

Independent Electricity System Operator
Statement of Comprehensive Income/(Loss) and Accumulated Surplus
(Unaudited)

(in thousands of Canadian dollars)	For the three months ended September 30, 2008	For the nine months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2007
	\$	\$	\$	\$
REVENUES				
System fees	33,473	101,996	33,017	98,888
Other revenue (Note 4)	471	1,182	(1,898)	1,556
TOTAL REVENUES	33,944	103,178	31,119	100,444
EXPENSES				
Labour	19,319	57,771	17,914	57,112
Computer services, support and equipment	1,833	6,707	2,112	6,978
Consultants, contract and legal services	3,156	8,750	1,731	5,262
Telecommunications	772	2,265	781	2,547
Other costs	1,419	4,389	1,402	4,880
Amortization	1,721	17,186	5,618	21,755
TOTAL EXPENSES	28,220	97,068	29,558	98,534
Income Before Interest and Investment Income	5,724	6,110	1,561	1,910
Interest & investment income/(loss)	(1,208)	(1,315)	164	683
Interest expense and financing charges	(1,635)	(4,960)	(1,761)	(5,299)
NET INCOME/(LOSS) FOR THE PERIOD	2,881	(165)	(36)	(2,706)
OTHER COMPREHENSIVE INCOME		29	(46)	(150)
COMPREHENSIVE INCOME/(LOSS)	2,881	(136)	(82)	(2,856)
ACCUMULATED SURPLUS - BEGINNING OF PERIOD	(3)	3,014	7,053	7,961
Change in accounting policy			-	1,866
ACCUMULATED SURPLUS - END OF PERIOD (Note 5)	2,878	2,878	6,971	6,971

Independent Electricity System Operator
Statement of Financial Position
(Unaudited)

(in thousands of Canadian dollars)	As at September 30, 2008	As at December 31, 2007
	\$	\$
ASSETS		
Current Assets		
Cash & cash equivalents	16,854	1,229
Prepaid expenses & receivables	15,670	16,957
	32,524	18,186
Property & Equipment		
In service	100,189	96,048
Construction-in-progress	2,610	14,898
	102,799	110,946
Other Assets		
Long-term investments	15,615	16,718
Deferred costs - smart metering initiative	1,596	1,596
	17,211	18,314
TOTAL ASSETS	152,534	147,446
LIABILITIES		
Current Liabilities		
Accounts payable & accrued liabilities	22,697	26,236
Accrued interest on long-term debt	2,574	1,030
Current portion of long-term debt (Note 6)	78,200	-
	103,471	27,266
Long-term Debt (Note 6)	-	78,200
Accrued Pension Liability	672	(2,971)
Accrual for Employee Future Benefits Other than Pensions	45,513	41,937
TOTAL LIABILITIES	149,656	144,432
ACCUMULATED SURPLUS (Note 5)	2,878	3,014
TOTAL LIABILITIES & ACCUMULATED SURPLUS	152,534	147,446

Independent Electricity System Operator
Statement of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)	For the three months ended September 30, 2008	For the nine months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2007
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income/(loss) for the period	2,881	(165)	(36)	(2,706)
Adjustments for non-cash items:				
Amortization	1,721	17,186	5,617	21,755
Prepaid pension cost	3,375	10,125	4,158	12,955
Other employee future benefits costs	1,607	4,787	1,402	4,702
Change in fair value of long-term investment held for trading	1,351	1,722	26	(247)
	8,054	33,820	11,203	39,165
Changes in non-cash items related to operations:				
Decrease/(Increase) in accounts payable and accrued liabilities	1,524	(358)	3,934	1,455
Decrease in rebates to market participants	-	-	-	(12,699)
Decrease/(Increase) in prepaid expenses and receivables	1,422	1,286	335	4,339
	2,946	928	4,269	(6,905)
Other:				
Contribution to pension fund	(2,536)	(6,481)	(1,751)	(5,893)
Payment of employee future benefits	(374)	(1,211)	(345)	(1,047)
	(2,910)	(7,692)	(2,096)	(6,940)
Cash provided from operating activities	10,971	26,891	13,340	22,614
INVESTING ACTIVITIES				
Contribution to long term investments	(81)	(619)	(1,417)	(2,148)
Investment in property & equipment	(2,222)	(10,646)	(15,870)	(17,116)
Investment in deferred costs - smart metering initiative	-	-	7,151	40
Cash provided from/(used in) investing activities	(2,303)	(11,265)	(10,136)	(19,224)
FINANCING ACTIVITIES				
Retirement of debt	-	-	(2,800)	(1,800)
Cash used in financing activities	-	-	(2,800)	(1,800)
NET CHANGE IN CASH & CASH EQUIVALENTS	8,668	15,626	404	1,590
CASH & CASH EQUIVALENTS - BEGINNING OF PERIOD	8,187	1,229	4,751	3,565
CASH & CASH EQUIVALENTS - END OF PERIOD	16,855	16,855	5,155	5,155

Supplementary Information: (in thousands of Canadian dollars)

Interest Paid	-	3,135	86	3,595
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Independent Electricity System Operator

Notes to Financial Statements (unaudited)

September 30, 2008

1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2007 annual financial statements, except where noted below. The interim financial statements should be read in conjunction with the 2007 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) ACCOUNTING CHANGES

Effective August 2008, the IESO adopted Canadian Institute of Chartered Accountants' (CICA) Handbook Section 1535 capital disclosures. The adoption of this new standard requires the disclosure of qualitative and quantitative information about the Company's capital and how it is managed

Capital Disclosures

In accordance with Section 1535, Capital Disclosures, the IESO's primary objectives are to maintain and enhance the reliability of Ontario's power system, administer the wholesale electricity market, and serve the needs of our participants and stakeholders. The IESO is a not-for-profit corporation and receives fees from market participants in order to fulfill its mandate. In addition, the IESO draws upon credit facilities for long-term and short-term funding requirements to support its operations. The IESO has customary covenants associated with these credit facilities. The IESO is in compliance with all of these covenants.

The IESO considers its capital structure to consist of accumulated surplus, short-term and long-term debt, and cash and cash equivalents. The IESO's capital structure as at September 30, 2008 and December 31, 2007 was as follows:

(Canadian dollars in millions)	September 30, 2008	December 31, 2007
Long-term debt payable within one year	78.2	-
Less: Cash and cash equivalents	16.9	1.2
	61.3	(1.2)
Long-term debt	-	78.2
Accumulated surplus	2.9	3.0
Total Capital	64.2	80.0

3) REGULATORY APPROVALS FOR 2008

On April 22, 2008, the Ontario Energy Board (OEB) issued its order approving the IESO's application fee of \$1000, the usage fee of \$0.799/MWh and the IESO's revenue requirements in the amount of \$135.5 million and capital expenditures in the amount of \$12 million. The OEB has reserved its approval of the capital expenditures of \$8 million allocated for the development of the day-ahead market.

4) OTHER REVENUES

In its administration of the IESO-Administered Markets, the IESO directs the investment of market funds in highly-rated short-term investments, including asset-backed commercial paper (“ABCP”), throughout the settlement cycle. The IESO is ordinarily entitled to receive the investment income earned on funds passing through the real-time market settlement accounts.

As a result of general worsening global credit market conditions, the Canadian market for non-bank ABCP in August 2007 was not able to refinance thereby creating a liquidity issue. Accordingly, some of the investments made for the real-time energy market were rendered illiquid. As at September 30, 2008, investments with a principal amount of \$23.1 million in non-bank sponsored ABCP notes remain illiquid and neither the associated principal repayments nor the interest payments on these notes were paid at their maturity dates, all of which were prior to September 30, 2008. The process to restructure the affected investments under the Companies’ Creditors Arrangements Act is continuing. As a result, the investments are effectively in a standstill situation and will remain illiquid until the restructuring process is completed successfully.

The IESO is not obligated to reimburse the market accounts in respect of the credit losses incurred on the ABCP investments. However, the IESO has not recognized as other revenue any investment income earned in the market settlement accounts during the year.

In addition, as a result of the illiquid ABCP in the market accounts, the IESO has, from time to time in 2008, provided short-term financing to the market to fund the settlement process. The IESO financed these loans through short-term drawings on its credit facility. The maximum amount borrowed by the IESO and advanced to the market during 2008 at any one time was \$18,900,000.

5) ACCUMULATED SURPLUS

As at September 30, 2008 and December 31, 2007, the components of the IESO’s Accumulated Surplus were as follows:

(in thousands of Canadian dollars)	As at September 30, 2008	As at December 31, 2007
Approved regulatory deferral account	7,415	691
Accumulated market penalties and fines	2,240	2,476
Accumulated deficit - Smart Metering Entity	(6,777)	(124)
Accumulated other comprehensive income	-	(29)
	<u>2,878</u>	<u>3,014</u>

6) DEBT

(in thousands of Canadian dollars)	As at September 30, 2008	As at December 31, 2007
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Notes payable to:

Ontario Electricity Financial Corporation (OEFC)	-	78,200
Long-term debt	-	78,200
Current portion of long-term debt (OEFC)	78,200	-
Short-term debt (credit facility)	-	16,000
	<u>78,200</u>	<u>94,200</u>

Credit facility

IESO has an unsecured, committed, and extendible 364-day revolving credit facility agreement with a Canadian chartered bank, under which the bank will make available to the IESO an amount up to \$60.0 million. As at September 30, 2008, there are no funds drawn on the credit facility. Advances under this facility are available in Canadian dollars by way of a prime rate loan or the issuance of Bankers' Acceptances at market rates plus a stamping fee of 30 basis points per annum. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum.

