Budget Address

2006 - 2007

NORTHWEST TERRITORIES

The Honourable Floyd K. Roland
Minister of Finance

**Fourth Session
of the
Fifteenth Legislative Assembly
of the
Northwest Territories**

February 2, 2006

Introduction

Mr. Speaker, it is my honour and privilege today to stand before you and Members of this Legislative Assembly to present the Budget for the Northwest Territories for 2006-07. I would like to take this opportunity to thank my Cabinet colleagues and the Standing Committees for their input, particularly for the Committees' work on pre-Budget consultations.

This Budget comes at a historic time. Many of us have looked ahead with hope to the day when the Northwest Territories would be self-reliant and strong, with a thriving economy, jobs and opportunities for our people. Today, those are no longer just dreams. We're on the brink of tremendous economic opportunities – opportunities that will test our imagination and our ability to respond. Opportunities that will transform the Northwest Territories into a key economic driver, not only for the North, but for all of Canada.

The Northwest Territories is poised to become a leading player on Canada's resource development scene. The demand for our energy resources has never been greater.

The Mackenzie Valley Pipeline – once only a far-off dream – is on the verge of becoming a reality. Public hearings have already begun. If approved, it will open the doors to the vast natural gas reserves of the Mackenzie Delta and Beaufort Sea.

Our two diamond mines have made the Northwest Territories the third largest producer of gem quality diamonds in the world. Now a third mine is under construction and a fourth is in the approval stage.

These economic developments will not only create jobs and business opportunities, they will bring new hope and opportunities for our people. They will help make our vision for the Northwest Territories a reality. They will allow self-reliant individuals and families to share the rewards and responsibilities of healthy communities and a prosperous and unified Northwest Territories. They will provide the resources for us to invest in infrastructure, give our children the best possible education, improve our health system, preserve our environment, and build stronger communities.

Mr. Speaker, all of this is possible for the Northwest Territories.

But only if two essential conditions are met.

First, as a government, and as citizens of the Northwest Territories, we have to do our part. That means using our revenues wisely and adhering to our Fiscal Responsibility Policy. It means investing in essential services that will bring the best long-term benefits to people and communities in the Northwest Territories. It means creating a positive environment for business so they see the Northwest Territories as a good place to invest and do business.

That's our part, Mr. Speaker. And we'll do our part through the decisions and priorities reflected in this Budget.

The other essential condition, Mr. Speaker, is to address the fundamental fiscal issues facing this government. This means working with the new federal government to take immediate action on long-standing issues that stand in the way of the Northwest Territories achieving its full potential.

As I stand here today, presenting the Budget for 2006-07, we're in exactly the same position as we were at this time last year. While we have made progress on new short-term targeted funding arrangements under the previous federal government – progress that has allowed us to invest in infrastructure, communities and our health system – fundamental, long-term fiscal issues have not been resolved.

We have no resolution on a new approach to Territorial Formula Financing. We have not reached agreement with the federal government on sharing of resource revenues. And we have not been able to lift the borrowing limit imposed on the Northwest Territories.

These are outstanding issues that can and must be resolved.

Mr. Speaker, just over a week ago, Canadians elected a new Conservative government led by Prime Minister-designate Stephen Harper. On behalf of the Government of the Northwest Territories, I want to reiterate Premier Handley's congratulations to Mr. Harper and members of his new government.

We very much look forward to what Mr. Harper has consistently called a fresh new approach to government and to relationships with the provinces and territories. We were very pleased when he made the commitment at his first press conference last week to begin negotiations on the fiscal imbalance issues that exist between jurisdictions in this country. The recognition of this important issue by the new federal government is a concrete and welcome step.

Most importantly, we listened carefully on election night when Mr. Harper spoke directly to the territories and told us he sees the potential in the North and looks forward to helping us achieve our dreams.

As a Government and as Minister of Finance, we are ready and willing to work with the new Prime Minister and his government, and with our territorial and provincial partners to address these complex and important issues immediately.

The key word is **immediately**.

The issues related to Territorial Formula Financing are specific and unique to the territories. So are issues related to resource revenue sharing. There is no need to delay decisions on these critical issues for our territory and for the entire North while negotiations begin on complex issues related to the fiscal imbalance.

So as a Government, we urge the new Prime Minister not to wait while other fiscal issues are discussed, but to seize the opportunity to establish a new partnership with Canada's North and take action on outstanding issues that stand in the way of tremendous progress in our Territory. We are ready and eager to meet with him and the new Finance Minister to begin this new partnership immediately.

With these fundamental issues clearly in mind, let me turn now to some highlights from our Budget for 2006-07.

Setting a bold agenda

Mr. Speaker, the Northwest Territories faces unprecedented opportunities. We cannot and will not shy away from these opportunities. We cannot and will not move forward with a timid budget full of half steps. It's time to be bold. It's time to be decisive.

Unlike past Budget speeches, I do not intend today to go through all the details of the various projects and initiatives included in the Budget for 2006-07. All of that information is available in the Budget documents and from individual Ministers. We look forward to an in-depth review in this House over the next several weeks.

Instead, I would like to highlight some areas that reflect the bold approaches we're taking in this Budget.

First, the financial picture.

- ♦ For 2005-06, we are projecting an operating surplus of $18 million. That's down from our original projection primarily because of an increase in spending needs and a decrease in Corporate Income Tax revenues. It's important to note, Mr. Speaker, that we remain within the guidelines of our Fiscal Responsibility Policy. That Policy has served us well. And in spite of the challenges we face, I can assure everyone listening today that we will continue to be sound financial managers for the Northwest Territories.

- ♦ Maintaining our commitment to responsible budgeting, the Budget for 2006-07 projects an operating surplus of $31 million. Spending in the current year includes a number of one-time initiatives, such as the Community Capacity Building Fund. Accounting for these one-time programs, our spending in 2006-07 is expected to increase by 7 per cent over last year's Budget as we cope with increased social program costs, community infrastructure needs and the requirement for competitive wages. We expect our revenues to increase by about 5 percent. The bottom line is we will spend $1.07 billion, take in revenues of $1.1 billion, and invest $111 million in capital projects in 2006-07.

- ♦ The prudent fiscal management approach that we have taken during this Legislative Assembly will allow us to meet our most immediate fiscal challenge. In 2006-07, the Government will have to repay $290 million in Corporate Income Tax to reflect an overpayment of taxes that we received from the federal government in 2002. This will increase our borrowing by an estimated $78 million. By year-end, we anticipate our total debt to be $223 million, a full $77 million below the federally imposed borrowing limit.

Now for some of the details.

This Budget is about seizing opportunities and maintaining momentum. It is designed to achieve four clear goals.

- ♦ To invest in priority areas.

- ♦ To set the stage for further investment and growth in our economy.

- ♦ To lay the groundwork for reducing the cost of living and raising income levels.

- ♦ And to position our government to manage development.

To achieve these four goals, our government will pursue an all-weather highway down the Mackenzie Valley and support the investment in engineering feasibility and environmental work on the Bear River Hydro project.

Working with communities and industry, we'll pursue a comprehensive solution to the critical housing needs in our communities by promoting the conversion of pipeline workforce housing into more than 1000 residential homes.

We will start to ease some of the most critical housing needs through a $4 million allocation from the Northern Strategy Trust to build new affordable housing units in 14 of our smallest communities. In October 2004, this Legislative Assembly made a motion calling for a 10 per cent reduction in core housing need. However, to make major progress towards this goal, we require the new federal government to follow through with commitments made by the former federal housing Minister to provide $100 million over the next three years to cost share more than 500 new affordable, energy-efficient homes in the Northwest Territories.

On top of that, Mr. Speaker, we will follow through on the commitment by Members of this Legislative Assembly to support the development of well-governed and sustainable communities and regions. This Budget commits an additional $12 million in new program funding for communities, including $4.5 million from the federal gas tax agreement. The Budget also includes $31 million in infrastructure contributions for community and regional operations, and almost $3 million in water treatment plants and sewage and solid waste disposal sites in various communities.

In response to the input we received from Members, we will invest in energy conservation and cost of living reduction strategies for the environmental and financial benefit of our residents. Mr. Speaker, subsidies and direct government support may be important in the short term but they are not the long-term solution for this Territory. We need to look at the factors that drive higher costs and address those factors head on. That means investing in transportation infrastructure to lower the cost of bringing goods into our communities. It means investing in hydro power to provide a cheaper, more environmentally-friendly energy source. And it means protecting those who are least able to cope with rising costs. That's why we will spend an additional $326,000 this year to increase the low-income senior citizen supplementary benefit from $135 to $160 per month.

Mr. Speaker, it is the responsibility of the Members of this Legislative Assembly to make sure future generations have the opportunities to benefit from the Northwest Territories' enormous economic growth. And that means investing in workforce development and improvements to our education system so future generations have opportunities to learn and work right here at home.

With this year's Budget we will invest a total of $259 million in programs delivered by the Department of Education, Culture and Employment, an increase of $17 million from the current year. Additional money will go towards increasing our commitment to student support. We will provide additional support for full-time kindergarten. We will expand investment in school construction, building new schools in Tulita and N'dilo, replacing the schools in Inuvik, and investing in improvements in student residences for Aurora College students in Fort Smith and Inuvik. The investments we will make in these education projects will top $120 million over the next few years.

On top of our investment in education, we will respond to the call from Members of this Assembly to expand our emphasis on youth programs. This Budget invests half a million dollars in the Northern Youth Program funded from the Northern Strategy Trust. It increases our investment in the NWT Games program designed to expand sports and recreation services in communities and increase physical activity among youth. In total, almost $700,000 has been added in this Budget to support the NWT Games, Arctic Winter Games and the Canada Winter Games.

Mr. Speaker, the health of our citizens is the priority of all Members of this Legislative Assembly. This Budget invests over $265 million in programs delivered by the Department of Health and Social Services, an increase of over $18 million from the current year's budget. The additional money will go towards enhancing health care programs and addressing the higher costs of delivering health care in the Northwest Territories. We will invest $13 million in renovations to hospitals and treatment centres, medical equipment and upgrading hospital records.

This Budget includes a $400,000 investment from the Northern Strategy Trust in the NWT Healthy Choices Framework to promote healthy lifestyles, break addictions and help people make productive and healthy choices. This year, participating departments will move forward with a coordinated curriculum for Northwest Territories schools and strategies for promoting healthy eating and physical activity.

As I said at the outset, Mr. Speaker, the Northwest Territories is on the brink of unprecedented economic growth. But we can't sit idly by and simply wait for that growth to magically appear at our doorsteps. We need to work for it. We need to create the environment where positive economic development can thrive. And we need to carefully manage the impact of growth on our communities, our people, and our Territory.

Our Government intends to do just that.

We will participate fully and actively in the Mackenzie Gas Project to ensure that, if the project proceeds, the needs and concerns of our residents are addressed. Last fall, the Premier and I outlined the intentions of the Government of the Northwest Territories to develop a stable fiscal regime for the project. We will proceed with that commitment and work with industry and the federal government to ensure the pipeline proceeds in an environmentally sustainable manner.

This Budget invests over a million dollars to complete the necessary feasibility studies and environmental base line work necessary to proceed with the Taltson Hydro Expansion project.

Additional investments will be made in transportation including capital improvements for our airports, our highway programs, and the Mackenzie Valley Winter Road bridge program.

We will continue to promote tourism in the Northwest Territories. This Budget includes $1 million to implement Tourism 2010 – a multi-year tourism plan for the Northwest Territories that will help us compete for tourists from around the world. We will also invest in enhancing our parks and renovating the Prince of Wales museum.

Mr. Speaker, these are smart investments – investments that will help create a positive, strong and growing economy.

At the same time, we need to understand that, in a highly competitive environment, having the right combination of resources and the necessary infrastructure isn't enough. Businesses can and do take their investments anywhere in the world. And to encourage businesses and industry to locate and do business here in the Northwest Territories – we have to compete, and we have to compete on taxes.

We simply cannot afford to see businesses continue to file their income tax outside of the NWT in order to avoid higher tax rates.

That is why I am pleased to announce today that the Northwest Territories Corporate Income Tax rate on large corporations will be reduced to 11.5 per cent, effective July 1, 2006. I will be introducing the legislation to implement this change during the Budget Session.

Our Small Business Corporate Income Tax rate, at 4 per cent, is well below the national average. However, we continue to work with the business community in the Northwest Territories to determine how we can best support our small business sector. This tax rate is part of our deliberations and we hope to soon bring forward a proposal for Members to consider.

All other taxes will remain the same as a result of this year's Budget.

Mr. Speaker, there are more details and more spending announcements in the Budget documents. We are on the verge of tremendous economic growth. We are preparing for that growth carefully, thoughtfully and deliberately. We're investing wisely. And the benefits of the opportunities in our Territory will flow not only to people here in the North but also to Canada as a whole.

A New Partnership with the federal government

And that brings me back, Mr. Speaker, to the second condition necessary for us to achieve our goals – a new and cooperative working relationship with the federal government.

We are at a critical stage. From a fiscal perspective, four key issues stand in the way of us achieving the full potential for this Territory and for our people – four issues that require a resolution with the federal government.

First, we need a new funding arrangement with the federal government that reflects the needs of the Northwest Territories. The current fiscal arrangements simply cannot continue. Not only are they inadequate to meet the reality of the Northwest Territories but in many ways they act as a disincentive to the Northwest Territories moving forward.

In the past year, we have worked with the panel established by the Council of the Federation and the Expert Panel established by the federal government to make our positions clear. We are optimistic that our views have been heard by both those panels and we look forward to seeing both reports this spring. However, decisions on a new approach to Territorial Formula Financing are in the hands of the federal government. Those decisions are both urgent and critical to the Northwest Territories. We intend to use the coming weeks and months to make our positions well known to the new federal government and to press them for action on an immediate basis.

Second, we need to reach a fair resource revenue sharing agreement with Canada.

Our Territory's abundance of natural resources is our best opportunity for the future. It holds the potential for us to become a thriving, self-reliant and prosperous territory.

But as it stands today, the federal government controls virtually all of the natural resources in the Northwest Territories. And the benefits of that control flow directly to the federal government. In 2004-05, federal Public Accounts show that the federal government took in over $270 million in resource revenues from the Northwest Territories and this amount is growing every year. In comparison, the Northwest Territories Public Accounts showed only $3.5 million in Corporate Income Tax revenues in that same year.

That situation would never be tolerated in a province like Alberta. It wasn't accepted in Newfoundland and Labrador or Nova Scotia where special Accords recognize their unique needs. And it won't be tolerated in Saskatchewan if their government has its way.

Why should it be tolerated in the Northwest Territories?

What we're asking for is a fair deal. A deal that gives our Territory a net fiscal benefit from the resources of our land. That benefit should cover the costs involved in resource developments, and ensure adequate incentives for economic development. It must allow us to fund our ongoing programs and, at the same time, invest in developing our labour force, our infrastructure and our economy so all our residents share in the benefits of development.

Mr. Speaker, it's time to put negotiations for a resource revenue sharing agreement on fast forward. During the recent election campaign, Prime Minister-designate Harper stated that he believed "…northerners should be the primary beneficiaries from the development of northern resources". Mr. Speaker, this was a bold and welcome statement for this territory and we are committed to working with Mr. Harper in the very short term to make this a reality.

Third, we welcomed the Government of Canada's commitment to provide $500 million over ten years to address the social and economic impacts of the Mackenzie Valley pipeline. We expect the new federal government will live up to this critical commitment.

But one-time funds, no matter how large or how welcome, do not provide a long-term source of sustainable revenues that can be used to guide future plans and decisions.

Finally, Mr. Speaker, we need the federal government to lift the arbitrary $300 million borrowing limit imposed on the Northwest Territories. This borrowing limit flies in the face of the principle of territorial political autonomy. It reflects an outdated and unreasonable view that we cannot make sound financial decisions on our own. And it does not reflect the fact that the Government's borrowing ability should be based on our capacity to finance debt rather than be set at a fixed level.

Last February, this Legislative Assembly demonstrated our commitment to fiscal responsibility. We maintained that commitment with this year's Budget. Our Fiscal Responsibility Policy sets clear guidelines and a responsible definition of acceptable borrowing limits. The Policy was instrumental in achieving an Aa3 credit rating from Moody's Investors Services. And it should be more than sufficient for the federal government to act immediately to remove the debt limit.

Concluding comments

Mr. Speaker, this is an unprecedented time in our history – a time when our dreams of prosperity, growth and self-sufficiency are fast becoming a reality.

This Budget sets a bold agenda. It invests in priority areas. And it positions our Territory to seize the opportunities for economic growth and transform them into benefits for all our citizens.

It’s an important step. But there’s much more work to be done.

In the coming months, my work will focus on two priorities.

First, developing a broad macro-economic policy for the Northwest Territories.

The Northwest Territories faces important questions as we proceed with economic development. We know we need to make investments. This Budget lays the groundwork for many of these investments. But our resources will not be unlimited, even with new fiscal arrangements with Ottawa. We will need to make choices and set priorities. What investments should be made first and how much should be invested? Should we invest millions in transportation infrastructure to further industrial development, grow trade among communities, and reduce the cost of living? Should we invest dramatically in housing or take action to improve education results and promote greater personal self-reliance? Should we invest in hydro-electricity or skills development?

With the help of every Member of this Legislative Assembly, recognized experts, Aboriginal governments, the business community, organizations, industries and communities, we will research and discuss these big questions and develop a new economic blueprint for the Northwest Territories.

Second, Mr. Speaker, outstanding issues with the federal government must be resolved. My commitment is to use all my energy, influence and determination to make sure these issues are resolved, and resolved for the benefit of the Northwest Territories and its citizens.

Mr. Speaker, this is an exciting time in the Northwest Territories. A time of hope and optimism about the future. A time when our dreams for the Territory, for communities, and for our children can be realized. Now it’s time to get to work.

Budget Address

2006 - 2007

NORTHWEST TERRITORIES

BUDGET PAPERS

A ♦Economic Review

B ♦Fiscal Review

February 2, 2006

NORTHWEST TERRITORIES ECONOMIC OUTLOOK

The economic expansion in the Northwest Territories (NWT) continued in 2005: growth for the year was an estimated 11.2 per cent, compared to 5.2 per cent in 2004 and 16.8 per cent in 2003. Since division of the former NWT in 1999, the territory's economy has grown by a cumulative 88 per cent in real terms, easily the best showing in the country. Much of this growth can be traced to the impact of the NWT's vibrant and growing diamond sector.

Driven by solid economic growth, employment and average weekly earnings rose by 4.7 per cent and an estimated 4.1 per cent, respectively. Consumer price inflation, as measured by the year-over-year change in the average Consumer Price Index for Yellowknife, was 2.3 per cent in 2005, up from 1.4 per cent in 2004. Growth in average weekly earnings was higher than consumer price inflation, implying that, by this rough measure, real earnings in the territory advanced.

The NWT's economy is expected to perform well in 2006, driven by continued strength in commodity prices, with growth in real GDP forecast to be 7.6 per cent. The resident employment level is forecast to rise by 1.0 per cent, and average weekly earnings by 4.8 per cent. Consumer price inflation this year is expected to be 2.3 per cent, the same as in 2005.

Over the medium-term, the outlook continues to be favourable. The strength in the world economy and the consequent upward pressure on commodity prices means continued interest in the NWT's non-renewable resource sector. This interest is clearly evident in the diamond sector, where the two diamond mines already in production have made Canada the world's third largest producer of diamonds by value. Construction of the NWT's third mine, at Snap Lake, has already begun, with operations scheduled to start in 2007. The applications for permits to construct and operate a fourth diamond mine at Gahcho Kué (Kennady Lake) were filed in late November 2005.

The proposed Mackenzie Valley natural gas pipeline is another source of considerable economic optimism. The economic benefits that would result from the pipeline would be significant for both the NWT and Canada as a whole. Should the pipeline project go ahead, the economy in the NWT would receive a further boost, propelled initially by the construction phase of the project and longer term through further exploration and development of the territory's substantial oil and gas resources.

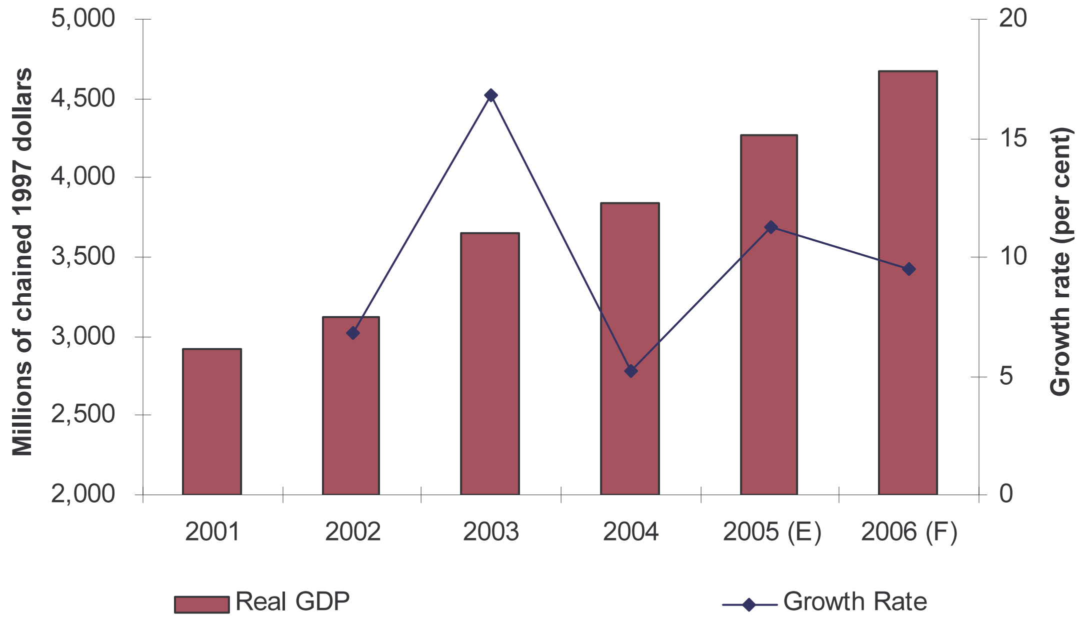
Northwest Territories Economic Indicators

INDICATOR	2003	2004	2005E	2006F
Gross Domestic Product, chained 1997 $ millions	3,649	3,838	4,270	4,595
% change	16.8	5.2	11.2	7.6
Total Investment, chained 1997 $ millions	764	1,046	1,445	1,292
% change	(39.8)	36.9	38.1	(10.6)
Consumer Expenditures, chained 1997 $ millions	1,010	1,047	1,114	1,153
% change	4.6	3.7	6.4	3.4
Government Expenditures, chained 1997 $ millions	1,027	1,046	1,066	1,082
% change	4.6	1.9	1.9	1.5
Exports, chained 1997 $ millions	2,866	3,062	3,266	3,785
% change	44.0	6.8	6.7	15.9
Imports, chained 1997 $ millions	1,923	2,196	2,475	2,561
% change	(5.9)	14.2	12.7	3.5
Employment, number of persons	20,850	21,617	22,625	22,853
% change	(0.4)	3.7	4.7	1.0
Average Weekly Earnings, dollars	895	924	962	1,008
% change	0.8	3.2	4.1	4.8
CPI All-Items (Yellowknife, 1992 = 100)	119.1	120.8	123.6	126.4
% change	2.4	1.4	2.3	2.3

Sources: Statistics Canada
NWT Department of Finance

(E) Estimate
(F) Forecast

NWT Real Gross Domestic Product



Sources: Statistics Canada (2001-2004) and NWT Finance [2005 (E) - estimate; and 2006 (F) - forecast]

EMPLOYMENT

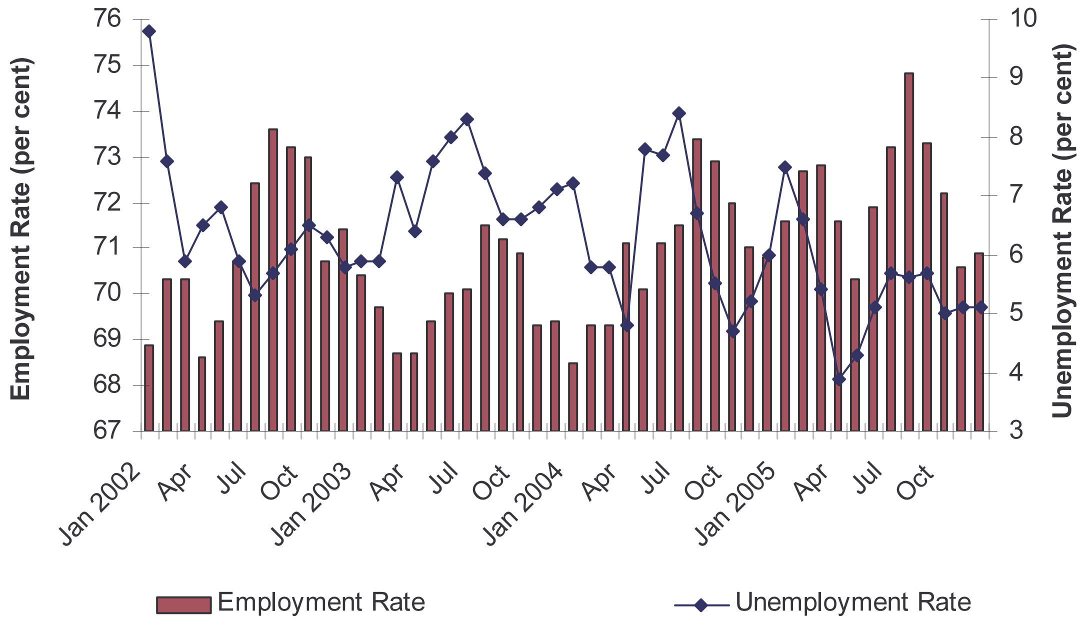
Following a 3.7 per cent increase in employment in 2004, employment growth in 2005 was a healthy 4.7 per cent. These increases follow a small decline of 0.4 per cent in employment during 2003. Overall, employment in the NWT has grown from 20,925 in 2002 to 22,625 in 2005.

Other major employment indicators also showed improvement in 2005 and continued to compare favourably with the rest of Canada. The NWT unemployment rate dropped from 6.3 per cent in 2004 to 5.4 per cent. Canada's unemployment rate was 6.8 per cent. The NWT participation rate (the percentage of people 15 years of age or older who are in the labour force) improved from 75.6 per cent in 2004 to 76.3 per cent in 2005; and the employment rate (the percentage of people 15 years of age or older who are employed) also increased, from 70.9 per cent to 72.2 per cent. The Canadian participation rate was 67.2 per cent and the employment rate was 62.7 per cent in 2005.

Within the territory, however, differences continue to exist between the larger centres (Fort Simpson, Fort Smith, Hay River, Inuvik, Norman Wells and Yellowknife) and the smaller communities. According to the *Winter 2004 Community Survey* undertaken by the NWT Bureau of Statistics, the unemployment rate in the larger centres was 6.2 per cent, versus 26.0 per cent in the smaller communities. Participation and employment rates in the larger centres were 81.2 per cent and 76.2 per cent, respectively, compared to 59.9 per cent and 44.3 per cent in the smaller communities.

Supported by continuing interest in the NWT's resource-based economy, the NWT employment market in 2006 is expected to remain firm and outperform Canada's.

NWT Labour Market



Source: Statistics Canada

INVESTMENT

Capital and Repair Expenditures in the Public and Private Sectors

Capital expenditures in 2004 totalled $1,190 million, made up of $168 million in public capital expenditure and $1,022 million in private capital expenditure. The total capital expenditure figure was up from the 2003 level of $817 million, but down from the high levels witnessed in 2001 and 2002, when expenditure levels reflected the construction of the Diavik diamond mine.

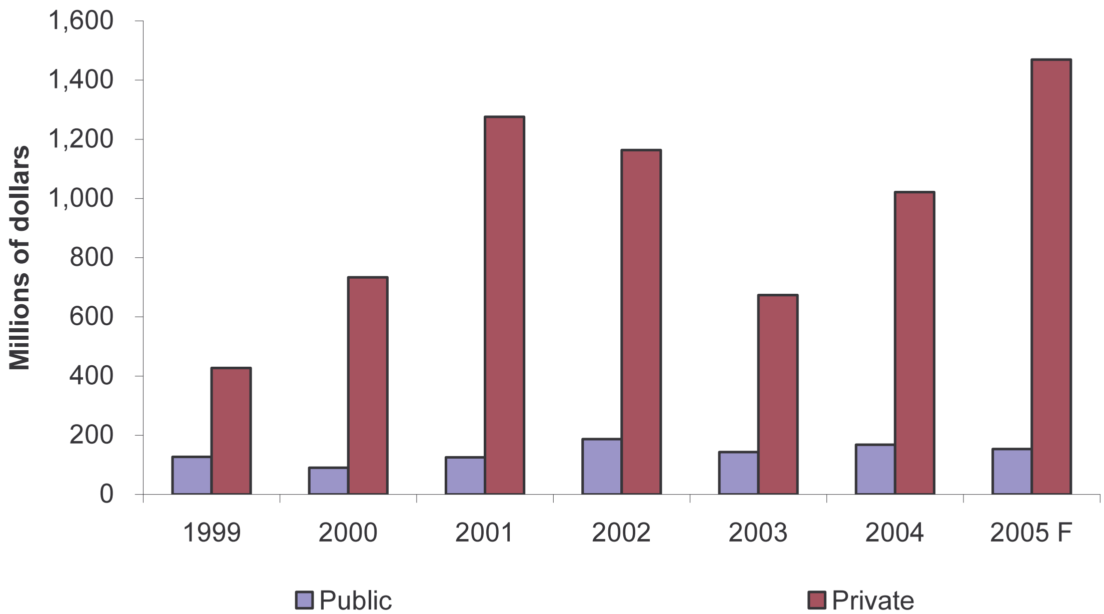
Statistics Canada's survey of the 2005 investment intentions of public and private sector organizations indicated that total capital expenditures were expected to increase 36 per cent from 2004, with public and private expenditures of $153 million (down 9 per cent) and $1,469 million (up 44 per cent), respectively. The large jump in private expenditures results primarily from construction activity in the diamond sector.

Investment in the diamond-mining sector means that private sector expenditures have dominated total NWT capital expenditures, comprising between a 77 and 91 per cent share of total capital expenditures from 1999 to 2005. Private sector investment should remain robust in 2006 as construction at the Snap Lake mine continues.

Public sector investment since 1999 has ranged from $90 million in 2000 to a peak of $187 million in 2002. From 1999 to 2005, public sector investment has averaged $142 million, with the last four years above the average.

Rapid, large-scale, non-renewable resource activity is putting increased pressure on public infrastructure. Public sector capital investment is expected to increase to accommodate these pressures.

NWT Public and Private Investment: Capital and Repair Expenditures



Source: Statistics Canada (Note: F = Forecast; Statistics Canada forecasts 2005 investment using its survey of investment intentions among public and private sector organizations.)

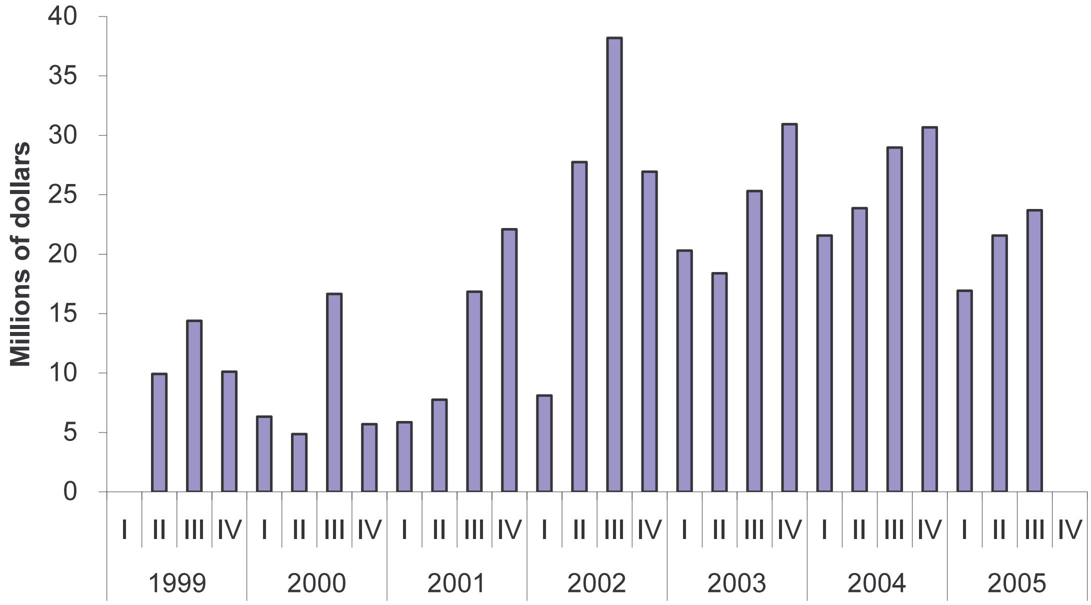
Housing Investment

As a result of a strong economy, low interest rates and rising personal incomes, housing investment in the NWT has generally increased in recent years. After very substantial gains of 57 and 92 per cent in 2001 and 2002, respectively, housing investment declined by 6 per cent in 2003, but increased 11 per cent in 2004. As a result of this growth, housing investment of $34 million in 2000 had risen to $105 million by 2004.

Through to the third quarter of 2005, housing investment totalled $62 million; a 16 per cent decline from $74 million in the same nine-month period a year ago. Barring a turnaround in the fourth quarter, housing investment for 2005 is expected to be below the level of 2004.

As in recent years, most of the housing activity in 2005 has occurred in Yellowknife and the larger communities.

NWT Housing Investment



Source: Statistics Canada

MINERAL, OIL AND GAS EXPLORATION AND PRODUCTION

The non-renewable resource sector is the powerhouse of the NWT economy. Within this sector, the diamond industry is now the most significant by far, although the proposed Mackenzie Valley natural gas pipeline would provide an impetus to the energy sector and by allowing for new exploration for oil and gas in the territory.

Driven by pre-production trial mining at Snap Lake, exploration spending in the NWT has more than doubled from 2003 to 2004, from $49.8 million to $110.4 million. Exploration spending in the NWT in 2004 was the third highest in Canada, behind Ontario and Quebec. Strong commodity prices should continue to spur interest in mineral exploration and exploration expenditures should remain strong.

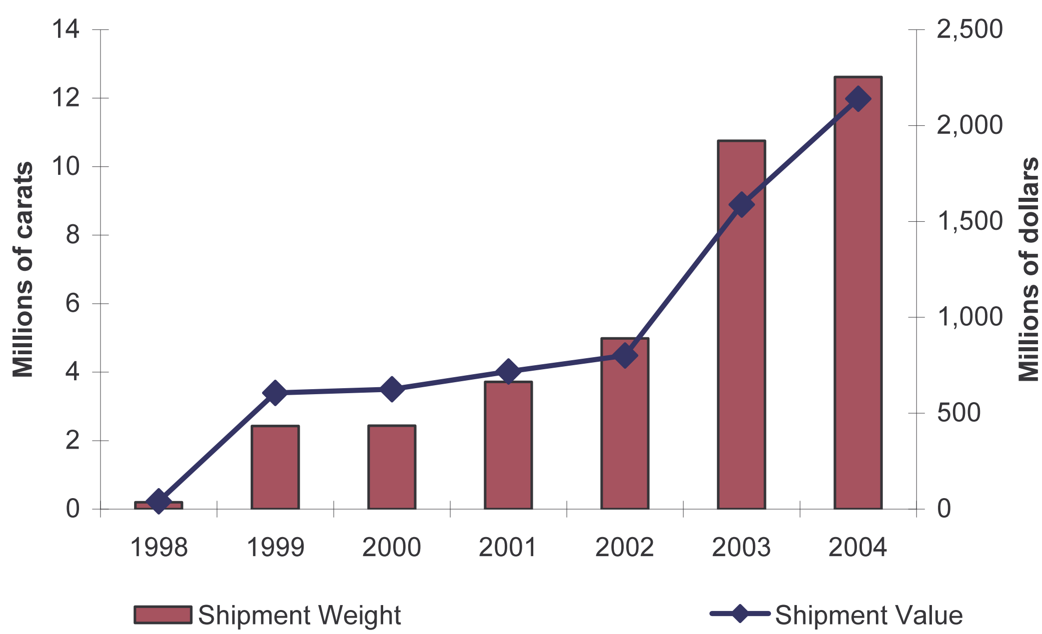
The Diamond Sector

Diamond shipments in 2004 were approximately 12.6 million carats, with a value over $2.1 billion, for an average per carat value of $170. These figures compare favourably to those of 2003, when shipments of 10.8 million carats – worth $1.6 billion – were made, with an average value of $148 per carat. Therefore, from 2003 to 2004, shipments grew by 17 per cent, per carat values by 15 per cent, and total value by 35 per cent. These increases in shipments and total value were due to increased activity and quality levels at the NWT's two existing mines, Ekati (opened 1998) and Diavik (opened 2003), since no new mines opened in 2004. Indications are that shipment quality of diamond production improved again in 2005. The following graph shows diamond shipments and the value of those shipments since the start of NWT diamond production in 1998. The 2003 increase is due to the start of operations at Diavik.

The next several years will see continued development of diamond mining in the NWT. Snap Lake, De Beers' first Canadian diamond mine, is currently under construction, with production scheduled to begin in 2007. De Beers announced in late November that it has filed an application with the Mackenzie Valley Land and Water Board for permits to construct and operate a second NWT mine at Gahcho Kué (Kennady Lake). If approved, the Gahcho Kué mine will be the NWT's fourth diamond mine, and potential exists for more mines in the future.

The value of diamonds increase as they move through the supply chain to the point at which they are sold as jewellery at the retail level. The tasks of sorting, polishing, manufacturing and marketing diamonds add much value beyond the value of the rough stones. Various diamond polishing enterprises operating in the NWT help to ensure that some of these downstream benefits remain in Canada's North. However, currently only a small portion of the NWT's diamond production remains in Canada to be cut and polished.

NWT Diamond Shipment Data, Weight and Values: 1998-2004



Source: Natural Resources Canada

The Oil and Gas Sector

The energy sector performed strongly in 2004 with NWT shipments increasing 11 per cent from $501 million in 2003 to $555 million in 2004. The most recent 2005 data indicate that oil and gas producers in the NWT are benefiting immensely from rising energy prices.

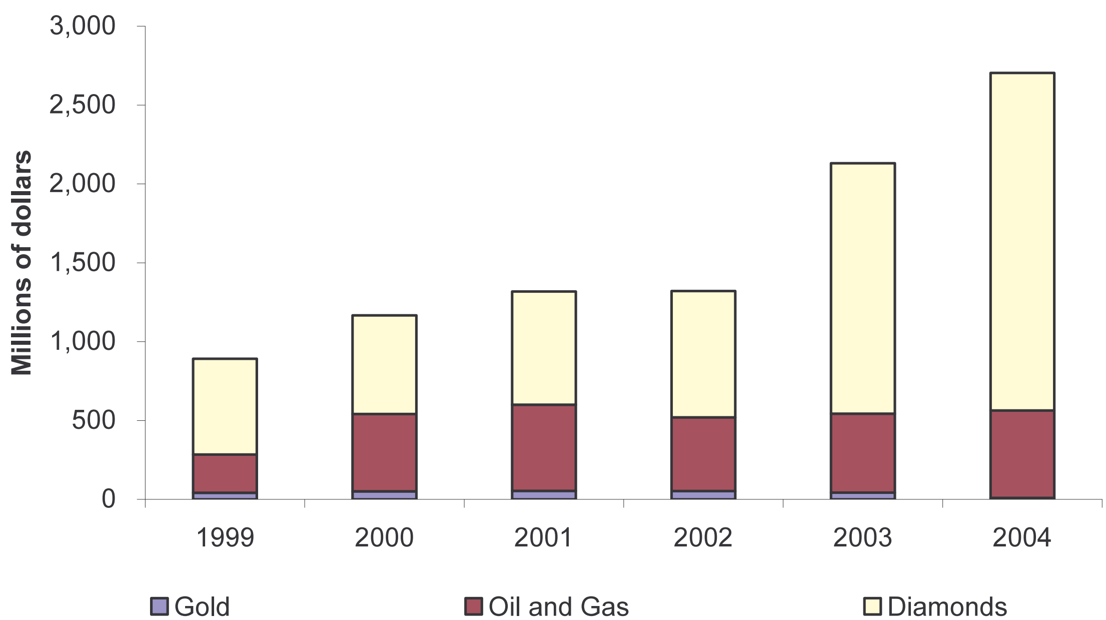
Oil and gas activity in the NWT remains centred in the Fort Liard, Cameron Hills and Norman Wells areas. However, should the Mackenzie Valley pipeline project go ahead, substantial oil and gas exploration and production is likely to take place in the Mackenzie Delta and Beaufort Sea areas, allowing the NWT to emerge as a major exporter of energy.

Gold Mining

For many decades gold mining has been an important part of the NWT economy. However, the NWT's two remaining mines, the Con and Giant mines located in Yellowknife, have shut down because of resource depletion: the Con mine in November 2003 and the Giant mine in July 2004. With these closures, over six decades of gold mining history in Yellowknife came to a close. There was no gold production in 2005.

Strong gold prices have brought several new companies to the NWT in 2005 to explore for gold and other minerals.

NWT Gold, Oil & Gas and Diamonds Shipments, by Value



Source: Statistics Canada

COMMODITY PRICES AND EXCHANGE RATES

Similar to 2004, 2005 experienced rising commodity prices, especially in base metals and energy.

However, the high oil prices are not causing the detrimental economic effects of previous oil price shocks, particularly the two major shocks of the 1970s. Lower relative energy dependency in the world's major industrial economies and the fact that the run-up in oil prices has been both demand-driven (as opposed to restrictions in supply) and spread fairly smoothly over three or four years, are the main mitigating factors. Higher oil prices are a reflection of the strength of the global economy.

In a similar fashion, increased demand for base metals, in particular from China, has lifted prices for those commodities to their highest levels in many years. Because metals prices were so low for so long, investment has been neglected, which is allowing prices to increase further because the new investment currently undertaken will not lead to additional supply for several years.

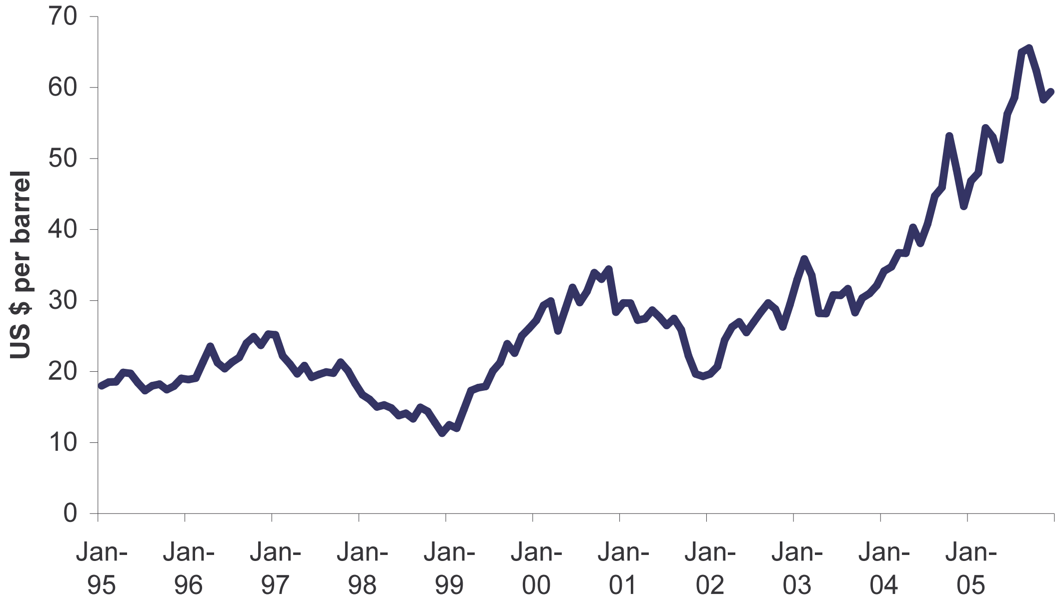
Canada, as a major exporter of commodities, has benefited from a terms-of-trade improvement (an improvement in the ratio of export to import prices). This has led to an increase in Canadians' real incomes and a big jump in the value of the Canadian dollar vis-à-vis not just the US dollar but also many other major international currencies.

The 2006 outlook for commodity prices, and therefore the Canadian dollar, depends on whether demand for energy and metals holds up under the increased prices. Since the current commodities cycle is driven mainly by a Chinese investment boom in tandem with a US consumption boom, a slowdown in either country would likely cause commodity prices to decrease from their current levels. However, continued strong growth in those economies may allow commodity prices to maintain, or even increase, their gains. From an historical point of view, however, commodity cycles, although of varying intensity and duration, have never extended indefinitely. This is because at some point higher prices cause demand growth to lessen and supply growth to quicken, reducing the market tightness that led initially to higher prices.

Oil Prices

For the fourth year running, oil prices rose in 2005: a barrel of West Texas Intermediate (WTI) had an average price of US$56.45 a barrel, up from an average of US$41.42 a barrel in 2004 and US$31.14 a barrel in 2003. Oil prices shot briefly above US$70.00 a barrel when Hurricanes Katrina and Rita damaged the oil and gas production and transportation infrastructure in the Gulf of Mexico, but then backed off as supply concerns waned and traders focused on signs that higher prices were beginning to reduce demand. However, prices have begun to rise again. As of mid-January, the price of WTI oil was US$66 a barrel, the highest since October 2005. Even adjusted for inflation, oil prices are now approaching their all-time highs of 1980, resulting in economic booms in oil producing jurisdictions around the world, including Canada. As the following graph shows, oil prices have risen from their lows after the Asian Crisis in 1998, which resulted in a plunge in oil demand.

Price of Oil: West Texas Intermediate



Source: Sproule Associates Limited

Natural Gas Prices

Natural gas prices rose again in 2005, extending their gains from 2003 and 2004. For the year, natural gas averaged US$8.62 per million British thermal units (MMBtu) at Henry Hub, Louisiana – the benchmark for North American gas. That price compares to an average of US$6.14/MMBtu in 2004 and US$5.39/MMBtu in 2003. Natural gas prices remain far higher than they were in the 1990s, when prices of US$2-3/MMBtu were the norm. Many analysts believe that prices will never again fall to those low levels.

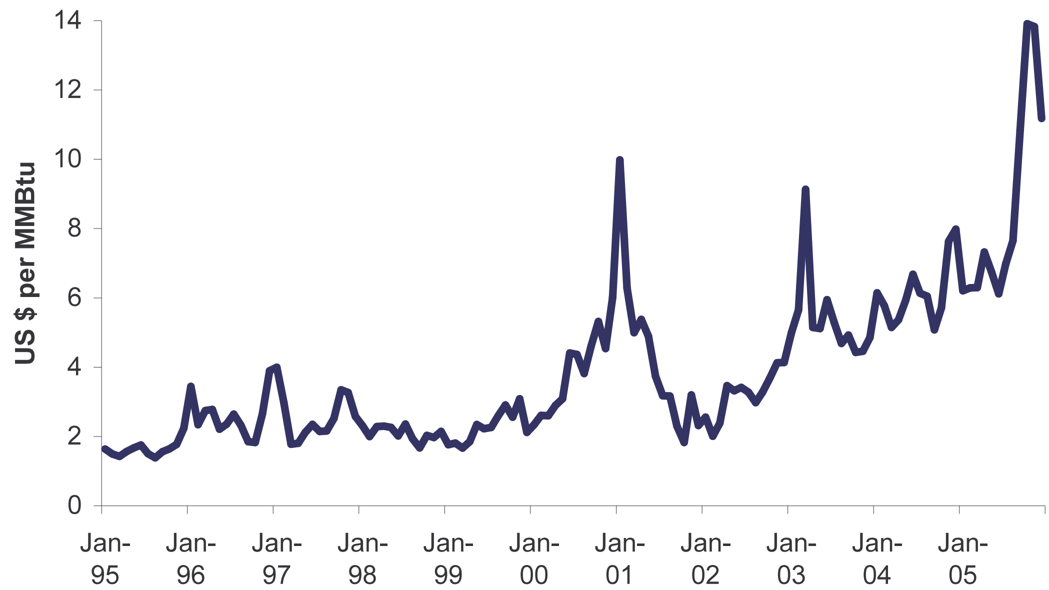
Diamond Prices

Because each diamond is unique, it is difficult to track the prices of diamonds. A diamond's value hinges critically on its characteristics, known in the trade as the "four Cs": colour, clarity, carat (weight) and cut. By controlling for these factors, it is possible, in theory, to derive indices that approximate prices for diamonds of a certain quality, and by aggregating such indices, it is possible to derive an overall index that tracks movements in the prices of polished diamonds overall. PolishedPrices.com publishes a price index on its website using this approach.

The PolishedPrices.com website explains its methodology for the calculation of its polished price index as follows: "The PolishedPrices Indices are created by weighting each of the individual prices of transactions reported to PolishedPrices.com by an estimate of the total world production of polished prices over the ranges covered."

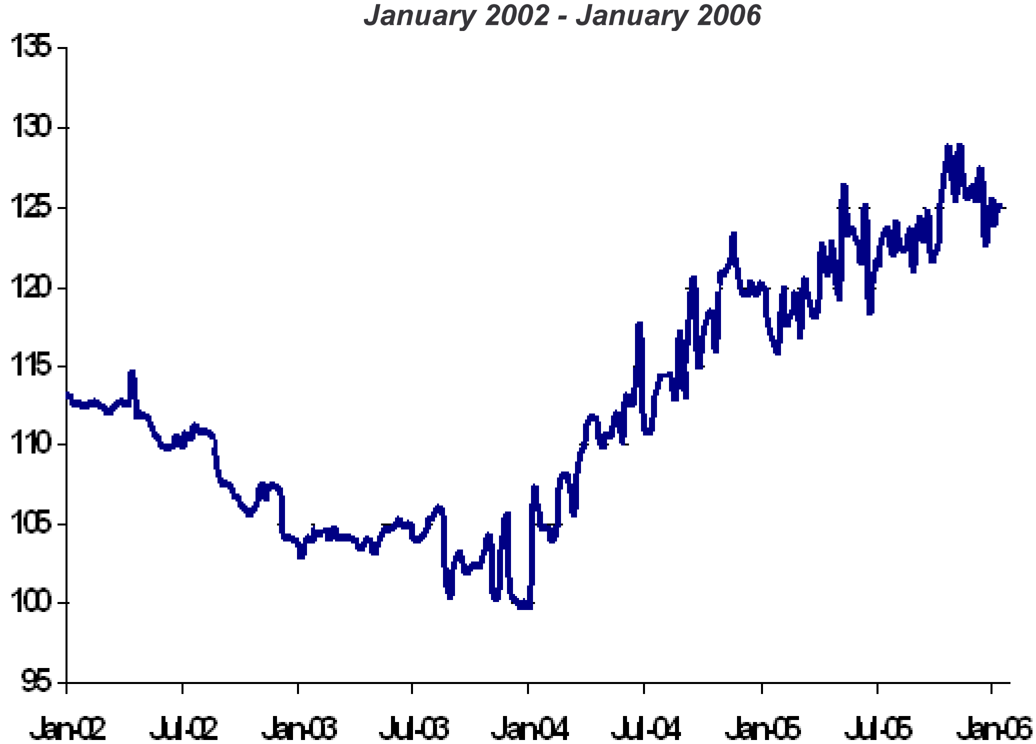
As the graph on the following page shows, in the two years to January 2004, the index fell, but, since that time, the index has been rising and now is about 26 per cent higher than its low in January 2004.

Price of Natural Gas: Henry Hub NYMEX



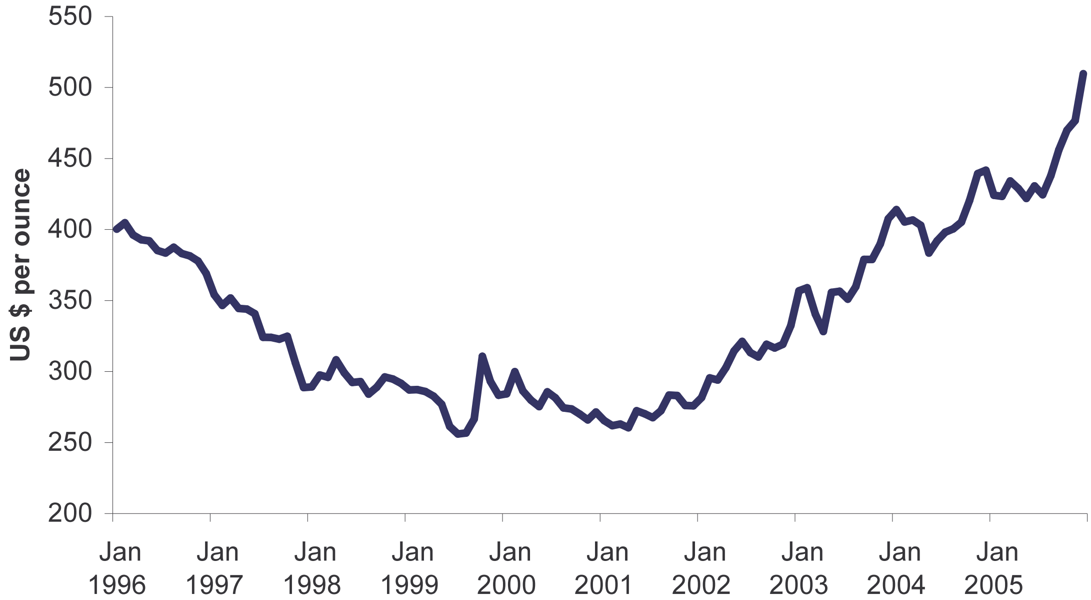
Source: Sproule Associates Limited

Polished Diamond Price Index: Overall Index, January 2002 - January 2006



Source: PolishedPrices.com (reprinted with permission)

Price of Gold: 1996-2005



Source: Kitco Precious Metals

Gold Prices

The price of gold rose in 2005 for the fourth year in a row. For the year, it averaged US$444.74 an ounce, an increase of 9 per cent over the average price for 2004 of US$409.72 an ounce. By early 2006, the gold price reached US$560 an ounce, a new 25-year high in nominal terms. In real terms, gold prices are about one-quarter of what they were at the market's peak of US$850 an ounce in 1980.

For the first several years of the recent rally until 2004, the rise in the price of gold was due mainly to weakness in the US dollar, with which gold has typically had a strong inverse correlation. However, in 2005 the gold price rose despite widespread gains for the US dollar, a sign that some observers interpret as a broadening of the bull market in gold.

US-Canada Exchange Rate (US$/C$) Since 1995

Source: Bank of Canada

The Canadian Dollar

The Canadian dollar once more advanced against its US counterpart in 2005, averaging US82.54 cents, up 7 per cent from 2004, when it averaged US76.98 cents. In 2003, the Canadian dollar averaged US71.59 cents, and, as recently as January 18, 2002, it closed at only US62.02 cents. For 2005, the Canadian dollar peaked at US86.82 cents on December 14, 2005 and dropped to its lowest closing point of US78.76 cents on May 16, 2005.

The Canadian dollar has benefited from increasing commodity prices over the last several years, reflecting the high proportion of commodities in the composition of Canada's exports. From 2002 through 2004, the Canadian dollar rose in large part due to general US dollar weakness against most major currencies. Thus, measured against those other currencies, the Canadian dollar had been fairly flat until 2004, in marked contrast to its performance relative to the US currency. In 2005, however, the US dollar rallied, lodging sizeable gains against many currencies, and so the Canadian dollar's strength against the US dollar over that same period implies that the Canadian dollar rose by even more in 2005 against many other currencies than it did against the US dollar. Other commodity currencies – such as the Australian and New Zealand dollars – also performed well last year.

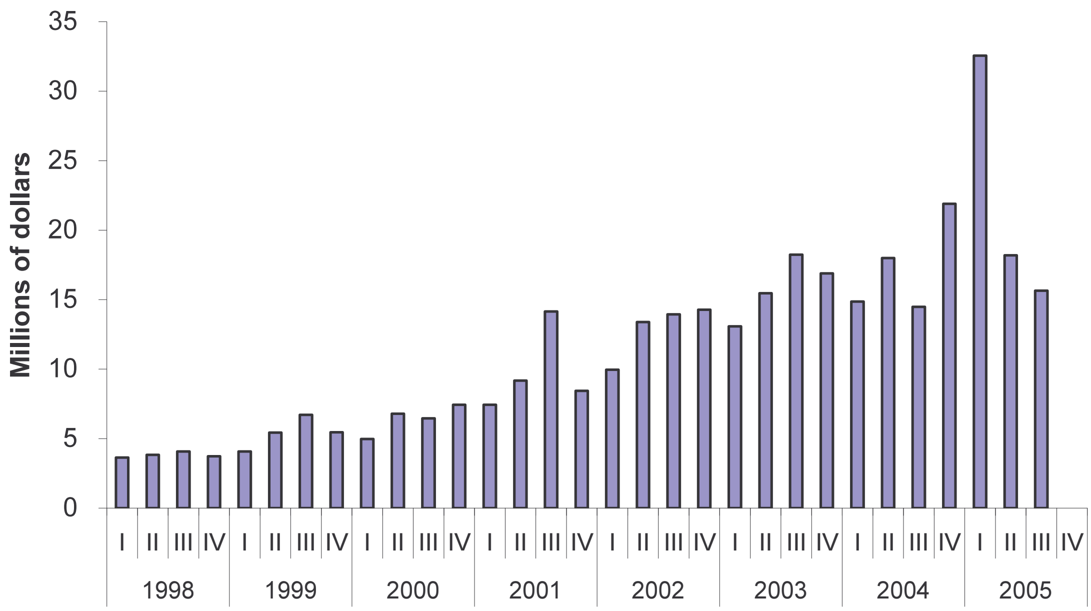
MANUFACTURING SHIPMENTS AND TRADE

Both NWT manufacturing and trade have benefited from the strong economic growth of the past several years, primarily because of the NWT diamond industry. Much of the NWT's manufacturing shipments consist of cut and polished diamonds. As the number of raw diamonds available for processing in the NWT has increased, the NWT's manufacturing shipments have also increased.

Manufacturing Shipments

Since 1998, manufacturing shipments have posted yearly growth rates of between 9 and 53 per cent; growing from $15 million in 1998 to $69 million by 2004. Over the first three quarters of 2005, shipments came to $66 million, compared to $47 million in the first three quarters of 2004, for a growth rate of 40 per cent. Driven by continued robust activity in the diamond sector, shipments are forecast to grow again in 2006.

NWT Manufacturing Shipments, All Industries



Source: Statistics Canada

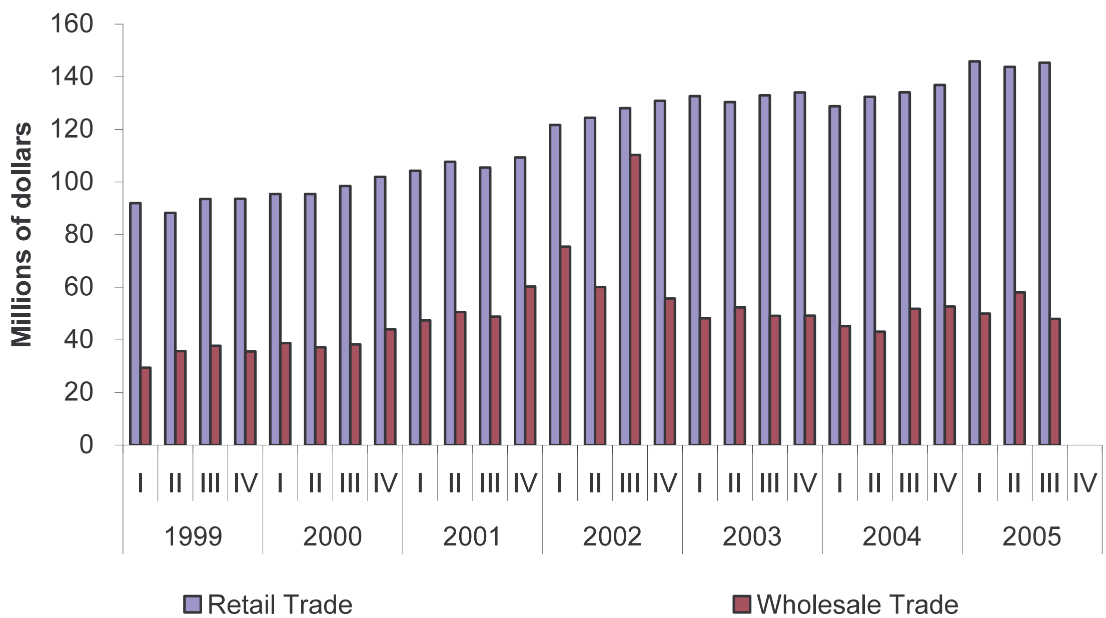
Wholesale Trade

Wholesale trade shows a close correlation with resource development and has been positively affected by the growth in the diamond mining sector. Owing primarily to the end of the construction phase at the Diavik diamond mine in late 2002, the value of trade fell by 34 per cent in 2003 and an additional 3 per cent in 2004. For 2004, wholesale trade totalled $193 million. Wholesale trade in the first three quarters of 2005 totalled $156 million, an 11 per cent increase from the first three quarters of 2004.

Retail Trade

In recent years, driven by strong economic conditions and buoyant growth in the NWT, retail trade has grown at higher rates than in the rest of Canada. The high performance came to an end however in 2004, when NWT retail sales grew by a slim 0.4 per cent, compared to the corresponding Canadian growth of 4.7 per cent. However, retail trade in 2004 still amounted to $532 million. NWT retail sales in the first three quarters of 2005 were 10 per cent higher than in the first three quarters of 2004. Propelled higher by an expanding population and increased personal incomes, retail trade is expected to regain its footing along its well-established growth path in 2006.

NWT Retail and Wholesale Trade, Seasonally Adjusted



Source: Statistics Canada

RENEWABLE RESOURCE SECTOR

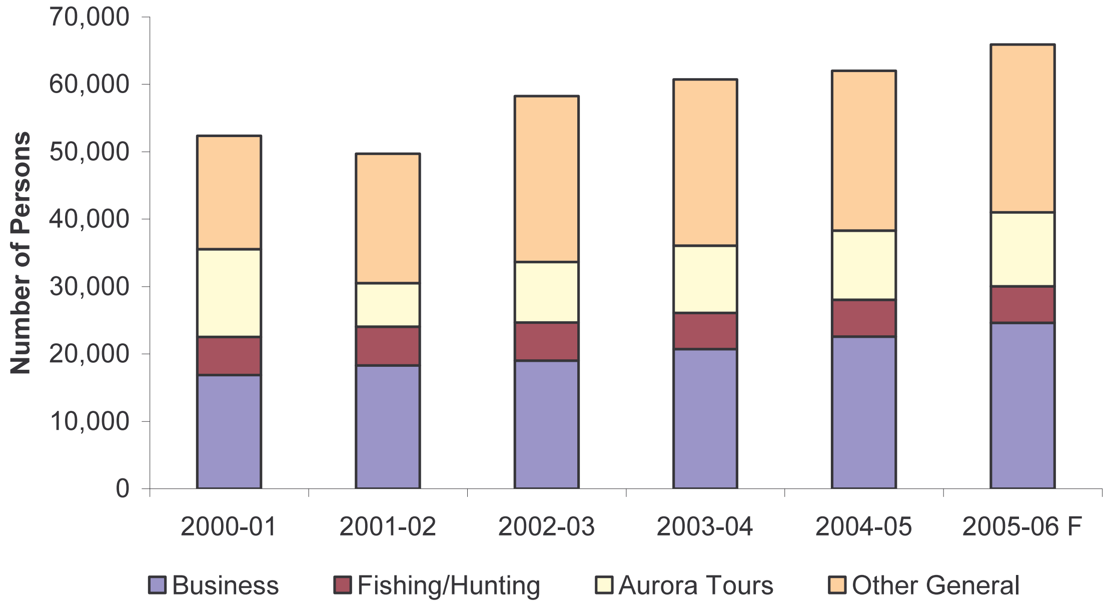
The renewable resource sector is an important part of the NWT economy and provides valuable employment opportunities to many residents.

Tourism

Tourism is an important part of the NWT economy, with many opportunities yet to be fully developed, including such possibilities as cultural tourism, diamond-based tourism and a sharpened focus on catering to the international tourist market.

Over half of the leisure visitors to the NWT come from other parts of Canada, primarily Alberta, British Columbia and Ontario. However, a lack of road infrastructure in the NWT remains an impediment to expansion, especially regarding the growing recreational vehicle market.

Visitors to the Northwest Territories



Source: Department of Industry, Tourism and Investment
Notes: F = Forecast
Other General category includes European visitors, visitors seeing friends/relatives, outdoor adventure travellers, and general touring visitors

Tourism spending, comprising both leisure and business travel, continued a three year positive run in 2004-05, with increases in both the number of visitors and total spending. The NWT welcomed over 62,000 visitors in 2004-05, including 39,412 leisure and 22,591 business travellers. Tourists' visits increased 2.1 per cent in 2004-05, and are forecast to increase 6.3 per cent in 2005-06. Spending by tourists was up 6.2 per cent in 2004-05, and is forecast to increase 6.1 per cent in 2005-06.

In dollar terms, total tourism spending has grown from $88 million in 2000-01 to over $100 million in 2004-05, and is forecast to grow to almost $107 million in 2005-06. Tourism spending is split roughly equally between leisure and business travel. Since 2000-01, growth in total spending has been driven by the business segment of the market; spending by leisure travellers having been more or less flat since that time. In 2004-05, business travellers were 36 per cent of all visitors to the NWT but made 50 per cent of all tourist expenditures. This is consistent with previous years' results.

The three most important sectors for leisure visitors continue to be general touring visits, aurora borealis tourists and people visiting friends or relatives. In 2004-05, these three sectors accounted for about half of all leisure visitors. However, in terms of money spent by tourists, only aurora borealis tourists, in second place, made the top three. The first and third spots go to hunters and fishers, respectively. Hunters provide a disproportionate amount of spending relative to their numbers: in 2004-05, hunters were only 3 per cent of leisure visitors, yet were responsible for 34 per cent of spending.

Both the number of tourists and tourism spending is forecast to increase in 2005-06, with the exceptions of hunters and fishers, compared to 2004-05. Hunting and fishing activity has been under pressure over the past several years, and both numbers of visitors and their spending in 2004-05 were slightly below their 2000-01 levels.

Commercial Fishery

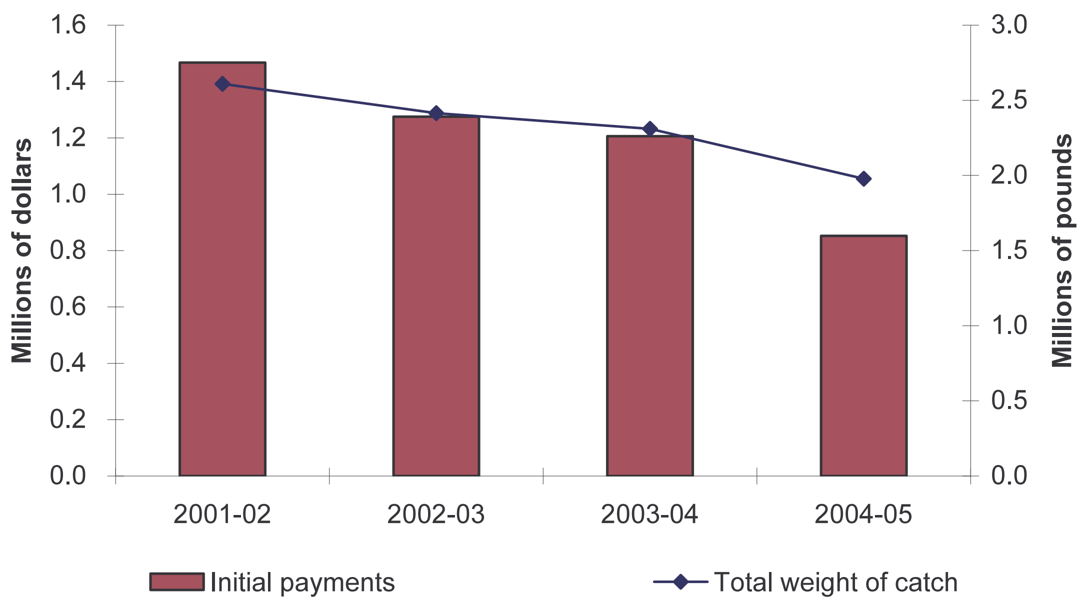
The NWT's commercial fishery is a small but valued part of the territory's economic mosaic. According to the Freshwater Fish Marketing Corporation – a self-sustaining federal Crown corporation which functions as the buyer, processor and marketer of freshwater fish from Alberta, Saskatchewan, Manitoba, the NWT and part of Northwestern Ontario – the commercial fishery in the NWT has declined in recent years.

The Corporation reports that initial payments to NWT fishers – on a delivery-point, net-of-freight basis – have declined annually from $1,467,000 in 2001-02 to $852,000 in 2004-05. Similarly, the fish harvest has declined each year over that same period, from 2.61 million pounds in 2001-02 to 1.98 million pounds in 2004-05. The most important species by volume is whitefish, at about three quarters of the total catch.

The increase in the value of the Canadian dollar relative to the US dollar since 2002 has hurt the freshwater fishery in Canada, and reduced fish volumes in the NWT indicate a lower participation in the NWT commercial fishery.

However, the 2005-06 first quarter catch was 29 per cent higher than the 2004-05 first quarter, with a corresponding increase in value of 33 per cent. The increase is driven mainly by a stronger whitefish catch, including increases in size grading of whitefish, with some large and even jumbo fish showing up in the catch.

NWT Commercial Fishery Activity, Fiscal Years ending April 30th



Source: Freshwater Fish Marketing Corporation

Fur Harvest

For many people in the NWT, trapping remains an important source of cash income, especially in the smaller communities, and allows for a connection with the land that is not possible in many other occupations. In the fiscal year ending June 30, 2005, 704 trappers plied their trade throughout the NWT, although not necessarily on a full-time basis throughout the entire year.

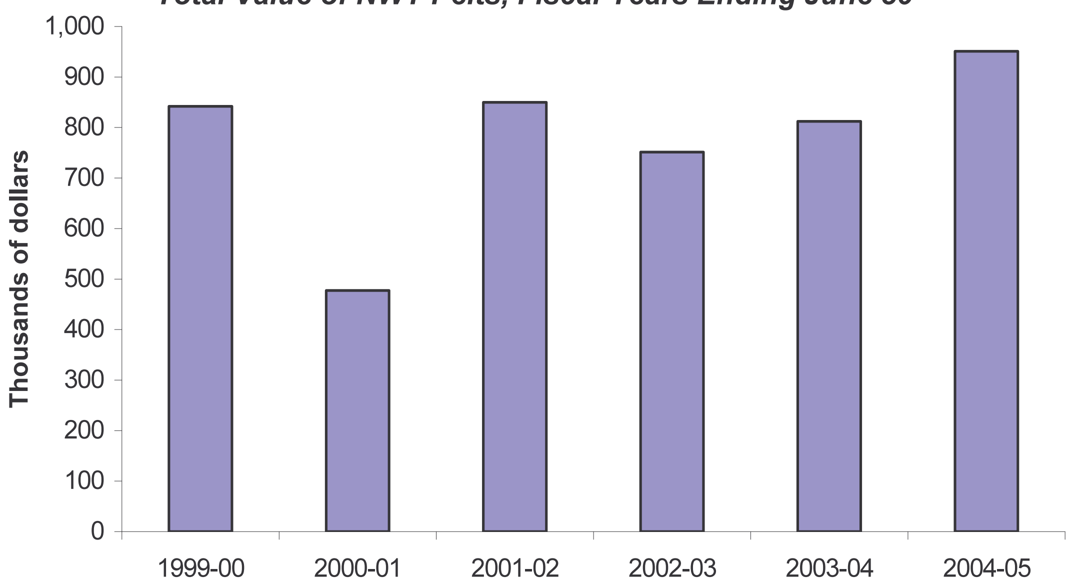
Across all species, the total number of pelts harvested increased 81 per cent from 23,536 in 2003-04 to 42,491 in 2004-05. The value realized from the pelt sales, however, increased only 17 per cent from $812,311 in 2003-04 to $950,739 in 2004-05 because of a significant change in the mix of the pelt harvest. In fact, 95 per cent of the growth in the total pelt harvest was due to higher trappings of muskrats, which fetched an average $2.67 a pelt in 2004-05. Revenues from pelt sales in 2004-05 were the highest on record for post-division NWT.

Pricing across species was mixed in 2004-05, with per pelt price increases of 41 per cent for ringed seals, 16 per cent for tundra wolves and 12 per cent for marten; but decreases of 20 per cent for red foxes, 28 per cent for black bears and 25 per cent for cross foxes. The most valuable pelts in per-unit terms in 2004-05 were grizzly bears ($1,181), polar bears ($1,083) and tundra wolves ($211).

Marten and lynx continue to be the largest contributors to total revenue from pelt sales, providing trappers with 64 per cent and 12 per cent, respectively, of their revenue in 2004-05. The third-most-important species changed from wolverine in 2003-04 to muskrat in 2004-05 because of the large increase in the size of the muskrat harvest.

The demand for NWT pelts hinges critically, as always, on trends in the unpredictable world of fashion. On the supply side, the health of the northern ecosystem and sustainable harvesting practices are imperative.

Total Value of NWT Pelts, Fiscal Years Ending June 30th



Source: NWT Department of Industry, Tourism and Investment

FISCAL REVIEW

The GNWT is forecasting operating surpluses for 2005-06 and 2006-07 and remains within the guidelines of the Fiscal Responsibility Policy.

2004-05 FINAL RESULTS

Revenues in 2004-05 were $996 million and expenditures were $1,012 million, leaving the GNWT with an operating deficit of $17 million. Although an operating surplus of $44 million was estimated for 2004-05 in the 2005-06 Budget, the following one-time events caused this to change to an operating deficit at year-end:

- Changes to Corporate Income Tax entitlements caused by a prior year capital loss assessed after the 2005-06 Budget reduced 2004-05 Corporate Income Tax revenues by $36 million. Under previous Territorial Formula Financing (TFF) arrangements, this decrease in tax revenues would result in a partial offset under the TFF Grant. The New Framework for TFF announced in October 2004 does not allow for changes in the Grant when the GNWT own source revenues change. The GNWT has raised this issue with the federal government.
- The accrual of a $23 million liability for the Giant Mine remediation following conclusion of an agreement with Canada on the Giant Mine Remediation Project.

2005-06 REVISED ESTIMATES

The operating surplus for 2005-06 is projected to be $18 million. Although this projection has decreased from the $49 million forecast in the 2005-06 Budget, the GNWT remains within the Fiscal Responsibility Policy guidelines. Revenue projections for the current fiscal year have increased by $30 million from 2005-06 Main Estimates, primarily due to the inclusion of a number of one-time trust amounts. Forecasts of Corporate Income Tax have decreased by $29 million from the 2005-06 Main Estimates due to prior year adjustments and because 2004 Corporate Income Tax collections were lower than anticipated.

After adjustments for supplementary requirements, total 2005-06 expenditures are expected to be $97 million higher than budgeted in the 2005-06 Main Estimates. However, these expenditures include $35 million from the Northern Strategy Trust for the Community Capacity Building Fund and $18 million for increases related to the settlement of collective agreements.

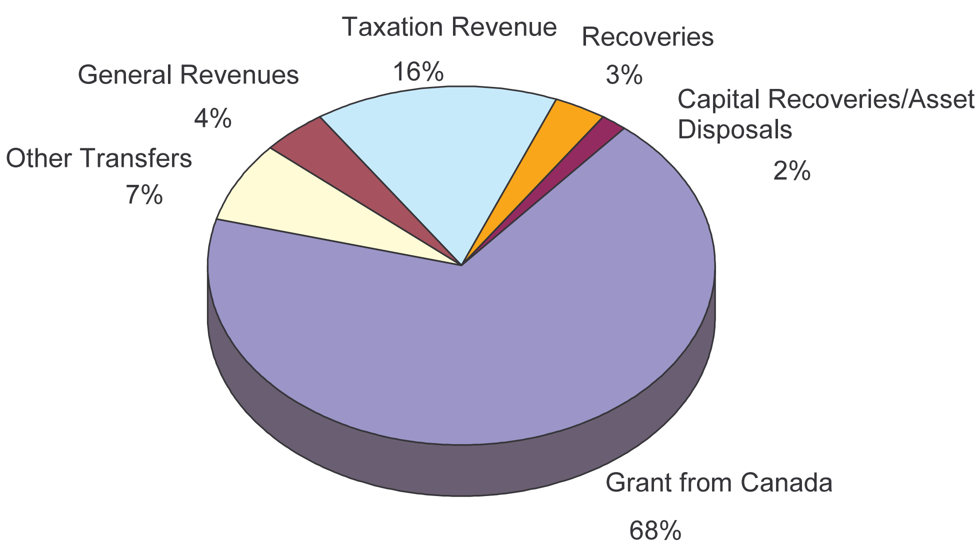
2006-07 BUDGET

A $31 million operating surplus is projected for 2006-07, including estimated supplementary expenditure requirements. In 2006-07, the GNWT must repay $290 million of a Corporate Income Tax overpayment received as part of the 2002 Corporate Income Tax estimate. While the GNWT will have to borrow an estimated $78 million to repay this amount, the GNWT will not exceed the $300 million federal limit on its debt and will still have $77 million in borrowing authority remaining at the end of the year.

Revenues

Total 2006-07 revenues are forecast to increase to $1.1 billion, a 5 per cent increase from the 2005-06 Main Estimates and a 2 per cent increase from the 2005-06 Revised Estimates.

Total GNWT Revenues by Source
2006-07



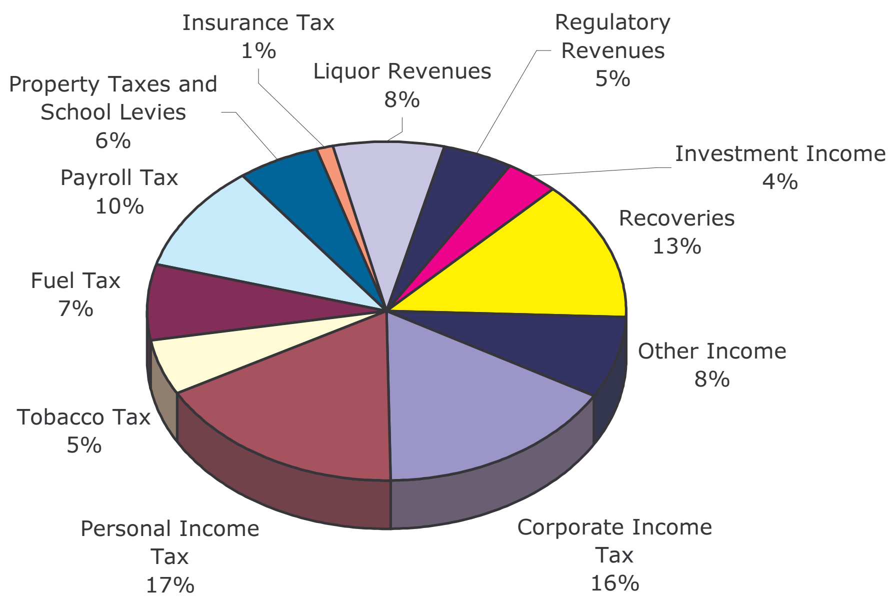
The 2006-07 Grant from Canada will be fixed in federal legislation. The amount of the 2006-07 Grant is expected to be $752 million, an increase of $24 million from the 2005-06 revised estimates.

Other transfer payments will decrease $31 million, primarily due to the one-time funding of $35 million for the Northern Strategy – Community Capacity Building Fund included in the 2005-06 Revised Estimates.

Taxation revenue estimates are expected to increase $39 million from the 2005-06 Revised Main Estimates to the 2006-07 Main Estimates. The main differences are:

- The Corporate Income Tax revenue forecast is $29 million higher due to higher federal corporate income forecasts.

GNWT Own Source Revenues 2006-07



- The Personal Income Tax revenue forecast is $7.9 million higher, mainly because of forecasts of growth in employment income and employment.
- The Payroll Tax revenue forecast is $0.8 million higher due to higher employment and employment income forecasts.
- All other taxation revenues (Tobacco Tax, Fuel Tax, Property Tax and School Levies, and Insurance Taxes) are forecast to increase $0.9 million in total.

Operating Expenditures

Total operating expenditures in 2006-07 are budgeted to be $1.07 billion. Excluding one-time spending such as the Community Capacity Building Fund, operating expenditures increased 7 per cent from the 2005-06 Main Estimates but only 3.7 per cent from the 2005-06 Revised Estimates.

The 2006-07 Budget includes $41 million in funding for new initiatives as well as $55 million to address the increased costs of existing programs and services. However, this forced growth is partially offset by $23 million in expenditure reductions in other areas.

The new funding initiatives in 2006-07 continue to address the goals and objectives outlined in the GNWT's *Strategic Plan*. Major initiatives include:

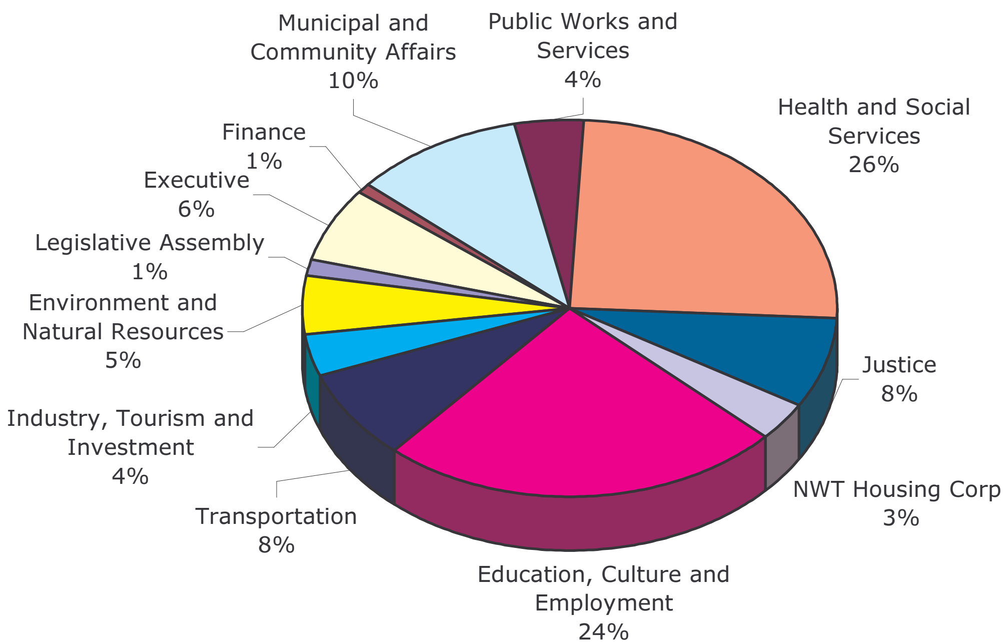
Helping Promote Self-Reliant, Healthy, Educated Northwest Territories Residents

- $400,000 to develop and implement the Healthy Choices Framework – a healthy eating and physical activity communication plan and a curriculum for NWT schools.
- $6.4 million to fund increased demand for health services including funds to reduce wait times at the Stanton Emergency Department, expand the nurse practitioner program, establish an Aboriginal Wellness Program at Stanton Hospital, enhance dialysis and cancer treatment programs, and expand rehabilitation teams.
- $1.8 million to increase contributions to Education districts and authorities for student support funding from 15 per cent to 17 per cent in 2006-07.
- $1.6 million for on-going delivery costs of full-time kindergarten programs.
- $240,000 to fund a pilot program for community-based distance learning education of various grade 7 to 12 courses to prepare Aboriginal students to enter post-secondary education-related programs.
- $326,000 to increase the low-income senior citizen supplementary benefit from $135 to $160 per month.
- $500,000 to implement a Northern Youth Program to coordinate GNWT youth-based initiatives.
- $696,000 to help fund the NWT Games Program, the 2008 Arctic Winter Games and the 2007 Canada Winter Games.

Encouraging Well-governed, Sustainable Communities

- $4 million for the Community Capacity Building Fund to construct new affordable housing units in 14 of the smallest NWT communities where the number of households in core need is greater than 30 per cent.
- $1.3 million for the Northern Community Insurance Program to help address the insurance implications of the transfer of community public infrastructure from the GNWT to community governments. This community self-insurance program was developed to mitigate the effects of increasing insurance premium costs faced by community governments. The short-term support provided for the program will help to ensure its long-term sustainability.
- $715,000 to improve the management of drinking water in various NWT communities.
- $440,000 to help build community government capacity to address Mackenzie Gas pipeline issues.
- $350,000 for the interim grant program for 2006-07 to flow property tax revenue under the New Deal for Community Governments to those communities that do not currently raise their own property tax revenues.
- $4.5 million in community funding from the federal Gas Tax Transfer Agreement.

Operations Expenditures by Department
2006-07



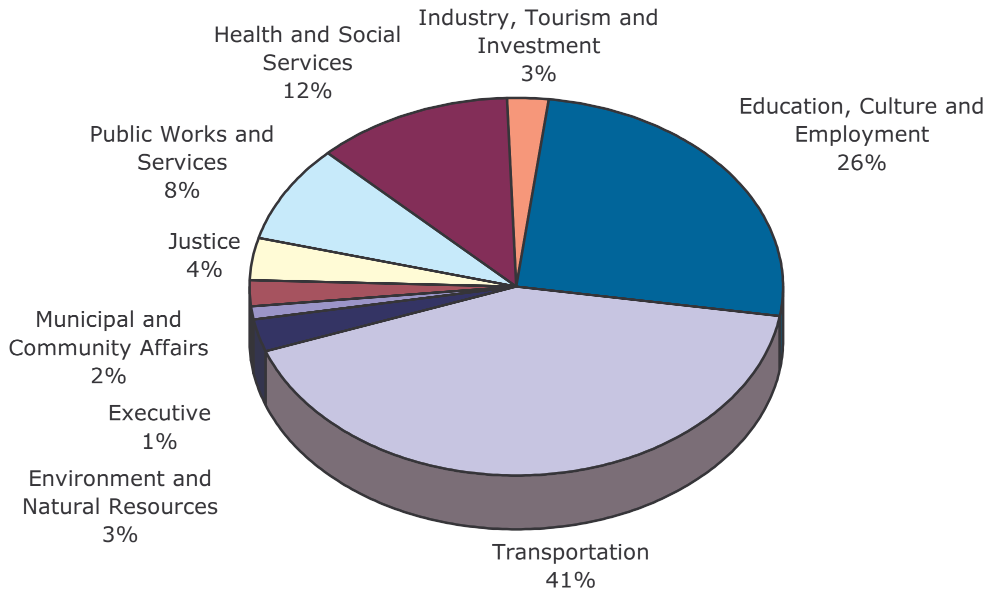
Creating a Diversified Economy

- $1 million to implement Tourism 2010, a multi-year tourism plan designed to help the NWT compete more effectively in the global marketplace by providing valuable "tourism lures" in more remote locations, to help increase the number of tourism-based businesses in all regions, to work to increase revenues for existing tourism and small business operators in NWT communities and to provide training for NWT hospitality workers.
- $1 million in contribution funding to the Northwest Territories Energy Corporation and its project partners, the NWT Métis Nation and the Akaitcho Territory Government, to complete feasibility studies and environmental base line work necessary to file a permit application for construction of the Taltson Hydro Expansion Project.
- $1.3 million to address Mackenzie Gas pipeline issues including funding services to support negotiation of a socio-economic agreement with the Mackenzie Gas Pipeline Producers Group and to support the GNWT as an intervener in the National Energy Board reviews.

Developing a Strong Northern Voice and Identity

- $1.7 million to ensure the government has the resources to participate in lands, resources and self-government negotiations.
- $1.7 million extension of funding to enable the government and the Aboriginal Summit to continue to participate in devolution and resource revenue sharing negotiations.

Direct Investment in Capital Assets by Department
2006-07



Infrastructure Investment Expenditures

Total infrastructure investment expenditures for 2006-07 are budgeted to be $141 million. This includes $111 million in direct investment in capital assets and $30 million for infrastructure contributions (included in departmental operating expenditures). The infrastructure contributions are mainly for community and regional operations.

The major infrastructure capital investments included in the $111 million *2006-07 Infrastructure Acquisition Plan* are:

- $19.7 million for three new schools and for renovations in other schools, for a total of $114 million in direct investments over the time period of the Acquisition Plan;
- $2.6 million for upgrades to water treatment plants, solid waste disposal sites and sewage treatment plants and various community building repair;
- $9.8 million for airport improvements, including $5.2 million for runway enhancements, $3.6 million for buildings and $1 million for airport equipment;
- $35.6 million for various highway programs, including $11 million for the Mackenzie Valley Winter Road bridge program;
- $2.2 million for upgrades and building repairs in various territorial parks;
- $1.4 million for the North Slave wildlife laboratory complex;
- $1.1 million for forest management infrastructure including improvements to the North Slave heliport;

- $1.6 million for improvements at the Prince of Wales museum, including $1.4 million to build the Aviation Gallery;
- $6.4 million for replacement of Aurora College student residences in Fort Smith and to build new student residences in Inuvik;
- $11.9 million for renovations to hospital units, medical equipment and health record management upgrades, for a total of $93 million over the period of the Plan; and,
- $6.8 million for tank farm code upgrades and capacity increases.

MEDIUM-TERM OUTLOOK

The medium-term outlook contains revenue uncertainty with respect to Territorial Formula Financing (TFF) and devolution of NWT resources. In October 2004, the federal government introduced a New Framework for TFF. The New Framework establishes a fixed total TFF amount after 2005-06, escalated annually by 3.5 per cent and which is to be allocated among the three territories by a formula based on recommendations of the Expert Panel on Equalization and TFF. The Expert Panel is expected to provide recommendations in Spring 2006. Until the recommendations are considered and acted on by the federal government, projections of TFF amounts after 2006-07 are based on modified previous arrangements. Devolution and the corresponding resource revenue sharing discussions are on-going but will likely not be completed before 2007 and are therefore not included in the medium-term outlook.

In this environment, the GNWT's medium-term revenue forecasts are conservative. Revenues are forecast to increase 3.1 per cent in 2007-08 and 2.2 per cent in 2008-09 while expenditures are expected to increase 4.0 per cent in 2007-08 and 6.3 per cent in 2008-09. These forecasts will provide an operating surplus in 2007-08 and an operating deficit in 2008-09. However, the GNWT is committed to remain within the guidelines of the Fiscal Responsibility Policy.

Fiscal Framework Operations Summary
(millions of dollars)

	2004-05 Actuals	2005-06 Revised Estimates	2006-07 Main Estimates	2007-08 Forecast	2008-09 Forecast
Revenues	996	1,084	1,106	1,141	1,167
Expenditures	(1,013)	(1,066)	(1,075)	(1,118)	(1,189)
Operating Surplus (Deficit)	(17)	18	31	23	(22)
Capital Investment Requirements	81	106	111	128	160
Accumulated Cash Surplus (Deficit)	225	258	(79)	(160)	(331)
Total Debt	(142)	(152)	(224)	(298)	(462)
Available Borrowing Authority	158	148	76	2	(162)

At current projections, with a conservative revenue outlook, the GNWT will be close to its borrowing limit of $300 million towards the end of 2007-08. However, the GNWT is seeking a change in the way the federal government sets the limit on the GNWT's debt to one based on the capacity to carry debt rather than a fixed arbitrary number.

Risks to Revenue Forecasts

The 2006-07 Formula Financing Grant will be established in federal legislation and there will be no adjustments to the 2006-07 Formula Financing Grant for prior years. Therefore, almost 70 per cent of GNWT revenues will not change regardless of changing fiscal circumstances. Another 6 per cent of GNWT revenues are composed of other federal transfers, which do not vary significantly. However, 24 per cent of total GNWT own source revenues are subject to differing degrees of variability. Corporate Income Tax in particular can fluctuate significantly.

GNWT'S FISCAL STRATEGY

The foundation for the GNWT's fiscal strategy is the Fiscal Responsibility Policy introduced in February 2005. This Policy provides a framework to ensure a coordinated strategy for responsible spending, borrowing and debt repayment. The key element of the Policy are the guidelines that require the GNWT to monitor expenditures to ensure that it is able to fund a minimum of 50 per cent of annual capital investments through cash surpluses generated from operations.

The GNWT is seeking to maintain a sound fiscal position while at the same time making the investments and pursuing policies that encourage a healthy vibrant economy. This means that the policies that the GNWT pursues to achieve a sound fiscal position must also complement and advance the achievement of a strong, diverse economy. Measures to address fiscal needs, such as tax policy initiatives, setting of expenditure levels or determining the size of the GNWT debt, should not hinder economic growth. In turn, economic growth, through such benefits as increased employment and higher personal income levels, should increase GNWT revenues and reduce the demand for some social programs, such as income support.

Much of the GNWT's fiscal strategy depends on the role the federal government decides to take. The federal government must take positive action on the following issues:

- The federal response to the recommendations of the Expert Panel on Equalization and Territorial Formula Financing must result in new formula financing arrangements that reflect the needs of the Northwest Territories.
- The federally imposed $300 million borrowing limit must be changed to one that reflects the GNWT's capacity to finance debt.
- Devolution of Northwest Territories' resources to NWT governments, including a resource revenue sharing agreement that provides a net fiscal benefit to the GNWT, must be concluded.

Changes to Federal/Territorial Fiscal Arrangements

In October 2004, the federal government introduced a New Framework for Territorial Formula Financing. This resulted in the TFF Grants for 2004-05 and 2005-06 being set in federal legislation, with no prior year adjustments after March 31, 2005.

The New Framework established a total amount of TFF funding for all three territories: $1.9 billion in 2004-05, $2.0 billion in 2005-06 and thereafter escalated at a rate of 3.5 per cent per year, with a review of the adequacy of the escalator after five years. An Expert Panel on Equalization and Territorial Formula Financing was established to provide recommendations on the allocation of the total fixed amount and was scheduled to release its recommendations in December 2005, in time for calculation of the 2006-07 TFF Grants.

The federal Minister of Finance agreed to the Expert Panel's request to extend its report release from December 2005 to the spring of 2006. Since the Expert Panel recommendations will not be available in time to determine the 2006-07 TFF allocation, Canada will be allocating the 2006-07 TFF amounts based on average Grant shares for the last three years (2003-04 to 2005-06). The 2006-07 amounts will not change after the Expert Panel recommendations are made.

With respect to TFF, the Expert Panel is mandated to advise the Government of Canada on:

- the allocation of the TFF entitlements set in legislation;
- ways to make the payments more stable and predictable to assist in sound fiscal planning;
- the cost of providing services in the North and the function of various own source revenues in determining overall levels of federal support;
- the role of own source revenues, including resource revenues, in determining levels of federal support; and,
- whether a permanent independent body should be created to provide advice to the Government of Canada on these matters.

The Panel was asked to provide an evidence-based formula as the basis for allocations in its recommendations.

The three territories have made a joint submission to the Expert Panel that outlines two alternatives for changing TFF. The starting point of both proposals is that the TFF arrangements for each territory must be separate from the other territories because of the significant differences among the territories in both political and economic development. Consequently, neither option adheres to the restrictions of the October 2004 New Framework of a fixed total amount and 3.5 per cent annual escalator. Both proposals would allow the territories to retain a larger proportion of own source revenue growth and to take a larger share of the risk if revenues drop.

The Panel invited approximately 60 academics, Aboriginal and business representatives, and government officials from the three territories to an August 25, 2005 roundtable in

Yellowknife to provide a discussion forum on key questions of interest to the Expert Panel related to TFF.

The major themes discussed at the Yellowknife roundtable were the following:

- costs and needs are higher in the North, and must be reflected in the transfer arrangements;
- due to their extremely small population levels, per capita funding is not an appropriate way for the federal government to transfer money to the territories;
- socio-economic outcomes in the North are far inferior to the national average;
- the presence of Aboriginal self-government agreements means that governmental structures in the North are more intricate than in southern Canada, these intricacies must be both respected and dealt with properly in any set of transfer arrangements, and there should be no double dipping of Aboriginal self-government revenues; and,
- unanimous agreement was achieved among all respondents that a system of fixed envelope funding is wholly inappropriate as a means by which to transfer funds to the territories: the territories should not have to compete against each other for a fixed pot of money.

Changes to the Federally Imposed $300 Million Borrowing Limit

The GNWT has requested that Canada change the authorized $300 million borrowing limit to one tied to the GNWT's capacity to borrow. The existence of any borrowing limit is contrary to the principle of territorial autonomy in decision-making. The GNWT's borrowing ability should reflect the GNWT's capacity to finance debt, rather than be set at a fixed level. In addition, the $300 million authorized borrowing limit is too restrictive as fully half of the limit is taken by the guaranteed debt of the NWT Power Corporation, the NWT Energy Corporation and the NWT Housing Corporation.

The GNWT will need to borrow in the future for the following reasons.

- Large-scale resource development has created a situation where the timing of increased operational (e.g. training, social mitigation) and infrastructure spending (e.g. roads, airports, and municipal infrastructure) does not match the benefits in revenues from royalties and Corporate Income Tax.
- Infrastructure investments are needed to set the stage for economic developments.
- To meet capital infrastructure investment needs required for the normal course of business such as schools, health centres and highways. Currently, the GNWT is meeting less than 75 per cent of the infrastructure needs identified in the GNWT 20 year capital investment needs assessment.
- To repay the Corporate Income Tax overpayment relating to the 2002 tax year.

The GNWT has demonstrated prudent fiscal management and has adopted a Fiscal Responsibility Policy with clear guidelines and responsible definition of acceptable borrowing limits. Under this Policy, the GNWT will only borrow for infrastructure investments, self-liquidating investments, and repayable loan programs. The GNWT will not borrow for operating purposes. A minimum of 50 per cent of infrastructure investment will be financed through cash generated from operating surpluses. Therefore, only half of the GNWT infrastructure investment can be financed through short- or long-term debt.

Affordable debt under the Fiscal Responsibility Policy is defined as debt such that total debt servicing payments do not exceed 5 per cent of total revenues in a year. Debt servicing payments include debt servicing costs (non-consolidated debt interest plus incidental costs associated with the administration of non-consolidated debt less the investment income from sinking funds on non-consolidated debt), basic debt or principal repayments, and/or contributions to sinking funds for the repayment of long-term debt.

Moody's Investors Service issued an Aa3 credit rating on GNWT long-term debt in February 2005. This was attributed to the GNWT's history of prudent effective fiscal policy, the GNWT's degree of fiscal flexibility, and the growing resource-based NWT economy. The rating was confirmed in May 2005.

Devolution/Resource Revenue Sharing

Devolution refers to the transfer of control of the NWT's lands and resources from the federal government to the NWT. This includes control of royalties that are levied on the production of the territory's non-renewable resources. Currently, these revenues flow to the federal government. In 2004-05, Canada received $270 million in revenues from the production of oil, natural gas and diamonds in the NWT.

Following devolution, these royalty revenues will flow to the NWT. Future revenues could be significant, especially if the Mackenzie Valley pipeline is built and the natural gas reserves of the Mackenzie Delta and Beaufort Sea are made accessible to southern markets.

However, the critical issue is the extent to which NWT residents will benefit from these revenues, and how much will be offset, or "clawed back", by Canada through a lower TFF Grant. The larger the offset, the less net revenues remain in the NWT. A key element of any agreement on devolution is the share of revenues that remains with northern governments, both the GNWT and Aboriginal, after reductions are made in federal transfer payments. This is often referred to as the "Net Fiscal Benefit".

Although many residents benefit from the increased economic activity that resource development generates, they also pay a price. Resource development can produce social and environmental stresses that must be addressed. The NWT's already inadequate transportation and community infrastructure could become overloaded. The GNWT, which currently is responsible for these program areas, needs the fiscal resources to address these impacts. In the future, Aboriginal governments will be providing many of these services and will also need resources. NWT governments also must be able to invest in education and capacity building, in the economy, and in infrastructure, to ensure residents benefit from development through education, training, jobs, business opportunities and a better quality of life. NWT residents should have an incentive to promote the development of their resources – development that contributes to economic growth in all of Canada.

The GNWT is seeking a fair resource revenue sharing arrangement that recognizes that NWT residents must be the principal beneficiaries of the development of NWT resources. There have been a number of delays in the negotiation process, but it is hoped that discussions can resume soon, leading to an agreement in 2006 and implementation by 2007.

REVENUE CHANGES

The NWT Corporate Income Tax rate on large corporations will be reduced to 11.5 per cent, effective July 1, 2006.

In 2004, the NWT Corporate Income Tax rate on large corporations was raised from 12 per cent to 14 per cent to counter the interaction with the tax effort factor within the previous TFF arrangements. However, the interplay between TFF arrangements and tax rates is only one of the GNWT's considerations when determining its tax policies. The GNWT's fiscal strategy should also support a strong and vibrant economy. This objective is a crucial consideration in GNWT tax policy. Tax rates that discourage economic activity are not in the best interests of either the GNWT or the NWT economy. The proposed reduction in the Corporate Income Tax rate on large corporations will provide a more favourable climate for business investment.

The NWT small business Corporate Income Tax rate remains at 4 per cent, well below the national average of 5.7 per cent. The GNWT works with the NWT business community to determine the most effective policies to support the NWT small business sector. One of the most significant policies is the GNWT's Business Incentive Policy, which applies to GNWT procurement contracts. As the dynamics of the NWT economy change, government purchasing plays an increasingly smaller role in supporting local business. To encourage northern businesses to compete for new opportunities in both the renewable and non-renewable resource sectors, the GNWT will consider different approaches in consultation with northern business, industry and Aboriginal governments. The NWT small business Corporate Income Tax rate is part of these deliberations.

Summary of Operations

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
REVENUES	**1,106,057**	**1,084,435**	**1,054,664**	**995,710**
OPERATIONS EXPENSE				
Compensation and Benefits	217,114	204,548	185,466	192,729
Grants and Contributions	516,406	527,398	444,234	481,389
Other Expenses	283,133	292,082	294,893	293,309
Amortization	51,670	47,295	49,717	45,061
TOTAL OPERATIONS EXPENSE TO BE VOTED	**1,068,323**	**1,071,323**	**974,310**	**1,012,488**
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	**37,734**	**13,112**	**80,354**	**(16,778)**
PETROLEUM PRODUCTS REVOLVING FUND - NET REVENUE	-	-	-	15
ESTIMATED SUPPLEMENTARY REQUIREMENTS				
Health Reform Fund	-	-	(4,700)	
Operations Expenditures	(15,000)	(6,000)	(35,000)	-
ESTIMATED APPROPRIATION LAPSES				
Regular Operating Activities	8,000	11,000	8,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	31,159	35,060	26,248	47,134
Expenditures	(31,159)	(35,060)	(26,248)	(47,134)
OPERATING SURPLUS (DEFICIT) FOR THE YEAR	**30,734**	**18,112**	**48,654**	**(16,763)**
ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR	**696,526**	**678,414**	**738,877**	**695,177**
ACCUMULATED SURPLUS AT THE END OF THE YEAR	**727,260**	**696,526**	**787,531**	**678,414**

Summary of Revenues

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
GRANT FROM CANADA	**751,774**	**727,654**	**724,280**	**710,675**
TRANSFER PAYMENTS	**80,158**	**110,967**	**70,678**	**69,222**
TAXATION REVENUE				
Personal Income Tax	46,829	38,887	39,837	51,811
Corporate Income Tax	45,178	15,687	44,422	3,508
Tobacco Tax	14,462	14,362	15,044	14,379
Fuel Tax	19,894	19,670	17,679	19,452
Payroll Tax	28,340	27,535	26,798	17,062
Property Tax and School Levies	15,249	15,179	13,812	14,406
Insurance Taxes	2,800	2,250	2,250	2,869
	172,752	**133,570**	**159,842**	**123,487**
GENERAL REVENUES				
Revolving Funds Net Revenue	20,923	20,309	19,920	19,929
Regulatory Revenues	12,396	10,786	10,756	12,176
Investment Income	10,106	13,216	13,109	9,019
Other General Revenues	3,230	3,493	3,116	1,987
	46,655	**47,804**	**46,901**	**43,111**
OTHER RECOVERIES				
Lease and Accommodations	1,175	1,220	1,220	1,892
Service	1,805	1,827	2,182	1,297
Program	30,530	30,646	30,499	29,345
Commodity Sales	48	52	444	28
Insurance Proceeds	60	60	60	323
Other Miscellaneous Recoveries	90	444	120	77
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	2,724
	36,708	**37,249**	**37,525**	**35,686**
GRANTS IN KIND	**582**	**8,212**	**411**	**405**
CAPITAL				
Other	5,215	7,117	1,615	137
Deferred Capital Contributions	12,213	11,862	13,412	12,987
	17,428	**18,979**	**15,027**	**13,124**
TOTAL REVENUES	**1,106,057**	**1,084,435**	**1,054,664**	**995,710**

Summary of Operations Expenditures By Department

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
Legislative Assembly	14,536	14,473	14,477	13,896
Executive	68,045	67,299	48,136	52,011
Finance	7,953	7,072	6,959	6,403
Municipal and Community Affairs	110,012	131,987	82,504	78,004
Public Works and Services	47,140	45,568	44,285	43,901
Health and Social Services	265,186	259,685	252,706	258,905
Justice	83,800	81,036	79,803	80,079
NWT Housing Corporation	36,828	35,971	35,956	38,232
Education, Culture and Employment	259,205	255,280	245,003	251,655
Transportation	82,973	78,974	77,393	77,914
Industry, Tourism and Investment	37,934	36,594	34,973	32,722
Environment and Natural Resources	54,711	57,384	52,115	78,766
TOTAL OPERATIONS EXPENDITURES	**1,068,323**	**1,071,323**	**974,310**	**1,012,488**

Summary of Capital Investment Expenditures by Department

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
Legislative Assembly	110	-	-	205
Executive	1,000	512	500	28
Finance	-	-	-	-
Municipal and Community Affairs	2,610	23,364	16,437	5,745
Public Works and Services	9,253	12,049	7,781	3,052
Health and Social Services	13,101	12,033	6,875	11,392
Justice	4,029	2,961	1,780	829
NWT Housing Corporation	-	-	-	-
Education, Culture and Employment	28,382	25,226	18,190	11,097
Transportation	46,325	60,181	51,376	38,962
Industry, Tourism and Investment	2,783	2,446	1,736	1,183
Environment and Natural Resources	3,027	2,024	1,085	1,703
TOTAL CAPITAL INVESTMENT EXPENDITURES	**110,620**	**140,796**	**105,760**	**74,196**

Summary of Changes in Capital Assets and Amortization

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
BEGINNING OF THE YEAR				
Cost of Capital Assets in Service	1,556,044	1,485,464	1,485,961	1,380,498
Accumulated Depreciation	(585,096)	(537,801)	(539,521)	(492,740)
Net Book Value	970,948	947,663	946,440	887,758
CHANGES DURING THE YEAR				
Capital Assets Put into Service	111,502	78,885	94,322	105,902
Disposals	-	(8,305)	-	(936)
Amortization	(51,670)	(47,295)	(49,717)	(45,061)
NET BOOK VALUE OF CAPITAL ASSETS IN SERVICE AT THE END OF THE YEAR	**1,030,780**	**970,948**	**991,045**	**947,663**
Work in Progress on Multi-year Projects	105,731	98,613	97,086	59,702
TOTAL NET BOOK VALUE AND WORK IN PROGRESS	**1,136,511**	**1,069,561**	**1,088,131**	**1,007,365**
CALCULATION OF CAPITAL INVESTMENT				
Capital Investment per Infrastructure Acquisition Plan	110,620	140,796	105,760	74,196
Supplementary Reserve	12,000	7,000	12,000	-
Carry-over of Appropriations from the Previous Year	26,000	-	26,000	-
Estimated Appropriations for Incomplete Projects Continued in Subsequent Year	(26,000)	(26,000)	(26,000)	-
Estimated Appropriation Lapses	(4,000)	(4,000)	(4,000)	-
Capital Investment Expenditures	**118,620**	**117,796**	**113,760**	**74,196**
CALCULATION OF ASSETS PUT INTO SERVICE				
Work in progress, beginning of the year	98,613	59,702	77,648	91,408
Capital Investment Expenditures	118,620	117,796	113,760	74,196
Less work in progress, end of the year	(105,731)	(98,613)	(97,086)	(59,702)
Assets put into service	**111,502**	**78,885**	**94,322**	**105,902**

Summary of Cash Flows

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
OPERATING TRANSACTIONS				
Cash Received From:				
Canada	881,439	944,032	925,500	1,169,596
Other Revenues	204,331	201,568	188,225	218,555
	1,085,770	**1,145,600**	**1,113,725**	**1,388,151**
Cash Paid For:				
Operations Expenses	(1,024,959)	(1,018,866)	(955,765)	(950,905)
Projects Performed for Others	-	-	-	(137,532)
Cash Provided By (Used For) Operating Transactions	**60,811**	**126,734**	**157,960**	**299,714**
CAPITAL TRANSACTIONS				
Capital Investment (current year)	(113,150)	(111,860)	(108,994)	(76,823)
Capital Investment (prior year)	(4,936)	(3,109)	(3,807)	-
Proceeds from Disposal of Capital Assets	-	-	-	1,295
Capital Contributions Received and Deferred	19,694	26,832	26,832	2,774
Cash Provided By (Used For) Capital Transactions	**(98,391)**	**(88,137)**	**(85,969)**	**(72,754)**
INVESTING TRANSACTIONS				
Designated Cash and Investments Purchased	-	-	-	839
Loans (Net of Repayments)	(4,450)	(4,375)	(3,650)	2,902
Cash Provided By (Used For) Investing Transactions	**(4,450)**	**(4,375)**	**(3,650)**	**3,741**
FINANCING TRANSACTIONS				
Repayment of Capital Lease Obligations	**(2,641)**	**(2,641)**	**(2,641)**	**(1,106)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(44,672)**	**31,581**	**65,700**	**229,595**
Repayment of Corporate Income Tax Overpayment	(290,457)	(29,298)	(29,672)	-
Cash and Cash Equivalents at the Beginning of the Year	256,837	254,554	214,244	24,959
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**(78,292)**	**256,837**	**250,272**	**254,554**

Summary of Total Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**(78,292)**	**256,837**	**250,272**	**254,554**
GUARANTEED DEBT				
NWT Power Corporation	(94,670)	(99,977)	(101,976)	(89,619)
NWT Energy Corporation	(22,212)	(22,618)	(22,635)	(22,831)
NWT Housing Corporation	(28,155)	(28,980)	(28,985)	(30,623)
TOTAL GUARANTEED DEBT	**(145,037)**	**(151,575)**	**(153,596)**	**(143,073)**
TOTAL (DEBT) SURPLUS	**(223,329)**	**(151,575)**	**(153,596)**	**(143,073)**
AUTHORIZED BORROWING LIMIT	**300,000**	**300,000**	**300,000**	**300,000**
AVAILABLE BORROWING CAPACITY	**76,671**	**148,425**	**146,404**	**156,927**

Any further guarantees of NWT Power Corporation Debt may require a review of the GNWT's overall borrowing capacity with the Government of Canada.

Provincial and Territorial Tax Rates as of January 23, 2006

	Combined Top Marginal PIT rate [a]	Retail Sales Tax	Fuel Tax [b]		Tobacco Tax on Cigarettes	Payroll Tax [d]	Corporate Income Tax		Capital Tax [f]
	(%)	(%)	Gas (¢/litre)	Diesel (¢/litre)	($/carton) [c]	(%)	Small (%)	Large[e] (%)	(%)
Northwest Territories	43.05	-	10.7	9.1	42.00	2.00	4.0	14.0	-
Nunavut	40.50	-	6.4	9.1	31.20	1.00	4.0	12.0	-
Yukon	42.40	-	6.2	7.2	26.40	-	4.0	15.0	-
British Columbia	43.70	7.0	14.5	15.0	35.80	-	4.5	12.0	0/3.0
Alberta	39.00	-	9.0	9.0	32.00	-	3.0	11.5	-
Saskatchewan	44.00	7.0	15.0	15.0	35.00	-	5.0	17.0	0.6/3.25
Manitoba	46.40	7.0	11.5	11.5	35.00	2.15	4.5	14.5	0.3/3.0
Ontario	46.41	8.0	14.7	14.3	23.45	1.95	5.5	14.0	0.3/0.9
Quebec	48.22	7.5	15.2	16.2	20.60	4.26	8.5	9.9	0.525/1.20
New Brunswick	46.84	8.0	14.5	16.9	23.50	-	2.0	13.0	0.3/3.0
Nova Scotia	48.25	8.0	15.5	15.4	31.04	-	5.0	16.0	0.3/4.0
Prince Edward Island	47.37	10.0	20.2	19.8	34.90	-	6.5	16.0	0/5.0
Newfoundland	48.64	8.0	16.5	16.5	34.00	2.00	5.0	14.0	0/4.0
Weighted average [g]	45.75	6.9	14.2	14.4	26.52	1.87	5.7	12.7	

Notes:

(a) Combined Federal-Provincial/Territorial highest personal income tax rates in effect for the 2006 tax year.

(b) Quebec, New Brunswick, Nova Scotia and Newfoundland apply sales tax to fuel. Most provinces have separate tax rates for on-highway and off-highway gasoline. The NWT's off-highway gasoline tax rate is 6.4 cents/litre.

(c) Saskatchewan, Manitoba, New Brunswick, Nova Scotia and Newfoundland apply sales tax to tobacco products.

(d) The NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or the rates vary depending on the payroll size.

(e) The 2006-07 GNWT Budget includes a proposed reduction in the large Corporate Income Tax rate to 11.5 per cent, effective July 1, 2006.

(f) Capital tax rates are for large corporations and for financial institutions in the order shown. The tax bases are different for different types of companies.

(g) Average weighted by provincial/territorial populations at July 1, 2005.