

BACKGROUND

STATE OF THE PROVINCE'S FINANCES: NOVEMBER 2007

BASE CASE MEDIUM TERM OUTLOOK

The following forecast was prepared on the basis of information and assumptions available at the end of September. Forecasts by their nature are subject to changing future events. With the exception of the elimination of PST on used cars, the forecast does not include any other adjustments for political commitments of any party during the election.

Base Case Medium Term GRF Outlook

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue	9,108.2	8,276.1	8,299.1	8,573.3	8,979.3
Operating Expense	8,036.2	8,466.3	8,750.5	9,126.8	9,415.7
Operating Surplus/(Deficit)	1,072.0	-190.2	-451.4	-553.5	-436.4
Interest Costs	545.0	550.0	587.0	650.0	705.0
Pre-Transfer Balance	527.0	-740.2	-1,038.4	-1,203.5	-1,141.4
FSF Transfer	-263.5				
SIF Transfer	0.0				
Surplus/(Deficit)	263.5				

Given the forecast assumptions, the total deficit over the 2008-09 to 2011-12 period would be \$4.123 billion.

There is \$1.256 billion forecasted to be in reserves to assist in developing an alternative budget strategy from the forecast. The reserves are as follows:

Fiscal Stabilization Fund	\$1,151.0 million
Saskatchewan Infrastructure Fund	\$105.1 million

These two fund balances will be combined and moved to the Growth and Financial Security Fund in accordance with legislation to be introduced in the fall session.

In addition, Crown Investments Corporation (CIC) is forecasting a cash position of \$660 million at December 31, 2007, after paying the GRF dividend. This amount is not included in the above analysis, as it will need to be assessed against the potential future multi-billion dollar capital needs of the Crown sector.

ONE-TIME OR WINDFALL REVENUE

Overall, revenue is expected to decline by \$832.1 million from the 2007-08 mid-year forecast to 2008-09. This is made up of the following five major items, partially offset by other economic growth in the future.

One-time / Windfall Revenue Adjustments	
Change from 2007-08 to 2008-09 (\$ millions)	
2007-08 Equalization	\$226 million
Prior year adjustments in PIT/CIT	\$195 million
Windfall oil revenue	\$332 million
2007-08 federal trust transfers and PDAP	\$126 million
Impact of Newgrade sale on 2008-09 CIC dividend	\$80 million
Total "one-time" adjustments	\$959 million

Equalization

Without a change in the federal government's approach to the treatment of natural resource revenue under the Equalization formula, Saskatchewan is not expected to receive Equalization following 2007-08 throughout the forecast period.

Federal Trust Transfers/PDAP

The 2007 federal budget introduced a series of one-time transfer payments to provinces that do not continue into the future. These include funding for clean air and climate change, patient wait times, HPV immunization, labour market training, child care and provincial disaster assistance.

Prior Year Adjustments in PIT/CIT

2007-08 projections of both personal and corporate income tax have increased substantially on the basis of higher-than-expected 2006 federal assessment data. Due to the lagged effect of this data on provincial income tax payments, Saskatchewan will receive an unusually large positive prior year adjustment for the current fiscal year.

Windfall Oil Revenue

The 2007-08 mid-year report has a forecast fiscal year average West Texas Intermediate (WTI) oil price of US\$80 per barrel. Over the forecast period, on a calendar year basis, WTI oil prices are forecast to decline to US\$78 in 2008 and US\$68 in 2009 before levelling off in the mid US\$60s range thereafter.

In addition, bonus bids, or Crown mineral sales are expected to return to more moderate levels in the future. The following table summarizes recent experience.

Year	Bonus Bid Revenue (Millions)	Land Sales ('000 ha)	Price per Hectare	WTI Price (US/bbl)
2000-01	\$55.3	288.7	\$191	\$30.20
2001-02	\$53.0	403.1	\$132	\$24.13
2002-03	\$110.1	657.6	\$167	\$29.13
2003-04	\$159.2	1,071.4	\$149	\$31.36
2004-05	\$92.9	435.4	\$213	\$45.08
2005-06	\$141.4	472.7	\$299	\$59.97
2006-07	\$169.1	446.3	\$379	\$64.89
3-year average	\$134.5	451.5	\$297	\$56.65
5-year average	\$134.5	616.7	\$241	\$46.09
2007-08 (April to September)	\$206.6	301.0	\$686	\$70.21

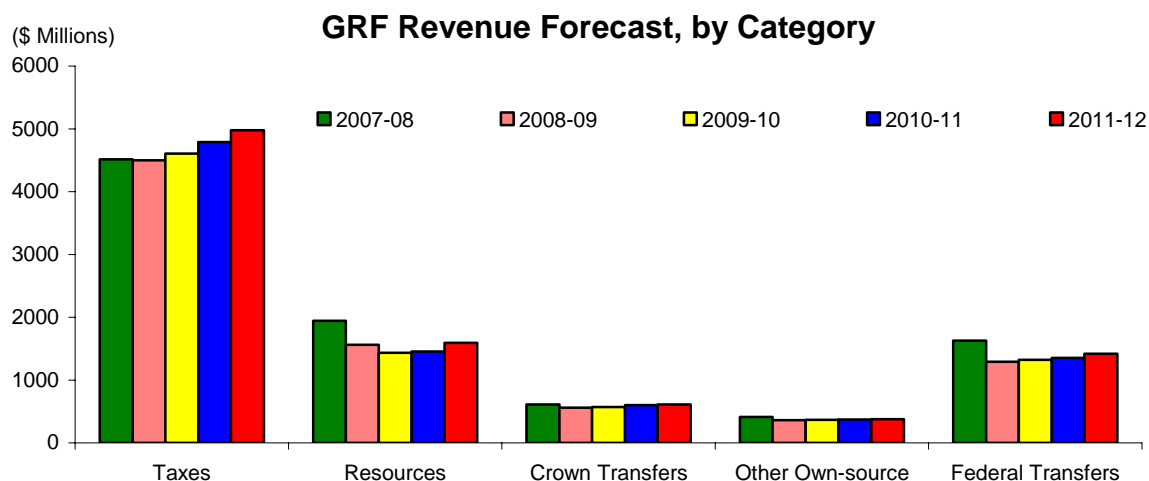
In essence, the forecast suggests approximately three-quarters of the excess resource revenue gain in 2007-08 should be considered windfall.

Impact of NewGrade sale on CIC dividend

The decision to sell the Province's interest in NewGrade results in up-front cash, but a significant reduction in future dividend income for CIC. NewGrade earnings had previously been forecast to contribute about \$80 million to the 2008-09 CIC dividend.

GRF MEDIUM TERM REVENUE GROWTH

Beyond 2008-09, GRF revenue is forecast to grow at an average annual rate of 3.0%, with growth in all categories, but led by growth in taxation revenue that corresponds with provincial economic growth. The revenue effect of business tax reform will be fully implemented following 2008-09.

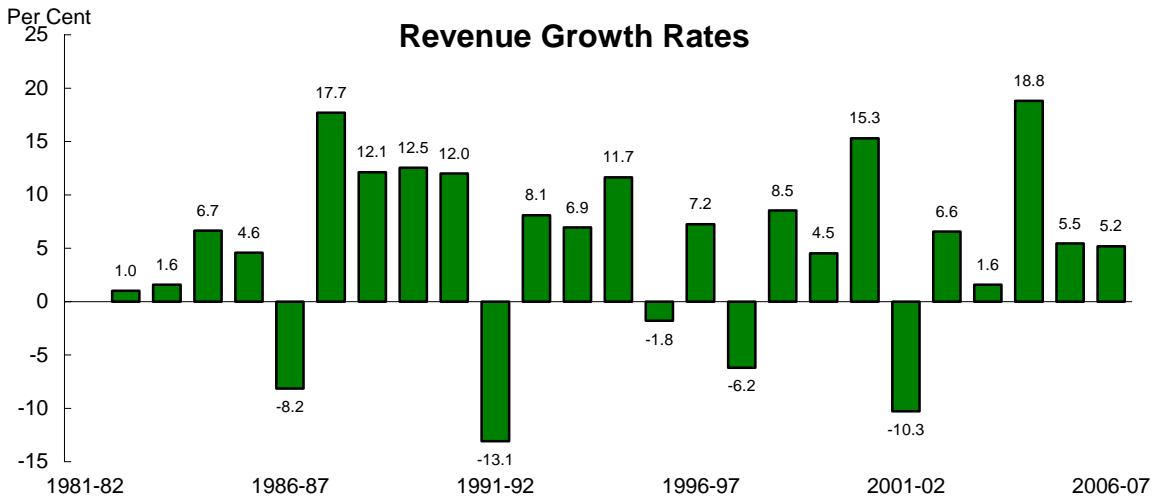


Resource revenue continues to fall somewhat in 2009-10 before beginning to grow, albeit modestly, over the remainder of the medium term.

Crown transfers, other own-source revenue and federal transfers all experience significant declines in 2008-09 due to the factors identified above before tracking modestly upward through the remainder of the medium term forecast period.

HISTORICAL REVENUE VOLATILITY

The year-over-year change in GRF revenue has ranged from an increase of 18.8% in 2004-05 to a decrease of 13.1% in 1991-92.



While the year-over-year changes are generally positive, negative adjustments occur periodically and demonstrate overall revenue volatility.

MEDIUM TERM EXPENSE FORECAST

The majority of the growth in the four-year expense forecast relates to year one. In the out years, the growth is substantially smaller as there are fewer new initiatives being rolled out beyond 2008-09 and the Consumer Price Index (CPI) is used for salary adjustments, with the exception of the health sector, once contracts expire.

The expense growth of \$676.6 million (8.7%) over the 2007-08 operating budget (\$430.1 million, 5.4% above the 2007-08 forecast) can primarily be attributed to:

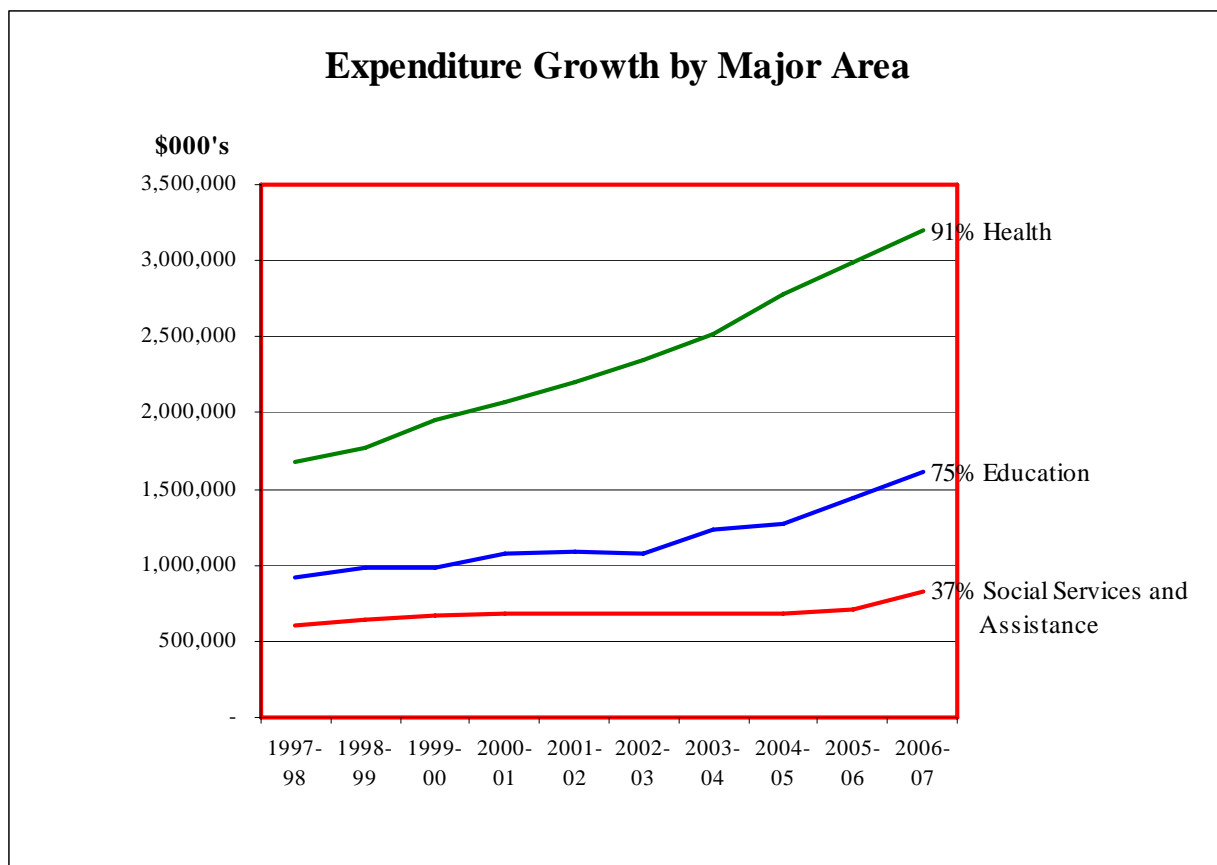
- salary/compensation increases, including pension adjustments of \$237 million;
- increased infrastructure investments of \$114 million including highways;

- annualized costs of \$136 million for new initiatives approved during the first half of 2007-08; and
- increased grants of \$72 million for non-salary third party operating costs.

HISTORICAL EXPENSE GROWTH

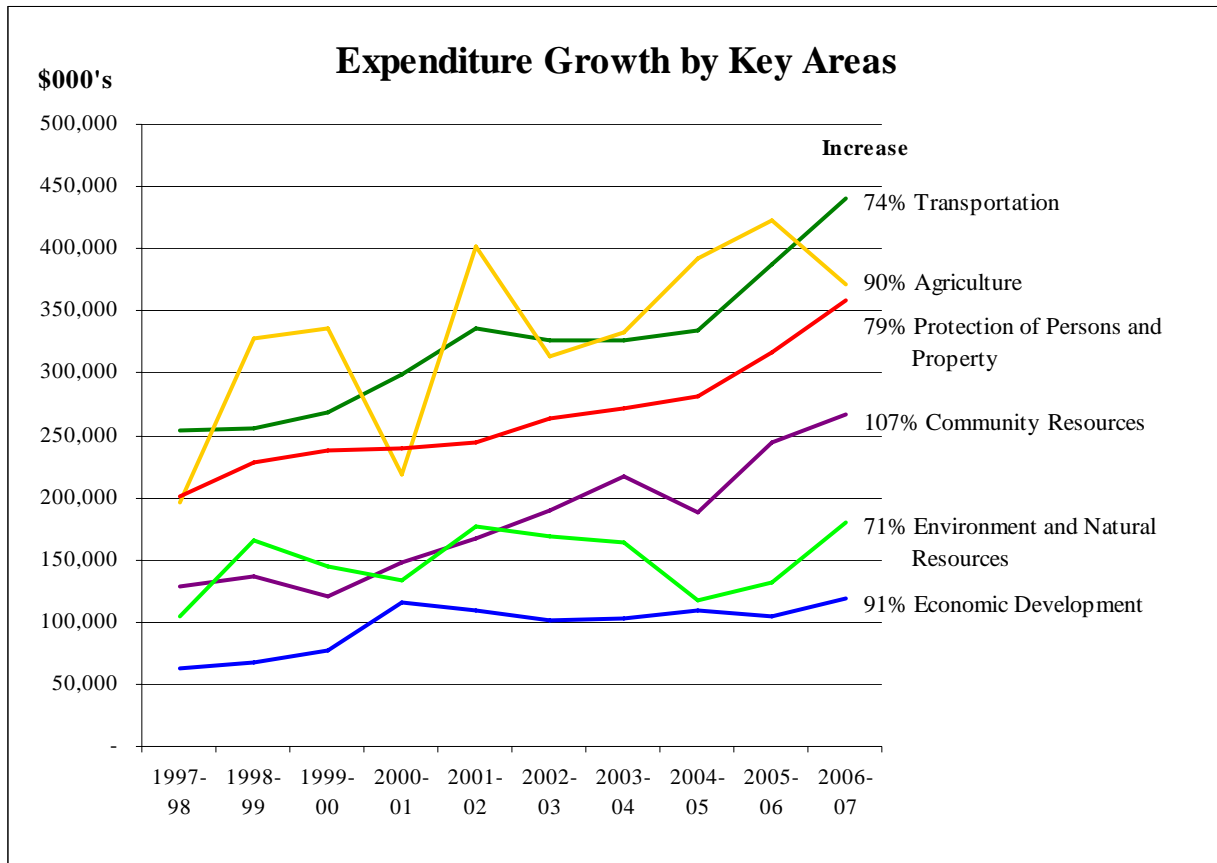
The 2007-08 expense forecast is 29.8% higher than the 2004-05 Budget. Over the same period, the Consumer Price Index (CPI) has grown 8.8%.

The graphs below show the upward trending of expenditures from 1997-98 to 2006-07 with more marked trajectories in more recent years as revenues improved. Graph One identifies the expenditures in major social programs, including the health sector which has realized the largest growth at 91%. These areas comprise 63% of government's expenditures.



While Graph Two reflects similar levels of growth in other key areas, it is noteworthy that this pool of expenditures is substantially smaller.

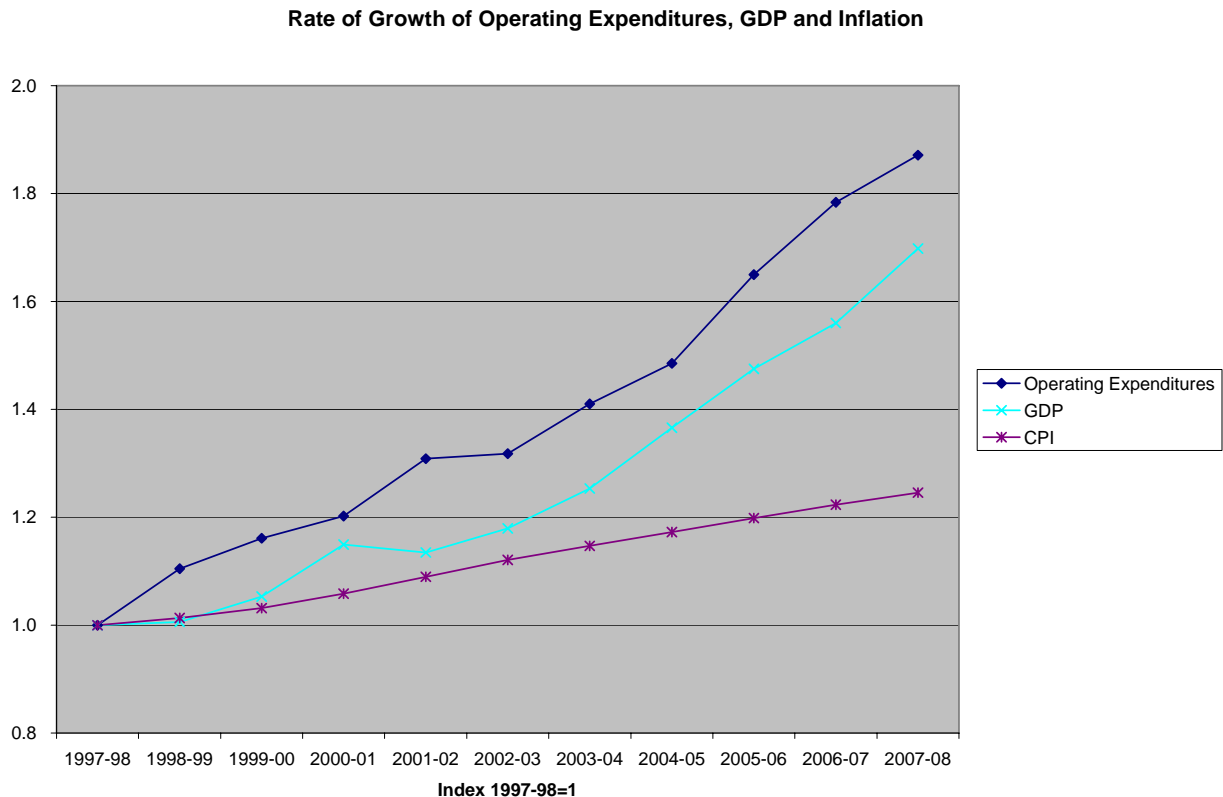
Graph Two



Below is a graph that plots the change in the rate of growth in the Consumer Price Index (CPI), Gross Domestic Product (GDP), General Revenue Fund (GRF) Operating Expenditures since 1997-98 using 1997 as the base year for CPI and GDP and 1997-98 Actuals for the Operating Expenditures. This graph provides a comparison of the rate of growth across these variables.

As this graph illustrates since 1997-98, Operating Expenditures have outpaced GDP growth and CPI, the two most common measures of the capacity for expenditure growth.

Inflation has a steady growth pattern over the time period averaging about 2.2% and has grown about 25% since 1997. In that same 10 year period, nominal GDP has grown by 56% and operating expense has grown by 87%.



CONCLUSION

The four year forecast is the starting point for developing the government's four year plan which will be released with the 2008-09 budget.

Over the coming months, the government will be setting its short and medium term priorities, reviewing the forecast as more up to date information is available and reviewing overall expenditure priorities as the budget is developed.

The new government has confirmed its commitment to have balanced budgets. The sizeable, fully funded reserve position of the province provides flexibility to consider a range of measures with various time frames.