Independent Electricity System Operator
Statements of Financial Position
(Unaudited)

As at (in thousands of Canadian dollars)	March 31, 2014	December 31, 2013
	$	$
FINANCIAL ASSETS		
Cash and cash equivalents	11,275	9,569
Accounts receivable	15,731	17,592
Long-term investments	33,481	31,801
TOTAL FINANCIAL ASSETS	**60,487**	**58,962**
LIABILITIES		
Accounts payable and accrued liabilities	17,368	24,178
Accrued interest on debt	579	266
Rebates due to market participants	25,755	25,755
Debt	122,200	124,200
Accrued pension liability	34,362	35,139
Accrued liability for employee future benefits other than pension	75,573	74,069
TOTAL LIABILITIES	**275,837**	**283,607**
NET DEBT	**(215,350)**	**(224,645)**
NON-FINANCIAL ASSETS		
Net tangible capital assets	91,649	91,636
Prepaid expenses	5,025	4,455
TOTAL NON-FINANCIAL ASSETS	**96,674**	**96,091**
ACCUMULATED SURPLUS / (DEFICIT)		
Accumulated deficit from operations (Note 2)	(124,500)	(132,698)
Accumulated remeasurement gains	5,824	4,144
ACCUMULATED DEFICIT	**(118,676)**	**(128,554)**

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

For the quarter ended March 31 (in thousands of Canadian dollars)	2014 Budget	2014 Actual	2013 Actual
WHOLESALE MARKET OPERATIONS			
System fees	33,365	34,050	32,894
Other revenue	740	1,032	760
Interest and investment income	110	416	122
Wholesale market operation revenues	**34,215**	**35,498**	**33,776**
Wholesale market operation expenses	31,269	32,197	29,306
Wholesale market operations annual surplus	**2,946**	**3,301**	**4,470**
MARKET SANCTIONS AND PAYMENT ADJUSTMENTS			
Market sanctions and payment adjustments	-	604	342
Customer education and market enforcement expenses	(73)	(661)	(428)
Market sanctions and payment adjustments annual surplus/(deficit)	**(73)**	**(57)**	**(86)**
SMART METERING ENTITY			
Smart metering charge	11,302	11,434	-
Smart metering expenses	(8,267)	(6,480)	6,510
Smart metering entity annual surplus/(deficit)	**3,035**	**4,954**	**(6,510)**
ANNUAL SURPLUS/(DEFICIT)	**5,908**	**8,198**	**(2,126)**
ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD	(132,698)	(132,698)	(137,651)
ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD	**(126,790)**	**(124,500)**	**(139,777)**

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

For the quarter ended March 31 (in thousands of Canadian dollars)	2014	2013
	Actual	Actual
	$	$
ACCUMULATED REMEASUREMENT GAINS / (LOSSES), BEGINNING OF PERIOD	**4,144**	**1,547**
UNREALIZED GAINS / (LOSSES) ATTRIBUTABLE TO:		
Foreign exchange - derivatives	139	-
Foreign exchange - other	431	40
Portfolio investments	1,080	1,177
AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:		
Foreign exchange - derivatives	-	-
Foreign exchange - other	(178)	(35)
Portfolio investments	208	-
NET REMEASUREMENT GAINS FOR THE PERIOD	**1,680**	**1,182**
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	**5,824**	**2,729**

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

For the quarter ended March 31 (in thousands of Canadian dollars)	2014	2014	2013
	Budget	Actual	Actual
	$	$	$
ANNUAL SURPLUS/(DEFICIT)	**5,908**	**8,198**	**(2,126)**
CHANGE IN NON-FINANCIAL ASSETS			
Acquisition of tangible capital assets	(6,106)	(4,846)	(3,821)
Amortization of tangible capital assets	5,091	4,832	4,145
Change in prepaid expenses	218	(570)	285
TOTAL CHANGE IN NON-FINANCIAL ASSETS	**(797)**	**(584)**	**609**
NET REMEASUREMENT GAINS FOR THE PERIOD	243	1,680	1,182
CHANGE IN NET DEBT	**5,354**	**9,294**	**(335)**
NET DEBT, BEGINNING OF PERIOD	(224,645)	(224,645)	(227,399)
NET DEBT, END OF PERIOD	**(219,291)**	**(215,351)**	**(227,734)**

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Independent Electricity System Operator
Statements of Cash Flows
(Unaudited)

For the quarter ended March 31 (in thousands of Canadian dollars)	2014	2013
	$	$
OPERATING TRANSACTIONS		
Change in accumulated surplus / (deficit)		
Surplus / (deficit)	8,198	(2,126)
	8,198	(2,126)
Changes in non-cash items		
Amortization	4,832	4,145
Pension expense	3,444	2,703
Other employee future benefits expense	2,042	1,736
Change in fair value of long-term investments	(272)	-
	10,046	8,584
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	(1,868)	(77)
Change in accounts receivable	1,861	1,503
Change in prepaid expenses	(570)	285
	(577)	1,711
Other:		
Contribution to pension fund	(4,222)	(4,026)
Payment of employee future benefits	(537)	(494)
	(4,759)	(4,520)
Cash provided by (applied to) operating transactions	**12,908**	**3,649**
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(4,846)	(3,821)
Change in accounts payable & accrued liabilities	(4,629)	356
Cash applied to capital transactions	**(9,475)**	**(3,465)**
INVESTING TRANSACTIONS		
Purchase of long-term investments	(119)	(101)
Cash applied to investing transactions	**(119)**	**(101)**
FINANCING TRANSACTIONS		
Issue/(retire) debt	(2,000)	2,000
Cash provided by (applied to) financing transactions	**(2,000)**	**2,000**
INCREASE IN CASH AND CASH EQUIVALENTS	**1,314**	**2,083**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	9,569	6,863
Unrealized foreign exchange gains for the period	392	5
CASH AND CASH EQUIVALENTS - END OF PERIOD	**11,275**	**8,951**

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1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2013 annual financial statements, except where noted below. The interim financial statements should be read in conjunction with the 2013 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 March 31, 2014 and December 31, 2013, the components of the IESO's Accumulated Deficit were as follows:

Accumulated Deficit

(in thousands of Canadian dollars)	As at March 31, 2014	As at December 31, 2013
Approved regulatory deferral account	8,919	5,000
Accumulated market sanctions and payment adjustments	649	706
Smart metering entity – accumulated deficit	(79,791)	(78,745)
PSAB transitional items	(54,453)	(55,515)
Accumulated deficit – end of period	**(118,676)**	**(128,554)**

Approved Regulatory Deferral Account

(in thousands of Canadian dollars)	As at March 31, 2014
Accumulated surplus – December 31, 2013	5,000
Revenues (before rebates due to market participants)	61,253
Rebates due to market participants	(25,755)
Wholesale market operation expenses	(32,197)
Change in accumulated remeasurement gains/(losses)	1,680
Recovery of PSAB transitional items	(1,063)
Accumulated surplus – end of period	**8,919**

Accumulated Market Sanctions and Payment Adjustments

(in thousands of Canadian dollars)	As at March 31, 2014
Accumulated surplus – December 31, 2013	706
Market sanctions and payment adjustments	604
Customer education and market enforcement expenses	(661)
Accumulated surplus – end of period	**649**

Smart Metering Entity – Accumulated Deficit

(in thousands of Canadian dollars)	As at March 31, 2014
Accumulated deficit – December 31, 2013	(78,745)
Smart metering revenue	11,434
Smart metering expenses	(6,480)
Accumulated deficit – end of period	**(73,791)**

PSAB Transitional Items - Accumulated Deficit

(in thousands of Canadian dollars)	As at March 31, 2014
Accumulated deficit - December 31, 2013	(55,515)
Recovery of PSAB transitional items	1,063
Accumulated deficit – end of period	**(54,453)**

3) SEGMENT DISCLOSURES

Expenses by object for the quarter ended March 31, 2014 comprise of the following:

	Wholesale market operations	Customer education and market enforcement expenses	Smart metering entity
For the quarter ended March 31	**2014**	**2014**	**2014**
(in thousands of Canadian dollars)	**$**	**$**	**$**
Labour	20,848	528	632
Computer services, support and equipment	3,015	-	184
Contract services and consultants	1,160	108	4,312
Telecommunications	749	-	5
Other costs	2,166	25	46
Amortization	3,855	-	977
Interest expense and financing charges	404	-	324
Total Expense	**32,197**	**661**	**6,480**

Expenses by object for the quarter ended March 31, 2013 comprise of the following:

	Wholesale market operations	Customer education and market enforcement expenses	Smart metering entity
For the quarter ended March 31	**2013**	**2013**	**2013**
(in thousands of Canadian dollars)	**$**	**$**	**$**
Labour	19,125	350	584
Computer services, support and equipment	2,608	-	157
Contract services and consultants	1,325	78	4,426
Telecommunications	808	-	1
Other costs	1,959	-	-
Amortization	3,243	-	902
Interest expense and financing charges	238	-	440
Total Expense	**29,306**	**428**	**6,510**

4) REGULATORY APPROVALS

The IESO submitted its 2014-2016 Business Plan to the Minister of Energy for approval and on October 23, 2013, the Minister issued his approval.

On November 4, 2013, the IESO submitted an application for a new fee for 2013 to the OEB. OEB approval is pending as of March 31, 2014,

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 March 31, 2014, the note payable to the OEFC was $78.2 million (December 31, 2013 - $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 March 31, 2014, $44.0 million was drawn on the credit facility (December 31, 2013 - $46.0 million).

Retirement Compensation Arrangements

In July 2013, the IESO established a Retirement Compensation Arrangements Trust (RCA) to provide security for the IESO's obligations under the terms of the supplementary employee retirement plan for its employees. As at March 31, 2014, the IESO has provided the RCA trustee with a bank letter of credit of $26,831,000 the trustee can draw on if the IESO is in default under the terms of this plan.