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Newfoundland
Labrador

The
Economic Review 2014

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Global Economic Environment

The World

The global economy continues to struggle with achieving consistent and sustainable growth across major regions. While central bankers in the United States (U.S.) and the United Kingdom (UK) are planning to scale back massive monetary stimulus programs, those in Europe, Japan and China are ratcheting up their respective central bank activities trying to strike the right balance between inflation and economic growth. Deflationary pressures, both on consumer and producer prices, are a concern for many monetary authorities. Weakness in Japan and the Euro area, coupled with recent central bank actions to loosen monetary policy, have caused these currencies to decline significantly in value relative to other major currencies, especially the U.S. dollar. This change in exchange rates should help to encourage trade and support economic growth. The recent decline in oil prices should also boost consumption, especially in major oil importing countries. However, for oil exporters like Canada commodity price declines are a concern and this, combined with recent cautionary statements about the state of the Canadian economy by the Governor of the Bank of Canada, has led to a decline in the value of the Canadian dollar this year.

GDP Growth (%)

	2013e	2014f	2015f
World	**3.3**	**3.3**	**3.8**
Brazil	2.5	0.3	1.4
India	5.0	5.6	6.4
Russia	1.3	0.2	0.5
China	7.7	7.4	7.1
Canada	**2.0**	**2.3**	**2.5**
United States	**2.2**	**2.2**	**3.0**
Japan	1.5	0.9	0.8
Australia	2.3	2.8	2.9
European Union	0.2	1.4	1.8
United Kingdom	1.7	3.2	2.7
Euro Area	-0.4	0.8	1.3
Ireland	0.2	3.6	3.0
Germany	0.5	1.4	1.5
France	0.3	0.4	1.0
Spain	-1.2	1.3	1.7
Portugal	-1.4	1.0	1.5
Italy	-1.9	-0.2	0.9
Greece	-3.9	0.6	2.9

e: estimate; f: forecast

Source: Canada - average forecast of major Canadian banks; U.S. - Survey of Professional Forecasters, U.S. Federal Reserve Bank of Philadelphia; all other jurisdictions - International Monetary Fund, October 2014.

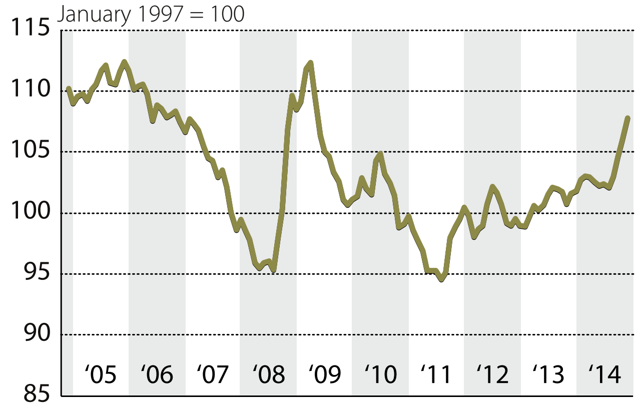
Similar to recent years, in October the International Monetary Fund (IMF) again revised its global economic projections downward. Growth is now expected to average 3.3% in 2014 versus the view of 3.7% at the outset of the year. While growth is higher in some countries, downward revisions among major economies—the U.S., China, the Euro area, and Japan included—are collectively the main catalysts responsible for the overall downward revision. On a positive note, the first quarter weakness in the U.S. was only temporary as it was mainly due to the unusually cold winter. The effects of this have passed and there are indications that momentum is building in the U.S. economy. Monetary actions by the Bank of England also appear to be yielding desired results. Whereas in January the IMF had expected 2014 GDP growth in the UK to be 2.4%, the IMF fall update now predicts growth will be 3.2%; an improvement of almost a full percentage point.

As it currently stands, the UK (2.3% of global GDP), U.S. (16.3%) and India (6.8%) economies are the only three large economies showing near term accelerating growth prospects.

United States

The United States is currently the second largest economy in the world, accounting for 16.3% of global GDP on a purchasing power basis in 2014. Momentum in the U.S. economy picked up steam as 2014 progressed. Real GDP contracted by 2.1%, at an annualized rate, in the first quarter due to temporary factors such as harsh winter weather and a large inventory correction. However, growth rebounded to 4.6% and 3.9% in the second and third quarters respectively as the impacts of these factors faded.

Trade Weighted U.S. Dollar Index



Source: Federal Reserve

Solid gains across major sectors including consumer spending, investment, exports and government spending contributed to growth in the second and third quarters of the year. Growth in the second and third quarters averaged 2.4% for consumer spending, 12.1% for investment, 8.0% for exports and 3.0% for government expenditures on an annualized basis.

The recovery in the U.S. appears to be underpinned by solid growth in the labour market. Employment gains averaged 229,000 per month during the first 10 months of 2014 and the unemployment rate fell from 6.6% in January to 5.8% in October. As well, average weekly earnings rose by 2.3% during the first 10 months of the year compared to the same period of 2013. This, combined with robust employment growth, produced a 4.0% increase in labour compensation and a 3.8% increase in personal income during the first three quarters of 2014.

Solid advances in many economic indicators and concerns about future inflation led the Federal Reserve to end its $85 billion per month asset purchasing program it began in late 2012. This third quantitative easing program since the 2008/2009 recession was designed to stimulate economic growth and hiring by keeping long-term mortgage rates low and encouraging households and businesses to spend and invest. The anticipated end of the Fed's most recent quantitative easing program initially caused some nervous market reactions. Speculation about the ending of asset purchases caused 10-year bond yields to rise above 3% early in 2014. However, weak inflation numbers, falling oil prices, a rising U.S. dollar and growing concerns over economic growth in China and Europe served to push 10-year yields down below 2.3% in recent days. The Fed is not expected to raise its benchmark Federal Funds rate from its current 0 to 0.25 percent range until well into next year at the earliest.

GDP growth in the U.S. is expected to average 2.2% this year and accelerate to 3.0% in 2015. Consumption growth is expected to be underpinned by gains in household wealth and employment, as well as by lower commodity prices, especially oil. Business investment will continue to be boosted by low interest rates while exports will likely face some head winds given the sustained rise in the U.S. dollar relative to its major trading partners and slowing growth in China and Europe.

Europe

Despite several years of extremely low interest rates, the Euro area has been unable to shrug off the lingering effects of the 2008/2009 recession. A recent manufacturing survey for the region indicates that near-term weakness continues to wreak havoc among many large European economies. While central banking authorities have bought national policy makers considerable time to facilitate structural economic and fiscal policy reforms to create better growth conditions, adequate action in these areas has not materialized. Deficits and indebtedness continue to accrue, especially in large Euro member countries like France and Italy. Pervasive weak demand across many sectors and economies of the Euro area have yielded lackluster economic growth. The Euro economy is about the same size it was six years ago and unemployment in most countries remains at elevated levels especially among youth. There is a risk of deflation and central bankers are responding and preparing plans to do more again should this risk become more elevated. The IMF forecasts growth in the Euro area to be 0.8% in 2014, down from the January estimate of 1.0%. Smaller countries like Spain, Portugal, and Ireland are expected to record gains of 1.3%, 1.0% and 3.6% respectively while larger members like Germany, France and Italy are expected to record growth of 1.4%, 0.4%, and -0.2% respectively.

China

China is currently the largest economy in the world, accounting for 16.5% of global GDP in 2014. The country experienced a long period of rapid economic growth from the early 1990s to 2008 which was driven by rapid growth in exports to major markets around the world. The 2008/09 recession caused a significant decline in export demand and, to maintain strong economic growth, the government of China stepped in with infrastructure spending and loosened lending restrictions. This led to a massive construction boom in the country over the past five years which resulted in increased demand and consequently higher prices for commodities such as iron ore and oil.

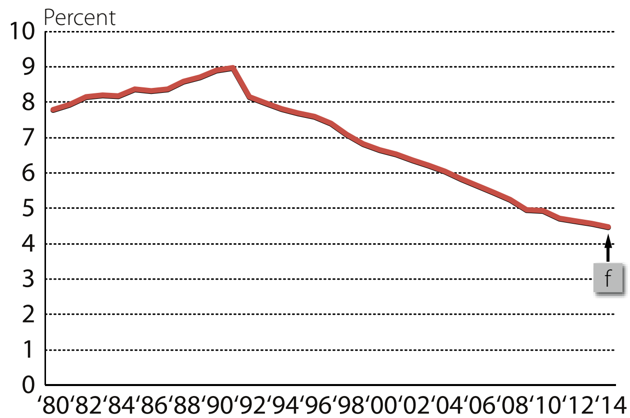
China's most recent monetary stimulus program caused a massive boom in property markets and skyrocketing real estate prices. In 2013, China's central bank raised interest rates and tightened access to credit in an attempt to reign in the over-heated real estate market. The government also introduced a number of structural reforms in an attempt to shift economic growth away from reliance on the credit-fuelled investment boom, to growth led by consumer spending and expanded service industries. Economic growth has slowed in recent quarters due to tightening credit and weaker export demand, but rates of growth remain elevated when compared to other major economies. Real year-over-year GDP growth averaged 7.4% in the first three quarters of 2014 compared to 7.7% for all of 2013.

Recent central bank action reveals the volatility and uncertainty of current economic circumstances in China. On November 21, 2014, the People's Bank of China lowered interest rates, in an apparent attempt to ease the slowdown in economic growth. The IMF is currently forecasting that China's real GDP will increase by 7.4% in 2014 and 7.1% in 2015.

Japan

Japan is currently the fourth largest economy in the world, accounting for 4.5% of global GDP in 2014. However, the country has experienced a number of serious economic difficulties over the past two decades and this has resulted in its share of the global economy declining significantly (see chart). The country's problems show no sign of abating in the near term. Persistently low inflation/deflation, increasingly high levels of government debt and weak private sector growth have become systemic. Japan also has the fastest aging population in the world which continues to put pressure on its social security system and labour supply.

Japan's GDP as a Percent of Global GDP



Source: International Monetary Fund

In 2013, the Government of Japan launched a three-pronged approach for economic recovery through monetary, fiscal, and structural policies. This included a large fiscal stimulus program; measures by Bank of Japan to increase the money supply (to increase inflation); and structural reforms such as reducing protectionism for selected industries and reducing labour market rigidities. These changes provided a temporary boost to the export sector and overall GDP growth throughout most of 2013. However, real GDP growth faltered in the fourth quarter of last year and decreased at annualized rates of 6.7% and 1.9% in the second and third quarters of 2014 respectively. In October 2014, the Bank of Japan indicated that further quantitative easing was required to avoid deflation and achieve its 2% inflation target. In April 2014, Japan raised its sales tax from 5% to 8% in an effort to reduce the deficit. Another two percentage point increase was planned for October of this year, but this increase has been postponed for 18 months due to concerns that a further increase at this time would reduce domestic consumption and, in the short term, prolong the country's economic difficulties. The IMF is currently forecasting Japan's real GDP will increase by only 0.9% in 2014. Japan's Prime Minister recently called a snap election for mid-December, two years ahead of schedule, as the administration seeks a new mandate for its economic reforms.

Canada

Similar to other countries around the globe, recent quarterly economic growth in Canada has been volatile. Recent estimates by Statistics Canada indicate that real GDP growth slowed to just 1.0% at annualized rates in the first quarter, but rebounded to 3.6% and 2.8% respectively in the second and third quarters. For the year as a whole, Canada's economic growth is forecast at 2.3%, similar to expectations earlier in the year.

Not only has growth been irregular since the 2008/2009 recession, it has also been weak by past standards. Evidence of the tepid performance is reflected in both GDP and national labour market indicators. Moreover, this pattern of a subdued national economic performance and regional disparity is one that has played out over and over since the end of the recession. Between 2009 and 2013, Canada's economy grew by only 2.6% per year. In past periods, a recessional recovery for a similar time period (e.g. 1982-1986 and 1991-1995) produced higher annual average growth rates (3.7% and 2.7% per year, respectively).

Not only has the recovery been weaker on average, but it has not been evenly shared amongst regions. Only three provinces posted above average GDP growth rates over that period. These are Alberta (4.6%), Saskatchewan (4.5%) and Newfoundland and Labrador (2.8%). All remaining provinces posted growth rates at or below the national average.

Labour market performance is another area that continues to reveal regional differences. During the first ten months of 2014, employment in Canada grew by 0.8% versus the same period last year. Regional variation within Canada was striking. As in recent years, western Canada posted above average results with Alberta and Saskatchewan posting growth of 3.1% and 1.8% respectively. Five provinces (Manitoba, Quebec, Nova Scotia, Prince Edward Island and Newfoundland and Labrador) reported declines or no change in employment while the remaining three (British Columbia, Ontario and New Brunswick) reported growth below the national average.

Other measures of labour market performance, such as the participation rate which takes into account the size of the population and perceptions about labour market opportunity, suggest some weakness in the labour market. During the first ten months of 2014, the national participation rate fell by 0.5 percentage points versus the same period last year. If this trend continues for the remainder for the year this rate would be at a the lowest level since 2001 indicating that considerable labour market weakness continues to exist and that Canadian labour market recovery has been slow to materialize.

The drop in oil prices and fall in Canada's exchange rate should help economic performance in manufacturing intensive provinces and lead to a rebalancing of regional economic growth. The latest consensus of bank forecasts expects growth in Canada to average 2.3% in 2014 and 2.5% in 2015.

Provincial Economic Overview

Economic conditions in Newfoundland and Labrador softened in 2014. Growth in the domestic side of the economy was constrained by lower investment spending in real terms and deteriorating global commodity market conditions, particularly for oil and iron ore, weighed heavily on the export sector. Over the first 11 months of 2014, prices for oil declined by 5.6% and iron ore prices fell by 26.5%. As a result, the value of exports, and consequently GDP, were negatively impacted. While oil development and production have not been materially affected by the decline in prices, the same cannot be said of the mining industry. Reduced iron ore prices prevented Labrador Iron Mines from restarting operations in 2014; created delays in the development of the Kami iron ore project; and contributed to the permanent closure of Wabush Mines. On a positive note, the lower Canadian dollar relative to the United States dollar has offset to some extent the lower prices received by oil and iron ore producers. Other export industries, such as fish processing and newsprint, also benefitted from the lower exchange rate. As a result of significant price declines, nominal GDP decreased by more than real GDP. Nominal GDP is forecast to decline by 2.5% while real GDP is expected to be down by 2.0% (see table of economic indicators), primarily due to lower exports.

Provincial exports are expected to decline by about 6.1% this year (5.5% in real terms) due largely to lower oil and iron ore production and prices. Oil production is expected to decline by about 5.4% this year compared to 2013 primarily as a result of lower output from Hibernia. Iron ore shipments are expected to decrease by about 15% relative to 2013 mainly due to the closure of Wabush Mines and, to a lesser extent, the temporary shutdown at Labrador Iron Mines.

Capital investment in the province is estimated to have remained at very high levels in 2014. Investment is expected to total $12.4 billion this year, up 0.6% from the record level recorded in 2013. Lower spending on Vale's nickel processing facility in Long Harbour was offset by higher spending on the Hebron and White Rose projects and on the Muskrat Falls development. Solid commercial and residential expenditures also contributed to investment spending. Total residential spending (including renovations) is expected to be $1.5 billion this year, a decline from the $1.7 billion recorded in 2013, but still high in a historical context.

Consumer spending growth has been moderate this year. The value of retail sales increased by 3.3% during the first nine months of 2014 compared to the same period of 2013. This growth was achieved despite lower new car sales. The number of new motor vehicles sold in the first nine months of 2014 was 2.1% lower than the same period of 2013. Although down from the previous year, this was the second highest level ever recorded during this period (see chart). In addition to retail sales, expenditures on services are also expected to post growth this year. Receipts of food services and drinking places increased by 1.3% in the first eight months of 2014 compared to the same period of 2013.

Economic Indicators

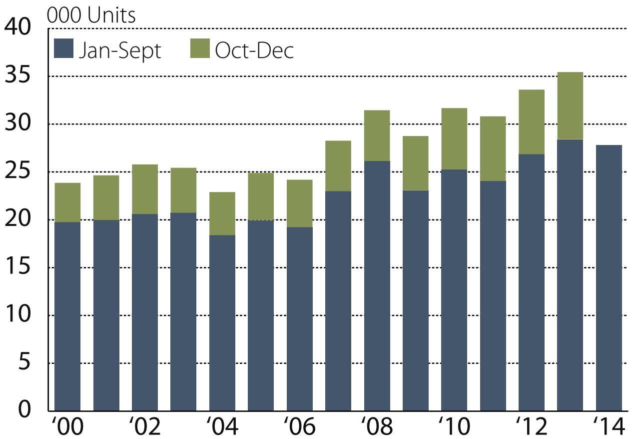
	2013e	2014f	2015f	2016f	2017f
GDP at Market Prices ($ M)	35,832	34,950	33,853	35,540	36,888
% Change	10.7	-2.5	-3.1	5.0	3.8
% Change, real	7.2	-2.0	1.7	-1.0	-2.0
Final Domestic Demand* ($ M)	35,617	36,433	38,142	36,666	33,837
% Change	10.3	2.3	4.7	-3.9	-7.7
% Change, real	8.0	-0.1	2.7	-5.2	-9.0
Household Income ($ M)	22,019	23,048	23,639	23,701	23,781
% Change	5.8	4.7	2.6	0.3	0.3
% Change, real	4.0	2.4	0.9	-1.5	-1.6
Household Disposable Income ($ M)	16,680	17,460	17,907	17,988	18,136
% Change	5.9	4.7	2.6	0.5	0.8
% Change, real	4.1	2.4	0.9	-1.3	-1.1
Retail Sales ($ M)	8,589	8,923	9,060	9,059	9,058
% Change	5.0	3.9	1.5	0.0	0.0
% Change, real	4.0	1.4	0.8	-1.5	-1.4
Consumer Price Index (2002=100)	126.0	128.8	130.9	133.2	135.9
% Change	1.7	2.2	1.7	1.8	2.0
Capital Investment ($ M)	12,329	12,407	13,555	11,650	8,118
% Change	31.4	0.6	9.2	-14.1	-30.3
% Change, real	29.7	-2.3	7.1	-15.1	-30.5
Housing Starts (Units)	2,862	2,287	2,173	1,878	1,702
% Change	-26.3	-20.1	-5.0	-13.6	-9.4
Employment (000s)	232.8	228.1	230.5	225.1	219.6
% Change	1.0	-2.0	1.0	-2.4	-2.4
Labour Force (000s)	262.8	260.2	262.3	257.9	252.8
% Change	-0.2	-1.0	0.8	-1.7	-2.0
Unemployment Rate (%)	11.4	12.3	12.1	12.7	13.1
Population (000s)	528.2	527.0	527.4	527.0	526.1
% Change	0.3	-0.2	0.1	-0.1	-0.2

* 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, December 2014
Source: Statistics Canada; Department of Finance

Inflation

On a year-over-year basis, growth in the Consumer Price Index (CPI), or inflation, was 2.1% in the first 10 months of 2014. Higher prices for transportation (2.7%) and tobacco products (10.6%) were the main catalysts for upward pressure on inflation this year.

New Car Sales



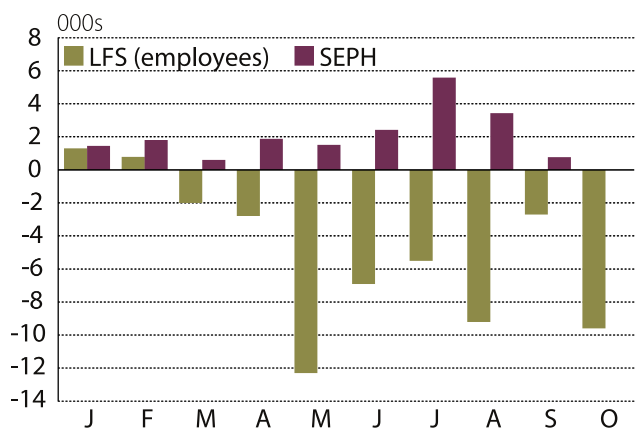
Source: Statistics Canada

Labour Markets

After several years of strong growth, employment in the province declined in 2014. Employment, as measured by Statistics Canada's Labour Force Survey (LFS), has fallen throughout 2014 on a year-over-year basis and, on average, fell by 2.3% (or 5,400) compared to the first 10 months of 2013 (see chart). Newfoundland and Labrador was one of five provinces to record negative or no employment growth over this period. The job losses in this province were recorded entirely in full-time employment. Full-time employment declined by 3.6% (or 7,100) while part-time employment actually increased by 4.9% (or 1,600). Lower development activity at Vale's nickel processing site in Long Harbour and the closure of Wabush Mines were contributing factors to the drop in full-time employment this year.

Change in Employment, 2014

Compared to same month in 2013



Source: Statistics Canada

The participation rate and consequently the labour force decreased this year. The participation rate fell by 0.7 percentage points in the first 10 months of 2014, which combined with a slight decline in the population aged 15 and over resulted in a decline of 1.4% (or 3,800) in the labour force. As the drop in employment was greater than the decline in the labour force, the unemployment rate increased. During the first 10 months of the year, the unemployment rate averaged 12.2%, an increase of 0.8 percentage points compared to the same period of 2013.

It is interesting to note that other Statistics Canada labour market indicators depict a more positive picture than Statistics Canada's LFS. Average weekly earnings rose by 4.4% in the first nine months of 2014 and at $985 were the second highest among provinces after Alberta. The increase in wages led to a 5.1% gain in total employee compensation for the first nine months of 2014. Furthermore, other surveys indicate a stronger employment performance. The Survey of Employment, Payrolls and Hours (SEPH) reports an increase in the number of employees every month during 2014 and, on average, an increase of 1.0% for the first nine months of the year (see chart).

Population

Economic expansion has supported an increase in the province's population in recent years. Prior to 2008, the population had declined for 15 consecutive years because of high levels of out-migration. However, in recent years net outmigration has fallen and the province recorded increases in population from 2008 to 2013. Although the current population estimate for 2014 indicates a slight decline in population from the previous year, it should be noted that this estimate is preliminary and will likely be revised several times. Preliminary data released by Statistics Canada indicates that the population of the province on July 1, 2014 was 526,977, a decrease of 0.2% compared to one year earlier. The population decline was due to both natural population decrease (more deaths than births) and net out-migration.

Outlook

Economic growth is expected to resume in 2015. Real GDP is forecast to increase by 1.7% as an increase in mineral and oil production will boost exports. As well, capital investment is expected to increase by 9.2%, primarily due to increased investment in White Rose and Muskrat Falls.

Employment is expected to increase by 1.0% in 2015 as the dampening effects of the winding down of Long Harbour development dissipate. Wages are expected to continue to increase and, combined with higher employment, should give rise to a 2.6% increase in household income. This is expected to lead to higher consumer expenditures and a 1.5% increase in retail sales.

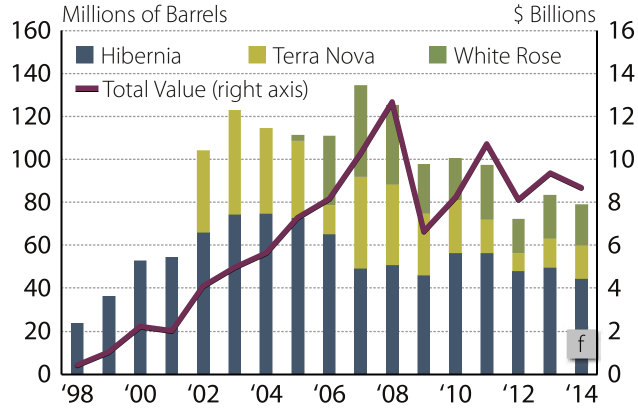
Beyond 2015, economic activity is expected to abate as capital investment declines with major projects progressing past peak development. Development of major projects has been a significant source of economic growth over the past several years. As development winds down, and projects move toward the production phase, there is often a lull in economic activity, particularly in a relatively small economy such as Newfoundland and Labrador.

In the longer term, the start of production from Hebron, Muskrat Falls and the White Rose Extension, development of Statoil's Bay du Nord discovery (see *Oil and Gas*), and construction of the underground mine at Voisey's Bay will provide a boost to the province's economy. Changes in the timelines of current major projects and/or additional major projects (e.g. other iron ore developments, new deepwater oil discoveries) could alter the economic outlook significantly given the impact that they have on local activity levels.

Oil and Gas

Oil and gas is the province's largest industry in terms of its contribution to the province's GDP. It is estimated that oil and gas and support activities contributed $9.0 billion to nominal GDP in 2012, representing 28.2% of total provincial GDP. In 2013, direct employment in the oil and gas extraction industry (including support activities) was approximately 8,800 person years. In addition to its economic benefits, the oil and gas industry makes a substantial fiscal contribution to the provincial treasury. In fiscal year 2013-14, offshore oil royalties accounted for approximately 28% of provincial revenues. Between first oil from Hibernia in November 1997 and March 2014, oil royalties from all projects contributed roughly $16.8 billion to the provincial treasury. All three producing oil projects in the province have experienced considerable increases in recoverable oil estimates since the developments were initially proposed.

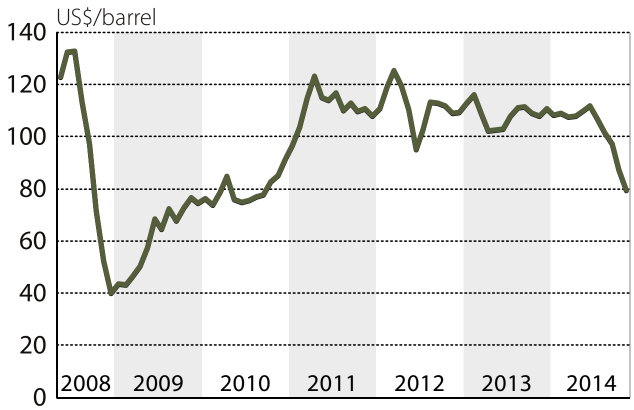
Offshore Oil Production



f: forecast
Source: C-NLOPB; Department of Finance

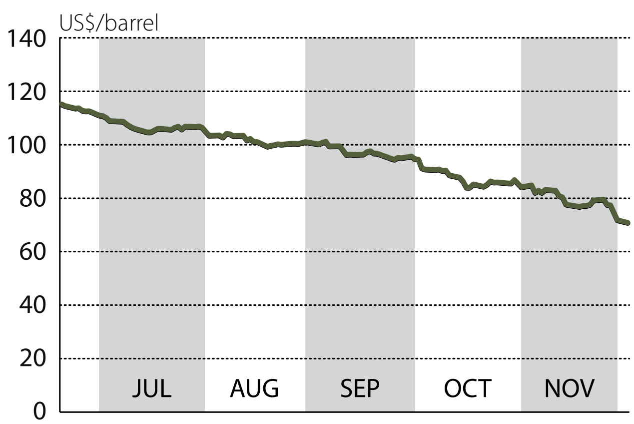
Oil production from the province's three producing projects is expected to decrease to 79.1 million barrels in 2014 from 83.6 million in 2013, representing a decline of 5.4% (see chart). This decrease is mainly the result of reduced Hibernia production. During the January to September period of this year, total oil production was 59.0 million barrels, representing a 9.2% (6.0 million barrel) decrease relative to the same period in 2013.

Brent Crude Oil Prices (Monthly)



Source: U.S. Energy Information Administration

Brent Crude Oil Prices, 2014 (Daily)



Source: U.S. Energy Information Administration

Oil prices have been declining since mid-June (see charts) and as of the end of November the price for Brent crude oil, a benchmark for Newfoundland and Labrador oil, stood at about US$70/barrel, the lowest level since August 2010. Oil prices have been impacted by a combination of slowing global demand, high inventory levels and increasing supply from U.S. shale oil production. For the 2014 calendar year, the price of Brent is expected to average around US$100/ barrel in 2014, compared to US$108.56/barrel in 2013. In 2014, the value of Newfoundland and Labrador's oil production is expected to decrease 7.0% to $8.7 billion as a result of both reduced production volumes and lower crude oil prices.

Hibernia

Hibernia, located in the Jeanne d'Arc Basin 315 kilometres (km) southeast of St. John's, was the first offshore oil project to be developed in Newfoundland and Labrador. Hibernia production occurs by means of a stand-alone concrete gravity based structure (GBS). Over the past few years, Hibernia production has expanded into two satellite areas south of the main field: the AA Blocks and the HSE Unit, which together make up the Hibernia South Extension. Production from the AA Blocks and the HSE Unit started in November 2009 and June 2011, respectively. When it was initially proposed for development, the project proponents estimated that Hibernia contained 520 million barrels of recoverable oil. On December 16, 2014, the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) announced a further increase in recoverable reserves for the entire Hibernia development area (including the Hibernia South Extension) from 1,395 million barrels to 1,644 million barrels. This reserve increase is spread throughout all Hibernia reservoirs. Hibernia is the largest offshore project in the province and among the largest oil discoveries in Canada.[1] The province, through Nalcor Energy, has a 10% equity stake in the HSE Unit.

Through the first nine months of 2014, Hibernia production (including the Hibernia South Extension) totalled 32.8 million barrels, down 12.3% (or 4.6 million barrels) from the same period in 2013. For 2014 as a whole, Hibernia production is expected to decrease 5.0 million barrels (-10.1%) to 44.4 million barrels. Cumulative production from Hibernia since first oil in November

1 Reserves are considered to be recoverable using current technology and under present and anticipated economic conditions. Resources are assessed to be technically recoverable but have not been delineated and have unknown economic viability.

1997 to September 30, 2014 was 909.3 million barrels (65% of proven and probable reserves) with an estimated value of $62.3 billion.

Terra Nova

The Terra Nova field was the second offshore oil discovery in the province to reach production, with first oil in January 2002. Terra Nova, just southeast of the Hibernia field in the Jeanne d'Arc Basin, is operated by Suncor Energy Inc. using a floating production, storage and offloading vessel (*Terra Nova FPSO*).

In March 2013, the C-NLOPB increased Terra Nova's estimated proven and probable reserves/ resources from 505 million barrels to 592.4 million barrels. When it was initially proposed for development, project proponents estimated that the Terra Nova field contained 400 million barrels of recoverable oil.

Terra Nova produced 10.9 million barrels of oil during the first nine months of 2014, a decrease of 12.2% (1.5 million barrels) over the same period in 2013. On August 6, 2014, the FPSO was taken out of production for roughly four weeks for planned maintenance. Production in the fourth quarter of 2014 should be significantly higher than the same period of 2013 as the *Terra Nova FPSO* was out of service for repairs and maintenance from late September to early December of last year. For 2014 as a whole, Terra Nova production is expected to increase 11.6% (1.6 million barrels) to 15.4 million barrels. Cumulative production from Terra Nova since first oil in January 2002 to September 30, 2014 was 360.3 million barrels (61% of proven and probable reserves and resources) with an estimated value of $25.4 billion.

White Rose (including North Amethyst)

The White Rose project, operated by Husky Energy Inc., is the province's most recent offshore oil development to be brought into production. First oil from the South Avalon Pool (main field) occurred in November 2005 and first oil from North Amethyst occurred in May 2010. White Rose and its expansion fields produce by means of the *SeaRose FPSO*. When initially proposed for development, the project proponents estimated that the White Rose project contained 230 million barrels. The estimated reserves/resources for the entire White Rose project currently stand at 379.8 million barrels. The province, through Nalcor Energy, has a 5% equity stake in the White Rose satellite fields.

Through the first nine months of this year, the White Rose project (including North Amethyst) produced 15.3 million barrels, up 110,000 barrels (0.7%) from the same period in 2013. However, annual production is expected to be down 5.5% (1.1 million barrels) to 19.2 million barrels as fourth quarter production is expected to be lower than the same period of 2013. Cumulative production from White Rose since first oil in November 2005 to September 30, 2014 was 233.3 million barrels (61% of proven and probable reserves and resources) with an estimated value of $21.3 billion.

On June 5, 2013, the C-NLOPB announced its approval of a White Rose Development Plan amendment incorporating the South White Rose Extension (SWRX). The SWRX pools, which are estimated to contain approximately 33 million barrels of recoverable oil, will be developed via a subsea tieback to the *SeaRose FPSO*. All production equipment is now in place and, subject to rig availability, first oil is anticipated in the second quarter of 2015.

On October 10, 2013, the province and Husky Energy jointly announced that they had reached an agreement to advance the development of the White Rose Extension Project. The agreement will allow for the development of West White Rose using a wellhead platform. The wellhead platform will have a concrete gravity structure and topsides which will tie back to the *SeaRose FPSO*. The wellhead platform will be similar to, but smaller than, the Hibernia GBS. The platform is expected to deliver an estimated 115 million barrels of oil over the life of the project.

Work in the province includes project and procurement management, engineering and construction of the graving dock and gates (see *Construction* for photo), construction of the GBS and accommodations modules, and fabrication of the flare boom, heli-deck and lifeboat stations. The development phase of the project is expected to last roughly four years and generate 2,800 person years of employment in the province. In addition, approximately 250 new long-term platform positions will be created. First oil is expected in late 2017.

The White Rose extension is a partnership between Husky Energy (68.875%), Suncor Energy Inc. (26.125%) and Nalcor Energy (5.0%). Final sanction of the West White Rose Extension project is contingent on C-NLOPB, governmental and partner approvals.

Hebron

The Hebron field was discovered in 1981 and is estimated to contain in excess of 700 million barrels of recoverable oil, making it the second largest oil field in the province after Hibernia. Hebron is located just nine kilometres northwest of Terra Nova in the Jeanne d'Arc Basin in a water depth of approximately 92 metres. The Hebron project received official sanction on December 31, 2012, becoming the province's fourth stand-alone offshore oil project.

The Hebron field will be developed using a stand-alone GBS similar to, but on a smaller scale, than Hibernia. The GBS is being designed for an oil production rate of 150,000 barrels of oil per day with the capability to withstand sea ice, icebergs and extreme meteorological and oceanographic conditions.

The GBS will support an integrated topsides deck that includes living quarters and facilities to perform drilling and production operations. In addition to the GBS itself, two of the four topsides modules are also being built in the province—fabrication is taking place at several locations throughout the province including Bull Arm, Torbay, Argentia, Stephenville, Port aux Basques and Marystown.

GBS construction at the Bull Arm dry dock began in October 2012. After pouring the GBS base slab, slip forming (a method of continuously pouring concrete) was used to construct the GBS to a height of 27.5 metres. On July 22, 2014, the 180,000 tonne GBS was towed from the dry dock to the deepwater site at Bull Arm where further construction activities are continuing. Further slip forming will bring the GBS to a height of approximately 120 metres. After GBS construction is completed, the topsides will be attached to the GBS to form the complete platform that will be installed at the Hebron field.

The province, through Nalcor Energy, holds a 4.9% equity stake in the Hebron project. ExxonMobil Canada Properties (36%), Chevron Canada Resources (26.7%), Suncor Energy Inc. (22.7%) and

Statoil Canada Ltd. (9.7%) make up the remaining Hebron consortium participants. ExxonMobil is the operator of the Hebron project. The capital cost for the project is estimated at $14 billion and the project is on schedule with first oil expected before the end of 2017. As of September 30, 2014, in-province employment totalled 5,713 of which 5,021 (88%) were residents of Newfoundland and Labrador.

Recent Discoveries

Statoil announced two new discoveries in the deep water (approximately 1,100 metres) Flemish Pass Basin in 2013. The Harpoon discovery (whose resource potential has not yet been determined) was announced in June and the Bay du Nord discovery (estimated to contain between 300 and 600 million barrels of recoverable oil) was announced in August 2013. Bay du Nord was the world's largest conventional oil discovery of 2013 and the largest Statoil-operated discovery outside of Norway. The Harpoon and Bay du Nord discoveries are in close proximity to the 2009 Mizzen discovery which is estimated to contain around 100 million barrels of recoverable oil. Statoil holds a 65% interest in the Mizzen, Harpoon and Bay du Nord fields, and Husky Energy holds the remaining 35% interest.

Statoil is an international energy company with operations in 33 countries and 40 years of experience in oil and gas production on the Norwegian continental shelf, a comparable environment to the Newfoundland and Labrador offshore area. Statoil has indicated that the Flemish Pass Basin is a strategic part of its global exploration portfolio and has the potential to become a core producing area for the company post 2020. The company has formed a task force to assess the feasibility of an accelerated development of the Bay du Nord discovery to reduce the time to first oil.

Exploration

Offshore

Geoscience acquisition programs (seismic, gravity, electromagnetic resistivity and seabed sampling) have been robust in 2014. Exploration activity is taking place in the Flemish Pass Basin, Orphan Basin, North and South Grand Banks regions, South Eastern and Southern Newfoundland regions, Eastern Newfoundland, and offshore Labrador. Ongoing assessment of recently acquired seismic and electromagnetic data has identified new basins as well as extensions to existing basins offshore Labrador, and significant prospectivity in deepwater areas in the Newfoundland and Labrador offshore region.

Over the past three years Nalcor, in partnership with global seismic companies TGS and Petroleum Geo-Services, has conducted one of the largest seismic programs in the world. The 2-D seismic program collected over 80,000 line kilometres of seismic data off Labrador and down the southeast coast over the Orphan Basin, Flemish Pass, and Flemish Cap, much of which has never been imaged before. The investment in geoscience exploration and scientific analysis has resulted in the identification of three new deepwater basins off Labrador (Chidley, Holton, and Henley) and the expansion of the previously discovered Hawke basin.

Statoil and its partner Husky Energy are following up on the recent discoveries in the Flemish Pass Basin, including the Bay du Nord and Harpoon discoveries. A 12,863 square kilometre

3-D seismic acquisition program was completed in late September and is being followed by an 18-month drilling program. Statoil spud the Bay de Verde exploration well (adjacent to Bay du Nord) on November 4, 2014 using Seadrill's *West Hercules* semi-submersible drill rig.

Husky also has several drill ready exploration and delineation prospects in the Newfoundland and Labrador offshore area and will be utilizing the *Henry Goodrich* drilling unit to progress these plans, which include the Aster prospect in the Flemish Pass Basin/Central Ridge. Husky also has a newly built semi-submersible drill rig (Seadrill's *West Mira*) contracted and scheduled to be utilized in the province's offshore area beginning in mid-2015.

On the province's west coast, there are plans to target the Green Point formation with several onshore-to-offshore wells. In addition, Corridor Resources and Ptarmigan Energy have indicated their intentions to drill at prospects in the Western Newfoundland and Labrador offshore region, including Corridor's Old Harry Prospect. These plans are subject to various regulatory approvals including strategic and project specific environmental assessments.

Onshore

In November 2013, Investcan received approval from the Department of Natural Resources to re-enter the Robinson's #1 well drilled by Vulcan Minerals in 2009. Investcan has proposed to complete and test another zone in the well.

Black Spruce Exploration (BSE) is completing a regional study and basin analysis in the Deer Lake Basin with intentions of identifying areas for seismic acquisition and subsequent drilling in 2015 and 2016.

Enegi Oil Plc continues to produce oil intermittently at Garden Hill South. BSE announced in July 2013 that it had signed a farm-in agreement with Enegi that included the Garden Hill South production lease lands. BSE is continuing with plans to mobilize a drilling rig to Western Newfoundland to carry out drilling obligations on the farm-in lands. On April 15, 2014, BSE submitted a Petroleum Exploration Referral document for a well to be drilled onshore from the existing Garden Hill South production lease site.

Hydraulic Fracturing Review

In November 2013, the Minister of Natural Resources announced that any applications for petroleum exploration involving hydraulic fracturing (fracing) will not be accepted pending a department jurisdictional review, geological review and public engagement process.

On October 10, 2014, the Minister of Natural Resources announced the selection of an independent panel of five individuals, representing the fields of environment, engineering and geology, economics, and public health, to conduct a review of the socio-economic and environmental implications of hydraulic fracturing in western Newfoundland. At the end of the review, the panel will prepare a report which will be made available to the public. The final report is due within one year.

Scheduled Land Tenure System

On December 19, 2013, the C-NLOPB announced the implementation of a new scheduled land tenure system which will provide longer lead times for exploratory work in frontier areas and improve transparency, predictability and opportunity for industry input. Under the new system, the Newfoundland and Labrador offshore area is divided into eight regions (see map), each of which are designated as either low activity, high activity or mature depending on variances in the volume of data collection in the basins and geoscientific knowledge of the region.

The activity designation of each region will determine the amount of time available to interested parties to assess its hydrocarbon prospects before the Call for Bids is announced. The land tenure process for low activity regions will follow a 4-year cycle, high activity regions a 2-year cycle and mature regions a 1-year cycle.

The first step in the land tenure process in a scheduled region is a Call for Nominations (Areas of Interest [AOI]) which will provide companies with the opportunity to identify prospective exploration areas. The nominations for areas of interest can be no greater than two million hectares (20,000 km^2). The C-NLOPB will use the AOI nominations in conjunction with internal geoscientific assessments to define a sector that will be identified publicly via the Sector Identification announcement. A sector will define the geographic location for which parcels will be offered in the Call for Bids. The C-NLOPB will not be requesting or accepting bids for the sector itself. A subsequent Call for Nominations (Parcels) will be open for six weeks after which the C-NLOPB will use the resulting nominations to determine which parcels to offer in the final stage of the process, the Call for Bids.

For low activity regions, the land tenure process will follow a 4-year cycle providing interested parties at least 48 months from the initial Call for Nominations (AOI) and the closing of the respective Call for Bids to explore and assess the area. These land tenure cycles will be introduced annually in the low activity regions.

In high activity regions, there will be at least 24 months from the initial Call for Nominations (AOI) and the closing of the respective Call for Bids. These land tenure cycles will be repeated annually in high activity regions. For mature regions, a one-year cycle will be maintained where a Call for Nominations (Parcels) will go out in the fall of the year, the Call for Bids will be announced in the following spring and close in the fall of the same year.

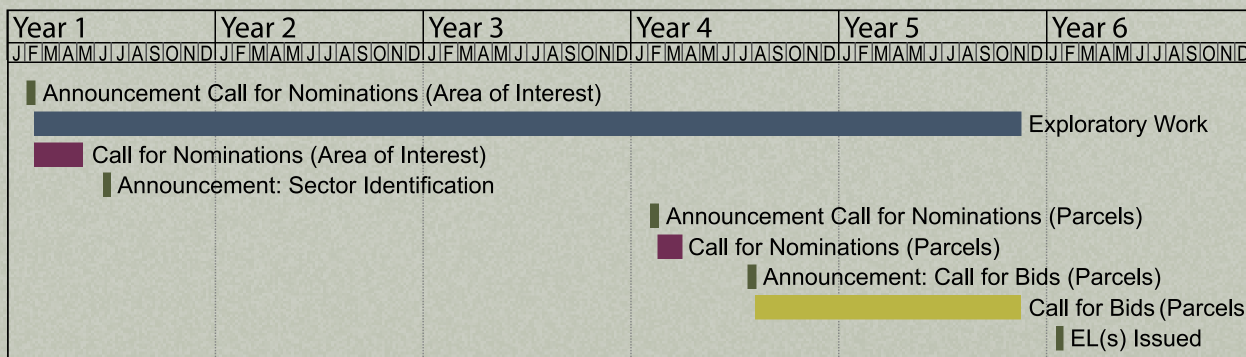
In the second and subsequent Call for Bids for a given region, land parcels which were previously offered, but not awarded, will be re-assessed and, if deemed prospective, re-posted in the next Call for Bids. This will allow for a cumulative increase of land being available in the scheduled land tenure system.

The specific timelines of the land tenure process for each area will be announced in advance when the initial Call for Nominations (AOI) is issued (see chart).

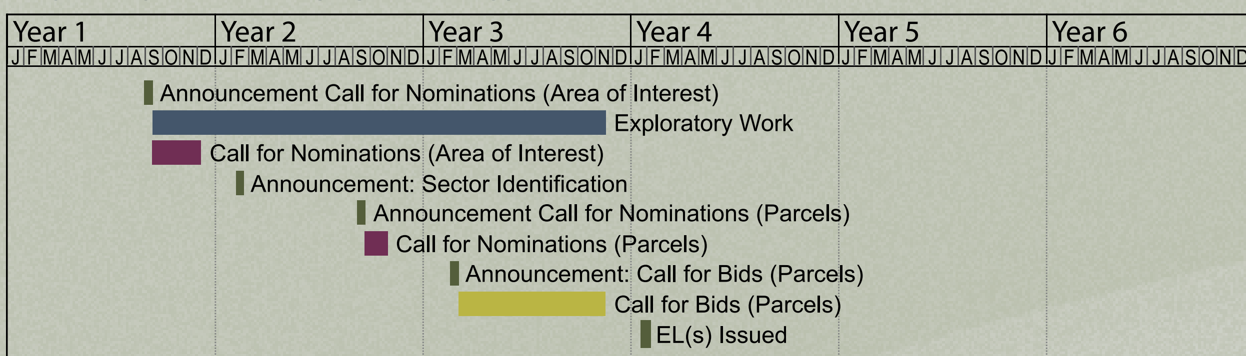
The new land tenure system is designed to attract more interest in the Newfoundland and Labrador offshore area by allowing exploration companies additional time to conduct geoscientific assessments of the hydrocarbon potential of lesser explored basins. In turn, this is expected to support increased exploration activity, new discoveries and subsequent new developments.

Scheduled Land Tenure Timing

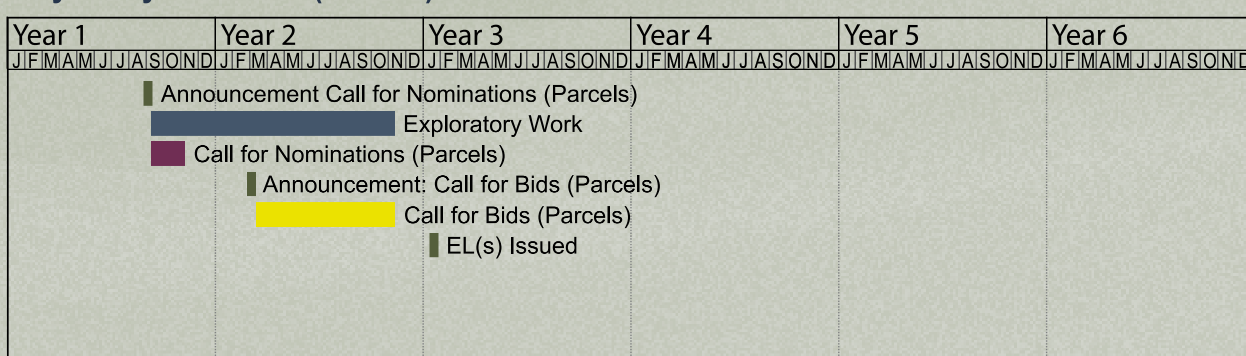
4 - year cycle model (low activity)



2 - year cycle model (high activity)

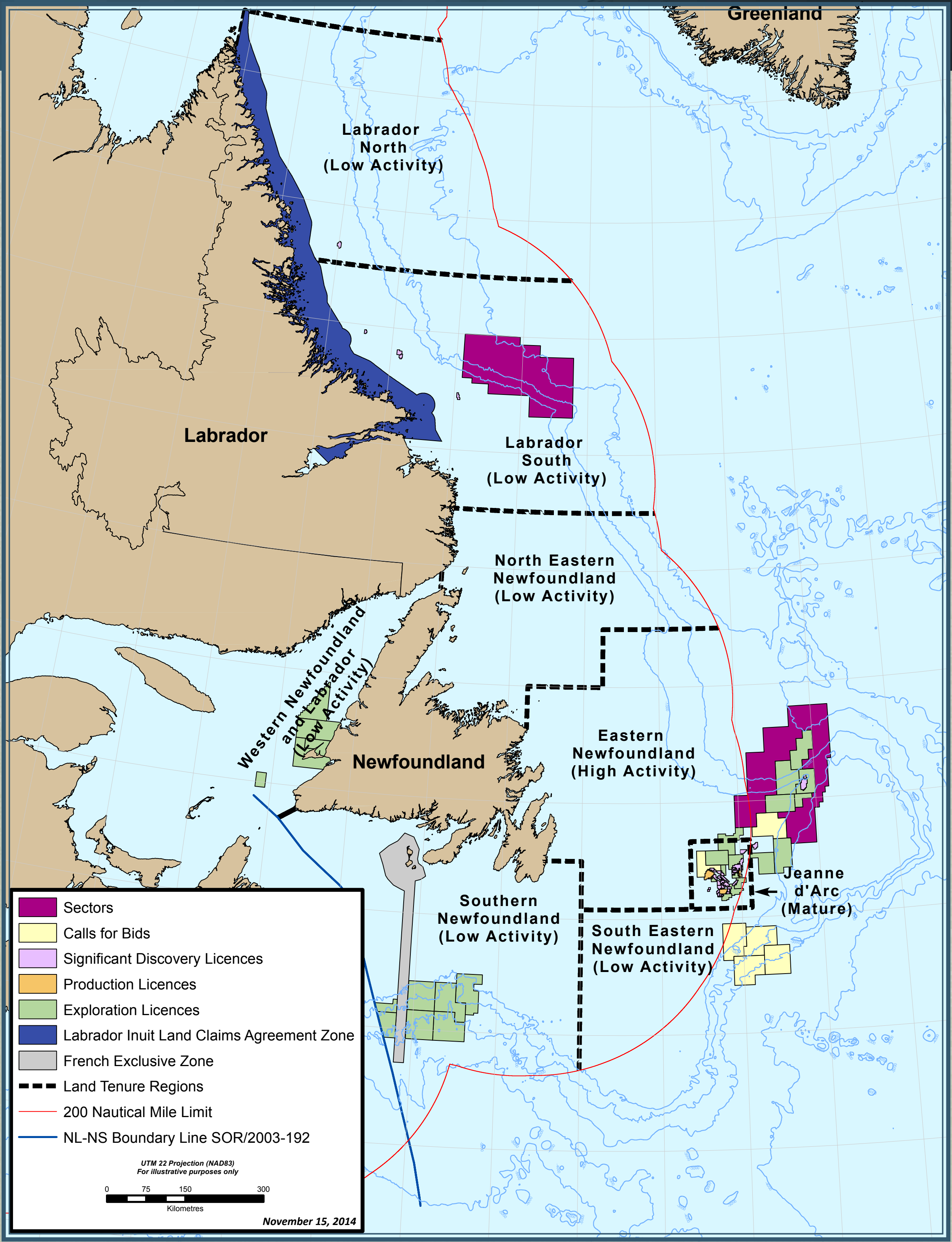


1 - year cycle model (mature)



Source: Canada-Newfoundland and Labrador Offshore Petroleum Board

Land Tenure Regions



Source: Canada-Newfoundland and Labrador Offshore Petroleum Board

Calls for Nominations and Bids

Scheduled Land Tenure Regime

On December 19, 2013, the C-NLOPB announced its initial Call for Nominations (AOI) under the new scheduled land tenure system. The 2013 Call for Nominations (AOI) included the 2-year cycle Eastern Newfoundland region and the 4-year cycle Labrador South region. The Calls for Nominations (AOI) closed on March 15, 2014 and on May 22 the C-NLOPB announced that it had concluded its assessment of the nominations received.

The Call for Nominations (Parcels) for the Eastern Newfoundland region, stemming from the December 2013 Call for Nominations (AOI), was announced on August 21, 2014. The Call for Bids for this region will be announced in February/March 2015 with a closing date of November 15, 2015 and the issuance of licences will occur on January 15, 2016.

The Call for Nominations (Parcels) for the Labrador South region will be announced in September 2016. The Call for Bids for this region will be announced in February/March 2017 with a closing date of November 15, 2017 and the issuance of licences will occur on January 15, 2018.

In addition, on August 21, 2014 a Call for Nominations (AOI) was announced for new areas in the 2-year cycle Eastern Newfoundland region as per the annual requirement under the new scheduled system. The Call for Nominations (AOI) closed on November 28, 2014. Also on August 21, 2014, the C-NLOPB announced a Call for Nominations (Parcels) in the Jeanne d'Arc Basin (NL14-01JDA) which closed on October 17, 2014.

Transitioning to Full Scheduled System

Until a region has been scheduled, interested parties may continue to nominate land parcels for consideration by the C-NLOPB. Any such nominations will follow a one-year cycle, as in the past, with a Call for Bids issued in the spring and closing in the fall of the same year.

On May 5, 2014, the C-NLOPB announced the completion of the Western Newfoundland and Labrador Strategic Environmental Assessment (SEA) Update Report. The closing date for Call for Bids NL 13-03 in the Western Newfoundland region, which depended on the completion of the SEA, was November 12, 2014.

On August 5, 2014, the C-NLOPB announced the completion of the Eastern Newfoundland and Labrador SEA Update Report. As a result, the closing date for Calls for Bids NL13-01 (Flemish Pass Basin, one parcel), NL13-02 (Carson Basin, four parcels) and NL14-01 (Jeanne d'Arc, one parcel), which was dependent on the completion of the SEA, occurred on December 12, 2014.

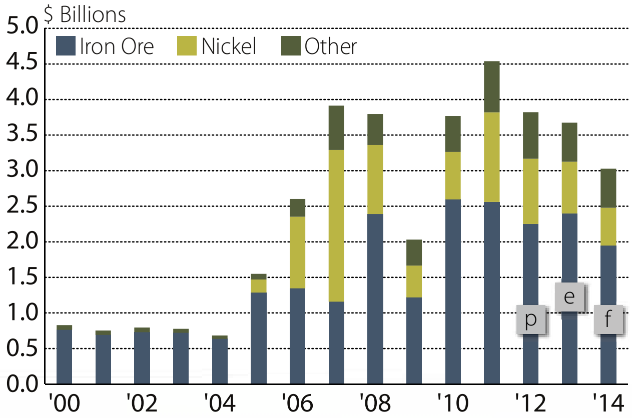
Successful bids were received for three of six parcels. The bid for N13-01 made by ExxonMobil Canada Ltd., Suncor Energy Inc. and ConocoPhillips Canada Resources Corp. was $559 million, the highest bid ever on a land parcel in the Newfoundland and Labrador offshore area. Bids were also received for NL13-02 (Parcel 2) and NL14-01 with the highest bids from ExxonMobil Canada Ltd. and Suncor Energy Inc. at $21 million and ExxonMobil Canada Ltd. at $16.7 million, respectively. There were no bids received for Parcels 1, 3 or 4 in NL13-02. The high level of these bids highlight the increasing interest which multinational oil and gas companies have in the Newfoundland and Labrador offshore and their recognition of tremendous growth potential of the area.

Mining

The provincial mining industry performed reasonably well in 2014 despite weak market conditions. The value of mineral shipments declined, but remained high by historical standards, and several mining projects continued to advance. Prices for iron ore, the province's main mineral export, declined as growth in world supply outpaced demand growth.

The value of mineral shipments is expected to total approximately $3.0 billion in 2014, representing a decrease of 17.6% from 2013 (see chart). This decrease reflects lower prices for some mineral commodities and lower production of nickel and iron ore. Total mining related employment (including employment associated with construction and development activities at Vale's Long Harbour nickel processing facility) is expected to be around 7,100 person years in 2014.

Value of Mineral Shipments

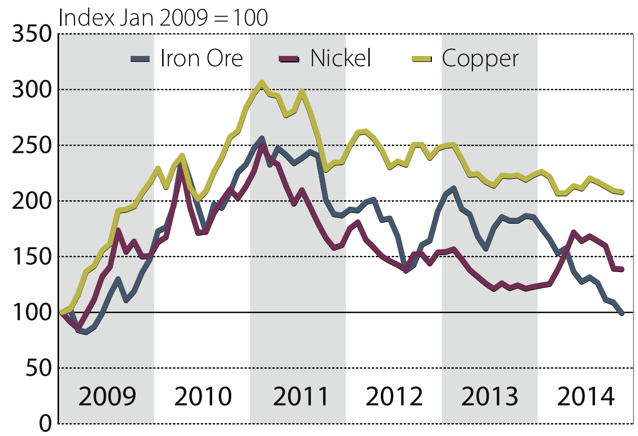


p: preliminary; e: estimate; f: forecast
Source: Department of Natural Resources; Natural Resources Canada

Market Conditions

Mineral prices varied considerably during 2014 as a result of changing market conditions. Slowing growth in demand for iron ore in China, coupled with production increases by a number of key iron ore producers, have resulted in significant price decreases. Iron ore spot prices averaged about US$99/tonne in the first 11 months of 2014, down 26.5% from the same period in 2013 (see chart). As of the end of November, prices were hovering around US$70/tonne. Nickel prices, however, fared better averaging US$7.69/pound in the first 11 months of the year, up 10.4% from the same period in 2013. This price increase was primarily due to the Indonesian nickel export ban, which has lowered supply and kept prices high. Over the same time frame, copper prices declined by 6.6%, averaging US$3.13/pound.

Mineral Price Indices (Monthly)



Source: London Metal Exchange, MetalPrices.com

Iron Ore

Iron ore shipments are expected to total approximately 17 million tonnes in 2014, a decrease of about 15% relative to 2013. The anticipated decline is mainly due to the closure of Wabush Mines and, to a lesser extent, the shutdown at Labrador Iron Mines (both of which are discussed later). The value of shipments is expected to fall about 19% this year as a result of lower production and prices.

Iron Ore Company of Canada

Total shipments from the Iron Ore Company of Canada (IOC) are expected to increase from about 15 million tonnes in 2013 to about 16 million tonnes in 2014 as a result of the implementation of Phase 2 of the Concentrate Expansion Project (CEP), which went into operation in the second quarter of 2014.

In August 2014, IOC submitted an Environmental Impact Statement for the Wabush 3 deposit which is scheduled to enter pre-production in late 2016 and is expected to run until approximately 2060. This development is intended to provide an alternate feed source for the mill and is not expected to affect planned production rates. The mine currently employs about 2,100 people.

Wabush Mines

Wabush Mines is 100% owned and operated by Cliffs Natural Resources (CNR) Inc. (based in Cleveland, Ohio). When in operation, Wabush Mines produced iron ore for a concentrating plant at the mine site in Labrador. In February of this year, mining and processing at Wabush Mines was halted as increasing costs, combined with falling iron ore prices, had made the mine unprofitable. CNR had been in conversation with MFC Industrial, owner of the property's mineral rights, to discuss the possible sale of the mine. However, in October, CNR informed government that talks had broken off and that they were proceeding with permanent closure of the mine.

Labrador Iron Mines Ltd.

Labrador Iron Mines Ltd. (LIM) began operations in April 2011 and shipped its first iron ore to China the following October. The company was the first new iron ore producer in the province since 1965 when Wabush Mines started producing.

LIM did not operate in 2014 due to depletion of ore at its James mine, cost pressures due to falling iron ore prices and the lack of success in attracting required financing in time to prepare capital or operating works for the April-November season. Subject to completion of financing, LIM plans to develop the Houston deposit in 2015, where known iron ore resources total about 30 million tonnes.

LIM is also moving ahead with a joint-venture agreement with Tata Steel Minerals Canada for the exploration and development of the Howse deposit. The project was registered for environmental assessment in April by the joint venture company (Howse Minerals Ltd.). Federal environmental assessment of the project started in June and the company is currently planning to begin construction in 2016.

Tata Steel Minerals Canada Ltd.

Tata Steel Minerals Canada Ltd.'s Elross Lake project is a joint-venture owned by Tata Steel of India and New Millennium Iron Corp. The first load of iron ore from the project was shipped in September 2013. Shipments are expected to total 800,000 tonnes in 2014.

The project's year-round processing plant is expected to be operational in the second quarter of 2015, enabling shipments to ramp up to 3.9 million tonnes for that year. This plant will process material from both Quebec and Newfoundland and Labrador.

As such, shipments in the following years are expected to fluctuate as the Newfoundland and Labrador share of the plant's production will vary. The project (both production and continued development) is expected to create employment of just over 800 person years in 2014 and decline to around 350 person years in 2017 as development ends.

Voisey's Bay

Production at Vale Newfoundland and Labrador's (VNL) operations at Voisey's Bay, Labrador is expected to decrease in 2014. The company is expected to ship nickel concentrate worth $531 million in 2014, down about 27% compared to 2013 as a result of lower production volumes.

Employment for all aspects of the Voisey's Bay project including Labrador and Long Harbour is anticipated to be about 2,500 person years for 2014 compared to 6,600 in 2013. Approximately 500 people are employed at the Voisey's Bay mine site and the balance is associated with the corporate office and the processing plant at Long Harbour. About 360 of the operational staff at

Long Harbour have been hired but construction remains the biggest contributor to the project's 2014 employment estimate.

In March 2013, the Provincial Government and Vale Canada agreed on amendments to the Development Agreement that were necessary due to construction delays at Long Harbour. The amended agreement allows Vale to export concentrate from the province while construction is completed. The agreement includes a commitment by VNL to an underground mine at Voisey's Bay. The underground mine is projected to start producing ore in 2019, and will generate additional employment and industrial benefits to the province.

Phase 1 of the construction of VNL's nickel processing facility in Long Harbour was completed in October 2013 with the successful production of first nickel in July 2014. The focus of activity at the plant during 2014 has been the completion of pre-operational construction work, including the testing of sub-systems and the reinstatement of systems to prepare for commissioning and ramp up of Phase 1 to capacity. Phase 2 engineering design is underway for the construction and commissioning of additional processing circuits to enable the switch from processing imported matte to 100 percent Voisey's Bay concentrate. Phase 2 construction is estimated to take 18 months to complete. All operations staff have been hired and are on site as part of the commissioning process.

Other Mines

Rambler Metals and Mining Canada Ltd. (RMM) mines and processes ore from its copper-gold Ming Mine on the Baie Verte Peninsula. RMM commenced commercial production in November 2012 and is expected to ship over 7,000 tonnes of copper concentrate in 2014. The original mine plan suggested a six-year mine life; however, a new reserve statement published in early 2014 stated that enough new reserves have been identified to add an extra year to the mine's life. Rambler employs approximately 170 persons.

The company has done a preliminary economic assessment on a high-tonnage, low grade resource known as the Lower Footwall Zone (LFZ) located below the sections currently being mined. The study indicates that given supportive market conditions, the development of this resource could extend the life of the mine by over 20 years. Recent advances have also been made in partnership with the Research and Development Corporation of Newfoundland and Labrador towards a demonstration-scale test of an underground dense media separation plant which would cut the costs of developing the LFZ by pre-concentrating the ore.

Anaconda Mining Inc. began gold production in 2008 at its Pine Cove mine near Baie Verte. In 2014, production is expected to total around 540,000 grams, up around 15% from 2013. Employment at the project is expected to be approximately 90 person years in 2014.

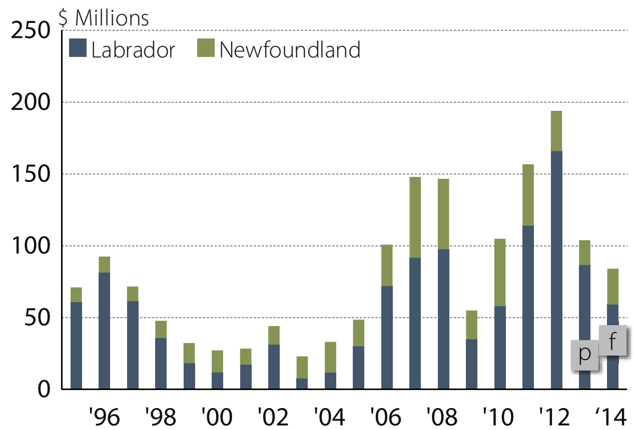
The Teck Duck Pond copper-zinc mine is located in central Newfoundland. For the first three quarters of 2014, copper and zinc production were 11,000 tonnes and 13,300 tonnes, respectively. This compares with copper and zinc production of 10,200 tonnes and 9,500 tonnes in the same period of 2013. The operation employs approximately 320 people. In October 2014, Teck reaffirmed that the mine and mill are expected to close as scheduled with operations shutting down in July 2015.

There are other mines in the province that produce non-metals, such as Atlantic Minerals Limited (limestone/dolomite/aggregate) and Trinity Resources Ltd. (pyrophyllite/aggregate), that expanded their production in 2014.

Exploration and Development

Mineral exploration and development activity continued to progress in Newfoundland and Labrador in 2014, but a weaker iron ore market has resulted in delays at a number of potential projects. Exploration expenditures are forecast to reach $84.1 million in 2014, down from $104.0 million in 2013 (see chart). The major commodities of exploration interest were iron ore, base metals, gold and fluorspar.

Mineral Exploration Expenditures



p: preliminary; f: forecast

Source: Department of Natural Resources

Alderon is advancing the Kamistiatusset (Kami) iron ore project located in western Labrador near Labrador City and Wabush. The most recent information from the company indicates that construction on the project is expected to occur between 2015 and 2017 with a ramp up in production expected in 2017. The company has raised about $230 million in financing and has engaged Endeavour Financial Ltd. to take the lead role in arranging an additional $1 billion in financing.

Development of the Kami project slowed in 2014 as a result of weaker market conditions. Alderon suspended its engineering, procurement and construction monitoring contract with WorleyParsons and informed Nalcor that it would not be paying the second installment on the security deposit for the construction of a power line from Churchill Falls to Labrador West required for the project. When fully operational, the Kami iron ore project is expected to ship about 8 million tonnes per year of iron concentrates and provide about 380 person years of on-site annual employment.

New Millennium Iron Corp. and Tata Steel announced in March 2011 that a feasibility study had begun for the ventures' two large iron ore deposits in Labrador and Quebec. The results of the study, which were released in March of this year, indicated that both the Labrador and Quebec projects would be viable with the Labrador project showing somewhat better financial performance and a longer mine life. However, no further public statements have been issued regarding Tata's intentions towards the project and it has not yet been registered with regulators.

The Joyce Lake property is part of the larger Attikamagen project that straddles the Labrador and Quebec border about 20 km northeast of Schefferville. Labec Century Iron Ore Inc. (Labec) registered the Joyce Lake iron ore property for environmental assessment in October 2012 and the Department of Environment and Conservation provided final guidelines for the project's Environmental Impact Statement (EIS) in December 2013. As of September of this year, the EIS had not yet been filed. In July, the company announced the commencement of a feasibility study for the project which is expected to be completed by the first quarter of 2015.

The project's environmental assessment estimated that it could produce up to 12 million tonnes of direct shipping iron ore over a mine life of about six years.

Newspar continues its efforts to reactivate the underground fluorspar mine located in St. Lawrence on the Burin Peninsula. The company is an equal partnership between Canada Fluorspar Inc. (CFI) and Arkema (a multinational French chemical company). Newspar plans to develop two deposits, complete upgrades to the existing mill, and construct a tailings management facility and new marine terminal. In January 2013, CFI announced the results of the new preliminary feasibility study which estimates annual production of 131,000 tonnes and a mine life of 14 years. Newspar continues engineering feasibility work, and CFI is carrying out additional exploration work to expand the scope of the mining project in St. Lawrence.

Paladin Energy Ltd. continues to explore options to expand its existing uranium resource in the Central Mineral Belt of Labrador. Exploration is planned for the next 3-5 years to confirm and expand the existing resource. Paladin is hoping to develop a long-life mine and milling operation in the 2018-2020 timeframe, subject to economic viability.

In October 2012, the Provincial Government announced a Call for Expressions of Interest to seek proposals for the development of the publicly owned Julienne Lake iron ore deposit in western Labrador. The province conducted a $2.6 million exploration program on the deposit over the last few years. The results of the exploration define a world-class resource consisting of over one billion tonnes of iron ore with about 33% iron content. A call for detailed proposals resulted in Government's decision to enter into negotiations with Altius Minerals and its two Chinese steel-producing partners to move the project forward.

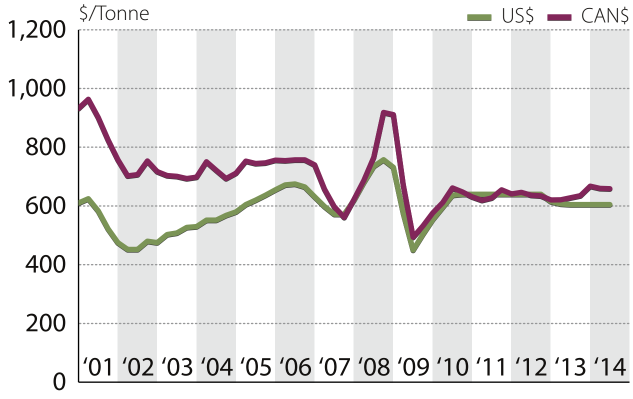
Forestry and Agrifoods

Newsprint

North American Industry

North American newsprint producers continued to struggle with soft market conditions in 2014. Newsprint shipments declined 7.1% during the first nine months of the year compared to the same period in 2013. The decline was primarily due to lower demand in the United States although shipments declined overseas as well. The industry analysis firm ERA Equity Research Associates Inc. has stated that no region in the world is experiencing positive newsprint demand growth this year.

North American Newsprint Prices
(Quarterly)



Source: TD Financial Group; Bank of Canada; Department of Finance

North American newsprint demand has been on a downward trend for more than a decade, reflecting the growing popularity of electronic media. Demand for North American newsprint dropped by two-thirds between 2000 and 2013. Prices dropped significantly during the last recession but subsequently rebounded somewhat (see chart). The industry has tried to limit the supply of newsprint in an effort to support higher

prices; however, over the past year or so there has been some slippage in prices. During the first nine months of 2014, newsprint was priced at around US$605/tonne, slightly lower than the same period last year. Canadian producers reaped some benefit from the depreciation of the Canadian dollar with respect to U.S. currency since late 2013 and, as a result, the price of newsprint in Canadian dollars was 6.2% higher in the first nine months compared to the same period in 2013.

Newfoundland and Labrador Industry

The provincial newsprint industry has faced similar challenges as other North American operations. Corner Brook Pulp and Paper Limited (CBPPL), a subsidiary of Kruger Industrial, operates the only remaining newsprint facility in the province. The company employs close to 550 full-time and casual workers among the paper mill, forest operations and power plant.

Newsprint shipments during the January to September period totalled 180,060 tonnes, up 2.3% compared to the same period in 2013. The estimated value of shipments increased by more than 8%, reflecting both higher volume and price gains resulting from the depreciation of the Canadian dollar.

Earlier this year, the Provincial Government and CBPPL announced that they had signed a loan agreement and a power assets and water rights purchase agreement. CBPPL will be provided with a fully repayable loan up to $110 million that is 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. A portion of the loan is earmarked for capital improvements at the Corner Brook operation. These include improvements to thermo-mechanical pulp (TMP) screening at the mill and replacement of penstock number 6 at the Deer Lake Power Plant. The Provincial Government will purchase the power assets, water and related rights to the power assets should the mill close. These agreements have enhanced the sustainability of the mill. Rebalancing the operations 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.

Lumber Production

The North American lumber industry continues to make gains due to a gradual improvement in the U.S. housing market. Lumber prices, while volatile, continued to trend upward this year (see chart). For the year, prices are expected to average US$450/thousand board feet, up 0.9% from 2013. Price gains to local producers will be significantly stronger after exchange rate adjustments — the average price for lumber in Canadian dollars is expected to increase approximately 8% in 2014 over the previous year.

Canadian lumber production totalled 16.9 billion board feet during the first eight months of this year, essentially on par (up 0.2%) with the same period in 2013. British Columbia accounted for about one half of this production. Solid growth in exports to the U.S. offset lower domestic shipments. Canada exported 11.3 billion board feet of lumber during the January to August period, up 5.0% over the same period in 2013. Major global markets were the U.S. (70%) and China (19%).

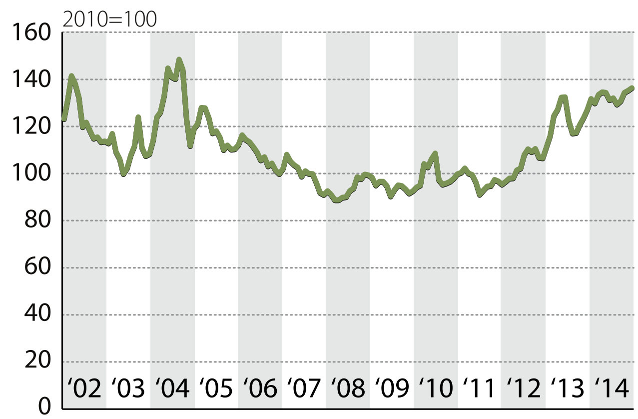
Provincial lumber production is expected to decline by about 5% to 75.0 million board feet in 2014 compared with the previous year. This decline reflects reduced saw log availability from suppliers on the island of Newfoundland as some loggers have refocused their operations to clear land for the Muskrat Falls project in Labrador.

Future Development

In February 2013, the Department of Natural Resources issued a Call for Expressions of Interest (EOI) to develop some of the central Newfoundland timber resources formerly held by AbitibiBowater prior to the closure of the Grand Falls-Windsor mill in 2009. The unallocated wood supply available for development is 280,000m^3/year. The EOI closed at the end of March last year and a number of proposals were submitted. This process has been narrowed to one proposal and discussions with the proponent are currently ongoing.

Canadian Softwood Lumber (Monthly)

Factory Price Index



Note: Data does not include tongue and groove and other edge worked lumber products.

Source: Statistics Canada

Agrifoods

Farm Cash Receipts

Provincial farms reported receipts of $95.5 million during the first three quarters of this year, down 11.4% from the same period in 2013. The drop reflected lower livestock receipts. Livestock and livestock products, which accounted for about 87% of total receipts during this period, were down by 13.1% to $83.5 million. The main cause of this decline was lower prices at auction for fur. Fur receipts were valued at $10.2 million during the first nine months of this year, down from $21.6 million in 2013. Farm cash receipts from chicken farming are not available due to confidentiality restrictions, but data from the Chicken Farmers of Canada indicates that the volume of chicken produced over the January to August period in the province totalled 9.3 million kilograms, up 2.0% from the same period in 2013. Total crop production receipts increased 2.0% to $11.7 million during the period. This growth was due to higher receipts in the field vegetables, small fruits, and floriculture categories.

Cranberry Farming

Cranberry farming in Newfoundland and Labrador is a relatively recent development, starting in the late 1990s. At that time, the Provincial Government decided to evaluate the potential for this industry by establishing pilot sites in collaboration with the private sector. These pilot projects have proven that cranberries can be grown in the province in sufficient quantities to make them a profitable crop. Establishing the industry, however, takes some time as a cranberry farm requires a minimum of five years before reaching significant commercial harvest levels. There are currently about 250 acres of cranberry beds under development throughout the province. There are commercial sites in Terra Nova, Stephenville, Stephenville Crossing, Frenchman's Cove and the Grand Falls-Windsor area. The Grand Falls-Windsor region has the largest acreage under development (10 farms with a minimum of 12 acres each). It is estimated that farmers require approximately 40-50 acres of cranberry beds, depending on projected yields, for a sustainable operation. As a result, most of the farms have initiated expansion. It has also been determined that the provincial industry should have at least 500 acres of beds in order to support a dedicated secondary processing facility. The most recent 10-year goal for the industry is to establish between 600 and 800 acres of cranberry beds.

The harvest results in the province have been encouraging thus far. Some cranberry varieties are yielding greater than 20,000 pounds per acre, comparable or better than the Canadian average of 14,400 pounds per acre. Although the final numbers for the 2014 harvest have not yet been tallied, the outlook is extremely promising. The fruit has had above standard colour and quality. Almost all of the cranberries grown in the province are processing varieties, but are also suitable for the fresh market. Currently, most of the cranberries harvested are purchased by Indian Bay Frozen Foods in Bonavista Bay and shipped to Europe and Russia. Although prices have fallen in the past couple of years, the current 10-year average price paid by processors is $0.37/pound, a reasonable price for financial viability. However, industry analysts agree that prices should begin to rise again in the next couple of years. There is also an increase in direct farm-to-table sales by producers using pick-your-own (U-Pick) and Farmers' Markets. Direct sales command significantly higher prices than processed cranberries.

An investment of $7 million to further develop the provincial cranberry industry was announced on September 10, 2014. In total, the Government of Newfoundland and Labrador is investing $4 million in this initiative through the Departments of Natural Resources and Business, Tourism, Culture, and Rural Development. The Government of Canada, through the Atlantic Canada Opportunities Agency, is contributing $3 million.

Fishery and Aquaculture

The Newfoundland and Labrador seafood sector remains an important economic driver for many rural communities. Despite some challenges faced by the fishing industry in 2014, the overall value of commercial landings is expected to surpass $600 million. While production is down in the aquaculture industry, it remains a significant economic contributor predominantly to the Coast of Bays and Northeast regions of the province.

Continuing the trend of workforce reduction observed over the past two decades, the number of people employed in the fishery is expected to be down again in 2014, resulting from both fewer processing plant workers and harvesters. Preliminary data indicates that processing employment decreased by approximately 6.5% to around 7,880 workers, compared to about 8,430 workers in 2013. The number of registered harvesters is expected to decline from 9,691 in 2013 to approximately 9,300 this year.[2]

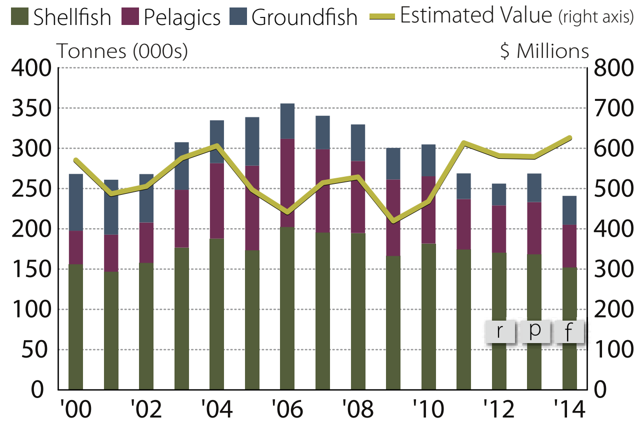
Harvesting

Commercial fish landings are expected to decline to around 241,000 tonnes in 2014, down 10.3% compared to the previous year (see chart). The corresponding landed value is expected to increase 8.1% to $626 million, up from $579 million in 2013. The increase in landed value is the result of higher raw material prices for some species, mainly shellfish, which offset lower landings.

Shellfish

The volume of shellfish landings is projected to decline to approximately 152,000 tonnes in 2014, down from 168,400 tonnes last year, due mainly to lower shrimp landings. The corresponding landed value, however, is expected to increase over 12% to $519 million, due to increased raw material prices.

Capture Fishery Landings



r: revised; p: preliminary; f: forecast

Source: Fisheries and Oceans Canada; Department of Fisheries and Aquaculture

The main reason for the decline in shrimp landings in 2014 was a reduction in the northern shrimp Total Allowable Catch of 18,500 tonnes. As a result, it is expected that Newfoundland and Labrador shrimp landings will total about 71,000 tonnes by year's end, a decrease of over 15% compared to 2013. However, landed value is expected to increase 6.6% to about $200 million, up from $187 million in 2013, as a result of higher raw material prices. The minimum landed price paid to harvesters for inshore shrimp in the 2014 spring fishery was $0.76/pound, up 16.9% from $0.65/pound in 2013. This year, the price increased to $0.87/pound in the summer fishery and rose to $1.08/pound in the fall fishery.

Snow crab landings decreased slightly in 2014 to about 50,000 tonnes. The corresponding landed value however, which accounts for the largest portion of overall landed value, is expected to increase 21.2% to over $254 million compared to $209 million in 2013. This increase is due to higher raw material prices for snow crab. The average landed price paid to harvesters for snow crab in 2014 was $2.30/pound, up 16.8% from $1.97/pound in 2013.

Groundfish

Groundfish landings are forecast to remain on par with last year (increasing less than 1%) at about 35,700 tonnes. Cod landings are anticipated to increase 24.0%, while redfish and flounder landings are expected to decrease 26.6% and 15.0% respectively. The total value of groundfish landings is expected to decrease 2.6% to $91.7 million this year, compared to just over $94 million in 2013.

Pelagics

Pelagic landings are expected to decrease 18.2% to approximately 53,000 tonnes in 2014, the result of lower catches for all three main species (herring, mackerel and capelin). Herring landings are anticipated to account for the majority of the decrease, with landings down over 32% to approximately 20,000 tonnes compared to 29,600 tonnes in 2013. Mackerel landings are forecast to decline 22.3%, while the decline in capelin catches is expected to be much more moderate at

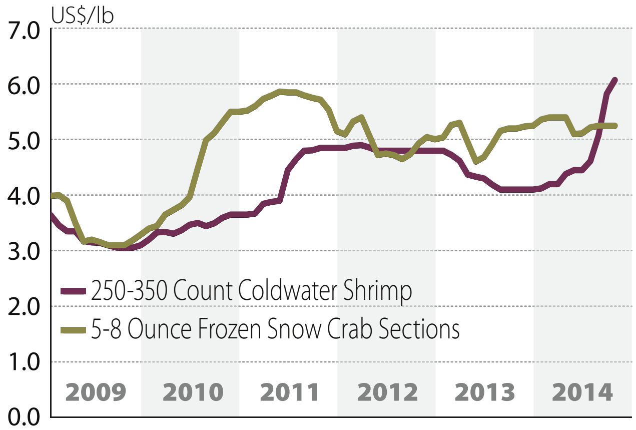
2 Processing employment data are from the Department of Fisheries and Aquaculture's annual employment survey and are based on the number of individuals employed during the year. The harvesting employment data are based on the number of fish harvesters registered with the Professional Fish Harvesters Certification Board. These data differ from Statistics Canada Labour Force Survey data (included in the table on page 47) which uses a person year concept of employment.

3.6%. The overall landed value of pelagics is expected to decrease about 28% in 2014, to just under $14 million.

Seals

Preliminary data indicate that the number of seals harvested in 2014 decreased by 35.1% to approximately 58,000 animals as a result of a reduction in harvesting effort due to severe ice conditions and weak market prospects. The average landed price in 2014 ranged between $25 and $30/pelt, essentially on par with 2013.

Shrimp and Crab Market Prices (Monthly)



Source: Urner Barry Publications Inc.; Department of Fisheries and Aquaculture

Processing and Marketing

Seafood production during the January to September 2014 period totalled approximately 98,000 tonnes, down 21.8% from the same period in 2013. The decrease in production over this time period is largely the result of lower salmon production from aquaculture, though there were also declines in landings of pelagics and shellfish. There were 86 active seafood plants in the province in 2014, on par with 2013. Of these, 75 were primary processing facilities (including aquaculture). The remaining 11 were involved in either secondary manufacturing or retail (i.e. retail businesses with a licence to process fish for the provincial market only).

The United States and China accounted for over 58% of the export value to date, for the province's seafood products. From January to September, the United States remained the largest market and represented 39.7% of total export value, while China accounted for 18.4%. Other major markets included the United Kingdom (7.6%), Vietnam (5.6%), Russia (5.2%) and Denmark (4.7%). Newfoundland and Labrador seafood products were valued at approximately $746 million, compared to $694 million over the same period in 2013.

Snow crab exports have accounted for the highest value of all Newfoundland and Labrador seafood exports to date in 2014. The total export value for snow crab was around $358 million in the January to September 2014 period, an increase of 4.2% from $344 million recorded in the same period of 2013. Market prices for snow crab remain strong in 2014. The price for 5-8 ounce snow crab sections averaged US$5.27/pound from January to October, up from an average of US$5.04/pound over the same period in 2013 (see chart).

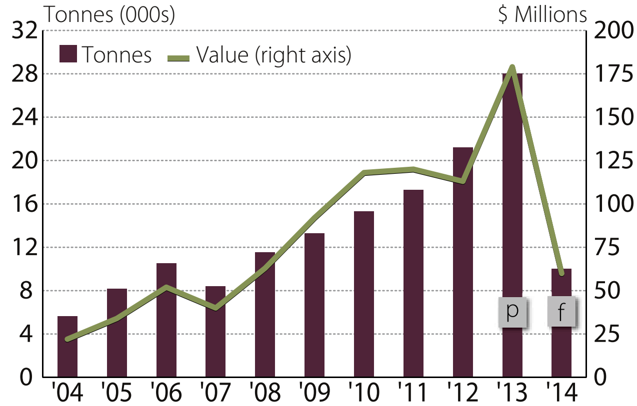
Lower volumes of shrimp were offset by higher prices in 2014. Coldwater shrimp prices have increased due to relatively lower supply stemming from lower Canadian and Greenlandic quotas. According to Urner Barry Publications Inc., the price of smaller sized shrimp (250-350 count) averaged US$4.74/pound from January to October this year, compared to an average of US$4.36/pound over the same period last year (see chart). The majority of Newfoundland and Labrador cooked and peeled shrimp is sold in the United Kingdom.

Aquaculture

Total aquaculture production is expected to decrease to approximately 10,000 tonnes in 2014 (see chart). This would be less than half of the previous year's production levels. The reduction in output is primarily due to a decline in salmonid production. While aquaculture production is down this year, it is anticipated that production will rebound to 2013 levels within two years.

Aquaculture Production and Value

All Species



p: preliminary f: forecast

Source: Department of Fisheries and Aquaculture

Salmonid production is expected to decrease 70.7% to approximately 6,500 tonnes this year. This decline reflects the removal of fish from the production cycle due to the Infectious Salmon Anaemia Virus (ISAv) events of 2012 and 2013; the harvesting of fish in 2013 that had originally been scheduled for harvest in 2014; and a higher mortality rate due to a colder 2014 winter. Market prices for Atlantic salmon remained relatively strong in 2014.

Shellfish (blue mussel) production is expected to decline 19.6% to approximately 3,500 tonnes in 2014. In 2013, eight mussel growers and three primary processors received organic certification for blue mussels, the first organic certification awarded for blue mussels in North America. In addition, in recent years two mussel processing plants have been certified to the Best Aquaculture Practices processing standards.[3] These certifications should help expand market opportunities for the sector.

Employment in hatchery and grow-out operations is expected to remain relatively stable, while some declines in processing are expected in the short term in line with lower production levels.

3 Best Aquaculture Practices is a suite of responsible farming and processing standards covering a range of food safety, chain of custody, and environmentally and socially responsible benchmarks, based on state-of-the-art science.

Manufacturing

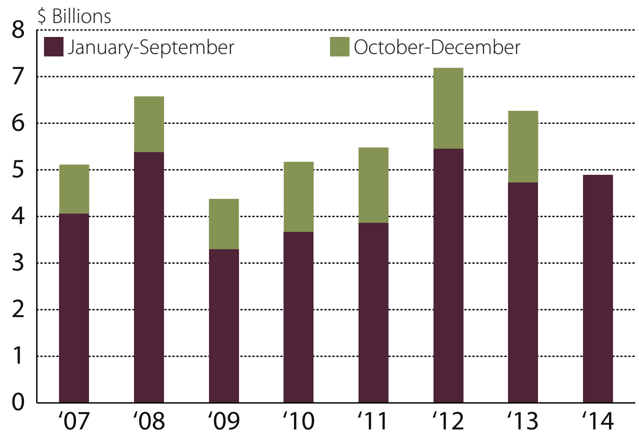
Newfoundland and Labrador's manufacturing industry comprises about 3% of total provincial GDP and 5% of employment. While there are many manufacturers in the province producing a wide variety of products, the majority of manufacturing output is concentrated in four areas: refined petroleum, food processing (primarily fish), fabricated metal manufacturing and newsprint.

After a significant decrease in 2013, the value of provincial manufacturing shipments is expected to increase in 2014, mainly due to a substantial rise in the value of fabricated metal manufacturing shipments. In the first nine months of this year, manufacturing shipments totalled almost $4.9 billion, representing an increase of 3.5% compared to the same period last year (see chart). Over the same time period, the value of national manufacturing shipments grew 5.8%.

The volume of refined petroleum produced at the North Atlantic refinery in Come by Chance fell 11.9% in the first nine months of 2014 relative to the same period in 2013. According to Harvest Operations Corp., owner of the refinery, the lower production was a consequence of scheduled maintenance downtime and unplanned weather related and equipment outages. The value of sales from the refinery fell 6.7% in the first three quarters of this year compared to the same period last year. The value of sales decreased less than the volume produced as the gross margin increased from US$0.62/barrel as of September 30, 2013 to US$4.70/barrel a year later. Capital expenditures at the refinery for the first nine months of 2014 totalled US$19.9 million, related to various capital projects including turnaround and preparation costs. Following operating losses of US$691.1 million in 2013 and US$219.6 million in the first three quarters of this year, Harvest Operations Corp. announced the sale of the North Atlantic refinery to SilverRange Financial Partners LLC of New York on September 5, 2014. The transaction is subject to regulatory approval and is expected to close in the fourth quarter of 2014. The refinery employs approximately 450 full-time and 35 part-time workers. According to SilverRange, the 115,000 barrel per day refinery in

Come by Chance is strategically located along Atlantic crude oil shipping routes and provides access to petroleum markets in Europe and the U.S. Eastern seaboard. In addition, the company affirms that the refinery's clean-fuel technology enables it to produce low-sulphur, clean fuels, providing flexibility to refine crudes from many parts of the world. As a result, SilverRange has committed to investing capital and improving operations at the refinery to support continued operations, employment and economic benefits in the province. More specifically, they will reduce overall sulphur dioxide emissions at the refinery and undertake a capital investment program at the tank farm.

Manufacturing Shipments



Source: Statistics Canada

Fish processing continues to play a significant role in Newfoundland and Labrador's manufacturing industry. The value of international seafood product exports totalled $746 million in the first nine months of 2014, up 7.5% from the same period in 2013. This growth can be attributed to higher average market prices for some species (see *Fishery*).

Fabricated metal manufacturing has continued to benefit from the development of various major projects in the province. In the first nine months of this year, the value of fabricated metal manufacturing shipments totalled nearly $413 million, representing an increase of 276% relative to the first nine months of last year. Fabricated metal manufacturing shipments comprised 8.4% of the total value of provincial manufacturing shipments in the first nine months of 2014, compared to only 2.3% in the same period in 2013. In addition, fabricated metal manufacturing employment averaged around 1,700 in the first 10 months of this year – up 54.1% from the first 10 months of last year.

The volume of newsprint shipped from Corner Brook Pulp and Paper Limited grew moderately during the first nine months of 2014, increasing 2.3% relative to the same period in 2013. Furthermore, the estimated value of shipments rose 8.6% on a year-over-year basis reflecting both higher volume and price gains resulting from the depreciation of the Canadian dollar (see *Forestry and Agrifoods*).

Employment in the manufacturing industry averaged approximately 11,400 in the first 10 months of 2014, down 6.5% from the same period in 2013. Fish processing employment decreased by around 400 and manufacturing employment excluding fish processing also fell by about 400 mainly due to a large decline in other food and beverage manufacturing employment. These losses more than offset gains in fabricated metal manufacturing employment.

Wages and salaries in the manufacturing industry grew 11.1% in the first nine months of this year compared to the same period in 2013. This growth is the result of wage gains and a change in the distribution of manufacturing employment towards higher paying jobs. Nationally, manufacturing wages and salaries rose only 1.3% over the same time period.

Investment in manufacturing remains high in a historical context, despite a significant drop in 2014 relative to 2013. According to Statistics Canada's data released in February 2014, capital expenditures in manufacturing were expected to total $690.5 million this year, representing a decrease of 48.7% from last year, largely due to lower expenditures at Vale Newfoundland and Labrador Ltd.'s nickel processing facility in Long Harbour. Phase 1 of the construction of the nickel processing facility was completed in October 2013 and work continued throughout 2014 on the ramping up of Phase 1 to capacity (see *Mining*).

Advancements continue to be made in many segments of Newfoundland and Labrador's manufacturing industry:

- Construction of the gravity based structure (GBS) for the Hebron project began at the Bull Arm site in October 2012, while topsides fabrication for the project began in 2013. As of September 30, 2014, nearly 3,100 individuals were employed at this site and construction and fabrication activities for the project will proceed for several years.
- Work on a drilling support module for the Hebron project began in May 2013 at Peter Kiewit's Cow Head fabrication facility in Marystown. It has been estimated by Kiewit Offshore Services that work on the drilling support module will last roughly two years.
- Husky Energy began construction on a new drydock site at the former naval base in Argentia that will be used to fabricate a concrete wellhead platform for the West White Rose project. In the future, this site will have the potential to be re-used for similar work and to complete emergency or refit work on offshore drilling rigs.
- In March 2014, Pennecon Energy started assembling two decks for the Hebron GBS at the Port Harmon Industrial Facility in Stephenville. This work has created about 80 positions and should be completed by February 2015. In addition, Pennecon was awarded another contract to assemble the last two decks for the Hebron GBS. They anticipate this work will begin in December 2014.
- Fabrication of a sub-sea manifold structure for Husky Energy's South White Rose extension was completed between January and August of this year by Talon Energy at an industrial fabrication facility in Port-aux-Basques. Talon also started flare boom fabrication work for the Hebron project at the same facility in June 2014 and they expect this work to last until April 2015. On August 11, 2014, Talon received a $500,000 repayable loan through the Atlantic Canada Opportunities Agency (ACOA) to assist with the cost of specialized equipment. This equipment will help ensure continued fabrication work at the facility, which currently employs between 60 and 80 tradespeople.
- Dynamic Air Shelters manufactures promotional, industrial, first-response and blast resistant inflatable safety shelters in Grand Bank. Its products have been used by oil and gas companies, construction firms, the Canadian military, food and beverage organizations, and professional sports teams. They employ up to 100 people during peak times. On March 11, 2014, the Provincial Government announced they are providing Dynamic funding of almost $562,000 to allow the company to respond to immediate customer requests, satisfy short-term customer needs and to demonstrate its product capabilities at major events tailored to the oil and gas and industrial markets.

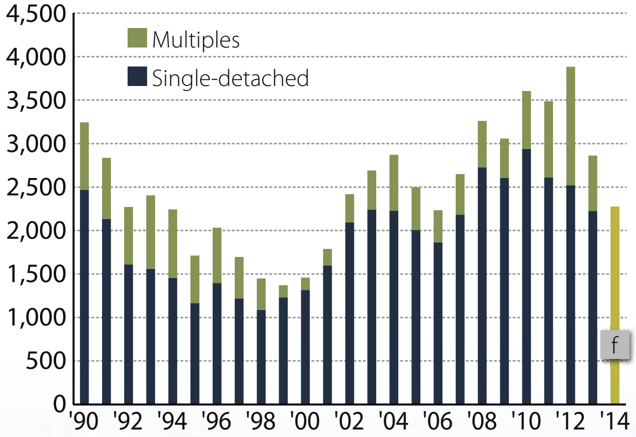
Real Estate

Activity in the real estate market slowed in 2014. Housing starts fell considerably compared to 2013, mainly due to fewer single-detached starts. Sales activity in both the residential and commercial segments of the market declined, though prices continued to rise in each. In the rental market, rents continued to rise despite an increase in the vacancy rate.

Housing Starts

Housing starts totalled 1,566 units during the first three quarters of 2014, a decrease of 21.7% compared to the same period in 2013. Single starts declined 25.3% to 1,203 units over the first three quarters of the year. Multiple starts (which include denser housing types such as row, semi-detached homes, apartments and condominiums) fell to 363 units, down 6.9% compared to 2013 and 65.3% lower than the record high experienced in 2012. In the St. John's CMA, the largest market in the province for multiples, multiple starts fell to 296 units over the first 10 months of the year, a decrease of 18.7% compared to the same period in 2013.

Housing Starts



f: forecast – Multiples and Single-detached combined

Source: Statistics Canada; Department of Finance

Urban housing starts (which account for approximately two-thirds of housing starts in the province) were down 18.9% to 1,110 units over the first three quarters of the year, while rural starts were down 27.9% to 456 units.

By comparison, housing starts were down 23.1% in the Maritimes but up 2.7% for Canada as a whole in the first nine months of 2014. The increase in starts across the country reflects continued growth in major urban markets while slowing growth in Atlantic Canada reflects long-term adjustment to the tightening of mortgage regulations over the past five years, as well as a general cooling of the housing market.

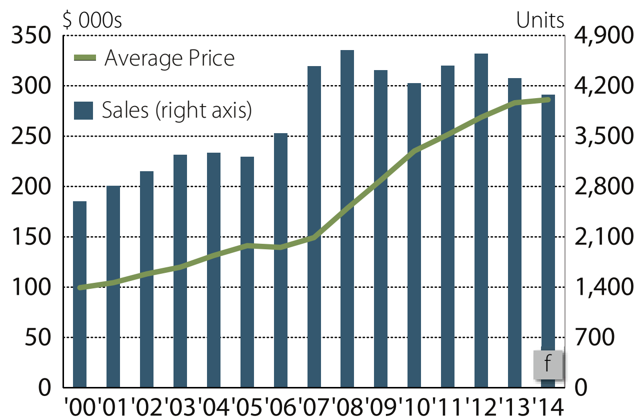
Total housing starts are expected to be 2,287 for the year (see chart). If realized, this would amount to a 20.6% decrease compared to 2013.

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 4.7% to 3,436 units during the first ten months of 2014 compared to the same period of 2013—total sales for the year are expected to decline by a similar amount (see chart). Nationally, residential sales increased 5.2% compared to the same period in 2013.

The average MLS® residential price in the province was $286,500 in the first ten months of 2014, an increase of 1.1% compared to the same period in 2013. In the St. John's CMA, the average MLS® residential price was $317,800 over the first nine months of 2014, on par with 2013. Moderated price growth in the province reflects a shift towards a buyers' market. The ratio of sales to active listings fell from about 40.2% in the first ten months of 2013 to 33.8% during the same period of 2014. Nationally, the average MLS® residential price grew by 7.0% over the same period.

Residential MLS® Sales and Average Price



f: forecast

Source: Canadian Real Estate Association

Rental Market

Residential vacancy rates in Newfoundland and Labrador increased somewhat in 2014 but remained low by historical standards. Significant growth in the province's housing stock over the past number of years has contributed to rising vacancy rates, and higher vacancy rates are expected to persist until the market rebalances. The province's average vacancy rate was 4.3% in April 2014, up 2.6 percentage points (ppt) from April 2013. Vacancy rates varied throughout the province, but all urban areas recorded low, but rising, rates. Vacancy rates were 2.9% in Corner Brook (up 2.9 ppt. from April 2013), 3.2% in Gander (up 0.4 ppt.), 3.8% in Grand Falls-Windsor (up 1.3 ppt.), and 4.8% in St. John's (up 3.3 ppt.).

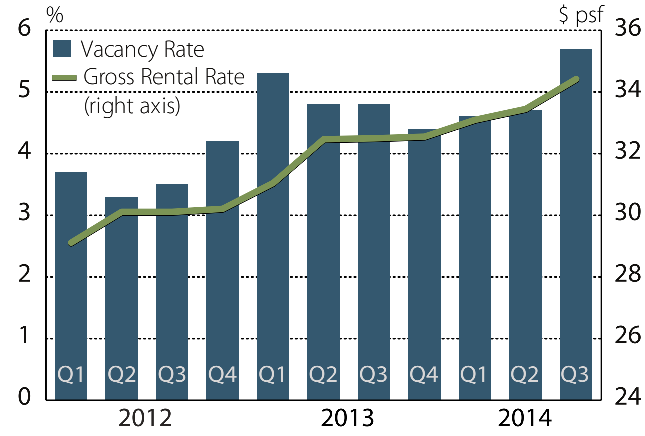
The average monthly rent for a two-bedroom apartment in the province in April 2014 was $785, up from $751 in the previous year. By comparison, the average rent for a two-bedroom apartment was higher in Prince Edward Island ($803) and Nova Scotia ($959), but lower in New Brunswick ($725).

Commercial

The commercial office sector has seen significant growth in recent years in tandem with growth in the economy. The establishment of offices by oil companies and firms that support the oil industry has been one of the main catalysts for increased demand for office space. In step with considerable investment in commercial real estate over the past five years, the commercial market remained strong in 2014. During the first nine months of 2014, construction completions in the St. John's CMA totalled 214,000 square feet, up 41.9% compared to the same period in 2013. This significant increase in space is attributable to the opening of 351 Water Street, a first-rate property with much needed parking. This space is fully leased by Husky Energy and Subsea 7.

Office Vacancy and Rental Rates

St. John's



psf: price per square foot

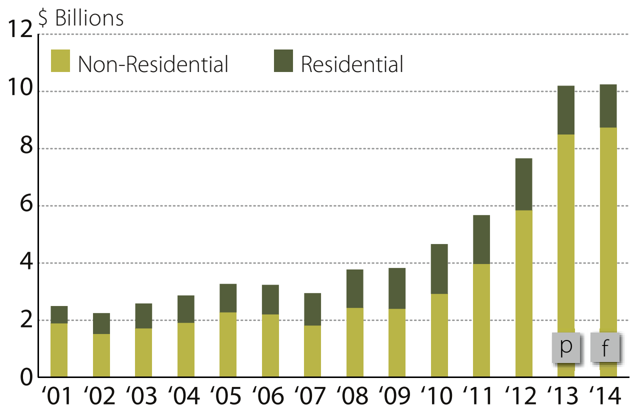
Source: Cushman & Wakefield Atlantic

The office space vacancy rate in St. John's averaged 5.0% over the first three quarters of 2014, up 0.03 percentage points compared to the same period in 2013 (see chart). However, persistent strong demand for office space, combined with a significant increase in new and renovated office space which generally commands a higher price than older space, resulted in the average gross rental rate for office space growing by 5.2% to $33.66 per square foot in 2014 compared to 2013.

Construction

Activity in the construction industry remained at historically high levels in 2014. Following unprecedented levels of growth over the past several years, construction investment is expected to rise by 1.1% to $10.3 billion in 2014. Construction expenditures in the private sector (which typically accounts for approximately 80% of total construction spending) are projected to be on par with 2013 levels, while spending in the public sector is expected to grow by 2.8%. Public sector investment growth primarily reflected development of Muskrat Falls as well as construction of public infrastructure (e.g. Trans Labrador Highway). Resource-based major project activity continued to dominate private sector spending. Construction employment and wages have both doubled since 2001 and remain at high levels.

Construction Investment



p: preliminary; f: forecast

Source: Statistics Canada; Department of Finance

Investment Expenditures

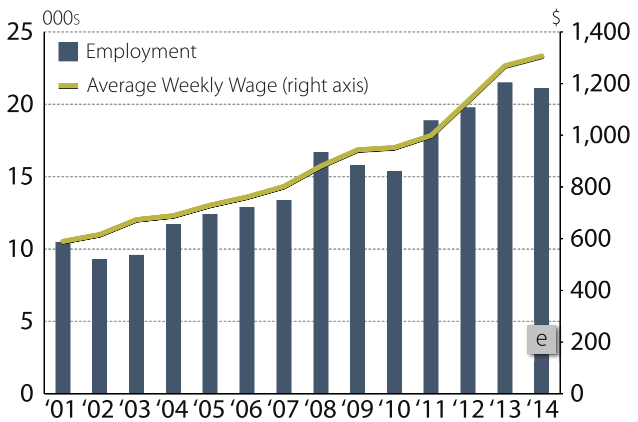
Non-residential investment expenditures accounted for 85.0% of total construction investment in 2014. Expenditures in this sector are expected to grow by 2.8% in 2014 to $8.7 billion, a record high (see chart). Nearly 70% of non-residential expenditures were attributable to the mining and oil and gas extraction industries. Investment in mining and oil and gas this year included both the expansion of currently producing oil projects, such as White Rose and Hibernia, as well as new construction related to the ongoing development of the Hebron project. Investment in the utilities industry was also significant, reflecting work on the Muskrat Falls project.

Investment in residential construction is expected to fall by 11.3% in 2014, but remain high on a historical basis, at $1.5 billion. During the first three quarters of 2014, expenditures on renovations grew by 4.8% on a year-over-year basis while investment in new dwellings fell by 22.0%. The decrease in expenditures for new dwellings is consistent with fewer housing starts this year (see *Real Estate*).

Employment and Wages

The surge in construction investment in the province is reflected in industry labour demand indicators. Construction wages have increased considerably over the past six years (see chart). Between 2007 and 2013, average weekly wages in the construction industry increased by almost 60%. Over the first nine months of 2014, weekly wages in construction grew by a further 3.0% when compared to the same period in 2013, averaging $1,289. Amongst provinces, only Alberta recorded a higher wage level. However, average employment in the construction industry decreased by 1.7% over the first ten months of 2014, compared to the same period in 2013, reflecting lower employment levels at Vale's nickel processing facility in Long Harbour as development of this project winds down. At around 21,000 person years, construction employment in the province is still at one of the highest levels ever recorded. Ongoing major project development as well as a number of new commercial and industrial projects are the primary drivers of historically high levels of construction activity in Newfoundland and Labrador.

Construction Employment and Wages



e: estimate

Source: Statistics Canada

Travel and **Tourism**

Global and National Travel

Global tourism continued to post strong growth in 2014 despite economic and geopolitical challenges. Destinations around the world received 781 million international overnight visitors during the first eight months of 2014, an increase of 4.8% over the same period in 2013. In terms of major regions, growth was strongest in the Americas, followed by Asia and Europe. For the year as a whole, international arrivals are expected to be up between 4% and 4.5% according to the World Tourism Organization.

International travel to Canada is expected to increase slightly in 2014. There were about 20.5 million trips to Canada by international visitors during the January to September period, an increase of 1.1% over the same period in 2013. This growth reflected a substantial increase in overseas visitors which offset lower numbers from the United States. U.S. visits to Canada in recent years have been substantially lower reflecting a number of factors including tighter border regulations and increased competition from other destinations. The U.S. aside, overseas visitors to Canada increased 10.1% on a year-over-year basis, with Asia and Europe accounting for most of the increase.

Canadian hotel occupancy rates are up in 2014. The average rate for the January to September period was 66.0%, up 1.7 percentage points (ppt.) from the same period in 2013. The average revenue generated per room sold for the period increased by 3.7% to $138 compared with the same period last year.

Provincial Travel

The travel and tourism sector in Newfoundland and Labrador consists of residents who travel within the province and non-residents who visit the province. In recent years, both segments combined have recorded annual expenditures of about $1 billion. The sector has been supported by continued improvements and additions to infrastructure including airport expansions and new ferries, restaurants, convention facilities and hotels.

Residents engaging in tourist activities within the province typically represent between 50% and 60% of spending in the province's tourism sector. Non-resident tourists, that generate economic wealth by bringing in new spending from outside the province, account for the remainder of the spending. Ontario and the Maritimes typically account for the majority (62% in 2011) of non-resident visitors to the province.

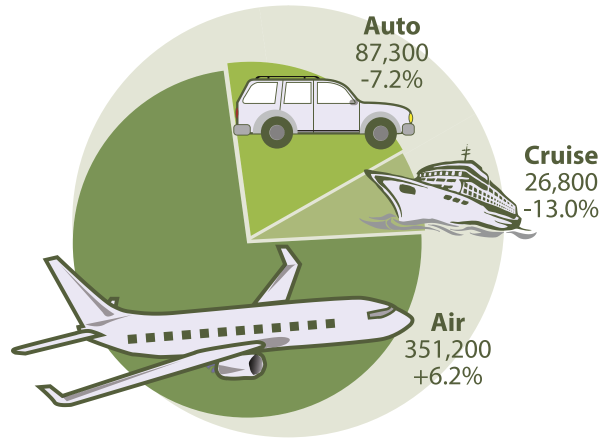
During the January to October 2014 period, the number of non-resident air, auto and cruise visitors to the province reached an estimated 465,300, an increase of 2.2% over the same period in the previous year. A higher number of visitors arriving by air offset a decline in visitors arriving by automobile and cruise ship. Expenditures by non-resident visitors are expected to total around $485 million for the year, up nearly 4% from 2013.

The number of visitors arriving by air continued to grow in 2014. This is the largest segment of the province's non-resident tourism sector, accounting for approximately 74% of visitors and 80% of spending in 2013. During the first 10 months of 2014, the number of air visitors reached 351,200, up 6.2% compared to the same period in 2013 (see chart).

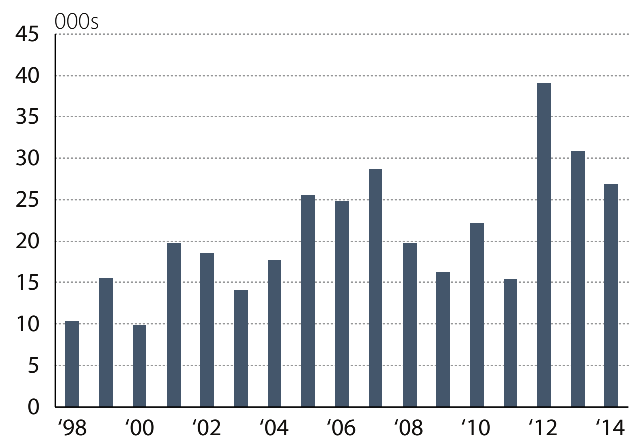
Air passenger traffic has been supported in recent years by additional seat capacity. Inbound non-stop seat capacity is expected to total almost 1.3 million in 2014, up 11.4% or nearly 130,000 seats from 2013. The increase is mainly driven by Canadian domestic flights, although expanded capacity has also occurred on routes to and from Europe and sun destinations.

Non-Resident Visitors

by Mode of Travel to the Province, Jan-Oct



Cruise Ship Visitors



Note: These figures are estimates of unique visitors based on detailed cruise ship itineraries. Passengers are counted once regardless of the number of ports visited.

Source: Department of Business, Tourism, Culture and Rural Development; Cruise Newfoundland and Labrador

The number of seats available on intra-provincial flights (flights within the province) is expected to total 447,000 in 2014, up 5.9% over the previous year. This will offset the decline that occurred last year and put intra-provincial capacity firmly back on an upward trend. In 2014, capacity increases occurred for intra-provincial flights to St. John's, Goose Bay, Deer Lake and Stephenville. With this latest increase, the number of intra-provincial seats has expanded by 17% (or more than 64,000 seats) in four years.

Non-resident automobile visitation continued to decline this year. During the first 10 months of 2014, the number of automobile visitors arriving by Marine Atlantic ferry totalled an estimated

87,300, down 7.2% from the same period in 2013. The drop was mainly due to fewer visitors from the Maritimes, Ontario and the U.S. Travelling by auto continues to be challenged by many factors including volatile fuel prices, increases in ferry rates and associated fuel surcharges, and the convenience of air travel. The decline this year in automobile visitors is part of a downward trend which started approximately 10 years ago.

Preliminary estimates indicate that there were about 26,800 unique cruise non-resident visitors during the cruise ship season this year.[4] Although this figure represented a decline of 13.0% from the 2013 cruise season it was a reasonably high level of activity compared to historical cruise visitors (see chart). The 2014 cruise season did record increases in the number of different ports visited and the total number of port calls. The lower number of unique non-resident visitors reflected smaller expedition cruises.

Demand for accommodation services has declined slightly in 2014, however, it remains at very high levels. Preliminary data show total room night sales numbered 1.05 million over the January to September period of this year, down 2.3% from the same period in 2013. The average revenue generated per room sold was $134, up 5.2% over the same period in 2013. The overall accommodation occupancy rate for the province over the January to September period was 52.6%, a decrease of 1.2 percentage points compared with the same period in 2013. The largest declines in regional occupancy occurred in the Labrador (down 4.4 ppt.) and Avalon regions (down 4.3 ppt.). The Avalon is the largest accommodation market in the province. This region has experienced considerable investment in hotel facilities in recent years. The year-over-year decline in occupancy rates in this region reflected both lower room sales and increased capacity (number of rooms available). The drop in the Avalon and Labrador regions, together with a decline in the Central region (down 1.5 ppt.) more than offset gains in the Eastern (up 4.9 ppt.) and Western (up 0.2 ppt.) regions.

The major meetings and convention market (those events booking 50 or more guest rooms per night) in the St. John's Metropolitan Area is expected to record activity levels just slightly below the strong performance posted in 2013. The $64 million expansion to the St. John's Convention Centre continued in 2014. It is anticipated that these enhancements will double the number of large meetings and conventions held in the facility each year upon reopening in 2016.

The province has strived to increase tourism through many channels including award winning marketing campaigns and advanced technologies such as mobile applications (apps). Over 35,000 enquiries for provincial travel-related information from all sources (i.e. web, e-mail, telephone) were reported from January to October 2014. In addition, approximately 1.75 million visits were registered at the province's tourism website during the same period. Combined, these interest levels in the province as a travel destination represent an increase of about 2% compared to the same period last year. To transition this interest into visitation and to ensure an exceptional visitor experience, the Government of Newfoundland and Labrador continues to work in partnership with industry and other tourism stakeholders to advance several visitor-focused initiatives. The Destination Development plans for the various regions of the province identify tourism development opportunities while the implementation of the Tourism Assurance Plan establishes minimum standards to ensure visitors have a quality experience.

4 This figure is a Department of Business, Tourism, Culture and Rural Development estimate based on a review of itinerary information. This estimate only counts passengers once regardless of the number of ports visited. This should be distinguished from "cruise ship passenger visits", which is the industry standard, whereby passengers are counted at each port call made by their vessel.

GDP and Employment by Industry

	GDP 2012p		Employment 2013	
	$ Millions	% of Total	Person Years 000s	% of Total
Goods-Producing Sector	**16,713.0**	**52.7%**	**54.1**	**23.2%**
Agriculture, Forestry & Logging	191.1	0.3%	1.5	0.6%
Fishing, Hunting & Trapping	227.5	0.7%	4.0	1.7%
Mining	2,730.9	8.6%	3.8	1.6%
Oil Extraction and Support Activities	8,961.4	28.2%	8.8	3.8%
Manufacturing	950.7	3.0%	12.1	5.2%
Fish Products	292.0	0.9%	3.1	1.3%
Other	658.6	2.1%	9.0	3.9%
Construction	2,909.7	9.2%	21.5	9.2%
Utilities	741.7	2.3%	2.4	1.0%
Services-Producing Sector	**15,019.5**	**47.3%**	**178.7**	**76.8%**
Wholesale Trade	610.9	1.9%	5.7	2.4%
Retail Trade	1,476.3	4.7%	31.6	13.6%
Transportation and Warehousing	737.8	2.3%	10.5	4.5%
Finance, Insurance, Real Estate & Business Support Services	3,891.9	12.3%	15.1	6.5%
Professional, Scientific, & Technical Services	832.0	2.6%	9.2	4.0%
Educational Services	1,557.3	4.9%	18.1	7.8%
Health Care & Social Assistance	2,169.0	6.8%	36.8	15.8%
Information, Culture & Recreation	745.7	2.3%	6.6	2.8%
Accommodation & Food Services	463.2	1.5%	13.7	5.9%
Public Administration	2,048.1	6.5%	18.3	7.9%
Other Services	487.4	1.5%	13.2	5.7%
Total, All Industries	**31,732.6**	**100.0%**	**232.8**	**100.0%**

p: preliminary

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. Industry components may not sum to total due to independent rounding.

Source: Statistics Canada; Department of Finance

Photo Credits

1 Iceberg
Source: Provincial Airlines

9 Kippens
Source: Department of Finance

11 View from Bleak House, Fogo
Source: Department of Finance

12 West Hercules drill rig
Source: Provincial Aerospace

22 IOC's Luce pit
Source: Department of Natural Resources

27 New crusher building at IOC's Luce pit
Source: Department of Natural Resources

28 Sawmill, Burton's Cove Logging and Lumber Ltd.
Source: Department of Natural Resources

31 Cranberry Harvesting
Source: Department of Natural Resources

32 Rural wharf
Source: Department of Fisheries and Aquaculture

36 Employee at Dynamic Air Shelters' Facility
Source: Dynamic Air Shelters Ltd.

39 351 Water Street
Source: Target Marketing & Communications Inc.

42 Argentia work site – White Rose Extension Project
Source: Husky Energy

44 Gros Morne National Park
Source: Newfoundland and Labrador Tourism

47 L'Anse au Diable
Source: Department of Finance

48 Tors Cove
Source: Department of Finance

Newfoundland
Labrador