

FISCAL SUMMARY (\$ Millions)	Actual 2006-07	2007-08		
		Budget Plan	Current* Outlook	In-Year Change
Revenue	90,397	91,503	94,370	2,867
Expense				
Programs	79,297	82,030	84,553	2,523
Interest on Debt	8,831	9,123	9,067	(56)
Total Expense	88,128	91,153	93,620	2,467
Reserve	–	750	750	–
SURPLUS / (DEFICIT)	2,269	(400)	0	400

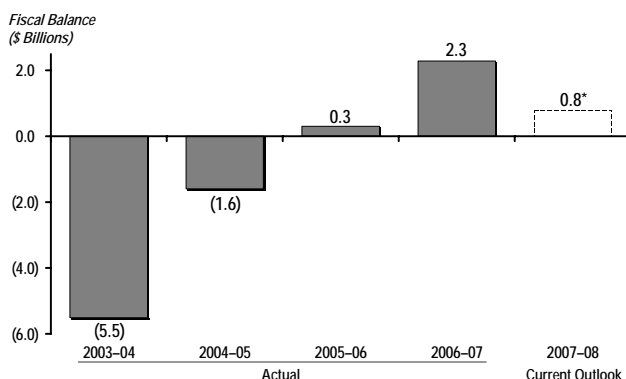
* Third-quarter fiscal forecast as at December 31, 2007.

2007-08 FISCAL OUTLOOK

The government is currently projecting a balanced budget for the Province in 2007-08. This represents an in-year improvement of \$400 million from the 2007 Ontario Budget Plan and is consistent with the fiscal outlook presented in the 2007 Ontario Economic Outlook and Fiscal Review and the 2007-08 First Quarter Ontario Finances.

The government's sound leadership and prudent fiscal management have resulted in a steady improvement from the inherited \$5.5 billion deficit in 2003-04 to the \$2.3 billion surplus recorded in 2006-07. With the third quarter of 2007-08 now complete, and the fiscal plan on track, there is reason for increased confidence that the \$750 million reserve included in the 2007 Budget Plan will not be required in 2007-08. If the reserve is not required, the government would be on track to achieve a \$750 million surplus, which would be its third consecutive surplus.

Ontario's Strong Fiscal Performance



* The government is currently projecting a balanced budget in 2007-08. However, if the \$0.8 billion reserve is not required by year-end, the Province would be on track to achieve a \$0.8 billion surplus.

In the 2007 Economic Outlook and Fiscal Review, the government announced more than \$3 billion in new investments and tax reductions aimed at strengthening Ontario's economic advantage and helping the manufacturing, forestry, agriculture and tourism sectors weather economic challenges. Although the Ontario economy remains fundamentally strong and is on track to outperform the 2007 Budget forecast, private-sector economists predict that future economic growth prospects have been dampened by external challenges. Therefore, in order to continue to improve public services while delivering balanced budgets, the government must maintain its prudent and disciplined fiscal management in the face of external challenges.

FISCAL PERFORMANCE

REVENUE AT \$94.4 BILLION

The revenue outlook, at \$94,370 million, has increased \$270 million since the 2007 Economic Outlook and Fiscal Review, for a total of \$2,867 million since the 2007 Budget. Changes since the 2007 Economic Outlook and Fiscal Review include:

- ◆ a **Corporations Tax** forecast increase of \$220 million based on stronger 2007 profit growth, and
- ◆ higher **Retail Sales Tax** revenue of \$50 million based on stronger growth in 2007 consumer spending.

The 2007–08 outlook maintains the prudent approach of the 2007 Economic Outlook and Fiscal Review. December tax receipts, largely final 2007 tax remittances from much of the financial sector, suggest potentially higher Corporations Tax revenues in 2007–08. Critical revenue information that could materially affect the forecast will arrive later in the year, notably receipt of final 2007 Corporations Tax instalment payments from the non-financial sector. Given continued risks and uncertainties over the remainder of the fiscal year, the 2007–08 taxation revenue outlook remains prudent.

TOTAL EXPENSE AT \$93.6 BILLION

Total expense, at \$93,620 million, has increased by a total of \$2,467 million since the 2007 Budget and is \$270 million higher than the forecast in the 2007 Economic Outlook and Fiscal Review. Ministry program expense changes this quarter, and the corresponding offsets, include:

- ◆ **Ministry of the Attorney General:** An increase of \$101 million for the Criminal Injuries Compensation Board to make a provision for the projected cost of the backlog of cases currently being reviewed.
- ◆ **Ministry of Community and Social Services:** While the Ontario Works' portions of social assistance expense remain as forecast in the 2007 Budget, an overall increase of \$155 million is required to support people with disabilities who are in financial need through the Ontario Disability Support Program.
- ◆ **Ministry of Research and Innovation:** An increase of \$5 million to support innovative diagnostic imaging research projects and create additional research space at the new Institute for Diagnostic Imaging Research at the University of Windsor, fully offset from the Capital Contingency Fund.
- ◆ **Ministry of Tourism:** An increase of \$20 million to expand tourism marketing initiatives that will attract new domestic and international visitors to communities and major attractions across the province, fully offset by the Operating Contingency Fund.
- ◆ **Ministry of Transportation:** An increase of \$300 million for municipal transit, which includes \$206 million in one-time transit funding for the City of Toronto to improve public transit service, and \$94 million to be distributed to other municipalities for municipal transit state-of-good-repair investments, fully offset from the Capital Contingency Fund.

IN-YEAR EXPENSE CHANGES, CONTINUED

- ♦ **Operating Contingency Fund:** A net decrease of \$6 million in the Operating Contingency Fund mainly due to an increase of \$14 million arising from revenue improvements identified since the 2007 Economic Outlook and Fiscal Review, which the government will invest in key priority areas, offset by a decrease of \$20 million that was allocated to the Ministry of Tourism.
- ♦ **Capital Contingency Fund:** A decrease of \$305 million in the Capital Contingency Fund, allocated to fund ministries' changes in expense as outlined.

Interest on debt expense for the year remains unchanged from the 2007 Economic Outlook and Fiscal Review at \$9,067 million.

RESERVE AT \$0.8 BILLION

The current fiscal outlook maintains a \$750 million reserve to protect against unexpected and adverse changes in the Province's revenue and expense outlook, including those resulting from changes in Ontario's economic performance. Should this reserve not be required, it is projected that the Province would achieve a surplus of \$750 million.

STATEMENT OF FINANCIAL TRANSACTIONS					Current*
(\$ Millions)	2003-04	2004-05	2005-06	Actual 2006-07	Outlook 2007-08
Revenue	68,400	77,841	84,225	90,397	94,370
Expense					
Programs	64,279	70,028	74,908	79,297	84,553
Interest on Debt	9,604	9,368	9,019	8,831	9,067
Total Expense	73,883	79,396	83,927	88,128	93,620
Reserve	—	—	—	—	750
Surplus / (Deficit)	(5,483)	(1,555)	298	2,269	0
Net Debt ^{†,‡}	138,816	140,921	141,928	141,100	143,079
Accumulated Deficit [†]	124,188	125,743	109,155	106,776	106,776

Note: Starting in 2005-06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Total expense prior to 2005-06 has not been restated to reflect expanded reporting.

* Third-quarter fiscal forecast as at December 31, 2007.

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the surplus/deficit. For fiscal 2005-06, the change in the Accumulated Deficit includes the opening combined net assets of hospitals, school boards and colleges that were recognized upon consolidation of these Broader Public Sector entities. For fiscal 2006-07, the change in the Accumulated Deficit includes an adjustment to the unfunded liability of the Ontario Electricity Financial Corporation made at the beginning of the year.

‡ Net Debt is restated in 2003-04, 2004-05 and 2005-06 to reflect the value of hydro corridor lands transferred to the Province from Hydro One Inc.

SELECTED ECONOMIC AND FISCAL STATISTICS					Current*
	2003-04	2004-05	2005-06	Actual 2006-07	Outlook 2007-08
Gross Domestic Product (GDP) at Market Prices (\$ Millions)	493,081	516,792	536,908	557,784	585,673
Ontario Population (000s) – July 1	12,263	12,420	12,565	12,705	12,804
Ontario Revenue as a per cent of GDP	13.9	15.1	15.7	16.2	16.1
Ontario Revenue Growth (%)	(0.7)	13.8	8.2	7.3	4.4
Ontario Total Expense as a per cent of GDP	15.0	15.4	15.6	15.8	16.0
Ontario Total Expense Growth (%)	7.4	7.5	5.7	5.0	6.2
Ontario Total Program Expense as a per cent of GDP	13.0	13.6	14.0	14.2	14.4
Ontario Total Program Expense Growth (%)	8.8	8.9	7.0	5.9	6.6
Ontario Interest on Debt as a per cent of Revenue	14.0	12.0	10.7	9.8	9.6
Ontario Interest on Debt as a per cent of Total Expense	13.0	11.8	10.7	10.0	9.7
Ontario Interest on Debt as a per cent of GDP	1.9	1.8	1.7	1.6	1.5
Ontario Surplus / (Deficit) as a per cent of GDP	(1.1)	(0.3)	0.1	0.4	0.0
Net Debt per capita (\$)	11,320	11,346	11,295	11,106	11,175
Net Debt as a per cent of GDP	28.2	27.3	26.4	25.3	24.4
Accumulated Deficit per capita (\$)	10,127	10,124	8,687	8,404	8,339
Accumulated Deficit as a per cent of GDP	25.2	24.3	20.3	19.1	18.2

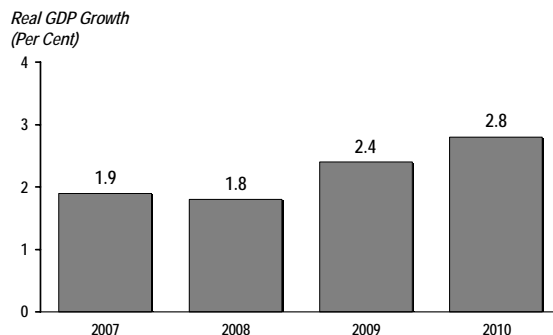
* Third-quarter fiscal forecast as at December 31, 2007.

Sources: Ontario Ministry of Finance and Statistics Canada.

ONTARIO ECONOMIC OUTLOOK

In the 2007 Economic Outlook and Fiscal Review, the Ministry of Finance projected real gross domestic product (GDP) growth of 1.9 per cent for 2007, 1.8 per cent in 2008, 2.4 per cent in 2009 and 2.8 per cent in 2010. These projections were 0.1 percentage point below the average private-sector forecast at that time. The moderate rate of economic growth in the near term primarily reflects weaker growth in the U.S. economy, as well as the negative impact of the high dollar and high oil prices.

Ontario Economic Outlook for 2007 to 2010
2007 Economic Outlook and Fiscal Review



ONTARIO REAL GDP MODERATES IN JULY-SEPTEMBER QUARTER

- ◆ Ontario's real GDP grew by 0.5 per cent (2.0 per cent annualized) in the third calendar quarter of 2007, following growth of 0.7 per cent in the second quarter.
- ◆ The increase in real GDP reflected a build-up in business inventories and solid gains in household and business spending.

JOB CREATION STEADY IN 2007

- ◆ Ontario employment rose by 101,100 jobs (1.6 per cent) in 2007, while the unemployment rate averaged 6.4 per cent.
- ◆ In the fourth quarter of 2007, Ontario employment advanced by 46,700 jobs, following an increase of 35,300 jobs in the third quarter. The unemployment rate was 6.2 per cent in the fourth quarter.

RETAIL SALES UP IN 2007

- ◆ Over the first 11 months of 2007, Ontario retail sales were up 4.0 per cent compared to the same period in 2006.

INFLATION MODERATES IN NOVEMBER

- ◆ The Ontario Consumer Price Index inflation rate was 1.8 per cent in 2007, identical to the rate in 2006.

HOUSING MARKET ACTIVITY

- ◆ Ontario home resales reached a level of 15,353 units in November, up 10.3 per cent from the same month in 2006 and the best November on record. On a year-to-date basis, sales of existing Ontario homes were up 10.2 per cent over the first 11 months of 2007, compared to the same period in 2006.
- ◆ Ontario recorded 68,100 housing starts in 2007, down 7.2 per cent from 2006.

MANUFACTURING SALES AND INTERNATIONAL EXPORTS IN 2007

- ◆ Over the first 11 months of 2007, Ontario manufacturing sales were 0.4 per cent below their value for the same period last year.
- ◆ Over the first 11 months of 2007, the value of Ontario international merchandise exports was up 2.1 per cent, compared to the same period in 2006, while imports, on the same basis, were up 3.7 per cent.

KEY ECONOMIC INDICATORS (Per cent change from previous period, unless indicated otherwise)

		Annual	Annual	Quarterly				
		2006	2007	06:3	06:4	07:1	07:2	07:3
Output (Seasonally Adjusted at Annual Rates)								
Real GDP	Ontario	2.1	N/A	0.4	2.8	2.7	2.8	2.0
Nominal GDP	Ontario	3.9	N/A	2.1	5.2	6.6	7.7	3.4
		Annual	Annual	Monthly 2007				
		2006	2007	Aug	Sep	Oct	Nov	Dec
Other Indicators (Seasonally Adjusted)								
Labour Markets								
Labour Force (Change in 000s)		78	116	(6)	15	24	12	2
Employment (Change in 000s)		95	101	9	30	32	(5)	(16)
Unemployment Rate (%)		6.3	6.4	6.4	6.2	6.0	6.2	6.5
Household Sector								
Retail Sales		4.1	N/A	1.9	0.0	(0.3)	1.0	N/A
Housing Starts (000s)*		73.4	68.1	68.8	84.4	67.4	74.9	51.7
MLS Home Resales**		(1.1)	N/A	11.2	1.2	12.3	10.3	N/A
Manufacturing Shipments		(3.2)	N/A	(5.8)	0.1	(0.3)	1.4	N/A
Transportation Equipment		(7.1)	N/A	(13.8)	9.4	(4.1)	1.3	N/A
Consumer Price Index**		1.8	1.8	1.6	2.3	2.3	2.4	2.1

* Monthly housing starts are expressed at a seasonally adjusted annual rate.

** Per cent change from a year earlier.

N/A = Data not available.

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation and Canadian Real Estate Association.

ONTARIO FINANCES

FINANCIAL TABLES

REVENUE

(\$ Millions)	Actual 2006-07	2007-08		
		Budget Plan	Current* Outlook	In-Year Change
Taxation Revenue				
Personal Income Tax	23,655	23,285	24,318	1,033
Retail Sales Tax	16,228	16,682	16,761	79
Corporations Tax	10,845	10,605	11,641	1,036
Employer Health Tax	4,371	4,550	4,598	48
Ontario Health Premium	2,589	2,638	2,730	92
Gasoline Tax	2,310	2,401	2,348	(53)
Fuel Tax	723	741	748	7
Tobacco Tax	1,236	1,217	1,139	(78)
Land Transfer Tax	1,197	1,187	1,370	183
Electricity Payments-In-Lieu of Taxes	757	706	664	(42)
Other Taxes	399	307	396	89
	64,310	64,319	66,713	2,394
Government of Canada				
Canada Health Transfer (CHT)	7,702	8,104	8,439	335
Canada Social Transfer (CST)	3,478	3,740	3,869	129
Social Housing	532	528	528	—
Infrastructure Programs	191	161	161	—
Wait Times Reduction Fund	467	468	468	—
Other Government of Canada	1,666	3,105	3,245	140
	14,036	16,106	16,710	604
Income from Investment in Government Business Enterprises				
Ontario Lottery and Gaming Corporation	1,945	1,801	1,786	(15)
Liquor Control Board of Ontario	1,307	1,343	1,343	—
Ontario Power Generation Inc. and Hydro One Inc.	947	840	756	(84)
Other Government Enterprises	(3)	2	2	—
	4,196	3,986	3,887	(99)
Other Non-Tax Revenue				
Reimbursements	1,415	1,491	1,448	(43)
Electricity Debt Retirement Charge	991	1,013	1,013	—
Vehicle and Driver Registration Fees	970	1,032	1,032	—
Power Sales	863	831	831	—
Other Fees and Licences	624	583	585	2
Liquor Licence Revenue	467	455	455	—
Net Reduction of Power Purchase Contract Liability	412	398	398	—
Sales and Rentals	1,108	429	430	1
Royalties	215	217	217	—
Miscellaneous Other Non-Tax Revenue	790	643	651	8
	7,855	7,092	7,060	(32)
TOTAL REVENUE	90,397	91,503	94,370	2,867

* Third-quarter fiscal forecast as at December 31, 2007.

TOTAL EXPENSE

(\$ Millions)	Actual 2006-07	2007-08		
		Budget Plan	Current* Outlook	In-Year Change
Ministry Expense				
Aboriginal Affairs	25	28	38	10
Agriculture, Food and Rural Affairs	800	876	880	4
Attorney General	1,347	1,387	1,510	123
Board of Internal Economy	163	245	245	—
Children and Youth Services	3,260	3,574	3,669	95
Citizenship and Immigration	116	86	86	—
Community and Social Services	7,182	7,341	7,528	187
Community Safety and Correctional Services	1,877	1,927	1,931	4
Culture	410	350	350	—
Democratic Renewal Secretariat	6	8	8	—
Economic Development and Trade	199	327	332	5
Education	423	437	451	14
School Boards' Net Expense	11,290	11,989	12,102	113
Energy	229	290	312	22
Environment	314	325	327	2
Executive Offices	19	18	18	—
Finance	569	464	445	(19)
Ontario Municipal Partnership Fund	758	917	917	—
Francophone Affairs, Office of	4	4	5	1
Government and Consumer Services	856	818	885	67
Health and Long-Term Care**	19,162	20,168	20,207	39
Hospitals' Net Expense**	16,145	17,384	17,384	—
Health Promotion	391	373	373	—
Intergovernmental Affairs	11	9	9	—
Labour	147	161	161	—
Municipal Affairs and Housing	843	760	760	—
Natural Resources	734	726	782	56
Northern Development and Mines	318	356	356	—
Public Infrastructure Renewal	426	138	444	306
Research and Innovation	316	325	333	8
Revenue	563	578	598	20
Small Business and Entrepreneurship	25	26	26	—
Tourism	204	195	229	34
Training, Colleges and Universities	4,110	4,402	4,452	50
Colleges' Net Expense	1,273	1,453	1,454	1
Transportation	2,733	1,977	2,356	379
Other Expense				
Capital Contingency Fund	—	175	810	635
Interest on Debt	8,831	9,123	9,067	(56)
MoveOntario	6	—	—	—
One-Time and Extraordinary Assistance to Agriculture Sector	278	20	359	339
Operating Contingency Fund	—	580	608	28
Pension and Other Employee Future Benefits	557	533	533	—
Power Purchases	863	831	831	—
Teachers' Pension Plan	345	349	349	—
Year-End Savings	—	(900)	(900)	—
TOTAL EXPENSE	88,128	91,153	93,620	2,467

* Third-quarter fiscal forecast as at December 31, 2007.

** The 2007-08 figures reflect a change in the presentation of expense in the Health Sector to be consistent with the 2006-07 Public Accounts. This change in presentation does not affect total expense.

2007–08 INFRASTRUCTURE EXPENDITURES

(\$ Millions)		2007–08 Current Outlook*		
Sector	Total Infrastructure Expenditures 2006–07 Actual	Investment in Capital Assets	Transfers and Other Expenditures in Infrastructure**	Total Infrastructure Expenditures
Transportation				
Transit	1,624	598	587	1,185
Highways	1,426	1,549	154	1,703
Other Transportation	76	5	28	33
Health				
Hospitals	375	623	5	628
Other Health	183	50	176	226
Education				
School Boards	1,000	—	1,016	1,016
Colleges	73	184	—	184
Universities	52	—	77	77
Water/Environment	360	32	230	262
Municipal and Local Infrastructure†	473	2	549	551
Justice	102	89	47	136
Other	682	287	864	1,151
TOTAL††	6,426	3,419	3,733	7,152

* Third-quarter fiscal forecast as at December 31, 2007.

** Mainly consists of transfers for capital purposes to municipalities and universities, expenditures for servicing capital-related debt of schools, and expenditures for the repair and rehabilitation of schools. These expenditures are included in the Province's Total Expenses in the Total Expense Table.

† Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

†† Total expenditures include \$86 million in flow-throughs in Investment in Capital Assets (for provincial highways) and \$160 million in flow-throughs in Transfers and Other Expenditures in Infrastructure (\$28 million in Transportation, \$45 million in Water/Environment and \$87 million in Municipal and Local Infrastructure).

ONTARIO'S 2007–08 FINANCING PROGRAM

CONSOLIDATED PROVINCE AND ONTARIO ELECTRICITY FINANCIAL CORPORATION (\$ Millions)

	Actual 2006–07	2007–08		
		Budget Plan	Current* Outlook	In-Year Change
Deficit / (Surplus)	(2,269)	400	0	(400)
Non-Cash Adjustments	1,720	(468)	(945)	(477)
Investment in Capital Assets	2,120	3,334	3,419	85
Net Loans / Investments	1,736	1,173	2,314	1,141
Debt Maturities	13,966	14,413	13,742	(671)
Debt Redemptions	1,041	887	1,314	427
Total Funding Requirement	18,314	19,739	19,844	105
Canada Pension Plan Borrowing	(185)	(431)	(346)	85
Decrease / (Increase) in Short-Term Borrowing	1,370	(550)	(1,370)	(820)
Increase / (Decrease) in Cash and Cash Equivalents	(804)	–	(455)	(455)
TOTAL LONG-TERM PUBLIC BORROWING REQUIREMENT	18,695	18,758	17,673	(1,085)

* Third-quarter fiscal forecast as at December 31, 2007.

BORROWING PROGRAM STATUS (AS AT DECEMBER 31, 2007) (\$ Billions)

	Completed	Remaining	Total
Province	12.0	3.2	15.2
Ontario Electricity Financial Corporation	2.2	0.3	2.5
TOTAL	14.2	3.5	17.7

Numbers may not add due to rounding.

- ◆ Long-Term Public Borrowing completed as at December 31, 2007, totalled \$14.2 billion as follows:

	(\$ Billions)
Ontario Savings Bonds	1.3
Domestic Issues	11.9
Global/US Dollar Issues	1.1
	14.2
Numbers may not add due to rounding.	

- ◆ As reported in the 2007–08 First Quarter Ontario Finances, the \$477 million decline in Non-Cash Adjustments is mainly due to additional cash transfers to the Province from the federal trusts.
- ◆ The \$1,141 million increase in Net Loans/Investments is mainly due to an increase in loans to Ontario Power Generation, and, as reported in the 2007 Economic Outlook and Fiscal Review, the transfer of third-party asset-backed commercial paper (ABCP) to a long-term investment portfolio.

ONTARIO'S 2007–08 FINANCING PROGRAM

- ◆ The \$671 million decline in Debt Maturities, of which \$166 million occurred prior to September 30, 2007, is mainly a result of the Province extending the maturity of a number of debt issues.
- ◆ The \$427 million increase in Debt Redemptions is a result of higher-than-forecast redemptions of Ontario Savings Bonds in June and December.
- ◆ Short-term borrowing increased by \$820 million, primarily to offset the transfer of ABCP to Net Loans/Investments, and to finance increased loans to the Ontario Lottery and Gaming Corporation and the Royal Ontario Museum.