Fiscal and Economic Update

THE Economic Review 2018

Newfoundland Labrador

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East Coast Trail

GDP and Employment, by Industry

	GDP 2016e		Employment 2017	
	$ Millions	% of Total	Person Years, 000s	% of Total
Goods-Producing Sector	**11,854.7**	**41.5**	**46.8**	**20.9**
Agriculture, Forestry & Logging	193.9	0.7	3.0	1.3
Fishing, Hunting & Trapping	340.8	1.2	2.9	1.3
Mining	1,828.5	6.4	2.8	1.2
Oil Extraction	3,776.2	13.2	3.0	1.3
Support Activities for Oil and Mining	542.8	1.9	2.3	1.0
Manufacturing	1,129.4	4.0	9.1	4.1
Fish Products	352.2	1.2	2.5	1.1
Other	777.3	2.7	6.6	2.9
Construction	3,431.2	12.0	20.7	9.2
Utilities	611.9	2.1	2.9	1.3
Services-Producing Sector	**16,738.3**	**58.5**	**177.4**	**79.2**
Wholesale Trade	674.8	2.4	4.6	2.1
Retail Trade	1,687.0	5.9	36.2	16.2
Transportation & Warehousing	897.8	3.1	11.3	5.0
Finance, Insurance, Real Estate & Business Support Services	4,471.9	15.6	13.3	5.9
Professional, Scientific & Technical Services	743.4	2.6	9.8	4.4
Educational Services	1,669.8	5.8	15.2	6.8
Health Care & Social Assistance	2,447.6	8.6	39.4	17.6
Information, Culture & Recreation	803.5	2.8	6.5	2.9
Accommodation & Food Services	577.6	2.0	14.8	6.6
Public Administration	2,238.8	7.8	15.1	6.7
Other Services	526.1	1.8	11.3	5.0
Total, All Industries	**28,593.0**	**100.0**	**224.1**	**100.0**

e: estimate

Note: GDP is expressed at basic prices, measuring payments made to the owners of factor inputs in production. This differs from GDP at market prices. The difference is attributable to taxes less subsidies on products and imports. Industry components may not sum to total due to independent rounding.

Source: Statistics Canada; Department of Finance

Artist rendition of Gordie Howe International Bridge connecting Windsor, Ontario and Detroit, Michigan

Global Economic Environment

Global

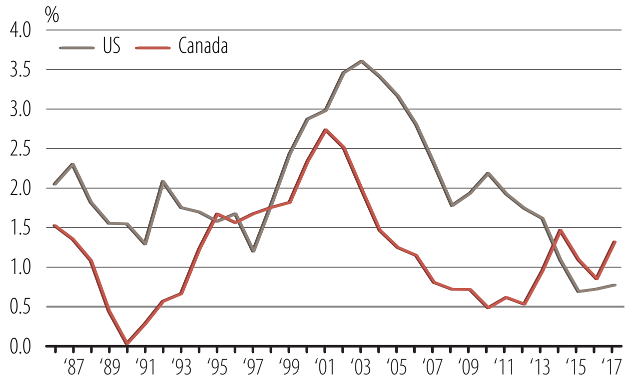
Global economic growth in 2018 remains largely on track with International Monetary Fund (IMF) projections from earlier this year, with a minor downward revision. This revision reflects the negative impact of escalating trade disputes, a weaker outlook for some developing countries and higher oil prices.

Growth in advanced economies rebounded last year with real GDP rising by more than 2.0% in most major economies, including the United States (U.S.) and the European Union (EU). This pace is continuing in 2018. Recent growth in the euro area has been stronger than in preceding years and is broad-based across member countries. However, concerns over the upcoming Brexit, and the new Italian Government's budget—which goes against EU deficit rules—cloud the outlook for the EU economy. Economic growth in China, the largest developing country, continues to edge lower as its economy undergoes rebalancing. Nonetheless, industrial production remains strong, reflecting the rebound in global demand, and domestic demand continues to be supported through credit growth. Commodity exporting countries that were previously hard hit by the sharp decline in the price of several industrial commodities are now recovering. The largest two, Brazil and Russia, both recorded real GDP growth in 2017, the first time in three years, and are poised for further growth in 2018.

For several advanced economies, inflation remains subdued despite a decrease in unemployment. However, growing wages and anticipation of future inflation have prompted several central banks to begin reining in loose monetary policies left over from the 2008/09 recession. The Federal Reserve in the U.S. began gradually raising its target rate in December 2015, while the Bank of Canada initiated this process in 2017. The Bank of England has also followed suit. Meanwhile, the European Central

Labour Productivity Growth

(five year moving average)



Source: U.S. Bureau of Labor Statistics; Statistics Canada; Department of Finance

Bank will maintain its asset purchase program through the end of the year, although at a reduced pace, and will hold rates at current levels until at least the summer of 2019.

With labour markets approaching full employment in several advanced economies, further growth will become increasingly reliant on productivity gains, which remain limited since the 2008/09 recession (see chart). Commodity markets also remain a source of downside risk. The IMF projects real GDP growth of 3.7% for the world in 2018, 2.4% for advanced economies and 4.7% for emerging market and developing economies. The global projection for 2019 is also 3.7% (see table).

United States

U.S. economic growth has been steady but moderate in recent years. Real GDP increased by 2.2% in 2017, slightly above the 2.1% average rate observed since 2010. In 2018, second and third quarter GDP growth was well above the 3.0% mark.

Consumer spending accounts for about two thirds of U.S. economic activity. Real consumer spending increased by 3.8% and 4.0% in the second and third quarters of 2018, respectively, stimulated by elevated spending in durable goods. Other aspects of consumer spending also grew, with nondurables

Real GDP Growth (%)

	2017e	2018f	2019f
World	3.7	3.7	3.7
Brazil	1.0	1.4	2.4
India	6.7	7.3	7.4
Russia	1.5	1.7	1.8
China	6.9	6.6	6.2
Canada	3.0	2.0	2.0
United States	2.2	2.8	2.8
Japan	1.7	1.1	0.9
Australia	2.2	3.2	2.8
European Union	2.7	2.2	2.0
United Kingdom	1.7	1.4	1.5
Euro Area	2.4	2.0	1.9
Ireland	7.2	4.7	4.0
Germany	2.5	1.9	1.9
France	2.3	1.6	1.6
Italy	1.5	1.2	1.0
Spain	3.0	2.7	2.2
Portugal	2.7	2.3	1.8
Greece	1.4	2.0	2.4

e: estimate; f: forecast
Source: Various, available upon request

and services growing at a faster pace than during the last two years.

Real private non-residential investment increased by 8.6% and 6.9% in the second and third quarters of 2018, respectively. On the other hand, residential investment did not fare as well, decreasing in both quarters and dragging overall private investment down. Residential growth appears to be restrained by rising home prices. Higher material prices (notably lumber), shortages in buildable lots and skilled labour, and lower house inventories have all contributed to the price growth. Mortgage interest rates are also rising, although they remain low by historical standards.

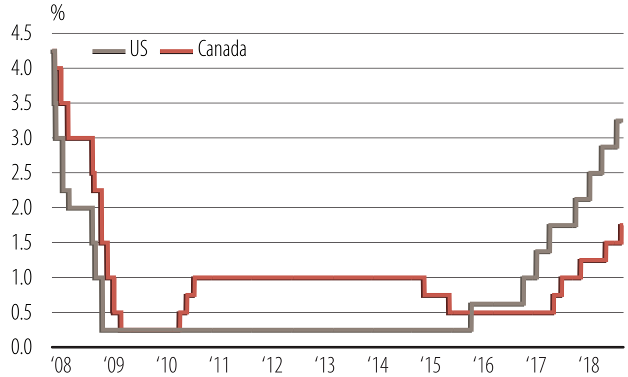
The unemployment rate reached its lowest point since 1969 at 3.7% in September 2018 (seasonally adjusted). Monthly employment (seasonally adjusted nonfarm payrolls) reached 149.5 million in September 2018, a historical record following an uninterrupted upward trend for several years.

The United States has recently initiated several protectionist trade measures, partly explaining a slight downward revision to the global growth forecast of the IMF. In March 2018, global tariffs of 25% on steel and 10% on aluminum were imposed. Several countries, including Canada, responded with retaliatory tariffs. On another front, trade skirmishes with China have been intensifying. The United States' contention is that China continues to benefit from asymmetrical terms of trade in the form of large subsidies and state-owned enterprises, forced technology transfers and local content requirements. Late last year, the U.S. formally opposed China gaining the status of market economy at the World Trade Organization—a status that if granted would rule out several anti-dumping duties on Chinese goods. The U.S. followed up with several announcements of tariffs on Chinese goods beginning in January 2018. China responded to each announcement with tariffs on similar amounts of U.S. goods.

Despite the ongoing trade disputes, the U.S. economy continues to perform well. With the unemployment rate at a 49-year low, inflation above 2% and wage growth near 3%, fears that the economy will become overheated are being expressed by many economists. Following its inflation targeting mandate, the Federal Reserve has been progressively increasing the federal funds rate since December 2015, ending an era of ultra-low interest rates that had lasted since the last recession in 2008/09 (see chart). The last rate increase occurred in September 2018. Additional rate increases are expected in 2019.

While monetary policy in the U.S. is tightening, fiscal policy is currently expansionary. An overhaul of the tax code, adopted in January 2018, featured a notable cut in the corporate tax rate from 35% to 21%, and lowered income tax rates. The effect of this fiscal stimulus is expected to last until 2020, at which point growth is expected to slow. According to the latest survey of forecasters compiled by the Federal Reserve Bank of Philadelphia, real GDP growth in the U.S. is expected to be 2.8% in each of 2018 and 2019.

Central Bank Rates



Source: Bank of Canada; U.S. Federal Reserve

Canada

Canadian real GDP increased by 1.4% (annualized) during the first quarter and by 2.9% during the second quarter of 2018. Capacity utilization rates for the industrial aggregate and for the mining and oil and gas industry increased to the highest levels since 2007. The favourable global economic climate contributed to an increase in investment of 2.8% in 2017. Although this pace was maintained in the first quarter of 2018 (up 2.5%), investment slowed to 0.9% (annualized rate) in the second quarter, possibly related to the uncertainty surrounding future trade with the United States.

Consumption continued to fare well, with retail sales up 3.6% between January and August over the same period in 2017. Most major spending categories posted increases. Although this is a lower pace than the 7.1% recorded for 2017, it is more sustainable and similar to its long-term average growth rate. Consumer indebtedness has increased considerably over the last 15 years, but the debt service ratio—the proportion of income spent on interest and debt payments—has remained stable. This ratio is poised to slowly trend upward with higher interest rates, which may explain the slowing growth in consumption. In order to offset this potential drag on overall economic growth, additional gains in investments and productivity will be required.

As the Canadian economic outlook improved in recent years, the Bank of Canada initiated a tightening of its monetary policy by raising its target for the overnight rate—twice in 2017 and three times to date in 2018—from 0.5% in January 2017 to 1.75% in October 2018. Additional rate increases are expected in 2019. In theory, the Canadian dollar should gain value as a result of this policy, but those gains have been muted as the U.S. Federal Reserve concurrently raised its target rate.

Canadian employment increased by 1.3% during the first three quarters of 2018 over the same period in the previous year, with growth in most provinces. The number of full-time jobs increased while part-time jobs declined. The unemployment rate averaged 6.0% during this period, down from 6.6% for the first three quarters of 2017. The unemployment rate (seasonally adjusted) for the country was 5.9% in September 2018.

The renegotiation of the North American Free Trade Agreement (NAFTA) resulted in a new agreement tentatively known as the United States–Mexico–Canada Agreement (USMCA). The deal has yet to be ratified by any of the countries involved. For Canada, the biggest concession is in the dairy sector as it opens about 3.6% of its dairy market to the United States. Automobiles will require higher North American content for duty-free shipments and a minimum of 40% content coming from USMCA jurisdictions paying workers an hourly salary of at least US$16. U.S. steel and aluminum tariffs remain in place, along with the related retaliatory tariffs from Canada. There have also been developments in softwood lumber and newsprint trade barriers (see *Forestry*).

The risks posed during the renegotiation of NAFTA resulted in a period of uncertainty that lasted almost two years, possibly depressing investment intentions as evidenced by lackluster business investment in the second quarter of 2018. With the removal of this uncertainty, combined with record capacity utilization rates across industries and the growing scarcity of skilled labour, investment in Canada appears to be poised to rebound in the near future.

Economic growth in 2018 is expected to be broad-based across the country (see table). The latest average of forecasts by Canadian banks and the Conference Board of Canada expects real GDP growth in Canada to average 2.0% in 2018. All provinces are expecting growth this year, although growth will be more modest in the Atlantic provinces.

Real GDP Growth, by Province

	2018f	2019f
NL	0.2	2.2
PE	2.1	1.6
NS	1.0	0.9
NB	0.9	1.0
QC	2.3	1.8
ON	2.1	1.9
MB	1.8	1.7
SK	1.6	2.2
AB	2.2	2.2
BC	2.3	2.2
CA	2.0	2.0

f forecast
Note: Growth rates in this table for NL may differ from the Department of Finance forecast outlined on page 9.
Source: Average of Canadian major banks and the Conference Board of Canada

East Coast Trail, Motion Path

Provincial Overview

The provincial economy has continued to adjust in 2018, with several major projects transitioning from development to production phases. While significant levels of development activity continued on the Muskrat Falls project, employment and capital investment on the project are trending down. As well, the development phase of the Hebron oil project was completed in late 2017, resulting in lower levels of major project development activity this year compared to 2017. Mineral production in 2018 was impacted by the labour dispute at the Iron Ore Company of Canada (IOC) which resulted in the mine suspending production for two months in the spring. As a result of these factors, overall economic activity is expected to decline. Real final domestic demand is expected to decrease by 3.8% and real GDP is forecasted to decrease by 2.8%.

Nonetheless, there have been some encouraging developments throughout the economy in 2018, particularly in the resource sectors. In the oil and gas industry, the Hebron project will mark its first full year of oil production and work on the $3.2 billion expansion of the White Rose project (West White Rose) is well underway. Furthermore, on July 26, the Government of Newfoundland and Labrador, Equinor Canada and Husky Energy announced a framework agreement for the development of the Bay du Nord project. The project will be Newfoundland and Labrador's fifth oil project and sanction is expected in 2020 with first oil in 2025 (see *Oil and Gas*). The mining industry has also seen some encouraging developments. Vale Newfoundland and Labrador (VNL) announced on June 11th that it will proceed with the development of the Reid Brook and Eastern Deeps underground mines at Voisey's Bay. This development is expected to result in close to $2 billion in capital investment by VNL and will provide a long term source of nickel concentrate for the Long Harbour processing plant (see *Mining*).

Provincial Economic Indicators

	2017e	2018f	2019f
GDP at Market Prices ($M)	32,977	34,181	35,081
% Change	6.0	3.6	2.6
% Change, real	-3.1	-2.8	2.1
Final Domestic Demand[1] ($M)	36,010	35,153	36,159
% Change	-7.4	-2.4	2.9
% Change, real	-8.6	-3.8	0.9
Household Income ($M)	26,423	26,669	27,089
% Change	2.1	0.9	1.6
% Change, real	-0.3	-1.2	-0.6
Household Disposable Income ($M)	17,628	17,797	18,087
% Change	2.1	1.0	1.6
% Change, real	-0.3	-1.2	-0.5
Retail Sales ($M)	9,227	9,147	9,223
% Change	2.4	-0.9	0.8
% Change, real	0.7	-2.1	-0.7
Consumer Price Index (2002=100)	135.7	138.6	141.6
% Change	2.4	2.1	2.2
Capital Investment ($M)	10,954	10,051	10,941
% Change	-22.9	-8.2	8.9
% Change, real	-23.8	-9.4	6.9
Housing Starts (Units)	1,400	1,401	1,292
% Change	0.1	0.1	-7.8
Employment (000s)	224.1	224.1	224.0
% Change	-3.7	0.0	0.0
Labour Force (000s)	262.9	262.1	260.5
% Change	-2.2	-0.3	-0.6
Unemployment Rate (%)	14.8	14.5	14.0
Participation Rate (%)	59.0	59.0	58.6
Population (000s)	528.6	525.4	524.2
% Change	-0.2	-0.6	-0.2

[1] Final domestic demand measures demand in the local economy by summing consumption, investment and government expenditures; it excludes net exports.

e: estimate; f: forecast, Department of Finance, October 2018

Source: Statistics Canada; Department of Finance

Exports of goods and services are expected to decrease by 1.0% (in real terms) in 2018 as an increase in oil output is offset by a decrease in mineral production. Iron ore production is expected to decline primarily as a result of the two-month labour related shutdown at IOC. On the other hand, crude oil production is expected to increase by 5.1% as higher output from Hebron more than offsets lower output from Hibernia and White Rose.

Capital investment in the province is expected to total $10.1 billion in 2018, a decline of 8.2% from 2017. The main reasons for the decline are lower expenditures on the Hebron oil project as it concluded its development phase at the end of last year and lower expenditures on Muskrat Falls. Total residential spending (including renovations) grew by 2.4% in the first half of 2018. Housing starts in the province are expected to total 1,401 units this year, on par with 2017.

Consumer spending growth is expected to be weak in 2018. The value of retail sales decreased by 0.9% in the first eight months of the year. Sales from motor vehicle and parts dealers (largely comprised of new and used vehicle sales) were the single largest contributor to the decline, decreasing by 3.3%. There were 21,679 new motor vehicles sold in the first eight months of 2018, a decline of 7.9% compared to the same period in 2017. Lower health and personal care sales also contributed to the year-to-date decline in retail sales. Conversely, expenditures on services fared somewhat better this year. Receipts of food services and drinking places (i.e. restaurants and bars) in the first eight months of 2018 were roughly on par with the same period in 2017.

Inflation

On a year-over-year basis, growth in the Consumer Price Index (CPI), or inflation, was 1.9% in the first eight months of 2018. Higher prices for fuel oil and electricity relative to 2017 exerted upward pressure on the CPI. However, the lowering of the provincial gas tax on June 1, 2017 and again on December 1, 2017 has mitigated the impact that rising crude prices had on year-over-year gasoline price growth. In the first eight months of 2018, gasoline prices grew by 3.3% compared to the same period in 2017. For the year as a whole, inflation is expected to average 2.1%.

Labour Markets

Labour market activity strengthened somewhat in 2018. Employment, according to the Labour Force

Survey (LFS), has increased slightly and the unemployment rate decreased.

LFS employment increased 0.4% in the first nine months of 2018 relative to the same period in 2017. Employment gains were due to a significant increase in part-time employment (+9.8%). Full-time employment declined by 1.2%.

The labour force decreased slightly during the first nine months of the year, falling by 0.1% relative to the same period in 2017. The decline in the labour force stemmed from a drop in the population of working age persons, which more than offset an increase in the participation rate (from an average of 59.1% in the first nine months of 2017 to 59.3% in the same period in 2018). Employment grew while the labour force declined, resulting in an unemployment rate decrease. During the first nine months of the year, the unemployment rate averaged 14.5%, a decrease of 0.5 percentage points compared to the same period in 2017.

There was also a decrease in the number of Employment Insurance (EI) beneficiaries. The average number of persons receiving regular EI benefits decreased by 3.9% in the first seven months of 2018, compared to the same period in 2017. This may reflect the improvement in the employment situation in 2018.

Average wages have also increased, albeit modestly. Average weekly earnings grew by 0.9% in the first seven months of 2018 compared to the same period of 2017. At approximately $1,042 per week, wages in Newfoundland and Labrador were the second highest observed among provinces after Alberta. Household income is expected to increase by 0.9% in 2018.

Population

Preliminary estimates indicate that the population of the province stood at 525,355 as of July 1, 2018 (see table). This represents a decline of 0.6% compared to July 1, 2017.

Newfoundland and Labrador Population

Previous population (July 1, 2017)	**528,567**
Total net migration	**-2,375**
Interprovincial net-migration	-3,656
Interprovincial in-migration	5,672
Interprovincial out-migration	9,328
Net international migration	1,281
Natural population change	**-837**
Births	4,344
Deaths	5,181
Population (July 1, 2018)	**525,355**

Source: Statistics Canada

The population decrease was the result of losses from both net migration and natural change. Net migration reduced the population by 2,375 persons—a gain of 1,281 persons from international migration was offset by a loss of 3,656 from interprovincial migration. Additionally, deaths outnumbered births resulting in a natural population decline of 837. Natural population change has been negative for several years, reflecting an aging population and a relatively low fertility rate.

Outlook

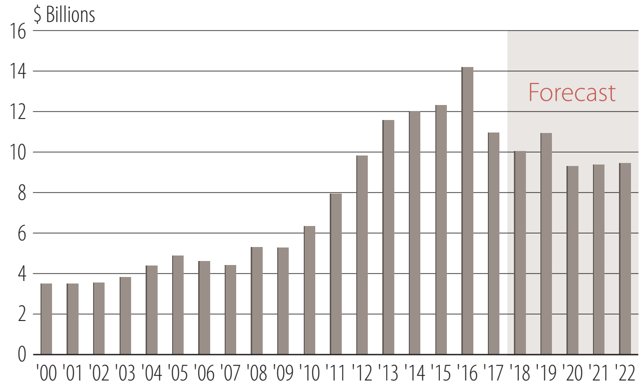
In 2019, the economic outlook is expected to improve as increased capital investment at the West White Rose project and the underground mine at Voisey's Bay is expected to more than offset the declining construction activity at Muskrat Falls. Exports are also expected to be higher in 2019 due to an increase in oil production from Hebron and a rebound in iron ore production at IOC. These positive factors are expected to offset some of the downward trends that have been experienced in the Newfoundland and Labrador economy in recent years. Real GDP is expected to grow by 2.1%. Despite the GDP growth, labour market indicators are expected to remain subdued in 2019. This reflects the fact that much of the GDP growth expected in 2019 is due to exports, which do not directly translate into employment growth. Employment is expected to be steady next year while the labour force is expected to decline slightly.

The medium-term outlook beyond 2019 is expected to remain challenging due to declining major project investment and government fiscal restraint. Employment growth is expected to be limited as the West White Rose and Voisey's Bay underground mine projects pass peak construction and the Muskrat Falls project is completed. However, real GDP growth is expected to remain positive as a result of rising oil production.

Despite these medium-term challenges, the long-term outlook is much more positive. Construction on the province's fifth oil project, Bay du Nord is expected to begin in 2022. This development is expected to generate significant economic benefits for the province. Additionally, there are substantial oil and gas resources available in offshore Newfoundland and Labrador. The third independent resource assessment conducted on nine parcels in the Orphan Basin and East Jeanne d'Arc Basin was recently released, and estimated a resource potential of 25.5 billion barrels of oil and 20.6 trillion cubic feet of gas. The combined resource potential of the three resource estimates released to date is 49.2 billion barrels of oil and 193.8 trillion cubic feet of gas in less than seven percent of Newfoundland and Labrador's offshore area.

Land sales over the last three years show industry's continued confidence in the offshore potential. In addition, Equinor, Husky, ExxonMobil, Nexen Energy and BP are each proposing long-term exploration programs for the various holdings in Jeanne d'Arc, Flemish Pass and Orphan basins. These programs could result in over 100 exploration, delineation and appraisal wells over the next 12 years (see *Oil and Gas*). This demonstrates considerable commitment to the area. Exploration and development hold significant opportunities for future growth in oil production and, by extension, the provincial economy.

Capital Investment



Source: Statistics Canada; Department of Finance

Plans for significant expansion in the aquaculture industry are also well underway. Both Marine Harvest and Grieg NL Seafoods are pursuing aquaculture development opportunities in Newfoundland and Labrador. Marine Harvest is expanding its Indian Head Hatchery to increase production capacity from 4.5 million to 6.7 million fish annually. The project was released from environmental assessment in September and construction is planned to commence later this year. Grieg NL's $250 million Placentia Bay project was also released from environmental assessment in September and work has started to prepare the site for construction. These projects have the potential to more than double the size of the total aquaculture industry (see *Fishery and Aquaculture*).

The Provincial Government has established several initiatives to support economic diversification and private sector employment growth in the past few years. These initiatives include: the development of work plans for the agriculture, aquaculture and technology industries to set goals and identify actions required to meet those goals; the development of the *2017-2020 Provincial Tourism Product Development Plan*; the development of the *Mining the Future – A Mineral Strategy for Newfoundland and Labrador 2018-2030*; and development of *Advance 2030, A Plan for Growth in the Newfoundland and Labrador Oil and Gas Industry* (see *The Way Forward, A Stronger Economic Foundation*).

Newtown, New-Wes-Valley

The Way Forward

A Stronger Economic Foundation

In November 2016, the Government of Newfoundland and Labrador released *The Way Forward: A vision for sustainability and growth in Newfoundland and Labrador*. Subsequently, *The Way Forward: Realizing Our Potential* and *The Way Forward: Building for Our Future* were released in March 2017 and April 2018, respectively. These documents outline actions the Provincial Government is taking in partnership with the business, culture, and community sectors to realize a shared vision of a strong and diversified province with a high standard of living. To achieve this vision, *The Way Forward* identifies four key objectives:

(1) A more efficient public sector;

(2) A stronger economic foundation;

(3) Better services; and,

(4) Better outcomes.

This article focuses on the second objective, "a stronger economic foundation." Several initiatives have been implemented to promote economic growth and entrepreneurship, with the goal of fostering conditions that support private sector job creation and economic sustainability. Several potential sectors were identified, specifically: aquaculture, agriculture, technology, oil and gas, mining, forestry, and the community sector. To encourage growth in these areas, the Provincial Government and industry associations, along with business owners, researchers, academics and other community groups, partnered to jointly develop work plans to grow these sectors and respond to industry needs.

The work plan for the aquaculture industry was released in September 2017 and outlined 28 specific action items designed to help achieve the goal of expanding commercial salmon production to 50,000 metric tonnes and commercial mussel production to 10,750 metric tonnes. This level of production would more than double current levels of employment within this industry, generating an estimated additional 1,100 person years of employment. Since the launch of the plan, Grieg NL has officially commenced the company's $250 million aquaculture project in Placentia Bay with support from both the provincial and federal governments. The project, which was subject to a comprehensive environmental assessment process, is expected to generate more than 800 new jobs once full production is reached.

The agriculture industry work plan was released in October 2017 and outlined 43 action items designed to help achieve the goals of generating an additional 500 person years of employment in the agriculture industry and increasing the province's food self-sufficiency. This included redeveloping the former Wooddale Tree Nursery into a new Centre for Agriculture and Forestry Development. Activity at the facility now includes not only the production of tree seedlings, but also supports fruit and vegetable crop development, bee keeping, and other research activities that will significantly advance and diversify the agriculture sector.

The work plan for the technology sector was released in February 2018 and outlined 27 action items to achieve the goal of growing the sector and stimulating new private sector employment. A target of supporting the growth of 40 technology firms over the next two years has been established. An example of a firm supported by the Provincial Government since the launch of this plan would be Quorum Information Systems, a company that created an integrated dealer management system called XSELLERATOR for the auto industry. Government support for the firm enabled the creation of four new full-time positions within the company that are dedicated to further enhancing the company's software.

In addition to fostering growth in the aquaculture, agriculture and technology sectors, other economic initiatives include the *2017-2020 Provincial Tourism Product Development Plan*; *Advance 2030, A Plan for Growth in the Newfoundland and Labrador Oil and Gas Industry*; *The Way Forward: A Multi-Year Plan for Infrastructure Investments*; and *Mining the Future 2030: A Plan for Growth in the Newfoundland and Labrador Mining Industry*.

The *2017-2020 Provincial Tourism Product Development Plan* provides an outline for creating a strong business environment for private tourism investment. The plan focuses on utilizing public resources in product development areas to help the provincial tourism industry achieve its goal of increasing resident and non-resident visitor spending to $1.6 billion by 2020.

Advance 2030 – A Plan for Growth in the Newfoundland and Labrador Oil and Gas Industry identifies actions to spur the continued growth and development of Newfoundland and Labrador's oil and gas industry. These actions cover areas such as exploration, governance and innovation and are meant to foster a culture of collaboration and entrepreneurship. By working collaboratively with industry players, the Provincial Government envisions that by 2030, there will be shorter times between discovery and production; a robust and innovative global supply and service sector; the beginning of commercial gas production; and a world-class energy cluster comprising both renewable and oil and gas energy sources. Also by 2030, the Government envisions over 100 new exploration wells drilled, multiple basins producing over 650,000 barrels of oil equivalent per day and direct operational employment of more than 7,500 people. To support these goals, the Provincial Government is transitioning the oil and gas subsidiary of Nalcor Energy to a stand-alone Crown corporation with a mandate to accelerate the growth of the oil and gas industry. Since the launch of *Advance 2030*, the Provincial Government, Equinor Canada and Husky Energy finalized a framework agreement for the development of the Bay du Nord Project—the first deepwater production project in the province's history, which is expected to generate more than $14 billion in economic activity.

The Way Forward: A Multi-Year Plan for Infrastructure Investments allocates nearly $3 billion for new and existing schools, health care facilities, roads and bridges, and municipal infrastructure over a five year period. This investment will help stimulate the economy, create jobs and foster business development throughout the province. It is estimated that this spending will generate an average of $560 million in GDP and 4,900 person years of employment annually. In 2018-19, the multi-year infrastructure plan will provide almost $620 million for infrastructure and economic stimulus.

Mining the Future 2030: A Plan for Growth in the Newfoundland and Labrador Mining Industry was released on November 2, 2018, during the annual provincial mining conference and trade show. As part of *The Way Forward*, the Provincial Government committed to work with industry to position the province as a globally competitive, top-tier jurisdiction for mineral exploration—one that is safe, environmentally responsible, maximizes benefits and opportunities, and competitively produces quality products for global markets. The plan was developed in collaboration with Mining Industry NL and strategically positions Newfoundland and Labrador to avail of opportunities under the developing Canadian Minerals and Metals Plan. By 2030, the Provincial Government envisions; five new mines; sustainable direct employment of more than 6,200 people in operations; $100 million in annual exploration expenditures (or at least five percent of Canadian total); $4 billion in annual mineral shipments (or at least 10 percent of the Canadian total); a workforce that is more diverse and includes a minimum of 30 percent women; a province that is consistently ranked as a top three Canadian jurisdiction in permitting times; and, a province that is consistently ranked overall as a top three Canadian mining jurisdiction by industry.

In 2018-19, in collaboration with the Newfoundland and Labrador Forestry Industry Association and other stakeholders, Government will develop a plan for diversifying the province's forestry sector. Additionally, Government, partnering with the Community Sector Council and community organizations throughout the province, will lead a process to recognize the social and economic contribution of the community sector.

The initiatives outlined above, in conjunction with other actions outlined in *The Way Forward*, support private sector employment and economic growth—top priorities for the Provincial Government.

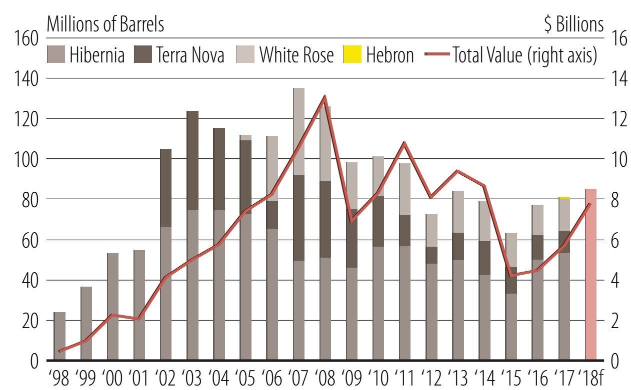
West White Rose—Concrete Gravity Structure Construction in Argentia

Oil and Gas

Newfoundland and Labrador's oil and gas industry contributed an estimated $4.3 billion to nominal GDP in 2016, accounting for 15.1% of the provincial total. Direct employment in the oil and gas industry was approximately 5,300 person years in 2017 and represented 2.4% of total employment in the province.

There are currently four projects producing oil in the province's offshore area: Hibernia, Terra Nova, White Rose and Hebron. Oil production over the January to August period totalled 60.1 million barrels (MMbbls), representing growth of 9.1% or 5.0 MMbbls compared to the same period in 2017. For the year as a whole, oil production is expected to total 84.7 MMbbls, an increase of 5.1% or 4.1 MMbbls compared to 2017 as a full year of Hebron production is expected to offset declines at Hibernia and White Rose (see chart). The estimated value of production is expected to grow by 36.9% to $7.7 billion due to both higher production volumes and crude oil prices. The year-to-date price of Brent crude oil, a benchmark for Newfoundland and Labrador oil, averaged US$73.13/barrel as of October 31, up 39.7% from an average of US$52.34/barrel for a comparable period of 2017 (see chart). Brent is expected to average US$72.30/barrel for the calendar year as a whole, representing an increase of 33.6% from the average price of $54.13/barrel in 2017.

Offshore Oil Production



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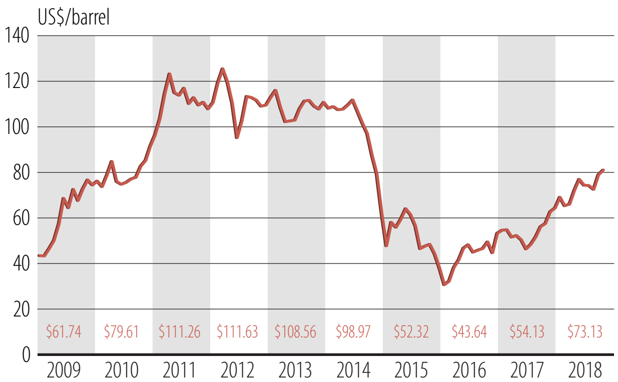
Source: Canada-Newfoundland and Labrador Offshore Petroleum Board; Department of Finance

Brent Crude Oil Prices, Monthly



Note: Average annual Brent crude prices included for each year. Price for 2018 is average to October 31.
Source: U.S. Energy Information Administration

In December 2016, the Provincial Government established an Oil and Gas Industry Development Council in support of positioning Newfoundland and Labrador as a preferred location for oil and gas development. The Council made a commitment to create a long-term vision for the province's oil and gas industry, with a focus on promoting development, competitiveness and sustainability. Subsequently, the Provincial Government, in concert with the Oil and Gas Industry Development Council, produced *Advance 2030, A Plan for Growth in the Newfoundland and Labrador Oil and Gas Industry*. The plan, released in February 2018, identifies actions to spur the continued growth and development of the oil and gas industry (see *The Way Forward: A Stronger Economic Foundation*).

Hibernia

Hibernia production totalled 31.5 MMbbls through the first eight months of 2018, a decrease of 13.2% or 4.8 MMbbls compared to the same period in 2017. Since first oil in 1997, Hibernia production has expanded into two areas south of the main field: the AA Blocks and the Hibernia Southern Extension Unit. The Hibernia project has an estimated 562 MMbbls of remaining recoverable reserves as of the end of July 2018 and is expected to continue producing until at least 2040. As of June 30, 2018, there were 1,338 people working on the Hibernia project in the province, of which 1,212 (90.6%) were Newfoundland and Labrador residents.

Terra Nova

Terra Nova produced 8.1 MMbbls through the first eight months of 2018, a rise of 10.5% or 0.8 MMbbls compared to the first eight months of 2017. As of the end of July 2018, the remaining Terra Nova recoverable reserves were estimated at 96 MMbbls. As of June 30, 2018, there were a total of 1,074 people working on the Terra Nova project in the province, of which 919 (85.6%) were Newfoundland and Labrador residents.

The operator of Terra Nova, Suncor Energy Inc., is striving to increase recoverable reserves and extend the life of the field by 10 years. As such, in the third quarter of 2017, the deep water semi-submersible drill rig *Transocean Barents* commenced work on a 15-month contract at the Terra Nova field. This work will continue as Transocean Ltd., the owner of the drill rig, was awarded a six-month contract extension plus an option offshore Eastern Canada earlier this year. The drill rig is being used for both maintenance work and infill drilling operations as part of an evaluation of recoverable reserves.

White Rose

White Rose and its satellite areas (North Amethyst, South White Rose and West White Rose) produced 6.9 MMbbls through the first eight months of 2018, a drop of 40.1% or 4.6 MMbbls compared to the same period in 2017. Production was impacted by a scheduled 19-day shutdown of the *SeaRose Floating Production, Storage and Offloading (FPSO)* vessel in the spring of this year. The recoverable reserves remaining for the entire White Rose project (including North Amethyst and extensions) were estimated at 187 MMbbls at the end of July 2018. As of June 30, 2018, there were a total of 2,084 people working in the province on the White

Rose project (including development of West White Rose), of which 1,913 (91.8%) were Newfoundland and Labrador residents.

On May 29, 2017, the Province and Husky Energy announced that Husky and its partners were moving forward with the development of the West White Rose project. A pilot project for West White Rose began in September 2011 and production has continued to date. The West White Rose project is estimated to cost $3.2 billion and will use a fixed drilling platform tied back to the White Rose production facility, the *SeaRose FPSO*. Construction began in late 2017 and a significant amount of the project work is being completed in the province. In May 2018, Husky reported that construction of the concrete gravity structure has begun at the new graving dock in Argentia and fabrication of the living quarters had begun at Kiewit Offshore Services in Marystown. Work associated with the accommodations module, flare boom, helideck and life boat stations will also take place in Newfoundland and Labrador—the contracting process for this work is still ongoing. An estimated 5,000 person years of direct employment will be generated during the construction period. First oil is expected in 2022 and, at peak production, the project will produce approximately 75,000 barrels of oil per day. It is estimated that the project will create 250 permanent platform jobs once operational.

A series of discoveries and satellite developments in the White Rose production area have improved the longevity of the original field since its discovery in 1984, including two new oil discoveries in recent years. These discoveries continue to be assessed. Potential developments could leverage the *SeaRose FPSO*, existing subsea infrastructure and West White Rose.

Hebron

The Hebron project produced first oil on November 27, 2017. Hebron production totalled 0.8 MMbbls in 2017 and 13.6 MMbbls in the first eight months of 2018. The project had an estimated 695 MMbbls of recoverable reserves remaining at the end of July 2018. As of June 30, 2018, there were a total of 1,121 people working on the Hebron project in the province, of which 1,027 (91.6%) were Newfoundland and Labrador residents.

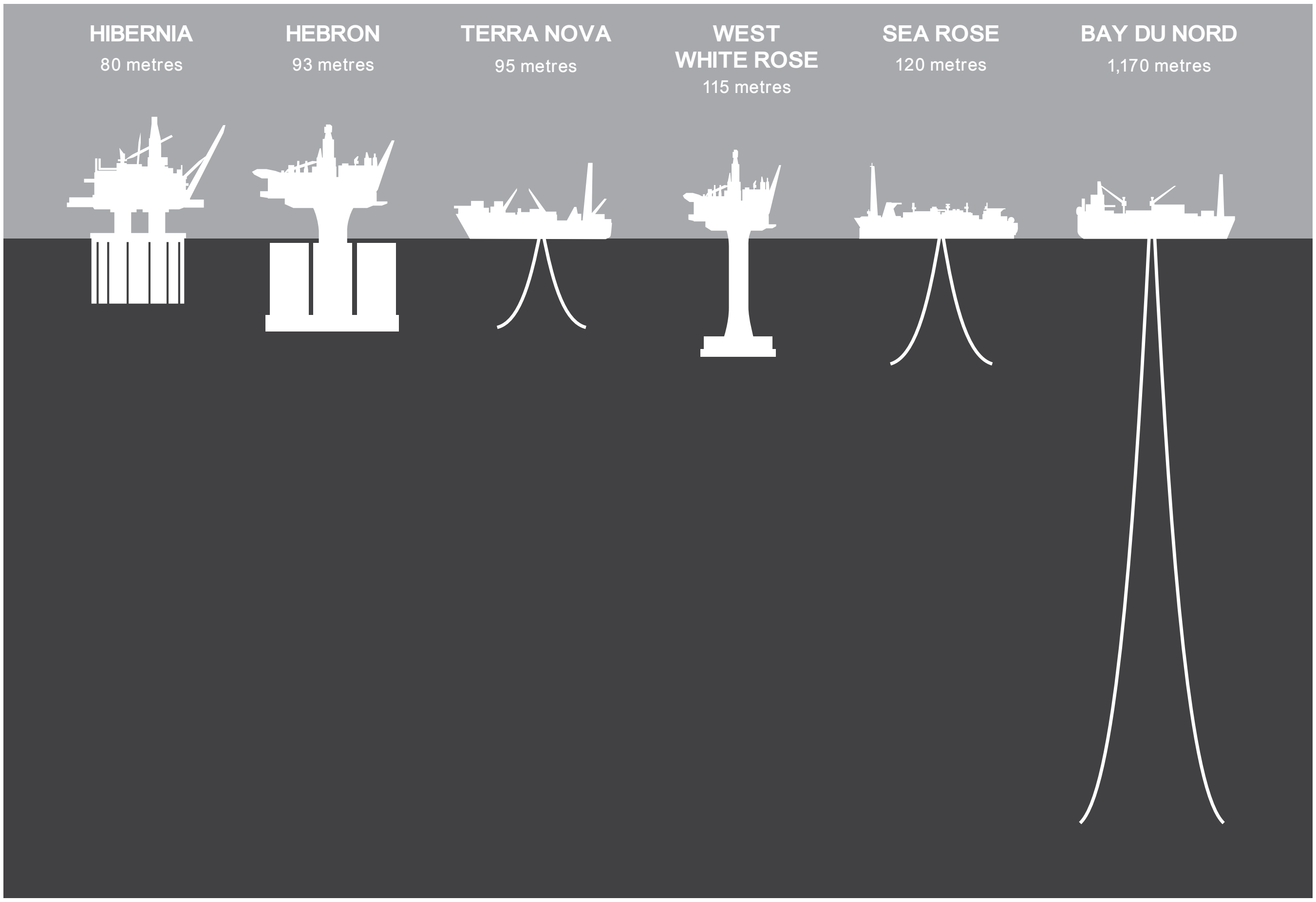
Bay du Nord

On July 26, 2018, the Government of Newfoundland and Labrador, Equinor Canada and Husky Energy announced a framework agreement for the development of the Bay du Nord project. Located in the Flemish Pass basin (about 500 kilometers from St. John's) at approximately 1,170 meters of water depth, it will be the first remote, deepwater project in the province's offshore area. Bay du Nord will also be the first project to be negotiated under Newfoundland and Labrador's generic oil royalty regulations implemented in 2017. The project is expected to be sanctioned in 2020 and produce first oil in 2025. Based on current reserve estimates of around 300 MMbbls, the expected field life of the project is between 12 and 20 years, but potential future subsea tie-back developments at the Harpoon and Mizzen discoveries could extend the project's life. Similar to Terra Nova and White Rose, the Bay du Nord project will use an FPSO vessel. According to Equinor, the pre-development and development expenditures are estimated at $6.8 billion. This spending is estimated to generate roughly 2,000 person years of employment in the province.

Exploration

Offshore

A number of companies have proposed long-term exploration programs for the offshore and submitted project descriptions to the Canadian Environmental Assessment Agency (CEAA). The programs include:



- August 2016: Equinor Canada Ltd. proposed an exploration drilling project within four offshore exploration licences located in the Flemish Pass Basin. The project would include drilling up to 30 wells between 2018 and 2027.
- September 2016: Husky Oil Operations Ltd. proposed an exploration drilling project within three offshore exploration licences in the Jeanne d'Arc Basin. The project would include drilling up to 10 wells between 2019 and 2027.
- September 2016: ExxonMobil Canada Ltd. proposed an exploration drilling project within offshore exploration licences located in both the Jeanne d'Arc and Flemish Pass Basins. The project would involve drilling up to 35 wells between 2018 and 2030.
- April 2017: Nexen Energy ULC proposed an exploration drilling project within two offshore exploration licences located in the Flemish Pass Basin. The project would include drilling up to 10 wells between 2018 and 2028.
- January 2018: BP Canada Energy Group ULC proposed an exploration drilling project within four offshore exploration licences located in the Orphan Basin. The project would involve drilling up to 20 wells between 2020 and 2026.
- June 2018: Equinor Canada Ltd. proposed developing the Bay du Nord field (which includes Bay du Nord, Bay de Verde and Bay de Verde East) and the Baccalieu discovery. This would involve drilling between 10 and 30 wells over four exploration licences and three Significant Discovery Licences.
- September 2018: ExxonMobil Canada Ltd. proposed an exploration drilling project within one offshore exploration licence located in the Carson Basin. The project would include drilling up to five wells between 2020 and 2029.

These programs have potential to create significant exploration activity in the Newfoundland and Labrador offshore and bode well for the future of the industry in the province. Current exploration work commitments in the Newfoundland and Labrador offshore area total $2.9 billion.

Moreover, the CEAA, along with the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB), Natural Resources Canada and the Department of Natural Resources, announced in September 2018 that they have developed a draft agreement for a Regional Assessment of Offshore Oil and Gas Exploratory Drilling East of Newfoundland and Labrador. This assessment will focus on the effects of existing and anticipated offshore oil and gas exploratory drilling in the offshore area east of Newfoundland and Labrador. It will aim to improve the efficiency of the environmental assessment process as it applies to oil and gas exploration drilling, while at the same time ensuring the highest standards of environmental protection continue to be applied and maintained. Public comments are currently being considered to inform the preparation of the final agreement.

Offshore Oil Exploration Initiatives

The Department of Natural Resources and Nalcor Energy continue to collaborate and invest in the acquisition of geoscientific data. These data are used as an input to carry out independent resource assessments ahead of the closing of the bidding round in the scheduled land tenure system. This offers an opportunity for industry to learn more about the oil and gas potential of the blocks on offer and ensures a full evaluation of all the offshore basins. The data collected are also available for licensing by industry. Geoscience acquisition programs for 2018 are complete or nearing completion. The data acquired thus far in the 2018 season totalled 13,113 km^2 of 3D seismic, 6,131 km of 2D seismic, 5,523 km of seabed mapping, 56 seabed cores and 7,749 km of geohazard surveys.

On September 7, 2018, Nalcor and BeicipFranlab announced the release of the 2018 resource assessment over the 2018 Call for Bids area in the Eastern Newfoundland and Jeanne d'Arc regions. It identified an additional 11.7 billion barrels of oil and 60.2 trillion cubic feet of gas potential in approximately two percent of Newfoundland and Labrador's offshore area. This was the third independent resource assessment to be completed in the offshore area. In total, there is a combined resource potential of 49.2 billion barrels of oil and 193.8 trillion cubic feet of gas in less than seven percent of the offshore area.

The Department of Natural Resources launched a virtual data room for the Newfoundland and Labrador offshore area on October 26, 2018. This room houses well data, seismic data and drilling reports, and is an initiative of *Advance 2030, A Plan for Growth in the Newfoundland and Labrador Oil and Gas Industry*.

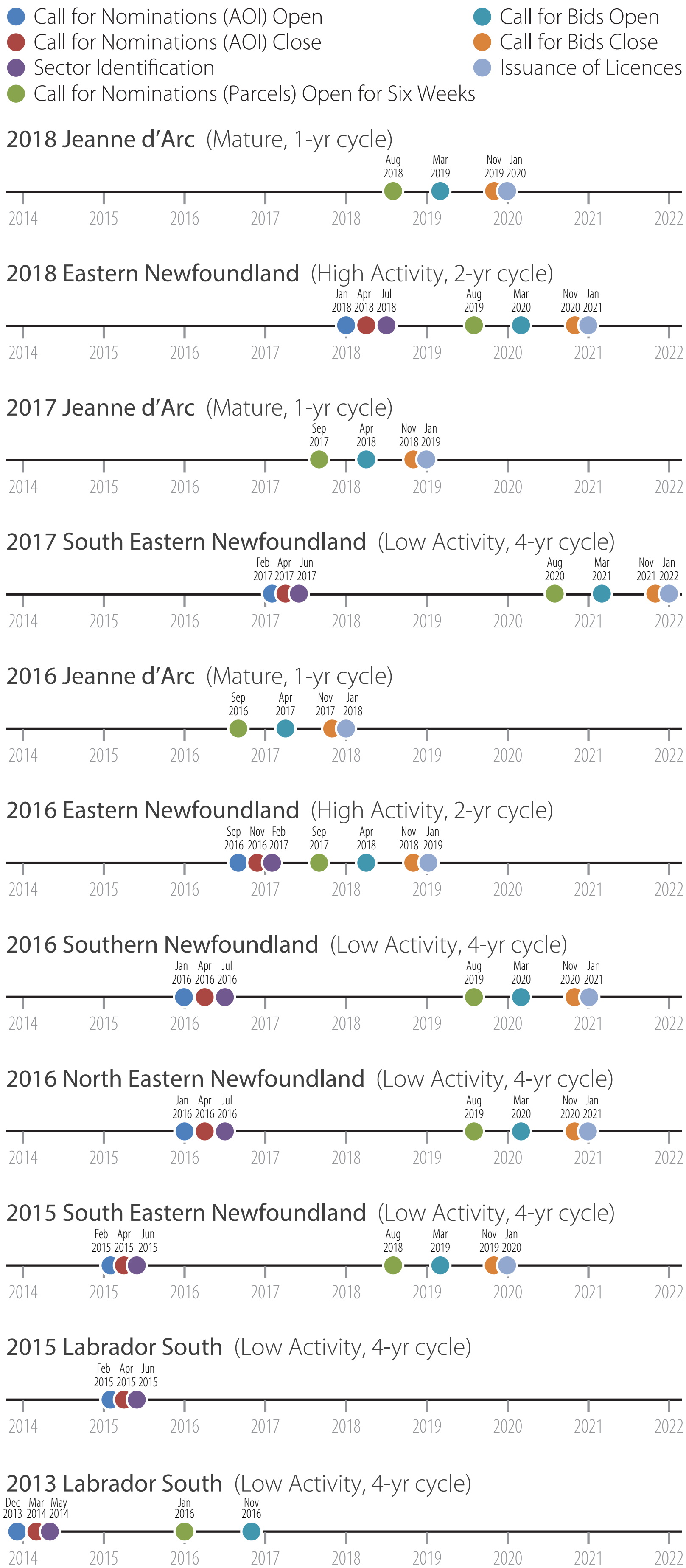
Active Land Issuance Rounds

The C-NLOPB issued a Call for Nominations (Areas of Interest – AOI) in the Eastern Newfoundland region on January 31, 2018. This assisted the C-NLOPB in selecting a sector for identification into the region in July of this year, which will be subdivided into parcels and subsequently made available for licensing in Calls for Bids in 2020 (see timeline).

Calls for Nominations (Parcels) for the South Eastern Newfoundland and Jeanne d'Arc regions opened on August 30, 2018 and will close on November 14, 2018. These Calls for Nominations will assist the C-NLOPB in selecting parcels to be included in the subsequent 2019 Calls for Bids. The Board has yet to announce the Calls for Nominations (Parcels) for the 2015 cycle of the Labrador South region as the Labrador Strategic Environmental Assessment (SEA) is ongoing.

On April 5, 2018, the C-NLOPB announced Calls for Bids for exploration licences for 16 parcels in the Eastern Newfoundland region and one parcel in the Jeanne d'Arc region. In addition, the Board

Active Land Call Rounds Timeline



announced Calls for Bids for a production licence for one parcel in the Jeanne d'Arc region. These Bids will close on November 7, 2018. Furthermore, there is a pending Call for Bids for 10 parcels in the 2013 cycle of the Labrador South region, issued on November 29, 2016. Bids on these parcels will close a minimum of 120 days following the completion of the Labrador SEA, and it is expected that a resource assessment for the Labrador South region will be released prior to the closing of bids.

The C-NLOPB issued an Exploration Licence to Husky Oil Operations Ltd. and BP Canada Energy Group on January 15, 2018 following a successful bid of $15,098,888 for a parcel in the Jeanne d'Arc region.

Onshore and West Coast

Recent developments in oil and gas exploration on the province's west coast include:

- The Department of Natural Resources approved Enegi Oil's program for a production test at Garden Hill on May 8, 2018 and operations are currently ongoing. On May 24, 2018, Enegi Oil entered into a non-binding agreement with PVF Energy Services, under which PVF will farm into Enegi Oil's production lease. The parties are still negotiating and no definitive farm-in agreement has been signed.
- On June 11, 2018, Corridor Resources Inc. suspended work on an exploration licence covering the Old Harry Prospect. Corridor noted that this was a result of controlled source electromagnetic (CSEM) survey interpretations that suggest

better prospectivity outside of the exploration licence area, the need for 3D seismic data to be acquired, the inability to recruit a partner, and regulatory uncertainty in Québec.

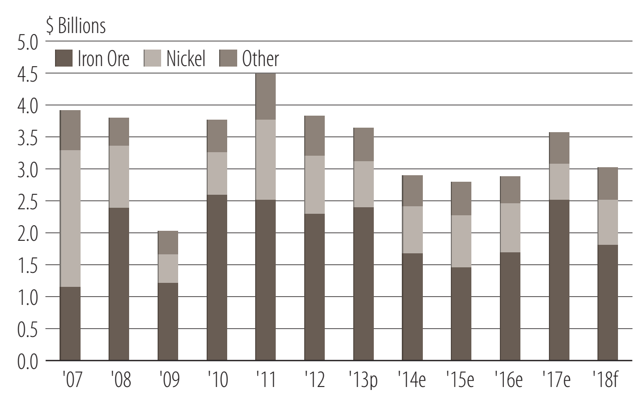
- Shoal Point Energy Ltd. is pursuing a Significant Discovery licence to develop the Humber Arm Allochthon (HAA) without hydraulic fracturing. The company's analysis and research indicates that this would be possible because of the naturally fractured nature of the reservoir.

First blast—Voisey's Bay Mine Expansion Project

Mining

The value of Newfoundland and Labrador mineral shipments is expected to decline to $3 billion in 2018, a decrease of 15.3% compared to 2017 (see chart). The expected drop in value is primarily due to lower iron ore shipments resulting from a two-month strike at the Iron Ore Company of Canada. Total mining related employment (including employment associated with activities at Vale Newfoundland and Labrador's Long Harbour nickel processing facility) is expected to rise by around 7% to approximately 5,500 as construction on the underground mine at Voisey's Bay has begun.

Value of Mineral Shipments

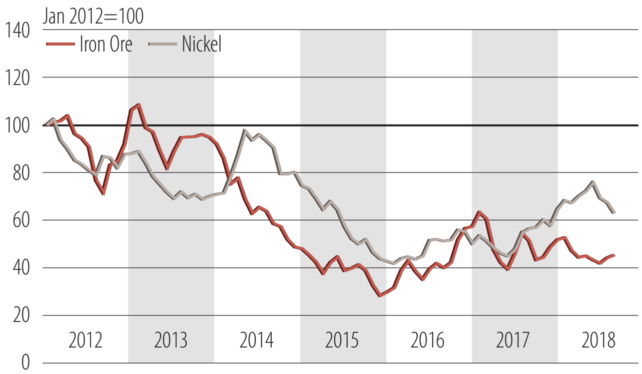


p: preliminary; e: estimate; f: forecast
Source: Department of Natural Resources; Natural Resources Canada

Market Conditions

Market conditions have been mixed for the provincial mining industry in the first three quarters of 2018. Iron ore prices rose to over US$75 per tonne in February before falling below US$60 per tonne in late June (see chart). Prices improved somewhat in August and September, but rising global supply, slowing growth in Chinese demand for steel and continued uncertainly due to escalating trade tension between the U.S. and China have all contributed to a relatively weak price outlook for iron ore. Overall, iron ore prices averaged US$65 per tonne in the first nine months of the year, down 7.8% from 2017.

Mineral Price Indices



Source: London Metal Exchange; MetalPrices.com

Nickel prices made significant gains in the first three quarters of 2018 with prices up notably from 2017. The increase in nickel prices has been supported by demand from the stainless steel and electrical vehicle sectors. Though prices have receded somewhat from their high of US$7.12/lb in June, nickel prices averaged US$6.20/lb in the first nine months of the year, up 31.2% from 2017.

Iron Ore Company of Canada

The Iron Ore Company of Canada (IOC), located near Labrador City, is the province's oldest operating mine. The mine currently employs approximately 1,800 people.

In the first half of 2018, IOC shipped 4.4 million tonnes of iron ore, down 49.7% from the same period in 2017. This significant decline in production was due to a work stoppage at the mine from March 27 to May 28 of this year because of a labour dispute. The company has since negotiated a new five-year collective agreement with the union and production ramped back up to normal levels by the end of June.

On February 23, 2017, IOC announced that it would proceed with the Wabush 3 project. The project consists of an open pit mine containing an estimated 900 million tonnes of iron ore; an overburden storage area; a waste rock disposal pile; haulage roads; a pole line; a groundwater extraction system; and a mine water collection, treatment and disposal system. Production at the pit began in September of this year. The new open pit mine will allow flexibility in providing iron ore feed to the existing concentrator plant to achieve and maintain production of iron concentrate at the mill's rated capacity.

Tata Steel Minerals Canada

Tata Steel Minerals Canada (TSMC) operates a Direct Shipping Ore (DSO) project, which straddles the Québec-Labrador border. This operation is a joint-venture between Tata Steel of India, Ressources Québec and New Millennium Iron Corp. TSMC has deposits in both Labrador and Québec.

The company is pushing ahead with its plans to develop the Howse deposit, located in Labrador adjacent to the DSO operation. The open pit mine is expected to have a life of 15 years and a maximum production rate of 22,000 tonnes of iron ore per day. It received federal environmental approval in April of this year.

In recent years, TSMC has idled operations during the winter to reduce operational costs. In 2018, the mine began operating in May and the first shipment of approximately 161,000 tonnes occurred in June. The project is expected to generate approximately 400 person years of employment in the province in 2018.

Vale

Vale Newfoundland and Labrador (VNL) operates the Voisey's Bay open pit nickel mine on the north coast of Labrador and the nickel processing facility in Long Harbour on the island portion of the province. Currently, all nickel mined at Voisey's Bay is shipped to Long Harbour for processing and the processing facility operates using 100% Voisey's Bay concentrate. The value of nickel shipped by VNL is expected to rise by 24.5% in 2018 as a result of higher nickel prices.

On June 11, 2018, VNL announced that it would be proceeding with the development of an underground mine at Voisey's Bay. The project had initially been sanctioned in July 2015 but had been put on hold pending a company-wide review of all base metal operations. Capital investment in the project is expected to be almost $2 billion and the company expects approximately 650 direct job opportunities to open up to support the peak construction phase.

The underground mine will include two separate deposits (Reid Brook and Eastern Deeps) and is expected to produce 45,000 to 50,000 tonnes of nickel-in-concentrate annually that will be processed into finished nickel at the Long Harbour processing plant. Mining operations will gradually transition from open pit to underground beginning in 2020. Access to the underground ore is expected to increase operational employment at the Voisey's Bay mine from its current level of 500 person years to approximately 950 person years annually.

Employment for all aspects of the Voisey's Bay project—current operations at the Voisey's Bay mine, the Long Harbour nickel processing facility and construction of the underground mine—is expected to average about 2,000 in 2018.

Other Mines

Rambler Metals and Mining Canada Ltd. (RMM) extracts and processes ore from its copper-gold Ming Mine on the Baie Verte Peninsula. RMM commenced commercial production in November 2012. In 2017, RMM expanded its Ming Mine to include lower grade ore from the Lower Footwall Zone (LFZ) located 100 metres below the Ming Mine. This expansion has allowed RMM to boost production and the operation is expected to reach sustained production of 1,250 tonnes of concentrate per day in the second half of 2018. The company produced 1,801 tonnes of copper and 1,861 ounces of gold in the first six months of 2018, a decline of 5.5% and an increase of 39.9%, respectively, from the same period in 2017. The mine currently generates around 190 person years of employment annually.

Anaconda Mining Inc. began gold production at its Point Rousse project near Baie Verte in 2008. Production at the Pine Cove pit has been completed and it is now being used as a tailing storage facility. Development of the Stog'er Tight deposit was completed earlier this year and production is underway. Anaconda has continued an aggressive drilling program to further delineate the resource estimates for a number of gold prospects near its Pine Cove mill. The project produced 8,925 ounces of gold in the first half of 2018, an increase of around 10% from a similar period in 2017. The operation currently generates around 100 person years of employment annually.

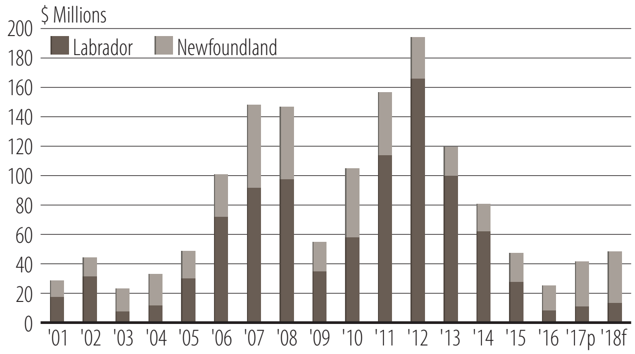
Canada Fluorspar Inc. (CFI) is operating a fluorspar mine and mill located in St. Lawrence. Construction of the project is complete and in early August CFI made its first commercial shipment. The project is expected to ramp up production over the remainder of the year. When the mine and mill are both fully operational, the project is expected to produce up to 200,000 tonnes of fluorspar concentrate per year. CFI is expected to generate around 140 person years of employment in 2018.

The province's construction aggregate industry (i.e. producers of gravel, sand, crushed stone, or other mineral material that is used in the construction industry) is expected to ship approximately eight million metric tonnes of aggregate, sand and gravel valued at $37.1 million in 2018. This work is expected to generate around 550 person years of employment.

Exploration and Development

Mineral exploration activity is recovering from the low of 2016 due to several new exploration projects on both the island and in Labrador. Continued interest in gold has spurred several large scale gold exploration projects on the island and, for the

Mineral Exploration Expenditures



p: preliminary; f: forecast
Source: Department of Natural Resources

first time, in Labrador. Increased nickel prices have resulted in several new exploration projects for this commodity in areas surrounding the Voisey's Bay mine site as well as other prospective areas of Labrador. While still low on a historical basis, exploration expenditures are expected to rise in 2018 to $48.3 million from $41.5 million in 2017 (see chart).

Development of the Ace Gypsum Deposit located in the St. George's area of western Newfoundland is underway by Red Moon Resources. On September 4th, the company announced that it had loaded its first shipment from the mine. The project is a seasonal operation that will operate between April and December and has an expected life of 10 years.

In July 2017, Tacora Resources Inc. announced that it had acquired the assets associated with the Scully Mine located in Wabush. The iron ore mine was formerly owned by Cliffs Natural Resources, who closed it in October 2014. Tacora estimates that restarting the mine will require in excess of $200 million in capital expenditures. To raise capital for the project, Tacora filed for an initial public offering (IPO) on the Toronto Stock Exchange on February 5, 2018. Tacora is also planning to raise money via debt markets. Once fully operational, the project is expected to generate around 300 person years of employment.

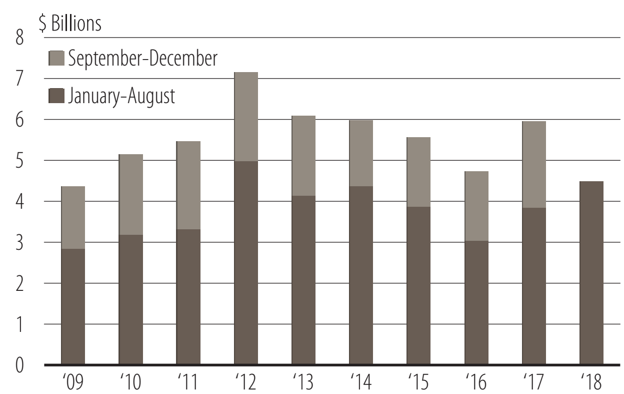
Fabricating mooring bitts

Manufacturing

Newfoundland and Labrador's manufacturing industry contributed an estimated $1.1 billion to nominal GDP in 2016, representing 4.0% of total provincial GDP. In 2017, manufacturing employment was approximately 9,100 person years and accounted for 4.1% of total employment in the province.

There are many manufacturers in the province producing a wide variety of products, with the majority of manufacturing output concentrated in refined petroleum, food processing (primarily fish), fabricated metal manufacturing, non-ferrous metal production and processing, and newsprint (see chart). The value of manufacturing shipments totalled $4.5 billion in the first eight months of 2018, representing an increase of 16.4% compared to the same period last year (see chart). This growth was mainly due to an increase in the value of refined petroleum products.

Manufacturing Shipments

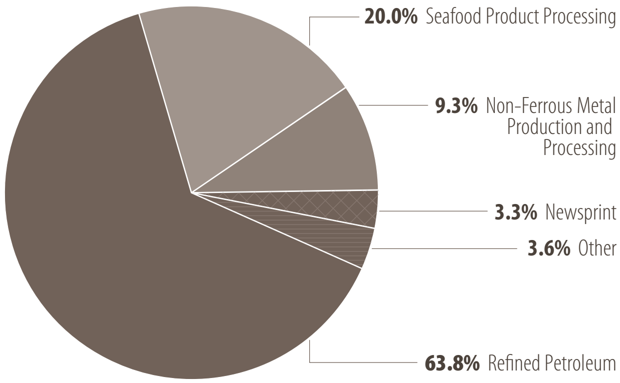


Source: Statistics Canada

Locally manufactured products are shipped throughout the province, elsewhere in Canada and to international markets. The value of international manufacturing exports from Newfoundland and Labrador was approximately $3.3 billion in the first eight months of 2018, a 28.0% increase compared to the same period in 2017, primarily due to higher

Distribution of International Manufacturing Exports, by Industry

January to August 2018



Source: Innovation, Science and Economic Development Canada

shipments of non-ferrous metal and refined petroleum products. The U.S. remains the largest export market for Newfoundland and Labrador manufacturers, representing 64.1% of international exports during the January to August 2018 period.

Employment in the manufacturing industry averaged approximately 9,100 in the first eight months of 2018, up 1.0% from the same period in 2017. Gains in employment were primarily due to increases in refined petroleum products manufacturing. Labour income in the manufacturing industry increased 1.6% in the first half of 2018 compared to the first half of 2017, in line with the increase in employment.

The North Atlantic Refinery in Come by Chance is strategically located along Atlantic crude oil shipping routes. As such, it provides the refinery access to petroleum markets in Europe and the eastern U.S. seaboard. The company has committed to investing capital and improving operations. Capital expenditures for improved operations at the North Atlantic refinery continued in 2018, with a scheduled turnaround completed in the spring/summer. During this turnaround, one third of the refinery was shut down to carry out inspections and repairs to equipment as part of an ongoing process to ensure the long-term viability of the facility. The value of international petroleum exports from Newfoundland and Labrador totalled $2.1 billion in the first eight months of 2018, representing an increase of 35.6% compared to the same period in 2017. This increase in value can be attributed to higher year-over-year prices for petroleum products and production gains resulting from an increase in daily throughput capacity. Typically, the company employs approximately 450 full-time employees; an additional 250 workers were involved in the most recent turnaround.

Fish processing plays a significant role in Newfoundland and Labrador's manufacturing industry. The value of international seafood product exports totalled approximately $689 million in the first seven months of 2018, up 10% from the same period in 2017. The U.S. and China accounted for over 70% of export value for the province's seafood products (see *Fishery and Aquaculture* for details).

Fabricated metal manufacturing activity generally rises and falls with major project construction activity. For the first eight months of this year, fabricated metal manufacturing employment was down, mainly a result of the completion of the Hebron gravity based structure (GBS) in Bull Arm in May 2017.

Vale Newfoundland and Labrador (VNL) owns and operates the nickel processing plant in Long Harbour. The nickel concentrate processed at the facility is sourced exclusively from the Voisey's Bay mine in Labrador. While the primary output from the plant is nickel, cobalt and copper are also produced as by-products. Recently, Vale announced that it has secured a deal to sell 75% of its future production of cobalt. An upfront payment of US$690 million was made, plus expected additional payments of an average of 20% of cobalt prices upon delivery. Prices for cobalt have increased substantially in the past several years and demand is expected to double by 2025. Payments from this deal are being used to help finance the development of the underground mine at Voisey's Bay (see *Mining*). Shipments from the Long Harbour plant are expected to increase by 24.5% in 2018 as VNL continues to ramp-up operations. In the first eight months of 2018, international exports of non-ferrous metal production and processed products more than doubled. The nickel processing facility currently employs approximately 900 people.

The volume of newsprint shipped from Corner Brook Pulp and Paper Limited was down slightly in the first nine months of 2018, decreasing 3.9% compared to the same period in 2017. The estimated value of shipments rose 12.6% on a year-over-year basis due to higher prices for newsprint.

Other developments in Newfoundland and Labrador's manufacturing industry included:

- On May 29, 2017, the Province and Husky Energy announced that Husky is moving forward with the development of the West White Rose project. Fabrication of the living quarters is underway at Kiewit Offshore Services in Marystown and construction of the concrete gravity structure (CGS) is also progressing at the new graving dock in Argentia. Construction of the living quarters in Marystown is expected to conclude in late 2019 and involve approximately 200 workers at peak employment. Construction of the CGS will need approximately 800 workers at peak employment. Work associated with the accommodations module, flare boom, helideck and life boat stations will also take place in Newfoundland and Labrador; however, the contracting process for this work is still ongoing. Fabricated metal manufacturing activity is expected to rise as development work on the West White Rose project continues.
- On December 8, 2017, the Provincial Government announced it had entered into an agreement with Canopy Growth Corporation for the supply and production of cannabis in the province. Canopy has committed to building a production facility in the province that will be operational by 2019 and operate for a minimum of 20 years. The facility is expected to: cost over $40 million to construct; produce 12,000 kilograms of cannabis annually; and create 145 jobs. Ground was broken for the facility in May of this year and is scheduled to be completed by the fall of 2019.
- The Provincial Government is in discussions with several other potential cannabis producers. In many cases, sites of vacant buildings throughout the province are proposed to be redeveloped for the production of cannabis. Not all cannabis produced is expected to be sold in the local market. Several firms have export strategies in place.
- Marine Industrial Lighting Systems Ltd. (MILS) is a manufacturer and supplier of marine industrial lighting products based in Mount Pearl. The company's clients include government agencies in both Canada and the United States, private ship owners and designers, mining companies and operators of offshore platforms. In September 2017, MILS was awarded a $1 million contract to supply naval LED fixtures to Canadian Armed Forces Navy patrol frigates. The company is also supplying the majority of lighting for the Canadian Coast Guard's new Offshore Fisheries Science Vessels. Most recently, MILS reached an agreement with the United States Navy's Military Sealift Command in October 2017 to supply 15,000 new explosion proof LED conversion kits. The value of this contract exceeds $4 million, with work taking place between the second quarter of 2018 and 2021. MILS currently employs 8 individuals, but expects that number to grow to at least 20 employees as the company anticipates investing $2.5-3 million to double its current facility size and increase its manufacturing capabilities.

Crab Harvesting

Fishery and Aquaculture

Newfoundland and Labrador's fish and seafood sector is on track to have another successful year in 2018. The total value of fish and seafood production is likely to exceed the one billion mark for the fourth consecutive year. The sector also continues to be a major source of employment, particularly for residents in rural areas of the province.

The seafood sector employed approximately 16,620 people from over 400 communities in 2017, compared to 17,400 in 2016. The number of registered fish harvesters was 9,415, unchanged from 2016, while employment in the processing sector declined by 10% to 6,780 workers. Direct employment in the aquaculture industry in 2017 was 425 persons and is expected to remain at similar levels in 2018.

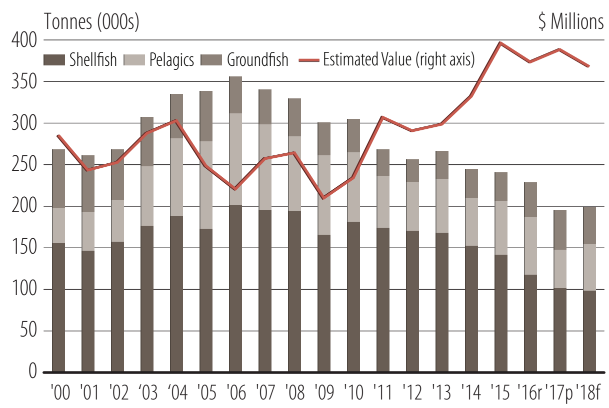
Capture Fisheries

Recent stock assessments indicate that some of the province's groundfish stocks continue to show signs of growth, which appears to be largely driven by increasing water temperatures since the late 2000s. Last year's assessment indicated an unexpected reduction in the northern cod stock, but levels are still above those observed during the 2000s. Other groundfish stocks, particularly redfish, are continuing to grow in areas around Newfoundland and Labrador.

Though warmer water temperatures are more favourable for groundfish, they appear to be having a negative impact on the abundance of some key shellfish resources. Recent assessments indicate that the snow crab resource continues to decline around Newfoundland and Labrador. Northern shrimp also continues to decline off the east coast of the island and southern Labrador, while generally remaining stable in northern areas.

Total fish landings are expected to rise slightly to approximately 199,200 tonnes in 2018,

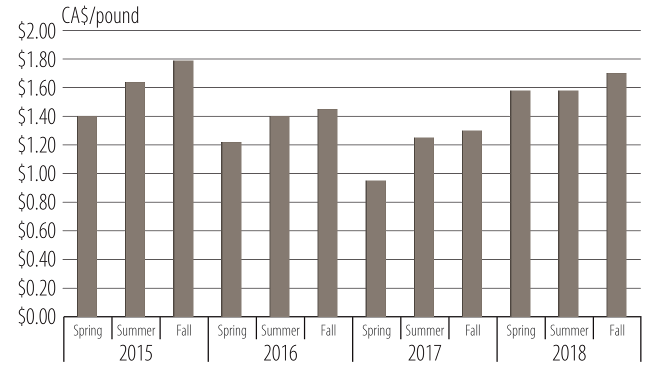
Capture Fishery Landings



r: revised; p: preliminary; f: forecast
Source: Fisheries and Oceans Canada; Department of Fisheries and Land Resources

Minimum Landed Price Paid to Harvesters

Inshore Shrimp



Source: Fish Food & Allied Workers Union

representing a 2.2% increase compared to 2017 (see chart). This projected increase in landings is primarily driven by higher capelin catches. The corresponding total landed value is expected to decrease to $736 million, down about 5% from 2017. This is the result of lower catches of higher valued species and lower raw material prices for some species.

Shellfish

Shellfish landings are forecast to drop 3.2% this year to 98,600 tonnes. Lower landings of shrimp and snow crab (due to quota cuts) are expected to be partially offset by significantly higher landings of other shellfish (clams, sea cucumber, other crustaceans and other mulluscs). The corresponding landed value for shellfish is expected to decrease by 6% due mainly to lower forecasted landings of shrimp and snow crab.

Shrimp landings are projected to be 40,350 tonnes, down 12% over 2017, the result of a lower Total Allowable Catch (TAC) this season. The TAC in Shrimp Fishing Area (SFA) 6 was further reduced 16.1% to 8,730 tonnes in 2018. The minimum landed price paid to harvesters for inshore shrimp in the 2018 spring and summer fisheries were both $1.58/pound, up from $0.95/pound and $1.25/pound in spring and summer 2017, respectively.

Fall prices were also up this year, increasing from $1.30/pound to $1.70/pound (see chart).

The 2018 snow crab fishery is complete. Snow crab landings declined 16% to 28,175 tonnes in 2018, due to quota cuts. The TAC for the Newfoundland and Labrador region in 2018 was 29,390 tonnes, an overall quota level decrease of approximately 17% from 2017. The corresponding landed value of crab only dropped roughly 9% due to higher raw material prices.

Groundfish

Groundfish landings and landed value are expected to decrease slightly compared to 2017, with landings of approximately 45,000 tonnes and landed value of $119 million. Lower catches of cod (-23%) are expected to be partially offset by higher catches of redfish (+30%).

Pelagics

Pelagic landings are forecast to increase by approximately 22% this year, resulting mainly from higher capelin catches. Capelin landings have increased 28% to approximately 27,900 tonnes after dropping over 40% to 21,900 tonnes in 2017. Mackerel landings are forecast to more than double (from 2,600 tonnes to 5,600 tonnes), while herring landings are expected to be similar to 2017 levels. The corresponding landed value for pelagics is forecast to be up about 41% due to higher capelin and mackerel landings and slightly higher average market prices for both capelin and herring.

Aquaculture

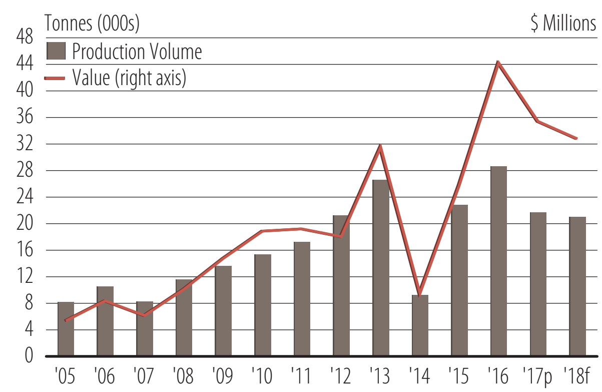
Preliminary data indicates that aquaculture production will decline slightly in 2018 relative to 2017. Production volume is expected to be approximately 21,000 tonnes in 2018, down 3% from 21,700 tonnes in 2017, largely the result of lower salmonid production. The corresponding market value is anticipated to decrease by 7% this year to $205 million, down from $221 million last year (see chart).

Salmonid production is projected to decrease 4% to approximately 18,000 tonnes, and the corresponding value is projected to decrease 8% to $193 million in 2018. The decline in production is largely due to Infectious Salmon Anaemia virus (ISAv) events. The production volume of shellfish is anticipated to be approximately 3,000 tonnes, relatively on par with 2017. Shellfish value is projected to decline 2% to $12.3 million due to slightly lower prices.

The average market price between January and August 2018 for 8-10 pound wholefish Atlantic salmon was $4.87/pound, essentially on par in comparison to the average price observed in 2017. Salmon prices increased at the beginning of 2018 and started to fall in the middle of the year. Mussel prices have remained relatively stable over the past 12 months. The average price between January and August 2018 was $1.86/pound, while the 2017 average was $1.88/pound.

Aquaculture Production Volume and Value

All species



p: preliminary; f: forecast
Source: Department of Fisheries and Land Resources

Aquaculture Development

Marine Harvest and Grieg NL Seafoods are both pursuing aquaculture development opportunities in Newfoundland and Labrador.

Marine Harvest continues to expand its presence in Newfoundland and Labrador with the purchase of the Gray Aqua Group in 2017 and the acquisition of Northern Harvest in 2018. Through Northern Harvest Smolt, Marine Harvest is expanding its Indian Head Hatchery to increase production capacity from 4.5 million to 6.7 million smolt annually. Construction on the project is planned to commence in 2018 and be completed by the end of 2020. The project, which has an estimated cost of $51 million, was released from environmental assessment in September 2018.

In September of this year, Grieg NL officially launched the $250 million aquaculture project in Placentia Bay with support from both the provincial and federal governments. The launch follows the project's release from a comprehensive environmental assessment process, which included more than 15 conditions to ensure the project proceeds in an environmentally sustainable manner. The project is expected to generate more than 800 new jobs once full production is reached.

These planned investment activities will lead to an increase in both production and activity in the supply and services sector.

Processing and Marketing

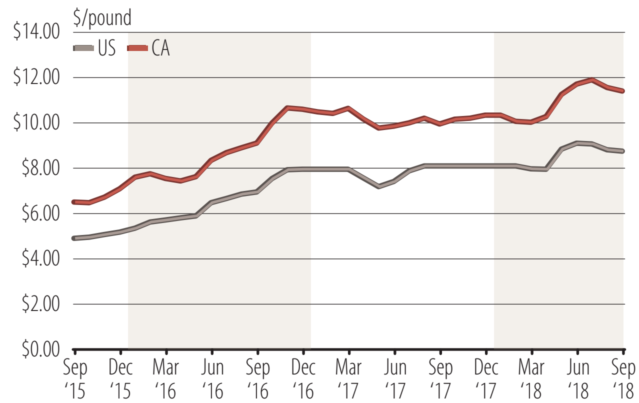
From January to July of 2018, approximately 70,900 tonnes of seafood production had been reported. This compares to 59,000 tonnes in the same period of 2017. In 2017, there were 89 licenced processing plants, slightly lower than the 92 plants licenced in 2016. Of these facilities, 69 were primary processing facilities, two were secondary, six were aquaculture, and 12 were in-province retail establishments.

From January to July, the U.S. and China accounted for over 70% of the international export value of the province's seafood products. The U.S. remains the largest market and represented 48.8% of total export value (down from 55% in 2017), while China accounted for 22.4% (up from 18% in 2017). Other major markets include Iceland (3.3%), Denmark (3.2%), Indonesia (2.4%) and the United Kingdom (2.2%). From January to July of this year, Newfoundland and Labrador's international seafood product exports were valued at approximately $689 million, 10% higher than the same period in 2017.

A relatively low Canadian dollar and higher market prices continued to benefit snow crab processors in the first part of 2018. Similar to the past few years, a lower global supply of snow crab put upward pressure on market prices. The year-to-date (January to September) average market price for 5-8 ounce snow crab sections was 9% higher than the same period in 2017 and 37% higher than the same period two years ago (see chart). Market prices for inshore shrimp were also up during the first part of 2018. The price of 150-250 count shrimp averaged $7.50/pound over the January to August period, up 27% from the same period in 2017.

Newfoundland and Labrador seafood producers have benefitted from market access under the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) which came into force on September 21, 2017. Under CETA, the majority of seafood tariff lines became duty free, and the remaining tariffs will be phased out over seven years. In the meantime, Newfoundland and Labrador producers have been able to avail of transitional tariff rate quotas (TRQs) for cooked and peeled shrimp (23,000 tonnes) and frozen cod fillets (1,000 tonnes).

5-8 Ounce Snow Crab Market Prices



Source: Urner Barry; Bank of Canada

There are a number of initiatives in place intended to help transform and drive innovation in the fish and seafood sector, for example the Atlantic Fisheries Fund (AFF). The AFF is cost-shared between the Government of Canada and the Atlantic provinces. This fund spans a seven-year time frame and will support innovation in the fish and seafood sector in Atlantic Canada. The fund is already providing significant economic benefits for the province's fish harvesters, fish processors and aquaculture companies.

Pulpwood truck unloading at CBPPL woodyard

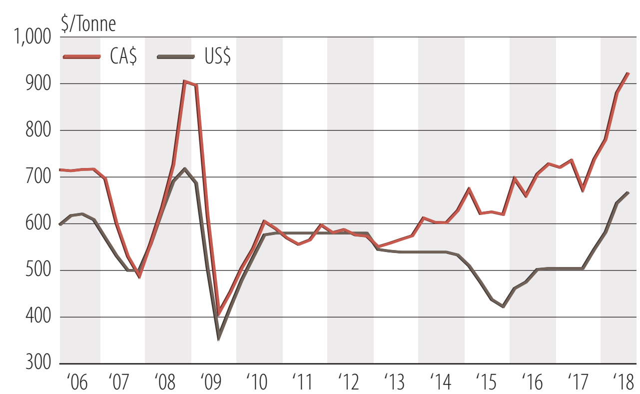
Forestry

Newsprint

Market Conditions

North American newsprint producers continued to struggle with difficult market conditions in 2018. Demand has dropped by two-thirds between 2000 and 2017, reflecting the growing popularity of digital media. Newsprint producers have removed considerable capacity over this time frame to offset the declining demand, resulting in tighter supply and, therefore, rising market prices (see chart). More recently, the imposition of countervailing and anti-dumping duties by the U.S. Department of Commerce (DoC) on Canadian newsprint contributed to higher market prices, as producers passed the added cost of duties to customers by increasing prices. For the first three quarters of 2018, the price of newsprint averaged US$684/tonne, 18.9% higher than the same period in 2017. In Canadian dollars, the average price of newsprint increased by 17.3%.

North American Newsprint Prices



Source: TD Financial Group; Pulp and Paper Weekly; Bank of Canada; Department of Finance

On January 9, 2018, the U.S. DoC announced preliminary countervailing duties on uncoated groundwood paper (including newsprint) from Canada. On August 2, 2018, the U.S. DoC announced final countervailing duty and anti-dumping rates on Canadian producers. These rates were subsequently eliminated on August 29 by the U.S. International Trade Commission after finding that the "U.S. industry was not materially injured or threatened with material injury by imports from Canada." Duties paid since earlier this year will be refunded.

Provincial Industry

The provincial newsprint industry has faced challenges similar to those of the overall North American industry, with the number of newsprint facilities reduced from three to one over the last 15 years. The remaining facility is owned by Corner Brook Pulp and Paper Limited (CBPPL), a subsidiary of Kruger Inc. CBPPL employs close to 550 full-time and casual workers among the paper mill, power plants and forest operations. Provincial newsprint shipments in the first three quarters of 2018 totalled 177,256 tonnes, a decrease of 3.9% over the same period in 2017. The estimated value of shipments increased by 12.6% due to higher prices.

CBPPL has engaged in a long-term sustainability plan, facilitated by a 2014 loan agreement with the Provincial Government. Under the terms of the agreement, CBPPL has access to a fully repayable loan of up to $110 million secured by a mortgage on the company's power assets and water rights, including the Deer Lake Power Plant and Watson's Brook Power Plant. The loan is being used by the company for debt restructuring and capital improvements at the Corner Brook facility and the Deer Lake Power Plant. Rebalancing the operation of the mill is important to the Corner Brook region and also has implications for the sawmill industry, which exchanges raw material with the paper mill for mutual benefit.

The mill in Corner Brook was challenged by the recent tariffs imposed by the U.S. DoC. Before the duties were cancelled, Kruger faced a combined rate set at 32.08%. Throughout, CBPPL maintained production at normal operating levels. However, the company endeavoured to reduce its reliance on U.S. markets and were successful in doing so. Newfoundland and Labrador newsprint exports to the U.S. declined by 6.4% between January and August while exports to other international markets increased by 86.3%. It remains to be seen whether this shift will persist following the removal of trade restrictions to the U.S. market.

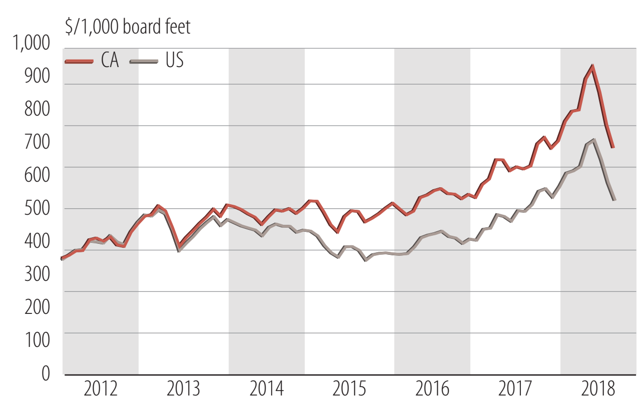
Lumber

Lumber prices reached their highest level in over a decade in 2018, driven by supply shortages, transportation backlogs and price increases to offset U.S. lumber duties. A rapid increase in prices from early 2017 to mid 2018 was followed by a rapid decline between July and September, bringing prices in line with those of September 2017, which remain well above the averages of previous years. Lumber prices increased from US$404 per thousand board feet in January 2017 to US$706 in June 2018, but dropped to US$523 in September 2018 (see chart).

On the demand side, residential construction is a major driver and the near-term outlook for this sector is uncertain. Growth in single-family housing starts has been slowing in the United States, while starts have been declining in Canada since July.

Newfoundland and Labrador lumber production is expected to reach 93 million board feet in 2018, up from 84 million in 2017. Increased output reflects

Lumber Prices



Note: Price is for Kiln Dried Eastern Spruce-Pine-Fir # 1&2 2x4 R/L - Delivered Great Lakes

Source: Random Lengths Weekly Pricing; Department of Natural Resources; Bank of Canada; Department of Finance capacity improvements, strengthened markets and higher prices.

Sexton Lumber Co. Ltd., the largest sawmill in the province, recently installed a new finger jointing plant. This new addition will allow the company to increase the variety of lumber lengths it produces.

The industry is also exploring opportunities in lumber by-products. For example, Burton's Cove Logging and Lumber Ltd. in Hampden installed a new storage facility to store processing residues. Those residues are used in energy applications and for animal bedding.

The Canada-U.S. softwood lumber trade dispute remains a source of concern for Canadian lumber exporters. The previous Softwood Lumber Agreement expired in October 2015 and negotiations and discussions regarding a new agreement have been ongoing since that time. In April 2017, preliminary duties were imposed on Canadian softwood lumber. However, later developments were favourable to several Atlantic producers. In November 2017, the U.S. DoC announced that lumber produced and originating from Nova Scotia, Prince Edward Island and Newfoundland and Labrador would be excluded from countervailing and anti-dumping duties. This decision has been positive for the provincial sawmill industry, as it permits an unrestricted flow of softwood lumber into the United States. This not only supports maintaining current production levels and higher lumber pricing, but also secures the U.S. market to foster capacity increases in the province. Roughly $12.8 million in lumber was exported from the province to the U.S. during January to August 2018.

Future Developments

The Provincial Government continues to work towards an agreement on the utilization of forest resources in central Newfoundland, which were formerly held by AbitibiBowater until the closure of the Grand Falls-Windsor newsprint mill in 2009.

Agriculture

The agriculture industry in Newfoundland and Labrador is diverse, with operations ranging from small organic farms to large dairy and poultry farms. Livestock and livestock products account for approximately 85% of the total value of receipts with roughly 14% coming from crops and the remaining approximately 1% from direct payments, such as crop insurance. The largest valued products include dairy, chicken, eggs, fur, and floriculture, nursery and sod.

Following last year's growth, provincial farm cash receipts were up again in the first quarter of 2018. Total receipts were up 2.3%, but receipts from crops and livestock (excluding direct payments) were up over 4%. Livestock and livestock products were up 4.9% while crop receipts were down 6.4% (see table).

While total crop receipts declined in the first quarter, the winter months are slower for this sector with nearly 90% of receipts being generated in the last three quarters of the year. Thus, a true picture of 2018 crop performance will not emerge until data for these quarters are available.

First Quarter Farm Cash Receipts

Newfoundland and Labrador, $Millions

	2017 Q1	2018 Q1	Actual Ch, $M	% Change
Crop Receipts	2.4	2.3	-0.2	-6.4%
Dairy	11.9	11.9	0.0	0.0%
Eggs	4.7	4.8	0.1	2.2%
Poultry, Hogs & Fur	15.9	17.7	1.8	11.6%
Other*	2.2	1.3	-1.0	-42.6%
Total Receipts	37.2	38.0	0.8	2.3%

* Other includes other livestock plus direct payments.

Source: Statistics Canada. Table 32-10-0046-01 Farm Cash Receipts

Livestock production was led by a significant 11.6% gain in a category that includes poultry, hogs and fur. Farm cash receipts from chicken, fur and hog farming are not available due to confidentiality restrictions. However, most of the first quarter gain in this category is due to increased chicken production. Data from the Chicken Farmers of Canada indicates that the volume of chicken produced in the province in the first eight months of 2018 is up 5.8% compared to the same period in 2017. Chicken production was adversely impacted by a labour dispute in the latter part of 2017 so further year-over-year gains can be expected for the remainder of the year. Egg and milk production up to July are on par with the same period in 2017. The "other" category was down in the first quarter mainly due to a negative number for Agri-Stability payments compared to a positive number in the first quarter of 2017.

The new USMCA trade agreement referenced in the *Global* section has a number of implications for the Canadian dairy, egg and poultry sectors. Under the new agreement, U.S. dairy farmers will get access to just under 3.6% of Canada's protected dairy market, and Canada has agreed to eliminate its Class 6 and Class 7 milk categories within six months. The dairy import quotas will be phased in over 19 years and the federal government says it will compensate dairy farmers for the negative impacts of this. Some access to poultry and egg markets was granted as well. A 5% import quota for poultry will be phased in over six years, and a 1.3% import quota for eggs will be implemented once the agreement is ratified. Quotas for both poultry and eggs will subsequently increase by 1% per year for the next 10 years. Currently, Newfoundland and Labrador is self-sufficient in fresh milk and egg production.

In October 2017, the Province launched *The Way Forward on Agriculture*—an agriculture sector development work plan. This plan was developed through a partnership between the Provincial Government, the Newfoundland and Labrador Federation of Agriculture, and Food First NL to achieve the following goals: foster new and expanding agriculture business activity including secondary processing; increase food self-sufficiency in the province; and generate additional employment opportunities within the industry. To help advance these goals, the Province has:

- Increased access to Crown land for the agriculture industry. In this regard, 62 areas totalling approximately 64,000 hectares have been identified for agricultural use. To date, 49 of those areas—a total of 50,569 hectares—have been reserved for development.
- Established a new Centre for Agriculture and Forestry Development in Wooddale.

Construction of the Corner Brook Long-Term Care Facility

Construction

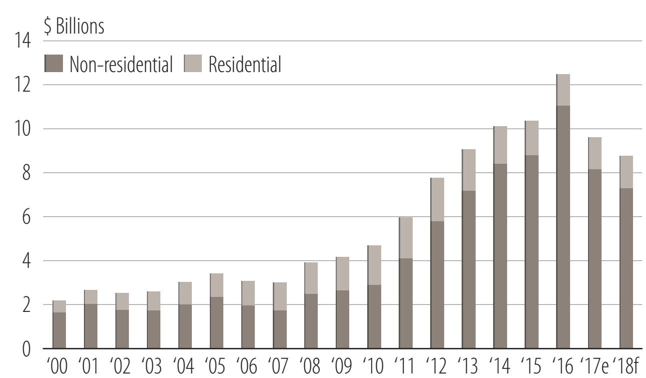
Newfoundland and Labrador recorded a remarkable expansion in construction activity over the past 15 years. Real GDP and employment in the construction industry have each more than doubled, largely driven by high levels of investment associated with resource projects such as the Hebron oil development, the Muskrat Falls hydroelectric development and the Long Harbour nickel processing facility.

Construction Related Investment

Construction related investment spending in the province is expected to total $8.8 billion in 2018, down 8.7% from the previous year (see chart). A decrease in non-residential expenditures is expected to more than offset a slight increase in residential expenditures.

Non-residential investment, which accounts for the vast majority of construction related investment

Construction-Related Investment



e: estimate; f: forecast
Source: Statistics Canada; Department of Finance

in the province, is expected to total $7.3 billion in 2018, down 10.5% compared to 2017 levels. This decline can be attributed to the completion of the development phase of Hebron project in the fall of 2017 and lower activity on the Muskrat Falls hydroelectric development. Nevertheless, the Muskrat Falls project remains a significant contributor to non-residential construction this year, and details concerning this project are contained in a special discussion on the next page.

The construction industry is currently benefitting from a five-year, nearly $3 billion plan for new and existing public infrastructure (e.g. schools, roads, healthcare facilities) that was announced in March 2017. This plan is expected to generate 4,900 person years of annual employment (direct and spin-off) over the five-year period. Some examples of announcements under this plan include:

- Five-year provincial road plan, updated annually ($77.2 million to be spent in fiscal 2018);
- 145 bed long-term care facility in Corner Brook;
- 60 bed long-term care facility in Gander;
- 60 bed long-term care facility in Grand Falls-Windsor; and
- 20 bed expansion to the protective care unit at the Dr. Hugh Twomey Health Centre in Botwood.

Recent developments in the oil and gas industry also bode well for construction in Newfoundland and Labrador. In May 2017, Husky Energy confirmed plans to develop the West White Rose project with a fixed drilling platform. Construction began in late 2017 and the project is estimated to cost $3.2 billion. The living quarters are being fabricated at Kiewit Offshore Services in Marystown and the concrete gravity structure is being constructed at the new graving dock in Argentia. It is expected that 200 to 300 workers will be needed over a period of 18 to 24 months for fabrication of the living quarters. At peak construction of the concrete gravity structure, approximately 800 workers will be needed; it is estimated that this work will take four years to complete.

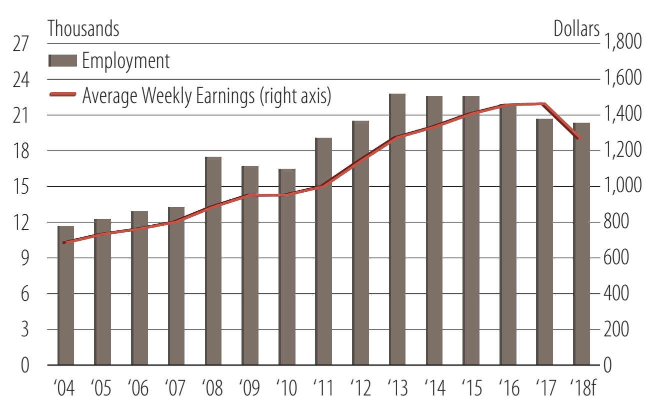
In addition, the construction industry has continued to benefit from development work in the mining industry. On June 11, 2018, Vale Newfoundland and Labrador (VNL) announced that it would be proceeding with the development of an underground mine at Voisey's Bay. The project had initially been sanctioned in July 2015, but was put on hold pending a company-wide review of all base metal operations. Capital investment in the project is expected to be almost $2 billion and approximately 650 jobs will be created during peak construction.

Residential construction spending is expected to increase by 1.5% in 2018 to about $1.5 billion. In the first half of this year, investment in residential construction grew by 2.4% compared to the first half of 2017. Expenditures on new dwellings grew by 11.4% while expenditures on renovations fell by 1.5%. The growth in new dwelling expenditures can be attributed to higher investment for double homes (i.e. multiple units in one home), row houses and apartments (see *Real Estate*).

Employment and Wages

Construction employment and wages have more than doubled over the past 15 years and remain at high levels (see chart). Although employment has declined from its peak of almost 23,000 over the 2013 to 2015 period, it is still expected to average around 20,300 this year. The trend of declining construction employment coincides with lower construction investment, and reflects the winding down of major projects.

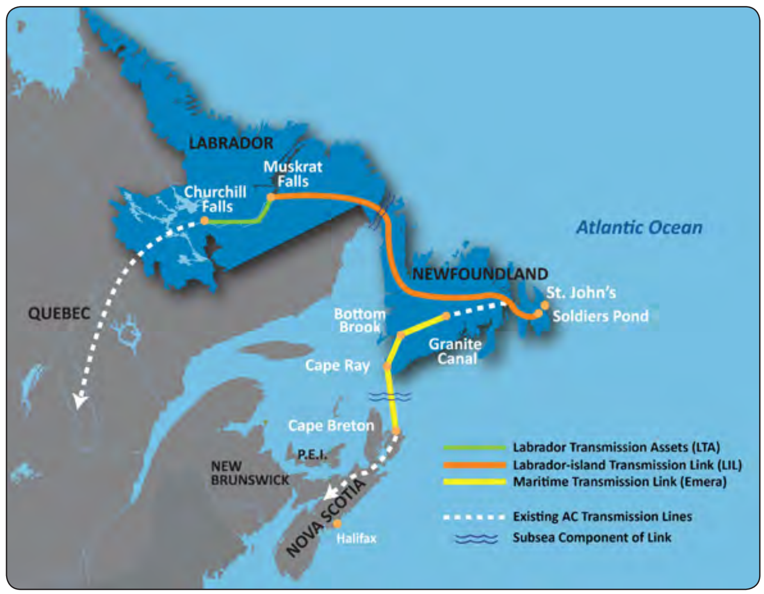
Construction Employment and Wages



f: forecast
Source: Statistics Canada; Department of Finance

During the first eight months of 2018, average weekly earnings (including overtime) in the construction industry were $1,322, down 12.6% from the same period in 2017. This decline in weekly earnings was partly due to a reduction in overtime hours worked as average weekly earnings (excluding overtime) in the construction industry were $1,224 during the first eight months of this year, down 7.8% compared to the same period last year. The loss of a large number of high-paying construction jobs related to the Hebron project was another factor negatively impacting average weekly wages in the construction industry this year.

Muskrat Falls Project



The Muskrat Falls Project includes: an 824 megawatt hydroelectric generating facility; over 1,600 kilometres of transmission lines across the province (including a subsea transmission link connecting Labrador to the island); and transmission lines connecting Newfoundland and Nova Scotia (the Maritime Link). Nalcor Energy is developing the generating facility and the transmission lines across the province, while Emera is developing the Maritime Link.

Construction of the project continued throughout 2018. Overall construction of the project (excluding the Maritime Link) reached 95% complete as of September 2018. There were about 3,200 people working on the project at that time, of which, around 90% were residents of Newfoundland and Labrador.

All work on the transmission lines from Churchill Falls to Muskrat Falls and then onto Soldiers Pond has been completed. In June 2018, Nalcor successfully flowed initial power from the Churchill Falls generating plant across the new transmission assets to Soldiers Pond. Commissioning work on the transmission assets is ongoing and will continue through the winter. The new transmission assets are on track to deliver power from the Muskrat Falls generating facility in 2019.

The generation portion of the project reached 89% complete in September 2018. The spillway is operational; construction of the North Spur and South dams is finished; the North Dam is nearing completion; and the powerhouse and intake structures are substantially complete. Work is underway for the installation of the turbines and generators in the powerhouse.

The first test exchange of power across the Maritime Link occurred at the end of 2017.

Capital cost for the Muskrat Falls Project (excluding the Maritime Link) is currently $10.1 billion with incurred costs of $8.8 billion at the end of September 2018. The total cost of the project (including financing and interest) is projected to be $12.7 billion.


City View Terrace, St. John's

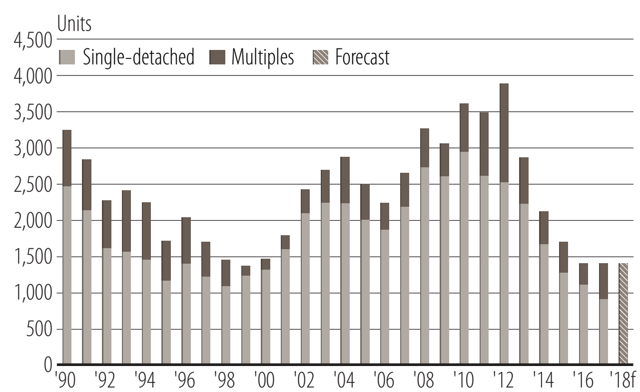
Real Estate

Provincial real estate activity remains subdued in 2018. The number of housing starts and the average housing price have declined so far this year, while the number of residential properties sold was on par with 2017. In the commercial sector, office vacancy rates remained relatively high, reflecting increasing supply and slowing demand.

Housing Starts

Housing starts in the province totalled 835 units during the first three quarters of 2018, a decrease of 6.3% compared to the same period in 2017. Single-detached housing starts (which typically account for the vast majority of total starts in the province) declined by 4.0% from 602 to 578 units, while multiple starts (which include denser housing types such as row, semi-detached homes, apartments and condominiums) decreased by 11.1%, from 289 to 257 units.

Housing Starts



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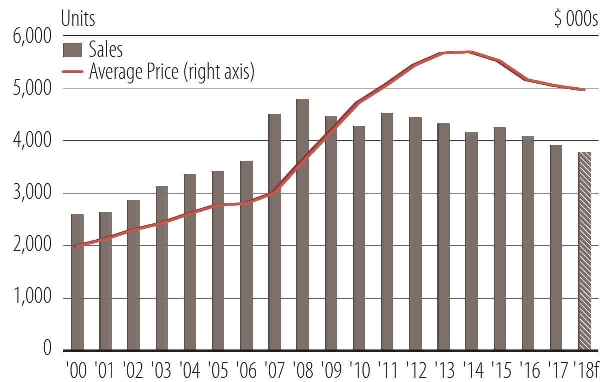
Source: Statistics Canada; Department of Finance

Urban housing starts, which comprise approximately two-thirds of housing starts in the province, totalled 608 units during the first three quarters of the year, a 9.5% decrease from the 672 starts observed in the same period in 2017. Rural housing starts rose in the first three quarters of 2018, up 3.7%, from 219 to 227 units.

Residential MLS® Sales & Average Price



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Source: Canadian Real Estate Association

The St. John's Census Metropolitan Area (CMA), which is the single largest housing market in the province, also experienced a drop in housing starts. During the first three quarters of the year, housing starts decreased by 3.5% in the region, from 489 to 472 units. While single-detached housing starts declined by 7.7% from 323 to 298 units, multiple starts increased by 4.8%, from 166 to 174 units. The increase in multiple starts is an indication of the changing composition of the new home market, from larger single-detached homes to more affordable semi-detached and row houses.

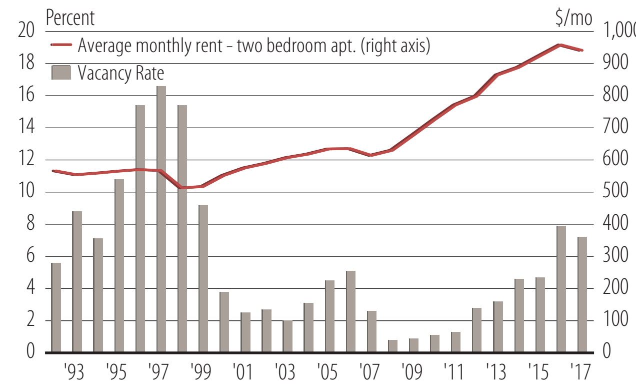
For 2018 as a whole, total provincial housing starts are forecasted to be essentially unchanged from the 1,400 units observed in 2017 (see chart).

Residential Sales and Prices

The number of residential properties sold in the province through the Canadian Real Estate Association's Multiple Listing Service (MLS®) fell by 2.3%, from 2,878 to 2,811 units during the first three quarters of 2018. The average MLS® residential price over the same period was $252,065, a slight decrease of 0.4% compared to the first three quarters of 2017. According to the Canadian Real Estate Association's most recent quarterly forecast, the number of residential units sold is expected to decline by 4.4% in 2018 and the average price is expected to be down 1.5% (see chart).

St. John's Vacancy Rate and Average Rent

1992 to 2017



Source: CMHC Rental Market Survey

In the St. John's CMA, there were 1,571 residential units sold in the first three quarters of 2018, a decrease of 1.1% compared to the same period in 2017. The average MLS® residential price in St. John's was $297,414 over the same period, a decrease of 1.2% compared to the first three quarters of 2017.

Declining house prices in the province may be attributable to imbalances in the market. A housing market is generally considered balanced when the sales-to-new listing ratio ranges from 40% to 60%. A ratio below 40% indicates a buyers' market, while a ratio above 60% indicates a sellers' market. Over the first three quarters of 2018, the sales-to-new listings ratio in the province averaged 30.0%, compared to 32.3% during the same period in 2017, clearly indicating a buyers' market.

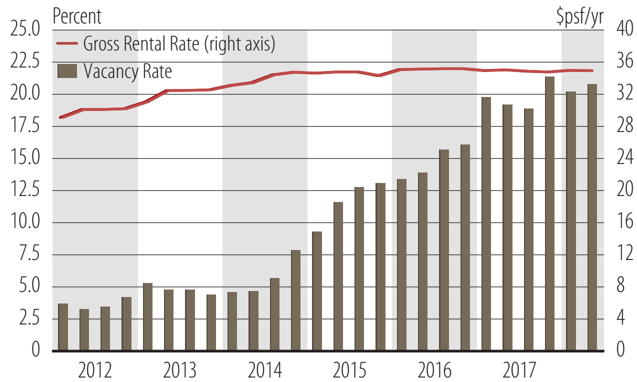
Rental Market

According to the Canada Mortgage and Housing Corporation's most recent Rental Market Survey in October 2017, the overall urban residential vacancy rate in Newfoundland and Labrador was 6.6%, essentially unchanged from the rate of 6.5% observed in October 2016.[1] The average monthly rent for a two-bedroom apartment in the province in October 2017 was $854, down from $865

[1] The Rental Market Survey is conducted in urban areas with populations of at least 10,000 and targets the primary rental market, which only includes rental units in privately initiated apartment structures with at least three rental units.

Office Vacancy and Rental Rates

St. John's Region



psf: per square foot
Source: Cushman & Wakefield Atlantic

in October 2016. By comparison, the average rent for a two-bedroom apartment was higher in Nova Scotia ($1,048) and Prince Edward Island ($880), but lower in New Brunswick ($778).

The vacancy rate in the St. John's CMA dropped to 7.2% in October 2017, compared to 7.9% in October 2016. This was the first drop in the vacancy rate in St. John's since 2008 when the vacancy rate stood at less than 1% (see chart). In the St. John's CMA, the average monthly rent for a two-bedroom apartment also declined. After rising steadily from $614 in 2007 to $958 in 2016, the average monthly rent for a two-bedroom apartment dropped to $941 in 2017.

As for the other urban areas of the province, the residential vacancy rate was 3.8% in Corner Brook in 2017 (up 1.3 ppt. from October 2016), 3.3% in Gander (down 0.7 ppt.), and 7.7% in Grand Falls-Windsor (up 4.8 ppt.).

Commercial

The total inventory of office space in the St. John's area increased by 26.0% (over 785,000 square feet) from the beginning of 2013 to the end of 2017. However, the absorption of vacant office space into the market has slowed in recent years. As a result, the office vacancy rate in St. John's has been trending upwards since the third quarter of 2014, reaching a high of 21.4% in the fourth quarter of 2017 (see chart). The office vacancy rate for St. John's in the second quarter of 2018 was 20.8%, an increase of 0.6 percentage points from the vacancy rate recorded in the first quarter. Overall, the office vacancy rate averaged 20.5% over the first two quarters of 2018, 1.0 ppt. higher than during the same period in 2017. The average rental rate for office space fell slightly to $34.96 per square foot per year in the first two quarters of 2018 compared to $35.00 during the same period in 2017. The average rental rate remains high as an increasing share of office space is in new "Class A" buildings, which generally commands a higher price than older buildings.

Tourism

The tourism sector in Newfoundland and Labrador generates economic wealth in all regions of the province, making it an important contributor to the provincial economy. Tourism consists of residents engaging in tourist activities within the province and non-residents visiting the province. Visitors to the province arrive by airline, automobile, and cruise ship. In recent years, tourism spending in the province (resident and non-resident) has totalled $1 billion annually. Tourism activity in the province slowed in 2018 relative to 2017 when Canadians celebrated Canada's 150th birthday by travelling across the country. Potential "travel fatigue," combined with increased retail gas prices, overall travel costs and low business and consumer confidence are likely to have impacted visitation levels in 2018.

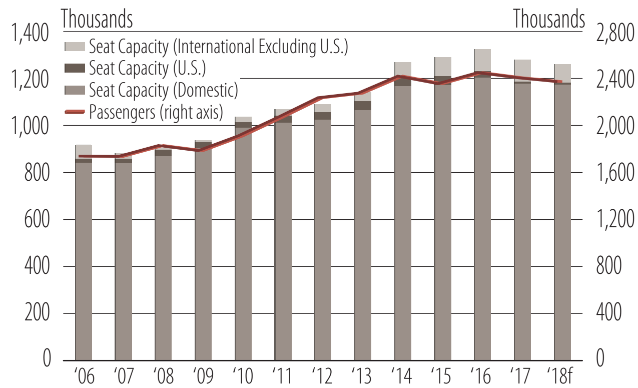
Air Visitors

Air travel is the largest segment of provincial non-resident tourism, accounting for 75% of visitors and 80% of non-resident tourism spending in 2017. In the first nine months of 2018, approximately 335,900 non-resident visitors arrived by airplane, roughly on par with the same period in 2017.

Boarding and deplaning traffic at the province's seven major airports was estimated at 1.8 million passengers for the first nine months of 2018, down 1.2% compared to the same period in 2017. A decline in activity was experienced across all airports with the exception of Wabush in Labrador, which experienced increased activity.

Inbound non-stop seat capacity is expected to decrease by 1.6% in 2018, the second year of declines following nine consecutive years of growth (see chart). Domestic seat capacity is expected to decline by 0.4%, mainly due to fewer seats from Halifax, Ottawa and Montreal. An increase of 1.7% is expected in inbound seat capacity for flights from the United States. International (excluding U.S.) seat capacity is expected

Air Passengers and Seat Capacity



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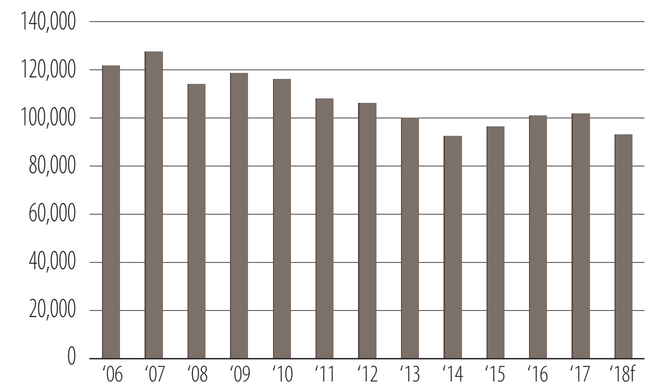
Note: Passenger forecast for 2018 is based on year-over-year growth for the first nine months. Passengers are boarding and deplaning; air capacity is in-bound only.
Source: Department of Tourism, Culture, Industry and Innovation; Department of Finance

Non-Resident Automobile Visitors



f: forecast
Source: Department of Tourism, Culture, Industry and Innovation

to decrease by 16.7% in 2018, a reflection of the termination of WestJet's service from Gatwick to St. John's and a decrease in the number of seats on their Dublin to St. John's route.

The St. John's International Airport is the largest airport in the province and is the main gateway for non-resident visitors. The airport introduced the CAT III Instrument Landing System in 2016, which has improved flight operations in times of low visibility, increasing flight reliability with fewer delays, diversions and cancellations. Additional improvements are also underway at the airport with a two-phase expansion of the terminal building. The first phase of the expansion, completed in July 2018, added an additional 145,000 square feet to the departures area of the terminal building. Some of the improvements include four times more preboard screening space, 40% more check-in space, new concessions and triple the seating capacity in the departures lounge. The second phase will commence in 2019 and is due to be completed in 2021, adding a further 100,000 square feet to the arrivals area. The total area of the airport terminal building will double in size when complete and will be capable of accommodating two million annual passengers, a milestone that is anticipated to be achieved during the 10-year planning horizon.

Automobile Visitors

Non-resident automobile visitors on the Marine Atlantic ferries between North Sydney and Newfoundland decreased by 8.6% during the first nine months of 2018 compared to the same period in the previous year. Higher travel costs in general, and increased gasoline prices in particular (reaching levels not seen since 2013), appear to have impacted price-sensitive auto travellers.

Cruise Visitors

Preliminary information suggests a weaker cruise season in 2018 for the province. A total of 97 tentative port calls (port stops) have been scheduled. This compares with 105 port calls in 2017. Most cruise ship visits were scheduled for the month of September.

Accommodations

The preliminary provincial accommodation occupancy rate was 45.7% during the first eight months of 2018, a decrease of 7.4 percentage points over the same period in 2017. Occupancy rates were down in all regions with the exception of Labrador. Similarly, the number of room nights sold from January to August was approximately 907,000, down

14% over the same period in 2017. The average daily room rate increased to $142, up 1.1% over the first eight months of 2017.

Connecting with Travellers

The Province has promoted tourism and engaged travellers through many channels, including award-winning marketing campaigns, advanced technologies and social media (e.g., Facebook, Twitter, YouTube) and Visitor Information Centres (VICs) located in all regions of the province. Visitation to the Province's VICs decreased 15.3% to 119,230 for the 2018 operating season ending September 29th. With non-resident auto travellers tending to be heavier users of VICs than air travellers, this year's significant decrease in auto visitation likely contributed to lower VIC use.

Despite a decrease in personal travel counselling during in-province visits, Newfoundland and Labrador Tourism's multimedia campaign efforts continued to yield positive results, with total digital activity increasing 17.6% between January and August 2018. Individual channels such as newfoundlandlabrador.com, icebergfinder.com and campaign pages all contributed to this success. Nearly 1.5 million sessions (January to August) on newfoundlandlabrador.com's 'plan-and-book' section and referrals to tourism operators at record levels in 2018 are evidence that interest in Newfoundland and Labrador as a travel destination remains high.

The *Provincial Tourism Product Development Plan*, which was released in the spring of last year, sets out the goal of guiding and supporting the development of high quality visitor focused Newfoundland and Labrador brand experiences to increase residential and non-residential tourism spending to $1.6 billion by 2020.