



This description of the Province of Ontario is dated December 19, 2002 and appears as Exhibit (d) to the Province of Ontario's Annual Report on Form 18-K to the U.S. Securities and Exchange Commission for the fiscal year ended March 31, 2002.

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In this document, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. All foreign currency conversions are reported at statement date exchange rates, unless otherwise specified. The inverse of the noon buying rate in New York City on December 18, 2002 for cable transfers in Canadian dollars, as certified for customs purposes by the Federal Reserve Bank of New York was \$1.00 = \$0.6435 (U.S.). See "4. Public Debt — (5) Selected Debt Statistics — The Canadian Dollar."

In this document, statistics for the economy of the Province of Ontario ("Ontario" or the "Province") are set forth on a calendar year basis at market prices, except as otherwise indicated. Economic statistics for recent years frequently are estimates or preliminary figures which are subject to adjustment. Financial statistics for the Province are set forth on a fiscal year basis (from April 1 to March 31 of the succeeding year), unless otherwise noted.

In this document, unless otherwise specified, references to average growth rates refer to the average annual compound rate of growth. This is computed by expressing the amount of growth during the period as a constant annual rate of growth compounded annually. The computational procedure used is the geometric average of the annual rates from the first to the last year's observation of the variables.

This document appears as an exhibit to the Province's Annual Report to the U.S. Securities and Exchange Commission on Form 18-K for the fiscal year ended March 31, 2002. Additional information with respect to the Province is available in such Annual Report and in amendments thereto. Such Annual Report, exhibits and amendments can be inspected and copied at the public reference facilities maintained by the Commission at: 2 Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Copies of such documents may also be obtained at prescribed rates from the Public Reference Section of the U.S. Securities and Exchange Commission at its Washington address or, without charge, from the Province of Ontario, Ontario Financing Authority, Capital Markets Division, One Dundas Street West, 14th Floor, Toronto, Ontario M7A 1Y7, telephone (416) 325-8128.

PROVINCE OF ONTARIO SUMMARY INFORMATION

The following information is a summary only and is qualified in its entirety by the detailed information elsewhere in this document. **Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars.**

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(in millions unless otherwise indicated)				
Economy⁽¹⁾					
Gross Domestic Product at Market					
Prices	\$359,354	\$377,897	\$408,099	\$443,446	\$443,852
Personal Income	289,537	304,652	322,549	346,738	359,927
Consumer Price Index					
(annual change)	1.9%	0.9%	1.9%	2.9%	3.1%
Unemployment					
(average annual rate)	8.4%	7.2%	6.3%	5.7%	6.3%
	<u>1999-00⁽²⁾</u>	<u>Restated⁽⁷⁾ 2000-01⁽²⁾</u>	<u>2001-02⁽²⁾</u>	<u>Outlook 2002-03⁽³⁾⁽²⁾</u>	
	(in millions)				
Government Finances					
Revenue	<u>\$62,931</u>	<u>\$63,824</u>	<u>\$63,886</u>	<u>\$66,611</u>	
Expenditure					
Programs	47,525	50,401	52,523	54,494	
Gross Capital Expenditure	4,887	2,123	1,890	2,715	
Less: Net Investment in Capital Assets*	—	—	—	634	
Public Debt Interest					
Provincial	8,977	8,896	8,509	8,505	
Electricity Sector	<u>520</u>	<u>520</u>	<u>520</u>	<u>520</u>	
Total Expenditure	<u>61,909</u>	<u>61,940</u>	<u>63,442</u>	<u>65,600</u>	
Less: Reserve ⁽⁴⁾	—	—	—	1,000	
Add: Decrease / (Increase) in Stranded Debt from Electricity Sector Restructuring to be recovered from Ratepayers ⁽⁵⁾	(354)	18	(69)	(11)	
Surplus / (Deficit)	<u>\$ 668</u>	<u>\$ 1,902⁽⁶⁾</u>	<u>\$ 375</u>	<u>\$ 0</u>	
	As at March 31,				
	<u>1998⁽²⁾</u>	<u>1999⁽²⁾</u>	<u>2000⁽²⁾</u>	<u>2001⁽²⁾</u>	<u>2002⁽²⁾</u>
	(in millions)				
Public Sector Debt					
Net Provincial Debt	\$112,735	\$114,737	\$113,715	\$110,634	\$112,036
Ontario Electricity Financial Corporation (OEFC) Debt	30,657	30,486	31,338	30,566	29,116
Loans Guaranteed	2,774	2,893	2,804	2,816	2,788
Other Public Sector Debt	<u>6,125</u>	<u>6,580</u>	<u>6,575</u>	<u>7,234</u>	<u>7,212</u>
Total	<u>\$152,291</u>	<u>\$154,696</u>	<u>\$154,432</u>	<u>\$151,250</u>	<u>\$151,152</u>

* Starting in 2002-03, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets will continue to be booked as expenditure in the year of acquisition.

(1) See "2. Economy — (2) Recent Economic Developments" for the most recently available economic indicators.

- (2) Prepared on the basis of modified accrual and consolidation accounting. See “3. Public Finance — (1) Financial Reporting — Overview.”
- (3) Outlook 2002-03 refers to information contained in the 2002-03 Second Quarter Ontario Finances and the 2002 Ontario Economic Outlook and Fiscal Review which updates the 2002 Ontario Budget (the “2002 Budget”).
- (4) Ontario’s 2002-03 Budget Plan included a \$1 billion reserve designed to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction at year-end if not needed.
- (5) Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (“OEFC”). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.
- (6) Surplus after Provisional Adjustment for CCRA Error and Accounting Changes.
- (7) Fiscal 2000-01 has been restated to reflect the accounting changes. See “3. Public Finance — (1) Financial Reporting — Accounting Changes.”

1. OVERVIEW

Area and Population

The Province of Ontario covers an area of approximately 1,068,580 square kilometers (412,580 square miles), about 10.7% of Canada, and is about 11.4% as large as the United States. The estimated population of Ontario on July 1, 2002 was 12.1 million, or 38.4% of Canada's population of 31.4 million. Since 1992, the populations of Ontario and Canada have increased at average annual rates of 1.3% and 1.0%, respectively. Although it constitutes only 12% of the area of the Province, Southern Ontario contains approximately 93.2% of the Province's population. The population of the Greater Toronto Area, the largest metropolitan area in Canada, was estimated to be 5.5 million on July 1, 2002.

Government

Canada is a federation with a parliamentary system of government. Constitutional responsibilities are divided between the Federal Government, the 10 provinces and the 3 territories.

The Premier of the Province of Ontario (the "Premier") is traditionally the leader of the political party with the greatest number of members elected to the legislative assembly of the Province (the "Legislative Assembly"). The Cabinet through the Lieutenant Governor, who represents the Crown, formally exercises executive power. Cabinet ministers are usually nominated from among members of the Premier's party.

The Legislative Assembly consists of 103 seats, each representing a specified territorial division of the Province, and is elected for a five-year term. A dissolution of the Legislative Assembly prior to the end of the five-year term may be requested by the Premier at the Premier's own volition or if the government loses the confidence of the Legislative Assembly by being defeated on an important vote.

The last Provincial election was held on June 3, 1999. Present party standings in the Legislative Assembly are: the Progressive Conservative Party, 57 seats; Liberal Party, 36 seats; New Democratic Party, 9 seats; and 1 independent member. The current government of the Province is formed by the Progressive Conservative Party.

Economic Setting

Gross Domestic Product ("GDP") at current market prices in 2001 was \$443,852 million, representing 40.6% of the Canadian GDP. Personal income per capita in 2001 was \$30,259, or 7.9% above the national average.

An indication of the Province's importance in several areas of Canadian economic activity is illustrated below.

ONTARIO'S SHARE OF CANADIAN ECONOMIC ACTIVITY, 2001

	Total Canadian Economic Activity	Ontario's Share of Canadian Total
	(in millions)	(%)
Gross Domestic Product	\$1,092,246	40.6
Business Investment	189,926	36.9
Exports	473,000	65.0
Consumption	620,777	40.1
Personal Income	872,657	41.2

Sources: Statistics Canada and Ontario Ministry of Finance.

The provincial economy displays many of the characteristics of a mature economy, including substantial secondary and service sectors. In broad terms, the primary sector is composed of agriculture, mining and forestry, while manufacturing, utilities and construction form the secondary sector. The remaining categories, such as transportation, communication, wholesale and retail trade and business

and public service, make up the service sector. Ontario shows a stronger concentration in manufacturing than both the United States and the whole of Canada.

PERCENTAGE DISTRIBUTION OF REAL GROSS DOMESTIC PRODUCT BY INDUSTRY, 2001

(at 1997 Prices)

	<u>Ontario</u>	<u>Canada⁽¹⁾</u>	<u>United States⁽²⁾</u>
	(%)	(%)	(%)
Primary Sector	1.8	6.1	2.9
Secondary Sector	28.0	25.2	28.7
Service Sector	<u>70.2</u>	<u>68.7</u>	<u>68.4</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Ontario Ministry of Finance, Statistics Canada and the United States Department of Commerce.

(1) Real GDP in chained (1997) dollars

(2) Real GDP in chained (1996) dollars

Foreign Relations

The Province has no direct diplomatic relations with foreign countries, but has developed a high degree of international activity in order to facilitate investment in Ontario.

2. ECONOMY

(1) Major Economic Indicators

Overview

Ontario's GDP at current market prices in 2001 was \$443,852 million. GDP in constant 1997 dollars ("Real GDP") was \$430,501 million in 2001, an increase of 1.5% over 2000. The four-year average annual growth rate of real GDP from 1998 to 2001 was 4.6%. Real GDP in 2001 declined at a quarterly rate of 0.3% in the first quarter, increased 1.0% in the second quarter, declined 0.4% in the third quarter and increased 0.6% in the fourth quarter.

For 2001, the Ontario economy faced serious challenges and growth slowed to 1.5% after reaching 4.6% in 2000. In the external sector, real exports fell 3.3%. On the domestic side, business investment in machinery and equipment declined, while consumer spending and housing increased.

The following table provides a summary of major economic indicators for Ontario from 1998 to 2001. For the most recently available economic indicators, See "2. Economy — (2) Recent Economic Developments" below.

MAJOR ECONOMIC INDICATORS

	Year ended December 31,				Average Annual Rate of Growth 1998-2001 (%)
	1998	1999	2000	2001	
	(in millions unless otherwise indicated)				
Personal Expenditure on Consumer Goods and Services	\$209,866	\$223,902	\$238,808	\$249,027	5.6
Government Expenditure on Goods and Services	73,024	75,975	80,665	84,645	4.7
Business Gross Fixed Capital Formation ..	59,448	65,757	69,644	70,120	5.6
Exports of Goods and Services	263,663	291,466	314,755	307,436	6.1
Imports of Goods and Services	229,462	248,671	273,431	264,659	5.5
Adjustment for Inventory Changes and Other Transactions	1,358	670	3,005	2,717	—
Gross Domestic Product at Market Prices	377,897	409,099	433,446	443,852	5.4
Gross Domestic Product in Constant 1997 Prices	376,716	405,352	424,096	430,501	4.6
Gross Domestic Product Price Deflator (Index)	100.3	100.9	102.2	103.1	0.8
Personal Income (Ontario)	304,652	322,549	346,738	359,927	5.6
Personal Income (Canada)	748,321	783,596	838,880	872,657	5.1
Personal Income per Capita (July Population):					
Ontario (in dollars)	26,753	27,980	29,642	30,259	4.1
Canada (in dollars)	24,739	25,684	27,244	28,050	4.1
Population (July in thousands):					
Ontario	11,387	11,528	11,698	11,895	1.5
Canada	30,248	30,509	30,791	31,111	0.9

	Year ended December 31,				Average 1998-2001
	1998	1999	2000	2001	
Consumer Price Index (annual Change):					
Ontario	0.9%	1.9%	2.9%	3.1%	2.2%
Canada	0.9%	1.7%	2.7%	2.6%	2.0%
Unemployment (average annual Rate):					
Ontario	7.2%	6.3%	5.7%	6.3%	6.4%
Canada	8.3%	7.6%	6.8%	7.2%	7.5%

Totals may not add due to rounding.

Sources: Ontario Ministry of Finance and Statistics Canada.

Personal Expenditure

In 2001, personal expenditure on consumer goods and services, the largest component of GDP, increased 4.3% over 2000. From 1998 through 2001, personal expenditure increased at an average annual rate of 5.6%.

Government Expenditure

Expenditure by the federal, provincial and municipal governments in Ontario (excluding transfer payments and subsidies) comprised 19.1% of provincial output in 2001.⁽¹⁾ From 1998 through 2001, government expenditure increased at an average annual rate of 4.7%, compared to a GDP growth rate of 5.4% in current dollars.

Capital Expenditure

In 2001, total capital expenditure was \$80,419 million, or 18.1% of GDP, up 2.1% from \$78,788 million in 2000. The major sources of total capital expenditure were housing (26.4%), trade, commercial and information and cultural industries (29.9%), manufacturing (11.4%), institutional services and government departments (14.8%), transportation, warehousing and utilities (10.2%), primary and construction industries (4.5%) and professional, scientific and technical services (2.8%). From 1998 through 2001, total capital expenditure increased at an average annual rate of 5.8%.

Business gross fixed capital formation in 2001 was \$70,120 million. This accounted for 87.2% of total capital expenditure and 15.8% of GDP at current market prices.

Exports and Imports

In 2001, Ontario's exports of goods and services totaled \$307,436 million, the equivalent of 69.3% of Ontario's nominal GDP, of which 73.3% were international exports and 26.7% were interprovincial exports. By comparison, Ontario international exports represented 47.6% of Canada's total exports. Ontario's imports of goods and services totaled \$264,659 million in 2001, resulting in a positive overall trade balance of \$42,777 million.

Ontario's international goods exports include: motor vehicles and parts, which accounted for 45.7% of its total value of merchandise exports in 2001; capital equipment such as machinery, electrical and electronic goods, and scientific and professional equipment, which accounted for 23.4%; industrial materials such as steel, chemicals, plastics and rubber, which accounted for 15.5%; agricultural, forestry, energy and mining-related products, which accounted for 9.5%; and consumer goods such as furniture, drugs and clothing, which accounted for 3.6%. Ontario ranks alongside Japan and Germany as one of the top three exporters of motor vehicles and parts, capital equipment and industrial materials to the United States.

(1) The National Income and Expenditure Accounts as produced by Statistics Canada defines government expenditure to exclude transfer payments and subsidies.

Ontario's leading interprovincial exports include financial, insurance and real estate services, wholesale trade, food products, transportation equipment, chemicals and electrical equipment.

Under the Free Trade Agreement ("FTA"), which came into force on January 1, 1989, tariffs between the United States and Canada were phased out entirely on January 1, 1999. The North American Free Trade Agreement ("NAFTA") between Canada, Mexico and the United States, which came into effect on January 1, 1994, liberalizes trade with Mexico and improves on many of the provisions of the FTA. A bilateral free-trade agreement between Canada and Chile came into force on July 5, 1997. This Canada-Chile agreement, which provides for the liberalization of trade and investment between the two countries, was negotiated to serve as an interim step to bridge Chile's accession to NAFTA. In addition, a new World Trade Organization Agreement ("WTO") (formerly the General Agreement on Trade and Tariffs) was implemented on January 1, 1995. It has resulted in a 40% reduction in average tariffs worldwide and makes major advances in rules governing trade in agriculture, services and intellectual property.

(2) Recent Economic Developments

Real output in the Ontario economy grew by 1.1% in the second quarter of 2002 (April-June 2002), measured in 1997 dollars (4.4% annual rate), following a strong first quarter advance of 1.8% (7.6% annualized). In current dollars, nominal GDP rose 2.5% to reach an annualized level of \$464.3 billion.

Growth in the second quarter of 2002 was well balanced across the economy with consumer spending (+0.5%) and business investment (+3.9%) contributing to growth. Growth was also provided as businesses replenished inventories by \$4.5 billion in the second quarter of 2002, the first build-up since the second quarter of 2001. Growth was partially offset by weaker residential (-0.3%) and non-residential investment (-0.1%) and a narrowing of the trade balance as real export growth lagged the surge in real import growth.

Total Ontario employment rose by 12,800 in November 2002. Total employment in Ontario is up 97,100 over the first eleven months of 2002 compared to the same period a year ago.

In November 2002, the Ontario unemployment rate was 6.7%, down from 6.8% in November 2001.

In October 2002, the Ontario Consumer Price Index ("CPI") inflation rate was 2.8%.

Economic Outlook: 2002 to 2003

The 2002 Ontario Budget contained the economic projection for the Ontario economy for 2002 and 2003. At the time of the June Budget, Ontario real GDP was forecast to rise by 3.1% in 2002 and accelerate to 4.2% in 2003. The 2002 Ontario Economic Outlook and Fiscal Review contained an updated projection for the Ontario economy based on the private-sector consensus economic projections for Ontario.

Economic growth in 2002 has been stronger than expected at the time of the June Budget. Private-sector forecasters now anticipate real growth of 3.5% for 2002, compared to 3.2% in June. Private-sector economists have lowered their forecasts for 2003 real growth from an average of 4.3% at the time of the June Budget to 3.5% currently. According to the latest average private-sector forecast, Ontario's CPI inflation rate is expected to be 2.1% in 2002 and 2.4% in 2003. Ontario's unemployment rate is projected to average 7.1% in 2002 and 6.7% in 2003, according to the average private-sector forecast.

Private-sector forecasts for Ontario growth are based on assumptions about key features of the external environment, including interest rates and the U.S. economy. According to the Ministry of Finance's financial market survey (October 2002), the Canadian three-month Treasury bill rate is expected to average 2.6% in 2002 and 3.5% in 2003. The 10-year government of Canada bond rate is expected to average 5.3% in both 2002 and 2003. According to *Consensus Forecasts* (November 2002), the U.S. economy is expected to grow by 2.3% in 2002 and 2.7% in 2003.

The foregoing private-sector consensus economic projections are used by the Government primarily for purposes of the 2002 Ontario Economic Outlook and Fiscal Review. They are included herein in order to disclose the principal assumptions underlying such medium-term estimates and should not be deemed to be representations of what actual economic results will be. Actual results are subject to material

variation based on a wide variety of factors, including economic developments in the United States and in other external markets.

(3) Structure of the Economy

Secondary Industries

Manufacturing. Ontario is Canada's leading manufacturing province. In 2001, Ontario's manufacturing volume of output (measured in 1997 dollars) at basic prices totaled \$81.1 billion, or 51% of the national total. The contribution of manufacturing output to Ontario's total GDP (measured in 1997 dollars) at basic prices was 20.0%.

MANUFACTURING REAL GROSS DOMESTIC PRODUCT (measured in 1997 dollars) at Basic Prices⁽¹⁾

	Year ended December 31,				
	1997	1998	1999	2000	2001
			(in millions)		
Transportation Equipment	\$16,043	\$17,274	\$20,302	\$19,770	\$18,067
Machinery, Electrical, Electronics & Computer	11,991	12,946	14,382	17,332	14,410
Primary & Fabricated Metal	9,987	10,667	11,221	11,615	11,296
Food, Beverage & Tobacco	8,845	9,577	9,428	9,652	10,253
Chemicals and Petroleum	6,733	7,092	7,389	7,420	7,448
Plastics & Rubber	4,339	4,549	5,016	5,210	5,358
Paper and Wood	4,957	4,959	4,941	5,039	4,842
Furniture Products	1,822	2,258	2,329	2,709	2,534
Printing	2,216	2,235	2,215	2,233	2,259
Non-Metallic Mineral Products	1,840	2,161	2,124	2,202	2,158
Textiles, Clothing, Leather & Allied Prod. ...	1,806	1,968	1,795	1,731	1,598
Miscellaneous Manufacturing	1,069	1,174	1,232	968	873
Total	<u>\$71,648</u>	<u>\$76,860</u>	<u>\$82,374</u>	<u>\$85,881</u>	<u>\$81,097</u>

Source: Statistics Canada.

(1) Includes taxes on production, mainly property taxes and payroll taxes.

Transportation equipment is Ontario's largest manufacturing industry measured by output. In 2001, output in this sector totaled \$18.1 billion, or 22.3% of total Ontario manufacturing output. Ontario accounted for 94.3% of Canadian-manufactured motor vehicles, parts and accessories, and 15% of North America's motor vehicle assembly. Ontario's international trade surplus in motor vehicles and parts was \$23.3 billion in 2001. Capital investment in Ontario's transportation equipment industry totaled \$2.8 billion in 2001 and capital investment intentions for 2002, according to the latest survey from Statistics Canada, are \$2.8 billion.

In 2001, 56% of Canada's machinery, electrical, electronic and computer products were produced in Ontario. A number of firms with worldwide reputations in the design, manufacture and distribution of high technology products are based in the Province. Ontario manufacturers as a whole conducted \$5.2 billion worth of industrial research and development in 2000, and accounted for 64.0% of total Canadian manufacturing industrial research and development.

Construction. Ontario's capital spending on construction includes buildings, roads and other facilities. Construction spending intentions, according to the latest survey from Statistics Canada, indicate an expected rise of 5% in 2002 to \$39.1 billion. The highest increase is in government and institutions at 10.5%, followed by housing at 9.4%. Capital expenditure on housing constitutes 53% of the total.

ONTARIO CAPITAL EXPENDITURE

	Year ended December 31,					
	1997	1998	1999	2000	2001	2002 ⁽¹⁾
	(in millions)					
Housing	\$14,364	\$16,668	\$17,863	\$18,286	\$19,002	\$20,790
Business	9,628	10,404	11,036	10,547	11,027	10,329
Government and Institutions	4,963	4,335	5,247	5,891	7,183	7,936
Total	<u>\$28,955</u>	<u>\$29,407</u>	<u>\$34,145</u>	<u>\$37,924</u>	<u>\$37,212</u>	<u>\$39,055</u>

Source: Statistics Canada.

(1) Revised intentions 2002.

Primary Industries

Agriculture. Ontario has a large and highly diversified agricultural sector. Agricultural activity can be found in most areas of the Province, but production is concentrated in southwestern Ontario, which is located at roughly the same latitude as Northern California and has a climate moderated by the Great Lakes. Provincial agricultural production, based on farm cash receipts, was valued at \$7.7 billion in 2001, or 23.8% of the Canadian total — a greater share than any other province.

AGRICULTURAL PRODUCTION

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(in millions)				
<u>Agricultural Production⁽¹⁾</u>	\$6,757	\$6,814	\$6,888	\$7,484	\$7,711

Source: Statistics Canada.

(1) Farm cash receipt; excludes government program payments.

Mining. Ontario's value of mineral production was \$5,635 million in 2001. Ontario accounted for 33.1% of Canadian metallic mineral production in 2001. The Province's most important minerals in terms of 2001 value of production were: nickel, \$1,118 million; gold, \$1,052 million; cement, \$546 million; stone, \$472 million and copper, \$450 million. The quantity of nickel and gold mined increased in 2001, but nickel's average price decreased while gold's average price remained about the same.

MINERAL PRODUCTION

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(in millions)				
<u>Mineral Production</u>	\$5,615	\$5,065	\$5,224	\$5,867	\$5,635

Source: Natural Resources Canada.

Forestry. Updated forest inventories show Ontario has about 540,000 square kilometers of productive forestland representing 22% of the Canadian total. Timber harvests from this forest base amounted to approximately 27 million cubic meters in 2001. This supported various wood and paper industries in the Province whose shipments totaled \$15.7 billion in 2001, and equaled 25.4% of the Canadian total.

Energy

The most recent data available on the energy sector is for 2000. In 2000, the composition of Ontario's primary energy consumption was: petroleum 29.1%, natural gas and liquids 29.3%, nuclear 15.7%, hydro-generated electricity 9.9%, coal 13.6%, biomass 2.3% and net electricity purchases 0.1%.

Total primary energy use in 2000 increased 4.5% from 1999, with increases in all fuel sources except nuclear. Most natural gas and crude oil is obtained from Western Canada at competitive prices. Coal is obtained primarily from the United States.

Service Sector

The service sector is the largest component of Ontario’s economy, accounting for approximately 70.2% of Ontario’s GDP (measured in 1997 dollars) at basic prices, in 2001. Ontario has a modern and diversified services sector. It includes a wide variety of industries serving businesses, individuals and governments.

SERVICES PRODUCING INDUSTRIES REAL GROSS DOMESTIC PRODUCT
(measured in 1997 dollars at Basic Prices)

	Year ended December 31,				
	1997	1998	1999	2000	2001
			(in millions)		
Finance, Insurance and Real Estate ⁽¹⁾	\$ 43,771	\$ 45,465	\$ 49,093	\$ 51,857	\$ 54,070
Wholesale and Retail Trade	36,344	39,994	44,193	47,084	47,938
Professional, Scientific & Technical Services	13,909	15,677	18,060	20,085	21,561
Information and Cultural Industries . . .	11,434	12,133	14,716	16,712	18,429
Transportation and Warehousing	14,076	14,319	15,341	16,035	15,700
Administrative & Other Support Services	7,298	7,861	8,566	9,137	9,465
Accommodation and Food Services . .	6,999	7,575	8,079	8,287	8,492
Arts, Entertainment and Recreation . . .	3,169	3,140	3,373	3,598	3,638
Health Care and Social Assistance . . .	19,705	19,889	20,617	21,076	21,712
Government Services	18,276	18,442	18,584	19,159	19,952
Educational Services	16,920	17,179	17,503	17,430	17,489
Owner-Occupied Housing	27,984	28,665	29,780	30,594	31,419
Other Services	7,404	7,711	8,184	8,339	8,587
Total	<u>\$227,289</u>	<u>\$238,050</u>	<u>\$256,089</u>	<u>\$269,393</u>	<u>\$278,452</u>

Source: Statistics Canada.

(1) Excluding owner-occupied housing

Finance, insurance and real estate are the largest component of Ontario’s service sector output. In 2001, Ontario’s share accounted for 48% of Canada’s finance, insurance and real estate output, the highest share of any province.

Ontario’s sizable financial services sector is due in large part to the large number of head offices of industrial and financial companies located in the Toronto area. The Toronto Stock Exchange (“TSX”) is Canada’s premiere stock exchange with value of trading of \$712.5 billion in 2001.

Ontario also has a strong presence in professional, scientific and technical services output, accounting for 49% of the Canadian total. Wholesale and retail trade help support the spending of business and consumers, including investment and imports. Ontario accounts for 45% of Canada’s wholesale and retail trade output and 44% of Canada’s information and cultural services.

(4) Labour Force

From 1996 to 2001, Ontario’s labour force increased at an average annual rate of 2.1%, while Canada’s increased at an average annual rate of 1.6%. During 2001, the Ontario labour force averaged approximately 6.36 million persons. In 2001, the Ontario participation rate of 67.3% was 1.3 percentage points higher than the Canadian rate. Reflecting the industrial structure of the Province, 98.6% of employment was in the non-agricultural sector. The service sector, which has been a major source of employment growth, accounted for 73.1% of Ontario’s employment, while manufacturing and

construction accounted for 24.0% and agriculture, utilities and other primary industries accounted for 2.9%. In 2001, the unemployment rate averaged 6.3%, 0.9 percentage points below the national average of 7.2%.

LABOUR FORCE					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
The Ontario Labour Force					
Labour Force (thousands)	5,801.4	5,914.3	6,070.8	6,227.9	6,364.4
Employed (thousands)	5,313.4	5,490.0	5,688.1	5,872.1	5,962.7
Unemployment Rate(%)	8.4	7.2	6.3	5.7	6.3
Participation Rate ⁽¹⁾ (%)	65.8	66.0	66.6	67.2	67.3
The Canadian Labour Force					
Unemployment Rate(%)	9.1	8.3	7.6	6.8	7.2
Participation Rate ⁽¹⁾ (%)	64.9	65.1	65.6	65.9	66.0

Source: Statistics Canada.

(1) The percentage of working age population in the labour force.

ONTARIO EMPLOYMENT BY INDUSTRY — 2001

	<u>Thousands</u>	<u>% Of Total</u>
Agriculture	84	1.4
Other Primary Industries	38	0.6
Manufacturing	1,088	18.2
Construction	343	5.8
Utilities	50	0.8
Service Sector	<u>4,361</u>	<u>73.1</u>
Total	<u>5,963</u>	<u>100.0</u>

Totals may not add due to rounding.

Sources: Statistics Canada and Ontario Ministry of Finance.

(5) Social Security System

The Province provides a wide range of health care, social services and income security assistance to Ontarians. Until 1995-96, the Province received funding for health care from the Federal Government under the Established Programs Financing (“EPF”) arrangements. This national funding arrangement provided support for the provision of provincial health care programs as well as post-secondary education.

The Province also provides income security assistance to individuals and families to replace earnings or provide income support. Until 1995-96, income supplementation related to defined needs was provided, when necessary, on a cost-shared basis with the Federal Government under the Canada Assistance Plan (“CAP”). In their 1995 budget, the Federal Government announced major cutbacks to social transfers to the provinces and territorial governments. Beginning in 1996-97, the EPF arrangements and CAP were replaced by the Canada Health and Social Transfer (“CHST”). See “3. Public Finance — (3) Revenue — Federal Government Payments” below.

The Federal Government also provides the Employment Insurance (“EI”) program and the Canada Pension Plan (“CPP”), a national contributory earnings-related pension system. CPP Benefits include retirement pensions, disability pensions, survivor benefits, orphan benefits and death benefits. In 2001, Ontario residents received about \$10.4 billion in net benefits from the CPP and about \$3.9 billion in total benefits from EI. Both of these programs are financed through payroll taxes paid by employers and employees. The EI Account is included in the federal budget and is administered through a federal

ministry. The CPP Account is separate from the federal budget, managed independently by the CPP Investment Board and invested in marketable and non-marketable securities.

The Federal Government also provides universal and income-tested support for senior citizens through Old Age Security (“OAS”) pensions, the Guaranteed Income Supplement (“GIS”) program and Spouse’s Allowance. The Ontario government provides an income-tested supplement for seniors, the Guaranteed Annual Income System (“GAINS”), which is paid to GIS recipients with low incomes. In 2001-02, seniors in Ontario received a total of about \$780 million from these federal programs and about \$83 million from GAINS.

In addition, the federal and provincial governments provide cash transfers to families raising children. The federally administered National Child Benefit (“NCB”) provides basic benefits to most families with children as well as targeted benefits to low-income families with children. Ontario families received about \$2.7 billion in NCB benefits in 2001-02. The Ontario government provides children’s benefits through the Ontario Child Care Supplement (“OCCS”) for Working Families. The OCCS provides about \$215 million annually in tax-free benefits to low- to middle-income working families with young children.

The Ontario government and municipalities jointly share responsibility for providing income support to individuals and families whose income is insufficient to meet their basic needs. In 2001-02, about \$3.9 billion in cash transfers were provided through social assistance programs.

(6) Government Responsibilities and Relationships

Constitutional Framework

Canada is a federation and its constitution (the “Constitution”) provides for a division of responsibilities between the federal and provincial governments. Each province and the Federal Government have supremacy within its respective sphere of assigned responsibilities. Jurisdiction over the establishment and operation of municipalities is granted exclusively to the provinces.

The Federal Government is empowered to raise money by any mode or system of taxation. It has exclusive jurisdiction over such matters as the regulation of trade and commerce, currency and coinage, banks and banking, national defence, foreign affairs, postal services, railways and navigation, as well as those areas not exclusively assigned to the provinces. Each province has authority to raise revenue through direct taxation within the province. Areas of provincial constitutional authority include health care, education, social services, municipal institutions, property and civil rights and natural resources.

The Constitution of Canada was amended in 1982. The *Constitution Act, 1982* (the “Constitution Act”) established a Charter of Rights and Freedoms and a procedure for amending the Constitution. Nothing in the Constitution Act diminishes the taxing or spending authority of the provinces.

Operational Framework

Ontario administers its constitutional responsibilities through government ministries and provincially created bodies such as government-owned corporations (“Crown corporations”), agencies, boards, commissions, municipalities, school boards and hospital boards. The use of these quasi-independent bodies decentralizes the administration of provincial responsibilities. However, the Province has elected to centralize the financing of these bodies by retaining the major taxing and borrowing powers at the provincial level. Some municipalities borrow in their own names in various capital markets (See “4. Public Debt — (4) Consolidated Debt of the Ontario Public Sector” below) as did Ontario Hydro prior to its restructuring in April 1999 (See “4. Public Debt — (3) Financial Assets and Liabilities — (ii) Financial Assets — Restructuring of Ontario Electricity Industry” below).

Implications for Provincial Financial Statements

The provinces have been assisted with their responsibilities in areas such as health, post-secondary education and social assistance by transfer payment arrangements between the federal and provincial governments. Through these arrangements, the Federal Government provides revenues to provincial governments to finance programs under provincial jurisdiction.

Federal-provincial funding arrangements create extensive financial interrelationships between the Province, the Federal Government and provincially-created bodies. These financial interrelationships are important in understanding the revenue, expenditure and financing activity of the Province. For example, in fiscal 2002-03, approximately 12.4% of the Province's revenue is expected to come from the Federal Government. At the same time, almost \$19.1 billion, or approximately 31% of total provincial operating expenditure in fiscal 2001-02, were in the form of provincial transfer payments to fund hospitals, colleges, universities, and school boards.

Borrowing on behalf of, and investing in, provincially-created bodies have an impact on the reporting of assets and liabilities. As at March 31, 2002, approximately 7.1% of the debt and 54.5% of the assets of the Province could be attributed to these intermediary activities. (See "4. Public Debt — (3) Financial Assets and Liabilities" below).

3. PUBLIC FINANCE

(1) Financial Reporting

Overview

Provincial legislation requires that all financial transactions of the Province flow through the Consolidated Revenue Fund, which is administered by the Minister of Finance. Annually, the Province publishes its Public Accounts, which include the summary financial statements for the fiscal year ended March 31, together with schedules, ministry statements, financial statements of selected Crown corporations, boards and commissions and other miscellaneous financial statements, and details of revenue and expenditure. The Provincial Auditor examines the Public Accounts of the Province and provides an opinion thereon to the Legislative Assembly. In addition, the Provincial Auditor is required to submit an annual report to the Legislative Assembly.

The summary financial statements in the Public Accounts of the Province reflect accrual and consolidation accounting recommended by the Public Sector Accounting Board (“PSAB”) of the Canadian Institute of Chartered Accountants (“CICA”) and, where applicable, the CICA Handbook for private and public sector corporations in Canada.

On a modified accrual basis, financial transactions are recognized as they occur rather than when cash is received or paid. Revenues are recognized when earned, financial assets when acquired, expenditures when incurred and the costs of tangible capital assets are recognized as expenditures when these assets are acquired or constructed. In the financial statements, the Province’s accounting method is referred to as “modified accrual and consolidation” because spending on capital projects is treated as expenditure, instead of being capitalized and depreciated. Beginning in fiscal year 2002-03, the Province will report its investment in major tangible capital assets that are owned by the Province on the Statement of Financial Position, and their cost will be amortized over their useful life and recorded as amortization expense in the financial statements. The Province intends to take a phased in approach and will initially report land, buildings and transportation infrastructure in fiscal year 2002-03, with the remaining tangible capital assets owned by the Province being reported in subsequent fiscal years. It is estimated that more than ninety per cent of the tangible capital assets owned by the Province will be captured under the land, buildings and transportation infrastructure categories.

Reporting Entity

The financial statements report the activities of the Consolidated Revenue Fund combined with those organizations that are accountable for the administration of their financial affairs and resources, either to a minister of the government or directly to the Legislature, and that are owned or controlled by the government. All of these organizations that meet one of the following criteria are individually consolidated: i) revenues, expenditures, assets or liabilities greater than \$50 million or ii) outside sources of revenues, deficit or surplus greater than \$10 million. The activities of all other organizations are reflected in the financial statements through the accounts of the ministries responsible for them. Trusts administered by the government on behalf of other parties are excluded from the financial statements.

Principles of Consolidation

Government organizations such as Crown corporations, boards and commissions, except for government business enterprises, are consolidated on a line-by-line basis with the Consolidated Revenue Fund in the financial statements. Where necessary, adjustments are made to present the accounts of these organizations on a basis consistent with the accounting policies described below, and to eliminate significant inter-organization accounts and transactions.

Government business enterprises are defined as those government organizations that (i) have the financial and operating authority to carry on a business, (ii) have as their principal activity and source of revenue the selling of goods and services to individuals and non-government organizations and (iii) are able to maintain their operations and meet their obligations from revenues generated outside the government reporting entity. The activities of government enterprises are recorded in the financial

statements using the modified equity method. Under this method, government enterprises are reported in accordance with the accounting principles generally accepted for business enterprises. Their combined net assets are included in the financial statements as Investment in Government Business Enterprises on the Statement of Financial Position and their combined net income is shown as a separate item on the Statement of Revenue, Expenditure and Net Debt. The tangible capital assets of government business enterprises are included in the Statement of Financial Position under Investments in Government Business Enterprises.

Special reporting status is accorded to the Ontario Electricity Financial Corporation (“OEFC”), a government organization. The financial statements report the net impact of OEFC’s excess (shortfall) of revenues over expenses as decrease (increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers and its Unfunded Liability as Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers in the Statement of Revenue, Expenditure and Net Debt. This accounting reflects the legislative structure put in place to ensure OEFC’s revenues are derived from the electricity sector ratepayer and not the taxpayer, and that these revenues can be used only to service and retire OEFC debt.

Prior to its restructuring, Ontario Hydro was excluded from consolidation because its governing legislation precluded distribution of equity from Ontario Hydro to the Province. The Workplace Safety and Insurance Board is also excluded in compliance with PSAB recommendations regarding trust funds under administration by the government.

Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Estimates are based on the best information available at the time of preparation of the financial statements and are adjusted annually to reflect new information as it becomes available. Measurement uncertainty in the financial statements exists in the accruals for pension obligations, personal income tax, corporations’ tax, restructuring charges and the stranded debt from electricity sector restructuring.

The nature of uncertainty in the pension accrual arises because actual results may differ significantly from the Province’s best estimates of expected results. Uncertainty related to the accrual for personal income tax and corporations arises because of the possible differences between the estimated and actual economic growth and future tax assessments on taxes receivable. Uncertainty exists with respect to restructuring charges as the actual expenditures, incurred in the transfer and restructuring of certain programs and services, may differ from the initial estimates of expected costs.

Uncertainty in the stranded debt from electricity sector restructuring arises from the numerous estimates and assumptions made about the future defeasance of this debt.

Financial Transactions

The Province’s transactions are recorded under the following categories: revenue, expenditure, liabilities and financial assets. Revenue includes taxation, sale and rentals, royalties, fees, licenses, permits, and payments from the Federal Government under fiscal arrangements and shared cost programs. Expenditures include transfer payments to individuals, local governments and institutions, interest on debt, salaries and employee benefits, supplies and equipment, acquisition and construction of physical assets, capital leases, transportation and communication, services, grants, restructuring, retirement benefits and other charges.

Liabilities are recorded to the extent that they represent obligations of the government to outside parties as a result of events and transactions occurring prior to the year-end. Liabilities include accounts payable and accrued liabilities, debt issued for Provincial purposes, and for investment in the Electricity Sector, deposits with the Province of Ontario Savings Office, the liabilities for the Public Service Pension Plan (“PSPP”), the Ontario Public Service Employee’s Union Pension Plan (“OPSEU Pension Plan”) and the Ontario Teachers’ Pension Plan (“OTPP”), obligations to government business enterprises,

retirement benefits and other liabilities. Liabilities also include probable losses on loan guarantees issued by the government, and contingencies when it is likely that a loss will be realized and the amount can be reasonably determined.

Debt Issued for Provincial Purposes and Debt Issued for Investment in Electricity Sector are comprised of treasury bills, commercial paper, medium and long-term notes, savings bonds, debentures and loans. Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at year-end rates of exchange and any exchange gains or losses are amortized over the remaining term to maturity. The Province uses derivative financial instruments (“derivatives”) for the purposes of minimizing interest costs and risk management. Derivatives are financial contracts, the value of which is derived from underlying instruments. Gains or losses arising from derivative transactions are deferred and amortized over the remaining life of the related debt issue.

Interest on Debt Issued for Provincial Purposes and Debt Issued for Investment in Electricity Sector includes: i) interest on outstanding debt; ii) amortization of foreign exchange gains or losses; iii) amortization of debt discounts, premiums and commissions; iv) amortization of deferred hedging gains and losses; and v) interest income on investments and loans.

The retirement benefits liability comprises the government’s share of the value of retirement benefits attributed to services rendered by employees and former employees, unamortized experience gains or losses, various adjustments for items such as different fiscal year-ends between the retirement benefits plans and the Province, unamortized initial unfunded liability for jointly sponsored plans, unamortized balances related to temporary deviation from the plans and contributions payable by the Province that are reflected in the plan assets, less the government’s share of the assets of the plans. The retirement benefits liability is calculated on an actuarial basis using the government’s best estimate of future inflation rates, investment returns, employee salary levels and other underlying assumptions. When actual plan experience differs from that expected, or when assumptions are revised, gains and losses arise. These gains and losses are amortized over the average remaining service life of plan members.

For significant capital leases entered into by the Province, an amount equal to the present value of the minimum lease payments required over the term of the lease is recorded as an expenditure at the inception of the lease, with an offsetting liability recorded for the lease obligation.

Financial assets include cash and claims by the Province arising from events and transactions occurring prior to the fiscal year-end. “Investment in Government Business Enterprises”, included in financial assets, represents the net assets of government enterprises accounted for on a modified equity basis.

Accounting Changes and CCRA Error

Accounting policies and practices must constantly evolve to reflect changing conditions and approaches. Changes are made to accounting policies in order to conform to new PSAB recommendations or to more appropriately present events or transactions in the financial statements. Changes are also made to correct any errors in a prior period statement. Unlike revisions of estimates, proper accounting treatment requires that a change in an accounting policy or correction of an error be applied retroactively to prior years’ results. Both types of accounting changes were made in the 2001-02 financial statements and the results for fiscal year 2000-01 were restated.

CCRA Error: An error was made by the Canada Customs and Revenue Agency (“CCRA”) which had resulted in overpayments of personal income tax revenue to the Province. The CCRA collects and administers the personal income tax of all provinces except Quebec. The Federal Government announced on January 29, 2002, that they had not properly deducted the provincial portion of capital gains refunds paid to mutual fund trusts from the Personal Income Tax revenue remitted to provinces. The Federal Government intends to recover \$1,330 million for taxation years from 1997 to 1999. As well, when the federal error relating to mutual fund trusts became known, the Province provisionally recognized that \$713 million of the estimated receivable relating to trust income taxes would not be collectable and accordingly restated the 2000-01 amounts in its 2001-02 financial statements.

Ontario disagrees with the position taken by CCRA and the Federal Government on this matter. However, in the Province's financial statements the CCRA error has been accounted for in a manner that is consistent with PSAB Recommendations. In its Public Accounts for fiscal 2001-02, the Province specifically stated that the manner in which the Province has accounted for CCRA's and the Federal Government's failure in allocation of personal income taxes to Ontario is without prejudice to any claim, demand, application, action, representation legal proceeding or other such statement or step as may be taken by Ontario against CCRA, the Federal Government, or both of them, in respect of this specified failure. Furthermore, the content of the Public Accounts of Ontario is expressly stated to not estop Ontario from instituting any claim, application, action or other legal proceeding against CCRA, the Federal Government, or both of them, for making any such demand, representation or such other statement in respect of this failure by CCRA, the Federal Government, or both of them. In addition, nothing in the Public Accounts of Ontario estops Ontario from making any claim, demand, application, action, negotiation, representation, legal proceeding or other such statement or step as may be taken by Ontario in respect of any other matter in the collection and remission of personal income taxes by CCRA or the Federal Government to Ontario and the Public Accounts of Ontario are therefore presented without prejudice to any such claim, demand, application, action, representation, legal proceeding or other such statement or step as may be taken by Ontario against CCRA, the Federal Government, or both of them.

Accounting Policy Changes: During fiscal year 2001-02 the Province changed its accounting policy for pensions and other retirement benefits in accordance with new recommendations issued by PSAB in September 2001. Under the new policy, the cost of plan amendments is effectively amortized by offsetting it against any unamortized gains. Another change is the recognition of the cost of retirement benefits other than pensions (e.g. medical, dental) when earned by employees rather than when paid out.

Ontario Power Generation Inc. ("OPG") which is accounted for as a government business enterprise, restated their net income and opening retained earnings for calendar year 2000 to reflect a change in accounting policy for pensions and other retirement benefits. This resulted in a corresponding restatement for the Province.

The net impact of the provisional adjustment for CCRA error and accounting changes was to decrease the surplus for fiscal year 2000-2001 from \$3,325 million to \$1,902 million and to increase Net Provincial Debt and Stranded Debt from Electricity Sector Restructuring at March 31, 2001 from \$130,424 million to \$132,496 million.

The Budget

Traditionally, a Budget is tabled each year by the Ontario Minister of Finance in the Legislative Assembly, setting out the expenditure program and revenue forecast for activities to be undertaken for Provincial purposes. A publication entitled "Ontario Finances" provides a quarterly update to reflect in-year developments, budget performance and policy actions.

(2) Fiscal Position

The following table provides an overview of the Province's revenue, expenditure and surplus (deficit) for each of the fiscal years in the five-year period ending March 31, 2002 and information from the 2002-03 Second Quarter Ontario Finances. The difference between revenue and expenditure is the "surplus" or "deficit" with adjustments for the reserve and any decrease (increase) in stranded debt to be recovered from ratepayers.

ONTARIO'S FISCAL POSITION

	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>Restated⁽⁷⁾ 2000-01</u>	<u>2001-02</u>	<u>Outlook 2002-03⁽¹⁾</u>	<u>Rate of Growth 2001-02 to 2002-03</u>
	(in millions)						(%)
Revenue							
Taxation Revenue	\$41,269	\$43,077	\$45,881	\$48,569	\$47,638	\$48,345	1.5
Federal Payments	5,098	4,515	5,885	6,129	7,754	8,245	6.3
Income from Investment In Government Business							
Enterprises	2,291	2,547	3,708	3,855	3,345	3,743	11.9
Other Revenue ⁽⁴⁾	3,860	5,647	7,457	5,271	5,149	6,278	21.9
Total Revenue	<u>52,518</u>	<u>55,786</u>	<u>62,931</u>	<u>63,824</u>	<u>63,886</u>	<u>66,611</u>	<u>4.3</u>
Expenditure							
Programs	45,304	46,557	47,525	50,401	52,523	54,494	3.8
Gross Capital Expenditure	2,451	2,215	4,887	2,123	1,890	2,715	43.7
Less: Net Investment in							
Capital Assets*	—	—	—	—	—	634	N/A
Public Debt Interest ⁽²⁾							
Provincial	8,729	9,016	8,977	8,896	8,509	8,505	
Electricity Sector	—	—	520	520	520	520	—
Total Expenditure	<u>56,484</u>	<u>57,788</u>	<u>61,909</u>	<u>61,940</u>	<u>63,442</u>	<u>65,600</u>	<u>3.4</u>
Less: Reserve ⁽³⁾	—	—	—	—	—	1,000	N/A
Add: Decrease / (Increase) in							
Stranded Debt to be recovered							
From Ratepayers ⁽⁵⁾	—	—	(354)	18	(69)	(11)	(84.1)
Surplus / (Deficit)	<u>\$ (3,966)</u>	<u>\$ (2,002)</u>	<u>\$ 668</u>	<u>\$ 1,902⁽⁶⁾</u>	<u>\$ 375</u>	<u>\$ 0</u>	<u>—</u>

Source: Ontario Ministry of Finance.

* Starting in 2002-03, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets will continue to be booked as expenditure in the year of acquisition.

(1) Outlook 2002-03 refers to information contained in the 2002-03 Second Quarter Ontario Finances and the 2002 Ontario Economic Outlook and Fiscal Review, which updates the 2002 Ontario Budget.

(2) Starting in 1999-00, Public Debt Interest includes \$520 million related to the Province's equity investment in the electricity sector.

(3) Ontario's 2002-03 Budget Plan included a \$1 billion reserve designed to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction at year-end if not needed.

(4) Includes \$1,616 million for the net proceeds from the sale of Highway 407 in 1999-00. Other Revenue is expected to increase in 2002-03, mainly due to higher Sales and Rentals revenue anticipated from the commercialization of government enterprises.

(5) Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation ("OEFC"). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

(6) Surplus after Provisional Adjustment for CCRA Error and Accounting Changes.

(7) Fiscal 2000-01 has been restated to reflect the accounting changes. See "3. Public Finance — (1) Financial Reporting — Accounting Changes".

Fiscal Plan 2002-03

The 2002-03 fiscal outlook is on track with the Budget Plan. As of September 30, 2002, a balanced budget is projected, unchanged from the Budget Plan.

Revenues

Revenue in 2002-03 is projected at \$66,611 million, \$2,725 million or 4.3 per cent above the level recorded in 2001-02.

Personal Income Tax ("PIT") revenue is expected to decline slightly in 2002-03 by \$12 million. This reflects the inclusion in 2001-02 revenues of \$438 million in one-time revenue due to higher 2000-01 PIT revenue than estimated in the 2000-01 Public Accounts. The full-year benefit to taxpayers of the tax cuts implemented on October 1, 2001 also lowers short-term PIT revenue growth.

The expected rebound in consumer spending following the 2001 economic slowdown will boost Retail Sales Tax revenues in 2002-03 by \$427 million.

Corporations Tax revenues are expected to decline in 2002-03 by \$496 million. The decline in revenues reflects continuing weakness in corporate profits and the full-year impact of the tax actions effective October 1, 2001. With pre-tax corporate profits expected to be flat in 2002, there is very little growth in the corporate tax base assumed for 2002-03.

Revenue from all other taxation revenue sources combined is expected to rise sharply in 2002-03 by \$788 million, primarily due to higher Tobacco Taxes, which are projected to increase by \$522 million.

In 2002-03, transfers from the Government of Canada are expected to increase by \$491 million over 2001-02. This is mainly due to an expected increase of \$597 million in Canada Health and Social Transfer ("CHST") payments. Other federal transfers are forecast to decline \$106 million in 2002-03.

Income from Investment in Government Business Enterprises is projected to increase in 2002-03 by \$398 million largely due to the improved net income of Ontario Power Generation Inc.

Other Revenue is expected to increase in 2002-03 by \$1,129 million. This is mainly due to higher Sales and Rentals revenue anticipated from the commercialization of government enterprises.

Expenditure

Total expenditure for 2002-03 at \$65,600 million as of Second Quarter Ontario Finances, is up a net \$67 million from the Budget Plan and \$65 million from First Quarter Ontario Finances, mainly due to increased support for Ontario farmers and additional forest fire-fighting costs, partially offset by lower Public Debt Interest ("PDI") costs. Total expenditure in 2002-03 is up \$2,158 million from the 2001-02 level of \$63,442 million, mainly due to increased health care, and schools and post-secondary education spending.

The government's expenditure plan continues to focus on priority sectors, including health care and education, while improving efficiency and effectiveness in the delivery of government services. In 2002-03, total health care funding (operating and capital including major onetime costs) will rise to \$25,794 million, a \$1,686 million increase above the 2001-02 level. In 2002-03, total spending on schools and post-secondary education will be \$12,493 million. Schools will receive \$8.3 billion in provincial grants while colleges and universities will receive \$2.6 billion (includes general operating grants to colleges and universities, grants under the Access to Opportunities Program and Nursing Collaborative Programs) and other programs, including training programs and support for students in post-secondary education as well as Provincial expenditure related to the Teachers' Pension Plan, will receive almost \$1.6 billion.

Reserve

Ontario's 2002-03 fiscal plan includes a \$1 billion reserve designed to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction at year-end if not needed. With continued uncertainty in the economic and fiscal outlook and consistent with prudent fiscal planning, the reserve was maintained at second quarter to protect the balanced budget.

Balanced Budget Plan

In 1999-2000, Ontario recorded a \$668 million surplus, balancing the budget one full year ahead of the schedule laid out in the government's Balanced Budget Plan. With a \$1,902 million surplus in 2000-01

and \$375 million surplus in 2001-02, Ontario has now achieved three consecutive surpluses for the first time in nearly 100 years.

In the 2000 Ontario Budget the government made a commitment to reduce Net Provincial Debt by at least \$5 billion during its current term of office. Net Provincial Debt, prior to the provisional adjustment for Canada Customs and Revenue Agency (“CCRA”) error and accounting changes, has been reduced by \$4.5 billion over the past three years, an amount representing more than 90 per cent of the government’s debt-reduction commitment.

2002-03 Fiscal Plan and Medium-Term Outlook

The 2002-03 fiscal plan and medium term outlook below is extracted from material presented by the Minister of Finance with the 2002 Budget and the 2002-03 Second Quarter Ontario Finances, which updates the 2002 Budget. As reported at Second Quarter, the 2002-03 fiscal outlook is on track with the Budget Plan. As of September 30, 2002 a balanced budget is projected, unchanged from the 2002 Ontario Budget.

FISCAL SUMMARY

	<u>Actual 2001-02</u>	<u>Outlook 2002-03⁽¹⁾</u>	<u>Forecast 2003-04⁽²⁾</u>
		(in billions)	
Revenue	\$63.9	\$66.6	\$68.3
Expenditure			
Programs	52.5	54.5	56.1
Gross Capital Expenditure	1.9	2.7	2.8
Less: Net Investment in Capital Assets	—	0.6	0.5
Public Debt Interest ⁽³⁾			
Provincial	8.5	8.5	8.4
Electricity Sector	0.5	0.5	0.5
Total Expenditure	63.4	65.6	67.3
Less: Reserve ⁽⁴⁾	—	1.0	1.0
Add: Decrease / (Increase) in Stranded Debt to be Recovered from Ratepayers ⁽⁵⁾	(0.1)	0.0	0.3
Surplus / (Deficit)	<u>\$ 0.4</u>	<u>\$ 0.0</u>	<u>\$ 0.3</u>

Source: Ontario Ministry of Finance

Note: Totals may not add due to rounding.

(1) Outlook 2002-03 refers to information contained in the 2002-03 Second Quarter Ontario Finances and the 2002 Ontario Economic Outlook and Fiscal Review, which updates the 2002 Ontario Budget.

(2) Forecast 2003-04 refers to information contained in the 2002 Ontario Budget.

(3) Starting in 1999-00, Public Debt Interest includes \$520 million related to the Province’s equity investment in the electricity sector.

(4) Ontario’s 2002-03 fiscal plan includes a \$1 billion reserve for 2002-03 and 2003-04 to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction at year-end if not needed.

(5) Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (“OEF”). Consistent with the principles of electricity restructuring, OEF debt is to be recovered from ratepayers, not taxpayers.

(3) Revenue

Overview

The following table sets forth historical revenue information for each of the fiscal years in the five-year period ended March 31, 2002 and information from the 2002-03 Second Quarter Ontario Finances which updates the 2002 Budget.

Total revenue in fiscal 2002-03 is projected to be \$66,611 million. Tax revenue is projected at \$48,345 million or 72.6 per cent of total revenue. Federal transfers, at \$8,245 million are 12.4 per cent of total revenue. All other revenues, including Income from Investment in Government Business Enterprises, are projected to be \$10,021 million, 15.0 per cent of total revenue.

ONTARIO'S REVENUE							
	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>Restated⁽⁷⁾</u> <u>2000-01</u>	<u>2001-02</u>	<u>Outlook</u> <u>2002-03⁽¹⁾</u>	<u>% of Total</u> <u>Revenue</u> <u>2002-03</u>
	(in millions)						
Taxation Revenue							
Personal Income Tax ⁽²⁾	\$16,293	\$17,190	\$17,617	\$17,911	\$19,097	\$19,085	28.7
Retail Sales Tax	10,843	11,651	12,879	13,735	13,803	14,230	21.4
Corporations Tax	7,456	7,447	8,095	9,200	6,646	6,150	9.2
Employer Health Tax	2,851	2,882	3,118	3,424	3,502	3,695	5.5
Gasoline & Fuel Taxes	2,591	2,660	2,819	2,820	2,851	2,960	4.4
Tobacco Tax	425	447	481	504	703	1,225	1.8
Land Transfer Tax	565	470	565	642	665	775	1.2
Other Taxation	245	330	307	333	371	225	0.3
	<u>41,269</u>	<u>43,077</u>	<u>45,881</u>	<u>48,569</u>	<u>47,638</u>	<u>48,345</u>	<u>72.6</u>
Other Revenue							
Income from Investment In							
Government Business							
Enterprises ⁽⁴⁾	2,291	2,547	3,708	3,855	3,345	3,743	5.6
Vehicle/Driver Registration Fees	820	890	911	929	941	963	1.4
Liquor Licensing Board of							
Ontario Revenues	506	519	539	525	530	515	0.8
Other Fees and Licenses	548	661	667	660	627	692	1.0
Royalties	286	289	345	235	224	237	0.4
Sales and Rentals ⁽⁵⁾	582	640	2,133	637	344	2,424	3.6
Independent Electricity Market							
Operation Revenues	—	—	314	344	384	181	0.3
Local Service Realignment ⁽³⁾ ...	519	2,109	1,678	1,407	1,116	751	1.1
Miscellaneous ⁽⁶⁾	599	539	870	534	983	515	0.8
	<u>6,151</u>	<u>8,194</u>	<u>11,165</u>	<u>9,126</u>	<u>8,494</u>	<u>10,021</u>	<u>15.0</u>
Payments from the Federal							
Government							
Canada Health and Social							
Transfer	3,970	3,553	4,722	4,895	6,211	6,808	10.2
Other Federal Payments	1,128	962	1,163	1,234	1,543	1,437	2.2
	<u>5,098</u>	<u>4,515</u>	<u>5,885</u>	<u>6,129</u>	<u>7,754</u>	<u>8,245</u>	<u>12.4</u>
Total Revenue	<u><u>\$52,518</u></u>	<u><u>\$55,786</u></u>	<u><u>\$62,931</u></u>	<u><u>\$63,824</u></u>	<u><u>\$63,886</u></u>	<u><u>\$66,611</u></u>	<u><u>100.0</u></u>

Source: Ontario Ministry of Finance.

Totals may not add due to rounding.

(1) Outlook 2002-03 refers to information contained in the 2002-03 Second Quarter Ontario Finances and the 2002 Ontario Economic Outlook and Fiscal Review, which updates the 2002 Ontario Budget.

(2) Net of tax credits of \$1,038 million for 1997-98; \$1,032 million for 1998-99; \$1,028 million for 1999-00, \$1,012 million for 2000-01, \$999 million for 2001-02 and \$1,021 million for 2002-03.

(3) Refers to transition measures in the form of reimbursement of expenditures on behalf of municipalities under the local services realignment exercise.

- (4) Starting in 1999-00 includes net income of Ontario Power Generation Inc. (“OPG”) and Hydro One Inc. (“HOI”).
- (5) Includes \$1,616 million for the net proceeds from the sale of Highway 407 in 1999-00. In 2002-03, higher Sales and Rentals revenue is anticipated from the commercialization of government enterprises.
- (6) Miscellaneous now includes Fines and Penalties.
- (7) Fiscal 2000-01 has been restated to reflect the accounting changes. See “3. Public Finance — (1) Financial Reporting — Accounting Changes”.

Taxation

The Constitution provides for a division of taxation authority between the federal and provincial governments. Local governments derive their taxing powers from the Province. In accordance with its policy of centralized financing, the Province has delegated its taxing powers respecting real property taxes to local governments.

Personal Income Tax. Ontario and the Federal Government impose a personal income tax (“PIT”) on individuals resident in Ontario. This tax is the Province’s largest single source of revenue.

Beginning with the 2000 taxation year, Ontario basic PIT is calculated as a percentage of taxable income. It is collected by the Federal Government on Ontario’s behalf. The tax rates for 2001 are as follows: 6.16% of the first \$30,814 of taxable income plus 9.22% of the portion of taxable income between \$30,814 and \$61,629, plus 11.16% of the portion of taxable income over \$61,629. Ontario non-refundable tax credits are provided for individual and family circumstances (e.g., basic amount, spouse, medical expenses), at the rate of 6.16% in 2001 (and 11.16% for charitable donations in excess of \$200), before calculating the provincial surtax or Ontario Tax Reduction.

Ontario also applies a surtax on higher-income earners. For the 2001 taxation year, the surtax is equal to 20% of basic Ontario PIT in excess of \$3,560, plus an additional 36% of basic Ontario PIT in excess of \$4,491. For taxpayers with low or moderate incomes, the Ontario Tax Reduction reduces or eliminates Ontario PIT.

Retail Sales Tax. Ontario applies an 8% tax on the retail sales of most tangible personal property, prepared food priced at \$4 and over and some services, including group insurance premiums. Other rates apply to certain goods and services, such as 5% on transient accommodation, 10% on admissions priced over \$4 to places of amusement and on alcoholic beverages purchased at licensed premises, and 12% on alcohol purchased at retail outlets. There are exemptions from retail sales tax, including those for groceries, prescription drugs, children’s clothing, farm equipment, farm building materials and production machinery and equipment. The 2000 Ontario Budget announced the phase-out of retail sales tax on motor vehicle insurance premiums and on repairs and replacements made under warranty in stages until the tax is eliminated in 2004.

Under the *Retail Sales Tax Act*, the Tax for Fuel Conservation applies upon the purchase or lease of a new passenger vehicle or sport utility vehicle and is based on the published highway fuel efficiency rating of the vehicle. Light trucks and vans are not subject to this tax. The tax applies to all passenger vehicles with a fuel efficiency rating of 6.0 litres of gasoline or diesel fuel per 100 kilometers and all sport utility vehicles with a fuel efficiency rating of 8.0 litres of gasoline or diesel fuel per 100 kilometers, and increases as fuel efficiency of the vehicle declines. For new passenger vehicles only, a retail sales tax rebate of \$100 is granted for fuel efficiency ratings of less than 6.0 litres of gasoline or diesel fuel per 100 kilometers.

Corporate Income Tax. The Province taxes corporate income allocated to Ontario. Effective May 2, 2000, the general corporate income tax rate was reduced from 15.5% to 14.5%, and was further cut to 14% on January 1, 2001. Income from manufacturing and processing, mining, logging, fishing and farming is subject to a lower tax rate. This tax rate was reduced from 13.5% to 12.5% on May 2, 2000, and dropped to 12% on January 1, 2001. Corporate income tax rate cuts originally scheduled for January 1, 2002 were accelerated by three months to take effect on October 1, 2001. The general corporate income tax rate was reduced to 12.5% and the tax rate on income from manufacturing and processing, mining,

logging, fishing and farming was reduced to 11%. The 2002 Ontario Budget proposed that starting January 1, 2004, the general tax rate and the tax rate on income from manufacturing and processing, mining, logging, fishing and farming will be reduced annually by 1.5% and 1% respectively, until both rates reach 8% in 2006.

Effective October 1, 2001 the corporate income tax rate for Canadian-controlled private corporations was reduced from 6.5% to 6.0% on the first \$280,000 of active business income. This tax rate is being cut to 5.5% on January 1, 2003, to 5% on January 1, 2004 and to 4% on January 1, 2005. Concurrently, the income threshold for the small business rate (currently at \$280,000) is being increased by \$40,000 each year, until it reaches \$400,000 in 2005.

Ontario provides assistance for scientific research and experimental development ("SR&ED") activities through: (1) a 10% refundable innovation tax credit for qualified SR&ED expenses; (2) a full deduction for qualified expenses in the year they are incurred; (3) a 20% refundable tax credit for SR&ED done through specified research institutions; and (4) a tax exemption for the federal SR&ED investment tax credit that relates to SR&ED incurred in Ontario.

Ontario provides a number of refundable tax credits on labour expenditures for certain other corporate activities carried out in Ontario: a 10% to 15% co-operative education tax credit for hiring students and leading edge technology apprentices; a 30% book publishing tax credit; a 10% to 15% graduate transition tax credit for hiring unemployed post-secondary graduates; a 20% computer animation and special effects tax credit; a 20% tax credit for producing Canadian film and television productions (30% for first-time producers), with an additional 10% bonus for qualifying regional productions; an 11% film and television production services tax credit for non-Canadian productions, with an additional 3% bonus for qualifying regional productions; a 20% interactive digital media tax credit; and a 20% sound recording tax credit.

Ontario also provides additional deductions from income equal to 30% of the capital cost of pollution control equipment, childcare facilities and new school buses purchased after May 4, 1999 and before May 5, 2002 (the 2002 Ontario Budget proposed to extend the school bus incentive to December 31, 2005) and 100% of the costs of accommodating newly hired employees with disabilities. An additional 15% deduction is provided for donations or price discounts to Ontario post secondary educational institutions in respect of new teaching equipment and learning technologies.

Corporations or a group of associated corporations with total assets over \$5 million or gross revenues over \$10 million are subject to a minimum tax (the "CMT"). The CMT is applied at a rate of 4% on accounting income less certain deductions, such as dividend income. The CMT is reduced by regular corporate income tax payable in the year.

Insurance Premiums Tax. Insurance companies pay a 2% tax on net premiums in respect of accident, sickness and life insurance for persons resident in Ontario. A 3% tax is levied on net premiums in respect of any other contract of insurance in Ontario. Contracts in respect of property insurance also bear an additional 0.5% tax on net premiums. A 2% premiums tax is also payable by employers in respect of uninsured benefit arrangements.

Life insurance companies are subject to a special additional tax of 1.25% on taxable paid-up capital in Ontario. The first \$10 million in paid-up capital is exempt from tax. This tax is reduced by regular income tax and any corporate minimum tax payable in the year.

Capital Tax. The Province levies a capital tax on paid-up capital allocated to Ontario. Insurance companies do not pay this tax. The general capital tax rate is 0.3%. Deposit taking financial institutions are subject to a capital tax of 0.6% on the first \$400 million of taxable capital and 0.9% on taxable capital in excess of \$400 million. Non-deposit taking financial institutions are subject to a capital tax of 0.6% on the first \$400 million of taxable capital and 0.72% on taxable capital in excess of \$400 million. Ontario credit unions, Caisses Populaires and family farm/fishing corporations are exempt from capital tax.

Prior to October 1, 2001, corporations or a group of associated corporations whose aggregate taxable capital is less than \$2 million were exempt from capital tax. A reduced capital tax rate applied where taxable capital is greater than \$2 million and less than \$3.2 million in 2001. Financial institutions

received a \$2 million deduction from taxable capital. Effective October 1, 2001, regular corporations and financial institutions are entitled to a \$5 million deduction from taxable capital.

A capital tax credit is available to financial institutions that make eligible capital investments in or provide low interest rate loans to Ontario small businesses.

Mining Tax. The *Mining Tax Act* levies a tax on profits from the extraction of minerals in Ontario. The tax is levied on the operator's profit in excess of \$500,000. The 2000 Ontario Budget introduced a plan to lower the mining tax rate from 20% to 10% by January 1, 2004. On January 1, 2002, the rate was cut from 16% to 14%, and will fall to 12% on January 1, 2003. There is a three-year or \$10 million profit exemption available to new or expanded mines. To assist mines in remote areas of the Province, the three-year exemption is extended for up to ten years for new remote mines. As well, the profits from remote mines are taxed at a rate of 5% after the 10-year or \$10 million profit exemption.

Employer Health Tax. Ontario levies an employer health tax on total Ontario remuneration paid by employers. Employers with total Ontario remuneration of \$200,000 or less calculate tax payable at a rate of 0.98%; employers with total Ontario remuneration between \$200,000 and \$400,000 calculate this tax at graduated rates between 0.98% and 1.95%; and employers with total Ontario remuneration in excess of \$400,000 calculate tax at a rate of 1.95%. For the 1999 taxation year and subsequent years, the first \$400,000 of total Ontario remuneration paid by eligible businesses is exempt.

Land Transfer Tax. Ontario levies a land transfer tax on the value of consideration of most registered conveyances and unregistered dispositions of beneficial interest in land in Ontario. The land transfer tax applies at graduated rates ranging from 0.5% for value of consideration of \$55,000 or less, 1.0% on the value of consideration between \$55,000 and \$250,000 and 1.5% for value of consideration exceeding \$250,000. Where the value of consideration exceeds \$400,000 and the property contains one or two single-family residences, there is an additional 0.5% (in addition to the 1.5%) tax levied on the amount exceeding \$400,000. As part of the 2000 Budget, the land transfer tax refund program for first-time buyers of newly constructed homes was made permanent. Eligible purchasers are entitled to a refund of up to \$2,000 under the program.

Other Significant Taxes. Taxes are applied to the purchases of gasoline (*Gasoline Tax Act*) and use of diesel fuel (*Fuel Tax Act*). The taxes apply to use in on-road motor vehicles and certain off-road uses (i.e. recreational boats, snowmobiles, lawn mowers). Under the *Gasoline Tax Act*, the tax rate for gasoline is 14.7 cents per litre; for propane, 4.3 cents per litre; and for fuels used to power aircraft, 2.7 cents per litre. Under the *Fuel Tax Act*, the tax rate for diesel fuel is 14.3 cents per litre; and for diesel fuel used to power railroad locomotives, 4.5 cents per litre.

Tobacco Tax. Ontario's tobacco tax rate is set by formula as 67% of the average retail price of a pack of 25 cigarettes, net of all taxes, plus 100% of any changes to federal tobacco excise duties or excise taxes for cigarettes. As a result of this formula, any adjustment in federal tobacco tax rates is automatically matched by an equal adjustment in the Ontario tobacco tax rate. The current Ontario tobacco tax is 8.6 cents per cigarette and per gram or part gram of cut tobacco. The tax on cigars is 56.6% of the retail price.

Race Tracks Tax. Ontario also levies a race tracks tax on wagers on horse races at 0.5% on all bets.

Federal Government Payments

Approximately 12.4% of the Province's revenue in fiscal 2002-03, \$8,245 million, will be received through cash payments from the Federal Government. Federal payments are intended to assist the Province in providing necessary services in areas of provincial jurisdiction.

Canada Health and Social Transfer ("CHST"). The largest cash transfers from the Federal Government, in the form of CHST payments, are to assist the Province in providing health care, post-secondary education and other social programs. In fiscal year 2001-02, payments to Ontario under the CHST were \$6,211 million, including \$380 million from the CHST Supplement Trusts announced in the 1999 and 2000 federal budgets. In 2002-03, CHST payments to Ontario are expected to total \$6,808 million, including \$191 million from the CHST Supplements.

The CHST is a block fund contribution by the Federal Government in respect of social programs under the *Federal-Provincial Fiscal Arrangements Act*. It replaced both the Established Programs Financing (“EPF”) and Canada Assistance Plan (“CAP”), beginning in 1996-97. To receive the CHST cash contribution, provinces must comply with the Canada Health Act and may not impose a residency requirement in determining eligibility for social assistance.

CHST total entitlements include both cash and tax entitlements. CHST tax entitlements are the value of 13.5 of each province’s personal income tax (“PIT”) points and one corporate income tax (“CIT”) point transferred to provinces in 1977-78 under the EPF arrangements. Total entitlements were initially based on each province’s share of fiscal 1994-95 CAP and fiscal 1995-96 EPF entitlements. In subsequent years, the formula was adjusted to take into account each province’s share of the national population and in the 1999 Federal Budget, it was announced that total CHST entitlements would be allocated among provinces on an equal per capita basis by 2001-02.

As of 1998-99, CHST cash entitlements, \$12.5 billion nationwide, had been reduced by \$6.2 billion, or 33%, from combined CAP and EPF cash entitlements in 1994-95. The 1999 Federal Budget announced that by 2002-03, there would be a nationwide restoration of \$2.5 billion of the \$6.2 billion cut previously by the Federal Government from CHST cash entitlements. Restoration would begin with \$1 billion in 2000-01, an additional \$1 billion in 2001-02 and an additional \$500 million in 2002-03, all allocated among provinces on an equal per capita basis.

CHST Supplements. The 1999 Federal Budget also established a one-time CHST Supplement Trust for Health Care of \$3.5 billion. It was allocated among provinces on an equal per capita basis. Ontario’s share, \$1,323 million, was withdrawn from the Trust and was spent by the Province on health care over three years, 1999-00, 2000-01 and 2001-02.

The 2000 Federal Budget announced another CHST Supplement Trust of \$2.5 billion, which also was allocated among provinces on an equal per capita basis. Ontario’s share, \$952 million, was withdrawn from the Trust and is being spent on health care between 2000-01 and 2003-04.

Only the portions of the Supplements that were expensed have been reported as revenue in the 1999, 2000, 2001 and 2002 Ontario budgets, \$755 million in 1999-00, \$757 million in 2000-01, \$380 million in 2001-02 and \$191 million in 2002-03. The remainder of the amount announced in the 2000 Federal Budget is being treated as deferred income and will be reported as revenue in 2003-04, following the draw-down schedule set out in the federal budget. Drawing down the CHST Supplements over three and four years has provided stable funding and supported enhancements to base health care programs.

First Ministers’ Meeting. At the September 2000 First Ministers’ Meeting (“FMM”) in Ottawa, the Prime Minister of Canada told Premiers and Territorial Leaders that CHST cash will be increased to \$18 billion in 2001-02 and to \$18.7 billion in 2002-03 and subsequent years, up from the \$15.5 billion received in 2000-01. The Prime Minister also made a commitment to increase CHST funding by \$600 million in 2003-04, \$1.2 billion in 2004-05, and \$1.8 billion in 2005-06. As well, the Federal Government provided \$300 million in 2001-02, \$400 million in 2002-03, and \$500 million in each subsequent year for early childhood development.

The additional funding for the CHST announced at the FMM will provide Ontario with about \$8.5 billion in additional funding over the following five years, beginning with just over \$1 billion in 2001-02 and increasing each year to about \$2.3 billion in 2005-06.

At the same meeting, the Prime Minister announced a \$1 billion Medical Equipment Trust Fund and the Federal Government transferred \$380 million to Ontario for spending by the Province on medical equipment during 2000-01 and 2001-02. The Federal Government also announced \$500 million for Health Information Technology and \$800 million of financial support for a Health Transition Fund for Primary Care.

Other Federal Payments. In 2001-02, the Province received \$1,543 million from the Federal Government for programs other than the CHST.

In 2002-03, Ontario expects to receive a total of \$1,437 million through other federal programs. This amount includes \$530 million for social housing, \$225 million for infrastructure, \$127 million for Indian welfare services and \$64 million for bilingualism development.

Fiscal Stabilization. An integral part of federal-provincial fiscal relations is the Federal Government's obligation to protect provincial revenues. The Federal Government makes cash payments, to any province if its revenue falls short of the previous year's total by 5% or more due to a downturn in economic activity. The most recent payment to Ontario under this program was received in 1995-96 in respect of claims made up to and including the 1992-93 fiscal year.

FEDERAL PAYMENTS TO ONTARIO

	<u>2001-02</u>	<u>Outlook 2002-03</u>
	(in millions)	
Canada Health and Social Transfer (CHST)	\$6,211	\$6,808
Social Housing	524	530
Student Assistance	31	64
Medical Equipment Trust	190	—
Indian Welfare Services	123	127
Young Offenders Act	118	61
Bilingualism Development	61	64
Employability Assistance for People With Disabilities	72	33
Infrastructure	—	225
Other	424	333
Total Federal Payments	<u>\$7,754</u>	<u>\$8,245</u>

Other Revenue

In 2002-03, approximately 15.0% of revenue is expected from sources other than taxation or federal transfers. This category includes the net income of provincially owned Liquor Control Board of Ontario and Ontario Lottery and Gaming Corporation. Also included is revenue from Vehicle and Driver Registration Fees and Sales and Rentals.

(4) Expenditure

Overview

The following table sets forth historical expenditure information for each of the fiscal years from 1997-98 to 2000-01. The table has not been updated to reflect the new ministry structure announced in April 2002.

ONTARIO'S OPERATING EXPENDITURE⁽¹⁾

<u>Ministry</u>	<u>1997-98</u>	<u>Restated 1998-99</u>	<u>Restated 1999-00</u>	<u>Restated 2000-01</u>
	(in millions)			
Agriculture, Food and Rural Affairs	\$ 306	\$ 309	\$ 347	\$ 401
One-time and Extraordinary	—	—	—	233
Farm Tax Rebate	158	—	—	—
Attorney General	683	753	846	957
Board of Internal Economy	113	117	154	116
Citizenship,	73	82	95	77
Community and Social Services	8,067	7,659	7,512	7,620
Consumer and Business Services	92	136	134	155
Correctional Services	531	540	563	593
Economic Development and Trade	138	87	92	81
Education	4,715	7,719	7,704	7,961
Teachers' Pension Plan	1,443	67	(363)	(402)
School Board Transition — Restructuring /Phase-in-Funding	224	—	268	—
Energy, Science and Technology	69	83	429	464
Environment	142	162	174	190
Executive Offices	14	17	19	21
Finance-Own Account	691	998	548	842
Public Debt Interest				
Provincial	8,729	9,016	8,977	8,896
Electricity Sector	—	—	520	520
Community Reinvestment Fund	169	678	521	561
Provision for Electricity Sector	—	—	383	263
Health and Long-Term Care	18,283	18,867	20,373	21,686
Accelerated Health Care Commitment	—	—	—	498
Health Care Restructuring	532	50	—	—
Major One-time Health Care Costs	113	639	286	487
Intergovernmental Affairs	5	4	4	4
Labour	117	108	101	104
Management Board Secretariat	359	353	147	145
Retirement Benefits	(86)	(219)	(165)	(33)
Contingency Fund				
OPS Employee Severance (Net)	(159)	—	88	—
Special Circumstances Fund	—	180	—	—
Municipal Affairs and Housing	2,395	1,611	1,665	1,792
Municipal Capital and Operating Restructuring Fund	23	—	—	—
Municipal Restructuring Fund	71	—	—	—
Native Affairs Secretariat	12	12	15	16
Natural Resources	463	531	460	417
Northern Development & Mines	62	54	67	69
Office of Francophone Affairs	2	3	3	4
Solicitor General	646	756	816	907
Tourism, Culture and Recreation	205	286	367	360
Training, Colleges and Universities	3,052	3,281	3,285	3,219
Transportation	702	607	587	593
Restructuring /Municipal Capital And Operating Restructuring Fund	50	(17)	—	—
TTC Five Year Capital Transfer And Ottawa-Carleton Regional Transit Commission Transit Bus Subsidy Agreement	829	44	—	—
Year-end Savings	—	—	—	—
Total Operating Expenditure	<u>\$54,033</u>	<u>\$55,573</u>	<u>\$57,022</u>	<u>\$59,817</u>

Totals may not add due to rounding.

Source: Ontario Ministry of Finance.

(1) Expenditure excludes transactions relating to OEFC.

Starting with the 2002 Ontario Budget, published on June 17, 2002, historical expenditure figures for the Province of Ontario were set forth as restated figures starting from 1998-99 to 2000-01 to reflect the recently announced new government structure. Accordingly, the 1998-99 to 2000-01 program expenditure figures contained within the Financial Tables were restated to reflect the new government ministry structures, and the following table sets forth such restated figures. However, as a result of the restructuring, the 1997-98 historical expenditure figures were not restated and therefore are not readily available.

Ontario's Operating Expenditure⁽¹⁾

<u>Ministry</u>	<u>Actual 1998-99</u>	<u>Actual 1999-00</u>	<u>Restated⁽³⁾ 2000-01</u>	<u>Actual 2001-02</u>	<u>Outlook⁽²⁾ 2002-03</u>	<u>% of Total Operating Expenditure 2002-03</u>
	(in millions)					
Agriculture and Food*	\$ 309	\$ 347	\$ 401	\$ 456	\$ 645	1.0
One-Time and Extraordinary Costs ..	—	—	233	319	—	—
Attorney General	753	846	957	983	973	1.5
Board of Internal Economy	117	154	116	124	117	0.2
Citizenship	82	95	77	71	70	0.1
Community, Family and Children's Services	7,659	7,512	7,620	7,742	7,814	12.3
Consumer and Business Services	136	134	155	172	171	0.3
Culture	192	214	236	279	277	0.4
Education	7,719	7,704	7,961	8,354	8,746	13.8
Phase-in Funding	—	268	—	—	—	—
Teachers' Pension Plan (TPP)	67	(363)	(402)	42	149	0.3
Energy	22	329	344	367	140	0.2
Enterprise, Opportunity and Innovation	148	192	201	222	264	0.4
Environment	162	174	190	265	244	0.4
Executive Offices	17	19	21	19	21	—
Finance-Own Account*	998	548	842	902	802	1.3
Public Debt Interest						
Provincial	9,016	8,977	8,896	8,509	8,505	13.4
Electricity Sector	—	520	520	520	520	0.8
Community Reinvestment Fund	678	521	561	557	582	0.9
Provision for Electricity Sector	—	383	263	—	—	—
Health and Long-Term Care	18,867	20,373	22,184	23,713	25,452	40.1
Health Care Restructuring	50	—	—	—	—	—
Major One-Time Health Care Costs ..	639	286	487	190	—	—
Intergovernmental Affairs	4	4	4	4	4	—
Labour	108	101	104	110	114	0.2
Management Board Secretariat	353	147	145	263	230	0.4
Retirement Benefits	(219)	(165)	(33)	63	(42)	(0.1)
Contingency Fund	—	—	—	—	832	1.3
OPS Employee Severance (Net)	—	88	—	(17)	—	—
Special Circumstances Fund	180	—	—	—	—	—
Municipal Affairs and Housing*	1,611	1,665	1,792	1,135	701	1.1
Native Affairs Secretariat	12	15	16	13	15	—
Natural Resources	531	460	417	438	437	0.7
Northern Development and Mines	54	67	69	75	77	0.1
Office of Francophone Affairs	3	3	4	5	3	—
Public Safety and Security	1,296	1,379	1,500	1,601	1,532	2.4
Tourism and Recreation	94	153	124	144	131	0.2
Training, Colleges and Universities	3,281	3,285	3,219	3,248	3,521	5.6
Transportation	634	587	593	664	772	1.2
Year-End Savings	—	—	—	—	(300)	(0.5)
Total Operating Expenditure	<u>\$55,573</u>	<u>\$57,022</u>	<u>\$59,817</u>	<u>\$61,552</u>	<u>\$63,519</u>	<u>100</u>

* Preliminary allocations and historical restatements pending finalization of new ministry structures. All other ministries reflect recently announced government structure.

Totals may not add due to rounding.

Source: Ontario Ministry of Finance.

- (1) Expenditure excludes transactions relating to OEFC.
- (2) Outlook 2002-03 refers to the information contained in the 2002-03 Second Quarter Ontario Finances, which updates the 2002 Budget.
- (3) Fiscal 2000-01 has been restated to reflect the accounting changes. See “3. Public Finance — (1) Financial Reporting — Accounting Changes”.

Social Expenditure

Health and Long-Term Care. Health Care is the largest single component of the provincial expenditure budget, accounting for an estimated 40.1% of total operating expenditure in fiscal 2002-03. Approximately 62% of Ontario's health care operating spending will be in the form of operating payments to public hospitals (\$9.4 billion in fiscal 2002-03) and Ontario Health Insurance Plan payments to physicians and other health care practitioners and commercial labs (\$6.5 billion in fiscal 2002-03).

Community Family and Children's Services. The Province provides a wide range of social services, including social assistance, childcare, child welfare services, housing assistance and drug benefits for social assistance recipients. The Ministry of Community, Family and Children's Services operating expenditure represents approximately 12.3% of fiscal 2002-03 total operating expenditure. The social assistance program is the largest program, with a budget of \$3,822 million in fiscal 2002-03.

Municipal Affairs and Housing. The Ministry of Municipal Affairs and Housing is responsible for building a strong provincial-municipal relationship, encouraging a viable and balanced housing market and promoting smart growth. The Ministry's fiscal 2002-03 operating outlook of \$701 million accounts for 1.1% of Provincial operating expenditure.

Education and Training. The Ministries of Education and of Training, Colleges and Universities operating budget, which includes provincial support for primary and secondary schools, universities, colleges and training programs, will total \$12,416 million and accounts for approximately 19.3% of total provincial operating expenditure in fiscal 2002-03. Transfer payments to school boards, the largest component of education spending, will amount to \$8,339 million in fiscal 2002-03. The operating grants for colleges and universities in fiscal 2002-03 will total \$2,645 million (includes general operating grants to colleges and universities, grants under the Access to Opportunities Program and Nursing Collaborative Programs).

Environment, Resources and Economic Development

The Ministry of Transportation has an operating budget of \$772 million in fiscal 2002-03. The Ministry is responsible for the overall safety, integrity and performance of Ontario's transportation system, GO Transit and for the licensing of drivers, vehicles and commercial carriers.

The operating budget of the Ministry of Agriculture and Food in fiscal 2002-03 is \$645 million. The Ministry's role is to assist in enhancing a supportive business environment in order to increase investment in Ontario's agricultural and food sectors. Through a number of programs, the Ministry also promotes value-added agriculture and increased exports of food products.

Through the Ministry of Enterprise, Opportunity and Innovation, the Ministry of Tourism and Recreation and the Ministry of Culture, the Province encourages entrepreneurship and promotes investment in scientific research, innovation and technology development. The Ministries also promote Ontario's trade, tourism and investment potential. Together the Ministries have an operating budget of \$672 million in fiscal 2002-03.

The Ministry of Natural Resources ensures the sustainable development of the Province's vast resources and manages Crown lands and the provincial park system. In addition, the Ministry is responsible for ensuring the protection of these resources from natural disasters, such as forest fires. The Ministry's operating budget in fiscal 2002-03 is \$437 million.

The Ministries of Environment and of Energy protect the quality of the natural environment and encourage conservation of material and water resources. They also promote the development of a competitive energy sector, which is economically and environmentally sustainable. The Ministries'

operating budget in fiscal 2002-03 totals \$384 million, including \$106 million related to the consolidation of the Independent Electricity Market Operator.

The following table sets forth historical expenditure information for each of the fiscal years from 1997-98 to 2000-01. The table has not been updated to reflect the new ministry structure announced in April 2002.

ONTARIO'S CAPITAL EXPENDITURE⁽¹⁾
(PSAB Basis)

<u>Ministry</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>
	(in millions)			
Agriculture, Food and Rural Affairs	\$ 1	\$ 1	\$ 1	\$ 1
Attorney General	47	73	62	42
Community and Social Services	31	27	20	14
Correctional Services	5	30	124	95
Economic Development, and Trade	—	—	—	—
Education	267	229	52	4
Energy, Science and Technology	—	273	656	86
Environment	98	19	1	5
Water Protection Fund	—	15	160	17
Finance	6	4	7	7
SuperBuild Millennium Partnerships	—	—	—	4
Contingency Fund	—	—	—	—
Health and Long-Term Care	106	187	338	182
Major One-Time Capital Costs	—	—	1,004	140
Management Board Secretariat	80	39	13	24
Municipal Affairs and Housing	152	62	(10)	—
Native Affairs Secretariat	14	13	7	5
Natural Resources	151	73	96	65
Northern Development and Mines	173	205	267	356
Solicitor General	7	—	—	4
Tourism, Culture and Recreation	3	2	231	32
Training, Colleges and Universities	117	71	1,028	204
Transportation	1,193	892	830	836
Year-End Savings	—	—	—	—
Total Capital Expenditure	<u>\$2,451</u>	<u>\$2,215</u>	<u>\$4,887</u>	<u>\$2,123</u>

Source: Ontario Ministry of Finance
Totals may not add due to rounding.

(1) Expenditure excludes transactions relating to OEFC.

Starting with the 2002 Ontario Budget, published on June 17, 2002, historical expenditure figures for the Province of Ontario were set forth as restated figures starting from 1998-99 to 2000-01 to reflect the recently announced new government structure. Accordingly, the 1998-99 to 2000-01 program expenditure figures contained within the Financial Tables were restated to reflect the new government ministry structures, and the following table sets forth such restated figures. However, as a result of the restructuring, the 1997-98 historical expenditure figures were not restated and therefore are not readily available.

ONTARIO'S CAPITAL EXPENDITURE⁽¹⁾
(in millions)

<u>Ministry</u>	<u>Actual 1998-99</u>	<u>Actual 1999-00</u>	<u>Actual 2000-01</u>	<u>Actual 2001-02</u>	<u>Outlook (2) 2002-03</u>	<u>% of Total Capital Expenditure 2002-03</u>
Agriculture and Food*	\$ 1	\$ 1	\$ 1	\$ 29	\$ 197	7.3
Attorney General	73	62	42	46	53	1.9
Community, Family and Children's Services	27	20	14	31	32	1.2
Consumer and Business Services	—	—	—	—	1	—
Culture	—	72	18	14	10	0.4
Education	229	52	4	17	10	0.4
Energy	—	156	86	50	69	2.5
Enterprise, Opportunity and Innovation	273	500	—	19	47	1.7
Environment	19	1	5	19	16	0.6
Water Protection Fund	15	160	17	1	3	0.1
Finance—Own Account*	4	7	7	11	24	0.9
SuperBuild Millennium Partnerships	—	—	4	—	102	3.7
Contingency Fund	—	—	—	—	92	3.4
Health and Long-Term Care	187	338	182	205	342	12.6
Major One-Time Capital Costs	—	1,004	140	—	—	—
Management Board Secretariat	39	13	24	28	46	1.7
Municipal Affairs and Housing*	62	(10)	—	12	7	0.3
Native Affairs Secretariat	13	7	5	3	6	0.2
Natural Resources	73	96	65	70	80	2.9
Northern Development and Mines	205	267	356	371	393	14.5
Public Safety and Security	30	124	99	88	92	3.4
Tourism and Recreation	2	159	14	9	125	4.6
Training, Colleges and Universities	71	1,028	204	49	67	2.5
Transportation	892	830	836	818	1,001	36.9
Year-End Savings	—	—	—	—	(100)	(3.7)
Total Gross Capital Expenditure**	<u>\$2,215</u>	<u>\$4,887</u>	<u>\$2,123</u>	<u>\$1,890</u>	<u>\$2,715</u>	<u>100</u>
Less: Net Investment in Capital Assets***	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>634</u>	<u>—</u>
Net Capital Expenditure	<u><u>\$2,215</u></u>	<u><u>\$4,887</u></u>	<u><u>\$2,123</u></u>	<u><u>\$1,890</u></u>	<u><u>\$2,081</u></u>	<u><u>—</u></u>

* Preliminary allocations and historical restatements pending finalization of new ministry structures. All other ministries reflect recently announced government structure.

** Gross Capital Expenditure includes the following: i) acquisition or construction of major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) and other tangible capital assets; ii) repairs and maintenance; and iii) transfers for capital purposes. Total gross capital expenditure includes \$225 million in federal flow-through funds. Gross capital investment excluding flow-through of federal funds is \$2.5 billion.

*** Starting in 2002-03, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets will continue to be booked as expenditure in the year of acquisition.

Source: Ontario Ministry of Finance
Totals may not add due to rounding.

(1) Expenditure excludes transactions relating to OEFC.

(2) Outlook 2002-03 refers to the information contained in the 2002-03 Second Quarter Ontario Finances which updates the 2002 Budget.

Through Ontario's SuperBuild initiative the government and its public and private sector partners will be investing \$20 billion over five years to renew the Province's network of hospitals, high-technology links, highways, education institutions and other infrastructure.

(5) Outline of Principal Provincial Institutions

The Province has established a number of Crown corporations, which are primarily intended to provide goods and services needed to implement approved government policy and programs or to provide a regulatory function for operations authorized by government legislation. Among the more prominent Ontario Crown corporations are the Ontario Financing Authority, the Liquor License Board of

Ontario, the Ontario Lottery Corporation, the Ontario Casino Corporation, the Workplace Safety and Insurance Board (formerly, the Workers' Compensation Board) and the Ontario Northland Transportation Corporation. Until its restructuring in April 1999 and its continuation as Ontario Electricity Financial Corporation (OEFC), Ontario Hydro had a mandate to generate and supply power in Ontario. For a description of Ontario Hydro, its restructuring and the operations of its successor companies, See "4. Public Debt — (3) Financial Assets and Liabilities — (ii) Financial Assets — Restructuring of Ontario Electricity Industry", below.

(6) Sinking Funds

The Province of Ontario does not have a sinking funds system.

4. PUBLIC DEBT

(1) Provincial Purposes

The Province has met its financing requirements through a combination of public borrowing, non-public borrowing and increases in cash and temporary investments. There is no constitutional limit on borrowing.

Publicly Held Debt

The majority of Ontario's borrowing requirements are met through public market borrowing. See "4. Public Debt — (3) Financial Assets and Liabilities — (iii) Liabilities — Publicly Held Debt", below.

Non-Public Debt

The Public Service Pension Plan ("PSPP"), the Ontario Public Service Employees Union ("OPSEU") Pension Plan and the Ontario Teachers' Pension Plan ("OTPP"). Prior to January 1, 1990, PSPP and OTPP were required to invest their net cash flow in debt issued by the Province. Legislation now allows these Plans to invest in public capital markets, and they are no longer a source of direct financing for the Province. The OPSEU Pension Plan was created in June 1994 through legislation dividing the PSPP and creating a separate plan for OPSEU members and for certain other unionized non-management employees. See "4. Public Debt — (3) Financial Assets and Liabilities — (iii) Liabilities — Non Public Debt", below.

The Canada Pension Plan Investment Fund ("CPP"). The CPP obtains monies from a compulsory national contributory pension plan in which all provinces other than Quebec participate. Each month, the net cash flow is invested in non-marketable securities issued by participating provinces, agents of the Crown and the Government of Canada. The amount available to a province is based on the proportion of total contributions coming from that province.

(2) Ontario Electricity Financial Corporation ("OEFC") Purposes

In addition to debt transactions for provincial purposes, the Province has borrowed funds on behalf of OEFC in the public markets and from the CPP. The proceeds of all such borrowings have been advanced to OEFC in exchange for bonds with like terms and conditions. For a description of Ontario Hydro, its restructuring and the operations of its successor companies, See "4. Public Debt — (3) Financial Assets and Liabilities — (ii) Financial Assets — Restructuring of Ontario Electricity Industry" below.

STATEMENT OF FINANCIAL TRANSACTIONS
(Ontario's financing for Provincial purposes
and for OEFC purposes)

	<u>1999-00</u>	<u>Restated⁽⁴⁾ 2000-01</u>	<u>2001-02</u>	<u>Outlook 2002-03⁽¹⁾</u>
	(in millions)			
Financing-Provincial Purposes				
Debt Issues	\$10,145	\$10,002	\$12,545	\$13,447
Retirements:				
Publicly Held Debt	7,025	8,858	9,229	10,519
Canada Pension Plan	988	538	769	1,295
Ontario Teachers' Pension Fund	960	717	492	656
Public Service Pension Fund	69	89	115	132
Ontario Public Service Employees' Union (OPSEU) Pension Plan	33	42	55	62
Municipal Employee Retirement Fund	44	52	68	235
Other	22	50	18	39
	<u>9,141</u>	<u>10,346</u>	<u>10,746</u>	<u>12,938</u>
Net Debt Retirements / (Issues)	(1,004)	344	(1,799)	(509)
Decrease / (Increase) in Deposits with the Province of Ontario Savings Office	(295)	330	44	—
Other Items ⁽²⁾	(2,135)	2,190	2,323	2,875
Acquisition / (Amortization) of Tangible Capital Assets	—	—	—	634
Increase / (Decrease) in Cash and Temporary Investments	4,102	(962)	(193)	(3,000)
Surplus / (Deficit)	<u>\$ 668</u>	<u>\$ 1,902</u>	<u>\$ 375</u>	<u>\$ —</u>
Financing — OEFC Purposes				
Debt Issues ⁽³⁾	5,399	2,924	2,342	2,106
Retirements	\$ —	\$ 1,329	\$ (569)	\$ (48)

Source: Ontario Ministry of Finance.

- (1) Outlook 2002-03 refers to the information contained in the 2002-03 Second Quarter Ontario Finances, which updates the 2002 Budget.
- (2) Accruals, Consolidations and net borrowing on behalf of agencies and liability for retirement benefits are grouped under other items.
- (3) Debt issues for 2001-02 totaling \$2.3 billion borrowed by the Province and on-lent to OEFC are largely to refinance maturing debt held by the Province and guaranteed by the Province.
- (4) Fiscal 2000-01 has been restated to reflect the accounting changes. See "3. Public Finance — (1) Financial Reporting — Accounting Changes".

(3) Financial Assets and Liabilities

(i) General

Two features of Ontario's accounting and financing policies have a material effect on the reporting of assets and liabilities: the treatment of physical assets and the intermediary aspect of centralized financing.

Investments in physical assets made directly by the Province are treated as an expense in the year of acquisition and therefore do not appear as assets on the Province's financial statements. Starting in 2002-03, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) will be accounted for on a full accrual accounting basis. Other tangible capital assets owned by the Province will be reported in subsequent years.

The intermediary activity of borrowing on behalf of provincially-created bodies creates assets and liabilities. These would not appear if the bodies were funded independently or through a provincial guarantee. This borrowing action increases the Province's debt. The related asset arises because the government is funding, through loans and investments, expenses that are administered outside a government ministry.

Activities so funded are expected to generate sufficient return to repay the principal and interest. However, the recipients of the advances and investments are not always required to produce a profit, and some are not self-sustaining.

Financial assets include cash and claims by the Province arising from events and transactions occurring prior to the year-end.

(ii) *Financial Assets*

SUMMARY OF FINANCIAL ASSETS⁽¹⁾

	As at March 31, 2002⁽²⁾	% Of Total
	(in millions)	(%)
Cash and Temporary Investments	\$ 5,727	26.59
Accounts Receivable	2,369	11.00
Loans Receivable and Other Assets	1,616	7.50
Properties Held for Sale	97	0.45
Investment in Government Enterprises	<u>11,731</u>	<u>54.46</u>
	<u>\$21,540</u>	<u>100.00</u>

Source: Ontario Ministry of Finance.

(1) Physical assets purchased by the Province are expensed in the year of acquisition and are excluded from the above table.

(2) Prepared on the basis of modified accrual and consolidation accounting. See "3. Public Finance — (1) Financial Reporting — Overview", above.

Cash and Temporary Investments

Temporary investments are recorded at the lower of cost or fair value and are mainly marketable, short-term securities issued or guaranteed by Canadian chartered banks and the provincial and federal governments.

Between April 1, 2001 and March 31, 2002, the month-end level of cash and temporary investments varied from a low of approximately \$3,746 million to a high of approximately \$6,631 million. The cash and temporary investments are used to accommodate differences in revenue and expense flows during each fiscal year and to provide flexibility for debt management.

Accounts Receivable

Accounts receivable comprise taxes receivable, receivables from the Government of Canada and other receivables less a provision for doubtful accounts.

Loans Receivable and Other Assets

Loans receivable with significant concessionary terms are recorded at the date of issuance at face value discounted by the amount of the grant portion. The grant portion is recognized as an expenditure at the date of issuance of the loan. The amount of the loan discount is amortized to revenue over the term of the loan. Loans receivable include amounts owing from government business enterprises.

The activities of government business enterprises are recorded in these financial statements under the modified equity method. This method does not require the elimination of inter-organizational balances.

Properties Held for Sale

Properties held for sale are stated at the lower of cost and net realizable value. Cost includes acquisition costs, property taxes, development costs, capitalized interest and administrative costs, less net interim property rents and expenditure.

Investment in Government Business Enterprises

Investment in Government Business Enterprises represents the net assets of government business enterprises recorded on the modified equity basis as described under Principles of Consolidation.

Government business enterprises are defined as those Crown corporations, boards and commissions which have the financial and operating authority to carry on a business, have as their principal activity and source of revenue the selling of goods and services to individual and non-government organizations and are able to maintain their operations and meet their obligations from revenues generated outside the government reporting entity.

Restructuring of Ontario Electricity Industry

Legislation

The *Energy Competition Act, 1998* received Royal Assent on October 30, 1998, and through its five schedules, primarily the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (“*OEB Act*”), establishes the broad legislative framework for Ontario’s new competitive electricity market.

The *Electricity Act, 1998* implements the fundamental principles of the restructuring of Ontario’s electricity industry. This includes the separation of the competitive components of the industry (generation and retail) from the monopolistic components of the industry (transmission and distribution), the establishment of an independent electricity market operator and the implementation of open non-discriminatory access to transmission and distribution systems.

The *Electricity Act, 1998* mandates non-discriminatory access to transmission and distribution facilities by providing that commencing May 1, 2002, every transmitter or distributor must provide generators, retailers and consumers with non-discriminatory access to its transmission or distribution systems in Ontario in accordance with its licence. All customers have access to the electricity supplier of their choice. Ontario’s electricity generators compete with generators and suppliers, both from within and outside Ontario, to sell electricity in the Ontario wholesale market.

The *Electricity Act, 1998* also required every municipal corporation that generates, transmits, distributes or retails electricity, directly or indirectly, to incorporate a corporation under the *Business Corporations Act (Ontario)* (“*OBCA*”) for the purpose of carrying on those activities, and prohibits those municipal corporations from carrying on those activities except through such corporation. Provision was also made for the municipal corporation to transfer employees, assets, liabilities, rights and obligations of the municipal corporation or its electricity commission to the new corporation.

The *OEB Act* expands the jurisdiction and mandate of the OEB in the regulation of the electricity and natural gas markets. In its new role as regulator of the Ontario electricity market, the OEB has broad powers relating to licensing, rate regulation and market supervision.

The *Electricity Act, 1998* and *OEB Act* have been amended by the *Reliable Energy and Consumer Protection Act, 2002*, which received Royal Assent on June 27, 2002. This Act clarifies the Province’s ability to dispose of its interest in Hydro One Inc. through a variety of disposition options. This Act also provides for ownership of the transmission corridor lands to be transferred from Hydro One Inc. to the Province on a day to be proclaimed in exchange for a statutory right to use the land for transmission and distribution purposes. It also creates the Energy Consumers’ Bill of Rights which enhances consumer protection provisions in the *OEB Act*.

On June 27, 2002, the *Hydro One Inc. Directors and Officers Act, 2002* received Royal Assent. This Act enabled the government to appoint a new board for Hydro One and directs the new board to negotiate reduced executive compensation packages. An interim board was appointed effective as of June 4, 2002 and the board composition was confirmed at the annual meeting of the shareholders on August 15, 2002.

In November 2002, the Province announced a number of measures to protect consumers from volatile electricity prices, to encourage new supply and to promote conservation. On December 9, 2002, the *Electricity Pricing, Conservation and Supply Act, 2002* received Royal Assent. Pursuant to the Act, the following measures will be in effect until April 30, 2006.

- Effective December 1, 2002, the commodity price payable by low volume and designated consumers is fixed at 4.3 cents per kilowatt hour or such lower rate as may be prescribed by regulation;
- Low volume and designated consumers will receive a reimbursement of part of the commodity price they paid in order to effectively fix the commodity price they paid for electricity between May 1, 2002 and December 1, 2002 at 4.3 cents per kilowatt hour; and
- Electricity transmission and distribution rate orders in effect on November 11, 2002 will continue unless such orders are replaced or amended with the approval of the Minister of Energy.

Pursuant to this Act, regulations may be made to make financial arrangements for the following purposes:

- To compensate distributors, retailers and the Independent Electricity Market Operator (“IMO”) for payments made under the Act to reimburse consumers;
- To offset differences between the commodity price for electricity in certain contracts between retailers and consumers and the commodity price for electricity in the IMO-administered markets;
- To offset differences between the commodity price for electricity supplied by generators and the commodity price for electricity payable by consumers as a result of the fixing of the price under the Act; and
- To make payments to the IMO in respect of certain liabilities or expenses it incurs as a result of carrying out its objects under the *Electricity Act, 1998*.

The November 2002 announcements included several temporary tax measures to stimulate new generating capacity to ensure that the Province has sufficient electricity to meet its future needs and to promote the conservation of electricity. These measures, which are implemented by the *Electricity Pricing, Conservation and Supply Act, 2002*, or will be implemented by regulation, are:

- A 10-year corporate income tax (“CIT”) holiday for income from the sale of a new supply of electricity from clean, alternative, or renewable sources;
- An immediate 100 per cent CIT write-off and capital tax exemption for the cost of assets acquired after November 25, 2002 and before January 1, 2008, used to generate electricity from clean, alternative, or renewable sources;
- An immediate 100 per cent CIT write-off for qualifying electrical energy efficient equipment acquired after November 25, 2002 and before January 1, 2008;
- A 10-year property tax holiday for new facilities that generate electricity from clean, alternative or renewable sources;
- A retail sales tax rebate for businesses for building materials purchased and incorporated into alternative or renewable energy after November 25, 2002 and before January 1, 2008;
- A one year retail sales tax rebate for purchases, rentals and leases of certain new energy-efficient household appliances after November 25, 2002 and before November 26, 2003; and
- A retail sales tax rebate for solar energy systems purchased for residential premises after November 25, 2002 and before November 26, 2007.

The government also announced on December 2, 2002 a review of all items on consumers’ electricity bills. The review will include how charges are calculated and determine if items on the bill are fair and clear.

Successor Companies and Transfer of Assets and Liabilities

The *Electricity Act, 1998* provided for the restructuring of Ontario Hydro into several separate successor companies:

- Ontario Power Generation Inc. (“OPG”), a commercial corporation incorporated under the OBCA which owns and operates the generation business of the former Ontario Hydro;
- Hydro One Inc. (“Hydro One”), a commercial corporation incorporated under the OBCA which owns and operates the transmission and distribution and related energy services businesses of the former Ontario Hydro;
- Independent Electricity Market Operator (“IMO”), the independent electricity system coordinator responsible for directing the operation of the IMO-controlled electrical power grid in Ontario and enforcing the market rules for IMO-administered electricity markets;
- Electrical Safety Authority (“ESA”), a non-profit corporation without share capital, which carries out the electrical installation inspection and approval functions, previously conducted by Ontario Hydro; and
- Ontario Electricity Financial Corporation (“OEFC”), which is the continuation of Ontario Hydro, a corporation without share capital, responsible for managing Ontario Hydro’s outstanding debt and the other assets, liabilities, rights and obligations not transferred to the new companies.

OPG and Hydro One have clear business mandates and are operated like private-sector companies, paying the equivalent of corporate income, capital and property taxes to OEFC and a commercial rate of return to their shareholder, the Province. Of the successor companies to Ontario Hydro, only OEFC is an agent of the Province.

On April 1, 1999, the Province proclaimed in force the relevant sections of the *Electricity Act, 1998*, continuing Ontario Hydro as OEFC and repealed most of the *Power Corporation Act*. By transfer orders effective April 1, 1999, made under the *Electricity Act, 1998*, the assets, liabilities, rights, obligations and employees related to the generation business of Ontario Hydro were transferred to OPG and its subsidiaries; the assets, liabilities, rights, obligations and employees related to the transmission, distribution and energy services businesses were transferred to Hydro One and its subsidiaries; the assets, liabilities, rights, obligations and employees related to the function of running the electricity markets and the dispatch of electricity were transferred to IMO; and the assets, liabilities, rights, obligations and employees related to Ontario Hydro’s electrical inspection function were transferred to ESA. The assets were transferred to OPG, Hydro One and IMO in exchange for debt, which committed OPG, Hydro One and IMO to pay OEFC principal and interest. The Province assumed a portion of OPG’s and Hydro One’s debt in exchange for equity, in order to provide them with commercially acceptable capital structures.

The transfer orders also included schedules of assets, liabilities, rights and obligations that were retained by OEFC. Certain intellectual property assets and certain assets located on and rights relating to First Nations Reserves are being held by OEFC in trust or otherwise for the benefit of the new successor companies, including OPG and Hydro One. OEFC and the new successor companies have entered into indemnification and management agreements relating to these assets and other transferred assets and liabilities.

On April 1, 1999, OEFC had total debt of \$30.486 billion, comprised of \$27.735 billion in long-term debt and \$2.751 billion in short-term debt. The debt continues to be guaranteed by the Province. At April 1, 1999, OEFC held notes receivable in the amount of \$8.3 billion from OPG, Hydro One and IMO and \$8.9 billion from the Province as part of a debt for equity swap outlined below.

Subject to deductibles of \$20 million and \$10 million respectively, OEFC has agreed to indemnify OPG and Hydro One in respect of: (i) the failure of the transfer orders to transfer any asset, right or thing, or any interest therein related to their business; (ii) any adverse claims or interests, including those of the Crown, subject to certain exclusions, or any deficiency or lack of title in respect of any asset, right or thing or any interest therein, which was intended to be transferred; and (iii) the creation, treatment, payment to or from or other dealing with any equity account of Ontario Hydro, including with respect to

certain litigation relating thereto. The Province has guaranteed the obligations of OEFC under the indemnity.

The value of the assets transferred to Hydro One and its subsidiaries was determined to be \$8.6 billion as of April 1, 1999. In consideration for the assets, Hydro One issued notes to OEFC in the aggregate principal amount of \$4.85 billion together with an additional promissory note in the principal amount of \$3.76 billion. In consideration for the issuance to the Province of 12,920,000 preferred shares and 99,990 common shares, the Province assumed all of Hydro One's obligations under the \$3.76 billion promissory note and OEFC released Hydro One from its obligations with respect to this promissory note.

The value of the assets transferred to OPG and its subsidiaries was determined to be \$8.5 billion as of April 1, 1999. In consideration for the assets, OPG issued notes to OEFC in the aggregate principal amount of \$3.4 billion together with an additional promissory note in the principal amount of \$5.1 billion. In consideration for the issuance to the Province of 256,300,000 common shares, the Province assumed all of OPG's obligations under the \$5.1 billion promissory note and OEFC released OPG from its obligations with respect to this promissory note.

Finally, in consideration for assets transferred to IMO, IMO issued notes to OEFC in the aggregate principal amount of \$78.2 million.

The Province receives dividend payments on the equity held by it in OPG and Hydro One. Pursuant to the government's commitment to keep electricity income in the electricity sector, income earned in Hydro One and OPG over the Province's cost of its investment in its electricity subsidiaries is allocated to OEFC for purposes of debt retirement (See page 41 — Summary of Liabilities).

Following public consultations, the Province announced in June 2002 that the government would maintain control of Hydro One by retaining at least 51 per cent of the utility's shares. On July 5, 2002, Finance Minister Janet Ecker announced the start of a process to seek a strategic partner for up to 49 per cent of Hydro One. The Province's objectives with respect to Hydro One are:

- To protect consumers;
- To bring private sector discipline to the day-to-day operations of Hydro One;
- To ensure that the necessary capital is available to rebuild and modernize Hydro One's transmission and distribution infrastructure; and
- To use the proceeds to pay down the \$38 billion debt and other liabilities from the former Ontario Hydro.

On April 1, 1999, OEFC began receiving payments in lieu of corporate and additional property taxes from OPG and Hydro One and their subsidiaries and payments in lieu of additional property taxes from municipally-owned local distribution companies ("MEUs"), under the *Electricity Act, 1998*. MEU liability to make payments in lieu of corporate taxes began October 1, 2001. These payments in lieu effectively level the corporate tax and property tax playing field with private entities. In 2001, the payments in lieu of property taxes by OPG and MEUs on hydro-electric generating stations (power dams) were converted to charges on gross production revenue to be consistent with the revised means of imposing charges on private power dams. The payments in lieu of additional property taxes payable by OPG and MEUs in respect of nuclear and fossil generating stations are not affected by this change. (See explanation of stranded debt below.)

Municipalities and MEUs are subject to a transfer tax on the transfer of MEU property. The *Electricity Act, 1998* clarified municipal ownership of MEUs. As a result, MEUs can be sold and a gain realized. Some of that gain will be captured by the MEU transfer tax, which is payable to OEFC. A two-year exemption period, which ended November 7, 2000, from the payment of transfer tax was provided for transfers of property by municipalities or MEUs to other MEUs, OPG, Hydro One or a subsidiary of either OPG or Hydro One. Pursuant to the *Electricity Pricing, Conservation and Supply Act, 2002*, each MEU and any other corporation in which a municipality beneficially owns, directly or indirectly, a majority of the voting securities and that has been incorporated under the OBCA for the purpose of generating, transmitting, distributing or retailing electricity as provided in s. 142(1) of the *Electricity Act, 1998* is deemed to have made an application to the Ontario Energy Board for a rate order that incorporates a nil

rate of return on common equity unless a resolution is passed by the owning municipality within 90 days of the date the Act receives Royal Assent affirming that the corporation should continue to be incorporated under the OBCA as provided in s. 142(1) of the *Electricity Act, 1998*. If the resolution is not passed, the corporation would also be prevented from declaring dividends or disposing of all or substantially all of its assets. A method is established pursuant to the Act by which non-municipal shareholders of such a corporation can be compensated for their equity investments.

On April 1, 1999, Ontario Hydro's pension assets and liabilities remained with OEFC, as administrator of the OEFC pension plan, to be managed on behalf of OEFC by the Ontario Electricity Pension Services Corporation ("OEPSC"), a subsidiary of OEFC, until distribution to successor plans of OPG, Hydro One, IMO and ESA in accordance with the *Electricity Act, 1998*. On March 29, 2001, OEFC and OEPSC entered into an agreement with OPG, Hydro One, IMO and ESA for the division and transfer of the assets and liabilities of the OEFC Pension Plan as required by the *Electricity Act, 1998*. The Superintendent of Financial Services consented to the transfer of assets on June 6, 2001 and as of that date, the successor companies' pension plans assumed responsibility for the accrued pension benefits under the OEFC Pension Plan. Almost all of the assets of the OEFC Pension Plan were transferred to the successor plans on or about June 29, 2001 pursuant to the transfer agreement with a few minor illiquid assets to follow thereafter. In addition, certain assets, liabilities, employees, officers, rights and obligations of OEFC and OEPSC related to the OEFC Pension Plan were transferred to the successor companies by transfer orders effective as of June 29, 2001 and made under section 138 of the *Electricity Act, 1998*. It is currently expected that OEPSC will be wound up shortly and any remaining assets and liabilities transferred to the other successor companies. The long-term contracts with non-utility generators ("NUGs") remain with OEFC. About 7% of generated electricity in Ontario is supplied by NUGs.

Nuclear Costs

On April 1, 1999, the obligation to fund the future costs of nuclear waste management and decommissioning was transferred to OPG by transfer order as part of the assets and liabilities associated with Ontario Hydro's nuclear generation business. In its annual information form, dated April 30, 2002, OPG estimates the total present value of its future nuclear waste management and decommissioning liabilities to be approximately \$7,728 million as at December 31, 2001.

On June 13, 2002, Bill C-27, the *Nuclear Fuel Waste Act (Canada)*, received Royal Assent and was proclaimed into force on November 15, 2002. This Act requires major owners of nuclear fuel waste, including OPG, to establish a waste management organization to carry out the managerial, financial and operational activities to implement the long-term management of nuclear fuel waste and to establish trust funds and make annual payments to finance the long-term management of nuclear fuel waste. It also authorizes the Governor in Council to make a decision on the choice of approach for longer-term management of nuclear fuel waste for Canada. The waste management organization has been established and OPG has established and deposited \$500 million into the trust fund to meet the requirements of this Act.

OPG and the Province have entered into an agreement to establish, fund and manage segregated funds to ensure that sufficient funds are available to pay for costs of managing and disposing of nuclear waste and decommissioning nuclear generating stations. The agreement will come into effect once related funds management and custodial agreements have been executed. Under the agreement, OPG is required to establish a used fuel fund and a decommissioning fund which are to be held by a financial institution, segregated from OPG, and used only to pay for the costs of nuclear decommissioning and nuclear waste management and disposal. OPG is required to make an initial payment and quarterly payments to the funds that, together with income earned and a contribution to be made by OEFC, would cover all currently estimated costs. The Province will limit OPG's financial exposure with respect to increases in certain used fuel management costs in the event that the present value of those costs exceeds current estimates. The Province is also obligated under the agreement to make additional contributions to the used fuel fund if that fund earns less than a specified rate of return over the Ontario consumer price index. The Province is entitled to any surplus in the used fuel fund including earnings in excess of the specified return.

In addition, under the agreement, the Province has agreed to provide the financial guarantee that may be required by the Canadian Nuclear Safety Commission (“CNSC”) as a condition of OPG’s licence pursuant to the *Nuclear Safety and Control Act* (Canada). Execution of the agreement, including the related guarantee, has been authorized by Order in Council. The terms of the financial guarantee are currently being discussed with the CNSC.

Stranded Debt

The *Electricity Act, 1998* defines “stranded debt” as the amount of OEFC’s debt and other liabilities that, in the opinion of the Minister of Finance, cannot reasonably be serviced and retired by commercial companies in a competitive electricity market. On April 1, 1999 the Ministry of Finance estimated the stranded debt at approximately \$20.9 billion. The *Electricity Act, 1998* provides for certain dedicated revenue streams, to be paid over time to OEFC, to go towards servicing and retiring its stranded debt. These dedicated revenue streams include payments to OEFC by OPG, Hydro One, their subsidiaries and MEUs in lieu of: certain federal and provincial income taxes and capital taxes; additional property taxes; and the amounts payable by MEUs and municipal corporations to OEFC on the transfer of their electricity business. The government has a long-term plan in place to defease OEFC’s debt and other liabilities from within the electricity sector. The plan provides for sufficient revenues from the electricity sector to defease OEFC’s debt and other liabilities within a reasonable timeframe. In addition to the above dedicated revenue streams and pursuant to the Government’s commitment to keep electricity income in the electricity sector, the net income of OPG and Hydro One, in excess of the Province’s interest expenditure on its investment in OPG and Hydro One, is dedicated to the retirement of OEFC’s debt.

Residual stranded debt is the portion of OEFC’s stranded debt that cannot be serviced by the foregoing dedicated revenue streams. The residual stranded debt was estimated at \$7.8 billion on April 1, 1999. The *Electricity Act, 1998* provides for a debt retirement charge of 0.7 cents per kilowatt hour to be levied on electricity users in the Province commencing May 1, 2002. This charge, collected by the IMO, distributors and retailers, is payable to OEFC until residual stranded debt is retired.

(iii) Liabilities

Overview

Liabilities include debt issued for provincial purposes, debt issued for investment in electricity sector, accounts payable and accrued liabilities, deposits with the Province of Ontario Savings Office, pension liabilities for the Public Service Pension Plan, the Ontario Public Service Employees’ Union (“OPSEU”) Pension Plan, the Ontario Teachers’ Pension Plan and other liabilities.

SUMMARY OF LIABILITIES

	As at March 31, 2002 ⁽¹⁾	% Of Total
	(In millions)	
Liabilities for Provincial Purposes:		
Publicly Held Debt ⁽²⁾	\$ 79,876	59.8
Non-Public Debt		
Canada Pension Plan	10,063	7.5
Ontario Teachers' Pension Fund	11,043	8.3
Public Service Pension Fund	3,331	2.5
Ontario Public Service Employees' Union (OPSEU) Pension Fund	1,582	1.2
Ontario Municipal Employees Retirement Fund	502	0.4
Other	1,195	0.9
	<u>27,716</u>	<u>20.7</u>
Total Debt Issued for Provincial Purposes.....	107,592	80.5
Debt Issued for Investment in Electricity Sector ⁽³⁾	8,885	6.7
Accounts Payable and Accrued Liabilities	10,640	8.0
Deposits with the Province of Ontario Savings Office	2,438	1.8
Pensions	1,785	1.3
Other Liabilities	1,712	1.3
Provision for Electricity Sector ⁽³⁾	524	0.4
Total Liabilities for Provincial Purposes	<u>\$133,576</u>	<u>100.0</u>
Liabilities for Ontario Electricity Financial Corporation (OEFC)		
Debt Issued by the Province for OEFC ⁽⁴⁾		
Public Investors.....	\$ 11,088	85.9
Canada Pension Plan	1,881	14.2
Total debt issued for OEFC ⁽⁵⁾	<u>12,969</u>	<u>100.0</u>
Debt guaranteed by the Province for OEFC	\$ 16,147	85.3
Other guaranteed obligations	2,788	14.7
Total guaranteed obligations ⁽⁶⁾	<u>\$ 18,935</u>	<u>100.00</u>

Source: Ontario Ministry of Finance.

(1) Prepared on the basis of modified accrual and consolidation accounting. See "3. Public Finance — (1) Financial Reporting — Overview", above.

(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivatives contracts entered into by the Province. See "4. Public Debt — (6) Financial Tables — I. Summary of Net Provincial Debt and II. Summary of Ontario Electricity Financial Corporation ("OEFC") Purpose debt — Risk Management and Derivative Financial Instruments".

(3) On April 1, 1999, as a result of the restructuring of Ontario Hydro, the Province assumed \$8,885 million in debt from OPG (\$5,126 million) and Hydro One (\$3,759 million). In exchange, the Province received shares in the two corporations. Pursuant to the government's commitment to keep electricity income in the electricity sector, net income of OPG and Hydro One in excess of the Province's interest expenditure on its investment in the electricity sector, must be set-aside for retirement of OEFC's liabilities.

In 2001-02 net income (loss) of OPG and Hydro One amounted to (\$167) million and \$346 million, respectively. The Province's interest on debt issued for its investment in the electricity sector amounted to \$520 million in the same period. This resulted in a nil provision this year.

(4) Proceeds of this debt have been advanced to OEFC in exchange for bonds with like terms and conditions.

(5) In addition, the Province has advanced to OEFC an overnight loan of \$248 million.

(6) In addition, Ontario Housing Corporation (“OHC”) has entered into loan insurance agreements with Canada Mortgage and Housing Corporation (“CMHC”) pertaining to mortgage loans on projects funded under various non-profit housing programs administered by the Ministry of Municipal Affairs and Housing. Under these agreements, CMHC will insure mortgage loans made by lenders approved under the National Housing Act for the purpose of purchasing, improving, constructing or altering housing units. While insurance is provided by CMHC, the OHC is liable to CMHC for any net costs, including any environmental liabilities, incurred as a result of loan defaults on projects funded entirely by the Province, and must share any net costs incurred for loan defaults on projects funded jointly by CMHC and the Province. Any costs incurred by the OHC will be reimbursed by the Ministry of Municipal Affairs and Housing.

In the event of a loan default, OHC can either remedy the default or acquire the units and assume the loan obligation. The OHC share of defaults on solely provincial funded projects would be 100% of net amounts incurred on loans defaulted and approximately 70% of net amounts incurred on defaults on joint federal-provincial projects. As of March 31, 2002, there were \$9.5 billion (2001 — \$10.4 billion) of mortgage loans outstanding. As operating subsidies provided are sufficient to ensure that all mortgage payments can be made when due, default is unlikely. To date, there have been no claims for defaults on insured mortgage loans.

Publicly Held Debt

Publicly held debt is debt issued to the general public. As at March 31, 2002, the publicly held debt issued for provincial purposes was \$79,876 million, \$53,952 million of which was issued in Canadian dollars, \$17,448 million in U.S. dollars, \$3,286 million in Japanese Yen, \$3,311 million in Euros and \$1,879 million in other currencies. As of the same date, all publicly held debt issued for Ontario Electricity Financial Corporation purposes was \$11,088 million.

As at March 31, 2002, the total amounts outstanding under the Province’s Treasury bill program was \$2,118 million and \$809 million was outstanding under the U.S. commercial paper program.

From April 1, 2002 through December 6, 2002, the Province announced public offerings of bonds and notes totaling approximately \$11.1 billion of which \$10.7 billion were for provincial purposes and \$0.4 billion was debt incurred for the OEFC. The tables below provide a summary of the publicly held debt issued by the Province from April 1, 2002 through December 6, 2002 for provincial purposes and the OEFC.

DEBT ISSUED BY THE PROVINCE FOR PROVINCIAL PURPOSES

<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate %</u>	<u>Funds</u>	<u>Principal (\$ Million)</u>	<u>References</u>
03-Apr-2002	03-Apr-2009	Step-Up	Canadian \$	45	(1) (5)
18-Apr-2002	13-Jul-2040	6.20	Canadian \$	50	(1)
18-Apr-2002	24-Jul-2006	7.75	Canadian \$	100	(1) (6)
23-Apr-2002	30-Nov-2011	5.25	Canadian \$	50	(2) (7)
30-Apr-2002	08-Mar-2007	5.2	Canadian \$	500	(1) (8)
02-May-2002	31-Dec-2007	5.125	Canadian \$	100	(2) (9)
03-May-2002	03-May-2007	Step-Up	Canadian \$	30	(3) (10)
06-May-2002	06-May-2009	Step-Up	Canadian \$	36	(3) (11)
08-May-2002	07-Jul-2012	Zero Coupon	Canadian \$	38	(12)
08-May-2002	31-Dec-2041	6.2	Canadian \$	50	(1) (13)
15-May-2002	15-Nov-2007	Step-Up	Canadian \$	25	(1) (14)
27-May-2002	02-Jun-2031	6.2	Canadian \$	500	(1) (23)
29-May-2002	02-Dec-2041	6.2	Canadian \$	40	(1) (15)
07-Jun-2002	02-Dec-2011	6.1	Canadian \$	500	(1) (16)
11-Jun-2002	02-Dec-2004	6.4	Canadian \$	33	(1) (24)
21-Jun-2002	Variable	Variable	Canadian \$	2601	(22)
04-Jul-2002	02-Jul-2004	Floating	Canadian \$	50	(4)
15-Jul-2002	15-Jul-2007	Step-Up	Canadian \$	50	(1) (17)
23-Jul-2002	23-Jul-2009	Step-Up	Canadian \$	25	(1) (18)
25-Jul-2002	2-Jun-2042	6.0	Canadian \$	50	(1) (19)
17-Jul-2002	17-Jul-2012	5.125	US \$	750	(1) (33)
06-Aug-2002	02-Jun-2027	7.6	Canadian \$	28	(1) (20)
06-Aug-2002	02-Dec-2004	6.4	Canadian \$	61	(1) (21)
19-Aug-2002	02-Jun-2031	6.2	Canadian \$	500	(1) (25)
04-Sep-2002	02-Dec-2012	5.375	Canadian \$	500	(1)
10-Sep-2002	10-Sep-2009	Step-Up	Canadian \$	35	(1) (26)
10-Sep-2002	10-Sep-2007	4.375	Canadian \$	500	(2) (27)
17-Sep-2002	17-Sep-2007	3.5	US \$	500	(1) (28)
25-Sep-2002	02-Jun-2042	6.0	Canadian \$	15	(1) (29)
01-Oct-2002	15-Dec-2009	3.75	US \$	300	(1) (30)
15-Oct-2002	15-Oct-2012	Step-Up	Canadian \$	30	(1) (31)
28-Oct-2002	17-Sep-2007	3.5	US \$	250	(1) (32)
4-Nov-2002	04-Nov-2004	Step-Up	Canadian \$	25	(1)
26-Nov-2002	15-Dec-2005	2.625	US \$	482	(1) (34)
27-Nov-2002	27-Nov-2004	Step-Up	Canadian \$	25	(1)
27-Nov-2002	10-Sep-2007	4.375	Canadian \$	75	(1) (35)
02-Dec-2002	02-Jun-2031	6.20	Canadian \$	500	(1) (36)

(1) Interest paid semi-annually.

(2) Interest paid annually.

(3) Interest paid monthly.

(4) Interest paid quarterly.

(5) Bonds are extendible at the option of the Province on every coupon date starting on April 3, 2004, to the final maturity date of April 3, 2009. Coupon interest is paid semi-annually at a rate of 4.80% in years 1-2, 5.625% in year 3, 6.50% in year 4, 6.875% in year 5, 7.25% in year 6 and 7.75% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.09%.

(6) This is the first re-opening. Total issue size is now \$700 million.

(7) This is the first re-opening. Total issue is now \$350 million.

- (8) Non-callable. This is the second re-opening. Total issue size is now \$1,500 million.
- (9) This is the second re-opening. Total issue size is now \$350 million.
- (10) Bonds are extendible at the option of the Province on every six months starting on May 3, 2004, to the final maturity date of May 3, 2007. Coupon interest is paid monthly at a rate of 4.70% in years 1-2, 5.15% in year 3, 6.05% in year 4 and 6.90% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.09%.
- (11) Bonds are extendible at the option of the Province on every six months starting on May 6, 2004, to the final maturity date of May 6, 2009. Coupon interest is paid monthly at a rate of 4.62% in years 1-2, 5.00% in year 3, 6.00% in year 4, 6.5% in year 5, 7.00% in year 6 and 7.25% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.09%.
- (12) This is a variable payment zero coupon bonds. Payment of installments of the principal of the bonds are made semi-annually on January 7 and July 7 of each year with the final Principal installment payment on July 7, 2012.
- (13) This is the 4th re-opening. Total issue size is now \$250 million.
- (14) Bonds are extendible at the option of the Province on every six months starting on November 15, 2004, to the final maturity date of November 15, 2007. Coupon interest is paid semi-annually at a rate of 4.50% in years 1-2 and if the maturity date of the bonds is extended, 5.80% in years 3-5. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.07%.
- (15) This is the 5th re-opening. Total issue size is now \$290 million.
- (16) Non-callable. This is the first re-opening. Total issue size is now \$1,500 million (including \$500 million issued for OEFC purposes).
- (17) Bonds are extendible at the option of the Province on every six months starting on July 15, 2004, to the final maturity date of July 15, 2007. Coupon interest is paid semi-annually at a rate of 4.30% in year 1-2 and if the maturity date of the bonds is extended, 5.00% in year 3, 5.75% in year 4 and 6.70% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.08%.
- (18) Bonds are extendible at the option of the Province on every six months starting on July 23, 2004, to the final maturity date of July 23, 2009. Coupon interest is paid semi-annually at a rate of 4.3% in years 1-2 and if the maturity date of the bonds is extended, 5.10% in year 3, 5.8% in year 4, 6.30% in year 5, 6.50% in year 6 and 7.75% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.07%.
- (19) This is the first re-opening. Total issue size is now \$100 million.
- (20) This is the 14th re-opening. Total issue size is now \$4,237.7 million.
- (21) This is the first re-opening. Total issue size is now \$94.29 million.
- (22) Ontario Savings Bonds Series 2002 were available in variable types, maturities and interest rates. This was the eighth issue of provincial savings bonds.
- (23) This is the third re-opening. Total issue size is now \$2,000 million (including \$500 million issued for OEFC purposes).
- (24) Proceeds used to fund purchase of MV (\$33 million). No cash impact.
- (25) This is the fourth re-opening. Total issue size is now \$2,500 million (including \$500 million issued for OEFC purposes).
- (26) Bonds are extendible at the option of the Province on the Initial Maturity Date of September 10, 2004, and on each Extended Maturity Date thereafter to the final maturity date of September 10, 2009. Coupon interest is paid semi-annually at a rate of 4.50% in years 1-3, 5.25% in year 4, 6.00% in year 5, 6.50% in year 6 and 7.25% in the final year. In addition the Province entered into interest rate agreements that effectively converted the interest obligation on this debt into floating rate Canadian BA rate minus 0.07%.

- (27) The total issue size is now \$500 million.
- (28) The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of \$1.565. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.47%.
- (29) This is the second re-opening. Total issue size is now \$115 million.
- (30) The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of \$1.586. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.73%.
- (31) This note pays no interest for the first two years. If the note is not called, it pays 5.5% semi-annually. In addition, the first two years were swapped to BAs minus 0.06%.
- (32) This is the first re-opening and the total issue size is now U.S. \$750 million. The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.567. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.74%.
- (33) The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of \$1.5250. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.3652%.
- (34) The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of \$1.584. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a floating rate funding.
- (35) This is the third reopening. Total issue size is now \$575 million.
- (36) This is the fifth reopening. Total issue size is now \$1,500 million.

DEBT ISSUED BY THE PROVINCE FOR ONTARIO ELECTRICITY CORPORATION (“OEFC”)

<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate %</u>	<u>Funds</u>	<u>Principal (in millions)</u>	<u>References</u>
26-Nov-2002	15-Dec-2005	2.625	US \$	\$268	(1)(2)

(1) Interest paid semi-annually.

(2) The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of \$1.584. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a floating rate funding.

Non-Public Debt

Non-public debt is debt issued to certain public sector pension plans or the Federal Government and its agencies. As of March 31, 2002, approximately 20.7% of provincial purpose liabilities were in the form of non-public debt. Non-public debt is composed almost exclusively of debt to pension plans, the two largest components being Ontario Teachers’ Pension Fund debt (8.3% of total provincial purpose liabilities) and CPP debt (7.5% of total provincial purpose liabilities).

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise transfer payments, interest on public debt, salaries, wages, benefits, materials, supplies, and deferred revenue.

Retirement Benefits Liabilities

<u>Retirement Benefits Liability (Asset)</u>	<u>As at March 31,</u>	
	<u>Restated⁽¹⁾</u> <u>2001</u>	<u>2002</u>
	(in millions)	
Obligation for retirement benefits	\$ 44,517	\$ 49,658
Less: pension fund net assets	(51,911)	(54,203)
Unamortized experience gains	8,592	4,952
Adjustments ⁽²⁾	<u>1,519</u>	<u>1,378</u>
Retirement Benefits liability	<u>\$ 2,717</u>	<u>\$ 1,785</u>

(1) Fiscal 2000-01 has been restated to reflect the accounting changes. See 3. Public Finance — (1) Financial Reporting — Accounting changes.”

(2) Adjustments in the above table are made for the following: i) amounts reported by the plans at December 31, instead of the Province’s year-end of March 31; ii) unamortized initial unfunded liability for jointly sponsored plans for unfunded liability related to periods before the plans became jointly sponsored plans. iii) unamortized balances related to temporary deviation from the plans (e.g., contribution reduction); and iv) contributions payable by the Province that are reflected in the plan assets.

The Province is responsible for sponsoring several pension plans. The most significant plans are the Public Service Pension Plan (“PSPP”), the Ontario Public Service Employees’ Union (“OPSEU”) Pension Plan, and the Ontario Teachers’ Pension Plan (“OTPP”).

These three plans are defined benefit plans that provide Ontario government employees and elementary and secondary school teachers and administrators a guaranteed amount of retirement income. Benefits are based primarily on the best five-year average salary of members and their length of service, and are indexed to the Consumer Price Index to provide protection against inflation. Plan members and the Province are each responsible for matching contributions to the plans of between seven to nine per cent of the member’s salary per annum.

Funding of these plans is based on statutory actuarial valuations. Such valuations, undertaken at least every three years, use more conservative assumptions than those used in annual best estimates’ valuations that are used for financial statement purposes. Under partnership agreements between the Province and OPSEU and between the Province and the Ontario Teachers’ Federation (“OTF”), new gains and losses arising after January 1, 1993 from the statutory actuarial funding valuations are to be shared equally by the partners.

The Province had also committed to make additional payments over forty years to eliminate the unfunded liabilities of all three plans that were identified in the January 1, 1990 statutory valuations. As at March 31, 2002, the unfunded liabilities of all three plans have been eliminated.

During the year, in accordance with the 1998 agreement between partners of the OTPP, the OTF amended the plan to use \$6.1 billion of the plan surplus for benefit improvements. These improvements included a permanent Factor 85 early retirement program, lowering the eligibility for a reduced pension to age 50 from age 55 and a reduction in the offset for Canada Pension Plan (“CPP”) benefits. The government’s share of past service cost of this amendment of \$2,279 million is included in fiscal year 2001-02 Pension Expenditure, fully offset by recognition of unamortized experience gains of \$2,279 million.

Other Liabilities

Other liabilities include deferred revenues, pension and related benefit funds for the Provincial Judges Pension Fund and the Deputy Minister’s Supplementary Benefit Account, externally restricted funds and other miscellaneous liabilities.

Claims Against the Crown

Of the claims outstanding against the Crown in Right of Ontario as at March 31, 2002, 64 were for amounts over \$50 million each. These claims arise from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property and like items. As of December 6, 2002 there were 68 claims outstanding against the Crown, which were for amounts over \$50 million each. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain.

Province of Ontario Savings Office Net Deposits

The Province of Ontario Savings Office ("POSO") accepts deposits from general public, government and other public bodies. These deposits form part of the Consolidated Revenue Fund and are liabilities of the Province. The Ontario Financing Authority operates POSO as agent of the Minister of Finance. In the May 9, 2001 Budget, the Minister of Finance announced that the Government would be seeking a buyer for the Province of Ontario Savings Office. POSO's sale is overseen by the Ontario SuperBuild Corporation. An RFP was released on September 25, 2002. It is expected that the sale will close in early 2003.

Liabilities for Ontario Electricity Financial Corporation ("OEF") (formerly Ontario Hydro)

The Province has borrowed money on behalf of Ontario Electricity Financial Corporation from the CPP and in the U.S. and Canadian public capital markets. This debt is offset by bonds of OEF bearing like terms and conditions to these Ontario obligations.

DEBT
SELECTED CHARACTERISTICS BY TYPE OF ISSUE

As at March 31, 2002⁽¹⁾

	As a Percentage of Total (%)	Average Term to Maturity (Years)	Average Annual Cost to the Province (%)	Average Annual Rate of Growth March 31, 2002 (%)
Debt for Provincial Purposes				
Publicly Held				
Debt Debentures & Bonds ⁽²⁾	53.1	9.1	6.5	3.2
Treasury Bills	1.4	0.1	2.2	33.1
Non-Public Debt				
Canada Pension Plan	6.9	7.2	10.6	(3.0)
Ontario Teacher's Pension Fund	7.5	5.2	11.7	(5.5)
Ontario Public Service Employees'				
Union Pension Plan (OPSEU)	1.1	8.1	11.8	(2.5)
Public Service Pension Fund	2.3	8.1	11.8	(2.5)
Ontario Municipal Employees'				
Retirement Fund	0.3	1.9	9.5	(7.9)
Other	0.8	16.6	7.5	(2.9)
	<u>73.4</u>	<u>8.4</u>	<u>7.6</u>	<u>1.3</u>
Province of Ontario Savings Office & Other Liabilities				
Province of Ontario Savings Office	1.7	N/A	3.4	2.1
Other Liabilities	10.0	N/A	—	(9.6)
Debt issued for Investment in the				
Electricity Sector	6.1	38.0	5.8	0.0
	<u>17.8</u>	<u>38.0</u>	<u>5.3</u>	<u>1.8</u>
Debt for OEFC Purposes⁽³⁾				
Canada Pension Plan	1.3	7.2	9.6	(9.0)
Canadian Public Market	5.0	6.5	5.5	170.5
Treasury Bills	2.0	0.1	2.1	6.0
U.S. Commercial Paper	0.5	0.1	1.8	1.4
	<u>8.8</u>	<u>4.7</u>	<u>5.0</u>	<u>45.6</u>
Total	<u>100.0</u>	<u>10.7</u>	<u>7.7</u>	<u>3.2</u>

(1) Prepared on the basis of modified accrual and consolidation accounting. See "3. Public Finance — (1) Financial Reporting — Overview", above.

(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivatives contracts entered into by the Province. See "4. Public Debt — (6) Financial Tables — II. Summary of OEFC Purpose Debt — Risk Management and Derivative Financial Instruments", above.

(3) Proceeds of this debt have been advanced to OEFC in exchange for bonds with like terms and conditions.

Debt Record

The Province has never defaulted on the payment of principal or interest on any of its obligations. Payments have been made when due, subject during wartime to any applicable laws and regulations forbidding such payments.

Debt Maturity and Interest Charges

At March 31, 2002, approximately 53.6% of the debt issued for provincial purposes and OEFC Program was scheduled to mature within the next five years and 78.4% within the next 10 years. Interest charges on Provincial Purpose Debt were \$8,509 million for 2001-02 and are estimated to be \$8,550 million for fiscal 2002-03 on an accrual and consolidation basis of accounting.

DEBT MATURITY SCHEDULE

As at March 31, 2002⁽¹⁾

Year Ending March 31,	Debt issued for Provincial Purposes ⁽²⁾			Total	% Of Total
	Publicly Held Debt ⁽³⁾	Non-Public Debt	OEFC Purposes ⁽⁴⁾		
	(in Millions)				
2003	\$12,143 ⁽⁵⁾	\$ 2,381	\$ 3,796 ⁽⁵⁾	\$ 18,320	15.2
2004	5,639	2,546	350	8,535	7.1
2005	9,117	2,241	3,250	14,608	12.1
2006	12,659	2,595	500	15,754	13.1
2007	5,382	1,886	119	7,387	6.1
2003-2007	44,940	11,649	8,015	64,603	53.6
2008-12	14,673	10,566	4,716	29,955	24.8
2013-17	289	3,296	—	3,585	3.0
2018-22	51	2,162	134	2,347	1.9
2023-27	7,430	43	—	7,473	6.2
2028-52	12,493	—	104	12,597	10.4
	<u>\$79,876</u>	<u>\$27,716</u>	<u>\$12,969⁽⁶⁾</u>	<u>\$120,561</u>	<u>100.0</u>

(1) Prepared on the basis of modified accrual and consolidation accounting.

(2) Includes debt issued by Government Organizations.

(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(4) This debt is offset by bonds of Ontario Electricity Financial Corporation ("OEFC") bearing like terms and conditions to the Ontario obligations. Pursuant to the Ontario Electricity Act, 1998, OEFC was established as a continuation of Ontario Hydro on April 1, 1999.

(5) Includes: Province — \$2,118 million in Treasury Bills and \$809 million in U.S. Commercial Paper. OEFC — \$2,990 million in Treasury Bills and \$758 million in U.S. Commercial Paper.

(6) In addition, the Province has advanced to OEFC an overnight loan of \$248 million.

(4) Consolidated Debt of the Ontario Public Sector

Overview

While centralized financing is prominent in Ontario, not all funding of the public sector is shown on the Province's financial statements. Since the responsibilities assigned to the Canadian provinces by the Constitution are uniform (although not all provinces have chosen to assume the same set of responsibilities), interprovincial comparisons are more clearly facilitated by the presentation of the consolidated debt. This method of presenting public sector debt is not affected by the degree of centralization or decentralization of Provincial public sector financing. Included in the total is the debt of municipalities with separate revenue sources, and all of the sector's revenue sources under provincial jurisdiction.

CONSOLIDATED DEBT OF THE ONTARIO PUBLIC SECTOR

	As at March 31, 2002	% Of Total
	(in millions)	
Net Provincial Debt ⁽¹⁾⁽²⁾⁽³⁾	\$112,036	74.1
Ontario Electricity Financial Corporation (OEFC) Debt		
Debt Issued by the Province	12,969	8.6
Debt Guaranteed by the Province ⁽⁴⁾	16,147	10.7
Loans Guaranteed ⁽⁵⁾	2,788	1.8
Other Public Sector Debt ⁽⁶⁾	7,212	4.8
Total Consolidated Debt of the Ontario Public Sector	\$151,152	100.00

Source: Ontario Ministry of Finance.

- (1) Prepared on the basis of modified accrual and consolidation accounting. See “3. Public Finance — (1) Financial Reporting — Overview”, above.
- (2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province. See “4. Public Debt — (6) Financial Tables — I. Summary of Net Provincial Debt and II. Summary of OEFC Purpose Debt — Risk Management and Derivative Financial Instruments”.
- (3) Net Provincial Debt represents total Liabilities less Financial Assets.
- (4) The guaranteed debt excludes bank loans. Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the agreements. Other foreign currency debt is translated to Canadian dollars at year-end rates of exchange.
- (5) The provision for loans guaranteed is based on an estimate of the likely loss arising from guarantees under the Ontario Student Support Program and is reflected in the Accrued Liabilities for Transfer Payments (Financial Statements, 2001-2002, Schedule 4).
- (6) Other Public Sector Debt comprises local government debt of \$5,459 million and colleges, universities and hospitals’ debt of \$1,753 million.

As at March 31, 2002, Net Provincial Debt accounts for 74.1% of the total Consolidated Debt of the Ontario Public Sector and appears as direct obligations on the Province’s Statement of Financial Position. Debt Issued by the Province for Ontario Electricity Financial Corporation accounts for 8.6% and debt and loans guaranteed by the Province account for an additional 12.5%, leaving 4.8% of public sector debt attributable to other public bodies.

(5) Selected Debt Statistics

The following tables examine the Net Provincial Debt and the Consolidated Debt of the Ontario Public Sector in absolute terms and in relation to certain provincial economic indicators.

NET PROVINCIAL DEBT

	As at March 31,					Average Annual Rate of Growth % 1998-2002
	1998	1999	2000	Restated ⁽³⁾ 2001	2002	
	(in millions unless otherwise indicated)					
Net Provincial Debt ⁽¹⁾⁽²⁾	\$112,735	\$114,737	\$113,715	\$112,480	\$112,036	(0.2)
Debt per Capita	10,022	10,076	9,864	9,615	9,419	(1.5)
Debt/Personal Income (%) ..	38.9	37.9	35.3	32.8	31.5	(5.2)
Debt/GDP (%)	31.3	30.4	27.8	26.0	25.2	(5.0)

Sources: Ontario Ministry of Finance.

- (1) Prepared on the basis of modified accrual and consolidation accounting.
- (2) Figures for fiscal 1997-98 and 1998-99 have been restated to reflect the change from Provincial Purpose Debt to Net Provincial Debt. Net Provincial Debt represents total Liabilities less Financial Assets.
- (3) Fiscal 2000-01 has been restated to reflect the accounting changes. See "3. Public Finance — (1) Financial Reporting — Accounting Changes".

CONSOLIDATED DEBT OF THE ONTARIO PUBLIC SECTOR

	As at March 31,					Average Annual Rate of Growth %
	1998 ⁽³⁾	1999	2000	Restated ⁽⁴⁾ 2001	2002	
	(in millions unless otherwise indicated)					
Consolidated Debt ⁽¹⁾⁽²⁾	\$149,517	\$151,803	\$151,628	\$152,784	\$151,152	0.4
Consolidated Debt per Capita	13,292	13,331	13,153	13,061	12,791	(1.0)
Consolidated Debt/Personal Income (%)	51.6	50.1	47.0	44.5	42.8	(4.6)
Consolidated Debt/GDP (%)	41.5	40.2	37.1	35.3	34.3	(4.7)

Sources: Ontario Ministry of Finance.

- (1) Prepared on the basis of modified accrual and consolidation accounting.
- (2) Excludes bank loan, Ontario Electricity Financial Corporation early retirements and the local government sector's sinking funds and own holdings. Substantially all of the foreign exchange exposure on Provincial Purpose Debt issued has been hedged by entering into forward rate and currency exchange agreements. The foreign currency debt that has been hedged is translated into the Canadian Dollar equivalent using the rates of exchange established by the terms of the agreements. Other foreign currency debt is translated to Canadian dollars at year-end rates of exchange.
- (3) Figures for fiscal 1997-98 and 1998-99 have been restated to reflect the change from Provincial Purpose Debt to Net Provincial Debt.
- (4) Fiscal 2000-01 has been restated to reflect the accounting changes. See "3. Public Finance — (1) Financial Reporting — Accounting Changes".

THE CANADIAN DOLLAR

Recent high and low exchange rates for the Canadian dollar in terms of United States cents are as follows:

	1997	1998	1999	2000	2001	Jan 1 - Dec 6 2002
High	74.93	71.23	69.16	69.02	66.95	66.18
Low	69.45	63.11	64.62	64.84	62.42	61.99

Source: Bank of Canada.

(6) Financial Tables

I. Summary of Net Provincial Debt⁽¹⁾

	As at March 31,				
	1998	1999	2000	Restated ⁽²⁾ 2001	2002
			(in millions)		
Provincial Purpose					
Non-Public Debt					
Minister of Finance of Canada:					
Canada Pension Plan	\$ 11,358	\$ 10,487	\$ 10,369	\$ 10,442	\$ 10,063
Ontario Teachers' Pension Fund	13,822	13,213	12,252	11,535	11,043
Ontario Municipal Employees					
Retirement Fund (OMERS)	697	666	622	569	502
Public Service Pension Fund	3,681	3,604	3,535	3,446	3,331
Ontario Public Service Employees'					
Union (OPSEU) Pension Fund	1,749	1,712	1,679	1,637	1,582
Other	1,346	1,305	1,275	1,235	1,195
	<u>\$ 32,653</u>	<u>\$ 30,987</u>	<u>\$ 29,732</u>	<u>\$ 28,864</u>	<u>\$ 27,716</u>
Publicly Held Debt					
Debentures and Bonds ⁽²⁾	\$ 68,654	\$ 72,924	\$ 73,007	\$ 73,726	\$ 76,949
Treasury Bills	675	950	3,002	\$ 2,680	\$ 2,118
U.S. Commercial Paper ⁽²⁾	—	272	396	523	809
	<u>\$ 69,329</u>	<u>\$ 74,146</u>	<u>\$ 76,405</u>	<u>\$ 76,929</u>	<u>\$ 79,876</u>
Debt Issued for Provincial Purposes	<u>\$101,982</u>	<u>\$105,133</u>	<u>\$106,137</u>	<u>\$105,793</u>	<u>\$107,592</u>
Debt Issued for Investment in					
Electricity Sector	\$ —	\$ —	\$ 8,885	\$ 8,885	\$ 8,885
Province of Ontario Savings Office	2,245	2,517	2,812	2,482	2,438
Other Liabilities ⁽³⁾	21,995	19,237	19,403	17,786	14,661
Total Liabilities for Provincial Purposes ..	126,222	126,887	137,237	134,946	133,576
Less: Financial Assets	13,487	12,150	23,522	22,466	21,540
Net Provincial Debt	<u>\$112,735</u>	<u>\$114,737</u>	<u>\$113,715</u>	<u>\$112,480</u>	<u>\$112,036</u>

Source: Ontario Ministry of Finance

(1) Prepared on the basis of modified accrual and consolidation accounting.

(2) Fiscal 2000-01 has been restated to reflect the accounting changes. See "3. Public Finance — (1) Financial Reporting — Accounting Changes".

(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(4) Other Liabilities include Accounts Payable and Accrued Liabilities and Pensions.

II. Summary of Ontario Electricity Financial Corporation (“OEFC”) Purpose Debt

	As at March 31,				
	1998	1999	2000	2001	2002
	(in millions)				
OEFC Purposes ⁽¹⁾					
Canada Pension Plan.....	\$2,748	\$2,748	\$2,748	\$ 2,267	\$ 1,881
Public Market ⁽²⁾	137	1,500	3,454	6,358	7,340
Treasury Bills.....	—	—	2,661	2,134	2,990
U.S. Commercial Paper ⁽²⁾	—	—	737	436	758
Overnight loan from the Province to OEFC ...	—	—	47	—	248
Total OEFC Purpose Debt	<u>\$2,885</u>	<u>\$4,248</u>	<u>\$9,647</u>	<u>\$11,195</u>	<u>\$13,217</u>

Source: Ontario Ministry of Finance

- (1) Proceeds of this debt have been advanced to OEFC in exchange for bonds with like terms and conditions.
- (2) Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the agreements. Other foreign currency debt is translated to Canadian dollars at year-end rates of exchange.

Risk Management and Derivative Financial Instruments

The Province employs various risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. A variety of strategies are used, including the use of derivative financial instruments (“derivatives”).

Derivatives are financial contracts, the value of which is derived from underlying financial instruments. The Province uses derivatives for the purpose of hedging and minimizing interest costs. Hedges are created primarily through swaps, which are legal arrangements under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows the Province to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange or currency risk is the risk of debt servicing costs and principal payments varying due to fluctuations in foreign exchange rates. To minimize currency risk, the Province uses derivative contracts to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign exchange exposure up to 5 per cent of Debt Issued for Provincial Purposes, Debt Issued for Investment in Electricity Sector and deposits with the Province of Ontario Savings Office. At year-end, 1.6 per cent (2001, 1.7 per cent) of this debt was unhedged, with most of the currency exposure to U.S. dollars. A one cent increase in the U.S. dollar versus the Canadian dollar would result in an increase of Public Debt Interest expense by \$5 million.

Interest rate reset risk is the sum of floating rate exposure, net of liquid reserves, and fixed rate debt maturing within the next 12-month period as a percentage of Debt Issued for Provincial Purposes, Debt Issued for Investment in the Electricity Sector and deposits with the Province of Ontario Savings Office. The Province’s current policy allows interest rate resetting risk to reach a maximum of 25 per cent of the above liabilities. The Province creates or reduces its exposure to interest rate changes by issuing or retiring short term debt, or by entering into or closing out derivative positions. As at March 31, 2002, interest rate resetting exposure was 12.5 per cent (2001, 9.7 per cent). A one per cent (100 basis points) increase in interest rates would result in an increase of Public Debt Interest expense by \$80 million.

Liquidity risk is the risk that the Province will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Province maintains liquid reserves, i.e. cash and temporary investments, at levels that will meet future cash requirements and will give the Province flexibility in the

timing of issuing debt. In addition, the Province has short-term note programs as alternative sources of liquidity.

The table below presents a maturity schedule of the Province's derivatives by type, outstanding at March 31, 2002, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit or market risk. Notional amounts are not representative of actual cash flows.

DERIVATIVE PORTFOLIO NOTIONAL VALUE

As at March 31,

<u>Maturity in Fiscal Year</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>	<u>2002 Total</u>	<u>2001 Total</u>
	(in millions)								
Swaps:									
Interest Rate	\$10,068	\$2,546	\$3,928	\$ 9,871	\$1,987	\$11,441	\$1,404	\$41,245	\$40,357
Cross Currency	8,443	3,699	4,174	6,889	1,540	4,442	—	29,187	33,445
Forward Foreign Exchange Contracts	1,252	—	—	—	—	—	—	1,252	1,090
Futures	171	—	—	—	—	—	—	171	769
TOTAL	<u>\$19,934</u>	<u>\$6,245</u>	<u>\$8,102</u>	<u>\$16,760</u>	<u>\$3,527</u>	<u>\$15,883</u>	<u>\$1,404</u>	<u>\$71,855</u>	<u>\$75,661</u>

(1) Other includes forward foreign exchange contracts, futures, spreadlocks, foreign exchange and bonds options and forward rate agreements.

Derivatives introduce credit risk, which is the risk of counterparty defaulting on contractual derivative obligations in which the Province has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2002.

CREDIT RISK EXPOSURE

As at March 31,

	<u>2001</u>	<u>2002</u>
	(in millions)	
Gross Credit Risk Exposure ⁽¹⁾	\$ 4,899	\$ 4,156
Less: Netting Agreements ⁽²⁾	<u>(2,002)</u>	<u>(2,146)</u>
Net Credit Risk Exposure⁽³⁾	<u>\$ 2,897</u>	<u>\$ 2,010</u>

(1) Gross credit risk exposure includes credit exposure on swaps, options, futures, forward rate agreements and forward foreign exchange agreements.

(2) Contracts do not have coterminous settlement dates; however, master agreements provide for close out netting.

(3) Total exposure to counterparties with positive exposure (meaning that counterparties owed the Province) was \$4,156 million (2001, \$4,899 million) and the total negative exposure to counterparties (meaning that the Province owed the counterparties) was \$2,146 million (2001, \$2,002 million) for a total unrealized net asset of \$2,010 million (2001, \$2,897 million).

The Province manages its credit risk exposure from derivatives by entering into contractual agreements ("master agreements") that provide for termination netting and, if applicable, payment netting with virtually all of its counterparties. The gross credit risk exposure represents the amount of loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time, and the contractual netting provisions could not be exercised. The net credit risk exposure includes the mitigating impact of these netting provisions. The Province also manages its credit risk exposure by regularly monitoring compliance with credit and risk limits. The minimum credit rating for authorized counterparties is A-from Standard & Poor's or A3 from Moody's Investors Service.

PUBLIC ACCOUNTS, 2001-2002 — VOLUME 1

III. OUTSTANDING DEBT ISSUED

At as March 31, 2002

Date of Maturity	Date of Issue	Series	Interest Rate %	Outstanding \$	Reference
Debt Issued for Provincial Purposes					
PAYABLE IN CANADA IN CANADIAN DOLLARS					
NON-PUBLIC DEBT					
To Minister of Finance of Canada					
Canada Pension Plan Investment Fund:					
Year ending March 31					
2003	1983	CPP	12.01 to 16.53	1,235,751,000	
2004	1984	CPP	10.92 to 12.14	1,200,847,000	
2005	1985	CPP	12.08 to 14.06	1,133,182,000	
2006	1986	CPP	10.58 to 12.57	1,213,502,000	
2007	1987	CPP	9.36 to 10.17	232,269,000	
2008	1988	CPP	10.79	42,300,000	
2012	1992	CPP	9.81 to 10.04	987,249,000	
2013	1993	CPP	9.17 to 9.45	700,137,000	
2019	1999	CPP	5.81 to 5.84	45,270,000	
2020	1999	CPP	5.50 to 6.91	869,889,000	
2021	2000	CPP	6.33 to 6.67	609,834,000	
2022	2001	CPP	6.17 to 6.47	389,955,000	
				8,660,185,000	(5)
To Ontario Teacher's Pension Fund:					
Year ending March 31					
2003	1978-1991	TI	9.82 to 10.53	655,570,855	
2004	1982-1984	TI	12.88 to 13.34	900,000,000	
2005	1984-1991	TI	12.60 to 13.27	821,000,000	
2006	1985-1991	TI	11.07 to 14.40	1,070,000,000	
2007	1985-1991	TI	10.26 to 13.01	1,185,000,000	
2008	1983-1991	TI	10.15 to 15.38	1,945,000,000	
2009	1986-1991	TI	10.98 to 11.50	1,465,000,000	
2010	1986-1991	TI	10.22 to 11.24	1,236,000,000	
2011	1987	TI	10.11 to 10.32	560,000,000	
2012	1988-1991	TI	10.68 to 11.24	580,000,000	
2013	1989-1991	TI	11.06 to 11.31	625,000,000	
				11,042,570,855	(1)
To Ontario Municipal Employees Retirement Fund:					
Year ending March 31					
2003	1996	MER	8.02 to 10.28	235,259,824	
2004	1996	MER	9.45	163,695,000	
2007	1996	MER	9.77	102,675,000	
				501,629,824	(1) (38)
To Colleges of Applied Arts & Technology Pension Plan:					
Year ending March 31					
2003	1996	CAAT	8.02 to 10.28	30,540,176	
2004	1996	CAAT	9.45	24,255,000	
2007	1996	CAAT	9.77	18,625,000	
				73,420,176	(1) (38)

PUBLIC ACCOUNTS, 2001-2002 — VOLUME 1

III. OUTSTANDING DEBT ISSUED — Continued

<u>Date of Maturity</u>	<u>Date of Issue</u>	<u>Series</u>	<u>Interest Rate</u> %	<u>Outstanding</u> \$	<u>Reference</u>
To Ryerson Retirement Pension Plan:					
Year ending March 31					
2003	1995	RRPF	14.65	926,036	
2004	1995	RRPF	12.78	1,081,061	
2005	1995	RRPF	13.33	1,229,597	
2006	1995	RRPF	11.16	1,464,199	
2007	1995	RRPF	9.64	1,618,485	
				<u>6,319,378</u>	(1)
To Canada Mortgage and Housing Corporation:					
Year ending March 31					
2000-2003	1971 to 1978	CMHC	5.375	45,171	
2000-2004	1974 to 1975	CMHC	5.125 to 7.875	156,150	
2000-2005	1971 to 1975	CMHC	5.125 to 8.625	575,867	
2000-2006	1973 to 1976	CMHC	5.125 to 10.375	727,377	
2000-2007	1974 to 1977	CMHC	5.375 to 10.375	2,418,139	
2000-2010	1970 to 1975	CMHC	5.75 to 6.875	1,746,142	
2000-2011	1971 to 1976	CMHC	5.375 to 8.25	3,080,533	
2000-2012	1972	CMHC	6.875 to 8.25	3,978,011	
2000-2013	1973	CMHC	7.25 to 8.25	745,158	
2000-2014	1974	CMHC	6.125 to 8.25	12,039,589	
2000-2015	1975	CMHC	7.50 to 10.375	7,510,952	
2000-2016	1976	CMHC	5.375 to 10.75	15,995,278	
2000-2017	1977	CMHC	7.625 to 10.75	11,869,688	
2000-2018	1977 to 1978	CMHC	7.625 to 13.00	30,437,838	
2000-2019	1977 to 1980	CMHC	7.625 to 15.25	34,604,779	
2000-2020	1978 to 1980	CMHC	7.625 to 15.75	55,380,456	
2000-2021	1981	CMHC	9.50 to 15.75	26,625,601	
2000-2022	1982	CMHC	9.75 to 15.75	1,052,865	
				<u>208,989,594</u>	(2) (7)
To Public Service Pension Fund:					
Year ending March 31					
2003	1997	OPB	9.81 to 16.95	64,277,498	
2004	1997	OPB	9.50 to 14.65	134,530,331	
2005	1997	OPB	9.82 to 12.78	160,431,479	
2006	1997	OPB	11.05 to 13.33	172,212,515	
2007	1997	OPB	11.16 to 13.33	188,766,466	
2008	1997	OPB	15.38	218,362,903	
2009	1997	OPB	12.79	264,512,886	
2010	1997	OPB	12.88	273,669,452	
2011	1997	OPB	13.33	282,994,558	
2012	1997	OPB	11.55	336,229,108	
2013	1997	OPB	10.38	374,479,804	
2014	1997	OPB	11.10	409,677,031	
2015	1997	OPB	11.19	450,938,707	
				<u>3,331,082,738</u>	(1) (23) (65)

PUBLIC ACCOUNTS, 2001-2002 — VOLUME 1

III. OUTSTANDING DEBT ISSUED — Continued

<u>Date of Maturity</u>	<u>Date of Issue</u>	<u>Series</u>	<u>Interest Rate</u> %	<u>Outstanding</u> \$	<u>Reference</u>
To Public Service Employees' Union Pension Fund:					
Year ending March 31					
2003	1997	OPPT	9.81 to 16.91	30,535,322	
2004	1997	OPPT	9.50 to 14.65	63,909,254	
2005	1997	OPPT	9.82 to 12.78	76,213,714	
2006	1997	OPPT	11.05 to 13.33	81,810,350	
2007	1997	OPPT	11.16 to 13.33	89,674,381	
2008	1997	OPPT	15.38	103,734,305	
2009	1997	OPPT	12.79	125,658,067	
2010	1997	OPPT	12.88	130,007,936	
2011	1997	OPPT	13.33	134,437,870	
2012	1997	OPPT	11.55	159,727,189	
2013	1997	OPPT	10.38	177,898,359	
2014	1997	OPPT	11.10	194,618,964	
2015	1997	OPPT	11.19	214,220,513	
				<u>1,582,446,224</u>	(1) (23) (65)
To Ontario Housing Corporation					
Year ending March 31					
2010	1994	OHC	8.264 to 9.215	422,388,939	
2011	1994 to 1995	OHC	8.242 to 9.898	694,880,091	
2012	1995	OHC	9.655	33,382,267	
2013	1995	OHC	9.655	6,561,000	
				<u>1,157,212,297</u>	(1) (2)
TOTAL NON-PUBLIC DEBT ISSUED				<u>26,563,856,086</u>	
PAYABLE IN CANADA IN CANADIAN DOLLARS					
PUBLICLY HELD DEBT					
Apr. 22, 2003	Dec. 29, 1992	HG	8.75	750,000,000	(1)
July 13, 2003	Jan. 13, 2000	NB	Floating	100,000,000	(8)
Sept. 16, 2003	Sept. 16, 1998	MA	Floating	100,000,000	(1) (73)
June 2, 2004	Feb. 3, 2000	MG	4.875	200,000,000	(1) (97)
June 4, 2004	Oct. 4, 2001	DMTN20	Floating	75,500,000	(1) (102)
June 11, 2004	Oct. 11, 2001	DMTN21	Floating	50,000,000	(1) (100)
Sept. 15, 2004	June 21, 1994	HU	9.00	1,450,000,000	(1)
Dec. 2, 2004	Oct. 28, 1999	MV	6.40	107,000,000	(34)
Mar. 1, 2005	Mar. 1, 2002	DMTN38	Floating	50,000,000	(115)
Mar. 8, 2005	Dec. 10, 1999	MZ	6.25	1,250,000,000	(1) (106)
May 13, 2005	May 13, 1999	ML	5.85	50,000,000	(44)
Dec. 1, 2005	Sept. 13, 1995	JP	8.25	1,000,000,000	(1)
Feb. 1, 2006	Feb. 1, 1999	MJ	5.00	90,000,000	(1)
Feb. 1, 2006	Feb. 1, 2002	DMTN34	Floating	500,000,000	(1) (105)
Feb. 20, 2006	Feb. 20, 2006	JZ	0.00-17.25	107,000,000	(1) (40)
March 8, 2006	Oct. 26, 2000	NL	5.90	1,000,000,000	(1) (107)
July 20, 2006	July 20, 2001	DMTN6	Step-Up	45,000,000	(3)
July 24, 2006	July 24, 1996	KE	7.75	600,000,000	(1) (39)
Aug. 21, 2006	Aug. 21, 2001	DMTN9	Step-Up	25,000,000	(22)
Sept. 5, 2006	Sept. 5, 2001	DMTN12	Step-Up	25,000,000	(26)
Sept. 11, 2006	Sept. 11, 2001	DMTN13	Step-Up	30,000,000	(36)
Sept. 11, 2006	Sept. 11, 2001	DMTN14	6.25	125,000,000	(32)
Nov. 28, 2006	Nov. 28, 2001	DMTN25	Step-Up	25,000,000	(94)
Dec. 12, 2006	Dec. 12, 2001	DMTN27	Step-Up	25,000,000	(88)
Jan. 12, 2007	Jan. 12, 1995	JF	9.50	132,950,000	(1) (21)
Feb. 12, 2007	Feb. 12, 2002	DMTN35	Step-Up	50,000,000	(108)
Feb. 20, 2007	Nov. 20, 2001	DMTN24	Floating	100,000,000	(95)
Mar. 1, 2007	Mar. 1, 2002	DMTN36	Step-Up	35,000,000	(113)
Mar. 8, 2007	Sept. 11, 2001	DMTN16	5.20	1,000,000,000	(1) (97)

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			%	\$	
Mar. 19, 2007	Mar. 19, 2002	DMTN41	Step-Up	25,000,000	(6)
June 4, 2007	Dec. 4, 2001	DMTN28	Step-Up	30,000,000	(72)
June 18, 2007	Dec. 18, 2001	DMTN31	Step-Up	33,000,000	(111)
July 21, 2007	Jan. 21, 2002	DMTN32	Step-Up	35,000,000	(112)
Aug. 27, 2007	Aug. 27, 2001	DMTN11	Step-Up	25,000,000	(42)
Sept. 12, 2007	Sept. 12, 1997	LE	6.125	1,160,000,000	(1) (39) (49)
Dec. 10, 2007	Dec. 10, 1997	LH	5.875	66,475,000	(1) (109)
June 3, 2008	June 3, 1999	MN	Floating	50,000,000	(46)
Jul. 15, 2008	Feb. 6, 1998	LM	5.50	75,000,000	(1)
Sept. 4, 2008	Sept. 4, 1998	LW	6.30	50,000,000	(1)
Sept. 17, 2008	Sept. 17, 2001	DMTN15	Step-Up	38,000,000	(52)
Oct. 22, 2008	Oct. 22, 2001	DMTN22	Step-Up	25,000,000	(99)
Dec. 1, 2008	Mar. 5, 2002	DMTN39	Floating	150,000,000	(116)
Dec. 1, 2008	Sept. 15, 1998	LZ	5.70	1,550,000,000	(1) (97)
Dec. 5, 2008	Dec. 5, 2001	DMTN30	Floating	50,000,000	(110)
Mar. 18, 2009	Mar. 18, 2002	DMTN40	Step-Up	30,000,000	(117)
Apr. 1, 2009	Apr. 9, 1998	LR	6.15	205,000,000	(87)
July 27, 2009	July 27, 1999	MR	5.75-6.50	40,000,000	(25)
Sept. 4, 2009	Sept. 4, 1997	LD	6.00-7.625	75,000,000	(71)
Oct. 3, 2009	Oct. 3, 2001	DMTN19	Step-Up	33,000,000	(103)
Nov. 19, 2009	Mar. 19, 1999	MU	6.20	1,000,000,000	(1)
Mar. 4, 2010	Mar. 4, 2002	DMTN37	Step-Up	25,000,000	(114)
May 30, 2010	May 30, 2001	DMTN4	Step-Up	50,000,000	(59)
June 28, 2010	June 28, 2001	DMTN5	Step-Up	30,000,000	(68)
July 30, 2010	July 30, 2001	DMTN7	Step-Up	25,000,000	(70)
Nov. 19, 2010	Nov. 24, 2000	NK	6.10	1,620,000,000	(1) (74)
Sept. 28, 2011	Sept. 28, 2011	DMTN17	Step-Up	40,000,000	(104)
Oct. 5, 2011	Oct. 5, 2001	DMTN18	Step-Up	40,000,000	(101)
Oct. 30, 2011	Oct. 30, 2001	DMTN23	Step-Up	35,000,000	(16)
Nov. 29, 2011	Nov. 29, 2001	DMTN26	Step-Up	50,000,000	(89)
Dec. 2, 2011	Feb. 27, 2002	DMTN8	6.10	500,000,000	(1) (60)
Sept. 1, 2015	Sept. 1, 2000	DMTN1	6.25	34,000,000	(1) (45)
Sept. 4, 2020	Sept. 4, 1998	LY	6.30	50,000,000	
July 13, 2022	July 13, 1992	HC	9.50	1,685,720,000	(1) (53)
Sept. 8, 2023	Sept. 8, 1993	HP	8.10	1,350,000,000	(1)
June 2, 2025	Dec. 20, 1994	JE	9.50	500,000,000	(1)
Dec. 2, 2025	Oct. 5, 1995	JQ	8.50	1,000,000,000	(1)
Feb. 6, 2026	Feb. 6, 1996	JY	8.00	12,500,000	(1)
June 2, 2026	Dec. 21, 1995	JU	8.00	1,000,000,000	(1)
Dec. 2, 2026	Feb. 13, 1997	KR	8.00	386,500,000	(1) (18)
Dec. 2, 2026	Jan. 20, 1999	MH	7.00	124,584,000	(1) (90)
Feb. 3, 2027	Aug. 5, 1997	KN	7.50	62,600,000	
Feb. 3, 2027	Aug. 5, 1997	KT	6.95	34,275,000	
Feb. 3, 2027	Apr. 1 1997	KY	7.50	11,549,000	(1)
Feb. 3, 2027	Dec. 4, 1998	LA	7.50	5,507,000	(1)
Feb. 4, 2027	Feb. 4, 1998	KQ	7.375	990,000	
June 2, 2027	Oct. 17, 1996	KJ	7.60	4,209,400,000	(1) (75)
Aug. 25, 2028	Feb. 25, 1998	LQ	6.25	2,020,000	(1)
Mar. 8, 2029	Jan. 8, 1998	LK	6.50	4,677,000,000	(1)
Jan. 13, 2031	Sept. 8, 1995	JN	9.50	125,000,000	(1)
June 2, 2031	Mar. 27, 2000	NF	6.20	1,000,000,000	(1)
Nov. 3, 2034	Nov. 3, 1994	HY	9.75	280,000,000	(1)

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			%	\$	
Jan. 10, 1995 to					
Jan. 10, 2035	Nov. 30, 1994	HZ	9.4688	2,315,904	(1) (24) (96)
"	"	JA	9.4688	18,177,469	(1) (24) (82)
"	"	JB	9.4688	8,482,324	(1) (24)
"	"	JC	9.4688	4,764,354	(1) (24)
"	"	JD	9.4688	3,171,134	(1) (24)
Feb. 8, 2035	Feb. 8, 1995	JJ	9.875	73,000,000	(19)
June 20, 2036	June 20, 1996	KC	8.25	211,000,000	(1)
June 20, 2038	Sept. 16, 1996	KG	8.10	120,000,000	(1)
July 13, 2038	July 29, 1998	LS	5.75	50,000,000	(1)
Aug. 25, 2038	Aug. 17, 1998	LT	6.00	100,000,000	(1)
July 13, 2039	Feb. 2, 1999	MK	5.65	300,000,000	(1) (77)
Dec. 2, 2039	Feb. 25, 2000	NE	5.70	553,700,000	(1) (78)
Dec. 2, 2041	Aug. 15, 2001	DMTN10	6.20	200,000,000	(1)
March 8, 2042	Dec. 4, 2001	DMTN29	6.00	41,000,000	(1)
June 2, 2042	Jan. 18, 2002	DMTN33	6.00	50,000,000	(1)
June 10, 2045	May 25, 1995	JL	8.44	35,531,176	(1) (41)
Mar. 1, 2045	Mar. 1, 1995	JK	9.50	150,000,000	(20)
				<u>34,730,712,361</u>	
ONTARIO SAVINGS BONDS					
March 1, 2000	March 1, 1995	Annual	Variable	3,948,700	(29)
March 1, 2000	March 1, 1995	Compound	Variable	6,605,450	(29)
June 21, 2000	June 21, 1997	Annual	Fixed	619,200	(29)
June 21, 2000	June 21, 1997	Compound	Fixed	333,800	(29)
June 21, 2001	June 21, 1996	Annual	Step-Up	2,264,300	(29)
June 21, 2001	June 21, 1996	Compound	Step-up	5,904,400	(29)
June 21, 2001	June 21, 1996	Annual	Variable	952,900	(29)
June 21, 2001	June 21, 1996	Compound	Variable	1,024,600	(29)
June 21, 2001	June 21, 1998	Annual	Fixed	809,000	(29)
June 21, 2001	June 21, 1998	Compound	Fixed	1,056,000	(29)
June 21, 2002	June 21, 1999	Annual	Fixed	164,087,100	(30) (62)
June 21, 2002	June 21, 1999	Compound	Fixed	142,842,300	(30) (62)
June 21, 2003	June 21, 1999	Compound	Step-Up	251,425,300	(62) (92)
June 21, 2003	June 21, 1998	Annual	Step-up	270,634,500	(62) (92)
June 21, 2003	June 21, 2000	Annual	Fixed	436,581,500	(30) (62)
June 21, 2003	June 21, 2000	Compound	Fixed	356,804,400	(30) (62) (92)
June 21, 2004	June 21, 1997	Annual	Step-up	446,472,900	(62) (66)
June 21, 2004	June 21, 1997	Compound	Step-up	365,084,300	(62) (66)
June 21, 2004	June 21, 1997	Annual	Variable	13,517,300	(62) (67)
June 21, 2004	June 21, 1997	Compound	Variable	11,979,500	(62) (67)
June 21, 2004	June 21, 1999	Compound	Step-up	249,434,300	(62) (28)
June 21, 2004	June 21, 1999	Annual	Step-up	238,368,500	(62) (28)
June 21, 2004	June 21, 2001	Annual	Fixed	707,567,800	(30) (62)
June 21, 2004	June 21, 2001	Compound	Fixed	564,416,100	(30) (62)
June 21, 2005	June 21, 1998	Annual	Variable	102,744,400	(62) (81)
June 21, 2005	June 21, 1998	Compound	Variable	100,422,900	(62) (81)
June 21, 2005	June 21, 2000	Annual	Step-up	700,401,000	(62) (48)
June 21, 2005	June 21, 2000	Compound	Step-up	613,105,300	(62) (48)
June 21, 2006	June 21, 1999	Compound	Variable	103,501,100	(62) (81)
June 21, 2006	June 21, 1999	Annual	Variable	87,111,100	(62) (81)
June 21, 2006	June 21, 2001	Annual	Step-Up	874,195,300	(62) (63)
June 21, 2006	June 21, 2001	Compound	Step-Up	1,101,935,400	(62) (63)
June 21, 2007	June 21, 2000	Compound	Variable	179,459,800	(62) (56)

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			%	\$	
June 21, 2007	June 21, 2000	Annual	Variable	175,055,100	(62) (56)
June 21, 2008	June 21, 2001	Annual	Variable	248,987,200	(62) (64)
June 21, 2008	June 21, 2001	Compound	Variable	200,865,300	(62) (64)
				<u>8,730,518,050</u>	
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS				<u>70,025,086,497</u>	(1)
GLOBAL MARKET PAYABLE IN CANADIAN DOLLARS					
Mar. 11, 2003	Mar. 11, 1993	HK	8.00	1,500,000,000	(97)
Dec. 8, 2003	July 20, 1993	HM	7.75	1,250,000,000	
Jan. 24, 2005	Jan. 24, 2000	NC	Floating	500,000,000	(50)
Jan. 19, 2006	Jan. 19, 1996	JV	7.50	1,250,000,000	(39)
Feb. 7, 2024	Feb. 7, 1994	HS	7.50	1,250,000,000	
TOTAL PAYABLE IN CANADIAN DOLLARS				<u>5,750,000,000</u>	(1)
PAYABLE IN EUROPE IN CANADIAN DOLLARS					
Nov. 27, 2003	Nov. 27, 1998	ME	5.00	250,000,000	
Sept. 27, 2005	Sept. 27, 1993	HQ	7.25	500,000,000	
Dec. 1, 2005	Dec. 1, 1999	EMTN045	6.50	375,000,000	(31)
Aug. 9, 2006	Aug. 9, 2001	EMTN049	5.75	100,000,000	
Dec. 31, 2007	Jan. 16, 2002	EMTN051	5.125	250,000,000	
Jan. 27, 2009	Jan. 27, 1999	EMTN042	5.00	350,000,000	(58)
Nov. 30, 2011	Nov. 30, 2001	EMTN050	5.25	300,000,000	
July 13, 2034	July 13, 1994	EMTN005	9.40	300,000,000	
TOTAL PAYABLE IN EUROPE IN CANADIAN DOLLARS				<u>2,425,000,000</u>	(1)
PAYABLE IN THE UNITED STATES IN CANADIAN DOLLARS					
Feb. 18, 2013	Feb. 18, 1993	HJ	9.24	250,000,000	
TOTAL PAYABLE IN THE UNITED STATES IN CANADIAN DOLLARS				<u>250,000,000</u>	(1)
PAYABLE IN THE UNITED STATES IN U.S. DOLLARS					
June 30, 2005	Mar. 13, 2002	NP	4.20	250,000,000	
TOTAL PAYABLE IN THE UNITED STATES IN U.S. DOLLARS				<u>250,000,000</u>	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.5885				<u>397,125,000</u>	(10)
GLOBAL MARKET PAYABLE IN U.S. DOLLARS					
June 4, 2002	June 4, 1992	HB	7.75	2,000,000,000	
Jan. 27, 2003	Jan. 27, 1993	HH	7.375	3,000,000,000	
June 22, 2004	June 22, 1994	HV	7.625	1,000,000,000	
Aug. 4, 2005	Aug. 4, 1995	JM	7.00	1,250,000,000	
Feb. 21, 2006	Feb. 21, 1996	KA	6.00	2,050,000,000	(86)
Oct. 1, 2008	Oct. 1, 1998	MB	5.50	1,750,000,000	(85)
TOTAL PAYABLE IN U.S. DOLLARS				<u>11,050,000,000</u>	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.36613				<u>15,095,696,133</u>	(43)
PAYABLE IN CANADA IN U.S. DOLLARS					
Apr. 24, 2005	Apr. 24, 1995	DMTN1	Floating	100,000,000	
May 1, 2005	May 1, 1995	DMTN2	Floating	100,000,000	
May 9, 2005	May 9, 1995	DMTN3	Floating	100,000,000	
May 16, 2005	May 16, 1995	DMTN4	Floating	100,000,000	
TOTAL PAYABLE IN CANADA IN U.S. DOLLARS				<u>400,000,000</u>	(35)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.36625				<u>546,500,000</u>	(9)
PAYABLE IN EUROPE IN U.S. DOLLARS					
June 12, 2003	Jan. 19, 2001	EMTN47	Floating	100,000,000	
TOTAL PAYABLE IN EUROPE IN U.S. DOLLARS				<u>100,000,000</u>	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.5260				<u>152,600,000</u>	(11)

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			%	\$	
PAYABLE IN JAPAN IN JAPANESE YEN					
Jan. 28, 2003	Jan. 28, 1993	YL001	5.50	10,000,000,000	(1)
Mar. 24, 2003	Mar. 22, 1993	YL002	4.80	7,000,000,000	(1)
Aug. 25, 2003	Aug. 25, 1993	YL003	Floating	10,000,000,000	(1) (4)
Sept. 22, 2003	Sept. 22, 1993	YL004	5.20	10,000,000,000	(1)
July 6, 2004	July 6, 1994	YL005	4.40	10,000,000,000	(1)
July 21, 2004	July 21, 1994	YL006	4.53	10,000,000,000	(1)
Sept. 8, 2004	Sept. 7, 1994	YL008	4.71	7,000,000,000	(1)
Oct. 25, 2004	Oct. 25, 1994	YL009	5.00	10,000,000,000	(1)
Dec. 20, 2004	Dec. 20, 1994	YL010	4.80	5,000,000,000	(1)
Aug. 31, 2005	Aug. 31, 1995	YL011	3.10	25,000,000,000	(1)
Mar. 16, 2007	Mar. 18, 1997	KU	3.10	5,000,000,000	(1) (54)
Mar. 16, 2007	Mar. 18, 1997	KV	3.25	15,000,000,000	(1) (55)
July 18, 2007	July 18, 1997	YL012	2.615	10,000,000,000	(1)
Nov. 12, 2009	Nov. 12, 1999	YL014	2.00	10,000,000,000	(1)
TOTAL PAYABLE IN JAPAN IN JAPANESE YEN				144,000,000,000	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$0.01254				1,805,815,201	(14)
GLOBAL MARKET PAYABLE IN JAPANESE YEN					
Jan. 25, 2010	Jan. 13, 2000	ND	1.875	50,000,000,000	
TOTAL PAYABLE IN JAPANESE YEN				50,000,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$0.01204				601,817,180	
PAYABLE IN EUROPE IN JAPANESE YEN					
Mar. 15, 2005	Mar. 15, 1995	EMTN015	6.00	2,000,000,000	(33)
Sept. 8, 2005	Mar. 23, 1998	EMTN037	6.21	10,000,000,000	
Sept. 19, 2005	Sept. 4, 1998	EMTN038	6.205	10,000,000,000	
Aug. 29, 2006	Aug. 29, 1996	EMTN021	4.28	10,000,000,000	(57)
Mar. 26, 2007	Apr. 3, 1997	EMTN033	3.20	10,000,000,000	(47)
June 13, 2007	June 13, 1997	EMTN034	3.58	10,000,000,000	(79)
Feb. 25, 2008	Feb. 25, 1998	EMTN036	2.60	7,100,000,000	(80)
Nov. 19, 2009	Nov. 24, 1999	EMTN046	2.00	10,000,000,000	
TOTAL PAYABLE IN EUROPE IN JAPANESE YEN				69,100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$0.01270				877,724,744	(15)
PAYABLE IN EUROPE IN EUROS					
Jan. 13, 2004	Jan. 13, 1994	HR	6.25	735,825,710	(119)
Sept. 27, 2004	Sept. 27, 1994	HX	7.75	181,512,086	(120)
Feb. 17, 2006	Feb. 17, 1999	EMTN043	3.50	27,000,000	(1)
July 29, 2008	July 29, 1996	KD	6.875	457,347,051	(121)
July 21, 2009	July 21, 1997	EMTN035	5.875	457,347,051	(118)
TOTAL PAYABLE IN EUROPE IN EUROS				1,859,031,898	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.78117				3,311,260,234	(27)
GLOBAL MARKET PAYABLE IN NEW ZEALAND DOLLARS					
Dec. 3, 2008	Dec. 3, 1998	MF	6.25	250,000,000	
TOTAL PAYABLE IN NEW ZEALAND DOLLARS				250,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$0.82770				206,925,000	(69)
PAYABLE IN EUROPE IN NORWEGIAN KRONER					
Dec. 29, 2004	Sept. 12, 1996	EMTN022	7.00	300,000,000	
TOTAL PAYABLE IN EUROPE IN NORWEGIAN KRONER				300,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$0.21235				63,704,048	(61)

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PAYABLE IN EUROPE IN POUNDS STERLING					
July 30, 2002	July 30, 1992	HD	9.375	200,000,000	
June 10, 2004	June 10, 1998	EMTN039	6.375	200,000,000	
TOTAL PAYABLE IN EUROPE IN POUNDS STERLING				400,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$2.30675				922,700,000	(12)
PAYABLE IN EUROPE IN SWISS FRANCS					
Jan. 27, 2003	Jan. 27, 1993	HF	6.25	400,000,000	
July 7, 2003	July 7, 1998	EMTN041	2.50	250,000,000	
TOTAL PAYABLE IN EUROPE IN SWISS FRANCS				650,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.055083				685,804,141	(13)
TOTAL DEBENTURES AND BONDS				76,553,902,092	
TREASURY BILLS				2,495,158,000	(84)
U.S. COMMERCIAL PAPER (in U.S. DOLLARS)				517,001,000	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.56509				809,151,713	(91)
TOTAL PUBLICLY HELD DEBT ISSUED				79,858,211,805	
TOTAL DEBT ISSUED FOR PROVINCIAL PURPOSES				106,422,067,891	(83)
DEBT ISSUED FOR INVESTMENT PURPOSES:					
ONTARIO POWER GENERATION INC				5,126,000,000	
HYDRO ONE INC				3,759,000,000	
TOTAL DEBT ISSUED FOR INVESTMENT PURPOSES				8,885,000,000	(122)

Debt Issued for Ontario Electricity Financial Corporation (OEFC)

PAYABLE IN CANADA IN CANADIAN DOLLARS					
NON-PUBLIC DEBT					
Canada Pension Plan Investment Fund:					
2007	1986	CPP	9.64	119,000,000	
2008	1988	CPP	9.13 to 9.72	388,715,000	
2009	1989	CPP	9.62 to 10.31	589,319,000	
2010	1990	CPP	9.61 to 10.31	650,712,000	
2021	2001	CPP	6.08	19,375,000	
2022	2002	CPP	6.26 to 6.29	114,000,000	
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS				1,881,121,000	(5)
PAYABLE IN CANADA IN CANADIAN DOLLARS PUBLICLY HELD DEBT					
Nov. 1, 2002	May 9, 2000	HC-NH	6.239	47,743,828	(17) (98)
June 2, 2004	Dec. 9, 1998	HC-MG	4.87	3,000,000,000	(76)
Mar. 8, 2006	Mar. 8, 2001	CDB-NLA	5.90	500,000,000	
Dec. 1, 2008	Jan. 22, 1999	HC-LZ	5.70	650,000,000	
Nov. 19, 2009	July 26, 2000	HC-MU	6.20	500,000,000	
Nov. 19, 2010	Sept. 1, 2000	HC-NK	6.10	500,000,000	
Mar. 15, 2011	Mar. 15, 2001	DMTN3	5.50-6.80	50,000,000	(37)
Dec. 2, 2011	July 20, 2001	DMTN8	6.10	500,000,000	
June 2, 2027	Feb. 4, 2000	HC-KJA	7.60	25,500,000	
Aug. 25, 2028	Apr. 6, 1999	HC-LQA	6.25	78,600,000	
June 2, 2031	Feb. 24, 2000	HC-NF	6.20	500,000,000	(51)
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS				6,351,843,828	
PAYABLE IN EUROPE IN CANADIAN DOLLARS					
Nov. 27, 2003	June 17, 1999	HC-ME	5.00	350,000,000	
Feb. 28, 2005	Feb. 28, 2001	EMTN-48	5.25	250,000,000	
TOTAL PAYABLE IN EUROPE IN CANADIAN DOLLARS				600,000,000	

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III. OUTSTANDING DEBT ISSUED — Continued

<u>Date of Maturity</u>	<u>Date of Issue</u>	<u>Series</u>	<u>Interest Rate</u> %	<u>Outstanding</u> \$	<u>Reference</u>
GLOBAL MARKET PAYABLE IN U.S. DOLLARS					
Oct. 1, 2008	Mar. 19, 2001	GLB-MBB	5.50	250,000,000	
TOTAL PAYABLE IN U.S. DOLLARS				<u>250,000,000</u>	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.550				<u>387,500,000</u>	(93)
TREASURY BILLS				<u>2,990,000,000</u>	
U.S. COMMERCIAL PAPER (in U.S. Dollars)				<u>474,000,000</u>	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.5994				<u>758,129,550</u>	
TOTAL DEBT ISSUED FOR OEFC				<u><u>12,968,594,378</u></u>	(123)

References:

1. Non-callable.
2. Debentures issued to the Ontario Housing Corporation are not negotiable and not transferable or assignable but are redeemable, in whole or in part, at the option of the Ontario Housing Corporation, on six months prior written notice.
3. Bonds are extendible at the option of the Province every six months starting July 20, 2003, to the final maturity date of July 20, 2006. Coupon interest is paid monthly at a rate of 5.35% in years 1-2, 5.90% in year 3, 6.50% in year 4 and 7.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.99%.
4. Interest payable is six-month Yen LIBOR.
5. Securities sold to the Canada Pension Plan Investment Fund are payable 20 years after their respective dates of issue, are not negotiable and not transferable or assignable but are redeemable in whole or in part before maturity at the option of the Minister of Finance of Canada, on six months' prior notice, when the Minister deems it necessary in order to meet the requirements of the Canada Pension Plan. In the case of redemption before maturity, the Ontario Securities are to be redeemed in the order in which they were issued and the amount of Ontario Securities to be redeemed at any time shall be proportionate to the amount of all securities then held to the credit of the said fund represented by Ontario Securities.
6. Bonds are extendible at the option of the Province on every coupon date starting March 19, 2004, to the final maturity date of March 19, 2007. Coupon interest is paid semi-annually at a rate of 4.20% in years 1-2, 4.75% in year 3, 5.75% in year 4 and 7.1% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligations on this debt to floating 3-month Canadian BA rate minus 0.09%.
7. The terms of these debentures require that equal payments be made each year until their maturity. Each payment consists of blended principal and interest.
8. Interest payable is three-month Canadian BA.
9. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.36625. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 8.64%.
10. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.5885. In addition, the

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III. OUTSTANDING DEBT ISSUED — Continued

Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a floating rate Canadian dollar 3-month BA rate minus 0.07%.

11. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.5260. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.85%.
12. The Province entered into currency exchange agreements that effectively converted these Pounds Sterling obligations to Canadian dollar obligations at an exchange rate of 2.30675. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.80%.
13. The Province entered into currency exchange agreements that effectively converted these Swiss franc obligations to Canadian dollar obligations at an exchange rate of 1.055083. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 8.75% on \$437 million and floating Canadian BA rate minus 0.025% on \$249 million.
14. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese yen obligations to Canadian dollar obligations at an exchange rate of 0.01254. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.96% on \$1,586 million, and floating Canadian BA rate minus 0.051% on \$220 million.
15. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese yen obligations to Canadian dollar obligations at an exchange rate of 0.01270. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.77%.
16. Bonds are extendible at the option of the Province on six months starting October 22, 2003, to the final maturity date of October 30, 2011. Coupon interest is paid monthly at a rate of 4.75% in year 1, 5.0% in year 2, 5.25% in year 3, 5.50% in year 4, 5.75% in year 5, 6.00% in year 6, 6.50% in year 7, 6.75% in year 8, 7.00% in year 9 and 7.25% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.12%.
17. During the 2001-02 fiscal year, the Province purchased for cancellation \$69.1 million of the HC-NH bonds.
18. During the 2001-02 fiscal year, the Province purchased for cancellation \$38.5 million of the KR Series bonds.
19. Retractable in whole or in part on February 8, 2007, at the holder's option, provided that the notice of retraction is made during the period from July 15, 2006 to January 15, 2007 inclusive. Such election is irrevocable.
20. Retractable in whole or in part on March 1, 2010, at the holder's option, provided that the notice of retraction is made during the period from March 1, 1995 to February 12, 2010 inclusive. Such election is irrevocable.
21. Exchangeable at any time, in whole or in part, at the holder's option, for an equivalent principal amount of Series JG 9.50% bonds due January 12, 2035.
22. Bonds are extendible at the option of the Province on every coupon date starting on August 21, 2003, to the final maturity date of August 21, 2006. Coupon interest is paid semi-annually at a rate of 5.20% in years 1-2, 5.50% in year 3, 6.00% in year 4 and 6.70% in the final year. In addition, the

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III. OUTSTANDING DEBT ISSUED — Continued

Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.63%.

23. The terms of these debentures require that the principal be repaid in 12 equal monthly payments in the year preceding the date of maturity.
24. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals. On January 10, 2035, the principal to be repaid on each debenture will be \$2.3 million.
25. Bonds are extendible at the option of the Province on every coupon date starting on July 27, 2001, to the final maturity date of July 27, 2009. Coupon interest is paid semi-annually at a rate of 5.75% in years 1-2, 5.90% in years 3-4, 6.00% in years 5-6, 6.15% in years 7-8, 6.25% in year 9 and 6.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.125%.
26. Bonds are extendible at the option of the Province on every coupon date, starting on September 5, 2003, to the final maturity date of September 5, 2006. Coupon interest is paid semi-annually at a rate of 5.00% in years 1-2, 5.25% in year 3, 5.75% in year 4 and 6.40% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.39%.
27. The Province entered into currency exchange agreements that effectively converted these Euro obligations to Canadian dollar obligations at an exchange rate of 1.78117. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.98% on \$3,265 million and floating Canadian BA rate minus 0.055% on \$46 million.
28. The interest rate was set at 4.75% for the first year. The interest payable is 6.00% in the second year, 6.25% in the third year, 6.50% in the fourth year and 6.75% in the final year.
29. The 1995 series of Ontario Savings Bonds matured on March 1, 2000, the 1997 fixed series bonds matured on June 21, 2000, the 1996 Series bonds and the 1998 fixed series bonds matured on June 21, 2001. The outstanding amounts at March 31, 2002 represent bonds not yet presented for redemption.
30. In every year for the period 1997-2001, the Province issued fixed rate OSBs each with terms of three years. Interest rates were set for the term of the bonds. The rate on the 1997 and 1998 Series bonds was set at 5.25%. The rate on the 1999 and 2001 Series bonds was 5.50% and the rate on 2000 Series bonds was 6.50%.
31. During the 2001-02 fiscal year, Series EMTN45 was reopened once, bringing the total issue to \$375 million.
32. Callable in full, and not in part, on September 4, 2003, at par. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.06%.
33. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars, based on a notional principal of AUD 27.2 million at a rate of 6.00%.
34. The bonds are extendible at the option of the bondholder on or before November 10, 2004. Coupon interest is paid at 6.40% for the first five years. If extended to final maturity date of December 2, 2014, the coupon will step-up to 6.80%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate.
35. Interest payable is six-month U.S. LIBOR plus 0.0475%.

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III. OUTSTANDING DEBT ISSUED — Continued

36. Bonds are extendible at the option of the Province on every coupon date starting September 11, 2003, to the final maturity date of September 11, 2006. Coupon interest is paid semi-annually at a rate of 4.75% in years 1-2, 5.10% in year 3, 5.55% in year 4 and 6.40% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.07%.
37. Retractable in whole or in part on March 15, 2005, at the holder's option provided that irrevocable notice of retraction is made on March 1, 2005. Coupon interest is paid at 5.50% for the first four years and 6.80% for the remaining six years on outstanding bonds.
38. The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of \$741.6 million and \$90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.
39. Agricorp, a Government Organization, holds \$15 million in Series LE, \$10 million in Series JV and 6.2 million in Series KE.
40. No interest is payable in the first five years, thereafter interest is payable monthly at an annual interest rate of 17.25%.
41. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals with the final payment on January 10, 2045. The total principal and interest to be paid over the life of the debenture is \$1,325 million in total.
42. Bonds are extendible at the Option of the Province on every coupon date, starting on August 27, 2003, to the final maturity date of August 27, 2007. Coupon interest is paid semi-annually at a rate of 5.10% in years 1-2, 5.60% in year 3, 5.80% in year 4, 6.00% in year 5 and 7.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest on this debt to a fixed rate of 4.52%.
43. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.36613. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.80%.
44. Bond is callable on May 13, 2003 at the option of the Province. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.05%.
45. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.02%.
46. Interest is payable at floating Canadian BA rate plus 0.85% paid quarterly for the first two years, then 5.75% semi-annually if not called. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.07%.
47. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars based on a notional principal of Australian dollars 103.2 million at a rate of 3.2% payable annually. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.90%.
48. The interest rate was set at 5.75% for the first year. The minimum interest payable is 6.25% in the second year, 6.50% in the third year, 6.75% in the fourth year and 7.00% in the final year.
49. During the 2001-02 fiscal year, Series LE was reopened once, bringing the total issue size to \$1,160 million.

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III. OUTSTANDING DEBT ISSUED — Continued

50. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.63%.
51. This issue has been on-lent to OEFC until June 2, 2010, after which the issue will be assumed by the Province until the maturity date.
52. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 17, 2003 and on each Extended Maturity Date thereafter to the final maturity date of September 17, 2008. Coupon interest is paid annually at a rate of 4.75% in years 1-2, 5.25% in year 3, 6.20% in year 4, 6.25% in year 5, 6.50% in year 6 and 6.75% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.79%.
53. During the 2001-02 fiscal year, the Province purchased for cancellation \$164.28 million of the HC Series bonds.
54. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars, based on a notional principal of AUD 52.5 million at a rate of 3.10%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.051%.
55. Proceeds of issue and repayment are in Japanese yen. Interest is payable in U.S. dollars, based on a notional principal of USD 120.8 million at a rate of 3.25%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.051%.
56. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 6.00%. Effective December 21, 2001, the interest rate was set at 2.00%.
57. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars, based on a notional principal of AUD 121.1 million at a rate of 4.28%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.38%.
58. During the 2001-02 fiscal year, Series EMTN42 was reopened once, bringing the total issue to \$350 million.
59. Bonds are extendible at the option of the Province on the Initial Maturity Date of May 30, 2003 and on each Extended Maturity Date thereafter to the final maturity date of May 30, 2010. Coupon interest is paid semi-annually at a rate of 5.50% in year 1, 5.75% in year 2, 6.00% in year 3, 6.25% in year 4, 6.50% in year 5, 6.75% in year 6, 7.00% in year 7, 7.50% in year 8 and 8.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 5.04%.
60. During the 2001-02 fiscal year, Series DMTN8 was re-opened once, bringing the total issue size to \$1,000 million (including \$500 million for OEFC purposes).
61. The Province entered into currency exchange agreements that effectively converted these Norwegian kroner obligations to Canadian dollar obligations at an exchange rate of 0.21235. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.028%.
62. Current outstanding OSBs are redeemable at the option of the holder on June 21 and December 21 with the exception of fixed rate bonds which are redeemable at maturity only. All current outstanding OSBs may be redeemed upon the death of the beneficial owner. The 1999, 2000 and 2001 series may also be redeemed during the 14 calendar days immediately following June 21 and December 21. The Minister of Finance may reset the interest rate from time to time prior to maturity.

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III. OUTSTANDING DEBT ISSUED — Continued

63. The interest rate was set at 4.25% for the first year. The rate is 5.00% in the second year, 5.75% in the third year, 6.25% in the fourth year and 6.75% in the final year.
64. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 4.50%. Effective December 21, 2001, the interest rate was set at 2.00%.
65. Pursuant to the *Ontario Public Service Employees' Pension Act 1994* and the *Asset Transfer Agreement of December 12, 1994*, the Province is obligated to re-split the debentures between the Public Service Pension Fund ("PSP Fund") and the Ontario Public Service Employees' Union Pension Plan Trust Fund ("OPSEU Fund") based on accurate data when it is available. On June 13, 1997 a Restated Sponsorship Amendment and Asset Transfer Agreement was signed, replacing the 1994 agreement. Pursuant to this Agreement on September 17, 1997, the re-split of the debentures was completed. To effect this redistribution of assets, \$3,745.8 million of debentures held by PSPF and \$1,751.4 million of debentures held by OPSEU were retired and replaced by \$3,726.8 million and \$1,770.4 million of debentures to be held by PSPF and OPSEU respectively.
66. The interest rate was set at 3.00% for the first year. The interest payable is 5.25% in the second year, 6.00% in the third year, 6.50% in the fourth year, 7.00% in the fifth year, 7.50% in the sixth year and 8.00% in the final year.
67. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 3.25%. Effective December 21, 2001 the interest rate was set at 2.00%.
68. Bonds are extendible at the option of the Province on the Initial Maturity Date of June 28, 2003 and on each Extended Maturity Date thereafter to the final maturity date of June 28, 2010. Coupon interest is paid semi-annually at a rate of 5.70% in years 1-2, 6.00% in years 3-4, 6.25% in year 5, 6.50% in year 6, 7.00% in year 7, 7.50% in year 8 and 8.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.82%.
69. The Province entered into currency exchange agreements that effectively converted these New Zealand dollar obligations to Canadian dollar obligations at an exchange rate of 0.82770. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.56%.
70. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 30, 2003 and on each Extended Maturity Date thereafter to the final maturity date of July 30, 2010. Coupon interest is paid semi-annually at a rate of 5.50% in year 1, 5.75% in year 2, 6.25% in years 3-4, 6.50% in years 5-6, 7.00% in year 7, 7.25% in year 8 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.79%.
71. Notes are extendible at the option of the Province on September 4, 2000, 2003 and 2006 to the final maturity date of September 4, 2009. Coupon interest is paid semi-annually at a rate of 6.00% in years 1-3, 6.125% in years 4-6, 6.35% in years 7-9 and 7.625% in years 10-12. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate minus 0.22%.
72. Bonds are extendible at the option of the Province on June 4, 2004, to the final maturity date of June 4, 2007. Coupon interest is paid semi-annually at a rate of 4.20% in years 1-2 and 6.05% in the remaining three years. In addition, the Province entered into interest rate agreements that effectively locked in a gain of 14 basis points.
73. Interest payable is three-month Canadian BA rate minus 0.05%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.23%.

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III. OUTSTANDING DEBT ISSUED — Continued

74. During 2001-02, the bondholder of NN Series had the option to purchase an equal amount of the same issue at 101.739 plus accrued interest on February 20, 2002. This option was exercised, bringing the total issue size to \$120 million. NN Series were exchanged for an equal amount of Series NK on March 13, 2002, bringing the total issue of Series NK to \$1,620 million.
75. During the 2001-02 fiscal year, Series KJ bonds were reopened once, bringing the total issue to \$4,209.4 million.
76. During the 2001-02 fiscal year, Series HC-MG were reopened twice, bringing the total issue to \$3,000 million.
77. During the 2001-02 fiscal year, Series MK bonds were reopened once, bringing the total issue to \$300 million.
78. During the 2001-02 fiscal year, Series NE bonds were reopened five times, bringing the total issue to \$553.7 million.
79. Proceeds of issue and repayment of principal are in Japanese yen. Interest is payable in U.S. dollars based on a notional principal of U.S. dollars 86.3 million, at a rate of 3.58% payable annually. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.35%.
80. Proceeds of issue and repayment of principal are in Japanese yen. Interest is payable in U.S. dollars semi-annually based on notional principal of USD 57.1 million, at a rate of 2.6%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.57%.
81. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 5.00%. Effective December 21, 2001 the interest rate was set at 2.00%.
82. During the 2001-02 fiscal year, the Province purchased for cancellation \$6.6 million of the JA Series bonds.
83. Total Debt Issued for Provincial Purposes does not include the long-term debt of the Ontario Housing Corporation for \$2,212 million, the Toronto Area Transit Authority (GO Transit) for \$447 million and the Ontario Municipal Improvement Corporation for \$79 million.
84. The Treasury Bill balance includes the following Treasury Bill holdings: \$265 million held by the Northern Ontario Heritage Fund Corporation, \$91 million held by Ontario Trillium Foundation and \$21 million held by Ontario Securities Commission.
85. During the 2001-02 fiscal year, Series MB was reopened three times, bringing the total issue to U.S.\$2,000 million (including U.S.\$250 million for OEFC purposes).
86. During the 2001-02 fiscal year, Series KA was reopened once, bringing the total issue to U.S.\$2,050 million.
87. Bond is callable on April 1, 2003 at the Province of Ontario's option. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate minus 0.09%.
88. Bonds are extendible at the option of the Province on every coupon date starting December 12, 2003, to the final maturity date of December 12, 2006. Coupon interest is paid semi-annually at a rate of 4.00% in years 1-2, 4.75% in year 3, 5.90% in year 4 and 7.00% in the final year. In addition, the Province entered into interest rate agreements that effectively locked in a gain of 11 basis points.
89. Bonds are extendible at the option of the Province on every coupon date starting November 29, 2003, to the final maturity date of November 29, 2011. Coupon interest is paid semi-annually at a rate of 4.50% in year 1, 4.75% in year 2, 5.00% in year 3, 5.50% in year 4, 6.00% in year 5, 6.25% in

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III. OUTSTANDING DEBT ISSUED — Continued

- year 6, 6.50% in year 7, 6.75% in year 8, 7.00% in year 9 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively locked in a gain of 8 basis points.
90. The terms of these debentures require that a special one-time interest payment of \$31.1 million be made at maturity.
 91. U.S. Commercial Paper issues are non-interest bearing with maturities up to 92 days.
 92. The interest rate was set at 4.75% for the first year. The minimum interest payable is 5.00% in the second year, 6.00% in the third year, 6.25% in the fourth year and 6.50% in the final year.
 93. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.55. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.51%.
 94. Bonds are extendible at the option of the Province on every coupon date starting November 28, 2003 to the final maturity date of November 28, 2006. Coupon interest is paid semi-annually at a rate of 3.50% in years 1-2 and 5.25% in the remaining 3 years. In addition, the Province entered into interest rate agreements that effectively locked in a gain of 9 basis points.
 95. Bonds are extendible at the option of the Investors every year starting November 20, 2002 to the final maturity date of February 20 2007. Coupon interest is paid quarterly at a rate of Canadian BA rate minus 0.05% in year 1, BA rate minus 0.01% in year 2, BA rate plus 0.03% in year 3, BA rate plus 0.05% in year 4 and BA rate plus 0.07% for the remaining term.
 96. During the 2001-02 fiscal year, the Province purchased for cancellation \$13.6 million of the HZ Series bonds.
 97. Legal Aid, a government organization, holds \$10.15 million in Series MG, \$4.75 million in Series HK, \$2.89 million in Series LZ and \$2.9 million in Series DMTN16.
 98. The terms of these debentures require unequal payments, consisting of principal and interest, to be paid quarterly until their maturity.
 99. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 22, 2003 and on each Extended Maturity Date thereafter to the final maturity date of October 22, 2008. Coupon interest is paid monthly at a rate of 4.00% in years 1-2, 4.50% in year 3, 5.25% in year 4, 6.10% in year 5, 6.75% in year 6 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.46%.
 100. Interest is paid quarterly at 3-month Canadian BA rate plus 0.05%. In addition, the Province entered into interest rate agreements that effectively locked in a gain of 7.25 basis points.
 101. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 5, 2003 and on each Extended Maturity Date thereafter to the final maturity date of October 5, 2011. Coupon interest is paid semi-annually at a rate of 4.70% in year 1, 5.00% in year 2, 5.25% in year 3, 5.50% in year 4, 5.75% in year 5, 6.00% in year 6, 6.25% in year 7, 6.50% in year 8, 7.00% in year 9 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.51%.
 102. Interest is paid quarterly at 1-month Canadian BA rate plus 0.05%, compounded.
 103. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 3, 2003 and on each Extended Maturity Date thereafter to the final maturity date of October 3, 2009. Coupon interest is paid semi-annually at a rate of 4.50% in years 1-2, 5.00% in year 3, 5.50% in year 4, 5.80% in year 5, 6.00% in year 6, 6.50% in year 7 and 7.50% in the final year. In addition, the Province

PUBLIC ACCOUNTS, 2001-2002 — VOLUME 1

III. OUTSTANDING DEBT ISSUED — Continued

entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.50%.

104. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 28, 2003 and on each Extended Maturity Date thereafter to the final maturity date of September 28, 2011. Coupon interest is paid annually at a rate of 5.00% in years 1-2, 5.05% in years 3-4, 5.10% in year 5, 6.35% in year 6, 6.50% in year 7, 6.75% in year 8 and 7.00% in the final two years. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.57%.
105. Interest is paid quarterly at 3-month Canadian BA rate plus 0.03%. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on \$425 million to a fixed rate of 4.68%.
106. During the 2001-02 fiscal year, Series MZ was re-opened once, bringing the total issue size to \$1,250 million.
107. During the 2001-02 fiscal year, Series NL was re-opened once, bringing the total issue size to \$1,000 million.
108. Bonds are extendible at the option of the Province on the Initial Maturity Date of February 12, 2004 and on each Extended Maturity Date thereafter to the final maturity date of February 12, 2007. Coupon interest is paid semi-annually at a rate of 4.05% in years 1-2, 4.75% in year 3, 6.00% in year 4 and 7.25% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.31%.
109. On May 31, 2001, the Province purchased for cancellation \$58.5 million of the LH Series.
110. Bonds are extendible at the option of the Investors on the Initial Maturity Date of December 5, 2002 and on each Extended Maturity Date thereafter to the final maturity date of December 5, 2008. Coupon interest is paid quarterly at a rate of Canadian BA rate minus 0.05% in year 1, Canadian BA rate minus 0.01% in year 2, Canadian BA rate plus 0.03% in year 3, Canadian BA rate plus 0.05% in year 4, Canadian BA rate plus 0.07% in year 5 and Canadian BA rate plus 0.08% in the final 2 years.
111. Bonds are extendible at the option of the Province only on the initial maturity date of June 18, 2004 to the final maturity date of June 18, 2007. Coupon interest is paid semi-annually at a rate of 4.20% in years 1-2 and 6.05% in the final 3 years, if extended. In addition, the Province entered into interest rate agreements that effectively locked in a gain of 13 basis points.
112. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 21, 2004. Coupon interest is paid semi-annually at a rate of 4.00% in years 1-2 and 6.00% in the final 3 years, if extended. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.38%.
113. Bonds are extendible at the option of the Province on every coupon date starting March 1, 2004, to the final maturity date of March 1, 2007. Coupon interest is paid semi-annually at a rate of 4.10% in years 1-2, 4.50% in year 3, 5.75% in year 4 and 7.25% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest obligations on this debt to floating 3-month Canadian BA rate minus 0.08%.
114. Bonds are extendible at the option of the Province on every coupon date starting March 4, 2004 to the final maturity date of March 4, 2010. Coupon interest is paid at 4.30% for year 1-2, 4.5% for year 3, 5.10% for year 4, 6.0% for year 5, 6.5% for year 6, 7.0% for year 7 and 7.50% for the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest obligations on this debt to floating 3-month Canadian BA rate minus 0.08%.
115. Interest is paid quarterly at a rate of 3-month Canadian BA rate plus 0.275% up to the maximum of 4.775% for the first year, 5.025% for the second year and 5.775% for the third year. In addition, the

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III. OUTSTANDING DEBT ISSUED — Continued

Province has entered into interest rate agreements that effectively converted the interest obligation on this debt to floating 3-month Canadian BA rate minus 0.01%.

116. The issue is callable on June 1, 2005, at the option of the Province. Interest is paid quarterly at a rate of 3-month Canadian BA rate plus 0.59% in years 1-3 and semi-annually at a rate of 5.70% if not called. In the event that the bond is not called, the bondholder has the right to exchange this series for series LZ. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligations on this debt to floating 3-month Canadian BA rate minus 0.03%.
117. Bonds are extendible at the option of the Province on every coupon date starting on March 18, 2004, to the final maturity date of March 18, 2009. Coupon interest is paid semi-annually at a rate of 4.5% in years 1-2, 4.75% in year 3, 5.5% in year 4, 6.25% in year 5, 6.5% in year 6 and 7% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating 3-month Canadian BA rate minus 0.09%.
118. The amount outstanding as at March 31, 2002, in legacy currency is French Franc 3,000,000,000. The French franc is converted to Euro using conversion rate of one Euro equals: 6.55957 French francs in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.29%.
119. The amount outstanding as at March 31, 2002, in legacy currency is Deutsche marks 1,439,150,000. The Deutsche marks are converted to Euro using conversion rate of one Euro equals: 1.95583 Deutsche marks in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 7.71%.
120. The amount outstanding as at March 31, 2002, in legacy currency is Netherlands guilders 400,000,000. The Netherlands guilders are converted to Euro using conversion rate of one Euro equals: 2.20371 Netherlands guilders in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 9.98%.
121. The amount outstanding as at March 31, 2002, in legacy currency is French franc 3,000,000,000. The French franc is converted to Euro using conversion rate of one Euro equals: 6.55957 French francs in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 6.6%.
122. Debt issued for investment purposes is comprised of notes payable to Ontario Electricity Financial Corporation as a result of a debt for equity swap between the Province and its two wholly-owned subsidiaries, Ontario Power Generation Inc. and Hydro One Inc. The debt matures in three equal installment on March 31, 2039, 2040 and 2041 and bears interest at 5.85 per cent payable monthly.
123. In addition, the Province has advanced to OEFC an overnight loan in the amount of \$247,713,500 as of March 31, 2002.

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**IV. CONTINGENT LIABILITIES — OBLIGATIONS GUARANTEED BY
THE PROVINCE OF ONTARIO**

As at March 31, 2002

LOANS GUARANTEED

	<u>Year of Issue</u>	<u>Rate of Interest</u>	<u>Outstanding March 31, 2002</u>	<u>References</u>
		%	\$	
MINISTRY OF AGRICULTURE, FOOD AND RURAL AFFAIRS				
Commodity Loan Guarantee Program	1994	Various	23,256,480	
Feeder Cattle Loan Guarantee Program . .	1994	Various	11,911,797	
FarmPlus Rural Loan Pool Program	1994	Various	7,831,285	(1)
Private Mortgage Guarantee Program	1994	Various	<u>67,000</u>	
TOTAL MINISTRY OF AGRICULTURE, FOOD AND RURAL AFFAIRS			<u>43,066,562</u>	
MINISTRY OF COMMUNITY AND SOCIAL SERVICES				
Ontario College of Social Workers and Social Service Workers	1999	Prime-0.6	<u>3,100,000</u>	(2)
TOTAL MINISTRY OF COMMUNITY AND SOCIAL SERVICES			<u>3,100,000</u>	
MINISTRY OF ECONOMIC DEVELOPMENT AND TRADE				
<i>The Development Corporations Act</i>				
Total guarantees re various companies	Various	Prime+1	3,639,000	
Ontario Aerospace Corporation	1995	N/A	2,480,000	(3)
Youth Entrepreneurs Program	2001-2002	Prime+1	190,321	
Young Entrepreneurs Program	1997-2001	Prime+2	<u>192,330</u>	(4)
TOTAL MINISTRY OF ECONOMIC DEVELOPMENT AND TRADE			<u>6,501,651</u>	
MANAGEMENT BOARD SECRETARIAT				
Mortgage Guarantees Dissolution of Ontario Land Corporation	1971-1976	N/A	<u>96,016</u>	(5)
TOTAL MANAGEMENT BOARD SECRETARIAT			<u>96,016</u>	
MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING				
Ontario Housing Corporation "Homes Now" Mortgage Financing Program	1989	Various	<u>166,127,703</u>	(6)
TOTAL MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING			<u>166,127,703</u>	
MINISTRY OF NATURAL RESOURCES				
Freshwater Fish Marketing Corporation . .	1969	7.14	<u>1,000,000</u>	
TOTAL MINISTRY OF NATURAL RESOURCES			<u>1,000,000</u>	
MINISTRY OF TOURISM, CULTURE AND RECREATION				
Tourism Redevelopment Guarantees	Various	Prime+1	<u>250,000</u>	
TOTAL MINISTRY OF TOURISM, CULTURE AND RECREATION . .			<u>250,000</u>	
MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES				
Ontario Student Loan Plan:				
Class "A"	Various	Prime	667,771,891	
Class "B"	Various	Prime+1	618,727,163	
Class "C"	Various	Prime+1	<u>1,144,615,346</u>	
TOTAL MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES			<u>2,431,114,400</u>	
TOTAL LOANS GUARANTEED			<u><u>2,651,256,332</u></u>	

PUBLIC ACCOUNTS, 2001-2002 — VOLUME 1

IV. CONTINGENT LIABILITIES — OBLIGATIONS GUARANTEED BY
THE PROVINCE OF ONTARIO — Continued

OTHER

	<u>Year of Issue</u>	<u>Rate of Interest</u> %	<u>Outstanding March 31, 2002</u> \$	<u>References</u>
MINISTRY OF FINANCE				
GO Transit Refinancing (TATO)A)	1994	N/A	446,929,119	(7)
Ontario Municipal Improvement Corporation	1991	N/A	<u>79,021,000</u>	(8)
TOTAL MINISTRY OF FINANCE			<u>525,950,119</u>	
TOTAL OTHER			<u>525,950,119</u>	
TOTAL CONTINGENT LIABILITIES			<u><u>3,177,206,451</u></u>	

PUBLIC ACCOUNTS, 2001-2002 — VOLUME 1

IV. CONTINGENT LIABILITIES — OBLIGATIONS GUARANTEED BY THE PROVINCE OF ONTARIO — Continued

As at March 31, 2002

References:

1. The Province's maximum liability for the program is \$50,000,000.
2. Amount represents loan guarantee for the Ontario College of Social Workers and Social Service Workers from the Royal Bank of Canada up to \$3,100,000 for a period ending December 31, 2006.
3. Guarantee required only in event of default by aircraft purchaser and if sale of repossessed aircraft does not fully cover the sales financing liability.
4. The Province guarantees 85% of both interest and principal of the outstanding loan balance of \$226,271.
5. The Ministry of Finance assumed the contingent liability arising from the Mortgage Guaranty Fund of the Ontario Land Corporation, which was dissolved on March 31, 1987.
6. Loans totaling \$1,323 million taken by OHC for "Homes Now" from the Federal Government's CPP allotment have been guaranteed by the Province. Since 1993, these loans have been refinanced from the private sector and funds advanced to the Ministry of Finance. The total amount debentured to the Province as at March 31, 2002 was \$1,157 million which has been reduced from the guarantee.
7. The Province has entered into a sale and conditional sale-back arrangement of GO Transit with Asset Finance Bermuda Limited. The deal provided the Province with about \$431 million in the initial fiscal year 1993-94 with an option of additional borrowing and to repay in year 2006. GO Transit will maintain control over its assets and operations and provision will be made within twelve years to buy back the asset.
8. This debt was originally borrowed by Ontario Municipal Improvement Corporation ("OMIC") from the Canada Pension Plan Investment Fund. In accordance with the Capital Investment Plan Act, 1993 OMIC ceased to exist and its assets and liabilities were transferred to the Ontario Financing Authority ("OFA").

PUBLIC ACCOUNTS, 2001-2002 — VOLUME 1

V. CLAIMS AGAINST THE CROWN

As at March 31, 2002

The following are claims arising from legal action either in progress or threatened against the Crown in respect of breach of contract, damages to persons and property and like items. The amounts claimed have not been specified, but in each case are expected to exceed \$50 million:

1. Dudley Abbot et al. (preferred shareholders of Crown Trust).
2. The Chippewas of Sarnia, the Chippewas of Kettle Point et al. v. Ontario, Polysar Hydrocarbons Limited et al.
3. Roy Michano et al., for themselves and on behalf of the members of the Pic Heron Bay, Pays Plat, Rocky Bay, Whitesand, Pic Mobert, Red Rock, Sand Point and Long Lake No. 58 Bands of Indians.
4. Clifford Meness et al., for themselves and all other members of the Algonquins of Golden Lake Band of Indians.
5. Roger Southwind on behalf of the Lac Seul Indian Band.
6. Theriault in respect of mining leases to Hemlo Gold Mines.
7. Moose Factory First Nation et al. v. Spruce Falls Power and Paper Company Limited.
8. New Post First Nation et al. v. Spruce Falls Power and Paper Company Limited.
9. Beaver House First Nation v. HMQ.
10. Apotex Inc. and ACIC Limited v. Burroughs Wellcome Inc. and Attorney General of Ontario and Ministry of Health.
11. The Chippewas of Saugeen and Nawash First Nations regarding Bruce Peninsula.
12. Canadian Agra Corporation et al. v. Ontario Hydro, Ontario Energy Corporation, HMQ, Minister of Energy.
13. Missanabie Cree First Nation v. Ontario and Canada.
14. Six Nations of the Grand River Band.
15. Mishkeegogamang First Nation and seventeen others.
16. Nevada Depot Inc. v. HMQ.
17. Michael McCarthy et al v. Red Cross et al.
18. Chiefs of Ontario v. HMQ.
19. Wesley Big George on behalf of seven Lake of the Woods First Nations v. HMQ.
20. Wikwemikong Indian Band Re: aboriginal title in islands in Lake Huron and Georgian Bay.
21. Chippewas of Sarnia Band re: aboriginal title in large tract in City of Sarnia.
22. Nash et al. v. HMQRO and Brian Cass.
23. Doris et al. v. HMQ as represented by the Minister of Health (successor to the Ontario Association of Radiologists action).
24. Mary Lou LaPratte, Roland LaPratte, Sheila Horrell, Arthur Horrell et al. (proposed class proceeding).
25. Anderlis Leasing Enterprises et al.
26. Northern Diamond Gaming Services Limited and Diamond Gaming Services Inc. et al.
27. 1191067 Ontario Inc., Silvo Di Gregorio and Tom Jones.
28. Monaghan, John Richard v. HMQ, the Attorney General and the Solicitor General together with the OPP.

PUBLIC ACCOUNTS, 2001-2002 — VOLUME 1

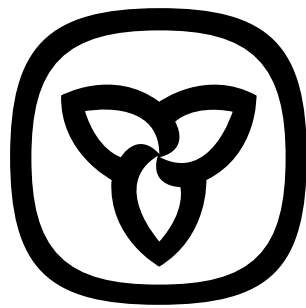
V. CLAIMS AGAINST THE CROWN — Continued

29. Alberto Docouto v. HMQ and MAG.
30. Temagami First Nation and Teme-Augoma Anishnabai re: title to large tract of Crown land in Northern Ontario.
31. Mississauga of Alderville, Beausoleil, Chippewas of Georgia Island, Mnjikaning (Rama), Curve Lake Hiawatha and Scugog Island First Nation.
32. Alberto Docouto v. HMQ and MAG.
33. First Class Casinos and Mr. Casino Inc. v. HMQ.
34. Jeevaratnam et al. v. Attorney General of Ontario, Director of Income Maintenance (MCSS), Municipality of Metropolitan Toronto and the Regional Municipality of Ottawa Carleton.
35. Somaskantharanjan et al. v. Attorney General of Ontario, Ministry of Community and Social Services, Director of Ontario Works, Director of Ontario Disability Support Program, the City of Toronto.
36. Robyn Wynberg et al v. HMQ.
37. Simsta Art Creations, Simona Stanculescu v. Office of the Public Trustee.
38. Jameel Mohammed v. Justice of the Peace Lavender et al.
39. Vance Hamilton Egglestone v. HMQ and Elliott Thompson Barker.
40. Arnold Guettler, Neo-Form Corporation and Neo-Form North America Corporation v. HMQ et al.
41. Big Grassy (Mishkosiimiiniiziibing) First Nation and Ojibways of Onigaming First Nations adjacent to the Lake of the Woods and Winnipeg River area who are signatories to Treaty 3 and who are seeking damages on account of flooding that occurred 1887-1892.
42. Wauzhushk Onigum First Nation and Ochiichagwe'babig o'ining First Nation and Washagamis Bay First Nations.
43. Walpole Island First Nations re: aboriginal Title to certain parts of S. Western Ontario use of land and compensation.
44. Brett, L Brenda and Wells, C. Thomas v. HMQ.
45. Owen Mitchell v. HMQ and National Bank v. HMQ.
46. Timothy NATYSHAK v. HMQ et al.
47. The Begetikong Anishnabe First Nation (aka the Ojibways of Pic River) Chief Roy Michano, Councillor Duncan Michano and Councillor Arthur H. Fisher, aboriginal title to a large tract of land on the northeastern shore of Lake Superior.
48. Whitesand First Nation Annuity Claim, Plaintiff seeking declaration that increased annuity payable pursuant to Robinson-Superior Treaty 1850 has not been paid.
49. Red Rock First Nation Annuity Claim, Plaintiff seeking declaration that increased annuity payable pursuant to Robinson-Superior Treaty 1850 has not been paid.
50. Moose Deer Point First Nation, Statement of claim for compensation for breach of fiduciary obligation and a declaration that the plaintiffs have existing treaty rights as set out in the address of Samuel Peters Jarvis in 1837,
51. R. Shawn A. Cantlon v. HMQ.
52. Anne and Alexander Larcade v. HMQ.
53. Pearson v. Inco Ltd., Ministry of the Environment etc.
54. Antonio Fracalanza v. HMQ.

PUBLIC ACCOUNTS, 2001-2002 — VOLUME 1

V. CLAIMS AGAINST THE CROWN — Continued

55. Ayok, Chol v. York University.
56. Frank Defazio, et al v. HMQRO, Toronto Transit Commission, Pinchen Environmental Consultants, et al.
57. Dumoulin v. Ontario Realty Corporation and HMQ.
58. CUPE v. Attorney General of Ontario.
59. Hamilton Kilty Hockey Club Inc. v. Ontario.
60. Tobasonakwut Kinew v. Canada and Ontario.
61. Attawapiskat First Nation v. HMQ, HMQRO re: Claim for damages as a result of contamination of lands, groundwater and air.
62. Adrian, et al v. Canada and Ontario.



Ontario