

Independent Electricity System Operator
Statement of Operations and Accumulated Surplus
(Unaudited)

(in thousands of Canadian dollars)	For the three months ended September 30, 2007	For the nine months ended September 30, 2007	For the three months ended September 30, 2006	For the nine months ended September 30, 2006
	\$	\$	\$	\$
REVENUES				
System fees	33,017	98,888	37,100	109,971
Other income (Note 3)	(1,898)	1,556	2,000	5,771
TOTAL REVENUES	31,119	100,444	39,100	115,742
EXPENSES				
Labour	17,914	57,112	19,172	56,770
Computer services, support and equipment	2,112	6,978	2,309	7,292
Consultants, contract and legal services	1,731	5,262	1,591	4,112
Telecommunications	781	2,547	695	2,144
Other costs	1,402	4,880	829	3,701
Amortization	5,618	21,755	5,644	24,197
TOTAL EXPENSES	29,558	98,534	30,240	98,216
Net Income Before Interest	1,561	1,910	8,860	17,526
Interest and investment income	164	683	147	947
Interest expense and financing charges	(1,761)	(5,299)	(1,958)	(6,186)
NET INCOME FOR THE PERIOD	(36)	(2,706)	7,049	12,287
Other comprehensive income	(46)	(150)	-	-
Total Comprehensive Income	(82)	(2,856)	7,049	12,287
Accumulated Surplus - Beginning of Period	7,053	7,961	12,738	7,500
Adjustment to opening balance (Note 1)	-	1,866	-	-
ACCUMULATED SURPLUS - END OF PERIOD (Note 4)	6,971	6,971	19,787	19,787

Independent Electricity System Operator
Statement of Financial Position
(Unaudited)

(in thousands of Canadian dollars)	As at September 30, 2007	As at December 31, 2006
	\$	\$
ASSETS		
Current Assets		
Cash & cash equivalents	5,155	3,565
Prepaid expenses & receivables	20,300	24,639
	25,455	28,204
Property & Equipment		
In service	97,723	113,051
Construction-in-progress	15,399	4,787
	113,122	117,838
Other Assets		
Long-term investments	16,846	12,585
Prepaid pension expense	5,409	12,471
Deferred costs	1,596	1,636
	23,851	26,692
TOTAL ASSETS	162,428	172,734
LIABILITIES		
Current Liabilities		
Accounts payable & accrued liabilities	21,057	21,073
Accrued interest	2,574	1,030
Short-term debt (Note 5)	13,200	15,000
Rebates to market participants	-	12,699
	36,831	49,802
Long-term Debt (Note 5)	78,200	78,200
Accrual for Employee Future Benefits Other than Pensions	40,426	36,771
TOTAL LIABILITIES	155,457	164,773
Accumulated Surplus - end of period	6,971	7,961
TOTAL ACCUMULATED SURPLUS (Note 4)	6,971	7,961
TOTAL LIABILITIES & ACCUMULATED SURPLUS	162,428	172,734

Independent Electricity System Operator
Statement of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)	For the three months ended September 30, 2007	For the nine months ended September 30, 2007	For the three months ended September 30, 2006	For the nine months ended September 30, 2006
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net Income/(Loss) for Period	(36)	(2,706)	7,049	12,287
Adjustments for non-cash items:				
Amortization	5,617	21,755	5,644	24,197
Decrease in prepaid pension expense	4,158	12,955	4,676	13,126
Increase in accrual for employee future benefits other than pensions	1,402	4,702	1,942	5,106
Change in fair value of long term investments	26	(247)	-	-
	11,203	39,165	12,262	42,429
Changes in non-cash items related to operations:				
Increase/(Decrease) in accounts payable and accrued liabilities	3,934	1,455	575	(2,781)
Decrease in rebates to market participants	-	(12,699)	-	(13,560)
Decrease/(Increase) in prepaid expenses and receivables	335	4,339	(1,027)	1,564
	4,269	(6,905)	(452)	(14,777)
Other:				
Contribution to pension fund	(1,751)	(5,893)	(2,478)	(6,316)
Payment of employee future benefits	(345)	(1,047)	(436)	(1,033)
	(2,096)	(6,940)	(2,914)	(7,349)
Cash provided from operating activities	13,340	22,614	15,945	32,590
INVESTING ACTIVITIES				
Net sale of temporary investments	-	-	-	5,980
Contribution to long term investments	(1,417)	(2,148)	(85)	(1,171)
Investment in property & equipment	(15,870)	(17,116)	(3,064)	(11,457)
Investment in deferred costs	7,151	40	(402)	(402)
Cash used in investing activities	(10,136)	(19,224)	(3,551)	(7,050)
FINANCING ACTIVITIES				
Retirement of debt	(2,800)	(1,800)	(15,000)	(30,000)
Cash used in financing activities	(2,800)	(1,800)	(15,000)	(30,000)
NET CHANGE IN CASH & CASH EQUIVALENTS	404	1,590	(2,606)	(4,460)
CASH & CASH EQUIVALENTS - BEGINNING OF PERIOD	4,751	3,565	7,777	9,631
CASH & CASH EQUIVALENTS - END OF PERIOD	5,155	5,155	5,171	5,171

Supplementary Information: (in thousands of Canadian dollars)

Interest Paid	86	3,595	109	4,516
---------------	----	-------	-----	-------



Independent Electricity System Operator

Notes to Financial Statements (unaudited)

September 30, 2007

1) INTERIM FINANCIAL STATEMENTS

The interim financial statements follow the same accounting policies and methods of their application as the 2006 annual financial statements, except that the IESO has adopted new Canadian Institute of Chartered Accountants Handbook sections 1530, 3855, and 3865 effective January 1, 2007. The IESO's revised accounting policies in this area are shown below. The interim financial statements should be read in conjunction with the 2006 annual financial statements.

a) Long-term investments

Portfolio investments are carried at fair value, with changes in their value recognized in the statement of operations. Prior to 2007, portfolio investments were carried at cost less any provision for other than temporary losses.

b) Derivative Financial Instruments

The IESO enters into foreign exchange forward contracts, for risk management purposes. Foreign exchange forward contracts are commitments to purchase foreign currencies for delivery at a specified date in the future at a fixed rate. The IESO enters into such contracts only for known or anticipated transactions that will require settlement in foreign currency, and does not use any other derivative instruments.

The IESO is exposed to changes in the value of such contracts prior to their settlement as a result of movements in the underlying foreign exchange rates. Senior management responsible for cash management manages this risk.

Where such forward contracts meet the criteria for hedge accounting, changes in their values resulting from exchange rate movements are reflected in the statement of financial position as other comprehensive income. Where such contracts do not meet the criteria for hedge accounting, they are recorded at their fair value at the balance sheet date, with changes in their value recognized in the statement of operations. Prior to 2007, where such forward contracts met the criteria for hedge accounting, changes in their values resulting from exchange rate movements were not reflected in the financial statements.

The IESO adopted these standards prospectively and accordingly the comparative financial statements have not been restated. The IESO has adjusted opening accumulated surplus by \$1,866,000, reflecting unrealized gains on long-term investments at January 1, 2007 not recognized under the previous accounting policy.

2) REGULATORY APPROVALS FOR 2007

On March 21, the Ontario Energy Board (OEB) approved the IESO's requested 2007 expenditures, revenue requirements, and fees.

3) OTHER REVENUES

In its administration of the IESO-Administered Markets, the IESO invests market funds in highly-rated short-term investments, including asset-backed commercial paper ("ABCP"), throughout the settlement cycle. The *Market Rules* for the IESO-Administered Markets specify that monies in the IESO settlement accounts at the end of each year which have been earned from interest on funds in the IESO settlement accounts and which are not attributable to any incomplete settlement process or outstanding settlement dispute shall be used to off-set the IESO administration charge in the following year. The investment income earned on funds passing through the IESO settlement accounts is recognized in the IESO's financial statements as "other revenue" as accrued during the year.

As a result of developments with respect to the Canadian market for ABCP in August 2007 some of the investments made for the real-time energy market are not liquid. As at September 30, 2007, \$23.1 million of these investments in 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, 2007. Under the Montreal Proposal there is a broad based industry initiative to restructure the ABCP notes to secure investor value and restore liquidity. Pursuant to this initiative the trusts which issued the ABCP have adopted a standstill period to December 14, 2007, which date may be extended to such later date as the Investors Committee advises, which date shall not extend beyond March 14, 2008.

To reflect this situation the IESO has reversed all revenues accrued year-to-date in "other revenues" in relation to interest on funds passing through IESO settlement accounts. In the quarter ended September 30, 2007, \$2,382,940 of other income was reversed and the September 30, 2007 prepaid expenses and receivables accounts do not include any balance for these revenues.

In any particular year, the IESO's exposure to losses resulting from the IESO's investment of market funds in their administration of the markets is limited to its balance since the amount cannot be reduced to below zero.

4) ACCUMULATED SURPLUS

As at September 30, 2007 and December 31, 2006, the components of the IESO's Accumulated Surplus were as follows:

(in thousands of Canadian dollars)	As at September 30, 2007	As at December 31, 2006
Approved regulatory deferral account	4,327	5,000
Accumulated market penalties and fines	2,794	2,961
Accumulated other comprehensive income	(150)	-
	<u>6,971</u>	<u>7,961</u>

5) DEBT

(in thousands of Canadian dollars)	As at September 30, 2007	As at December 31, 2006
Notes payable to:		
Ontario Electricity Financial Corporation (OEFC)	<u>78,200</u>	<u>78,200</u>
Long-term debt	78,200	78,200
Short-term debt (credit facility)	<u>13,200</u>	<u>15,000</u>
	<u>91,400</u>	<u>93,200</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, 2007, \$13.2 million was drawn on the credit facility by way of issuance of two Bankers' Acceptances in the amounts of \$9.0 million and \$4.2 million at rates of 4.66% and 4.90% respectively and maturing between October 3, 2007 and October 19, 2007. 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.

6) NATURE OF OPERATIONS

The IESO was designated the Smart Metering Entity by Ontario Regulation 393/07 under the *Electricity Act* made on March 28, 2007. The regulation came into force on July 26, 2007.

