

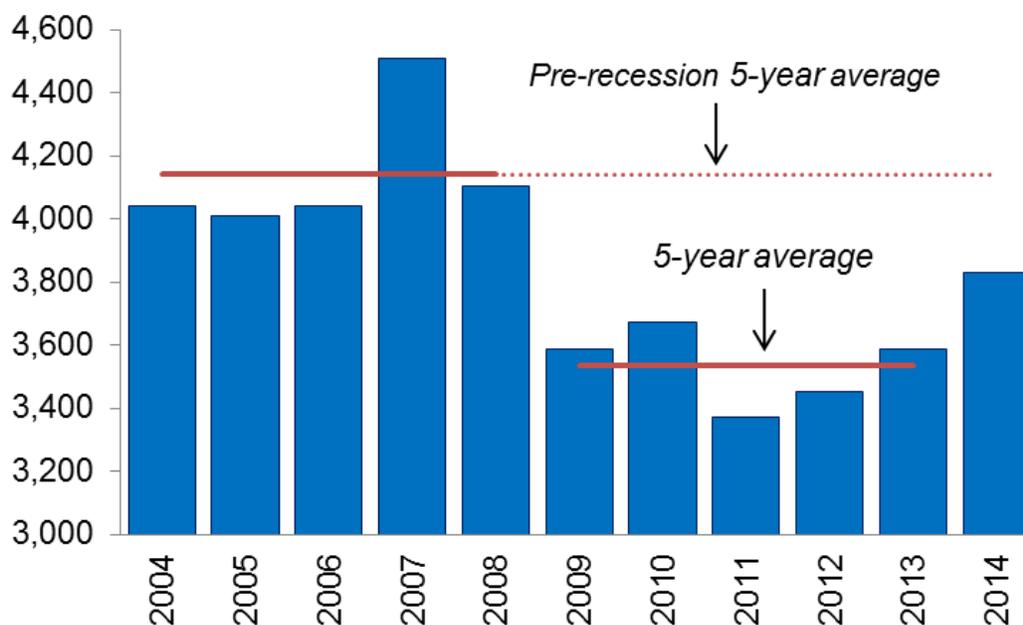


Backgrounder: NWT Economic Outlook

The Northwest Territories is facing a range of economic challenges. Despite the NWT economy growing in each of the last three years, real 2014 GDP is about 7.5 per cent lower than the five-year average before the global recession in 2008. In fact, it remains the only jurisdiction in Canada to not have recovered to its pre-recession average.

While some territorial regions are benefitting from resource development projects, economic activity in other areas has slowed considerably. Overall, the five-year outlook for the NWT economy is not great.

NWT Real GDP by Industry (Millions of 2007 Dollars)



Source: Statistics Canada

The NWT economy can be divided into three interlocking categories:

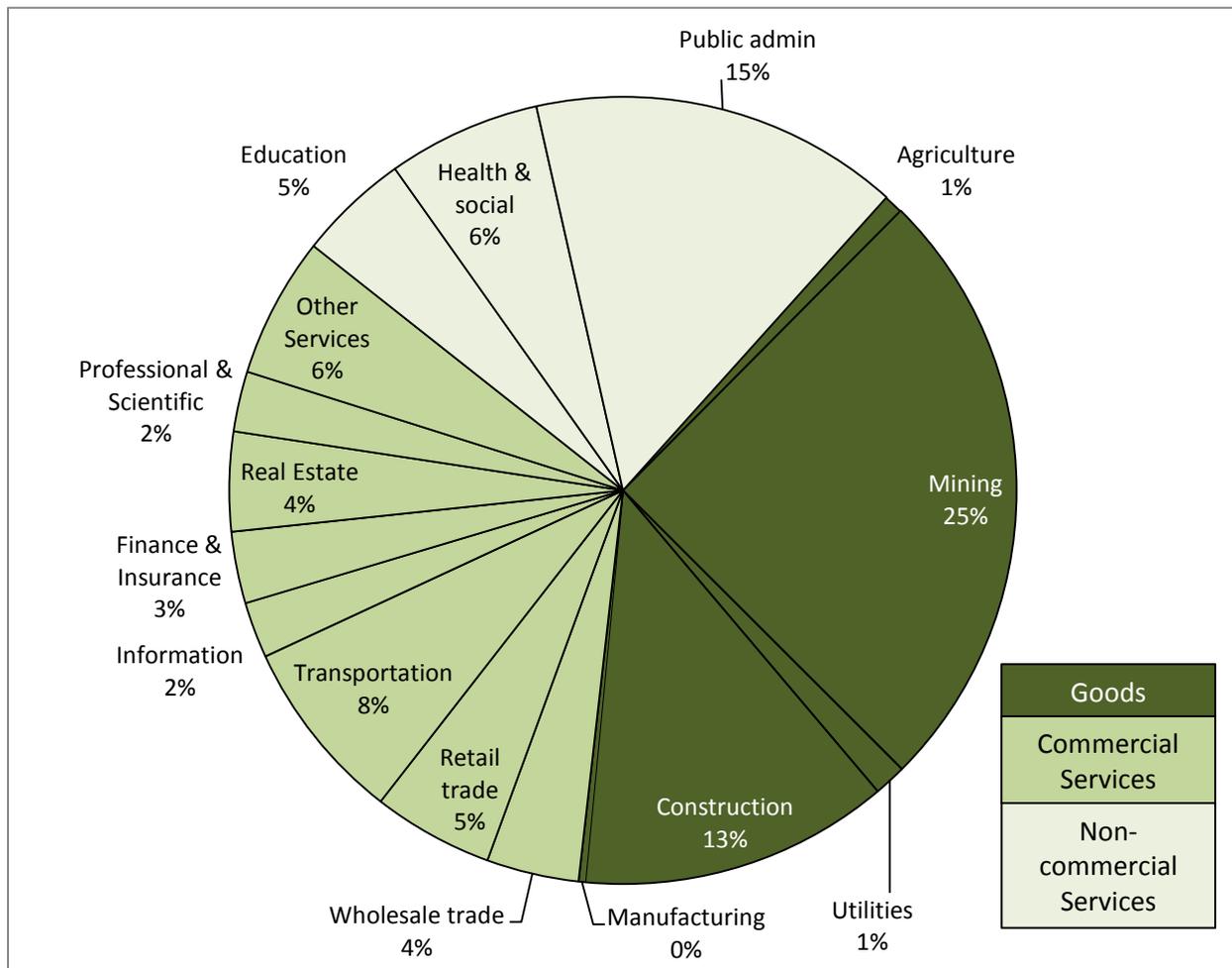
- Goods producing sector (mining (includes oil and gas), construction, manufacturing, agriculture, hunting and fishing) makes up 40 per cent of GDP;
- Commercial services makes up 34 per cent of GDP; and,
- Non-commercial services (public administration, education, health and social services) make up 26 per cent of GDP.

Media requests for interviews with Members of the Executive Council may be directed to:

Cabinet Communications and Protocol
Government of the Northwest Territories • PO Box 1320 • Yellowknife • NT • X1A 2L9
Tel: (867) 767-9140 ext. 11092 • Fax: (867) 873-0111



NWT GDP by Industry, % share, 2014



All components of the economy are important, but because of the dominance of the mining sector (including mining and oil and gas extraction) at 25 per cent of real GDP, what happens in the mining sector has a dramatic ripple effect on the rest of the economy in relatively short order. The mining sector has significant effects on other industries through strong linkages to transportation, wholesale and retail trade, and real estate. Overall economic performance over the past 10 years was driven by the resource industry, both exploration and production.

Diamond Mining in the NWT

The territory's economy is dependent on the mining industry, which includes diamond, oil and gas extraction, as well as services related to mining. Of these, diamond extraction is the largest sector.

The resource-based nature of the NWT economy makes it open to global market trends. This means the low commodity prices from outside our borders are acting as a drag on production. For example, continued low diamond prices were an important factor in the closure of De Beers' Snap Lake diamond mine.

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Oil and Gas Extraction

The rest of the mining sector is oil and gas. Oil and gas extraction is flat and historically low. Compared to its production peak in 2001, real GDP in the NWT oil extraction sector declined by more than two-thirds. Oil production continues to decline and although there are proven oil and gas reserves in the NWT, extraction costs are high and leave industry without a viable means of getting the resource to market. Low oil prices are expected to continue for the medium term, further dampening the prospects for the NWT oil industry.

Mining Exploration and Development

The mining sector has been under pressure worldwide, especially the junior segment of the market, which is typically made up of the companies that find new mines. Low commodity prices mean investors are reluctant to purchase shares in junior mining companies. This denies the junior companies their most common source of funding. The difficulties in securing funding have caused many juniors to dramatically scale back their activities. In short, low commodity prices have translated into a lack of funding for exploration.

The poor outlook for global commodity prices over the medium-term will continue to have a dampening effect on resource exploration in the NWT and make it extremely challenging for companies to secure the financing they need to develop.

The NWT economy has been recovering from the Great Recession, though not at the same pace as all other provinces and territories. While 2014 had strong growth, 2015 was characterized by low prices and a falling dollar and ended with a mine closure. The outlook begins with these market conditions, making the road to economic recovery a significant challenge.

Table 1: Medium-Term Outlook – January 2016 (\$ millions)

| | 2014-2015 (Actuals) | 2015-2016 (Forecast) | 2016-2017 (Forecast) | 2017-2018 (Forecast) | 2018-2019 (Forecast) | 2019-2020 (Forecast) |
|-------------------------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| OPERATING SUMMARY | | | | | | |
| Total revenues | 1,854 | 1,791 | 1,728 | 1,748 | 1,705 | 1,761 |
| Total expenditures | (1,735) | (1,722) | (1,684) | (1,703) | (1,732) | (1,793) |
| Operating surplus (deficit) | 119 | 69 | 44 | 45 | (27) | (32) |
| CAPITAL INVESTMENT | | | | | | |
| | 236 | 237 | 331 | 186 | 118 | 85 |
| TOTAL (DEBT) AT MARCH 31 | | | | | | |
| Cash Surplus (Deficit) | (242) | (265) | (341) | (369) | (386) | (401) |
| Long-Term and Guaranteed Debt | (432) | (450) | (524) | (511) | (498) | (633) |
| Total (Debt) | (674) | (715) | (865) | (880) | (884) | (1,034) |
| BORROWING LIMIT | | | | | | |
| | 800 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 |
| AVAILABLE BORROWING CAPACITY | | | | | | |
| | 126 | 585 | 435 | 420 | 416 | 266 |

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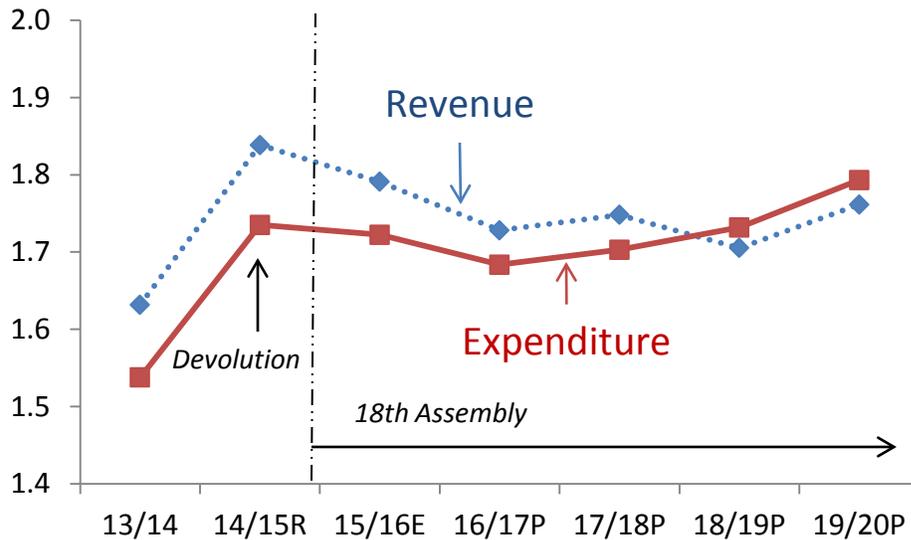
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Effects on the Government of the Northwest Territories

Under the current medium-term outlook, expenditures are projected to increase, causing the projected surplus to fall from \$119 million in 2014-15 to a deficit of \$32 million by 2019-20.

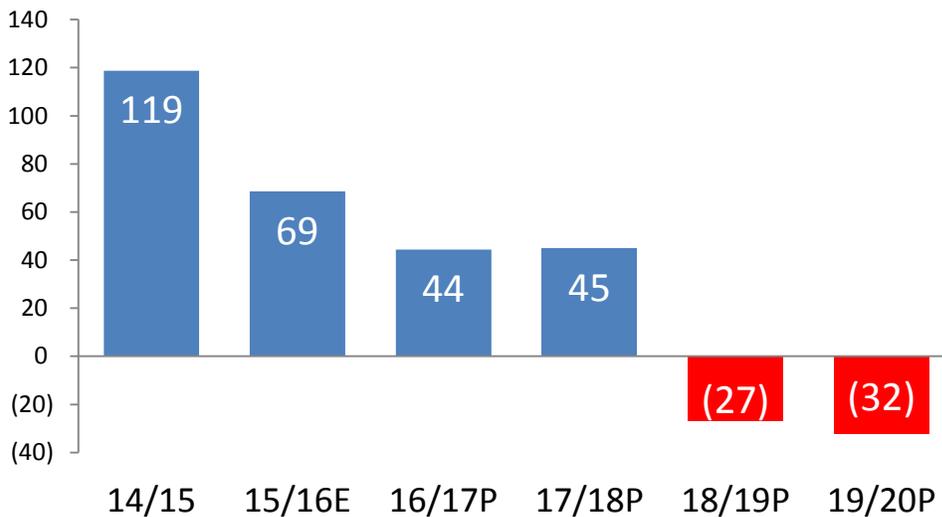
GNWT Fiscal Outlook (Billions of dollars)



R: Revised, E: Estimates, P: Projection

Source: NWT Department of Finance

Operating Balance, Surplus/(Deficit) (Millions of Dollars)



R: Revised, E: Estimates, P: Projection

Source: NWT Department of Finance

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To ensure responsible borrowing policies, the GNWT developed a prudent debt management plan that is guided by the Fiscal Responsibility Policy, which requires operating cash surpluses to pay down debt and requires that at least half of the annual capital budget is funded by cash from operating surpluses.

This means that by the last year of the 18th Assembly, there will be few funds available for capital investment. The Fiscal Responsibility Policy requires that at least half of capital investment be funded by operating surpluses.

The slow growing economy produces a flat revenue outlook, which in turn means less fiscal resources to sustain programs and services at current levels.

The GNWT will have to make strategic choices about its future spending. Options for aligning expenditures with revenue, including the consideration of revenue options and potential expenditure reductions, are being developed for the consideration of the 18th Assembly.

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