



Management's Discussion and Analysis of Financial Condition and Results of Operations **For the Second Quarter Ended June 30, 2009**

(\$000 CAD)

This document has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of our financial position and results of operations as at and for the three and six months ended June 30, 2009 compared to the six months ended June 30, 2008. The MD&A should be read in conjunction with our unaudited consolidated financial statements and accompanying notes for the six month period ended June 30, 2009, Enersource Corporation's ("Enersource") audited consolidated financial statements for fiscal year ended December 31, 2008 and other securities filings available on www.sedar.com. Enersource reports its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") considering regulatory requirements where applicable.

Throughout this MD&A, "our", "us", "we", "Company", "Corporation" and Enersource, refer to Enersource Corporation and its subsidiaries. The abbreviation "Qtr" refers to the relevant quarter within the fiscal year.

GENERAL

The financial statements as presented include results for both the regulated and non-regulated business activities. The Enersource Corporation group of companies includes Enersource, Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Telecom Inc. ("Telecom"), Enersource Hydro Mississauga Services Inc. ("EHM Services"), Enersource Technologies Inc. and First Source Energy Corporation ("First Source").

Enersource is a holding company established in response to the restructuring and deregulation of Ontario's electricity industry. Enersource's principal operating subsidiary, Enersource Hydro, is the regulated electricity distributor for the City of Mississauga. The *Energy Competition Act, 1998*, and its enabling regulations, require the separation of regulated distribution business activities from non-regulated business activities. Enersource has organized other affiliated companies and related entities for the purpose of operating its non-distribution related businesses.

EHM Services is a non-regulated subsidiary of Enersource with a primary business focus on providing electrical infrastructure design, procurement, construction, commissioning, and operating and maintenance services to businesses and other utilities. EHM Services also provides a range of utility and industry services including street light asset design, construction and maintenance.

Telecom and First Source remain dormant corporations as all major assets have been divested.

FORWARD LOOKING INFORMATION

Certain statements made in the MD&A, including, without limitation, statements relating to Enersource's expectations concerning future revenues and earnings, market conditions and the sufficiency of capital and liquidity, constitute forward-looking statements. Enersource believes these statements to be true based on its knowledge as at August 14 2009. These forward-looking statements are subject to risks, uncertainties, and other factors including, but not limited to, regulatory risk and electricity supply risk, many of which are beyond Enersource's control, which may cause future results to differ materially from

those expected. Enersource does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in Enersource's expectations, except as prescribed by applicable securities laws.

RATE REGULATION

Enersource Hydro is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB has the power to establish electricity prices under a regulated price plan ("RPP"), as summarized in the following chart, for low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust the electricity commodity prices and consumption thresholds charged to these RPP consumers every six months as required.

Regulated Price Plan:

	<u>Jan 2008 -Apr 2008</u>	<u>May 2008 -Oct 2008</u>	<u>Nov 2008 -Apr 2009</u>	<u>May 2009 - June 2009</u>
Residential Consumption Threshold	1,000 kWh	600 kWh	1,000 kWh	600 kWh
Non-Residential Consumption Threshold	750 kWh	750 kWh	750 kWh	750 kWh
Price below threshold	\$.050/kWh	\$.050/kWh	\$.056/kWh	\$0.57/kWh
Price above threshold	\$.059/kWh	\$.059/kWh	\$.065/kWh	\$.066/kWh

Distribution Rates:

Enersource Hydro submitted an electricity distribution rate re-basing application to the OEB on August 23, 2007 for the rate period May 1, 2008 through April 30, 2009. A settlement was negotiated with intervenors and was accepted by the OEB on January 4, 2008. The final distribution rates and charges for 2008 based upon the settlement were approved on April 18, 2008. The impact of this decision on the total bill of an average residential customer consuming 1,000 kWh of electricity per month was a decrease of 2.9%, which consists of an increase in base distribution rates of 0.4% and a decrease of 3.3% due to a refund of regulatory liabilities. The net impact of the new distribution rates combined with an increase in electricity pricing and price thresholds effective May 1, 2008, reduced the total bill of an average residential customer consuming 1,000 kWh of electricity per month by 0.6%.

In November 2008, Enersource Hydro submitted a formula based rate application to the OEB for the rate period May 1, 2009 through April 30, 2010. On March 16, 2009, the OEB released its decision and order on this rate application. The net impact of the new distribution rates combined with an increase in electricity pricing and price thresholds effective May 1, 2009 increased the total bill of an average residential customer consuming 1,000 kWh of electricity per month by 7.3%.

RESULTS OF OPERATIONS

Summary:

Consolidated net income for the three months ended June 30, 2009 was \$3,278 as compared to net income of \$3,857 for the second quarter of 2008. The decrease of \$579 was primarily due to the effect of higher operations, maintenance and administration costs combined with reduced interest income and lower margins in non-regulated operations. This impact was partially offset by the effect of Enersource Hydro's distribution rate increase on May 1, 2009, lower payments due in lieu of corporate income taxes and reduced interest expense in the 2009 period as compared to 2008.

Consolidated net income for the six-months ended June 30, 2009 was \$7,830 as compared to net income of \$8,125 for the same period of 2008. The decrease of \$295 was primarily due to the effect of higher operations, maintenance and administration costs combined with reduced interest income and higher amortization of capital assets in the 2009 period as compared to 2008. This impact was partially offset by the effect of Enersource Hydro's distribution rate increases on May 1, 2008 and May 1, 2009, lower payments due in lieu of corporate income taxes and reduced interest expense in the 2009 period as compared to 2008.

The consolidated cash position of Enersource at June 30, 2009 was \$56,456 representing a decrease of \$19,649 over the 2008 year end position.

Revenues:

	2nd Qtr 2009	2nd Qtr 2008	Change \$
Electricity Pass Through	96,582	134,153	(37,571)
Distribution Revenue	27,525	27,050	475
Recovery (refund) of regulatory assets (liabilities)	(511)	(639)	128
Services Revenue	1,458	1,829	(371)
Other Revenue	1,401	1,071	330
Total Revenue	<u>126,455</u>	<u>163,464</u>	<u>(37,009)</u>

	YTD June 2009	YTD June 2008	Change \$
Electricity Pass Through	229,353	270,130	(40,777)
Distribution Revenue	56,439	54,309	2,130
Recovery (refund) of regulatory assets (liabilities)	(2,278)	967	(3,245)
Services Revenue	3,786	3,290	496
Other Revenue	2,454	1,984	470
Total Revenue	<u>289,754</u>	<u>330,680</u>	<u>(40,926)</u>

Energy revenues consist mainly of electricity passed through at cost to standard service supply customers and retailer customers. All energy revenues were generated from regulated operations. For the second quarter ended June 30, 2009, electricity pass through revenue was \$96,582 as compared to \$134,153 for the second quarter of 2008, representing a decrease of \$37,571 or 28.0%. This decline was primarily due to a decline of 5.5% or \$5,592 in energy consumption in the 2009 period combined with a 23.8% \$31,979 decrease in electricity prices in 2009 as compared to the second quarter of 2008.

For the six-months ended June 30, 2009, electricity pass through revenue was \$229,353 as compared to \$270,130 for 2008, representing a decrease of \$40,777 or 15.1%. This decline was primarily due to a reduction of 4.2% or \$10,146 in energy consumption in the 2009 period combined with an 11.3% or \$30,631 decrease in electricity prices in 2009 as compared to 2008.

Distribution revenue in the regulated operations was \$27,525 for the second quarter of 2009 compared to \$27,050 in the 2008 period, representing an increase of \$475 or 1.8%. The increase was primarily due to rate adjustments implemented May 1, 2008 and May 1, 2009 contributing \$1,295 of additional revenue and quarter over quarter customer growth of \$172. These increases were partially offset by a net decline of \$992 due to reduced electricity consumption by residential and small commercial customers and lower energy demand by larger customers in the 2009 period as compared to 2008.

For the year to date period, distribution revenue was \$56,439 compared to \$54,309 in the 2008 period, representing an increase of \$2,130 or 3.9%. Enersource Hydro's rate adjustments implemented May 1, 2008 and May 1, 2009 provided \$2,784 of additional revenue and year over year customer growth of \$504. This increase was partially offset by a net revenue decline of \$1,158 relating to lower electricity consumption by residential and small commercial customers and reduced energy demand by larger customers in the 2009 period as compared to 2008.

The net refund of regulatory liabilities to customers was \$511 for the second quarter of 2009 and \$2,278 for the six-months ended June 30, 2009 as compared to a regulatory liability refund of \$639 and a regulatory asset recovery of \$967 for the 2008 corresponding periods.

Services revenue from non-regulated operations was generated from street lighting services and engineering design and construction contracts. The decrease in services revenue of \$371 for the second quarter of 2009 as compared to 2008 was the result of lower engineering design and construction activity and related revenue for the second quarter of 2009.

The increase in services revenue of \$496 for the six-months ended June 30, 2009 as compared to 2008 was the result of higher street light maintenance activity and related contract revenue for the 2009 period as compared to 2008.

Other revenues are mainly attributable to distribution operations and include late payment charges, set-up charges, pole rental fees and funding by the Ontario Power Authority ("OPA") for conservation programs. Other revenues increased by \$330 over the second quarter of 2008 primarily due to higher conservation and demand management program funding provided by the OPA combined with an increased gain on disposal of capital assets in the 2009 quarter as compared with 2008.

Other revenues increased by \$470 for the six-months ended June 30, 2009 over 2008 primarily due to higher conservation and demand management program funding provided by the OPA and the Ontario Ministry of Energy and Infrastructure ("MEI") combined with an increased gain on disposal of capital assets in the 2009 period as compared with 2008.

Operating Expenses:

	2nd Qtr 2009	2nd Qtr 2008	Change \$
Energy Purchases	96,582	134,153	37,571
Cost of Services	1,399	1,487	88
Operations, Maintenance and Administration	11,020	9,891	(1,129)
Amortization of Capital Assets	8,069	7,879	(190)
Amortization of Intangible Assets	132	268	136
Amortization of Regulatory (Liabilities) Assets	(511)	(639)	(128)
Expenses	<u>116,691</u>	<u>153,039</u>	<u>36,348</u>

	YTD June 2009	YTD June 2008	Change \$
Energy Purchases	229,353	270,130	40,777
Cost of Services	3,413	2,642	(771)
Operations, Maintenance and Administration	21,957	19,659	(2,298)
Amortization of Capital Assets	16,028	15,684	(344)
Amortization of Intangible Assets	260	508	248
Amortization of Regulatory (Liabilities) Assets	(2,278)	967	3,245
Expenses	<u>268,733</u>	<u>309,590</u>	<u>40,857</u>

Energy purchase expense, which is entirely attributed to regulated operations and is passed through to customers at cost, declined by \$37,571 or 28.0% for the second quarter ended June 30, 2009 as compared to the corresponding quarter of 2008 due to a decline in consumption as well as lower electricity market pricing in the 2009 period.

Energy purchase expense declined by \$40,777 or 15.1% for the six-months ended June 30, 2009 as compared to the corresponding period of 2008 due to the aforementioned reasons.

The cost of services in non-regulated operations of \$1,399 was \$88 lower for the quarter ended June 30, 2009 than for the corresponding quarter of 2008 as a result of lower engineering design and construction activity and related costs during the second quarter of 2009.

The cost of services in non-regulated operations of \$3,413 was \$771 higher for the six-months ended June 30, 2009 than for the corresponding period of 2008 as a result of increased street light activity and related costs during the 2009 period as compared to 2008.

Consolidated operations, maintenance and administration costs, or the overhead costs incurred to manage the operations of the regulated and non-regulated companies, increased by \$1,129 or 11.4% for the quarter ended June 30, 2009 from the corresponding quarter of 2008. Enersource Hydro costs increased by \$1,277 primarily due to one-time restructuring costs incurred in the quarter, combined with an increase of \$235 in conservation and demand management program expenditures as well as general inflationary increases in manpower and overhead expenses. These increases were partially offset by an operational tax credit of \$782 recognized in the 2009 quarter.

Consolidated operations, maintenance and administration costs increased by \$2,298 or 11.7% for the six-months ended June 30, 2009 from the corresponding period of 2008. Enersource Hydro costs increased by \$2,543 primarily due to one-time restructuring costs, combined with an additional provision of \$461

for bad debts, an increase of \$448 in conservation and demand management program expenditures and an increase of \$147 in environmental rehabilitation costs, as well as general economic increases in manpower and overhead expenses. These increases were partially offset by an operational tax credit of \$782 recognized in the 2009 period. A one-time restructuring cost was also incurred in non-regulated operations in the 2009 period.

Amortization of capital assets increased by \$190 for the quarter ended June 30, 2009 over the related 2008 period and by \$344 for the six-months ended June 30, 2009 over 2008 primarily due to the ongoing investment in electricity distribution infrastructure assets.

Amortization of Enersource Hydro's intangible assets decreased by \$136 for the quarter ended June 30, 2009 from the corresponding period of 2008 and by \$248 for the six-months ended June 30, 2009 as compared to 2008 primarily due to the revision of the amortization rate for major computer systems from two years to ten years effective October 1, 2008.

Amortization of Enersource Hydro's regulatory balances that were previously deferred on the balance sheet was unfavourable by \$128 for the quarter ended June 30, 2009 and favourable by \$3,245 for the six-months ended June 30, 2009 over the corresponding periods of 2008. The amortization of regulatory balances is recorded based on the related recovery or refund amount included in revenue.

Operating Income:

	2nd Qtr 2009	2nd Qtr 2008	Change \$
Revenue	126,455	163,464	(37,009)
Operating Expenses	116,691	153,039	36,348
Operating Income	<u>9,764</u>	<u>10,425</u>	<u>(661)</u>

	YTD June 2009	YTD June 2008	Change \$
Revenue	289,754	330,680	(40,926)
Operating Expenses	268,733	309,590	40,857
Operating Income	<u>21,021</u>	<u>21,090</u>	<u>(69)</u>

Consolidated operating income declined by \$661 in the second quarter of 2009 over the corresponding 2008 quarter, due to an increase of \$1,129 in operations, maintenance and administration expenses combined with a reduction of \$283 in EHM Services margins. This decline was partially offset by an increase in Enersource Hydro's distribution revenue of \$475 and an increase of \$330 in other revenue.

Consolidated operating income declined by \$69 for the six-months ended June 30, 2009 over 2008 due to an increase of \$2,298 in operations, maintenance and administration expenses combined with an increase of \$344 in amortization of capital assets. These decreases were partially offset by the net effect of an increase in Enersource Hydro's distribution revenue of \$2,130 and an increase of \$470 in other revenue.

Non-Operating Revenue (Expense):

	2nd Qtr 2009	2nd Qtr 2008	Change \$
Interest Income	92	850	(758)
Interest Expense	(4,381)	(4,891)	510
Foreign Exchange Gain (Loss)	(274)	(28)	(246)
Non-operating income (expense)	<u>(4,563)</u>	<u>(4,069)</u>	<u>(494)</u>

	YTD June 2009	YTD June 2008	Change \$
Interest Income	372	1,812	(1,440)
Interest Expense	(8,907)	(9,837)	930
Foreign Exchange Gain (Loss)	(143)	168	(311)
Non-operating income (expense)	<u>(8,678)</u>	<u>(7,857)</u>	<u>(821)</u>

Interest income for the quarter and year to date periods ended June 30, 2009 declined by \$758 and \$1,440 due to lower average interest rates and lower average cash and cash equivalent position as compared to the corresponding period in 2008.

Enersource Hydro's interest expense for the three months and six months ended June 30, 2009 was primarily attributable to the Borealis – Enersource series bonds, interest on customer deposits and regulatory balances. Interest expense for the quarter and year to date periods ended June 30, 2009 declined by \$510 and \$930 due to lower average interest rates and regulatory liabilities as compared to the corresponding period in 2008. The amount of interest expense relating to the Borealis – Enersource series bonds was \$4,548 for each three-month period and \$9,046 for each six-month period.

For the quarter ended June 30, 2009, Enersource Hydro had a foreign exchange loss of \$274 on U.S. dollar cash and cash equivalents as compared to a foreign exchange loss of \$28 in 2008. In 2007, Enersource Hydro purchased U.S. dollars to mitigate foreign exchange risk relating to the implementation of a new Customer Care and Billing System where a substantial portion of the cost is to be paid in U.S. currency.

For the six-months ended June 30, 2009, Enersource Hydro had a foreign exchange loss of \$143 on U.S. dollar cash and cash equivalents as compared to a foreign exchange gain of \$168 in the corresponding period in 2008.

Payments in Lieu of Corporate Income Taxes:

2nd Qtr 2009	2nd Qtr 2008	Change \$	YTD June 2009	YTD June 2008	Change \$
1,870	2,496	626	4,458	5,108	650

For the quarter ended June 30, 2009, Enersource recorded payments in lieu of corporate income taxes ("PILs") of \$1,870. The decline in PILs during the second quarter of 2009 as compared to the same quarter in 2008 was primarily due to lower income before payments in lieu of corporate income taxes in the 2009 quarter as well as a corporate tax rate reduction to 33.0% in 2009 from 33.5% in 2008. The adoption of CICA Handbook Section 3465, "Income Taxes" reduced PILs by \$38 in the second quarter of 2009.

For the six-months ended June 30, 2009, Enersource recorded PILs of \$4,458. The decline in PILs as compared to the first six months of 2008 was primarily due to lower income before payments in lieu of corporate income taxes in the 2009 period as well as a reduced corporate tax rate of 33.0%. The adoption of CICA Handbook Section 3465, "Income Taxes" reduced PILs by \$410 in the first six-months of 2009.

Consolidated Cash Flows

	2nd Qtr 2009	2nd Qtr 2008	YTD June 2009	YTD June 2008
Increase (decrease) in cash and cash equivalents	(21,675)	11,463	(19,649)	24,575

During the quarter ended June 30, 2009, net cash outflow was \$21,675 as compared to net inflow of \$11,463 for the corresponding period of 2008. The net cash outflow in the second quarter of 2009 was comprised of a decline of \$14,185 in retail settlement variances, combined with outflows of \$10,423 and \$1,406 to finance capital and intangible asset additions. The net cash inflow in the 2008 period was driven primarily by an increase in operating activities of \$17,311 and outflows of \$10,318 and \$1,375 to finance capital and intangible asset additions.

During the six-months ended June 30, 2009, net cash outflow was \$19,649 as compared to net inflow of \$24,575 for the corresponding period of 2008. The net cash outflow in 2009 was comprised of a decline of \$17,224 in retail settlement variances, combined with outflows of \$21,978 and \$2,704 to finance capital and intangible asset additions. These outflows were partially offset by a decline of \$11,908 in unbilled revenue. The net cash inflow in the 2008 period was driven primarily by an increase in operating activities of \$38,620 and outflows of \$18,223 and \$2,214 to finance capital and intangible asset additions.

Capital Expenditures

Enersource's capital expenditures were primarily attributable to investments in distribution system infrastructure assets in response to electricity demand and reliability requirements within Mississauga. Capital asset investment strategies are developed and reviewed continuously to maintain pace with the demand for electricity and to ensure that the operating performance of Enersource's distribution system, the condition of its assets and its customer service levels are all maintained to the highest industry standards.

Consolidated capital asset and intangible asset additions for the six-months ended June 30, 2009 were \$22,622 as compared to \$18,391 for the corresponding period in 2008. During the six months of 2009, distribution system capacity-related investments were \$5,400 with system upgrades of \$5,138 and system expansion-related investment of \$4,519. Non-distribution system investments were \$7,565 and included capital initiatives relating to information technology, fleet vehicles, smart meters and conservation and demand management programs. During the six-months of 2008, distribution system capacity-related investment was \$2,693 with system upgrades of \$5,506 and system expansion-related investment of \$3,857. Non-distribution system investment was \$6,335 and was inclusive of information technology, fleet vehicles, smart meters and conservation and demand management capital initiatives.

Liquidity and Capital Resources

Enersource's primary sources of liquidity and capital resources are funds from operating activities as well as an established banking line of credit, if required. These resources are primarily used for capital

investments to maintain the integrity of the electricity distribution system and for servicing interest expense on debt.

Enersource's bank line of credit in the amount of \$50,000 was not utilized during 2008.

In their report dated October 31, 2008, DBRS confirmed Borealis – Enersource series bonds debt rating at 'A', supported by stable financial metrics attributable to generally consistent earnings, cash flows and debt levels. Standard & Poor's confirmed Borealis – Enersource series bonds debt rating at 'A' in their June 12, 2009 report, citing Enersource's excellent business risk, regulated cash flows and growing customer base as factors for the confirmation.

Future Capital Expenditures

Enersource's capital and intangible asset expenditures in 2009 are projected to be \$54,700 (\$49,400 in 2010 and \$42,700 in 2011). The overall planned capital and intangible asset expenditure levels reflect infrastructure investments required to construct and maintain electricity distribution assets. Additional capital and intangible asset investments include the deployment of smart meters and the replacement of Enersource Hydro's Customer Care and Billing System. Current cash balances and future cash flows from operations are expected to be sufficient to fund all capital requirements.

Contractual Obligations

The following table presents a summary of debt and other major contractual obligations as at June 30, 2009:

June 30, 2009 (\$000's)	Total	2009	2010/2011	2012/2013	After 2013
Due By Year:					
Long-term debt*	290,000	-	290,000	-	-
Interest on long-term debt	36,482	9,121	27,361	-	-
Capital purchase obligations	8,231	7,706	525	-	-
Operating leases	50	50	-	-	-
Total contractual obligations	334,763	16,877	317,886	-	-

- The Borealis – Enersource series bonds mature in May, 2011. The long term debt is expected to be refinanced at that time.
- The Long-term debt of \$290,000 excludes debt issuance costs of \$4,336.

Related Party Transactions

Enersource's operations included the provision of electricity and services to its principal shareholder, the City of Mississauga (the "City") in the normal course of business. Electricity was billed to the City at the prices and terms established between the City and its electricity retailer. Street lighting maintenance and construction services were provided at a fixed price or on a time and materials basis at an exchange amount, being that amount agreed to by the parties. A summary of amounts charged by Enersource to the City for the six-months ended June 30, 2009 is as follows:

	2009	2008
Electrical Energy	\$4,387	\$4,145
Street lighting Maintenance and Construction	2,642	2,588
Street lighting Energy	<u>2,793</u>	<u>2,229</u>
Total	9,822	8,962

At June 30, 2009, accounts payable and accrued liabilities due to the City were \$1 (2008 - \$nil). Accounts receivable due from the City was \$1,416 (2008 - \$2,016).

Enersource was charged \$391 in the six-months ended June 30, 2009 (2008 - \$386) by the City for property taxes.

Enersource charged Borealis \$5 (2008 - \$5) for an access agreement in 2009. These transactions were recorded at the exchange amount, being the amount agreed to by the parties. At June 30, 2009, accounts receivable included \$nil (2008 - \$1) due from Borealis.

Enersource was charged \$2,742 in 2009 (2008 - \$4,020) by Enerpower Corporation, an organization for which Enersource has a 10% minority ownership interest, for the construction of distribution system infrastructure. Enersource received a dividend from Enerpower Corporation of \$nil in 2009 (2008 - \$10).

Quarterly Results of Operations

The following table sets forth unaudited quarterly information for each of the eight quarters beginning July 1, 2007 and ending June 30, 2009. This information has been derived from Enersource's unaudited interim Consolidated Financial Statements. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance. The consumption of electricity generally follows the number of cooling degree days during the summer months and heating degree days during the winter months, and therefore energy related revenue, all other things being equal, tends to be higher during the first and third quarters.

	2009/2008				2008/2007			
	<u>30-Jun</u>	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>	<u>30-Jun</u>	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>
Total Revenue	\$126,455	\$163,299	\$162,088	\$177,979	\$163,464	\$167,216	\$172,676	\$181,975
Total Expense	<u>123,177</u>	<u>158,747</u>	<u>157,027</u>	<u>171,943</u>	<u>159,607</u>	<u>162,948</u>	<u>170,412</u>	<u>177,309</u>
Net Income	<u>\$3,278</u>	<u>\$4,552</u>	<u>\$5,061</u>	<u>\$6,036</u>	<u>\$3,857</u>	<u>\$4,268</u>	<u>\$2,264</u>	<u>\$4,666</u>
Dividends	-	-	\$8,980	-	-	-	\$10,336	-

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Estimates and assumptions are based on historical experience, current conditions and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making estimates about the carrying values of assets and liabilities as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and assumptions.

Management believes the following critical accounting estimates involve the more significant estimates and assumptions used in the preparation of the financial statements:

Unbilled Distribution Revenue

Distribution revenue attributable to the delivery of electricity is based upon OEB approved distribution tariff rates and is recognized as electricity is delivered to customers, which includes an estimate of unbilled revenue, representing electricity consumed by customers since the date of each customer's last meter reading. Actual electricity usage could differ from estimates.

Employee Future Benefits

The total change in the employee accrued benefit obligation for the second quarter ended June 30, 2009 was \$99 as compared to \$136 for the second quarter ended June 30, 2008. The total net employee future benefit cost for the year to date period ended June 30, 2009 was \$232 as compared to \$283 for the corresponding 2008 period.

Future Income Tax Assets and Liabilities

The adoption by Enersource Hydro of CICA Handbook Section 3465, "Income Taxes" required Enersource Hydro to estimate and recognize future income tax liabilities and assets as well as a regulatory asset or liability for future income taxes expected to be recovered from or refunded to customers through future distribution rates. The estimates and assumptions used by Management are based on substantially enacted tax rates, historical experience and current regulatory conditions. Actual results may differ from these estimates and assumptions.

NEW AND EMERGING ACCOUNTING PRONOUNCEMENTS

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the CICA issued Emerging Issues Committee ("EIC") 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that the credit risk of counterparties should be taken into account in determining the fair value of derivative instruments. EIC 173 is to be applied retrospectively without the restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual statements for periods ending on or after the date of issuance of this Abstract. This change has not had a material impact on Enersource's results of operations.

Rate Regulated Future Tax Assets and Liabilities

Effective January 1, 2009, Enersource adopted CICA Handbook Section 3465, "Income Taxes" which required Enersource Hydro to record future income taxes using the asset and liability method. Under this method, future income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from settlement or recovery of assets and liabilities at their carrying values. The adoption of this section required Enersource Hydro to recognize future income tax liabilities and assets and a corresponding regulatory asset or liability for future income taxes expected to be recovered from or refunded to customers through future distribution rates. The adoption of this section resulted in an increase in future income tax assets of \$49,733, an increase in regulatory tax liability of \$48,677, a decrease in PILs of \$410 and an increase in retained earnings of \$646 as at and for the year to date period ended June 30, 2009.

Capital Disclosure

Enersource's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns to its shareholders.

Enersource Hydro was deemed by the OEB to have a capital structure that was funded by 60% long term debt and 40% equity. Effective May 1, 2008 the deemed capital structure for Enersource Hydro changed to 56% long-term debt, 4% short-term debt and 40% equity. The OEB applies this deemed structure as a basis of determining how capital is funded for rate setting purposes only. The actual capital structure for Enersource Hydro may differ from the OEB deemed structure.

Enersource has covenants typically associated with long-term debt. Enersource is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

The Corporation has the following material covenants associated with its long-term debt.

- (i) The consolidated financial statements must be audited, comply with GAAP and be filed directly on The System for Electronic Document Analysis and Retrieval (“SEDAR”).
- (ii) The Corporation shall make all payments of principal, interest and, as applicable, premiums in favour of Borealis Infrastructure Trust.
- (iii) The Corporation shall not incur, issue or become liable for obligations that exceed 75% of the total consolidated capitalization or provide another security interest upon the same assets as the debt.
- (iv) The Corporation shall not directly or indirectly invest in energy retailing unless at the time and after giving effect to the proposed investment:
 - (a) No default or event of default shall have occurred and be continuing, or shall occur;
 - (b) The aggregate amount of all such investments made shall not exceed the greater of (i) \$20,000 and (ii) 5% of consolidated net worth.

Future Accounting Changes

Transition to International Financial Reporting Standards (“IFRS”)

The Accounting Standards Board (“AcSB”) has adopted a new strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of the amounts reported by Enersource in its interim and year ended December 31, 2010 financial statements, and the opening balance sheet as at January 1, 2010. In May 2008, the Canadian Securities Administrators issued Staff Notice 52-320, which provides guidance on the disclosure of changes in expected accounting policies related to the change over to IFRS. According to the notice, Enersource is required to provide an update of the Corporation's IFRS conversion plan in each financial reporting period prior to conversion on January 1, 2011.

Enersource’s IFRS conversion project consists of four phases: awareness, assessment, design and implementation. The awareness and assessment phases have been completed and included training for key stakeholders, identification of major impacts on systems, process and internal controls and completion of a detailed systematic gap analysis of the accounting and reporting differences between Canadian GAAP and IFRS.

Enersource is currently in the design phase of the IFRS conversion project which will assess the impacts of adopting IFRS on its financial statements after consideration of the options available under IFRS 1, First-time Adoption of IFRS. Enersource has determined that the adoption of IFRS will have an impact on information system requirements and is currently assessing the system upgrades or modifications required to ensure a seamless conversion to IFRS. Enersource will also design and develop new accounting policies under IFRS and assess whether there are any internal controls that may be impacted from the conversion. The differences currently identified as having the highest impact include the accounting for

fixed assets, regulatory accounting, employee benefits and the initial adoption of IFRS under the provision of IFRS 1.

In July 2009, the International Accounting Standards Board (“IASB”) issued an IFRS Exposure Draft relating to rate regulated activities. The proposed standard defines what criteria must be met in order to record a regulatory asset or liability and how to recognize and disclose the financial effects of the regulated asset or liability recorded. The IASB is expected to conclude on this matter in June 2010.

Enersource currently estimates that the total cost of the IFRS conversion project will be between \$1,500 and \$2,500. The OEB has indicated that a deferral account will be established that will allow utilities to defer incremental one-time administrative costs related to the transition to IFRS for potential recovery in future distribution rates.

SELECTED ANNUAL INFORMATION

The following table sets forth annual information for each of the three years ended December 31, 2006, 2007, and 2008. This information has been derived from the audited annual Consolidated Financial Statements.

Consolidated Statements of Income	2008	2007	2006
Total revenues ¹	\$670,747	\$696,491	\$680,318
Net income	19,222	13,970	17,226

Consolidated Balance Sheets	2008	2007	2006
Total assets ²	\$653,906	\$628,092	\$613,789
Total long-term debt	288,735	288,556	288,122
Cash dividends declared	8,980	10,336	8,900

¹Total revenue consists mainly of electricity passed through at cost to customers. Fluctuations in energy revenue are caused by variances in consumption and/or price.

²Total assets & long-term debt for 2006 reflects the reclassification of deferred debt issuance costs in 2007, applied retroactively.

RISK MANAGEMENT

Enersource utilizes a risk management program to mitigate business risk while optimizing shareholder value. A corporate risk assessment is undertaken annually under the guidance of Enersource’s Audit Committee. This annual assessment identifies all operating risks for the organization and categorizes these risks according to significance and probability of occurrence. Risks that are deemed significant with a moderate to high probability of occurrence are analyzed for the purpose of developing mitigating strategies and implementing or validating operational controls. The annual risk assessment is a comprehensive review of all risks and mitigating controls to derive “residual risk”.

Regulatory Risk

Enersource Hydro’s operations are regulated by the OEB. The OEB exercises statutory authority over matters such as operational performance, rate setting, and financial returns.

The Ontario Government has provided a revenue adjustment mechanism to compensate utilities for lost revenues as a result of conservation programs. Until the rate application for recovery of lost revenues is submitted and appropriate recovery rates are permitted by the OEB, distribution revenues lost as a result of conservation programs remain at risk.

On April 22, 2004, the Supreme Court of Canada ruled on the case of Gordon Garland v. Enbridge Gas Distribution Inc. (“EGD”). The court concluded that the late penalties, which the natural gas utility had charged customers from 1994 to 2002, exceeded legal limits and amounted to criminal misconduct. A settlement was reached between the parties on July 20, 2006 which proposed that EGD would pay approximately \$21,200 including a \$9,000 donation to the Winter Warmth Fund prior to the end of January 2007, approximately \$10,200 for the plaintiff’s legal fees and expenses, and a payment of approximately \$2,000 to the Class Proceedings Fund, operated by the Law Foundation of Ontario. The Supreme Court, on review of the proposal, directed that certain changes be made to the agreement. The Ontario Superior Court approved a settlement in December 2007 and the OEB ruled in February, 2008 that EGD can now recover \$22,000 from ratepayers because the costs resulted from having to defend late-payment penalties established by OEB orders. The Electricity Distributors Association is reviewing the potential implications of the decision on the electricity distribution sector. It is too soon to assess if or to what extent the EGD decision will impact the electricity distribution utilities and, as such, any potential exposure for Enersource Hydro is indeterminable at this time.

On July 16, 2004, the Ontario Government announced that all electricity consumers in Ontario will have a smart meter no later than December 31, 2010. The OEB’s smart meter implementation plan identifies local distribution companies as the source of funding for the supply and installation of the smart meters. Enersource Hydro is committed to executing the MEI’s smart meter initiative to the full extent of OEB approvals. Notwithstanding the April 12, 2006 OEB announcement regarding the smart meter program, the recovery and recognition of all smart meter revenue and associated costs will dictate the timing and amount of future expenditures.

Electricity Supply Risk

At peak consumption periods the Independent Electricity System Operator (“IESO”) may issue public appeals for reduced energy consumption with warnings of brownouts or blackouts if consumption is not reduced. In the event of a brownout or blackout in Mississauga due to electricity consumption levels exceeding available supply from the IESO, Enersource Hydro’s distribution revenue would be adversely affected and as such, represents financial risk to the company.

Environmental Risk

Enersource is subject to numerous environmental regulations. As part of the Corporation’s risk mitigation strategy, various environmental assessments are currently underway. At December 31, 2008, the Corporation had identified four sites and provided \$180 for testing and future soil remediation. During the second quarter of 2009, the Corporation completed the soil remediation at three sites, identified one additional site and provided an additional \$20 for testing and future soil remediation.

Environment Canada has issued new regulations governing the management of PCBs. Enersource is in the process of determining the impact of the new regulations. On December 1, 2008, the OEB approved Enersource Hydro’s request to defer any expenses that may be incurred to comply with the new regulations. As at June 30, 2009 the Corporation deferred \$514 regarding compliance with the new regulations.

Financial Instrument Risk

Exposure to market risk, credit risk and liquidity risk arises in the normal course of Enersource’s business.

(a) Market Risk

Market risk refers primarily to risk of losses that result from changes in commodity prices, foreign exchange rates and interest rates. Enersource does not have commodity risk and its foreign exchange risk is limited to US Dollar cash and cash equivalent holdings of \$2,568 as at June 30, 2009.

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between the interest revenue reduction from rates and the actual interest income earned by Enersource is expected to be insignificant.

(b) Credit Risk

Financial assets have an element of credit risk in that a counter party may fail to discharge its obligation, causing a financial loss. Enersource's distribution revenue is earned on a broad base of customers. As a result, Enersource did not earn a significant amount of revenue from any individual customer.

As at June 30, 2009, there were no significant balances of accounts receivable due from any single customer.

Enersource manages counterparty credit risk through various techniques including the limiting of total exposure levels with individual counterparties consistent with Enersource's policies and the monitoring of the financial condition of counterparties. Short-term investments held as at June 30, 2009 met the credit exposure limits specified under Enersource's Investment Policy.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

1. There is a broad base of customers with no one customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance;
2. Enersource Hydro as permitted by the OEB's Retail Settlement and Distribution System Code may obtain a security deposit or letter of credit from customers to mitigate the risk of payment default; and,
3. Enersource Hydro included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

(c) Liquidity Risk

Liquidity risk is the risk that Enersource will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established \$50,000 banking line of credit, if required. Short-term liquidity is currently sufficient to fund normal operating requirements.

Economic Risk

The current economic uncertainty and financial market volatility may have an impact on Enersource. The primary financial impact Enersource may experience is higher customer payment defaults, resulting in larger accounts receivable write-offs. Management believes that its current credit risk policy and customer credit monitoring procedures mitigate to the fullest extent possible, the potential of a significant financial loss. If a significant loss is incurred, Enersource would apply to the OEB to recover the loss through future distribution rates.

The Borealis – Enersource bonds mature in May, 2011 and are expected to be refinanced at that time. Enersource believes that the risk in any change in interest rates on refinanced debt is insignificant as the impact is expected to be reflected in future distribution rates.

OUTLOOK

On May 14 2009, Ontario’s Green Energy Act (“GEA”) received Royal Assent. The GEA requires that electricity distributors provide priority access to the electricity distribution system to renewable electricity generation facilities. The GEA also allows the MEI to issue directives to the OEB to assign energy conservation and demand management targets to distributors, which may become a condition of the distributor’s license. The Corporation may, in the future, be required to make additional investments in order to facilitate renewable generation projects and to increase the functionality and reliability of its distribution infrastructure in order to comply with the GEA. Any additional investments made by the Corporation will depend, to a large extent, on how it will receive funding. The Corporation will review the GEA along with any associated Ministerial Directives or Regulations and evaluate the potential to enhance its role in Ontario’s electricity grid development, distributed (green) energy and conservation. At this time, due to the lack of policy details that need to be finalized, the impact of the GEA on the operations of Enersource Hydro can not be determinable at this time.

On June 23, 2009 Enersource Hydro submitted an application to the OEB to recognize the 2008 portion of revenue and expenses relating to its smart meter program, that are currently deferred on the balance sheet.

On July 6, 2009 Enersource Hydro submitted a formula based rate application to the OEB in order to align the distribution rate year to its fiscal year. Enersource Hydro proposed the new tariff of rates to be effective January 1, 2010.

The shareholders of the Corporation were parties to a Put Agreement by which the City held an option to sell its shares to BPC Energy Corporation (“BPC”) in accordance with the Agreement. The effective period for this option commenced July 1, 2008 and expired on December 31, 2008. On January 28, 2009, the City decided to pursue the re-negotiation of certain terms of the shareholders agreement with BPC. The negotiations are ongoing at this time.

Enersource will continue to focus on operational excellence, customer care and shareholder value in its regulated and non-regulated businesses with a continued emphasis on growth and financial stability.

ONTARIO SECURITIES COMMISSION REQUIRED DISCLOSURES

Certification of Disclosure in Issuers’ Annual and Interim Filings

The Corporation is a reporting issuer and, as such, must comply with Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (the “Instrument”). Enersource is further sub-classified as a venture issuer and our certifying officers have reviewed and certified the interim filings for the six months ended June 30, 2009.