Budget 2018-2019

Fiscal and Economic Indicators

Department of Finance

Government of Nunavut

May 2018

About This Document

The GN Department of Finance prepares this document using the latest data available at the time of writing, a few weeks ahead of the official release of the GN's Budget. Some information may change during the intervening period. If you have questions about the data we use, please contact us at info@gov.nu.ca.

Key Fiscal Indicators

The following indicators describe the fiscal situation of the Government of Nunavut (GN). Unless otherwise specified, figures are expressed in millions ($ M) and billions ($ B) of dollars, and include calculations of year-over-year change measured in percent (%) or percentage points (p.p.). Unless otherwise noted, we measure change against the Revised Estimates for last year, not last year's Main Estimates.

Revenues

Total Revenues — $2,176.5

2018-19; Non-consolidated — *+5.5%*

Total revenues are the total financial resources the GN raises and receives to fund its operations, investments, and other expenses. The GN expects to generate $2.18 B in 2018-19 through federal transfers, revenues from third-party agreements, taxes, and other own-source revenues, including revolving funds and prior-year recoveries. This marks an almost 6% or $113.7 M increase from the $2.06 B we currently forecast for 2017-18.

Federal Transfers — $1,670.9

2018-19; GN Finance — *+3.2%*

The GN receives fiscal transfers from the Government of Canada through various funding agreements and legislated arrangements. The largest of these, Territorial Formula Financing (TFF), will provide $1,578.8 M in 2018-19, or 3.2% more than last year. The TFF is an annual unconditional ('no strings attached') payment that recognizes territories, with our small economies and tax bases, are not able to raise enough taxes on our own to provide public services comparable to elsewhere in Canada. Other federal transfers include the Canada Health Transfer ($40.2 M), the Canada Social Transfer ($14.8 M), and a number of other arrangements through Health, Justice, and Family Services. Together, TFF and other federal transfers make up 76.8% of total GN revenues, 1.7 p.p. less than last year.

***Forecasting**: The GN updates its revenue forecast three times per year. We base these projections on the latest information available, but all models contain assumptions about trends that are not entirely predictable. We monitor the resulting forecast error and are constantly looking for ways to improve our results.*

Revenues From Third-Party Agreements — $275.8

2018-19; GN Finance — *+24.9%*

The GN receives revenues from the federal government and other organizations through agreements that set out specific requirements about how the GN must spend the money. These 'strings attached' revenues are different from revenues over which we have full control and can spend freely (e.g. transfers, taxes, etc.). The GN is budgeting to receive roughly $276 M from third-party sources in 2018-19. The Main Estimates and Capital Estimates include appendices that list the expected agreements. However, third-party revenues tend to be difficult to predict, as they are based on the funding choices, budgets, and timelines of outside funding organizations.

Taxes — $119.7

2018-19; GN Finance — *+2.7%*

The GN expects to raise almost $120 M in existing taxes in 2018-19, or $3.2 M higher than what we currently expect in 2017-18. Personal income ($33.4 M) and payroll ($29.8 M) taxes will be the largest contributors, both of which depend on the quantity and quality of jobs and wages in the territory. We expect tobacco tax revenue to grow only slightly in 2018-19 ($21.0 M), thanks in part to decreased consumption driven by higher tobacco tax rates. Taxes on property ($6.9 M) and fuel ($8.6 M) should remain near their 2017-18 values. So too should corporate income taxes ($17.9 M), which depend on the profits of locally-based firms. Together, taxes are expected to make up 5.5% of the GN's total revenues, almost equal to last year's share (5.6%).

	2018-19	2017-18(r)	2017-18	2016-17
Personal Income Tax	33.4	32.0	32.1	33.3
Corporate Income Tax	17.9	17.8	15.2	13.1
Payroll Tax	29.8	28.6	27.1	25.8
Tobacco Tax	21.0	20.8	17.5	17.8
Fuel Tax	8.6	8.6	12.0	9.3
Property Tax	6.9	6.7	6.3	6.3
Insurance Tax	2.1	2.0	2.3	1.9
Total	**119.7**	**116.5**	**112.5**	**107.5**

Revenues	Main Estimates 2018-19	Revised Estimates 2017-18	Main Estimates 2017-18	Actual 2016-17
TFF and Other Federal Transfers	1,670.9	1,618.7	1,625.6	1,568.4
Revenues From Third-Party Agreements	275.8	220.7	144.0	125.8
Taxes	119.7	116.5	112.5	107.5
Revolving Funds	35.0	43.6	42.0	51.9
Other Own-Source Revenues	60.1	48.3	44.0	43.5
Prior-Year Recoveries	15.0	15.0	13.0	14.8
Total Revenues	**2,176.5**	**2,062.8**	**1,981.1**	**1,912.0**

Territorial Tax-to-GDP Ratio — 4.1%

2018-19; GN Finance — *-0.1 p.p.*

One way to measure both the sophistication of an economy and the relative burden of a tax regime is the government's tax take as a share of total gross domestic product (GDP). In Nunavut we forecast the 2018-19 share at just over 4%, a low figure (Ontario's ratio, by comparison, is a little under 10%, while PEI is roughly 12% and Alberta 5%; nationally the ratio is 10%) that reflects the territory's small tax base and the high level of federal transfers that sustain government operations.

***Cannabis**: The federal government has announced plans to legalize cannabis across Canada by summer 2018, while leaving some specific decisions up to provinces and territories. The GN consulted with Nunavummiut on a range of cannabis-related issues. The GN intends to join Canada's national cannabis taxation regime, which the Canada Revenue Agency (CRA) would administer. The GN will budget for these new revenues as details of our distribution system and Canada's taxation regime emerge. As with other tax revenues, the Assembly will ultimately approve how the GN spends them through the usual budgeting process.*

***Fighting climate change**: In November 2016, Nunavut signed on to the Pan-Canadian Framework for Climate Change, which recognizes a carbon tax as an effective and efficient tool to help lower greenhouse gases. However, with no roads or an electrical grid, Nunavut's isolated communities rely year-round on flights for food and other necessary cargo, and depend on diesel for heat and electricity. The GN—along with the other territorial governments—have approached Canada to find ways to support the national goal of fighting climate change in ways that work for Nunavummiut and other Northerners.*

Revolving & Other Own-Source Revenues — $95.1

2018-19; GN Finance — *+3.4%*

Aside from taxes, the GN generates revenues in a number of other ways. In 2018-19, for example, we expect to collect $19.6 M in rent from GN employees in staff housing, and expect to collect another $40.5 M from a wide variety of miscellaneous revenues. Examples of revenues in this "other" category include money collected from licensing and service fees, penalties and fines, insurance proceeds, and interest revenues.

The GN also raises revenue through its revolving funds, and in particular the Petroleum Products Division ($28.1 M, net cost of goods sold) and Liquor Commission ($6.9 M net cost of goods sold). Revolving funds operate outside the GN's core operations, and–within certain limits set in law—keep the revenues they earn in one year to fund their own operations in the next year. The GN includes these revenues in the Main Estimates, and reports them each year in our year-end financial statements. However, because of their unique nature, the GN generally excludes them for planning purposes. In total, the GN expects to generate $95 M in other own-source revenues in 2018-19, a 3% increase from 2017-18.

Prior-Year Recoveries — $15.0

2018-19; GN Finance — *no change*

The GN expects to report about $15 M in usual prior-year recoveries in 2018-19. These recoveries are due to accounting adjustments and to money the GN recovers after spending it; for example, money related to refunds for purchases the GN returns. All recoveries, including unusual or one-time recoveries, are included in the Public Accounts.

Expenditures

Departmental Expenditures — $1,863.8

2018-19; GN Finance — *-9.8%*

The GN currently budgets $1.86 B worth of departmental spending (O&M plus capital) in 2018-19. This is the total amount the GN seeks to appropriate through its Capital Estimates and Main Estimates. Of this, $1,666.7 M will go to operations and maintenance (O&M) and $197.1 M to new capital projects.

O&M Spending by Region ($ M)

Headquarters	699.4
Qikiqtaaluk	478.2
Kivalliq	281.7
Kitikmeot	207.4

Operations wise, the GN is appropriating $34.1 M more for O&M than the $1,632.6 M included in the 2017-18 Revised Estimates. In both dollar and percentage change terms, the largest increase to departmental O&M budgets are for Economic Development, which will receive $86.6 M in 2018-19, $11.9 M more than last year's revised total (+15.9%); and Family Services, which will receive $153.2 M, up $13.5 M (+9.7%). For the remaining departments planned spending growth is much more modest; overall O&M growth is set for 2.1% in 2018-19.

In terms of capital, the 2017 territorial election interrupted the GN's normal planning cycle and divided the Capital Estimates into two parts: June 2017 ($35.5 M appropriated) and March 2018 ($161.6 M). Together this totals $197.1 M in new capital spending. While the 2018-19 figure appears to be a sharp decline from the $433.5 M appropriated in 2017-18, capital carryovers—capital spending that is pushed to future years, largely due to construction delays associated with the difficulty of building in the Arctic—and one-time charges for capital leases mean these two numbers are not perfectly comparable. The 2017-18 figure, for example, includes not only the $200.6 M appropriated for new capital in the 2017-18 Main Estimates, but also $109.2 M carried over from 2016-17 and $96.1 M in new building capital leases. The remaining $27.6 M went to supplementary capital projects. We expect a roughly similar amount for capital carryovers in 2018-19, which will ultimately push total 2018-19 capital appropriations higher.

Expenditures

	Main Estimates 2018-19	Revised Estimates 2017-18	Main Estimates 2017-18	Actual 2016-17
O&M Expenditures	1,666.7	1,632.6	1,565.7	1,547.9
Capital Expenditures	197.1	433.5	200.6	221.5
Departmental Expenditures	**1,863.8**	**2,066.1**	**1,766.3**	**1,769.4**
Net Change in Capital Assets*	25.9	(191.4)	(25.8)	(66.1)
Expenses Related To Revolving Funds*	35.3	34.5	33.9	31.8
Expenses Under Third-Party Agreements	275.8	220.7	144.0	120.0
Operations Expenses	**2,200.8**	**2,129.9**	**1,918.4**	**1,855.1**
Supplementary Requirements	30.0	0	40.0	0
Total Projected Expenses	**2,230.8**	**2,129.9**	**1,958.4**	**1,855.1**

**Projected values for net change in capital assets and expenses related to revolving funds are not published elsewhere. We publish final figures each year as part of Schedules B.1 and B.3 of the GN's non-consolidated financial statements. Net Change in Capital Assets is equal to capital spending minus current-year carryovers minus net transfers to capital assess plus amortization.*

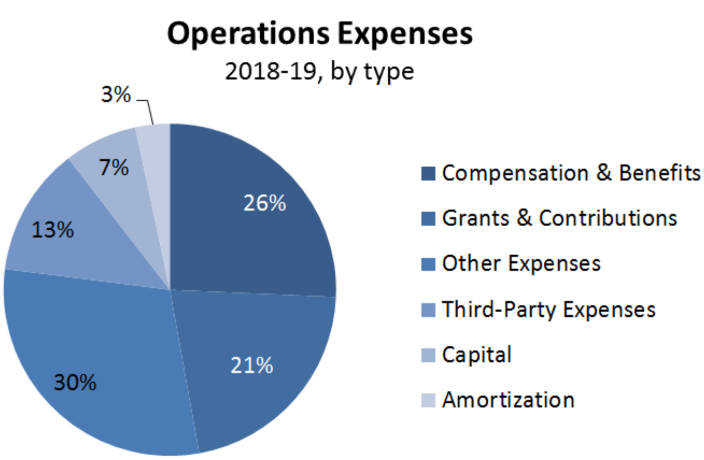
Operations Expenses — $2,200.8

2018-19; Non-consolidated — *+3.3%*

Operations expenses build on the core departmental expenditures for O&M and capital by adding other expenses that are not part of the GN's core appropriations to departments. These extra expenses include those related to operating the revolving funds ($35.3 M) and those made under third-party agreements ($275.8 M). As we spend this money on behalf of outside organizations we do not appropriate it in the same way as departmental spending.

Operations expenses also include the net change in capital assets, an adjustment related to how the GN accounts for the acquisition and consumption of capital assets, repayments on capital leases, and amortization. This adjustment fluctuates depending on plans for capital appropriations. As the GN often 'carries over' capital appropriations from one fiscal year to the next (recognizing that approval for multi-year capital projects extends until the project is complete, even if we do not spend money in a year as planned), this adjustment is finalized only when we prepare year-end financial statements.

On this basis, the GN expects operations expenses to total $2.2 B in 2018-19.



Supplementary Requirements — $30.0

2018-19; GN Finance — *-$10.0 ME*

The GN has set aside $30 M for contingencies in 2018-19. The GN uses these contingencies to help cover spending overruns by departments, and to add some fiscal cushion in case of revenue shortfalls, unforeseen events, and emergencies. Negative numbers indicate funding was lapsed by departments and therefore went unspent. Assuming the GN spends all $30 M in contingencies, we are projecting total expenses will come to $2,230.8 M in 2018-19, up from the revised figure of $2,129.9 M in 2017-18.

Financial Performance and Debt

Core Planning Deficit — -$28.1

2017-18; GN Finance — *+$20.7*

The GN currently projects a $28.1 M deficit in 2018-19. This deficit figure considers the "core" aspects of GN fiscal planning by setting aside revenues and expenses related to revolving funds, which operate separately from the GN's consolidated revenue fund. Similarly, this figure does not consider the expected adjustments related to changing net capital assets, mostly as these happen according to Canadian accounting rules rather than because of specific GN planning.

	2018-19	2017-18(r)
Total Revenues	$2,176.5	2,062.9
subtract: Revolving fund revenues	($35.0)	($43.6)
subtract: O&M appropriations	($1,666.7)	($1,632.6)
subtract: Capital appropriations	($197.1)	($200.6)
Plus: Airport Financing & Capital Additions	$0	($14.2)
subtract: Third-party agreement spending	($275.8)	($220.7)
subtract: Supplementary Requirements	($30.0)	$0
Core Planning Deficit	**-$28.1**	**-$48.8**

Operating Surplus (Deficit)

Summary of Operations

	Main Estimates 2018-19	Revised Estimates 2017-18	Actual 2016-17
Total Revenues	2,176.5	2,062.8	1,912.0
subtract: Operations Expenses	(2,200.8)	(2,129.9)	(1,855.1)
subtract: Supplementary Requirements	(30.0)	-	-
Projected Operating Surplus/(Deficit)	**(54.3)**	**(67.1)**	**56.9**

Operating Surplus/(Deficit) — ($54.3)

2018-19; Non-consolidated — *+$12.8*

As noted, the core planning deficit of $28.1 M excludes revolving funds and certain accounting adjustments. When we include these, the GN currently projects an operating deficit of about $54 M in 2018-19. This is the total amount the GN expects to spend over its projected revenues. The final figure will depend on how much of the contingency funding remains unused by the end of March 2018, how much money departments have left to lapse or carry over at the end of the year, and the final accounting charge related to capital assets. This number will be made available in the 2019 Public Accounts.

Projected Deficit-to-GDP Ratio — -1.9%

2018-19; Non-consolidated — *+0.6 p.p.*

We compare the size of the GN's projected operating surplus to the size of the economy (measured by nominal GDP) to help understand the government's fiscal health. Generally, the larger the ratio, the better the government's fiscal position. By contrast, a negative number indicates the government is in a net deficit position. Assuming the GN spends its $30 M contingency and economic growth occurs as forecast, we expect the GN's non-consolidated surplus-to-GDP ratio will be just under -2% in 2018-19, roughly half a percentage point better than the results expected for 2017-18.

Net Financial Assets — $23.9

2018-19; Non-consolidated — *-83.4%*

Net financial assets (or debt, when negative) measures the difference between how much the GN owes (our liabilities) and how much in liquid assets we have on hand to pay off these debts (our financial assets). This is why this measure is often called a government's 'future revenue requirements.'

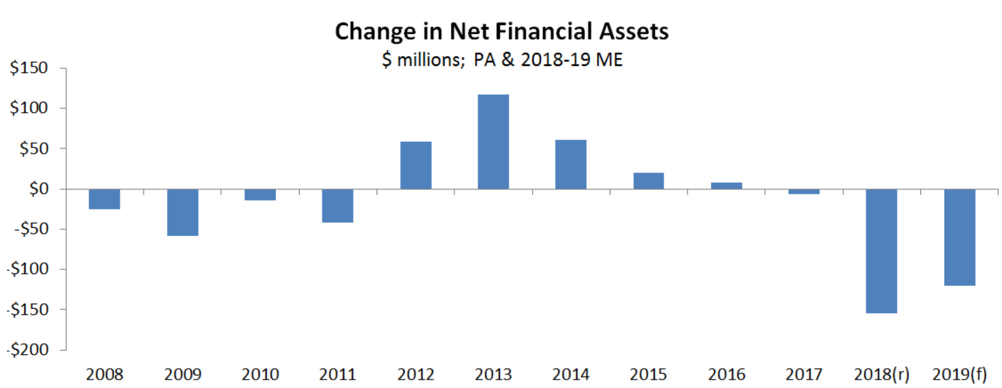
On top of the GN's operating deficit of $54.3 M, we expect to report a downward change to tangible capital assets of $65.6 M, based on accounting adjustments for capital acquisition (-$139.1 M) and amortization ($73.5 M). As a result of these and a few other smaller adjustments, the GN expects to reduce our net financial asset position by just over $120 M.

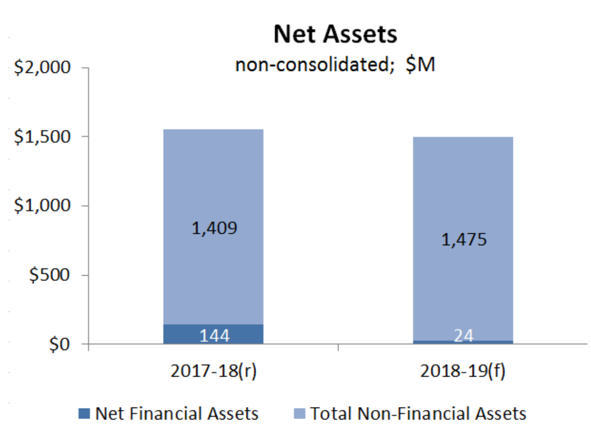
Even though net financial assets are declining, we still expect to end 2018-19 with an asset surplus: $23.9 M on a non-consolidated basis. This is equal to 0.8% of GDP.

Net Assets ('Accumulated Surplus') — $1,498.9

2018-19; Non-consolidated — *-3.5%*

Net assets is the total value of the GN's recognized economic resources. This figure considers the value of all GN assets, both financial (like cash) and tangible non-financial (like buildings, furniture, and vehicles), then subtracts the GN's total liabilities. This figure changes over time, and reflects all past operating surpluses and deficits, as well as all adjustments due to re-measurement. We expect the GN's net assets to decrease by $54.3 M in 2018-19 because of our operating deficit. We currently expect to end 2017-18 with net assets of about $1,620 M, and so are projecting a fall to just under $1,500 M by the end of 2018-19. Most of this net value is from the GN's tangible non-financial assets (such as hospitals and health centres, schools and tank farms), which means that while they make the GN's delivery of services possible, it would be difficult to realize this value on an open market.





***Continued Fiscal Uncertainty**: Although the strength of the Canadian economy surprised many observers in 2017, federal and provincial budget balances remain under significant pressure. Ontario, which only returned to surplus in 2017-18, is now expected to post a net deficit of $6.7 B in 2018-19. Alberta is expected to fare even worse, with a projected deficit of $8.8 B. Federally, budget deficits are expected to remain for the medium-term—though Ottawa has promised to keep reducing its debt-to-GDP ratio, which is currently projected at 30.1% in 2018-19. Meanwhile, the CBoC and others warn that provinces and territories face looming spending challenges as the Canadian population ages.*

Interest-to-Revenue Ratio (%) — 0.1%

2018-19, Non-consolidated; GN Finance — -1.0 p.p.

The interest-to-revenue ratio, also known as 'interest bite', measures how much of GN revenues are taken up by servicing the government's non-consolidated (that is, not including QEC or the Iqaluit airport project) debt. The combination of legislated debt restrictions, a history of low borrowing levels, a relatively high level of tied or third-party funding, and still-low interest rates keep Nunavut's ratio at 0.1% (based on $3.1 M in spending on capital lease and mortgage interest), down 0.1 p.p. from 2017-18. Federally, the figure is 8.1%.

Total Government Borrowing — $421.3

Mar 31, 2018; GN Finance — +27.3%

The Government of Canada limits how much debt the three territories can take on, including both actual borrowing and contingent liabilities. The GN's current borrowing limit is legislated at $650 M. As of March 31, 2018, total government borrowing was $421.3 M, leaving $228.7 M in available borrowing room. The GN uses most of its borrowing room to guarantee loans and credit facilities extended to the Qulliq Energy Corporation (QEC) ($164.6 M), the Iqaluit airport project ($134.3 M), and the Nunavut Housing Corporation ($9.2 M). The rest is made up of GN obligations related to capital leases ($95.4 M) and mortgages ($1.3 M), and the Nunavut Energy Management Program (NEMP, $4.9 M). The GN guarantees the QEC's bank overdraft facility ($11.6 M), and this counts against the debt cap as well.

The biggest driver of debt gain in 2017-18 was the acquisition of capital leases for the Legislative Building in Iqaluit and nine other office buildings around the territory, which added $71.9 M in debt. Going forward, the GN expects to spend $10.7 M on principal and interest repayments for capital leases and $0.5 M for mortgages in 2018-19. Another $1.6 M will be made in progress payments for the Iqaluit airport and $1.4 M for the NEMP.

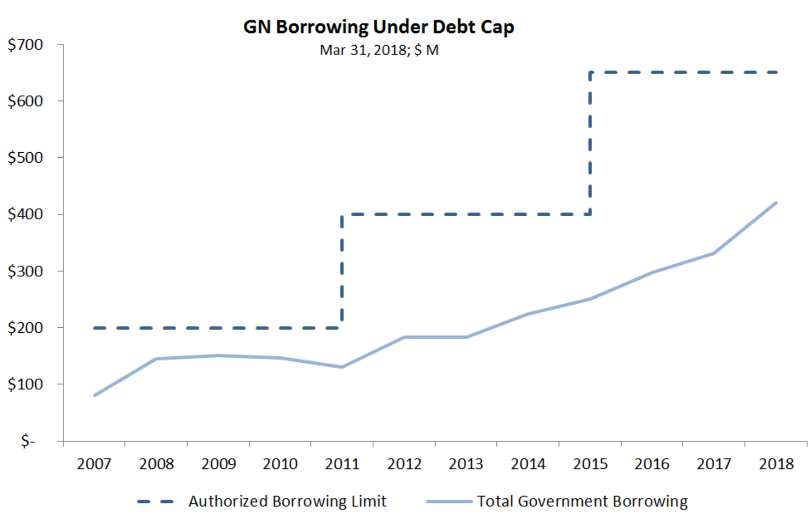
Credit Rating — Aa1

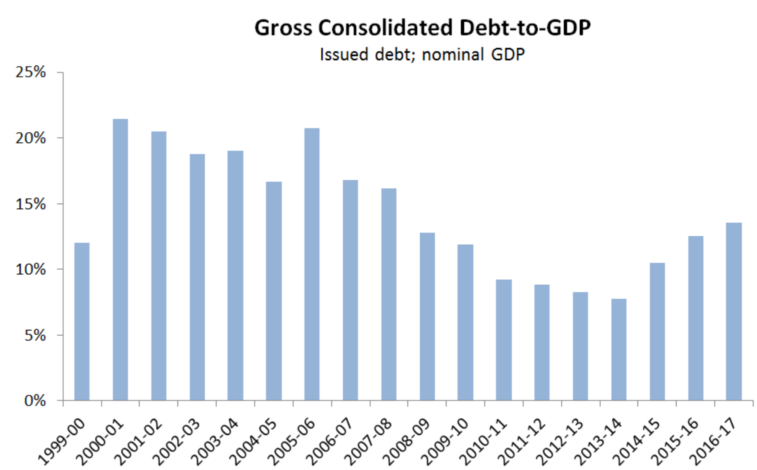
July 2017; Moody's Investor Services — stable

A government's credit rating is an evaluation of its credit risk, or how likely it will be able to pay back its debt in the future. Moody's Investors Service provides a yearly credit rating for the GN (and other governments within and outside of Canada). In July 2017 the GN was reissued a stable Aa1 credit rating, the second highest rating within Moody's scale. This reflects the GN's low risk of default and, assuming credit conditions do not change, suggests that the GN should expect to keep this rating as long as we maintain fiscal discipline. Nunavut's first credit rating was issued in August 2012.

Province/Territory	Moody's Credit Rating
BC	Aaa
Saskatchewan	Aaa
Nunavut	Aa1
NWT	Aa1
Alberta	Aa1
Manitoba	Aa2
Ontario	Aa2
Quebec	Aa2
New Brunswick	Aa2
Nova Scotia	Aa2
PEI	Aa2
Newfoundland	Aa3
Yukon*	Aa3

*Issued by Standard & Poor's, but converted to Moody's scoring.





Key Economic Indicators

The following indicators provide insight into the current state of Nunavut's economy and illustrate how it has evolved over time. We look to these trends to evaluate policy and to forecast future economic developments. Careful interpretation of the figures is required, however, as each indicator is accompanied by both strengths and weaknesses. All figures are subject to frequent revision by Statistics Canada and other agencies.

Nunavut's Economy

Nominal GDP — $2,933

2018 estimate; $ millions (CBoC) — +6.7%

Nominal gross domestic product (GDP) measures the total market value of all goods and services produced in a region. It is the broadest measure of economic activity. In February, the Conference Board of Canada (CBoC) projected Nunavut's nominal GDP will reach $2.9 B in 2018, $185 M (+6.7%) higher than their forecast for 2017. This forecast assumes construction continues at AEM's $1.1 B Meliadine and $400 M Amaruq gold projects, and that TMAC Resources' Hope Bay gold mine successfully ramps up production to full capacity. Construction at Sabina's $400 M Back River gold project may also get underway in 2018. Together, the mining industry produced roughly 376,000 ounces of gold and 4.2 million tonnes of iron in 2017, and is a key driver of Nunavut's economy. While several large-scale public projects were completed in 2017, including the Iqaluit Airport project and Canadian High Arctic Research Station (CHARS), work is anticipated to continue on the $84.9 M Iqaluit Port, with completion expected in 2020.

Real GDP — $2,255

2018 estimate; $ 2007 (CBoC) — +4.4%

Real GDP adjusts for inflation by reducing nominal GDP growth by the rate at which prices for goods and services grow from one year to the next, leaving prices 'constant.' Taking price changes out of GDP estimates provides a more accurate picture of how a territory's actual production or 'real income' evolves over time. The CBoC estimates that Nunavut's real GDP will grow by 4.4% (or $95.9 M) in 2018, coming in at roughly $2.3 B.

Real GDP Per Capita — $58,074

2018 estimate; $ 2007 (CBoC, GN) — +2.2%

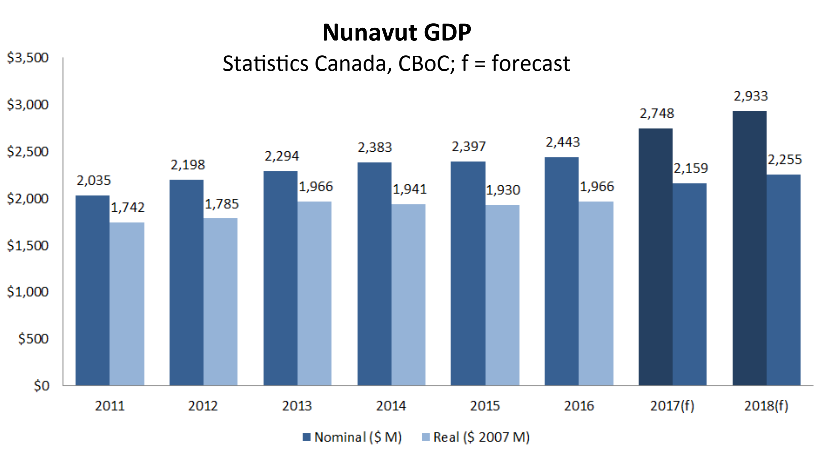
Real GDP per capita is calculated by dividing price-adjusted output by total population. We track output per person because average wealth is a good guide to overall living standards (though it does not speak to how wealth is distributed amongst the population). It is also a good indication of whether economic growth is keeping pace with Nunavut's rapid population growth. Under current population and GDP forecasts, we expect real GDP per capita to rise by a healthy 2.2% in 2018 (roughly $1,200 per person), to just under $58,100.

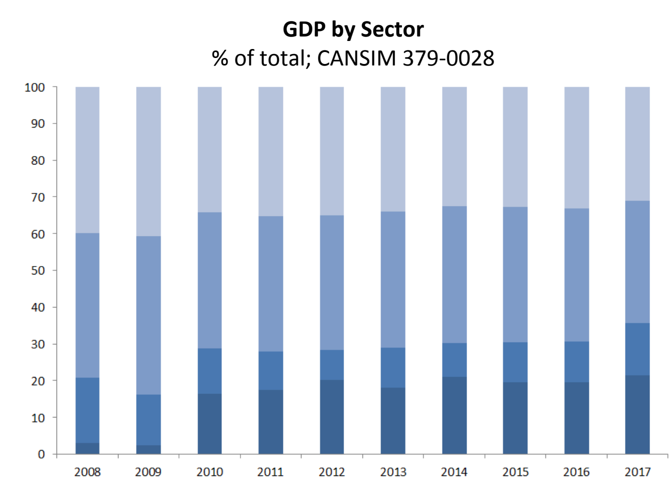
Government Share of GDP — 29.8%

2018 estimate; % share (CBoC) — -0.8 p.p.

Government share of GDP is the total economic activity of a government (incorporating the public administration, education, health care, and social assistance GDP sub-sectors) divided by the GDP of the area it governs. The public sector plays a large role in Nunavut's economy: the CBoC expects it to account for just under 30% of all goods and services produced in 2018. Although this is down almost a full percentage point from 2017, the economic activity of the federal government, by comparison, generally constitutes just under 20% of the national economy. Nunavut's share is high not only because of the high cost of providing public services in the far north, but also because the territory's private sector is so small.

***The Canadian Economy in 2018**: The International Monetary Fund (IMF) forecasts Canadian real GDP growth of 2.1% in 2018. This figure is 0.2 p.p. lower than their previous estimate, suggesting a slight downgrade of the country's economic prospects. In general, commodity prices continue to improve (oil, for example, now holds well above $60 per barrel, up from the $40 lows of 2014). This recovery, fueled in large part by strong global economic growth (the IMF forecast global growth of..*





...3.9%) and a relatively weak Canadian dollar, has lifted Canadian exports (up 5% in 2017). Following strong growth in 2017, provinces and territories reliant on the minerals and energy sector are expected to see another strong year in 2018. However, significant downside potential should add a note of caution to the forecast. Recent unilateral efforts by the US to re-negotiate the NAFTA free trade deal and impose tariffs on foreign goods threaten the stable trading order upon which Canada depends.

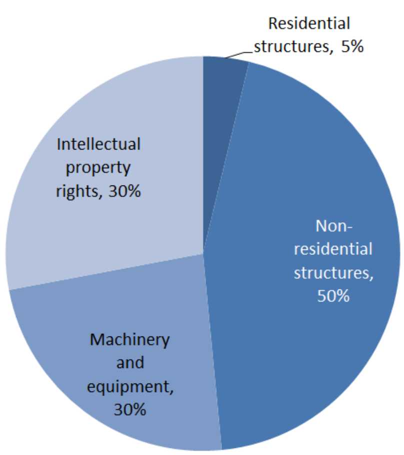
Business Investment in Capital — $570.0

2016 ($ 2007) ; Statistics Canada CANSIM 384-0038 — -5.9%

Business investment in capital refers to the total amount of private-sector capital investment in a given year. Businesses invested $570 M in Nunavut in 2016 (the latest year with available data), down 6% from revised figures for 2015. Most of the 2016 spending went to large investments in non-residential structures (down 2%, to $370 M), machinery and equipment (down 29%, to $87 M), and intellectual property (down 13%, to $169 M). Much of this spending was driven by continued investment in the natural resources sector, particularly construction at AEM's Medialine and Amaruq gold projects. Investment in residential structures declined slightly in 2016 (down 3% from 2015, to $29 M), worsening the territory's already tight housing supply. On top of this business investment, work at several large public projects continued in 2016—including the $300 M Iqaluit Airport and $142 M Canadian High Arctic Research Station (CHARS) in Cambridge Bay.

Share of Business Investment in Nunavut, 2016

(Statistics Canada)



Labour and Income

Population (July 1) — 37,996

2017; Statistics Canada CANSIM 051-0001 — +2.2%

We measure total population as of July 1 in a given year. Nunavut's population grew by roughly 914 people between 2016 and 2017, due largely to high birth rates (Nunavummiut women have on average three children over their lifetime, the highest rate in Canada and almost double the national average) offsetting modest inter-provincial migration (+104 in 2016-17). Nunavut remains Canada's youngest region, with about half of residents under 26 (the national median age is 41) and almost a third—roughly 11,700—under 15. Looking ahead, we expect total population to reach 38,833 by July 2018, and for most of this growth to take place in Iqaluit, Arviat, and Rankin Inlet.

Employment — 13,400

2017; Statistics Canada CANSIM 282-0123 (LFS) — -0.7%

Employment refers to the annual average of people holding a steady job. In 2017 there was an average of 13,400 people employed in Nunavut, 100 less than last year (-1.8%). This growth was significantly weaker than the national trend (1.9%, or 3.7 p.p. faster than Nunavut). Similarly disappointing is that Nunavut's employment rate (the share of population aged 15 and over who found at least some employment during the year) declined from 55.9% to 54.9% (nationally the rate is 61.6%). Looking at the latest year-over-year monthly figures, we find the decrease in employment was borne mainly by Inuit workers, as they account for the entirety of the 100 person loss between December 2017 and December 2016. These losses have only worsened the gap between Inuit (44.6%) and Non-Inuit (87.8%) employment rates.

Unemployment Rate — 14.6%

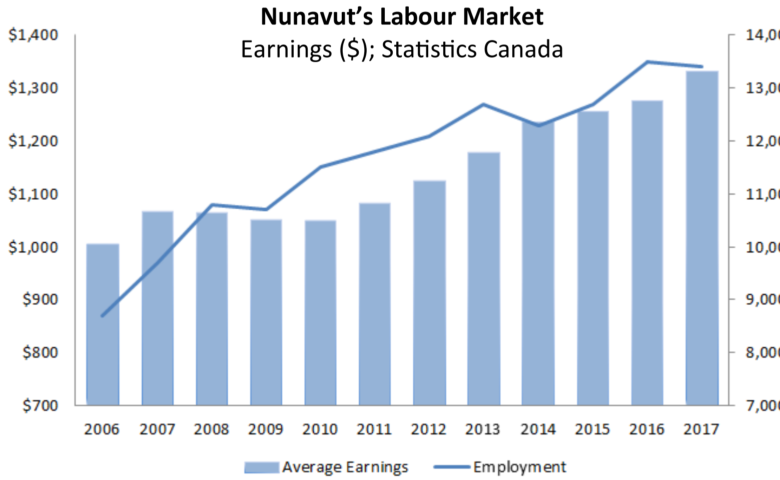
2017; Statistics Canada CANSIM 282-0123 (LFS) — -0.3 p.p.

The unemployment rate is the percentage of the labour force that is unemployed but actively seeking employment. In 2017 Nunavut's unemployment rate was 14.6%, down 0.3 p.p. from 2016. However, Nunavut's labour force participation rate (the share of Nunavummiut aged 15 and over actively seeking employment) fell by 1.3 p.p. in 2017 to 64.3%, which suggests the lower unemployment rate came primarily from jobless Nunavummiut giving up on the search for work.

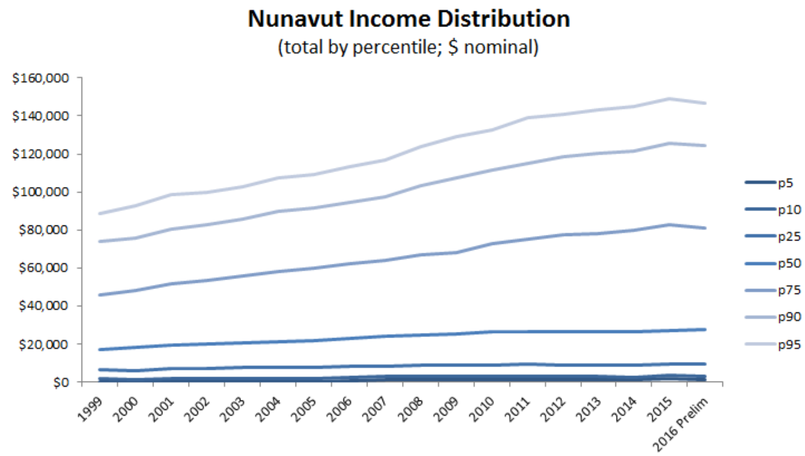
Average Weekly Earnings — $1,332

2017 Industrial; Statistics Canada CANSIM 281-0026 — +4.3%

According to the latest figures, average weekly earnings in Nunavut increased by roughly $55 (+4.3%) in 2017. Average wages in goods-producing industries like construction ($1,469/week) still outstrip wages in services ($1,218/week), though the gap has narrowed. The combination of fast wage growth and lower inflation means real earnings increased by 2.0%. As a result, the typical household was able to buy more goods in 2017 than the year before. Even more, wages in Nunavut remain above the Canadian average of $976 per week. This +36.6% differential is the result of a growing economy, a shortage of skilled labour, and the high cost of living in the north.



earned in the territory in 2016. This data shows that income in Nunavut is distributed highly unequally—a situation not entirely uncommon elsewhere in Canada. However, there are some important equalizers. First, Nunavut's progressive tax system means higher income earners pay more taxes: the top 10% of income earners paid 50.0% of Nunavut's total assessed personal income taxes in 2016 (-2.1 p.p. from 2015). Also, these figures do not include substantial non-income benefits for low earners, like subsidized public housing.



Total Income (tax filers) — $1,045.5 M

2016 T1 Preliminary; GN Finance — *+0.5%*

Total income comprises all income that tax filers in Nunavut report, including employment, social assistance, pensions, investments, and the profits of sole proprietors and business partnerships. Tracking total income gives us a sense of how much money is flowing to Nunavummiut. Though total income has increased steadily in recent years, 2016 saw growth slow. As of December 2017, the CRA had received 21,106 tax returns (+1.1% over the same period the year before) from Nunavummiut, who together report total income of about $1,046 M for 2016. We expect that this represents roughly 95% of all tax returns for 2016 and that once all late returns are filed total income for the year will equal roughly $1.1 B.

Median Income (tax filers) — $27,306

2016 T1 Preliminary; GN Finance — *+1.9%*

Median total income is the dollar amount that divides Nunavut taxpayers in two: half of all Nunavummiut reported earning less than this amount and half reported earning more. It shows how much a typical resident makes in a year and—unlike the average calculation—is not influenced by extremely high or low salaries. According to early tax data, median total income in Nunavut grew slightly in 2016 to roughly 27,300 (+1.9% from the same period in 2015). With total income growing at a slower rate than the median, we can infer that income gains in 2016 went primarily to lower -income earners.

Share of Total Income By Highest 10% — 33.4%

2016 T1 Preliminary; GN Finance — *-0.6 p.p.*

In 2016, the top 10% of income earners in Nunavut reported earning in excess of $124,327 each (up $1,628 from 2015). Together, these individuals reported earning roughly $348.8 M, which is one third of all income reported in the territory. By comparison, the lowest-earning 10% of tax filers reported total income of less than $2,901 each. Together, these individuals reported earning $2.7 M, which is less than 1% of all income

Income Assistance Recipients — 14,952

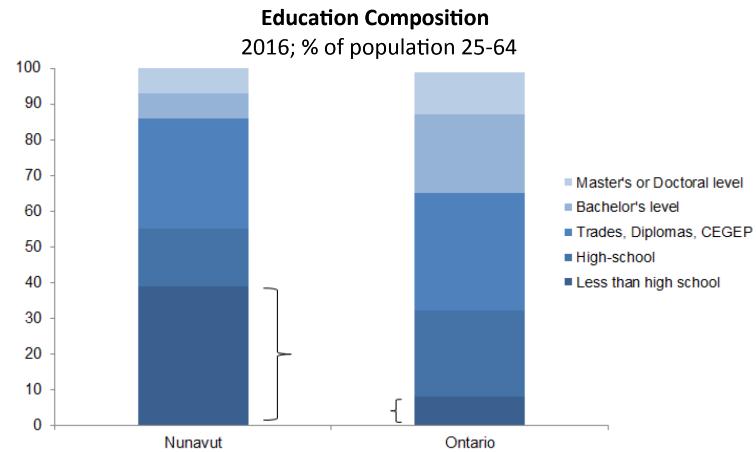
2017; GN Family Services — *+4.3%*

Income assistance consists of a variety of benefit programs (including social assistance, the senior citizens supplementary benefit and fuel subsidy, daycare subsidy, and the Nunavut Child Benefit) that provide various levels of financial assistance to people aged 18 or over and their dependents. In 2017, the latest year available, almost 15,000 Nunavummiut in 6,438 households (roughly 40% of the territory's population, up 1.0 p.p. from 2016) received a payment through this program. Total payments equaled $42.3 M, with an average payment per family of $6,575 (up 21% from 2016).

High School Graduation Rate — 41.7%

2016, Gross figure; NBS — *+7.7 p.p.*

The high school graduation rate is calculated by dividing the number of high school graduates in a given year by the number of all students eligible to graduate. Low high school retention is one of the biggest challenges faced by the Nunavut economy. In the latest data available (2016), the share of 17-18 year-old Nunavummiut graduating from high school increased by almost 8.0 p.p. This improvement reflects a slightly smaller cohort of graduation-aged students, but a jump from 208 to 252 total graduates. For comparison, the national high school completion rate is 88%.



Other

Bank of Canada's Overnight Rate — 1.25%

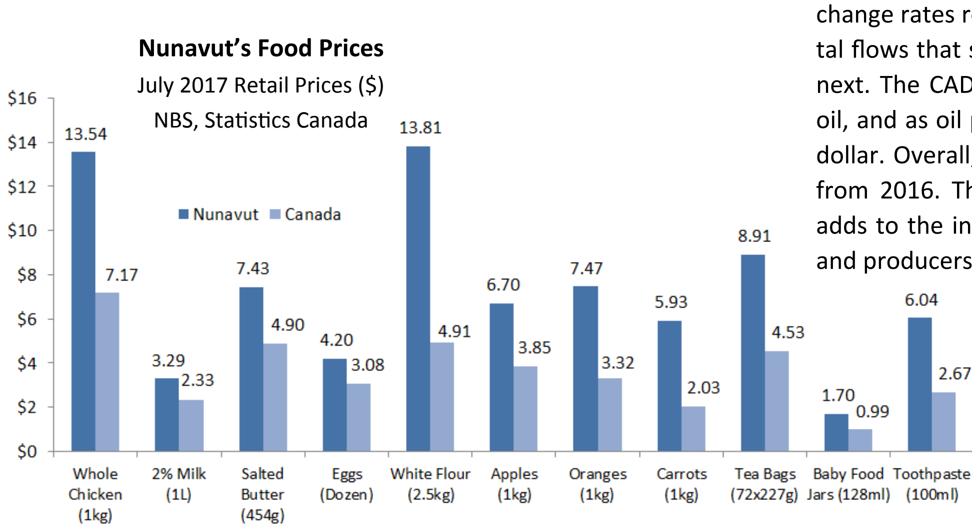
Jan 2018; Bank of Canada — *+0.75 p.p.*

The Bank of Canada's overnight rate is the rate at which it lends to large banks and other key financial institutions. It affects the interest rates for mortgages, lines of credit, and business loans. With the Canadian economy growing faster than expected in 2017, the Bank of Canada has steadily increased interest rates as a response to rising inflation. The overnight rate has increased from its very low level of 0.5% in early 2017 to 1.25% in January 2018. This upward trend may continue in 2018, should the country's relatively strong economic growth and associated price increases persist.

Consumer Price Index, Iqaluit — 125.4

2017 (2002 = 100); Statistics Canada CANSIM 326-0020 — *+1.6%*

The consumer price index (CPI) measures inflation, the change in price of a standard 'basket' of consumer goods and services over time. Prices grew slightly in 2017, increasing by 1.6%, which matches the Canadian average. Since 2003, annual CPI growth in Iqaluit has averaged 1.5%. As CPI data exist only for Iqaluit, we do not know how quickly prices are changing in other communities. Also note that CPI does not measure price levels, just how quickly they change. Prices for many goods are already extremely high in Nunavut relative to the rest of the country given the territory's steep energy and transportation costs, as well as limited market competition.



Nunavut Food Price Basket — 171.0

2017; NBS, Statistics Canada CANSIM 326-0012 — *-1.1%*

The Nunavut food price basket, developed by the Nunavut Bureau of Statistics (NBS), measures the price of 24 select food items across the territory. While CPI is a useful measure of how prices change over time it does not measure the cost difference between goods sold in Nunavut and those in southern Canada. With the Nunavut food price basket, the prices of key goods in the territory can be compared with other jurisdictions. Thanks largely to lower fuel costs—making the transport of goods to the high arctic more affordable— and federal subsidies, the cost of basic necessities fell in 2017 by roughly 1%. Still, prices still remain high: as an example, Nunavummiut pay roughly twice the Canadian average for apples and oranges, and three times the Canadian average for carrots and flour.

Average Monthly Rent, Iqaluit — $2,542

2016, Social housing excluded; CMHC — *+1.2%*

The Canada Mortgage Housing Corporation (CMHC) found that monthly average rent in Iqaluit—the only community in Nunavut with available data—rose 1.2% in 2016 to $2,542, with social housing excluded. Broken down by unit size, average rent was $2,211 for a one-bedroom, $2,597 for a two-bedroom, $2,981 for a three-bedroom, and $3,575 for a four-plus bedroom apartment. The total universe of rented units grew to 2,137 (up 3.8%). The median residential sale price reached $550,000 (up 4.9%), with a increase in the price of single-detached units. With land available for development so short in Iqaluit, total permit activity declined again in 2016, from 65 to 54 (-17%). Permits issued have declined every year since 2013. However, there are plans underway to extend the Road to Nowhere community, with a focus on multi-family units. This should bring some relief to developers and home buyers in the medium term.

CAD-USD Exchange Rate — $0.77

2017; Bank of Canada (annual average) — *+$0.02*

The CAD-USD exchange rate is the amount in American dollars (USD) that one can buy with one Canadian dollar (CAD). Exchange rates reflect trade and, just as importantly, volatile capital flows that seek out the best return from one country to the next. The CAD has in recent years closely tracked the price of oil, and as oil prices stabilized in 2016, so too did the Canadian dollar. Overall, the CAD averaged $0.77 US in 2017, up 2 cents from 2016. This makes imports slightly less expensive, which adds to the international buying power of Nunavut consumers and producers.

***Commodity Prices**: 2017 proved to be a stronger-than-expected year for global commodities, with prices for both oil and metals staging strong rebounds. Yet prices remain well down from their 2014 peak. This slow-down has contributed to shrinking exploration budgets for both senior and junior mining firms. Preliminary 2017 figures for Nunavut have mineral exploration spending falling by 23%, to $156.7 M. While mineral claims and leases both climbed (to 3,699 and 487, respectively), the number of prospecting permits issued in 2017 fell from 124 to just 78 (-37%). Looking ahead, the World Bank forecasts slight improvement in the energy sector and a decline in iron ore prices to be offset by improvement in base metals, including lead, nickel, and zinc. Gold prices may retreat slightly, depending on how high the Federal Reserve raises interest rates to cool down inflation. Agricultural commodities are expect to remain stable.*

Commodity Price Index: Metals & Minerals 560.6

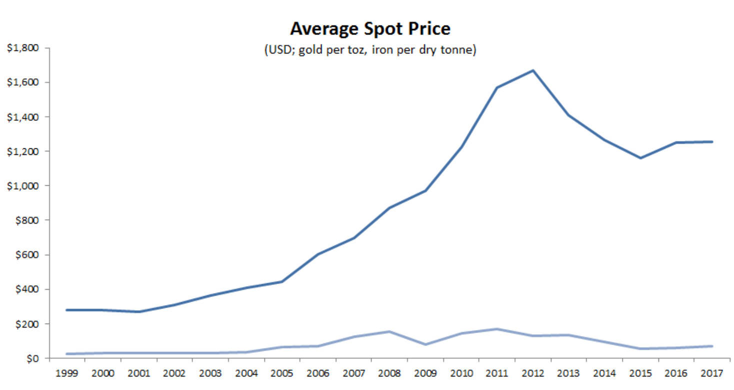
2017; Bank of Canada *+8.4%*

The Bank of Canada tracks the USD spot or transaction prices of 26 commodities produced in Canada and sold in world markets. The value of the Bank's Metals and Minerals Index increased 8% in 2017, ending a five-year run of steady price declines (down 34% since 2011). Also rebounding was the energy sector, which saw the Bank's energy index jump 25% in 2017—after falling 53% between 2014 and 2016. We expect the commodity recovery to remain modest in the medium-term, as relatively robust global growth continues to be offset by what appears to be a substantial shift in the Chinese economy away from commodity-intensive industries like steel and tire production.

Total Mineral Production $844.4

2017 preliminary ($ M); Natural Resources Canada *+20.6%*

Total mineral production is the total value generated by mineral extraction in Nunavut in a given year. The 2017 preliminary value was $844.4 M, up 21% from 2016. Of this, $594 M came from gold production (11,232 kilograms produced, down 4.7%) and $249.7 M from iron (2,647 tonnes produced). Across Canada total mineral production decreased slightly in value by -4.4%, to $43.9 B (giving Nunavut a 1.9% national share). The growth in Nunavut reflects the new production from TMAC's Hope Bay gold mine, as well as strong results from AEM's Meadowbank gold and Baffinland's Mary River iron mines.



Gold Price $1,258 USD

2017; USD/troy oz (IndexMundi) *+0.7%*

The price of gold averaged $1,258 US per troy ounce in 2017, up 0.7% from 2016. In early 2018 the price has traded even higher, at over $1,300 per ounce. The precious metal is currently mined in Nunavut at AEM's Meadowbank and TMAC's Hope Bay, and there is further potential near-term projects at AEM's Meliadine and Sabina's Back River. Over the last five years the price of gold has remained remarkably stable, a key reason for the strong growth in Nunavut's mining sector.

Iron Ore Price $72 USD

2017; USD/dry ton (IndexMundi) *+22.5%*

The price of iron ore averaged $71.76 per dry ton in 2017, a 23% rise from 2016. However, many analysts predict a price decline for 2018 and 2019, as global supply increases and Chinese demand continues to slow. In Nunavut, Baffinland's proposal to increase production at its Mary River mine through the introduction of a railway and increased ocean shipping received positive news from the Nunavut Planning Commission (NPC). The NPC recommended that the territory's Land Use Plan be amended to allow a railway running between Mary River and Milne Inlet, as well as open-water-only marine transport through Eclipse Sound to Baffin. This proposal can now enter the Nunavut Impact Reveiw Board (NIRB) process for review.

Uranium Price $22 USD

2017; USD/pound (IndexMundi) *-15.5%*

Persistently low uranium prices prompted a number of high-profile supply cuts in 2017. Cameco, one of the world's largest uranium producers, announced plans to suspend production at its McArthur River mine and Key Lake milling operations by the end of January 2018. Another major producer, the Kazakh firm Kazatomprom said it would reduce uranium output by 20% over the next three years. Yet these supply cuts failed to stop uranium's downward trend. The commodity averaged $21.66 in 2017, down 15.5% from 2016. The mining firm Areva stated in 2015 that uranium prices are so low that it could be up to two decades before its Kiggavik property in the Kivalliq region becomes viable.

Diamond Prices 100.1

2017; FRED Export Price (Dec 2013 = 100) *-5.6%*

Diamond prices declined again in 2017, down almost 6% according to the Federal Reserve's index of export prices. New production—including NWT's massive Gahcho Kue project, which opened in late 2016—outpaced demand growth, placing pressure on global prices. In February 2018, Peregrine Diamonds upgraded its promising 315,123-hectare Chidliak project, located approximately 120 kilometres north-east of Iqaluit, to over 20 million carats inferred at two sites.

Key Fiscal Indicators

Key Fiscal Indicators	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	*2017-18(r)*	*2018-19*(f)
Revenues			*($ millions unless otherwise noted)*					
Federal Transfers	**1,363.1**	**1,465.2**	**1,576.6**	**1,618.2**	**1,659.7**	**1,694.3**	***1,839.4***	***1,946.7***
Territorial Formula Financing	1,175.3	1,273.5	1,350.4	1,409.1	1,454.2	1,488.6	*1,529.9*	*1,578.8*
Transfers Under Third-Party Funding Arrangements*	111.5	112.1	138.7	126.8	122.2	125.8	*220.7*	*275.8*
Other Federal Transfers	76.3	79.6	87.5	82.3	83.3	79.9	*88.8*	*92.1*
Own-Source Revenues	**150.1**	**154.8**	**177.6**	**177**	**202.2**	**217.7**	***223.4***	***229.8***
Taxes	77.8	84.2	92.4	96.4	107.8	107.5	*116.5*	*119.7*
Revolving Funds (Net CoGS)	27	20.1	25.3	26.3	33.1	51.9	*43.6*	*35.0*
Other Own-Source	34.2	37.2	50.6	41.5	45.4	43.5	*48.3*	*60.1*
Recovery of Prior Years' Expenditures	11.1	13.3	9.3	12.8	15.9	14.8	*15.0*	*15.0*
Total Revenues	**1,513.1**	**1,620.1**	**1,754.2**	**1,795.3**	**1,862.0**	**1,912.0**	***2,062.8***	***2,176.5***
Share of Federal Transfers (%)	82.7	83.5	82.0	83.1	82.6	82.0	*78.5*	*76.8*
Tax-to-GDP Ratio (%)	3.8	3.8	4.0	4.0	4.5	4.4	*4.2*	*4.1*
Expenditures								
O&M	1,202.0	1,273.2	1,349.5	1,397.2	1,481.6	1,547.9	*1,632.6*	*1,666.7*
Capital	128.4	90.9	183.6	231.4	223.9	221.5	*433.5*	*197.1*
Departmental Expenditures	**1,330.4**	**1,364.1**	**1,533.1**	**1,628.5**	**1,705.5**	**1,769.4**	***2,066.1***	***1,863.8***
Net transfer to capital assets	-9.2	-8.9	-79.6	-99.0	-88.4	*-66.1*	*-191.4*	*25.9*
Expenses for revolving funds & other	25.5	33.5	27.9	27.1	30.4	31.8	*34.5*	*35.3*
Expenses related to third-party agreements	111.5	109.3	124	129.8	115.4	120.0	*220.7*	*275.8*
Supplementary Requirements & Contingencies	0	0	0	0	0	0	*0*	*30.0*
Total Projected Expenses	**1,458.2**	**1,498.0**	**1,605.5**	**1,686.4**	**1,763.0**	**1,855.1**	***2,129.9***	***2,230.8***
Yearly Surplus (Deficit), Public Accounts Basis	**54.9**	**122.1**	**148.7**	**108.9**	**99.0**	**56.8**	***-67.1***	***-54.3***
Expenditures / person ($)	42,642	43,161	45,335	46,757	48,158	49,900	*56,065*	*57,735*
Expenditures / GDP (%)	71.7	68.2	70.0	70.8	73.5	75.9	*77.5*	*76.1*
Capital spending as share of total (%)	8.8	6.1	11.4	13.7	12.7	11.9	*20.4*	*8.8*
Health spending as share of total (%)**	22.8	24.2	20.6	21.0	20.7	20.6	*19.6*	*18.6*
Education spending as share of total (%)	15.8	16.2	12.9	12.7	12.9	12.9	*13.0*	*11.4*
Projected Surplus / GDP (%)	2.7	5.6	6.5	4.6	4.1	2.3	*-2.4*	*-1.9*
Net Financial Assets (end of year)	21.9	215.3	275.8	295.4	303.5	297.4	*144.3*	*23.9*
Net Financial Assets (end of year) / GDP (%)	1.1	9.8	12.0	12.4	12.7	12.2	*5.3*	*0.8*
Interest Costs / Total Revenues (%)	0.3	0.3	0.2	0.2	0.2	0.2	*0.2*	*0.1*
Government Borrowing	182.2	187.1	225.0	250.8	301.1	331.2	*421.3*	-
Credit Rating	-	-	Aa1 stable	Aa1 stable	Aa1 stable	Aa1 stable	Aa1 stable	-

*Notes: *The GN receives a small share of third-party revenues (1.5% in 2016-17) from parties other than the Government of Canada. While we report these non-federal amounts separately in the year-end financial statements, we combine them here for budgeting presentation purposes.*

***Changes to GN departments in 2013-14, notably the creation of the Dept. of Family Services, mean that health spending as a share of total spending is not strictly comparable between 2012-13 & later, and 2011-12 & prior. Numbers in italics indicate forecast; empty cells indicate no data or forecast for that year.*

Key Economic Indicators	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	***2017r***	***2018f***
Gross Domestic Product								
Nominal GDP (expenditure-based, $ millions)	2,035	2,198	2,294	2,383	2,397	2,443	2,748	*2,933*
Real GDP (basic prices, $ 2007 millions)	1,745	1,784	1,969	1,941	1,930	1,966	2,159	*2,255*
Real GDP per person (basic prices, $ 2007)	51,029	51,402	57,215	53,816	52,721	52,882	56,831	*58,074*
Government Share of GDP (actual, %)	35.7	35.3	32.5	33.8	34.9	34.9	30.6	*29.8*
Business Investment in Capital ($ 2007)	744	641	878	574	606	570	-	-
Population & Labour								
Population, July 1 (# of people)	34,196	34,707	35,414	36,067	36,608	37,177	37,996	*38,833*
Employment (# of people employed)	11,800	12,100	12,700	12,300	12,700	13,500	13,400	-
Unemployment Rate (%)	17.1	15.6	14.0	13.8	15.9	14.9	14.6	-
Employment rate (% of people aged 15+)	54.8	54.8	56.5	53.1	53.2	55.9	54.9	-
Participation Rate (%)	66.1	65.0	65.8	61.5	63.2	65.6	64.3	-
Average Weekly Earnings ($)	1,081	1,125	1,177	1,237	1,256	1,277	1,332	-
Total Income (taxfiler, $ millions)	934.7	974.4	1,020.6	989.3	1,040.1	1,045.5	-	-
Median Total Income (taxfiler, $)	26,566	26,576	26,145	26,098	26,798	27,306	-	-
Share of Total Income by Top 10% (%)	33.5	33.7	34.7	34.0	34.0	33.4	-	-
Income Assistance Recipients	13,197	13,797	14,578		14,428	14,337	14,952	-
High School Gross Graduation Rate (%)	33.9	34.9	32.5	31.6	33.7	41.7	-	-
Monetary Trends								-
Bank of Canada Overnight Interest Rate (%)	0.9	0.9	0.9	0.9	0.6	0.5	0.7	*1.25*
Consumer Price Index, Iqaluit (2002=100)	113.4	115.3	116.6	118.1	120.4	123.4	125.4	*128.0*
Nunavut Food Price Basket (24 items)	-	-	155.66	157.35	165.31	172.9	171.0	-
Average Monthly Rent, Iqaluit (Excl. Social)	2,324	2,335	2,417	2,462	2,511	2,542	-	-
CAD-USD Exchange Rate	1.01	1.00	0.97	0.91	0.78	0.75	0.77	-
Commodities								-
Bank of Canada Metals & Minerals Index	787.3	756.6	633.2	600.6	535.1	503.9	560.6	-
Total Mineral Production ($'000s)	427,322	614,441	629,041	636,424	644,165	700,094	844,426	-
Gold Price (*USD/troy oz; annual avg)*	1,569	1,669	1,411	1,266	1,160	1,249	1,258	-
Iron Price (*CFR Tianjin port; USD/dry ton; annual avg)*	168	129	135	97	56	59	72	-
Uranium Price (*USD/pound; annual avg)*	56	49	39	33	37	26	22	-
FRED Diamond Export Price Index (*Dec 2013 = 100)*	-	-	100.0	108.4	106.1	105.0	100.1	-