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

May 10, 2006

Overview

The following discussion and analysis is a review of the financial condition and results of operations of Energy Savings Income Fund ("Energy Savings" or the "Fund") for the year ended March 31, 2006 and has been prepared with all information available up to and including May 10, 2006. This analysis should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2006. The financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All dollar amounts are expressed in Canadian dollars. Quarterly reports, the annual report and supplementary information can be found under "reports and filings" on our corporate website at www.esif.ca. Additional information can be found on SEDAR at www.sedar.com.

Energy Savings is an open-ended, limited-purpose trust established under the laws of Ontario to hold securities and to distribute the income of its 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"), and New York Energy Savings Corp. ("NYESC").

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, dependence on certain suppliers, market risks, governance, energy trading inherent risks and counterparty credit risks. Additional information on these and other factors that could affect the Fund's operations, financial results or distribution levels are included in the Fund's annual information form and other reports on file with Canadian security regulatory authorities which can be accessed on our corporate website at www.esif.ca or through the SEDAR website at www.sedar.com.

Key terms

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

"Long-term Customers" represent 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" represent customers acquired through various acquisitions that are generally large volume and/or low margin customers who are not part of Energy Savings' target market.

"RCE" means Residential Customer Equivalent or the "Customer" which is a unit of measurement equivalent to a customer using, as regards natural gas, 2,815 m^3 (or 106 GJs) in Canada or 1,000 therms in the U.S. 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, respectively, used by a typical household in Ontario.

"Load following" represents electricity contracts for which Energy Savings must exactly match customer usage at a fixed price and where Energy Savings bears the risk and benefits of fluctuations in consumption from the standard customer usage profile. Energy Savings does not market load following electricity contracts.

Non-GAAP financial measures

Seasonally adjusted gross margin

Management believes the best basis for analyzing both the Fund's operating results and the cash 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 distribution 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 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.

"Premarketing distributable cash" 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.

"Post replacement distributable cash" 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.

"Post marketing distributable cash" 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 years ended March 31
(thousands of dollars except where indicated and per unit amounts)

	2006			2005			2004[1]	
	$	Per Unit	Change	$	Per Unit	Change	$	Per Unit
Cash available for distribution								
Before marketing expense	**149,438**	**$1.40**	**21%**	124,007	$1.17	7 %	116,027	$1.10
After customer replacement	**130,021**	**$1.22**	**27%**	102,133	$0.96	0 %	102,474	$0.97
After marketing expense to add new customers	**101,200**	**$0.95**	**20%**	84,013	$0.79	(2)%	85,852	$0.82
Distributions	**96,758**	**$0.90**	**9%**	89,161	$0.84	17 %	75,949	$0.72
General and administrative	**34,318**	**$0.32**	**20%**	28,642	$0.27	46 %	19,684	$0.19
Payout ratio								
Before marketing expense	**65%**			72%			65%	
After customer replacement	**74%**			87%			74%	
After marketing expense to add new customers	**96%**			106%			88%	

[1] *Amounts have been reclassified to reflect income taxes paid. See "Amount available for distribution".*

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 will be higher in the winter months.

Alberta's regulatory environment is different from the other Canadian provincial markets where Energy Savings is required to invoice and receive payments directly from customers. In the prior year, Energy Savings entered into a five-year 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 the Fund's Illinois and New York operations is greatest during the third and fourth (winter) quarters as normally cash is received from the LDC in the same period as customer consumption.

Electricity – Canadian and U.S. markets

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

Distributable cash and cash distributions

For the years ended March 31
(thousands of dollars except per unit amounts)

	2006		2005		2004	
					(Note 4)	
		Per Unit		Per Unit		Per Unit
Cash available for distribution						
Gross margin per financial statements	**$ 186,085**		$ 166,249		$ 129,049	
Adjustments required to reflect net cash receipts from gas sales	**2,555**		(2,551)		5,210	
Balancing allowance	**–**		–		2,500	
Seasonally adjusted gross margin	**$ 188,640**	**$ 1.76**	$ 163,698	$ 1.54	$ 136,759	$ 1.30
Less:						
General and administrative	**(34,318)**		(28,642)		(19,684)	
Capital tax expense	**(691)**		(704)		(1,198)	
Bad debt expense	**(5,107)**		(263)		–	
Income tax recovery (provision) *(Note 1)*	**1,764**		(10,475)		(394)	
Other (expense) income *(Note 2)*	**(850)**		393		544	
	(39,202)		(39,691)		(20,732)	
Cash available for distribution before marketing expenses	**149,438**	**$ 1.40**	124,007	$ 1.17	116,027	$ 1.10
Marketing expenses to maintain customer base	**(19,417)**		(21,874)		(13,553)	
Cash available for distribution after customer replacement	**130,021**	**$ 1.22**	102,133	$ 0.96	102,474	$ 0.97
Marketing expenses to add new customers	**(28,821)**		(18,120)		(16,622)	
Cash available for distribution	**$ 101,200**	**$ 0.95**	$ 84,013	$ 0.79	$ 85,852	$ 0.82
Reconciliation to statements of cash flows						
Cash inflow from operations	**$ 69,582**		$ 67,142		$ 80,585	
Add:						
Increase (decrease) in non-cash working capital	**28,277**		13,589		(412)	
Tax effect on distributions paid to holders of Class A preference shares	**3,341**		3,282		3,179	
	101,200		84,013		83,352	
Allowance for balancing *(Note 3)*	**–**		–		2,500	
Cash available for distribution	**$ 101,200**		$ 84,013		$ 85,852	
Distributions						
Unitholder distributions	**$ 87,220**		$ 80,014		$ 67,147	
Class A preference share distributions	**9,251**		9,088		8,802	
Unit appreciation rights distributions	**277**		56		–	
	96,748		89,158		75,949	
Non-cash distributions – Deferred unit grants	**10**		3		–	
Total distributions	**$ 96,758**	**$ 0.90**	$ 89,161	$ 0.84	$ 75,949	$ 0.72
Diluted average number of units outstanding		**107.0 million**		106.3 million		105.2 million

Note 1 *As a result of the tax reorganization which took place during the year, Energy Savings is expected to recover approximately $1.8 million of taxes paid in the prior year. In 2005, the Fund became taxable and paid $10.5 million in taxes. In 2004, the deduction of acquisition costs was used to reduce taxable income and as a result, the income tax amounts related to large corporation tax ("LCT") only.*

Note 2 *Other income relates to interest earned on cash balances. Other expense relates to interest and other bank service charges.*

Note 3 *The initial balancing allowance set up in 2002 was in anticipation of balancing costs associated with the 2002 warm winter. In 2004, management determined that all those balancing transactions had already occurred and a provision is no longer required.*

Note 4 *In fiscal 2005, Energy Savings adopted EIC 151, Exchangeable Securities issued by Subsidiaries of Income Trusts ("EIC 151"). As a result of the change, all Class A preference shares are included as part of Unitholders' equity on the consolidated financial statements of the Fund. In addition, the distributions paid to the Class A preference shareholders (previously included in the statement of operations as Management Incentive Program) are now included as distributions on the Fund's Statement of Unitholders' equity net of tax. The comparative amounts for 2004 have been adjusted accordingly.*

Sales and gross margin analysis

Sales and gross margin – Per financial statements

For the years ended March 31
(thousands of dollars)

		2006				2005
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 689,401**	**$ 97,779**	**$ 787,180**	$ 621,837	$ 26,853	$ 648,690
Electricity	**417,225**	**7,909**	**425,134**	272,223	–	272,223
	$1,106,626	**$ 105,688**	**$1,212,314**	$ 894,060	$ 26,853	$ 920,913
Increase	**24%**	**NMF[1]**	**32%**			

Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 131,042**	**$ 14,379**	**$ 145,421**	$ 122,648	$ 4,737	$ 127,385
Electricity	**40,020**	**644**	**40,664**	38,864	–	38,864
	$ 171,062	**$ 15,023**	**$ 186,085**	$ 161,512	$ 4,737	$ 166,249
Increase	**6%**	**NMF[1]**	**12%**			

[1] *Not Meaningful Figure.*

Canada

Sales were $1.1 billion for the year, up 24% from $894.1 million in fiscal 2005. Gross margins were $171.1 million, an increase of 6%, from $161.5 million in the prior comparable year. The increase in sales and margins is primarily attributable to the increase in the customer base over the prior year. Refer to "Sales and gross margin – Seasonally adjusted" for further details.

United States

Sales and margins were $105.7 million and $15.0 million for the year, respectively. In the prior year, sales and margins were $26.9 million and $4.7 million, respectively. The increase in sales and margins reflects the growth in the customer base over the prior year. For additional information, see "Sales and gross margin – Seasonally adjusted".

Sales and gross margin – Seasonally adjusted[1]
For the years ended March 31
(thousands of dollars)

			2006			2005
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 689,401**	**$ 97,779**	**$ 787,180**	$ 621,837	$ 26,853	$ 648,690
Adjustments	**13,554**	**–**	**13,554**	(13,041)	–	(13,041)
	$ 702,955	**$ 97,779**	**$ 800,734**	$ 608,796	$ 26,853	$ 635,649
Electricity	**417,225**	**7,909**	**425,134**	272,223	–	272,223
	$1,120,180	**$ 105,688**	**$1,225,868**	$ 881,019	$ 26,853	$ 907,872
Increase	**27%**	**NMF[2]**	**35%**			

Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 131,042**	**$ 14,379**	**$ 145,421**	$ 122,648	$ 4,737	$ 127,385
Adjustments	**2,555**	**–**	**2,555**	(2,551)	–	(2,551)
	$ 133,597	**$ 14,379**	**$ 147,976**	$ 120,097	$ 4,737	$ 124,834
Electricity	**40,020**	**644**	**40,664**	38,864	–	38,864
	$ 173,617	**$ 15,023**	**$ 188,640**	$ 158,961	$ 4,737	$ 163,698
Increase	**9%**	**NMF[2]**	**15%**			

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

On a seasonally adjusted basis, sales were $1.2 billion for the year, up 35% from $907.9 million in fiscal 2005. Margins were $188.6 million for the year, up 15% from fiscal 2005. The increase in sales for both gas and electricity is directly attributable to the increase in the customer base and the average customer sales price as well as balancing adjustments. Balancing results in two effects: either excess or short gas inventory.

Canada

Sales were $1.1 billion for the year, up 27% from $881.0 million in fiscal 2005. Margins were $173.6 million for the year, an increase of 9% from the previous year.

Gas

Gas sales and margin increased by 15% and 11%, respectively over the prior fiscal year. The increase in sales is attributable to the increase in both customer base and average customer sales price. Temperatures were warmer than normal in Ontario and Alberta. Due to lower consumption, Energy Savings held excess supply. A portion of the excess gas was sold to third parties and in Ontario, the remaining excess supply was stored by the LDC for future customer consumption. Planned deliveries in fiscal 2007 have been adjusted accordingly.

Customer margin per RCE for Canada in 2006 was $188/RCE excluding contracts purchased through various acquisitions, a slight decrease from $191/RCE for the prior year but well above the Fund's $170/RCE target. The decrease over the prior year is a result of higher supply costs. The margin per RCE in Canada including acquisitions amounted to $181/RCE, compared to the margin of $178/RCE from the prior year. Please note that prior year's amounts have been restated to conform to current year's calculation, which includes the effect of balancing gains/losses.

Electricity

Electricity sales increased by 53%, whereas margins increased by only 3% from fiscal 2005. The increase in sales is directly attributable to the increase in customer base and a higher average sales price over the prior year. The fact that margins increased substantially less than sales is due to the low margins realized (and in some cases losses) on the customer contracts acquired from First Source Energy Corp. ("First Source") and EPCOR Utilities Inc. ("EPCOR").

All of the EPCOR acquired contracts, as well as approximately 80% of the First Source acquired contracts, were load following, which results in Energy Savings bearing the risks and benefits of fluctuations in consumption from the standard customer usage profile. As a result of the summer (high consumption quarter) months being warmer than expected, consumption was higher than the historical usage, and therefore, additional supply was purchased in the open market. In addition, spot market prices reached their highest levels since the opening of the market in May of 2002 during the summer months. As a result, balancing these contracts resulted in higher supply costs, lowering margin by approximately $2.5 million.

As at March 31, 2006, approximately 10% of the electricity customers are load following, with an average remaining life of 1.2 years. Energy Savings does not market load following electricity contracts. Accordingly, this balancing impact is not present with Energy Savings' customer contracts as the customers within the pool share the risk and benefit of any variance in consumption from their historical usage and therefore, the Fund bears no risk for balancing losses.

Gross margin per RCE for 2006 amounted to $116/RCE, excluding the customers purchased through various acquisitions. The amount is below the prior year margin of $124/RCE but well above the $100/RCE target. The decrease over prior year is a result of higher supply costs. The margin per RCE including acquisitions amounted to $66/RCE, compared to the margin of $96/RCE from the prior year. Please note that prior year's amounts have been restated to conform to current year's calculation which includes the effect of balancing gains/losses.

United States

Sales and margins were $105.7 million and $15.0 million for the year, versus $26.9 million and $4.7 million in the prior comparable year, respectively.

The increase in gas sales and margin was primarily a result of the increase in long-term customers offset by the effects of weather balancing. The warmer temperatures during the winter months resulted in customer consumption being lower than expected. The negative impact of this underconsumption on margins was mitigated by relatively high spot gas prices realized on sales of excess gas. In addition, as a result of a change in storage policy by an LDC, gas options originally purchased to mitigate usage fluctuations by our customers were sold for a gain. Energy Savings' U.S. gas book remains effectively hedged.

New York electricity marketing efforts began in the third quarter of fiscal 2006; electricity sales and margins (included in the above) were $7.9 million and $0.6 million, respectively.

Customer margin per RCE for gas was $147/RCE, compared to $183/RCE for the prior year. The decrease versus the prior year was primarily due to realization of credit losses which existed, but were underprovided for in the prior period. Our $140/RCE target margin in Illinois includes an allowance for anticipated bad debt expense.

Customer margin for electricity was $161/RCE, well above our target of $100/RCE, based on a very small number of customers flowing during the year. Management expects margins to more closely track our target in the future.

Distributable cash

Premarketing distributable cash for the year was $149.4 million ($1.40 per unit), an increase of 21% from $124.0 million ($1.17 per unit) in fiscal 2005. The increase is primarily attributable to the increase in gross margin and the corporate tax recovery, offset by the increase in general and administrative expenditures and bad debt expense.

In response to requests from investors, the Fund will focus its future disclosure on "Distributable cash after customer replacement". Management believes that this measure is most comparable to Distributable Cash measures used by other non-depleting trusts. It represents cash generated by the business less the amount spent to replace all customers lost to attrition or failure to renew at contract end. In 2006, $19.4 million (40%) of the Fund's marketing expenses were used to maintain the customer base. Through this expenditure, the Fund's customer base would have been maintained at 1,171,000, the level in place at March 31, 2005.

Distributable cash after customer replacement was $130.0 million, up 27% from $102.1 million in fiscal 2005. Had the Fund not added incremental customers, it would have had $1.22 per unit available for distribution. The Fund paid out 74% of this or $0.90 per unit in distributions. In fiscal 2005, the Fund would have had $0.96 available had it not added incremental customers and paid out $0.84 or 87% to Unitholders.

The 27% growth in distributable cash after customer replacement was attributable to higher customer numbers, higher than target margin per customer and a corporate tax recovery. The payout ratio of 74% reflects normal operation for Energy Savings. The 87% realized in fiscal 2005 was higher than normal as a result of a $10.5 million corporate tax provision (see "Income tax provision (recovery)") and heavy expenditures to prepare for entry into new markets, in particular New York and Alberta.

The Fund spent $28.8 million in marketing expenses to grow its customer base in 2006. The result was net customer additions of 281,000, the highest in the Fund's history. At year end, the Fund had 1,502,000 customers (including 50,000 purchased customers), up 28% year over year.

Distributable cash after marketing expenses was $101.2 million for the year, an increase of 20% from $84.0 million in the prior comparable year. The increase is directly attributable to the increase in gross margin offset by the higher general and administrative expenditures and bad debt expense as outlined below (see "General and administrative expenses" and "Bad debt expense"). Marketing expenses increased by 21% over the prior comparative year despite the fact that aggregated customers increased by 46%, largely because 50% of new customers were electricity additions (lower cost) versus only 18% in the comparable year. Cash flow from these new customers begins to be realized two to six months after signing, depending on the market.

After marketing expenses, the payout ratio was 96% for the year versus 106% for the comparable year. The 2006 payout ratio is less than 100%, which is the Fund's target. Fiscal 2005 had a payout ratio in excess of 100% as a result of the $10.5 million corporate tax provision and necessary pre-opening expenditures in several new markets.

As Energy Savings' business grows in Alberta and in the U.S., the Fund's results will reflect greater seasonality as consumption is highest during the third and fourth quarters (winter months). While year over year quarterly comparisons will remain appropriate, sequential quarters will vary materially. The main impact of this will be higher distributable cash with a lower payout ratio in Q3 and Q4 and lower distributable cash with a higher payout ratio in Q1 and Q2. However, because of the locked-in nature of annual cash flow, management remains confident that the annual target will remain less than 100% for the year after the deduction of marketing expenses.

Given management's recent decision to separate marketing costs to replace a customer from marketing costs to add new customers, an annual target of 75%–80% has been set for the payout ratio after customer replacement.

Net income

Reconciliation to Statements of operations

For the years ended March 31		**2006**		2005		2004
Net income	**$**	**51,563**	$	37,205	$	23,015
Adjustments required to reflect net cash receipts from sales		**2,555**		(2,551)		5,210
Items not affecting cash		**43,741**		46,077		51,948
Tax effect on distributions paid to holders of Class A preference shares		**3,341**		3,282		3,179
Balancing allowance		**–**		–		2,500
Cash available for distribution	**$**	**101,200**	$	84,013	$	85,852

Energy Savings had net income for fiscal 2006 in the amount of $51.6 million, an increase of 39% over the prior comparable year. The net income for 2005 increased to $37.2 million from $23.0 million in fiscal 2004, an increase of 62%. The increase in income in 2006 as well as 2005 is primarily attributable to the increase in customers and gross margin, offset by the increase in expenses necessary to support Energy Savings' expansion into new markets.

Selected consolidated financial data

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

The consolidated financial statements of the Fund are prepared in accordance with Canadian GAAP and are expressed in Canadian dollars. The following table provides selected financial information for the last three fiscal years.

Statements of operations data

For the years ended March 31		**2006**		2005		2004[1]
Sales	**$**	**1,212,314**	$	920,913	$	733,104
Net income		**51,563**		37,205		23,015
Net income per unit						
Basic	**$**	**0.49**	$	0.36	$	0.23
Diluted		**0.48**		0.35		0.22

Balance sheet data

As at March 31		**2006**		2005		2004
Total assets	**$**	**350,225**	$	340,998	$	301,576
Long-term liabilities		**21,439**		21,664		29,856

[1] *The amounts relating to 2004 have been restated.*

2006 compared with 2005

The increase in sales is primarily a result of the increase in Long-Term Customers from 1,171,000 to 1,502,000. During fiscal 2006, Energy Savings entered into New York (gas and electricity markets) and expanded further in Illinois to two additional LDCs (Peoples Energy and North Shore). In addition, the financial results from the Alberta market (entered during the prior year) became material.

The increase in net income and net income per unit are a result of an increase in gross margin due to customer growth, offset by increases in marketing and general and administrative costs to fund the customer base expansion. In addition, bad debt expense increased over the prior year as a result of the impact of the first full year of operations in Illinois and Alberta.

Total assets increased by 3%, primarily as a result of the increase in accounts receivable, as well as a recovery of corporate taxes paid in the prior year.

Long-term liabilities are primarily future income taxes. The decrease is attributable to the decrease in the difference between the tax and accounting cost basis of the acquired gas and electricity contracts. The majority of these assets are deducted for tax at a rate greater than that for accounting. Also included in long-term liabilities are deferred charges which represent the fair value associated with the supply contracts purchased with the customer contracts from EPCOR.

2005 compared with 2004

The increase in sales is primarily a result of the increase in Long-Term Customers from 993,000 to 1,171,000.

The increase in net income and net income per unit are a result of an increase in gross margin due to customer growth, offset by increases in marketing and general and administrative expenses. The increase in expenses is directly attributable to the Fund's expansion into new markets.

Total assets increased principally as a result of the terms of the credit facility agreement. Under the previous supplier arrangement, the net accounts receivable (Canadian LDC receipts less commodity supply) were remitted to Energy Savings. The current arrangement requires Energy Savings to receive payment from the LDC or customers directly followed by payment to the supplier for commodity purchases. Accordingly, accounts receivable (an asset) is recorded at a significantly higher value despite the fact that the underlying transaction is effectively the same.

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

Summary of quarterly results

For the years ended March 31
(thousands of dollars except per unit amounts)

2006	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Sales per financial statements	**$ 234,405**	**$ 180,049**	**$ 321,161**	**$ 476,699**	**$ 1,212,314**
Net income	**11,125**	**9,396**	**13,217**	**17,825**	**51,563**
Net income per unit – Basic	**$ 0.11**	**$ 0.09**	**$ 0.12**	**$ 0.17**	**$ 0.49**
Net income per unit – Diluted	**0.10**	**0.09**	**0.12**	**0.17**	**0.48**
Amount available for distribution					
Before marketing expenses	**$ 32,264**	**$ 31,491**	**$ 40,212**	**$ 45,471**	**$ 149,438**
After marketing expenses	**21,565**	**20,760**	**26,582**	**32,293**	**101,200**
Payout ratio					
Before marketing expenses	**73%**	**76%**	**61%**	**55%**	**65%**
After marketing expenses	**109%**	**116%**	**92%**	**77%**	**96%**

2005	Q1	Q2	Q3	Q4	Total
Sales per financial statements	$ 186,073	$ 114,290	$ 213,649	$ 406,901	$ 920,913
Net income (loss)	5,649	(2,754)	7,042	27,268	37,205
Net income (loss) per unit – Basic	$ 0.05	$ (0.03)	$ 0.07	$ 0.26	$ 0.36
Net income (loss) per unit – Diluted	0.05	(0.03)	0.07	0.26	0.35
Amount available for distribution					
Before marketing expenses	$ 27,825	$ 32,769	$ 34,930	$ 28,483	$ 124,007
After marketing expenses	18,862	22,094	23,603	19,454	84,013
Payout ratio					
Before marketing expenses	77%	68%	65%	81%	72%
After marketing expenses	113%	100%	96%	118%	106%

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

Analysis of the fourth quarter

Sales are typically higher in the fourth quarter because gas consumption is highest during the winter months and approximately 60% of the current customer base are gas customers. The 17% increase in sales compared to the prior comparable quarter is primarily attributable to the increase in customers year over year. Net income decreased by 35% primarily as a result of a $17.1 million non-cash change in the fair value of derivative financial instruments since December 31, 2005, partially offset by a recovery for income tax.

Management complies with AcG-13, which requires it to determine a fair value of certain of its derivative financial instruments that do not meet hedge accounting requirements. This fair value is determined using market information at the end of each quarter. At the end of December, the market prices of natural gas were close to an all-time high. As at March 31, 2006, the market prices had decreased substantially from their December levels. Management believes the Fund remains effectively hedged across all jurisdictions.

The payout ratios before and after marketing expenses were 55% and 77%, respectively, in comparison with 81% and 118% in the prior comparable year. The lower payout ratios are a result of the corporate tax recovery of $1.3 million, in comparison with the $10.0 million tax payable in the prior comparable quarter.

Customer aggregation

Long-term customers

Canada	Beginning[4]	Additions	Acquired[5]	Attrition[6]	Failed to Renew[7]	Ending
Gas						
Ontario	644,000	55,000	–	(66,000)	(19,000)	614,000
Other markets[1]	118,000	83,000	–	(10,000)	–	191,000
Total – Gas	762,000	138,000	–	(76,000)	(19,000)	805,000
Electricity[2]	360,000	186,000	50,000	(29,000)	(3,000)	564,000
Total Canada	1,122,000	324,000	50,000	(105,000)	(22,000)	1,369,000
United States[3]	49,000	100,000	–	(16,000)	–	133,000
Combined	1,171,000	424,000	50,000	(121,000)	(22,000)	1,502,000
2005	929,000	290,000	68,000	(94,000)	(22,000)	1,171,000
Increase						28%

[1] *Includes Quebec, British Columbia, Manitoba and Alberta.*
[2] *Includes Ontario and Alberta.*
[3] *Includes Illinois and New York.*
[4] *Adjusted to reflect the reclassification of certain Customers Not Expected to Renew. See "First Source purchase adjustment" below.*
[5] *Energy Savings acquired approximately 50,000 long-term RCEs from EPCOR. See "EPCOR acquisition" below.*
[6] *Attrition – Customers whose contracts were terminated primarily due to relocation or death, or canceled by Energy Savings due to delinquent accounts.*
[7] *Failed to Renew – Customers who did not renew expiring contracts at the end of their term.*

EPCOR acquisition

In May 2005, Energy Savings acquired approximately 187,000 Ontario electricity RCEs from EPCOR. While these customers were predominately residential and small commercial, which fit within Energy Savings' target market, a significant portion of those customers will not be renewed because of regulatory requirements for a renewal reaffirmation. As a result, management anticipates that approximately 50,000 (27%) of the acquired customers are expected to renew with Energy Savings upon expiration of their current contracts.

First Source purchase adjustment

In May 2003, Energy Savings acquired approximately 141,000 electricity customers (113,000 on the acquisition and a further 28,000 after processing and reaffirmation of pending contracts) from First Source. It was estimated that approximately 88,000 customers would renew at the end of their contracts and therefore these customers were assigned to the Long-term Customer pool. A majority of these contracts were large volume and, given the uncertainty of the electricity market, 75% of the customers that have been up for renewal have opted not to renew upon expiration of their contracts. As a result, 64,000 RCEs were reclassified from "Long-term Customers" to "Customers Not Expected to Renew".

Customers not expected to renew

In addition to the Long-Term Customers, Energy Savings has an additional 104,000 customers (12,000 gas and 92,000 electricity) 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 approximately one year remaining until the end of their contracts.

Attrition

Canada

Attrition in the gas customer book for the year was 10%, on target with management's expectations. Attrition for the electricity customer book was 6%, reflecting the fact that the majority of electricity customers are commercial, a group which has a much lower propensity to move. Overall, the combined annual attrition in Canada for both gas and electricity was below the 10% customer attrition rate used for internal purposes.

United States

It is anticipated that the attrition levels in the U.S. will be higher than the rates historically experienced in the Canadian markets. For fiscal 2006, attrition amounted to 18%, higher than that seen in Canada, primarily as a result of terminations initiated by Energy Savings for delinquent accounts in Illinois. Management is actively pursuing measures to reduce the attrition levels, including continuous review and monitoring of the existing credit approval process. Credit-related attrition occurs only in Illinois, as in New York, the LDC bears the risk of customer delinquency. Exclusive of the customers terminated for credit purposes, management anticipates that overall attrition in the U.S. markets will be approximately 15% per year. Based on experience to date, U.S. customers have greater mobility, enabling them to terminate their contracts and sign with another retailer. Management has adjusted the hedge ratios used for the U.S. to mitigate this exposure.

Failed to renew

Energy Savings has implemented a multi-faceted program aimed at maximizing the number of customers which renew prior to the end of their contract term. Efforts begin up to fifteen months in advance with contracts providing for renewal for an additional five years. To the extent customers do not renew under this recontracting program, additional processes such as mail and telemarketing renewals take place closer to the contract expiry date. 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. In fiscal 2006, approximately 37% of the Ontario gas renewals were for a period of one year. The table below shows the percentage of Long-Term Customers up for renewal in each of the following years.

Fiscal Year	Gas	Electricity
2007	14%	4%
2008	11%	31%
2009	15%	16%
2010	26%	8%
2011	31%	32%
Beyond 2011	3%	9%
Total	100%	100%

With the increased customer contracts now up for renewal, Energy Savings has implemented a marketing program with an expectation of achieving an 80% customer renewal rate. In fiscal 2006, the natural gas contract renewal rate was 81%, slightly above target. With respect to electricity customers aggregated by Energy Savings, no customers have reached their first renewal date.

Gross additions (excluding acquisitions)

Energy Savings' published targets for fiscal 2006 were gross customer additions, excluding acquisitions of 350,000 and net customer additions of 214,000. The following table shows the results of operations compared with these targets.

Gross Customer Additions	Fiscal 2006	Published Target	% Realized
Canada			
Gas			
Ontario	55,000	80,000	69%
Other markets[1]	83,000	70,000	119%
Total – Gas	138,000	150,000	92%
Electricity[2]	186,000	100,000	186%
Total Canada	324,000	250,000	130%
United States[3]	100,000	100,000	100%
Gross additions	424,000	350,000	121%
Net additions	281,000	214,000	131%

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

Canada

Gas

Total gross gas additions in Canada were 138,000, which represents 92% of the published target of 150,000. Additions in Ontario were 55,000 for the year, representing 69% of the published annual target of 80,000 due to the concentration of our agent sales efforts in the electricity market. Management believes that the overall impact of positive results in Ontario electricity marketing will more than offset reduced gas additions. In the fourth quarter, Energy Savings commenced Ontario marketing using a dual fuel contract, resulting in agents having the ability to sign a customer up for both gas and electricity at the same time.

In the rest of the Canadian markets, additions for the year amounted to 83,000, exceeding the target of 70,000 by 19%. Alberta was the major contributor to this result. It is anticipated that Alberta will continue to be the primary source of net gas customer growth within these markets.

The Canadian gas customers added through marketing efforts during the period were matched with supply to generate margins at or above Energy Savings' average annual target margin of $170/RCE over the life of the contract.

Electricity

Total additions in the Canadian electricity market amounted to 186,000 for the year, surpassing the published annual target by 86% and the prior year's additions by 251%. The Ontario market has been very receptive to the Energy Savings' offering. Energy Savings began offering five-year fixed price contracts to small commercial customers in May 2005 and residential customers in December 2005. Marketing efforts in the Alberta electricity market were also favorable.

The electricity customers signed during the quarter were matched with supply to generate margins expected to be at or above Energy Savings' average annual target margin of $100/RCE over the life of the contract.

United States

The published target for the U.S. was met as the total gross additions for the U.S. market were 100,000 for the year. During the year, Energy Savings expanded further in Illinois to the Peoples Energy and North Shore territories and commenced marketing efforts for both gas and electricity in the State of New York. Marketing results were impacted by the tightening of the customer acceptance process and the normal holiday season, which adversely affected additions in the fourth quarter following very strong third quarter results.

Energy Savings continues to ramp up its marketing efforts in the U.S. with approximately 185 independent sales agents at the end of the year. The New York market has been very receptive to the Energy Savings' offering and as a result, management expects to open two new sales offices in the second quarter of fiscal 2007.

The gas and electricity customers signed during the year were matched with supply to generate margins at or above the Energy Savings' average annual target of $140/RCE and $100/RCE, respectively, over the life of the contract.

General and administrative expenses

General and administrative costs were $34.3 million for the year representing an increase of 20% from fiscal 2005. The increase in general and administrative costs over the prior year was primarily driven by the additional infrastructure and support necessary to support the Fund's continued growth in new markets and customer growth. Also, investment to support expansion into new markets began in the fourth quarter and will continue through the first and second quarters of fiscal 2007. Management anticipates that the entry into a new market will result in an increase in general and administrative costs of approximately $2.0 to $3.0 million, most of which will be an ongoing expense.

Unit based compensation

Compensation in the form of fully paid units (in lieu of cash) granted by the Fund to the directors, officers, full-time employees and service providers of its subsidiaries and affiliates pursuant to the Unit Option Plan, the Unit Appreciation Rights Plan ("UARs") and the Directors' Deferred Compensation Plan amounted to $6.5 million for the year ended March 31, 2006 (2005 – $3.5 million). The increase over the prior year is attributable to a majority of the payments under the marketing agreements being paid in the form of UARs, as opposed to 60% cash and 40% UARs in the prior year, as well as the early vesting of options as a result of the one-time severance payment paid to a former executive.

Marketing expenses

Marketing expenses, which primarily consist of commissions paid to independent sales agents for signing new customers, were $48.2 million, an increase of 21% from $40.0 million in fiscal 2005. The increase is primarily attributable to the 46% increase in customers aggregated year over year, offset by the fact that the electricity commission rates per RCE are lower than natural gas commission rates. Electricity customer additions accounted for approximately 50% of the annual additions in 2006, versus 18% in fiscal 2005. Marketing costs in 2006 amount to $142/RCE for Canadian and $92/RCE for U.S. gas additions (2005 – $154/RCE for Canada and $84/RCE for U.S.) and $82/RCE for Canadian and $106/RCE for U.S. electricity additions (2005 – $84/RCE for Canada). Furthermore, marketing expenses include $3.7 million for customer renewals versus $2.6 million in the prior year.

In fiscal 2006, the aggregation cost for Canadian gas was below that for the prior fiscal year as more customers were aggregated outside of Ontario at a lower cost. The additional costs in Ontario reflect higher commission rates due to the greater effort required by a more highly penetrated market, as well as higher per customer overhead expenses. The aggregation costs for both U.S. gas and electricity were slightly above target due to the rapid expansion during the later part of the year.

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 fiscal 2006 was $5.1 million, representing approximately 2.7% of $192.0 million in revenues. In the prior year, management had estimated Illinois losses based on the historical Nicor rate of 1.1%. Also, in the prior year, management had limited experience with the customer default rate in Alberta as it had only entered that market in the fourth quarter. The impact from the underestimation of the prior year's customer defaults was reflected in the first and second quarters of fiscal 2006. Based on actual results to date, management expects bad debt expense to be approximately 2.5%–3.0% of annual revenue earned in both Illinois and Alberta (2% for Alberta and 3% for Illinois, which is consistent with recent experience in these jurisdictions). 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.

Interest expense

As at March 31, 2006, Energy Savings had utilized $25.2 million of its operating line for working capital needs and $22.0 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 amounted to $1.0 million for the year (2005 – $0.1 million). The increase in interest expense in fiscal 2006 is a result of additional letters of credit issued as well as the utilization of the operating line.

Foreign exchange

Energy Savings has an exposure to foreign currency exchange rates as a result of its investment in U.S. operations. Changes in the applicable exchange rate resulted in a non-cash loss of $0.5 million and $0.6 million for fiscal 2006 and 2005, respectively.

During the year, Energy Savings 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 year amounted to $9.3 million (2005 – $9.1 million). These payments are reflected in the "Statement of Unitholders' equity" of the Fund's consolidated financial statements, net of tax.

Income tax provision (recovery)

Income tax breakdown

(thousands of dollars)

Years ended March 31	**2006**	2005
Income tax provision (recovery)	**$ (1,764)**	$ 10,475
Amount credited to Unitholders' equity	**3,341**	3,282
Current income tax provision	**1,577**	13,757
Future income tax recovery	**(4,632)**	(8,836)
Provision for (recovery of) income tax	**$ (3,055)**	$ 4,921

In the current year, there was a recovery of income tax in the amount of $1.8 million, versus a corporate tax provision of $10.5 million in the prior year. The recovery of corporate taxes paid in 2005 was primarily attributable to the transfer of the majority of assets and liabilities, and therefore all operations and future marketing efforts from OESC to OESLP on August 1, 2005. This transfer was an interim step in the proposed tax reorganization from a "trust on corporation" structure to a "trust on trust on partnership" structure. Management received approval from the Unitholders of the Fund for the reorganization on June 29, 2005, but is still waiting for an income tax ruling from the Canada Revenue Agency to complete the final stage of the reorganization.

Included in the income tax provision is an amount relating to the tax portion of the distributions paid to the Class A shareholders of OESC. In accordance with EIC 151, all Class A preference shares are included as part of Unitholders' equity and the distributions paid to the shareholders are included as distributions on the Statement of Unitholders' equity net of tax. For the year ended March 31, 2006, the tax amount of these distributions amounted to $3.3 million, the same as in the prior comparable year, based on a tax rate of 36%.

The decrease in the future income tax liability of $4.6 million is attributable to the decrease in the difference between the tax and accounting cost bases for the acquired gas and electricity contracts. The majority of these assets are deducted for tax at a rate greater than that for accounting purposes.

Liquidity and capital resources

Liquidity

Summary of Cash Flow

Years ended March 31

(thousands of dollars)		**2006**		2005
Operating activities	**$**	**69,582**	$	67,142
Investing activities		**(10,073)**		(15,974)
Financial activities, excluding distributions		**32,746**		13,454
Loss on foreign exchange		**(454)**		(583)
Increase in cash before distributions		**91,801**		64,039
Distributions (cash payments)		**(96,196)**		(88,222)
Decrease in cash		**(4,395)**		(24,183)
Cash – beginning of year		**16,058**		40,241
Cash – end of year	**$**	**11,663**	$	16,058

Operating activities

Cash flow from operating activities increased for fiscal 2006 over the prior comparable period primarily as a result of corporate taxes recoverable versus a liability in the prior year, offset by the increased bad debt expense.

Investing activities

Energy Savings purchased capital assets totaling $3.5 million, a decrease from $5.6 million in the prior year. The purchases in both years were primarily for information technology systems supporting the Fund's expanding customer base within its markets. In fiscal 2006, Energy Savings purchased the EPCOR Ontario electricity customer contracts for $6.6 million (net of adjustments) while in fiscal 2005, $10.3 million was spent on the acquisition of gas and electricity customer contracts in Alberta from EPCOR.

Financing activities

The increase in financing activities, excluding distributions, to $32.7 million in comparison to the prior year is directly related to the $25.2 million utilization of the credit facility to fund working capital needs.

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 Energy Savings is currently in and those we expect to enter, funding requirements will be supported through the credit facility.

The operating credit facility was increased from $60.0 million to $100.0 million in February 2006. The increase was in response to Energy Savings' participation in the Ontario power auction which occurred in February and April 2006. The power purchased as a result of the auction required the posting of $16.3 million in letters of credit during fiscal 2006 with an additional $11.4 million posted in fiscal 2007 (April).

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 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 time 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:

Canada	
Gas	3–6 months
Electricity	2–6 months
United States	
Gas and electricity	2–3 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)

During the year, the Fund made distributions to its Unitholders in the amount of $96.2 million (including $9.3 million to holders of the OESC Class A preference shares) compared to $88.2 million in the prior year, an increase of 9%. Energy Savings will continue to utilize its cash resources for expansion into new markets as well as distributions to its Unitholders. The rapid pace of customer growth and corresponding marketing expenses and working capital requirements will be assessed in relation to the future distribution increases.

At the end of the year, the annual rate for distributions per unit was $0.945. The distribution rate per unit at the beginning of the year was $0.885. The annual rate for distribution will increase on May 18, 2006 to $0.975 per unit for the distribution payable on July 31, 2006.

Balance sheet as at March 31, 2006 compared to 2005

Cash decreased from $16.1 million to $11.7 million, primarily as a result of the acquisition of the Ontario electricity customer contracts from EPCOR for approximately $6.6 million (net of adjustments) and the payment of the $10.0 million 2005 corporate tax liability. Energy Savings also utilized $25.2 million of its credit facility to meet working capital requirements.

Accounts receivable increased from $101.6 million to $149.4 million, primarily as a result of the increase in the customer base year over year. Similarly, accounts payable and accrued liabilities also increased from $76.5 million to $113.1 million.

Gas in storage primarily represents the gas delivered to the LDCs in the State of Illinois and results from the fact that customer consumption was less than that which had been delivered to the LDCs. The balance at March 31, 2006, was $4.8 million, an increase from $0.4 million at March 31, 2005, primarily as a result of the increase in the customer base year over year. In addition, a portion of the gas in storage relates to operations in the Province of Alberta. In Alberta, there is a month to month carryover, which represents the difference between the gas delivered to the LDC within a month and customer consumption. As the Alberta market is load following, the delivery volumes in the following month are adjusted accordingly.

At the end of the year, customers in Ontario, Manitoba and Quebec had consumed more gas than was supplied to the LDCs for their use. Since Energy Savings is paid for this gas in these markets when delivered, yet recognizes revenue when the gas is consumed by the customer, the result on the balance sheet is the unbilled revenue amount of $37.0 million and accrued gas accounts payable of $29.9 million. The increase over the prior comparable amounts is a result of increased consumption due to a larger customer base.

The carrying values of gas contracts decreased by $29.8 million due to the amortization based on the average remaining life of the contracts. The carrying values of electricity contracts increased by $2.8 million as a result of the acquisition of Ontario customer contracts from EPCOR, offset by non-cash amortization of $11.8 million.

At March 31, 2006, the net corporate taxes recoverable amounted to $3.9 million, versus a corporate tax payable of $10.0 million at March 31, 2005. The recovery was primarily attributable to the corporate reorganization of the Ontario operations. See "Income taxes provision (recovery)" for further details.

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

Unitholders' equity

During the year, Energy Savings expanded the Unitholders' equity section to conform with best practices for financial statement disclosure. Cumulative distributions amount to $330.1 million compared to accumulated earnings of $143.9 million. The Fund has a strict board-approved policy which outlines both qualitative and quantitative measures which must be met prior to approving distribution increases. Distributions are determined using the actual amount of net cash available, instead of net income, as management believes it to be a more accurate measure of liquidity given that a significant portion of the Fund's expenses are non-cash charges, (see "Non-GAAP financial measures"). Furthermore, the Fund's payout ratio for the year amounted to 96% post marketing confirming distributions were funded from net cash from operations.

Contractual obligations

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

Payments due by period *(thousands of dollars)*	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Property and equipment lease agreements	$ 17,520	$ 2,922	$ 6,025	$ 5,076	$ 3,497
Marketing agreement obligations	338	338	–	–	–
EPCOR billing, collections & supply commitments	23,450	7,560	12,028	3,862	–
Gas and electricity supply purchase commitments	3,635,015	1,144,261	1,646,938	820,951	22,865
	$ 3,676,323	$ 1,155,081	$ 1,664,991	$ 829,889	$ 26,362

Alberta services agreements

In the prior year, Energy Savings through its affiliate, AESLP, entered into a long-term arrangement with subsidiaries of EPCOR. The arrangement includes a five-year Master Services Agreement, a Wholesale Natural Gas and Financial Electricity Swap Agreement, a Prudential Support Agreement and supply agreements (as a result of the acquired customers). As specified in these agreements, on behalf of AESLP, EPCOR will:

1. Provide gas and electricity supply up to a predetermined volume threshold for future marketing requirements in addition to providing the energy supply for the acquired customers;
2. Post and monitor any credit support requirements with the Alberta Electric System Operator ("AESO"), wire service providers and gas distributors. AESLP will pay EPCOR a fee for the credit support services. If and to the extent that there is a collateral call by the secured parties, AESLP will either post directly or reimburse EPCOR; and
3. Provide customer call centre services, financial reporting and reconciliation, customer enrollment and billing and collection services. The services will be provided for customers secured in the Province of Alberta only. Energy Savings has established defined performance levels for each of the service areas. To the extent service levels are not achieved, AESLP has the right to certain payments or to terminate the Master Services Agreement.

Other obligations

The Fund is also subject to certain contingent obligations that become payable only if certain events or rulings were to occur. Such obligations include potential judgments, settlements, fines, and other penalties resulting from lawsuits, claims or proceedings. 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. 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

Energy Savings has obligations under its existing Marketing Fee Agreements ("Marketing Agreements") to three of its officers. These three officers have resigned. Each of their Marketing Agreements will expire in early fiscal 2007, effective at each of their respective resignation dates. Each officer was entitled to receive annual marketing fees or commissions equal to the greater of the individual's percentage of Energy Savings' incremental gross margin and the individual's specified guaranteed amount, payable on March 31 of each year, as to, 50% in cash and 50% in fully paid unit appreciation rights ("UARs") which vest on the first, second and third anniversary day of the grant date when they become exchangeable for units on a one for one basis. All unvested fully paid UARs will be canceled effective the resignation dates of each of the respective officers. For the year ended March 31, 2006, non-cash payments to the three officers amounted to $1.5 million (2005 – $0.9 million).

The resignations of two of the three officers occurred in the fourth quarter of fiscal 2006 with the resignation of the third officer occurring at the beginning of fiscal 2007. The entitlement under the Marketing Agreement will cease on March 31, 2006 for all officers, except one, who will continue to be paid during a period of transition, ending on September 30, 2006.

Critical accounting estimates

The consolidated financial statements of the Fund have been prepared in accordance with GAAP. Certain accounting policies require management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, cost of sales and marketing, and general and administrative expenses. Estimates are based on historical experience, current information and various other assumptions that are believed to be reasonable under the circumstances. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of critical accounting estimates is not meant to be exhaustive. The Fund might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Unbilled revenues/accrued gas accounts payable

Unbilled revenues result when customers consume more gas than has been delivered by Energy Savings to the LDCs. These estimates are stated at net realizable value. Accrued gas accounts payable represents Energy Savings' obligation to the LDC with respect to gas consumed by customers in excess of that delivered. This obligation is also valued at net realizable value. This estimate is required for the gas business unit only, since electricity is consumed at the same time as delivery. Management uses the current average customer contract price and the current average supply cost as a basis for the valuation.

Gas delivered in excess of consumption/deferred revenues

Gas delivered to LDCs in excess of consumption by customers is valued at the lower of cost and net realizable value. Collections from LDCs in advance of their consumption results in deferred revenues, which are valued at net realizable value. This estimate is required for the gas business unit only since electricity is consumed at the same time as delivery. Management uses the current average customer contract price and the current average supply cost as a basis for the valuation.

Goodwill

In assessing the value of goodwill for potential impairment, assumptions are made regarding Energy Savings' future cash flow. If the estimates change in the future, the Fund may be required to record impairment charges related to goodwill. An impairment review of goodwill was performed during fiscal 2006 and as a result of the review, it was determined that no impairment of goodwill existed at March 31, 2006.

Fair value of derivative financial instruments and risk management

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 and New York as well as the intention for further expansion 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.

Preference shares of OESC and trust units

As at May 10, 2006, there were 10,168,695 preference shares of OESC outstanding and 96,391,991 units of the Fund outstanding.

Taxability of distributions

Cash distributions received in calendar 2005 were allocated as follows: 26% dividends, 65% interest and other income and 9% return of capital. Additional information can be found on our website at www.esif.ca. Management estimates the distributions for calendar 2006 to be allocated as to 95% interest and other income and 5% return of capital.

Adoption of new accounting policies

There have been no new accounting policies adopted by the Fund for the period of April 1, 2005 to March 31, 2006, nor are there changes pending or proposed for fiscal 2007. Commencing April 1, 2007, ESG will be required to comply with three new standards: Hedge Accounting, Financial Instruments and Other Comprehensive Income. These standards will require all derivative financial instruments to be fair valued and recognized in Other Assets as opposed to recognizing only the fair value of derivative financial instruments that do not meet hedge accounting requirements as is currently the case. Changes in the fair value will flow through the new Statement of Other Comprehensive Income if hedges are effective. Due to the size of the electricity derivative financial instruments, which are not currently recognized in Other Assets, these new standards will have a significant impact on the Other Assets caption of the balance sheet. Due to the volatility of market prices, it is expected that there will be significant changes flowed through Other Comprehensive Income on a quarterly basis. There will be no change to management's hedge strategy as the plans are effective; the change in measurement is simply the adoption of the new accounting standards.

Competition

Industry competition – Natural gas

Energy Savings offers its customers protection against price volatility through various fixed price, fixed term and price protected supply arrangements. The Fund does not view LDCs as true competitors, but rather as a supplier of last resort for customers. The LDCs are currently not permitted to make a profit on the sale of the gas commodity to their supply customers.

With respect to alternative retailers supplying residential and small to mid-size commercial customers, Energy Savings' largest competitors in Ontario are Direct Energy, which is owned by Centrica plc and Universal Energy Corporation. In addition, each market in which Energy Savings and/or its affiliates operates has regional competitors.

Management believes that the Fund has significant competitive advantages over other retailers in that it has: (i) a marketing and sales organization which has achieved significant success in commodity sales; (ii) an excellent customer care and customer service process; (iii) a disciplined management of commodity purchases; and (iv) an offering priced to achieve stable margin growth vs. customer growth. The industry credibility of the Fund's subsidiaries and affiliates is based on the long-term experience of its management team relating to the deregulation of natural gas and their innovations in providing consumer choices within the direct purchase market.

Industry competition – Electricity

Competition in the target electricity market in Ontario and Alberta is currently limited. Management believes the current active competitors in the electricity market to be Universal Energy Corporation and Direct Energy.

Energy source competition

Natural gas enjoys advantages over electricity and other fossil fuels, including the fact that it is readily available through vast transmission and distribution systems and has significant environmental advantages compared to other fossil fuels, which should result in consumers continuing to switch to natural gas for their energy needs. However, the price advantage which natural gas at one time enjoyed over these other forms of energy will be diminished if the price of natural gas continues to increase and, to the extent that consumers have the capacity to switch to the use of other forms of energy, such increases in the price of natural gas could result in other sources of energy providing more significant competition to the Fund's natural gas offering. With regard to the Fund's customer base, while some of its mid-sized industrial and commercial customers may be in a position to select an alternate energy source, this option would normally not be available to its residential, small to mid-size commercial and small industrial customers without significant capital cost. Accordingly, while major industrial users (a market segment not served by Energy Savings) can indeed change from one source of energy to another to take advantage of commodity price differentials, this requires installation of equipment which is generally not economic for residential or small to mid-size commercial and small industrial users.

Risk factors

Availability of supply

A key risk to the business model is a sudden and significant drop in the market price of gas or electricity resulting in customers leaving their contracts. The Fund's subsidiaries and affiliates may encounter difficulty or political resistance for enforcement of liquidated damages and/or enactment of *force majeure* provisions in such a situation and be exposed to spot prices with a material adverse impact to cash flow. Continual monitoring of margin and exposure allows management time to adjust strategies and pricing, and to mitigate communications. The risk of supply default is mitigated through credit and supply diversity arrangements. The business model is based on contracting for supply to lock in margin. There is a risk that counterparties could not deliver due to business failure or supply shortage or that the Fund's subsidiaries and affiliates could not find alternatives to their major energy supplier, Coral Energy. The Fund's subsidiaries and affiliates continue to investigate opportunities to identify additional gas suppliers, and electricity suppliers and have, since April 1, 2005, added several additional gas suppliers (BP Canada Energy Company and EPCOR Merchant and Capital L.P.) and electricity suppliers (Bruce Power L.P., Constellation Energy Group Inc., Sempra Energy Trading Corp. and EPCOR Merchant Capital L.P.).

Availability of credit

The Fund operates in the Illinois and Alberta markets, which provide for payment by LDCs and customers only when the customer has paid for consumed gas (rather than when gas is delivered). Also, in Illinois, Energy Savings must inject gas inventory in advance of payment, this creates working capital requirements (particularly in the summer and fall). Both the seasonality of customer consumption and the injection of gas inventory necessitate the need for the Fund's available credit. In addition, some of the Fund's subsidiaries and affiliates are required to post collateral in connection with commodity supply contracts, license obligations and obligations owed to certain LDCs. Cash flow and distributions could be impacted by the ability of Energy Savings to fund such requirements or to provide other satisfactory collateral for such obligations. To mitigate credit availability risk and its potential impact to cash flow, the Fund, through the majority of its subsidiaries and affiliates, has security arrangements in place pursuant to which Coral Energy, BP Canada Energy Company and the lenders under the credit facility hold security over substantially all of the assets of the Fund and its active subsidiaries and affiliates. Other suppliers' security requirements are met through cash margining, guarantees and letters of credit. The most significant assets of the Fund consist of its contracts with customers, which assets may not be suitable as security for some creditors and suppliers. To date, the credit facility and related security agreements have met the collateral posting requirements of the business. The Fund continues to monitor its credit and security requirements. The Fund's business may be adversely affected if it is unable to meet the collateral posting requirements.

Legislative and regulatory environment

The Fund, through its subsidiaries and affiliates, operates in the highly regulated natural gas and electricity retail sales industry in the Provinces of Ontario, Manitoba, Quebec, British Columbia and Alberta, and in the States of Illinois and New York. They must comply with the legislation and regulations in these jurisdictions in order to maintain their licensed status and continue their operations. There is potential for changes to this legislation and these regulatory measures that may, favorably or unfavorably, impact the Fund's business model. The Fund has a dedicated team of in-house regulatory advisors to ensure adequate knowledge of the legislation and regulations in order that operations may advise of regulations pursuant to which procedures are required to be implemented and monitored to maintain license status. When new markets are entered, the in-house team assesses the market and determines if additional expertise (internal or external) is required.

In all jurisdictions Energy Savings operates in, the LDC performs billing and collection services except for the Province of Alberta. In Alberta, Energy Savings is required to invoice and receive payments directly from customers. In 2005, Energy Savings entered into a five-year agreement with EPCOR for the provision of billing and collection services for all customers in Alberta. If the LDCs did not perform such services, Energy Savings would have to seek a third party billing provider or develop systems internally to perform these functions.

Market risks

Market risk is the potential loss that may be incurred as a result of changes in the market or fair value of a particular instrument or commodity. Energy Savings is exposed to market risks associated with commodity prices and market volatility where estimated customer requirements do not match actual customer requirements. The Fund, through its subsidiaries and affiliates, is also exposed to interest rates associated with its credit facility and foreign currency exchange rates associated with repatriation of U.S. denominated funds for Canadian denominated distributions. The Fund's exposure to market risk is affected by a number of factors, including accuracy of estimation of customer requirements, commodity prices, volatility and liquidity of markets, and the absolute and relative levels of interest rates and foreign currency exchange rates. The Fund, through its subsidiaries and affiliates, enters into derivative financial instruments in order to manage exposures to changes in commodity prices and foreign currency rates; current exposure to interest rates does not economically warrant the use of derivative instruments. The derivative financial instruments that are used are designed to fix the price of supply for estimated customer demand in Canadian dollars and thereby fix margins such that Unitholder distributions can be appropriately established. Derivative financial instruments are generally transacted over the counter. The inability or failure of Energy Savings to manage and monitor the above market risks could have a material adverse effect on the operations and cash flow of the Fund and its subsidiaries and affiliates.

Governance

The Fund has adopted a corporate-wide Risk Management Policy governing its market risk management and any derivative trade activities. A Risk Committee, consisting of senior officers, oversees company-wide energy risk management activities as well as foreign exchange and interest rate activities. The Risk Office and the Risk Committee monitor the results to ensure compliance with the Risk Management Policy. The Risk Office is responsible for ensuring that the Fund and its subsidiaries and affiliates manage the market, credit and operational risks within limitations imposed by the Board of Directors in accordance with its Risk Management Policy. Market risks are monitored by Risk Management utilizing industry accepted mark to market techniques and analytical methodologies in addition to company specific measures. This department operates and reports independently of the traders. The failure or inability of the Fund to comply with and monitor its Risk Management Policy could have a material adverse effect on the operations and cash flow of the Fund and its subsidiaries and affiliates.

Energy trading inherent risks

Energy trading subjects the Fund's subsidiaries and affiliates to some inherent risks associated with future contractual commitments, including market and operational risks, counterparty credit risk, product location differences, market liquidity and volatility. There is continuous monitoring and reporting of the valuation of identified risks to the Risk Committee and the Audit Committee of the Board of Directors. The failure or inability of the Fund to monitor and address the energy trading inherent risks could have a material adverse effect on the operations and cash flow of the Fund and its subsidiaries and affiliates.

Information technology systems

The subsidiaries and affiliates of the Fund operate in a high-volume business with an extensive array of data interchanges and market requirements. Appropriate systems are necessary to track, monitor and correct or otherwise verify a high volume of data to ensure the reported financial results are accurate. The failure of the Fund to install and maintain these systems could have a material adverse effect on the operations and cash flow of the Fund and its subsidiaries and affiliates.

Customer credit risk

In Illinois and Alberta, Energy Savings assumes the credit risk associated with cash collections from its customers. Credit review processes have been put in place for these markets where Energy Savings has credit risk. If a significant number of customers were to default on their payments, it could have a material adverse effect on Energy Savings' operations and cash flow. Credit review processes have been put in place for these markets to manage the customer default rate. Management factors default from 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. However, there is no assurance that the LDCs who provide these services will continue to do so in the future.

Counterparty credit risk

Credit risk represents the loss that the Fund and its subsidiaries and affiliates would incur if a counterparty fails to perform under its contractual obligations. This risk would manifest itself in the Fund's subsidiaries and affiliates replacing contracted supply at prevailing market rates, thus impacting the related customer margin. A significant portion of the Fund's commodity supply contracts are with Coral Energy, an affiliate of Shell Trading. Counterparty limits are established within the Risk Management Policy. Any exception to these limits requires approval from the Board of Directors. The Risk Office monitors current and potential credit exposure to individual counterparties and also monitors overall aggregate counterparty exposure. However, the failure of a counterparty to meet its contractual obligations could have a material adverse effect on the operations and cash flow of the Fund and its subsidiaries and affiliates.

Competition

Although Energy Savings believes it is currently either the largest or the second largest alternative retailer of natural gas and electricity contracts in Canada, based on the number of contracted customers, management estimates that approximately four other companies compete with it in the residential, small to mid-size commercial and small industrial market, two of whom have a very small number of customers. It is possible that new entrants may enter the market and compete directly for the customer base that the Fund's subsidiaries and affiliates target, slowing or reducing their market share. If the LDCs are permitted by changes in the current regulatory framework to sell natural gas at prices other than cost, their existing customer bases could provide them with a significant competitive advantage. This may limit the number of customers available for alternative retailers, including the Fund's subsidiaries and affiliates.

Contract renewals

As at March 31, 2006, Energy Savings had 1.5 million long-term customers who will come up for renewal during 2007 to 2012. Energy Savings has implemented a marketing program with an expectation of achieving an 80% customer renewal rate. To the extent that the rate of renewal is substantially less than 80%, the operations and cash flow of the Fund could be adversely impacted.

These factors should not be considered to be exhaustive. Additional risks are outlined in the Annual Information Form (AIF) available on SEDAR at www.sedar.com on or before June 30, 2006.

Corporate governance

Energy Savings is committed to transparency in our operations and our approach to governance meets all recommended standards. Full disclosure of our compliance with existing corporate governance rules is available on our website at www.esif.ca and is included in the Fund's May 18, 2006 management proxy circular. Energy Savings actively monitors the corporate governance and disclosure environment to ensure timely compliance with current and future requirements.

Based on an evaluation of the Energy Savings' disclosure controls and procedures, the Fund's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective as of March 31, 2006.

Outlook

While the Fund has more than 1.5 million customer equivalents under long-term contracts at locked-in margins, its future results are dependent upon its ability to continue to add new customers both in existing and future new markets. Management believes that these growth opportunities will continue to exist. As a result management announced customer aggregation targets for fiscal 2007 totaling 475,000 gross additions and 307,000 net additions for the year. This compares to a fiscal 2006 target of 350,000 additions and realized additions of 424,000 for that year. Meeting the target would represent a 20% increase in customers. There can be no assurance that these targets will be realized; however, they represent the expectations of management.

Gas	
Ontario	50,000
Rest of Canada	60,000
United States	100,000
	210,000
Electricity	
Canada	175,000
United States	90,000
	265,000
	475,000

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

In an attempt to reflect both inflation and the increased effort required to secure customers, management has increased its target per customer aggregation costs. To offset these additional costs, the Fund has increased its prices to generate higher target margins than in the past. The overall impact is that every market will continue to repay customer aggregation costs in less than 12 months. Management does not believe that higher prices and margins will adversely impact customer additions as it forecasts record aggregation in fiscal 2007.

The new targets are as follows:	Target Aggregation Cost/RCE	Target Margin/RCE
Gas		
Canada	$ 160	$ 175
United States	$ 110	$ 140
Electricity		
Canada	$ 95	$ 110
United States	$ 100	$ 110

Based on continued growth in both customers and distributable cash, the Fund announced its 22nd distribution increase, from $0.03 to $0.975 per annum. The increase will be effective for the July 31, 2006 payment.