

Consolidated Financial Statements of

**ENERSOURCE CORPORATION**

Years ended December 31, 2008 and 2007



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Enersource Corporation as at December 31, 2008 and 2007 and the consolidated statements of income and comprehensive income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

February 20, 2009

# ENERSOURCE CORPORATION

Consolidated Balance Sheets  
(In thousands of dollars)

December 31, 2008 and 2007

	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 76,105	\$ 57,099
Accounts receivable (note 14 (b))	58,574	58,472
Unbilled revenue	53,816	58,534
Inventory (note 2)	7,230	6,801
Prepaid expenses and deposits	2,596	2,513
	<u>198,321</u>	<u>183,419</u>
Capital assets (note 4)	419,244	409,952
Intangible assets (note 5)	10,336	4,028
Deposits and prudentials (note 6)	20,563	21,949
Regulatory assets (note 7)	2,371	6,931
Other deferred costs	3,071	1,813
	<u>455,585</u>	<u>444,673</u>
	<u>\$ 653,906</u>	<u>\$ 628,092</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 93,159	\$ 73,695
Payments in lieu of corporate income taxes payable	2,149	2,106
Deferred revenue	65	135
Advance payments	2,844	1,553
Regulatory liabilities (note 7)	18,295	23,455
	<u>116,512</u>	<u>100,944</u>
Long-term liabilities:		
Bonds payable (note 8)	288,735	288,556
Deposits	20,363	21,749
Employee retirement and post-retirement benefits (note 9(b))	3,754	3,203
	<u>312,852</u>	<u>313,508</u>
Non-controlling interest	1,135	475
Shareholders' equity:		
Capital stock (note 10)	175,691	175,691
Retained earnings	47,716	37,474
	<u>223,407</u>	<u>213,165</u>
Contingencies (note 12)		
Commitments (notes 6 and 13)		
	<u>\$ 653,906</u>	<u>\$ 628,092</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Gerald Beasley" \_\_\_\_\_ Director      "Norman Loberg" \_\_\_\_\_ Director

# ENERSOURCE CORPORATION

Consolidated Statements of Income and Comprehensive Income  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

	2008	2007
Revenue:		
Energy sales	\$ 548,255	\$ 569,869
Distribution	112,493	108,668
Recovery (refund) of regulatory assets (liabilities)	(2,514)	5,535
Services	6,858	7,336
Gain on the disposal of capital assets	145	215
Other	5,510	4,868
	<u>670,747</u>	<u>696,491</u>
Operating expenses:		
Energy purchases	548,255	569,869
Operations, maintenance and administration	40,922	43,808
Services	5,420	5,312
Amortization of capital assets	32,292	31,366
Amortization of intangible assets	1,056	428
Amortization of regulatory assets (liabilities)	(2,514)	5,535
	<u>625,431</u>	<u>656,318</u>
Operating income	45,316	40,173
Non-operating revenue (expense):		
Interest income	3,600	4,334
Interest expense	(19,229)	(19,247)
Foreign exchange gain (loss)	907	(821)
	<u>(14,722)</u>	<u>(15,734)</u>
Income before the undernoted	30,594	24,439
Payments in lieu of corporate income taxes (note 3)	(10,711)	(10,188)
Income before non-controlling interest	19,883	14,251
Non-controlling interest	(661)	(281)
Net income and comprehensive income	<u>\$ 19,222</u>	<u>\$ 13,970</u>

Consolidated Statements of Retained Earnings  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

	2008	2007
Retained earnings, beginning of year	\$ 37,474	\$ 33,840
Net income	19,222	13,970
Dividends paid (note 10)	(8,980)	(10,336)
Retained earnings, end of year	<u>\$ 47,716</u>	<u>\$ 37,474</u>

See accompanying notes to consolidated financial statements.

# ENERSOURCE CORPORATION

Consolidated Statements of Cash Flows  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net income	\$ 19,222	\$ 13,970
Items not affecting cash:		
Amortization of debt issue costs	179	434
Amortization of capital assets	32,292	31,366
Amortization of intangible assets	1,056	428
Amortization of regulatory assets (liabilities)	(2,514)	5,535
Gain on the disposal of capital assets	(145)	(215)
Employee retirement and post-retirement benefits	551	547
Non-controlling interest	661	281
	51,302	52,346
Change in non-cash operating working capital (note 11)	17,240	1,454
	68,542	53,800
Financing activities:		
Deposits	(1,386)	9
Dividends paid	(8,980)	(10,336)
	(10,366)	(10,327)
Investing activities:		
Deposits and prudentials	1,386	(209)
Additions to capital assets	(41,568)	(39,167)
Additions to intangible assets	(5,639)	(4,166)
Proceeds on the disposal of capital assets	297	288
Additions to regulatory assets (liabilities)	7,612	41
Other deferred costs	(1,258)	(32)
	(39,170)	(43,245)
Increase in cash and cash equivalents	19,006	228
Cash and cash equivalents, beginning of year	57,099	56,871
Cash and cash equivalents, end of year	\$ 76,105	\$ 57,099
Supplemental cash flow information:		
Interest received	\$ 3,809	\$ 4,196
Interest paid	18,241	18,241
Payments in lieu of corporate income taxes paid	13,399	13,755

See accompanying notes to consolidated financial statements.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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Enersource Corporation (the "Corporation"), incorporated under the Ontario Business Corporations Act, was formed to conduct electricity distribution and non-regulated utility service ventures. The Corporation is owned 90% by the City of Mississauga (the "City") and 10% by BPC Energy Corporation ("BPC"), a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS").

## 1. Significant accounting policies:

### (a) Basis of consolidation:

These financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Corporation's wholly owned subsidiaries: Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Telecom Inc. ("Telecom"), Enersource Technologies Inc. and Enersource Hydro Mississauga Services Inc. The consolidated financial statements also include the accounts of First Source Energy Corporation ("First Source"), a subsidiary in which the Corporation has a 57.7% ownership interest. Intercompany balances and transactions have been eliminated.

### (b) Nature of operations:

Through its subsidiary, Enersource Hydro, the Corporation provides electricity distribution services to businesses and residences in the service area of Mississauga, Ontario.

Enersource Services Inc. is the parent company for the Corporation's non-regulated business, which includes the following:

- (i) Telecom provided fibre optic telecommunications services for customers located in Ontario until May 2006, at which point its fibre optic infrastructure assets and related customer contracts were sold to Blink Communications.
- (ii) Enersource Hydro Mississauga Services Inc. provides utility services, including electricity distribution infrastructure design, construction and operations and streetlight construction and maintenance services to customers in Ontario. Enersource Hydro Mississauga Services Inc. is also the 100% owner of Enersource Technologies Inc., which is a dormant corporation.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

- (iii) First Source provided energy retailing services until May 2003, at which point, its retail customer contracts were sold to Ontario Energy Savings Corporation ("OESC").

### (c) Rate setting:

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 general power to include or exclude costs, revenue, losses or gains in the rates of a specified period, resulting in the change in the timing of accounting recognition from that which would be applied in an unregulated company. Specifically, the following accounting treatments have been applied:

- (i) The Corporation capitalizes interest monthly based on an approved OEB allowance for the cost of funds used during construction and development.
- (ii) The Corporation does not record future income tax assets or liabilities for its regulated business activities to the extent that it is expected that the recovery or realization of these amounts will be included in future distribution rates.
- (iii) The Corporation has deferred certain cost of power and retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.
- (iv) The Corporation has deferred all revenue and associated costs for the smart meter program as directed by the OEB from January 1, 2008.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 1. Significant accounting policies (continued):

The OEB has the power to establish electricity prices under a regulated price plan ("RPP") for low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust the electricity commodity prices charged to these RPP consumers every six months as required.

Regulated Price Plan:

	January 2007 - April 2007	May 2007 - October 2007	November 2007 - April 2008	May 2008 - October 2008	November 2008 - December 2008
Residential consumption threshold	1,000 kWh	600 kWh	1,000 kWh	600 kWh	1,000 kWh
Non-residential consumption threshold	750 kWh	750 kWh	750 kWh	750 kWh	750 kWh
Price below threshold	\$.055/kWh	\$.053/kWh	\$.050/kWh	\$.050/kWh	\$.056/kWh
Price above threshold	\$.064/kWh	\$.062/kWh	\$.059/kWh	\$.059/kWh	\$.065/kWh

In January 2007, Enersource Hydro submitted a formula based rate application to the OEB for the rate period May 1, 2007 through April 30, 2008. On April 12, 2007, the OEB released its decision and order on this rate application. Enersource Hydro implemented this distribution rate decision, along with OEB approved changes, to the recovery of regulatory assets and refund of regulatory liabilities on May 1, 2007.

Enersource Hydro submitted a rate re-basing application to the OEB on August 23, 2007 for the rate period beginning on May 1, 2008 through April 30, 2009. A settlement negotiated with intervenors was accepted by the OEB on January 4, 2008. On April 18, 2008, the OEB released its final decision and order on this rate application. Enersource Hydro implemented this distribution rate decision, along with OEB approved changes to the recovery of regulatory assets and refund of regulatory liabilities on May 1, 2008.

### (d) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

### (e) Revenue recognition:

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

Services and other revenue is recognized as services are rendered or contract milestones are achieved. Amounts received in advance of these milestones are presented as deferred revenue.

### (f) Measurement uncertainty:

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 revenue and expenses during the years. Accounts receivable is reported based on amounts expected to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue and regulatory assets are reported based on amounts expected to be recovered. Inventory is recorded net of a provision for obsolescence. Amounts recorded for amortization of capital assets are based on estimates of useful life.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the Ontario Minister of Energy and Infrastructure.

### (g) Inventory:

Effective January 1, 2008, the Corporation adopted Section 3031, Inventories, of the Handbook of The Canadian Institute of Chartered Accountants ("CICA"). This new section requires that major spare parts and standby equipment be reclassified from inventory to fixed assets. The new Handbook section also allows impairment losses taken on inventory to be reversed if and when net realizable value subsequently recovers.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

The Corporation includes major standby equipment as in-service fixed assets and depreciates these assets. Accordingly the adoption of this standard did not result in a material impact on these financial statements.

### (h) Capital assets:

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers.

When assets are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as overhead and underground distribution facilities, is removed from the accounts at the end of their estimated service lives.

In the event that facts and circumstances indicate that capital assets may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Amortization of capital asset values is charged to operations on a straight-line basis over their estimated service lives as follows:

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	Estimated service life	
	Range	Average
Buildings	25 - 60 years	54
Distribution station equipment	15 - 35 years	29
Transmission and distribution system	25 - 40 years	26
Equipment and furniture	4 - 10 years	8

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Construction in progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

An allowance for the cost of funds used during the construction period has been applied. Effective May 1, 2006, the prescribed interest rate used during the period equalled the average weighted bond yield of the DEX Mid Term Corporate Bond Index (formerly known as Scotia Capital Inc. Bond Index), as published on the OEB website, updated quarterly. From January through June 2007, the rate used was 4.72%, and from July 1, 2007 to June 30, 2008, the rate used was 5.18%. Effective July 1, 2008 to December 31, 2008 the rate used was 5.43%.

### (i) Intangible assets:

Commencing October 1, 2008, the Corporation adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which was adopted retrospectively as of January 1, 2007 and replaces existing Handbook Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development. These standards provide guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard resulted in the re-classification of computer software from capital assets to intangible assets. The adoption of this standard did not result in a material impact on these financial statements.

Intangible assets are recorded at cost and include expenditures associated with the initial acquisition or development, which are directly attributable to acquire, produce and prepare the asset for its intended use. Intangible assets are assets that lack physical substance, other than financial assets.

Amortization of intangible asset values is charged to operations on a straight-line basis over their estimated service lives.

The Corporation evaluates intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

### (j) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the bonds. In accordance with CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Corporation's deferred debt issuance costs, net of accumulated amortization, is included in the carrying amount of bonds payable. The bonds are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

### (k) Deposits and prudentials:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits and prudentials, which are reported separately from the Corporation's own cash and cash equivalents. Interest rates paid on customer deposits are based on a variable rate of prime less 2.0%.

Also included in this balance are cash and securities lodged with the Corporation by counterparties under electricity supply agreements.

### (l) Pension and other post-employment benefits:

The Corporation accounts for its participation in OMERS, a multi-employer public sector pension fund, as a defined contribution plan and all contributions made to OMERS by the Corporation are expensed in the period.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method, prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits. Net actuarial gains or losses exceeding 10% of the accrued benefit obligation are amortized into expense on a straight-line basis over the expected average remaining service lifetime.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

The Corporation presently offers two separate retirement and post-retirement benefit plans:

- (i) The principal funding obligation of the first plan is to fund life insurance benefits based on employment date and years of service. A limited group of former employees who elected to retire under this early retirement incentive plan also entitled them to the continuation of health and dental benefits at their own expense, until age 65.
- (ii) The principal funding obligation of the second plan is to fund life, health and dental benefits to those employees who retire on or after age 55 with at least 10 years of service with a specified cost sharing formula for participation from the time of early retirement to age 65.

### (m) Payments in lieu of corporate income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), as modified by the Electricity Act, 1998, and related regulations.

The Corporation provides for PILs related to its regulated business using the taxes payable method as directed by the OEB. Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

Management believes that when unrecorded future income taxes become payable, or the assets are realized, they will be included in rates approved by the OEB and recovered from customers at that time.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

For its non-regulated businesses, the Corporation applies the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

### (n) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the balance sheet date. Revenue and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in income.

### (o) Financial Instruments:

Effective January 1, 2008, the Corporation adopted two new accounting standards comprising CICA Handbook Sections 3862, Financial Instruments - Disclosures, and 3863, Financial Instruments - Presentation. The adoption of the new disclosure standard required an increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments. The adoption of the new standard on presentation carried forward unchanged the presentation requirements from Section 3861, Financial Instruments - Disclosure and Presentation, and therefore adoption of this new standard did not have any impact on the consolidated financial statements.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

Financial assets, financial liabilities and non-financial derivatives are recognized on the balance sheet at their fair value or with cost-based measures under different circumstances. Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

The Corporation designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

### (p) Capital disclosures:

Effective January 1, 2008, the Corporation adopted CICA Handbook Sections 1535, Capital Disclosures. The adoption of this new disclosure standard required the disclosure of qualitative and quantitative information about the Corporation's capital and how it is managed. The adoption of this new standard did not have any impact on the financial statements.

The Corporation'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 CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

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

### (q) Future accounting changes:

The following summarizes future accounting changes that will be relevant to the Corporation's financial statements subsequent to December 31, 2008:

#### (i) Accounting for rate regulated operations:

During 2007, the Accounting Standards Board ("AcSB") decided to remove a temporary exemption in CICA Handbook Section 1100 and amend CICA Handbook Section 3465, Income Taxes. The temporary exemption provided relief to entities subject to rate regulation from the requirement to apply Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation. The amendment to CICA Handbook Section 3465, Income Taxes, will require Enersource Hydro to recognize future income tax liabilities and assets as well as a regulatory asset or liability for any amount of future income taxes expected to be recovered from or refunded to customers through future distribution rates. The AcSB also decided to retain all other existing requirements pertaining to rate regulated operations.

The new rules will apply prospectively to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009 and will result in the asset and liability method of accounting being followed for PILs. Such amounts are currently accounted for on a cash basis for Enersource Hydro operations, consistent with specific OEB rate setting direction. This change is not expected to have a material impact on results of operations.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 1. Significant accounting policies (continued):

### (ii) Transition to International Financial Reporting Standards:

The AcSB has adopted a new strategic plan that will have Canadian GAAP converge with International Financial Reporting Standards ("IFRS"), effective January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of the amounts reported by the Corporation for its year ended December 31, 2010, and the opening balance sheet as at January 1, 2010. The Corporation is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on the future financial position and results of operations is not reasonably determinable or estimable.

### (iii) 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 restatements 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. The Corporation is currently evaluating the impact of adopting this standard on its consolidated financial statements. This change is not expected to have a material impact on results of operations.

## 2. Inventory:

Inventory, which consists of parts and supplies acquired for internal construction, consumption or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

The amount of inventory consumed by the Corporation and recognized as an expense during 2008 was \$1,526 (2007 - \$1,598).

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

### 3. Payments in lieu of corporate income taxes:

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. A reconciliation between the statutory and effective tax rates is provided as follows:

	2008	2007
Federal and Ontario statutory income tax rate	33.5%	36.1%
Income before provision for PILs	\$ 30,594	\$ 24,439
Non-controlling interest	(661)	(281)
	\$ 29,933	\$ 24,158
Provision for PILs at statutory rate	\$ 10,028	\$ 8,726
Increase (decrease) resulting from:		
Amortization less than capital cost allowance	(3)	303
Tax effect of non-capital losses for which no benefit has been recorded	(441)	(349)
Other timing differences between accounting net income and net income for tax purposes	1,127	1,508
Provision for PILs	\$ 10,711	\$ 10,188
Effective income tax rate	35.8%	42.2%

Based on substantively enacted income tax rates, the potential benefit of unrecorded future income tax assets arising substantially from differences between accounting and tax values for capital assets of the regulated business is \$35,894 (2007 - \$35,421). Future income taxes relating to the regulated businesses have not been recorded in the accounts in either year, as they are expected to be recovered through future revenue.

The Corporation does not have any future income tax assets or liabilities arising from the non-regulated businesses.

At December 31, 2008, certain other subsidiaries have estimated non-capital loss carryforwards totalling \$7,201 (2007 - \$9,178) available, which will expire after tax years ending between 2009 and 2015. The potential benefit relating to these amounts has not been recorded given the uncertainty as to their realization.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 4. Capital assets:

2008	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ –	\$ 4,071
Buildings	16,614	5,381	11,233
Distribution station equipment	84,686	34,687	49,999
Transmission and distribution system	651,143	317,523	333,620
Equipment and furniture	28,441	15,446	12,995
Construction in progress:			
Electric distribution system	5,786	–	5,786
Computer hardware	1,540	–	1,540
	\$ 792,281	\$ 373,037	\$ 419,244

2007	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ –	\$ 4,071
Buildings	15,330	5,046	10,284
Distribution station equipment	81,798	34,492	47,306
Transmission and distribution system	624,279	295,852	328,427
Equipment and furniture	30,020	16,596	13,424
Construction in progress:			
Electric distribution system	5,833	–	5,833
Computer hardware	607	–	607
	\$ 761,938	\$ 351,986	\$ 409,952

During the year, \$766 (2007 - \$440), representing an allowance for the cost of funds used during construction, was capitalized to construction in progress.

## 5. Intangible assets:

2008	Cost	Accumulated amortization	Net book value
Computer software	\$ 3,562	\$ 1,484	\$ 2,078
Software in development	8,258	–	8,258
	\$ 11,820	\$ 1,484	\$ 10,336

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 5. Intangible assets (continued):

2007	Cost	Accumulated amortization	Net book value
Computer software	\$ 1,713	\$ 428	\$ 1,285
Software in development	2,743	–	2,743
	<u>\$ 4,456</u>	<u>\$ 428</u>	<u>\$ 4,028</u>

## 6. Deposits and prudentials:

The following outlines the deposits and prudentials of the Corporation, posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

	2008		2007	
	Cash and cash equivalents	Letters of credit/ letters of guarantee	Cash and cash equivalents	Letters of credit/ letters of guarantee
Customer deposits	\$ 20,363	\$ –	\$ 21,749	\$ –
Security with IESO	–	9,344	–	9,344
Security with the City of Brampton	–	5,255	–	–
Peel District School Board	200	–	200	–
	<u>\$ 20,563</u>	<u>\$ 14,599</u>	<u>\$ 21,949</u>	<u>\$ 9,344</u>

Security deposits:

(a) Customer deposits:

The Corporation collects cash and cash equivalents as deposits from certain customers to reduce credit risk.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 6. Deposits and prudentials (continued):

Contingent obligations:

### (b) Security with IESO:

Purchasers of electricity in Ontario through the Independent Electricity System Operator ("IESO") are required to post security to mitigate the risk of their default on their expected activity in the market.

At December 31, 2008, the Corporation has posted letters of credit as security in the amount of \$9,344 (2007 - \$9,344).

### (c) Security with the City of Brampton:

The Corporation has posted letters of credit relating to streetlighting contracts with the City of Brampton.

At December 31, 2008, the Corporation has posted letters of credit as security in the amount of \$5,255 (2007 - nil).

### (d) Other deposits:

At December 31, 2008, the Corporation held a deposit of \$200 (2007 - \$200) in respect of an energy savings guarantee with the Peel District School Board.

## 7. Regulatory assets and liabilities:

Regulatory assets primarily represent costs that have been deferred because they are expected to be recovered in rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers under the regulated pricing mechanism and the corresponding wholesale market cost of power incurred by the utility.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 7. Regulatory assets and liabilities (continued):

Regulatory balances are comprised principally as follows:

- (i) Costs previously deferred which were approved for recovery in the OEB's April 18, 2008 distribution rates and charges decision that will be refunded between May 1, 2008 and April 30, 2009.
- (ii) Post-market opening retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates.
- (iii) Deferred revenue and associated costs relating to Enersource Hydro's smart meter program.

The following table demonstrates the impact on 2008 earnings net of PILs as a result of regulated accounting requirements. Explanatory notes follow the table below.

	2008	2007	Estimated remaining settlement period (years)	2008 impact on earnings net of PILs ((a)(i))
<b>Regulatory assets:</b>				
Deferred OMERS employer contributions ((a)(ii) & ((a)(vi))	\$ —	\$ 1,555	1	\$ —
Other regulatory assets ((a)(iii) & ((a)(vi))	—	1,130	1	—
Smart meter revenue/expense ((a)(iv))	2,371	594	2	(1,278)
	<u>2,371</u>	<u>3,279</u>		<u>(1,278)</u>
Regulatory assets approved for recovery ((a)(vi))	—	3,652	1 - 2	—
	<u>\$ 2,371</u>	<u>\$ 6,931</u>		<u>\$ (1,278)</u>
<b>Regulatory liabilities:</b>				
Other regulatory liabilities ((a)(v))	\$ 540	\$ —	1	\$ 288
Net regulatory liabilities approved for refund ((a)(vi))	2,563	—	1	83
Retail settlement variances ((a)(vii))	22,519	26,720	1 - 2	915
Global Adjustment retail settlement variance ((a)(viii))	(7,327)	(3,265)	1	(144)
	<u>\$ 18,295</u>	<u>\$ 23,455</u>		<u>\$ 1,142</u>

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 7. Regulatory assets and liabilities (continued):

(a) Explanatory notes:

- (i) The 2008 impact on earnings net of PILs represents the effect on net income as a result of the treatment under rate regulated accounting.
- (ii) The deferred OMERS employer contributions amount in 2007 was approved for recovery in the OEB's April 18, 2008 distribution rates and charges decision. The outstanding balance has been included in the net refund of regulatory liabilities on May 1, 2008.
- (iii) The OEB approved the deferral of Enersource Hydro's OEB assessed costs between January 1, 2004 and April 30, 2006. The outstanding balance was included in the net refund of regulatory liabilities on May 1, 2008.
- (iv) On June 13, 2006, the OEB issued an update to the Accounting Procedures Handbook regarding the accounting treatment for smart meter expenditures. On December 8, 2008, the OEB issued its decision approving the recognition of smart meter revenue and costs as at December 31, 2007. This amount reflects the net amount of revenue and expenses deferred since January 1, 2008.
- (v) The OEB requires that Enersource Hydro record and defer the difference between revenue and costs associated with providing retailers with customer settlement services as retail cost variance account deferrals. The remaining balance reflects the difference between tax rates used for rate setting and the corporate tax rates applied.
- (vi) This amount reflects the \$7,021 net refund of regulatory liabilities plus interest, less the amount refunded in 2008. The OEB approved amount is being refunded to customers from May 1, 2008 through April 30, 2009, as per the April 18, 2008 distribution rate decision.
- (vii) The OEB requires Enersource Hydro to record and defer the difference between energy charged to its customers and the actual cost of power incurred and paid to the IESO and to Hydro One. The retail settlement variance reflects this difference since January 1, 2007 plus interest charged at an OEB approved rate.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 7. Regulatory assets and liabilities (continued):

- (viii) The Global Adjustment amount is the difference between market prices and rates paid to regulated and contracted generators which are set by the IESO. This adjustment may be positive or negative. The Global Adjustment retail settlement variance captures the unpaid or recoverable amounts due to or recoverable from Enersource Hydro's customers.

The Corporation has accrued interest on the deferral account balances for the regulatory assets and retail settlement variances, as directed by the OEB. As at December 31, 2008, this net accrued interest amounted to \$864 (2007 - \$214).

### (b) Financial statement effects of rate regulation:

- (i) General information regarding rate regulation and its economic effects:

The operations of the Corporation's subsidiary, Enersource Hydro, are regulated by the OEB. The OEB exercises statutory authority over matters such as distribution asset construction, rates and underlying accounting practices, and rate setting issues with Enersource Hydro's customers.

- (ii) Regulatory risk and uncertainties affecting recovery or settlement:

The regulatory assets and liabilities recorded in the financial statements are based upon an expectation of the future actions of the OEB. To the extent that the OEB's future actions are different from Enersource Hydro's expectations, the timing and amount of recovery or settlement of amounts recorded on the balance sheets could be significantly different from the timing and amounts that are eventually recovered or settled.

- (iii) Financial statement effects:

In order to recognize the economic effects of the actions or expected actions of the regulator, the timing of recognition of certain revenue and expenses in these operations may differ from that otherwise expected under GAAP for non rate-regulated entities.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 7. Regulatory assets and liabilities (continued):

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through the rate-setting process. In the absence of rate regulated accounting, GAAP would not permit deferral of regulatory assets and, therefore, the earnings impact would be recorded in the period of recovery.

Regulatory liabilities represent amounts that are expected to be refunded to customers as a result of the rate-setting process. The GAAP treatment of regulatory liabilities and the resulting earnings impact is the same as that under rate regulated accounting because the liabilities represent contractual obligations.

## 8. Bonds payable:

	2008	2007
6.29% BPC-Enersource Series Bonds, Tranche 1, due May 3, 2011	\$ 290,000	\$ 290,000
Deferred debt issue costs (net of accumulated amortization of \$3,071 (2007 - \$2,892))	(1,265)	(1,444)
<b>Net bonds payable</b>	<b>\$ 288,735</b>	<b>\$ 288,556</b>

The BPC-Enersource Series Bonds are secured by a credit agreement between the Corporation and Borealis Infrastructure Trust. The credit agreement provides for a first ranking charge on collateral comprised of the Corporation's assets. Interest expense includes \$18,241 (2007 - \$18,241) in respect of interest on long-term liabilities and amortization of debt issue costs in the amount of \$179 (2007 - \$434).

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.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 8. Bonds payable (continued):

- (iii) The Corporation shall not issue, incur 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; and
  - (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.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

## 9. Employee retirement and post-retirement benefits:

### (a) Pensions:

During fiscal 2008, the Corporation expensed contributions made to OMERS of \$2,228 (2007 - \$2,106).

### (b) Other retirement and post-retirement benefits:

The amounts presented are based upon an actuarial valuation performed as of December 31, 2006 on March 2, 2007. The next valuation is expected to be performed for the year ending December 31, 2009.

Reconciliation of accrued benefit obligation to balance sheet liability:

	2008	2007
Retirement and post-retirement life benefits plan	\$ 2,585	\$ 2,408
Retirement and post-retirement life, health and dental benefits plan	1,169	795
Accrued benefit obligation	\$ 3,754	\$ 3,203

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 9. Employee retirement and post-retirement benefits (continued):

(c) Retirement and post-retirement life benefits plan:

(i) Post-employment benefits liability:

	2008	2007
Accrued benefit obligation, beginning of year	\$ 2,546	\$ 2,411
Service cost	81	77
Interest cost	131	131
Benefits paid	(35)	(73)
<b>Post-employment benefits liability, end of year</b>	<b>\$ 2,723</b>	<b>\$ 2,546</b>

(ii) Reconciliation of retirement and post-retirement life benefits plan:

	2008	2007
Accrued benefit obligation, end of year	\$ 2,723	\$ 2,546
Unrecognized actuarial loss	(138)	(138)
<b>Accrued benefit obligation</b>	<b>\$ 2,585</b>	<b>\$ 2,408</b>

(iii) Significant assumptions:

	2008	2007
Discount rate	5.25%	5.25%
Rate of compensation increase	2.50%	2.50%

The total post-employment benefits liability for this plan at December 31, 2008 is \$2,585 (2007 - \$2,408). There are no transition obligations, relating to this plan, to be amortized from past services.

A 1% increase (decrease) in the interest assumption would decrease (increase) the post-retirement benefit obligation and the service cost by approximately 14% to 16%.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 9. Employee retirement and post-retirement benefits (continued):

The Corporation's net life insurance benefit expense relating to this plan is as follows:

	2008	2007
Current service cost	\$ 81	\$ 77
Interest cost	131	131
	<u>\$ 212</u>	<u>\$ 208</u>

(d) Retirement and post-retirement life, health and dental benefits plan:

(i) Post-employment benefits liability:

	2008	2007
Change in benefit obligations:		
Benefit obligation, beginning of year	\$ 2,137	\$ 1,892
Service cost	145	138
Amortization of transition obligation	167	167
Interest cost	112	107
Benefits paid	(50)	–
Transition obligation	(167)	(167)
Actuarial losses	–	–
Post-employment benefits liability, end of year	<u>\$ 2,344</u>	<u>\$ 2,137</u>

(ii) Reconciliation of retirement and post-retirement life, health and dental benefits plan:

	2008	2007
Benefit obligation, end of year	\$ 2,344	\$ 2,137
Unrecognized transition obligation	(999)	(1,166)
Unrecognized actuarial loss	(176)	(176)
Accrued benefit obligation	<u>\$ 1,169</u>	<u>\$ 795</u>

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 9. Employee retirement and post-retirement benefits (continued):

(iii) Significant assumptions:

	2008	2007
Discount rate	5.25%	5.25%
Expected return on plan assets	5.25%	5.25%
Health care cost increases	14.00%	14.00%
Dental cost increases	5.00%	5.00%

The Corporation's net life, health and dental benefit expense relating to this plan is as follows:

	2008	2007
Amortization of transition obligation	\$ 167	\$ 167
Current service cost	145	138
Interest cost	112	107
	\$ 424	\$ 412

The total post-employment benefits liability for this plan at December 31, 2008 is \$1,169 (2007 - \$795). The unrecognized transition obligation, relating to this plan, will be amortized over the expected average remaining service lifetime.

The December 31, 2006 actuarial valuation assumed health care costs would increase by 14% in 2006, then grading down to 4% per annum after 10 years. Dental costs were assumed to increase by 5% in 2006, then grading down to 3% per annum after 10 years.

A 1% increase (decrease) in the interest assumption would decrease (increase) the expected post-retirement benefit obligation, the interest cost and the service cost by approximately 10%.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 10. Capital stock:

	2008	2007
Authorized:		
Unlimited Class A shares, voting		
1,000 Class B shares, non-voting		
100 Class C shares, voting		
Issued:		
180,555,562 Class A shares	\$ 155,628	\$ 155,628
1,000 Class B shares	1	1
100 Class C shares	20,062	20,062
	<u>\$ 175,691</u>	<u>\$ 175,691</u>

On November 9, 2004, the Corporation adopted the Dividend Policy and Procedure document that was approved by the Board of Directors. Subsequently, the Articles of the Corporation were amended in 2005 to align with the terms of the Dividend Policy.

The Class A and Class C shareholders are entitled to annual non-cumulative dividends not to exceed 60% of the prior year's consolidated net income on a residual basis. Dividends will be declared and paid during the fourth quarter of each fiscal year, provided they are approved by a Board resolution and all compliance issues have been addressed.

In 2008, a dividend of \$8,980 (2007 - \$10,336) was declared and paid to the shareholders of the Corporation.

The shareholders of the Corporation were parties to a Put Agreement by which the City held an option to sell its shares to BPC in accordance with the Agreement. The effective period for this option commenced July 1, 2008 and expired on December 31, 2008.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 11. Change in non-cash operating working capital:

	2008	2007
Accounts receivable	\$ (102)	\$ 4,629
Unbilled revenue	4,718	(7,223)
Inventory	(429)	(1,193)
Prepaid expenses and deposits	(83)	(780)
Accounts payable and accrued liabilities	19,462	(7,399)
Accounts payable and accrued liabilities in assets	(2,430)	(3,377)
Payments in lieu of corporate income taxes payable	43	(987)
Deferred revenue	(70)	(184)
Advance payments	1,291	(204)
Regulatory liabilities	(5,160)	18,172
	<u>\$ 17,240</u>	<u>\$ 1,454</u>

Accrued liabilities relating to additions to capital assets and intangible assets in the amount of \$5,807 (2007 - \$3,377) has been excluded from the change in non-cash operating working capital.

## 12. Contingencies:

### (a) Insurance claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of \$30,000 per occurrence.

Enersource Hydro has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as Enersource Hydro expects that these claims are adequately covered by its insurance.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 12. Contingencies (continued):

### (b) Other claims:

A class action claiming \$500,000 in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class, consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code. The Electricity Distributors Association is undertaking the defence of this class action.

On April 22, 2004, the Supreme Court of Canada released its decision in a case commenced against Enbridge Gas Distribution ("EGD") with respect to late payment penalties. At the end of 2006, a mediation process resulted in the settlement of the damages payable by EGD. After the release by the Supreme Court of Canada of its 2004 decision in the EGD case, the plaintiffs in the electric utilities late payment class action indicated their intention to proceed with their litigation. To date, no formal steps have been taken to move the action forward.

On February 5, 2008 the OEB made a decision to allow EGD to recover \$22,000 from ratepayers following the settlement of the class-action lawsuit related to late payment penalties.

At this time, it is not possible to quantify the effect, if any, on the financial statements of the Corporation as a result of the Toronto Hydro-Electric Commission class action. It is the Corporation's position that any late payment charges that are required to be repaid to customers as a result of this class action would be included in a rate adjustment based on the February 5, 2008 EGD decision.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 12. Contingencies (continued):

(c) Environmental matters:

- (i) The Corporation 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 identified four sites and accrued \$180 for further testing and future soil remediation.
- (ii) Environment Canada has issued new regulations governing the management of PCBs. The Corporation is in the process of determining the extent and impact that the new regulations will have on the organization. On December 1, 2008, the OEB approved the Corporation's request to defer any expenses that may be incurred to comply with the new regulations. As at December 31, 2008 no obligation has been accrued regarding compliance with the new regulations.

## 13. Commitments:

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation failed to make payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of \$9,344 (2007 - \$9,344).

The Corporation has posted letters of credit in the amount of \$5,255 (2007 - nil) relating to contracts with the City of Brampton to provide routine and emergency maintenance of streetlighting and related services. The City of Brampton could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to these contracts.

## 14. Financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, deposits and prudentials, accounts payable and accrued liabilities and advance payments approximate fair values because of the short term to maturity of these financial instruments.

The bonds, having a carrying value of \$290,000 (2007 - \$290,000), have a fair value of \$299,805 (2007 - \$305,254), based on year-end quoted market prices.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 14. Financial instruments (continued):

Exposure to market risk, credit risk, liquidity risk and interest rate risk arises in the normal course of the Corporation's business.

### (a) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk and its foreign exchange risk is considered not material and is limited to U.S. dollar cash and cash equivalent holdings of \$3,136 as at December 31, 2008.

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference in the interest revenue reduction and the actual interest income earned by the Corporation is currently insignificant.

### (b) Credit risk:

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2008, there were no significant balances of accounts receivable due from any single customer.

The Corporation manages counterparty credit risk through various techniques including limiting total exposure levels with individual counterparties consistent with the Corporation's policies and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2008 met the credit exposure limits specified under the Corporation's Investment Policy.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 14. Financial instruments (continued):

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

- (i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.
- (ii) 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 risk of payment default.
- (iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 5.9% of the total net outstanding balance.
- (iv) Enersource Hydro included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31:

	2008	2007
Total accounts receivable	\$ 60,501	\$ 59,931
Less allowance for doubtful accounts	(1,927)	(1,459)
<b>Total accounts receivable, net</b>	<b>\$ 58,574</b>	<b>\$ 58,472</b>
Of which:		
Not yet due	\$ 49,215	\$ 46,647
Past due 1 day but not more than 15	4,429	5,928
Past due 15 days but not more than 45	2,441	3,125
Past due 45 days but not more than 75	957	1,295
Past due 75 days but not more than 105	2,308	1,649
Past due more than 105 days	1,151	1,287
Less allowance for doubtful accounts	(1,927)	(1,459)
<b>Total accounts receivable, net</b>	<b>\$ 58,574</b>	<b>\$ 58,472</b>

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 14. Financial instruments (continued):

### (c) Liquidity risk:

Liquidity risk is the risk that the Corporation 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 expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Financial liabilities:			
Accounts payable and accrued liabilities	\$ 93,159	\$ -	\$ -
Bond interest and principle payable	18,241	314,338	-
	<u>\$ 111,400</u>	<u>\$ 314,338</u>	<u>\$ -</u>

### (d) Interest rate risk:

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt. The BPC-Enersource Series Bonds mature in May 2011 and are expected to be refinanced at that time.

## 15. Related party transactions:

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms established between the City and its electricity retailer. Streetlighting maintenance services are provided on a time and materials basis at an exchange amount, being that amount agreed to by the parties. A summary of amounts charged by the Corporation to the City is as follows:

	2008	2007
Electrical energy	\$ 7,998	\$ 7,777
Streetlighting maintenance and construction	5,124	4,461
Streetlighting energy	4,537	3,660

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

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## 15. Related party transactions (continued):

At December 31, 2008, the Corporation incurred property taxes payable to the City of \$791 (2007 - \$768).

At December 31, 2008, accounts payable and accrued liabilities include \$37 (2007 - \$44) due to the City and accounts receivable include \$2,841 (2007 - \$3,095) due from the City.

The Corporation charged BPC \$10 (2007 - \$10) for an access agreement, which was recorded at the exchange amount being the amount agreed to by the parties. At December 31, 2008, accounts receivable included \$1 (2007 - \$1) due from BPC.

Enerpower Corporation is an organization in which the Corporation has a 10% ownership interest. The Corporation was charged \$10,968 (2007 - \$10,463) by Enerpower Corporation during 2008 for the construction of distribution infrastructure. The Corporation received a dividend from Enerpower Corporation during 2008 of \$109 (2007 - \$69).

## 16. Energy purchases:

All electricity purchases for standard supply customers are subject to pricing determined by the IESO, a provincial government body.

Included in accounts payable and accrued liabilities as at December 31, 2008 is \$53,146 (2007 - \$46,978) owed in respect of electricity purchases through the IESO.

## 17. Segmented information:

The Corporation operates primarily in two operating segments, electricity distribution services and other operations. Other operations are primarily comprised of utility services, including electricity distribution infrastructure design, construction and operations and streetlight construction and maintenance services.

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 17. Segmented information (continued):

The designation of segments is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies.

2008	Electricity distribution services	Other operations	Intersegment eliminations	Total
Revenue	\$ 663,957	\$ 7,010	\$ (220)	\$ 670,747
Operating expenses	(587,896)	(6,921)	220	(594,597)
Amortization	(30,796)	(38)	–	(30,834)
	(618,692)	(6,959)	220	(625,431)
	45,265	51	–	45,316
Interest income	2,603	997	–	3,600
Interest expense	(19,229)	–	–	(19,229)
Foreign exchange gain	907	–	–	907
Income before the undernoted	29,546	1,048	–	30,594
PILs	(11,512)	801	–	(10,711)
Non-controlling interest	–	–	(661)	(661)
Net income	\$ 18,034	\$ 1,849	\$ (661)	\$ 19,222
Total assets	\$ 624,332	\$ 247,318	\$ (217,744)	\$ 653,906
Capital expenditures (including accrued expenditures)	\$ 49,396	\$ 241	\$ –	\$ 49,637
Increase in cash and cash equivalents	17,749	1,257	–	19,006

# ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars)

Years ended December 31, 2008 and 2007

## 17. Segmented information (continued):

2007	Electricity distribution services	Other operations	Intersegment eliminations	Total
Revenue	\$ 689,302	\$ 7,406	\$ (217)	\$ 696,491
Operating expenses	(610,661)	(8,545)	217	(618,989)
Amortization	(37,312)	(17)	—	(37,329)
	(647,973)	(8,562)	217	(656,318)
	41,329	(1,156)	—	40,173
Interest income	3,137	1,197	—	4,334
Interest expense	(19,247)	—	—	(19,247)
Foreign exchange loss	(821)	—	—	(821)
Income before the undernoted	24,398	41	—	24,439
PILs	(10,580)	392	—	(10,188)
Non-controlling interest	—	—	(281)	(281)
Net income	\$ 13,818	\$ 433	\$ (281)	\$ 13,970
Total assets	\$ 599,294	\$ 236,825	\$ (208,027)	\$ 628,092
Capital expenditures (including accrued expenditures)	\$ 46,620	\$ 90	\$ —	\$ 46,710
Increase in cash and cash equivalents	1,829	(1,601)	—	228

## 18. Comparative figures:

Certain 2007 figures have been reclassified to conform to the financial statement presentation adopted in 2008.