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

(in thousands of Canadian dollars)	For the three months ended March 31, 2007	For the three months ended March 31, 2006
	$	$
REVENUES		
System fees	34,153	38,104
Other Income	1,870	1,735
TOTAL REVENUES	**36,023**	**39,839**
EXPENSES		
Labour	18,831	18,307
Computer services, support and equipment	2,623	2,868
Consultants, contract and legal services	1,115	1,018
Telecommunications	820	690
Other costs	2,036	1,542
Amortization	8,104	9,189
TOTAL EXPENSES	**33,529**	**33,614**
Net Income Before Interest	**2,494**	**6,225**
Interest and investment income	308	287
Interest expense and financing charges	(1,658)	(2,076)
NET INCOME FOR THE PERIOD	**1,144**	**4,436**
Other Comprehensive Income	8	0
Total Comprehensive Income	**1,152**	**4,436**
Accumulated Surplus - Beginning of Period	**7,961**	**7,500**
Adjustment to opening balance (Note 1)	1,866	-
ACCUMULATED SURPLUS - END OF PERIOD (Note 3)	**10,979**	**11,936**

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Independent Electricity System Operator
Statement of Financial Position
(Unaudited)

(in thousands of Canadian dollars)	As at March 31, 2007	As at December 31, 2006
	$	$
ASSETS		
Current Assets		
Cash & cash equivalents	3,649	3,565
Prepaid expenses & receivables	18,032	24,639
Deferred costs - smart metering initiative	3,704	1,636
	25,385	**29,840**
Property & Equipment		
In service	106,313	113,051
Construction-in-progress	5,409	4,787
	111,722	**117,838**
Other Assets		
Long-term investments	14,693	12,585
Prepaid pension expense	10,486	12,471
	25,179	**25,056**
TOTAL ASSETS	**162,286**	**172,734**
LIABILITIES		
Current Liabilities		
Accounts payable & accrued liabilities	14,840	21,073
Accrued interest	2,574	1,030
Short-term debt (Note 4)	5,000	15,000
Rebates to market participants	12,699	12,699
	35,113	**49,802**
Long-term Debt (Note 4)	78,200	78,200
Accrual for Employee Future Benefits Other than Pensions	37,994	36,771
TOTAL LIABILITIES	**151,307**	**164,773**
Accumulated Surpus - end of period	10,979	7,961
TOTAL ACCUMULATED SURPLUS (Note 3)	**10,979**	**7,961**
TOTAL LIABILITIES & ACCUMULATED SURPLUS	**162,286**	**172,734**

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Independent Electricity System Operator
Statement of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)	For the three months ended March 31, 2007	For the three months ended March 31, 2006
	$	$
OPERATING ACTIVITIES		
Net Income for Period	1,144	4,436
Adjustments for non-cash items:		
Amortization	8,104	9,189
Decrease in prepaid pension expense	3,712	3,760
Increase in accrual for employee future benefits other than pensions	1,570	1,572
	13,386	14,521
Changes in non-cash items related to operations:		
Decrease in accounts payable and accrued liabilities	(3,368)	(4,174)
Decrease in rebates to market participants	-	(13,560)
Decrease in prepaid expenses and receivables	6,607	3,652
	3,239	(14,082)
Other:		
Contribution to pension fund	(1,727)	(1,693)
Payment of employee future benefits	(347)	(301)
	(2,074)	(1,994)
Cash provided from operating activities	**15,695**	**2,881**
INVESTING ACTIVITIES		
Net sale of temporary investments	-	5,980
Purchase of long term investments	(242)	(78)
Investment in property & equipment	(3,523)	(3,890)
Investment in deferred costs - smart metering initiative	(1,846)	-
Cash provided from/(used in) investing activities	**(5,611)**	**2,012**
FINANCING ACTIVITIES		
Retirement of debt	(10,000)	(5,000)
Cash used in financing activities	**(10,000)**	**(5,000)**
NET CHANGE IN CASH & CASH EQUIVALENTS	**84**	**(107)**
CASH & CASH EQUIVALENTS - BEGINNING OF PERIOD	3,565	9,631
CASH & CASH EQUIVALENTS - END OF PERIOD	**3,649**	**9,524**

Supplementary Information: (in thousands of Canadian dollars)

Interest Paid	**81**	**506**

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Independent Electricity System Operator
Notes to Financial Statements (unaudited)

March 31, 2007

1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2006 annual financial statements, except that the IESO has adopted new Canadian Institute of Chartered Accountants Handbook sections 1530, 3855, and 3865 effective January 1, 2007. The IESO's revised accounting policies in this area are shown below. The interim financial statements should be read in conjunction with the 2006 annual financial statements.

a) Long term investments

Portfolio investments are carried at fair value, with changes in their value recognized in the statement of operations. Prior to 2007, portfolio investments were carried at cost less any provision for other than temporary losses.

b) Derivative Financial Instruments

The IESO enters into foreign exchange forward contracts, for risk management purposes. Foreign exchange forward contracts are commitments to purchase foreign currencies for delivery at a specified date in the future at a fixed rate. The IESO enters into such contracts only for known or anticipated transactions that will require settlement in foreign currency, and does not use any other derivative instruments.

The IESO is exposed to changes in the value of such contracts prior to their settlement as a result of movements in the underlying foreign exchange rates. Senior management responsible for cash management manages this risk.

Where such forward contracts meet the criteria for hedge accounting, changes in their values resulting from exchange rate movements are reflected in the statement of financial position as other comprehensive income. Where such contracts do not meet the criteria for hedge accounting, they are recorded at their fair value at the balance sheet date, with changes in their value recognized in the statement of operations. Prior to 2007, where such forward contracts met the criteria for hedge accounting, changes in their values resulting from exchange rate movements were not reflected in the financial statements.

IESO has adjusted opening accumulated surplus by $1,866,000, reflecting unrealized gains on long-term investments at January 1, 2007 not recognized under the previous accounting policy.

2) REGULATORY APPROVALS FOR 2007

On March 21, the Ontario Energy Board (OEB) approved the IESO's requested 2007 expenditures, revenue requirements, and fees.

3) ACCUMULATED SURPLUS

As at March 31, 2007 and December 31, 2006, the components of the IESO's Accumulated Surplus were as follows:

(in thousands of Canadian dollars)	As at March 31, 2007		As at December 31, 2006
	$		$
Approved regulatory deferral account	7,999		5,000
Accumulated market penalties and fines	2,972		2,961
Accumulated other comprehensive income	8		0
	10,979		**7,961**

4) LONG-TERM DEBT

(in thousands of Canadian dollars)	As at March 31, 2007		As at December 31, 2006
	$		$
Notes payable to:			
Ontario Electricity Financial Corporation (OEFC)	78,200		78,200
Long-term debt	78,200		78,200
Short-term debt (credit facility)	5,000		15,000
	83,200		**93,200**

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 $60.0 million. As at March 31, 2007, $5.0 million was drawn on the credit facility by way of issuance of Bankers' Acceptances at an interest rate of 4.64% maturing on April 23, 2007. Advances under this facility are available in Canadian dollars by way of a prime rate loan or the issuance of Bankers' Acceptances at market rates plus a stamping fee of 30 basis points per annum. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum.

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