2007 - 2008

Budget Address

NORTHWEST TERRITORIES

BUDGET PAPERS

A ♦ Economic Review

February 8, 2007

NORTHWEST TERRITORIES ECONOMIC OUTLOOK

The NWT economy grew an estimated 3.0 per cent in 2006, largely as a result of increases in investment activity. This is up from a revised 0.1 per cent in 2005, a slowdown resulting primarily from a decline in the value of diamond exports. The diamond industry is currently the NWT's main economic driver and is largely responsible for the dramatic growth rates of 20.0 per cent and 7.6 per cent in 2003 and 2004, respectively. Since division of the former NWT in 1999, the NWT has experienced the highest cumulative economic growth of any jurisdiction in the country.

The economy is expected to perform well in 2007 with forecast growth of 2.3 per cent.

Over the medium term, the prospects for continued growth are substantial. If the proposed Mackenzie Valley natural gas pipeline is approved and constructed, the resulting economic impacts would be significant for the NWT and Canada as a whole. The NWT economy 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.

The following table highlights the robust but volatile growth in the NWT economy in recent years. The main contributing factors to the growth and its associated volatility are investment in the non-renewable resource industry, especially construction of the diamond mines, and diamond exports. Consumer and government expenditures have generally grown at a moderate and relatively stable pace.

The 2006 strike at the Ekati diamond mine will likely result in a drop in diamond production and therefore exports are estimated to have declined in 2006. Investment in 2006 is expected to increase 48 per cent, and is forecast to increase a further 9 per cent in 2007, primarily due to diamond mine construction activities. Production at Snap Lake, which will be the NWT's third diamond mine, is scheduled to begin in October 2007. Applications for permits to construct and operate the NWT's fourth diamond mine, at Gahcho Kué (Kennady Lake), were filed in late November 2005.

Average weekly earnings in 2006 increased 1.8 per cent from $962 in 2005 to an estimated $979. Average weekly earnings are forecast to grow 3.7 per cent to $1,016 in 2007.

Consumer price inflation in Yellowknife (NWT-wide figures are not available), which has averaged about 2 per cent annually in recent years, remains stable. Consumer prices increased 1.4 per cent in 2006, and are forecast to grow by 1.3 per cent in 2007.

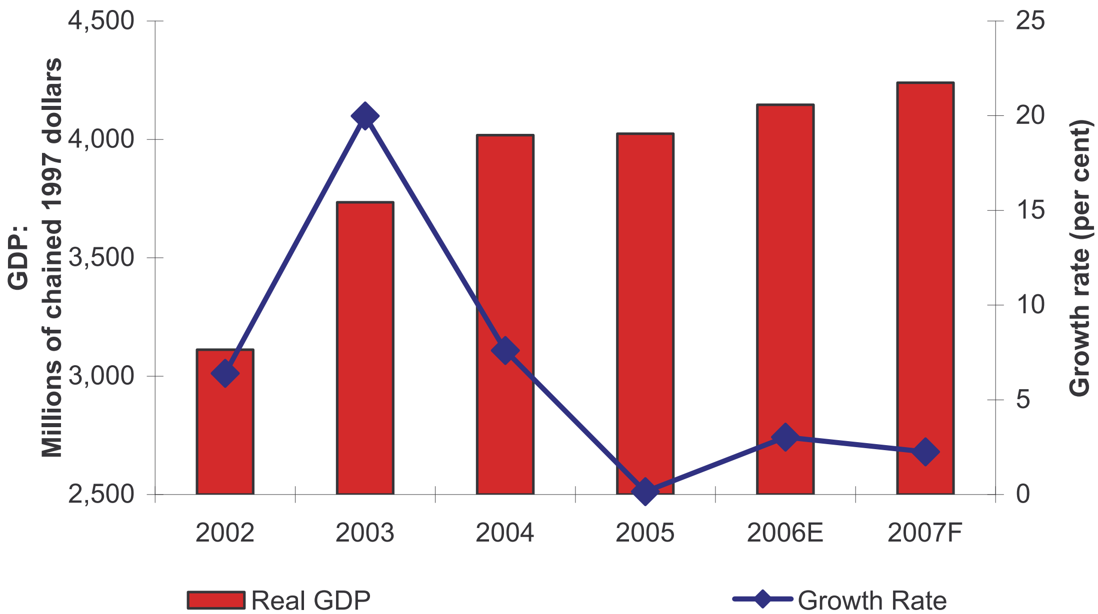
Northwest Territories Economic Indicators

INDICATOR	2004	2005	2006(E)	2007(F)
Gross Domestic Product, chained 1997 $ millions	4,018	4,024	4,146	4,240
% change	7.6	0.1	3.0	2.3
Total Investment, chained 1997 $ millions	1,099	1,323	1,953	2,134
% change	47.1	20.4	47.6	9.3
Consumer Expenditures, chained 1997 $ millions	1,030	1,065	1,109	1,154
% change	3.1	3.4	4.1	4.1
Government Expenditures, chained 1997 $ millions	1,043	1,047	1,093	1,114
% change	1.6	0.4	4.4	2.0
Exports, chained 1997 $ millions	3,169	2,993	2,882	2,977
% change	6.8	(5.6)	(3.7)	3.3
Imports, chained 1997 $ millions	2,148	2,320	2,751	2,999
% change	11.9	8.0	18.6	9.0
Employment, number of persons	21,617	22,625	22,808	23,015
% change	3.7	4.7	0.8	0.9
Average Weekly Earnings, dollars	924	962	979	1,016
% change	3.2	4.1	1.8	3.7
CPI All-Items (Yellowknife, 1992 = 100)	120.8	123.6	125.3	126.9
% change	1.4	2.3	1.4	1.3

Sources: Statistics Canada
NWT Department of Finance

(E) Estimate
(F) Forecast

NWT Real Gross Domestic Product



Sources: Statistics Canada (2002-2005) and NWT Finance [2006E - estimate; and 2007F - forecast]

EMPLOYMENT

The 2006 NWT employment level increased at a more moderate rate than in the previous two years. Employment growth in 2006 is estimated at 0.8 per cent, compared to 3.7 per cent and 4.7 per cent in 2004 and 2005, respectively. The number of employed persons was an estimated 22,808 in 2006, an increase of almost 1,900 since 2002.

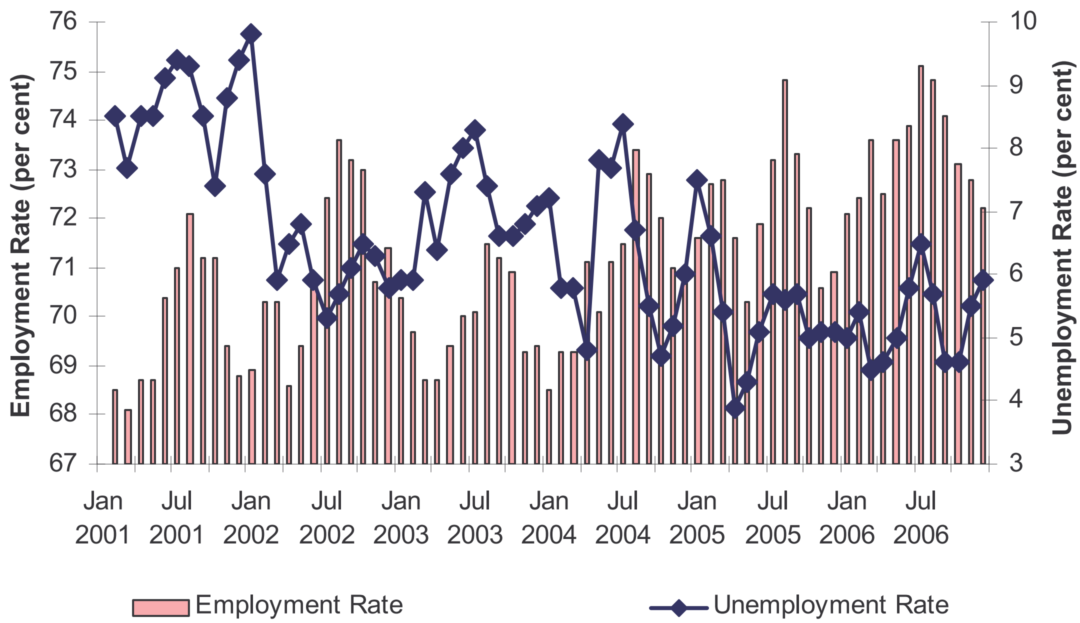
Other indicators of the labour market's health also showed positive results in 2006. For the third year in a row, the territory's unemployment rate fell, while its employment rate (the share of the working-age population with jobs) and participation rate (the share of the working-age population who are in the labour market, either as employed or unemployed individuals) both rose.

The NWT unemployment and employment rates are improving over time. The NWT unemployment rate averaged 5.3 per cent in 2006, compared to 6.3 per cent and 5.4 per cent in 2004 and 2005, respectively. The participation rate averaged 77.4 per cent last year, up from 75.6 per cent and 76.3 per cent in 2004 and 2005, respectively. The average 2006 employment rate was 73.4 per cent.

The NWT also continues to compare favourably against the national employment situation. In 2006, the NWT's unemployment rate was 1.1 percentage points lower than Canada's (5.3 per cent compared to 6.3 per cent for Canada). Both NWT employment and participation rates were over 10 percentage points higher than the corresponding Canadian rates in 2006. The NWT employment rate in 2006 was 73.4 per cent compared to 63.0 per cent in Canada and the participation rate was 77.4 per cent compared to 67.2 per cent in Canada.

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 NWT Bureau of Statistics *Winter 2004 Community Survey*, the unemployment rate in the larger centres was 6.2 per cent, compared to 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.

NWT Labour Market



Source: Statistics Canada

INVESTMENT

Capital and Repair Expenditures in the Public and Private Sectors

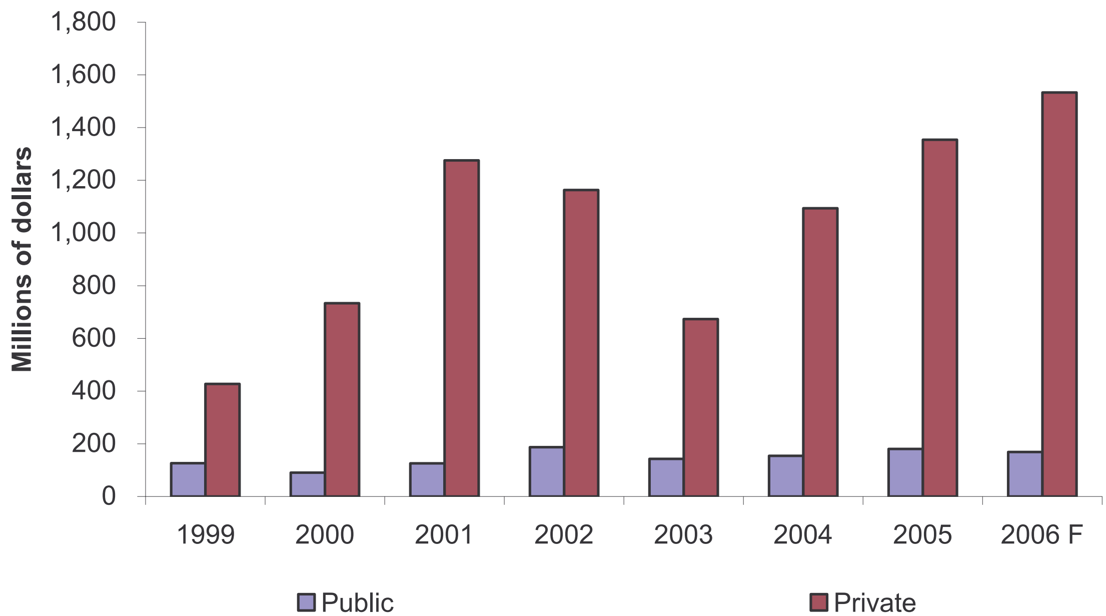
Total capital expenditures in the NWT increased 23 per cent in 2005, from $1,248 million in 2004 to $1,535 million. The private sector expended $1,354 million, or 88 per cent of 2005 capital expenditures, with the remaining 12 per cent coming from the public sector; the same share as 2004. Since division of the Northwest Territories in 1999, private capital expenditures, primarily relating to construction activity in the diamond mining sector, have ranged from 77 per cent to 91 per cent of total capital expenditures, consistently outpacing those from the public sector.

According to the 2006 Statistics Canada survey of investment intentions of public and private sector organizations, 2006 public sector capital expenditures are expected to decrease 7 per cent from 2005, from $181 million in 2005 to $169 million in 2006.

Private sector investment is projected to increase 13 per cent to $1,533 million in 2006, a record high. The increased level of investment from the private sector is due primarily to the construction of the Snap Lake diamond mine.

Rapid large-scale non-renewable resource activity continues to put pressure on public infrastructure. Ongoing public sector investment will be required to successfully address these and other strains on the territory's infrastructure.

NWT Public and Private Investment: Capital and Repair Expenditures



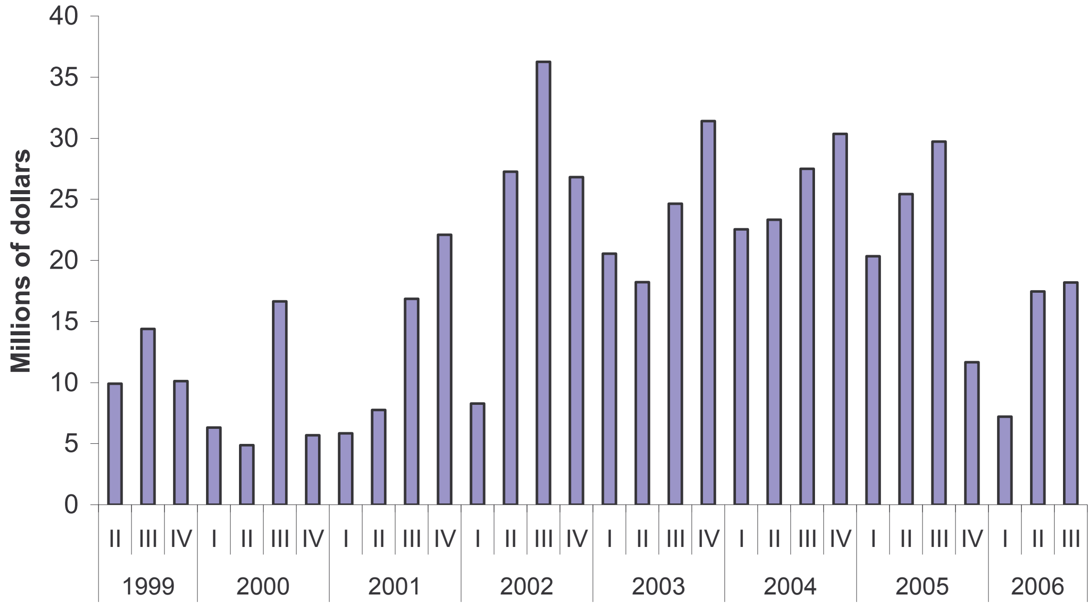
Source: Statistics Canada (Note: F = Forecast; Statistics Canada forecasts 2006 investment using its survey of investment intentions among public and private sector organizations.)

Housing Investment

Housing investment fell 16 per cent in 2005, to $87 million, following 9 per cent growth in 2004 and a decline of 4 per cent in 2003. However, because of very strong growth in 2001 and 2002, when housing investment grew by 57 per cent and 88 per cent, respectively, the level of housing investment in 2005 was much higher than in 2000 and 2001. A strong economy, low interest rates and growing personal incomes have all supported housing activity in the territory.

Through the first three quarters of 2006 (fourth quarter data are not yet available) housing investment amounted to $43 million, down substantially from $75 million in the first nine months of 2005, implying a year-over-year drop of 43 per cent in investment. Barring a strong rebound in the fourth quarter, housing investment in 2006 is likely to decline, the third decrease in four years.

NWT Housing Investment, by Quarter



Source: Statistics Canada

MINERAL, OIL AND GAS EXPLORATION AND PRODUCTION

The non-renewable resource sector is the main driver of the NWT economy. The diamond industry accounts for the majority of activity in this sector.

High commodity prices have spurred interest in mineral exploration across the territory, not just for diamonds but other minerals as well, such as gold. Even if prices for some commodities do soften as some forecasters now expect, prices are likely to remain elevated by historical standards. The high prices, in turn, should continue to benefit the NWT, which has enormous untapped potential for future growth in the non-renewable sector.

The Diamond Sector

Diamond shipments decreased in 2005, the last full year for which there are data. Shipment volume was 12.3 million carats, down 3 per cent from 2004's record level. Shipment value declined 20 per cent, from $2,097 million in 2004 to $1,684 million in 2005. The greater decline in shipment value to shipped volumes reduced the weighted average carat value of shipped diamonds from $165 in 2004 to $137 in 2005. Weighted average carat values of NWT diamond shipments have declined from values of $250 and $257 in 1999 and 2000, respectively.

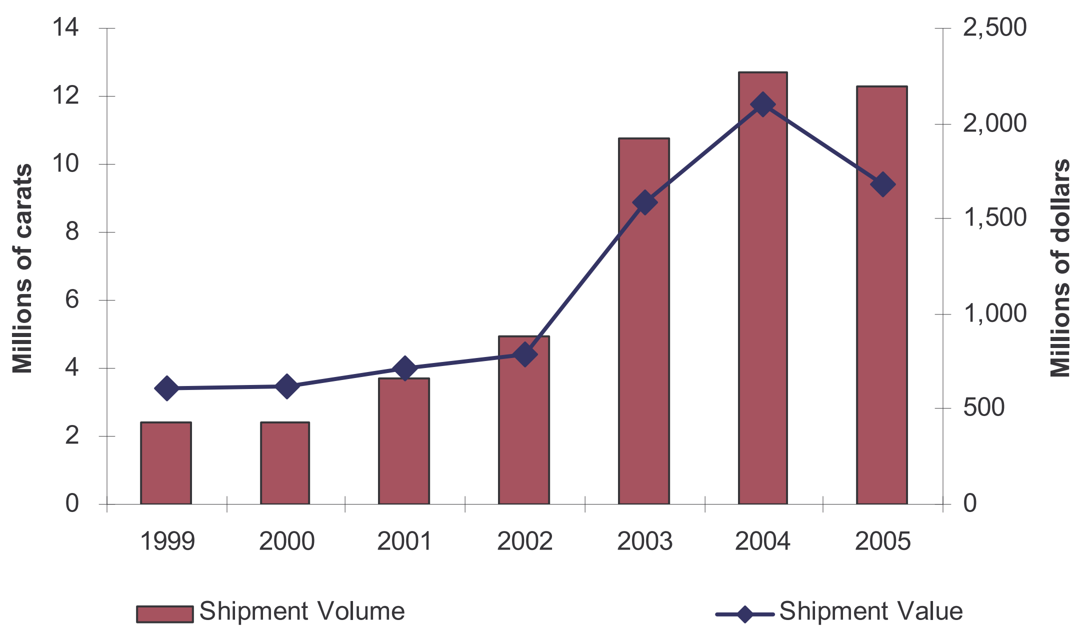
The producing mines in the NWT are Ekati (1998) and Diavik (2003). The beginning of Diavik's production is clearly visible in the graph shown below. The Jericho mine, Nunavut's first and Canada's third diamond mine, opened in 2006.

Canada remains the world's third-largest diamond producer by value, behind Botswana and Russia. Until the 2006 opening of Nunavut's Jericho mine, the NWT was solely responsible for Canada's status as a major diamond producer. However, future diamond mines are expected elsewhere in Canada, particularly in Ontario and Saskatchewan.

Further new diamond mines are expected 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 2005 that it had 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.

Diamonds increase in value 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. The GNWT has encouraged the development of a home-grown cutting and polishing industry in order to capture some of this value added. 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: 1999-2005



Source: Natural Resources Canada

The Oil and Gas Sector

Expenditures on oil and gas activities in the NWT in recent years have been sustained at high levels: about $500 million in 2005 and $400 million in 2006. These costs include expenditures on exploration and development drilling, well completion and abandonment, and geophysical and geological programs. Overall, exploratory drilling levels were sustained in the Mackenzie Delta and in the central Mackenzie Valley. In contrast, there has been no exploratory drilling in the Deh Cho region since 2001.

Oil and Gas Activities in NWT

	2003	2004	2005	2006 Estimate
Prices:				
- Oil Price (WTI, $US/Bbl)	31.14	41.42	56.46	66.06
- Natural Gas Price (AB Plant gate, $/thou. Cubic feet)	6.12	6.31	8.30	6.76
Capital Spending ($million)	270	340	500	400
Wells Drilled:				
- Oil	6	1	2	2
- Natural Gas	9	6	11	7
Production:				
- Oil (thousand barrels/day)	22	21	19	17
- Natural Gas (billion cubic feet/day)	0.09	0.07	0.07	0.06

Source: GNWT Department of Industry, Tourism and Investment – Minerals, Oil and Gas Division

Total oil and natural gas production in the NWT has been gradually decreasing due to the natural depletion of known reserves. Growth in production requires new discoveries and new field developments to replace depleting wells.

The NWT continues to be attractive for oil and gas exploration because of its abundant petroleum resources. However, exploration activities have slowed in recent years. The short-lived increase in energy prices, especially natural gas prices, between late 2005 and early 2006, as shown in the following table, may have reduced industrial demand. The subsequent fall in gas prices has negatively impacted the drilling activities for the winter 2006 season in western Canada. These impacts have added medium-term uncertainty to companies' exploration intentions in the NWT.

Oil and gas shipment values have held steady for the past six years at about $500 million per year in shipments, up considerably from $243 million in 1999.

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, making the NWT a major exporter of energy.

Natural Gas Price (Alberta Daily Spot, $/thousand cubic feet)

2004	2005						2006					
	Jan.	Mar.	May	Jul	Sep	Nov	Jan	Mar	May	Jul	Sep	Nov
Average: 6.54	6.61	7.47	6.96	7.47	11.08	9.35	8.64	6.62	5.59	5.72	4.68	7.77
	Average: 8.73						Average: 6.66					

Source: GNWT Department of Industry, Tourism and Investment – Minerals, Oil and Gas Division

Gold Mining

For many decades gold mining was an important part of the NWT economy. However, the NWT's two remaining mines, the Con and Giant mines located in Yellowknife, 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, compared to approximately $9 million in 2004 and between $40 and $50 million in each of the prior five years.

However, since the Con and Giant mine closures, gold prices have increased substantially, encouraging new gold and other mineral exploration in the NWT; and one company has applied for licences to open a gold mine 90 kilometres north of Yellowknife. The following table shows that, from 2003 to 2006, the price of gold in US dollars increased 66 per cent (from US$363 to US$602[1]) and the gold price in Canadian dollars increased 34 per cent (from C$509 to C$682). As a result, six more mining companies came to the NWT searching for gold as the primary target and total gold exploration expenditures increased almost four times (from $3 million to $14 million). If companies spent 66 per cent of their 2006 exploration expenditures in the NWT[2] then $9 million dollars of the exploration expenditures should be in the NWT. In addition, from 2005 to 2006, the increased exploration expenditures in projects with gold as a by-product should also partly be attributable to the increased gold price.

The Gold Price and Northern Gold Exploration Expenditures

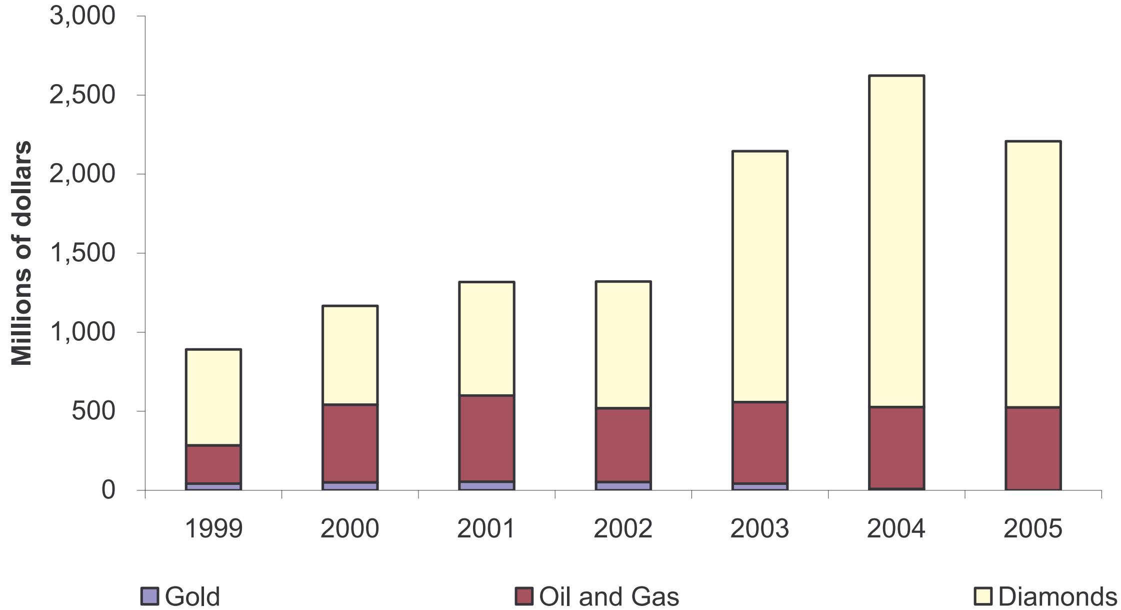
Year	Gold Price (US$/oz)	Gold Price (C$/oz)	Number of companies searching for gold in NWT		Total Expenditures on gold exploration, deposit appraisal, and mine complex development in the North ($ millions)	Presumed NWT spending (with gold as primary target $ millions)
			Gold as primary target	Gold as by-product	Gold as primary target	
2003	363	509	3	4	3	2
2004	409	532	6	4	10	7
2005	438	532	7	4	12	8
2006	602	682	9	5	14	9

Source: GNWT Department of Industry, Tourism and Investment – Minerals, Oil and Gas Division

[1] Average 2006 price London Fix, as of December 7, 2006.

[2] The Minerals, Oil and Gas Division of the Department of Industry, Tourism, and Investment, in collaboration with Natural Resources Canada, conducted a survey on the mining companies' Northern Spending and found that about 66 per cent of the companies' mineral exploration and deposit appraisal expenditures were spent in the NWT.

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



Source: Statistics Canada

COMMODITY PRICES AND EXCHANGE RATES

Commodity prices remained strong throughout 2006, with some weakening of energy and base metal prices in the latter half of the year from their mid-year peaks.

Sudden increases in the price of oil have traditionally seriously affected the world's economy. However, the high oil prices of recent years have not caused the detrimental economic effects of previous oil price shocks, such as those of the 1970s. The main mitigating factors for this reduced sensitivity to the price of oil are a 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.

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 was neglected, which has allowed prices to increase further in the face of increasing demand, as metals stockpiles have been reduced to their lowest levels in decades. Although new investment has subsequently been undertaken to meet the current demand, it is not expected to 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 large increase in the value of the Canadian dollar relative to the US dollar and also to many other major international currencies. However, as commodity prices softened in late 2006, the Canadian dollar surrendered some of its gains against the US dollar and some other global currencies, such as the euro and the pound, thereby erasing many or all of the gains that it had posted earlier in the year, when prices for many important commodities peaked.

The outlook for commodity prices in 2007, and therefore in large measure 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 combination with a US consumption boom, a slowdown in either of those countries 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, the upswings of 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, thus reducing the market tightness that had led initially to the higher prices.

Oil Prices

Oil prices increased for the fifth straight year in 2006, with prices averaging US$66.09 per barrel for West Texas Intermediate (WTI), a 17 per cent increase from the 2005 average of US$56.46. As recently as 2001, the price of WTI averaged US$25.94 a barrel, less than half the level of last year.

After hitting all-time record nominal highs over the summer of approximately US$77 a barrel, oil prices began to moderate after August, once it had become apparent that hurricanes were unlikely to be as severe as in 2005 and as concerns about softening US economic growth began to intensify. By year-end 2006, prices were back to 2005-year end levels. By February 2007, the price of WTI was in the about US$58.

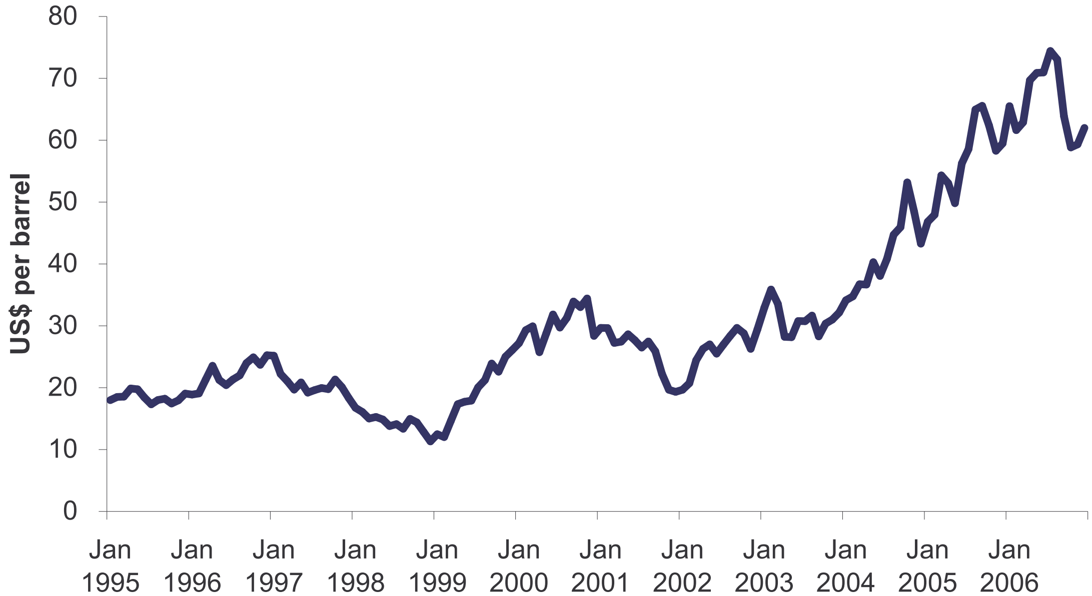
This rapid price decline has sparked new talk about production cuts by some Organization of Petroleum Exporting Countries (OPEC) members, such as Venezuela and Iran. Others in OPEC, such as Saudi Arabia, have suggested further production cuts are unnecessary, noting that previously announced cuts have already begun to stabilize the oil market by shrinking oil inventories in major consuming countries, and therefore that the current price decline simply represents a correction to the earlier, speculation increase in prices.

As the following graph shows, oil prices remain much higher than over the recent past, which has led to continued oil booms in oil-producing countries, including Canada.

Natural Gas Prices

For the first time in four years, natural gas prices fell in 2006, to US$7.23 per million British thermal units (MMBtu) at Henry Hub, Louisiana from US$8.62 per MMBtu in 2005. Comparison with 2005 prices is difficult because Hurricanes Rita and Katrina seriously damaged US Gulf Coast energy infrastructure, causing prices to increase. Even though the average price of natural gas at Henry Hub declined year-over-year, it remained well above the levels of recent years – specifically, US$6.14 per MMBtu in 2004, US$5.39 per MMBtu in 2003 and US$3.22 per MMBtu in 2002.

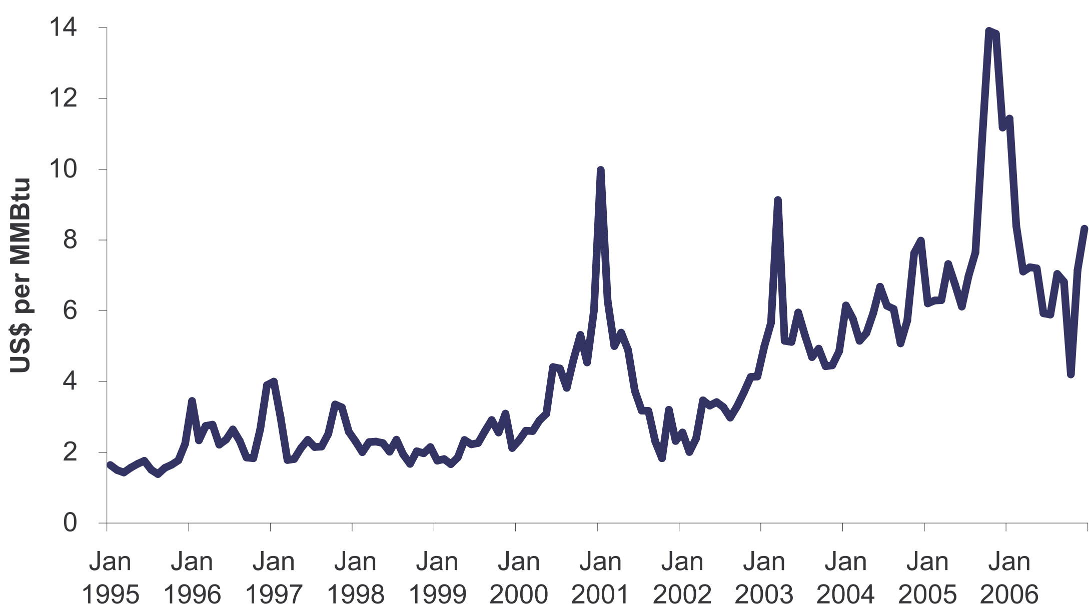
Price of Oil: West Texas Intermediate



Source: Sproule Associates Limited

Natural gas prices, which are more volatile than oil prices, fell significantly in October 2006. Prices recovered in November and December, and decreased again in January 2007 due to a combination of warm weather and ample gas stockpiles in storage. As February 1, 2007, the price of gas at Henry Hub was US$7.80 per MMBtu.

Price of Natural Gas: Henry Hub NYMEX



Source: Sproule Associates Limited

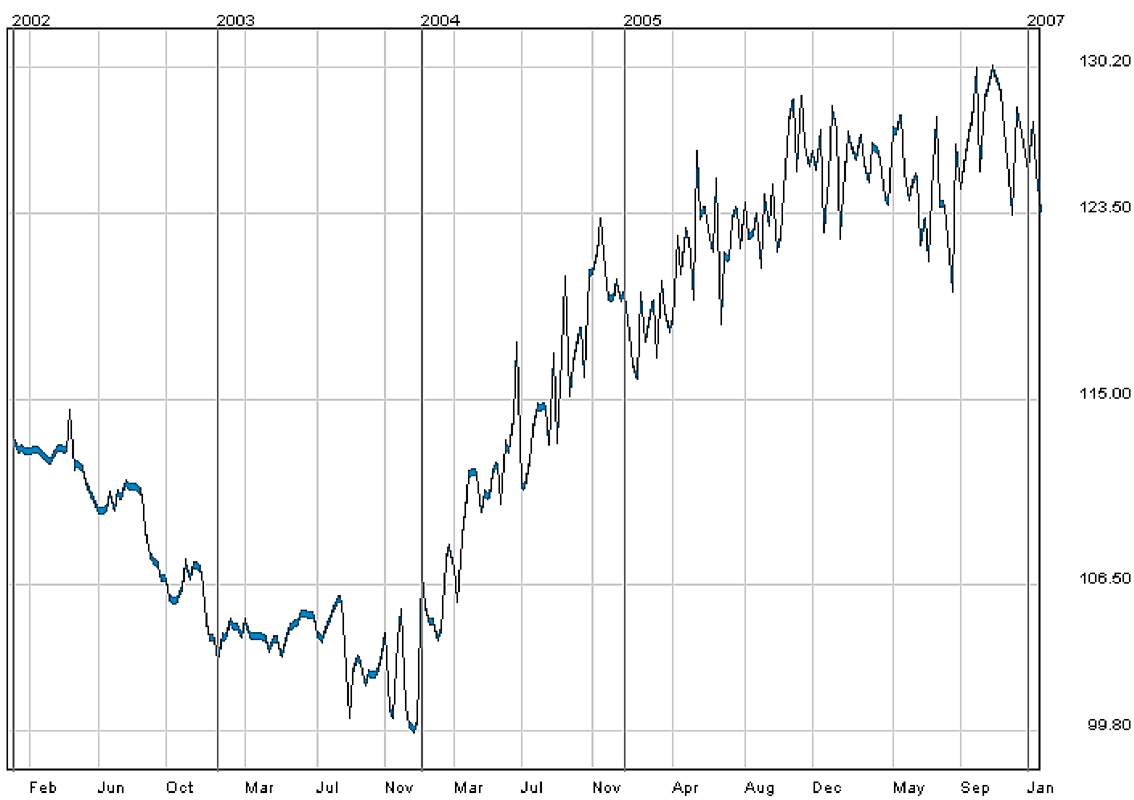
Diamond Prices

Because each diamond is unique, it is difficult to track the prices of diamonds. A diamond's value hinges on four characteristics, known 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. 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 following graph shows, in the two years to January 2004, the index fell, but has since risen and is currently about 24 per cent higher than its low in January 2004.

Polished Diamond Price Index: Overall Index, January 2002 - January 2007



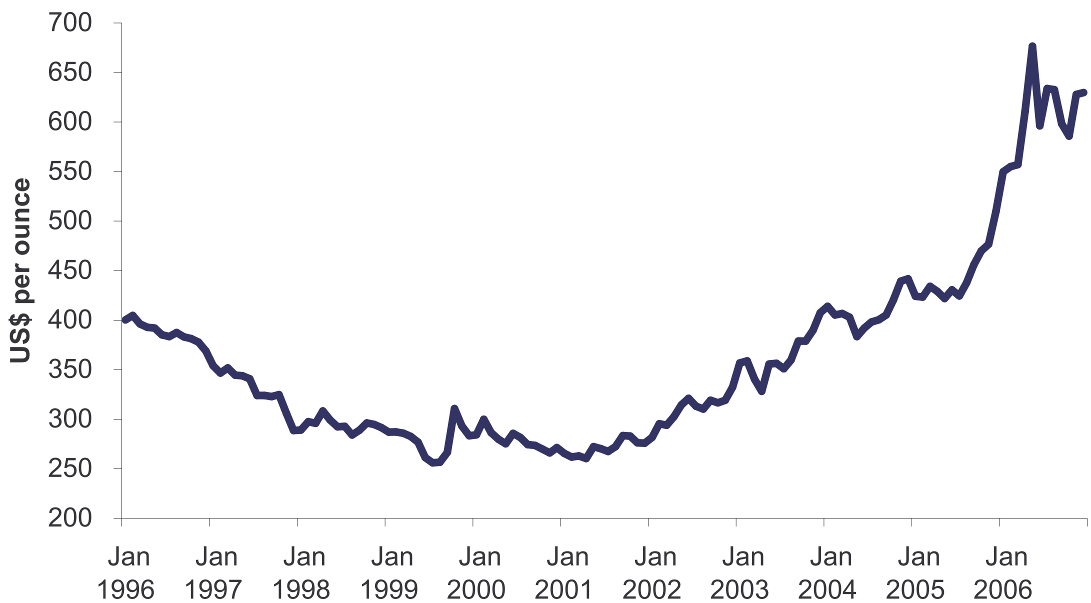
Source: PolishedPrices.com (reprinted with permission)

Gold Prices

Gold prices increased for the fifth consecutive year in 2006, rising to an average of US$603.46 an ounce in 2006, a 36 per cent increase over the 2005 average of US$444.74 an ounce. The gold price ranged from a low of US$524.75 an ounce in January to a high of US$725.00 an ounce in May, its highest since 1980 and close to a record in nominal terms. (The gold price peaked at US$850 in January 1980.) The year-end price of gold was near US$630 an ounce.

The gold market continues to be influenced by geopolitical conflicts. Oil market volatility, inflation concerns, weakness in the US dollar and rumours of central banks diversifying some of their foreign exchange reserves into gold have put positive pressure on gold prices. Traditionally, gold has been viewed as a hedge against inflation and a defence during political and economic uncertainty, and for the first few years of the recent gold price rally, the increase in gold prices was due mainly to weakness in the US dollar, with which gold has typically had a strong inverse correlation. Since 2005, however, despite stabilization in the value of the US dollar, gold prices have continued to increase, an indication of a broadening bull market for gold.

Price of Gold: 1996-2006



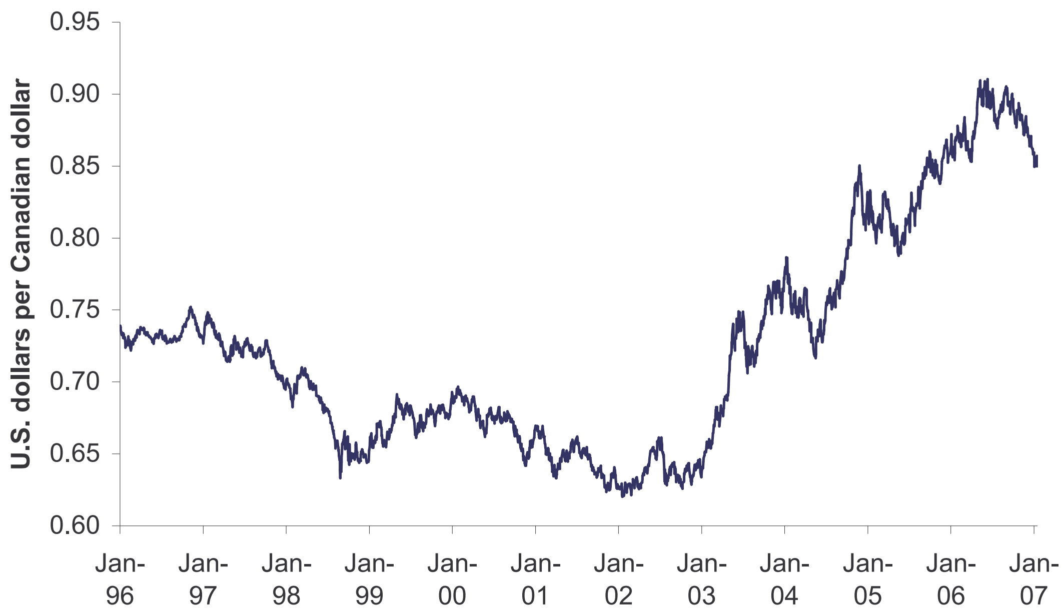
Source: Kitco Precious Metals

The Canadian Dollar

In 2006, for the first time in five years, the Canadian dollar lost ground against the US dollar, ending the year fractionally lower than where it began, at US 85.81 cents, compared to US 85.98 cents at year-end 2005. The Canadian dollar was much higher at mid-year, when commodity prices were high, but declined as commodity prices softened and concerns mounted about growth in the Canadian economy in the last half of the year. Before 2005, the Canadian dollar had risen four years in a row.

However, against other major currencies, the Canadian dollar behaved differently last year. The Canadian dollar declined against the euro and the pound, mainly due to the belief that further interest rate increases in Europe were unlikely; but has held relatively constant against the yen and as of mid-January 2007, it is near 103 yen, placing it near the highest level (reached in 2006) since the early 1990s.

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



Source: Bank of Canada

MANUFACTURING SHIPMENTS AND TRADE

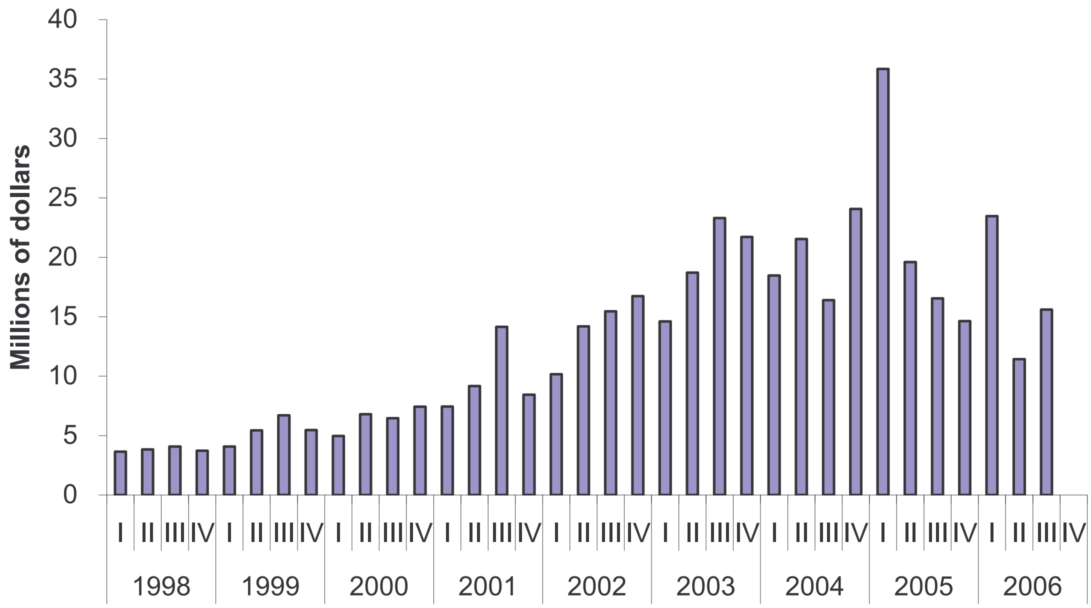
Both NWT manufacturing and trade have benefited from the strong economic growth of recent years, primarily because of the NWT diamond industry. Much of the NWT's manufacturing shipments consist of cut and polished diamonds. As the number of raw diamonds available for processing in the NWT has increased,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

Manufacturing Shipments

As they have every year since division in 1999, manufacturing shipments continued to grow in 2005. Growth for 2005 was 8 per cent, more than 2004's growth of 3 per cent, but well down from growth rates ranging from 18 to 53 per cent experienced from 1999 to 2003. Because of such large growth, manufacturing shipments, which totalled $22 million in 1999, had quadrupled by 2005, to $87 million.

Manufacturing shipments in 2006 are not expected to maintain this trend. Through the first three quarters of 2006, the most recent period for which statistics are available, shipments were $51 million, a sharp decline of 30 per cent from the comparable period in 2005, when shipments of $72 million were made. Shipment levels were especially high in the first quarter of 2005, making comparisons difficult. Nevertheless, it is expected manufacturing shipments for 2006 as a whole will be lower than in 2005, the first annual decline since division of the NWT in 1999.

NWT Manufacturing Shipments, All Industries



Source: Statistics Canada

Wholesale Trade

Wholesale trade increased 8 per cent in 2005 to $208 million, after declines of 34 per cent and 3 per cent in 2003 and 2004, respectively. The decreases in the two previous years resulted primarily from completion of major construction at the Diavik diamond mine in 2002. The increase in 2005 was attributed to the start of construction of the Snap Lake diamond mine.

Wholesale trade totalled $172 million in the first three quarters of 2006, a 9 per cent increase from the comparable period in 2005, when trade was $158 million.

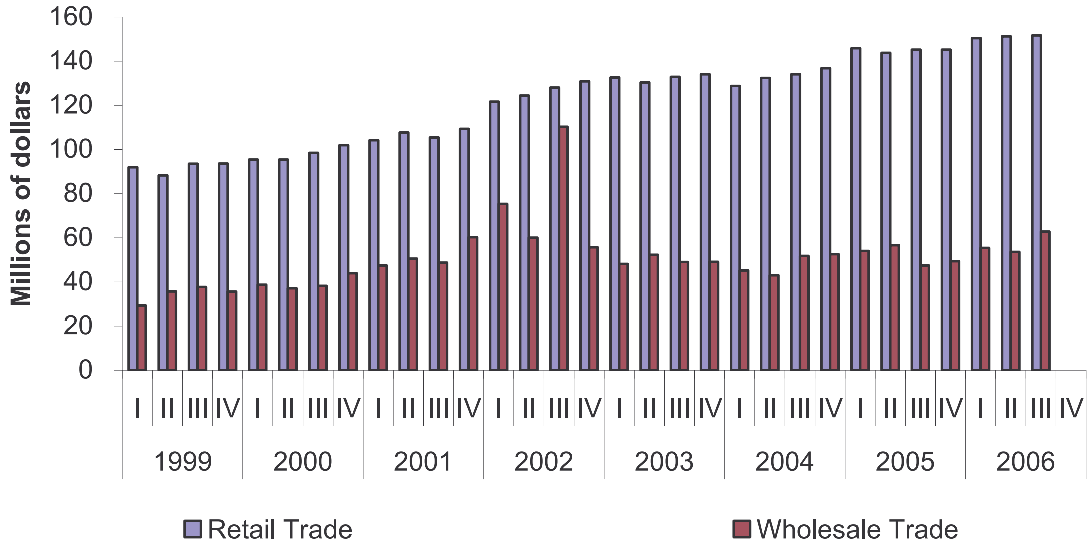
In general, wholesale trade shows a close correlation with resource development and has been positively affected by the growth in the diamond-mining sector.

Retail Trade

After growth of just 0.4 per cent in 2004, retail activity increased 9 per cent in 2005, returning the NWT to the general trend since division of outperforming the national average. Strong growth in retail trade results from strong economic conditions and increasing personal income. Trade grew over the 1999 to 2005 period by a cumulative 58 per cent, from $367 million to $580 million. The largest single year's growth of over 18 per cent occurred in 2002.

Retail trade increased from $435 million for the first three quarters of 2005 to $453 million for the first three quarters of 2006, an increase of 4 per cent.

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.

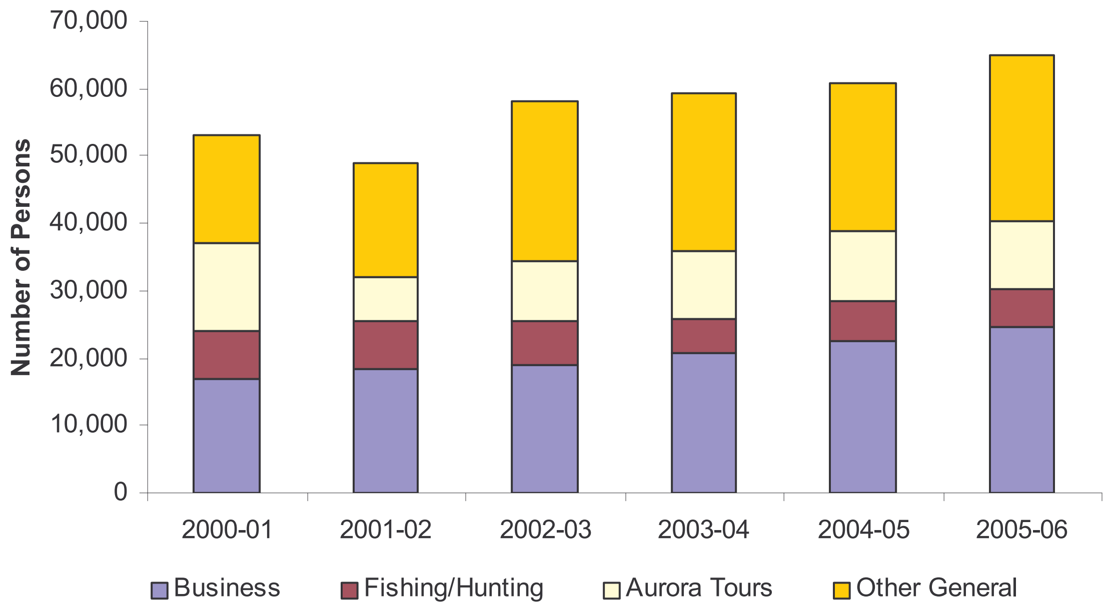
Tourism

Tourism is an important part of the NWT's economy with untapped potential, including niche categories such as cultural tourism, diamond-based tourism and 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 tourism expansion, especially in regard to the growing recreational vehicle market.

There are two components to the NWT's tourist trade: leisure travel, and business travel. Total tourism spending totalled $106 million in 2005-06; roughly divided evenly between the two segments.

Visitors to the Northwest Territories



Source: GNWT 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

Leisure Visits

In 2005-06, 40,393 persons travelled to the NWT for leisure, a 6 per cent increase from the 38,084 leisure visitors in 2004-05. Spending by leisure visitors increased 3 per cent, from $49.9 million in 2004-05 to $51.2 million in 2005-06. Compared to 2000-01, leisure visitation is up 12 per cent in volume terms (36,144 persons in 2000-01) but down in terms of spending ($52.6 million in 2000-01). A decline in the aurora tours (principally Japanese) market, falling from $15.9 million in 2000-01 to $12.5 million by 2005-06, is the main factor for the decline in overall spending. The number of aurora tourists has also declined from 2000-01, but leisure visits in other markets, especially general touring, have offset aurora tour visitor decreases.

While tourist numbers and spending among those visiting friends and relatives, those engaged in general touring, and those from European countries grew in double-digit percentage terms in 2005-06, there were declines in fishing and outdoor adventure tourists and little change in the number of hunters or aurora visitors. Those results contrast sharply with those of 2004-05, when the hunting and fishing categories had the strongest growth and the biggest percentage decline was seen among European visitors, highlighting the volatility in leisure travel to the NWT.

Shares of spending by each leisure visitor category on a per person basis are not equal. In 2005-06, total leisure tourist spending was $1,268 per person. Leisure visitors who came to see friends or relatives spent $410 per person, general touring visitors spent

$525 per person, both outdoor adventurers and Europeans spent $864 per person, aurora tourists spent $1,223 per person, tourists who came to fish spent $1,895 per person and hunters spent $13,511 per person.

Business Visits

The strength of the NWT economy contributes to the growth in the number of business visitors. Both volumes and spending among business visitors have risen each year since 2000-01, when 16,876 visitors contributed $37.5 million to the economy. By 2005-06, business visitors had increased to 24,624 with $54.7 million in spending. Further, in contrast to the volatility inherent in the leisure travel market, business-related tourism has remained along a steady growth path.

Business visitors spend more on average than leisure tourists. Since 2000-01 business travellers contributed more to total leisure and business tourism receipts than to total tourism numbers. In 2005-06, business travellers were 37.9 per cent of visitors, but spent 51.6 per cent of total disbursements. Spending by business travellers has also become more important over the last five years: in 2000-01 they contributed just 41.6 per cent to total receipts, by 2005-06 that share had grown to 51.6 per cent.

Encouraging Further Growth in Tourism: The Tourism 2010 Initiative

In 2006, the GNWT announced *Tourism 2010: A Tourism Plan for the Northwest Territories,* a long-term plan to further develop the territory's $100 million tourism industry. This initiative seeks to build upon existing strengths with further funding support in product development, infrastructure, human resource training, marketing, research and planning. The Plan's objective is to expand the NWT tourism industry to $145 million annually by 2010.

Commercial Fishery

The NWT's commercial fishery is a small but valued part of the territory's economy. According to the Freshwater Fish Marketing Corporation (FFMC) – 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.

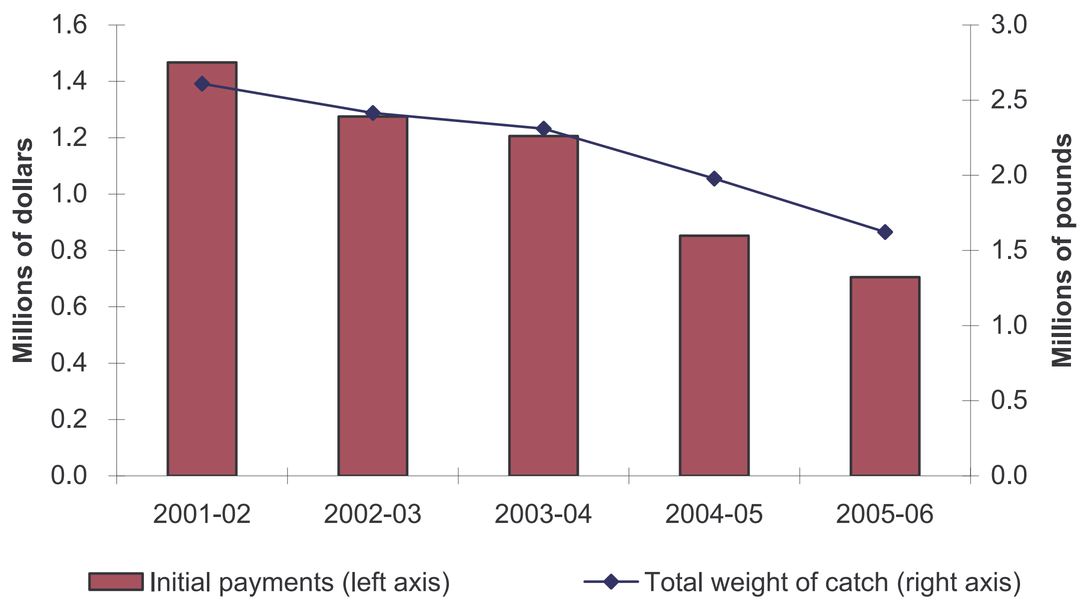
Continuing the downward trend, the FFMC reports that initial payments to NWT fishers – on a delivery-point, net-of-freight basis – fell in fiscal 2006 (the year ended April 30, 2006). Payments have fallen to slightly less than half their fiscal 2002 level ($705,000 in fiscal 2006 versus $1.5 million in fiscal 2002).

The total weight of the freshwater catch has declined in similar fashion to receipts, although not quite to the same magnitude, indicating that pricing for freshwater fish has generally been poor in recent years. In total, 1.622 million pounds of fish were harvested from the NWT's freshwater lakes and marketed through the FFMC in fiscal 2006, compared to 2.609 million pounds in fiscal 2002, a 38 per cent decrease over the period. The main species continues to be whitefish, which, at 82 per cent of the haul, contributed over four-fifths of the total catch in fiscal 2006. Since fiscal 2001, the proportion of the harvest made up of whitefish has varied between 72 per cent and 82 per cent. Other species include pickerel, northern pike, mullet (not caught since fiscal 2004) and others.

According to the FFMC's first quarter report for fiscal 2007 (May 1 to July 31, 2006), freshwater fishers in the NWT continue to struggle. Initial payments were down 11 per cent from the same three-month period one year earlier, with deliveries of all species reduced from the prior period; whitefish deliveries were down 7 per cent, while pickerel deliveries, originating mainly from Kakisa Lake, were down 19 per cent. However, the FFMC did indicate some progress in the size grading of whitefish, with an increased presence of mediums, large and even some jumbos.

The increase in the value of the Canadian dollar relative to the US dollar since 2002 has hurt the freshwater fishery in Canada, and lower fish volumes in the NWT indicate a lower participation in the NWT commercial fishery, due, at least partly, to unfavourable pricing, especially in Canadian dollar terms. (The United States is the major market for Canada's freshwater fish, and sales there are transacted in US dollars.)

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 most other occupations. In the fiscal year ending June 30, 2006 (the international furriers' standard fiscal year), there were 695 active trappers throughout the NWT (fiscal 2005: 704 trappers), although not necessarily on a full-time basis. Pelts were harvested from a total of 21 separate species.

Total harvest in per pelt terms declined 44 per cent in fiscal 2006, from 42,491 pelts in 2005 to 23,967 pelts. However, improved pricing for important species and a change in harvest mix toward those species increased the value of the harvest 47 per cent, from $951 thousand to $1.4 million. This is the highest revenue going back at least to division in 1999.

In fiscal 2005, the 8,522 marten pelts harvested were a 20 per cent share by volume of the total pelt harvest; in fiscal 2006, the number of marten pelts harvested grew to 9,693, 40 per cent of the reduced total harvest. In addition, pricing for marten pelts increased 48 per cent from an average of $71 per pelt in fiscal 2005 to $105 per pelt in fiscal 2006.

Those species with the greatest price improvement in fiscal 2006, measured in terms of percentage change on a per pelt basis, were: weasel (up 170 per cent), squirrel (up 146 per cent) and fisher (also up 146 per cent). The greatest deteriorations in percentage terms in fiscal 2006 were: coyote (down 73 per cent), silver fox (down 32 per cent) and cross fox (down 15 per cent).

In per pelt terms, the most valuable species in fiscal 2006 were grizzly bear ($1,691 a pelt), arctic wolf ($221 a pelt) and tundra wolf ($207 a pelt). In previous years, the polar bear was included among the top three positions but no polar bears were recorded as harvested in fiscal 2006. In fiscal 2005, the top three most valuable pelts by species were grizzly bear ($1,181 a pelt), polar bear ($1,083 a pelt) and tundra wolf ($211 a pelt).

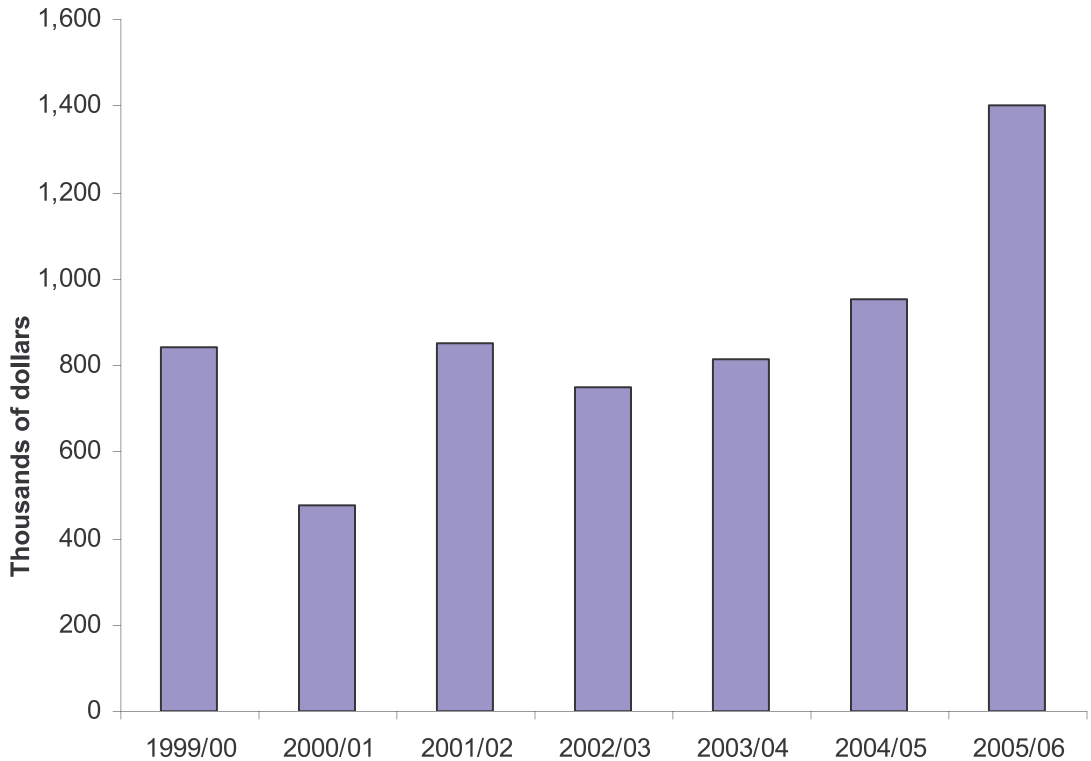
The least valuable pelts in fiscal 2006 were squirrel pelts with an average $2.64 per pelt. The squirrel pelt was also the least valuable pelt in fiscal 2005, averaging $1.08 a pelt.

Not one of the species with the most valuable pelts appears in the top three positions by total harvest value because the rarity of the animal limits the harvest and also increases the value of the pelt. Six grizzly bear pelts were harvested in fiscal 2006, compared to many thousands of marten and muskrat pelts.

In every year since at least fiscal 2003, marten and lynx were the greatest contributors by value to the total harvest, generating 73 per cent and 11 per cent, respectively, of total revenues. Third place in fiscal 2006 was beaver, at 4 per cent by value. In fact, most species contribute less than one per cent to the total harvest when measured in terms of the value of all pelts harvested.

The demand for NWT pelts hinges on trends in the unpredictable world of fashion, and therefore is beyond the control of local producers. On the supply side, the health of the northern ecosystem and sustainable harvesting practices among trappers, along with the willingness of trappers to ply their trade, are the chief determinants of the NWT's supply.

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



Source: GNWT Department of Industry, Tourism and Investment