

Budget Address

**The Honourable Charles Dent
Minister of Finance**

**Seventh Session of the Thirteenth
Legislative Assembly
Of the Northwest Territories**

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**Government of the
Northwest Territories**

As I stand today to present the first budget of the new Northwest Territories, we find ourselves at an important crossroads. Down one path lies continued... no, increased dependence on federal transfer payments. Down the other path lies increased financial independence and the responsibility that goes with that. I am an optimist. I believe that we will, together, choose the road that gives northerners the best chance to succeed and to live up to our potential.

In February of this year the Premier, the Honourable Jim Antoine presented the public with this government's vision for the future in a document called *The Western Agenda*. Recently renamed *Agenda for the New North*, this document outlines five related strategies to achieve this vision.

The *Agenda* explains the need for northerners to take greater control of our future and become more responsible for our well-being.

The *Agenda* sees the Northwest Territories as a place where people come first; where people are better educated; where people are healthier; where all people benefit from increased economic development; and where all of our residents work together to build a strong North.

We have our work cut out for us but I have no doubt that northerners are able and willing to build on our strengths and address our problems. My priority as Minister of Finance is to secure the financial tools the North must have to meet our future head on, and to succeed at making our vision for tomorrow a reality. This is an important point and I will come back to it later in this Address.

TOOLS FOR SUCCESS

The success of our new territory will not be measured by the government's balance sheet nor by a statistical measure of growth in the economy. Rather, the success of our new territory will be measured by the ability of our citizens - men and women, young and old, Aboriginal and non-Aboriginal - to lead healthy and productive lives.

For our government to achieve this success:

We must look ahead - to the coming fiscal year and beyond - to our future in the next millennium, and recognise the challenges it will bring.

- We must work together - Members of this Assembly and Cabinet, together with Aboriginal First Nations, communities, businesses, our elders and our youth; and most importantly,
- We must take control over our economy and its resource potential.

If northerners can work together and find an equitable way to share control of our resources, we will have the tools necessary to build a future for our youth. With these tools, northerners will be in charge of the pace of development and can ensure that northern residents benefit from development. This will lead to a stronger fiscal position for the government and will mean that we can keep up with the investment we need to make in education, in health care, in economic development, and in job creation.

There is only one way to improve social and economic conditions for northerners. We must work together and we must have more control over revenue sources.

ACHIEVEMENTS

When looking ahead to the future we must not forget the past.

I would like to recognise the work that went into ensuring that our new territory began on the best possible foundation for the future. I want to commend everyone - Members of the Legislative Assembly, the Western Coalition, the Aboriginal Summit, the public service, and all the people of the Northwest Territories and Nunavut - who worked to ensure that we are ready for our future.

In October 1998, we signed the Formula Financing Agreement with Canada to ensure secure funding for our new territory for the next five years.

In March 1999, we signed an Agreement with the Government of Nunavut to divide the Assets and Liabilities of the GNWT as of April 1, 1999.

We successfully concluded agreements on the NWT Power Corporation and the Workers' Compensation Board, both of which will be operated jointly by the two territories for the near future.

We recently concluded a new Collective Agreement with the Union of Northern Workers and have reached settlements with eighty per cent of the employees affected by the Pay Equity issue; representing eighty-five per cent of the amount we set aside to resolve this issue. We continue to urge the UNW to reach a negotiated settlement on the remaining claims.

These achievements show our ability to meet difficult challenges now and in the future, through co-operation and mutual effort. They are the basis on which to build our vision of the future. We have met the challenges of the past and we can meet the challenges of the future ... but we need the right tools.

FISCAL OVERVIEW

1998 - 1999

Our challenge over the past few years has been to ensure the Northwest Territories and Nunavut start on a stable fiscal foundation. It was a difficult task and I would like to thank my predecessor, Mr. John Todd, and all Members of the Thirteenth Assembly for their commitment to this task.

At budget time last year we anticipated ending the 1998-99 fiscal year with \$28 million in accumulated debt. It looked like both the Northwest Territories and Nunavut would start out in the red. But, because of a favourable one-time adjustment to the Formula Financing Grant from Canada, based on revised Northwest Territories' population estimates, we enjoyed a forecasted \$62 million accumulated surplus as of March 31, 1999.

This surplus was split fifty-six per cent to the Northwest Territories and forty-four per cent to Nunavut, according to the Division of Assets and Liabilities Agreement between this government and Nunavut. For the Northwest Territories, this means we start this new chapter in our history in the black, with \$34 million.

1999-2000

Addressing the growing demand for government spending will continue to be a challenge. Currently, our Formula Financing Grant comprises over seventy per cent of our yearly total revenues, and largely determines how well we are able to meet our expenditure needs.

The comparative growth rates of the populations of the Northwest Territories and Canada figure in the calculation of the Formula Financing Grant. This is where our new territory faces its most critical fiscal challenge. The population in the Northwest Territories declined slightly last year and our growth rates for this year and future years are forecast to be below Canada's. This means that for 1999-2000 we are expecting virtually no revenue growth over last year. In dollar terms, that means revenues are forecast to be \$708 million.

Although the revenues available to us are not enough to meet all of the critical needs we face, we must strive to maintain current programs and services, and address at least some of the areas of urgent need. This requires us to bring forward a budget for 1999-2000 with planned expenditures of \$742 million, an amount that exceeds revenues by \$34 million. This will consume our accumulated surplus and leave us with neither an accumulated surplus nor deficit by the end of 1999-2000.

As a new Finance Minister I would have preferred to bring forward a balanced budget. My years in the private sector have instilled in me a fiscal discipline that is based on spending within your means. However, at this time, I do not believe that we can cut services to our citizens any more than they have been to date. Using the accumulated surplus to cover the \$34 million deficit forecast in this budget will give us a year to make progress on restructuring our fiscal relationship with Canada. At the same time we must continue to exercise fiscal restraint and carry on working aggressively to deal with the root causes of expenditure growth. But make no mistake, if we don't find more revenues, we may have no choice but to cut services or capital spending in next year's budget.

Recently, Premier Antoine, and my predecessor, Mr. John Todd, met with federal Ministers, the Honourable Paul Martin and the Honourable Jane Stewart, to lay out the need for a revised fiscal relationship with Canada. We believe that both Canada and the citizens of the Northwest Territories can benefit from a different regime.

The solution to our fiscal problem is to increase the size of the fiscal pie. To achieve this we need the support of all people in the Northwest Territories. We need their understanding, we need their patience, we need their creativity and, most of all, we need their cooperation.

Increasing our revenues to meet growing expenditure needs can only be done by restructuring our fiscal relationship with Ottawa. This means that we must work together to ensure the federal government turns over control of northern resources to northerners. Just as importantly, we must work together to ensure the Northwest Territories gets a greater beneficial share of tax revenues and royalties generated in the North. In order to accomplish this, we recognise the need to find innovative ways to share the responsibilities as well as the revenues.

I will have more to say on this later, but I will now focus on the social challenges that we face in the Northwest Territories.

SOCIAL CHALLENGES

Children and youth of today are the hope of tomorrow. The Northwest Territories is a young territory. Forty-three per cent of our population is less than twenty-five years old. This compares with thirty-three per cent for Canada. The challenge for this government is to help prepare our young people to be our future leaders. To be good leaders they must be educated, healthy, and able to participate in the economy.

Education and Training

Education and training are critical to the development of our youth. That is why we have invested significantly in improving our education system. We have extended grades to all communities in the Northwest Territories and helped adults to return to school to continue their education. Enrollment in high school increased twenty-three per cent from 1990 to 1997 and our high school graduation rate is rising.

These successes are encouraging, but much more needs to be done. Thirty-six per cent of our adult population has not completed secondary school. This limits access to jobs in government, resource industries, and in other sectors of the economy.

This government is committed to our youth. By continuing to make strategic investments in education and training we can help ensure that our young people are ready for the jobs that are available. As part of this commitment we have allocated \$1.2 million in this year's budget to ensure that the pupil-teacher ratio is maintained. This means that even with a growing number of school-aged children the pupil-teacher ratio will not increase.

In 1997-98, the Government announced the *Northern Employment Strategy*. This was designed as a one-time investment to provide northerners with employment opportunities as well as the skills required to take advantage of those opportunities. One tremendously successful element of the Strategy was the *Working Together* program which provided employers with a wage subsidy to hire northern students and youth. This program helped to provide many of our young people with the experience they needed to obtain meaningful and lasting employment in today's labour market. For the two-year duration of the program, more than nine hundred job opportunities were created in the thirty-three communities across the Northwest Territories.

I am pleased to announce that this budget includes \$1 million to extend the *Working Together* program for one more year. We anticipate that this funding will create over four hundred and fifty jobs for young northerners this fiscal year.

The *Working Together* program will allow the Honourable Michael Miltenberger, the Minister of Education, Culture and Employment and the Minister responsible for Youth, to take steps to alleviate the problem of youth unemployment in the Northwest Territories. Our young people suffer from the highest rate of unemployment in the Northwest Territories and therefore are a clear priority of this government. However, equally important is our commitment to ensure that all of our residents of working age are equipped to fill available jobs.

We have provided an additional \$1 million to continue the *Investing in People* program. This successful program helps fund adult basic education and job-related skills training for income support clients, so that they can move into productive employment. Many community-based work projects employing local residents are funded by *Investing in People*. This kind of investment is a clear sign of our commitment to help residents become more self-reliant.

Children are a priority of this government. In keeping with the goal to improve the future of our children we are continuing to support the *Healthy Children Initiative*. Reinvestment of approximately \$160,000 from the second phase of the *National Child Benefit* program will allow us to maintain funding for this successful program. During the 1998-99 fiscal year almost one hundred community-based projects were delivered in the Northwest Territories.

Health Care

Providing education and economic opportunities for northerners is only part of what needs to be accomplished. All residents of the territory need to be confident they will have access to adequate health services.

An issue of increasing concern over the past year has been the crisis facing us in recruiting and retaining health professionals. The turnover rate for nurses is much higher than the government staff average. The vacancy rate for nurses is currently twenty-five per cent. Furthermore, there is national shortages of nurses and other jurisdictions have launched aggressive recruitment campaigns.

Our ability to recruit and retain nurses is impacted by many factors. While we are making good progress in training northern nurses, we do not yet have an adequate pool to draw from. For nurses in our small communities, the stress of being constantly on call can lead to burn-out in a relatively short period of time. As national and international competition increases for nurses, our salary and benefits packages have not remained competitive enough. Recent announcements by British Columbia, Ontario and Alberta that they will be hiring significant numbers of additional nurses will only heighten the competition.

Similarly, physicians are also in short supply in other rural and remote areas of Canada. The Northwest Territories will have to offer competitive packages to continue to attract and retain physicians.

The Minister of Health and Social Services, the Honourable Floyd Roland, is aware of the need to address the issue of access to quality health care, especially in smaller communities. He is committed to follow up on the agreement reached by Premiers and the Prime Minister, to reinvest the additional Canada Health and Social Transfer funding contained in the 1999 federal budget, for health care. This budget reinvests not only the approximately \$3 million per year in additional CHST funding, but adds an additional \$3 million of our own this year.

I am pleased to announce three related initiatives to assist in recruiting and retaining health and social services professionals.

- We have identified \$1.9 million for specific recruitment and retention initiatives.

This funding follows through on a commitment made by the Minister of Health and Social Services last fall. The Department of Health and Social Services, in partnership with Health and Social Services' Boards of Management, is putting into action a variety of strategies designed to encourage northerners to pursue professional opportunities in this field, to attract health and social services professionals to the North, and to encourage our current staff to remain in the North.

These strategies range from scholarships, to summer employment and mentoring opportunities, relief pools for community nurses, and better promotion of the Northwest Territories as a career location.

- In addition to these actions, this government will dedicate \$3 million over the next two years to provide salary incentives to attract new nurses, encourage nurses to stay, and promote nursing as a career to our young people. This initiative recognises that our wage and benefits packages are not competitive enough under current market conditions. We will work with the Health and Social Services Boards, the Union, and the nurses to structure this funding to have maximum impact.
- This budget includes \$750,000 for the Department of Education, Culture and Employment to enhance training opportunities in the nursing and social service professions.
- Finally, we have set aside an additional \$556,000 in Student Financial Assistance to support students who choose to pursue these careers.

These spending measures will help to keep and attract the professionals that are needed to ensure northern residents receive quality care.

Justice

This government believes the education and health initiatives announced in this budget will improve the social and economic conditions in the Northwest Territories. Obviously, they will not erase all of our problems.

Our crime rates are high and our incarceration rates continue to increase. The GNWT's Correctional Service is facing severe challenges in delivering appropriate services to communities and to offenders. Our correctional facilities are severely overcrowded.

We are the only jurisdiction in Canada without a fully dedicated community-based probation service, which results in an even higher incarceration rate. Furthermore, we do not have adequately funded programming for inmates to provide them with the counseling and skills development that will help them to succeed upon release.

I am pleased to announce that this budget includes approximately \$1.5 million in new funding to allow the Minister of Justice, the Honourable Stephen Kakfwi, to implement a comprehensive plan to improve community justice and corrections services. This integrated approach includes several components.

- As part of the new funding, Community Justice Committees will receive additional support to allow them to work more effectively with the RCMP and the probation system.
- Also, until this year community social services workers have provided probation and parole support in addition to their many other responsibilities. Over the next two years, the Department of Justice will phase in a dedicated probation and parole service that will improve community services. This means that convicted persons who qualify can be placed earlier in a community-based setting, thereby easing the transition of inmates back into their communities and reducing the strain on overcrowded correctional facilities.
- Funding will also be used to enhance rehabilitation programs in correctional facilities, including aboriginal healing, family violence prevention, and sex offender rehabilitation.

In addition to these programming initiatives, the Government is committed to improving the quality of our corrections facilities. Planning for much-needed renovations to the Yellowknife Correctional Centre will begin this year. This facility operates at an average of forty per cent above maximum capacity.

Two new Young Offender facilities are also in the planning stage - a twenty-four-bed building for males in Yellowknife, and a twelve-bed facility for females in Inuvik. These two projects are among the seven pilot projects currently being planned through the Government's *Public/Private Partnerships* initiative.

Community Assistance

Just as we are seeking greater control over northern issues, this government is also committed to providing resources to local governments to address local concerns.

In order to address growing concerns about fire prevention and safety in northern communities, this budget contains \$729,000 in additional funding. This will enable the Minister responsible for Municipal and Community Affairs, the Honourable Vince Steen, to improve direct training and fire safety support services to communities. This investment will help cut down on loss and expense due to fire.

Housing

Before I move on to the economic challenges that face this government I will take time to talk about a current economic initiative that is being delivered by a government agency usually associated with social initiatives.

The *Minimum Down Payment Assistance Program* is being delivered through the NWT Housing Corporation, and gives many northerners the opportunity to own their own homes. To date the program has generated over \$45 million in housing sales and assisted three hundred and fifty families to own their own homes.

This initiative was introduced in the last fiscal year as a pilot project until March 31, 1999, and was designed to meet several objectives.

- With several hundred housing units for sale in 1998, there was very little demand for new residential construction. The construction of new homes, which creates jobs and causes businesses to grow, cannot occur until units for sale are purchased.
- The program was also designed to encourage families to move between communities to work and to encourage those who work in the North, but live in the south, to move here permanently.

Although this program has been a success, and as previously announced will continue until June 30 of this year, it does not detract from the commitment of this government to social housing. The funding contained in this budget for the NWT Housing Corporation will allow for the continued delivery of social housing programs at current levels.

ECONOMIC CHALLENGES

The continued commitment by this government to improve education, and health care and social services for residents will better prepare us for tomorrow. At the same time, this government must also encourage economic development that creates employment for northerners.

Our investments in developing the economy have put many more people to work. Over twelve hundred additional people were employed in the Northwest Territories between 1991 and 1996. But the large number of young people in the Northwest Territories today means that we will need many more jobs in the future. At our current rate of growth, our youth will need an additional thirty-five hundred jobs by the year 2008. The initiatives contained in this budget build on our ongoing commitment to ensure our youth are better educated and better trained, but we must ensure that the jobs are there for them when they graduate.

The increased need for new jobs comes at a time when we are facing an economic downturn in the Northwest Territories. Our economic growth is tied to resource industries, and current global economic conditions have hurt us. Historically low gold and oil prices, caused in part by economic problems in Asia and Latin America and by the sale of gold bullion by the world's Central Bankers, are examples of factors outside the control of this government that have impacted our economy.

Resource Development

The tools needed to allow northerners to live healthy and productive lives are strongly linked to resource development. Resource development provides the greatest potential source of the additional revenues that this government needs to provide programs and services to northerners at adequate levels.

Global economic conditions have contributed to mine closures, and negatively affected investment and exploration activity in the NWT. In turn, other sectors of our economy have been adversely affected as businesses and households have been left with less money to spend and with more uncertainty about the future.

Although this government cannot change the realities of the global economy, we can take steps to counter the impact by better insulating our economy from these shocks. In these difficult economic times, our government has taken steps to encourage investment in the North. Our tax rates remain competitive with the provinces and we have recently implemented the *Risk Capital Investment Tax Credits* program to improve the investment climate for business.

On the positive side, opportunities for growth do exist. This government welcomes investment in our economy. The opening of BHP's Ekati mine, and the work toward the development of Diavik-Aber and other diamond properties in the Northwest Territories, are welcome bright spots. The Ekati mine alone directly employs about four hundred and fifty northerners and has created further opportunities in other sectors of the economy.

The potential development of the Diavik-Aber property would benefit the North during the construction and production phases beginning in the year 2000. Although the regulatory review process is not complete, we are encouraged by the approach taken to date by everyone involved. This government will continue to work toward our goal of developing sustainable resources and generating maximum benefits for the people of the Northwest Territories. Companies must recognise that development in the North will only be supported when it generates direct northern benefits to the greatest extent possible. Let me say it again, this government wants and needs to see more development, but companies must understand that only environmentally responsible development will be supported - and then only when northerners benefit significantly.

Although the sparkle of diamonds has caught the eye of most people, we cannot ignore the significant resource potential in oil and gas developments in the Deh Cho, the Mackenzie Valley, and the Beaufort-Delta regions. These regions are still relatively unexplored and contain significant oil and natural gas potential. Although oil prices are low at this time, a gradual improvement is expected. In addition, pipeline construction in southern Canada, and a forecast improvement in gas prices, are increasing the economic viability of gas developments in the Northwest Territories.

Opportunities exist, but we must work to ensure that we are able to take advantage of these opportunities and maximize benefits for northerners. The results of the 1998-99 Fraser Institute Survey of Mining Companies in North America highlight the fact that uncertainty surrounding land claims and the administration and regulation of both resources and resource development is limiting the attractiveness of the Northwest Territories to new investors.

The settlement of land claims and self-government issues will bring greater certainty to our investment climate and contribute to the development of our untapped potential. This government supports the aspirations of Aboriginal

people in the Northwest Territories to settle land claims and implement their inherent right to self-government. This government is committed to working with our Aboriginal partners and the federal government to settle land claims and self-government issues. It is only by working in partnership with Aboriginal governments that we can create opportunities for everyone to jointly share in the economic development of the North.

Greater certainty would also be realized if control of resources were transferred to the North. At present, companies wishing to undertake resource exploration and development in the North must contend with a regulatory burden complicated by the fact that the federal government controls resources and the territorial government controls other aspects related to development. In addition, companies who wish to invest in the North face uncertainty because there is no formal role for this government to play in assessing and permitting development to proceed. Therefore, it becomes necessary for this government to proceed on an ad-hoc, and therefore uncertain basis, as it rightly attempts to ensure that benefits from development remain in the North.

Economic Diversification

I would now like to turn our attention to increasing the range of opportunities for the people of the North. If we are to create the jobs required for our children and ensure that those jobs are both long-term and less vulnerable to changes in the global economy, we need to diversify our economic base.

We must examine opportunities to improve self-sufficiency by undertaking more value-added activities. The government's procurement policies and existing economic programs encourage value-added activities but do not focus on generating an export base. The diamond sector provides an example of the employment potential associated with products developed for the global market.

Exploration and development of the resource sector will continue to be the strength of our economy, but we need to create additional opportunities in the service and manufacturing sectors. This government has supported diversification by providing guarantees to businesses interested in the cutting and polishing of diamonds.

As part of the commitment by this government to expand the economic base of the Northwest Territories I am very pleased to announce that this budget contains new funding of \$1.4 million that will allow the Honourable Stephen Kakfwi, the Minister of Resources, Wildlife and Economic Development, to promote the establishment of a diamond value-added industry in the NWT. The Department will work to attract diamond manufacturing to the North, promote the NWT as a mining and manufacturing centre, and coordinate diamond industry-related activities throughout the government.

I have already touched on the importance of creating a future for our youth. If the diamond industry is a bright spot on the economic horizon of the Northwest Territories, we must equip our residents to take advantage of these opportunities. Therefore, this budget includes:

- \$265,000 for Aurora College to sponsor diamond industry pre-employment training.
- \$133,000 in direct support to Sirius Diamonds to assist them in providing on-the-job training to northerners to work in their newly-established diamond cutting and processing facility in Yellowknife.

This government is also open to providing further training support to other diamond value-added manufacturers who are prepared to set up in the NWT and provide priority hiring and training to northern residents.

Constructing the roads that we travel on also creates economic opportunities and employment. This year the Department of Transportation will upgrade 17 kilometers of Highway 3 between Rae and Yellowknife at a cost of \$10 million. This work will provide training opportunities for sixteen employees. These employees will be learning skills on the job, which will be transferable to other jobs in other sectors of the economy once the upgrading is complete.

It is necessary to generate growth in all sectors of the economy. Therefore, this government is committed to working with Aboriginal groups, industry and business interests to develop a new economic strategy for the Northwest Territories. This strategy will provide recommendations to guide the orderly development of various sectors of our economy, including the resource sectors, as well as tourism, trade and services, and manufacturing, and will serve to promote further diversification.

FISCAL CHALLENGES

As I said earlier, we cannot afford to cut programs and services any further. Our social programs are under extreme pressure. We already have close to, if not the highest, pupil-teacher ratio in Canada. We already have a severe shortage of nurses. We have a serious shortage of housing in most communities. Our jails are overcrowded. It will take millions of dollars to address any of these needs - way more than what we have now. The only solution is to increase our revenues - and increase them significantly. The reality is, at present we face revenues that are not expected to grow significantly over the next few fiscal years. There are several reasons for the slow growth.

- Recent developments in the Northwest Territories have created new jobs in the mining sector and the businesses that serve it. However, rather than contributing to employment growth, these new jobs have only reduced the impact of other job losses, particularly in the government and resource sectors.
- Job losses have meant that people have left the Northwest Territories. Between 1996 and 1998 there was a net outflow of more than two thousand people from the Northwest Territories. This has had consequences for our fiscal situation. The outflow has caused our population to decline and has negatively affected the growth in the Formula Financing Grant, since the Grant is based, in part, on our population growth relative to that of Canada.
- The net outflow of people has also affected our tax base. As working people leave the Northwest Territories we are losing income tax revenues. Though the Formula Financing Agreement protects us against eighty per cent of declines in our tax revenues, the drop we are experiencing in our tax revenue is significant and will affect our ability to finance programs and services.

These factors mean that our revenues will be growing slowly, if at all, as long as our economy is flagging.

Increasing tax rates to make up lost revenues is not an option. We have a small tax base compared to our spending needs. Tax increases would not generate the additional revenues needed and would adversely affect our business investment climate and severely impact families.

Currently, our tax rates are competitive with the provinces. We have the lowest Corporate Income Tax rates in Canada, with the exception of Quebec, and have no corporate capital tax. Our Personal Income Tax rate is still among the lowest in the country, although it is facing competition as provinces look to decrease the Personal Income Tax burden. We have no territorial retail sales tax.

To achieve our economic goals it is important that we maintain an attractive environment for business investment in the NWT and encourage families to live here.

Therefore, I am pleased to say that there are no tax increases in this budget.

Although our revenues are growing slowly over the next few years as a result of economic conditions, expenditure pressures are growing more quickly. The importance of re-examining our fiscal arrangements cannot be emphasized enough. Unless we increase our revenue capacity, we simply cannot keep up with our spending demands. Without revenue increases we face the prospect of

either large annual deficits and a large accumulated debt in the next two to three fiscal years, or significant cuts to services, or in the worst case scenario, both. We need to address this problem now.

We must increase our capacity to invest in economic development to provide jobs for young people and, at the same time, we must take positive action to address our social conditions. However, to meet both of these objectives, we must generate more revenues. Even though the Northwest Territories has significant resource deposits, we only have access to a small portion of the revenue potential of these deposits. The federal government controls most resource revenues.

We estimate that, over the twenty-five year life of two diamond mines, the federal government will receive a fiscal benefit of \$7 billion, compared to the \$500 million the Government of the Northwest Territories can expect to receive. On an annual basis, this translates into almost \$300 million for the federal government and \$20 million for the Government of the Northwest Territories.

The federal government receives more than ninety per cent of the fiscal benefit from resource development in the Northwest Territories. This means that for every additional dollar raised by the federal government from the resource sector in the Northwest Territories, this government keeps less than ten cents.

Therefore, we are seeking a commitment from the federal Minister of Finance, the Honourable Paul Martin, to examine the structure of our Formula Financing Agreement with respect to how the Northwest Territories can benefit more fully from tax and royalty revenues raised from development in the North, and how they are treated in our current fiscal arrangements. As I said earlier, we believe that both Canada and the Northwest Territories can benefit from a restructuring of our fiscal arrangements.

GAINING CONTROL

To meet our long-term goal of a strong and healthy Northwest Territories, we must work together. The Northwest Territories, together with our Aboriginal partners, must gain control of its own resources and we must restructure our fiscal arrangements with the federal government.

Gaining control of our resources will enable northerners to affect the pace of development and to create an attractive investment climate. I have already mentioned how gaining control of our resources will improve investment certainty and foster a more positive investment environment.

Gaining control of our resources will also give this government the opportunity to design policies and budget initiatives that are coordinated with resource

development scenarios, thereby increasing the fiscal rewards to both northern governments and to the federal government. Leaving control of resource development in the hands of the federal government may limit the opportunity for the type of win-win situation this government envisions. For example, the federal government may be reluctant, because of national interests, commitments, or objectives, to establish a royalty regime that allows companies to deduct the cost of local employment creation when determining royalty payments.

These are the types of initiatives that could be considered if the Government of the Northwest Territories, in partnership with Aboriginal governments, had control of the resources in the North.

This government believes these types of initiatives, a more certain investment environment, and a reduction in regulatory overlap will generate additional development, employment and revenues in the North.

Local control over our resources and new fiscal arrangements will give us the tools to generate additional revenues for the North and for the federal government – an increase in the size of the fiscal pie. This can be a source of money to help fund self-government structures, helping Aboriginal organizations meet their political aspirations, supporting our partners in achieving our mutual goal of control over our own future.

New fiscal arrangements can include both expanding the "tax window" - the revenues we keep as a result of economic growth and development - and sharing the resource revenues currently retained by the federal government.

CONCLUSION

We are at a crossroads. We can either rely on increased federal transfers or we can increase our financial independence and the responsibilities that go with it. I believe that increasing our independence is the right route to take. How can this government and our partners achieve this?

In the short-term, we need to gain support from Aboriginal governments. We also need the support of industry and other partners in our economic and social development. We must work together to redefine the federal government's role in northern development and show how northerners can do better with control over our own resources.

We need to ensure that our business environment remains competitive and attractive. And, most importantly, we need to prepare our young people to assume responsibilities in a more diversified economy through education and training initiatives.

The Northwest Territories has changed dramatically since 1967. This year, 1999, marks a major milestone in our development as a new and revitalized territory.

We must build on the strength of the people who helped create the new territory and the wisdom of all those who have contributed in the past. Over the last thirty years, we have acquired many of the tools we need to build our territory. However, we have gone as far as we can with these tools. We need a new set of tools.

We need a new set of tools with which to ensure:

- More and diverse economic activity in the NWT.
- The capacity to address social conditions.
- The capacity to develop a stable political environment.

We need control over our resources and a greater share of the benefits they generate. This will give enable us to expand economic development in the North, to share in a larger portion of revenues generated from this development, and to increase the size of the fiscal pie for all.

New fiscal arrangements and economic development will generate additional revenues that we can invest in the future of our children:

- through education, training, and health care; and
- through job creation, business stimulation, and diversification of the economy.

All people and governments in the Northwest Territories must work together. The control of resources in the Northwest Territories must be in the hands of northerners.

The initiatives and directions contained in this budget can lead to a sound fiscal and economic position. The initiatives contained in this budget can result in healthy, educated and productive people and a future for our youth.

Appendix

Fiscal, Economic and Social Review

FISCAL POSITION
1995-96 to 1999-2000

	1995-96 ACTUALS	1996-97 ACTUALS	1997-98 ACTUALS	1998-99 REVISED ESTIMATES	1999-2000 MAIN ESTIMATES ₁
(Thousands of Dollars)					
Budgetary Revenues	1,255,695	1,179,156	1,302,476	1,222,250	705,317
Recoveries of Prior Years' Expenditures	4,722	2,787	8,113	6,600	3,000
TOTAL REVENUES	1,260,417	1,181,943	1,310,589	1,228,850	708,317
O&M Expenditures	1,076,245	1,023,236	1,022,332	1,070,413	637,136
Capital Expenditures	205,757	170,860	157,875	179,513	86,262
Estimated Supplementary Requirements less Lapses	0	0	0	1,238	19,000
Adjustment to Ultimate Removal Liability	(5,982)	0	0	0	0
Provision for Pay Equity Settlement	0	0	25,000	0	0
TOTAL EXPENDITURES	1,276,020	1,194,096	1,205,207	1,251,164	742,398
SURPLUS (DEFICIT)	(15,603)	(12,153)	105,382	(22,314)	(34,081)
CLOSING BALANCE SURPLUS (DEFICIT)²	(9,174)	(21,327)	84,055	61,741	284

Sources: 1999-2000 Main Estimates
Public Accounts

Notes:

1. The 1998-99 Revised Estimates, 1997-98 and prior years' Actuals include revenues and expenditures for the Government of the Northwest Territories prior to division of the Territories. The 1999-2000 Main Estimates are not directly comparable to prior years as they represent the Northwest Territories' budget after division.
2. Prior years' Actuals have been restated to reflect the current accounting treatment of the student loan reserve.

REVENUE SUMMARY BY SOURCE
1995-96 to 1999-2000

	1995-96 ACTUALS	1996-97 ACTUALS	1997-98 ACTUALS	1998-99 REVISED ESTIMATE	1999-2000 MAIN ESTIMATES ¹
(Thousands of Dollars)					
GRANT FROM CANADA	904,743	855,012	889,090	917,076	522,015
ONE-TIME GRANT ADJUSTMENT	0	0	79,975	0	0
Other Transfer Payments	120,774	107,553	97,432	113,148	49,578
TAXATION REVENUE					
Personal Income Tax	65,549	60,782	70,461	51,757	44,672
Corporate Income Tax	27,521	24,996	36,511	6,391	14,218
Tobacco Tax	18,036	16,525	16,045	15,983	9,903
Fuel Tax	15,176	14,281	18,777	17,741	7,414
Payroll Tax	12,088	11,833	12,178	12,129	8,936
Property Tax and School Levies	6,760	6,862	6,975	7,947	6,758
Insurance Taxes	1,600	1,678	1,955	1,730	1,376
	146,730	136,957	162,902	113,678	93,277
GENERAL REVENUES					
Liquor Commission Profits	15,905	15,755	16,217	16,839	13,685
Licences, Fees and Permits	7,848	10,476	9,430	10,190	7,949
Interest Income	9,143	7,017	4,759	3,416	2,332
Other	3,530	1,673	1,989	0	23
	36,426	34,921	32,395	30,445	23,989
RECOVERIES	47,022	44,713	40,682	47,903	16,458
TOTAL BUDGETARY REVENUES	1,255,695	1,179,156	1,302,476	1,222,250	705,317
RECOVERIES OF PRIOR YEARS' EXPENDITURES	4,722	2,787	8,113	6,600	3,000
TOTAL REVENUES	1,260,417	1,181,943	1,310,589	1,228,850	708,317

Sources: 1999-2000 Main Estimates
Public Accounts

Note:

- The 1998-99 Revised Estimates, 1997-98 and prior years' Actuals include revenues for the Government of the Northwest Territories prior to division of the Territories. The 1999-2000 Main Estimates are not directly comparable to prior years as they represent the Northwest Territories' budget after division.

EXPENDITURE SUMMARY BY PROGRAM
1995-96 to 1999-2000

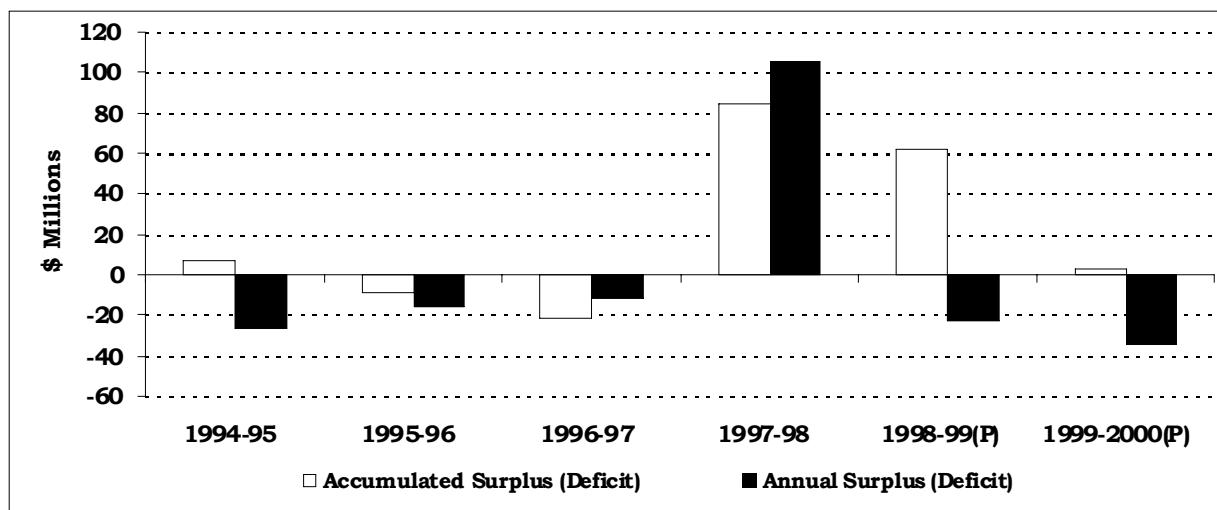
	1995-96 ACTUALS	1996-97 ACTUALS	1997-98 ACTUALS	1998-99 REVISED ESTIMATES	1999-2000 MAIN ESTIMATES
(Thousands of Dollars)					
Legislative Assembly	12,963	10,303	12,997	14,003	12,068
Executive	76,979	61,609	55,507	64,381	30,334
Finance	9,136	8,476	8,671	10,513	7,113
Municipal and Community Affairs	116,933	108,614	101,854	115,750	60,016
Public Works and Services	105,201	69,789	57,060	62,837	38,297
Health and Social Services	254,567	252,356	260,105	269,012	166,446
Justice	71,517	73,924	77,313	81,024	59,308
NWT Housing Corporation	108,058	105,217	98,385	105,077	43,276
Education, Culture and Employment	312,289	299,358	313,975	318,789	167,550
Transportation	101,740	97,289	88,428	92,525	65,923
Resources, Wildlife and Economic Development	110,963	105,762	105,912	116,015	73,067
Safety and Public Services (Prior years' Actuals not allocated to other Departments) ²	1,656	1,399	0	0	0
TOTAL O&M AND CAPITAL	1,282,002	1,194,096	1,180,207	1,249,926	723,398
Adjustment for Ultimate Removal Expense	(5,982)	0	0	0	0
Estimated Supplementary Requirements	0	0	0	(31,238)	(37,000)
Estimated Appropriation Lapses	0	0	0	30,000	18,000
Provision for Pay Equity Settlement	0	0	25,000	0	0
TOTAL EXPENDITURES	1,276,020	1,194,096	1,205,207	1,251,164	742,398

Sources: 1999-2000 Main Estimates
Public Accounts

Notes:

1. The 1998-99 Revised Estimates, 1997-98 and prior years' Actuals include expenditures for the Government of the Northwest Territories prior to division of the Territories. The 1999-2000 Main Estimates are not directly comparable to prior years as they represent the Northwest Territories budget after division.
2. The Department of Safety and Public Services was eliminated in 1996-97 as part of the GNWT's restructuring. Other departments have assumed its responsibilities. Wherever possible, these expenditures have been allocated to the GNWT Departments that assumed the responsibilities. Unallocated costs have been shown separately.

BUDGETARY BALANCES 1994-95 to 1999-2000



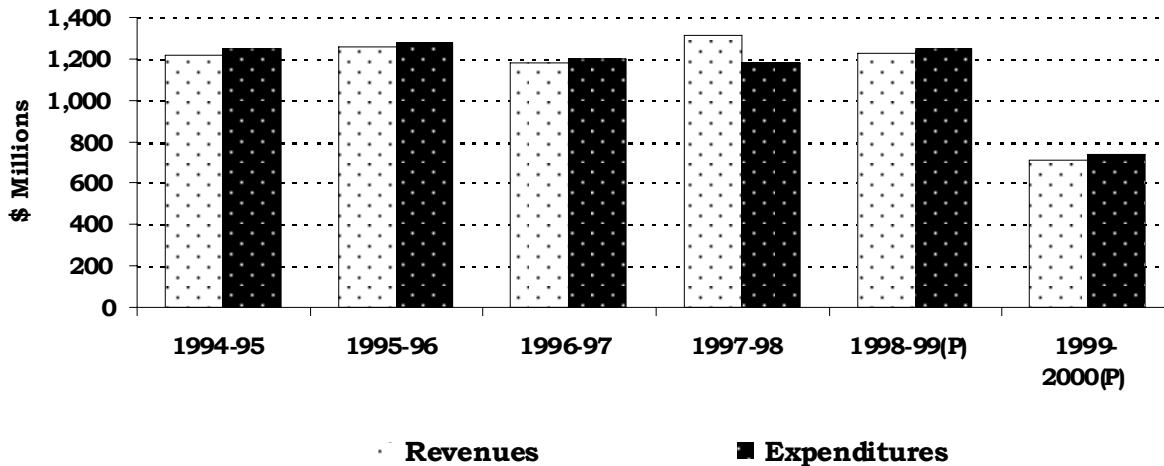
(P) Projected

Sources: 1999-2000 Main Estimates
Public Accounts

Note: The 1998-99 Revised Estimates, 1997-98 and prior years' Actuals include revenues and expenditures for the Government of the Northwest Territories prior to division of the territory. The 1999-2000 Main Estimates are not directly comparable to prior years as they represent the Northwest Territories' budget after division.

- The Government of the Northwest Territories recorded annual deficits from 1994-95 to 1996-97. The freeze of the 1995-96 Formula Financing Grant and the 5 per cent cut to the Formula's Gross Expenditure Base in 1996-97, imposed as federal budget deficit-reduction measures, contributed to these budgetary shortfalls.
- The Government of the Northwest Territories recorded a surplus of \$105 million in 1997-98, mainly due to adjustments for prior years' Formula Financing Grant entitlements related primarily to the release of 1996 Census data.
- A deficit of \$22 million is expected for 1998-99. The Northwest Territories finished 1998-99 with an estimated accumulated surplus of \$62 million, which was apportioned between the Northwest Territories and Nunavut on April 1, 1999.
- The Northwest Territories expects a budget deficit of \$34 million in 1999-2000, as economic conditions have weakened revenue growth.

GOVERNMENT REVENUES AND EXPENDITURES 1994-95 to 1999-2000



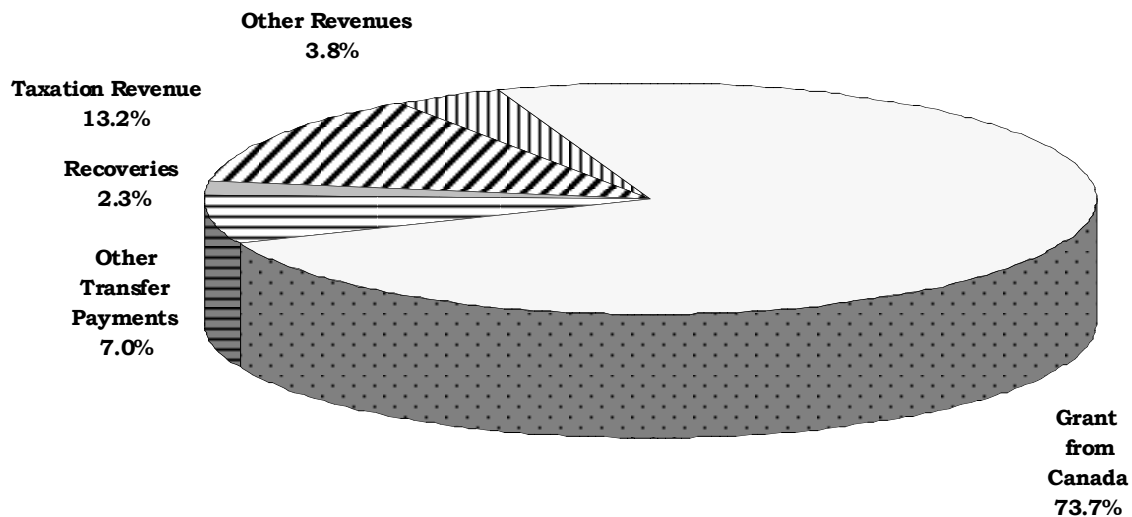
(P) Projected

Sources: 1999-2000 Main Estimates
Public Accounts

Note: The 1998-99 Revised Estimates, 1997-98 and prior years' Actuals include revenues and expenditures for the Government of the Northwest Territories prior to division of the territory. The 1999-2000 Main Estimates are not directly comparable to prior years as they represent the Northwest Territories' budget after division.

- Revenues have fluctuated in recent years, largely in response to changes in the Formula Financing Grant. Expenditures have changed with revenues, as the government has tried to maintain balanced budgets.
- Revenues fell in 1996-97, primarily as a result of a 5 per cent cut to the Formula Financing Agreement's Gross Expenditure Base. Revisions to historical population estimates resulted in a large adjustment to prior years' Formula Financing Grant entitlements in 1997-98.
- 1998-99 revenues were higher than forecast in the 1998 budget, but expenditures were also higher than anticipated.
- In 1999-2000, the Northwest Territories' revenues and expenditures are about 60 per cent of the 1998-99 pre-division levels. Total revenues will be lower than expenditures in 1999-2000 due to slow population growth in the Northwest Territories relative to Canada and weak tax revenues.

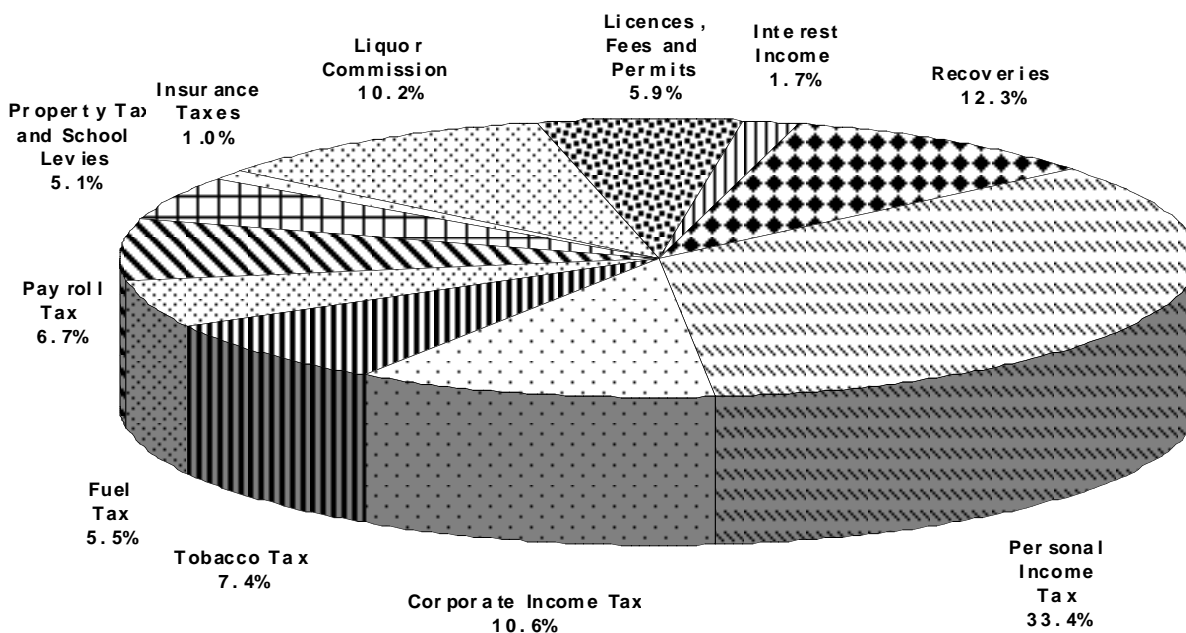
GOVERNMENT REVENUES BY SOURCE 1999-2000



Source: 1999-2000 Main Estimates

- The Grant from Canada under the Formula Financing Agreement constitutes the single largest source of revenue available to the Government of the Northwest Territories.
- The 1999-2000 Grant forecast of \$522 million will account for 74 per cent of the Northwest Territories' total revenues.
- Between the Grant from Canada and other transfer payments, the Government of the Northwest Territories will receive 81 per cent of its 1999-2000 revenues from the Government of Canada.
- Because territorial own-source revenues represent only 19 per cent of total revenues, the Government of the Northwest Territories has a limited ability to meet expenditure demands through revenue measures.

GOVERNMENT OWN-SOURCE REVENUES 1999-2000

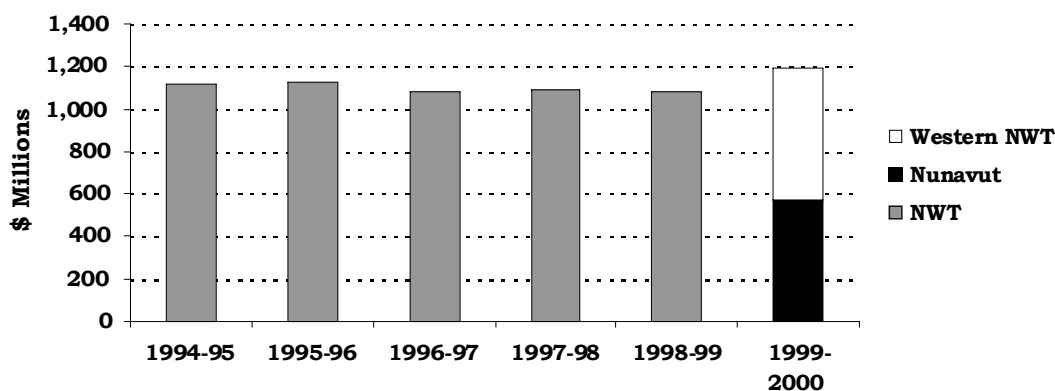


Source: 1999-2000 Main Estimates

- Total own-source revenues in 1999-2000 are expected to be \$134 million.
- Personal Income Tax is expected to account for 33 per cent of own-source revenues in 1999-2000.
- Corporate Income Tax is expected to comprise 11 per cent of 1999-2000 own-source revenues. This revenue source is very volatile because a large portion is paid by a few companies in the resource sector.
- Personal and Corporate Income Tax revenues will account for a higher share of 1999-2000 revenues in the Northwest Territories than they did in the pre-division Northwest Territories.
- Recoveries, which include mainly rental income, sales of government assets and sales of goods and services, are expected to account for 12 per cent of total revenues in 1999-2000.

FORMULA FINANCING FOR TWO NEW TERRITORIES

Gross Expenditure Base: 1994-95 to 1999-2000



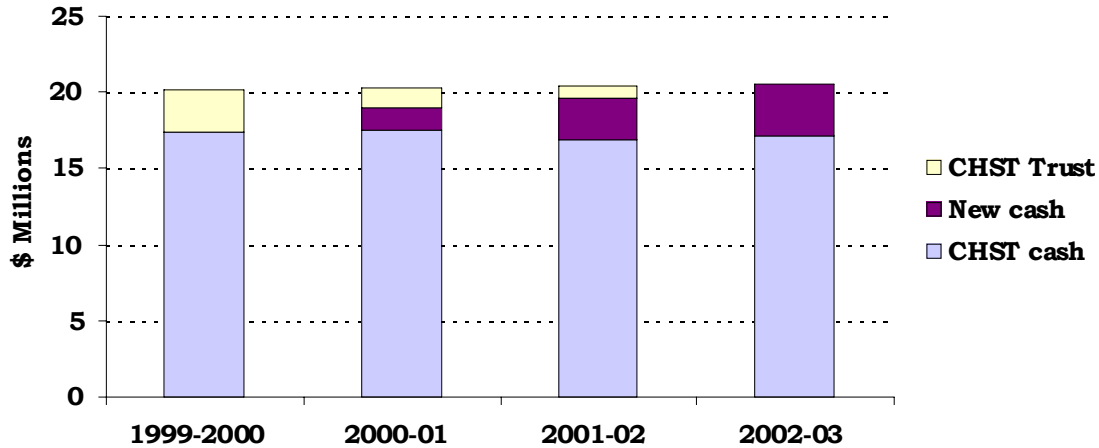
Source: GNWT Department of Finance

Note: The 1995-96 Gross Expenditure Base was used only to calculate the 1996-97 Gross Expenditure Base. In 1995-96, the Formula Financing Grant was frozen at its 1994-95 level. The federal government cut the 1996-97 Gross Expenditure Base by 5 per cent as part of its deficit-reduction measures.

- The Formula Financing Grant is a transfer from the Government of Canada that fills the gap between the territory's expenditure needs and its ability to raise revenues.
- The structure of the Grant calculation will remain largely unchanged in 1999-2000.
- The Formula's measure of territorial expenditure needs, the Gross Expenditure Base, has been revised to reflect the needs of the two new territories.
- In order to provide adequate funding for two new territories, the incremental cost of running two governments, rather than one, had to be taken into account. As a result, the 1999-2000 Gross Expenditure Bases for the Northwest Territories and Nunavut were not calculated by dividing the pre-division Northwest Territories 1998-99 Gross Expenditure Base.
- The GNWT estimated 1996-97 spending requirements of \$587 million for Nunavut and \$690 million for the western Northwest Territories. These requirements included incremental funding of \$95 million for the two new territories.
- The combined 1999-2000 Gross Expenditure Bases for the two territories reflect \$95 million in incremental funding provided by the federal government.

CANADA HEALTH AND SOCIAL TRANSFER

Northwest Territories CHST Cash Entitlements: 1999-2000 to 2002-03

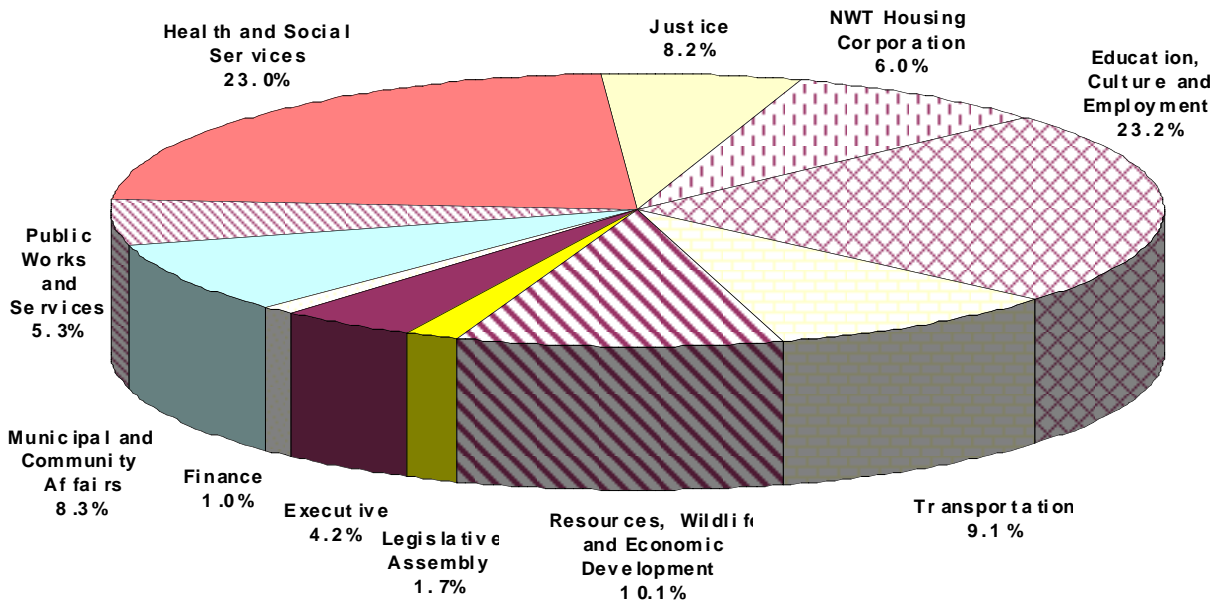


Source: GNWT Department of Finance; Finance Canada

Note: For illustrative purposes, CHST Trust is assumed to be drawn down as follows: 57 per cent in 1999-2000, 29 per cent in 2000-01, and 14 per cent in 2001-02. The actual draw down schedule will be determined by the GNWT in each fiscal year.

- The Canada Health and Social Transfer (CHST) is a block fund transfer to the provinces and territories for spending on health care, post-secondary education and social assistance programs.
- In its 1999 Budget, the federal government announced additional health care funding including both the \$3.5 billion CHST Trust and increases to ongoing CHST cash entitlements beginning in 2000-01.
- The Northwest Territories will be allocated \$4.8 million from the CHST Trust, which can be drawn down at any time over the next three fiscal years, beginning in July 1999.
- The Northwest Territories will receive an additional \$7 million in CHST cash transfers between 2000-01 and 2002-03 as a result of the increases in the cash entitlements.
- However, these additional health care funds will fall short of reversing the reductions in the Formula Financing Grant resulting from the 5 per cent cut in the 1996-97 Gross Expenditure Base announced in the 1995 federal Budget.

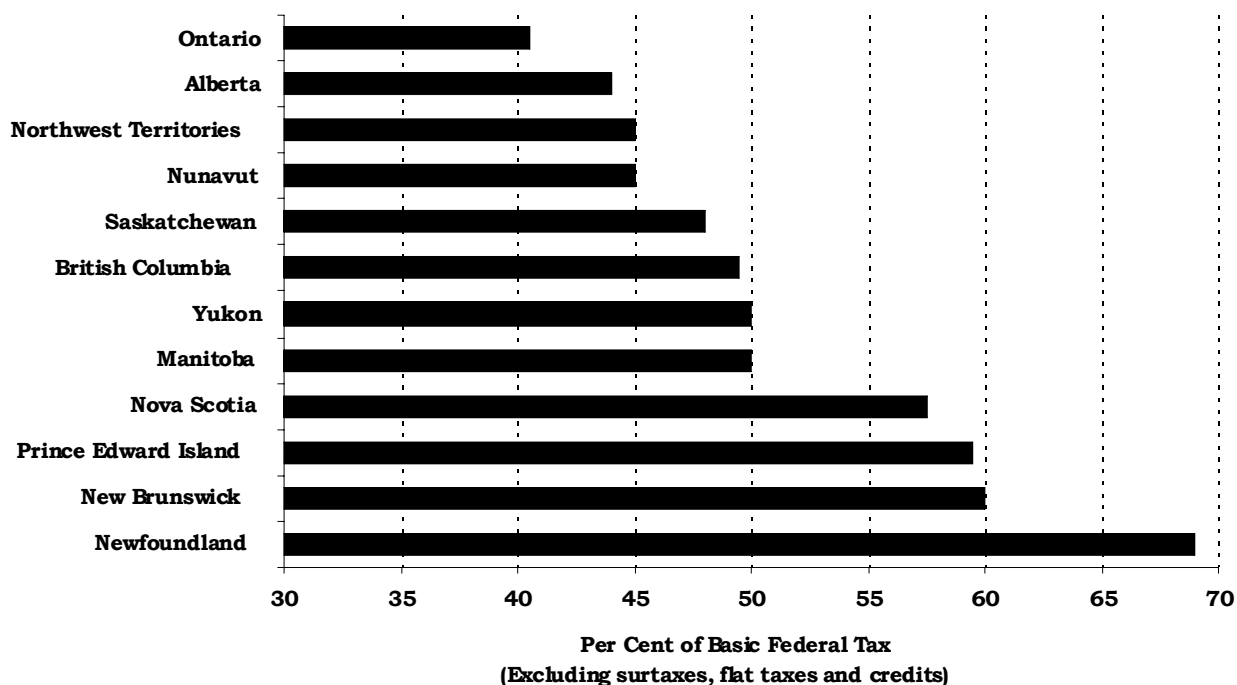
GOVERNMENT EXPENDITURES BY DEPARTMENT 1999-2000



Source: 1999-2000 Main Estimates

- Most territorial spending is in the area of social programs: education, health and social services, justice and housing. These programs represent 60 per cent of the Government of the Northwest Territories' 1999-2000 budget.
- The share of Northwest Territories' spending on social programs is similar to the spending patterns of the other territories and provinces.
- Because a large portion of spending is targeted for education, health and social programs, demographic and social pressures in the Northwest Territories will largely determine growth in expenditure requirements in future years.

PERSONAL INCOME TAX RATES 1999

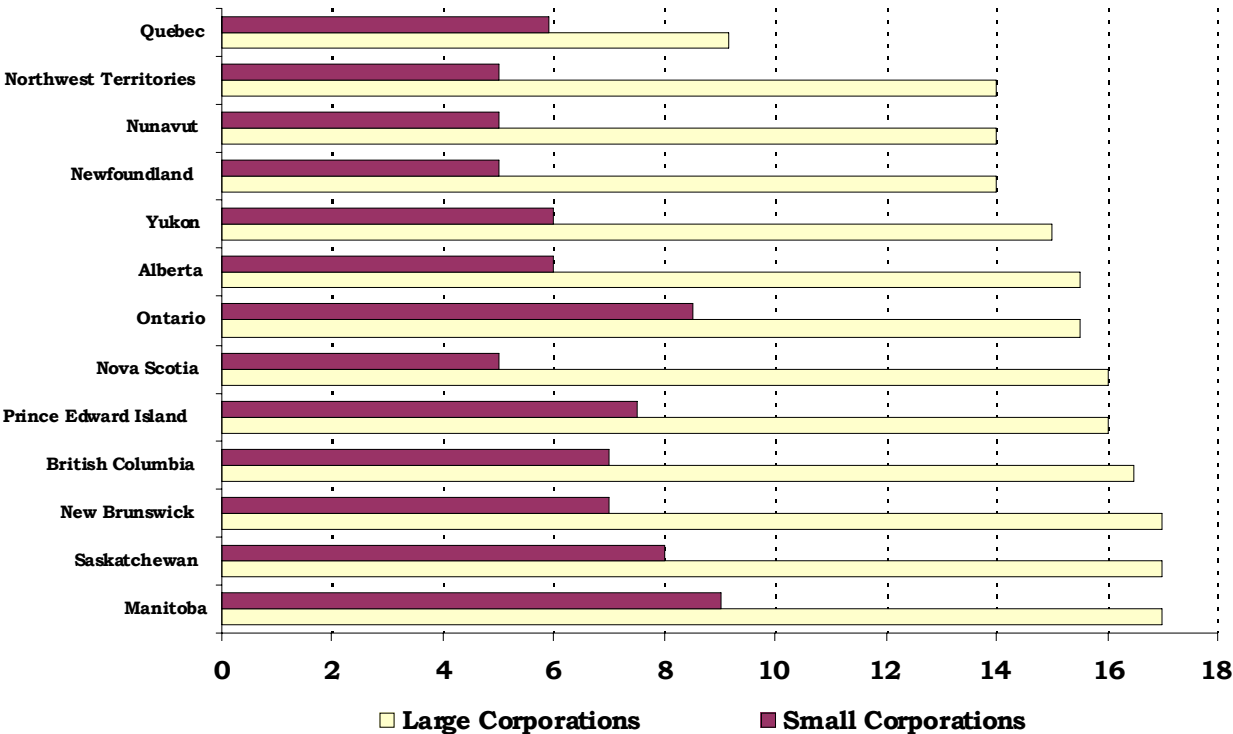


Source: GNWT Department of Finance

Note: Quebec does not levy its Personal Income Tax as a per cent of federal tax.

- The Northwest Territories has a Personal Income Tax rate that is among the lowest in Canada. Furthermore, unlike Ontario and Alberta, which have lower basic rates, the Northwest Territories does not impose any flat taxes or surtaxes.
- Despite lower territorial tax rates, Northwest Territories residents pay a similar percentage of their income in total income taxes as do other Canadians. Higher incomes are required in the north in order to compensate for the higher cost of living. These higher incomes, combined with the progressive income tax structure, mean taxpayers pay a higher amount and a higher percentage of income in federal income tax than individuals with equivalent earning power in southern Canada.
- The Northwest Territories is one of four jurisdictions in Canada without a provincial/territorial sales tax.

CORPORATE INCOME TAX RATES 1999



Source: GNWT Department of Finance

- The Northwest Territories continues to maintain a low and predictable tax regime for corporations.
- The Northwest Territories' Corporate Income Tax rates are among the lowest in Canada.
- The Northwest Territories has no corporate capital tax.

PROVINCIAL AND TERRITORIAL TAX RATES
April 1, 1999

	Personal Income Tax (b) (%) of federal tax	Retail Sales Tax %	Fuel Tax			Tobacco Tax Cigarettes \$/carton	Payroll Tax (h) (%)	Corporate Income Tax		Capital Tax (i) (%)
			Gasoline Unleaded ¢/litre	Diesel ¢/litre	Aviation ¢/litre			Small (%)	Large (%)	
Northwest Territories	45		10.7 (e)	9.1	1.0	25.20	1.00	5	14	
Nunavut	45		6.4	9.1	1.0	25.20	1.00	5	14	
Yukon	50		6.2	7.2	1.1	16.40		6	15	
British Columbia	49.5	7	11.0 (e)	11.5	3.0	22.00		7	16.5	0.3/3.0
Alberta	44		9.0	9.0	1.5	14.00		6	15.5	0.0/2.0
Saskatchewan	48	6	15.0	15.0	3.5	16.80		8	17	0.6/3.25
Manitoba	50	7	11.5	10.9	4.2	16.00	2.15	9	17	0.3/3.0
Ontario	40.5	8	14.7	14.3	2.7	4.70	1.95	8.5	15.5	0.3/1.12
Quebec	N/A (c)	7.5	15.2 (e)	16.2	3.0	8.00	4.26	5.91	9.15	0.64/1.12
New Brunswick	60	8	10.7	13.7	2.5	7.70		7	17	0.3/3.0
Nova Scotia	57.5	8	13.5	15.4	0.8	9.04		5	16	0.25/3.0
Prince Edward Island	59.5	10	13.0	12.5	0.7	12.65		7.5	16	0.0/3.0
Newfoundland	69	8	16.5 (e)	16.5	0.7	22.00	2.00	5	14	0.0/4.0
Canadian Average (a)	45.5 (d)	6.8	13.5	13.8	2.7	10.14	1.88	7.2	14.2	0.4/1.8
Average incl. sales tax			14.7 (f)	14.9		11.30 (g)				

- (a) Average of all provincial and territorial rates, weighted by population.
- (b) In addition, all provinces and Yukon have surtaxes and/or flat taxes.
- (c) Quebec levies a Personal Income Tax directly against taxable income.
- (d) 45.5% is the weighted average of the basic rate in the nine provinces and two territories, which have tax collection agreements with the federal government. The average effective rate (total provincial/territorial tax, including surtaxes, flat taxes, and credits, as a percentage of basic federal tax) for the eleven jurisdictions is 48.8%.
- (e) Different rates apply in some areas of the province / territory.
- (f) Quebec, New Brunswick, Nova Scotia and Newfoundland apply sales tax to fuel.
- (g) Average includes provincial sales taxes of Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia and Newfoundland applicable to sales of tobacco.
- (h) Other than for the Northwest Territories, rates shown are for payrolls over \$400,000. The Northwest Territories' Payroll Tax is levied on employees. British Columbia and Alberta do not have payroll taxes but levy health care premiums. Rates for a family of three or more are \$864 and \$816 per year respectively.
- (i) Rates shown for capital tax are for large corporations and for financial institutions in the order shown. The bases are different for different type of companies.

**NORTHWEST TERRITORIES AND NUNAVUT
ECONOMIC INDICATORS, 1994-1999**

INDICATOR	1994	1995	1996	1997	1998(E)	1999(P)
FINAL DOMESTIC DEMAND						
(Mil. of 1992 \$)	2,833	2,925	2,952	3,090	3,121	3,115
(% Change)	(0.1)	3.3	0.9	4.7	1.0	(0.2)
TOTAL INVESTMENT						
(Mil. of 1986 \$)	552	590	623	727	757	658
(% Change)	12.4	6.9	5.6	16.7	4.2	(13.1)
CONSUMER EXPENDITURES						
(Mil. of 1986 \$)	937	963	978	1,002	1,026	1,054
(% Change)	3.8	2.8	1.6	2.5	2.2	2.7
GOVERNMENT						
EXPENDITURES	1,344	1,372	1,351	1,361	1,337	1,403
(Mil. of 1986 \$)						
(% Change)	(6.9)	2.1	(1.5)	0.7	(1.7)	4.9
EMPLOYMENT (000's)						
	22.4	23.6	25.0	25.3	25.3	26.6
(% Change)	4.2	5.4	5.9	1.2	0.0	5.1
AVG. WEEKLY EARNINGS (\$)						
	703	710	721	726	727	736
(% Change)	0.1	1.0	1.6	0.7	0.1	1.2
CPI (YELLOWKNIFE)						
	103.6	106.5	108.2	108.3	108.2	110.1
(% Change)	1.9	2.8	1.6	0.1	(0.1)	1.8

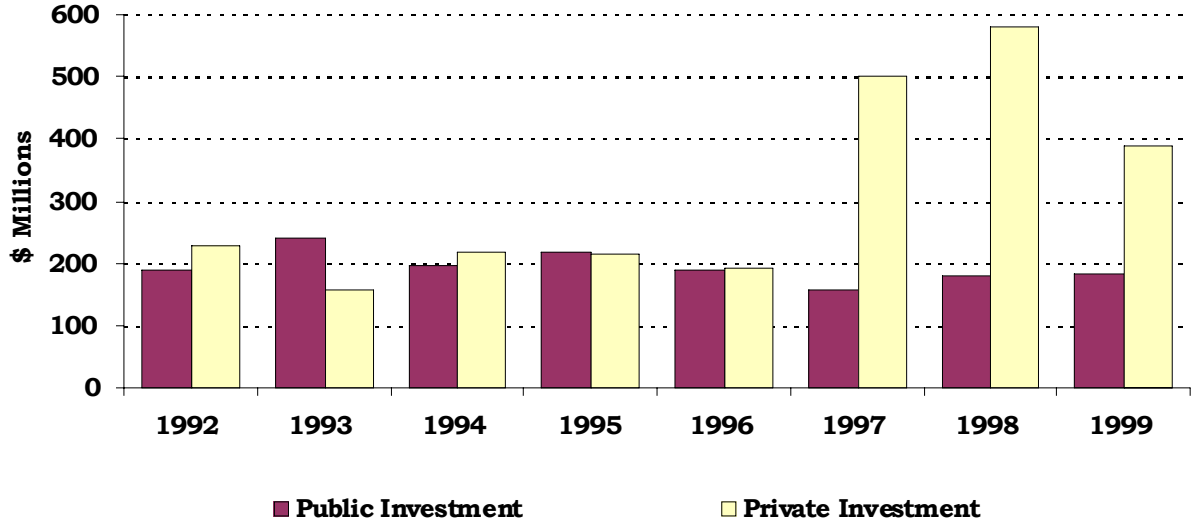
(E) Estimated by GNWT Department of Finance
(P) Projected by GNWT Department of Finance

Sources: Statistics Canada
GNWT Department of Finance

Note: Some indicators for the new Northwest Territories are not available. Statistics Canada is in the process of splitting historical indicators on a Northwest Territories - Nunavut basis.

- Growth in the economy in 1997 and 1998 was primarily attributable to an increase in private investment. In 1999, a significant decrease in private investment is expected in the Northwest Territories and will offset growth in Nunavut caused by the expanding government sector.
- Employment growth in 1999 reflects employment created by the new government in Nunavut. In the Northwest Territories, low prices for gold and oil will continue to be a drag on employment growth in 1999.
- Developments in the diamond industry are a positive sign but employment growth will be limited until construction starts on a possible second diamond mine.

**PUBLIC AND PRIVATE INVESTMENT
NORTHWEST TERRITORIES and NUNAVUT
1992-1999**

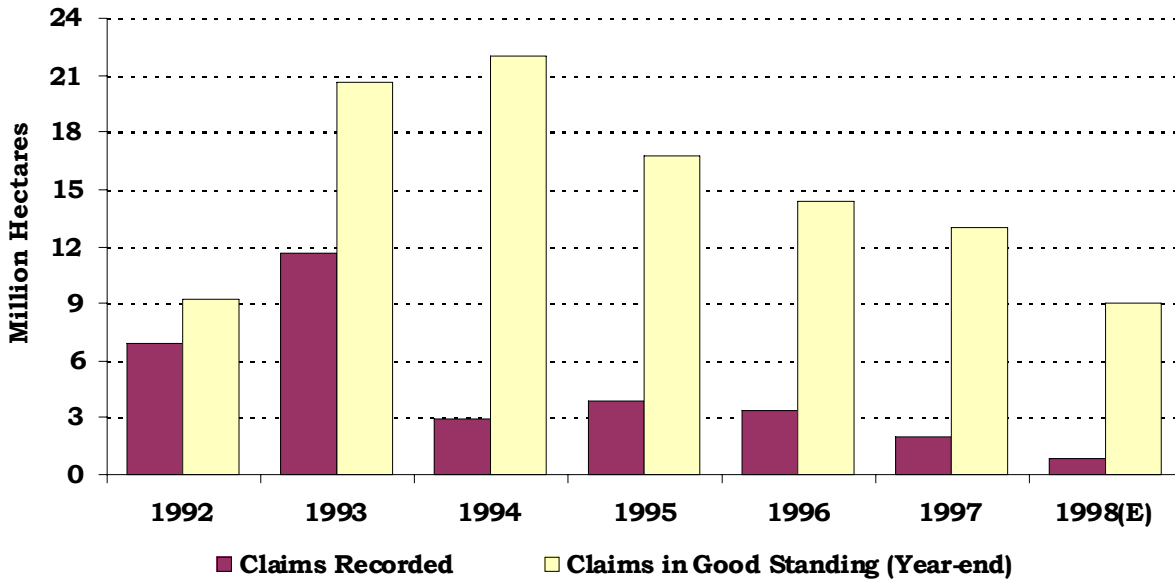


Source: Statistics Canada

Note: 1992 to 1997 figures are actual, 1998 figures are preliminary actual, 1999 are intentions.

- In 1999, capital expenditure intentions for the Northwest Territories and Nunavut are estimated to decrease 24.8 per cent compared with 1998 preliminary estimates.
- Even with this sharp decline, investment intentions in 1999 will remain well above the average between 1992 and 1996.
- The decrease in capital expenditures in the Northwest Territories in 1999 is largely a result of a significant decrease in private sector capital expenditure intentions, which are expected to decline by 33.2 per cent over 1998 preliminary actuals.
- The decline in private sector intentions is almost exclusively attributable to the mining industry, which accounts for a \$224 million reduction in investment in 1999.
- The completion of construction at BHP's Ekati diamond mine and, to a lesser extent the decline in base metal prices, have negatively impacted investment in the Northwest Territories' mining sector.

**MINING EXPLORATION
NORTHWEST TERRITORIES and NUNAVUT
1992-1998**

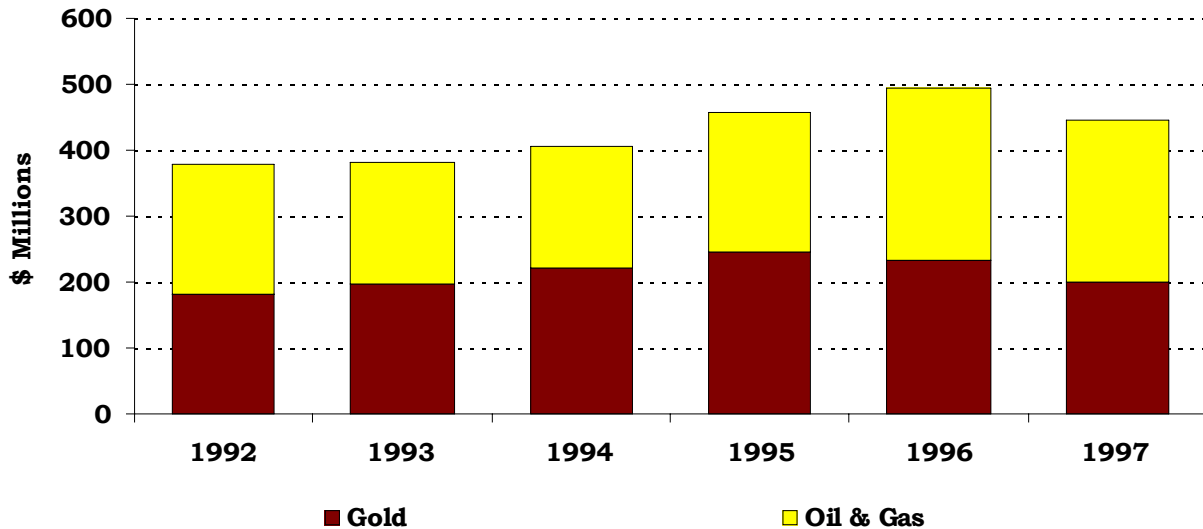


(E): Estimated

Sources: Statistics Canada
GNWT Bureau of Statistics Estimate

- Claims recorded are estimated to decline in 1998 to slightly less than one million hectares. Depressed metal prices have negatively affected the ability of mining companies to raise capital for exploration purposes.
- On a related matter, preliminary intentions for 1998 indicate exploration expenditures in the Northwest Territories and Nunavut will reach \$153.2 million in 1998. In 1999, exploration expenditures are forecast to fall slightly to \$145.2 million.
- Preliminary 1998 intentions on diamond exploration, which only includes the search for new mines, indicate spending will total \$125 million in Canada, primarily in the Northwest Territories.
- In 1997, mining investments (exploration and mine development) in the Northwest Territories were \$549 million. Mining investments are estimated to total \$521.8 million in 1998 and are forecast to decline to \$284.1 million in 1999.

**VALUE OF GOLD, OIL AND GAS PRODUCTION
NORTHWEST TERRITORIES
1992-1997**

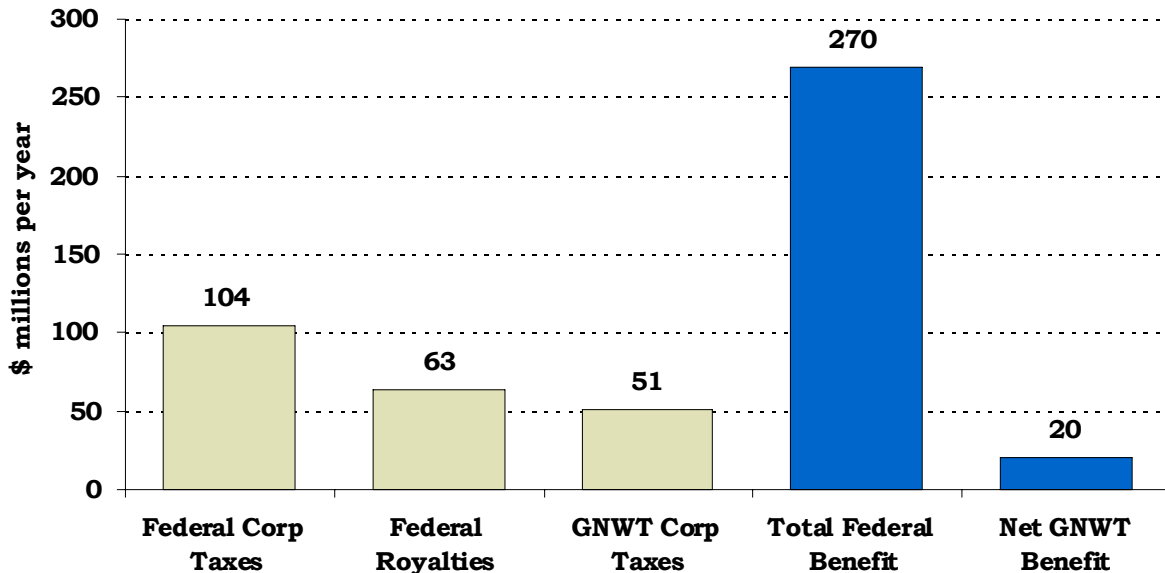


Source: Statistics Canada

- The increase in the value of production in 1995 and 1996 is partly due to higher commodity prices during that time. Lower prices resulted in a decline in 1997, and are expected to translate into a further reduction in the value of shipments in 1998.
- Production levels for gold remained fairly stable until 1996. Since then, decreases in the price of gold have resulted in reduced production levels, threatening the economic viability of gold mines in the Northwest Territories.
- Most existing Northwest Territories mines are in their mature phase of operation. If increases in Northwest Territories mineral production levels are to be sustained, new mines will have to be developed.
- The construction phase of the Ekati diamond mine began in 1997, with production beginning in 1998 and operation at full capacity by 2002. At full capacity, production at the Ekati mine is projected to reach \$U.S. 500 million per year.

ANNUAL FISCAL IMPACT OF DIAMOND DEVELOPMENTS IN THE NORTHWEST TERRITORIES

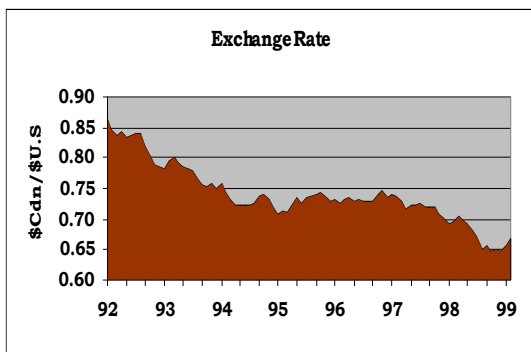
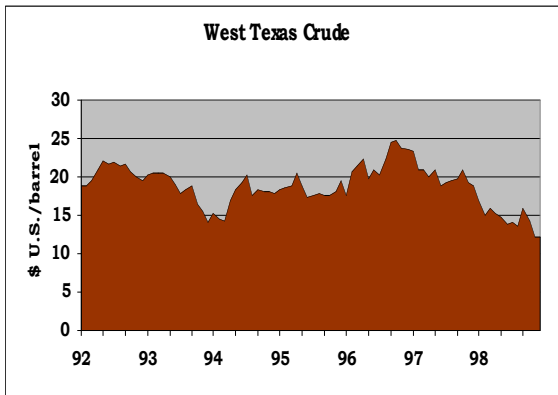
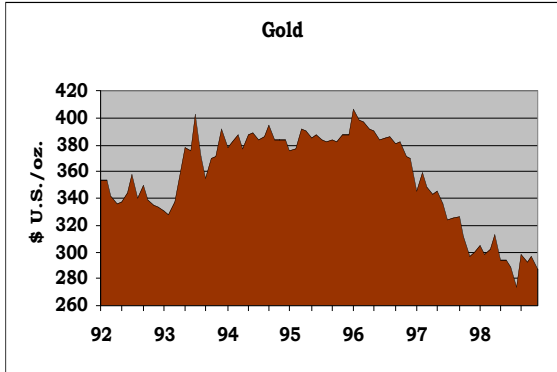
Estimated distribution of average new government revenues from the development of two diamond mines.



Sources: GNWT Department of Finance
GNWT Department of Resources, Wildlife and Economic Development

- Resource development in the Northwest Territories generates direct revenue for the GNWT from Corporate and Personal Income Taxes, as well as Payroll, Property, and Fuel Taxes. However, a significant portion of the revenue generated through these sources is offset by reductions in the Formula Financing Grant.
- The Government of Canada receives revenues from Corporate and Personal Income Tax, and royalties. In addition, the federal government receives an additional net benefit from the reduction in its Grant payment to the GNWT.
- The GNWT estimates that the development of two diamond mines in the Northwest Territories, its spin-off effects in the Northwest Territories, and the reduction in the Formula Financing Grant resulting from this development, will generate, on average, \$270 million per year over the next 26 years for the Government of Canada. This includes \$104 million in direct Corporate Income Tax revenues and \$63 million in royalties annually.
- The GNWT will receive, on average, a net fiscal benefit of \$20 million per year from the development of the mines and related spin-off activity after the reduction in the Formula Financing Grant is taken into consideration.

COMMODITY PRICES AND THE EXCHANGE RATE 1992-1999



- Commodity prices were hit hard following the Asian crises.
- Gold prices were also affected by a sell-off of gold reserves by Central Banks throughout the world, particularly in Europe.
- The price of gold is expected to recover modestly in 1999.
- The price of oil dropped considerably in 1997 and 1998.
- The price of oil is expected to recover slowly, as OPEC and non-OPEC producing countries are increasing supply, while a slow recovery in Asia is expected to limit demand increases.
- Instability in the Middle East and elsewhere may cause the price of oil to increase faster than expected.
- Decreases in commodity prices in 1998 caused the Canadian dollar to depreciate significantly against the U.S. dollar.
- The weak recovery in Asia, and in crude oil prices, will cause the Canadian dollar to trade in the U.S. \$0.65 - \$0.68 range throughout 1999.
- Since commodities are valued in U.S. dollars and production costs are in Canadian dollars, a depreciation of the Canadian dollar results in a net financial benefit to companies operating in Canada.

Source: GNWT Bureau of Statistics

NORTHWEST TERRITORIES POPULATION 1995 - 2002



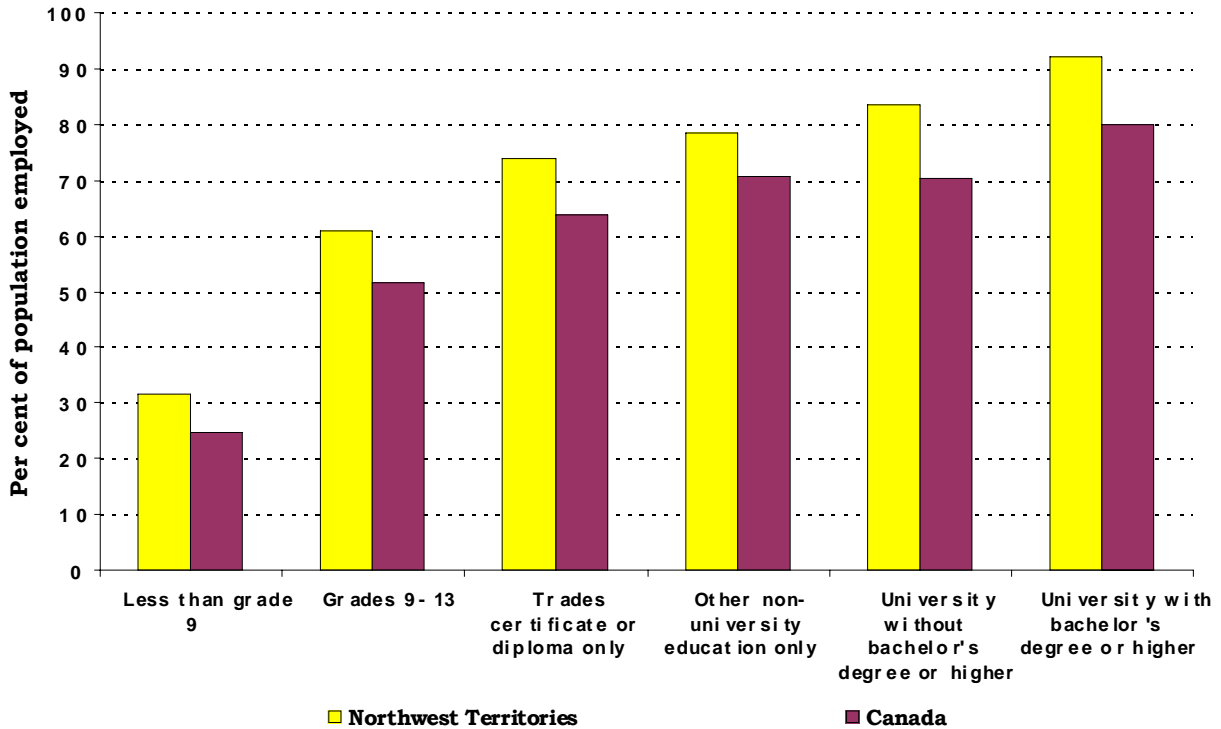
(P) Projected

Sources: Statistics Canada
GNWT Bureau of Statistics

- Total population in the Northwest Territories decreased by 893 between 1996 and 1998. This was the result of a net out-migration of more than 2,000 people, partly offset by natural increases (births less deaths) in the population.
- The decline in population is due to the downturn in the economy and uncertainty leading up to division of the territories in 1999.
- The downward trend in population is expected to reverse, with population increasing by 2,117 over the period from 1998 to 2002.

**NORTHWEST TERRITORIES - CANADA
EDUCATION AND EMPLOYMENT
1996**

**Employment Rate for Population 15 Years and Over
by Highest Level of Education:
Northwest Territories and Canada**

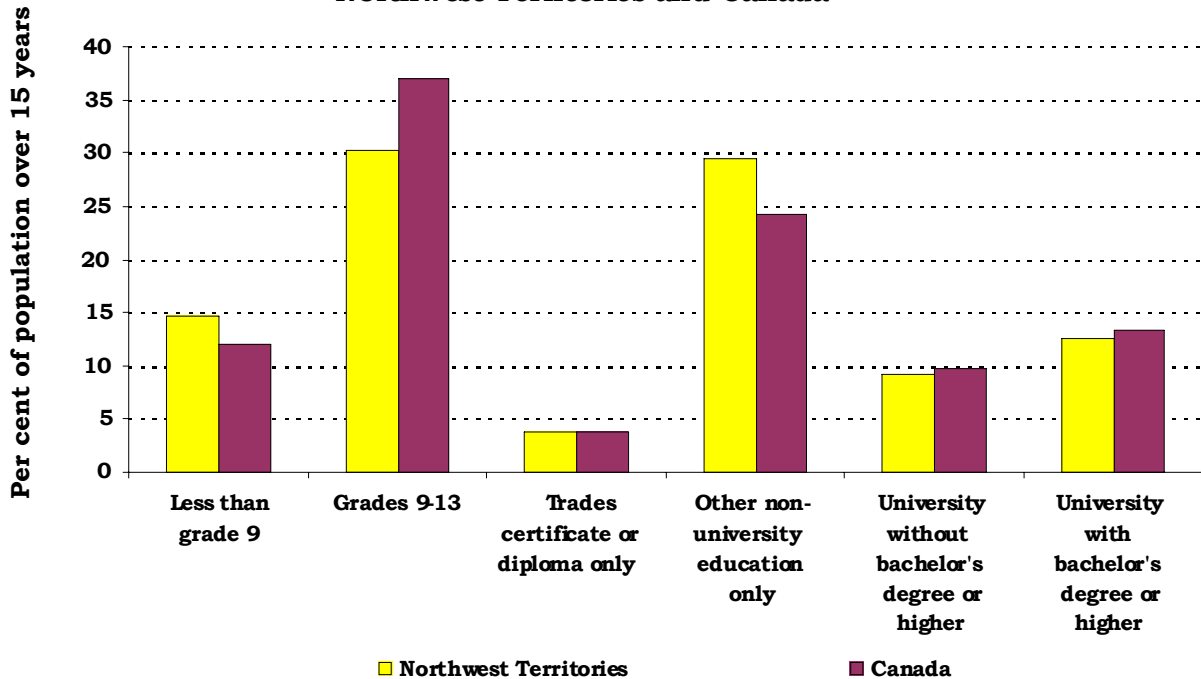


Source: 1996 Census

- For a given education level, the percentage employed is greater in the Northwest Territories than Canada.
- As education level increases in the Northwest Territories, the more likely the person has a job.
- People with a high school certificate are twice as likely to have a job than those without any high school education.

**NORTHWEST TERRITORIES - CANADA
POPULATION AND EDUCATION
1996**

**Population 15 Years and Over by Highest Level of Education:
Northwest Territories and Canada**



Source: 1996 Census

- Almost 15 per cent of the Northwest Territories' population have an education level of less than Grade 9, compared with 12 per cent of Canada's population.
- Thirty per cent of the Northwest Territories' population, compared with 37 per cent of Canada's population, has some high school education.
- The proportion of both the Northwest Territories and Canada's population with university education is similar.