



Management's Discussion and Analysis of Financial Condition and Results of Operations For the Third Quarter Ended September 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 nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The MD&A should be read in conjunction with our unaudited consolidated financial statements and accompanying notes for the nine month period ended September 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. ("EHMServices"), 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.

EHMServices 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. EHMServices 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 November 27, 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 Competition 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 consumption thresholds and electricity commodity prices 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-Sep 2009</u>
Residential Consumption Threshold	1,000kWh	600kWh	1,000kWh	600kWh
Non-Residential Consumption Threshold	750kWh	750kWh	750kWh	750kWh
Price below threshold	\$.050/kWh	\$.050/kWh	\$.056/kWh	\$.057/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 consumption threshold 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 formulary 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 consumption threshold 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 third quarter ended September 30, 2009 was \$5,758 as compared to net income of \$6,036 for the third quarter of 2008. The decrease of \$278 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 increase on May 1, 2009, lower payments due in lieu of corporate income taxes, the recognition of revenues and costs relating to smart meter investments and higher revenues relating to conservation and demand management programs in the 2009 period as compared to 2008.

Consolidated net income for the nine months ended September 30, 2009 was \$13,588 as compared to net income of \$14,161 for the same period of 2008. The decrease of \$573 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, the recognition of revenues and costs relating to smart meter investments, higher revenues relating to conservation and demand management programs and reduced interest expense in the 2009 period as compared to 2008.

The consolidated cash position of Enersource at September 30, 2009 was \$36,186 representing a decrease of \$39,919 over the 2008 year end position.

Revenues:

	3 rd Qtr 2009	3 rd Qtr 2008	Change \$
Electricity Pass Through	106,756	146,955	(40,199)
Distribution Revenue	31,768	29,428	2,340
Regulatory Liabilities Refunded	-	(1,834)	1,834
Services Revenue	1,711	1,922	(211)
Other Revenue	2,478	1,508	970
Total Revenue	<u>142,713</u>	<u>177,979</u>	<u>(35,266)</u>
	YTD September 2009	YTD September 2008	Change \$
Electricity Pass Through	336,109	417,085	(80,976)
Distribution Revenue	88,207	83,737	4,470
Regulatory Liabilities Refunded	(2,278)	(867)	(1,411)
Services Revenue	5,497	5,212	285
Other Revenue	4,932	3,492	1,440
Total Revenue	<u>432,467</u>	<u>508,659</u>	<u>(76,192)</u>

Energy revenues were generated from regulated operations and consist mainly of electricity passed through at cost to retailers and standard services supply customers. For the third quarter ended September 30, 2009, electricity pass through revenue was \$106,756 as compared to \$146,955 for the third quarter of 2008, representing a decrease of 27.4% or \$40,199. This decline was primarily due to a reduction in

energy consumption of 5.3% or \$6,001 combined with a 23.3% decrease in electricity prices or \$34,198 in the 2009 period as compared to the third quarter of 2008. The reduced consumption can be mainly attributed to lower customer growth, cooler summer weather in 2009 compared to 2008 and the effects of the economic downturn.

For the nine months ended September 30, 2009, electricity pass through revenue was \$336,109 as compared to \$417,085 for 2008, representing a decrease of 19.4% or \$80,976. This decline was primarily due to a reduction of 4.6% in energy consumption or \$16,251 combined with a 15.5% decrease in electricity prices or \$64,725 in 2009 as compared to 2008. The reduced consumption can be mainly attributed to lower customer growth, cooler summer weather in 2009 compared to 2008 and the effects of the economic downturn.

Distribution revenue in the regulated operations was \$31,768 for the third quarter of 2009 compared to \$29,428 in the 2008 period, representing an increase of 8.0% or \$2,340. This increase was primarily due to the recognition of \$3,722 of revenue relating to Enersource Hydro's smart meter investments that were previously deferred on the balance sheet. Other factors contributing to the increase were quarter over quarter customer growth of \$84 and the May 1, 2009 distribution rate adjustment which contributed additional revenue of \$208. These increases were partially offset by a net decline of \$1,674 caused by a 10.3% reduction in electricity consumption by residential and small commercial customers and a 6.4% reduction in energy demand by larger customers in the 2009 period as compared to 2008.

For the year to date period, distribution revenue was \$88,207 compared to \$83,737 in the 2008 period, representing an increase of 5.3% or \$4,470. This increase was primarily due to the recognition of smart meter revenue of \$3,722 related to smart meter investments, Enersource Hydro's distribution rate adjustments implemented May 1, 2008 and May 1, 2009 which provided \$2,992 of additional revenue and year over year customer growth of \$589. This increase was partially offset by a net revenue decline of \$2,833 relating to a 4.3% reduction in electricity consumption by residential and small commercial customers and a 3.9% reduction in energy demand by larger customers in the 2009 period as compared to 2008.

The net refund of regulatory liabilities to customers was nil for the third quarter of 2009 and \$2,278 for the nine months ended September 30, 2009 as compared to a regulatory liability refund of \$1,834 and \$867 for the 2008 corresponding periods. Enersource Hydro ceased its net regulatory refunds effective April 30, 2009.

Services revenue from non-regulated operations was generated from street lighting services and engineering design, maintenance and construction contracts. The decrease in services revenue of \$211 was the result of lower engineering design, maintenance and construction activity and related revenue for the third quarter of 2009 as compared to 2008.

The increase in services revenue of \$285 for the nine months ended September 30, 2009 as compared to 2008 was the result of higher street light maintenance activity and related revenue.

Other revenues are mainly attributable to distribution operations and include late payment charges, settlement charges, pole rental fees and funding by the Ontario Power Authority ("OPA") for conservation programs. Other revenues increased by \$970 over the third quarter of 2008 primarily due to higher conservation and demand management program funding provided by the OPA combined with an increase in dividend payment of \$293 from Enerpower Corporation, an organization for which Enersource holds a 10% minority ownership interest, as well as an increase in gain on disposal of capital assets.

Other revenues increased by \$1,440 for the nine months ended September 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 increase in dividend payments of \$283 from Enerpower Corporation as well as an increase in disposal of capital assets.

Operating Expenses:

	3rdQtr 2009	3rdQtr 2008	Change \$
Energy Purchases	106,756	146,955	40,199
Cost of Services	1,565	1,503	(62)
Operations, Maintenance and Administration	11,801	9,629	(2,172)
Amortization of Capital Assets	10,088	7,951	(2,137)
Amortization of Intangible Assets	137	348	211
Amortization of Regulatory Liabilities	-	(1,834)	(1,834)
Expenses	<u>130,347</u>	<u>164,552</u>	<u>34,205</u>

	YTD September 2009	YTD September 2008	Change \$
Energy Purchases	336,109	417,085	80,976
Cost of Services	4,978	4,145	(833)
Operations, Maintenance and Administration	33,758	29,288	(4,470)
Amortization of Capital Assets	26,116	23,635	(2,481)
Amortization of Intangible Assets	397	856	459
Amortization of Regulatory Liabilities	(2,278)	(867)	1,411
Expenses	<u>399,080</u>	<u>474,142</u>	<u>75,062</u>

Energy purchase expense, which is entirely attributed to regulated operations and is passed through to customers at cost, declined by 27.4% or \$40,199 for the third quarter ended September 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 19.4% or \$80,976 for the nine months ended September 30, 2009 as compared to the corresponding period of 2008 due to the aforementioned reasons.

The cost of services in non-regulated operations of September 30, 2009 than for the corresponding quarter of 2008. The margin on services revenues for the third quarter ended September 30, 2009 were lower than the margins earned for the corresponding third quarter of 2008 due to decreased engineering design, maintenance and construction activity.

The cost of services in non-regulated operations of \$4,978 was \$833 higher as a result of increased street light activity and related costs for the nine months ended September 30, 2009 as compared to the corresponding period of 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 22.6% or \$2,172 for the third quarter ended September 30, 2009 from the corresponding quarter of 2008. Enersource Hydro costs increased by \$2,320 primarily due to an increase of \$589 in conservation and demand management program expenditures combined with an increase of \$200 in environmental rehabilitation costs, \$184 in International Financial Reporting Standards (“IFRS”) transition costs, an additional provision of \$91 for

bad debts and by the recognition of \$94 in operating costs relating to the smart meter investments that were previously deferred, as well as general inflationary increases in manpower and overhead expenses.

Consolidated operations, maintenance and administration costs increased by 15.3% or \$4,470 for the nine months ended September 30, 2009 from the corresponding period of 2008. Enersource Hydro costs increased by \$4,191 primarily due to one-time restructuring costs, combined with an additional provision of \$552 for bad debts, an increase of \$1,037 in conservation and demand management program, an increase of \$347 in environmental rehabilitation costs, an increase of \$245 in IFRS transition costs, higher distribution system maintenance expenses of \$300, 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 \$2,137 for the quarter ended September 30, 2009 over the corresponding quarter of 2008 and by \$2,481 for the nine months ended September 30, 2009 over 2008 primarily due to amortization of \$1,927 in the 2009 third quarter relating to the smart meter investments as well as the ongoing investment in electricity distribution infrastructure assets.

Amortization of Enersource Hydro's intangible assets decreased by \$211 for the third quarter ended September 30, 2009 from the corresponding quarter of 2008 and by \$459 for the nine months ended September 30, 2009 as compared to 2008 primarily due to the revision of the amortization rate for major computers systems from two year to ten year effective October 1, 2008.

Amortization of Enersource Hydro's regulatory balances that were previously deferred on the balance sheet were nil for the third quarter ended September 30, 2009 compared to \$1,834 for the third quarter ended September 30, 2008 and \$2,278 for the nine months ended September 30, 2009 compared to \$867 for the corresponding period of 2008. The amortization of regulatory balances is recorded based on the related recovery or refund amount included in revenue, which ceased effective April 30, 2009.

Operating Income:

	3rdQtr 2009	3rdQtr 2008	Change \$
Revenue	142,713	177,979	(35,266)
Operating Expenses	130,347	164,552	34,205
Operating Income	<u>12,366</u>	<u>13,427</u>	<u>(1,061)</u>

	YTD September 2009	YTD September 2008	Change \$
Revenue	432,467	508,659	(76,192)
Operating Expenses	399,080	474,142	75,062
Operating Income	<u>33,387</u>	<u>34,517</u>	<u>(1,130)</u>

Consolidated operating income declined by \$1,061 in the third quarter of 2009 and by \$1,130 for the nine months ended September 30, 2009 over 2008, due to a net increase of \$2,172 and \$4,470 in operations, maintenance and administration expenses combined with an increase of \$2,137 and \$2,481 in amortization of capital assets, respectively. This decline was partially offset by an increase in Enersource Hydro's distribution revenue of \$2,340 for the third quarter and \$4,470 for the nine months ended September 30, 2009 combined with an increase of \$970 and \$1,440 in other revenue, respectively.

Non-Operating Revenue(Expense):

	3rdQtr 2009	3rdQtr 2008	Change \$
Interest Income	179	847	(668)
Interest Expense	(4,715)	(4,823)	108
Foreign Exchange Gain(Loss)	(230)	173	(403)
Non-operating Income(expense)	<u>(4,766)</u>	<u>(3,803)</u>	<u>(963)</u>

	YTD September 2009	YTD September 2008	Change \$
Interest Income	551	2,659	(2,108)
Interest Expense	(13,622)	(14,660)	1,038
Foreign Exchange Gain(Loss)	(373)	341	(714)
Non-operating Income(expense)	<u>(13,444)</u>	<u>(11,660)</u>	<u>(1,784)</u>

Interest income for the third quarter and nine months ended September 30, 2009 declined by \$668 and \$2,108 due to lower average interest rates and lower average cash and cash equivalent position during the periods as compared to the corresponding periods in 2008.

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Enersource Hydro's interest expense for the third quarter and nine months ended September 30, 2009 was primarily attributable to the Borealis – Enersource regulatory balances. Interest expense for the third quarter and nine months ended September 30, 2009 declined by \$108 and \$1,038 respectively due to lower average interest rates and regulatory liabilities as compared to the corresponding periods in 2008. The amount of interest expense relating to the Borealis – Enersource series bonds was \$4,598 for each three-month period and \$13,643 for each nine months ended September 30, 2009 and 2008.

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For the third quarter ended September 30, 2009, Enersource Hydro had a foreign exchange loss of \$230 on U.S. dollar cash and cash equivalents as compared to a foreign exchange gain of \$173 in the third quarter of 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.

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For the nine months ended September 30, 2009, Enersource Hydro had a foreign exchange loss of \$373 on U.S. dollar cash and cash equivalents as compared to a foreign exchange gain of \$341 in the corresponding period in 2008.

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Provision for Payments in Lieu of Corporate Income

Taxes:

3rdQtr 2009	3rdQtr 2008	Change \$	YTD September 2009	YTD September 2008	Change \$
(1,844)	(3,586)	1,742	(6,302)	(8,694)	2,392

For the quarter ended September 30, 2009, Enersource recorded a provision for payments in lieu of corporate income taxes ("PILs") of \$1,844. The decrease in PILs during the third quarter of 2009 as compared to the corresponding quarter in 2008 was primarily due to lower taxable income as well as a

For the quarter ended September 30, 2009, Enersource recorded a provision for payments in lieu of corporate income taxes ("PILs") of \$1,844. The decrease in PILs during the third quarter of 2009 as compared to the corresponding quarter in 2008 was primarily due to lower taxable income as well as a

corporate tax rate reduction from 33.5% in 2008 to Section 3465, "Income Taxes" reduced PILs by \$39 in

33.0% in 2009. The adoption of CICA Handbook the third quarter of 2009.

For the nine months ended September 30, 2009, Eners as compared to the first nine months of 2008 was pr period as well as a corporate tax rate reduction. 3465, "Income Taxes" reduced PILs by \$449 in the fi

ourc recorded PILs of \$6,302. The decline in PILs imarily due to lower taxable income in the 2009 Additionally, the adoption of CICA Handbook Section rst nine months of 2009.

Consolidated Cash Flows

	<u>3rdQtr 2009</u>	<u>3rdQtr 2008</u>	<u>YTD September 2009</u>	<u>YTD September 2008</u>
Increase (decrease) in cash and cash equivalents	(20,270)	5,143	(39,919)	29,718

During the third quarter ended September 30, 2009, inflow of \$5,143 for the corresponding quarter of 2008 was driven by an increase of \$11,009 in regulatory to finance capital and intangible asset additions. primarily by an increase in operating activities ex by outflows of \$8,883 and \$1,455 to finance capital

net cash outflow was \$20,270 as compared to net 2008. The net cash outflow in the third quarter of 2009 assets combined with outflows of \$11,503 and \$1,831. The net cash inflow in the 2008 quarter was driven including working capital of \$12,753 and partially of fset and intangible asset additions.

During the nine months ended September 30, 2009, ne inflow of \$29,718 for the corresponding period of 2008 by a decline of \$18,295 in retail settlement varian a decrease in accrued liabilities of \$11,389 combin capital and intangible asset additions. These outf activities excluding working capital of \$37,908 and unbilled revenue. The net cash inflow in the 2008 p operating activities excluding working capital of \$3,669 to finance capital and intangible asset addi

net cash outflow was \$39,919 as compared to net 2008. The net cash outflow in 2009 was driven mainl y liabilities, an increase of \$12,520 in regulator y assets, ed with outflows of \$33,481 and \$4,535 to finance lows were partially offset by inflows from operatin g a decline of \$5,358 in accounts receivable and period was driven primarily by cash generated by 38,462 and partially offset by outflows of \$27,106 and tions.

Capital Expenditures

Enersource's capital expenditures were primarily at infrastructure assets in response to electricity de Capital asset investment strategies are developed a performance of Enersource's distribution system, th levels are all maintained to the highest industry s

tributable to investments in distribution system demand and reliability requirements within Mississaug a. and reviewed continuously to ensure that the operati ng the condition of its assets and its customer service tandards.

Consolidated capital asset and intangible asset add were \$37,373 as compared to \$29,889 for the corresp system capacity-related investments were \$8,500 wit related investments of \$6,319. Non-distribution sys initiatives relating to information technology, fle et management programs. During the first nine months o investments were \$4,540 with system upgrades of \$8, 001 and system expansion-related investments of \$5,741. Non-distribution system investments were \$1 1,607 and included information technology, fleet vehicles, smart meters and conservation and dema

ditions for the nine months ended September 30, 2009 onding period in 2008. During 2009, distribution h system upgrades of \$12,098 and system expansion-tem investments were \$10,456 and included capital et vehicles, smart meters and conservation and dema nd management programs. During the first nine months o f 2008, distribution system capacity-related investments were \$4,540 with system upgrades of \$8, 001 and system expansion-related investments of \$5,741. Non-distribution system investments were \$1 1,607 and included information technology, fleet vehicles, smart meters and conservation and dema 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 and the nine months ended September 30, 2009.

In their report dated October 31, 2008, DBRS confirmed Borealis—Enersource series bonds debentures 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 debentures at 'A' in the 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 forecasted to be \$55,300 (\$54,600 in 2010 and \$51,500 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 September 30, 2009:

September 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	9,756	9,208	548	-	-
Operating leases	146	30	116	-	-
Total contractual obligations	336,384	18,359	318,025	-	-

- 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 nine months ended September 30, 2009 is as follows:

	2009	2008
ElectricalEnergy	6,270	\$6,631
StreetlightingMaintenanceandConstruction	3,958	4,225
StreetlightingEnergy	<u>3,347</u>	<u>3,193</u>
Total	13,575	14,049

At September 30, 2009, accounts payable and accrued liabilities due to the City were \$3 (2008 - \$16). Accounts receivable due from the City was \$2,190 (2008 - \$2,560).

Enersource was charged \$800 in the nine months ended September 30, 2009 (2008 - \$780) by the City for property taxes.

Enersource charged Borealis \$7 in 2009 (2008 - \$7) for an access agreement. These transactions were recorded at the exchange amount, being the amount agreed to by the parties. At September 30, 2009, accounts receivable included nil (2008 - \$7) due from Borealis.

Enersource was charged \$7,318 in 2009 (2008 - \$5,723) 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 \$392 in 2009 (2008 - \$109).

Quarterly Results of Operations

The following table sets forth unaudited quarterly information for each of the eight quarters beginning October 1, 2007 and ending September 30, 2009. This information has been derived from Enersource's 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			
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Total Revenue	\$142,713	\$126,455	\$163,299	\$162,088	\$177,979	\$163,464	\$167,216	\$172,676
Total Expense	<u>136,955</u>	<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>
Net Income	<u>\$5,758</u>	<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>
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 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 third quarter ended September 30, 2009 was \$101 as compared to \$141 for the third quarter ended September 30, 2008. The total net employee future benefit cost for the nine months ended September 30, 2009 was \$333 as compared to \$423 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 substantively 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 no 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 assets and liabilities 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 \$45,414, an increase in regulatory liability for future income taxes of \$44,320, a decrease in PIL of \$449 and an increase in retained earnings of \$646 as at and for the year to date period ended September 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 return 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

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 impact 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 in the process of upgrading and modifying its systems to ensure a seamless conversion to IFRS. Enersource is also designing and developing new accounting policies under IFRS and assessing 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 a regulated company would 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 approved a deferral account for incremental IFRS transition costs which will allow Enersource Hydro to seek recovery of these costs through 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 reflect 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 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, rates 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 cannot recover \$22,000 from ratepayers because the 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 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 Province of Ontario 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. For the period ended September 30, 2009 the Corporation completed the testing and soil remediation at three sites and identified two additional sites for testing and potential soil remediation. The Corporation's total environmental expense for the nine months ended September 30, 2009 was \$289 which includes an accrual of \$175 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 September 30, 2009 the Corporation deferred \$572 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 USDollar cash and cash equivalent holdings of \$1,480 as at September 30, 2009.

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between a actual interest income earned by Enersource Hydro and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

(b) Credit Risk

Financial assets have an element of credit risk in that a counterparty 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 September 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 September 30, 2009 meet 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 rates 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 current economic conditions could also lead to lower overall electricity consumption, which may negatively impact Enersource Hydro's distribution revenue.

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 would 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 cannot be determined at this time.

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. This application is still under consideration by the OEB.

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.

On October 15, 2009, the OEB announced additional changes to electricity prices for regulated price plan customers to take effect November 1, 2009. Electricity prices will increase effective November 1, 2009 from \$0.057/kWh to \$0.058/kWh for the first 1,000 kWh consumed in a month and from \$0.066/kWh to \$0.067/kWh for consumption in excess of that amount. The consumption threshold for non-residential plan will remain unchanged at 750 kWh per month throughout the year.

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, *Certification of Disclosure in Issuers' Annual and* further sub-classified as a venture issuer and our interim filings for the nine months ended September

must comply with Multilateral Instrument 52-109– *Interim Filings* (the “Instrument”). Enersource is certifying officers have reviewed and certified the 30,2009.