

### 2007–08 Fiscal Outlook

The government is currently projecting a balanced budget in 2007–08. This represents an in-year improvement of \$0.4 billion from the 2007 Ontario Budget Plan and is consistent with the outlook presented in the 2007–08 First Quarter Ontario Finances.

Total revenue in 2007–08 is currently projected to be \$94.1 billion, an increase of \$2.6 billion from the 2007 Budget Plan and \$2.0 billion from the 2007–08 First Quarter Ontario Finances. This increase is primarily due to a higher taxation revenue outlook, which is boosted by higher revenues related to processing of prior years' tax returns.

The total expense outlook at \$93.4 billion is a net \$2.2 billion higher than the 2007 Budget Plan and up \$2.0 billion from the 2007–08 First Quarter Finances. This is mainly due to increase spending associated with the government taking decisive action to strengthen Ontario's economic advantage by enhancing Ontario's competitiveness, and investing in its people and communities as well as infrastructure.

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2007–08 Fiscal Outlook — In-Year Change (\$ Billions)	Budget Plan 2007–08	Current Outlook 2007–08	In-Year Change
<b>Revenue</b>	<b>91.5</b>	<b>94.1</b>	<b>2.6</b>
<b>Expense</b>			
Programs	82.0	84.3	2.3
Interest on Debt	9.1	9.1	(0.1)
<b>Total Expense</b>	<b>91.2</b>	<b>93.4</b>	<b>2.2</b>
Reserve	0.8	0.8	–
<b>Surplus/(Deficit)</b>	<b>(0.4)</b>	<b>0.0</b>	<b>0.4</b>

*Note:* Numbers may not add due to rounding.

The government is projecting balanced budgets in each year over the medium term, while remaining prudent in light of the slower economic growth outlook in 2008 and 2009 than projected at the time of the 2007 Budget.

As compared to 2007–08, the revenue outlook in 2008–09 and 2009–10 is moderated by a slower economic growth outlook in 2008 and 2009, reflecting a slower growth outlook for the U.S. economy, higher oil prices and a higher Canadian dollar.

Overall, the fiscal outlook remains prudent, and a balanced budget is projected in both 2008–09 and 2009–10. The prudent fiscal outlook is reflected explicitly in the reserves, which are set at \$0.8 billion in 2007–08 and \$0.9 billion in each year over the medium term, in recognition of the risks that could materialize due to unanticipated changes in Ontario's economic outlook or in Provincial revenue and expense.

Medium-Term Fiscal Plan and Outlook (\$ Billions)	Actual 2006–07	Current Outlook		
		2007–08	2008–09	2009–10
<b>Revenue</b>	<b>90.4</b>	<b>94.1</b>	<b>95.7</b>	<b>99.0</b>
<b>Expense</b>				
Programs	79.3	84.3	85.6	88.8
Interest on Debt	8.8	9.1	9.2	9.4
<b>Total Expense</b>	<b>88.1</b>	<b>93.4</b>	<b>94.8</b>	<b>98.2</b>
Reserve	–	0.8	0.9	0.9
<b>Surplus/(Deficit)</b>	<b>2.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

*Note:* Numbers may not add due to rounding.

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## Enhancing Competitiveness Through Immediate Tax Reductions

- The Province is proposing important new tax measures that support manufacturers and other sectors in Ontario challenged by current economic conditions. They would help Ontario manufacturers invest in their own businesses, creating and preserving jobs.

These new measures, totaling \$1.1 billion in tax reductions over three years, include:

- eliminating Capital Tax on January 1, 2008 for corporations primarily engaged in manufacturing and resource activities
  - providing a 21 per cent Capital Tax rate cut for all businesses retroactive to January 1, 2007, on the way to full elimination in 2010
  - increasing the small business deduction threshold to \$500,000 from \$400,000 — retroactive to January 1, 2007.
- To assist manufacturers in acquiring new and advanced equipment and technologies, Ontario is paralleling the 2007 federal budget incentives related to accelerated capital cost allowances (CCA). A key incentive for manufacturers is the 50 per cent accelerated tax writeoff for investments in manufacturing and processing (M&P) machinery and equipment from March 19, 2007 until December 31, 2008. By paralleling the federal CCA measures, the Ontario Government will provide more than \$400 million in tax relief over three years to manufacturers investing in the province.

## Economic Outlook

- Over the 2002 to 2006 period, the resilient Ontario economy grew at a modest pace despite an increasingly challenging global economic environment. Oil prices increased from \$26.10 US per barrel in 2002 to \$66.10 US in 2006. Likewise, the Canadian dollar increased from 63.7 cents US in 2002 to 88.2 cents US in 2006. In 2006, the Ontario economy also had to contend with rising interest rates and weaker U.S. demand for Ontario's key exports.
- Ontario's real GDP rose at an annual rate of 2.3 per cent in the second quarter of 2007, following growth of 3.2 per cent in the first quarter. Moderate growth is expected to continue through 2008 as U.S. demand remains soft and the higher Canadian dollar and oil prices create challenges for Ontario businesses.
- The Ministry of Finance is projecting real gross domestic product (GDP) growth of 1.9 per cent in 2007, 1.8 per cent in 2008, 2.4 per cent in 2009 and 2.8 per cent in 2010. In keeping with prudent fiscal practices, these projections are deliberately set below the average private-sector forecast in every year.

Ontario Economic Outlook (Per Cent)								
	2003	2004	2005	2006	2007e	2008p	2009p	2010p
Real GDP Growth	1.4	2.5	2.9	2.1	1.9	1.8	2.4	2.8
Nominal GDP Growth	3.2	4.8	3.9	3.9	5.0	3.8	4.0	4.7
Employment Growth	3.0	1.7	1.3	1.5	1.6	1.2	1.3	1.4
CPI Inflation	2.7	1.9	2.2	1.8	1.8	1.4	2.0	2.0

e = estimate; p = projection. Sources: Statistics Canada and Ontario Ministry of Finance.

## Borrowing Update

The total long-term public borrowing requirement for the Province and Ontario Electricity Financial Corporation (OEFC) in 2007–08 remains at \$17.7 billion as in the First Quarter Ontario Finances, down \$1.1 billion from the 2007 Budget Plan.

2007–08 Borrowing Program (\$ Billions)	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	0.4	0.0	(0.4)
Non-Cash Adjustments	(0.5)	(0.9)	(0.5)
Investment in Capital Assets	3.3	3.4	0.1
Net Loans/Investments	1.2	2.7	1.5
Debt Maturities	14.4	14.2	(0.2)
Debt Redemptions	0.9	1.0	0.1
<b>Total Funding Requirement</b>	<b>19.7</b>	<b>20.4</b>	<b>0.7</b>
Canada Pension Plan Borrowing	(0.4)	(0.4)	0.1
Decrease/(Increase) in Short-Term Borrowing	(0.6)	(1.3)	(0.8)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(1.0)	(1.0)
<b>Total Long-Term Public Borrowing Requirement</b>	<b>18.8</b>	<b>17.7</b>	<b>(1.1)</b>

Note: Numbers may not add due to rounding.

A major in-year change from the Budget Plan is a \$1.5 billion increase in net loans/investments, of which \$0.9 billion represents loans to Ontario Power Generation Inc. (OPG) and \$0.7 billion for the transfer of third-party asset-backed commercial paper (ABCP) to a long-term investment portfolio, offset by a \$0.1 billion payment by the Ontario Power Authority (OPA) towards its line of credit with the Province. Other in-year changes include a \$0.5 billion change in non-cash adjustments and a \$1.0 billion decrease in cash and cash equivalents, both attributable to a higher-than-forecast surplus in 2006–07, resulting in lower cash needs.

A notable financing activity in the second quarter was the transfer of \$0.7 billion in third-party ABCP to a long-term investment portfolio, offset by an increase in short-term borrowing. The ABCP transfer decision was made due to ongoing deliberations resulting from the Montreal Accord, which the Province and a majority of third-party ABCP investors joined in August 2007. The Accord is an agreement to determine a process for the orderly restructuring of the third-party ABCP market. The agreement, originally set to expire October 15, 2007, was extended to December 14, 2007.

The Province does not want to pre-judge the outcome of the Montreal Accord or how markets will trade afterwards, but it is estimated that the potential provincial writedown will be less than \$100 million out of its \$720 million of ABCP holdings. This amount will be offset by in-year savings on the Province's other interest on debt costs. Ontario's potential ABCP writedown will not have any material impact on the fiscal plan.

## ■ ■ Borrowing Approach

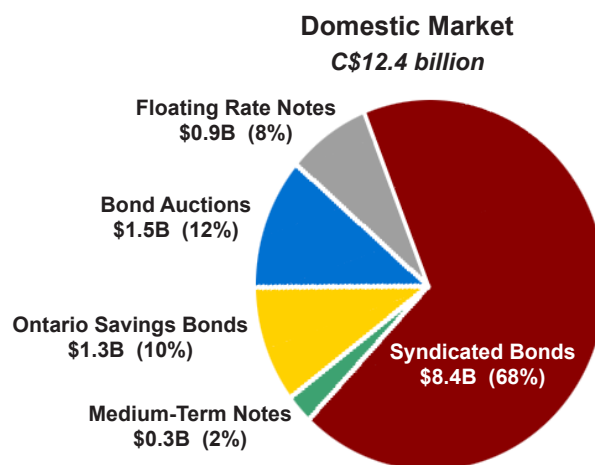
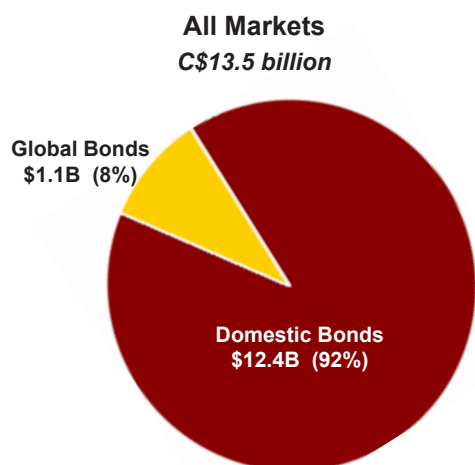
As at September 30, 2007, the Province had raised approximately \$9.5 billion. As at December 6, 2007, the Province had raised an additional \$4.0 billion, for a total of \$13.5 billion, with \$4.2 billion remaining to be borrowed.

The Province issued one five-year U.S. \$1 billion global bond, fifteen \$600 million domestic syndicated bonds, three \$500 million auctions, five floating rate notes and a number of domestic medium-term notes. The Province also raised \$1.3 billion from the annual Ontario Savings Bond (OSB) program.

Bond markets have been very volatile in recent months, but the Province continues to have steady access to the domestic bond market due to both investor confidence in Ontario and the liquidity provided by its benchmark bond issues. Approximately \$12.4 billion, or 92 per cent, of the borrowing requirement was raised in the domestic market.

The Province will continue to maintain a flexible approach to borrowing, monitoring both domestic and international capital markets for opportunities to diversify its borrowing program. The Province targets 25 per cent of its borrowing from international markets. So far this fiscal year, eight per cent has been raised internationally as borrowing costs have been much higher abroad.

<b>BORROWING PROGRAM STATUS</b>			
(\$ Billions)	Completed	Remaining	Total
Province	11.6	3.4	15.0
OEFC	1.9	0.8	2.7
<b>Total</b>	<b>13.5</b>	<b>4.2</b>	<b>17.7</b>
<i>(As at December 6, 2007)</i>			



## ■ ■ Medium-Term Borrowing Outlook

(\$ Billions)	2007-08	2008-09	2009-10
Deficit/(Surplus)	0.0	0.0	0.0
Non-Cash Adjustments	(0.9)	(0.8)	(0.7)
Investment in Capital Assets	3.4	3.5	4.0
Net Loans/Investments	2.7	1.3	0.5
Debt Maturities:			
Currently Outstanding	14.2	19.9	14.6
Incremental Impact of Future Financing	0.0	0.0	0.5
Debt Redemptions	1.0	0.7	0.7
<b>Total Funding Requirement</b>	<b>20.4</b>	<b>24.5</b>	<b>19.6</b>
Canada Pension Plan Borrowing	(0.4)	(0.6)	(0.7)
Decrease/(Increase) in Short-Term Borrowing	(1.3)	(0.6)	0.8
Increase/(Decrease) in Cash and Cash Equivalents	(1.0)	(0.4)	(0.7)
<b>Total Long-Term Public Borrowing Requirement</b>	<b>17.7</b>	<b>22.9</b>	<b>19.0</b>

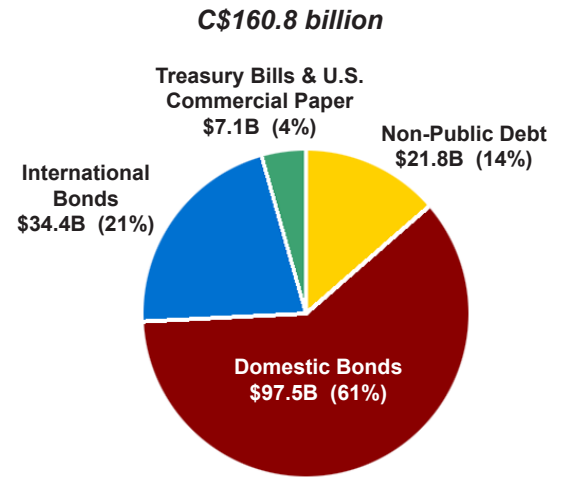
*Note: Numbers may not add due to rounding.*

## Debt Portfolio

- Total debt of \$160.8 billion is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.
- Public debt totals \$139.0 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies.
- Ontario also has \$21.8 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB). This debt is not marketable and cannot be traded.

### International Bonds issued in the following currencies:

- Canadian dollar
- U.S. dollar
- Euro
- New Zealand dollar
- Swiss franc
- Japanese yen
- Australian dollar
- U.K. Sterling
- South African rand
- Hong Kong dollar
- New Turkish lira

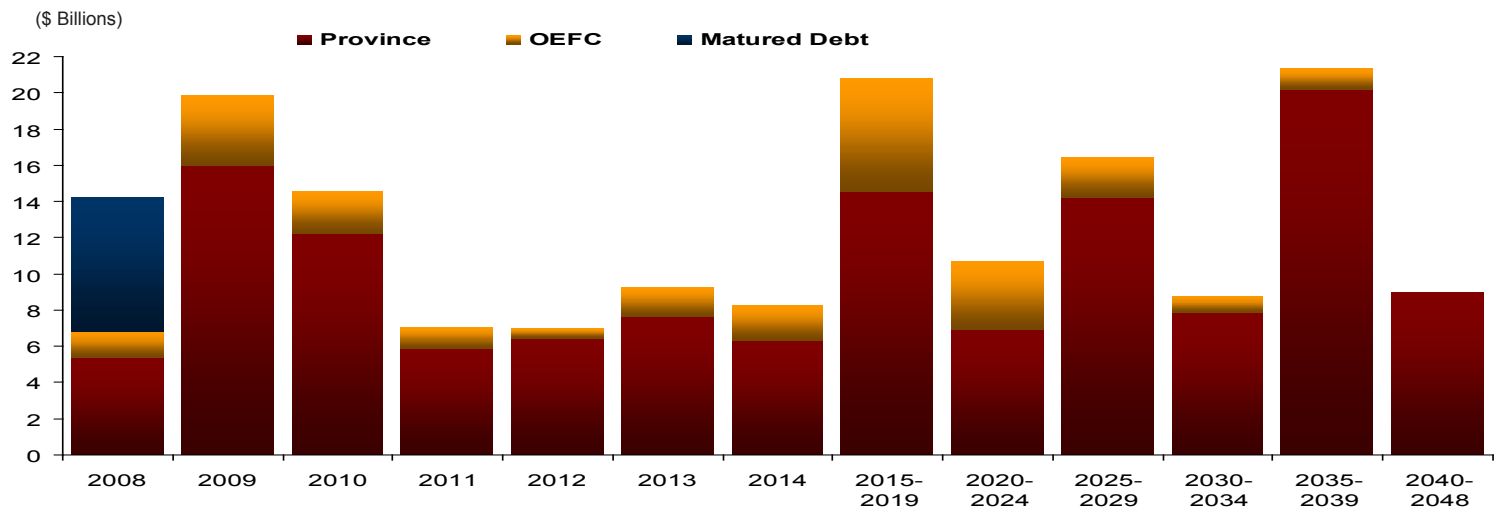


## Debt Management

Debt		Risk Exposure (% of debt)	
Total Debt	\$160.8 billion	<b>Province</b>	
Net Debt*	\$143.1 billion	Interest Rate Reset Exposure	15.2
Net Debt*/GDP	24.4%	Foreign Exchange Exposure	0.5
<b>Debt Statistics</b>		<b>OEFC</b>	
Percentage Publicly Held	86.4%	Interest Rate Reset Exposure	16.7
Percentage Issued in Canadian Dollars	84.1%	Foreign Exchange Exposure	0.0
Effective Interest Rate (Weighted Average)	5.95%		
		<b>Current</b>	<b>Policy Limit</b>

Total Debt represents consolidated non-public and publicly held debt. Net Debt represents the difference between total liabilities and total financial assets.  
\*Projected to March 31, 2008.

## Debt Maturities



Fiscal year ending March 31.

Excludes short-term debt and other liabilities and the incremental impact of future financing. Assumes issues with options will be retired at the earliest possible date.

The Ontario Financing Authority is an agency of the Province of Ontario responsible for provincial borrowing and debt management activities.

### Contact Us

Investor Relations  
Ontario Financing Authority  
One Dundas Street West, Suite 1400  
Toronto, Ontario M7A 1Y7  
Canada

Telephone (416) 325-0918  
Fax (416) 204-6694  
www.ofina.on.ca  
investor@ofina.on.ca