Independent Electricity System Operator
Statements of Financial Position
Unaudited

As at (in thousands of Canadian dollars)	June 30, 2016	December 31, 2015
	$	
FINANCIAL ASSETS		
Cash and cash equivalents	6,423	14,715
Accounts receivable	41,689	33,199
Long-term investments	38,150	37,318
TOTAL FINANCIAL ASSETS	**86,262**	**85,232**
LIABILITIES		
Accounts payable and accrued liabilities	33,031	48,868
Accrued interest on debt	316	315
Rebates due to market participants	12,282	9,595
Debt	90,000	90,000
Accrued pension liability	33,012	36,062
Accrued liability for employee future benefits other than pension	87,361	84,501
TOTAL LIABILITIES	**256,002**	**269,341**
NET DEBT	**(169,740)**	**(184,109)**
NON-FINANCIAL ASSETS		
Net tangible capital assets	105,938	103,716
Prepaid expenses	6,772	6,197
TOTAL NON-FINANCIAL ASSETS	**112,710**	**109,913**
ACCUMULATED SURPLUS / (DEFICIT)		
Accumulated deficit from operations (Note 2)	(65,137)	(81,854)
Accumulated remeasurement gains	8,107	7,658
ACCUMULATED DEFICIT	**(57,030)**	**(74,196)**

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Independent Electricity System Operator
Statement of Operations and Accumulated Deficit
Unaudited

For the six months ended June 30 (in thousands of Canadian dollars)	2016 Budget $	2016 Actual $	2015 Actual $
IESO CORE OPERATIONS			
System fees	89,554	90,751	97,483
Other revenue	500	1,478	3,722
Interest and investment income	-	382	304
Core operation revenues	**90,054**	**92,611**	**101,509**
Compensation and benefits	(53,272)	(52,949)	(51,305)
Professional and consulting	(7,801)	(6,295)	(9,311)
Operating and administration	(16,918)	(16,910)	(16,941)
Core operating expenses	**(77,991)**	**(76,154)**	**(77,557)**
Amortization	(9,152)	(9,301)	(8,239)
Net interest	(369)	(422)	(421)
Core expenses	**(87,512)**	**(85,877)**	**(86,217)**
Core operations annual surplus	**2,542**	**6,734**	**15,292**
MARKET SANCTIONS AND PAYMENT ADJUSTMENTS			
Market sanctions and payment adjustments	**2,101**	**1,751**	**4,347**
Compensation and benefits	(1,416)	(1,079)	(1,491)
Professional and consulting	(758)	(383)	(497)
Operating and administration	(75)	(373)	(54)
Customer education and market enforcement expenses	(2,249)	(1,835)	(2,042)
Market sanctions and payment adjustments annual surplus/(deficit)	**(148)**	**(84)**	**2,305**
SMART METERING ENTITY			
Smart metering charge	**22,603**	**23,326**	**23,108**
Compensation and benefits	(1,722)	(1,270)	(1,239)
Professional and consulting	(9,331)	(7,191)	(7,486)
Operating and administration	(1,187)	(2,661)	(1,652)
Smart metering operating expenses	**(12,240)**	**(11,122)**	**(10,377)**
Amortization	(2,012)	(1,798)	(1,765)
Net interest	(1,545)	(339)	(532)
Smart metering expenses	(15,797)	(13,259)	(12,674)
Smart metering entity annual surplus	**6,806**	**10,067**	**10,434**
ANNUAL SURPLUS	**9,200**	**16,717**	**28,031**
ACCUMULATED DEFICIT FROM OPERATIONS, BEGINNING OF PERIOD	(81,854)	(81,854)	(109,654)
ACCUMULATED DEFICIT FROM OPERATIONS, END OF PERIOD	**(72,654)**	**(65,137)**	**(81,623)**

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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)	2016 Actual $	2015 Actual $
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	**7,658**	**6,362**
UNREALIZED GAINS ATTRIBUTABLE TO:		
Foreign exchange - other	482	468
Portfolio investments	482	1,626
AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:		
Foreign exchange - other	(515)	(591)
NET REMEASUREMENT GAINS FOR THE PERIOD	**449**	**1,503**
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	**8,107**	**7,865**

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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)	2016 Budget $	2016 Actual $	2015 Actual $
SURPLUS FOR THE PERIOD	**9,200**	**16,717**	**28,031**
CHANGE IN NON-FINANCIAL ASSETS			
Acquisition of tangible capital assets	(13,694)	(13,320)	(10,287)
Amortization of tangible capital assets	11,164	11,098	10,004
Change in prepaid expenses	-	(575)	(740)
TOTAL CHANGE IN NON-FINANCIAL ASSETS	**(2,530)**	**(2,797)**	**(1,023)**
NET REMEASUREMENT GAINS FOR THE PERIOD	-	449	1,503
CHANGE IN NET DEBT	**6,670**	**14,369**	**28,511**
NET DEBT, BEGINNING OF PERIOD	(184,109)	(184,109)	(209,016)
NET DEBT, END OF PERIOD	**(177,439)**	**(169,740)**	**(180,505)**

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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)	**2016**	**2015**
	$	**$**
OPERATING TRANSACTIONS		
Change in accumulated deficit		
Surplus	16,717	28,031
	16,717	28,031
Changes in non-cash items		
Amortization	11,098	10,004
Pension expense	5,175	4,249
Other employee future benefits expense	4,063	3,417
	20,336	17,670
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	(13,238)	2,573
Change in accounts receivable	(8,490)	(9,411)
Change in rebates due to market participants	2,687	-
Change in prepaid expenses	(575)	(740)
	(19,616)	(7,578)
Other:		
Contribution to pension fund	(8,225)	(8,230)
Payment of employee future benefits	(1,203)	(1,112)
	(9,428)	(9,342)
Cash provided by operating transactions	**8,009**	**28,781**
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(13,320)	(10,287)
Change in accounts payable & accrued liabilities	(2,598)	(2,571)
Cash applied to capital transactions	**(15,918)**	**(12,858)**
INVESTING TRANSACTIONS		
Purchase of long-term investments	(350)	(634)
Cash applied to investing transactions	**(350)**	**(634)**
FINANCING TRANSACTIONS		
Retire debt	-	(13,000)
Cash applied to financing transactions	**-**	**(13,000)**
INCREASE IN CASH AND CASH EQUIVALENTS	(8,259)	2,289
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	14,715	38,208
Unrealized foreign exchange losses for the period	(33)	(123)
CASH AND CASH EQUIVALENTS - END OF PERIOD	**6,423**	**40,374**

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Independent Electricity System Operator
Notes to Financial Statements (unaudited)

June 30, 2016

1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2015 IESO annual financial statements.

The interim financial statements have been prepared on a going concern basis and should be read in conjunction with the 2015 IESO annual financial statement.

2) REBATES DUE TO MARKET PARTICIPANTS AND ACCUMULATED DEFICIT

As at June 30, 2016 and December 31, 2015, the components of the IESO's Accumulated Deficit were as follows:

Accumulated Deficit

(in thousands of Canadian dollars)	As at June 30, 2016	As at December 31, 2015
Approved regulatory deferral account	14,778	10,000
Accumulated market sanctions and payment adjustments	408	492
Smart metering entity – accumulated deficit	(30,782)	(40,849)
Pension and OPEB adjustments	(45,397)	(47,353)
Remeasurement gains/(losses)	3,963	3,514
Accumulated deficit – end of period	**(57,030)**	**(74,196)**

Approved Regulatory Deferral Account

(in thousands of Canadian dollars)	As at June 30, 2016
Accumulated surplus – December 31, 2015	10,000
Revenues (before rebates due to market participants)	95,298
Rebates due to market participants	(2,687)
IESO operation expenses	(85,877)
Recovery of PSAB transitional items	(1,956)
Accumulated surplus – end of period	**14,778**

Accumulated Market Sanctions and Payment Adjustments

(in thousands of Canadian dollars)	As at June 30, 2016
Accumulated deficit – December 31, 2015	492
Market sanctions and payment adjustments	1,751
Customer education and market enforcement expenses	(1,835)
Accumulated surplus – end of period	**408**

Smart Metering Entity – Accumulated Deficit

(in thousands of Canadian dollars)	As at June 30, 2016
Accumulated deficit – December 31, 2015	(40,849)
Smart metering charge	23,326
Smart metering expenses	(13,259)
Accumulated deficit – end of period	**(30,782)**

Pension and OPEB Adjustments - Accumulated Deficit

(in thousands of Canadian dollars)	As at June 30, 2016
Accumulated deficit - December 31, 2015	(47,353)
Recovery of PSAB transitional items	1,956
Accumulated deficit – end of period	**(45,397)**

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, 2016, the note payable to the OEFC was $90.0 million (December 31, 2015 - $90.0 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, 2016, $0.0 million was drawn on the credit facility (December 31, 2015 - $0.0 million).