Independent Electricity System Operator
Statement of Financial Position
(Unaudited)

As at (in thousands of Canadian dollars)	June 30, 2012	December 31, 2011
	$	$
FINANCIAL ASSETS		
Cash and cash equivalents	7,164	5,626
Accounts receivable	14,778	14,135
Long-term investments	25,170	24,341
TOTAL ASSETS	**47,112**	**44,102**
LIABILITIES		
Accounts payable and accrued liabilities	19,151	20,142
Accrued interest on debt	332	325
Rebates due to market participants	3,517	3,517
Short-term debt	39,000	32,000
Long-term debt	78,200	78,200
Accrued pension liability	51,841	54,928
Accrual for employee future benefits other than pensions	66,954	64,541
TOTAL LIABILITIES	**258,995**	**253,653**
NET DEBT	**(211,883)**	**(209,551)**
NON-FINANCIAL ASSETS		
Net tangible capital assets	85,789	87,902
Prepaid expenses	3,133	3,103
TOTAL NON-FINANCIAL ASSETS	**88,922**	**91,005**
ACCUMULATED SURPLUS / (DEFICIT) (Note 3)		
Accumulated deficit from operations	(123,361)	(118,172)
Accumulated remeasurement gain / (losses)	400	(374)
ACCUMULATED DEFICIT	**(122,961)**	**(118,546)**

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Independent Electricity System Operator
Statements of Operations and Accumulated Deficit
(Unaudited)

For the six months ended June 30 (in thousands of Canadian dollars)	2012 Budget	2012 Actual	2011 Actual
WHOLESALE MARKET OPERATIONS			
System fees	63,716	61,904	54,391
Other revenue	2,025	1,879	1,679
Interest and investment income	178	243	249
Wholesale Market Operations Revenues	**65,919**	**64,026**	**56,319**
Wholesale market operation expenses	64,490	59,330	58,412
Wholesale Market Operations Surplus	**1,429**	**4,696**	**(2,093)**
MARKET PENALTIES AND FINES			
Revenue from penalties and fines	0	23	28
Customer education expenses	145	114	100
Market Penalties and Fines Deficit	**(145)**	**(91)**	**(72)**
SMART METERING PROGRAM			
Smart metering program funding	20,794	0	0
Smart metering program expenses	14,169	9,794	6,997
Smart Metering Program Surplus / (Deficit)	**6,625**	**(9,794)**	**(6,997)**
SURPLUS / (DEFICIT)	**7,909**	**(5,189)**	**(9,162)**
ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD	(118,172)	(118,172)	(102,591)
ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD	**(110,263)**	**(123,361)**	**(111,753)**

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Independent Electricity System Operator
Statement of Remeasurement Gains and Losses
(Unaudited)

For the six months ended June 30 (in thousands of Canadian dollars)	2012	2011
	Actual	Actual
	$	$
ACCUMULATED REMEASUREMENT LOSSES, BEGINNING OF YEAR	**(374)**	**-**
UNREALIZED GAINS (LOSSES) ATTRIBUTABLE TO:		
Foreign Exchange - Derivatives	92	(84)
Foreign Exchange - Other	107	(57)
Portfolio Investments	623	206
AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:		
Foreign Exchange - Derivatives	(2)	-
Foreign Exchange - Other	(46)	-
NET REMEASUREMENT GAINS FOR THE PERIOD	**774**	**65**
ACCUMULATED REMEASUREMENT GAIN, END OF PERIOD	400	65

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Independent Electricity System Operator
Statement of Change in Net Debt
(Unaudited)

For the six months ended June 30 (in thousands of Canadian dollars)	2012	2012	2011
	Budget	Actual	Actual
	$	$	$
SURPLUS / (DEFICIT)	7,909	(5,189)	(9,162)
CHANGE IN NON-FINANCIAL ASSETS			
Acquisition of tangible capital assets	(10,384)	(6,128)	(5,897)
Amortization of tangible capital assets	8,580	8,241	7,048
Decrease/(Increase) in prepaid expenses	485	(30)	473
TOTAL CHANGE IN NON-FINANCIAL ASSETS	(1,319)	2,083	1,624
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	400	774	65
DECREASE IN NET DEBT	6,990	(2,332)	(7,473)
NET DEBT, BEGINNING OF YEAR	(209,551)	(209,551)	(194,903)
NET DEBT, END OF PERIOD	(202,561)	(211,883)	(202,376)

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Independent Electricity System Operator
Statement of Cash Flows
(Unaudited)

For the six months ended June 30 (in thousands of Canadian dollars)	2012	2011
	$	$
OPERATING TRANSACTIONS		
Change in accumulated surplus / (deficit)		
Deficit	(5,189)	(9,162)
	(5,189)	(9,162)
Changes in non-cash items		
Amortization	8,241	7,048
Pension expense	5,606	6,837
Other employee future benefits expense	3,249	3,063
	17,096	16,948
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	(130)	(2,043)
Change in accounts receivable	(643)	2,483
Change in rebates due to market participants	-	(10,193)
Change in prepaid expenses	(30)	473
	(803)	(9,280)
Other:		
Contribution to pension fund	(8,692)	(18,462)
Payment of employee future benefits	(836)	(845)
	(9,528)	(19,307)
Cash provided by (applied to) operating transactions	**1,576**	**(20,801)**
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(6,128)	(5,897)
Change in accounts payable & accrued liabilities	(855)	(1,742)
Cash applied to capital transactions	**(6,983)**	**(7,639)**
INVESTING TRANSACTIONS		
Purchase of long-term investments	(206)	(1,034)
Cash applied to investing transactions	**(206)**	**(1,034)**
FINANCING TRANSACTIONS		
Issue debt	7,000	19,000
Cash provided by financing transactions	**7,000**	**19,000**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,387**	**(10,474)**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	5,626	8,609
Unrealized foreign exchange gains / (losses) for the period	151	(141)
CASH AND CASH EQUIVALENTS - END OF PERIOD	**7,164**	**(2,006)**

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Independent Electricity System Operator
Notes to Financial Statements (unaudited)

June 30, 2012

1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2011 annual financial statements, except where noted below. The interim financial statements should be read in conjunction with the 2011 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, 2012 and December 31, 2011, the components of the IESO's Accumulated Deficit were as follows:

Accumulated Deficit

(in thousands of Canadian dollars)	As at June 30, 2012	As at December 31, 2011
Approved regulatory deferral account	7,370	5,000
Accumulated market penalties and fines	863	954
Smart Metering Entity – accumulated deficit	(68,418)	(58,624)
PSAB Transitional Items	(62,776)	(65,876)
Accumulated Deficit	**(122,961)**	**(118,546)**

Approved Regulatory Deferral Account

(in thousands of Canadian dollars)	
Accumulated surplus – December 31, 2011	5,000
Surplus from wholesale operations	4,696
Increase in accumulated remeasurement gain	774
Recovery of PSAB transitional items	(3,100)
Accumulated surplus – June 30, 2012	**7,370**

Accumulated Market Penalties and Fines

(in thousands of Canadian dollars)	
Accumulated surplus – December 31, 2011	954
Revenue from penalties and fines	23
Customer education expenses	(114)
Accumulated surplus – June 30, 2012	**863**

Smart Metering Entity – Accumulated Deficit

(in thousands of Canadian dollars)	
Accumulated deficit – December 31, 2011	(58,624)
Smart meter program costs	(9,794)
Accumulated surplus – June 30, 2012	**(68,418)**

PSAB Transitional Items

(in thousands of Canadian dollars)	
Accumulated deficit - December 31, 2011	**(65,876)**
Recovery of PSAB transitional items	3,100
Accumulated surplus – June 30, 2012	**(62,776)**

3) REGULATORY APPROVALS FOR 2012

On April 26, 2012 the proposed Bill 75, *Ontario Electricity System Operator Act*, *2012*, received its first reading. The Bill amends the *Electricity Act*, *1998* by amalgamating the Independent Electricity System Operator (IESO) and the Ontario Power Authority (OPA) and by continuing them as the Ontario Electricity System Operator (OESO).

As per the proposed Bill, the Ontario Energy Board's (OEB) order approving the IESO's interim usage fees of $0.822/MWh for the 2012 fiscal year shall continue to be in effect until the OEB approves the first expenditure and revenue requirement and fees for the OESO.

4) EXPENSE BY OBJECT

Expenses by object comprise of the following:

	Wholesale market operations	Wholesale market operations	Smart metering program	Smart metering program
For the six months ended June 30	**2012**	**2011**	**2012**	**2011**
(in thousands of Canadian dollars)	**$**	**$**	**$**	**$**
Labour	39,208	39,643	1,221	1,002
Computer services, support and equipment	5,144	4,615	122	29
Contract services and consultants	2,666	2,607	6,277	4,645
Telecommunications	1,444	1,405	1	5
Other costs	3,596	3,658	1	2
Amortization	6,794	6,161	1,448	887
Interest expense and financing charges	478	323	724	427
Total Expense	**59,330**	**58,412**	**9,794**	**6,997**