

INITIAL ANNUAL INFORMATION FORM



March 1, 2002

ENERGY SAVINGS INCOME FUND
MARCH 1, 2002
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Documents incorporated by reference:

- (a) The audited financial statements for Ontario Energy Savings Corp. for the year ended March 31, 2001.
- (b) The Fund's Third Quarter Report to Unitholders for the period ended December 31, 2001 which includes the Fund's unaudited consolidated financial statements for the nine month period ended December 31, 2001 the Chair's Report to Unitholders and Management's Discussion and Analysis of Financial Conditions and Results from Operations.

GLOSSARY OF TERMS

In this Annual Information Form, the following terms shall have the meanings set forth below, unless otherwise indicated:

"ABC T-Service" means agent, billing and collection system in place in both the Consumers Gas Franchise Area and the Union Gas Franchise Area. Under this system, the LDC bills customers for the price of gas agreed upon between the ABM and its customers.

"ABMs" means Agents/Brokers/Marketers such as the Corporation. ABMs are market aggregators meaning that they aggregate downstream customers into groups.

"Acquireco" means OESC Acquisitions Inc., a corporation incorporated under the OBCA on January 26, 2001 and which, pursuant to the Amalgamation, amalgamated with OESC under the name "Ontario Energy Savings Corp."

"Administration Agreement" means the administration agreement between the Fund and OESC (as Administrator), dated April 30, 2001.

"Administrator" means OESC in its capacity as administrator of the Fund pursuant to the Administration Agreement.

"Amalgamation" means the amalgamation pursuant to the provisions of the OBCA on April 30, 2001 of Acquireco and OESC as one corporation under the name "Ontario Energy Savings Corp."

"Applicable Laws" means applicable corporate and securities laws and rules of applicable stock exchanges and, where applicable, the laws, regulations and Marketing Codes applicable to the door-to-door solicitation of customers.

"Book-Entry Only System" means the book-based system administered by The Canadian Depository for Securities Limited.

"Class A Preference Shares" means the Class A preference shares in the capital of OESC.

"Class B Preference Shares" means the Class B preference shares in the capital of OESC.

"Common Shares" means the common shares in the capital of OESC.

"Consumers Gas Franchise Area" means the geographic area in the Province of Ontario within which The Consumers Gas Company Ltd. (which carries on business under the name Enbridge Consumers Gas), is franchised as an LDC to service its customers and distribute natural gas.

"Coral Energy" means Coral Energy Canada Inc., an affiliate of Shell Oil Company.

"Declaration of Trust" means the amended and restated declaration of trust dated as of the 18th day of April 2001 for the Fund, as same may be amended from time to time.

"Electrico" means Ontario Electric Savings Corporation, a corporation incorporated under the OBCA on February 15, 1999.

"Electric Licence" means renewal Licence Number ER-2000-0017 issued by the OEB to Electrico on September 27, 2000 authorizing Electrico to serve as an electricity marketer in the Province of Ontario until September 26, 2005.

"Energy Management Agreement" means the agreement between OESC and Coral Energy dated October 15, 1998 as amended by an agreement between the parties dated September 26, 2001.

"Exchangeco" means OESC Exchange Inc., a corporation incorporated under the OBCA on February 13, 2001.

"Exchangeco Common Shares" means the common shares in the capital of Exchangeco.

"Exchangeco Note Indenture" means the note indenture dated April 30, 2001 providing for the issuance of Exchangeco Notes made between Exchangeco and the Exchangeco Note Trustee.

"Exchangeco Note Trustee" means Computershare Trust Company of Canada.

"Exchangeco Notes" means the 13% unsecured notes of Exchangeco issued by Exchangeco to the Fund from time to time pursuant to the Exchangeco Note Indenture.

"Exchangeco Exchange Rights" means the rights granted by the Fund to Exchangeco pursuant to the OESC Shareholders' Agreement entitling Exchangeco to acquire Units in order to fulfil its obligations under the Shareholder Exchange Rights and to satisfy the purchase price for such Units by the issuance of Exchangeco Notes to the Fund.

"Exchangeco Extraordinary Resolution" means a resolution passed by the holders of not less than 66²/₃% of the principal amount of Exchangeco Notes outstanding, either in person or by proxy at a meeting of holders of Exchangeco Notes called for the purposes of approving such resolution, or approval in writing by the holders of not less than 66²/₃% of the principal amount of Exchangeco Notes then outstanding.

"Extraordinary Resolution" means a resolution passed by the holders of not less than 66²/₃% of the principal amount of OESC Notes outstanding, either in person or by proxy, at a meeting of holders of OESC Notes called for the purpose of approving such resolution, or approval in writing by the holders of not less than 66²/₃% of the principal amount of OESC Notes then outstanding.

"Fixed Price Contracts" is the name under which Synergy markets the fixed price, four or five year contracts for a customer's natural gas requirements utilizing the ABC T-Service arrangement.

"Fund" means Energy Savings Income Fund, a trust established under the laws of the Province of Ontario and governed by the Declaration of Trust.

"Gas Supplier" means a person who is a natural gas producer or natural gas supply aggregator.

"GJ" means gigajoules (one billion joules). A joule is a measurement of energy, with one gigajoule being equal to 0.95 million British thermal units or 26.53 m³ of natural gas.

"Independent Commission Agent" means a person who serves in the capacity of an independent contractor to solicit contracts for the supply of natural gas on a door-to-door or pre-appointment basis to residential, small to mid-size commercial and small industrial customers.

"LDC" means local distribution company, the natural gas distributor for a geographic franchise area including The Consumers Gas Company Limited and Union Gas Limited.

"m³" means a cubic meter or 0.03769 GJs.

"Marketing Agreement" means the agreement dated April 30, 2001 between Synergy and OESC pursuant to which Synergy has agreed to secure natural gas customers for OESC.

"Marketing Codes" includes the OEB Code of Conduct and the OEMA Code of Conduct.

"MEU" means a municipal electric utility.

"Natural Gas Licence" means renewal Licence Number GM-1999-0029 issued by the OEB to OESC on June 23, 1999 authorizing OESC to serve as a gas marketer in the Province of Ontario to May 31, 2004.

"Natural Gas Sale Agreement" means the agreement between OESC and Coral Energy dated October 15, 1998 as amended by an agreement between the parties dated September 26, 2001.

"NEB" means the National Energy Board, a federal regulatory body which regulates, *inter alia*, the distribution of natural gas between provinces of Canada.

"Note Indenture" means the note indenture dated April 30, 2001 providing for the issuance of OESC Notes between OESC and the Note Trustee.

"Note Trustee" means Computershare Trust Company of Canada.

"OBCA" means the *Business Corporations Act* (Ontario), as amended from time to time, including the regulations promulgated thereunder.

"OEB" means the Ontario Energy Board, a regulatory body which regulates, *inter alia*, the distribution and marketing of natural gas in the Province of Ontario.

"OEB Code of Conduct" means the Code of Conduct for Gas Marketers enacted pursuant to a Rule made under Part III of the *Energy Board Act 1998* (Ontario).

"OEMA" means the Ontario Energy Marketing Association formed to represent ABM's in Ontario and in which OESC holds a membership.

"OEMA Code of Conduct" means the Code of Conduct for ABMs approved by OEMA.

"OESC" or **"Corporation"** means Ontario Energy Savings Corp., the corporation created by the Amalgamation.

"OESC Notes" means the 13% unsecured, subordinated notes of OESC issued by OESC pursuant to the Note Indenture.

"OESC Shareholders' Agreement" means the shareholders' agreement dated April 30, 2001 among the Fund, OESC, the shareholders and former shareholders of OESC, Exchangeco, Electrico and the former shareholders of Electrico

"Over-Allotment Option" means the option granted to the underwriting syndicate associated with the Prospectus to purchase an additional 1,100,000 Units which option was exercised and resulted in the issuance of such number of Units on May 16, 2001.

"Preference Shares" means the Class A Preference Shares and the Class B Preference Shares.

"Prospectus" means the prospectus of the Fund dated April 20, 2001.

"Residential Customer Equivalent" means a unit of measurement equivalent to a customer using 3,000 m³ (or 110 GJs) of natural gas on an annual basis, which represents the approximate amount of gas used by a typical household.

"Security Agreement" means the agreement between Coral Energy and OESC dated September 26, 2001.

"Shareholder Exchange Rights" means the rights granted by Exchangeco to the holders of Preference Shares pursuant to the OESC Shareholders' Agreement entitling the holders thereof to require Exchangeco to purchase their Preference Shares and to satisfy the purchase price for such Preference Shares by the transfer of Units to them.

"Special Management Incentive Program" means the bonus which each of the holders of Class A Preference Shares is entitled to receive, on a quarterly basis, equal to the amount he would have received had he been a holder of record on the record date for all distributions made on Units in respect of such quarter of a number of Units equivalent to the number of Class A Preference held by him.

"Special Resolution" means a resolution passed by a majority of not less than 66²/₃% of the votes cast, either in person or by proxy, at a meeting of Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66²/₃% of the Units entitled to be voted on such resolution.

"Synergy" means Synergy Marketing Services Inc., a corporation incorporated under the OBCA on January 26, 2001.

"Tax Act" means the *Income Tax Act* (Canada) and the regulations thereunder.

"Trustee" means Montreal Trust Company, trustee pursuant to the Declaration Trust.

"TSE" means The Toronto Stock Exchange.

"Union Gas Franchise Area" means the geographic area within the Province of Ontario within which Union Gas Limited is franchised as an LDC to service its customers and distribute natural.

"Unitholders" means the holders from time to time of Units and includes, while the Units are registered in the Book-Entry Only System, the beneficial owners of Units.

"Units" means the units of the Fund, each unit representing an equal undivided beneficial interest therein.

"WACOG" means, for any period, an LDC's weighted average cost of gas for such period, which is generally derived by an LDC from weighting its gas volumes by the gas prices it has had to pay under specific gas contracts to produce one average price for its gas supply portfolio.

Words importing the singular include the plural and vice versa and words importing any gender include all genders.

All dollar amounts herein are in Canadian dollars, unless otherwise stated.

THE FUND

General

Energy Savings Income Fund (the "Fund") is an open-ended limited purpose trust established by the Declaration of Trust and governed by the laws of the Province of Ontario. The Fund is administered by its Administrator, Ontario Energy Savings Corp. ("OESC") which is governed by its board of directors. The principal and head office of the Fund and OESC is located at Suite 200, 6345 Dixie Road, Mississauga, Ontario L5T 2E6.

The Fund was established to hold securities of its subsidiaries. The Fund's principal asset is its investment in debt and equity securities of OESC. The Fund holds 100% of the common shares of OESC (the "Common Shares") and 100% of the common shares (the "Exchangeco Common Shares") of OESC Exchange Inc. ("Exchangeco"). To the maximum extent possible, the Fund makes cash distributions to Unitholders of amounts received on the redemption of, and dividends received on, the Common Shares and interest income earned from the OESC Notes and the Exchangeco Notes, after expenses of the Fund and any cash redemptions of Units.

In addition to its 100% ownership of the Common Shares and Exchangeco Common Shares, the Fund holds indirectly through OESC, 100% of the voting shares of each of Energy Savings (Manitoba) Corp. ("OESC Manitoba"), United States Energy Savings Corp. ("OESC U.S."), Ontario Electric Savings Corporation ("Electrico") and Energy Savings Commodities Inc. ("Commodities").

OESC, which holds the Natural Gas Licence, was formed as a result of the Amalgamation. It is the principal operating subsidiary of the Fund and carries on the natural gas marketing business described below. Exchangeco was incorporated under the OBCA on February 13, 2001 and was established for the sole purpose of facilitating the exchange of Class A Preference Shares and Class B Preference Shares of OESC for Units of the Fund. Electrico, which holds the Electric Licence was incorporated under the OBCA on February 15, 1999 to participate in the deregulated electricity supply market in the Province of Ontario. Commodities, which is currently inactive, was incorporated under the OBCA on January 25, 2002 for the purpose of purchasing electricity to be supplied to customers of OESC or Electrico. OESC Manitoba, which holds a gas marketing licence issued by the Manitoba Public Utilities Board and is currently inactive, was incorporated under the *Business Corporations Act* (Manitoba) on June 20, 2001 for the purpose of participating in the deregulation of the natural gas market in the Province of Manitoba. OESC U.S., which is currently inactive, was incorporated under the laws of the State of Delaware on December 4, 2001 to participate in the deregulation of natural gas and electricity in the United States if and when a decision is made by the Fund to commence business in those States which present opportunities similar to the Ontario market.

Development of the Fund

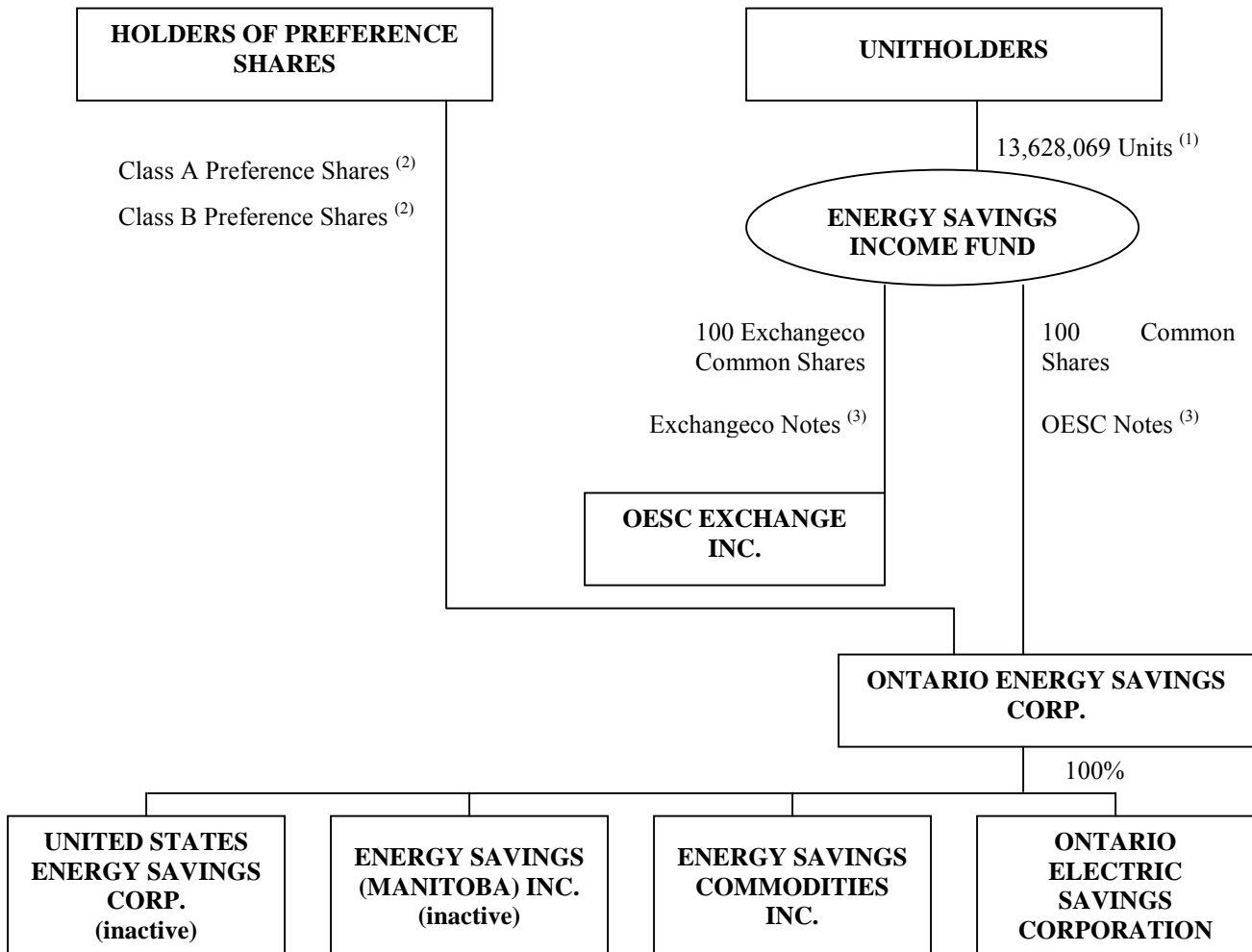
The Fund completed its initial public offering of 11,000,000 Units on April 30, 2001 at a price of \$10.00 per Unit pursuant to the Prospectus and completed a subsequent closing of 1,100,000 Units pursuant to the exercise of the Over-Allotment Option on May 16, 2001. Concurrent with the closing of its initial public offering, the Fund, through a series of related transactions, indirectly acquired 100% of the business of OESC's predecessor for a total consideration of approximately \$196,300,000, of which \$93,800,000 or 47.78% thereof was satisfied in cash and \$102,500,000 or 52.22% thereof was satisfied as a result of the Amalgamation by: (a) the issue of an aggregate of 6,918,416 Class A Preference Shares and 1,919,710 Class B Preference Shares and (b) the transfer of 1,411,874 Units, in each case to the persons who were the former shareholders of OESC's predecessor company. After giving effect thereto, the Fund became the sole owner of the Common Shares and the Exchangeco Common Shares and all OESC Notes and the Exchangeco Notes.

On January 25, 2002 the Fund announced it would participate in the deregulated electricity market in the Province of Ontario through OESC and Electrico (which latter company became a wholly owned subsidiary of the Fund on February 26, 2002). In conjunction with its participation in the Ontario electricity market, the Fund announced the hiring by Electrico of an experienced four person Canadian electricity supply management team. See "Ontario Energy Savings Corp. – Electricity Management Group".

In seeking to maximize value for Unitholders, the Fund and OESC regularly investigate opportunities for corporate or asset acquisitions or other business combinations involving the Fund, OESC and its subsidiaries. Each such opportunity is considered by the board of directors of OESC in the discharge of their duties to act in the best interest of Unitholders.

Organizational Structure of the Fund

The following chart sets out the organizational structure of the Fund.



Notes:

- (1) Unitholders own 100% of the Units.
- (2) As at March 1, 2002, 6,177,588 Class A Preference Shares (28% of Units fully diluted) and 1,445,847 Class B Preference Shares (7 % of Units fully diluted) were owned by the shareholders of OESC other than the Fund.
- (3) As at March 1, 2002, \$120,087,396 million principal amount of OESC Notes and \$13,982,127 million of Exchangeco Notes were outstanding and owned by the Fund.

ONTARIO ENERGY SAVINGS CORP.

Business of the Corporation

OESC's business, which is presently conducted solely in Ontario, involves the sale of natural gas to residential, small to mid-size commercial and small industrial customers under long term, irrevocable Fixed Price Contracts. By fixing the price of natural gas under its Fixed Price Contracts for a period of four or five years, OESC's customers eliminate

their exposure to changes in natural gas prices which have been volatile over the past several years. It is OESC's policy to match the estimated requirements of its customers by purchasing offsetting volumes of natural gas from Gas Suppliers. The Corporation derives its margin or gross profit from the difference between the fixed price at which it is able to sell gas to its customers and the price at which it purchases the offsetting volumes from Gas Suppliers. In addition to revenues earned by OESC based upon its ability to lock in margins between the price it pays for gas supply and the price it charges its customers, OESC augments cash flows the sale of excess gas supply and the renewal of expiring contracts.

Electrico has commenced an active marketing campaign for commercial and retail electricity customers in an effort to become a significant participant in the recently deregulated electricity supply market in the Province of Ontario. See "Electricity – The Opportunity in Ontario" and "Electricity Management Group".

Customer Base and Customer Contracts

As of December 31, 2001, OESC had approximately 217,000 residential, small to mid-size commercial and small industrial customers under Fixed Price Contracts, representing approximately 300,000 Residential Customer Equivalents, making it the second largest residential, small to mid-size commercial and small industrial ABM in Canada, currently enjoying approximately a 14% share of the Ontario direct purchase market for residential customers.

Fixed Price Contracts with the Corporation are irrevocable and are primarily for four or five year terms after which time they are automatically renewed. In excess of 92% of the Corporation's current customer contracts were written with an initial four or five year term. The Corporation loses approximately six percent of the total number of its customer contracts on an annual basis due to customer relocations. A further one percent of customers terminate their contracts annually for other reasons.

100% of OESC's customers are charged a fixed gas price for the full term of their contracts as opposed to a variable price of gas (WACOG) which the LDCs, such as Union Gas and Enbridge Consumers Gas, are required by regulation to charge. Although customers purchase their gas supply through the Corporation, the LDC is still mandated, on a regulated basis, to distribute the gas. The LDCs also continue to provide billing and collection services, including the collection and remittance to OESC or its Gas Supplier of the commodity portion of each customer's account for a small monthly fee. Each LDC also assumes 100% of the credit risk associated with default in payment by customers.

Marketing

Prior to May 1, 2001, OESC's growth was achieved entirely through its own marketing initiatives. Customers were solicited on a door-to-door or pre-appointment basis by Independent Commission Agents who, depending on the season, number between 100 and 150. During marketing campaigns to attract new customers, OESC was able to sign up new customers representing approximately 10,000 Residential Customer Equivalents per month. The gross margins from new customers begin to be realized two to three months after sign up, when natural gas begins to flow to the customers, due to administrative procedures carried out by the LDCs. OESC's costs for obtaining a new residential customer and related expenses currently include commissions payable to the Independent Commission Agents, the costs of printing contracts, bonus awards, advertising costs and the costs of promotional materials.

Since April 30, 2001 OESC's marketing efforts have been and continue to be undertaken on OESC's behalf by a separate company, Synergy, using essentially the same sales force which secured 100% of OESC's new customers prior to May 1, 2002. Pursuant to the Marketing Agreement, the cost to OESC of obtaining a flowing Residential Customer Equivalent is fixed. OESC pays to Synergy a base fee of \$120 for each confirmed contract requiring the annual delivery of up to 7,000 m³ of natural gas and a base fee of \$120 for each 3,000 m³ of natural gas to be delivered annually for each confirmed contract requiring the annual delivery of 7,000 m³ or more of natural gas. The base fee will increase by \$10 on each anniversary of the execution of the Marketing Agreement with Synergy.

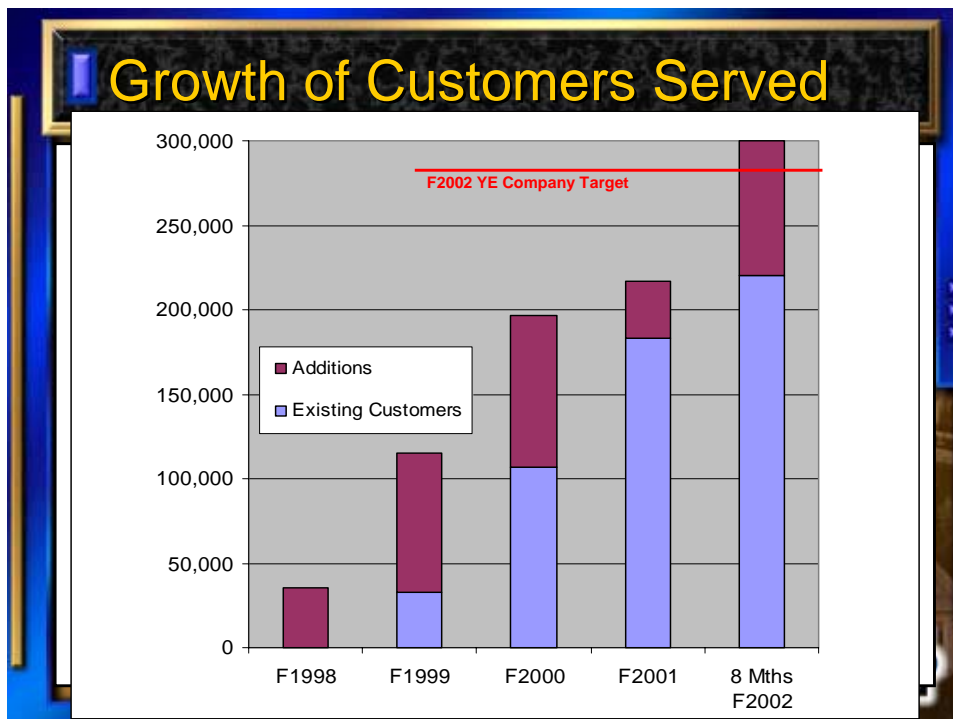
Only approximately 40% of residential customers in Ontario have taken advantage of the direct purchase fixed price, fixed term arrangements offered by ABMs such as OESC. Accordingly, approximately 1.5 million residential, small to mid-size commercial and small industrial customers (approximately 1.7 million Residential Customer Equivalents) are currently available in Ontario alone to OESC and its competitors. In addition, based upon past history, approximately 80,000 new customers are added to the gas distribution network by the LDCs each year in Ontario. As a result, the Corporation believes significant further growth in its customer base is achievable in Ontario. The sale of natural gas has also been deregulated in other Canadian provinces, including British Columbia, Alberta, Saskatchewan, Manitoba and Quebec. The Corporation will only commence marketing in these provinces if and when it determines that it is economically feasible to do so. While the Fund, through OESC Manitoba, has obtained a licence to market natural gas in the Province of Manitoba from the Manitoba Public Utilities Board, it has not commenced carrying on business in Manitoba and does not anticipate doing so in the near future.

ABMs like OESC are signing up customers in at least 30 states in the United States. Management believes that these jurisdictions may represent a further opportunity to grow OESC's customer base.

The following graph has been prepared by management of OESC to indicate the approximate growth of OESC in terms of Residential Customer Equivalents from its inception to December 31, 2001:

Customer Growth

(in Residential Customer Equivalents)



As can be seen from the above graph, OESC has grown its customer base through successful marketing and has significantly exceeded management's forecast for its year ending March 31, 2002. OESC has averaged 19,000 net new Residential Customer Equivalents per quarter since it commenced carrying on business.

Gas Supply

To enable it to meet its supply obligations to its customer base and fix its margins, OESC enters into supply contracts with Gas Suppliers to purchase natural gas. OESC purchases gas in large volumes on a wholesale basis and is therefore able to secure favourable long term fixed price supply contracts. By following a policy of purchasing all of its estimated customer supply obligations in advance, the Corporation is able to achieve stable and predictable cash flows. Additional cash flows will be achieved through signing up new customers and renewing existing customers to new four or five year Fixed Price Contracts. As calculated by the Corporation, the following percentages of OESC's estimated gas sales obligations to its current customers are subject to gas supply contracts.

Year Ending March 31	%
2002	100.0%
2003	102.2%
2004	105.3%
2005	104.1%
2006	101.4%
2007	106.8%

Notes:

- (1) The above table represents the matching position as at March 1, 2002.
- (2) The above percentages do not take into account natural gas required for any current or future marketing initiatives but allows for customer attrition (primarily from customer relocations) and contract cancellations, which together occur at a rate of approximately seven percent annually.

Arrangements with Coral Energy

OESC entered into the Energy Management Agreement and the Natural Gas Sale Agreement with Coral Energy. Coral Energy assists OESC in managing and balancing OESC's gas requirements pursuant to the Energy Management Agreement for a fee and enters into specific gas supply contracts ("Schedule A Contracts") pursuant to the Natural Gas Sale Agreement. Each Schedule A Contract is specific as to price, volume and term. OESC's financial obligations to Coral Energy are secured by (i) a security interest on all of its customer contracts granted pursuant to the Security Agreement and (ii) directions issued by OESC to the LDCs to pay 100% of OESC's monthly gas revenues from the LDCs to Coral Energy, on the basis that Coral Energy will deduct the cost of the gas which OESC purchased from Coral Energy and remit the difference (along with any proceeds from the sale of excess gas sold through Coral Energy) to OESC. The remittance amount represents OESC's gross margins from sale of natural gas through LDCs as well as from the sale of excess gas.

If Coral Energy defaults in its obligations to deliver gas to OESC, or if OESC defaults in its obligation to accept delivery of gas, under a Schedule A Contract, subject to force majeure, the Natural Gas Sale Agreement contains provisions requiring the payment of various amounts by the defaulting party to the non-defaulting party, including liquidated damages. To date neither Coral Energy nor OESC has failed to fulfil its obligations to the other.

The Natural Gas Sale Agreement will remain in effect until terminated by either party on six months prior written notice on the basis that all liabilities and obligations under unexpired Schedule A Contracts survive termination.

Under the Energy Management Agreement, Coral Energy was appointed as the exclusive energy manager for all OESC natural gas transactions for a period of six years ending October 30, 2004, subject to OESC's right of termination on six months prior written notice to Coral Energy, in which event OESC is required to pay Coral Energy an early termination payment. Under the Energy Management Agreement: (i) OESC has agreed to assign to Coral

Energy all LDC proceeds due to OESC from Enbridge Consumers Gas and Union Gas Limited; (ii) Coral has agreed, subject to satisfactory credit terms, to provide a minimum of 65% of OESC's natural gas supply and transportation requirements; and (iii) OESC may purchase natural gas supply and transportation from Gas Suppliers other than Coral Energy, subject to Coral Energy's right to approve the credit implications and provided such arrangements do not expose Coral Energy to financial disadvantage. For its ongoing services, Coral Energy is entitled to receive a monthly fee based upon the volume of natural gas managed by Coral Energy. Based on December 2001 volumes, the annual fee would be approximately \$430,000.

Competition

Industry Competition

The Corporation competes in the natural gas wholesale market with other ABMs. The Corporation enjoys a market share of approximately 14% in the direct purchase residential segment of the Ontario natural gas wholesale market.

Approximately 1.5 million residential, small to mid-size commercial and small industrial customers (1.7 million Residential Customer Equivalents) in Ontario still purchase their gas from LDCs. To the extent that the Corporation is successful through its marketing program in educating customers, it believes that it can be successful in signing LDC customers as customers of the Corporation. The Corporation offers its customers insulation against price volatility through fixed price, fixed term supply arrangements. The Corporation does not view the 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 ABMs supplying residential and small to mid-size commercial customers, the Corporation's largest competitors in Ontario are Direct Energy Marketing Limited, which is owned by Centrica plc, and Sunoco Inc. Approximately eleven other competitors have a much smaller customer base than OESC. Only Direct Energy Marketing Limited, has more customers in the Ontario direct purchase market than the Corporation.

Management of the Corporation believes that the Corporation has significant competitive advantages over other ABMs in that it has: (i) large size relative to most of its ABM competitors; (ii) industry credibility; (iii) the ability to market significant numbers of new customers; (iv) a proven ability to purchase gas at favourable prices; (v) never failed to supply gas to its customers; and (vi) excellent relationships with its customers and suppliers and the LDCs. The Corporation's industry credibility 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.

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 can be diminished if the price of natural gas increases 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 Corporation. With regard to the Corporation's customer base, while some of its mid-size 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 OESC), 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.

Environment

The Corporation does not view potential environmental liabilities as a significant concern. The Corporation never has physical custody or control of the natural gas or any facilities used to transport it and passes title to the gas sold to its customers at the same point at which it accepts title from its Gas Suppliers. Therefore, any potential liability to the Corporation for gas leaks or explosions during transmission and distribution is considered to be remote.

Employees

In addition to the thirteen management employees, the Corporation employs an additional thirty-six persons, nineteen of whom serve as customer service representatives, two of whom are engaged in contract processing and fifteen of whom are engaged in the finance department and other administrative clerical roles.

Properties

OESC has entered into the following leases of real property:

	<u>Square Feet</u>	<u>Function</u>	<u>Term</u>
6345 Dixie Road, Suite 200 Mississauga, Ontario	18,644	Head Office of OESC	Ten year term expiring on February 29, 2012 (subject to one five year renewal option)
1243 Islington Avenue, Suite 1201 Etobicoke, Ontario	2,400	Marketing Office	Three year, seven month term expiring on October 30, 2002
235 Yorkland Blvd., Suite 907 Toronto, Ontario.....	3,231	Marketing Office	Five year term expiring on September 30, 2005
698 Cooper Street Ottawa, Ontario	2,800	Marketing Office	Month to month
396 Clarence Street London, Ontario	2,182	Marketing Office	Three year term expiring on January 14, 2005 (subject to one five year renewal option)
4 Hughson Street South Hamilton, Ontario	1,840	Marketing Office	Five year term expiring on September 30, 2006 (subject to one five year renewal option)
16 Four Seasons Place, Suite 211 Toronto, Ontario.....	2,641	Marketing Office	Four year term expiring on March 31, 2005 (subject to one three year renewal option)
710 Corydon Avenue Winnipeg, Manitoba.....	1,924	Marketing Office	Five year term expiring on October 30, 2006(subject to one five year renewal option)
The Exchange Tower, 130 King Street West, Suite 2830 Toronto, Ontario.....	5,839	Head Office of the Fund	Five years expiring on August 31, 2007.

The Natural Gas Distribution Industry

The Direct Purchase Market – OESC operates within the highly regulated natural gas distribution industry under the OEB mandated direct purchase regulatory framework. The direct purchase market for natural gas is divided into two principal segments: large volume customers (industrial and other large volume commercial end users) and residential and small commercial consumers. The larger volume user market is highly price sensitive. These users generally either contract directly with producers or aggregators or enter into short-term price competitive contract with wholesalers. OESC does not supply this market.

OESC and its competitors focus on the residential/small commercial market. Because the commodity portion of the average annual natural gas supply bill for these consumers is less than \$750, the savings available for individual consumers are small. As such, it takes the combined demand of a large number of these small volume consumers to justify direct purchase contracts. The ability to obtain large numbers of customers at a reasonable cost is therefore a key ingredient in the success of a natural gas residential and small commercial retailer such as OESC. A key to the success of OESC's offering is the attractiveness of Fixed Price Contracts to residential users. Similar to a fixed rate mortgage, these contracts allow customers to fix their natural gas costs of the term of the contract.

Current Industry Regulation – The OEB is the primary government body responsible for the natural gas distribution industry within Ontario. Pursuant to the *Ontario Energy Board Act* and the *Energy Competition Act, 1988* (Ontario) (the "ECA"), the OEB regulates virtually all aspects of the industry including transmission, distribution, storage, and supply of natural gas to Ontario consumers.

Over the past 12 years there has been significant deregulation and "unbundling" of LDC services. In 1997, the OEB approved the implementation of ABC-T Service for all utility franchises in Ontario. The introduction of ABC-T Service allows for the implementation of OESC's Fixed Price Contracts. Management believes that the trend toward further deregulation and "unbundling" of utility services will continue and that, by holding the second largest non-utility residential natural gas customer base in Canada, OESC will be in an excellent position to take advantage of efficiencies from further unbundling.

Electricity

The Opportunity in Ontario

Ontario is the most populous Province in Canada with in excess of 12 million residents located primarily along the Great Lakes region in the Southern portion of the Province. Of this population base, approximately 90% are located within a 150 mile radius of Toronto. Ontario has four million metered electrical users.

In the past, the electricity industry in Ontario has been controlled by Ontario Hydro which produced 90% of the power generated in Ontario, owned and operated the entire transmission system in the province and shared distribution activities with MEUs. Currently approximately 90 MEUs serve three million customers, with Hydro One (the successor distribution company to the former Ontario Hydro) serving the remaining one million customers which consist primarily of large industrial users and rural customers.

The *Energy Competition Act, 1998* (the "ECA") passed by the Ontario Legislature in October, 1998 ended the 92-year monopoly of Ontario Hydro. Effective March 1, 2000, customers, both wholesale and residential, were entitled to select their OEB-licensed supplier of choice, with deliveries to commence on or after May 1, 2002. With respect to the supply of the electricity commodity, retail customers may continue to be supplied by their local MEU or may choose to switch to a competitive retail supplier such as OESC.

The ECA divided the electricity marketplace into generation, transmission and distribution and commodity sales sectors and created an Independent Electricity Market Operator ("IMO") to manage the new electricity market system, insure reliable physical electricity supplies and create a fair and competitive system accessible to all participants. The IMO ensures that the physical aspects of the system are secure and reliable while matching supply to demand, dispatches all transactions and settles all physical bilateral trades while policing market participants.

Marketing – With its fully staffed office and state of the art customer service call centre located in the Greater Toronto area and its existing customer base of in excess of 300,000 natural gas Residential Customer Equivalents, OESC is strategically positioned to capitalize on electricity deregulation in Ontario. OESC, through Electrico, was one of the first retailers to be granted an OEB retailer's licence allowing OESC to market electricity to residential, small to mid size commercial and small industrial customers in Ontario. OESC has commenced marketing electricity to commercial accounts within the Greater Toronto area OESC will market electricity door-to-door to both OESC's current natural gas customers and to new customers.

As is the case with OESC's natural gas residential, small to mid size commercial and small industrial customers, the commodity portion of the average annual electricity supply bill for electricity consumers is relative small. As with natural gas, it takes the combined demand of a large number of these small volume consumers to justify direct purchase contracts. OESC's ability to contract large numbers of customers at a reasonable cost will therefore be a key ingredient in the anticipated success of OESC as a retailer of electricity to residential, small to mid size commercial and industrial consumers in Ontario.

Long Term Customers – It is anticipated that residential, small to mid size commercial and small industrial electricity consumers in Ontario will sign five-year non-cancellable contracts with OESC under OESC's Fixed Price Contracts. These contracts will automatically renew after the expiry of their primary term for successive one-year terms at the same pricing, unless terminated by the customers.

Fixed Price Contracts – OESC is offering longer term fixed pricing to residential, small to mid size commercial and small industrial consumers in Ontario through OESC's Fixed Price Contracts. This allows OESC to continue to have the MEUs provide transmission and distribution services to OESC's residential, small to mid size commercial and small industrial customer base. The MEU's will invoice OESC's customers for the price of electricity agreed upon between OESC and the customer, rather than at the OEB-regulated Standard Supply Service Price. The customer's bill from the MEU will show the price charged for electricity separately from the charges for the transmission and distribution services provided by the MEU. OESC will also have the option of rendering its own bill. Under the terms of the OEB Retail Settlement Code the MEU's are responsible for the collection of the electricity bill as part of their service.

Electricity Supply – To fulfill its delivery obligations to its anticipated customer base in Ontario, OESC will enter into arrangements with creditworthy electricity generators and suppliers at competitive price.

Electricity Management Group

To enable OESC to participate and capitalize on the electricity opportunity, OESC has retained a four person Canadian electricity management team which has significant experience with respect to the structure and operation of the deregulated electricity market. This experienced team, all of whom are senior officers of Electrico and led by Paul DeVries a former Vice-President of Enron Canada, will co-ordinate all aspects of the electricity business and will manage supply and customer demand in a manner consistent with the matching policy of the Fund.

While all of the arrangements have not yet been finalized, each of the four executives (i) will enter into five year employment contracts with Electrico (guaranteed by OESC), similar to the employment agreements between OESC and its executive group, (ii) have been granted options to purchase in the aggregate 700,000 Units of the Fund (subject to TSE approval), at \$20.03 per Unit pursuant to the Fund's Option Plan, (iii) have been loaned on a full recourse basis a total of \$750,000 by OESC to assist them to purchase \$1,000,000 of Units of the Fund and (iv) will be entitled to a revenue stream based on the number of Fixed Price Contracts secured by OESC and Electrico.

Share and Loan Capital of Ontario Energy Savings Corp.

Share Capital

The authorized share capital of OESC consists of an unlimited number of Common Shares, an unlimited number of Class A Preference Shares and an unlimited number of Class B Preference Shares of which 100 Common Shares, 6,177,588 Class A Preference Shares and 1,445,847 Class B Preference Shares are issued and outstanding. The voting rights attached to the Common Shares are subject to the terms of the OESC Shareholders' Agreement. The following is a description of the rights attached to such shares.

Common Shares

Each Common Share entitles the holder thereof to receive notice of and to attend all meetings of shareholders of OESC and to one vote per share at such meetings (other than meetings of another class of shares of OESC). The holders of Common Shares are, at the discretion of the board of directors of OESC and subject to applicable legal restrictions, entitled to receive any dividends declared by the board of directors on the Common Shares. In the event of the liquidation, dissolution or winding-up of OESC or other distribution of its assets among its shareholders, holders of the Common Shares shall be entitled to receive the amounts specified below under the heading "Liquidation, Dissolution or Winding-up".

Preference Shares

Class A Preference Shares

Except where specifically provided by the OBCA, the holders of the Class A Preference Shares shall not be entitled as such to receive notice of or to attend any meeting of the shareholders of OESC and shall not be entitled to vote at any such meeting. However, pursuant to the Declaration of Trust, the holders of the Class A Preference Shares will be entitled to vote in all votes of Unitholders (including resolutions in writing) as if they were the holders of the number of Units which they would receive if they exercised all of their Shareholder Exchange Rights as of the record dates for such votes and shall be treated in all respects as Unitholders for the purposes of any such votes.

The Class A Preference Shares shall entitle the holders thereof to receive in any year as and when declared by the board of directors of OESC cash dividends in a maximum amount per share equal to the dividend entitlement per share of the Class B Preference Share less 56% of the management bonus payable in respect of each Class A Preference Shares pursuant to the Management Incentive Program of OESC for such year. See "OESC Shareholders' Agreement – Special Management Incentive Program" below. Holders of Class A Preference Shares will receive, collectively from dividends divided by 56% and payments under the Special Management Incentive Program of OESC, in any period an amount not greater than the distributions they would have received if they exercised all of their Shareholder Exchange Rights at the commencement of such period.

In the event of the liquidation, dissolution or winding-up of OESC or other distribution of its assets among its shareholders, holders of Class A Preference Shares shall be entitled to receive the amount specified below under the heading "Liquidation, Dissolution or Winding-Up". Such amount will effectively be the same as, and will in no circumstances exceed, the amount per Class A Preference Share that the holder of such Class A Preference Share would have received had OESC and the Fund been liquidated, dissolved or wound-up on the same date and the Shareholder Exchange Rights relating thereto been exercised immediately prior thereto.

The Class A Preference Shares are convertible at the option of the holder, at any time prior to January 1, 2004, into Class B Preference Shares on a one for one basis.

Class B Preference Shares

Except where specifically provided by the OBCA, the holders of the Class B Preference Shares shall not be entitled as such to receive notice of or to attend any meeting of the shareholders of OESC and shall not be entitled to vote at any such meeting. However, pursuant to the Declaration of Trust, the holders of the Class B Preference Shares will be entitled to vote in all votes of Unitholders (including resolutions in writing) as if they were the holders of the number of Units which they would receive if they exercised their Shareholder Exchange Rights as of the record dates for such votes and shall be treated in all respects as Unitholders for the purposes of any such votes.

The Class B Preference Shares shall entitle the holders thereof to receive in any year as and when declared by the board of directors of OESC cash dividends in a maximum amount per share equal to 56% of the amount distributed by the Fund in respect of such year on the number of Units into which a Class B Preference Share would have been convertible on the date of payment of such distribution plus, in the event that any such dividend is not paid on the

same date as the distribution on Units of the Fund by reference to which it is calculated, additional dividends of such amount calculated from the date of payment of the distribution on Units of the Fund at a rate per annum equal to the prime rate of interest charged by the Corporation's bankers on Canadian dollar loans made in Canada during such month plus 1%, compounded monthly. In the event that dividends are paid on the Class B Preference Shares in respect of any year, in no circumstances will the amount of such dividends per Class B Preference Share exceed 56% of the amount of the distributions paid per Unit in respect of such year.

In the event of the liquidation, dissolution or winding-up of OESC or other distribution of its assets among its shareholders, the holders of Class B Preference Shares shall be entitled to receive the amount specified below under the heading "Liquidation, Dissolution or Winding-up". Such amount will effectively be the same as, and will in no circumstances exceed, the amount per Class B Preference Share that the holder of such Class B Preference Share would have received had OESC and the Fund been liquidated, dissolved or wound-up on the same date and the Shareholder Exchange Rights relating thereto been exercised immediately prior thereto.

The Class B Preference Shares are redeemable at the option of the Corporation and retractable at the option of the holder, in whole at any time or in part from time to time, at a price of \$10 per Class B Preference Share, plus accrued and unpaid dividends thereon. For the purposes of calculating the redemption and retraction prices, dividends shall be deemed to accrue on each Class B Preference Share from the date of its issue based upon the maximum amount of dividends payable on the Class B Preference Shares, notwithstanding that such dividends are not cumulative. Pursuant to the OESC Shareholders' Agreement, the Class B Preference Shares may not be redeemed by the Corporation or retracted by the holder without the prior written consent of the holder or the Corporation, respectively.

Liquidation, Dissolution or Winding-up

In the event of the liquidation, dissolution or winding-up of OESC or other distribution of its assets among its shareholders, the holders of the Class A Preference Shares, Class B Preference Shares and Common Shares shall be entitled, after payment of all liabilities of OESC, to share in all remaining assets of OESC as follows:

- (a) the holders of the Class A Preference Shares shall be entitled to share in all such assets to the extent of their *pro rata* share thereof determined by multiplying the amount of such assets by a fraction, the numerator of which is the number of Units which the holders of the Class A Preference Shares would be entitled to receive if they exercised their Shareholder Exchange Rights on the date of such liquidation, dissolution or winding-up of OESC or other distribution of its assets amongst its shareholders, and the denominator of which shall be the number of Units that would be outstanding on such date if all the Shareholder Exchange Rights had been exercised on such date;
- (b) the holders of the Class B Preference Shares shall be entitled to share in all such assets to the extent of their *pro rata* share thereof determined by multiplying the amount of such assets by a fraction, the numerator of which is the number of Units which the holders of the Class B Preference Shares would be entitled to receive if they exercised their Shareholder Exchange Rights on the date of such liquidation, dissolution or winding-up of OESC or other distribution of its assets amongst its shareholders, and the denominator of which shall be the number of Units that would be outstanding on such date if all the Shareholder Exchange Rights had been exercised on such date; and
- (c) the holders of the Common Shares shall be entitled to share in all such assets to the extent of their *pro rata* share thereof determined by multiplying the amount of such assets by a fraction, the numerator of which is the number of Units outstanding on the date of such liquidation, dissolution or winding-up of OESC or other distribution of its assets amongst its shareholders, and the denominator of which shall be the number of Units that would be outstanding on such date if all the Shareholder Exchange Rights had been exercised on such date.

Distribution Policy

The distribution policy of OESC is to distribute all of its available cash, subject to applicable law, by way of monthly dividends on its Common Shares after; (i) satisfaction of its debt service obligations, if any; (ii) satisfaction of its interest (including interest on the OESC Notes) and other expense obligations; (iii) making any principal repayments in respect of the OESC Notes considered advisable by the board of directors of OESC, with the consent of the Fund and the holders of the OESC Notes by Extraordinary Resolution; and (iv) setting aside the amounts necessary to pay the bonuses to the Class A Preference Shares under the Special Management Incentive Program (which will in no circumstances amount to a payment in any year in respect of each Class A Preference Share in excess of the distributions paid on a Unit in such year), and subject to OESC retaining such reasonable working capital reserves as may be considered appropriate by the board of directors of OESC. OESC does not intend to pay dividends on its Preference Shares.

OESC does not anticipate that significant capital expenditures will be required in connection with its business. Capital expenditures or other expenditures, including in connection with payments to Synergy for additional natural gas customers, may be financed with borrowings or additional issuances of Units, from the working capital of OESC and/or from the cash flow of OESC.

OESC Notes

The following is a summary of the material attributes and characteristics of the OESC Notes, and is qualified in its entirety by reference to the provisions of the Note Indenture which contains a complete statement of such attributes and characteristics.

The OESC Notes authorized are unlimited and will mature on April 30, 2031, subject to prepayment from time to time as considered advisable by the board of directors of OESC, with the consent of the Fund and the holder of the OESC Notes by Extraordinary Resolution, and subject to extension for an additional ten year term with the consent of the holders of the OESC Notes by Extraordinary Resolution. The OESC Notes bear interest at the rate of 13% per annum, payable monthly to the holders of record on the last day of each calendar month. The interest on the OESC Notes is payable in lawful money of Canada at any branch in Canada of the bank to be specified in the Note Indenture.

The OESC Notes are issuable only as fully registered Notes in minimum denominations of \$10 and for amounts above such minimum only integral multiples of \$1.

The principal of the OESC Notes is payable in lawful money of Canada.

Payment upon Maturity

On maturity, OESC will repay the indebtedness represented by the OESC Notes by paying to the Note Trustee in lawful money of Canada an amount equal to the principal amount of the outstanding OESC Notes, together with accrued and unpaid interest thereon.

Redemption

From time to time the board of directors of OESC will review the status of OESC's assets and the economic condition relating to OESC's business and the industry within which it operates. If this review, in the opinion of the board of directors of OESC, indicates that it is unlikely that the indebtedness of OESC evidenced by the OESC Notes could be refinanced on the same terms and conditions upon maturity of such notes, then OESC may, subject to the consent of the Trustee and the holders of the Notes by Extraordinary Resolution, commence principal repayments on the OESC Notes such that in the opinion of the board of directors of OESC, the OESC Notes will be fully repaid upon maturity. In that event, the available cash of OESC will be utilized to the extent required to fund such repayments in lieu of dividends on the Common Shares. In addition, if OESC has available cash, but is prohibited from declaring or paying

a dividend or reducing its stated capital under applicable corporate laws, the board of directors of OESC may make principal repayments on the OESC Notes to the extent of such available cash. Except as aforesaid, the OESC Notes will not be redeemable at the option of OESC or by the holders thereof prior to maturity.

Ranking

The OESC Notes are unsecured debt obligations of OESC and are subordinate in right of payment to other direct unsecured indebtedness of OESC and all secured debt of OESC.

Default

The Note Indenture provides that any of the following shall constitute an Event of Default (as defined in the Note Indenture): (i) default in payment of the principal of the Notes when the same becomes due; (ii) the failure to pay the interest obligations of the Notes when the same becomes due, for a period of 12 months; (iii) default on any indebtedness exceeding \$5,000,000; (iv) certain events of winding-up, liquidation, bankruptcy, insolvency or receivership; (v) the taking of possession by an encumbrancer of all or substantially all of the property of OESC; (vi) OESC ceasing to carry on its business, or a substantial or significant part thereof, in the ordinary course; or (vii) default in the observance or performance of any other covenant or condition of the Note Indenture and the continuance of such default for a period of 30 days after notice in writing has been given by the Note Trustee to OESC specifying such default and requiring OESC to rectify the same.

The Note Indenture also provides that the Note Trustee shall not take steps or actions with respect to an Event of Default without the prior consent of the Fund provided the Fund holds, directly or indirectly, at least 25% of the aggregate principal amount of the outstanding OESC Notes. Certain other provisions under the Note Indenture require the prior consent or authorization of the Fund if the Fund holds, directly or indirectly, at least 25% of the aggregate principal amount of the outstanding OESC Notes.

SHARE AND LOAN CAPITAL OF OESC EXCHANGE INC.

Share Capital of Exchangeco

The authorized share capital of Exchangeco consists of an unlimited number of Common Shares, of which 100 Common Shares are issued and outstanding and owned by the Fund. The voting rights attached to the Common Shares are subject to the terms of the OESC Shareholders' Agreement. The following is a description of the rights attached to such shares.

Common Shares

Each Common Share entitles the holder thereof to receive notice of and to attend all meetings of shareholders of Exchangeco and to one vote per share at such meetings (other than meetings of a class of shares of Exchangeco). The holders of Common Shares are, at the discretion of the board of directors of Exchangeco and subject to applicable legal restrictions, entitled to receive any dividends declared by the board of directors on the Common Shares. In the event of the liquidation, dissolution or winding-up of Exchangeco or other distribution of its assets among its shareholders, holders of the Common Shares, after payment of all of the liabilities of Exchangeco, are entitled to share rateably in all remaining assets of Exchangeco.

Exchangeco Notes

The terms and conditions of the Exchangeco Notes are substantially the same as the terms and conditions of the OESC Notes. The Exchangeco Notes have been and will be issued in connection with the exercise of the Exchangeco Exchange Right designed to facilitate the exchange of the Preference Shares for Units pursuant to the Shareholder Exchange Rights. See "OESC Shareholders' Agreement" below. The foregoing is qualified in its entirety by reference

to the provisions of the Exchangeco Note Indenture which contains a complete statement of such attributes and characteristics.

OESC SHAREHOLDERS' AGREEMENT

On April 30, 2001 the Fund, OESC, the shareholders of OESC (including former shareholders who were issued Units in lieu of Preference Shares), Exchangeco, Electrico and the shareholders of Electrico entered into the OESC Shareholders' Agreement. The following is a summary of the material provisions of the OESC Shareholders' Agreement.

Directors of OESC

The OESC Shareholders' Agreement provides that the board of directors of OESC shall consist of a minimum of three and a maximum of ten directors, with the initial number of directors set at eight. The OESC Shareholders' Agreement provides that at least a majority of the directors shall be persons who are not officers or employees of OESC or any of its affiliates (as defined in the OBCA) or persons who beneficially own, directly or indirectly, or who exercise control or direction over, Units representing more than 10% of the outstanding Units on a fully-diluted basis or directors or officers of any such person or any of its affiliates.

Transfer of Common Shares and Preference Shares

Until the Fund is liquidated, the Preference Shares may only be sold or otherwise disposed of pursuant to the Shareholder Exchange Rights and the related purchase for cancellation of such shares by OESC or in the event of:

- (a) a successful takeover bid for all of the Units, in which case the holders of Preference Shares are obligated to sell their Preference Shares to:
 - (i) the successful bidder; or
 - (ii) the Fund, if that takeover bid is not also made to the holders of the Preference Shares or if the price of the bid for the Preference Shares is less than the price per Preference Share described below, in which case the Fund is obligated to purchase the Preference Shares;

in the case of (i) the Class A Preference Shares, at a cash price per share equal to the price paid per Unit pursuant to the successful takeover bid multiplied by the number of Units which the holders of the Class A Preference Shares would be entitled to receive if they exercised the Shareholder Exchange Rights relating to the Class A Preference Shares on the date of purchase divided by the number of Class A Preference Shares outstanding, and (ii) in the case of the Class B Preference Shares at a cash price per share equal to the price paid per Unit pursuant to the successful takeover bid multiplied by the number of Units the holders of the Class B Preference Shares would be entitled to receive if they exercised the Shareholder Exchange Rights relating to the Class B Preference Shares on the date of purchase divided by the number of Class B Preference Shares outstanding; or

- (b) a takeover bid, amalgamation, plan of arrangement or other business combination involving all of the shares of OESC.

If a takeover bid is made for all of the Units and not less than 90% of the Units on a fully-diluted basis (other than Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the Fund shall have the option, exercisable within 60 days of the termination of the takeover bid, to require the holders of the Preference Shares to sell their Preference Shares to the Fund at a price per Preference Share determined on the same basis as set forth in paragraph (a) above.

The Class B Preference Shares may not be redeemed by the Corporation or retracted by the holder thereof without the prior written consent of the holder or the Corporation, respectively.

Shareholder Exchange Rights

Pursuant to the OESC Shareholders' Agreement, Exchangeco has granted to the holders of Preference Shares rights (the "Shareholder Exchange Rights") to require Exchangeco to acquire Class A Preference Shares and Class B Preference Shares in exchange for Units. The Shareholder Exchange Rights may be exercised with respect to such number of Preference Shares up to the number of Preference Shares held by the relevant holder at such time on the last day of any calendar quarter upon 10 days written notice to the Fund, OESC and Exchangeco.

In the case of the Class A Preference Shares, the Shareholder Exchange Rights entitle the holder of such shares to receive a number of Units equivalent to the number of Class A Preference Shares in respect of which the Shareholder Exchange Rights have been exercised.

In the case of the Class B Preference Shares, the Shareholder Exchange Rights entitle the holder of such shares to receive one Unit in exchange for each Class B Preference Share in respect of which the Shareholder Exchange Rights have been exercised plus the number of Units determined in accordance with the following. The number of Units to be received on the exercise of the Shareholder Exchange Rights with respect to any Class B Preference Share will, commencing on the later of (i) the date of the closing of the offering contemplated by the Prospectus, and (ii) the date of the issuance of such Class B Preference Share, be increased on each date that a distribution is paid by the Fund on the Units, less any dividends that have been declared and paid on the Class B Preference Shares for such period, by (a) that number of Units which have a market price as of the date of such distribution (determined on the basis set forth under "Declaration of Trust and Description of Units – Redemption Right") equal to 56% of the distribution paid by the Fund on each Unit, and (b) the number of Units which would have been issued if the Shareholder Exchange Rights had been exercised in respect of such Class B Preference Share during the month in which the distribution date falls minus one, increased at a rate per annum equal to 56% of the prime rate of interest charged by the Corporation's bankers on Canadian dollar loans made in Canada during such month plus 1%.

Exchangeco Exchange Rights

To enable Exchangeco to honour its obligations pursuant to the Shareholder Exchange Rights, the Fund has granted to Exchangeco pursuant to the OESC Shareholders' Agreement rights (the "Exchangeco Exchange Rights") to purchase from treasury, that number of Units required by Exchangeco from time to time to fulfill its obligations under the Shareholder Exchange Rights. The purchase price for such Units is the market price of the Units to be purchased as at the date of exercise by the Shareholder of the Shareholder Exchange Rights which they are being issued in respect of (determined on the basis set forth under "Declaration of Trust and Description of Units – Redemption Right") and shall be satisfied by the issuance by Exchangeco to the Fund of Exchangeco Notes with a principal amount equal to such market price.

OESC is required, subject to applicable law, to purchase from Exchangeco for cancellation all Class A Preference Shares and Class B Preference Shares acquired by Exchangeco from time to time pursuant to the exercise of the Shareholder Exchange Rights for an amount (the "Preference Share Purchase Price") equal to the market price of the Units exchanged by Exchangeco for such Preference Shares and OESC will satisfy the purchase price by the issue to Exchangeco of additional OESC Notes in a principal amount equal to the Preference Share Purchase Price. Once all of the Shareholder Exchange Rights have been exercised and all of the Preference Shares have been purchased for cancellation, OESC and Exchangeco will amalgamate.

Pursuant to the terms of the OESC Shareholders' Agreement, on the earlier of (i) March 31, 2016, (ii) the date of the termination of the employment or consulting arrangement with OESC and a holder of Class A Preference Shares for any reason, (iii) the date of death of a holder of Class A Preference Shares, and (iv) the date upon which a holder of Class A Preference Shares becomes a non-resident of Canada within the meaning of the Tax Act, all of the

Shareholder Exchange Rights held by such holders relating to Class A Preference Shares which have not been exercised by such date shall be deemed to have been exercised.

Pursuant to the terms of the OESC Shareholders' Agreement, on the earlier of (i) January 1, 2004, (ii) the date of the death of a holder of Class B Preference Shares, and (iii) the date upon which a holder of Class B Preference Shares becomes a non-resident of Canada within the meaning of the Tax Act, all of the Shareholder Exchange Rights relating to Class B Preference Shares held by such holder which have not been exercised by such date shall be deemed to have been exercised.

Special Management Incentive Program

Each of the holders of the Class A Preference Shares is entitled to receive, on a quarterly basis, a management bonus equal to the amount that he would have received had he been a holder of record on the record date for all distributions made on Units in respect of such quarter of a number of Units equivalent to the number of Class A Preference Shares held by him.

Other Matters

The OESC Shareholders' Agreement also provides that:

- (a) except for the issuance of Class B Preference Shares on the exercise of the conversion rights attached to the Class A Preference Shares, no additional Preference Shares may be issued without the consent of all of the holders of the Common Shares and Preference Shares; and
- (b) the Fund will not accept an offer or agree to support any other proposal involving its Common Shares or Preference Shares unless the same offer or proposal is made to the holders of Preference Shares for their Preference Shares for a consideration based on the consideration for the Common Shares which reflects the percentage indirect interest of the holders of the Preference Shares in OESC through the Fund on the basis that they had exercised all of the Shareholder Exchange Rights.

DECLARATION OF TRUST AND DESCRIPTION OF UNITS

Declaration of Trust

The Fund is an open-ended, limited purpose trust established under the laws of the Province of Ontario and is governed by the Declaration of Trust. The Fund qualifies as a mutual fund trust for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust which does not purport to be complete. Reference is made to the Declaration of Trust for a complete description of the Units and the full text of its provisions.

Activities of the Fund

The Declaration of Trust provides that the Fund is restricted to:

- (a) investing in securities, including those issued by OESC and Exchangeco;
- (b) temporarily holding cash in interest-bearing accounts or short-term government debt for the purposes of paying the expenses of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units and making distributions to Unitholders; and
- (c) issuing Units (i) for cash or in order to acquire securities including those issued by OESC and (ii) upon the exercise of the Exchangeco Exchange Rights granted by the Fund to Exchangeco pursuant to the OESC Shareholders' Agreement.

Units

An unlimited number of Units may be issued pursuant to the Declaration of Trust. Each Unit is transferable 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. All Units are of the same class with equal rights and privileges. The Units are not subject to future calls or assessments, and entitle the holder thereof to one vote for each whole Unit held at all meetings of Unitholders. Pursuant to the Declaration of Trust, the holders of the Preference Shares will be entitled to vote in all votes of Unitholders (including resolutions in writing) as if they are the holders of the number of Units which they would receive if they exercised their Shareholder Exchange Rights as of the record dates for such votes and will be treated in all respects as Unitholders for the purposes of any such vote. Except as set out under "Redemption Right" below, the Units have no conversion, retraction, redemption or pre-emptive rights.

Issuance of Units

The Declaration of Trust provides that Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Administrator determines. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a *pro rata* basis. The Declaration of Trust also provides that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation.

Trustee

The Trustee of the Fund is Montreal Trust Company, 100 University Avenue, 11th Floor, Toronto, Ontario, M5J 2Y1.

The Declaration of Trust provides that, subject to the terms and conditions thereof, the Trustee may, in respect of the trust assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and shall supervise the investments and conduct the affairs of the Fund. The Declaration of Trust prohibits a non-resident of Canada (as that term is defined in the Tax Act) from acting as the Trustee. The Trustee is responsible for, among other things: (i) acting for, voting on behalf of and representing the Fund as a shareholder and noteholder of OESC and Exchangeco; (ii) maintaining records and providing reports to Unitholders; (iii) supervising the activities of the Fund; (iv) effecting payments of distributable cash from the Fund to Unitholders; and (v) voting in favour of the Fund's nominees to serve as directors of OESC.

The Trustee may resign upon 60 days' written notice to the Fund and may be removed by an ordinary resolution of the Unitholders and the vacancy created by such removal or resignation must be filled at the same meeting, failing which it may be filled by the former Trustee.

The Declaration of Trust provides that the Trustee shall act honestly and in good faith with a view to the best interests of the Fund and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that the Trustee shall be entitled to indemnification from the Fund in respect of the exercise of its powers, and the discharge of its duties provided that it acted honestly and in good faith with a view to the best interests of all the Unitholders.

Administration of the Fund

The Fund entered into the Administration Agreement with OESC on April 30, 2001 pursuant to which OESC has agreed to act as Administrator of the Fund. The Administrator will provide or arrange for the provision of services required in the administration of the Fund. These services may include arranging and paying for annual audit and regulatory public reporting services and costs, arranging for, and paying the cost of, legal counsel, monitoring and co-

ordinating the activities of, and paying the fees of, the transfer agent and registrar for the Units, arranging for distributions to Unitholders, and providing reports to Unitholders. All such costs, other than the amounts of the distributions to the Unitholders, are the responsibility of the Administrator. Unitholders may terminate the Administration Agreement by Special Resolution.

Cash Distributions

The amount of cash to be distributed monthly per Unit shall be equal to a *pro rata* share of interest and principal repayments on the OESC Notes and Exchangeco Notes and distributions, if any, on or in respect of the Common Shares of OESC owned by the Fund received by the Fund less: (i) administrative expenses and other obligations of the Fund; (ii) amounts which may be paid by the Fund in connection with any cash redemptions of Units; and (iii) any other interest expense incurred by the Fund between distributions. Any income of the Fund which is applied to any such cash redemptions of Units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional Units. Such additional Units will be used pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

The Fund derives interest income from its holding of OESC Notes and Exchangeco Notes. The OESC Notes bear interest at 13% per annum, payable monthly, and will mature on April 30, 2031, subject to prepayment from time to time as considered advisable by the board of directors of OESC with the consent of the Fund and the holders of the OESC Notes by Extraordinary Resolution. The Exchangeco Notes bear interest at 13% per annum payable monthly and will mature on April 30, 2031, subject to prepayment from time to time as considered advisable by the board of directors of Exchangeco with the consent of the Fund and the holders of the Exchangeco Notes by Exchangeco Extraordinary Resolution. The Fund also receives proceeds from dividends on the Common Shares.

Redemption Right

Units are redeemable at any time on demand by the holders thereof. As the Units are issued in book entry form, a Trust Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from his or her investment dealer who will be required to deliver the completed redemption notice form to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of: (i) 90% of the "market price" of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period commencing immediately subsequent to the date on which the Units were surrendered for redemption (the "Redemption Date"); and (ii) the "closing market price" on the principal market on which the Units are quoted for trading on the Redemption Date.

For the purposes of this calculation, "market price" will be an amount equal to the simple average of the closing price of the Units for each of the trading days on which there was a closing price; provided that if the applicable exchange or market does not provide a closing price, but only provides the highest and lowest prices of the Units traded on a particular day, the "market price" shall be an amount equal to the simple average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, the "market price" shall be the simple average of the following prices established for each of the 10 trading days: the average of the last bid and last asking prices of the Units for each day there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the average of the highest and lowest prices of the Units for each day that there was trading if the market provides only the highest and lowest prices of Units traded on a particular day. The "closing market price" shall be an amount equal to the closing price of the Units if there was a trade on the date and the exchange or market provides a closing price; an amount equal to the average of the highest and lowest prices of the Units if there was trading and the exchange as other market provides only the highest and lowest prices of Units traded on a particular day; the average of the last bid and last asking prices of the Units if there was no trading on that date.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the month following the quarter in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000.00; (ii) at the time such Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Administrator considers, in its sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the 10-day trading period commencing immediately after the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then each Unit tendered for redemption shall, subject to any applicable regulatory approvals, be redeemed by way of a distribution *in specie* of a *pro rata* number of securities of OESC and Exchangeco held by the Fund. No fractional Common Shares or OESC Notes or Exchangeco Notes in integral multiples of less than \$10 will be distributed and, where the number of securities of OESC to be received by a Unitholder includes a fraction or a multiple less than \$10, such number shall be rounded to the next lowest whole number or integral of \$10. The Fund shall be entitled to all interest paid on the OESC Notes and the Exchangeco Notes and the distributions paid on the Common Shares on or before the date of the distribution *in specie*.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Securities of OESC and Exchangeco which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in securities of OESC or Exchangeco and they may be subject to resale restrictions under applicable securities laws.

Securities of OESC or Exchangeco so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act, depending upon the circumstances at the time.

Meetings of Unitholders

The Declaration of Trust provides that meetings of Unitholders must be called and held for the election or removal of nominees of the Fund to serve as directors of OESC (except filling casual vacancies), the removal of the Trustee, the appointment or removal of the auditors of the Fund, the appointment of an inspector to investigate the performance by the Trustee or Administrator in respect of their respective responsibilities and duties in respect of the Fund, the approval of amendments to the Declaration of Trust (except as described under "Amendments to the Declaration of Trust" below), the sale of all or substantially all of the assets of the Fund, the exercise of certain voting rights attached to securities of OESC and Exchangeco held by the Fund (see "Exercise of Certain Voting Rights Attached to Securities of OESC and Exchangeco" below) and the dissolution of the Fund prior to the end of its term. A resolution electing or removing nominees of the Fund to serve as directors of OESC and a resolution appointing or removing the Trustee or the auditors of the Fund must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by a Special Resolution. Meetings of Unitholders will be called and held annually for the election of the nominees of the Fund to serve as directors of OESC and the appointment of auditors of the Fund.

A meeting of Unitholders may be convened at any time and for any purpose by the Administrator or the Trustee and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxy-holder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at

least 25% of the votes attached to all outstanding Units shall constitute a quorum for the transaction of business at all such meetings.

Pursuant to the Declaration of Trust, the holders of the Preference Shares will be entitled to vote in all votes of Unitholders (including resolutions in writing) as if they are the holders of the number of Units which they would receive if they exercised their Shareholder Exchange Rights as of the record dates for such votes and shall be treated in all respects as Unitholders for the purposes of any such vote.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of a majority of the Units. The Trustee or the Administrator may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustee or the Administrator becomes aware as a result of requiring such that the beneficial owners of 49% of the Units then outstanding are, or may be, non-residents or that such a situation is imminent, the transfer agent and registrar shall make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that he or she is not a non-resident. If, notwithstanding the foregoing, the Trustee or the Administrator determines that a majority of the Units are held by non-residents, the Trustee may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustee or the Administrator may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustee or the Administrator with satisfactory evidence that they are not non-residents within such period, the Trustee or the Administrator may, on behalf of such Unitholders, sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by Special Resolution of the Unitholders.

The Trustee may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- (a) for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustee or over the Fund;
- (b) which, in the opinion of counsel to the Fund, provide additional protection for Unitholders;
- (c) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the Trustee, are necessary or desirable and not prejudicial to the Unitholders; and,
- (d) which, in the opinion of the Trustee, are necessary or desirable as a result of changes in Canadian taxation laws.

Term of the Fund

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on February 14, 2001. On a date selected by a Trustee which is not more than two years prior to the expiry of the term of the Fund, the Trustee is obligated to commence to wind up the affairs of the Fund so that it will terminate on the expiration of the term. In addition, at any time prior to the expiry of the term of the Fund, the Unitholders may by Special Resolution require the Trustee to commence to wind up the affairs of the Fund.

The Declaration of Trust provides that, upon being required to commence to wind up the affairs of the Fund, the Trustee will give notice thereof to the Unitholders, which notice shall designate the time or times at which time Unitholders may surrender their Units for cancellation and the date at which the register of Units will be closed. After the date the register is closed, the Trustee shall proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, sell and convert into money the Common Shares, OESC Notes, Exchangeco Common Shares and Exchangeco Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustee shall distribute the remaining part of the proceeds of the sale of the Common Shares, OESC Notes, Exchangeco Common Shares and Exchangeco Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their *pro rata* interests. If the Trustee is unable to sell all or any of the Common Shares, Notes, Exchangeco Common Shares or Exchangeco Notes or other assets which comprise part of the Fund by the date set for termination, the Trustee may distribute the remaining Common Shares, Notes, Exchangeco Common Shares and Exchangeco Notes or other assets *in specie* directly to the Unitholders in accordance with their *pro rata* interests subject to obtaining all required regulatory approvals.

Takeover Bids

The Declaration of Trust contains provisions to the effect that if a takeover bid is made for the Units and not less than 90% of the Units (other than Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the takeover bid on the terms offered by the offeror.

Exercise of Certain Voting Rights Attached to Securities of OESC and Exchangeco

The Declaration of Trust provides that the Fund shall not vote its Common Shares, OESC Notes, Exchangeco Common Shares or Exchangeco Notes to authorize, among other things:

- (a) any sale, lease or other disposition of all or substantially all of the assets of OESC or Exchangeco, except in conjunction with an internal reorganization;
- (b) any amalgamation (other than the Amalgamation or the amalgamation of OESC and Exchangeco as may be contemplated by the OESC Shareholders' Agreement), arrangement or other merger of OESC with any other corporation, except in conjunction with an internal reorganization;
- (c) any material amendment to the Note Indenture;
- (d) any material amendment to the Exchangeco Note Indenture;
- (e) any material amendment to the articles of OESC to change the authorized share capital in a manner which may be prejudicial to the Fund or amend the rights, privileges and conditions attached to the Common Shares or the Preference Shares;

- (f) any material amendment to the articles of Exchangeco to change the authorize share capital in a manner which may be prejudicial to the Fund or amend the rights, privileges and conditions attached to the Exchangeco Common Shares; or
- (g) the removal of the Administrator.

Without the authorization of the Unitholders by Special Resolution.

Information and Reports

The Fund furnishes to Unitholders such consolidated financial statements of the Fund (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustee will provide the Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to such holders.

OESC has undertaken to provide the Fund with (i) a report of any material change that occurs in the affairs of OESC in form and content that it would file with applicable regulatory authorities as if it were a reporting issuer; and (ii) all financial statements that it would be required to file with applicable regulatory authorities as if it were a reporting issuer under applicable securities laws. All such reports and statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

Book-Entry Only System

Registration of interests in and transfers of the Units will be made only through a book-based system administered by The Canadian Depository for Securities Limited ("CDS") (the "Book-Entry Only System"). On April 30, 2001 the Trustee delivered to CDS certificates evidencing the aggregate number of Units subscribed for pursuant to the Prospectus. Similar deliveries were made with respect to exercise of the Over Allotment Option and were and will continue to be made in connection with the issue by the Fund of Units pursuant to the exercise of Exchangeco Exchange Rights. Units must be purchased, transferred and surrendered for redemption through a participant in the CDS depository service (a "CDS Participant"). All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholder is entitled will be made or delivered by, CDS or the CDS Participant through which the Unitholder holds such Units. Upon purchase of any Units, the Unitholders will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder's interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the Book-Entry Only System in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

RISK FACTORS

An investment in Units involves a number of risks more particularly set out below.

Legislative and Regulatory Environment

OESC operates in the highly regulated natural gas distribution industry in the Province of Ontario. Decisions by the OEB and the NEB or rules enacted by them or new legislation or regulations or changes to existing legislation or regulations can impact the operations of OESC both favourably and unfavourably. There is no assurance that future decisions of the OEB or other regulatory bodies or rules enacted by them, or new legislation or regulations or changes to existing legislation or regulations, including any change in regulatory policy, rules, legislation or regulations which would have the effect of limiting or eliminating the automatic renewal by ABMs of their customer contracts unless notice is given by the customer terminating same within a specified period prior to expiry, will not adversely affect the operations or cash flow of OESC.

With the development of rules for the pending deregulation of Ontario electricity supply, the staff of the OEB has developed proposed conforming regulations for the gas industry which are set forth in a draft rule entitled the Gas Distribution Access Rule. This rule would, if implemented, among other things, prescribe the relationship between the LDCs, the ABMs and the customers of the ABMs. As it impacts OESC, the major effect of this proposed rule would be to extract the LDCs from the contractual relationships between OESC and its customers. Under the rules currently in place, an LDC will not accept a customer contract between an ABM and a customer where that customer has already entered into a contractual arrangement with another ABM.

Under the proposed rule, the LDCs would be required to process a customer service transfer request even if the customer has an existing contract with an ABM. It would then be up to the ABM with which that customer has a prior existing contractual relationship to enforce its contract with that customer. No action has been taken by the OEB to implement the Gas Distribution Access Rule. Should this proposed rule be approved, OESC intends to take all reasonable steps to enforce its customer contracts.

However, if the proposed rule is implemented and some customers with existing contracts with OESC purport to enter into new contracts with other ABMs, OESC will be required to enforce its contracts with such customers through legal action which, given the number of customers that it has, may be time consuming and expensive. Furthermore, while the process of enforcing its customer contracts is underway, OESC will still be liable to pay its Gas Suppliers for the gas which it has purchased on behalf of customers who have failed to honour their contracts.

As part of ABC-T Service, the LDC's continue to perform certain services on behalf of ABMs, including collection services and assuming the risk of any bad debts owing from OESC's customers. There can be no assurance that the LDCs will continue to provide these services.

OESC cannot be assured that the practices or policies of LDCs in the future will not limit the growth or profitability of OESC, which would limit future growth of OESC's cash flow and distributions to Unitholders.

Dependence on OESC

The Fund is an open-ended, limited purpose trust which will be entirely dependent upon the operations and assets of OESC through the ownership of Common Shares and OESC Notes and Exchangeco Notes. Accordingly, the cash distributions to the Unitholders will be dependent upon the ability of OESC to pay its interest obligations under the OESC Notes and to declare and pay dividends on the Common Shares.

The success of OESC has been largely dependent on the skills and expertise of its key personnel to manage the business and gain new contracted customers and in gas contract matching to achieve positive margins and distributable cash flow. The continued success of OESC will be dependent on its ability to retain such personnel.

Competition

Although OESC is currently the second largest residential, small to mid-size commercial and small industrial ABM of natural gas in Canada based on the number of contracted customers, management estimates that approximately 13

other companies compete with it in the residential, small to mid-size commercial and small industrial market. It is possible that new entrants may enter the market as ABMs and that these competitors may be better capitalized than OESC. If the LDCs are permitted by changes in the current regulatory framework to sell natural gas at prices other than WACOG, their existing customer bases will provide them with a significant competitive advantage.

Dependence on Synergy

OESC intends to sign up at least 80,000 additional Residential Customer Equivalents in each of the years of the term of the Marketing Agreement through Synergy's ongoing marketing programs. There can be no assurance that competitive conditions will allow Synergy to achieve these customer additions. Although OESC only incurs expenses in connection with new contracts which are secured by Synergy, lack of success in this marketing program would limit future growth of the cash flow of OESC and future distributions to Unitholders. OESC only has the ability to retain other persons to market gas on its behalf in the event that Synergy fails to obtain a minimum of 20,000 Residential Customer Equivalents per quarter.

Dependence on Coral Energy

While OESC has the ability to select alternate Gas Suppliers, subject to the limitations contained in the Natural Gas Sale Agreement, in excess of 95% of its gas supply contracts are currently with Coral Energy, an affiliate of Shell Oil Company, which is a member of the Royal Dutch/Shell Group. Should Coral Energy experience financial difficulties or be otherwise unable to perform its obligations under the Natural Gas Sale Agreement, the Corporation's ability to meet its obligations to its customers and, therefore, its ability to earn margins on gas sales could be adversely affected.

Balancing

OESC purchases natural gas to meet its estimated commitments to its customers based upon the historical consumption of gas by its customers evidenced by the records of the applicable LDC. Depending upon several factors, including weather, OESC's customers may use more or less natural gas than the volume purchased by OESC on their behalf, requiring OESC to purchase or sell over time the shortfall or excess volumes at spot market prices.

Contract Renewal

As at December 31, 2001, the Corporation had approximately 217,000 customer contracts, of which 6% renew in the year ending March 31, 2002, 6% renew in 2003, 13% renew in 2004, 44% renew in 2005 and 31% renew in 2006. Although the majority of these contracts renew automatically and the Corporation has experienced less than one percent in annual terminations (other than due to customer relocations which account for approximately 6% per annum), there can be no assurance that this rate of annual terminations will not increase in the future.

Natural Gas Prices

It is OESC's policy to match its estimated demand for natural gas against contracted supplies to ensure that a positive margin is earned. Historically and currently supplies have been available at favourable prices providing this margin. To the extent that supplies of natural gas are not available at favourable prices, OESC's ability to maintain margins may be adversely affected.

Commodity Alternatives

To the extent that natural gas enjoys a price advantage over other forms of energy, such price advantage may be transitory and consumers may switch to the use of another form of energy. The recent increases and volatility in natural gas prices could result in these other sources of energy providing more significant competition to the Corporation.

Cash Distributions Are Not Guaranteed and Will Fluctuate with OESC's Performance

Although the Fund intends to distribute the interest and dividend income earned by the Fund less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by OESC and paid, directly or indirectly to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins, the ability of OESC to match, at favourable prices, its commitment to supply natural gas to its customers, the ability of Synergy to secure additional Fixed Price Contracts and other factors beyond the control of the Fund and OESC. Cash distributions are not guaranteed and will fluctuate with OESC's performance and other factors.

Margin Sustainability

There is no assurance that OESC will be able to sustain margins at the levels currently realized.

Investment Eligibility

The Fund will endeavor to ensure that the Units continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans and registered retirement income funds and registered education savings plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and there is no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the natural gas wholesale business and should not be viewed by investors as shares in OESC. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary assets are the OESC Notes, Common Shares, Exchangeco Notes and Exchangeco Common Shares. The price per Unit is, among other things, a function of anticipated distributable income.

Redemption Right

It is anticipated that the redemption right will not be the primary mechanism for Unitholders to liquidate their investments. Common Shares, OESC Notes and Exchangeco Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no established market is expected to develop for such Common Shares, OESC Notes or Exchangeco Notes. Cash redemptions are subject to limitations. See "Declaration of Trust and Description of Units – Redemption Right".

Unitholder Limited Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its assets or obligations and, in the event that a court determines that Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder's share of the Fund's assets.

The Declaration of Trust further provides that the Trustee and the Fund shall make all reasonable efforts to include as a specific term of any obligations or liabilities being incurred by the Fund or the Trustee on behalf of the Fund a contractual provision to the effect that neither the Unitholders nor the Trustee have any personal liability or obligations in respect thereof. The Administration Agreement contains such provisions. Personal liability may also arise in respect of claims against the Fund that do not arise under contracts, including claims in tort, claims for taxes

and possibly certain other statutory liabilities. As the Fund's activities are generally limited to investing in securities issued by OESC and Exchangeco, the possibility of any personal liability of this nature arising is considered remote.

The operations of the Fund will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the Unitholders for claims against the Fund.

Distribution of Common Shares and Notes on Termination of the Fund

Upon termination of the Fund, the Trustee may distribute the Common Shares, OESC Notes, Exchangeco Common Shares and Exchangeco Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Common Shares, OESC Notes, Exchangeco Common Shares or Exchangeco Notes. In addition, the Common Shares, OESC Notes, Exchangeco Common Shares and Exchangeco Notes are not freely tradeable and are not currently listed on any stock exchange. See "Declaration of Trust and Description of the Fund – Term of the Fund".

The Fund May Issue Additional Units Diluting Existing Unitholders' Interests

The Declaration of Trust authorizes the Administrator to cause the Fund to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the Administrator without the approval of any Unitholders. Additional Units have been and will be issued by the Fund on the exercise of the Exchangeco Exchange Rights relating to the Preference Shares. See "OESC Shareholders' Agreement – Exchangeco Exchange Rights".

Restrictions on Potential Growth

The payout by OESC of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of OESC and its cash flow.

Changes in Legislation

There can be no assurance that the treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the Units will cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans and registered retirement income funds and registered education savings plans.

Electricity

OESC has commenced a campaign to market electricity to commercial and residential customers in the Province of Ontario as a result of the deregulation of electricity supply in the Province. While certain aspects of the business, such as marketing, are substantially similar to OESC's existing natural gas business, other aspects of the business, such as the contracting for and management of electricity supply are businesses in which OESC and its management have limited experience. There can be no assurance that OESC will be successful in adapting its natural gas marketing and supply management expertise to the electricity business.

The electricity supply business is highly regulated and decisions by regulatory authorities may impact OESC's operations both favourably and unfavourably. There can be no assurance that Ontario's current policies of deregulation will continue or that OESC's operations in this regard will not be adversely affected by regulatory decisions or initiatives affecting the marketing, distribution or transportation of electricity or other aspects of the electricity supply industry.

The competitive environment for electricity retailing will be a function of numerous factors including the desire of the various MEU's to participate in the unregulated side of the business as well as the desire of generators and other suppliers of electricity to vertically integrate into retail customer aggregation.

OESC understands that 59 companies have been granted electricity retailer's licences by the OEB allowing them to market electricity to all classes of customers in Ontario. Some of these companies are better capitalized than OESC. It is possible that new entrants may enter this market and that these competitors may also be better capitalized than OESC.

OESC is currently in negotiations to obtain electricity supply for the customers with whom expects to contract for the purchase of electricity in Ontario. There can be no assurance, however, that OESC will be able to secure adequate supply or that such supplies will continue. Interruptions or loss of supply or reliance on the "spot market" could have a material adverse affect on OESC's operations and cash flow and its efforts to manage electricity supply and demand.

To the extent that OESC chooses to enter into direct billing arrangements with its electricity customers, it will be exposed to risk of creditworthiness of such customers. If a significant number of customers were to default on their payments to OESC, it could have a material adverse affect on OESC's operations and cash flow.

The legislation is in place in Ontario to permit OESC to market electricity to residential and small commercial customers in Ontario. *The Electricity Act, 1998* (Ontario) has been proclaimed to allow OESC to deliver electricity to these customers. It is anticipated that regulations will be proclaimed to enable electricity to be delivered to OESC's customers commencing May 1, 2002 however there can be no assurance that this will occur.

FINANCIAL INFORMATION

The following is a summary of selected consolidated financial information for the periods indicated in thousands of dollars, except for per Unit amounts.

	Year ended March 31, ⁽¹⁾			
	Nine Months Ended December 31,	Year ended March 31, ⁽¹⁾		
	2001	2001	2000	1999
	(\$000s)	(\$000s)	(\$000s)	(\$000s)
Revenue	89,516	146,400	81,039	22,997
Net income (loss)	(861)	4,399	(1,381)	(2,406)
Net income (loss) per Unit, basic and fully diluted	(.16) and (.16)	N/A	N/A	N/A
Long-term external debt	NIL	NIL	2,957	1,400
Unitholders'/shareholders equity	114,336	1	3,001	3,001
Total assets	289,255	26,403	11,560	2,803
Cash dividends/and distributions per unit	.90	—	—	—

Note:

(1) Information as at and for the three years ended March 31, 2001 is for OESC.

Summary of Quarterly Consolidated Financial Information (unaudited) (Thousands of dollars except per Unit amounts)

	Three Months Ended		
	December 31, 2001	September 30, 2001	June 30, 2001
Total revenues	44,536	23,352	21,627

Net income (loss)	4,714	(4,277)	(1,295)
Net income (loss) per Unit, basic	0.31	(0.35)	(0.12)
Net income (loss) per Unit, fully diluted	0.25	(0.35)	(0.12)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to Management's Discussion and Analysis of Financial Conditions and Results from Operations included in the Fund's Third Quarter Report to Unitholders for the period ended December 31, 2001, which is incorporated herein by reference.

DISTRIBUTIONS

The following table sets for the date of payment, the distribution per Unit and the total amount of the distributions paid by the Fund on the Units from inception:

	<u>Per \$ Unit</u>	<u>Total \$</u>
June 30, 2001	0.10	1,335,966
July 31, 2001	0.10	1,361,197
August 31, 2001	0.10	1,361,197
September 30, 2001	0.1125	1,531,347
October 31, 2001	0.1208	1,644,326
November 30, 2001	0.1208	1,644,326
December 31, 2001	0.1208	1,644,326
January 31, 2002	0.12747	1,737,170
February 28, 2002	0.12747	1,737,170
Total distributions made to Unitholders	<u>1.02984</u>	<u>13,997,025</u>

The Fund has announced a distribution of \$0.12747 per Unit payable on March 31, 2002 to Unitholders of record March 15, 2002 and a distribution of \$0.1358 per Unit payable on April 30, 2002 to Unitholders of record April 15, 2002. See "Ontario Energy Savings Corp. – Distribution Policy" and "Declaration of Trust and Description of Units – Cash Distributions".

MARKET FOR SECURITIES

The outstanding Units of the Fund are listed for trading on The Toronto Stock Exchange under the symbol SIF.UN.

DIRECTORS AND OFFICERS OF OESC

The Fund is administered by OESC pursuant to the Administration Agreement. The names, municipalities of residence and year of appointment of the persons who are the directors and officers of OESC and their principal occupations are as follows:

<u>Name and Municipality of Residence and Year of Appointment ⁽³⁾</u>	<u>Position with the Corporation</u>	<u>Principal Occupation</u>
John A. Brussa ⁽¹⁾ Calgary, Alberta	Director	Partner, Burnet, Duckworth & Palmer LLP (law firm)
Peter F. Clark ⁽¹⁾⁽²⁾ King City, Ontario	Director	Chairman, President and Chief Executive Officer, CPI Plastics Group Ltd. (plastics extrusion company)
The Hon. Michael Kirby ⁽¹⁾	Director	Member of the Senate of Canada and Corporate Director

Name and Municipality of Residence and Year of Appointment ⁽³⁾	Position with the Corporation	Principal Occupation
Nepean, Ontario		
James L. Locke ⁽²⁾ Waterloo, Ontario	Director	President, Locke Energy Services Inc. (independent energy marketing and consulting company)
Rebecca MacDonald ⁽²⁾ Toronto, Ontario	Chair, President and Chief Executive Officer and Director	Chair, President and Chief Executive Officer of the Corporation
James H. McKelvie, C.A. Toronto, Ontario	Executive Vice-President, Chief Financial Officer and Director	Executive Vice-President and Chief Financial Officer of the Corporation
Brennan R. Mulcahy Caledon, Ontario	Executive Vice-President, Operations, Chief Operating Officer and Director	Executive Vice-President, Operations and Chief Operating Officer of the Corporation
Hugh D. Segal ⁽²⁾ Kingston, Ontario	Director	President, Institute For Research on Public Policy
Brian R.D. Smith Vancouver, British Columbia	Director	Federal Chief Treaty Negotiator and Energy Consultant
James R. Hamilton Toronto, Ontario	Vice-President, Regulatory Affairs	Vice-President, Regulatory Affairs of the Corporation
Mary Meffe Toronto, Ontario	Director of Finance	Director of Finance of the Corporation
Andrew E. Schneider Oakville, Ontario	Chief Information Officer	Chief Information Officer of the Corporation
Jack Schoenmakers Kitchener, Ontario	Senior Vice President – Energy Supply	Senior Vice President – Energy Supply of the Corporation
Peter L. Whitfield Pickering, Ontario	Director of Gas Supply Management	Director of Gas Supply Management of the Corporation

Notes:

- (1) Member of the Audit Committee. Mr. Kirby is the Chair of the Audit Committee.
- (2) Member of the Compensation and Corporate Governance Committee. Mr. Clark is the Chair of the Compensation and Corporate Governance Committee.
- (3) Each of the persons who are directors of OESC, became a director on the Amalgamation (i.e. April 30, 2001) except for Brian Smith who was appointed to the board of OESC on August 21, 2001. The present term of office of each director will expire immediately prior to the election of directors at the next annual meeting of Unitholders.

Each of the foregoing persons has held the same principal occupation or other positions with the same employer for the previous five years except as follows:

Rebecca MacDonald, who has been involved in the deregulation of natural gas for 12 years, became an officer of the Corporation in January 2000. Prior to January 2000, Ms. MacDonald was the President of Energy Marketing Inc. (gas

marketing company). A member of the Senate of Canada since 1984, The Honourable Michael Kirby served as Chair of the Standing Senate Committee on Banking, Trade and Commerce from 1994 to 1999 and presently serves as Chair of the Standing Senate Committee on Social Affairs, Science and Technology. Prior to August 1999, James Locke was the President of Coral Energy (natural gas and electricity marketing company), prior to April 1998, he was Senior Vice-President of Coral Energy and, prior to November 1997, he was Executive Vice-President, Cibola Canada Energy Marketing Company (natural gas marketing company). Jim McKelvie became an officer of the Corporation in October, 2000. Prior to August 1997, Mr. McKelvie served as Managing Director, Vice President Finance and a director of Clairvest Group Inc. (merchant banking), after which he served as Chairman of Ketch Energy Limited (oil and gas company) a position he continues to hold. Mr. McKelvie received his C.A. designation in 1977 when he was employed by Deloitte, Haskins + Sells (now Deloitte & Touche LLP). Brennan Mulcahy, who has been involved in the deregulation of natural gas for 11 years, joined the Corporation in July 1997. From January 1997 to July 1997, he served as a marketer for Consolidated Gas Limited (gas marketing company). From November 1998 to July 1999, Hugh Segal was a Senior Fellow, School of Policy Studies, Queen's University and, prior to November 1998, he was an Associate of Gluskin Sheff & Associates Inc. (investment counsel). Prior to becoming Federal Chief Treaty Negotiator and Energy Consultant in June of 2001, Mr. Smith was Chair of British Columbia Hydro from 1996 to June, 2001. Before joining OESC in May 2000, Jim Hamilton held various senior positions with The Consumers Gas Company Limited over a 40 year period with direct involvement in the deregulated marketplace and related regulatory framework for the past 15 years ending as Director of Policy Development. Before joining OESC in June of, 2001 as Director of Finance, Mary Meffe was employed as the manager financial reporting (theatre division) of Imax Corporation (entertainment) from June 2000 to June 2001 and from November 1997 to June 2000 and December 1994 to November 1997 as a senior accountant and accountant with Rosenberg Smith & Partners (public accounting) and Wainman & Kydd (public accounting) respectively. Andrew Schneider joined OESC in December 2000. Prior to that time he was the Director, Information Technology of Giffels Associates Limited (engineering company). He served as an information services consultant to OESC from its inception in 1997 until he joined OESC. Before joining the Corporation as Senior Vice President – Energy Supply in June of 2001, Jack Schoenmakers served the Corporation in several capacities from July 1997 to April 2001. Prior to that time he was Vice President of Eastern Region for Stampeder Energy. Peter Whitfield joined the Corporation in February 2001 after nine years with The Consumers Gas Company Limited, the last nine as Manager, Contract Administration, and Manager of Transportation Contracting. Prior to that he held senior positions with Great West Energy and TransCanada Pipelines.

As at March 1, 2002 the directors and senior officers of OESC, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 5,735,908 (26%) Units of the Fund (fully diluted) and 4,136,656 (67%) Class A Preference Shares of OESC.

ADDITIONAL INFORMATION

The Fund will provide to any person, upon request to the Secretary of OESC at Suite 200, 6345 Dixie Road, Mississauga, Ontario, L5T 2E6.

1. when the securities of the Fund are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of securities:
 - (a) one copy of this initial annual information form together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this initial annual information form;
 - (b) one copy of the financial statements of the Fund for the most recently completed fiscal year together with accompanying report of the auditor and one copy of the most recent subsequent interim financial statements that have been filed;
 - (c) one copy of the Information Circular – Proxy Statement of the Fund in respect of its most recent annual meeting that has been filed; and

- (d) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (a) to (c) above; or
2. at any other time, one copy of the documents referred to in 1 (a) to (c) above, provided that the Fund may require the payment of a reasonable charge if the request is made by a person who is not a Unitholder of the Fund.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the issuer's securities, options to purchase securities and interest of insiders in material transactions, if applicable, is contained in the issuer's information circular for its most recent annual meeting of Unitholders that involved the election of directors, and additional financial information is provided in the issuer's comparative financial statements for its most recently completed financial year.

For additional copies of this Initial Annual Information Form and the material listed in the preceding paragraphs please contact:

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Suite 2830, P.O. Box 355
Toronto, Ontario
M5X 1E1