

***Independent Electricity System Operator***  
***Statement of Financial Position***  
***Unaudited***

As at (in thousands of Canadian dollars)

September 30, 2017

December 31, 2016

|                                                                   | \$               | \$               |
|-------------------------------------------------------------------|------------------|------------------|
| <b>FINANCIAL ASSETS</b>                                           |                  |                  |
| Cash and cash equivalents                                         | 70,020           | 33,005           |
| Accounts receivable                                               | 38,679           | 31,103           |
| Regulated assets                                                  | 45,812           | 65,064           |
| Long-term investments                                             | 42,503           | 40,355           |
| Market accounts - assets (Note 2)                                 | 1,973,371        | 1,636,201        |
| <b>TOTAL FINANCIAL ASSETS</b>                                     | <b>2,170,385</b> | <b>1,805,728</b> |
| <b>LIABILITIES</b>                                                |                  |                  |
| Accounts payable and accrued liabilities (Note 3)                 | 33,357           | 38,963           |
| Accrued interest on debt                                          | 530              | 315              |
| Rebates due to market participants (Note 4)                       | 12,551           | 12,551           |
| Debt (Note 5)                                                     | 120,000          | 90,000           |
| Accrued pension liability                                         | 29,620           | 34,620           |
| Accrued liability for employee future benefits other than pension | 94,810           | 90,251           |
| Market accounts - liabilities (Note 2)                            | 1,973,371        | 1,636,201        |
| <b>TOTAL LIABILITIES</b>                                          | <b>2,264,239</b> | <b>1,902,901</b> |
| <b>NET DEBT</b>                                                   | <b>(93,854)</b>  | <b>(97,173)</b>  |
| <b>NON-FINANCIAL ASSETS</b>                                       |                  |                  |
| Net tangible capital assets                                       | 100,350          | 105,047          |
| Prepaid expenses                                                  | 6,889            | 6,614            |
| <b>TOTAL NON-FINANCIAL ASSETS</b>                                 | <b>107,239</b>   | <b>111,661</b>   |
| <b>ACCUMULATED SURPLUS</b>                                        |                  |                  |
| Accumulated surplus from operations (Note 4)                      | 4,173            | 6,582            |
| Accumulated remeasurement gains                                   | 9,212            | 7,906            |
| <b>ACCUMULATED SURPLUS</b>                                        | <b>13,385</b>    | <b>14,488</b>    |

**Independent Electricity System Operator**  
**Statement of Operations and Accumulated Surplus**  
*Unaudited*

For the nine months ended September 30 (in thousands of Canadian dollars)

|                                                           | 2017<br>Budget   | 2017<br>Actual   | 2016<br>Actual   |
|-----------------------------------------------------------|------------------|------------------|------------------|
| <b>IESO CORE OPERATIONS</b>                               | <b>\$</b>        | <b>\$</b>        | <b>\$</b>        |
| System fees                                               | 139,724          | 128,906          | 136,070          |
| Other revenue                                             | 574              | 2,874            | 1,886            |
| Interest and investment income                            | 1,575            | 801              | 862              |
| <b>Core operation revenues</b>                            | <b>141,873</b>   | <b>132,581</b>   | <b>138,818</b>   |
| Compensation and benefits                                 | (84,382)         | (81,792)         | (78,257)         |
| Professional and consulting                               | (13,277)         | (12,152)         | (10,668)         |
| Operating and administration                              | (27,060)         | (26,070)         | (24,512)         |
| <b>Core operating expenses</b>                            | <b>(124,719)</b> | <b>(120,014)</b> | <b>(113,437)</b> |
| Amortization                                              | (13,894)         | (13,685)         | (14,827)         |
| Interest                                                  | (555)            | (1,207)          | (898)            |
| <b>Core expenses</b>                                      | <b>(139,168)</b> | <b>(134,906)</b> | <b>(129,162)</b> |
| <b>Core operations surplus/(deficit) before rebates</b>   | <b>2,705</b>     | <b>(2,325)</b>   | <b>9,656</b>     |
| Rebates due to market participants                        | -                | -                | -                |
| <b>Core operations surplus/(deficit)</b>                  | <b>2,705</b>     | <b>(2,325)</b>   | <b>9,656</b>     |
| <b>MARKET SANCTIONS AND PAYMENT ADJUSTMENTS</b>           |                  |                  |                  |
| <b>Market sanctions and payment adjustments</b>           | <b>3,040</b>     | <b>2,286</b>     | <b>2,557</b>     |
| Compensation and benefits                                 | (2,004)          | (1,584)          | (1,571)          |
| Professional and consulting                               | (1,137)          | (257)            | (537)            |
| Operating and administration                              | (114)            | (529)            | (535)            |
| <b>Customer education and market enforcement expenses</b> | <b>(3,255)</b>   | <b>(2,370)</b>   | <b>(2,643)</b>   |
| <b>Market sanctions and payment adjustments deficit</b>   | <b>(215)</b>     | <b>(84)</b>      | <b>(86)</b>      |
| <b>SMART METERING ENTITY</b>                              |                  |                  |                  |
| <b>Smart metering charge</b>                              | <b>23,282</b>    | <b>19,141</b>    | <b>20,290</b>    |
| Compensation and benefits                                 | (2,591)          | (1,992)          | (1,870)          |
| Professional and consulting                               | (12,844)         | (10,580)         | (10,771)         |
| Operating and administration                              | (2,644)          | (3,313)          | (4,463)          |
| <b>Smart metering operating expenses</b>                  | <b>(18,079)</b>  | <b>(15,885)</b>  | <b>(17,104)</b>  |
| Amortization                                              | (3,416)          | (3,033)          | (2,733)          |
| Interest                                                  | (1,787)          | (223)            | (453)            |
| <b>Smart metering expenses</b>                            | <b>(23,282)</b>  | <b>(19,141)</b>  | <b>(20,290)</b>  |
| <b>Smart metering entity surplus/(deficit)</b>            | <b>-</b>         | <b>-</b>         | <b>-</b>         |
| <b>SURPLUS/(DEFICIT)</b>                                  | <b>2,490</b>     | <b>(2,409)</b>   | <b>9,570</b>     |
| ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD  | 6,582            | 6,582            | 6,348            |
| <b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b> | <b>9,072</b>     | <b>4,173</b>     | <b>15,918</b>    |

*Independent Electricity System Operator*  
*Statement of Remeasurement Gains and Losses*  
*Unaudited*

| For the nine months ended September 30 (in thousands of Canadian dollars) | 2017<br>Actual | 2016<br>Actual |
|---------------------------------------------------------------------------|----------------|----------------|
|                                                                           | \$             | \$             |
| ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD                      | 7,906          | 7,658          |
| UNREALIZED GAINS ATTRIBUTABLE TO:                                         |                |                |
| Foreign exchange - other                                                  | 737            | 478            |
| Portfolio investments                                                     | 1,332          | 1,747          |
| AMOUNTS RECLASSIFIED TO THE STATEMENT OF OPERATIONS:                      |                |                |
| Foreign exchange - other                                                  | (763)          | (515)          |
| NET REMEASUREMENT GAINS FOR THE PERIOD                                    | 1,306          | 1,710          |
| ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD                            | 9,212          | 9,368          |

***Independent Electricity System Operator***  
***Statement of Change in Net Debt***  
***Unaudited***

For the nine months ended September 30 (in thousands of Canadian dollars)

|                                               | 2017<br>Budget  | 2017<br>Actual  | 2016<br>Actual  |
|-----------------------------------------------|-----------------|-----------------|-----------------|
|                                               | \$              | \$              | \$              |
| <b>SURPLUS/(DEFICIT)</b>                      | <b>2,490</b>    | <b>(2,409)</b>  | <b>9,570</b>    |
| <b>CHANGE IN NON-FINANCIAL ASSETS</b>         |                 |                 |                 |
| Acquisition of tangible capital assets        | (19,375)        | (12,021)        | (20,670)        |
| Amortization of tangible capital assets       | 17,310          | 16,718          | 17,560          |
| Change in prepaid expenses                    | -               | (275)           | (636)           |
| <b>TOTAL CHANGE IN NON-FINANCIAL ASSETS</b>   | <b>(2,065)</b>  | <b>4,422</b>    | <b>(3,746)</b>  |
| <b>NET REMEASUREMENT GAINS FOR THE PERIOD</b> | <b>-</b>        | <b>1,306</b>    | <b>1,710</b>    |
| <b>CHANGE IN NET DEBT</b>                     | <b>425</b>      | <b>3,319</b>    | <b>7,534</b>    |
| <b>NET DEBT, BEGINNING OF PERIOD</b>          | <b>(97,173)</b> | <b>(97,173)</b> | <b>(95,907)</b> |
| <b>NET DEBT, END OF PERIOD</b>                | <b>(96,748)</b> | <b>(93,854)</b> | <b>(88,373)</b> |

**Independent Electricity System Operator**  
**Statement of Cash Flows**  
**Unaudited**

For the nine months ended September 30 (in thousands of Canadian dollars)

|                                                         | 2017            | 2016            |
|---------------------------------------------------------|-----------------|-----------------|
|                                                         | \$              | \$              |
| <b>OPERATING TRANSACTIONS</b>                           |                 |                 |
| Change in accumulated surplus/(deficit)                 |                 |                 |
| Surplus/(Deficit)                                       | (2,409)         | 9,570           |
|                                                         | (2,409)         | 9,570           |
| Changes in non-cash items                               |                 |                 |
| Amortization                                            | 16,718          | 17,560          |
| Pension expense                                         | 6,083           | 8,614           |
| Other employee future benefits expense                  | 6,451           | 6,095           |
|                                                         | 29,252          | 32,269          |
| Changes in non-cash balances related to operations:     |                 |                 |
| Change in accounts payable and accrued liabilities      | (4,571)         | (13,306)        |
| Change in accounts receivable                           | (7,576)         | (6,348)         |
| Change in rebates due to market participants            | -               | 4,474           |
| Change in regulated assets                              | 19,252          | 17,632          |
| Change in prepaid expenses                              | (275)           | (636)           |
|                                                         | 6,830           | 1,816           |
| Other:                                                  |                 |                 |
| Contribution to pension fund                            | (11,083)        | (10,715)        |
| Payment of employee future benefits                     | (1,892)         | (1,783)         |
|                                                         | (12,975)        | (12,498)        |
| <b>Cash provided by operating transactions</b>          | <b>20,697</b>   | <b>31,157</b>   |
| <b>CAPITAL TRANSACTIONS</b>                             |                 |                 |
| Acquisition of tangible capital assets                  | (12,021)        | (20,670)        |
| Change in accounts payable and accrued liabilities      | (820)           | (1,187)         |
| <b>Cash applied to capital transactions</b>             | <b>(12,841)</b> | <b>(21,857)</b> |
| <b>INVESTING TRANSACTIONS</b>                           |                 |                 |
| Purchase of long-term investments                       | (816)           | (1,142)         |
| <b>Cash applied to investing transactions</b>           | <b>(816)</b>    | <b>(1,142)</b>  |
| <b>FINANCING TRANSACTIONS</b>                           |                 |                 |
| Issue debt                                              | 30,000          | -               |
| <b>Cash applied to financing transactions</b>           | <b>30,000</b>   | <b>-</b>        |
| <b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>37,041</b>   | <b>8,158</b>    |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>  | <b>33,005</b>   | <b>14,715</b>   |
| Unrealized foreign exchange (losses) for the period     | (26)            | (37)            |
| <b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>        | <b>70,020</b>   | <b>22,836</b>   |

## Independent Electricity System Operator

Notes to Financial Statements (unaudited)

September 30, 2017

### 1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2016 IESO annual financial statements.

The interim financial statements have been prepared on a going concern basis and should be read in conjunction with the 2016 IESO annual financial statements.

### 2) MARKET ACCOUNTS

As of January 1, 2016 the IESO changed its accounting policy regarding the recognition of market accounts assets and liabilities on the statement of financial position.

In March 2017, the Government of Ontario announced its Fair Hydro Plan (FHP). Under this Plan, the IESO continues to settle the transactions between generators and distributors, but collects only a portion of the Global Adjustment from eligible customers, identified in the Ontario Fair Hydro Plan Act.

As at September 30, Deferred Global Adjustment Variance was \$818,174 thousand. This balance includes the variance created by the partial implementation of the FHP prior to the effective date of July 1, 2017. The partial reduction granted from May 1 to June 30, resulted in a variance of \$239,452 thousand. During the third quarter the market under collected \$577,379 thousand from customers. In addition, interest payable on the account decreased by \$800 thousand.

The FHP also shifted the cost of the Ontario Electricity Support Program (OESP) and most of the Rural or Remote Rate Protection (RRRP) program costs from ratepayers to taxpayer-funded programs.

Prior to May 1 the balance of OESP funds collected and paid through the market was in a credit position of \$116,096 thousand. With the implementation of the FHP on May 1, 2017, only payments to OESP eligible customers are currently being made and the balance at September 30, 2017 was in a credit position of \$62,312 thousand, net of interest.

A new rate for the RRRP program under the FHP was effective July 1, 2017. The balance in the RRRP variance account to June 30, 2017 was \$6,626 thousand. The new rate has resulted in an under collection of \$4,017 thousand (net of interest) in the third quarter for the RRRP settled through the market accounts, resulting in balance in the variance of \$10,643 thousand as at September 30, 2017.

| Components of the market accounts are as follows:                 | As at              | As at             |
|-------------------------------------------------------------------|--------------------|-------------------|
|                                                                   | September 30, 2017 | December 31, 2016 |
| Cash, restricted for market accounts                              | 215,476            | 244,755           |
| Amounts due from market participants                              | 939,095            | 1,391,260         |
| Interest receivable                                               | 126                | 186               |
| Deferred Global Adjustment Assets                                 | 818,174            | -                 |
| Debt                                                              | (614,805)          | (150,501)         |
| HST receivable                                                    | 131,000            | 25,531            |
| Amounts due to market participants                                | (1,241,849)        | (1,387,971)       |
| Provision for future Ontario Electricity Support Program activity | (62,312)           | (92,443)          |
| Provision for future Rural or Remote Rate Protection activity     | 10,643             | (4,672)           |
| Other liabilities                                                 | (195,548)          | (26,145)          |
| <b>Closing balance</b>                                            | <b>-</b>           | <b>-</b>          |

|                                                                | As at<br>September 30, 2017 | As at<br>December 31, 2016 |
|----------------------------------------------------------------|-----------------------------|----------------------------|
| <b>Regulatory assets/liabilities consist of the following:</b> |                             |                            |
| Deferred Global Adjustment Variance                            | 818,174                     | -                          |
| Regulated Price Plan Variance                                  | -                           | 134,988                    |
| Ontario Electricity Support Program Variance                   | (62,312)                    | (92,443)                   |
| Rural or Remote Rate Protection Variance                       | 10,643                      | (4,672)                    |
| <b>Closing balance</b>                                         | <b>766,505</b>              | <b>37,873</b>              |

### 3) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| (in thousands of Canadian dollars)  | As at<br>September 30, 2017 | As at<br>December 31, 2016 |
|-------------------------------------|-----------------------------|----------------------------|
| Relating to operations              | 30,844                      | 35,630                     |
| Relating to tangible capital assets | 2,513                       | 3,333                      |
| <b>Closing balance</b>              | <b>33,357</b>               | <b>38,963</b>              |

### 4) REBATES DUE TO MARKET PARTICIPANTS AND ACCUMULATED SURPLUS

As at September 30, 2017 and December 31, 2016, the components of the IESO's Accumulated Surplus were as follows:

#### Accumulated Surplus

| (in thousands of Canadian dollars)                   | As at<br>September 30, 2017 | As at<br>December 31, 2016 |
|------------------------------------------------------|-----------------------------|----------------------------|
| Approved regulatory deferral account                 | 7,675                       | 10,000                     |
| Accumulated market sanctions and payment adjustments | 642                         | 726                        |
| Remeasurement gains                                  | 5,068                       | 3,762                      |
| <b>Accumulated surplus – end of period</b>           | <b>13,385</b>               | <b>14,488</b>              |

#### Regulatory Deferral Account

| (in thousands of Canadian dollars)                   | As at<br>September 30, 2017 |
|------------------------------------------------------|-----------------------------|
| Accumulated surplus – December 31, 2016              | 10,000                      |
| Revenues (before rebates due to market participants) | 132,581                     |
| IESO operation expenses                              | (134,906)                   |
| <b>Accumulated surplus – end of period</b>           | <b>7,675</b>                |

#### Accumulated Market Sanctions and Payment Adjustments

| (in thousands of Canadian dollars)                 | As at<br>June 30, 2017 |
|----------------------------------------------------|------------------------|
| Accumulated surplus – December 31, 2016            | 726                    |
| Market sanctions and payment adjustments           | 2,286                  |
| Customer education and market enforcement expenses | (2,370)                |
| <b>Accumulated surplus – end of period</b>         | <b>642</b>             |

## **5) DEBT**

### **Note Payable to Ontario Electricity Finance Corporation (OEFC)**

In April 2017, the IESO entered into a note payable with the OEFC. The note payable is unsecured, bears interest at a fixed rate of 1.767% per annum and is repayable in full on June 30, 2020. Interest accrues daily and is payable in arrears semi-annually in June and December of each year. As at September 30, 2017, the note payable to the OEFC was \$120 million (December 31, 2016 - \$90 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 \$160.0 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 June 30, 2020. As at September 30, 2017, no funds were drawn on the credit facility (December 31, 2016 - \$nil).