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

(in thousands of Canadian dollars)	For the three months ended June 30, 2007	For the six months ended June 30, 2007	For the three months ended June 30, 2006	For the six months ended June 30, 2006
	$	$	$	$
REVENUES				
System fees	31,718	65,871	34,768	72,872
Other Income	1,584	3,454	2,036	3,771
TOTAL REVENUES	**33,302**	**69,325**	**36,804**	**76,643**
EXPENSES				
Labour	20,368	39,199	19,291	37,599
Computer services, support and equipment	2,243	4,866	2,115	4,983
Consultants, contract and legal services	2,416	3,531	1,503	2,521
Telecommunications	946	1,766	759	1,449
Other costs	1,442	3,478	1,330	2,872
Amortization	8,034	16,138	9,364	18,553
TOTAL EXPENSES	**35,449**	**68,978**	**34,362**	**67,977**
Net Income Before Interest	**(2,147)**	**347**	**2,442**	**8,666**
Interest and investment income	211	519	513	800
Interest expense and financing charges	(1,879)	(3,537)	(2,152)	(4,228)
NET INCOME FOR THE PERIOD	**(3,815)**	**(2,671)**	**803**	**5,238**
Other Comprehensive Income	(111)	(103)	-	-
Total Comprehensive Income	**(3,926)**	**(2,774)**	**803**	**5,238**
Accumulated Surplus - Beginning of Period	**10,979**	**7,961**	**11,935**	**7,500**
Adjustment to opening balance (Note 1)	-	1,866	-	-
ACCUMULATED SURPLUS - END OF PERIOD (Note 3)	**7,053**	**7,053**	**12,738**	**12,738**

ieso
Power to Ontario.
On Demand.

Independent Electricity System Operator
Statement of Financial Position
(Unaudited)

(in thousands of Canadian dollars)	As at June 30, 2007	As at December 31, 2006
	$	$
ASSETS		
Current Assets		
Cash & cash equivalents	4,751	3,565
Prepaid expenses & receivables	20,636	24,639
Deferred costs - smart metering initiative	8,808	1,636
	34,195	**29,840**
Property & Equipment		
In service	99,505	113,051
Construction-in-progress	5,735	4,787
	105,240	**117,838**
Other Assets		
Long-term investments	15,455	12,585
Prepaid pension expense	7,817	12,471
	23,272	**25,056**
TOTAL ASSETS	**162,707**	**172,734**
LIABILITIES		
Current Liabilities		
Accounts payable & accrued liabilities	21,054	21,073
Accrued interest	1,030	1,030
Short-term debt (Note 4)	16,000	15,000
Rebates to market participants	-	12,699
	38,084	**49,802**
Long-term Debt (Note 4)	78,200	78,200
Accrual for Employee Future Benefits Other than Pensions	39,370	36,771
TOTAL LIABILITIES	**155,654**	**164,773**
Accumulated Surpus - end of period	7,053	7,961
TOTAL ACCUMULATED SURPLUS (Note 3)	**7,053**	**7,961**
TOTAL LIABILITIES & ACCUMULATED SURPLUS	**162,707**	**172,734**

ieso
Power to Ontario.
On Demand.

Independent Electricity System Operator
Statement of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)	For the three months ended June 30, 2007	For the six months ended June 30, 2007	For the three months ended June 30, 2006	For the six months ended June 30, 2006
	$	$	$	$
OPERATING ACTIVITIES				
Net Income for Period	(3,815)	(2,671)	803	5,238
Adjustments for non-cash items:				
Amortization	8,034	16,138	9,364	18,553
Decrease in prepaid pension expense	5,085	8,797	4,690	8,450
Increase in accrual for employee future benefits other than pensions	1,730	3,300	1,591	3,163
Change in fair value of long term investments	(99)	(272)		
	14,750	27,963	15,645	30,166
Changes in non-cash items related to operations:				
Decrease/(Increase) in accounts payable and accrued liabilities	891	(2,477)	818	(3,356)
Decrease in rebates to market participants	(12,699)	(12,699)	-	(13,560)
Decrease/(Increase) in prepaid expenses and receivables	(2,604)	4,003	(1,061)	2,591
	(14,412)	(11,173)	(243)	(14,325)
Other:				
Contribution to pension fund	(2,416)	(4,143)	(2,145)	(3,838)
Payment of employee future benefits	(355)	(702)	(296)	(597)
	(2,771)	(4,845)	(2,441)	(4,435)
Cash provided from operating activities	**(6,248)**	**9,274**	**13,764**	**16,644**
INVESTING ACTIVITIES				
Net sale of temporary investments	-	-	-	5,980
Contribution to long term investments	(663)	(732)	(1,008)	(1,086)
Investment in property & equipment	(2,090)	(5,613)	(4,503)	(8,393)
Investment in deferred costs - smart metering initiative	(897)	(2,743)	-	-
Cash provided from/(used in) investing activities	**(3,650)**	**(9,088)**	**(5,511)**	**(3,499)**
FINANCING ACTIVITIES				
Issue/(Retirement) of debt	11,000	1,000	(10,000)	(15,000)
Cash used in financing activities	**11,000**	**1,000**	**(10,000)**	**(15,000)**
NET CHANGE IN CASH & CASH EQUIVALENTS	**1,102**	**1,186**	**(1,747)**	**(1,855)**
CASH & CASH EQUIVALENTS - BEGINNING OF PERIOD	3,649	3,565	9,524	9,632
CASH & CASH EQUIVALENTS - END OF PERIOD	**4,751**	**4,751**	**7,777**	**7,777**

Supplementary Information: (in thousands of Canadian dollars)

Interest Paid	**3,426**	**3,507**	**3,901**	**4,407**

ieso
Power to Ontario.
On Demand.

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 June 30, 2007 and December 31, 2006, the components of the IESO's Accumulated Surplus were as follows:

(in thousands of Canadian dollars)	As at June 30, 2007	As at December 31, 2006
Approved regulatory deferral account	4,042	5,000
Accumulated market penalties and fines	2,908	2,961
Accumulated other comprehensive income	103	-
	7,053	7,961

4) LONG-TERM DEBT

(in thousands of Canadian dollars)	As at June 30, 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)	16,000	15,000
	94,200	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 June 30, 2007, $16.0 million was drawn on the credit facility by way of issuance of three Bankers' Acceptances in the amounts of $3.0 million, $4.0 million and $9.0 million at rates of 4.65%, 4.65% and 4.66% respectively and maturing between July 19, 2007 and October 19 , 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.

ieso
Power to Ontario.
On Demand.