OntarioFinancingAuthority
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2005-06 Second Quarter Ontario Finances

2005-06 Long-Term Public Borrowing Program

The Total Long-Term Public Borrowing Requirement for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2005-06 is projected at $26.9 billion, down from $27.2 billion in the Budget Plan. This amount includes $20.5 billion of Debt Maturities, $0.7 billion of Debt Redemptions and $2.4 billion from the Deficit.

The decrease in the Total Long-Term Public Borrowing Requirement is mainly due to the decline in the Deficit and the Adjustments for Non-Cash Items Included in Deficit, offset by the decline in Canada Pension Plan borrowing. The increase in other Uses/(Sources) of Cash is mainly attributable to projected short- term loans to the Ontario Power Authority (OPA) to bridge the timing of their cash-flow requirements. This amount is being financed through short-term borrowing.

2005-06 Borrowing Program: Province and OEFC		2005-06		
($ Billions)	Actual 2004-05	Budget Plan	Current Outlook*	In-Year Change
Deficit/(Surplus)	1.6	2.8	2.4	(0.4)
Adjustments for:				
Non-Cash Items Included in Deficit	(1.0)	2.3	2.2	(0.1)
Amortization of Major Tangible Capital Assets	(0.8)	(0.8)	(0.8)	-
Acquisitions of Major Tangible Capital Assets	1.4	1.8	1.8	-
Debt Maturities	15.3	20.5	20.5	-
Debt Redemptions	1.4	0.7	0.7	-
Canada Pension Plan Borrowing	(1.0)	(1.2)	(1.0)	0.2
Increase/(Decrease) in Cash and Cash Equivalents	-	-	-	-
Pre-Funding for 2005-06	6.2	-	-	-
Decrease/(Increase) in Short-Term Borrowing	0.4	-	(1.0)	(1.0)
Other Uses/(Sources) of Cash	1.4	1.1	2.1	1.0
Total Long-Term Public Borrowing Requirement	**24.8**	**27.2**	**26.9**	**(0.3)**

* Second-quarter fiscal forecast as at September 30, 2005. If the reserve is not required this year, the deficit is projected to be $1.4 billion.
Note: Numbers may not add due to rounding.

Borrowing Program Status* ($ Billions)	Completed	Remaining	Total
Province	15.7	8.7	24.4
OEFC	1.4	1.1	2.5
Total	**17.1**	**9.8**	**26.9**

*As at October 19, 2005.

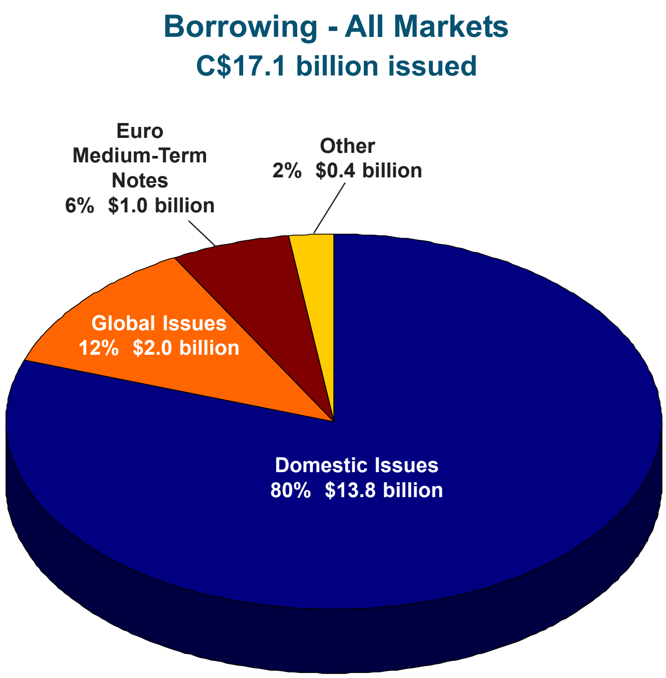
Borrowing Approach

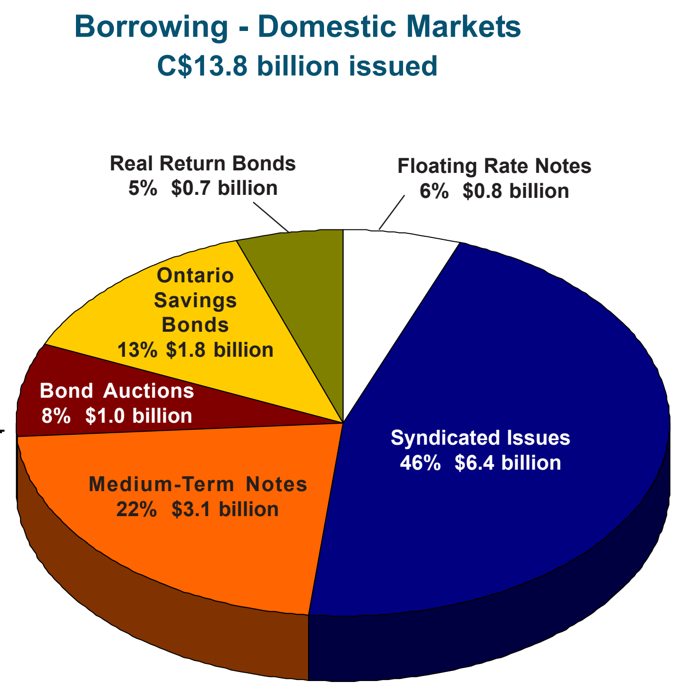
The Ontario Financing Authority (OFA) completed $16.8 billion of the Total Long-Term Public Borrowing Requirement during the first half of the fiscal year. As of October 19, 2005, an additional $0.3 billion was borrowed in the long-term markets, for a total of $17.1 billion. This includes pre-borrowing of $6.2 billion undertaken during 2004-05. Nearly 64 per cent of the Province's 2005-06 program has been completed.

The domestic market has been the main source of funding in 2005-06, providing a total of $13.8 billion through a number of instruments, including syndicated issues, Medium-Term Notes, Floating Rate Notes, Ontario Savings Bonds and Real Return Bonds.

On September 28, 2005, the Province successfully launched its first Real Return Bond (RRB) issue. RRBs pay investors a rate of return that is adjusted for inflation using the Canadian Consumer Price Index (CPI). The Province issued its RRB at a real rate below two per cent compared to an average over the past five years of 2.8 per cent and a high of 3.8 per cent for Government of Canada RRBs. Due to strong demand from institutional investors, the Province was able to increase the issue amount from $250 million to $700 million. The RRB was issued on behalf of OEFC to replace an existing liability that pays 3.25 per cent over the Ontario CPI. This will save OEFC over $9 million annually.

While the majority of the borrowing has been completed in the domestic market, the Province has also successfully issued in the international capital markets, including Global bonds denominated in U.S. and New Zealand dollars, Euro Medium-Term Notes in Canadian and Australian dollars, Swiss francs and South African rand – the first by any Canadian province. To date, the Province has borrowed $3.0 billion, or nearly 18 per cent of its long-term borrowing program in international markets, compared to 29 per cent in fiscal 2004-05 and 26 per cent in fiscal 2003-04.





Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority (October 19, 2005).

Medium-Term Outlook

Medium-Term Borrowing Program Outlook: Province and OEFC*

($ Billions)	2006-07	2007-08	2008-09
Deficit/(Surplus)	2.4	1.5	-
Adjustments for:			
Non-Cash Items Included in Deficit	1.2	1.7	1.4
Amortization of Major Tangible Capital Assets	(0.9)	(1.0)	(1.0)
Acquisitions of Major Tangible Capital Assets	2.2	2.4	2.2
Debt Maturities			
Currently Outstanding	14.5	12.9	19.5
Incremental Impact of Future Refinancing	-	1.5	2.1
Subtotal	14.5	14.4	21.6
Debt Redemptions	0.7	0.7	0.7
Canada Pension Plan Borrowing	(0.4)	(0.4)	(0.6)
Increase/(Decrease) in Cash and Cash Equivalents	-	-	-
Decrease/(Increase) in Short-Term Borrowing	1.0	-	-
Other Uses/(Sources) of Cash	(0.9)	0.2	0.5
Total Long-Term Public Borrowing Requirement	**19.9**	**19.5**	**24.8**

*Second-quarter fiscal forecast as at September 30, 2005. If the reserve is not required in 2006-07, the deficit would fall to $0.9 billion. The deficit would be eliminated in 2007-08 if the reserve is also not required in that year.
Note: Numbers may not add due to rounding.

Debt Management

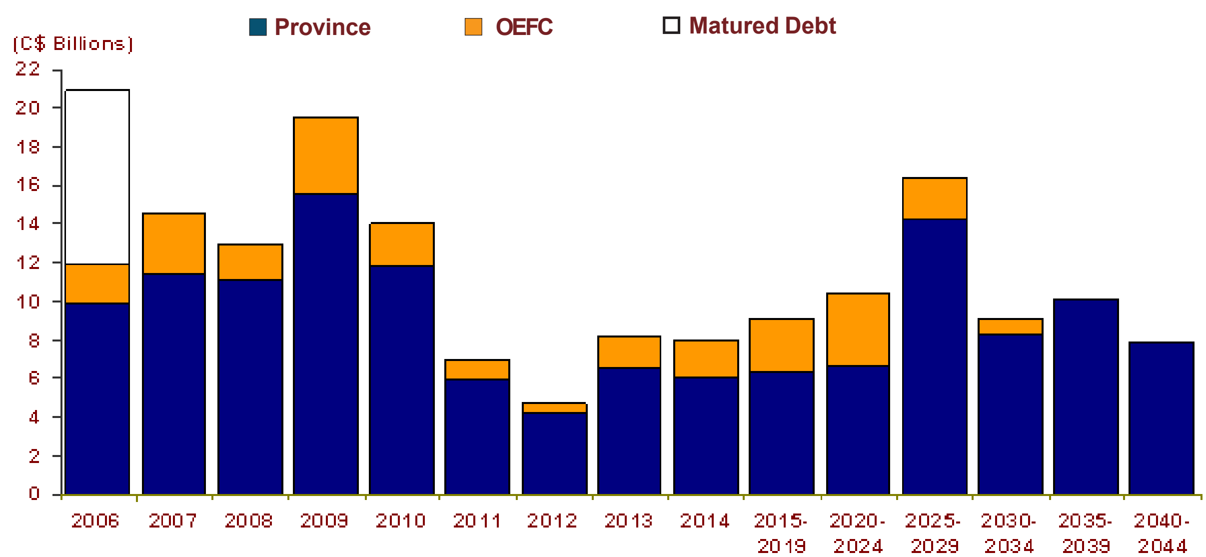
Ontario's Debt

Province of Ontario Debt Portfolio (As of September 30, 2005)				
Debt		**Risk Exposures**	**Current**	**Policy Limit**
Total Debt[1]	$156.9 billion	**Province**		
Net Debt[2]	$144.0 billion	Interest Rate Reset Exposure	10.3%	25.0%
Net Debt/GDP	26.8%	Foreign Exchange Exposure	0.7%	5.0%
Debt Statistics		**OEFC**		
Percentage Publicly Held	84%	Net Floating Rate Exposure	5.6%	20.0%
Percentage Issued in Canadian Dollars	81%	Foreign Exchange Exposure	0%	5.0%
Effective Interest Rate (Weighted Average)	6.2%			

[1] Total Debt represents consolidated non-public and publicly held debt.

[2] Net Debt (projected as at September 30, 2005 for the year end March 31, 2006) represents the difference between total liabilities and total financial assets.

Debt Maturities



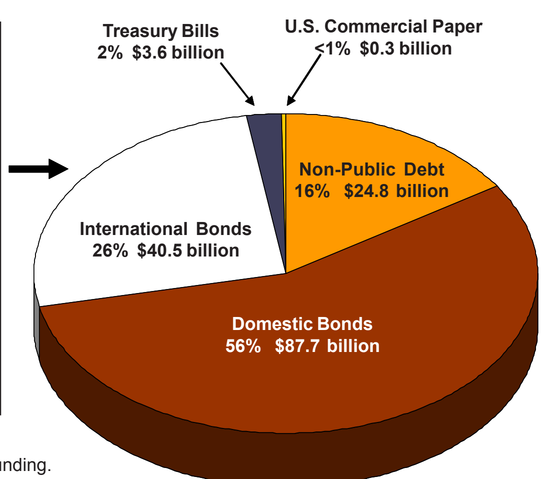
Excludes Province of Ontario and OEFC short-term debt and other liabilities.
Assumes issues with options will be retired at the earliest possible date. Excludes the incremental impact of future refinancing.
Source: Ontario Financing Authority (September 30, 2005).

Total Debt Composition

- Total Debt of $156.9 billion as of September 30, 2005 is composed of bonds and debentures issued in both the short- and long-term public capital markets and non-public debt held by certain federal and provincial public-sector pension plans and government agencies.
- As of September 30, 2005, public debt totalled $132.1 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also had $24.8 billion outstanding in non-public debt issued in Canadian dollars.

Debt issued outside of Canada in the following currencies:

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



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority (September 30, 2005).

Fiscal Summary

($ Millions)	2005-06 Budget Plan	2005-06 Current* Outlook	2005-06 In-Year Change
Revenue	**81,687**	**82,132**	**445**
Expense			
Programs	71,014	71,257	243
Capital	2,673	2,673	-
Interest on Debt	9,796	9,571	(225)
Total Expense	**83,483**	**83,501**	**18**
Surplus / (Deficit) Before Reserve	**(1,796)**	**(1,369)**	**427**
Reserve	1,000	1,000	-
Surplus / (Deficit)	**(2,796)**	**(2,369)**	**427**

* Second-quarter fiscal forecast as at September 30, 2005.

Source: Ontario Ministry of Finance

2005-06 In-Year Performance

Deficit Outlook at $2.4 Billion

The 2005 Budget Plan projected a deficit of $2,796 million for 2005-06. As at September 30, 2005, a deficit of $2,369 million is projected for 2005-06, an in-year improvement of $427 million from the deficit projected in the 2005 Budget.

Total revenue for 2005-06 is projected at $82,132 million, a net increase of $445 million from the 2005 Budget Plan mainly due to higher than projected Personal Income Tax and Corporations Tax revenue. **Total expense** is projected to increase to $83,501 million, up a net $18 million from the 2005 Budget Plan. This is mainly due to an in-year increase of $221 million related to obligations for retirement benefits and $28 million for the Forest Sector Strategy, largely offset by $225 million in interest on debt savings.

The reserve, included to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook, is unchanged at $1.0 billion. Any portion of the reserve not required at year-end will be used to reduce the deficit. If the reserve is not required this year, the deficit is projected to be $1.4 billion.

Economic Outlook

During the first half of 2005, the Ontario economy demonstrated considerable resilience in the face of higher oil prices and the strong Canadian dollar. The average private-sector forecast for Ontario real growth in 2005 has increased from 2.3 per cent at the time of the 2005 Ontario Budget to 2.5 per cent currently. Based on the positive developments to date, the Ministry of Finance real gross domestic product (GDP) growth assumption for 2005 has been increased from 2.0 per cent at the time of the 2005 Ontario Budget to 2.2 per cent currently.

Ontario Economic Outlook (Per Cent)

	2003	2004	2005p	2006p	2007p	2008p
Real GDP Growth	1.7	2.8	2.2	2.6	3.2	3.3
Nominal GDP Growth	3.3	4.7	4.1	4.5	4.8	5.0
Unemployment Rate	7.0	6.8	6.7	6.5	6.3	6.1
CPI Inflation	2.7	1.9	2.3	2.2	1.8	1.9

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

Private-sector forecasts for Ontario real growth in 2006 have decreased from 2.9 per cent at the time of the 2005 Ontario Budget to 2.6 per cent currently. Private-sector forecasters expect Ontario's real economic growth to average 2.9 per cent annually over the 2005 to 2008 period. This forecast reflects the interplay of external forces, including the stronger Canadian dollar, interest rates, the health of the U.S. economy and higher oil prices.

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

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