

***Independent Electricity System Operator  
Statements of Financial Position***

As at (in thousands of Canadian dollars)	June 30, 2013	December 31, 2012
	\$	\$
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	12,144	6,863
Accounts receivable	14,778	16,833
Long-term investments	28,857	27,721
<b>TOTAL FINANCIAL ASSETS</b>	<b>55,779</b>	<b>51,417</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	18,704	21,308
Accrued interest on debt	283	346
Rebates due to market participants	13,107	13,107
Debt	140,200	133,200
Accrued pension liability	38,571	41,600
Accrued liability for employee future benefits other than pension	71,766	69,255
<b>TOTAL LIABILITIES</b>	<b>282,631</b>	<b>278,816</b>
<b>NET DEBT</b>	<b>(226,852)</b>	<b>(227,399)</b>
<b>NON-FINANCIAL ASSETS</b>		
Net tangible capital assets	88,137	87,607
Prepaid expenses	4,395	3,688
<b>TOTAL NON-FINANCIAL ASSETS</b>	<b>92,532</b>	<b>91,295</b>
<b>ACCUMULATED SURPLUS / (DEFICIT) (Note 2)</b>		
Accumulated deficit from operations	(136,970)	(137,651)
Accumulated remeasurement gain	2,650	1,547
<b>ACCUMULATED DEFICIT</b>	<b>(134,320)</b>	<b>(136,104)</b>



*Independent Electricity System Operator  
Statements of Operations and Accumulated Deficit*

For the six months ended June 30 (in thousands of Canadian dollars)

	2013 Budget	2013 Actual	2012 Actual
<b>WHOLESALE MARKET OPERATIONS</b>			
System fees	61,673	63,167	61,896
Other revenue	1,920	1,572	1,887
Interest and investment income	204	262	243
<b>Wholesale market operation revenues</b>	<b>63,797</b>	<b>65,001</b>	<b>64,026</b>
Wholesale market operation expenses	61,331	58,297	59,330
<b>Wholesale market operations annual surplus</b>	<b>2,466</b>	<b>6,704</b>	<b>4,696</b>
<b>MARKET PENALTIES, FINES AND PAYMENT ADJUSTMENTS</b>			
Market penalties, fines and payment adjustments	-	462	23
Customer education and market enforcement expenses	146	1,035	114
<b>Market penalties, fines and payment adjustments annual deficit</b>	<b>(146)</b>	<b>(573)</b>	<b>(91)</b>
<b>SMART METERING PROGRAM</b>			
Smart metering program funding	7,534	7,536	-
Smart metering program expenses	16,485	12,986	9,794
<b>Smart metering program annual deficit</b>	<b>(8,951)</b>	<b>(5,450)</b>	<b>(9,794)</b>
<b>ANNUAL SURPLUS / (DEFICIT)</b>	<b>(6,631)</b>	<b>681</b>	<b>(5,189)</b>
ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD	(137,651)	(137,651)	(118,172)
<b>ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD</b>	<b>(144,282)</b>	<b>(136,970)</b>	<b>(123,361)</b>



***Independent Electricity System Operator  
Statement of Remeasurement Gains and Losses***

<b>For the six months ended June 30 (in thousands of Canadian dollars)</b>	<b>2013</b>	<b>2012</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
<b>ACCUMULATED REMEASUREMENT GAINS / (LOSSES), BEGINNING OF PERIOD</b>	<b>1,547</b>	<b>(374)</b>
<b>UNREALIZED GAINS ATTRIBUTABLE TO:</b>		
Foreign exchange - derivatives	124	92
Foreign exchange - other	97	107
Portfolio investments	917	623
<b>AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:</b>		
Foreign exchange - derivatives	-	(2)
Foreign exchange - other	(35)	(46)
<b>NET REMEASUREMENT GAINS FOR THE PERIOD</b>	<b>1,103</b>	<b>774</b>
<b>ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD</b>	<b>2,650</b>	<b>400</b>



*Independent Electricity System Operator  
Statements of Change in Net Debt*

For the six months ended June 30 (in thousands of Canadian dollars)	2013	2013	2012
	Budget	Actual	Actual
	\$	\$	\$
<b>ANNUAL SURPLUS / (DEFICIT)</b>	<b>(6,631)</b>	<b>681</b>	<b>(5,189)</b>
<b>CHANGE IN NON-FINANCIAL ASSETS</b>			
Acquisition of tangible capital assets	(11,536)	(9,026)	(6,128)
Amortization of tangible capital assets	8,573	8,496	8,241
Change in prepaid expenses	543	(707)	(30)
<b>TOTAL CHANGE IN NON-FINANCIAL ASSETS</b>	<b>(2,420)</b>	<b>(1,237)</b>	<b>2,083</b>
<b>NET REMEASUREMENT GAINS FOR THE PERIOD</b>	<b>462</b>	<b>1,103</b>	<b>774</b>
<b>CHANGE IN NET DEBT</b>	<b>(8,589)</b>	<b>547</b>	<b>(2,332)</b>
<b>NET DEBT, BEGINNING OF PERIOD</b>	<b>(227,399)</b>	<b>(227,399)</b>	<b>(209,551)</b>
<b>NET DEBT, END OF PERIOD</b>	<b>(235,988)</b>	<b>(226,852)</b>	<b>(211,883)</b>



*Independent Electricity System Operator*  
*Statements of Cash Flows*

For the six months ended June 30 (in thousands of Canadian dollars)	2013	2012
	\$	\$
<b>OPERATING TRANSACTIONS</b>		
Change in accumulated surplus / (deficit)		
Surplus / (Deficit)	681	(5,189)
	681	(5,189)
Changes in non-cash items		
Amortization	8,496	8,241
Pension expense	5,406	5,606
Other employee future benefits expense	3,524	3,249
	17,426	17,096
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	(3,727)	(130)
Change in accounts receivable	2,055	(643)
Change in prepaid expenses	(707)	(30)
	(2,379)	(803)
Other:		
Contribution to pension fund	(8,435)	(8,692)
Payment of employee future benefits	(1,013)	(836)
	(9,448)	(9,528)
<b>Cash provided by operating transactions</b>	<b>6,280</b>	<b>1,576</b>
<b>CAPITAL TRANSACTIONS</b>		
Acquisition of tangible capital assets	(9,026)	(6,128)
Change in accounts payable & accrued liabilities	1,060	(855)
<b>Cash applied to capital transactions</b>	<b>(7,966)</b>	<b>(6,983)</b>
<b>INVESTING TRANSACTIONS</b>		
Purchase of long-term investments	(219)	(206)
<b>Cash applied to investing transactions</b>	<b>(219)</b>	<b>(206)</b>
<b>FINANCING TRANSACTIONS</b>		
Issue debt	7,000	7,000
<b>Cash provided by financing transactions</b>	<b>7,000</b>	<b>7,000</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,095</b>	<b>1,387</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>6,863</b>	<b>5,626</b>
Unrealized foreign exchange gains for the period	186	151
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>12,144</b>	<b>7,164</b>

**Independent Electricity System Operator**  
Notes to Financial Statements (unaudited)

June 30, 2013

**1) INTERIM FINANCIAL STATEMENTS**

The interim financial statements follow the same accounting policies and methods of their application as the 2012 annual financial statements, except where noted below. The interim financial statements should be read in conjunction with the 2012 annual financial statements. It is management's assessment that the IESO continues to operate as a going concern and these financial statements have been prepared accordingly.

**2) ACCUMULATED DEFICIT**

As at June 30, 2013 and December 31, 2012, the components of the IESO's Accumulated Deficit were as follows:

**Accumulated Deficit**

(in thousands of Canadian dollars)	As at June 30, 2013	As at December 31, 2012
Approved regulatory deferral account	10,506	5,000
Accumulated market sanctions and payment adjustments	798	1,371
Smart metering entity – accumulated deficit	(87,808)	(82,358)
PSAB transitional items	(57,816)	(60,117)
<b>Accumulated deficit – end of period</b>	<b>(134,320)</b>	<b>(136,104)</b>

**Approved Regulatory Deferral Account**

(in thousands of Canadian dollars)	As at June 30, 2013
Accumulated surplus – December 31, 2012	5,000
Surplus from wholesale market operations	6,704
Increase in accumulated remeasurement gain	1,103
Recovery of PSAB transitional items	(2,301)
<b>Accumulated surplus – end of period</b>	<b>10,506</b>

### Accumulated Market Sanctions and Payment Adjustments

(in thousands of Canadian dollars)	As at June 30, 2013
Accumulated surplus – December 31, 2012	1,371
Market sanctions and payment adjustments	462
Customer education and market enforcement expenses	(1,035)
<b>Accumulated surplus – end of period</b>	<b>798</b>

### Smart Metering Entity – Accumulated Deficit

(in thousands of Canadian dollars)	As at June 30, 2013
Accumulated deficit – December 31, 2012	(82,358)
Smart metering revenue	7,536
Smart metering expenses	(12,986)
<b>Accumulated deficit – end of period</b>	<b>(87,808)</b>

### PSAB Transitional Items - Accumulated Deficit

(in thousands of Canadian dollars)	As at June 30, 2013
Accumulated deficit - December 31, 2012	(60,117)
Recovery of PSAB transitional items	2,301
<b>Accumulated deficit – end of period</b>	<b>(57,816)</b>

### 3) SEGMENT DISCLOSURES

Expenses by object for the six months ended June 30, 2013 comprise of the following:

	Wholesale market operations	Customer education and market enforcement expenses	Smart metering entity
<b>For the six months ended June 30</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
<b>(in thousands of Canadian dollars)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Labour	38,576	717	1,189
Computer services, support and equipment	4,880	0	261
Contract services and consultants	2,614	318	8,830
Telecommunications	1,572	0	2
Other costs	3,580	0	1
Amortization	6,656	0	1,841
Interest expense and financing charges	419	0	862
<b>Total Expense</b>	<b>58,297</b>	<b>1,035</b>	<b>12,986</b>

Expenses by object for the six months ended June 30, 2012 comprise of the following:

	Wholesale market operations	Customer education and market enforcement expenses	Smart metering entity
<b>For the six months ended June 30</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>
<b>(in thousands of Canadian dollars)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Labour	39,208	82	1,221
Computer services, support and equipment	5,144	0	122
Contract services and consultants	2,666	32	6,277
Telecommunications	1,444	0	1



Other costs	3,596	0	1
Amortization	6,794	0	1,448
Interest expense and financing charges	478	0	724
<b>Total Expense</b>	<b>59,330</b>	<b>114</b>	<b>9,794</b>

#### 4) REGULATORY APPROVALS

In November 2012, the IESO sought and received clarification from the OEB that the interim fee remains in effect pending the OEB review and approval of a new fee for 2013. In December 2012, the IESO submitted its 2013 Business Plan to the Minister for approval. The Minister's approval is pending as of June 30, 2013.

On March 23, 2012, the IESO made an application to the OEB for their approval of a smart metering charge. On March 28, 2013 the OEB ordered that the Smart Metering Entity charge of \$0.788 per month be levied and collected by the Smart Metering Entity from all distributors for each of their residential and general service less than 50 kilowatt customers. This charge is intended to cover the costs of developing and operating the MDM/R to date and until October 31, 2018. This rate is effective May 1, 2013.

#### 5) DEBT

##### Note Payable to Ontario Electricity Finance Corporation (OEFC)

In May 2013, the IESO entered into a one-year note payable with the OEFC. The note payable is unsecured, bears interest at a fixed rate of 1.62% per annum and is repayable in full on April 30, 2014. Interest accrues daily and is payable in arrears semi-annually in April and November of each year. As at June 30, 2013, the note payable to the OEFC was \$78.2 million (December 31, 2012 - \$78.2 million).

##### Credit Facility

The IESO has an unsecured credit facility agreement with the OEFC, which will make available to the IESO an amount up to \$110.0 million. Advances under the credit facility are payable at a variable interest rate equal to the Province of Ontario's cost of borrowing for a 30 day term plus 0.50% per annum, with draws, repayments and interest payments due monthly. The credit facility expires April 30, 2014. As at June 30, 2013, \$62.0 million was drawn on the credit facility (December 31, 2012 - \$55.0 million).