In the 2009 Ontario Budget, the government projected a $14.1 billion deficit for 2009–10. Since then, a weaker-than-expected economy and further steps to support the automotive industry have increased the deficit projection to $18.5 billion in 2009–10, the same as announced by the Minister of Finance on June 1, 2009.

This $4.4 billion increase to the deficit for 2009–10 is primarily due to an approximately $2.8 billion deterioration in the Province’s revenue outlook as a result of a weaker economy, combined with an increase in total expense of $1.5 billion to support the automotive sector and $0.1 billion in higher interest on debt expense.

The 2009 Ontario Budget set aside $2.5 billion of the contingency funds in recognition of the challenges facing the auto sector. This put Ontario in a position to partially mitigate the estimated $4.0 billion fiscal impact of the auto sector support.

While economic challenges persist, the government will continue to be prudent in its management of the Province’s finances - the full reserve and the remaining contingency funds are still available to protect against additional adverse changes in the 2009–10 fiscal outlook.

The 2009–10 revenue outlook, at $93.2 billion, is $2.8 billion or 2.9 per cent below the 2009 Budget forecast. This deterioration reflects new information on 2008 tax processing and economic performance in 2009, as the sharp decline in the global economy continues to affect Ontario.

The 2009–10 total expense outlook, at $110.5 billion, is $1.7 billion higher than forecast in the 2009 Budget, mainly due to the estimated net fiscal estimate of the provincial share of support to the automotive industry, and an increase of $0.1 billion in interest on debt expense.

Final results for 2008–09 will be presented in the Public Accounts later this summer. Further details on the Province’s fiscal and economic outlook will be provided in the 2009 Ontario Economic Outlook and Fiscal Review later this fall.

<table>
<thead>
<tr>
<th>Fiscal Summary ($ Billions)</th>
<th>Interim 2008–09</th>
<th>Budget Plan</th>
<th>Current Outlook</th>
<th>In-Year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>93.4</td>
<td>96.0</td>
<td>93.2</td>
<td>(2.8)</td>
</tr>
<tr>
<td>Programs</td>
<td>88.5</td>
<td>99.6</td>
<td>101.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Interest on Debt</td>
<td>8.9</td>
<td>9.3</td>
<td>9.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Total Expense</td>
<td>97.3</td>
<td>108.9</td>
<td>110.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Reserve</td>
<td>—</td>
<td>1.2</td>
<td>1.2</td>
<td>—</td>
</tr>
<tr>
<td>Surplus/(Deficit)</td>
<td>(3.9)</td>
<td>(14.1)</td>
<td>(18.5)</td>
<td>(4.4)</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.
Ontario’s economy is facing a challenging environment including the global economic downturn, a sharp recession in the U.S., uncertainty in financial markets and restructuring in the auto sector.

The outlook for 2009 has deteriorated since the March Budget, largely reflecting weaker-than-expected U.S. demand for Ontario’s exports.

As of July 22, private-sector forecasters, on average, project Ontario real GDP to decline by 3.3 per cent in 2009, down from a 2.4 per cent decrease at the time of the 2009 Budget. Private-sector forecasters, on average, expect nominal GDP (measured in current dollars) to decrease by 3.7 per cent in 2009, down from a 2.3 per cent decline at the time of the 2009 Ontario Budget.

Private-sector forecasters expect economic growth to resume in the second half of the year due to a recovery in the U.S. economy, government efforts to preserve and create jobs, low interest rates and stable financial markets.

In the first quarter of 2009, Ontario GDP fell by 2.0 per cent, following a 1.5 per cent decline in the last quarter of 2008.

The unemployment rate continued to trend higher, increasing to 9.6 per cent in June.

Ontario retail sales increased 1.5 per cent in May to $12.2 billion, the fourth monthly gain over the past five months. On a year-to-date basis, sales are down 5.5 per cent compared with the first five months of 2008.

The Ontario Consumer Price Index (CPI) inflation rate was zero (year-to-year) in June. Excluding the impact of energy prices, the CPI inflation rate was 1.8 per cent.

Ontario home resales jumped 8.6 per cent (seasonally adjusted) to 17,334 in June, the fifth consecutive increase on a month-to-month basis. The average price of an Ontario resale home was $325,364 in June, up 3.3 per cent from a year earlier.

Ontario housing starts edged up 2.9 per cent to 45,800 units in June (seasonally adjusted annual rate), following a 19.0 per cent jump in May.

In May, the value of Ontario international exports (on a customs basis) fell 8.8 per cent from April to $9.2 billion while imports dropped 7.9 per cent to $15.9 billion (seasonally adjusted by the Ontario Ministry of Finance).

Ontario’s 2009-10 long-term public borrowing program is forecast at $39.2 billion. This is up from the $34.8 billion forecast in the 2009 Budget, as a result of the projected increase in the deficit.

As of June 30, 2009, $17.1 billion or 46 per cent of the program had been completed, including a Euro 1.5 billion bond, two Global bonds for a total of USD $5.75 billion, and a $1.0 billion domestic bond.
Borrowing Approach

- International markets have been the primary source of funds for Ontario so far this year. About $9.2 billion, or 54 per cent of long-term borrowing, has been raised internationally. In addition to the $7.9 billion Canadian dollars borrowed domestically, Ontario issued debt in U.S. dollars, Euros, Swiss francs, and Hong Kong dollars.

- The proportion of international funding may drop back into the 35 to 50 per cent range that was initially targeted, as demand in the domestic market is met. The Province is able to operate outside this band if market conditions continue to favour international issuance.

- Ontario’s debt is rated at Aa1 by Moody’s and AA with a negative outlook by S&P and DBRS.

All Markets
Total – $17.1 billion issued

- Domestic Issues $7.9B (46%)
- International Issues $9.2B (54%)

Domestic Market
Total – $7.9 billion issued

- Syndicated Bonds $5.5B (70%)
- Floating Rate Notes $1.2B (15%)
- Ontario Savings Bonds $1.1B (14%)
- Real Return Bonds $0.1B (1%)

Note: Numbers may not add due to rounding.

Debt Statistics

<table>
<thead>
<tr>
<th>Debt</th>
<th>All Markets</th>
<th>Domestic Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Debt</td>
<td>$187.8 billion</td>
<td>$7.9 billion</td>
</tr>
<tr>
<td>Net Debt¹</td>
<td>$174.2 billion</td>
<td></td>
</tr>
<tr>
<td>Accumulated deficit¹</td>
<td>$128.0 billion</td>
<td></td>
</tr>
<tr>
<td>Net Debt¹/GDP</td>
<td>30.4%</td>
<td></td>
</tr>
<tr>
<td>Accumulated deficit¹/GDP</td>
<td>22.3%</td>
<td></td>
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</tbody>
</table>

Debt Statistics

- Percentage Publicly Held 90.2%
- Percentage Issued in Canadian Dollars 78.3%
- Effective Interest Rate (Weighted Average) 5.0%

Risk Exposure (% of debt) Current Policy Limit

<table>
<thead>
<tr>
<th></th>
<th>Province</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Interest Rate Resetting Exposure</td>
<td>14.2</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange Exposure</td>
<td>0.15</td>
</tr>
<tr>
<td></td>
<td>OEFC</td>
<td></td>
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<tr>
<td></td>
<td>Net Interest Rate Resetting Exposure</td>
<td>20.3</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange Exposure</td>
<td>0.0</td>
</tr>
</tbody>
</table>

As at June 30, 2009. Net Debt is calculated as the difference between liabilities and financial assets. 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.

¹ Projected to March 31, 2010.
• Total debt of $187.8 billion is composed of bonds issued in both the short- and long-term public capital markets, non-public debt, treasury bills and U.S. commercial paper.

• Public debt totals $169.4 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies.

• Ontario also has $18.4 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).

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

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