

## Management's Responsibility for Financial Reporting

The accompanying financial statements of the Independent Electricity System Operator Markets are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards except for the following:

- All remeasurement gains and losses on unsettled foreign currency transactions at the year-end will be recorded in the statement of operations when realized instead of flowing through the statement of remeasurement gains and losses in accordance with PSAS section PS 2601;
- No presentation of any budgeting information and January 1, 2018 comparative opening balances;
- No presentation of the Statement of Remeasurement Gains and Losses, Statement of Change in Net Debt; and Statement of Cash Flows;

The significant accounting policies followed by the Independent Electricity System Operator Markets are described in the Summary of Significant Accounting Policies contained in Note 2 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to April 22, 2020.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by Grant Thornton LLP, a firm of independent external auditors appointed by the Board of Directors. The auditor's responsibility is to express an opinion on whether the financial statements are prepared in all material respects, in accordance with the financial reporting provisions of the IESO Board of Directors resolution dated October 23, 2019 and the amending resolution dated April 22, 2020. The Independent Auditor's Report, which follows, outlines the scope of their examination and opinion.

INDEPENDENT ELECTRICITY SYSTEM OPERATOR MARKETS

On behalf of management,



**Peter Gregg**  
President and  
Chief Executive Officer  
Toronto, Canada  
April 22, 2020



**Barbara Anderson**  
Chief Financial Officer and  
Vice President, Corporate Services  
Toronto, Canada  
April 22, 2020

# Independent auditor's report

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## To the Board of Directors of the Independent Electricity System Operator

### Opinion

We have audited the financial statements of the Independent Electricity System Operator Markets (the "IESO-M"), which comprise the statement of financial position as at December 31, 2019, and the statement of operations and accumulated surplus for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of IESO-M for the year ended December 31, 2019 are prepared, in all material respects, in accordance with the financial reporting provisions of the IESO Board of Directors resolution dated October 23, 2019 and the amending resolution dated April 22, 2020.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the IESO-M in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter – Basis of Accounting and Restriction on Use

We draw attention to Note 2(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist management in complying with the financial reporting provisions of the IESO Board of Directors resolution dated October 23, 2019 and the amending resolution dated April 22, 2020. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for management, the IESO Board of Directors and the Ontario Energy Board and should not be used by any other parties. Our opinion is not modified in respect of this matter.

### Other Matter – Comparative Information

We were not engaged to report on the comparative information, and as such, it is neither audited nor reviewed. Our opinion is not modified in respect of this matter.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the disclosed basis of accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the IESO-M's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the IESO-M or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the IESO-M's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IESO-M's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the IESO-M's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the IESO-M to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script font.

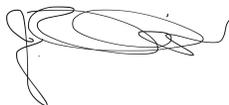
Mississauga, Canada  
April 22, 2020

Chartered Professional Accountants  
Licensed Public Accountants

***Independent Electricity System Operator Markets (“IESO-M”)***  
***Statement of Financial Position***

As at (in thousands of Canadian dollars)	December 31, 2019	December 31, 2018 (Unaudited)
	\$	\$
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	42,138	408,806
Accounts receivable (Note 4)	1,637,792	1,338,820
Government Directed receivable	-	19,633
Other receivables	73,900	134,786
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,753,830</b>	<b>1,902,045</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 5)	1,456,383	1,746,422
Debt (Note 6)	106,108	19,176
Deferred Administered Market Settlements revenue	118,831	136,447
Deferred Government Directed revenue	72,508	-
<b>TOTAL LIABILITIES</b>	<b>1,753,830</b>	<b>1,902,045</b>
<b>NET FINANCIAL ASSETS AND ACCUMULATED SURPLUS</b>	<b>-</b>	<b>-</b>

On behalf of the Board:



**Joe Oliver**  
Chair  
Toronto, Canada



**Cynthia Chaplin**  
Director  
Toronto, Canada

***Independent Electricity System Operator Markets (“IESO-M”)***  
***Statement of Operations and Accumulated Surplus***

For the year ended December 31 (in thousands of Canadian dollars)

	2019	2018 (Unaudited)
	\$	\$
<b>REVENUES</b>		
Administered Market Settlements (Note 7)	5,211,613	6,277,400
Government Directed Programs (Note 8)	4,842,701	4,135,404
Global Adjustment (Note 9)	12,984,138	11,198,846
Interest income (Note 10)	8,890	7,590
<b>TOTAL REVENUES</b>	<b>23,047,342</b>	<b>21,619,240</b>
<b>EXPENSES</b>		
Administered Market Settlements (Note 7)	5,214,196	6,279,896
Government Directed Programs (Note 8)	4,842,397	4,135,212
Global Adjustment (Note 9)	12,984,138	11,198,846
Interest on line of credit (Note 6)	345	262
Market interest transfer to IESO (Note 10)	6,266	5,024
<b>TOTAL EXPENSES</b>	<b>23,047,342</b>	<b>21,619,240</b>
<b>SURPLUS</b>	-	-
ACCUMULATED SURPLUS, BEGINNING OF YEAR	-	-
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<b>-</b>	<b>-</b>

See accompanying notes to financial statements

## Notes to Financial Statements

### 1. NATURE OF OPERATIONS

As set out in Ontario's Electricity Act (the "Act"), the Independent Electricity System Operator ("IESO") operates pursuant to a licence granted by the Ontario Energy Board ("OEB") and operates the Independent Electricity System Operator Markets ("IESO-M").

The IESO-M facilitate the purchase and sale of electricity in the wholesale market between market participants and administers various government directed programs and the accompanying financial statements reflect the accounts of the IESO-M:

- as prescribed by the IESO market rules for the Ontario wholesale electricity market;
- pursuant to the Act and associated regulations; and
- pursuant to government directed programs.

These financial statements do not include the financial accounts of the IESO as the IESO is an intermediary to facilitate the settlement of IESO-M transactions. A separate and distinct set of financial statements are maintained for the IESO.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of financial statement preparation

The IESO-M is not entitled to earn any net income, surplus or deficit from any IESO-M transactions. All transactions within the IESO-M in due course are for the benefit of the market participants.

The accompanying financial statements are in compliance with an IESO Board of Directors approval which requires these financial statements to be prepared under a special purpose framework as follows:

- the fiscal 2018 period accounts will not be audited by an independent auditor;
- Canadian Public Sector Accounting Standards (PSAS) will be adopted except for the following:
  - All remeasurement gains and losses on unsettled foreign currency transactions at the year-end will be recorded in the statement of operations when realized instead of flowing through the statement of remeasurement gains and losses in accordance with PSAS section PS 2601;
  - No presentation of any budgeting information and January 1, 2018 comparative opening balances;
  - No presentation of the Statement of Remeasurement Gains and Losses, Statement of Change in Net Debt, and Statement of Cash Flows;

The accompanying financial statements reflect the following significant accounting policies.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **b) Revenue recognition**

Administered Market Settlements revenue is recognized on a monthly basis consistent with the billing cycle in which the IESO-M invoices market participants. Revenues are based on the volume of energy traded through the market.

Government Directed Programs revenue is recognized in the financial statements in the period in which the events giving rise to the transfers occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

Global Adjustment revenue is recognized on a monthly basis consistent with the billing cycle in which the IESO-M invoices market participants to recover the cost of building electricity infrastructure in the province, as well as delivering Ontario's conservation programs. Revenues are based on the differences between the wholesale market price for electricity, known as Hourly Ontario Energy Price (HOEP) and regulated rates, payments for building or refurbishing infrastructure, and the cost of delivering conservation programs. The Act and associated Ontario regulations prescribes all other items that can be settled via the Global Adjustment.

Interest and investment income represent interest income and investment gains or losses on cash and cash equivalents. Such revenue is recognized as it is earned.

### **c) Financial instruments**

The IESO-M records cash and cash equivalents at fair value. Transaction costs are charged to operations as incurred.

Cash and cash equivalents comprise cash, term deposits and other short-term, highly rated investments with original maturity dates of less than 90 days.

The IESO-M records accounts receivable amounts due to and from market participants, accounts payable and debt at amortized cost.

### **d) Foreign currency exchange**

Transactions denominated in foreign currencies are converted into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Subsequently, monetary assets and liabilities on the statement of financial position denominated in foreign currency are converted to Canadian dollars at the rate of exchange as of the date of the financial statements with the foreign exchange gain or loss recognized in the statement of operations.

### **e) Use of estimates**

The preparation of the financial statements in conformity with the basis of accounting described in Note 2(a) requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities as at the date of the financial statements.

### 3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS

Effective January 1, 2019, the IESO-M adopted the framework as noted in Note 2(a) which is PSAS with the exceptions listed in Note 2(a). The transition date was January 1, 2018.

The adoption of this accounting framework has been accounted for through retroactive application with restatement of prior periods subject to the requirements in PSAS Section PS 2125, First-time Adoption by Government Organizations, unless otherwise stated.

The adoption of this accounting framework resulted in certain comparative figures presented being reclassified to comply with the current year's financial statement presentation. The adoption of this accounting framework had no effect on annual surplus, net financial assets and accumulated surplus from the prior periods. The primary adjustments made to the 2018 comparative figures related to compliance with the presentation of revenue and expense amounts depending upon the IESO-M's involvement as a principal or agent in the relevant transactions. This resulted in changes to the Administered Market Settlements and Government Directed Programs revenues and expenses on the Statement of Operations and Accumulated Surplus. In addition, there were related changes to accounts receivable and accounts payable and accrued liabilities on the Statement of Financial Position. There was no impact on the Global Adjustment revenue or expense amounts in the Statement of Operations and Accumulated Surplus as a result of the adoption of this accounting framework. A reconciliation of the comparative figures to this accounting framework has not been presented given the revisions only pertained to reclassifications between balances in the Statement of Operations and Accumulated Surplus and Statement of Financial Position.

The PSAS section PS 2125 applicable exception applied in the transition to this accounting framework is as follows:

#### Mandatory exceptions – *Estimates*

The estimates previously made by the IESO-M under pre-changeover Canadian generally accepted accounting principles were not revised for the application of this accounting framework, except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the IESO-M has not used hindsight to revise estimates.

### 4. ACCOUNTS RECEIVABLE

As at December 31 (in thousands of Canadian dollars)	2019	2018 (Unaudited)
	\$	\$
Market accounts receivable	1,580,368	1,302,610
Net congestion rent receivable	2,411	2,130
Global Adjustment receivable	55,013	34,080
<b>Closing balance</b>	<b>1,637,792</b>	<b>1,338,820</b>

## 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31 (in thousands of Canadian dollars)	2019	2018 (Unaudited)
	\$	\$
Market payables	1,401,096	1,681,640
Prepayments	40,736	49,113
Prepayments for transmission rights	7,376	10,425
Market interest payable to IESO	6,266	5,024
Natural Gas Expansion Program administration fee payable to IESO	66	-
Prudential cash deposits and interest payable	837	207
Other	6	13
<b>Closing balance</b>	<b>1,456,383</b>	<b>1,746,422</b>

## 6. DEBT

### Credit Facility with the Ontario Financing Authority (OFA) – Ontario Fair Hydro Plan

In November 2017, the IESO on behalf of the IESO-M entered into an unsecured credit facility agreement with the OFA for the purpose of supporting the IESO-M's role in the implementation and administration of the Ontario Fair Hydro Plan Act, 2017, which will make available to the IESO-M an amount up to \$2,000,000 thousand. Advances and monthly rollover amounts are payable at a variable interest rate equal to the Province of Ontario's cost of funds plus 0.25% per annum. The credit facility was terminated on December 20, 2019. As at December 31, 2019, the credit facility payable to the OFA was \$nil (2018 (unaudited) – \$nil).

For the year ended December 31, 2019, the interest expense on the credit facility was \$nil (2018 (unaudited) – \$nil).

### Credit Facility with the Ontario Financing Authority (OFA)

The IESO on behalf of the IESO-M has an unsecured credit facility agreement with the OFA, which will make available to the IESO-M an amount up to \$1,100,000 thousand (2018 (unaudited) - \$475,000 thousand). Advances and monthly rollover amounts are payable at a variable interest rate equal to the Province of Ontario's cost of funds plus 0.25% per annum. The credit facility has a June 30, 2023 expiration date. As at December 31, 2019, the credit facility payable to the OFA was \$106,108 thousand (2018 (unaudited) – \$19,176 thousand).

For the year ended December 31, 2019, the interest expense on the credit facility was \$345 thousand (2018 (unaudited) – \$262 thousand).

## 7. ADMINISTERED MARKET SETTLEMENTS

Administered Market Settlements activities are comprised of the following:

For the year ended December 31 (In thousands of Canadian dollars)	2019	2018 (Unaudited)
	\$	\$
Energy charges	2,695,756	3,619,265
Transmission charges	1,626,034	1,663,451
Congestion management settlement credits	106,009	121,516
Operating reserve	67,494	63,263
Ancillary service	84,649	75,468
Demand response	38,299	46,547
Transmission rights auction and congestion rents	284,311	360,236
Adjustment Account	25,782	13,795
Smart metering fee	34,911	34,542
IESO administration fee	190,950	194,341
All other	60,001	87,472
<b>Total Administered Market Settlements expense</b>	<b>5,214,196</b>	<b>6,279,896</b>
Interest income on transmission rights accounts (Note 10)	(2,583)	(2,496)
<b>Total Administered Market Settlements revenue</b>	<b>5,211,613</b>	<b>6,277,400</b>

## 8. GOVERNMENT DIRECTED PROGRAMS

Government Directed Programs activities are comprised of the following:

For the year ended December 31 (In thousands of Canadian dollars)	2019	2018 (Unaudited)
	\$	\$
Debt Retirement Charge	-	30,814
Distributed Rate Protection	253,470	213,979
First Nations On-Reserve Delivery Credit	22,415	20,337
Northern Industrial Electricity Rate program	113,794	118,141
Ontario Electricity Rebate	1,183,659	774,784
Ontario Electricity Support	178,321	167,757
Natural Gas Expansion	9,064	-
Regulated Price Plan programs	2,788,687	2,522,685
Rural or Remote Rate Protection	292,987	286,715
<b>Total Government Directed Programs expense</b>	<b>4,842,397</b>	<b>4,135,212</b>
Interest income on Natural Gas Expansion accounts (Note 10)	(41)	-
Interest income on Ontario Electricity Support accounts (Note 10)	-	(70)
Interest expense on Regulated Price Plan programs (Note 6)	66	-
Interest expense on Rural or Remote Rate Protection (Note 6)	279	262
<b>Total Government Directed Programs revenue</b>	<b>4,842,701</b>	<b>4,135,404</b>

## 9. GLOBAL ADJUSTMENT

Global Adjustment activities are comprised of the following:

For the year ended December 31 (In thousands of Canadian dollars)	2019	2018 (Unaudited)
	\$	\$
Conservation	279,090	404,233
Local distribution companies' programs	1,320,706	1,248,947
Ontario Electricity Finance Corporation non-utility generators	116,776	135,405
Ontario Power Generation prescribed assets	4,105,857	2,895,244
Contract settlement	7,161,709	6,515,017
<b>Total Global Adjustment</b>	<b>12,984,138</b>	<b>11,198,846</b>

## 10. INTEREST INCOME

In its administration of the IESO-M, the IESO directs the investment of market funds in investments throughout the IESO-M settlement cycle. The IESO is entitled to receive the investment income and investment gains, net of investment losses, earned on funds passing through the settlement accounts. The IESO is not entitled to the principal on IESO-M investments.

Interest income is comprised of the following:

For the year ended December 31 (In thousands of Canadian dollars)	2019	2018 (Unaudited)
	\$	\$
Interest income on market settlement accounts	6,266	5,024
Interest income on transmission rights accounts	2,583	2,496
Interest income on Ontario Electricity Support accounts	-	70
Interest income on Natural Gas Expansion accounts	41	-
<b>Total interest income</b>	<b>8,890</b>	<b>7,590</b>

The IESO-M transferred investment income earned in the market settlement accounts to the IESO in the amount of \$6,266 thousand in 2019 (2018 (unaudited) – \$5,024 thousand).

## 11. FINANCIAL RISK MANAGEMENT

The IESO-M is exposed to financial risks in the normal course of its business operations, including market risks resulting from volatilities in debt and foreign currency exchange markets, as well as credit risk and liquidity risk. The nature of the financial risks and the IESO-M strategy for managing these risks has not changed significantly from the prior year. The market participants bear the full risk for any associated financial risks experienced.

### a) Market Risk

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate to cause changes in market prices. The IESO-M is primarily exposed to two types of market risk: currency risk and interest rate risk. The IESO-M monitors its exposure to market risk fluctuations and may use financial instruments to manage these risks as it considers appropriate. The IESO-M does not use derivative instruments for trading or speculative purposes.

## 11. FINANCIAL RISK MANAGEMENT (CONTINUED)

### i) Currency Risk

The IESO-M conducts certain transactions in U.S. dollars, primarily related to vendors' payments, and maintains a U.S. dollar-denominated bank account. From time to time, the IESO-M may utilize forward purchase contracts to purchase U.S. dollars for delivery at a specified date in the future at a fixed exchange rate. In addition, the IESO-M utilizes U.S. dollar spot rate purchases in order to satisfy any current accounts. As at December 31, 2019, the IESO-M did not have any foreign denominated financial assets or liabilities or outstanding forward purchase contracts (2018 (unaudited) – \$nil).

### ii) Interest Rate Risk

The IESO-M is exposed to movements or changes in interest rates primarily through its short-term variable rate credit facility and cash equivalents' securities. If interest rates increased or decreased by 25 basis points, the net impact to the debt or securities value would be insignificant.

### b) Credit Risk

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The IESO-M is exposed directly to credit risk related to cash equivalents' securities and accounts receivable. The IESO-M manages credit risk through an approved management policy that limits investments to primarily investment-grade investments with counterparty-specific limits, and a collateral-prudential based framework for accounts receivable. As there are a significant number of market participants, there is no concentration of credit risk.

### c) Liquidity Risk

Liquidity risk refers to the risk that the IESO-M will encounter financial difficulty in meeting obligations associated with its financial liabilities when due. The IESO-M manages liquidity risk by forecasting cash flows to identify cash flows and financing requirements. Cash flows from short-term investments, and maintaining appropriate credit facilities help to reduce liquidity risk. As market participants as a whole are required to ensure that all IESO-M financial liabilities are to be paid, liquidity risk is considered to be insignificant.

## 12. SUBSEQUENT EVENT

Since December 31, 2019, the infectious coronavirus ("COVID-19") pandemic has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The IESO-M has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of governments and central banks responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the IESO-M for future periods.