Independent Electricity System Operator
Statements of Financial Position
(Unaudited)

As at (in thousands of Canadian dollars)	June 30, 2014	December 31, 2013
	$	$
FINANCIAL ASSETS		
Cash and cash equivalents	3,060	9,569
Accounts receivable	15,304	17,592
Long-term investments	33,418	31,801
TOTAL FINANCIAL ASSETS	**51,782**	**58,962**
LIABILITIES		
Accounts payable and accrued liabilities	12,943	24,178
Accrued interest on debt	372	266
Rebates due to market participants	-	25,755
Debt	138,200	124,200
Accrued pension liability	33,177	35,139
Accrued liability for employee future benefits other than pension	76,979	74,069
TOTAL LIABILITIES	**261,671**	**283,607**
NET DEBT	**(209,889)**	**(224,645)**
NON-FINANCIAL ASSETS		
Net tangible capital assets	89,413	91,636
Prepaid expenses	4,905	4,455
TOTAL NON-FINANCIAL ASSETS	**94,318**	**96,091**
ACCUMULATED SURPLUS / (DEFICIT)		
Accumulated deficit from operations (Note 2)	(121,603)	(132,698)
Accumulated remeasurement gains	6,032	4,144
ACCUMULATED DEFICIT	**(115,571)**	**(128,554)**

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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)	2014 Budget	2014 Actual	2013 Actual
WHOLESALE MARKET OPERATIONS			
System fees	63,563	64,733	63,167
Other revenue	1,605	1,967	1,572
Interest and investment income	219	1,019	262
Wholesale market operation revenues	**65,387**	**67,719**	**65,001**
Wholesale market operation expenses	(62,631)	(64,719)	(58,297)
Wholesale market operations annual surplus	**2,756**	**3,000**	**6,704**
MARKET SANCTIONS AND PAYMENT ADJUSTMENTS			
Market sanctions and payment adjustments	0	1,099	462
Customer education and market enforcement expenses	(147)	(1,619)	(1,035)
Market sanctions and payment adjustments annual deficit	**(147)**	**(520)**	**(573)**
SMART METERING ENTITY			
Smart metering charge	22,603	22,867	7,536
Smart metering expenses	(16,526)	(14,252)	(12,986)
Smart metering entity annual surplus/(deficit)	**6,077**	**8,615**	**(5,450)**
ANNUAL SURPLUS	**8,686**	**11,095**	**681**
ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD	(132,698)	(132,698)	(137,651)
ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD	**(124,012)**	**(121,603)**	**(136,970)**

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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)	2014	2013
	Actual	Actual
	$	$
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	**4,144**	**1,547**
UNREALIZED GAINS / (LOSSES) ATTRIBUTABLE TO:		
Foreign exchange - derivatives	(100)	124
Foreign exchange - other	406	97
Portfolio investments	2,375	917
AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:		
Foreign exchange - derivatives	-	-
Foreign exchange - other	(178)	(35)
Portfolio investments	(615)	-
NET REMEASUREMENT GAINS FOR THE PERIOD	**1,888**	**1,103**
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	**6,032**	**2,650**

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

For the six months ended June 30 (in thousands of Canadian dollars)	2014 Budget $	2014 Actual $	2013 Actual $
ANNUAL SURPLUS	**8,686**	**11,095**	**681**
CHANGE IN NON-FINANCIAL ASSETS			
Acquisition of tangible capital assets	(14,440)	(7,681)	(9,026)
Amortization of tangible capital assets	10,470	9,904	8,496
Change in prepaid expenses	636	(450)	(707)
TOTAL CHANGE IN NON-FINANCIAL ASSETS	**(3,334)**	**1,773**	**(1,237)**
NET REMEASUREMENT GAINS FOR THE PERIOD	486	1,888	1,103
CHANGE IN NET DEBT	**5,838**	**14,756**	**547**
NET DEBT, BEGINNING OF PERIOD	(224,645)	(224,645)	(227,399)
NET DEBT, END OF PERIOD	**(218,807)**	**(209,889)**	**(226,852)**

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Independent Electricity System Operator
Statements of Cash Flows
(Unaudited)

For the six months ended June 30 (in thousands of Canadian dollars)	2014	2013
	$	$
OPERATING TRANSACTIONS		
Surplus	11,095	681
	11,095	681
Changes in non-cash items		
Amortization	9,904	8,496
Pension expense	6,893	5,406
Other employee future benefits expense	4,082	3,524
Change in fair value of long-term investments	(716)	-
	20,163	17,426
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	(6,500)	(3,727)
Change in accounts receivable	2,288	2,055
Change in rebates due to market participants	(25,755)	-
Change in prepaid expenses	(450)	(707)
	(30,417)	(2,379)
Other:		
Contribution to pension fund	(8,855)	(8,435)
Payment of employee future benefits	(1,172)	(1,013)
	(10,027)	(9,448)
Cash provided by (applied to) operating transactions	**(9,186)**	**6,280**
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(7,681)	(9,026)
Change in accounts payable & accrued liabilities	(4,629)	1,060
Cash applied to capital transactions	**(12,310)**	**(7,966)**
INVESTING TRANSACTIONS		
Sale/(purchase) of long-term investments	859	(219)
Cash provided by (applied to) investing transactions	**859**	**(219)**
FINANCING TRANSACTIONS		
Issue debt	14,000	7,000
Cash provided by (applied to) financing transactions	**14,000**	**7,000**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(6,637)**	**5,095**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	9,569	6,863
Unrealized foreign exchange gains for the period	128	186
CASH AND CASH EQUIVALENTS - END OF PERIOD	**3,060**	**12,144**

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Independent Electricity System Operator
Notes to Financial Statements (unaudited)

June 30, 2014

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) REBATES DUE TO MARKET PARTICIPANTS AND ACCUMULATED DEFICIT

On May 22, 2014, the Ontario Energy Board (OEB) approved the IESO's proposal to retain $5,000 thousand of accumulated surplus and rebate the remaining accumulated surplus of $25,755 thousand to market participants.

As at June 30, 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 June 30, 2014	As at December 31, 2013
Approved regulatory deferral account	7,763	5,000
Accumulated market sanctions and payment adjustments	186	706
Smart metering entity – accumulated deficit	(70,130)	(78,745)
PSAB transitional items	(53,390)	(55,515)
Accumulated deficit – end of period	**(115,571)**	**(128,554)**

Approved Regulatory Deferral Account

(in thousands of Canadian dollars)	As at June 30, 2014
Accumulated surplus – December 31, 2013	5,000
Revenues (before rebates due to market participants)	93,474
Rebates due to market participants	(25,755)
Wholesale market operation expenses	(64,719)
Change in accumulated remeasurement gains/(losses)	1,888
Recovery of PSAB transitional items	(2,125)
Accumulated surplus – end of period	**7,763**

Accumulated Market Sanctions and Payment Adjustments

(in thousands of Canadian dollars)	As at June 30, 2014
Accumulated surplus – December 31, 2013	706
Market sanctions and payment adjustments	1,099
Customer education and market enforcement expenses	(1,619)
Accumulated surplus – end of period	**186**

Smart Metering Entity – Accumulated Deficit

(in thousands of Canadian dollars)	As at June 30, 2014
Accumulated deficit – December 31, 2013	(78,745)
Smart metering charge	22,867
Smart metering expenses	(14,252)
Accumulated deficit – end of period	**(70,130)**

PSAB Transitional Items - Accumulated Deficit

(in thousands of Canadian dollars)	As at June 30, 2014
Accumulated deficit - December 31, 2013	(55,515)
Recovery of PSAB transitional items	2,125
Accumulated deficit – end of period	**(53,390)**

3) DEBT

Note Payable to Ontario Electricity Finance Corporation (OEFC)

In April 2014, the IESO entered into a three-year note payable with the OEFC. The note payable is unsecured, bears interest at a fixed rate of 2.046% per annum and is repayable in full on April 30, 2017. Interest accrues daily and is payable in arrears semi-annually in April and October of each year. As at June 30, 2014, the note payable to the OEFC was $90.0 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 $95.0 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, 2017. As at June 30, 2014, $48.2 million was drawn on the credit facility (December 31, 2013 - $46.0 million).**SEGMENT DISCLOSURES**

Expenses by object for the six months ended June 30, 2014 comprise of the following:

	Wholesale market operations	Customer education and market enforcement expenses	Smart metering entity
For the six months ended June 30	**2014**	**2014**	**2014**
(in thousands of Canadian dollars)	**$**	**$**	**$**
Labour	42,580	1,041	1,281
Computer services, support and equipment	5,197	-	1,905
Contract services and consultants	2,858	534	8,279
Telecommunications	1,515	1	10
Other costs	4,039	43	94
Amortization	7,894	-	2,009
Interest expense and financing charges	636	-	674
Total Expense	**64,719**	**1,619**	**14,252**

Expenses by object for the quarter ended June 30, 2013 comprise of the following:

	Wholesale market operations	**Customer education and market enforcement expenses**	**Smart metering entity**
For the six months ended June 30	**2013**	**2013**	**2013**
(in thousands of Canadian dollars)	**$**	**$**	**$**
Labour	38,576	717	1,189
Computer services, support and equipment	4,880	-	261
Contract services and consultants	2,614	318	8,830
Telecommunications	1,572	-	2
Other costs	3,580	-	1
Amortization	6,656	-	1,841
Interest expense and financing charges	419	-	862
Total Expense	**58,297**	**1,035**	**12,986**

4) CAPITAL DISCLOSURES

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 2014 to the OEB. On May 22, 2014, the OEB approved the new fee of $0.803/MWh effective January 1, 2014. The fee will be charged to all market participants based on the quantity of energy withdrawn from the market (including exports) and embedded generation.

Bill 14, *Building Opportunity and Securing Our Future Act (Budget Measures), 2014* received Royal Assent on July 24, 2014. Schedule 7 of 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 Independent Electricity System Operator ("IESO"). The transitional provision dealing with corporate matters, provides, among other things, that the predecessor IESO and the OPA cease to exist as entities separate from the IESO and all their rights, properties and assets become the rights, properties and assets of the IESO, as do all outstanding debts, liabilities and obligations of the predecessor IESO and the OPA. As of August 15, 2014, Schedule 7 of Bill 14 has not been proclaimed.