$ 10,715
Partnership income deferred for tax purposes	**4,501**	–
Other	**3,928**	4,136
	$ 15,183	$ 14,851

Note 7. Unitholders' capital

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.

Class A 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.

		2006		2005
Issued and Outstanding	**Units/Shares**		Units/Shares	
Trust units				
Balance, beginning of period	**96,391,991**	**$ 299,228**	95,515,617	$ 147,684
Options exercised	**61,883**	**623**	303,330	1,651
Unit appreciation rights exchanged	**153,532**	**2,598**	–	–
Exchanged from Class A preference shares	**1,266,183**	**3,166**	–	–
Balance, end of period	**97,873,589**	**305,615**	95,818,947	149,335
Class A preference shares				
Balance, beginning of period	**10,168,695**	**25,422**	10,168,695	25,422
Exchanged into units	**(1,266,183)**	**(3,166)**	–	–
Balance, end of period	**8,902,512**	**22,256**	10,168,695	25,422
Balance, end of period	**106,776,101**	**$ 327,871**	105,987,642	$ 174,757

Note 8. 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 Energy Savings. In accordance with the unit option plan, the Fund may grant options to a maximum of 11,300,000 units. As at September 30, 2006, there were 736,666 options still available for grant under the plan. Of the options issued, 1,288,334 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 six-month period and status at September 30, 2006 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	1,227,667	$6.09–$18.70	$ 13.44	
Granted	140,000	$16.65–$17.47	$ 17.01	$ 2.62
Forfeited/canceled	(17,500)	$15.63–$16.65	$ 16.52	
Exercised	(61,833)	$8.75–$16.58	$ 11.08	
Balance, end of period	1,288,334	$6.09–$18.70	$ 13.90	

[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
$6.09–$8.75	34,168	1.17	$ 7.91	34,168	$ 7.91
$10.68–$12.01	76,666	1.72	$ 11.10	76,666	$ 11.10
$12.17	600,000	1.50	$ 12.17	600,000	$ 12.17
$14.25–$18.70	577,500	3.47	$ 16.42	116,167	$ 16.40
Balance, end of period	1,288,334	2.39	$ 13.90	827,001	$ 12.49

Options Available for Grant	
Available for grant	11,300,000
Less: granted in prior years	(11,358,000)
Add: canceled/forfeited in prior years	917,166
Balance, beginning of period	859,166
Less: granted during the period	(140,000)
Add: canceled/forfeited during the period	17,500
Balance, end of period	736,666

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 for fiscal 2007:

Risk free rate	4.10%–4.48%
Expected volatility	25.50%–25.60%
Expected life	5 years
Expected distributions	$0.945–$1.005 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 September 30, 2006, there were 500,799 UARs still available for grant under the plan. Except as otherwise provided, (i) the UARs vest from one 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	(501,209)
Balance, beginning of period	498,791
Less: granted during the period	(70,365)
Add: forfeited/canceled during the period	72,373
Balance, end of period	500,799

(c) Deferred unit grants

The Fund grants awards under its 2004 directors' deferred compensation plan to all independent directors. 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, 2006, there were 78,418 DUGs available for grant under the plan.

DUGs Available for Grant	
Available for grant	100,000
Less: granted in prior years	(17,219)
Balance, beginning of period	82,781
Less: granted during the period	(4,363)
Balance, end of period	78,418

(d) Contributed surplus

Amounts credited to contributed surplus include option awards, UARs and DUGs. Amounts charged to contributed surplus are awards exercised during the year.

	For the three months ended September 30		*For the six months ended September 30*	
Contributed Surplus	**2006**	2005	**2006**	2005
Balance, beginning of period	**7,686**	5,861	**8,436**	4,881
Add: unit based compensation awards	**918**	864	**1,658**	2,036
Less: unit based awards exercised	**(1,040)**	(14)	**(2,529)**	(206)
Balance, end of period	**7,564**	6,711	**7,565**	6,711

Total amounts credited to Unitholders' capital in respect of options and UARs exercised or exchanged during the three and six months ended September 30, 2006 amounted to $1,662 (2005 – $175) and $3,221 (2005 – $1,651), respectively.

Cash received from options exercised for the three and six months ended September 30, 2006 amounted to $619 (2005 – $157) and $685 (2005 – $1,441), respectively.

Note 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 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 (electricity information is based on market). Gas options have been valued using the Black option value model using the applicable market forward curves and the implied volatility from other market traded gas options.

(i)(a) At September 30, 2006, Energy Savings had electricity fixed-for-floating swap contracts in Ontario designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak, flat, off peak and weekend)	5.0–50.0 MW/h
Total remaining notional volume (peak, flat off peak and weekend)	15,149,843 MWh
Maturity dates	October 31, 2006–July 31, 2012
Fixed price per MWh (in dollars)	$45.00–$118.00
Fair value	$182,699 unfavorable
Notional value	$1,099,388

(i)(b) At September 30, 2006, Energy Savings had electricity fixed-for-floating swap contracts in Alberta designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and off peak)	0.1–7.9 MW/h
Total remaining estimated notional volume (peak, off peak and load following)	3,427,032 MWh
Maturity dates	October 31, 2006–May 31, 2012
Fixed price per MWh (in dollars)	$55.80–$81.48
Fair value	$9,318 favorable
Notional value	$243,834

(i)(c) At September 30, 2006, Energy Savings had electricity fixed-for-floating swap contracts in New York designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and off peak)	0.9–14.4 MW/h
Total remaining notional volume (peak and off peak)	1,354,051 MWh
Maturity dates	October 31, 2006–April 30, 2011
Fixed price per MWh (in dollars)	$104.42–$127.36 (US$93.42–$113.95)
Fair value	$35,105 (US$31,408 unfavorable)
Notional value	$165,288 (US$147,882)

Since hedge accounting has been applied to these swaps, no recognition of the mark to market gain/loss has been recognized in the financial statements. The electricity fixed-for-floating contracts related to the Province of Alberta are predominantly 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 are also load shaped fixed-for-floating contracts in Ontario and New York wherein the quantity of electricity is established but varies throughout the term of the contracts.

(ii) At September 30, 2006, Energy Savings had other gas puts and calls in Manitoba which have been marked to market with the following terms:

Notional volume	450–51,750 GJ/month
Total remaining notional volume	1,486,625 GJ
Maturity dates	October 31, 2006–September 30, 2011
Fixed price per GJ (in dollars)	$5.48–$9.18
Fair value	$62 unfavorable

The gain of $354 (2005 – $1,022 loss) and the gain of $616 (2005 – $6 gain) for the three and six months ended September 30, 2006, respectively, have been recorded in other liabilities with its offsetting value being recorded in other income (expense). The fair value of the options is net of the present value of premiums which have yet to be paid.

(iii) At September 30, 2006, Energy Savings had other gas puts and calls in Alberta which have been marked to market with the following terms:

Notional volume	500–48,000 GJ/month
Total remaining notional volume	7,885,000 GJ
Maturity dates	October 31, 2006–September 30, 2011
Fixed price per GJ (in dollars)	$5.50–$12.40
Fair value	$1,338 unfavorable

The loss of $1,082 (2005 – $5,449 gain) and $767 (2005 – $5,759 gain) for the three and six months ended September 30, 2006, respectively, has been recorded in other liabilities with its offsetting value being recorded in other income (expense). The fair value of the options is net of the present value of premiums which have yet to be paid.

(iv) At September 30, 2006, Energy Savings had other gas put and call options in Illinois which have been marked to market with the following terms:

Notional volume	500–134,000 MmBTU/month
Total remaining notional volume	7,567,000 MmBTU
Maturity dates	October 31, 2006–May 31, 2011
Fixed price per MmBTU (in dollars)	$6.15–$11.62 (US$5.50–$10.40)
Fair value	$552 unfavorable (US$494)

The fair value is net of prepaid premiums of $1,781 (US$1,593). These premiums are included in other assets. The loss of $3,694 (US$3,305) (2005 – gain of $10,583 (US$9,149)) and $2,476 (US$2,215) (2005 – gain of $11,639 (US$10,010)) for the three and six months ended September 30, 2006, respectively, has been recorded in other assets with its offsetting value being recorded in other income (expense).

(v) At September 30, 2006, Energy Savings had gas put and call options in New York which have been marked to market with the following terms:

Notional volume	50–1,755 MmBTU/month
Total remaining notional volume	811,591 MmBTU
Maturity dates	October 31, 2006–August 31, 2011
Fixed price per MmBTU (in dollars)	$9.05–$12.70 (US$8.10–$11.36)
Fair value	$485 unfavorable (US$434)

The loss of $160 (US$143) (2005 – $157 (US$135)) and $246 (US$220) (2005 – $157 (US$135)) for the three and six months ended September 30, 2006, respectively, has been recorded in other liabilities with its offsetting value being recorded in other income (expense). The fair value of the options is net of the present value of premiums which have yet to be paid.

(vi) The Fund has foreign exchange forwards that are considered derivative financial instruments. The fair value of derivative financial instruments is the estimated amount that Energy Savings would pay or receive to dispose of these forwards at market. Management has estimated the value of its foreign exchange forwards using a discounted cash flow method which employs market forward curves. Hedge accounting has been applied to these forwards; however, required hedge accounting effectiveness was not fully achieved and resulted in $145 gain being booked to the Statement of Operations at September 30, 2006. The remaining mark to market gain has not been recognized in these financial statements as effectiveness was otherwise achieved. At September 30, 2006 Energy Savings had foreign exchange forwards designated as hedges of Energy Savings' anticipated cross border cash flows which it has committed with the following terms:

Notional amount	$2,258–$2,276 (US$2,000)
Total remaining notional amount	$54,408 (US$48,000)
Maturity dates	May 7, 2008–April 7, 2010
Exchange rates	$1.1289–$1.1381
Fair value	$1,933 favorable

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) Customer credit risk

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

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.

(c) Supplier risk

Energy Savings purchases the majority of the gas and electricity delivered to its customers through long-term contracts entered into with various suppliers. Energy Savings has an exposure to supplier risk as the ability to continue to deliver gas and electricity to its customers is reliant upon the ongoing operations of these suppliers, and their ability to fulfill their contractual obligations. A significant portion of these gas and electricity purchases is from Coral Energy, an affiliate of Shell Trading.

(d) Foreign currency risk

The Fund 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 $15 (2005 – $448 loss) and a $390 loss (2005 – $267 loss) for the three and six months ended September 30, 2006 has been recorded in other income (expense).

Energy Savings has entered into foreign exchange forward contracts in order to hedge its exposure to fluctuations in cross border cash flow (see Note 9(a) (vi)).

Note 10. Income (loss) per unit

	For the three months ended September 30		*For the six months ended September 30*	
	2006	2005	**2006**	2005
Basic income (loss) per unit				
Net income (loss) available to Unitholders	**$ (1,257)**	$ 9,396	**$ 9,748**	$ 20,521
Weighted average number of units outstanding	**97,790**	95,798	**97,121**	95,746
Weighted average number of Class A preference shares	**8,902**	10,169	**9,532**	10,169
Basic units and shares outstanding	**106,692**	105,967	**106,653**	105,915
Basic income (loss) per unit	**$ (0.01)**	$ 0.09	**$ 0.09**	$ 0.19
Diluted income (loss) per unit				
Net income (loss) available to Unitholders	**$ (1,257)**	$ 9,396	**$ 9,748**	$ 20,521
Basic units and shares outstanding	**106,692**	105,967	**106,653**	105,915
Dilutive effect of:				
Unit options	**301**	657	**285**	695
Unit appreciation rights	**398**	269	**410**	255
Deferred unit grants	**16**	11	**15**	10
Units outstanding on a diluted basis	**107,407**	106,904	**107,363**	106,875
Diluted income (loss) per unit	**$ (0.01)**	$ 0.09	**$ 0.09**	$ 0.19

Note 11. 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. Both the Canadian and the U.S. operations have gas and electricity business segments.

Energy Savings evaluates segment performance based on gross margin.

The following tables present Energy Savings' results from continuing operations by geographic segment:

For the three months ended September 30, 2006	**Canada**	**United States**	**Consolidated**
Sales – gas	**$ 79,629**	**$ 13,559**	**$ 93,188**
Sales – electricity	**130,579**	**12,360**	**142,939**
Sales	**$ 210,208**	**$ 25,919**	**$ 236,127**
Gross margin	**$ 28,568**	**$ 2,737**	**$ 31,305**
Amortization of gas contracts	**3,860**	**–**	**3,860**
Amortization of electricity contracts	**2,015**	**–**	**2,015**
Amortization of capital assets	**580**	**130**	**710**
Other operating expenses	**18,101**	**7,126**	**25,227**
Other expense	**1,092**	**4,198**	**5,290**
Recovery of income tax	**(4,540)**	**–**	**(4,540)**
Net income (loss)	**$ 7,460**	**$ (8,717)**	**$ (1,257)**
Additions to capital assets	**$ 749**	**$ 210**	**$ 959**

For the three months ended September 30, 2005	Canada	United States	Consolidated
Sales – gas	$ 71,786	$ 6,031	$ 77,817
Sales – electricity	102,194	38	102,232
Sales	$ 173,980	$ 6,069	$ 180,049
Gross margin	$ 22,341	$ 783	$ 23,124
Amortization of gas contracts	7,479	–	7,479
Amortization of electricity contracts	2,008	–	2,008
Amortization of capital assets	564	15	579
Other expenses	14,684	7,262	21,946
Other income	(4,221)	(10,173)	(14,394)
Recovery of income tax	(3,893)	3	(3,890)
Net income	$ 5,720	$ 3,676	$ 9,396
Additions to capital assets	$ 1,216	$ 37	$ 1,253

For the six months ended September 30, 2006	**Canada**	**United States**	**Consolidated**
Sales – gas	**$ 221,610**	**$ 32,257**	**$ 253,867**
Sales – electricity	**246,431**	**21,379**	**267,810**
Sales	**$ 468,041**	**$ 53,636**	**$ 521,677**
Gross margin	**$ 67,587**	**$ 4,878**	**$ 72,465**
Amortization of gas contracts	**7,719**	**–**	**7,719**
Amortization of electricity contracts	**4,031**	**–**	**4,031**
Amortization of capital assets	**1,186**	**251**	**1,437**
Other operating expenses	**38,400**	**13,975**	**52,375**
Other expense	**520**	**3,682**	**4,202**
Recovery of income tax	**(7,047)**	**–**	**(7,047)**
Net income (loss)	**$ 22,778**	**$ (13,030)**	**$ 9,748**
Additions to capital assets	**$ 1,310**	**$ 519**	**$ 1,829**
Total goodwill	**$ 94,576**	**$ –**	**$ 94,576**
Total assets	**$ 322,826**	**$ 53,723**	**$ 376,549**

For the six months ended September 30, 2005	Canada	United States	Consolidated
Sales – gas	$ 208,807	$ 12,643	$ 221,450
Sales – electricity	192,966	38	193,004
Sales	$ 401,773	$ 12,681	$ 414,454
Gross margin	$ 58,502	$ 1,724	$ 60,226
Amortization of gas contracts	14,916	–	14,916
Amortization of electricity contracts	3,314	–	3,314
Amortization of capital assets	1,095	28	1,123
Other operating expenses	31,111	11,748	42,859
Other income	(5,406)	(11,405)	(16,811)
Recovery of income tax	(5,699)	3	(5,696)
Net income	$ 19,171	$ 1,350	$ 20,521
Additions to capital assets	$ 1,944	$ 49	$ 1,993
Total goodwill	$ 94,576	$ –	$ 94,576
Total assets	$ 317,202	$ 34,881	$ 352,083

Note 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 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 payable under these guarantees is estimated to be $29,000.

Note 13. Commitments

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

2007	$	1,661
2008		3,301
2009		3,275
2010		3,037
2011		2,378
	$	13,652

(b) Commitments under the Master Service agreement with EPCOR for each of the next four years are as follows:

2007	$	4,332
2008		7,942
2009		7,798
2010		5,199
	$	25,271

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

2007	$	652,072
2008		1,090,681
2009		863,439
2010		663,351
2011		429,973
	$	3,699,516

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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Executive Chair

Brennan R. Mulcahy
Chief Executive Officer

Ken Hartwick, C.A.
President

Mary Meffe, C.A.
Chief Financial Officer

Independent directors

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Member of Senate of Canada

The Hon. Michael J.L. Kirby
Member of Senate of Canada and Corporate Director

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