

FISCAL SUMMARY (\$ Millions)	Interim 2005-06	2006-07		
		Budget Plan	Current* Outlook	In-Year Change
Revenue	83,939	85,730	86,550	820
Expense				
Programs	76,218	77,651	78,221	570
Interest on Debt	9,090	9,429	9,278	(151)
Total Expense	85,308	87,080	87,499	419
Surplus/(Deficit) Before Reserve	(1,369)	(1,350)	(949)	401
Reserve	–	1,000	1,000	–
SURPLUS/(DEFICIT)	(1,369)	(2,350)	(1,949)	401

* First-quarter fiscal forecast as at June 30, 2006.

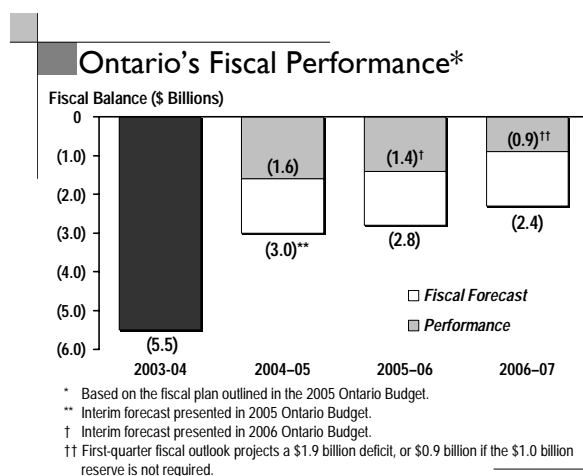
2006-07 FISCAL OUTLOOK

First-quarter results indicate that the government is on track to exceed its fiscal targets in 2006-07. The fiscal outlook for 2006-07 has improved by \$401 million from the forecast in the 2006 Budget. The improvement is mainly the result of stronger Corporations Tax revenues and lower interest on debt expense than projected at the time of the 2006 Budget. The deficit is now forecast at \$1.9 billion in 2006-07, \$0.9 billion if the reserve is not required by the end of the fiscal year.

The government is committed to ongoing fiscal discipline and prudent fiscal management. The Province's medium-term fiscal plan, outlined in the 2006 Budget, projected a balanced budget no later than 2008-09. Based on current fiscal conditions, the government is on track to fulfill this commitment.

By applying a responsible and disciplined approach to fiscal planning, the government has exceeded its fiscal targets while investing in key priority areas. The Province's fiscal plan has been put on a sound footing while the government has made historic and long-term investments in infrastructure, postsecondary education and training, education, health, and programs for Ontario's vulnerable persons and at-risk youth. The 2006-07 outlook remains prudent due to risks to the economic outlook including higher oil prices, further appreciation of the Canadian dollar and further easing in the pace of U.S. economic growth.

These improvements to the Province's fiscal position mean that Ontario's debt-to-GDP ratio (where debt is defined as accumulated deficit) continues to decline, from over 25 per cent in 2003-04 to about 20 per cent this year – the lowest it has been in 15 years.



TERANET INCOME FUND INITIAL PUBLIC OFFERING (IPO)

On June 16, 2006 the government announced that it would receive proceeds of more than \$500 million in relation to the completion of the IPO of Teranet Income Fund. The Province agreed to contribute \$54 million of its proceeds towards an overall \$116 million investment by Teranet for important service improvements and system enhancements to Ontario's electronic land registration system.

The initial revenue and expense pertaining to the transaction of the Teranet Income Fund IPO has been reflected in the first quarter fiscal outlook for 2006-07. While the final amount of revenue expected from the transaction will ultimately depend on the value of the fund's units when they are sold later this fiscal year, proceeds are currently estimated at \$570 million. This amount includes \$410 million in cash received from the IPO on June 16, 2006 and an estimated deferred payment of a further \$160 million which is based on the June 16th \$10 IPO unit price for 16 million income fund units. The cash to be received by the Province in a deferred payment will depend on the market price of income fund units at the time the Province's designees sell their income fund units and pay the Province the deferred payment. As such, the \$160 million could increase or decrease.

It is proposed that the Contingency Fund under the Ministry of Finance be increased by \$516 million as the government determines priority areas in which to invest the proceeds.

CANADA-ONTARIO AGREEMENT (COA)

The 2006 Budget outlined the revenue and expense impacts of the COA that are key elements of the Province's medium-term fiscal plan. The Budget also indicated that Ontario would work with the federal government to finalize the timing of the remaining funding under this Agreement. The Province continues to rely on the federal government's commitment to the COA and continues to work with it to ensure that all elements of the COA are honoured.

2006 FEDERAL BUDGET TRUSTS

The May 2006 federal budget proposed federal transfers of \$1.1 billion over three years to Ontario. These transfers are to be paid into third party trusts contingent on a federal surplus for 2005-06 being greater than \$5.6 billion. The Province will review its revenue outlook with respect to federal transfers when the 2005-06 Public Accounts of Canada are released later this year by the federal government.

CONSOLIDATING HOSPITALS, SCHOOL BOARDS AND COLLEGES INTO THE PROVINCE'S FINANCES

In the 2006 Budget, the government implemented a major change in the way that the finances of the Province are reported to the public. For the first time, the Province's financial reporting included the financial results of three important public-sector partners – hospitals, school boards and colleges of applied arts and technology. These sectors receive most of their funding from the taxpayers of Ontario. The outlooks provided in this quarterly update also reflect this change for fiscal years after 2004-05.

CHANGE IN PRESENTATION

Along with including the financial results of hospitals, school boards and colleges in the Province's fiscal outlook, the 2006 Budget presentation of expense changed to provide details on a total expense basis, rather than differentiating between operating and capital expense. This change in presentation is consistent with Public Sector Accounting Board principles, and is also reflected in this quarterly update.

REVENUE AT \$86.6 BILLION

The 2006-07 revenue outlook, at \$86,550 million, is up \$820 million from the forecast in the 2006 Budget. Changes in the first quarter are:

- ◆ The Sales and Rentals revenue forecast has increased by \$570 million reflecting the expected gross amount of the Province’s share of proceeds related to the Teranet Income Fund initial public offering (IPO) announced on June 16, 2006.
- ◆ The Corporations Tax revenue forecast has increased by \$250 million due to higher-than-anticipated payments related to 2005 tax return filing.

TOTAL EXPENSE AT \$87.5 BILLION

The 2006-07 total expense outlook, at \$87,499 million, is up a net \$419 million from the forecast in the 2006 Budget, mainly due to an increase of \$570 million in program expense related to future investments to be financed through the proceeds from the Teranet Income Fund initial public offering (IPO), partially offset by \$151 million in interest on debt savings. Ministry program expense changes this quarter, and the corresponding offsets, include:

- ◆ Ministry of Economic Development and Trade: An additional \$2 million fully offset from the Contingency Fund to help Caledonia and surrounding businesses recover from the setbacks suffered as a result of the land dispute, as part of the government's broader strategy to provide support and assistance to the residents and businesses of Caledonia.
- ◆ Ministry of Education – School Boards: An increase of \$37 million in school boards’ net expense to reflect announced enhancements to the 2006-07 Grants for Student Needs, fully offset from the Contingency Fund.
- ◆ Ministry of Energy: An additional \$10 million for the powerWISE® advertising campaign, which promotes energy conservation, and an additional \$3 million for a Smart Meter communication program, which will help explain how smart meters can provide benefits to consumers, both fully offset from the Contingency Fund.
- ◆ Ministry of Finance: An additional \$107 million for the Ontario Home Electricity Relief program that will provide one-time assistance to low-income Ontarians to help with rising electricity costs, fully offset from the Contingency Fund.
- ◆ Ministry of Finance – Contingency Fund: A net increase of \$336 million in the Contingency Fund, mainly due to an increase of \$516 million to account for priority projects to be funded by the proceeds from the Teranet Income Fund IPO in 2006-07, and partially offset by a decrease of \$180 million that was allocated to fund ministries’ expense changes as outlined.
- ◆ Ministry of Government Services: An additional \$54 million for Teranet service improvements and system enhancements to Ontario’s electronic land registration system, offset from proceeds from the Teranet Income Fund IPO. An additional \$15 million for migration of routine transactional services to ServiceOntario and the enhancement of other service channels, and \$6 million for the continuation of the supply chain management savings strategy, both fully offset from the Contingency Fund.

Interest on debt expense for the year is forecast to be \$151 million lower, as debt was issued in favourable terms at interest rates lower than those projected at the time of the 2006 Budget.

RESERVE AT \$1.0 BILLION

The current fiscal outlook maintains a \$1.0 billion reserve to help achieve the government’s overall fiscal objectives and to protect against unexpected and adverse changes in the economic and fiscal outlook.

STATEMENT OF FINANCIAL TRANSACTIONS

(\$ Millions)	2002-03	2003-04	Actual 2004-05	Interim 2005-06	Current* Outlook 2006-07
Revenue	68,891	68,400	77,841	83,939	86,550
Expense					
Programs	59,080	64,279	70,028	76,218	78,221
Interest on Debt	9,694	9,604	9,368	9,090	9,278
Total Expense	68,774	73,883	79,396	85,308	87,499
Surplus / (Deficit) Before Reserve	117	(5,483)	(1,555)	(1,369)	(949)
Reserve	—	—	—	—	1,000
Surplus / (Deficit)	117	(5,483)	(1,555)	(1,369)	(1,949)
Net Debt [†]	132,647	138,557	140,662	142,961	146,362
Accumulated Deficit [†]	118,705	124,188	125,743	113,053	115,002

Note: Starting in 2005-06, the Province's financial reporting has been 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.

* First-quarter fiscal forecast as at June 30, 2006.

† 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 Service (BPS) entities.

SELECTED ECONOMIC AND FISCAL STATISTICS

	2002-03	2003-04	Actual 2004-05	Interim 2005-06	Current* Outlook 2006-07
Gross Domestic Product (GDP) at Market Prices** (\$ Millions)	477,528	491,859	517,306	538,386	562,613
Ontario Population (000s) - July 1	12,102	12,260	12,407	12,541	12,696
Ontario Revenue as a per cent of GDP	14.4	13.9	15.0	15.6	15.4
Ontario Revenue Growth (%)	3.5	(0.7)	13.8	7.8	3.1
Ontario Total Expense as a per cent of GDP	14.4	15.0	15.3	15.8	15.6
Ontario Total Expense Growth (%)	4.0	7.4	7.5	7.4	2.6
Ontario Total Program Expense as a per cent of GDP	12.4	13.1	13.5	14.2	13.9
Ontario Total Program Expense Growth (%)	5.8	8.8	8.9	8.8	2.6
Ontario Interest on Debt as a per cent of Revenue	14.1	14.0	12.0	10.8	10.7
Ontario Interest on Debt as a per cent of Total Expense	14.1	13.0	11.8	10.7	10.6
Ontario Interest on Debt as a per cent of GDP	2.0	2.0	1.8	1.7	1.6
Ontario Surplus / (Deficit) as a per cent of GDP	0.0	(1.1)	(0.3)	(0.3)	(0.3)
Net Debt per capita (\$)	10,961	11,302	11,337	11,399	11,528
Net Debt as a per cent of GDP	27.8	28.2	27.2	26.6	26.0
Accumulated Deficit per capita (\$)	9,809	10,130	10,135	9,015	9,058
Accumulated Deficit as a per cent of GDP	24.9	25.2	24.3	21.0	20.4

* First-quarter fiscal forecast as at June 30, 2006.

** Reflects Statistics Canada's revisions to the National Income and Expenditure Accounts, and the Ontario Economic Accounts.

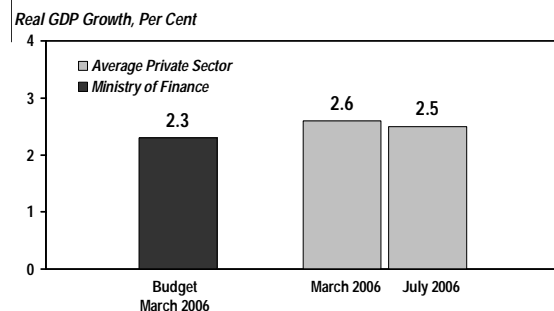
Sources: Ontario Ministry of Finance and Statistics Canada.

ONTARIO ECONOMIC OUTLOOK

Moderate economic growth is expected in 2006, with real GDP rising by 2.3 per cent, after an increase of 2.8 per cent in 2005. The slower rate of economic growth reflects the appreciation of the Canadian dollar, continuing high oil prices, higher interest rates and an easing in the pace of growth in the U.S. economy.

The average private-sector forecast for Ontario economic growth is 2.5 per cent in 2006, down slightly from 2.6 per cent at the time of the Budget.

Ontario Economic Outlook for 2006
2006 Budget and Average Private-Sector Forecast



ONTARIO REAL GROSS DOMESTIC PRODUCT (GDP) GROWTH CONTINUES

- ◆ Ontario's real GDP grew by 0.4 per cent in the first calendar quarter of 2006. Growth was led by strong residential and business construction investment spending.

SOLID JOB CREATION IN 2006

- ◆ Over the first six months of 2006, Ontario has gained 111,000 jobs compared to the same period last year, a 1.8 per cent increase. In June, Ontario gained 1,400 net new jobs, following strong increases in March (+31,200), April (+23,800) and May (+34,000). In June, the unemployment rate was 5.9 per cent, the lowest level in five years.
- ◆ In 2005, Ontario added 81,200 net new jobs for a gain of 1.3%. Full-time employment dominated job gains in 2005 with 71,000 net new jobs (+1.4%), while part-time employment increased by 10,200 (+0.9%). The unemployment rate averaged 6.6% in 2005, the lowest annual level since 2001.

RETAIL SALES GROWING

- ◆ Over the first five months of 2006, Ontario retail sales were 4.8 per cent ahead of the same period in 2005.

INFLATION REMAINS MODERATE

- ◆ The Ontario annual CPI inflation rate was 2.4 per cent (year-to-year) in June, down from 2.8 per cent in May. In 2005, the Ontario CPI Inflation rate was 2.2 per cent, up from 1.9 per cent in 2004.

ACTIVITY IN HOUSING MARKET MODERATES

- ◆ Over the first six months of 2006, Ontario housing starts were 4.9 per cent lower than during the same period last year.
- ◆ Over the first five months of this year, Ontario home resales were 2.9 per cent higher than during the same period in 2005. The average price for a resale home was 6.9 per cent higher in May compared to a year ago.

MANUFACTURING SHIPMENTS WEAKER / INTERNATIONAL EXPORTS IMPROVE IN 2006

- ◆ Over the first five months of 2006, Ontario manufacturing shipments were 2.8 per cent lower than the same period in 2005.
- ◆ So far this year, Ontario international exports were up 1.0 per cent from the first five months of last year, while imports were up 1.5 per cent.

KEY ECONOMIC INDICATORS								
(Per Cent Change from previous period, unless indicated otherwise)								
		Annual	Annual¹	Quarterly				
		2004	2005	05:1	05:2	05:3	05:4	06:1
Output (Seasonally Adjusted at Annual Rates)								
Real GDP	Ontario	3.1	2.8	1.6	1.8	1.8	1.2	1.7
Nominal GDP	Ontario	5.2	4.1	1.3	2.5	5.2	1.1	2.3
		Annual	Annual¹	Monthly 2006				
		2004	2005	Feb	Mar	Apr	May	Jun
Other Indicators (Seasonally Adjusted)								
Labour Markets								
Labour Force (Change in 000s)		99	74	(39)	27	29	14	5
Employment (Change in 000s)		103	81	(17)	31	24	34	1
Unemployment Rate (%)		6.8	6.6	6.2	6.1	6.2	5.9	5.9
Household Sector								
Retail Sales		3.2	4.7	(2.3)	3.1	1.3	(1.9)	N/A
Housing Starts (000s)*		85.1	78.8	80.0	76.3	71.7	78.1	80.1
MLS Home Resales**		7.0	(0.2)	7.0	8.2	(6.6)	2.2	N/A
Manufacturing Shipments								
Transportation Equipment		7.1	0.7	(1.2)	0.0	0.2	(1.6)	N/A
Consumer Price Index**		5.2	(2.7)	1.3	(4.4)	0.8	(3.3)	N/A
		1.9	2.2	2.0	2.3	2.3	2.8	2.4
Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Ward's Automotive.								

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

** Per cent change from a year earlier.

N/A = Data not available.

ONTARIO FINANCES
FINANCIAL TABLES

REVENUE

(\$ Millions)	Interim 2005-06	2006-07		
		Budget Plan	Current* Outlook	In-Year Change
Taxation Revenue				
Personal Income Tax	21,028	21,671	21,671	–
Retail Sales Tax	15,523	16,165	16,165	–
Corporations Tax	9,729	9,845	10,095	250
Employer Health Tax	4,205	4,314	4,314	–
Ontario Health Premium	2,427	2,551	2,551	–
Gasoline Tax	2,288	2,303	2,303	–
Fuel Tax	737	742	742	–
Tobacco Tax	1,408	1,485	1,485	–
Land Transfer Tax	1,141	1,125	1,125	–
Electricity Payments-In-Lieu of Taxes	940	790	790	–
Other Taxes	314	283	283	–
	59,740	61,274	61,524	250
Government of Canada				
Canada Health Transfer (CHT)	7,139	7,619	7,619	–
Canada Social Transfer (CST)	3,318	3,420	3,420	–
CHST Supplements	584	–	–	–
Social Housing	531	530	530	–
Infrastructure Programs	289	359	359	–
Wait Times Reduction Fund	243	467	467	–
Medical Equipment Funds	194	–	–	–
Other Government of Canada	922	1,187	1,187	–
	13,220	13,582	13,582	–
Income from Investment in Government Business Enterprises				
Ontario Lottery and Gaming Corporation	1,953	1,743	1,743	–
Liquor Control Board of Ontario	1,182	1,254	1,254	–
Ontario Power Generation Inc. and Hydro One Inc.	1,090	919	919	–
Other Government Enterprises	(15)	4	4	–
	4,210	3,920	3,920	–
Other Non-Tax Revenue				
Reimbursements	1,301	1,358	1,358	–
Electricity Debt Retirement Charge	1,018	1,027	1,027	–
Vehicle and Driver Registration Fees	1,010	1,021	1,021	–
Power Sales	961	988	988	–
Other Fees and Licences	534	556	556	–
Liquor Licence Revenue	495	453	453	–
Net Reduction of Power Purchase Contract Liability	396	412	412	–
Sales and Rentals	336	396	966	570
Royalties	175	243	243	–
Miscellaneous Other Non-Tax Revenue	543	500	500	–
	6,769	6,954	7,524	570
TOTAL REVENUE	83,939	85,730	86,550	820

* First-quarter fiscal forecast as at June 30, 2006.

TOTAL EXPENSE

(\$ Millions)	Interim 2005-06	2006-07		
		Budget Plan	Current* Outlook	In-Year Change
Ministry				
Agriculture, Food and Rural Affairs	863	880	880	–
One-Time and Extraordinary Assistance	277	16	16	–
Attorney General	1,291	1,301	1,301	–
Board of Internal Economy	163	169	169	–
Children and Youth Services	3,346	3,264	3,264	–
Citizenship and Immigration	94	91	91	–
Community and Social Services	6,745	7,045	7,045	–
Community Safety and Correctional Services	1,806	1,887	1,887	–
Culture	454	366	366	–
Democratic Renewal Secretariat	3	10	10	–
Economic Development and Trade	230	351	353	2
Education	467	438	438	–
School Boards [†]	10,758	11,182	11,219	37
Teachers' Pension Plan (TPP)	295	408	408	–
Energy	207	229	242	13
Environment	302	302	302	–
Time-Limited Environmental Expense	25	–	–	–
Executive Offices	19	19	19	–
Finance – Own Account	1,226	1,060	1,167	107
Interest on Debt	9,090	9,429	9,278	(151)
Community Reinvestment Fund / Ontario Municipal Partnership Fund	708	731	731	–
Community Reinvestment Fund One-Time Transition Funding	–	–	–	–
Electricity Consumer Price Protection Fund	–	–	–	–
Power Purchases	961	988	988	–
Contingency Fund	50	995	1,331	336
Government Services	752	736	811	75
Pension and Other Employee Future Benefits	736	594	594	–
Health and Long-Term Care	19,157	20,328	20,328	–
Hospitals [†]	14,061	14,713	14,713	–
Health Promotion	258	363	363	–
Intergovernmental Affairs	10	9	9	–
Labour	146	150	150	–
Municipal Affairs and Housing	904	693	693	–
Natural Resources	635	682	682	–
Northern Development and Mines	357	347	347	–
Office of Francophone Affairs	4	4	4	–
Public Infrastructure Renewal	49	114	114	–
Contingency Fund	–	175	175	–
Research and Innovation	372	345	345	–
Secretariat for Aboriginal Affairs	49	21	21	–
Tourism	261	161	161	–
Training, Colleges and Universities	3,479	3,876	3,876	–
Colleges [†]	1,258	1,359	1,359	–
Transportation	2,208	1,943	1,943	–
Move Ontario	1,232	6	6	–
Year-End Savings	–	(700)	(700)	–
TOTAL EXPENSE	85,308	87,080	87,499	419

* First-quarter fiscal forecast as at June 30, 2006.

† Starting in 2005-06 the Province's financial reporting has been expanded to include hospitals, school boards and colleges using one-line consolidation. As a result, these amounts reflect the net expense of these sectors.

2006–07 INFRASTRUCTURE EXPENDITURES

(\$ Millions)	Total Infrastructure Expenditures 2005-06 Interim	2006-07*		
		Investment in Capital Assets	Transfers and Other Expenditures in Infrastructure**	Total Infrastructure Expenditures
Transportation				
Transit	1,649	546	397	943
Highways	1,253	1,295	116	1,411
Other Transportation	494	2	60	62
Health				
Hospitals	274	305	–	305
Other Health	180	32	172	204
Education				
School Boards	1,031	–	1,110	1,110
Colleges	44	13	–	13
Universities	86	–	27	27
Water/Environment	337	10	226	236
Municipal and Local Infrastructure [†]	496	2	381	383
Justice	96	64	53	117
Other	497	275	232	507
TOTAL^{††}	6,437	2,544	2,774	5,318

* First-quarter fiscal forecast as at June 30, 2006, which is unchanged from the 2006 Budget.

** 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 \$36 million in flow-throughs in Investment in Capital Assets (for provincial highways) and \$208 million in flow-throughs in Transfers and Other Expenditures in Infrastructure (\$31 million in Transportation, \$26 million in Water/Environment, \$150 million in Municipal and Local Infrastructure, and \$1 million in Other Infrastructure).

ONTARIO'S 2006-07 FINANCING PROGRAM

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

	Interim 2005-06	2006-07		
		Budget Plan	Current* Outlook	In-Year Change
Deficit/(Surplus)	1,369	2,350	1,949	(401)
Adjustments for:				
Non-Cash Items Included in Deficit	3,904	1,058	1,058	–
Amortization of Major Tangible Capital Assets	(2,092)	(2,228)	(2,228)	–
Investment in Capital Assets	2,100	2,544	2,544	–
Debt Maturities	19,805	15,140	15,040	(100)
Debt Redemptions	1,134	700	900	200
Canada Pension Plan Borrowing	(996)	(351)	(351)	–
Increase/(Decrease) in Cash and Cash Equivalents	(1,485)	–	–	–
Decrease/(Increase) in Short-Term Borrowing	(1,771)	1,371	1,371	–
Other Uses/(Sources) of Cash	1,879	247	224	(23)
Total Long-Term Public Borrowing Requirement	23,847	20,831	20,507	(324)

* First-quarter fiscal forecast as at June 30, 2006.

BORROWING PROGRAM STATUS (AS AT JUNE 30, 2006) (\$ Billions)

	Completed	Remaining	Total
Province	4.8	12.2	17.0
Ontario Electricity Financial Corporation	0.6	2.9	3.5
TOTAL	5.4	15.1	20.5

Numbers may not add due to rounding.

- ◆ Long-Term Public Borrowing undertaken as at June 30, 2006, was \$5.4 billion as follows:

	(\$ Billions)
Ontario Savings Bonds	1.4
Domestic Issues	2.8
Global/US Dollar Issues	1.1
Euro Medium Term Notes	0.1
	<u>5.4</u>

- ◆ The \$100 million decline in Debt Maturities is mainly due to debt issues with callable or extendible features that were shifted into future years.
- ◆ The \$200 million increase in Debt Redemptions is a result of higher than forecast redemptions of Ontario Savings Bonds (OSBs) in June.