Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2009
($000 CAD)

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

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

GENERAL

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

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

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

In October 2009, the Corporation commenced the dissolution of First Source and distributed all remaining assets to its shareholders.

FORWARD LOOKING INFORMATION

Certain statements made in the MD&A, including, without limitation, statements relating to Enersource's expectations concerning future revenues and earnings, market conditions and the sufficiency of capital and liquidity, constitute forward-looking statements. Enersource believes these statements to be true based on its knowledge as at April 20, 2010. These forward-looking statements are subject to risks, uncertainties, and other factors including, but not limited to, regulatory risk and electricity supply risk, many of which are beyond Enersource's control, which may cause future results to differ materially from those expected. Enersource does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in Enersource's expectations, except as prescribed by applicable securities laws.

($000 CAD)

RATE REGULATION

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

Regulated Price Plan:

	January 2008 - April 2008	May 2008 - October 2008	November 2008 - April 2009	May 2009 - October 2009	November 2009 - December 2009
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	$.050/kWh	$.050/kWh	$.056/kWh	$.057/kWh	$.058/kWh
Price above threshold	$.059/kWh	$.059/kWh	$.065/kWh	$.066/kWh	$.067/kWh

Distribution Rates:

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

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

($000 CAD)

Financial Performance

Consolidated net income for the year ended December 31, 2009 was $17,564 as compared to net income of $19,222 for 2008. The year over year decline in net income of $1,658 was primarily due to the effect of higher operating costs combined with a significant reduction in interest income. The impact of these factors was partially offset by an increase in distribution revenue relating to the Corporation's investment in smart metering technologies.

The consolidated cash position of Enersource at December 31, 2009 was $33,761 representing a decrease of $42,344 over the 2008 year end position. Enersource's balance sheet remains strong with a working capital ratio of 1.57 at year end.

A full discussion of the Corporation's results of operations for the quarter and year ended December 31, 2009 and 2008 is explained below.

RESULTS OF OPERATIONS

Revenues:

	4th Qtr 2009	4th Qtr 2008	Change $
Electricity Pass Through	108,057	131,170	(23,113)
Distribution Revenue	29,559	28,756	803
Refund of Regulatory Liabilities	-	(1,647)	1,647
Services Revenue	2,644	1,646	998
Other Revenue	4,281	2,163	2,118
Total Revenue	144,541	162,088	(17,547)

	2009	2008	Change $
Electricity Pass Through	444,166	548,255	(104,089)
Distribution Revenue	117,766	112,493	5,273
Refund of Regulatory Liabilities	(2,278)	(2,514)	236
Services Revenue	8,141	6,858	1,283
Other Revenue	9,213	5,655	3,558
Total Revenue	577,008	670,747	(93,739)

Energy revenues were generated from regulated operations and consist mainly of electricity passed through at cost to retailers and standard service supply customers. For the fourth quarter ended December 31, 2009, electricity pass through revenue was $108,057 as compared to $131,170 for the fourth quarter of 2008, representing a decrease of 17.6%. This decline was due to a reduction in energy consumption of 3.6% combined with a 14.5% decrease in electricity prices. The reduced consumption can be mainly attributed to warmer weather and reduced economic activity in the 2009 quarter as compared to 2008.

For the year ended December 31, 2009, electricity pass through revenue was $444,166 as compared to $548,255 for 2008, representing a decrease of 19.0%. This decline was due to a reduction of 4.4% in energy consumption combined with a 15.3% decrease in electricity prices. The reduced consumption can be mainly attributed to cooler summer weather and lower economic activity in 2009 as compared to 2008.

Distribution revenue in the regulated operations was $29,559 for the fourth quarter of 2009 compared to $28,756 in the 2008 period, representing an increase of 2.8% or $803. This increase was primarily due to a 4.8% increase in energy demand by larger customers. Other factors contributing to the increase were quarter over quarter customer growth and the May 1, 2009 distribution rate adjustment which contributed additional revenues of $223. These increases were partially offset by a $596 reduction due to the timing of the recognition of revenue relating to Enersource Hydro's smart meter investments.

Distribution revenue was $117,766 for 2009 as compared to $112,493 for 2008, representing an increase of 4.7% or $5,273. This was primarily due to a $3,126 increase in the recognition of revenue related to smart meter investments and Enersource Hydro's distribution rate adjustments implemented May 1, 2008 and May 1, 2009. These increases were partially offset by a net revenue decline of $1,657 for the year relating to a 2.3% reduction in electricity consumption by residential and small commercial customers and a 1.8% reduction in energy demand by larger customers as a result of unseasonable weather and an unfavourable economic climate.

The net refund of regulatory liabilities to customers was $nil for the fourth quarter of 2009 and $2,278 for the year ended December 31, 2009 as compared to $1,647 and $2,514 for the 2008 corresponding periods. In accordance with OEB rate decisions, Enersource Hydro ceased its net regulatory refunds effective April 30, 2009.

Services revenue from non-regulated operations was generated from street lighting services and engineering design, maintenance and construction contracts. The increase in services revenue of $998 was the result of higher street light maintenance activity and related revenue for the fourth quarter of 2009 as compared to 2008. The increase in services revenue of $1,283 for 2009 as compared to 2008 was the result of higher street light maintenance activity and related revenue.

Other revenues are mainly attributable to distribution operations and include late payment charges, set-up charges, pole rental fees and funding by the Ontario Power Authority ("OPA") for conservation programs. Other revenues increased by $2,118 over the fourth quarter of 2008 primarily due to an increase of $2,255 in conservation and demand management program funding provided by the OPA. Other revenues increased by $3,558 in 2009 over 2008 primarily due an increase of $3,178 in conservation and demand management program funding provided by the OPA combined with a higher dividend payment of $283 from Enerpower Corporation.

($000 CAD)

Operating Expenses:

	4th Qtr 2009	4th Qtr 2008	Change $
Energy Purchases	108,057	131,170	(23,113)
Cost of Services	2,312	1,275	1,037
Operations, Maintenance and Administration	15,383	11,634	3,749
Amortization of Capital Assets	8,985	8,657	328
Amortization of Intangible Assets	827	200	627
Amortization of Regulatory Liabilities	-	(1,647)	1,647
Expenses	135,564	151,289	(15,725)

	2009	2008	Change $
Energy Purchases	444,166	548,255	(104,089)
Cost of Services	7,290	5,420	1,870
Operations, Maintenance and Administration	49,141	40,922	8,219
Amortization of Capital Assets	35,101	32,292	2,809
Amortization of Intangible Assets	1,224	1,056	168
Amortization of Regulatory Liabilities	(2,278)	(2,514)	236
Expenses	534,644	625,431	(90,787)

Energy purchase expense, which is entirely attributed to regulated operations and is passed through to customers at cost, declined by 17.6% for the fourth quarter ended December 31, 2009 as compared to the corresponding quarter of 2008 due to a weather and economic driven decline in consumption as well as lower electricity market pricing in the 2009 period. Energy purchase expense declined by 19.0% in 2009 as compared to 2008 due to the aforementioned reasons.

The cost of services in non-regulated operations of $2,312 was $1,037 higher for the fourth quarter ended December 31, 2009 than for the corresponding quarter of 2008 as a result of increased street light activity and related costs. The cost of services in non-regulated operations of $7,290 was $1,870 higher as a result of increased street light activity and related costs in 2009 as compared to 2008.

Consolidated operations, maintenance and administration costs, or the overhead costs incurred to manage the operations of the regulated and non-regulated companies, increased by $3,749 for the fourth quarter ended December 31, 2009 from the corresponding quarter of 2008. Costs increased primarily due to $1,828 in higher conservation and demand management program expenditures combined with $474 in higher environmental rehabilitation costs and a one-time transfer tax refund of $1,338 received by First Source in 2008.

Consolidated operations, maintenance and administration costs were $8,219 higher in 2009 as compared to 2008. The cost increase was primarily due to non-recurring restructuring costs, a one-time transfer tax refund of $1,338 received by First Source in 2008, an increase of $2,865 in conservation and demand management program costs, $815 in environmental rehabilitation costs as well as general operational increases in manpower and overhead expenses. These amounts were partially offset by a larger operational tax credit of $560 received in 2009.

($000 CAD)

Amortization of capital assets increased by $328 for the fourth quarter ended December 31, 2009 over the corresponding quarter of 2008 and by $2,809 for 2009 over 2008 primarily due to amortization of $260 and $2,188 recognized during the 2009 periods relating to the smart meter investments as well as the ongoing investment in electricity distribution infrastructure assets.

Amortization of Enersource Hydro's intangible assets increased by $627 for the fourth quarter ended December 31, 2009 from the corresponding quarter of 2008 and by $168 for 2009 as compared to 2008 primarily due to the commissioning of a new customer care and billing system in the fourth quarter of 2009 combined with additional smart meter investments.

Amortization of Enersource Hydro's regulatory balances that were previously deferred on the balance sheet were $nil for the fourth quarter ended December 31, 2009 compared to $1,647 for the 2008 quarter and $2,278 for 2009 compared to $2,514 for 2008. The amortization of regulatory balances is recorded based on the related recovery or refund amount included in revenue, which ceased effective April 30, 2009.

Operating Income:

	4th Qtr 2009	4th Qtr 2008	Change $
Revenue	144,541	162,088	(17,547)
Operating Expenses	135,564	151,289	(15,725)
Operating Income	8,977	10,799	(1,822)

	2009	2008	Change $
Revenue	577,008	670,747	(93,739)
Operating Expenses	534,644	625,431	(90,787)
Operating Income	42,364	45,316	(2,952)

Consolidated operating income declined by $1,822 in the fourth quarter of 2009 and by $2,952 for the year ended December 31, 2009 over 2008, primarily due to the decrease in volumetric revenue as a result of lower annual energy consumption and the non-recurring restructuring costs which were partially offset by the recognition of revenues and costs relating to Enersource Hydro's smart meter investments.

Non-Operating Revenue (Expense):

	4th Qtr 2009	4th Qtr 2008	Change $
Interest Income	264	941	(677)
Interest Expense	(4,877)	(4,569)	(308)
Foreign Exchange (loss) gain	(10)	566	(576)
Non-operating Expense	(4,623)	(3,062)	(1,561)

($000 CAD)

	2009	2008	Change $
Interest Income	815	3,600	(2,785)
Interest Expense	(18,499)	(19,229)	730
Foreign Exchange (loss) gain	(383)	907	(1,290)
Non-operating Expense	(18,067)	(14,722)	(3,345)

Interest income for the fourth quarter and year ended December 31, 2009 declined by $677 and $2,785 respectively due to lower average interest rates and a lower average cash and cash equivalent position during the periods as compared to the corresponding periods in 2008.

Enersource Hydro's interest expense for the fourth quarter and year ended December 31, 2009 was primarily attributable to the Borealis – Enersource series bonds, interest on customer deposits and regulatory asset and liability balances. Interest expense for the fourth quarter ended December 31, 2009 increased by $308 primarily due to interest costs incurred from an income tax reassessment. Interest expense for the year ended December 31, 2009 declined by $730 due to lower average interest rates and regulatory liabilities as compared to the corresponding periods in 2008. The amount of interest expense relating to the Borealis – Enersource series bonds was $18,241 for both years.

For the fourth quarter ended December 31, 2009, Enersource Hydro had a foreign exchange loss of $10 on U.S. dollar cash and cash equivalents as compared to a foreign exchange gain of $566 in the fourth quarter of 2008. This loss was driven by the relative strengthening of the Canadian dollar during 2009. In 2007, Enersource Hydro purchased U.S. dollars to mitigate foreign exchange risk relating to the implementation of a new customer care and billing system where a substantial portion of the cost was paid in U.S. currency.

For the year ended December 31, 2009, Enersource Hydro had a foreign exchange loss of $383 on U.S. dollar cash and cash equivalents as compared to a foreign exchange gain of $907 in the corresponding period in 2008 driven by the relative strengthening of the Canadian dollar.

Corporate Income Taxes:

4th Qtr 2009	**4th Qtr 2008**	**Change $**	**2009**	**2008**	**Change $**
(380)	(2,017)	1,637	(6,682)	(10,711)	4,029

For the fourth quarter ended December 31, 2009, Enersource recorded a provision for payments in lieu of corporate income taxes of $380. The decline in income tax expense during the fourth quarter of 2009 as compared to the corresponding quarter in 2008 was primarily due to lower taxable income as well as a corporate tax rate reduction from 33.5% in 2008 to 33.0% in 2009. The adoption of CICA Handbook Section 3465, "Income Taxes" increased income tax expense by $776 in the fourth quarter of 2009.

For the year ended December 31, 2009, Enersource recorded income tax expense of $6,682. The decline in income tax expense during 2009 as compared to 2008 was primarily due to lower taxable income in 2009 as well as a corporate tax rate reduction. Additionally, the adoption of CICA Handbook Section 3465, "Income Taxes" increased income tax expense by $327 in 2009.

($000 CAD)

Consolidated Cash Flows

	4th Qtr 2009	4th Qtr 2008	2009	2008
Increase (decrease) in cash and cash equivalents	(2,425)	(10,712)	(42,344)	19,006

For the fourth quarter ended December 31, 2009, net cash outflow was $2,425 as compared to net outflow of $10,712 for the corresponding quarter of 2008. The net cash outflow in the fourth quarter of 2009 was driven primarily by dividends paid of $11,533, combined with cash outflows of $17,704 and $1,369 to finance capital and intangible asset additions. These impacts were partially offset by operating cash inflows of $25,336. The net cash outflow in the 2008 quarter was largely due to dividends paid of $8,980 as well as cash outflows of $14,462 and $1,970 to finance capital and intangible asset additions.

For the year ended December 31, 2009, net cash outflow was $42,344 as compared to net inflow of $19,006 for the corresponding period of 2008. The net cash outflow in 2009 was driven mainly by an increase in regulatory assets, a dividend payment of $11,533, combined with outflows of $51,185 and $5,904 to finance capital and intangible asset additions during the year. These impacts were partially offset by operating cash inflows of $37,313. The net cash inflow in the 2008 period was driven primarily by operating activities of $68,542 which was partially offset by cash outflows of $41,568 and $5,639 to finance capital and intangible asset additions.

Capital Expenditures

Enersource's capital expenditures were primarily attributable to investments in distribution system infrastructure assets in response to electricity demand and reliability requirements within Mississauga. Capital asset investment strategies are developed and reviewed continuously to 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 performance standards.

Consolidated capital asset and intangible asset additions for the year ended December 31, 2009 were $57,089 as compared to $47,207 for 2008. During 2009, distribution system capacity-related investments were $12,848 with system upgrades of $22,334 and system expansion-related investments of $10,893. Non-distribution system investments were $11,014 and included capital initiatives relating to information technology, fleet vehicles and smart meters. During 2008, distribution system capacity-related investments were $8,509 with system upgrades of $12,755 and system expansion-related investments of $9,219. Non-distribution system investments were $16,724 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.

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

Future Capital Expenditures

Enersource's capital and intangible asset expenditures in 2010 are forecasted to be $54,600 ($51,500 in 2011 and $44,500 in 2012). The overall planned capital and intangible asset expenditure levels generally reflect infrastructure investments required to construct and maintain electricity distribution assets. Additional capital and intangible asset investments include the deployment of smart meters, facility improvements and information technology upgrades. 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, 2009:

December 31, 2009 ($000's)	**Total**	**2010**	**2011/2012**	**2013/2014**	**After 2014**
Due By Year:					
Long-term debt* (notes 1,2)	290,000	-	290,000	-	-
Interest on long-term debt	27,362	18,241	9,121		
Capital purchase obligations	7,019	7,019	-	-	-
Operating leases	116	116	-	-	-
Total contractual obligations	324,497	25,376	299,121	-	-

Note 1: The Borealis – Enersource series bonds mature in May, 2011. The long term debt is expected to be refinanced at that time.
Note 2: 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 year ended December 31, 2009 is as follows:

	2009	**2008**
Electrical energy	$8,250	$7,998
Street lighting maintenance and construction	4,797	5,124
Street lighting energy	5,245	4,537
Total	18,292	17,659

($000 CAD)

At December 31, 2009, accounts payable and accrued liabilities due to the City were $38 (2008 - $37). Accounts receivable due from the City was $3,236 (2008 - $2,841).

Enersource was charged $800 in the year ended December 31, 2009 (2008 - $791) by the City for property taxes.

Enersource charged Borealis $9 in 2009 (2008 - $10) for an access agreement. These transactions were recorded at the exchange amount, being the amount agreed to by the parties. At December 31, 2009, accounts receivable included $1 (2008 – $1) due from Borealis.

Enersource was charged $11,862 in 2009 (2008 - $10,968) by Enerpower Corporation, an organization for which Enersource has a 10% minority ownership interest, for the construction of distribution system infrastructure. Enersource received a dividend from Enerpower Corporation of $392 in 2009 (2008 - $109). At December 31, 2009, accounts payable and accrued liabilities due to Enerpower were $1,927 (2008 - $3,167).

Quarterly Results of Operations

The following table sets forth unaudited quarterly information for each of the eight quarters beginning January 1, 2008 and ending December 31, 2009. This information has been derived from Enersource's consolidated financial statements. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance. The consumption of electricity generally follows the number of cooling degree days during the summer months and heating degree days during the winter months, and therefore energy related revenue, all other things being equal, tends to be higher during the first and third quarters.

	2009				**2008**			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Total Revenue	$144,541	$142,713	$126,455	$163,299	$162,088	$177,979	$163,464	$167,216
Total Expense	140,565	136,955	123,177	158,747	157,027	171,943	159,607	162,948
Net Income	$3,976	$5,758	$3,278	$4,552	$5,061	$6,036	$3,857	$4,268
Dividends	$11,533	-	-	-	$8,980	-	-	-

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 of 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 assumptions used in the preparation of the financial statements:

Energy and Unbilled Distribution Revenue

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

Employee Future Benefits

The total change in the employee accrued benefit liability for the fourth quarter and year ended December 31, 2009 was $100 and $433 as compared to $128 and $551 for the fourth quarter and year ended December 31, 2008. The Corporation relies on an actuary to estimate employee future benefit expenses and liabilities. Actual results may differ from estimates.

Future Income Tax Assets and Liabilities

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

NEW AND EMERGING ACCOUNTING PRONOUNCEMENTS

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

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

Business Combinations and Consolidated Financial Statements

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests, which replaces the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, while section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These changes did not have an impact on Enersource's results of operations.

Rate Regulated Future Tax Assets and Liabilities

Effective January 1, 2009, Enersource adopted CICA Handbook Section 3465, "Income Taxes" which required Enersource Hydro to record future income taxes using the asset and liability method. Under this method, future income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from settlement or recovery of assets and liabilities at their carrying values. The adoption of this section required Enersource Hydro to recognize future income tax assets and liabilities and a corresponding regulatory asset or liability for future income taxes expected to be recovered from or refunded to customers through future distribution rates. The adoption of this section resulted in an increase in future income tax assets of $34,061 an increase in regulatory liability for future income taxes of $33,743, an increase in income tax expense of $327 and an increase in retained earnings of $646 as at and for year ended December 31, 2009.

Capital Disclosure

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

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

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

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

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

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

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

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

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

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

FUTURE ACCOUNTING CHANGES

Transition to International Financial Reporting Standards

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

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

Enersource is currently in the design and implementation phase of the IFRS conversion project which will assess and quantify the impacts of adopting IFRS on its financial statements after consideration of the options available under IFRS 1, First-time Adoption of IFRS ("IFRS 1"). Enersource has determined that the adoption of IFRS will have a major impact on information system requirements and is currently in the process of upgrading and modifying its systems to ensure a seamless conversion to IFRS.

The areas of highest potential impact for Enersource are rate regulated accounting, accounting for property, plant and equipment and initial adoption of IFRS under the provisions of IFRS 1. Enersource anticipates a significant increase in disclosure requirements arising from the adoption of IFRS and will assess whether additional system changes are needed as a result.

Accounting for rate regulated activities under IFRS

IFRS does not currently provide guidance on accounting for the effects of rate regulation and the recognition of regulatory assets and liabilities. On July 23, 2009, the International Accounting Standards Board ("IASB") issued an Exposure Draft - Rate Regulated Activities ("RRA ED"), allowing entities that are subject to "cost of service" regulation to continue to recognize regulatory assets and liabilities at the net present value of expected future cash flows. This proposal, if adopted, would reduce the volatility of Enersource's earnings that may occur under the current IFRS framework. The RRA ED also makes an exception to the requirements of other standards by allowing the continued capitalization of otherwise ineligible costs within fixed assets and intangible assets if such capitalization policies are permitted by the entities' regulator.

The RRA ED also proposes an amendment to IFRS 1 that would permit, at the date of transition, an entity to use the carrying values of property, plant and equipment and intangible assets as deemed cost, thus avoiding the need to restate historical balances or determine fair value. This amendment is likely to be removed from the RRA project and is expected to be published in April 2010 as part of the omnibus Improvements to IFRS.

The outcome of the RRA ED is uncertain. At the most recent meeting of the IASB in February 2010, the IASB staff were directed to prepare an analysis as to whether regulatory assets and liabilities exist in accordance with the current framework and to present their findings in a future meeting, along with a revised timeline for completion of the project. A final standard is not expected to be issued until the second half of 2011.

As a result of the uncertainty of a final outcome of the RRA ED and a final standard on rate regulated activities under IFRS, Enersource is unable to finalize its accounting policy decisions, its transition choices or to calculate the impact on future financial positions and results of operations with respect to differences, if any, of applying IFRS. Enersource will continue to monitor developments in the RRA ED and will finalize its policy decisions and calculate financial impacts as soon as the outcome is known.

Accounting policy impacts

IFRS 1 provides the framework for an entity that is preparing IFRS compliant financial statements for the first time and specifies retrospective application of all IFRS with certain optional exemptions and mandatory exceptions. Enersource has completed a preliminary analysis of IFRS 1 and has concluded that a number of the more significant policy choices are dependent on the final outcome of the RRA ED.

Property, plant and equipment

The general principles of Canadian GAAP and IFRS relating to property, plant and equipment ("IAS 16") and intangible assets ("IAS 38") are similar, however, the application of those principles under IFRS can be significantly different from Canadian GAAP.

Indirect overhead costs, such as general and administration cost that are not directly attributable to an asset, that are currently being capitalized under Canadian GAAP may not be allowed under IFRS, subject to the final outcome of the RRA ED. Enersource has planned for adoption of current IFRS requirements, by redesigning its systems and processes to exclude general and administrative overhead from being allocated to property, plant and equipment or intangible assets. The impact on Enersource's financial results is dependent on the final outcome of the RRA ED.

IFRS is also more specific regarding how an entity's fixed and intangible assets should be componentized. When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting). Enersource was part of a consortium of five utilities that commissioned a third party to provide an in-depth evaluation of the estimated useful lives of the assets that are owned and operated by the consortium members. As a result of this evaluation and entity specific data, Enersource will increase the number of assets that are recorded and depreciated separately and will revise the estimated average useful life of most assets under IFRS.

In the event that the proposed amendment to IFRS 1 is available, Enersource will elect to use carrying values at the date of transition as deemed cost. In the event that this amendment is not passed, Enersource will determine the fair value for all property, plant and equipment and intangible assets at the IFRS transition date and deem that as its cost.

Borrowing costs

The key principle of Borrowing Costs ("IAS 23") is borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset will become part of the cost of that asset. Enersource currently capitalizes an allowance for funds used during construction ("AFUDC") as permitted by the OEB. The AFUDC rate is the yield rate for the DEX Mid-Term Corporate Bond Index which is different from Enersource's weighted average cost of capital specified by IAS 23.

Post transition, Enersource will be required to apply the new requirements of IAS 23. Future borrowing costs will be capitalized on all projects that require a substantial period to complete, which Enersource has determined to be on projects that are greater than six months in length. The amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate, based on the weighted average cost of capital, to qualifying asset costs. The final estimate of the impact of applying IAS 23 and optional exemptions with respect to the transition to IFRS cannot be determined at this time pending a final standard on accounting for rate regulated activities.

Employee benefits

IFRS 1 provides an option to recognize immediately in equity all cumulative actuarial gains and losses upon transition to IFRS. Enersource will elect to make a one-time adjustment to equity for cumulative actuarial gains and losses existing at the date of transition to IFRS. Future actuarial gains and losses will be recognized using the 'corridor approach' whereby actuarial gains and losses greater than 10% will be recognized in income. This change is not expected to have a material impact on Enersource's results of operations.

Transfer of assets from customers

Transfer of assets from customers ("IFRIC 18") clarifies the requirements of IFRSs for agreements where an entity receives an item of property, plant and equipment (or cash to acquire such an item). According to IFRIC 18 requirements, an asset received should be recorded at its fair value in accordance with IAS 16, with the resulting credit recognized as either current or deferred revenue in accordance with IAS 18 – Revenue. Enersource currently records contributions in aid of construction as an offset to property, plant and equipments. The impact of applying IFRIC 18 is dependent on the outcome of the RRA ED and is therefore not determinable at this time.

Provisions and contingent liabilities

Under Canadian GAAP, a provision is recognized when it is "likely" that a payment will be required. In comparison, IFRS requires that provisions be recognized when it is "more likely than not" that a payment will be required. In addition, under Canadian GAAP, asset retirement obligations are recognized as a provision and an item of PPE, only when a legal obligation to incur such costs exists. Under IFRS, such costs including removal, decommissioning and remediation costs are recognized as a provision and as part of the cost of PPE when either a legal or a constructive obligation to incur such costs exists. Under IFRS such costs are measured based on management's best estimate of the expenditures that will occur, whereas under Canadian GAAP, asset retirement obligations are measured at fair value. Under Canadian

GAAP Enersource has not recorded any asset retirement obligations. Our preliminary analysis of IFRS is that the new requirements will not lead to a material financial impact on the financial statements of Enersource.

Income taxes

The impact of accounting for the tax consequences of transactions and other events under Income Taxes – IAS 12 versus Canadian GAAP cannot be fully determined at this time pending a final standard on accounting for rate regulated activities.

Information systems

Despite the lack of certainty regarding the RRA ED, detailed design and reconfiguration of information systems have commenced. In January 2010, Enersource successfully implemented dual ledger functionality necessary to accommodate both Canadian GAAP and IFRS financial reporting. This will allow for comparative reporting in 2011 for 2010.

The extent to which the financial statements prepared under Canadian GAAP and those prepared under IFRS differ cannot be determined until the outcome of the RRA ED is known. Enersource has designed and implemented an adaptable approach to IT infrastructure in order to maintain the flexibility of reporting with or without a rate regulated IFRS.

Internal control over financial reporting ("ICFR") and Disclosure controls and procedures ("DC&P")

As new accounting policies are adopted or exiting policies changed, Management has implemented additional procedures or new disclosure and internal controls to ensure the integrity of ongoing financial reporting.

Management will continue to work with its IFRS transition advisor, internal and external auditors as well as other key stakeholders throughout 2010 to ensure that the certifying officers and the members of the Audit Committee are provided with sufficient assurance on the design and operation of internal controls and procedures required for IFRS.

Project completion and estimated costs

The implementation phase will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements with reconciliations and the embedding of IFRS in ongoing business processes. The final phase will see the Audit Committee approve IFRS-compliant interim and annual financial statements.

Enersource currently estimates that the total cost of the IFRS conversion project will be between $1,500 and $2,500. The OEB has approved a deferral account for incremental IFRS transition costs which will allow Enersource Hydro to seek recovery of these costs through future distribution rates.

($000 CAD)

SELECTED ANNUAL INFORMATION

The following table sets forth annual information for each of the three years ended December 31, 2007, 2008, and 2009. This information has been derived from the audited annual Consolidated Financial Statements.

Consolidated Statements of Income	2009	2008	2007
Total revenues[1]	$577,008	$670,747	$696,491
Net income	17,564	19,222	13,970

Consolidated Balance Sheets	2009	2008	2007
Total assets[2]	$676,061	$653,906	$628,092
Total long-term debt	289,256	288,735	288,556
Cash dividends declared	11,533	8,980	10,336

[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.

RISK MANAGEMENT

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

Regulatory Risk

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

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

On July 16, 2004, the Province of Ontario announced that all electricity consumers in Ontario will have a smart meter no later than December 31, 2010. The OEB's smart meter implementation plan identifies local distribution companies as the source of funding for the supply and installation of the smart meters. Enersource Hydro is committed to executing the Ontario Ministry of Energy and Infrastructure ("MEI") 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 March 2, 2010, the Electricity Distributors Association ("EDA") reached a settlement in principle in a class action suit which claimed that local distribution companies ("LDC") were charging late payment interest in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code. This proposed settlement requires the consent and approval of all LDCs and approval of the Ontario Superior Court of Justice in order to become effective.

If the settlement becomes effective, Enersource will be released from all claims made in the litigation. If the settlement is not approved, the litigation will continue and Enersource will remain exposed to ongoing legal costs and to a possible judgment in the case for an amount greater than its share included in the proposed settlement.

It is Management's position that any payments made as a result of this class action would be recoverable through future distribution rates.

Electricity Supply Risk

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

Environmental Risk

Enersource is subject to numerous environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation is underway at various sites. At December 31, 2008, the Corporation provided $180 for testing and future remediation. For the period ended December 31, 2009, the Corporation's total environmental expense was $673, which includes an accrual of $450 for future remediation activities.

Environment Canada has issued new regulations governing the management of PCBs. The Corporation is in the process of determining the impact of the new regulations. On December 1, 2008, the OEB approved Enersource Hydro's request to defer any expenses that may be incurred to comply with the new regulations. As at December 31, 2009 the Corporation deferred $914 regarding compliance with the new regulations.

Financial Instrument Risk

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

(a) Market Risk

Market risk refers primarily to risk of losses that result from changes in commodity prices, foreign exchange rates and interest rates. Enersource does not have commodity risk and its foreign exchange risk is limited to US Dollar cash and cash equivalent holdings of $681 as at December 31, 2009.

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

(b) Credit Risk

Financial assets have an element of credit risk in that a 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, 2009, there were no significant balances of accounts receivable due from any single customer.

Enersource manages counterparty credit risk through various techniques including the limiting of total exposure levels with individual counterparties consistent with Enersource's policies and the monitoring of the financial condition of counterparties. Short-term investments held as at December 31, 2009 met the credit exposure limits specified under Enersource's Investment Policy.

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

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

(c) Liquidity Risk

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

Economic Risk

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

The current economic conditions could also lead to lower overall electricity consumption, which may negatively impact Enersource Hydro's distribution revenue.

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

OUTLOOK

On November 27, 2009 Enersource Hydro submitted an application to the OEB to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as cost of power and global adjustment variance account balances as at September 30, 2009. The application was approved by the OEB on January 29, 2010. The net balances in these accounts of $12 million will be recovered over a two year period commencing February 1, 2010.

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

On July 6, 2009 Enersource Hydro submitted a formula based rate application to the OEB in order to align the distribution rate year to its fiscal year. Enersource Hydro proposed the new tariff of rates to be effective January 1, 2010. On December 15, 2009 the OEB released its decision and order on this rate application indicating that Enersource's 2010 rate year will commence on May 1, 2010. The OEB noted that the implications of such a change need to be examined more fully in a policy context. On January 21, 2010 the OEB initiated a consultative process to review the need for and the implications of a potential alignment of the rate year with the fiscal year.

On July 28, 2009 the OEB issued its Report of the Board – Transition to IFRS, which contained some preliminary views on how regulatory reporting requirements will change in response to IFRS. The OEB has initiated a second phase of its consultative process to amend certain regulatory instruments. Enersource will continue to assess the impact of all proposed and continuing projects of the IASB and the OEB.

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 year ended December 31, 2009.

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. Enersource employees may report violations anonymously using a confidential telephone number monitored by an objective third party.

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 Councilors and four citizens to be appointed by Council and two members 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.

($000 CAD)

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, security 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	6	6	4	1	4	6	15
Attendance Percentage	93%	94%	100%	83%	100%	88%	95%
Board Members							
Norman B. Loberg	Chair		Chair		X	100%	100%
Mayor Hazel McCallion	X			X		83%	100%
Michael J. Nobrega	X			Chair		100%	100%
Gerald E. Beasley	X	Chair		X		100%	100%
John McManus	X	X			X	100%	80%
Bob MacCallum	X		X		Chair	100%	100%
Hasan Imam	X	X		X		100%	100%
Katie Mahoney	X		X		X	66%	100%
Eve Adams*	X		X	X	X	100%	85%
Carolyn Parrish	X		X	X		83%	100%

**** Eve Adams was appointed to the Human Resource and Corporate Governance Committee May 15th, 2009***

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) Audit Fees
The KPMG audit fees for the fiscal year 2009 were $87 and $92 for the fiscal year 2008.

(b) Audit-Related Fees
The total KPMG audit-related fees for the fiscal year 2009 were $21. The audit-related fees in 2009 pertained to quarterly reviews of Enersource's interim financial statements.

The total KPMG audit-related fees for the fiscal year 2008 were $21. The audit-related fees in 2008 pertained to quarterly reviews of Enersource's interim financial statements.

(c) Tax Fees
The KPMG tax fees for the fiscal year 2009 were $25. These fees pertained to the preparation of 2008 tax returns for Enersource Corporation and its subsidiaries.

The KPMG tax fees for the fiscal year 2008 were $22. These fees pertained to the preparation of 2007 tax returns for Enersource Corporation and its subsidiaries.

(d) All Other Fees
Other KPMG fees in fiscal 2009 were $310. These fees pertained to an initial evaluation of the impact of International Financial Reporting Standards ($154), and scientific research and experimental development services for 2008 through 2009 ($156).

Other KPMG fees 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).

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