# Management's Discussion and Analysis of Financial Condition and Results of Operations For the Year Ended December 31, 2008

***($000 CAD)***

The following Management's Discussion and Analysis ("MD&A") is dated April 16, 2009 and should be read in conjunction with the consolidated financial statements and accompanying notes of Enersource Corporation ("Enersource") as at, and for the year ended December 31, 2008.

## *GENERAL*

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles considering regulatory requirements where applicable. The financial statements as presented include results for both the regulated and non-regulated business activities. The Enersource Corporation group of companies includes Enersource, Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Telecom Inc. ("Telecom"), Enersource Hydro Mississauga Services Inc. ("EHM Services"), Enersource Technologies Inc. and First Source Energy Corporation ("First Source").

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

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

Telecom and First Source remain dormant corporations as all major assets have been divested. Results from any remaining operations for both 2008 and 2007 have been reported as continuing operations in the consolidated financial statements.

## *RATE REGULATION*

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

***Regulated Price Plan:***

| | Jan 2007 - Apr 2007 | May 2007 - Oct 2007 | Nov 2007 – Apr 2008 | May 2008 – Oct 2008 | Nov 2008 - Dec 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 |

***Distribution Rates:***

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. This distribution rate decision, along with the OEB approved changes to the recovery of regulatory assets and refund of regulatory liabilities had no impact on the total bill of an average residential customer consuming 1,000 kWh of electricity per month. The announced changes to electricity prices and price thresholds effective May 1, 2007 increased the total bill of an average residential customer consuming 1,000 kWh of electricity per month by 1.4%.

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

## *RESULTS OF OPERATIONS*

***Summary:***

Consolidated net income for the three months ended December 31, 2008 was $5,061 as compared to net income of $2,264 for the final quarter of 2007. The increase of $2,797 was primarily due to the effect of Enersource Hydro’s distribution rate increase on May 1, 2008 combined with a transfer tax refund relating to First Source, lower conservation program costs and a foreign exchange gain in the 2008 quarter. This impact was partially offset by lower other revenue combined with higher payments due in lieu of corporate income taxes and higher amortization of capital assets in the 2008 period as compared to 2007.

Consolidated net income for the year ended December 31, 2008 was $19,222 as compared to $13,970 for the year ended 2007. The $5,252 increase was primarily due to the effect of Enersource Hydro's distribution rate increase on May 1, 2008 combined with a transfer tax refund relating to First Source, a positive foreign exchange gain and lower conservation program costs in 2008. This impact was partially offset by reduced interest income, higher amounts due in lieu of corporate income taxes and higher amortization of capital assets.

Certain Enersource Hydro regulatory asset balances have been approved by the OEB for recovery and have been consolidated with the OEB's approved refundable regulatory liabilities. The OEB approved a net refund of $7,021 which will be credited to customers over a one year period beginning May 1, 2008 through April 30, 2009, in accordance with its April 18, 2008 rate decision.

The consolidated cash position of Enersource at December 31, 2008 was $76,105 representing an increase of $19,006 over 2007. This positive cash flow was primarily driven by the combined effect of cash generated from operating activities and changes in non-cash operating working capital.

***Revenues:***

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Electricity Pass Through** | 131,170 | 139,497 | 548,255 | 569,869 |
| **Distribution Revenue** | 28,756 | 26,340 | 112,493 | 108,668 |
| **Regulatory (Refund)/Recovery** | (1,647) | 1,430 | (2,514) | 5,535 |
| **Energy Revenues** | 158,279 | 167,267 | 658,234 | 684,072 |

Energy revenues consist mainly of electricity passed through at cost to standard supply customers and retailer customers. All energy revenues were generated from regulated operations. For the fourth quarter ended December 31, 2008, electricity pass through revenue was $131,170 as compared to $139,497 for the fourth quarter of 2007, representing a decrease of $8,327 or 6.0%. This decline was primarily due to a 4.2% reduction in electricity prices combined with a decline of 1.8% in energy consumption in the 2008 period.

Energy revenue for the twelve-month period ended December 31, 2008 was $548,255 and $21,614 lower than 2007. This decrease was due to a decline of 1.9% in average electricity market prices and a 1.9% reduction in energy consumption due in part to 160 fewer cooling degree days in 2008.

Distribution related revenue was $28,756 for the fourth quarter of 2008 compared to $26,340 in the fourth quarter of 2007. The increase of $2,416 was primarily due to the impact of Enersource Hydro's rate adjustment implemented May 1, 2008 and the recognition of revenue related to the smart meter capital program. Enersource received approval from the OEB in the fourth quarter of 2008 to recognize $1,007 of revenue relating to its smart meter program that was previously deferred on the balance sheet. These increases were partially offset by a 1.3% decline in consumption by residential and small commercial customers and a 2.9% decline in demand by larger customers in the 2008 period as compared to 2007. The net refund of regulatory liabilities was $1,647 for the fourth quarter of 2008 as compared to a 2007 recovery of $1,430 of regulatory assets.

Distribution related revenue was $112,493 for the twelve-months ended December 31, 2008 compared to $108,668 for 2007. The increase of $3,825 was primarily due to higher distribution rates effective May 1, 2008 and the recognition of revenue related to the smart meter capital program. This increase was partially offset by a 1.0% decline in consumption by residential and small commercial customers and a 1.2% decline in demand by larger customers in 2008 compared to 2007. The 2008 net refund of regulatory liabilities was $2,514 compared to a recovery of $5,535 of regulatory assets in accordance with the April 18, 2008 rate decision.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Services Revenue** | 1,646 | 2,342 | 6,858 | 7,336 |

Services revenue from non-regulated operations was generated from street lighting services and engineering design and construction contracts. A decline of $696 in services revenue was the result of a reduction in street lighting contract revenue and lower construction contract revenue for the fourth quarter of 2008.

A decline of $478 in services revenue for the twelve-months ended December 31, 2008 from 2007 was the net result of lower construction contract revenue during the 2008 period.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Distribution Operations** | 72 | 64 | 145 | 222 |
| **Other Operations** | - | - | - | (7) |
| **Gain (Loss) on Disposal of Capital Assets** | 72 | 64 | 145 | 215 |

Enersource Hydro recorded a gain on the disposal of capital assets of $72 for the fourth quarter ended December 31, 2008 as compared to a gain of $64 in the fourth quarter of 2007. Gains or losses are incurred on disposal of capital assets in the ordinary course of business.

Enersource Hydro recorded a gain on the disposal of capital assets of $145 for the twelve-months ended December 31, 2008 as compared to a gain of $222 in the same period of 2007. No gain or loss was recorded on disposal of capital assets in the non-regulated operations for the 2008 period as compared to a loss of $7 for the same 2007 period.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Distribution Operations** | 2,060 | 2,998 | 5,358 | 4,792 |
| **Other Operations** | 31 | 5 | 152 | 76 |
| **Other Revenues** | 2,091 | 3,003 | 5,510 | 4,868 |

Other revenues from distribution operations include late payment charges, set-up charges, pole rental fees and Ontario Power Authority "OPA" funded conservation programs. Other revenues generated by Enersource Hydro for the fourth quarter ended December 31, 2008 decreased by $938 over the fourth quarter of 2007 primarily due timing differences amounting to $775 of revenues relating to conservation and demand management programs funded by the OPA and the Ontario Ministry of Energy and Infrastructure ("MEI").

Other revenues generated by Enersource Hydro for the year ended December 31, 2008 were $566 higher primarily due to an increase in OPA and MEI funded conservation and demand management programs in 2008 compared to 2007. Other revenues from non-regulated operations were $76 higher in 2008 as compared to 2007 primarily due to dividend payments of $109 received in 2008 as compared to $69 in 2007 from Enerpower Corporation.

***Operating Expenses:***

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Energy Purchases** | 131,170 | 139,497 | 548,255 | 569,869 |

Energy purchase expense, which is entirely attributed to regulated operations and is passed through to customers at cost, declined by $8,327 or 6.0% for the fourth quarter ended December 31, 2008 as compared to the corresponding quarter of 2007 due to lower electricity market pricing and a decline in consumption in the 2008 period.

Energy purchase expense declined by $21,614 or 3.8% for the twelve-months ended December 31, 2008 as compared to 2007 due to lower electricity market pricing and lower consumption in the 2008 period as compared to 2007.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Distribution Operations** | 12,175 | 13,873 | 40,403 | 41,498 |
| **Other Operations** | (541) | 96 | 519 | 2,310 |
| **Operations, Maintenance and Administration** | 11,634 | 13,969 | 40,922 | 43,808 |

Consolidated operations, maintenance and administration costs, or the overhead costs incurred to manage the operations of the regulated and non-regulated companies, decreased by $2,335 or 16.7% for the quarter ended December 31, 2008 from the corresponding quarter of 2007. Enersource Hydro costs declined by $1,698 primarily due to a decrease of $1,770 in conservation and demand management expenditures and a decrease of $517 in environmental rehabilitation costs. This impact was partially offset by an additional provision of $479 for bad debts and by the recognition of $322 relating to the smart meter capital program that was previously deferred as a regulatory asset. Overhead costs of the non-regulated operations decreased by $637 primarily due to a transfer tax refund of $1,338 received by First Source in the 2008 quarter.

Consolidated operations, maintenance and administration costs decreased by $2,886 or 6.6% for the year ended December 31, 2008 from the twelve-months of 2007. Enersource Hydro costs decreased by $1,095 primarily due to a decline of $2,751 in conservation and demand management expenditures in 2008 and a decrease of $564 in environmental rehabilitation costs. This impact was partially offset by additional contract labour costs of $564, and an additional provision of $456 for bad debt. Further, $322 of additional costs relating to the smart meter capital program was recognized in 2008 as a result of an OEB approval. Overhead costs of the non-regulated operations declined by $1,791 primarily due a transfer tax refund of $1,338 received by First Source in 2008 combined with lower staff levels and lower business development expenses in 2008.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Cost of Services** | 1,275 | 1,594 | 5,420 | 5,312 |

The cost of services in non-regulated operations of $1,275 was $319 lower for the quarter ended December 31, 2008 than for the corresponding quarter of 2007 as a result of decreased construction contract revenue for the fourth quarter of 2008. Margins on services revenues for the quarter ended December 31, 2008 were lower than the margins earned for the corresponding period of 2007. Notwithstanding this decline, the variance on margins for this business area is not considered significant on a year-to-year basis as fluctuations regularly occur in the mix of work and the margins which can be obtained.

The cost of services in non-regulated operations of $5,420 was $108 higher for the twelve-months ended December 31, 2008 than for the corresponding 2007 period. Margins on services revenues for the 2008 period were lower than the margins earned for the corresponding period of 2007. Notwithstanding this decline, the variance on margins for this business area is not considered significant on a year-to-year basis.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Distribution Operations** | 8,647 | 8,128 | 32,254 | 31,349 |
| **Other Operations** | 10 | 6 | 38 | 17 |
| **Amortization of Capital Assets** | 8,657 | 8,134 | 32,292 | 31,366 |

Amortization of capital assets increased by $519 for the quarter ended December 31, 2008 and by $905 for the year ended December 31, 2008 over the relative periods of 2007 in Enersource Hydro primarily due to the ongoing investment in electricity distribution infrastructure assets.

Enersource Hydro’s investment in capital assets for 2008 was $42,032 as compared to $42,164 for 2007.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Amortization of Intangible Assets** | 200 | 266 | 1,056 | 428 |

Amortization of Enersource Hydro’s intangible assets decreased by $66 for the quarter ended December 31, 2008 from the corresponding period of 2007.

Amortization of Enersource Hydro’s intangible assets increased by $628 for the twelve-months ended December 31, 2008 over the corresponding period of 2007 in Enersource Hydro primarily due to investment in computer software.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Amortization of Regulatory (Liabilities) Assets** | (1,647) | 1,430 | (2,514) | 5,535 |

Amortization of Enersource Hydro’s regulatory balances that were previously deferred on the balance sheet declined by $3,077 for the quarter ended December 31, 2008 over the corresponding period of 2007. The amount of amortization of regulatory balances is equivalent to the amount recorded in electricity distribution revenue.

Amortization of Enersource Hydro’s regulatory balances previously deferred on the balance sheet declined by $8,049 for the twelve-months ended December 31, 2008 over the corresponding period of 2007. The decline in 2008 is a result of a net refund of regulatory liabilities of $2,514 compared to a recovery of $5,535 of regulatory assets in accordance with the April 18, 2008 rate decision.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Operating Income** | 10,799 | 7,786 | 45,316 | 40,173 |

Consolidated operating income rose by $3,013 in the fourth quarter of 2008 over the corresponding 2007 quarter. This increase was due to the net effect of a $2,335 decline in operations, maintenance and administration expenses and an increase of $2,416 in Enersource Hydro distribution revenue which was partially offset by a decrease of $912 in other revenue, an increase of $523 in amortization of capital assets and a reduction of $377 in EHM Services margins.

Consolidated operating income increased by $5,143 for the twelve-months ended December 31, 2008 over 2007. This growth was largely due to distribution revenue growth of $3,825 combined with a reduction of $2,886 in operations, maintenance and administration costs, and an increase of $642 in other revenue relating to OPA conservation programs. These increases were partially offset by an additional $1,554 of amortization relating to Enersource Hydro's ongoing investment in capital and intangible assets and a reduction of $586 in EHM Services margins.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Distribution Operations** | 572 | 823 | 2,603 | 3,138 |
| **Other Operations** | 370 | 371 | 997 | 1,196 |
| **Interest Income** | 942 | 1,194 | 3,600 | 4,334 |

Interest income from Enersource Hydro for the quarter ended December 31, 2008 declined by $251 from the corresponding period of 2007 as average interest rates fell below the corresponding 2007 rates. This impact was partially offset by a higher average cash position in the 2008 quarter than the corresponding period in 2007.

Interest income from Enersource Hydro for the twelve-months ended December 31, 2008 declined by $535 from 2007 as average interest rates fell below the corresponding 2007 rates. This impact was partially offset as the average cash position was higher in 2008 than 2007. Interest income from other operations declined by $199 for the aforementioned reasons.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Distribution Operations** | (4,569) | (4,907) | (19,229) | (19,247) |
| **Other Operations** | - | - | - | - |
| **Interest Expense** | (4,569) | (4,907) | (19,229) | (19,247) |

Enersource Hydro's interest expense for the quarters and twelve-months ended December 31, 2008 and December 31, 2007, was primarily attributable to the Borealis – Enersource series bonds, customer deposits and regulatory liabilities. The amount of interest expense relating to the Borealis – Enersource series bonds was $18,241, for both twelve-month periods.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Foreign Exchange Gain (Loss)** | 566 | (8) | 907 | (821) |

For the quarter ended December 31, 2008, Enersource Hydro had a foreign exchange gain of $566 on U.S. dollar cash and cash equivalents as compared to a foreign exchange loss of $8 in 2007. In 2007, Enersource Hydro purchased U.S. dollars to mitigate foreign exchange risk relating to a new Customer Care and Billing System where a substantial portion of the cost is to be paid in U.S. currency.

For the twelve-months ended December 31, 2008, Enersource Hydro had a foreign exchange gain of $907 on U.S. dollar denominated investments as compared to a foreign exchange loss of $821 in 2007.

| | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| **Payments in lieu of corporate income taxes** | 2,017 | 1,523 | 10,711 | 10,188 |

For the quarter ended December 31, 2008, Enersource had payments in lieu of corporate income taxes (PILs) of $2,017. The increase in PILs during the fourth quarter of 2008 as compared to the same quarter in 2007 was due to higher pre-tax income in the 2008 period as compared to 2007. The corporate tax rate for 2008 was 33.50% compared to 36.12% for 2007.

For the twelve-months ended December 31, 2008, Enersource had PILs in the amount of $10,711. The increase in PILs during the twelve-month period of 2008 as compared to the same period in 2007 was due to higher pre-tax income in the 2008 period as compared to 2007.

## *Consolidated Cash Flows*

| Increase (decrease) in cash | 4th Qtr 2008 | 4th Qtr 2007 | YTD Dec 2008 | YTD Dec 2007 |
|---|---|---|---|---|
| And cash equivalents | (10,712) | (5,764) | 19,006 | 228 |

During the quarter ended December 31, 2008, net cash outflow was $10,712 as compared to net outflow of $5,764 for the corresponding period in 2007. The net cash outflow in the fourth quarter of 2008 was driven primarily by dividends paid of $8,980, combined with cash outflows of $11,679 and $5,639 to finance capital asset and intangible asset additions respectively. These impacts were partially offset by a cash inflow of $11,163 from operating activities during 2008. The net cash outflow in the 2007 quarter was largely due to dividends paid of $10,336 as well as cash outflows of $7,695 and $3,639 to finance capital asset and intangible asset additions respectively.

During the year ended December 31, 2008, net cash inflow was $19,006 as compared to net inflow of $228 for the corresponding period in 2007. The net cash inflow in the 2008 period was driven primarily by operating activities of $51,302, combined with an increase of $19,462 in accounts payable and accrued liabilities. These impacts were partially offset by cash outflows of $41,568 and $5,639 to finance capital asset and intangible asset additions respectively. The net cash inflow in the 2007 period was largely driven by a positive shift in operating activities and changes in non-cash working capital that were largely offset by increased capital asset and intangible asset expenditures and dividends paid during 2007.

## *Capital Expenditures*

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

Consolidated capital asset additions, including changes in accrued liabilities that have been excluded from The Statement of Cash Flow, for the twelve-months ended December 31, 2008 were $42,273 as compared to $42,254 for the corresponding period in 2007. During 2008, distribution system capacity-related investments were $8,509 with system upgrades of $12,755 and system expansion-related investment of $9,219. Non-distribution system investments were $11,790 and included information technology, fleet vehicles, smart meters and conservation and demand management capital initiatives.

### *Liquidity and Capital Resources*

Enersource's primary sources of liquidity and capital resources are funds from operating activities as well as an established banking line of credit, if required. These resources are primarily used for capital investments to maintain the integrity of the electricity distribution system and for servicing interest expense on debt.

Enersource's bank line of credit in the amount of $50,000 was not utilized during 2008 and with a strong cash position, stable cash flows and a positive future outlook there is little likelihood of utilization of this facility in 2009.

### *Future Capital Expenditures*

Enersource's capital expenditures in 2009 are projected to be $55,800 ($49,400 in 2010 and $42,700 in 2011). The overall planned capital expenditure levels reflect infrastructure investments required to construct and maintain electricity distribution assets. Additional capital 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 December 31, 2008:

| Dec 31, 2008 ($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 | 42,579 | 18,241 | 24,338 | | |
| Capital purchase obligations | 11,553 | 11,028 | 525 | - | - |
| Operating leases | 110 | 110 | - | - | - |
| Total contractual obligations | 344,242 | 29,379 | 314,863 | - | - |

- 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 twelve-months ended December 31, 2008 is as follows:

| | 2008 | 2007 |
|---|---|---|
| Electrical Energy | $7,998 | $7,777 |
| Street lighting Maintenance and Construction | 5,124 | 4,461 |
| Street lighting Energy | 4,537 | 3,660 |
| Total | 17,659 | 15,898 |

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

Enersource was charged $791 in the twelve-months ended December 31, 2008 (2007 - $768) by the City for property taxes.

Enersource charged Borealis $10 (2007 - $10) for an access agreement in 2008. These transactions were 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 Borealis.

Enersource was charged $10,968 in 2008 (2007 - $10,463) 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 $109 in 2008 (2007 - $69).

### *Quarterly Results of Operations*

The following table sets forth unaudited quarterly information for each of the eight quarters beginning January 1, 2007 and ending December 31, 2008. This information has been derived from Enersource's unaudited interim Consolidated Financial Statements. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance. The consumption of electricity generally follows the number of cooling degree days during the summer months and heating degree days during the winter months, and therefore energy related revenue, all other things being equal, tends to be higher during the first and third quarters.

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar |
| Total Revenue | $162,088 | $177,979 | $163,464 | $167,216 | $172,676 | $181,975 | $162,361 | $179,479 |
| Total Expense | 157,027 | 171,943 | 159,607 | 162,948 | 170,412 | 177,309 | 158,815 | 175,985 |
| Net Income | $5,061 | $6,036 | $3,857 | $4,268 | $2,264 | $4,666 | $3,546 | $3,494 |
| Dividends | $8,980 | - | - | - | $10,336 | - | - | - |

## *CRITICAL ACCOUNTING ESTIMATES*

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

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

### *Unbilled Distribution Revenue*

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

### *Employee Future Benefits*

The total change in the employee accrued benefit obligation for the fourth quarter ended December 31, 2008 was $128 as compared to $136 for the fourth quarter ended December 31, 2007. The total net employee future benefit cost for the twelve month period ended December 31, 2008 was $551 as compared to $547 for the corresponding 2007 period.

## *NEW AND EMERGING ACCOUNTING PRONOUNCEMENTS*

### *Inventories*

Effective January 1, 2008, Enersource 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 includes certain major standby equipment as in-service fixed assets and depreciates these assets and, accordingly, the adoption of this standard did not result in a material impact on these financial statements.

#### *Goodwill and Intangible Assets*

Effective 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.

### *Capital Disclosure*

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

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

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

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

(i) The consolidated financial statements must be audited, comply with GAAP and be filed directly on The System for Electronic Document Analysis and Retrieval (“SEDAR”).

(ii) The Corporation shall make all payments of principal, interest and, as applicable, premiums in favour of Borealis Infrastructure Trust.

(iii) The Corporation shall not incur, issue or become liable for obligations that exceed 75% of the total consolidated capitalization or provide another security interest upon the same assets as the debt.

(iv) The Corporation shall not directly or indirectly invest in energy retailing unless at the time and after giving effect to the proposed investment:

(a) No default or event of default shall have occurred and be continuing, or shall occur;

(b) The aggregate amount of all such investments made shall not exceed the greater of (i) $20,000 and (ii) 5% of consolidated net worth.

***Future Accounting Changes***

***Rate Regulated Future Tax Assets and Liabilities***

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.

***Transition to International Financial Reporting Standards (IFRS)***

The 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 for its year ended December 31, 2010, 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 Company's IFRS conversion plan in each financial reporting period prior to conversion on January

1, 2011. Enersource 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.

Enersource has commenced development of its transition strategy from Canadian GAAP to IFRS and has established a formal governance structure consisting of a Steering Committee and a Project Team. The Steering Committee consists of senior level management from information technology, engineering, internal audit and finance. Enersource has also engaged an external expert advisor.

Enersource's IFRS conversion project consists of four phases: awareness, assessment, design and implementation. The awareness and assessment phases are 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 has determined that the differences with the highest potential impact include accounting for fixed assets, regulatory accounting, revenue recognition, employee benefits and the initial adoption of IFRS under the provision of IFRS 1, First-time Adoption of IFRS.

A detailed project plan has been completed including key milestones for the design and implementation phases. During 2009 and early 2010, Enersource will determine the projected impacts of adopting IFRS on its financial statements after consideration of the options available under IFRS 1, develop its significant accounting policies under IFRS, and finalize the determination of the systems, process and internal control impacts of converting to IFRS. It is anticipated that the adoption of IFRS will have an impact on information system requirements. Enersource is currently assessing the need for system upgrades or modifications to ensure a seamless conversion to IFRS. The degree of this impact is not reasonably determinable at this time.

The OEB has also begun its own IFRS project to determine if there are any changes that need to be made to regulatory reporting requirements in response to IFRS. On May 8, 2008, the OEB announced the creation of an IFRS Consultation which will provide an opportunity to work with industry participants to identify transition issues and rate-setting concerns and suggest how those issues and concerns might be addressed. In the event that regulatory assets and liabilities are not permissible under IFRS, this could result in increased volatility in Enersource Hydro's earnings from that reported under current Canadian GAAP.

## *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 |

[1]Total revenue consists mainly of electricity passed through at cost to customers. Fluctuations in energy revenue are caused by variances in consumption and/or price.
[2]Total assets & long-term debt for 2006 reflects the reclassification of deferred debt costs in 2007, applied retroactively.

## *RISK MANAGEMENT*

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

### *Regulatory Risk*

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

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

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

On February 23, 2009, the Ontario Government announced the proposed Green Energy Act, 2009 (the "Proposed Act"). Among other things, the Proposed Act requires that electricity distributors provide priority access to its electricity distribution system for renewable electricity generation facilities and provides that the MEI may issue a directive to the OEB to assign energy conservation and demand management targets to distributors, which may be a condition of the distributor's license. The Proposed Act and its associated regulations are not enacted, and, as such, its impacts on the operations of Enersource Hydro are not determinable at this time.

### *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 Enersource's risk mitigation strategy, an environmental assessment is currently underway. As at December 31, 2008, Enersource Hydro identified four sites for further assessment and accrued $180 for 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. For the year ended December 31, 2008 no obligation was accrued regarding the new regulations.

### *Financial Instrument Risk*

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

(a) Market Risk

Market risk refers primarily to risk of losses that result from changes in commodity prices, foreign exchange rates and interest rates. Enersource does not have commodity risk and its foreign exchange risk is limited to US Dollar cash and cash equivalent holdings of $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 Enersource is expected to be insignificant.

(b) Credit Risk

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

As at December 31, 2008, 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 December 31, 2008 met the credit exposure limits specified under Enersource's Investment Policy.

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

1. There is a broad base of customers with no one customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance;
2. Enersource Hydro as permitted by the OEB's Retail Settlement and Distribution System Code may obtain a security deposit or letter of credit from customers to mitigate the risk of payment default;
3. The percentage of accounts receivable that is outstanding for more than 75 days is approximately 5.9% of the total outstanding balance; and,
4. Enersource Hydro included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

(c) Liquidity Risk

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

### *Economic Risk*

The current economic uncertainty and financial market volatility may potentially 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 the potential of a significant financial loss. If a material loss is incurred, Enersource would apply to the OEB to recover the loss through future distribution rates. The Borealis – Enersource bonds mature in May, 2011 and are expected to be refinanced at that time. Enersource believes that the risk in any change in interest rates on refinanced debt is insignificant as the impact would be reflected in future distribution rates.

## *OUTLOOK*

Enersource Hydro has submitted a formula based rate application to the OEB on November 7, 2008 for the rate period May 1, 2009 through April 30, 2010. It is anticipated that the OEB will release its final decision regarding this application in April 2009.

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

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. There have been no further developments regarding the re-negotiations at this time.

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

### *Forward looking information*

Readers should be aware that historical results are not necessarily indicative of future performance. As well, this MD&A contains certain forward-looking statements that reflect Enersource’s current expectations, as well as projections about its future operations. These future expectations and projections are subject to business risks, uncertainties and other factors including, but not limited to, regulatory risk and electricity supply risk. Readers are cautioned that actual performance may differ materially from estimated performance based upon the forward-looking statements and that these forward-looking statements speak only as of the date of this MD&A. Enersource has no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by legislation.

## *ONTARIO SECURITIES COMMISSION REQUIRED DISCLOSURES*

### *Certification of Disclosure in Issuers' Annual and Interim Filings*

The Corporation is a reporting issuer and, as such, must comply with Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* (the "Instrument"). Enersource is further sub-classified as a venture issuer and our certifying officers have reviewed and certified the annual filings for the twelve-months ended December 31, 2008.

### *Corporate Governance Disclosure*

Enersource Corporation is a reporting issuer and, as such, must comply with National Instrument 58-101 – *Disclosure of Corporate Governance Practices*. Enersource is further sub-classified as a venture issuer and provides the following disclosures in accordance with the instrument:

The Enersource Corporation Board of Directors (the "Board") is comprised of Norman B. Loberg (Chair), Mayor Hazel McCallion, Michael J. Nobrega, Gerald E. Beasley, Hasan Imam, Carolyn Parrish, Robert MacCallum, Eve Adams, Katie Mahoney and John McManus. All of the members of the Board are independent within the meaning defined by section 1.4 of Multilateral Instrument 52-110.

The Board Chair is Norman B. Loberg who is an independent director. The principal role of the Chairman is, as the presiding member of the Board and accountable to the Board, to ensure that the relationships between the Board and Management, the shareholders, other stakeholders and the individuals on the Board are managed effectively and efficiently and further the best interests of the Corporation.

The independent directors hold regular meetings. These meetings are attended by Management and there are no non-independent directors. A portion of every Board of Directors meeting is held without the attendance of Management.

The following member of Enersource's Board of Directors serves on a Board of Directors of another reporting issuer:

| **Director** | **Reporting Issuer** |
|---|---|
| Norman B. Loberg | Greater Toronto Airports Authority |

Enersource provides new directors with detailed orientation information materials explaining the history of the company and the industry within which it operates, financial and budget information and the company's strategic direction. Management strives to ensure that directors are kept fully informed of new relevant information.

Enersource promotes integrity as one of the foundations of its vision and values. In order to further encourage and promote a culture of ethical business conduct, the board has adopted a written code of ethics for the directors, officers and employees. The code has been distributed to all directors, officers and employees. Additional copies of the code are available internally on the corporation's intranet and from the Human Resources Department and a copy has been externally filed on SEDAR.

Compliance by directors is monitored by the Chair through his observations of compliance and through annual interviews between himself and each director. Compliance by officers and employees is assessed by a management ethics committee and violations are reported to the Human Resources and Corporate Governance Committee.

Formal nomination and appointment of a director to the Enersource Board of Directors is made by Enersource's shareholders, although, under certain circumstances, an appointment may be made by the board of directors.

On February 14, 2007, the Council of the City of Mississauga passed a resolution that the Enersource Board of Directors be composed of the Mayor, three City Councillors and four citizens to be appointed by Council and two members from Borealis (to be appointed by Borealis).

Periodically, compensation of the board members is reviewed by the Human Resources and Corporate Governance Committee and, as appropriate, it makes recommendations to the board of directors for amendments. All amendments to director compensation must be approved by Enersource's shareholders.

Four Board Committees report to the Board:

***Audit Committee***

The Audit Committee is accountable to the Board for providing oversight of the reliability and integrity of the Corporation's accounting principles and practices, business planning, financial reporting, system of internal control, management information and risk management processes.

The internal auditor and external auditor are invited to attend all meetings of the Audit Committee and receive all agendas and associated material. As part of all meetings, the Audit Committee meets with the internal and external auditors independent of management.

***Human Resources and Corporate Governance Committee***

The Human Resources and Corporate Governance Committee is accountable to the Board for oversight of the Corporation's human resources and compensation policies and practices. The Committee is also responsible for ensuring that effective corporate governance processes are in place and for making recommendations to the Board with respect to the development, implementation and modification of those processes.

***Development Committee***

The Development Committee is accountable to the Board for providing oversight of the Corporation's business development plans and activities and for making recommendations to the Board with respect to their potential applicability, risks and rewards.

***Health, Safety, Security and Environment Committee***

The Health, Safety, Security and Environment Committee is accountable to the Board for oversight of the management of the Corporation's health, safety and environmental risks and making recommendations to the Board with respect to development, implementation, communication, and related management processes.

Mandates are in place for the Board, individual Directors, the Chairman, the President and Chief Executive Officer, and the four committees of the Board. In early 2009, the Board carried out a review of its effectiveness through individual meetings with the Chairman aided by self assessment questionnaires. Each Board Committee also reviewed its effectiveness.
Attendance at Board and committee meetings is as follows:

| | | | | | | Director Attendance Percentage | |
|---|---|---|---|---|---|---|---|
| | **Board** | **Audit** | **Human Resource and Corporate Governance** | **Development** | **Health, Safety, Security and Environment** | **Board** | **Committees** |
| **Number of Meetings** | **10** | **7** | **6** | **1** | **4** | **10** | **18** |
| **Attendance Percentage** | **88%** | **100%** | **100%** | **100%** | **85%** | **88%** | **96%** |
| **Board Members** | | | | | | | |
| **Mayor Hazel McCallion** | **X** | | | **X** | | **80%** | **100%** |
| **Gerald E. Beasley** | **X** | **Chair** | | **X** | | **90%** | **100%** |
| **Michael J. Nobrega** | **X** | | | **Chair** | | **70%** | **100%** |
| **Norman B. Loberg** | **Chair** | | **Chair** | | **X** | **100%** | **100%** |
| **Hasan Imam** | **X** | **X** | | **X** | | **100%** | **100%** |
| **Bob MacCallum** | **X** | | **X** | | **Chair** | **100%** | **100%** |
| **Eve Adams** | **X** | | | **X** | **X** | **90%** | **100%** |
| **Carolyn Parrish** | **X** | | **X** | **X** | | **90%** | **100%** |
| **Katie Mahoney** | **X** | | **X** | | **X** | **90%** | **100%** |
| **John McManus*** | **X** | **X** | | | **X** | **77%** | **63%** |

**** John McManus was appointed to the Board of Directors April 10, 2008***

## *Audit Committee Responsibilities and Composition*

Enersource Corporation is a reporting issuer and, as such, must comply with Multilateral Instrument 52-110 – *Audit Committees*. Enersource is further sub-classified as a venture issuer and provides the following disclosures in accordance with the instrument:

The mandate of the Audit Committee is as follows:

1. Give advice and recommendations to the Board on financial and audit matters.
2. Review the risk management and insurance programs in place to be satisfied that they take into account the opportunities and risks of the business and evaluate their appropriateness in terms of identifying, monitoring and mitigating significant business risks.
3. Assure itself as to the integrity of internal control and management information systems.

4. Review the annual audited financial statements and assure itself that they are fairly presented in all material aspects in accordance with generally accepted accounting principles and that the accounting policies are appropriate before submission to the Board.
5. Review, prior to their public disclosure, public financial and disclosure documents and other reports required to be filed with security regulatory agencies and assure itself that disclosure is accurate, complete and fairly presents the financial position and the risks of the Corporation.
6. Review the overall scope and adequacy of external and internal audit plans, and be satisfied as to the independence of the auditors.
7. Review reports issued by internal and external auditors and management's response and action plans taken to remedy any identified weaknesses.
8. Pre-approve all audit-related and non-audit services to be provided by the external auditor in accordance with the approved policy.
9. Review and approve the Corporation's hiring policies regarding partners, employees, and former partners and employees of the present and former external auditor.
10. The external auditors report directly to the Audit Committee. Review performance of the external auditors and annually recommend the appointment of the external auditors, including auditors' fees.
11. Review any significant legal or regulatory issues.
12. Review policies and procedures with respect to the Chairman of the Board, the President and Chief Executive Officer, and Director's expenses, and periodically review a summary of major expenses incurred by the Chairman and the President and Chief Executive Officer.
13. At least once each quarter, the Audit Committee will meet with both the Corporation's internal and external auditors, in the absence of any management representatives.
14. Engage independent counsel and other advisors as necessary and set the associated compensation.
15. Review annually the Audit Committee mandate and the Committee's effectiveness in carrying out the mandate.

The members of Enersource's Audit Committee are Gerald E. Beasley (Chair), Hasan Imam and John McManus. All members are independent and financially literate as defined under applicable Canadian securities legislation.

Mr. Beasley holds an MBA from the University of Western Ontario with a specialty in Finance. Mr. Beasley's business experience includes thirty-one years with the Canadian Imperial Bank of Commerce concentrating in credit risk management, both domestic and international. Integral to this function is a broad and deep understanding of corporate financial statements. His last position with CIBC was Senior Executive Vice President, Risk Management, which he held for eight years. In addition to his Board of Director duties at Enersource, Mr. Beasley also currently serves on the Board and Audit Committee of First Canadian Title Insurance Co. Ltd. (not a reporting issuer). In the past, Mr. Beasley has served on the Board of Directors of Allstream Corp., Newcourt Credit Corporation, CIBC Insurance, Edulinx Corporation and Trillium Health Centre Foundation among others.

Mr. Imam holds an MBA from Concordia University with majors in Finance and Operations Research. His business experience consists of over twenty years in Marketing and Strategic Planning at the Executive level, including full balance sheet and income statement responsibility for major business segments within the beverage industry. He also has experience in budgeting and acquisitions and divestitures. Mr. Imam has served on numerous Boards including Diageo Finance Canada Ltd., Pet Canada Holdings Inc., Gilbey Canada Investments Ltd. and I.D.V. Wines & Spirits Inc.

Mr. McManus is a member of the Canadian Institute of Chartered Accountants. He currently serves as Executive Vice President at Borealis Infrastructure, an investment arm of OMERS. Mr. McManus is a current member of several Boards, including Bruce Power Inc., Enwave Corporation and Ciel Satellite Communications Inc.

Enersource Corporation has not been granted by the securities regulatory authority any exemptions from complying with Multilateral Instrument 52-110, dated March 26, 2004 and revised June 17, 2005.

Enersource Corporation's Audit Committee, per its mandate, must approve all audit and non-audit engagements with Enersource Corporation's external auditors and, as such, no pre-approval policies and procedures are in place.

**External Auditor Service Fees:**

(a) <u>Audit Fees</u>
The audit fees billed by KPMG for the fiscal year 2008 were $92 and the audit fees billed by KPMG for the fiscal year 2007 were $75.

(b) <u>Audit-Related Fees</u>
The total audit-related fees billed by KPMG for the fiscal year 2008 were $21. The audit-related fees billed in 2008 pertained to quarterly reviews of Enersource's interim financial statements.

The total audit-related fees billed by KPMG for the fiscal year 2007 were $18. The audit-related fees billed in 2007 pertained to quarterly reviews of Enersource's interim financial statements.

(c) <u>Tax Fees</u>
The tax fees billed by KPMG for the fiscal year 2008 were $22. These fees pertained to the preparation of 2007 tax returns for Enersource Corporation and its subsidiaries.

The tax fees billed for the fiscal year 2007 were $51. These fees pertained to the preparation of 2006 tax returns for Enersource Corporation and its subsidiaries as well as prior period amended returns.

(d) <u>All Other Fees</u>
Other fees billed by KPMG in fiscal 2008 were $151. These fees pertained to engagements relating to a business case for merger proposal ($60), an initial evaluation of the impact of International Financial Reporting Standards ($45), scientific research and experimental development services for 2005 through 2007 ($44), and analysis of tax implications related to 2007 foreign exchange losses ($2).

Other fees billed by KPMG in fiscal 2007 were $66. These fees pertained to engagements relating to a business case for a merger proposal ($60), and corporate governance ($6).

Enersource Corporation is venture issuer and is exempt from the requirements of Parts 3 (*Composition of the Audit Committee*) and 5 (*Reporting Obligation*s) under section 6.1, Multilateral Instrument 52-110.