

# Third Quarter Report

For the nine-month period ended December 31, 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 December 31, 2006 included:

- Q3 gross customer additions of 65,000. Customer base up 17% year over year.
- Management has revised its customer aggregation target from 475,000 to 350,000 for the fiscal year.
- Seasonally adjusted sales of \$417 million, up 27% year over year.
- Seasonally adjusted gross margin of \$61.6 million, up 19% year over year.
- Margin per customer on new Canadian customers signed of \$205 per gas customer and \$191 for electricity, 17% and 74% higher than published targets.
- Distributable cash after customer replacement\* of \$37.3 million (\$0.35 per unit), up 6% year over year.
- Distributable cash after all marketing expenses\* of \$36.5 million, up 37% year over year.
- Distributions of \$27.5 million (\$0.26 per unit), up 13% year over year.
- Energy Savings began test marketing in Natural Fuel Gas ("NFG"), a second territory in the State of New York.
- Announcement of the Fund's 25<sup>th</sup> increase in annual distribution rate, up \$0.03 to \$1.065 effective March 2007.

\* See Management's Discussion and Analysis for calculation.

## Message from the CEO

### *Fellow Unitholders,*

Energy Savings has completed another successful quarter of operations. As with past quarters, we have faced challenges and disappointments and we have overcome them. The net result has been a continuation of the growth in cash flow and distributions which our Unitholders have come to expect.

Our financial results continue to be in line with our published guidance of double digit growth in gross margins and distributable cash. Because of this, our Unitholders will see another year of double digit distribution growth. We are and will remain a growth company.

Let me start by apologizing for the disappointing performance of our unit price. While our management team's fundamental goal is to produce solid operating results and not to focus on unit price, we are very significant Unitholders and cannot help but share your frustration.

We have seen a 36% decline in our unit price from our most recent high. While some of the decline can be attributed to the recent decision by the federal government to tax income funds, that is not the whole story.

The reality is, like all other growth companies, we face many challenges in achieving expected growth levels. We are a large jurisdictionally diverse company. We have faced and managed through the opening of new markets, the deregulation then reregulation of Ontario electricity, customer credit issues and management changes.

The last time our unit price was down below \$13.00 was December 2003, more than three years ago. Our continued expansion would seem to warrant a unit price move in the other direction. What has happened over those three years to result in such disappointing Unit performance?

Well first, we have paid out \$2.70 per unit in cash distributions. We have never missed or even cut a monthly distribution. In fact, we have raised our distribution rate ten times since December 2003. Our monthly distribution rate is up more than 37% in three years. I do not believe that stability or growth of our distributions is the issue.

Our customer base today is more than 1.65 million, up 65% from 1.0 million at the end of 2003. I do not believe adding customers has been the issue. Our sales (seasonally adjusted) were \$1.4 billion for the last 12 months, more than double the \$683 million we had in 2003.

Our last 12 months' seasonally adjusted gross margin has been \$208 million. Calendar 2003 saw seasonally adjusted gross margin of \$136 million. Our last 12 months' distributable cash after customer replacement is \$134 million. Calendar 2003 saw distributable cash after customer replacement of \$106 million. I do not believe operating performance has been the issue.

In December 2003, we were in two provinces – Ontario and Manitoba. Today we are in five provinces and three states and we are building market share in every market. Clearly, geographic diversification has not been the issue.

Overall, I can only say that we are a much better business today than we were three years ago. We are bigger, more profitable and geographically more diverse. But our unit price is unchanged so we need to do a lot better job of getting our message across. Rebecca MacDonald, our Executive Chair, will work in the coming months to ensure that this message is clearly heard in the financial community.

We have turned out solid results but, as I noted before, these results have not come without challenges. We face them on a monthly basis. Let me discuss our current issues.

Marketing results for the quarter were disappointing. Marketing is the core of our business and the main driver of our success. The table below illustrates our marketing results and where we stand versus both our published targets and last year.

Market	Published Target	F2007 Q3 Additions	F2007 YTD Additions	% of Target	F2006 YTD Additions
Ontario – Gas	50,000	<b>3,000</b>	<b>26,000</b>	52%	44,000
Other provinces – Gas	60,000	<b>10,000</b>	<b>50,000</b>	83%	67,000
Canada – Electricity	175,000	<b>23,000</b>	<b>131,000</b>	75%	126,000
United States – Gas	100,000	<b>18,000</b>	<b>55,000</b>	55%	58,000
United States – Electricity	90,000	<b>11,000</b>	<b>24,000</b>	27%	17,000
<b>Total</b>	<b>475,000</b>	<b>65,000</b>	<b>286,000</b>	<b>60%</b>	<b>312,000</b>

We are working through a challenging period in New York. Based on our marketing targets, we would have expected to add more than 100,000 customers in that market this year. As we discussed in our second quarter release, we had a customer switching issue which resulted in much lower than expected additions. Accordingly, it is apparent that, without these New York additions, we cannot meet our overall aggregation target for the year.

We have gained a pivotal change with ConEdison and are promoting the implementation of a broader decision statewide by the New York regulators which will allow us to substantially reduce switching of our customers. The ConEd change occurred in December, which will not help us until the fourth quarter, but we are confident that the eventual result will be additions in line with our expectations on a go forward basis.

We are a marketing company and any time we have challenges in marketing, we are disappointed. The enhanced competition and current employment market tightness make it very difficult to attract and train new agents needed to offset our shortfall in New York. One of the reasons for this is the emergence of several new competitors. We have faced competition before and we have thrived. We fully expect competitors in each market as a clear sign that deregulation has taken root. We have consistently outperformed our competition in the past and expect to continue to do so going forward.

On a positive note, during the quarter we entered the National Fuel Gas territory and have started to gain traction in Indiana. We are seeing positive receptivity to the long-term product.

There were other positives in the quarter. A management plan over the past year to increase the gross margin for new customers signed has been very successful. The table below highlights this success in the third quarter.

New Customer Type	Annual Margin	Target Margin	%	# Added
Canada – Gas	\$ 205	\$ 175	117%	13,000
Canada – Electricity	\$ 191	\$ 110	173%	23,000
United States – Gas	\$ 206	\$ 140	147%	18,000
United States – Electricity	\$ 132	\$ 110	120%	11,000

While these margins reflect only the current quarter's additions and we expect our margins per customer to trend back toward target levels in the future, these customers will generate higher margins for the entire term of their five-year contracts. This builds a solid footing for Energy Savings' growth as it moves into fiscal 2008 and beyond. One impact of higher customer margins was our ability to offset a record warm December in the Northeast without any material impact on our operating results. It is this ability to balance market forces which has allowed Energy Savings to provide the predictable, reliable results seen through its history.

We have published guidance on both gross margin and distributable cash which calls for 15% to 20% growth in fiscal 2007. An analysis of our locked-in margin for the fourth quarter allows management to reaffirm our 15% to 20% guidance for fiscal 2007 providing we have near-normal weather in our key markets for the remainder of the winter.

Despite challenges, this is turning out to be a very solid year for Energy Savings. As with past successes, our policy is to translate improved operating results into higher distributions for our Unitholders. Our 25<sup>th</sup> distribution increase to \$1.065 per year is evidence of the long-term success of our business.

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")

January 30, 2007

### **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 nine months ended December 31, 2006. This analysis should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended December 31, 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](http://www.esif.ca). Additional information can be found on SEDAR at [www.sedar.com](http://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](http://www.esif.ca) or through the SEDAR website at [www.sedar.com](http://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<sup>3</sup> (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.

“Small volume electricity customers” represents customers that consume less than 150,000 kWh of electricity.

### ***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 to 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 December 31*

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

	2006		2005		Change
	\$	Per Unit	\$	Per Unit	
Cash available for distribution					
After customer replacement	<b>37,268</b>	<b>\$ 0.35</b>	35,245	\$ 0.33	6%
After marketing expense to					
add new customers	<b>36,500</b>	<b>\$ 0.34</b>	26,582	\$ 0.25	37%
Distributions	<b>27,466</b>	<b>\$ 0.26</b>	24,333	\$ 0.23	13%
Payout ratio					
After customer replacement	<b>74%</b>		69%		
After marketing expense to					
add new customers	<b>75%</b>		92%		

*For the nine months ended December 31*

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

	2006		2005		Change
	\$	Per Unit	\$	Per Unit	
Cash available for distribution					
After customer replacement	<b>92,509</b>	<b>\$ 0.86</b>	88,885	\$ 0.83	4%
After marketing expense to					
add new customers	<b>77,057</b>	<b>\$ 0.72</b>	68,907	\$ 0.64	12%
Distributions	<b>79,916</b>	<b>\$ 0.74</b>	71,839	\$ 0.67	11%
Payout ratio					
After customer replacement	<b>86%</b>		81%		
After marketing expense to					
add new customers	<b>104%</b>		104%		

## *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, Indiana 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 consumption is typically highest during these periods.

**Distributable cash and cash distributions**

For the three months ended December 31

*(thousands of dollars except per unit amounts)*

	2006		2005	
	Per Unit		Per Unit	
<b>Cash available for distribution</b>				
Gross margin per financial statements	\$ 60,319	\$ 0.56	\$ 50,394	\$ 0.47
Adjustments required to reflect net cash receipts from gas sales	1,263		1,381	
Seasonally adjusted gross margin	\$ 61,582	\$ 0.57	\$ 51,775	\$ 0.48
General and administrative	(10,176)		(9,271)	
Capital tax expense	(180)		(207)	
Bad debt expense	(3,172)		(1,300)	
Income tax expense	(391)		(714)	
Interest and other bank charges	(1,111)		(71)	
	(15,030)		(11,563)	
Cash available for distribution before marketing expenses	46,552		40,212	
Marketing expenses to maintain customer base	(9,284)		(4,967)	
<b>Cash available for distribution after customer replacement</b>				
Marketing expenses to add new customers	(768)		(8,663)	
Cash available for distribution	\$ 36,500	\$ 0.34	\$ 26,582	\$ 0.25
<b>Reconciliation to statements of cash flow</b>				
Cash inflow from operations	\$ 12,521		\$ 1,230	
Add:				
Increase in non-cash working capital	18,615		24,512	
Tax effect on distributions paid to the holders of Class A preference shares	824		840	
Current income tax provision	4,540		–	
	\$ 36,500		\$ 26,582	
<b>Distributions</b>				
Unitholder distributions	\$ 25,081		\$ 21,934	
Class A preference share distributions	2,282		2,326	
Unit appreciation rights distributions	98		70	
	27,461		24,330	
Non-cash distributions – deferred unit grants	5		3	
Total distributions	\$ 27,466	\$ 0.26	\$ 24,333	\$ 0.23
Diluted average number of units outstanding		107.3m		107.0m

**Distributable cash and cash distributions**

For the nine months ended December 31

(thousands of dollars except per unit amounts)

	2006		2005	
	Per Unit		Per Unit	
<b>Cash available for distribution</b>				
Gross margin per financial statements	\$ 132,784	\$ 1.24	\$ 110,620	\$ 1.04
Adjustments required to reflect net cash receipts from gas sales	21,156		23,162	
Seasonally adjusted gross margin	\$ 153,940	\$ 1.43	\$ 133,782	\$ 1.25
General and administrative	(31,666)		(26,072)	
Capital tax expense	(540)		(621)	
Bad debt expense	(6,890)		(3,478)	
Income tax recovery (expense)	(391)		456	
Interest and other bank charges	(2,195)		(100)	
	(41,682)		(29,815)	
Cash available for distribution before marketing expenses	112,258		103,967	
Marketing expenses to maintain customer base	(19,749)		(15,082)	
<b>Cash available for distribution after customer replacement</b>				
Marketing expenses to add new customers	(15,452)		(19,978)	
<b>Cash available for distribution</b>	<b>\$ 77,057</b>	<b>\$ 0.72</b>	<b>\$ 68,907</b>	<b>\$ 0.64</b>
<b>Reconciliation to statements of cash flow</b>				
Cash inflow from operations	\$ 51,609		\$ 37,932	
Add:				
Increase in non-cash working capital	25,926		28,492	
Tax effect on distributions paid to the holders of Class A preference shares	2,464		2,483	
Current income tax recovery	(2,942)		–	
	\$ 77,057		\$ 68,907	
<b>Distributions</b>				
Unitholder distributions	\$ 72,793		\$ 64,767	
Class A preference share distributions	6,821		6,875	
Unit appreciation rights distributions	290		189	
	79,904		71,831	
Non-cash distributions – deferred unit grants	12		8	
<b>Total distributions</b>	<b>\$ 79,916</b>	<b>\$ 0.74</b>	<b>\$ 71,839</b>	<b>\$ 0.67</b>
Diluted average number of units outstanding		<b>107.3m</b>		106.9m

## Sales and gross margin analysis

### Sales and gross margin – Per financial statements

For the three months ended December 31

<i>(thousands of dollars)</i>		2006			2005		
Sales	Canada	United States	Total	Canada	United States	Total	
Gas	\$ 214,656	\$ 54,020	\$ 268,676	\$ 175,366	\$ 31,729	\$ 207,095	
Electricity	141,012	12,542	153,554	112,326	1,740	114,066	
	<b>\$ 355,668</b>	<b>\$ 66,562</b>	<b>\$ 422,230</b>	\$ 287,692	\$ 33,469	\$ 321,161	
Increase	<b>24%</b>	<b>99%</b>	<b>31%</b>				
Gross Margin	Canada	United States	Total	Canada	United States	Total	
Gas	\$ 32,795	\$ 8,742	\$ 41,537	\$ 35,021	\$ 7,009	\$ 42,030	
Electricity	19,065	(283)	18,782	8,195	169	8,364	
	<b>\$ 51,860</b>	<b>\$ 8,459</b>	<b>\$ 60,319</b>	\$ 43,216	\$ 7,178	\$ 50,394	
Increase	<b>20%</b>	<b>18%</b>	<b>20%</b>				

For the nine months ended December 31

<i>(thousands of dollars)</i>		2006			2005		
Sales	Canada	United States	Total	Canada	United States	Total	
Gas	\$ 436,266	\$ 86,281	\$ 522,547	\$ 384,173	\$ 44,372	\$ 428,545	
Electricity	387,439	33,921	421,360	305,292	1,778	307,070	
	<b>\$ 823,705</b>	<b>\$ 120,202</b>	<b>\$ 943,907</b>	\$ 689,465	\$ 46,150	\$ 735,615	
Increase	<b>19%</b>	<b>160%</b>	<b>28%</b>				
Gross Margin	Canada	United States	Total	Canada	United States	Total	
Gas	\$ 69,036	\$ 12,329	\$ 81,365	\$ 74,351	\$ 8,716	\$ 83,067	
Electricity	50,411	1,008	51,419	27,367	186	27,553	
	<b>\$ 119,447</b>	<b>\$ 13,337</b>	<b>\$ 132,784</b>	\$ 101,718	\$ 8,902	\$ 110,620	
Increase	<b>17%</b>	<b>50%</b>	<b>20%</b>				

#### Canada

Sales were \$355.7 million and \$823.7 million for the three and nine months ended December 31, 2006, up 24% and 19%, respectively, from the prior comparative periods. Margins were \$51.9 million for the quarter, an increase of 20% over the prior comparative quarter. Margins for the nine months ended December 31, 2006 were \$119.4 million, an increase of 17% from the prior comparative period. Refer to “Sales and gross margin – Seasonally adjusted” for further details.

#### United States

Sales and margins were \$66.6 million and \$8.5 million for the three months ended December 31, 2006, an increase of 99% and 18%, respectively, over the prior comparable quarter. For the nine-month period, sales and margins amounted to \$120.2 million and \$13.3 million, an increase of 160% and 50%, respectively, over the prior comparable period. 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<sup>1</sup>**

For the three months ended December 31

*(thousands of dollars)*

	2006			2005		
<b>Sales</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>	Canada	United States	Total
Gas	\$ 214,656	\$ 54,020	\$ 268,676	\$ 175,366	\$ 31,729	\$ 207,095
Adjustments <sup>1</sup>	(5,049)	–	(5,049)	7,403	–	7,403
	<b>209,607</b>	<b>54,020</b>	<b>263,627</b>	182,769	31,729	214,498
Electricity	141,012	12,542	153,554	112,326	1,740	114,066
	<b>\$ 350,619</b>	<b>\$ 66,562</b>	<b>\$ 417,181</b>	\$ 295,095	\$ 33,469	\$ 328,564
Increase	<b>19%</b>	<b>99%</b>	<b>27%</b>			
<b>Gross Margin</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>	Canada	United States	Total
Gas	\$ 32,795	\$ 8,742	\$ 41,537	\$ 35,021	\$ 7,009	\$ 42,030
Adjustments <sup>1</sup>	1,263	–	1,263	1,381	–	1,381
	<b>34,058</b>	<b>8,742</b>	<b>42,800</b>	36,402	7,009	43,411
Electricity	19,065	(283)	18,782	8,195	169	8,364
	<b>\$ 53,123</b>	<b>\$ 8,459</b>	<b>\$ 61,582</b>	\$ 44,597	\$ 7,178	\$ 51,775
Increase	<b>19%</b>	<b>18%</b>	<b>19%</b>			

For the nine months ended December 31

*(thousands of dollars)*

	2006			2005		
<b>Sales</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>	Canada	United States	Total
Gas	\$ 436,266	\$ 86,281	\$ 522,547	\$ 384,173	\$ 44,372	\$ 428,545
Adjustments <sup>1</sup>	124,481	–	124,481	126,883	–	126,883
	<b>560,747</b>	<b>86,281</b>	<b>647,028</b>	511,056	44,372	555,428
Electricity	387,439	33,921	421,360	305,292	1,778	307,070
	<b>\$ 948,186</b>	<b>\$ 120,202</b>	<b>\$ 1,068,388</b>	\$ 816,348	\$ 46,150	\$ 862,498
Increase	<b>16%</b>	<b>160%</b>	<b>24%</b>			
<b>Gross Margin</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>	Canada	United States	Total
Gas	\$ 69,036	\$ 12,329	\$ 81,365	\$ 74,351	\$ 8,716	\$ 83,067
Adjustments <sup>1</sup>	21,156	–	21,156	23,162	–	23,162
	<b>90,192</b>	<b>12,329</b>	<b>102,521</b>	97,513	8,716	106,229
Electricity	50,411	1,008	51,419	27,367	186	27,553
	<b>\$ 140,603</b>	<b>\$ 13,337</b>	<b>\$ 153,940</b>	\$ 124,880	\$ 8,902	\$ 133,782
Increase	<b>13%</b>	<b>50%</b>	<b>15%</b>			

<sup>1</sup>For Ontario, Manitoba and Quebec gas markets.

As noted above, total sales and margin for the three months ended December 31, 2006 were \$417.2 million and \$61.6 million, an increase of 27% and 19%, respectively, over the third quarter of fiscal 2006.

Total sales and margin for the nine months ended December 31, 2006 were \$1.1 billion and \$153.9 million for the quarter, up 24% and 15%, respectively, over the prior comparable period.

### Canada

On a seasonally adjusted basis, sales were \$350.6 million for the quarter, up 19% from \$295.1 million in fiscal 2006. Margins were \$53.1 million for the quarter, up 19% from the same quarter in the previous year. The increase in sales and margin was higher than the 13% increase in long-term customers primarily due to higher average sales price and higher gross margin per customer.

### Gas

Gas sales increased by 15% from the prior comparable quarter to \$209.6 million, while margins decreased by 6% to \$34.1 million. As a result of unseasonably warm weather in the month of December, particularly in Ontario, customer consumption decreased. Gross margin was reduced by \$2.4 million for the three months ended December 31, 2006 as a result of the sale of excess gas. In contrast, for the third quarter of the prior comparable year, the sale of excess gas supply resulting from that year's warm winter resulted in additional gross margin of \$3.8 million due to favorable spot prices.

Gas sales were \$560.7 million for the nine months ended December 31, 2006, an increase of 10% over the prior comparable period. Margins were \$90.2 million, a decrease of 8% over the first nine months of fiscal 2006. For the nine months ended December 31, 2006, the gross margin loss was \$4.0 million. The loss resulted from the disposition of excess supply related to the prior year's warm winter in the second quarter in addition to the reduced consumption from an unseasonably warm December. The loss incurred to date is consistent with management's annual estimate of a 3% to 4% of gross margin loss in a record warm winter.

### Electricity

Electricity sales and margins for the three months ended December 31, 2006 increased by 26% and 133%, respectively. The improved sales and gross margin are attributable to increases in the customer base and consumption. The disparity between the increase in sales and the increase in margin is directly attributable to management's ability to generate margins on recent contracts substantially above the annual target of \$110 per RCE. In recent quarters, we have seen wholesale energy prices decline and liquidity return to the power market providing management with the ability to generate higher margins while providing competitive pricing to the consumer. In addition to the strong wholesale market and the related supply costs, improved profitability and the reduction in the number of acquired load following customers also contributed to the increased gross margin. In the prior comparable quarter, a loss of \$0.6 million was realized on the load following portfolio versus a gain of \$0.8 million in the current period. 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 in the prior year. In addition, there were fewer load following customers than in the prior comparable year due to the expiration of their contracts. At December 31, 2006, the acquired load following contracts account for approximately 7% of the electricity long-term customers and have an average remaining life of less than one year.

For the nine months ending December 31, 2006, electricity sales and margins were \$387.4 million and \$50.4 million, an increase of 27% and 84%, respectively.

Customers aggregated during the period generate margins well above Energy Savings' average annual target margins of \$175/RCE for gas and \$110/RCE for electricity. The target margins in Alberta include an allowance for anticipated bad debt expense. Average annual margins for Canadian customers signed during the period were \$205 per customer for gas and \$191 per customer for electricity. Management is uncertain as to whether these higher margins are sustainable and will provide an update, if required, with the release of the year end results.

#### *United States*

Sales and margins for the quarter were \$66.6 million and \$8.5 million, the same as on a financial statement basis, representing an increase of 99% and 18%, respectively, over the prior comparable quarter. Gas sales and margins were \$54.0 million and \$8.7 million, respectively, for the three months ended December 31, 2006. The increase in gas sales over the prior comparable period reflects a 53% increase in the customer base versus the prior comparative quarter and an increase in the average sales price. Gas margins in the U.S. were negatively impacted by the sale of excess supply generated by lower than expected consumption during a period of low spot prices. Losses during the quarter amounted to \$0.8 million versus a gain of \$2.1 million in the prior comparative quarter. In addition to the warm weather experienced during the quarter, high attrition continued in New York due to customer mobility which reduced net customer additions and reduced customer consumption. In mid-December 2006, a contest period was introduced in the ConEdison ("ConEd") territory of New York. It is expected that this regulatory change will reduce attrition rates and increase customer additions beginning in the fourth quarter. Refer to "Attrition" for definition of the contest period and further details.

Electricity sales and margins were \$12.5 million and \$(0.3) million, respectively. Although customer margins and consumption improved during the quarter, it was offset by losses on the sale of excess supply totaling \$0.9 million versus a minor gain in the prior comparable quarter. Barring no further impact from warmer weather, the implementation of a contest period in ConEd, as outline above, is expected to reduce customer attrition and increase gross margin.

For the nine months ended December 31, 2006, total sales and margins for the U.S. amounted to \$120.2 million and \$13.3 million, respectively.

Customers aggregated during the period generate margins 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 and working capital costs. Average annual margins for U.S. customers signed during the period were \$206 per gas customer and \$132 per electricity customer.



### ***Distributable Cash***

Distributable cash after customer replacement for the quarter was \$37.3 million (\$0.35 per unit), an increase of 6% from \$35.2 million (\$0.33 per unit) in the third quarter of fiscal 2006. The increase in distributable cash after customer replacement is primarily related to the increase in gross margin resulting from customer additions and improved gas and electricity margins. This increase was offset by higher general and administrative, bad debt and interest expenses incurred in the third quarter reflecting the quarter over quarter growth of Energy Savings. During the quarter, an income tax provision of \$0.4 million was included in the calculation of distributable cash as it represents the amount estimated to be payable due to income earned in the Province of Manitoba.

Marketing expenses to maintain the customer base were \$9.3 million for the quarter, 87% higher than in the prior comparable quarter. The increased expenses directly correlate to the increase in customers who were lost through attrition and failure to renew at the end of their contract term as well as increased aggregation costs per customer. While attrition and failed to renew figures will vary quarter over quarter, management expects attrition to approximate 10% for Canada and 15% to 20% for the U.S. on an annual basis. The rate of customer renewal remains at 80%. Approximately 70% of the total marketing expenses represent commissions 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 target 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 nine months ended December 31, 2006 was \$92.5 million (\$0.86 per unit), an increase of 4% from \$88.9 million (\$0.83 per unit) in the prior comparable period.

Distributable cash after marketing expenses for the quarter was \$36.5 million (\$0.34 per unit), an increase of 37% from \$26.6 million (\$0.25 per unit) in the prior comparable quarter. For the nine months ended December 31, 2006, distributable cash after marketing expenses was \$77.1 million (\$0.72 per unit), an increase of 12% from \$68.9 million (\$0.64 per unit) in the prior comparable period. The increase is primarily due to improved sales and gross margin.

For the quarter, distributable cash was 14% in excess of the amount paid out in distributions. The Fund's results reflect greater seasonality as customer consumption is greatest during the third and fourth quarters (winter quarters). For the nine months ended December 31, 2006, total distributions were 4% higher than the cash available for distribution. The distribution level is consistent with the seasonality of the business and it is expected that distributable cash will be greater than distributions paid at the end of the fiscal year. Energy Savings' credit facility is used to support working capital needs and the cash required for distributions through the seasonal fluctuations in our business. In addition to seasonality, the Fund's liquidity requirements are driven by the delay from the time that a customer contract is signed until cash flow is generated. Marketing expenses are recognized at the time the customer is signed although the customer does not begin to contribute to gross margin until two to six months later.

Payout ratios after customer replacement were 74% and 86% for the three and nine months ended December 31, 2006, respectively, compared with 69% and 81% in the prior comparable periods. Payout ratios after marketing expenses were 75% and 104% for the three and nine months ended December 31, 2006, compared with 92% and 104% in the prior comparable periods. 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 the third and fourth quarters and lower distributable cash with a higher payout ratio in the first and second quarters.

Payout ratios on an annual basis are expected to be within the target ranges of 75% to 80% for the payout ratio after customer replacement and less than 100% for the payout ratio after the deduction of marketing expenses.

As part of its review of its MD&A disclosure of distributable cash in light of recent CICA guidance on this subject, the Fund is analyzing the allocation of marketing expenses between "Marketing expenses to maintain customer base" and "Marketing expenses to add new customers". The table below indicates that new customers added during recent periods generate higher margins than do the lost customers that they are replacing. As the intent of disclosing "Distributable cash after customer replacement" was to show the cost of maintaining Energy Savings' customer book at a "steady state", the current methodology – matching each customer lost with the costs of signing a new customer of that type regardless of relative margin – is a less accurate analysis of maintaining a "steady state" than an allocation which exactly replaces the annual margin of customers lost with the costs of replacing that margin. An update will be provided at year end.

The table below highlights the gross margin on new customers versus the gross margin on customers lost during the quarter.

### Annual gross margin per customer<sup>1</sup>

	Q3 F2007	Annual Target F2007
<b>Customers added in the quarter</b>		
Canada – Gas	\$ 205	\$ 175
Canada – Electricity	\$ 191	\$ 110
United States – Gas	\$ 206	\$ 140
United States – Electricity	\$ 132	\$ 110
<b>Customers lost in the quarter<sup>2</sup></b>		
Canada – Gas	\$ 167	
Canada – Electricity	\$ 87	
United States – Gas	\$ 157	
United States – Electricity	\$ 130	

<sup>1</sup>Customer sales price less cost of matched supply and allowance for bad debt and U.S. working capital. Annual amount is based on residential standard annual consumption of 2,815 m<sup>3</sup> of natural gas and 10,000 kWh of electricity.

<sup>2</sup>Gross margin as calculated above for customers in place at March 31, 2006. Includes low margin acquired customers.

*Net income***Reconciliation to statements of operations**

<i>(thousands of dollars)</i>	<i>For the three months ended December 31</i>		<i>For the nine months ended December 31</i>	
	<b>2006</b>	2005	<b>2006</b>	2005
Net income	<b>\$ 14,112</b>	\$ 13,217	<b>\$ 23,860</b>	\$ 33,738
Adjustments required to reflect				
net cash receipts from sales	<b>1,263</b>	1,381	<b>21,156</b>	23,162
Items not affecting cash	<b>15,761</b>	11,144	<b>32,519</b>	9,524
Tax effect on distributions paid to holders of Class A preference shares	<b>824</b>	840	<b>2,464</b>	2,483
Current income tax provision (recovery)	<b>4,540</b>	–	<b>(2,942)</b>	–
<b>Cash available for distribution</b>	<b>\$ 36,500</b>	\$ 26,582	<b>\$ 77,057</b>	\$ 68,907

Energy Savings had net income for the three and nine months ended December 31, 2006 of \$14.1 million (2005 – \$13.2 million) and \$23.9 million (2005 – \$33.7 million), respectively. Net income for the three months ended December 31, 2006 increased by 7% as a result of increase in gross margin and lower amortization expenses, offset by the change in market value of the financial instruments and the provision for income tax. Net income for the nine months ended December 31, 2006 has decreased over the prior comparative period as a result of the change in the market value of certain derivative financial instruments. An expense of \$11.2 million was recognized during the nine-month period versus income of \$15.4 million for the prior comparative nine-month period. 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**

<i>(thousands of dollars except per unit amounts)</i>	F2007	F2007	F2007	F2006
	Q3	Q2	Q1	Q4
Sales per financial statements	\$ 422,230	\$ 236,127	\$ 285,550	\$ 476,699
Net income (loss)	14,112	(1,257)	11,005	17,825
Net income (loss) per unit – basic	\$ 0.13	\$ (0.01)	\$ 0.10	\$ 0.17
Net income (loss) per unit – diluted	0.13	(0.01)	0.10	0.17
Amount available for distribution				
After customer replacement	\$ 37,268	\$ 24,755	\$ 30,486 <sup>1</sup>	\$ 41,136
After marketing expense to add new customers	36,500	19,068	21,489 <sup>1</sup>	32,293
Payout ratio				
After customer replacement	74%	109%	84% <sup>1</sup>	61%
After marketing expense to add new customers	75%	141%	119% <sup>1</sup>	77%
	F2006	F2006	F2006	F2005
	Q3	Q2	Q1	Q4
Sales per financial statements	\$ 321,161	\$ 180,049	\$ 234,405	\$ 406,901
Net income	13,217	9,396	11,125	27,268
Net income per unit – basic	\$ 0.12	\$ 0.09	\$ 0.11	\$ 0.26
Net income per unit – diluted	0.12	0.09	0.10	0.26
Amount available for distribution				
After customer replacement	\$ 35,245	\$ 26,465	\$ 27,175	\$ 22,612 <sup>2</sup>
After marketing expense to add new customers	26,582	20,760	21,565	19,454
Payout ratio				
After customer replacement	69%	91%	86%	102%
After marketing expense to add new customers	92%	116%	109%	118%

<sup>1</sup>Restated to eliminate income tax recovery.<sup>2</sup>Allocated based on the annual average for fiscal 2005.

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 the third and fourth quarters and lower distributable cash with a higher payout ratio in the first and second quarters.

The increase in sales, income and distributable cash for the third quarter, in comparison to the prior comparable quarter, is primarily a result of the increase in gross margin generated by higher per customer gross margin on new customers and a 17% growth in the customer base.

**Long-term customers**

<b>Canada</b>	Beginning	Additions	Attrition <sup>5</sup>	Failed to Renew <sup>6</sup>	Ending
<b>Gas</b>					
Ontario	608,000	3,000	(14,000)	(7,000)	590,000
Other markets <sup>1</sup>	226,000	10,000	(5,000)	(3,000)	228,000
<b>Total – Gas</b>	<b>834,000</b>	<b>13,000</b>	<b>(19,000)</b>	<b>(10,000)</b>	<b>818,000</b>
<b>Electricity<sup>2</sup></b>	<b>648,000</b>	<b>23,000</b>	<b>(15,000)</b>	<b>(3,000)</b>	<b>653,000</b>
<b>Total – Canada</b>	<b>1,482,000</b>	<b>36,000</b>	<b>(34,000)</b>	<b>(13,000)</b>	<b>1,471,000</b>
<b>United States</b>					
Gas <sup>3</sup>	133,000	18,000	(6,000)	–	145,000
Electricity <sup>4</sup>	32,000	11,000	(5,000)	–	38,000
<b>Total – United States</b>	<b>165,000</b>	<b>29,000</b>	<b>(11,000)</b>	<b>–</b>	<b>183,000</b>
<b>Combined</b>	<b>1,647,000</b>	<b>65,000</b>	<b>(45,000)</b>	<b>(13,000)</b>	<b>1,654,000</b>

<sup>1</sup>Includes Quebec, British Columbia, Manitoba and Alberta.

<sup>2</sup>Includes Ontario and Alberta.

<sup>3</sup>Includes Illinois, New York and Indiana.

<sup>4</sup>Includes New York only.

<sup>5</sup>Attrition – Customers whose contracts were terminated primarily due to relocation or death, or canceled by Energy Savings due to delinquent accounts.

<sup>6</sup>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 62,000 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.

**Attrition**

On a rolling 12-month basis, attrition has been 8%. Realized attrition in Canada has been 7%, which is below the 10% rate used for internal purposes.

Attrition in the U.S. was 23%, which is currently above management's target annual range of 15% to 20% and is directly attributable to the higher attrition level experienced to date in New York. The regulatory environment in New York provided for higher customer mobility.

In mid-December 2006, a contest period was introduced in the ConEd territory of New York and, although it had no impact in the third quarter, based on positive results to date, attrition rates are expected to reduce in the fourth quarter. This contest period will enable ConEd to advise retailers of any pending switch of a customer to a competing supplier. Prior to the implementation of the contest period, customers were automatically switched to the competing supplier with no ability to consult their existing supplier prior to the switch, and no ability to seamlessly remain with that supplier. Management continues to promote the implementation of a statewide contest period with the New York regulators as well as the local utilities.

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

### **Failed to renew**

The renewal rate for Ontario gas customers who have completed the term of their contract remains above 80%. 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 15 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.

To date, less than 3% of Ontario electricity customers aggregated by Energy Savings have reached their first renewal date. The renewal rate for electricity will be impacted as the current regulatory environment in Ontario does not provide for effortless one-year renewals. Currently, customers must positively elect to renew their existing contract. There is no opportunity to renew a residential or small volume electricity customer for a one-year term should the customer fail to positively renew or terminate their contract. Management has been in discussions with the regulators in Ontario and remains optimistic that the current rules will be altered in the near term to provide for one-year effortless renewals.

Energy Savings continuously monitors its customer renewal rates with the expectation of maximizing the number of customers who renew their contract. 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 286,000 RCEs for nine months of the fiscal year. For the quarter, gross additions and net additions were 65,000 and 7,000, respectively. Overall, Energy Savings' customer base reached 1,654,000, up 17% from the year prior.

In the second quarter, management confirmed that the U.S. target of 190,000 for the year would not be achieved as a result of various operational challenges experienced in the U.S., and in order to achieve the 475,000 combined annual gross target, the Canadian additions had to continue well ahead of pace in order to compensate for the shortfall in the U.S. Unfortunately the current employment market has made it difficult to attract and train the new agents necessary to offset the shortfall in the U.S. In addition, the emergence of several new competitors in Ontario has increased agent attrition. Historically, as new competitors come into the marketplace, the initial result is competition for agents. Over time, as evidenced throughout the history of Energy Savings, many of these competitors fail and exit the marketplace. This enhanced competition in addition to a tightening sales force market has reduced our overall sales force by more than 10%. Given that the number of sales agents is the principal driver of gross customer additions, reduced sales agent totals have created suboptimal sales penetration results. With total active independent agents now below 600, management is focused on ensuring that Energy Savings remains as the most attractive choice for potential agents. Plans for the addition of new marketing channels are also under way.

Given the inability to generate sufficient Canadian additions to offset the New York shortfall, Energy Savings will not be able to meet its customer aggregation target for the year. Management expects that gross additions in the fourth quarter will be similar to those realized in the third quarter, reaching a total

of approximately 350,000 customer additions. While the negative impact of lower customer additions is offset by significantly higher gross margin per new customer, management's focus is on renewing the growth of the sales force and returning the level of customer additions to that experienced in the first and second quarters. Management is confident that this will occur in fiscal 2008.

Gross Customer Additions	Q1 F2007	Q2 F2007	Q3 F2007	YTD F2007	Annual Published Target	Realized to Date	YTD F2006	Increase (Decrease)
<b>Canada</b>								
<b>Gas</b>								
Ontario	14,000	9,000	<b>3,000</b>	<b>26,000</b>	50,000	52%	44,000	(41%)
Other markets <sup>1</sup>	23,000	17,000	<b>10,000</b>	<b>50,000</b>	60,000	83%	67,000	(25%)
Total – Gas	37,000	26,000	<b>13,000</b>	<b>76,000</b>	110,000	69%	111,000	(32%)
<b>Electricity<sup>2</sup></b>	67,000	41,000	<b>23,000</b>	<b>131,000</b>	175,000	75%	126,000	4%
Total – Canada	104,000	67,000	<b>36,000</b>	<b>207,000</b>	285,000	73%	237,000	(13%)
<b>United States</b>								
Gas <sup>3</sup>	17,000	20,000	<b>18,000</b>	<b>55,000</b>	100,000	55%	58,000	(5%)
Electricity <sup>4</sup>	7,000	6,000	<b>11,000</b>	<b>24,000</b>	90,000	27%	17,000	41%
Total – United States	24,000	26,000	<b>29,000</b>	<b>79,000</b>	190,000	42%	75,000	5%
<b>Combined</b>	128,000	93,000	<b>65,000</b>	<b>286,000</b>	475,000	60%	312,000	(9%)

<sup>1</sup>Includes Quebec, British Columbia, Manitoba and Alberta.

<sup>2</sup>Includes Ontario and Alberta.

<sup>3</sup>Includes Illinois, New York and Indiana.

<sup>4</sup>Includes New York only.

## Canada

### Gas

Total gross gas customer additions in Canada for the third quarter were 13,000, bringing the total additions to 76,000 for the nine months ended December 31, 2006 (69% of the published annual target). The number of customers added in the Ontario gas market during the quarter was less than the number of customers lost through attrition and failure to renew. RCE additions in Ontario were also impacted by agent turnover during the quarter due to increased competition and a very tight employment market generally. Management is taking steps to increase our independent sales agent base and also to control further attrition levels. Other markets in Canada exceeded the target pace with 83% of the published annual target being achieved after the third quarter.

The Canadian gas customers added through marketing efforts during the period were matched with supply to generate margins of \$206 per year over the life of the contract, above Energy Savings' average annual target margin of \$175/RCE.

### Electricity

Total electricity additions were 23,000 for the quarter, bringing the total additions to 131,000 for the nine months ended December 31, 2006. Total additions to date represent 75% of the published annual target.

The Canadian electricity customers added through marketing efforts during the period were matched with supply to generate margins of \$191 per year over the life of the contract, above Energy Savings' average annual target margin \$110/RCE.

## United States

Natural gas customer additions in the Illinois, Indiana and New York gas markets were 18,000 for the quarter, bringing the total additions to 55,000 for the nine months ended December 31, 2006, representing 55% of the published annual target. Customer additions in the New York electricity market were 11,000, bringing the total number of additions to 24,000, representing 27% 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 has significantly reduced the sales force and hampered customer aggregation. Energy Savings does not count a customer until it has been enrolled with the LDC and confirmed by the internal customer service department. This issue is clearly recognized by management and the rebuilding of the New York sales force is well under way. The new contest period implemented in the ConEd territory as well as our entrance into the Natural Fuel Gas (“NFG” – Buffalo area) territory should improve the customer additions in the fourth quarter.

In Illinois, U.S. Energy Savings Corp. (“USESC”), a subsidiary of the Fund, settled a complaint on December 6, 2006 with the Citizen’s Utility Board (“CUB”) filed before the Illinois Commerce Commission concerning USESC’s marketing practices. As part of the settlement with CUB, Energy Savings agreed to provide certain customers who mistakenly believed that USESC was affiliated with their local utility the opportunity to cancel their contracts without penalty and to be eligible for a limited refund. The window for customer cancellations ends effective February 11, 2007. Management’s current estimate of total RCEs that will cancel is approximately 9,000 which represents approximately 7% of the total customer base in Illinois.

It should be noted that, since the date of signing for these customers, the local utility price for Illinois gas has fallen by more than 50%. Energy Savings views the cancellation level in this price environment to be a clear indication of the Illinois customer’s acceptance of the need for and legitimacy of a long-term, fixed price option. The impact of the settlement will not be material to Energy Savings’ operations. Gas purchased for these customers has been reallocated to newly signed customers.

The U.S. customers added through marketing efforts during the quarter were matched with supply to generate margins of \$206 per year for gas and \$132 per year for electricity over the life of the contract above Energy Savings’ average annual target margin of \$140/RCE for gas customers and \$110/RCE for electricity customers.

### *General and administrative expenses*

General and administrative costs were \$10.2 million for the three months ended December 31, 2006 representing an increase of 10% from the third quarter of the previous fiscal year. The increase in general and administrative costs over the prior comparable quarter was primarily driven by the additional salaries associated with the increase in the number of employees and systems necessary to support the Fund’s continued customer growth, as well as the further expansion into another territory, NFG, in New York and Indiana.

General and administrative expenditures for the nine months ended December 31, 2006 were \$31.7 million, an increase of 21% from \$26.1 million in the prior comparable period primarily 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 – \$1.9 million) and \$2.5 million (2005 – \$3.9 million) for the three and nine months ended December 31, 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 \$10.1 million for the three months ended December 31, 2006 versus \$13.6 million in the prior comparable quarter. Marketing expenses decreased due to the lower number of customers aggregated for the current quarter. The amount of the decrease in commission due to lower customer aggregation was also partially offset by an increase in the aggregation costs per customer. The increase in rates is as follows:

	Fiscal 2006	Fiscal 2007
<b>Gas</b>		
Ontario	\$ 160/RCE	<b>\$ 160/RCE</b>
Other markets – Canada	\$ 140/RCE	<b>\$ 160/RCE</b>
United States	\$ 90/RCE	<b>\$ 110/RCE</b>
<b>Electricity</b>		
Canada	\$ 85/RCE	<b>\$ 95/RCE</b>
United States	\$ 90/RCE	<b>\$ 100/RCE</b>

For the nine months ended December 31, 2006, the marketing expense amounted to \$35.2 million, a slight increase from \$35.1 million in the prior comparable period reflecting lower customer additions and higher per customer commission expense.

### ***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 months ended December 31, 2006 was \$3.2 million, compared with \$1.3 million in the prior comparative quarter. For the nine-month period, the bad debt expense was \$6.9 million, an increase from \$3.5 million in the prior comparable period. The increase in bad debts during the current periods reflects the increased customer base in both Alberta and Illinois. 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 December 31, 2006, Energy Savings had utilized \$67.1 million of its operating line for working capital needs and \$33.3 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 nine months ended December 31, 2006 amounted to \$0.9 million (2005 – \$0.3 million) and \$1.9 million (2005 – \$0.4 million), respectively. Energy Savings is required to meet a number of financial covenants under the credit facility agreement. As at December 31, 2006, all of these covenants have been met.

On December 20, 2006, a new lending partner joined the banking syndicate for our credit facility at a commitment level of \$30.0 million, resulting in an increase of the credit facility to \$150.0 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 gain of \$0.01 million (2005 – \$0.4 million loss) was recognized for the nine months ended December 31, 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 nine-month periods ended December 31, 2006 amounted to \$2.3 million (2005 – \$2.3 million) and \$6.8 million (2005 – \$6.9 million), respectively. These payments are reflected in the “statement of unitholders’ equity” of the Fund’s consolidated financial statements, net of tax.

### ***Provision for (recovery of) income taxes***

#### **Income tax breakdown**

<i>(thousands of dollars)</i>	<i>For the three months ended December 31</i>		<i>For the nine months ended December 31</i>	
	<b>2006</b>	2005	<b>2006</b>	2005
Income tax provision (recovery)				
anticipated to be reversed				
by fiscal year end	<b>\$ 4,540</b>	\$ –	<b>\$ (2,942)</b>	\$ –
Income tax provision (recovery)	<b>391</b>	716	<b>391</b>	(455)
Amount credited to Unitholders’ equity	<b>824</b>	840	<b>2,464</b>	2,483
Current income tax provision (recovery)	<b>5,755</b>	1,556	<b>(87)</b>	2,028
Future tax provision (recovery)	<b>547</b>	(2,625)	<b>(658)</b>	(8,793)
Provision for (recovery of) income tax	<b>\$ 6,302</b>	\$ (1,069)	<b>\$ (745)</b>	\$ (6,765)

For the three and nine months ended December 31, 2006, there was an income tax provision (recovery) in the amount of \$4.5 million and \$(2.9) million, respectively, which is anticipated to be reversed at fiscal year end based on the fourth quarter income. For the three and nine months ended December 31, 2006, the income tax provision was \$0.4 million. 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 in the upcoming quarter 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 change in the future tax provision of \$0.5 million for the current quarter versus the recovery of \$0.7 million for nine months ended December 31, 2006 is attributable to 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**

<i>(thousands of dollars)</i>	<i>For the three months ended December 31</i>		<i>For the nine months ended December 31</i>	
	<b>2006</b>	2005	<b>2006</b>	2005
Operating activities	<b>\$ 12,521</b>	\$ 1,230	<b>\$ 51,609</b>	\$ 37,932
Investing activities	<b>(1,166)</b>	(793)	<b>(2,995)</b>	(9,379)
Financing activities, excluding distributions	<b>27,517</b>	26,713	<b>42,666</b>	37,456
Gain (loss) on foreign exchange	<b>327</b>	(214)	<b>18</b>	(481)
Increase in cash before distributions	<b>39,199</b>	26,936	<b>91,298</b>	65,528
Distributions (cash payments)	<b>(26,397)</b>	(23,486)	<b>(76,601)</b>	(69,075)
Increase (decrease) in cash	<b>12,802</b>	3,450	<b>14,697</b>	(3,547)
Cash – beginning of period	<b>13,558</b>	9,061	<b>11,663</b>	16,058
Cash – end of period	<b>\$ 26,360</b>	\$ 12,511	<b>\$ 26,360</b>	\$ 12,511

#### *Operating activities*

For the three and nine months ended December 31, 2006, cash flows from operating activities were \$12.5 million and \$51.6 million, an increase from \$1.2 million and \$37.9 million, respectively. The increase is primarily a result of the increase in gross margin.

#### *Investing activities*

Energy Savings purchased capital assets totaling \$1.2 million during the quarter, compared with \$0.8 million in the prior comparable quarter. Capital asset purchases amounted to \$3.0 million for the nine months ended December 31, 2006, compared with \$2.8 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 \$6.6 million (net of adjustments).

*Financing activities*

Financing activities excluding distributions relate primarily to the drawdown or repayment of the operating line for working capital requirements. During the three months ended December 31, 2006, Energy Savings had drawn an additional \$27.5 million of the operating line compared with \$26.4 million during the prior comparative quarter. During the nine months ended December 31, 2006, the drawdown of the credit facility amounted to \$41.9 million, compared to \$35.7 million in the prior comparable period.

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. The credit facility was increased from \$120.0 million to \$150.0 million effective December 20, 2006 with the addition of a new partner into the lending syndicate.

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 \$26.4 million compared to \$23.5 million in the prior comparative quarter, an increase of 12%. For the nine months ended December 31, 2006, Energy Savings distributed \$76.6 million, an increase of 11% from the prior comparable period. Energy Savings will continue to utilize its cash resources for expansion into new markets including growth in its customer base as well as distributions to its Unitholders. Management continues to target its payout ratios after customer replacement to be 75% to 80%.

During the quarter, Energy Savings announced an increase to the distribution rate by \$0.03 effective for the December 2006 distribution. As at the end of the quarter, the annual rate for distributions per unit was \$1.035.

With the release of these quarterly results, the Fund announced a further increase in annual distribution rate to \$1.065 (\$0.08875 per month) effective the distribution paid March 31, 2007.

***Balance sheet as at December 31, 2006 compared to March 31, 2006***

Cash increased from \$11.7 million to \$26.4 million. The increase in cash is a result of a supply invoice in the amount of \$12.8 million which had a delayed due date of the first week of January as a result of the holiday season in December. The operating line of credit increased from \$25.2 million to \$67.1 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 between settlements with the supplier and settlement with the LDC.

The increase in accounts receivable from \$149.4 million to \$171.5 million is primarily attributable to the improved margin and increased customers for both gas and electricity. Accounts payable has also increased from \$113.1 million to \$137.9 million relating to increased customer consumption.

At the end of the quarter, Energy Savings had delivered more gas to the LDCs in Ontario and Quebec than customers had consumed. Since Energy Savings is paid for this gas when delivered yet recognizes revenue when the gas is consumed by the customer, the result on the balance sheet is the deferred revenue amount of \$88.1 million and gas delivered in excess of consumption of \$73.9 million. In Manitoba, customers had consumed more gas than had been delivered to the LDC resulting in unbilled revenues of \$0.6 million and accrued gas accounts payable of \$0.5 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 primarily represents the gas delivered to the LDCs in the State of Illinois and has increased from \$4.8 million to \$29.8 million. Injection season is typically from April through November; therefore, gas in storage is the highest in the third quarter. In addition to the inventory balance in Illinois, a portion of the gas in storage relates to operations in the Province of Alberta. There is a month to month carryover which represents the difference between the gas delivered and the customer consumption.

Corporate taxes recoverable increased from \$4.3 million at March 31, 2006 to \$7.4 million as at December 31, 2006 as a result of the lower gross margin and higher expenditures experienced to date. Management anticipates that the income from the fourth quarter will continue to offset the recovery booked to date, 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**

<i>(thousands of dollars)</i>	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Property and equipment					
lease agreements	\$ 29,359	\$ 831	\$ 8,659	\$ 7,880	\$ 11,989
EPCOR billing, collections and					
supply commitments	22,986	2,051	15,717	5,218	–
Commodity supply					
purchase commitments	3,717,205	344,143	2,050,575	1,163,924	158,563
	<b>\$3,769,550</b>	<b>\$ 347,025</b>	<b>\$2,074,951</b>	<b>\$1,177,022</b>	<b>\$ 170,552</b>

#### **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 adjustments to the 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 January 30, 2007.

### ***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 the commodity market price changes, Energy Savings uses derivative financial and physical contracts to secure fixed price commodity supply matching its delivery obligations.

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

Energy Savings' entry into Illinois, New York and Indiana, as well as the intention for further expansion in the U.S., has 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 from April 1, 2006 to January 30, 2007. 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 or Other Liabilities, these new standards will have a significant impact on the Other Assets or Other Liabilities caption of the balance sheet. Due to the volatility of market prices, it is expected that there will be significant changes flown 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](http://www.esif.ca) and from SEDAR through its website at [www.sedar.com](http://www.sedar.com). There have been no material changes for the period from April 1, 2006 to January 30, 2007 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 Department of Finance released draft legislation on December 21, 2006 to implement its October 31, 2006 announcement of a new tax on distributions from publicly-traded income trusts and limited partnerships, referred to as "specified investment flow-throughs" ("SIFTs"). The draft legislation appears to be generally consistent with details included in the October 31 announcement outlined above.

### ***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](http://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 January 30, 2007, 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 October 31 announcement to tax income trusts does not affect existing income trusts until 2011, the announcement has had a material impact on the trading value of the Energy Savings units. While the price declines have been felt across the entire income fund sector, the current unit price is not representative of the financial strength and sustainability inherent in the Energy Savings model. Management is presently investigating alternative corporate forms and is committed to reinstating value to Unitholders.

In December, Energy Savings opened a new sales office and began test marketing in NFG, a second territory in the State of New York. NFG covers the western area of upstate New York and has approximately 500,000 customers in Energy Savings' target market. Results to date indicate receptivity to the five-year product offering. Ramp-up to full-scale marketing will begin in the fourth quarter.

In December, Energy Savings gained a pivotal change with ConEd with the implementation of a contest period. Management expects a broader decision statewide from the New York regulators which will allow us to substantially reduce switching of our customers. While the ConEd change will not improve customer net additions until the fourth quarter, management is confident that the eventual result will be additions in line with our growth expectations on a go forward basis. The newly elected State administration adds a level of uncertainty to the regulatory regime in New York.

Despite this year's marketing shortfall, management continues to affirm its published guidance of between 15% and 20% growth in both gross margin and distributable cash for fiscal 2007 subject to the impact of winter weather in the fourth quarter. While there have been significant challenges during the year to date with respect to customer aggregation and weather, as in the case of past challenges, Energy Savings has delivered growth and profitability in line with expectations. Energy Savings remains a growth income fund.

Consistent with the Fund's policy to increase distributions as distributable cash grows, the Fund announced an increase in annual distribution rate to \$1.065 (\$0.08875 per month) effective the distribution paid March 31, 2007.

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.

In conjunction with its suppliers, Energy Savings regularly reviews opportunities to reduce the cost of and ensure long-term access to five-year commodity supply. Stable, long-term relationships with its suppliers are a core aspect of Energy Savings' business model.

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



## Consolidated balance sheets

(thousands of dollars)

<i>(unaudited)</i>	December 31, 2006	March 31, 2006
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 26,361	\$ 11,663
Restricted cash (Note 4)	1,920	4,452
Accounts receivable	171,512	149,424
Gas delivered in excess of consumption	73,888	–
Gas in storage	29,783	4,796
Unbilled revenues	595	36,982
Prepaid expenses	2,012	1,479
Corporate taxes recoverable	7,406	4,308
	<b>313,477</b>	<b>213,104</b>
<b>Gas contracts</b> (less accumulated amortization – \$239,892; March 31, 2006 – \$228,314)	<b>4,036</b>	<b>15,615</b>
<b>Electricity contracts</b> (less accumulated amortization – \$24,043; March 31, 2006 – \$14,810)	<b>2,379</b>	<b>11,611</b>
<b>Goodwill</b>	<b>94,576</b>	<b>94,576</b>
<b>Capital assets</b> (less accumulated amortization – \$8,258; March 31, 2006 – \$6,054)	<b>12,058</b>	<b>11,263</b>
<b>Other assets</b> (Note 9a)	–	4,056
	<b>\$ 426,526</b>	<b>\$ 350,225</b>
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness (Note 5)	\$ 67,127	\$ 25,184
Accounts payable and accrued liabilities	137,948	113,137
Customer rebates payable (Note 4)	1,920	4,452
Management incentive program payable	1,209	1,260
Unit distribution payable	8,442	7,591
Corporate taxes payable	–	382
Deferred revenue	88,094	–
Accrued gas accounts payable	464	29,901
	<b>305,205</b>	<b>181,907</b>
<b>Deferred charges</b>	–	3,552
<b>Other liabilities</b> (Note 9a)	<b>9,024</b>	<b>1,499</b>
<b>Future income taxes</b> (Note 6)	<b>15,730</b>	<b>16,388</b>
	<b>329,958</b>	<b>203,346</b>
<b>Equity</b>		
Unitholders' equity	\$ 88,266	\$ 138,443
Contributed surplus (Note 8d)	8,302	8,436
	<b>96,568</b>	<b>146,879</b>
	<b>\$ 426,526</b>	<b>\$ 350,225</b>

## Consolidated statements of Unitholders' equity

For the nine months ended December 31 (thousands of dollars)

<i>(unaudited)</i>	Unitholders' Capital <i>(Note 7)</i>	Accumulated Earnings	Distributions	2006	2005
<b>Unitholders' equity,</b>					
<b>beginning of period</b>	<b>\$ 324,650</b>	<b>\$ 143,890</b>	<b>\$ (330,097)</b>	<b>\$ 138,443</b>	\$ 173,106
Trust units exchanged	<b>3,166</b>	–	–	<b>3,166</b>	–
Trust units issued on exercise/exchange of unit compensation <i>(Note 8d)</i>	<b>3,415</b>	–	–	<b>3,415</b>	2,165
Class A preference shares exchanged	<b>(3,166)</b>	–	–	<b>(3,166)</b>	–
Net income	–	<b>23,860</b>	–	<b>23,860</b>	33,738
Distributions	–	–	<b>(73,095)</b>	<b>(73,095)</b>	(64,964)
Class A preference share distributions – net of tax	–	–	<b>(4,357)</b>	<b>(4,357)</b>	(4,391)
<b>Unitholders' equity, end of period</b>	<b>\$ 328,065</b>	<b>\$ 167,750</b>	<b>\$ (407,549)</b>	<b>\$ 88,266</b>	\$ 139,654

## Consolidated statements of operations

(thousands of dollars except per unit amount)

<i>(unaudited)</i>	<i>For the three months ended December 31</i>		<i>For the nine months ended December 31</i>	
	2006	2005	2006	2005
<b>Sales</b>	<b>\$ 422,230</b>	\$ 321,161	<b>\$ 943,907</b>	\$ 735,615
<b>Cost of sales</b>	<b>361,911</b>	270,767	<b>811,123</b>	624,995
<b>Gross margin</b>	<b>60,319</b>	50,394	<b>132,784</b>	110,620
<b>Expenses</b>				
General and administrative expenses	<b>10,176</b>	9,271	<b>31,666</b>	26,072
Capital tax	<b>180</b>	207	<b>540</b>	621
Marketing expenses	<b>10,052</b>	13,630	<b>35,201</b>	35,060
Unit based compensation <i>(Note 8d)</i>	<b>889</b>	1,876	<b>2,547</b>	3,912
Bad debt expense	<b>3,172</b>	1,300	<b>6,890</b>	3,478
Amortization of gas contracts	<b>3,859</b>	7,457	<b>11,578</b>	22,373
Amortization of electricity contracts	<b>1,650</b>	2,000	<b>5,681</b>	5,314
Amortization of capital assets	<b>767</b>	629	<b>2,204</b>	1,752
	<b>30,745</b>	36,370	<b>96,307</b>	98,582
<b>Income before other income (expense)</b>	<b>29,574</b>	14,024	<b>36,477</b>	12,038
<b>Other income (expense)</b> <i>(Note 9a)</i>	<b>(9,160)</b>	(1,876)	<b>(13,362)</b>	14,935
<b>Income before income tax</b>	<b>20,414</b>	12,148	<b>23,115</b>	26,973
<b>Provision for (recovery of) income tax</b> <i>(Note 6)</i>	<b>6,302</b>	(1,069)	<b>(745)</b>	(6,765)
<b>Net income</b>	<b>\$ 14,112</b>	\$ 13,217	<b>\$ 23,860</b>	\$ 33,738

*Net income per unit (Note 10)*

Basic	<b>\$ 0.13</b>	\$ 0.12	<b>\$ 0.22</b>	\$ 0.32
Diluted	<b>\$ 0.13</b>	\$ 0.12	<b>\$ 0.22</b>	\$ 0.32

## Consolidated statements of cash flows

(thousands of dollars)

<i>(unaudited)</i>	<i>For the three months ended December 31</i>		<i>For the nine months ended December 31</i>	
	<b>2006</b>	2005	<b>2006</b>	2005
<b>Net inflow (outflow) of cash related to the following activities</b>				
<b>Operating</b>				
Net income	\$ 14,112	\$ 13,217	\$ 23,860	\$ 33,738
<i>Items not affecting cash</i>				
Amortization of gas contracts	3,859	7,457	11,578	22,373
Amortization of electricity contracts	1,650	2,000	5,681	5,314
Amortization of capital assets	767	629	2,204	1,752
Unit based compensation	889	1,876	2,547	3,912
Future income taxes	547	(2,623)	(658)	(8,792)
Loss (gain) on foreign exchange (unrealized)	(397)	88	(7)	355
Other (income) expenses (unrealized)	8,446	1,717	11,174	(15,390)
	<b>15,761</b>	11,144	<b>32,519</b>	9,524
Adjustments required to reflect net cash receipts from gas sales	1,263	1,381	21,156	23,162
	<b>31,136</b>	25,742	<b>77,535</b>	66,424
Changes in non-cash working capital	<b>(18,615)</b>	(24,512)	<b>(25,926)</b>	(28,492)
<i>Cash inflow from operations</i>	<b>12,521</b>	1,230	<b>51,609</b>	37,932
<b>Financing</b>				
Exercise of trust unit options ( <i>Note 8d</i> )	38	307	723	1,748
Distributions paid to Unitholders	(24,939)	(22,001)	(72,244)	(64,684)
Distributions to Class A preference shareholders	(2,282)	(2,325)	(6,821)	(6,874)
Tax impact on distributions to Class A preference shareholders	824	840	2,464	2,483
Bank indebtedness ( <i>Note 5</i> )	27,479	26,406	41,943	35,708
	<b>1,120</b>	3,227	<b>(33,935)</b>	(31,619)
<b>Investing</b>				
Purchase of capital assets	(1,166)	(793)	(2,995)	(2,786)
Acquisition of customer contracts	-	-	-	(6,593)
	<b>(1,166)</b>	(793)	<b>(2,995)</b>	(9,379)
Gain (loss) on foreign exchange (unrealized)	397	(88)	7	(355)
Other income foreign exchange (unrealized)	(70)	(126)	11	(126)
<b>Net cash inflow (outflow)</b>	<b>12,802</b>	3,450	<b>14,697</b>	(3,547)
<b>Cash, beginning of period</b>	<b>13,558</b>	9,061	<b>11,663</b>	16,058
<b>Cash, end of period</b>	<b>\$ 26,360</b>	\$ 12,511	<b>\$ 26,360</b>	\$ 12,511
<i>Supplemental Information</i>				
Interest paid	\$ 908	\$ 251	\$ 1,921	\$ 444
Income taxes paid	\$ 360	\$ 974	\$ 1,401	\$ 12,282

## 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, which increased during the quarter from \$100,000 to \$150,000, 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 December 31, 2006 the Canadian prime rate was 6.0% and the U.S. prime rate was 8.25%. As at December 31, 2006, Energy Savings had drawn \$67,127 against the facility and total letters of credit outstanding amounted to \$33,295. Energy Savings has \$49,578 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 December 31, 2006 and 2005, all of these covenants have been met.

**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.

	<i>For the three months ended December 31</i>		<i>For the nine months ended December 31</i>	
	<b>2006</b>	2005	<b>2006</b>	2005
Net income before income tax	<b>\$ 20,414</b>	\$ 12,148	<b>\$ 23,115</b>	\$ 26,973
Income tax expense at the combined basic rate of 36% (2005 – 36%)	<b>7,349</b>	4,373	<b>8,321</b>	9,710
Taxes on income attributable to Unitholders	<b>(1,608)</b>	(3,594)	<b>(14,945)</b>	(16,670)
Large corporations tax	–	25	–	120
Benefit (Utilization) of				
U.S. accounting losses not recognized	<b>266</b>	(2,214)	<b>4,955</b>	(889)
Non-deductible expenses	<b>295</b>	341	<b>924</b>	964
Provision for (recovery of) income tax	<b>\$ 6,302</b>	\$ (1,069)	<b>\$ (745)</b>	\$ (6,765)

*Components of Energy Savings' income tax  
provision are as follows:*

Income tax provision (recovery)				
to be reversed by end of fiscal year	<b>\$ 4,540</b>	\$ –	<b>\$ (2,942)</b>	\$ –
Income tax provision (recovery)	<b>391</b>	716	<b>391</b>	(455)
Amount credited to Unitholders' equity	<b>824</b>	840	<b>2,464</b>	2,483
Current income tax provision (recovery)	<b>5,755</b>	1,556	<b>(87)</b>	2,028
Future tax provision (recovery)	<b>547</b>	(2,625)	<b>(658)</b>	(8,793)
Provision for (recovery of) income tax	<b>\$ 6,302</b>	\$ (1,069)	<b>\$ (745)</b>	\$ (6,765)

*Components of Energy Savings' net future income tax liability are as follows:*

	<b>2006</b>	2005
Carrying value of gas and electricity contracts in excess of tax value	<b>\$ 5,224</b>	\$ 8,063
Partnership income deferred for tax purposes	<b>6,790</b>	–
Other	<b>3,716</b>	4,165
	<b>\$ 15,730</b>	\$ 12,228

**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.

Issued and Outstanding	2006		2005	
	Units/Shares		Units/Shares	
<b>Trust units</b>				
Balance, beginning of period	<b>96,391,991</b>	<b>\$ 299,228</b>	95,515,617	\$ 147,684
Options exercised	<b>65,166</b>	<b>817</b>	364,665	2,112
Deferred unit grants exercised	–	–	3,206	53
Unit appreciation rights exchanged	<b>153,532</b>	<b>2,598</b>	–	–
Exchanged from Class A preference shares	<b>1,266,183</b>	<b>3,166</b>	–	–
Balance, end of period	<b>97,876,872</b>	<b>305,809</b>	95,883,488	149,849
<b>Class A preference shares</b>				
Balance, beginning of period	<b>10,168,695</b>	<b>25,422</b>	10,168,695	25,422
Exchanged into units	<b>(1,266,183)</b>	<b>(3,166)</b>	–	–
Balance, end of period	<b>8,902,512</b>	<b>22,256</b>	10,168,695	25,422
Balance, end of period	<b>106,779,384</b>	<b>\$ 328,065</b>	106,052,183	\$ 175,271

**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 December 31, 2006, there were 798,999 options still available for grant under the plan. Of the options issued, 1,222,668 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 nine-month period and status at December 31, 2006 is outlined below:

	Outstanding Options	Range of Exercise Prices	Weighted Average Exercise Price <sup>1</sup>	Weighted Average Grant Date Fair Value <sup>2</sup>
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	(79,833)	\$14.25–\$17.70	\$ 16.88	
Exercised	(65,166)	\$8.75–\$16.58	\$ 11.09	
Balance, end of period	1,222,668	\$6.09–\$18.70	\$ 13.75	

<sup>1</sup>The weighted average exercise price is calculated by dividing the exercise price of options granted by the number of options granted.

<sup>2</sup>The weighted average grant date fair value is calculated by dividing the fair value of options granted by the number of options granted.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$6.09–\$8.75	34,168	0.92	\$ 7.91	34,168	\$ 7.91
\$10.68–\$12.01	73,333	1.47	\$ 11.09	73,333	\$ 11.09
\$12.17	600,000	1.25	\$ 12.17	600,000	\$ 12.17
\$14.25–\$18.70	515,167	3.34	\$ 16.35	124,167	\$ 16.43
Balance, end of period	1,222,668	2.14	\$ 13.75	831,668	\$ 12.53

**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	79,833
Balance, end of period	798,999

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 December 31, 2006, there were 489,094 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) the UARs 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	(82,070)
Add: forfeited/canceled during the period	72,373
Balance, end of period	489,094

### (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 at December 31, 2006, there were 75,154 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	(7,627)
Balance, end of period	75,154



**(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.

<b>Contributed Surplus</b>	<i>For the three months ended December 31</i>		<i>For the nine months ended December 31</i>	
	<b>2006</b>	2005	<b>2006</b>	2005
Balance, beginning of period	<b>7,564</b>	6,711	<b>8,436</b>	4,881
Add: unit based compensation awards	<b>889</b>	1,876	<b>2,547</b>	3,912
Less: unit based awards exercised	<b>(151)</b>	(240)	<b>(2,681)</b>	(446)
Balance, end of period	<b>8,302</b>	8,347	<b>8,302</b>	8,347

Total amounts credited to Unitholders' capital in respect of options and UARs exercised or exchanged during the three and nine months ended December 31, 2006 amounted to \$194 (2005-\$514) and \$3,415 (2005 - \$2,165), respectively.

Cash received from options exercised for the three and nine months ended December 31, 2006 amounted to \$38 (2005 - \$307) and \$723 (2005 - \$1,748), 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 that 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 December 31, 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)	14,676,289 MWh
Maturity dates	January 31, 2007-July 31, 2012
Fixed price per MWh (in dollars)	\$45.00-\$118.00
Fair value	\$177,624 unfavorable
Notional value	\$1,075,554

(i)(b) At December 31, 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 -11.4 MW/h
Total remaining estimated notional volume (peak, off peak and load following)	3,211,786 MWh
Maturity dates	January 31, 2007–May 31, 2012
Fixed price per MWh (in dollars)	\$55.80–\$81.48
Fair value	\$41,885 favorable
Notional value	\$231,088

(i)(c) At December 31, 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)	0.1–14.7 MW/h
Total remaining notional volume (peak and off peak)	1,317,960 MWh
Maturity dates	January 31, 2007–January 31, 2012
Fixed price per MWh (in dollars)	\$103.08–\$132.80 (US\$88.45–\$113.95)
Fair value	\$34,977 (US\$30,013 unfavorable)
Notional value	\$166,700 (US\$143,041)

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 December 31, 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	1,373,475 GJ
Maturity dates	January 31, 2007–September 30, 2011
Fixed price per GJ (in dollars)	\$5.48–\$9.18
Fair value	\$617 unfavorable

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The loss of \$556 (2005 – \$239 gain) and the gain of \$60 (2005 – \$245 gain) for the three and nine months ended December 31, 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 December 31, 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	7,668,500 GJ
Maturity dates	January 31, 2007–December 31, 2011
Fixed price per GJ (in dollars)	\$5.50–\$12.40
Fair value	\$3,581 unfavorable

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The loss of \$2,243 (2005 – \$884 loss) and \$3,010 (2005 – \$4,875 gain) for the three and nine months ended December 31, 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 December 31, 2006, Energy Savings had other gas put and call options in Illinois and Indiana which have been marked to market with the following terms:

Notional volume	500–134,000 MmBTU/month
Total remaining notional volume	7,908,000 MmBTU
Maturity dates	January 31, 2007–November 30, 2011
Fixed price per MmBTU (in dollars)	\$6.41–\$12.12 (US\$5.50–\$10.40)
Fair value	\$3,172 unfavorable (US\$2,722)

The fair value is net of prepaid premiums of \$1,644 (US\$1,411). These premiums are included in other liabilities. The loss of \$2,597 (US\$2,228) (2005 – loss of \$780 (US\$671)) and \$5,178 (US\$4,443) (2005 – gain of \$10,862 (US\$9,340)) for the three and nine months ended December 31, 2006, respectively, has been recorded in other assets with its offsetting value being recorded in other income (expense).

- (v) At December 31, 2006, Energy Savings had gas put and call options in New York which have been marked to market with the following terms:

Notional volume	5–1,755 MmBTU/month
Total remaining notional volume	899,800 MmBTU
Maturity dates	January 31, 2007–December 31, 2011
Fixed price per MmBTU (in dollars)	\$9.44–\$13.24 (US\$8.10–\$11.36)
Fair value	\$944 unfavorable (US\$810)

The loss of \$449 (US\$376) (2005 – \$23 loss (US\$20)) and \$695 (US\$596) (2005 – \$134 gain (US\$115)) for the three and nine months ended December 31, 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 was applied to most of these forwards up to September 30, 2006. However, the required hedge accounting effectiveness was not fully achieved during the current quarter and resulted in \$2,353 loss being booked to the statement of operations at December 31, 2006. The remaining mark to market gain of \$1,933 has been deferred and will be recognized in the statement of operations over the remaining term of each hedging relationship. At December 31, 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	\$420 unfavorable

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 \$397 (2005 – \$88 loss) and \$7 (2005 – \$355 loss) for the three and nine months ended December 31, 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. Net income per unit**

	<i>For the three months ended December 31</i>		<i>For the nine months ended December 31</i>	
	<b>2006</b>	2005	<b>2006</b>	2005
<b>Basic income per unit</b>				
Net income available to Unitholders	<b>\$ 14,112</b>	\$ 13,217	<b>\$ 23,860</b>	\$ 33,738
Weighted average number of units outstanding	<b>97,877</b>	95,879	<b>97,374</b>	95,791
Weighted average number of Class A preference shares	<b>8,902</b>	10,169	<b>9,322</b>	10,169
Basic units and shares outstanding	<b>106,779</b>	106,048	<b>106,696</b>	105,960
Basic net income per unit	<b>\$ 0.13</b>	\$ 0.12	<b>\$ 0.22</b>	\$ 0.32
<b>Diluted income per unit</b>				
Net income available to Unitholders	<b>\$ 14,112</b>	\$ 13,217	<b>\$ 23,860</b>	\$ 33,738
Basic units and shares outstanding	<b>106,779</b>	106,048	<b>106,696</b>	105,960
Dilutive effect of:				
Unit options	<b>122</b>	688	<b>231</b>	692
Unit appreciation rights	<b>346</b>	300	<b>389</b>	270
Deferred unit grants	<b>19</b>	13	<b>16</b>	11
Units outstanding on a diluted basis	<b>107,266</b>	107,049	<b>107,332</b>	106,933
Diluted net income per unit	<b>\$ 0.13</b>	\$ 0.12	<b>\$ 0.22</b>	\$ 0.32

**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:

<i>For the three months ended December 31, 2006</i>	<b>Canada</b>	<b>United States</b>	<b>Consolidated</b>
Sales – gas	<b>\$ 214,656</b>	<b>\$ 54,020</b>	<b>\$ 268,676</b>
Sales – electricity	<b>141,012</b>	<b>12,542</b>	<b>153,554</b>
Sales	<b>\$ 355,668</b>	<b>\$ 66,562</b>	<b>\$ 422,230</b>
Gross margin	<b>\$ 51,860</b>	<b>\$ 8,459</b>	<b>\$ 60,319</b>
Amortization of gas contracts	<b>3,859</b>	–	<b>3,859</b>
Amortization of electricity contracts	<b>1,650</b>	–	<b>1,650</b>
Amortization of capital assets	<b>629</b>	<b>138</b>	<b>767</b>
Other operating expenses	<b>18,748</b>	<b>5,720</b>	<b>24,468</b>
Other expense	<b>5,825</b>	<b>3,335</b>	<b>9,160</b>
Provision for income tax	<b>6,303</b>	–	<b>6,303</b>
Net income (loss)	<b>\$ 14,846</b>	<b>\$ (734)</b>	<b>\$ 14,112</b>
Additions to capital assets	<b>\$ 1,104</b>	<b>\$ 62</b>	<b>\$ 1,166</b>

<i>For the three months ended December 31, 2005</i>	<b>Canada</b>	<b>United States</b>	<b>Consolidated</b>
Sales – gas	\$ 175,366	\$ 31,729	\$ 207,095
Sales – electricity	112,326	1,740	114,066
Sales	\$ 287,692	\$ 33,469	\$ 321,161
Gross margin	\$ 43,216	\$ 7,178	\$ 50,394
Amortization of gas contracts	7,457	–	7,457
Amortization of electricity contracts	2,000	–	2,000
Amortization of capital assets	511	118	629
Other operating expenses	21,530	4,754	26,284
Other expense	689	1,187	1,876
Recovery of income tax	(1,066)	(3)	(1,069)
Net income	\$ 12,095	\$ 1,122	\$ 13,217
Additions to capital assets	\$ (1,239)	\$ 2,032	\$ 793

<i>For the nine months ended December 31, 2006</i>	Canada	United States	Consolidated
Sales – gas	\$ 436,266	\$ 86,281	\$ 522,547
Sales – electricity	387,439	33,921	421,360
Sales	\$ 823,705	\$ 120,202	\$ 943,907
Gross margin	\$ 119,447	\$ 13,337	\$ 132,784
Amortization of gas contracts	11,578	–	11,578
Amortization of electricity contracts	5,681	–	5,681
Amortization of capital assets	1,815	389	2,204
Other operating expenses	57,149	19,695	76,844
Other expense	6,345	7,017	13,362
Recovery of income tax	(745)	–	(745)
Net income (loss)	\$ 37,624	\$ (13,764)	\$ 23,860
Additions to capital assets	\$ 2,414	\$ 581	\$ 2,995
Total goodwill	\$ 94,576	\$ –	\$ 94,576
Total assets	\$ 352,678	\$ 73,848	\$ 426,526

<i>For the nine months ended December 31, 2005</i>	Canada	United States	Consolidated
Sales – gas	\$ 384,173	\$ 44,372	\$ 428,545
Sales – electricity	305,292	1,778	307,070
Sales	\$ 689,465	\$ 46,150	\$ 735,615
Gross margin	\$ 101,718	\$ 8,902	\$ 110,620
Amortization of gas contracts	22,373	–	22,373
Amortization of electricity contracts	5,314	–	5,314
Amortization of capital assets	1,606	146	1,752
Other operating expenses	52,641	16,502	69,143
Other income	(4,717)	(10,218)	(14,935)
Recovery of income tax	(5,699)	–	(6,765)
Net income	\$ 31,266	\$ 2,472	\$ 33,738
Additions to capital assets	\$ 705	\$ 2,081	\$ 2,786
Total goodwill	\$ 94,576	\$ –	\$ 94,576
Total assets	\$ 332,596	\$ 56,379	\$ 388,975

## 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	\$	831
2008		4,150
2009		4,508
2010		4,268
2011		3,613
	\$	<u>17,370</u>

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

2007	\$	2,051
2008		7,890
2009		7,827
2010		5,218
	\$	<u>22,986</u>

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

2007	\$	344,143
2008		1,145,944
2009		904,631
2010		700,493
2011		463,431
	\$	<u>3,558,642</u>

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.

## Officers

Rebecca MacDonald  
*Executive Chair*

Brennan R. Mulcahy  
*Chief Executive Officer*

Ken Hartwick, C.A.  
*President*

Mary Meffe, C.A.  
*Chief Financial Officer*

## Independent directors

The Hon. Hugh D. Segal  
*Member of Senate of Canada*

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

John A. Brussa  
*Partner, Burnet, Duckworth & Palmer LLP*

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

The Hon. Gordon D. Giffin  
*Senior Partner, McKenna, Long & Aldridge LLP*

## Corporate information

### Head office

Energy Savings Income Fund  
First Canadian Place, 100 King Street West  
Suite 2630, P.O. Box 355  
Toronto, ON M5X 1E1

### For financial information contact:

Mary Meffe, C.A.  
*Chief Financial Officer*  
905-795-4206

### For further information contact:

Rebecca MacDonald  
*Executive Chair*  
416-367-2872

or

Brennan R. Mulcahy  
*Chief Executive Officer*  
905-795-4200

### Auditors

KPMG LLP, Toronto, ON, Canada

### Transfer Agent and Registrar

Computershare Investor Services Inc.  
100 University Avenue  
Toronto, ON M5J 2Y1

### Shares listed

Toronto Stock Exchange,  
Trading symbol: SIF.UN

### Website

[www.esif.ca](http://www.esif.ca)



*For your energy – for your peace of mind*

visit us at [www.esif.ca](http://www.esif.ca)

**Energy Savings Income Fund**

First Canadian Place, 100 King Street West, Suite 2630

P.O. Box 355, Toronto, Ontario M5X 1E1

Telephone 416.367.2998

Facsimile 416.367.4749