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Enersource Corp.

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Major Rating Factors

Strengths:

- Monopoly and low-risk electricity distribution operations
- Stable and predictable regulation that supports cash flow
- Management focus on operational reliability and measured growth strategy

Corporate Credit Rating

A/Stable/–

Weaknesses:

- Moderately weaker financial metrics due to increased debt level
- Service territory that limits market growth

Rationale

The rating on Mississauga, Ont.-based local electricity distribution company (LDC) Enersource Corp. reflects Standard & Poor's Ratings Services' opinion of the company's excellent business risk profile, which its relatively low-risk monopoly LDC business and predictable regulated cash flows support. The company's better-than-industry record in operational reliability and its focused growth plan also support the rating. Enersource's intermediate financial risk profile, moderately weakened with the increased debt level, and modest growth prospects, partially offset its credit strengths, in our view. More than 95% of Enersource's consolidated cash flow comes from its regulated LDC business serving Mississauga.

Enersource is 90% owned by the City of Mississauga, Ont. (AAA/Stable/–), and 10% by BPC Energy Corp. (not rated), which is part of the Ontario Municipal Employees Retirement System (OMERS; not rated). We assess the likelihood of the extraordinary financial support by the City of Mississauga to Enersource to be low based on Enersource's "limited importance" role and "limited" link to the city. As a result, municipal government ownership of Enersource does not enhance the debt rating.

We believe the LDC's monopoly position in its service franchise and the asset-intensive nature of electricity distribution limit competitive risk. Furthermore, Enersource's residential and commercial distribution rates are among the lowest in the province. The electricity distribution business also carries relatively low operating risk. Enersource's distribution infrastructure is relatively new and posts superior operational efficiency and reliability measures compared with those of other LDCs in Ontario, as reported by the 2009 Year Book of Electricity Distribution.

We believe the Ontario Energy Board's (OEB) regulatory framework supports the LDC's cash-flow stability. The framework allows for the recovery of prudent costs and the opportunity to earn a modest return. Regulatory cost recovery is generally predictable, and timeliness has improved. The current environment limits the LDC's exposure to commodity risk. Although it must bill electricity customers for the commodity delivered, the cost is a flow-through. It has no obligation to ensure an adequate supply of electricity and is not burdened with the procurement process or power purchase agreements. Net distribution revenues are subject to modest volumetric risk due largely to weather and also to economic conditions of the area the LDC serves. We have no near-term expectation of major energy policy shifts that would affect the regulatory environment or LDC credit quality,

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although we expect OEB to be mindful of overall electricity costs to consumers in the current economic environment and slow load growth when approving proposed prudent LDC spending. OEB's announcement in late 2010 of its intention to develop a renewed regulatory framework does not, in our view, present any meaningful change in the current regulatory regime that supports the LDCs' credit risk profile. (See "Ratings On Ontario Local Distribution Companies Unaffected By Regulator's Announcement Of A Renewed Electricity Framework," published Nov. 4, 2010, on RatingsDirect on the Global Credit Portal.)

The boundaries of Mississauga define the Enersource service franchise. We believe the city has a well-diversified economy and that its 190,000 customers and limited customer concentration exposure shield Enersource from the full effects of economic downturns or the loss of a major customer. The city has entered a more mature phase of growth, given a scarcity of land available for development, so we expect growth in customer connections to be slower than in the past. Economic conditions have softened, with labor market statistics indicating that in 2009 the unemployment rate in the Regional Municipality of Peel (AAA/Stable/--), of which Mississauga is part, reached 10.9%, up from 6.6% the previous year. The weaker economy and effort toward conservation and demand management will likely moderate growth in customer count and electricity consumption. (For more information on Mississauga, please see our analysis published Oct. 22, 2010, on RatingsDirect on the Global Credit Portal.)

We expect financial metrics to be marginally weaker because of the moderately higher debt level after a proposed C\$320 million bond issue to repay the C\$290 million Borealis-Enersource series bonds maturing in May 2011. We estimate that adjusted funds from operations (AFFO) to total debt would weaken to 17% from 19% for the year ended Dec. 31, 2010, while adjusted debt to capital would increase to 57% from 55%. Notwithstanding the deterioration, we expect the company to maintain its debt-to-capital ratio to within 60%, which is in line with the deemed capital structure that the Ontario regulator uses to set rates. While these financial measures are still consistent with our expectation for an intermediate financial risk profile, we believe there is now less room for any further deterioration for the rating level.

Short-term credit factors

Enersource's liquidity is adequate for the ratings. We expect the company to refinance the C\$290 million bond maturing May 2011 in view of its predictable underlying cash flow and excellent business risk profile. After the proposed bond is issued, the company would have no maturing debt until 2021. Enersource's sources of near-term liquidity would include cash balance of C\$54 million as at Dec. 31, 2010, and expected annual FFO of C\$50 million-C\$60 million. We expect these sources would be sufficient to cover approximately 1.8x of the company's near-term projected uses of liquidity, which would include projected capital expenditure of about C\$55 million and dividend payment of about C\$10 million (based on the company's policy of paying 60% of the previous year's net income). Not included in Enersource's sources of liquidity, as per Standard & Poor's criteria, is an unused uncommitted C\$50 million operating credit facility. In addition, the company has a C\$20 million letter of credit facility, of which C\$10.6 million was used for a letter of credit to satisfy prudential requirements with the Independent Electricity System Operator as at Dec. 31, 2010.

Outlook

The stable outlook reflects our assessment of predictable and stable cash flows from Enersource's low-risk regulated monopoly electricity distribution business and our expectation that management will continue to focus on its core regulated business and maintain its capital structure within the regulatory deemed capital structure of a

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debt-to-capital ratio of 60%. We believe a positive rating action is unlikely in the near term as we do not expect that Enersource would adopt a materially more conservative capital structure or that the likelihood of extraordinary support by the City of Mississauga would increase in the medium term. Conversely, we could lower the rating if the regulatory framework changes to result in increased cash flow volatility or weaker allowed returns. The rating could also be pressured if the company reports weaker cash flow measures, with AFFO to debt lower than 15% or AFFO interest coverage lower than 3.5x, on a sustained basis. This could be caused by increased use of debt to finance Enersource's growth plan or expansion in more volatile nonregulated businesses, although we understand that the company has no plan to do so.

Business Description

Enersource is the fourth-largest LDC (based on load) in Ontario serving Mississauga, which has a population of 729,000. The company is 90% owned by the City of Mississauga and 10% by BPC Energy, which is part of OMERS. Enersource generates more than 99% of its consolidated EBITDA from the low-risk monopoly regulated electricity distribution business, operating about 5,300 kilometers of distribution line (65% of which is underground) and serving a customer base of about 193,000. The remaining nonregulated revenue is derived from a subsidiary focusing on the provision of design, construction, and maintenance services for electricity infrastructure to businesses and other utilities and for street lights maintenance for the municipalities. Its distribution network was relatively less aged compared with those operated by other LDCs in the province. The business is regulated, ensuring LDCs to earn predictable revenue and to pass on electricity costs to consumers. Customer and load growth in Mississauga is constrained by the limit to expand its service territory and could occur only with increased density.

In arriving at the rating, Standard & Poor's assesses Enersource's stand-alone creditworthiness at 'a'. In our opinion, there is a "low" likelihood that the City of Mississauga would provide timely and sufficient extraordinary support to the company in the event of financial distress. Nevertheless, in our stand-alone assessment of Enersource's financial flexibility, we have incorporated modest benefits of two supportive shareholders, including our expectation of some flexibility regarding dividend payout and potential liquidity support to bridge its financial obligations or committed investments.

In accordance with our criteria for government-related entities (GREs), and within the context of our GRE methodology and scale for assessing the importance of a GRE's role to and the strength and durability of its link with the its government shareholder, we base our view of a "low" likelihood of extraordinary city government support on the following:

- We view Enersource's role of "limited importance" to the municipal shareholder. Although the company provides an essential service, its default or credit stress would not, in our opinion, lead to a disruption of the utility's activities. Enersource is a profit-seeking enterprise whose activities could easily be undertaken by a private-sector entity. The municipal government is primarily interested in the company providing employment and supporting Mississauga's economic activities through the reliable and cost-effective delivery of electricity. Furthermore, although electricity distributors are often an instrument of provincial policy implementation, we do not expect the provincial government to provide support to individual municipal-owned utilities.
- We view the company's link with its government shareholder as "limited." We recognize Mississauga as an important shareholder that could potentially provide liquidity support to Enersource in a time of duress. The city, however, has a limited administrative or legal obligation or capacity to do so, given that legislation governing

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electricity distribution (Enersource's main cash-producing activity) is a provincial matter and that the OEB sets regulated tariffs.

Excellent Business Risk Profile

Regulation supports cash flow and earning stability

The regulatory framework governing Enersource's tariffs supports stability of the company's cash flow and earnings. The company's profitability is stable but largely dictated by regulatory directives, given the cost-plus nature of the Ontario regulatory framework and the LDC's role within the electricity market. The OEB sets tariffs such that the utility should be able to recover prudent costs, including the cost of a deemed level of short- and long-term debt (60%) and equity (40%) capital.

In 2010, profitability slightly improved from 2009 largely resulting from higher electricity consumption, thanks to warmer summer weather and modest economic recovery after the recession in 2009, but was partly offset by provincial demand conservation measures. Regulated distribution tariffs have a fixed as well as a variable component that serves to somewhat offset these volumetric risks. The price of electricity does not affect the LDC's profitability, as the charge for energy is passed through to the consumer. The introduction of time-of-use rates (higher electricity prices during peak periods) in late 2011, after the provincially directed implementation of smart meters is complete, could lead to modestly lower consumption or simply shift the time of use, which would not affect the LDC in the short term.

A stable regulatory regime supports credit quality

The OEB provides regulatory oversight of Enersource's monopoly distribution operations. The regulatory framework has been stable and generally supports predictable cash flow. Unexpected-but-prudent costs incurred are generally recovered through tariffs, but subject to regulatory lag. Allowed returns are relatively low in our view and constrain the upside in cash flows.

The OEB sets rates by estimating Enersource's revenue requirement, given forecast consumption. Revenue requirements are determined on a forward test year and acknowledge the company's capital plans and operating costs. The regulator assumes a deemed capital structure of 60% debt and 40% equity and includes the cost of debt and a return on equity (ROE) in the requirement. The allowed economic return is based on a formula linked to long-term Government of Canada (AAA/Stable/A-1+) bonds plus an equity risk premium.

The OEB issued a December 2009 decision on the generic cost of capital by increasing the risk premium for equity. The ROE formula was also adjusted so that rates would depend on both utility bond spreads and forecast long-term Government of Canada bond yields (previously, the formula only referenced government bond yields). The OEB will continue to review its formula every five years or earlier if, in the regulator's view, fair returns are in doubt. This is consistent with our expectation of a supportive regulatory regime. The return applicable to Enersource will be reviewed based on the revised formula in the company's next cost-of-service application, which is to be filed in 2013.

There is a long history of regulated entities in both Ontario and Canada being allowed to recoup unforeseen costs (regulatory assets) or having to refund the customer (regulatory liabilities) after the fact through rates. The cash recovery or repayment is subject to a prudency review and regulatory approval. Depending on the magnitude, the OEB could spread the recovery or refund over multiple years to avoid rate shock. A regulatory liability of C\$39.7

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million as of Dec. 31, 2010, was related to the difference between spot market prices and rates paid to contracted or regulated generators for electricity purchased.

Removing the current commodity pass-through mechanisms or assigning an obligation to ensure adequate supply of electricity for Enersource's end-use customers would negatively influence the ratings. The LDC bills its customers for the entire cost of electricity delivered including related transmission, system operation, distribution, and commodity costs. The company's financial health is protected from exposure to commodity price volatility by timely settlement mechanisms that allow it to pass through the cost to customers.

Mature service area with stable but slow demand growth

While Mississauga benefits from its proximity to Toronto, its economic growth, and therefore growth in electricity demand, is constrained by its geographic limit and the fact that more than 90% of its land is already developed. Future growth in economic activities will depend on increased population density. Although the residential sector contributed to only 40% of distribution revenue (see table 1), electricity demand is only moderately affected by the currently weak manufacturing sectors that suffer from economic recession and the impact of the strong Canadian dollar. The general service segment represents mainly bulk-metered condominiums and retail commercial complexes, which are more stable and less affected by economic cycles. We expect overall electricity distribution to increase between 1.0%-1.5% per year.

Table 1

Enersource Corp.--Customer Profile 2010				
	No. of customers	Customers (%)	Distribution revenue (mil. C\$)	Proportion of distribution revenue (%)
Residential	171,244	88.7	47.7	39.8
General service	21,703	11.2	64.2	53.5
Large users	10	0.0	6.2	5.1
Street lightings	1	0	1.9	1.6
Total	192,961	100.0	120.0	100.0

We understand that the rate structure applicable to the largest customers contains a relatively large 65% variable component, based on Enersource's 2008 electricity distribution rate application. Although this could result in revenue variability from this customer class in times of weak demand, it should have a limited impact on the ratings in view of the small contribution from large users. The top 10 industrial customers accounted for 5% of net distribution revenues in 2010.

Low-risk distribution with strong operational reliability

The LDC operations provide almost all of Enersource's consolidated cash flow. The contribution from the company's unregulated operations is immaterial to our analysis.

Enersource's operational performance benefits from its relatively new infrastructure and a high proportion (65%) of its network being underground (and therefore less vulnerable to weather-related disruption). As a result, Enersource's reliability measures consistently outperform the industry average (see table 2).

Table 2

Enersource Corp.--Operational Performance					
Reliability measures	2009	2008	2007	2006	2005
SAIDI (minutes) - Enersource	37.0	20.0	38.0	27.0	32.0

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Table 2

Enersource Corp.--Operational Performance (cont.)					
SAIDI (minutes) - Ontario industry excluding Hydro One networks	125.4	109.8	131.4	115.8	288.0
SAIFI (interruptions) - Enersource	1.2	0.7	0.8	0.7	0.9
SAIFI - Ontario industry excluding Hydro One networks	1.8	1.9	1.9	1.6	2.1
SAIDI--System average interruption duration index. SAIFI--System average interruption frequency index.Sources: Enersource Corp. 2009 Yearbook of Electricity Distributors published by Ontario Energy Board, Aug. 25, 2010.					

Negligible competition

Enersource holds a monopoly in its electricity service territories, protecting its distribution franchise from rival providers. Furthermore, the company's relatively low-cost operations and tariffs guard against the threat of material bypass of the network.

Intermediate Financial Risk Profile

Accounting

Enersource prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles, with a Dec. 31 fiscal year-end. Enersource has no risk exposure to manage with derivatives. Pension obligations fall to a third party and the company recovers the cost through its regulated revenue. We have adjusted the balance sheet related to postretirement benefit obligations and capitalized interest adjustments, neither of which materially affects Enersource's financial measures (see table 3).

For analytical purposes, Standard & Poor's focuses on the company's sustainable cash flows and associated credit metrics. We recognize the cash flow fluctuations related to the recovery or repayment of regulatory assets and liabilities as a temporary enhancement or deterioration of the company's liquidity and financial flexibility. Therefore, we remove the impact of regulatory recovery and deferral on cash flow metrics consistently across the sector.

Table 3

Reconciliation Of Enersource Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C\$)*									
--Fiscal year ended Dec. 31, 2010--									
Enersource Corp. reported amounts									
	Debt	Shareholders' equity	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	289.8	237.3	80.8	80.8	42.5	19.0	42.8	42.8	42.3
Standard & Poor's adjustments									
Postretirement benefit obligations	3.6	(0.4)	0.4	0.4	0.4	0.3	(0.2)	(0.2)	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	0.3	(0.3)	(0.3)	(0.3)
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	0.6	N/A	N/A	N/A	N/A

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Table 3

Reconciliation Of Enersource Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C\$)* (cont.)									
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	14.6	N/A
Total adjustments	3.6	(0.4)	0.4	0.4	1.1	0.6	(0.5)	14.1	(0.3)
Standard & Poor's adjusted amounts									
	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	293.4	236.9	81.2	81.2	43.6	19.6	42.3	56.9	42.0

*Enersource Corp. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

The Accounting Standard Board issued an amendment in October 2010 permitting qualified entities with rate-regulated activities to opt to defer International Financial Reporting Standards (IFRS) adoption by one year (to the year beginning January 2012). The deferral is the result of International Accounting Standards Board's (IASB) conclusion that it could not quickly resolve and provide clear guidance on the treatment of rate regulation and recognition of rate regulated assets and liabilities. We understand that Enersource, being such a qualified entity, has opted to defer and expects IASB to determine and communicate the next steps by the second half of 2011. We do not expect IFRS adoption by itself to materially influence our analysis of Enersource or our perception of its creditworthiness, provided that the adoption does not result in material changes to the regulatory and rate-setting framework that could affect returns to the utilities and the timing of cash flows and cost recovery.

Corporate governance, risk tolerance, and financial policies

Enersource's governance does not exhibit any features that raise credit concern and management confirms that both shareholders are supportive of the company's strategic and growth plan. The company intends to maintain leverage at the utility within the deemed capital structure of 60% debt and 40% equity. Enersource also has a dividend policy of distributing 60% of the previous year's net income, which it has applied consistently.

Cash flow adequacy: A slight deterioration is expected due to higher debt level

Regulatory support for Enersource's revenue provides cash flow stability. The company's 2010 consolidated AFFO was about C\$57 million, compared with C\$54 million in 2009. We expect it to remain at a similar level in the next two years until the approval of its next cost-of-service application expected for 2013. Standard & Poor's also expects the FFOs to be adequate to cover the slightly elevated capital expenditure amount (as the company plans to expand its head office building) and dividend. In addition, we expect most of the additional capital expenditure related to the expansion of Enersource's head office to be financed by the proceeds from the proposed bond after repayment of the maturing bond. Notwithstanding stable cash flow, cash flow measures will likely weaken moderately because of the higher debt level. We expect adjusted FFO to debt to weaken to 17% for the next two years from 19% in 2010. While these financial measures are still consistent with our expectation for an intermediate financial risk profile, we believe there is now less room for any further deterioration to the rating level.

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The capital structure is consistent with regulatory deemed capital structure

Standard & Poor's expects the increase in debt to result in higher adjusted debt-to-capital of 57% in the next two years, from the 54% level at Dec. 31, 2010. The higher level is still with those carried by other Ontario LDCs and still within the regulator's deemed capital structure of 60%. With the proposed debt, Enersource will have no maturing debt until one of the two series of the bond matures in 2021. Enersource has no material interest rate and foreign exchange exposures.

Financial flexibility is limited by lack of access to equity

Enersource does not have access to equity markets and we have no expectation of direct equity investments in the company from either Mississauga or BPC Energy Corp., absent any meaningful acquisition opportunity. Nevertheless, we expect that Enersource would have some flexibility to reduce dividends in times of financial stress as both shareholders have abundant financial resources. We also believe Enersource could also temporarily defer, for a year or so, a small portion (about C\$7 million-C\$10 million) of its maintenance capital expenditure without compromising service levels. (See tables 4 and 5 for peer comparison and financials.)

Table 4

Enersource Corp.--Peer Comparison*				
Industry Sector: Electric Utility				
	Enersource Corp.	Toronto Hydro Corp.	Hydro Ottawa Holdings Inc.	Hamilton Utilities Corp.
	Fiscal year ended Dec. 31, 2010	Last 12 months ended Sept. 30, 2010		
Rating history	NR	A/Stable/--	A/Stable/--	A/Stable/--
(Mil. C\$)				
Operating income (before D&A)	81.2	329.4	99.2	59.5
Net income from continuing operations	17.7	65.5	30.2	13.1
Funds from operations (FFO)	56.9	234.0	72.4	41.0
Capital expenditures	42.0	298.7	61.1	42.1
Free operating cash flow	0.3	(5.5)	10.9	1.7
Cash and short-term investments	53.6	421.9	8.1	38.3
Debt	293.4	1,542.7	258.5	155.9
Equity	236.9	1,025.7	333.0	229.7
Debt and equity	530.3	2,568.5	591.5	385.8
Adjusted ratios				
Operating income (before D&A)/revenue (%)	12.5	12.7	12.5	10.8
EBIT interest coverage (x)	2.2	1.9	4.2	3.6
EBITDA interest coverage (x)	4.1	3.6	7.5	6.5
FFO interest coverage (x)	3.8	3.2	6.4	5.3
FFO/debt (%)	19.4	15.2	28.0	26.4
Free operating cash flow/debt (%)	0.1	(0.4)	4.2	1.1
Debt/debt and equity (%)	55.3	60.1	43.7	40.4
Return on common equity (%)	7.4	6.4	8.9	7.0
Common dividend payout ratio (unadjusted) (%)	59.5	38.2	58.3	55.7

*Fully adjusted (including postretirement obligations). D&A--Depreciation and amortization. NR--Not rated.

Enersource Corp.

Table 5

Enersource Corp.--Financial Summary*					
Industry Sector: Electric Utility					
	--Fiscal year ended Dec. 31--				
	2010	2009	2008	2007	2006
Rating history	NR	NR	NR	NR	NR
(Mil. C\$)					
Revenues	648.7	579.3	673.1	690.7	672.5
Operating income (before D&A)	81.2	79.0	78.9	71.7	68.6
Net income from continuing operations	17.7	17.6	19.2	13.0	13.3
Funds from operations (FFO)	56.9	53.8	52.8	44.9	43.2
Capital expenditures	42.0	56.1	46.4	46.3	35.5
Free operating cash flow	0.3	0.6	28.8	(14.3)	(27.0)
Cash and short-term investments	53.6	33.8	76.1	57.1	56.9
Debt	293.4	292.3	292.1	291.5	292.7
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	236.9	229.8	223.7	212.7	208.7
Debt and equity	530.3	522.1	515.8	504.2	501.4
Adjusted ratios					
Operating income (before D&A)/revenue (%)	12.5	13.6	11.7	10.4	10.2
EBIT interest coverage (x)	2.2	2.2	2.5	2.1	2.2
EBITDA interest coverage (x)	4.1	4.0	3.9	3.6	3.6
FFO interest coverage (x)	3.8	3.6	3.5	3.2	3.2
FFO/debt (%)	19.4	18.4	18.1	15.4	14.8
Free operating cash flow/debt (%)	0.1	0.2	9.8	(4.9)	(9.2)
Discretionary cash flow/debt (%)	(3.5)	(4.2)	6.8	(8.5)	(12.3)
Net cash flow/capex (%)	110.3	73.2	94.3	74.7	96.6
Debt/debt and equity (%)	55.3	56.0	56.6	57.8	58.4
Return on common equity (%)	7.4	7.3	8.5	5.9	6.3
Common dividend payout ratio (unadjusted) (%)	59.5	65.7	46.7	79.5	66.9

*Fully adjusted (including postretirement obligations). D&A--Depreciation and amortization. NR--Not rated.

Related Criteria And Research

- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008Corporate Criteria: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- General Criteria: Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009 Criteria | Corporates | General:Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010

Ratings Detail (As Of April 14, 2011)*

Enersource Corporation

Corporate Credit Rating

A/Stable/--

Enersource Corp.

Ratings Detail (As Of April 14, 2011)*(cont.)

Corporate Credit Ratings History

14-Apr-2011	A/Stable/--
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Business Risk Profile

Excellent

Financial Risk Profile

Intermediate

Related Entities

Mississauga (City of)

Issuer Credit Rating	AAA/Stable/--
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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1 ***Prospectuses***

2 On April 29, 2011, Enersource Corporation ("EC") refinanced its long-term debt.
3 EC's debt consisted of a \$290,000 loan, at an interest rate of 6.29%, from
4 Borealis Infrastructure Trust ("BIT") (raised via issuance of the Borealis-
5 Enersource Series Bonds) that matured on May 2, 2011. The proceeds from the
6 new debt were utilized to repay the BIT debt and the excess was provided to the
7 utility operations for the purposes of financing capital expenditures and other
8 corporate purposes.

9 During the debt refinancing planning process, it was recognized that general
10 interest rates were at historically low levels. With this in mind, EC structured the
11 widely-marketed private placement in two separate series: Series A Debentures
12 consisting of \$110,000 with a ten-year term and interest rate of 4.521%; and,
13 Series B Debentures consisting of \$210,000 with a thirty-year term and interest
14 rate of 5.297%. The ten-year term provides for the opportunity to adjust total
15 debt levels to correspond with asset investment requirements on a ten-year
16 cycle, whereas, the thirty-year term allows for a prolonged low interest cost which
17 is insulated from movements in market interest rates.

18 All decisions regarding the debt refinancing structure and process were approved
19 by EC's Board of Directors (or a sub-committee thereof) and shareholders.

20 Please refer to the attached Offering Memorandum at Exhibit 1 Tab 3 Schedule 6
21 Appendix 1 for further details of the widely-marketed private placement debt.

This confidential offering memorandum ("Offering Memorandum") constitutes an offering of these securities only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada, the United States of America or elsewhere has in any way passed upon the merits of the securities offered hereunder nor has it reviewed this Offering Memorandum and any representation to the contrary is an offence. This document is not, and under no circumstances is to be construed as, a prospectus or advertisement or a public offering of these securities. No person is authorized to give any information or make any representation not contained in this Offering Memorandum in connection with the offering of these securities and, if given or made, any such information or representation may not be relied upon. Resale of these securities will be subject to restrictions under applicable securities laws, which vary depending on the relevant jurisdictions. Enersource Corporation is in no way obligated to accept an offer to purchase the securities described herein.

The securities offered under this Offering Memorandum have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities law and will not be sold within the United States of America or to U.S. persons except in compliance with the registration requirements of the U.S. Securities Act or pursuant to an exemption therefrom.

Although Enersource Corporation is currently a reporting issuer under the Ontario Securities Act, it intends to apply to cease to be a reporting issuer.

RBC Dominion Securities Inc., one of the agents in this offering, is a wholly-owned subsidiary of a Canadian chartered bank that has provided certain credit facilities to Enersource Corporation. Accordingly, Enersource Corporation could be considered a connected issuer of RBC Dominion Securities Inc. for the purposes of securities legislation in Canada. See "Connected Issuer Disclosure".

CONFIDENTIAL OFFERING MEMORANDUM

Private Placement



ENERSOURCE CORPORATION

\$110,000,000

**4.521% Series A Senior Unsecured
Debentures**

Due April 29, 2021

**Credit rating of A from DBRS
and
Credit rating of A from Standard & Poor's**

\$210,000,000

**5.297% Series B Senior Unsecured
Debentures**

Due April 29, 2041

**Credit rating of A from DBRS
and
Credit rating of A from Standard & Poor's**

April 20, 2011

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*The following is a summary only of the material attributes and characteristics of the Series A Debentures and Series B Debentures (together the “**Debentures**”) and is qualified in its entirety by the detailed provisions of the trust indenture to be dated on or about April 29, 2011 between the Corporation and the Trustee (the “**Master Indenture**”), and the first supplemental indenture and the second supplemental indenture each to be dated on or about April 29, 2011 between the Corporation and the Trustee (collectively with the Master Indenture, the “**Trust Indenture**”), which may be reviewed at the offices of the Trustee during normal business hours during the period of distribution of the Debentures. Capitalized terms used herein have the meaning set forth in the Trust Indenture unless otherwise defined.*

SUMMARY OF THE OFFERING

Issuer:	Enersource Corporation (the “ Corporation ”).
The Offering:	<p>\$110,000,000 Series A Senior Unsecured Debentures (the “Series A Debentures”).</p> <p>\$210,000,000 Series B Senior Unsecured Debentures (the “Series B Debentures”).</p>
Credit Rating:	<p>Credit rating of A from DBRS.</p> <p>Credit rating of A from Standard & Poor’s.</p>
Maturity:	<p>Series A Debentures: April 29, 2021</p> <p>Series B Debentures: April 29, 2041</p>
Price:	\$1000 per \$1000 principal amount of Debentures.
Interest:	<p>Series A Debentures: 4.521% per annum, payable in equal semi-annual instalments in arrears on April 29 and October 29 in each year commencing October 29, 2011 until maturity.</p> <p>Series B Debentures: 5.297% per annum, payable in equal semi-annual instalments in arrears on April 29 and October 29 in each year commencing October 29, 2011 until maturity.</p>
Rank:	The Debentures will be direct senior unsecured obligations of the Corporation and will rank equally with all of the Corporation’s other senior unsecured obligations.
Minimum Subscription:	\$150,000
Covenants:	<p>The Trust Indenture contains covenants of the Corporation including:</p> <ul style="list-style-type: none"> (a) neither the Corporation nor any Designated Subsidiary may give security in respect of any obligation unless (i) it is a Permitted Encumbrance or (ii) the Corporation causes the Debentures to be secured equally and rateably; (b) neither the Corporation nor any Designated Subsidiary may incur any Funded Obligation unless the aggregate principal amount of the Consolidated Funded Obligations does not exceed 75% of the Total Consolidated Capitalization and no event of default shall have occurred and be continuing; and (c) the Corporation may not amalgamate, merge or dispose of substantially all of its assets unless, among other things, the successor entity assumes the Corporation’s covenants and obligations under the Trust Indenture.

Designated Subsidiary:	<p>The directors of the Corporation (or any two officers if so authorized by the directors) may elect:</p> <ul style="list-style-type: none"> (a) to designate a Subsidiary in addition to Enersource Hydro Mississauga Inc. (“Enersource Hydro”) as a Designated Subsidiary provided that any such Subsidiary may only be so designated if: <ul style="list-style-type: none"> (i) after giving effect thereto, the Corporation would be entitled to issue Funded Obligations in the principal amount of at least \$1.00; and (ii) none of the shares of the Subsidiary are owned by a Subsidiary that is not itself a Designated Subsidiary; and (b) that a Designated Subsidiary other than Enersource Hydro cease to be a Designated Subsidiary provided that such election may not be made in respect of any Designated Subsidiary if: <ul style="list-style-type: none"> (i) such Designated Subsidiary owns any Funded Obligations of the Corporation or any shares or Funded Obligations of another Designated Subsidiary; or (ii) after giving effect to such election, the Corporation would not be entitled to issue Funded Obligations in the principal amount of at least \$1.00. <p>The Corporation shall give prompt notice to the Trustee of any such election.</p>
Redemption:	<p>The Debentures may be redeemed by the Corporation in whole or in part at the Redemption Price together with accrued and unpaid interest to the Redemption Date. The Redemption Price is equal to the greater of the applicable Canada Yield Price and 100% of the principal amount of the Debentures being redeemed.</p>
Delivery and Registration:	<p>The Series A Debentures and the Series B Debentures will each be issued in the form of a fully registered Global Debenture, registered in the name of CDS & CO., as nominee of CDS. Except in limited circumstances, owners of beneficial interests in the Global Debentures will not be entitled to receive Debentures in definitive form.</p>
Events of Default:	<p>The Trust Indenture sets forth certain events that constitute Events of Default (with applicable grace periods) including, but not limited to:</p> <ul style="list-style-type: none"> (a) failure to pay principal or interest owing in respect of the Debentures; (b) failure to perform any other covenant; (c) payment defaults on, or acceleration of, Indebtedness exceeding the greater of \$25 million and 10% of the Consolidated Net Worth of the Corporation; and (d) certain events of bankruptcy, insolvency or reorganization of the Corporation or a Material Subsidiary under bankruptcy or insolvency laws.
Purchase for Cancellation:	<p>The Corporation, when it is not in default, may purchase Debentures in the market, by tender or by contract at any price from time to time. All Debentures so purchased shall be delivered to the Trustee and shall be cancelled.</p>

Defeasance:	The Corporation will be entitled to make due provision for the payment of Debentures and thereby be released from its obligations under the Trust Indenture.
Details of the Offering:	The section below captioned "Details of the Offering" more fully describes the terms set out in the summary and certain other provisions of the Trust Indenture.
Trustee:	BNY Trust Company of Canada
Use of Proceeds:	The net proceeds of the Debentures will be used to repay the amount owed by the Corporation to Borealis Infrastructure Trust due May 2, 2011 and the balance will be used for general corporate purposes including capital expenditures.
Agents:	CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc. and TD Securities Inc.
Governing Law:	The Province of Ontario.

CONFIDENTIAL OFFERING MEMORANDUM

The offering of Debentures is being made solely in one or more of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador (together, the “**Qualifying Provinces**”) through CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc. and TD Securities Inc. (collectively, the “**Agents**”) or any of their affiliates that are permitted under applicable securities law to offer and sell Debentures in the Qualifying Provinces. The offering of Debentures is being made solely pursuant to this Offering Memorandum, and no person has been authorized to give any information or to make any representations other than those contained herein and, if given or made, such information or representation should not be relied upon.

This Offering Memorandum has been prepared by the Corporation for use by the Agents or their affiliates that are permitted to offer and sell Debentures in the Qualifying Provinces, in making offers and sales of Debentures in such provinces. This Offering Memorandum incorporates by reference the investor presentation dated April 20, 2011 (the “**Investor Presentation**”), whether the Investor Presentation is delivered to purchasers with this Offering Memorandum or separately. Without limiting the foregoing, the rights of purchasers described under “Right of Action for Rescission or Damages” below apply in respect of the Investor Presentation.

The Corporation and the Agents have entered into an agency agreement dated April 20, 2011 relating to the sale of Debentures by the Corporation (the “**Agency Agreement**”). The Corporation agrees with each purchaser of Debentures to extend to such purchaser the benefit of the representations, warranties and covenants made by the Corporation in the Agency Agreement, and further agrees that the opinion of counsel for the Corporation required under the Agency Agreement will be addressed to the purchasers of Debentures.

In this Offering Memorandum, unless otherwise indicated, all financial information and dollar amounts are expressed in Canadian dollars.

REPRESENTATIONS AND AGREEMENTS OF PURCHASERS

The distribution of the Debentures in Canada is being made on a private placement basis. By purchasing Debentures, a purchaser will be deemed to have represented to the Corporation and to the Agents that as at the closing of the Offering:

- (a) it is resident in a province of Canada and is entitled under applicable securities laws to purchase the Debentures without the benefit of a prospectus for which a receipt has been issued under those securities laws;
- (b) it is basing its investment decision solely on this Offering Memorandum and not on any other information concerning the Corporation or the Offering;
- (c) it has been independently advised as to restrictions with respect to trading in the Debentures imposed by applicable securities laws in the jurisdiction in which it resides, confirms that no representation (written or oral) has been made to it by or on behalf of the Corporation or the Agents with respect thereto, acknowledges that it is aware of the characteristics of the Debentures, the risks relating to an investment in the Debentures and of the fact that it may not be able to resell the Debentures except in accordance with limited exemptions under applicable securities legislation and regulatory policy and compliance with the other requirements of applicable law; and it agrees that any certificates representing the Debentures will bear a legend indicating that the resale of

such Debentures is restricted; the purchaser further acknowledges that it has been advised to consult its own legal counsel in its jurisdiction of residence for full particulars of the resale restrictions applicable to it and has reviewed and acknowledges the terms referred to below under the heading "Resale Restrictions"; and the purchaser further acknowledges that if it resells the Debentures in compliance with applicable law it will give notice to the subsequent transferee of such restrictions;

- (d) it (i) is either:
 - (A) purchasing, or is deemed under National Instrument 45-106 – *Prospectus and Registration Exemptions* ("NI 45-106") to be purchasing, the Debentures as principal, and is an "accredited investor" within the meaning of NI 45-106; provided that, if the purchaser is a person (other than an individual or investment fund) that has net assets of at least \$5,000,000 as shown on its most recently prepared financial statements, it was not created, or is not used, solely to purchase or hold securities as an accredited investor; or
 - (B) purchasing the Debentures as principal and the aggregate acquisition cost, payable by the purchaser in cash at the closing, for the Debentures is not less than \$150,000 provided that (1) it was not created, or is not used, solely to purchase or hold securities in reliance on the \$150,000 minimum amount investment exemption from the prospectus requirement, and (2) it is not resident in Alberta;
- (ii) will provide, if requested by the Corporation or the Agents, evidence of the basis for the representations set out in clause (i) above; and
- (e) it is not a U.S. person (as such term is defined in Regulation S under the United States *Securities Act of 1933*, as amended (the "**U.S. Securities Act**")), none of the Debentures are being or will be acquired, directly or indirectly, for the account or benefit of a U.S. person, the purchaser was not offered any of the Debentures in the United States, the purchaser did not execute or deliver any agreement in connection herewith in the United States, and the purchaser is aware that the Debentures have not been and will not be registered under the U.S. Securities Act or the securities laws of any State of the United States and that the Debentures may not be offered or sold in the United States without registration under the U.S. Securities Act or except in compliance with the requirements of an exemption from registration.

In addition, each purchaser of Debentures resident in Ontario, by purchasing Debentures, represents to the Corporation and to the Agents that the purchaser:

- (a) has been notified by the Corporation that:
 - (i) the Corporation is required to provide to the Ontario Securities Commission (the "**Commission**") information pertaining to the purchaser of Debentures required to be disclosed in Schedule 1 of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of securities purchased), which Form 45-106F1 the Corporation is required to file under and in accordance with NI 45-106;
 - (ii) such personal information is being collected indirectly by the Commission under the authority granted to it in securities legislation;

- (iii) such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and
 - (iv) the public official in Ontario who can answer questions about the Commission's indirect collection of such personal information is the Administrative Support Clerk at the Commission, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-3684, and
- (b) has authorized the indirect collection of the personal information by the Commission.

By purchasing the Debentures, the purchaser also acknowledges that its name and other specified information, including the principal amount of Debentures it has purchased, may be disclosed to other Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable laws and consents to the disclosure of that information. Upon request, the purchaser agrees to provide the Corporation or the Agents with all information about the purchaser necessary to permit the Corporation to properly complete and file Form 45-106F1 under NI 45-106.

By purchasing the Debentures, each purchaser confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Debentures described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. En recevant le présent document, chaque acquéreur confirme par les présentes qu'il a expressément demandé que tous les documents qui attestent la vente des débentures décrites dans les présentes ou qui s'y rapportent de quelque manière que ce soit (y compris, plus particulièrement, une confirmation d'achat ou un avis) soient rédigés en langue anglaise seulement.

RESALE RESTRICTIONS

The distribution of Debentures is being made on a private placement basis and is therefore exempt from the requirement that the Corporation prepare and file a prospectus with respect to such distribution with Canadian securities regulators. In addition, the Debentures have not been, and will not be, registered under the U.S. Securities Act and may not be sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless Debentures are registered under the U.S. Securities Act or an exemption from the registration requirements thereof is available. (Terms used in the foregoing sentence that are defined in Regulation S under the U.S. Securities Act are used as therein defined.) Accordingly, any resale of Debentures will be restricted and must be made through an appropriately registered dealer or in accordance with an exemption from the registration requirements of applicable securities laws, and in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws, which vary depending on the relevant jurisdiction. Purchasers are advised to seek legal advice prior to any resale of Debentures.

Although the Corporation is currently a "reporting issuer", as such term is defined under securities legislation in the Province of Ontario, the Corporation intends to make an application to the Commission to cease to be a reporting issuer in Ontario. There currently is no public market for the Debentures in Canada, and one may never develop. Under no circumstances will the Corporation be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Debentures to the public in any province or territory of Canada.

THE CORPORATION

The Corporation

The Corporation is a diversified energy and technologies company serving residential and business customers primarily in the City of Mississauga through its two wholly-owned subsidiaries: Enersource Hydro Mississauga Inc. (“**Enersource Hydro**”), the regulated utility; and Enersource Services Inc. (“**Enersource Services**”), the non-regulated energy services holding company. The Corporation was incorporated under the *Business Corporations Act* (Ontario) on July 28, 2000 and is 90% owned by The Corporation of the City of Mississauga (the “**City of Mississauga**”) and 10% owned by BPC Energy Corporation (“**Borealis**”), a subsidiary of the Ontario Municipal Employees Retirement System. The City of Mississauga, Borealis and the Corporation are parties to a shareholders’ agreement, the details of which are described below under the heading “Shareholders’ Agreement”.

Shareholders’ Agreement

Borealis, the City of Mississauga and the Corporation are parties to the shareholders’ agreement made as of December 6, 2000 (the “**Enersource Shareholders’ Agreement**”) which outlines the rights and obligations of Borealis and the City of Mississauga as shareholders of the Corporation. The Enersource Shareholders’ Agreement contains provisions which, among other things, govern the day to day management of the Corporation and the approval of certain fundamental corporate actions. Fundamental actions require the consent of either at least 75% of the directors voting at a meeting with one such director being a Borealis appointee, or of all the directors in writing. Such actions include, but are not limited to: (i) the borrowing of any money, the giving of any security or the making or incurring any single capital expenditure in excess of \$2.5 million or aggregate capital expenditures in excess of \$5.0 million in any financial year; (ii) the acquisition by the Corporation of a business and/or all or substantially all of the assets used in a business; (iii) the entering into of an amalgamation, merger or consolidation with any other corporation; (iv) the disposition of any asset with a value in excess of \$2.5 million; and (v) changes to the authorized and issued capital of the Corporation. The City of Mississauga and Borealis are currently in discussions relating to revisions to the Enersource Shareholders’ Agreement.

ENERSOURCE HYDRO

Enersource Hydro is a regulated electricity distribution company that provides electricity and related utility services to over 190,000 residential and business customers in the City of Mississauga. Enersource Hydro’s business is regulated under the cost of service methodology by the Ontario Energy Board (the “**OEB**”). See below under the heading “Regulation”. Enersource Hydro is the third largest municipally-owned electricity supplier (by peak demand) among 80 municipally-owned utilities in Ontario and operates 65 municipal substations and over 20,000 distribution transformers.

The electricity distribution business of Enersource Hydro is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service and the regulation of rates charged to customers by Enersource Hydro and other electricity distributors in Ontario.

Distribution Licence and Industry Codes

Enersource Hydro holds an OEB Electricity Distributor licence which allows it to own and operate electricity distribution systems in the City of Mississauga. Among other things, the licence provides that Enersource Hydro may not impose charges for the distribution of electricity except in accordance with distribution rate orders approved by the OEB and must comply with industry codes established by the OEB. In addition to the distribution of electricity, Ontario electricity distributors are also permitted by law to provide services related to the promotion of energy conservation, demand management and clean

energy sources, including alternative and renewable energy sources and to undertake certain generation activities using renewable energy sources, including solar.

The OEB has established a number of codes of conduct that prescribe minimum standards of conduct and service which are applicable to Enersource Hydro and all other electricity distributors in Ontario. The Affiliate Relationships Code in particular establishes standards and conditions for the business relationship between distributors and their unregulated affiliated companies which are intended to protect the confidentiality of the distributor's customer information and to prevent cross-subsidization by the regulated distributor of non-regulated affiliates.

Distribution Rate Setting

The current OEB distribution rate making regime has been in place since late 2006 and governs applications for approval of rates to be charged to distribution customers for 2008 and beyond. A distributor is expected to make a comprehensive application every four years (referred to as a "rebasings" or "forward test year cost of service" application) for approval of a revenue requirement and the distribution rates necessary to recover that revenue requirement, based on forecasts of expenditures for the following year. The revenue requirement is the amount necessary to recover, among other items, operating expenditures including debt servicing and payments-in-lieu of taxes, and provide a permitted return on the distributor's rate base – the net book value of distribution assets plus a working capital allowance.

The OEB establishes cost of capital parameters – the permitted Return on Equity ("ROE") and deemed long and short term debt rates for rate making purposes – for applications on a province-wide basis. The OEB-approved rates should be adequate to achieve the permitted ROE, but the OEB does not guarantee that the distributor will earn a particular ROE – actual returns may be more or less than the percentage used for rate making purposes. The permitted debt rate in any application will depend on both the OEB's deemed debt rate and rates applicable to debt instruments actually issued by the distributor. The parameters are established in November and February of each year for forward test year cost of service applications for rates that take effect in January and May, respectively.

Because there are over 80 rate regulated electricity distributors in Ontario, the OEB divided distributors into four groups and has staggered the years in which they are expected to make comprehensive forward test year cost of service applications. In the years between rebasing applications, rates are adjusted annually using a mechanistic approach (the "**Incentive Regulation Mechanism**", or "**IRM**") whereby adjustments are made for inflation (an upward adjustment) and to incent productivity (a downward adjustment). Once a distributor has rebased, the cost of capital parameters remain at the levels applicable to the rebasing year throughout the IRM period, until the next rebasing application. However, the continuing evolution of Ontario's electricity sector may affect the manner in which distribution rates are set in the future and the elements which electricity distributors are allowed to recover through distribution rates.

Enersource Hydro Distribution Rates

Enersource Hydro submitted a forward test year cost of service application to the OEB on August 23, 2007 for the rate period May 1, 2008 to April 30, 2009. A settlement was negotiated with intervenors and was accepted by the OEB on January 4, 2008. The OEB-approved settlement proposal included a rate base of \$496.6 million.

On November 7, 2008, Enersource Hydro submitted an IRM 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%.

On November 27, 2009 Enersource Hydro submitted an application to the OEB to recover/refund all energy settlement variance account balances as at December 31, 2008, as well as the power variance account balances as at September 30, 2009. These energy settlement variances, which include power, arise from differences in amounts billed to customers under the regulated pricing mechanism and the corresponding wholesale market cost of power incurred by the utility. The net balance of these accounts was \$12.8 million in favour of Enersource Hydro. The application was approved by the OEB on January 29, 2010. The \$12.8 million net balance in these accounts will be recovered from Enersource Hydro's customers over a two-year period from February 1, 2010 through January 31, 2012.

Enersource Hydro submitted an IRM rate application in July 2009 to the OEB which was approved on March 29, 2010 for the rate period May 1, 2010 to April 30, 2011. The net impact of the new distribution rates combined with an increase in electricity pricing and reduced consumption thresholds effective May 1, 2010 increased the total bill of an average residential customer consuming 800 kWh of electricity per month by 11.3%.

On October 15, 2010, Enersource Hydro submitted an IRM rate application to the OEB for the rate period May 1, 2011 through April 30, 2012. On March 17, 2011, the OEB released its decision and order on this rate application. The net impact of the new distribution rates combined with retail transmission rates decreased the total delivery portion of the bill of an average residential customer consuming 800 kWh of electricity per month by 0.2%.

Smart Meters

In October 2008, the OEB issued a Guideline for Smart Meter Funding and Cost Recovery ("**Smart Meter Guideline**") which set out the OEB's filing requirements in relation to the funding of, and the recovery of costs associated with, smart meter activities conducted by electricity distributors. Distributors are required to install smart meters as a result of the Ontario Government's initiative to have smart meters installed in all Ontario homes and small businesses in order to foster conservation and demand management. A smart meter measures the amount of electricity consumed on an hourly basis.

Enersource Hydro is authorized by applicable regulations to conduct smart meter activities. At the end of 2010, smart meters were installed for approximately 99.8% of Enersource Hydro's residential customers and for approximately 84.1% of Enersource Hydro's small business customers. Enersource Hydro collects a smart meter funding adder from its customers as part of its OEB approved rates which provides funding to assist Enersource Hydro in making its smart meter-related expenditures. The revenues from the adder and Enersource Hydro's actual smart meter expenditures are tracked in an OEB variance account. In its decision on Enersource Hydro's 2010 IRM rate adjustment application, the OEB noted that the smart meter funding adder is intended to provide funding for smart metering activities in the 2010 rate year, and that the OEB has not made any finding on the prudence of the proposed smart meter activities. Such prudence will be considered at the time that Enersource Hydro applies for the recovery of those costs, and for the settlement and disposition of the above noted OEB variance account. To date, this reflects the OEB's typical approach to these expenditures.

Green Energy Act, 2009

On September 9, 2009, the *Green Energy Act, 2009* came into force. The *Green Energy Act, 2009*, among other things, permits electricity distributors to own renewable energy generation facilities; obligates electricity distribution companies to provide priority connection access for renewable electricity generation facilities; empowers the OEB to set conservation and demand management targets for

electricity distribution companies as a condition of licence; and requires electricity distribution companies to accommodate the development and implementation of a smart grid in relation to their distribution infrastructure. The legislation was largely enabling and provided that much of the implementation detail would be defined in subsequent regulations. As an electricity distributor, Enersource Hydro must comply with all of the requirements of this legislation. At this time, Enersource does not intend to invest in any green energy generation projects.

ENERSOURCE SERVICES

Enersource Services is a direct wholly-owned subsidiary of the Corporation. Enersource Services owns all of the shares of Enersource Hydro Mississauga Services Inc. (“**EHM Services**”). EHM Services’ primary business focus is to provide electrical infrastructure design, construction, operations support and maintenance services to municipalities, large companies, institutions and energy distribution companies. The key areas of energy services include the following:

- Street light asset design, construction and maintenance services – EHM Services maintains over 85,000 street lights in the City of Mississauga and the City of Brampton:
 - EHM Services has been providing street lighting services to the City of Mississauga since inception and is currently in the third year of a five-year street lighting services agreement;
 - EHM Services has been providing street light maintenance and emergency repair services to the City of Brampton since January 1, 2009. Effective January 1, 2011, EHM Services renewed its agreement with the City of Brampton for an additional year and has an option to renew each year for two additional years.
- Engineering consulting and planning services that consist of determining energy needs and performing the analysis, planning and engineering required to develop customized, flexible construction projects and services.
- Construction and maintenance services that include timely and cost effective construction and maintenance services in areas such as installations of underground and overhead electrical distribution and emergency power systems.
- System operation and management that provides operation and management services to ensure networks operate at peak efficiency.

Enersource Services is also the holding company for two inactive subsidiaries of the Corporation, Enersource Telecom Inc. and Enersource Technologies Inc.

DETAILS OF THE OFFERING

The following is a summary only of the material attributes and characteristics of the Debentures and is qualified in its entirety by the detailed provisions of the Trust Indenture. The Trust Indenture may be reviewed at the offices of the Trustee during normal business hours during the period of distribution of the Debentures. Certain capitalized terms used below are defined under the heading “Certain Definitions”.

General

The Trust Indenture provides for the issuance of an unlimited principal amount of Debentures, issuable in series. The Series A Debentures and the Series B Debentures are the first two series and will be issued pursuant to the Trust Indenture. An aggregate principal amount of \$320,000,000 of Debentures has been

authorized for issuance. The Debentures will be senior unsecured obligations of the Corporation and will rank *pari passu* with all other senior unsecured indebtedness of the Corporation, including any other debentures issued pursuant to the Trust Indenture.

Form and Denominations

Debentures will be issued in “book-entry” only form, and each series of Debentures will be represented by a Global Debenture registered in the name of CDS & CO., as nominee of CDS and held by CDS.

Beneficial interests in the Global Debentures must be purchased or transferred through participants (“**Participants**”) in the depository service of CDS, which include investment dealers, banks and trust companies. Except as described below, no purchaser of a beneficial interest in the Global Debentures will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser’s beneficial interest and no holder of a beneficial interest in the Global Debentures will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of such holder. CDS will be responsible for establishing and maintaining book entry accounts for its Participants holding beneficial interests in the Debentures.

As long as CDS or its nominee is the registered holder of the Global Debentures, CDS or such nominee, as the case may be, will be considered the sole owner and holder of the Debentures represented by such Global Debentures for all purposes under the Trust Indenture and Debentures. In addition, no beneficial owner of an interest in the Global Debentures will be able to transfer that interest except in accordance with CDS’s applicable procedures (in addition to those under the Trust Indenture referred to herein). The ability of a Person having a beneficial interest in the Global Debentures to pledge such interest or otherwise take action with respect to such interest (other than through a Participant) may be limited due to the lack of a physical certificate.

Payments of the principal of, premium, if any, and interest on the Global Debentures will be made to CDS or its nominee, CDS & CO., as the registered owner thereof. Neither the Corporation, the Trustee nor any of their respective agents will have any responsibility or liability for any aspect of the records relating to or payment made on account of beneficial ownership interests in the Global Debentures or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Debenture certificates will be issued to beneficial owners only in the following circumstances:

- (a) the Depository notifies the Corporation that it is unwilling or unable to continue to act as depository in connection with such Debentures and the Corporation is unable to locate a qualified successor;
- (b) the Depository ceases to be recognized as a clearing agency registered under applicable Canadian securities legislation, or otherwise ceases to be eligible to be a depository, and a successor depository is not appointed by the Corporation within 90 days thereof;
- (c) the Corporation determines, in its sole discretion, that such Debentures shall no longer be held as Book Entry Only Debentures; or
- (d) such right is required by applicable law, as determined by the Corporation and the Corporation Counsel.

Upon the occurrence of any of the circumstances set out above, the Debentures will be issued in fully registered form and in denominations of \$1,000 or integral multiples thereof.

Other than in the circumstances set out above, owners of beneficial interests in the Global Debentures will not be entitled to have Debentures registered in their names, will not receive or be entitled to receive physical delivery of Debentures in definitive form or any other instrument evidencing their beneficial interests and will not be considered the owners or holders thereof under the Trust Indenture. All references herein and in the Trust Indenture to payments, notices, reports and statements to, actions by, or rights of Debentureholders will refer to the same made or exercised with respect to or by CDS or its nominee, as the case may be, as the registered holder of the Global Debentures upon instructions of a requisite number of holders of beneficial interests acting through Participants.

Interest and Maturity

Series A Debentures will bear interest from the date of issue to maturity at the rate of 4.521% per annum, calculated and payable semi-annually in arrears. Semi-annual payments of interest in the amount of \$22.605 per \$1000 of principal will be due and payable on April 29 and October 29 in each year to and including April 29, 2021. The first interest payment will be made on October 29, 2011.

Series B Debentures will bear interest from the date of issue to maturity at the rate of 5.297% per annum, calculated and payable semi-annually in arrears. Semi-annual payments of interest in the amount of \$26.485 per \$1000 of principal will be due and payable on April 29 and October 29 in each year to and including April 29, 2041. The first interest payment will be made on October 29, 2011.

Term

The Series A Debentures will be dated the date of issue and will mature on April 29, 2021.

The Series B Debentures will be dated the date of issue and will mature on April 29, 2041.

Purchase for Cancellation

At any time when it is not in default under the Trust Indenture, the Corporation may purchase all or any of the Debentures in the market, by tender, or by private contract, at any price. All Debentures so purchased shall be delivered to the Trustee and be cancelled.

Redemption

The Corporation has the right, at its option, to redeem at any time and from time to time prior to the Maturity Date the whole or any part of Debentures then outstanding at a price (the “**Redemption Price**”) equal to the greater of:

- (a) 100% of the aggregate principal amount outstanding on the Debentures to be redeemed; and
- (b) the Series A Canada Yield Price or the Series B Canada Yield Price, as applicable;

together, in each case, with all accrued and unpaid interest up to but excluding the date fixed for redemption.

Notice of intention to redeem any Debentures must be given by or on behalf of the Corporation to the Holders of the Debentures which are to be redeemed, not more than 60 days and not less than 30 days prior to the Redemption Date. Every notice of redemption must specify the series and the stated maturity of the Debentures called for redemption, the Redemption Date, the Redemption Price and the place or places of payment, and shall state that all interest thereon is to cease from and after the Redemption Date.

Refunding Debentures

If the Corporation wishes to issue Debentures for the purpose of refunding a portion or all of the principal amount outstanding of any one or more series of Debentures (such newly issued Debentures referred to herein as “**Refunding Debentures**”) where the Debentures to be repaid, redeemed or purchased for cancellation have a Maturity Date, or which the Corporation proposes to redeem or purchase for cancellation in accordance with the Trust Indenture, within the twelve month period following the issuance of the Refunding Debentures (such Debentures to be repaid, redeemed or purchased for cancellation referred to herein as the “**Subject Debentures**”), the order for the certification and delivery of such Refunding Debentures must:

- (a) identify the relevant Subject Debentures; and
- (b) state the aggregate principal amount of the Subject Debentures to be repaid, redeemed or purchased for cancellation, as the case may be.

Subject to the paragraph below, the proceeds from the issuance of Refunding Debentures will be held by the Trustee in trust and invested in Authorized Investments in accordance with the written direction of the Corporation until applied to the repayment, redemption or purchase for cancellation of the Subject Debentures.

To the extent amounts on deposit with the Trustee exceed the amount required to repay, redeem or purchase for cancellation the Subject Debentures, the Trustee will deliver such excess to the Corporation.

Defeasance

The Corporation has the right to be released from its obligations under the Trust Indenture relating to the outstanding Debentures if specified conditions are satisfied. Among other things, the Corporation must deposit sufficient money or securities for payment in full of the principal of and interest on the Debentures and all other amounts which pertain to the Debentures, including the payment of the expenses of the Trustee. The deposited money or securities must be denominated in Canadian dollars constituting direct obligations of Canada or a province thereof, or an agency or instrumentality of Canada.

Certain Covenants

The Corporation will comply with the following covenants so long as any Debentures are outstanding:

- (a) the Corporation will duly and punctually pay or cause to be paid, without deduction or any right of set-off, to each Holder the principal thereof, interest accrued thereon and Premium, if any, payable thereon on the dates, at the places, in the currency, and in the manner specified herein or as otherwise provided in such Debentures;
- (b) subject to the express provisions of the Trust Indenture, the Corporation will and will cause each Designated Subsidiary to maintain its corporate existence (provided, however, a Designated Subsidiary may cease to maintain its corporate existence if all of its assets are or have been conveyed to the Corporation or another Designated Subsidiary) and will carry on and conduct or will cause to be carried on and conducted its business and the business of its Designated Subsidiaries in a proper and efficient manner and will keep or cause to be kept proper books of account and make or cause to be made therein true and faithful entries of all its dealings and transactions in relation to its business and the business of its Designated Subsidiaries, as the case may be, all in accordance with Canadian GAAP, but the Corporation may cease to operate or cause any Designated

Subsidiary to cease to operate any premises or property if in the opinion of the directors of the Corporation it is advisable and in the best interests of the Corporation or the Designated Subsidiary concerned to do so;

- (c) the Corporation will provide to the Trustee copies of (i) within 120 days of each fiscal year end of the Corporation, annual audited consolidated financial statements of the Corporation prepared in accordance with Canadian GAAP together with a report of the Corporation's auditors thereon; (ii) within 60 days of the end of the first, second and third quarters of the Corporation's fiscal year, consolidated interim financial statements other than with respect to the consolidated interim financial report prepared in accordance with IFRS for the first quarter in which such report is required to be prepared, which may be provided within 90 days of the end of such quarter; (iii) if required, at the same time as they are filed with provincial securities regulatory authorities, all other non-confidential documents required to be filed with such authorities under applicable securities laws; and (iv) such other non-confidential information relating to the business of the Corporation and its subsidiaries as the Trustee may reasonably require; and
- (d) the Corporation will, and will cause each Designated Subsidiary to, from time to time pay or cause to be paid all taxes (including transfer taxes), rates, levies, payments in lieu of taxes, assessments (ordinary or extraordinary), government fees or dues lawfully levied, assessed or imposed upon or in respect of its respective property or any part thereof or upon its income and profits as and when the same become due and payable and to withhold and remit any amounts required to be withheld by it from payments due to others and remit the same to any government or agency thereof, provided, however, that the Corporation and its Designated Subsidiaries have the right to contest in good faith and diligently by legal proceedings any such taxes, rates, levies, payments in lieu of taxes, assessments, government fees or dues and, during such contest, may deliver or defer payment or discharge thereof.

Negative Pledge

So long as any Debentures are outstanding, the Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest, other than Permitted Encumbrances, on any of its assets to secure any Obligation, unless at the same time it secures equally and rateably therewith all the Debentures issued pursuant to the Trust Indenture then outstanding.

Limitation on Funded Obligations

The Corporation will not and will ensure that no Designated Subsidiary will, directly or indirectly, guarantee, incur, issue or otherwise become liable for or in respect of any Funded Obligations unless (i) after giving effect to such guarantee, incurrence, issuance or liability (including the application or use of the net proceeds therefrom), the aggregate principal amount of the Consolidated Funded Obligations does not exceed 75% of Total Consolidated Capitalization, and (ii) no default or Event of Default shall have occurred and be continuing at the time of, or as a consequence of, such Funded Obligation having been incurred.

Amalgamation, Merger and Sale of Assets

So long as any Debentures are outstanding, the Corporation may not, in a single transaction or a series of related transactions, amalgamate or consolidate with or merge into any other Person, or permit any other Person to amalgamate or consolidate with or merge into with the Corporation, or directly or indirectly transfer, sell, lease or otherwise dispose of all or substantially all of its property or assets on a

consolidated basis to any Person except in accordance with or as permitted by the Trust Indenture (including the successor entity assuming the Corporation's covenants and obligations under the Trust Indenture). Notwithstanding the foregoing, a Designated Subsidiary shall be permitted to merge with another entity provided that, after giving effect to such merger, it continues to be a Designated Subsidiary and that the Corporation would be entitled to issue Funded Obligations in the principal amount of at least \$1.00.

Designated Subsidiary

The Directors may elect:

- (a) to designate a Subsidiary in addition to Enersource Hydro as a Designated Subsidiary provided that any such Subsidiary may only be so designated if:
 - (i) after giving effect to the designation, the Corporation would be entitled under the Trust Indenture to issue Funded Obligations in the principal amount of at least \$1.00; and
 - (ii) none of the shares of the Subsidiary are owned by a Subsidiary that is not itself a Designated Subsidiary; and
- (b) that a Designated Subsidiary other than Enersource Hydro cease to be a Designated Subsidiary, provided that such election may not be made in respect of any Designated Subsidiary if:
 - (i) such Designated Subsidiary owns any Funded Obligations of the Corporation or any shares or Funded Obligations of another Designated Subsidiary; or
 - (ii) after giving effect to such election, the Corporation would not be entitled under the Trust Indenture to issue Funded Obligations in the principal amount of at least \$1.00.

The Corporation shall give prompt notice to the Trustee of any such election.

Events of Default

The occurrence of any of the following events constitutes an “**Event of Default**” under the Trust Indenture:

- (a) the Corporation fails to make payment of the principal or Premium, if any, on any Debentures when the same becomes due, at maturity, upon redemption or otherwise, and any such failure continues for a period of five days;
- (b) the Corporation fails to make payment of any interest on any Debentures when due and any such failure continues for a period of 30 days;
- (c) the Corporation fails to observe and perform its covenant as described above under “Amalgamation, Merger and Sale of Assets” above;
- (d) the Corporation fails to observe and perform any other obligation under the provisions of the Trust Indenture or any supplemental indenture and such failure continues for more than 60 days after written notice thereof is provided to the Corporation by the Trustee or by holders of at least 25% of all Debentures issued under the Trust Indenture;

- (e) the Corporation or any Material Subsidiary (whether as primary obligor or guarantor or surety) fails to make any payment of principal, premium, if any, or interest on any Indebtedness, the outstanding principal amount of which Indebtedness exceeds the greater of \$25 million and 10% of the Consolidated Net Worth of the Corporation, beyond any period of grace provided with respect thereto or fails to perform or observe any other agreement, term or condition contained in any agreement under which any such Indebtedness is created and the effect of such default, failure or other event is to cause an amount in excess of the greater of \$25 million and 10% of the Consolidated Net Worth of the Corporation, of such Indebtedness to become due or to be required to be repurchased prior to any stated maturity;
- (f) a proceeding is instituted against the Corporation or a Material Subsidiary with respect to the appointment of a liquidator, trustee in bankruptcy, custodian or receiver and manager or other Person with similar powers with respect to the Corporation or a Material Subsidiary or any material part of the property of the Corporation or of a Material Subsidiary, unless such proceeding is being defended by the Corporation or such Material Subsidiary in good faith and is dismissed, discharged, stayed or restrained within 60 days of commencement and the position of the Debentureholders is not being prejudiced in any material respect;
- (g) the Corporation or a Material Subsidiary makes a general assignment for the benefit of its creditors, or institutes proceedings to be adjudicated a bankrupt or insolvent or consents to the institution of bankruptcy or insolvency proceedings against it under the *Bankruptcy and Insolvency Act* (Canada) or petitions or applies to any court or tribunal for the appointment of a receiver or trustee for itself or any substantial part of its property, or commences any other bankruptcy, insolvency or analogous law or statute or any proceeding for the appointment of a receiver or trustee for itself or any part of its property, or suffers any such receivership or trusteeship and allows it to remain undischarged or unstayed for 30 days;
- (h) a resolution is passed for the winding-up or liquidation of the Corporation except in the course of carrying out or pursuant to a transaction in respect of which the conditions of the Trust Indenture are duly observed and performed; and
- (i) an encumbrancer takes possession of property, other than property that is subject to security with respect to Non-Recourse Debt, of the Corporation or a Material Subsidiary that constitutes a substantial part of the property of the Corporation considered on a consolidated basis, or any execution is levied or enforced on property of the Corporation or a Material Subsidiary that constitutes a substantial part of the property of the Corporation considered on a consolidated basis, which remains unsatisfied for such period of time as would permit such property to be sold thereunder unless such process is in good faith being contested by the Corporation or the Material Subsidiary.

Acceleration on Default

Subject to the provisions described under the heading “Waiver of Default” below, if an Event of Default due to the default in payment of principal of or Premium, if any, or interest on any series of Debentures issued under the Trust Indenture, or due to the default in the performance, or breach, of any other covenant or warranty of the Corporation applicable to the Debentures of any series but not applicable to all outstanding Debentures issued under the Trust Indenture, or due to a default which is an Event of Default under a series of Debentures outstanding but not under all outstanding Debentures issued under the Trust Indenture, shall have occurred and be continuing, the Trustee may, and shall upon receipt of a

Debentureholders' Request in respect of such series, then declare the principal of, and interest and Premium, if any, on all series of Debentures to be due and payable immediately; and if an Event of Default due to a default in the performance of any other covenant or warranty in the Trust Indenture applicable to all Debentures issued thereunder and then outstanding, or due to an event described in (e), (f), (g), (h) or (i) under the heading "Events of Default" above, shall have occurred and be continuing the Trustee may, and shall upon receipt of a Debentureholders' Request, declare the principal amount of all the Debentures then outstanding to be due and payable immediately.

Notwithstanding anything contained in the Trust Indenture or the Debentures to the contrary, if such a declaration is made, the Corporation shall pay to the Trustee forthwith for the benefit of the Debentureholders the amount of principal of and Premium (calculated as if the Debentures were being redeemed and the date of demand was the Redemption Price Calculation Date therefor) and accrued and unpaid interest (including interest on amounts in default) on all Debentures and all other amounts payable in regard thereto under the Trust Indenture, together with interest thereon at the rate borne by such Debentures from the date of such declaration until payment is received by the Trustee. Such payments, when made, shall be deemed to have been made in discharge of the Corporation's obligations under the Trust Indenture and any amounts so received by the Trustee shall be applied in the manner specified in the Trust Indenture.

Waiver of Default

Upon the happening of an Event of Default applicable to a series of Debentures, the holders of not less than 66⅔% of the principal amount of the series of Debentures with respect to which an Event of Default has occurred and is continuing (or not less than 100% in the case of a failure to make payment of principal) shall have the power, exercisable by requisition in writing, to instruct the Trustee to waive such Event of Default and to cancel any declaration made by the Trustee pursuant to those provisions as described above under the heading "Acceleration on Default", and the Trustee shall thereupon waive such Event of Default or cancel such declaration upon such terms and conditions as shall be prescribed in such requisition.

Upon the happening of an Event of Default applicable to all the Debentures, the holders of not less than 66⅔% of the principal amount of the Debentures shall have the power, exercisable by requisition in writing, to instruct the Trustee to waive such Event of Default and to cancel any declaration made by the Trustee pursuant to those provisions as described above under the heading "Acceleration on Default", and the Trustee shall thereupon waive such Event of Default or cancel such declaration upon such terms and conditions as shall be prescribed in such requisition.

No delay or omission of the Trustee or of the Debentureholders in exercising any right or power accruing upon the occurrence of an Event of Default shall impair any such right or power or shall be construed to be a waiver of such Event of Default or acquiescence therein, and no act or omission of, the Trustee or of the Debentureholders shall extend to or be taken in any manner whatsoever to affect any subsequent Event of Default or the rights resulting therefrom.

Modification of Trust Indenture

The Trust Indenture provides that the Corporation and the Trustee may enter into supplemental indentures without the consent of any Debentureholder to: (a) add limitations or restrictions to be observed on the amount or issue of Debentures under the Trust Indenture, provided that such limitations or restrictions shall not be materially adverse to the interests of the Debentureholders; (b) add covenants of the Corporation for the protection of the Debentureholders; (c) add any additional Events of Default; (d) establish the form and terms of any series of Debentures; and (e) evidence the assumption of a successor to the obligations of the Corporation.

Other amendments and modifications of the Trust Indenture, supplemental indentures and Debentures may be made by the Corporation and the Trustee with the consent of the holders of not less than 66 $\frac{2}{3}$ % of the aggregate principal amount of the Debentures voting in respect of such amendment or modification. However, no modification or amendment may, without the consent of the holder of each outstanding Debenture of the affected series: (a) reduce the principal amount at maturity of, extend the fixed maturity of, or alter the redemption provisions of such Debentures; (b) change the currency in which any Debentures or any Premium or accrued interest thereon is payable; (c) reduce the percentage in principal amount at maturity outstanding of such Debentures that must consent to an amendment, supplement or waiver or consent to take any action under the Trust Indenture or such Debentures; (d) impair the right to institute suit for the enforcement of any payment on or with respect to such Debentures; (e) waive a default in payment with respect to such Debentures; (f) reduce the rate or extend the time for payment of interest on such Debentures; (g) affect the ranking of such Debentures in a manner adverse to the holder of the Debentures; or (h) make any changes to the Trust Indenture or such Debentures that would result in the Corporation being required to make any withholding or deduction from payments made under or with respect to such Debentures.

Certain Definitions

The following terms are some of the terms defined in the Trust Indenture and apply to the Debentures:

“Authorized Investment” means a short term, interest-bearing or discount debt obligation issued or guaranteed by the government of Canada or of a province of Canada or by a Canadian chartered bank (which may include an affiliate of the Trustee), provided that such obligation is assigned a rating not lower than R-1 (mid) by Dominion Bond Rating Service Limited or an equivalent rating by Standard & Poor’s Ratings LLC, a division of The McGraw Hill Companies, Inc.

“Book Entry Only Debentures” means Debentures of a series which, in accordance with the terms applicable to such series, are to be held only by or on behalf of the Depository.

“CDS” means CDS Clearing and Depository Services Inc. and its successors.

“Canada Yield”, on any date, means the yield to maturity on such date, compounded semi-annually, and calculated in accordance with generally accepted Canadian financial practice, which a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity equal to the remaining term to maturity (calculated from the Redemption Date) of the Series A Debentures or the Series B Debentures, as applicable, such yield to maturity being the average of the yields provided by two Canadian investment dealers specified by the Corporation.

“Canadian GAAP” means as at any date of determination, accounting principles generally accepted in Canada, as such principles may be amended, varied or replaced by IFRS then in effect and generally accepted in Canada, unless as otherwise indicated in the Trust Indenture.

“Capital Lease Obligation” means any monetary obligation of the Corporation or a Designated Subsidiary under any leasing or similar arrangement which, in accordance with Canadian GAAP, would be classified as a capital lease and for the purposes hereof, the amount of Capital Lease Obligations shall be the capitalized amount thereof, determined in accordance with Canadian GAAP, provided however that the determination of whether a lease in effect as of the date of the Trust Indenture constitutes a capital lease obligation or not shall be based upon Canadian GAAP as constituted as of the date of the Trust Indenture and shall not be affected by future amendments to Canadian GAAP or the coming into force of IFRS.

“Consolidated Funded Obligations” means the aggregate amount of all Funded Obligations of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with Canadian GAAP. For greater certainty, Funded Obligations of a Subsidiary that is not a Designated Subsidiary will not be included in making such determination.

“Consolidated Net Worth” means the shareholder’s equity of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with Canadian GAAP. For greater certainty, the shareholder’s equity of a Subsidiary that is not a Designated Subsidiary will not be included in making such determination.

“Contingent Liability” means any agreement, undertaking or arrangement by which any Person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the Obligation of any other Person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person. The amount of any Person’s Obligation under any Contingent Liability shall (subject to any limitation set forth therein) be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the Obligation guaranteed thereby.

“Corporation” means Enersource Corporation and its successors and assigns.

“Corporation Counsel” means legal counsel retained by the Corporation.

“Debentureholder” or **“Holder”** means, at a particular time, a Person entered in a register as a holder of one or more Debentures outstanding at such time.

“Debentureholders’ Request” means, in respect of a particular series of Debentures, an instrument signed in one or more counterparts by Debentureholders holding not less than 25% of the aggregate principal amount of the outstanding Debentures of such series or, in respect of all Debentures, an instrument signed in one or more counterparts by Debentureholders holding not less than 25% of the aggregate principal amount of all outstanding Debentures, in each case requesting or directing the Trustee to take or refrain from taking the action or proceeding specified therein.

“Debentures” means senior unsecured debentures of the Corporation issued or to be issued pursuant to the Trust Indenture and represented in the form of fully registered Global Debentures, held by or on behalf of, the Depository.

“Depository” means CDS or such other nationally recognized clearing agency as is designated in writing by the Corporation to act as depository in respect of a series of Book Entry Only Debentures.

“Designated Subsidiary” means Enersource Hydro and, until such designation is terminated in accordance with the Trust Indenture, any other Subsidiary which is designated as such by the Directors in accordance with the Trust Indenture where written notice of such designation has been provided to the Trustee.

“Enersource Hydro” means Enersource Hydro Mississauga Inc., a Wholly-Owned Designated Subsidiary and its successors and assigns.

“Event of Default” has the meaning ascribed to such term under the heading “Events of Default” above.

“Financial Instrument Obligations” means, with respect to any Person at any time, the obligations of such Person under any transaction that is a rate swap, basis swap, forward rate transaction, commodity

swap, commodity option, commodity future, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing to the extent of the net amount due to or accruing due by the Person thereunder (determined by marking the same to market at such time in accordance with its terms).

“Funded Obligations” means, with respect to any Person, all Indebtedness created, assumed or guaranteed which matures by its terms on, or is renewable at the option of such Person to, a date more than 18 months after the date of the original creation, assumption or guarantee thereof; provided that, with respect to the Corporation, Subordinated Indebtedness and the principal amount of Subject Debentures will not be included as Funded Obligations.

“Global Debenture” means, a global debenture evidencing a series of Debentures registered in the name of CDS & CO. as nominee of CDS and held by CDS.

“IFRS” means International Financial Reporting Standards.

“Indebtedness” means (without duplication), with respect to any Person;

- (a) all Obligations of such Person for borrowed money, including Obligations with respect to bankers' acceptances and contingent reimbursement obligations, including those related to letters of credit and other financial instruments;
- (b) all Obligations issued or assumed by such Person in connection with its acquisition of property in respect of the deferred purchase price of that property;
- (c) all Capital Lease Obligations and Purchase Money Obligations of such Person; and
- (d) all Contingent Liabilities of such Person in respect of any of the foregoing.

“Material Subsidiary” means, as at any date, a Subsidiary (a) the total assets of which represent more than 10% of the total assets of the Corporation and its Designated Subsidiaries determined on a consolidated basis as shown in the most recently prepared quarterly or annual consolidated financial statements of the Corporation and its Designated Subsidiaries, or (b) the total revenues of which represent more than 10% of the total revenues of the Corporation and its Designated Subsidiaries determined on a consolidated basis as shown in the most recently prepared quarterly or annual consolidated financial statements of the Corporation and its Designated Subsidiaries.

“Non-Recourse Debt” means, with respect to a Person, any Indebtedness incurred to finance the creation, development, construction or acquisition of an asset of the Person (and any extensions, renewals or refunding of any such Indebtedness) provided that the recourse of the obligee thereof against the Person is limited in all circumstances (other than in respect of false or misleading representations or warranties) to the asset (including all rights and benefits related to or arising out of the asset).

“Obligations” means, without duplication, with respect to any Person, all items which, in accordance with Canadian GAAP, would be included as liabilities on the liability side of the balance sheet of such Person as of the date at which Obligations are to be determined and all Contingent Liabilities of such Person in respect of any of the foregoing.

“Permitted Encumbrances” means any or all of the following:

- (a) any Security Interest that secures the Obligations of a Designated Subsidiary that existed prior to the date on which it became a Designated Subsidiary and that (i) was not incurred in contemplation of such Person becoming a Designated Subsidiary and (ii) is not applicable to the Corporation or any other Designated Subsidiary or the properties or assets of the Corporation or any other Designated Subsidiary;
- (b) any Security Interest granted by the Corporation or a Designated Subsidiary to secure the Debentures;
- (c) any Purchase Money Mortgage or Capital Lease Obligation of the Corporation or a Designated Subsidiary;
- (d) any Security Interest on a property or asset acquired by the Corporation or a Designated Subsidiary that secures the Obligations of a Person (whether or not such Obligations were assumed by the acquiring Person) which Security Interest existed at the time such property or asset was acquired and that (i) was not incurred in contemplation of such property or asset being acquired and (ii) is not applicable to the Corporation or any other Designated Subsidiary or the properties or assets of the Corporation or any other Designated Subsidiary;
- (e) any Security Interest given in the ordinary course of business by the Corporation or a Designated Subsidiary to any bank or banks or other lenders to secure any Indebtedness payable on demand or maturing within 18 months of the date such Indebtedness is incurred or of the date of any renewal or extension thereof;
- (f) any Security Interest granted by a Designated Subsidiary in favour of the Corporation or a Wholly-Owned Designated Subsidiary;
- (g) any Security Interest on or against cash or marketable debt securities pledged to secure any non-speculative Financial Instrument Obligation incurred in the ordinary course of business for risk management purposes that hedges Indebtedness of the Corporation or a Designated Subsidiary;
- (h) any Security Interest in an asset, other than Principal Property, created or assumed by the Corporation or a Designated Subsidiary to secure Non-Resource Debt of the Corporation or the Designated Subsidiary in respect of such asset;
- (i) any Security Interest for taxes, payments in lieu of taxes, assessments, government charges or claims that are being contested in good faith and in respect of which appropriate provision is made in the consolidated financial statements of the Corporation in accordance with Canadian GAAP;
- (j) any Security Interests securing appeal bonds or other similar Security Interests arising in connection with contracts, bids, tenders or court proceedings (including surety bonds, security for costs of litigation where required by law and letters of credit) or any other instruments serving a similar purpose;
- (k) a Security Interest in cash or marketable debt securities in a sinking fund account established by the Corporation in support of one or more series of Debentures;

- (l) a lien or deposit under workers' compensation, social security or similar legislation or good faith deposits in connection with bids, tenders, leases, contracts or expropriation proceedings, or deposits to secure public or statutory obligations or deposits of cash or obligations to secure surety and appeal bonds;
- (m) a lien or privilege imposed by law, such as builders', carriers', warehousemen's, landlords', mechanics' and material men's liens and privileges, and any lien or privilege arising out of judgments or awards with respect to which the Corporation or a Designated Subsidiary at the time is prosecuting an appeal or proceedings for review and with respect to which it has secured a stay of execution pending such appeal or proceedings for review; or liens for taxes, payments in lieu of taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which is being contested at the time by the Corporation or a Designated Subsidiary in good faith; or undetermined or inchoate liens, privileges and charges incidental to current operations which have not at such time been filed pursuant to law against the Corporation or a Designated Subsidiary or which relate to obligations not due or delinquent; or the deposit of cash or securities in connection with any lien or privilege referred to in this clause (m);
- (n) any minor encumbrance, including, easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other Persons, rights-of-way for sewers, electric lines, telegraph and telephone lines and oil and natural gas pipe lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, easements, servitudes, rights-of-way or other similar rights and restrictions do not in the aggregate materially detract from the value of such properties or materially impair their use in the operation of the business of the Corporation or a Designated Subsidiary;
- (o) any right reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, license, franchise, grant or permit acquired by the Corporation or a Designated Subsidiary, or by any statutory provision, to terminate any such lease, license, franchise, grant or permit or to purchase assets used in connection therewith or to require annual or other periodic payments as a condition to the continuance thereof;
- (p) a lien or right of distress reserved in or exercisable under any lease for rent and for compliance with the terms of such lease;
- (q) any Security Interest granted by the Corporation or a Designated Subsidiary to a public utility or any municipality or governmental or other public authority when required by such utility, municipality or other authority in connection with the operations of the Corporation or such Designated Subsidiary;
- (r) any reservation, limitation, proviso or condition, if any, expressed in any original grants to the Corporation or a Designated Subsidiary from the Crown;
- (s) any extension, renewal, alteration, substitution or replacement, in whole or in part, of any Security Interest referred to in the foregoing clauses (a) through (r), provided the extension, renewal, alteration, substitution or replacement of such Security Interest is limited to all or any part of the same property that secured the Security Interest extended, renewed, altered, substituted or replaced the principal amount of the Obligations secured thereby is not thereby increased, the terms of the Indebtedness secured thereby is not

shortened and the terms and conditions thereof are no more restrictive in any material respect than the Security Interest so extended;

- (t) the Security Interest granted by the Corporation to secure the Term Loan, provided that:
 - (i) such Security Interest will cease to be a Permitted Encumbrance if such Term Loan is not repaid on or before May 4, 2011 and such Security Interest is not released by May 31, 2011; and
 - (ii) sufficient funds from the proceeds of the issuance of Debentures under the Trust Indenture to fully and finally repay the Term Loan are either (A) held in trust by the Trustee until the Term Loan is repaid and the Corporation has provided a written direction to the Trustee to use such proceeds to repay the Term Loan or (B) paid directly to the lender under the Term Loan; and
- (u) any other Security Interest created or assumed by the Corporation or a Designated Subsidiary (in addition to the Security Interests referred to in paragraphs (a) to (t)) if, after giving effect to the Security Interest, the aggregate amount of all Indebtedness secured by Security Interests permitted by this paragraph (u) only does not at that time exceed 5% of Consolidated Net Worth.

“Person” means any individual, corporation, body corporate, limited partnership, general partnership, joint stock company, association, joint venture, association, company, trust, bank, fund, governmental authority, municipal corporation or other entity or organization, whether or not recognized as a legal entity.

“Premium” means, with respect to any Debenture at a particular time, the excess, if any, of the then applicable Redemption Price of such Debenture over the principal amount of such Debenture.

“Principal Property” means any of the Corporation’s and its Subsidiaries’ fixed assets used for the transformation or distribution of electricity and any revenues and rights associated with such fixed assets.

“Purchase Money Mortgage” means any Security Interest created, issued or assumed by the Corporation or a Designated Subsidiary to secure a Purchase Money Obligation; provided that such Security Interest is limited to the property (including the rights associated therewith) acquired, constructed, installed or improved using the funds advanced to the Corporation or such Designated Subsidiary in connection with such Purchase Money Obligation.

“Purchase Money Obligation” means Indebtedness of the Corporation or a Designated Subsidiary incurred or assumed to finance the purchase price, in whole or in part, of any property (except any Indebtedness which constitutes a Funded Obligation and which was incurred or assumed to finance the purchase price, in whole or in part, of any shares, bonds or other securities) or incurred to finance the cost, in whole or in part, of construction or installation of or improvements to any real property or fixtures provided that such Indebtedness is incurred or assumed within 24 months after the purchase of such real property or fixtures or the completion of such construction, installation or improvements, as the case may be, and includes any extension, renewal or refunding of any such Indebtedness, so long as the principal amount thereof outstanding on the date of such extension, renewal or refunding is not increased.

“Redemption Date” means the date fixed for the redemption of the Debentures in accordance with the Trust Indenture.

“Redemption Price” means, in respect of a Debenture, the amount, excluding interest, payable on the Redemption Date fixed for such Debenture.

“Redemption Price Calculation Date” means the date upon which the Redemption Price is to be calculated in connection with the Debentures called for redemption.

“Security Interest” means any assignment, mortgage, charge (whether fixed or floating), hypothec, pledge, lien, or other encumbrance on or interest in property or assets that secures payment of any Indebtedness or Obligation.

“Series A Canada Yield Price” means the price equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series A Debentures, calculated in accordance with generally accepted Canadian financial practice, using as a discount rate the sum of 0.275% and the Canada Yield for the Series A Debentures calculated at 10:00 a.m. (Toronto time) on the business day immediately preceding the day on which the Corporation gives notice of redemption.

“Series B Canada Yield Price” means the price equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series B Debentures, calculated in accordance with generally accepted Canadian financial practice, using as a discount rate the sum of 0.38% and the Canada Yield for the Series B Debentures calculated at 10:00 a.m. (Toronto time) on the business day immediately preceding the day on which the Corporation gives notice of redemption.

“Subordinated Indebtedness” means all Indebtedness of the Corporation which, upon any distribution of assets of the Corporation in any dissolution, winding-up, liquidation or reorganization of the Corporation (whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors, or any other marshalling of assets and liabilities of the Corporation or otherwise), ranks subsequent in all respects to, and is postponed in all respects for a period of not less than six months after default to, the payment of all Indebtedness of the Corporation in connection with all Debentures issued pursuant to this Indenture including principal, interest, fees and expenses, all of which must be satisfied in full prior to any amount being applied to such Indebtedness.

“Subsidiary” means (a) any corporation of which there is owned, directly or indirectly, by or for the Corporation and/or by or for any corporation in like relation to the Corporation, voting shares which, in the aggregate, entitle the holders thereof to cast more than 50% of the votes which may be cast by the holders of the outstanding voting shares of such first mentioned corporation for the election of its directors and includes any corporation in like relation to a Subsidiary or (b) any other Person of which at least a majority of voting ownership interest is at the time, directly or indirectly, owned by or for the Corporation and/or by or for any corporation in like relation to the Corporation.

“Total Consolidated Capitalization” means, without duplication, the sum of:

- (a) the principal amount of all Consolidated Funded Obligations;
- (b) the principal amount of all Subordinated Indebtedness; and
- (c) the Consolidated Net Worth.

“Trustee” means BNY Trust Company of Canada or its successor or successors, for the time being as the Trustee hereunder.

“Wholly-Owned Designated Subsidiary” means a Designated Subsidiary all of the outstanding shares in the capital of which are owned, directly or indirectly, by or for the Corporation and/or by or for one or more other Wholly-Owned Designated Subsidiaries.

CONNECTED ISSUER DISCLOSURE

RBC Dominion Securities Inc., one of the Agents of the offering of Debentures, is a wholly-owned subsidiary of a Canadian chartered bank which, on February 28, 2005, established a credit facility in the maximum amount of \$50 million in favour of the Corporation. Accordingly, the Corporation could be considered a connected issuer of RBC Dominion Securities Inc. for the purposes of securities legislation in Canada. As at April 14, 2011, no amounts were outstanding under the credit facility. The Corporation is in compliance with the terms of the credit facility. The decision to offer the Debentures was made by the Corporation. The terms of the Debentures were determined through negotiations between the Corporation and the Agents. The net proceeds of this offering of Debentures will be used to repay the amount owed by the Corporation to Borealis Infrastructure Trust and the balance will be used for general corporate purposes including capital expenditures.

RIGHT OF ACTION FOR RESCISSION OR DAMAGES

Securities legislation in the Provinces of Ontario, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador provides investors in the Debentures with certain rights of action if this Offering Memorandum, together with any amendment to this Offering Memorandum, any document incorporated in this Offering Memorandum by reference, or in some cases, any advertising or sales literature used in connection with this Offering Memorandum, contains a misrepresentation.

The following are summaries of these rights. Such summaries are subject to the express provisions of applicable securities legislation, and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain certain limitations and statutory defences on which the Corporation may rely. These rights are in addition to, and without derogation from, any other right the investor may have at law.

For purposes of the following summaries, "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is necessary in order to make a statement not misleading in light of the circumstances in which it was made.

Ontario. If this Offering Memorandum, together with any amendment to this Offering Memorandum, contains a Misrepresentation, an investor in the Province of Ontario will have, without regard to whether the Misrepresentation was relied upon by the investor, a right of action against the Corporation for damages or, at the election of the investor, against the Corporation, for rescission (in which case the investor will cease to have a right of action for damages), provided that:

1. no action may be commenced to enforce a right of action:
 - (a) for rescission more than 180 days after the date of the purchase; or
 - (b) for damages more than the earlier of (i) 180 days after the investor first had knowledge of the facts giving rise to the cause of action, and (ii) three years after the date of purchase;
2. the Corporation will not be liable if it proves that the investor purchased the Debentures with knowledge of the Misrepresentation;
3. in an action for damages, the Corporation will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Debentures as a result of the Misrepresentation;

4. in no case shall the amount recoverable exceed the price at which the Debentures were sold to the investor; and
5. the Corporation will not be liable for a Misrepresentation in forward-looking information if the Corporation proves that:
 - (a) this Offering Memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
 - (b) the Corporation had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

The foregoing rights do not apply if the investor is:

- (a) a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank;
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

Saskatchewan. If this Offering Memorandum, together with any amendment to this Offering Memorandum, is sent or delivered to an investor resident in Saskatchewan and contains a Misrepresentation at the time of purchase, the investor is deemed to have relied upon that Misrepresentation and will have a right for damages against the Corporation, every promoter and director of the Corporation, every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them, every person who signed this Offering Memorandum (if applicable) and every person or company who sells Debentures on behalf of the Corporation, or alternatively, while still the owner of the purchased Debentures, for rescission against the Corporation, provided that:

1. no action shall be commenced to enforce the foregoing rights:
 - (a) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
 - (b) in the case of any action, other than an action for rescission, the earlier of (i) one year after the investor first had knowledge of the facts giving rise to the cause of action, or (ii) six years after the date of the transaction that gave rise to the cause of the action;
2. no person or company will be liable if the person or company proves that the investor purchased the Debentures with knowledge of the Misrepresentation;

3. no person or company (other than the Corporation) will be liable if the person or company proves that (i) the Offering Memorandum or amendment was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, the person or company immediately gave reasonable general notice to the Corporation that it was sent or delivered without the person's or company's knowledge, (ii) on becoming aware of any Misrepresentation, the person or company withdrew the person's or company's consent to the Offering Memorandum and gave reasonable general notice to the Corporation of the withdrawal and the reason for it, or (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a Misrepresentation, or the relevant part of the Offering Memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of or extract from the report, opinion or statement of the expert;
4. no person or company (other than the Corporation) will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert, or to be a copy of or an extract from a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no Misrepresentation or (ii) believed there had been a Misrepresentation; and
5. in no case shall the amount recoverable exceed the price at which the Debentures were sold to the investor.

An investor resident in Saskatchewan who has entered into an agreement for the purchase of Debentures, which has not yet been completed, and who receives an amendment to this Offering Memorandum that discloses (i) a material change in the affairs of the Corporation, (ii) a change in the terms or conditions of the offering as described in this Offering Memorandum or (iii) securities to be distributed that are in addition to the Debentures described in this Offering Memorandum, that occurred or arose before the investor entered into the agreement for the purchase of the Debentures, may within two business days of receiving the amendment deliver a notice to the Corporation or agent through whom the Debentures are being purchased indicating the investor's intention not to be bound by the purchase agreement.

Manitoba. If this Offering Memorandum or any amendment hereto contains a Misrepresentation, an investor is deemed to have relied on the Misrepresentation and has a right of action for damages against the Corporation, every director of the Corporation at the date of the Offering Memorandum and every person who signed this Offering Memorandum (if applicable), or alternatively, while still the owner of the purchased Debentures, a right of rescission against the Corporation, provided that:

1. no action may be commenced to enforce a right of action:
 - (a) for rescission more than 180 days after the date of the purchase; or
 - (b) for damages, the earlier of (i) 180 days after the investor first had knowledge of the facts giving rise to the cause of action, or (ii) two years after the date of the purchase;
2. no person or company will be liable if the person or company proves that the investor purchased the Debentures with knowledge of the Misrepresentation;

3. no person or company (other than the Corporation) will be liable if the person or company proves that (i) the Offering Memorandum was sent to the investor without the person's or company's consent, and that, after becoming aware of its delivery, the person or company promptly gave reasonable notice to the Corporation that it was sent without the person's or company's knowledge or consent, (ii) on becoming aware of the Misrepresentation, the person or company withdrew their respective consent to the Offering Memorandum and gave reasonable notice to the Corporation of the withdrawal and the reason for it, or (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a Misrepresentation, or the relevant part of the Offering Memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report or statement;
4. no person or company (other than the Corporation) will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no Misrepresentation or (ii) believed that there had been a Misrepresentation; and
5. in no case shall the amount recoverable exceed the price at which the Debentures were sold to the investor.

New Brunswick. If this Offering Memorandum, together with any amendment to this Offering Memorandum, delivered to an investor resident in New Brunswick contains a Misrepresentation that was a Misrepresentation at the time of purchase, the investor will be deemed to have relied on the Misrepresentation and will have a right of action against the Corporation for damages or, alternatively, while still the owner of the purchased Debentures, for rescission, provided that:

1. no action may be commenced to enforce a right of action:
 - (a) for rescission more than 180 days after the date of the purchase; or
 - (b) for damages more than the earlier of (i) one year after the investor first had knowledge of the facts giving rise to the cause of action, and (ii) six years after the date of purchase;
2. the Corporation will not be liable if it proves that the investor purchased the Debentures with knowledge of the Misrepresentation;
3. in an action for damages, the Corporation will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Debentures as a result of the Misrepresentation relied upon; and
4. in no case shall the amount recoverable exceed the price at which the Debentures were sold to the investor.

Nova Scotia. If this Offering Memorandum, together with any amendment to this Offering Memorandum or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia) (the "**Nova Scotia Act**")), contains a Misrepresentation and it was a Misrepresentation at the time of purchase, the investor

resident in Nova Scotia will be deemed to have relied upon the Misrepresentation and will have a right of action against the Corporation, every director of the Corporation at the date of this Offering Memorandum and every person who signed this Offering Memorandum (if applicable), for damages or, alternatively, while still the owner of the purchased Debentures, for rescission against the Corporation, provided that:

1. no action may be commenced to enforce a right of action more than 120 days:
 - (a) after the date on which payment was made for the Debentures; or
 - (b) after the date on which the initial payment was made;
2. no person or company will be liable if the person or company proves that the investor purchased the Debentures with knowledge of the Misrepresentation;
3. no person or company (other than the Corporation) will be liable if the person or company proves that (i) the Offering Memorandum was delivered to the investor without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent, (ii) after delivery of the Offering Memorandum and before the purchase of the Debentures by the investor, on becoming aware of any Misrepresentation in the Offering Memorandum, the person or company withdrew the person's or company's consent to the Offering Memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a Misrepresentation, or the relevant part of the Offering Memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
4. no person or company (other than the Corporation) will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert, or to be a copy, or an extract from, a report, opinion or statement of expert unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no Misrepresentation, or (ii) believed that there had been a Misrepresentation;
5. in an action for damages, the defendant will not be liable for all or any portion of the damages that the defendant proves does not represent the depreciation in value of the Debentures as a result of the Misrepresentation relied upon; and
6. in no case will the amount recoverable in any action exceed the price at which the Debentures were sold to the investor.

Prince Edward Island. If this Offering Memorandum, together with any amendment to this Offering Memorandum, delivered to an investor resident in Prince Edward Island contains a Misrepresentation and it was a Misrepresentation at the time of purchase, the investor will be deemed to have relied upon the Misrepresentation and will have a right of action against the Corporation, every director of the Corporation at the date of this Offering Memorandum and every person who signed this Offering Memorandum (if applicable), for damages or, alternatively, while still the owner of the purchased Debentures, for rescission against the Corporation, provided that:

1. no action shall be commenced to enforce the foregoing rights:
 - (a) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
 - (b) in the case of any action, other than an action for rescission, the earlier of (i) one year after the investor first had knowledge of the facts giving rise to the cause of the action, or (ii) three years after the date of the transaction that gave rise to the cause of the action;
2. no person or company will be liable if the person or company proves that the investor purchased the Debentures with knowledge of the Misrepresentation;
3. no person or company (other than the Corporation) will be liable if it proves that (i) the Offering Memorandum was delivered to the investor without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent, (ii) after the delivery of the Offering Memorandum and before the purchase of the Debentures by the investor, on becoming aware of any Misrepresentation in the Offering Memorandum, the person or company withdrew the person's or company's consent to the Offering Memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a Misrepresentation, or the relevant part of the Offering Memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
4. no person or company (other than the Corporation) will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no Misrepresentation or (ii) believed that there had been a Misrepresentation;
5. in an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Debentures as a result of the Misrepresentation relied upon; and
6. in no case shall the amount recoverable exceed the price at which the Debentures were sold to the investor.

Newfoundland and Labrador. If this Offering Memorandum, together with any amendment to this Offering Memorandum or any record incorporated by reference in, or considered to be incorporated into this Offering Memorandum contains a Misrepresentation and it was a Misrepresentation at the time of purchase, an investor in the Province of Newfoundland and Labrador has, in addition to any other right that the investor may have under law and without regard to whether the investor relied on the Misrepresentation, a right of action for damages against the Corporation, every director of the Corporation at the date of this Offering Memorandum and every person or company who signed this Offering Memorandum (if applicable), for damages or, alternatively, while still the owner of the

purchased Debentures, for rescission against the Corporation (in which case the investor will cease to have a right of action for damages), provided that:

1. no action shall be commenced to enforce the foregoing rights:
 - (a) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
 - (b) in the case of any action, other than an action for rescission, the earlier of:
 - (i) 180 days after the investor first had knowledge of the facts giving rise to the cause of the action; or
 - (ii) three years after the date of the transaction that gave rise to the cause of the action;
2. no person or company will be liable if the person or company proves that the investor purchased the Debentures with knowledge of the Misrepresentation;
3. no person or company (other than the Corporation) will be liable if:
 - (a) the person or company proves that this Offering Memorandum was sent to the investor without the person's or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the Corporation that it was sent without the knowledge and consent of the person or company;
 - (b) the person or company proves that the person or company, on becoming aware of any Misrepresentation in this Offering Memorandum, withdrew the person's or company's consent to this Offering Memorandum and gave reasonable notice of the withdrawal to the Corporation and the reason for it;
 - (c) with respect to any part of this Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or statement of an expert, the person or company proves that they did not have any reasonable grounds to believe and did not believe that: (i) there had been a Misrepresentation; or (ii) the relevant part of this Offering Memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert; and
 - (d) with respect to any part of this Offering Memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no Misrepresentation; or (ii) believed that there had been a Misrepresentation;
4. in an action for damages, the defendant will not be liable for all or any part of the damages that it proves do not represent the depreciation in value of the Debentures as a result of the Misrepresentation; and
5. in no case shall the amount recoverable exceed the price at which the Debentures were offered to the investor under this Offering Memorandum.

TAX CONSIDERATIONS

Prospective purchasers of Debentures should consult their own tax advisors with respect to the Canadian federal and provincial and the foreign tax considerations of acquiring, holding or disposing of Debentures that are applicable to their individual circumstances.

AUDITORS' CONSENT

The Board of Directors of Enersource Corporation

We have read the Offering Memorandum of Enersource Corporation (the "Corporation") dated April 20, 2011 relating to the offering of \$110,000,000 of 4.521% Series A Senior Unsecured Debentures due April 29, 2021 and \$210,000,000 of 5.297% Series B Senior Unsecured Debentures due April 29, 2041 by the Corporation. We have complied with Canadian generally accepted auditing standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned Offering Memorandum of our report to the shareholders of the Corporation on the consolidated balance sheet of the Corporation as at December 31, 2010 and 2009, and the consolidated statements of income and comprehensive income, retained earnings and cash flows for each of the years in the two-year period ended December 31, 2010. Our report is dated March 8, 2011.

(*signed*) KPMG LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

April 20, 2011



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Internet www.kpmg.ca

AUDITORS' CONSENT

The Board of Directors of Enersource Corporation

We have read the Offering Memorandum of Enersource Corporation (the "Corporation") dated April 20, 2011 relating to the offering of \$110,000,000 of 4.521% Series A Senior Unsecured Debentures due April 29, 2021 and \$210,000,000 of 5.297% Series B Senior Unsecured Debentures due April 29, 2041 by the Corporation. We have complied with Canadian generally accepted auditing standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned Offering Memorandum of our report to the shareholders of the Corporation on the consolidated balance sheet of the Corporation as at December 31, 2010 and 2009, and the consolidated statements of income and comprehensive income, retained earnings and cash flows for each of the years in the two-year period ended December 31, 2010. Our report is dated March 8, 2011.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

April 20, 2011

**EXHIBIT A -
FINANCIAL STATEMENTS**

The following audited financial statements of the Corporation as at December 31, 2010 and 2009 are attached to this Offering Memorandum as Exhibit A.

Consolidated Financial Statements of

ENERSOURCE CORPORATION

Years ended December 31, 2010 and 2009



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Independent Auditors' Report

To the Shareholders of Enersource Corporation

We have audited the accompanying consolidated financial statements of Enersource Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of income and comprehensive income, retained earnings and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enersource Corporation as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Accountants, Licensed Public Accountants
March 8, 2011
Toronto, Ontario

ENERSOURCE CORPORATION

Consolidated Balance Sheets
(In thousands of dollars)

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 53,568	\$ 33,761
Accounts receivable (note 14(b))	56,441	59,405
Unbilled revenue	67,048	50,568
Income taxes receivable	—	535
Inventory (note 3)	7,872	8,071
Prepaid expenses and deposits	1,787	1,931
Future income tax assets (note 5(b))	—	522
	186,716	154,793
Fixed assets (note 2)	446,494	435,895
Intangible assets (note 4)	15,583	14,420
Deposits and prudentials (note 6)	20,739	20,225
Regulatory assets (note 7)	20,013	12,238
Other deferred costs (note 1(h))	90	4,951
Future income tax assets (note 5(b))	32,540	33,539
	535,459	521,268
	\$ 722,175	\$ 676,061
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 90,888	\$ 96,449
Income taxes payable	3,418	—
Deferred revenue	150	46
Advance payments	2,759	2,071
Future income tax liabilities (note 5(b))	189	—
Regulatory liability for future income tax assets (note 5(c))	149	252
Regulatory liabilities (note 7)	39,671	—
Bonds payable (note 8)	289,811	—
	427,035	98,818
Long-term liabilities:		
Bonds payable (note 8)	—	289,256
Deposits	20,739	20,225
Employee retirement and post-retirement benefits (note 9)	4,656	4,187
Regulatory liability for future income tax assets (note 5(c))	32,495	33,491
	57,890	347,159
Shareholders' equity:		
Capital stock (note 10)	175,691	175,691
Retained earnings	61,559	54,393
	237,250	230,084
Contingencies (note 12)		
Commitments (notes 6 and 13)		
	\$ 722,175	\$ 676,061

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

"Gerald Beasley" Director "Norman Loberg" Director

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

	2010	2009
Revenue:		
Energy sales	\$ 509,505	\$ 444,166
Distribution	120,076	117,766
Recovery (refund) of regulatory accounts	7,429	(2,278)
Services	7,849	8,141
Other	11,267	9,213
	656,126	577,008
Operating expenses:		
Energy purchases	509,505	444,166
Operations, maintenance and administration	51,767	49,090
Services	6,669	7,290
Amortization of fixed assets	36,311	35,101
Amortization of intangible assets	1,936	1,224
Amortization of regulatory accounts	7,429	(2,278)
	613,617	534,593
Operating income	42,509	42,415
Non-operating revenue (expense):		
Interest income	648	815
Interest expense	(18,999)	(18,550)
Foreign exchange loss	(22)	(383)
	(18,373)	(18,118)
Income before the undernoted	24,136	24,297
Income tax expense (note 5(a))	6,432	6,682
Income before non-controlling interest	17,704	17,615
Non-controlling interest	—	(51)
Net income and comprehensive income	\$ 17,704	\$ 17,564

Consolidated Statements of Retained Earnings
(In thousands of dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Retained earnings, beginning of year	\$ 54,393	\$ 48,362
Net income and comprehensive income	17,704	17,564
Dividends paid (note 10)	(10,538)	(11,533)
Retained earnings, end of year	\$ 61,559	\$ 54,393

See accompanying notes to consolidated financial statements.

ENERSOURCE CORPORATION

Consolidated Statements of Cash Flows
(In thousands of dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net income	\$ 17,704	\$ 17,564
Items not affecting cash:		
Amortization of debt issue costs	555	523
Amortization of fixed assets	36,311	35,101
Amortization of intangible assets	1,936	1,224
Amortization of regulatory accounts	7,429	(2,278)
Gain on the disposal of fixed assets	(187)	(170)
Employee retirement and post-retirement benefits	469	433
Future income tax expense	611	327
Non-controlling interest	–	51
	64,828	52,775
Change in non-cash operating working capital (note 11)	25,097	(15,462)
	89,925	37,313
Financing activities:		
Deposits	514	(138)
Dividends paid	(10,538)	(11,533)
Non-controlling interest	–	(1,186)
	(10,024)	(12,857)
Investing activities:		
Deposits and prudentials	(514)	338
Additions to fixed assets	(38,701)	(50,113)
Additions to intangible assets	(3,633)	(5,904)
Other deferred costs	(2,246)	(2,952)
Proceeds on disposal of fixed assets	204	329
Increase in regulatory assets	(15,204)	(8,498)
	(60,094)	(66,800)
Increase (decrease) in cash and cash equivalents	19,807	(42,344)
Cash and cash equivalents, beginning of year	33,761	76,105
Cash and cash equivalents, end of year	\$ 53,568	\$ 33,761
Supplemental cash flow information:		
Interest received	\$ 591	\$ 951
Interest paid	18,241	18,241
Income taxes paid	1,432	11,830

See accompanying notes to consolidated financial statements.

ENERSOURCE CORPORATION

Notes to Consolidated Financial Statements
(In thousands of dollars)

Years ended December 31, 2010 and 2009

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

1. Significant accounting policies:

(a) Basis of presentation:

The accompanying annual consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Corporation's wholly owned subsidiaries: Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Telecom Inc. ("Telecom"), Enersource Technologies Inc. and Enersource Hydro Mississauga Services Inc. The consolidated financial statements also include the accounts of First Source Energy Corporation ("First Source"), a subsidiary in which the Corporation held a 57.7% ownership interest. In March 2010, the Corporation received the Articles of Dissolution certificate for First Source. Intercompany balances and transactions have been eliminated.

(b) Nature of operations:

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

Enersource Services Inc. is the parent company for the Corporation's non-regulated businesses, which include Telecom, Enersource Hydro Mississauga Services Inc. and First Source.

- (i) Enersource Hydro Mississauga Services Inc. provides utility services, including electricity distribution infrastructure design, construction and operations and streetlight construction and maintenance services to customers in Ontario. Enersource Hydro Mississauga Services Inc. is also the 100% owner of Enersource Technologies Inc.
- (ii) First Source provided energy retailing services until May 2003 at which point, its retail customer contracts were sold to Ontario Energy Savings Corporation ("OESC"). In March 2010, the Corporation received the Articles of Dissolution certificate for First Source.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

(c) Rate setting:

Enersource Hydro is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

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

- (i) The Corporation capitalizes interest monthly based on an approved OEB allowance for the cost of funds used during construction and development.
- (ii) The Corporation records future income tax assets and a corresponding regulatory tax liability for its regulated business activities to the extent that it is expected that the recovery or realization of these amounts will be included in future distribution rates.
- (iii) The Corporation has deferred certain cost of power and retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.
- (iv) The Corporation has deferred all revenue and associated costs not included in Enersource Hydro's smart meter revenue requirement, as directed by the OEB.
- (v) The Corporation has deferred costs related to the implementation of International Financial Reporting Standards ("IFRS") and associated costs relating to compliance with Environment Canada's new polychlorinated biphenyls ("PCB") regulations.

The OEB has the power to establish electricity prices to be charged under a regulated price plan ("RPP"), as summarized in the following chart, to 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.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

Regulated Price Plan:

	November 2010 - December 2010	May 2010 - October 2010	November 2009 - April 2010	May 2009 - October 2009	January 2009 - April 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	\$.064/kWh	\$.065/kWh	\$.058/kWh	\$.057/kWh	\$.056/kWh
Price above threshold	\$.074/kWh	\$.075/kWh	\$.067/kWh	\$.066/kWh	\$.065/kWh

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.

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. Enersource Hydro implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2009.

On November 27, 2009 Enersource Hydro submitted an application to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as energy variance and Global Adjustment variance account balances as at September 30, 2009. The net refund of \$12,800 was approved by the OEB on January 29, 2010.

Enersource Hydro submitted a formula based rate application in July 2009 to the OEB which was approved on March 29, 2010. Enersource Hydro implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2010.

(d) Cash and cash equivalents:

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

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

(e) Revenue recognition:

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

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

(f) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Accounts receivable is reported based on amounts expected to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue and regulatory assets are reported based on amounts expected to be recovered. Inventory is recorded net of a provision for obsolescence. Amounts recorded for amortization of fixed assets are based on estimates of useful life.

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

(g) Inventory:

Inventory consists primarily of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as fixed assets.

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

(h) Fixed assets:

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

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

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

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

Buildings and other fixtures	20 - 60 years
Distribution station equipment	15 - 40 years
Overhead and underground distribution system	15 - 55 years
Meters	15 - 25 years
Equipment and furniture	10 years
Rolling stock	4 - 8 years
Computer hardware	5 years

Construction in progress is comprised of assets under construction, that are not currently available for use and are not amortized.

An allowance for the cost of funds used during the construction period has been applied and capitalized as a component of cost of fixed assets where applicable. The prescribed interest rate used during the period equalled the average weighted bond yield of the DEX

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

Mid Term Corporate Bond Index as published on the OEB website, updated quarterly. The prescribed interest rate for the construction work in process accounts is as follows:

	<u>Allowance Rate</u>
October 2010 – December 2010	4.01%
July 2010 – September 2010	4.66%
January 2010 – June 2010	4.34%
October 2009 – December 2009	4.66%
July 2009 – September 2009	5.67%
January 2009 – June 2009	6.61%

(i) Intangible assets:

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

Indefinite life intangible assets such as easements are held in perpetuity and are not amortized. The amortization of other intangible asset values are charged to operations on a straight-line basis over their estimated service lives as follows:

Computer software	2 - 10 years
-------------------	--------------

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

(j) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the bonds. In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Corporation's deferred debt issuance costs, net of accumulated amortization, is included in the carrying amount of

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

bonds payable. The bonds are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

(k) Deposits and prudentials:

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

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

(l) Pension and other post-employment benefits:

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

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

The Corporation presently offers a retirement and post-retirement benefit plan that consists of life, health and dental benefits to those employees who retire on or after age 55 with at least 10 years of service with a specified cost sharing formula for participation from the time of early retirement to age 65.

(m) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Energy Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), both as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's income taxes payable in the year or a later period. A valuation allowance is recorded against a future income tax asset to the extent that it is more likely than not that the full asset value will not be realized in the future.

(n) Foreign currency translation:

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

(o) Financial instruments:

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

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

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

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

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Advance payments and deposits are classified as held-for-trading, which are measured at fair value. Bonds payable are classified as other financial liabilities and measured at amortized cost. The transaction costs are added to the carrying value of the bonds and amortized over the expected life using the effective interest rate method.

(p) Capital disclosures:

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

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

(q) Future accounting changes:

Transition to International Financial Reporting Standards:

In October 2010, the Accounting Standards Board ("AcSB") issued an amendment to the Introduction of Part 1 of the CICA Handbook to permit qualifying entities with rate-regulated activities the option to defer their adoption of IFRS to annual periods beginning on or after January 1, 2012. Entities using the deferral are required to disclose that fact.

Prior to this amendment, the AcSB required publicly accountable enterprises to adopt IFRS for interim and annual reporting periods beginning on or after January 1, 2011, including comparative amounts for the prior year.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

1. Significant accounting policies (continued):

The Corporation will continue to prepare its consolidated financial statements according to Canadian GAAP for 2011 and has elected to adopt IFRS for interim and annual financial statements relating to annual periods beginning on January 1, 2012.

2. Fixed assets:

2010	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ –	\$ 4,071
Buildings and other fixtures	18,599	6,148	12,451
Distribution station equipment	96,906	38,706	58,200
Overhead and underground distribution system	656,534	339,317	317,217
Meters	57,299	24,027	33,272
Equipment and furniture	8,670	4,024	4,646
Rolling Stock	16,530	10,097	6,433
Computer Hardware	7,154	3,546	3,608
Construction in progress	6,596	–	6,596
	\$ 872,359	\$ 425,865	\$ 446,494

2009	Cost	Accumulated amortization	Net book value
Land	\$ 4,071	\$ –	\$ 4,071
Buildings and other fixtures	17,112	5,743	11,369
Distribution station equipment	92,299	35,473	56,826
Overhead and underground distribution system	631,222	317,747	313,475
Meters	52,227	22,103	30,124
Equipment and furniture	8,629	3,395	5,234
Rolling Stock	16,858	10,262	6,596
Computer Hardware	6,669	2,771	3,898
Construction in progress	4,302	–	4,302
	\$ 833,389	\$ 397,494	\$ 435,895

During the year, \$314 (2009 - \$1,031), representing an allowance for the cost of funds used during construction, was capitalized to construction in progress.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

3. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during 2010 was \$2,062 (2009 - \$2,202). The amount of inventory that was written down due to obsolescence was \$48 (2009 - \$18).

4. Intangible assets:

2010	Cost	Accumulated amortization	Net book value
Computer software	\$ 16,549	\$ 2,806	\$ 13,743
Software in development	1,804	—	1,804
Easements	36	—	36
	<u>\$ 18,389</u>	<u>\$ 2,806</u>	<u>\$ 15,583</u>

2009	Cost	Accumulated amortization	Net book value
Computer software	\$ 16,471	\$ 2,596	\$ 13,875
Software in development	545	—	545
	<u>\$ 17,016</u>	<u>\$ 2,596</u>	<u>\$ 14,420</u>

5. Income taxes:

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

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

5. Income Taxes (continued):

	2010	2009
Federal and Ontario statutory income tax rate	31.0%	33.0%
Income before provision for income taxes	\$ 24,136	\$ 24,297
Non-controlling interest	—	(51)
	\$ 24,136	\$ 24,246
Provision for income taxes at statutory rate	\$ 7,482	\$ 8,001
Increase (decrease) resulting from:		
Amortization less than capital cost allowance	(638)	(1,554)
Tax effect of non-capital losses for which no benefit has been recorded	(203)	123
Other timing differences between accounting net income and net income for tax purposes	(209)	112
Provision for income taxes	\$ 6,432	\$ 6,682
Effective income tax rate	26.6%	27.6%

Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Corporation's future tax assets, liabilities and expense are as follows:

(a) Components of provision for income taxes:

	2010	2009
Current income tax expense	\$ 5,821	\$ 6,355
Future income tax expense	611	327
	\$ 6,432	\$ 6,682

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

5. Income Taxes (continued):

- (b) Significant components of future income tax assets and liabilities on the consolidated balance sheet are as follows:

	2010	2009
Fixed and intangible assets	\$ 23,450	\$ 24,560
Regulatory liability for future income taxes	8,025	8,236
Regulatory assets and liabilities	(388)	259
Employee retirement and post retirement benefits	1,164	1,047
Other temporary differences	100	(41)
	<u>\$ 32,351</u>	<u>\$ 34,061</u>

The future tax asset is presented on the consolidated balance sheet as follows:

	2010	2009
Future income tax assets, current	\$ –	\$ 522
Future income tax assets, non-current	32,540	33,539
	<u>\$ 32,540</u>	<u>\$ 34,061</u>

The future tax liability is presented on the consolidated balance sheet as follows:

	2010	2009
Future income tax liability, current	\$ 189	\$ –
Future income tax liability, non-current	–	–
	<u>\$ 189</u>	<u>\$ –</u>

- (c) Management expects that \$24,619 (2009 - \$25,507) of the future income tax assets will be included in the future rates charged to customers and accordingly has recorded a corresponding regulatory liability. The regulatory liability will itself result in an additional future income tax asset of \$8,025 (2009 - \$8,236). Accordingly, \$32,644 (2009 - \$33,743) has been recorded as a regulatory liability for future income taxes.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

5. Income Taxes (continued):

The regulatory liability for future income tax assets is presented on the consolidated balance sheet as follows:

	2010	2009
Regulatory liability for future income taxes, current	\$ 149	\$ 252
Regulatory liability for future income taxes, non-current	32,495	33,491
	<u>\$ 32,644</u>	<u>\$ 33,743</u>

At December 31, 2010, certain other subsidiaries have estimated non-capital loss carryforwards totalling \$2,368 (2009 - \$6,139) available, which will expire between 2014 and 2029. The potential benefit relating to these amounts has not been recorded given the uncertainty as to their realization.

6. Deposits and prudentials:

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

	2010		2009	
	Cash and cash equivalents	Letters of credit/ letters of guarantee	Cash and cash equivalents	Letters of credit/ letters of guarantee
Customer deposits	\$ 20,739	\$ –	\$ 20,225	\$ –
Security with IESO	–	10,588	–	9,344
Security with the City of Brampton	–	5,026	–	4,991
	<u>\$ 20,739</u>	<u>\$ 15,614</u>	<u>\$ 20,225</u>	<u>\$ 14,335</u>

Security deposits:

(a) Customer deposits:

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

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

6. Deposits and prudentials (continued):

Contingent obligations:

(b) Security with the Independent Electricity System Operator:

Entities that purchase electricity in Ontario through the Independent Electricity System Operator ("IESO") are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation failed to make payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of \$10,588 (2009 - \$9,344)

(c) Security with the City of Brampton:

The Corporation has posted letters of credit in the amount of \$5,026 (2009 - \$4,991) relating to contracts with the City of Brampton to provide routine and emergency maintenance of streetlighting and related services. The City of Brampton could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to these contracts.

7. Regulatory assets and liabilities:

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

Enersource Hydro is also required to record a regulatory liability or asset relating to the amount of future tax assets that are expected to be refunded or recovered through distribution rates.

Regulatory balances are comprised principally as follows:

- (i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

7. Regulatory assets and liabilities (continued):

- (ii) Unrecognized revenue and costs associated with the smart meter program, and costs relating to stranded conventional meters have been deferred and will continue to be deferred until directed by the OEB.

The following table demonstrates the impact on 2010 earnings net of income taxes as a result of regulated accounting requirements. Explanatory notes follow the table below.

	2010	2009	Estimated remaining settlement period (years)	2010 impact on earnings net of income taxes ((a)(i))
Regulatory assets (liabilities):				
Other regulatory assets ((a)(ii))	\$ 2,590	\$ 1,585	2	\$ (1,005)
Smart meter revenue/expense ((a)(iii))	9,572	6,380	2	(3,192)
Special Purpose Charge ((a)(iv))	1,705	-	1 – 2	(13)
Late Payment Penalty ((a)(v))	1,006	-	1 – 2	(729)
Net regulatory assets approved for recovery ((a)(vi))	5,140	-	1 – 2	(68) --
Retail Settlement & Global adjustment variances ((a)(vii))	-	4,273	1 – 2	-
	<u>\$ 20,013</u>	<u>\$ 12,238</u>		<u>\$ (5,007)</u>
Regulatory liabilities (assets):				
Retail Settlement & Global Adjustment variances ((a)(vii))	39,671	-	1 - 2	202
	<u>\$ 39,671</u>	<u>\$ -</u>		<u>\$ 202</u>
Regulatory liability for future income tax assets ((a)(viii))	\$ 32,644	\$ 33,743	-	\$ -

(a) Explanatory notes:

- (i) The 2010 impact on earnings net of income taxes represents the effect on the net income as a result of the treatment under rate regulated accounting.
- (ii) The OEB has approved deferral accounts to record incremental costs associated with the implementation of IFRS, and any incremental costs needed to comply with Environment Canada's new regulations associated with PCBs. The OEB also requires that Enersource Hydro record and defer the difference between revenue and costs

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

7. Regulatory assets and liabilities (continued):

associated with providing retailers with customer settlement services as retail cost variance account deferrals. The remaining balance reflects PILs differences resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting.

- (iii) On June 13, 2006, the OEB issued an update to the Accounting Procedures Handbook regarding the accounting treatment for smart meter expenditures. On December 8, 2008, the OEB issued its decision approving the recognition of smart meter revenue and costs as at December 31, 2007. On October 1, 2009, the OEB issued a decision approving the on-going accounting recognition of investments in smart meters. Based on this decision, the Enersource Hydro has recognized revenue and costs for smart meter investments to December 31, 2010. The OEB also established guidelines for the accounting treatment for stranded meter costs, which directed distributors to defer stranded meter costs as a regulatory asset. This amount represents the cumulative costs related to stranded conventional meters.
- (iv) On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment for the Ministry of Energy conservation and renewable energy program costs and that the SPC would be recoverable through distribution rates. Enersource Hydro was assessed \$3,016 for its apportioned share of the total provincial amount of \$53,695. This amount represents Enersource Hydro's remaining SPC assessment to be recovered.
- (v) 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 ("LDCs") were charging late payment interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code. The settlement received consent and approval by all LDCs. On July 22, 2010 the Ontario Superior Court of Justice approved the settlement which stipulates that LDCs will collectively pay \$17,000 in damages by June 30, 2011 to the Winter Warmth Fund or similar charities, after deducting legal fees. On February 22, 2011 the OEB approved the recovery of the late payment penalty through distribution rates effective May 1, 2011.
- (vi) 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 energy variance and global adjustment variance account balances as at September 30, 2009. The net recovery of \$12,800 was approved by the OEB on January 29, 2010. During 2010, Enersource Hydro recovered \$7,660 and expects to recover the remaining balance from January 1, 2011 to January 31, 2012.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

7. Regulatory assets and liabilities (continued):

(vii) The OEB requires Enersource Hydro to record and defer the difference between energy charged to its customers and the actual cost of power incurred and paid to the IESO and to Hydro One. The retail settlement variance reflects this difference for all accounts plus interest at an OEB approved rate since January 1, 2008, excluding energy variance account which reflects this difference from October 1, 2009. The Global Adjustment amount is the difference between market prices and rates paid to regulated and contracted generators which are set by the IESO. This adjustment may be positive or negative. The Global Adjustment retail settlement variance captures the unpaid or recoverable amounts due to or recoverable from Enersource Hydro's customers. The global adjustment variance reflects this difference since October 1, 2009 plus interest charged at an OEB approved rate.

(viii) This amount represents the regulatory liability for future income taxes expected to be refunded to customers through future distribution rates.

The Corporation has accrued interest on the deferral account balances for the regulatory assets and liabilities, as directed by the OEB. As at December 31, 2010, this net accrued interest amounted to \$104 (2009 - \$105).

(b) Financial statement effects of rate regulation:

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

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

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

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

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

7. Regulatory assets and liabilities (continued):

(iii) Financial statement effects:

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

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

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

8. Bonds payable:

	2010	2009
6.29% Borealis-Enersource Series Bonds, Tranche 1, due May 3, 2011	\$ 290,000	\$ 290,000
Deferred debt issue costs (net of accumulated amortization of \$4,147 (2009 - \$3,592))	(189)	(744)
Net bonds payable	\$ 289,811	\$ 289,256

The Borealis-Enersource Series Bonds are secured by a credit agreement between the Corporation and Borealis Infrastructure Trust. The credit agreement provides for a first ranking charge on collateral comprised of the Corporation's assets. The Borealis-Enersource Series Bonds will mature on May 3, 2011 and are intended to be refinanced at that time. The bonds are classified as a short-term liability. Interest expense for the year ended December 31, 2010 included \$18,241 (2009 - \$18,241) in respect of interest on this debt and amortization of debt issue costs in the amount of \$555 (2009 - \$523).

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

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

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

8. Bonds Payable (continued):

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

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

9. Employee retirement and post-retirement benefits:

- (a) Pensions:

During fiscal 2010, the Corporation expensed contributions made to OMERS of \$2,489 (2009 - \$2,322).

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

The Corporation measures its accrued benefit obligations for accounting purposes at December 31 each year. The latest actuarial valuation was performed as at December 31, 2009.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

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

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

(i) Post-employment benefits obligation:

	2010	2009
Change in benefit obligations:		
Accrued benefit obligation, beginning of year	\$ 4,559	\$ 3,797
Current service cost	178	167
Amortization of transition obligation	167	167
Interest cost	279	287
Benefits paid	(155)	(86)
Transition obligation	(167)	(167)
Amortization of actuarial gain	-	(102)
Net actuarial loss	307	496
Post-employment benefits obligation, end of year	\$ 5,168	\$ 4,559

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

	2010	2009
Accrued benefit, end of year	\$ 5,168	\$ 4,559
Unrecognized transition obligation	(665)	(832)
Unrecognized actuarial gain	153	460
Accrued benefit liability	\$ 4,656	\$ 4,187

(iii) Significant assumptions:

	2010	2009
Discount rate	6.00%	7.25%
Health care cost increases	9.00%	12.00%
Dental cost increases	4.00%	5.00%
Rate of compensation increase	3.00%	2.50%

The total post-employment benefits liability for this plan at December 31, 2010 is \$4,656 (2009 - \$4,187). The unrecognized transition obligation relating to this plan is being amortized over the expected average remaining service lifetime on the date of transition.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

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

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

	2010	2009
Amortization of transition obligation	\$ 167	\$ 167
Current service cost	178	167
Interest cost	279	287
Amortization of actuarial gain	-	(102)
	<u>\$ 624</u>	<u>\$ 519</u>

The December 31, 2010 accounting report assumed health care costs would increase by 9% in 2011, then grading down to 5% per annum after 8 years. Dental costs were assumed to increase by 4% per annum.

A 1% increase (decrease) in the interest assumption would decrease (increase) the expected post-retirement benefit obligation, the interest cost and the service cost by approximately \$340.

10. Capital stock:

	2010	2009
Authorized:		
Unlimited Class A shares, voting		
1,000 Class B shares, non-voting		
100 Class C shares, voting		
Issued:		
180,555,562 Class A shares	\$ 155,628	\$ 155,628
1,000 Class B shares	1	1
100 Class C shares	20,062	20,062
	<u>\$ 175,691</u>	<u>\$ 175,691</u>

Dividends may be declared by the Board of Directors through a resolution.

In 2010, a dividend of \$10,538 (2009 - \$11,533) was declared and paid to the shareholders of the Corporation.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

11. Change in non-cash operating working capital:

	2010	2009
Accounts receivable	\$ 2,964	\$ (831)
Unbilled revenue	(16,480)	3,248
Income taxes receivable	535	(535)
Inventory	199	(841)
Prepaid expenses and deposits	144	665
Accounts payable and accrued liabilities	(5,561)	3,290
Accounts payable and accrued liabilities in assets	(585)	778
Income taxes payable	3,418	(2,149)
Deferred revenue	104	(19)
Advance payments	688	(773)
Regulatory liabilities	39,671	(18,295)
	<u>\$ 25,097</u>	<u>\$ (15,462)</u>

Accrued liabilities relating to additions to fixed assets and intangible assets for the year ended December 31, 2010 of \$5,614 (2009 - \$5,029) have been excluded from the change in non-cash operating working capital and from cash used in investing activities.

12. Contingencies:

(a) Insurance claims:

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

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of \$24,000 per occurrence. The Corporation has also obtained additional general liability insurance of \$10,000 per occurrence.

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

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

12. Contingencies (continued):

(b) Environmental matters:

- (i) The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation is underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties. Actual future environmental expenditures may vary from these estimates. As at December 31, 2010, the Corporation provided \$217 (2009 - \$450) for testing and future remediation.
- (ii) Environment Canada has issued new regulations governing the management of PCB's. On December 1, 2008, the OEB approved the Corporation's request to defer any expenses incurred to comply with the new regulations. As at December 31, 2010, the Corporation deferred \$974 (2009 - \$914) included in regulatory assets, representing costs incurred for compliance with the new regulations.

13. Commitments:

Fixed and intangible asset purchase commitments outstanding as at December 31, 2010 total \$7,524 (2009 - \$7,019).

As at December 31, 2010, the future minimum annual lease payments under property operating leases totalled \$121 (2009 - \$116).

14. Financial instruments:

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

The bonds, having a principal amount of \$290,000 (2009 - \$290,000), have a fair value of \$294,318 (2009 - \$307,168), based on year-end quoted market prices.

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

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

14. Financial instruments (continued):

(a) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of commodity costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of \$103 as at December 31, 2010 (2009 - \$681).

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 the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

(b) Credit risk:

The Corporation manages counterparty credit risk through various techniques including limiting total exposure levels with individual counterparties consistent with the Corporation's policies and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2010, met the criteria specified under the Corporation's Investment Policy.

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2010, there were no significant balances of accounts receivable due from any single customer.

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

- (i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.
- (ii) Enersource Hydro, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

14. Financial instruments (continued):

(iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 9.0% (2009 - 5.6%) of the total net outstanding balance.

(iv) Enersource Hydro included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

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

	2010	2009
Total accounts receivable	\$ 58,977	\$ 60,156
Less allowance for doubtful accounts	(2,536)	(751)
Total accounts receivable, net	\$ 56,441	\$ 59,405
Of which:		
Not yet due	\$ 37,477	\$ 34,602
Past due 1 day but not more than 15	8,513	16,129
Past due 15 days but not more than 45	6,207	5,366
Past due 45 days but not more than 75	1,721	750
Past due 75 days but not more than 105	1,354	1,022
Past due more than 105 days	3,705	2,287
Less: Allowance for doubtful accounts	(2,536)	(751)
Total accounts receivable, net	\$ 56,441	\$ 59,405

(c) Liquidity risk:

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

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

14. Financial instruments (continued):

	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Financial liabilities:			
Accounts payable and accrued liabilities	\$ 90,888	\$ —	\$ —
Bond interest and principle payable	299,121	—	—
	\$ 390,009	\$ —	\$ —

The Borealis-Enersource Series Bonds mature in May, 2011 and are expected to be refinanced at that time.

(d) Interest rate risk:

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

15. Related party transactions

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

	2010	2009
Electrical energy	\$ 9,677	\$ 8,250
Streetlighting maintenance and construction	6,355	4,797
Streetlighting energy	6,098	5,245

At December 31, 2010, accounts payable and accrued liabilities include \$33 (2009 - \$38) due to the City and accounts receivable include \$3,093 (2009 - \$3,236) due from the City.

At December 31, 2010, the Corporation incurred property taxes which are paid to the City in the amount of \$814 (2009 - \$800).

The Corporation charged Borealis \$9 (2009 - \$9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties. At December 31, 2010, accounts receivable included \$nil (2009 - \$1) due from Borealis.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

15. Related party transactions (continued)

Enerpower Corporation is an organization in which the Corporation holds a 10% minority ownership interest. The Corporation was charged \$8,530 (2009 - \$11,862) by Enerpower Corporation during 2010 for the construction of distribution system infrastructure. At December 31, 2010, accounts payable and accrued liabilities due to Enerpower were \$1,651 (2009 - \$1,927).

The Corporation received a dividend from Enerpower Corporation during 2010 of \$332 (2009 - \$392).

16. Segmented information:

The Corporation operates primarily in two operating segments, electricity distribution services and other operations. Other operations are primarily comprised of engineering design, construction and maintenance services for utilities and developers and streetlighting design and maintenance services.

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

2010	Electricity distribution services	Other operations	Intersegment eliminations	Total
Revenue	\$ 648,146	8,390	(410)	656,126
Operating expenses	(560,629)	(7,722)	410	(567,941)
Amortization	(45,542)	(134)	—	(45,676)
	(606,171)	(7,856)	410	(613,617)
	41,975	534	—	42,509
Interest income	485	163	—	648
Interest expense	(18,982)	(17)	—	(18,999)
Foreign exchange loss	(22)	—	—	(22)
Income before the under noted	23,456	680	—	24,136
Income taxes	6,404	28	—	6,432
Non-controlling interest	—	—	—	—
Net income	\$ 17,052	652	—	17,704
Capital expenditures	\$ 42,302	32	—	42,334
Increase in cash and cash equivalents	18,260	1,547	—	19,807

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

16. Segmented information (continued):

2009	Electricity distribution services	Other operations	Intersegment eliminations	Total
Revenue	\$ 568,455	\$ 8,827	\$ (274)	\$ 577,008
Operating expenses	(491,400)	(9,420)	274	(500,546)
Amortization	(33,966)	(81)	—	(34,047)
	(525,366)	(9,501)	274	(534,593)
	43,089	(674)	—	42,415
Interest income	604	211	—	815
Interest expense	(18,532)	(18)	—	(18,550)
Foreign exchange loss	(383)	—	—	(383)
Income before the under noted	24,778	(481)	—	24,297
Income taxes	6,251	431	—	6,682
Non-controlling interest	—	—	(51)	(51)
Net income	\$ 18,527	\$ (912)	\$ (51)	\$ 17,564
Capital expenditures	\$ 55,485	\$ 532	\$ —	\$ 56,017
Decrease in cash and cash equivalents	(41,196)	(1,148)	—	(42,344)

Total assets for the Corporation's two operating segments are as follows:

	2010	2009
Electricity distribution services	\$ 693,098	\$ 647,657
Other operations	29,077	28,404
Total assets	\$ 722,175	\$ 676,061

17. Energy purchases:

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

Included in accounts payable and accrued liabilities as at December 31, 2010 is \$63,438 (2009 - \$58,705) owed in respect of electricity purchases through the IESO.

ENERSOURCE CORPORATION

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

Years ended December 31, 2010 and 2009

18. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2010.

1 ***Materiality Thresholds***

2 Chapter 2 of the Filing Requirements for Transmission and Distribution
3 Applications, issued by the Ontario Energy Board (the “Board”) on June 22, 2011
4 states in Section 2.4.4, “The applicant must provide justification for changes from
5 year to year to its rate base, capital expenditures, OM&A and other items above
6 a materiality threshold”.

7 For a utility the size of Enersource, the default materiality threshold is defined as
8 0.5% of the distribution revenue requirement for distributors with a revenue
9 requirement greater than \$10 million and less than or equal to \$200 million.

10 Enersource’s revenue requirement for 2013 is \$131,285 so the default materiality
11 threshold would be \$645. In this Application, Enersource has explained
12 variances based on a general threshold of \$645; however, in certain
13 circumstances a lower threshold has been used.

