## *Independent Electricity System Operator*
## *Statement of Operations and Accumulated Surplus*
## *(Unaudited)*

| (in thousands of Canadian dollars) | For the three months ended June 30, 2005 | For the six months ended June 30, 2005 | For the three months ended June 30, 2004 | For the six months ended June 30, 2004 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **REVENUES** | | | | |
| System fees | 36,763 | 77,901 | 36,353 | 76,683 |
| Other Income | 1,145 | 1,959 | 799 | 1,560 |
| **TOTAL REVENUES** | **37,908** | **79,860** | **37,152** | **78,243** |
| **EXPENSES** | | | | |
| Labour | 16,704 | 33,608 | 15,824 | 31,682 |
| Computer services, support and equipment | 2,436 | 5,388 | 2,860 | 5,868 |
| Consultants, contract and legal services | 1,776 | 2,862 | 2,111 | 3,126 |
| Telecommunications | 687 | 1,324 | 672 | 1,260 |
| Other costs | 1,421 | 2,901 | 1,402 | 2,841 |
| Amortization | 13,023 | 25,999 | 12,534 | 25,009 |
| **TOTAL EXPENSES** | **36,047** | **72,082** | **35,403** | **69,786** |
| **Net Income Before Interest** | **1,861** | **7,778** | **1,749** | **8,457** |
| Interest and investment income | 336 | 677 | 195 | 505 |
| Interest expense and financing charges | (2,322) | (4,789) | (2,655) | (5,479) |
| **NET INCOME FOR THE PERIOD** | **(125)** | **3,666** | **(711)** | **3,483** |
| **Accumulated Surplus - Beginning of Period** | **10,098** | **21,307** | **19,832** | **15,638** |
| **Amount committed to Ontario Power Authority (Note 5)** | **-** | **(15,000)** | **-** | **-** |
| **ACCUMULATED SURPLUS - END OF PERIOD** | **9,973** | **9,973** | **19,121** | **19,121** |

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*Independent Electricity System Operator*
*Statement of Financial Position*
*(Unaudited)*

| (in thousands of Canadian dollars) | As at June 30, 2005 | As at December 31, 2004 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash & cash equivalents | 20,566 | 7,302 |
| Temporary Investments | 4,983 | 45,841 |
| Prepaid expenses & receivables | 20,426 | 20,188 |
| | **45,975** | **73,331** |
| **Property & Equipment** | | |
| In service | 143,364 | 167,194 |
| Construction-in-progress | 1,747 | 2,038 |
| | **145,111** | **169,232** |
| **Other Assets** | | |
| Long-term investments (Note 3) | 8,106 | 8,016 |
| Prepaid pension expense | 17,952 | 22,097 |
| | **26,058** | **30,113** |
| **TOTAL ASSETS** | **217,144** | **272,676** |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable & accrued liabilities | 16,733 | 17,921 |
| Accrued interest | 1,030 | 1,677 |
| | **17,763** | **19,598** |
| **Long-term Debt (Note 4)** | 153,200 | 203,200 |
| **Accrual for Employee Future Benefits Other than Pensions** | 30,208 | 28,571 |
| **TOTAL LIABILITIES** | **201,171** | **251,369** |
| **Accumulated Surplus - end of period** | **9,973** | **21,307** |
| **Commitment to Ontario Power Authority (Note 5)** | **6,000** | **-** |
| **TOTAL ACCUMULATED SURPLUS** | **15,973** | **21,307** |
| **TOTAL LIABILITIES & ACCUMULATED SURPLUS** | **217,144** | **272,676** |

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## *Independent Electricity System Operator*
## *Statement of Cash Flows*
## *(Unaudited)*

| (in thousands of Canadian dollars) | For the three months ended June 30, 2005 | For the six months ended June 30, 2005 | For the three months ended June 30, 2004 | For the six months ended June 30, 2004 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **OPERATING ACTIVITIES** | | | | |
| Net Income (loss) for Period | (125) | 3,666 | (711) | 3,483 |
| Adjustments for non-cash items: | | | | |
| Amortization | 13,023 | 25,999 | 12,534 | 25,009 |
| Decrease in prepaid pension expense | 2,114 | 4,168 | 1,877 | 3,617 |
| Increase in accrual for employee future benefits other than pensions | 1,083 | 2,243 | 917 | 2,054 |
| | 16,220 | 32,410 | 15,328 | 30,680 |
| Changes in non-cash items related to operations: | | | | |
| Increase/(Decrease) in accounts payable and accrued liabilities | 17 | (1,385) | 149 | (1,663) |
| Decrease/(Increase) in prepaid expenses and receivables | (2,217) | (237) | 708 | 1,666 |
| | (2,200) | (1,622) | 857 | 3 |
| Other | | | | |
| Contribution to pension fund | (11) | (23) | (5,006) | (5,015) |
| Payment of employee future benefits | (307) | (606) | (266) | (539) |
| | (318) | (629) | (5,272) | (5,554) |
| **Cash provided from operations** | **13,577** | **33,825** | **10,202** | **28,612** |
| **INVESTING ACTIVITIES** | | | | |
| Net sale/(purchase) of temporary investments | 1,391 | 40,858 | 5,965 | (1,503) |
| Purchase of long term investments | (46) | (90) | (700) | (736) |
| Investment in property & equipment | (1,288) | (2,329) | (2,578) | (3,591) |
| **Cash used in investing** | **57** | **38,439** | **2,687** | **(5,830)** |
| **FINANCING ACTIVITIES** | | | | |
| Retirement of long term debt | (25,000) | (50,000) | (25,000) | (50,000) |
| Payment on commitment to Ontario Power Authority | (3,000) | (9,000) | - | - |
| **Cash provided from financing** | **(28,000)** | **(59,000)** | **(25,000)** | **(50,000)** |
| **NET CHANGE IN CASH & CASH EQUIVALENTS** | **(14,366)** | **13,264** | **(12,111)** | **(27,218)** |
| **CASH & CASH EQUIVALENTS - BEGINNING OF PERIOD** | 34,932 | 7,302 | 21,832 | 36,939 |
| **CASH & CASH EQUIVALENTS - END OF PERIOD** | **20,566** | **20,566** | **9,721** | **9,721** |
| **Supplementary Information: (in thousands of Canadian dollars)** | | | | |
| **Interest Paid** | **4,349** | **5,358** | **4,156** | **5,595** |

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June 30, 2005

## 1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2004 annual financial statements. The interim financial statements should be read in conjunction with the 2004 annual financial statements.

## 2) REGULATORY APPROVALS FOR 2005

On May 24, the Ontario Energy Board (OEB) approved the IESO's requested 2005 expenditures, revenue requirements, and fees for fiscal 2005. In addition, a component of the IESO's application was a Settlement Agreement, which was accepted by the OEB on March 18, 2005 and which stipulates that any balance in the approved regulatory deferral account, which largely reflects the IESO's accumulated surplus account, held by the IESO at the end of a year in excess of $5.0 million be returned to the market participants in the form of a rebate in the following year.

## 3) LONG-TERM INVESTMENTS

Long-term investments represent an investment in a balanced pooled fund. The market value of these investments was $9,386,567 as at June 30, 2005 (December 31, 2004 - $8,916,508).

## 4) LONG-TERM DEBT

| (in thousands of Canadian dollars) | As at June 30, 2005 | As at December 31, 2004 |
|---|---|---|
| | $ | $ |
| **Notes payable to** | | |
| Ontario Electricity Financial Corporation (OEFC) | 78,200 | 78,200 |
| The Province of Ontario | 75,000 | 125,000 |
| | **153,200** | **203,200** |

**Note Payable to Province of Ontario**

On February 3, 2005 and on June 30, 2005 the IESO prepaid $25.0 million of the outstanding principal, for a total prepayment of $50.0 million.

**Credit facility**

IESO has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a Canadian chartered bank, under which the bank will make available to the IESO an amount up to $20.0 million. As at June 30, 2005 and December 31, 2004 no balance was drawn on the credit facility. Advances under this facility are available in Canadian dollars by way of prime rate loans or relevant Bankers' Acceptances rates. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum and a Stamping Fee of 30 basis points per annum upon acceptance of each Bankers' Acceptance.

The IESO also has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a banking syndicate, under which the syndicate will make available to the IESO an amount up to $100.0 million. As at June 30, 2005 and December 31, 2004 no balance was drawn on this credit facility. Advances under this facility are available in Canadian dollars by way of prime rate loans or relevant Bankers' Acceptances rates. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum and a Stamping Fee of 30 basis points per annum upon acceptance of each Bankers' Acceptance. This facility will mainly be used to fund shortfalls in amounts owed to the IESO by Market Participants for payment to other Market Participants prior to their recovery under the provisions of the market rules.

## 5) COMMITMENT TO ONTARIO POWER AUTHORITY

Pursuant to a Regulation under the *Electricity Act, 1998* and a Memorandum of Understanding (MOU) between the Ministry of Energy and the IESO (dated January 4, 2005), the IESO will pay the Ontario Power Authority (OPA) fees established for 2005 in the amount of $15.0 million. As of June 30, 2005, the IESO has paid $9.0 million to the OPA. Such fees may be paid by the IESO to the OPA from amounts collected by it on or before December 31, 2004.

| (in thousands of Canadian dollars) | As at June 30, 2005 | As at December 31, 2004 |
|---|---|---|
| | $ | $ |
| Total commitment to OPA funding | 15,000 | 0 |
| Amounts paid to OPA | (9,000) | 0 |
| **Commitment to OPA funding** | **6,000** | **0** |

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