PROVINCIAL OUTLOOK

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Western Canada, along with Newfoundland and Labrador, will lead the Canadian economic parade in 2006. In 2003, Newfoundland and Labrador was the front runner, thanks to surging oil production, followed by Saskatchewan and then Alberta. In 2004 and 2005, Alberta led the pack, followed closely by British Columbia and then Saskatchewan.

This year, Alberta will lead the way with growth of 5.2%. Alberta's economy is booming, as oil prices set new records and natural gas prices, though well down from recent peaks, are still high by historical standards. High oil prices have unleashed a tsunami of investment in Alberta's oil sands, which is trickling down through the rest of the economy.

Until recently, it looked as though Newfoundland and Labrador would have the highest growth rate in 2006, but offshore oil production problems have nudged the province down to slightly below Alberta. Growth in Newfoundland and Labrador will nonetheless be very strong at 5.0%, as production ramps up from two multi-billion dollar developments — the Voisey's Bay nickel project and the White Rose offshore oil project.

A construction surge will propel British Columbia to a 4.0% gain in economic output in 2006. Public investment in transportation infrastructure and preparations for the 2010 Winter Olympics are at a fever pitch, while BC's housing market has remained strong. We now expect that BC's housing starts will hit a 12-year high this year, before declining next year.

This document is based on information available as of June 30, 2006.

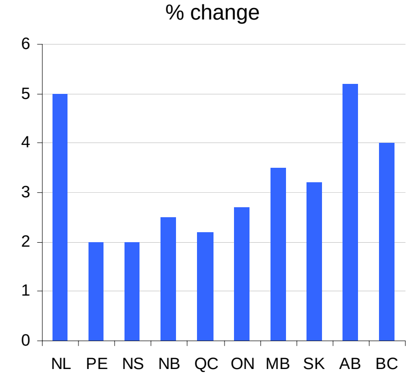
For the past few years, Manitoba has seen the weakest growth within Western Canada, due mainly to its relatively limited oil and gas resources. But this year, Manitoba joins the party. Manitoba is enjoying a construction boom, and is expected to rebound sharply from last year's water-logged agricultural performance. Growth is expected to be 3.5%.

Saskatchewan will drop from third place in the growth rankings in 2005 to fifth place in 2006, but this is not because its economy is growing more slowly. Indeed, at 3.2%, the province's growth rate is expected to be the same as last year, but stronger performances by Newfoundland and Labrador and Manitoba will bump it down two notches in the rankings. Saskatchewan continues to benefit from strong oil and gas prices. Also, as the world's largest uranium producer, Saskatchewan is benefiting from renewed worldwide interest in nuclear power generation.

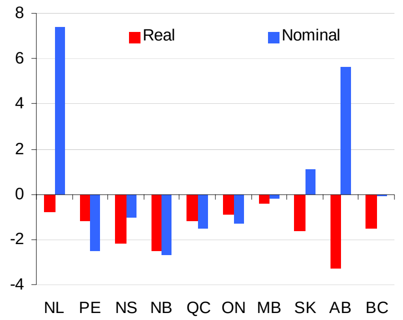
Ontario and Québec, Canada's manufacturing heartland, will see growth below potential for the fourth straight year in 2006, at 2.7% and 2.2%, respectively. Both provinces are suffering from the rise in the value of the Canadian dollar, which has made their manufactured products less internationally competitive. Also, the housing construction surge in both provinces is waning. However, the service sectors are performing well. In Ontario, major investments in the auto sector, transportation infrastructure and electricity generation will keep the economy from slipping too far below potential, while in Québec, a boom in hydroelectric construction will do the same.

The Maritime provinces will have the weakest growth in the country in 2006. Prince Edward Island will see growth of 2.0%. Consumption in PEI will remain strong, investment in construction will exceed last year's growth rate, and government restraint will be less severe in 2006, but this will be largely offset by reduced investment in machinery and equipment and a continuing drag from the external sector. Growth in Nova Scotia and New Brunswick will rebound from unexpectedly poor performances in 2005. The Nova Scotia economy is picking up steam, with growth of 2.0% expected in 2006. Consumers have opened their wallets wider, housing construction continues unabated, non-residential construction is booming, and government spending is strong thanks to solid offshore gas royalties, but the external sector will continue to depress growth in 2006. New Brunswick will see growth of 2.5%. New Brunswick's economy will see some rebound from its dismal manufacturing performance in 2005. In addition, two megaprojects in New Brunswick — a liquid natural gas terminal and the refurbishment of a nuclear generating station — will boost growth even more.

2006 real GDP forecast
% change



External sector contribution to GDP growth, 2005
Percentage points



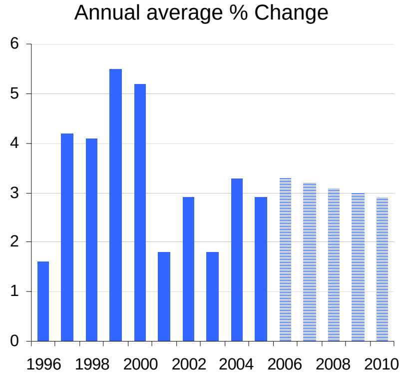
Canadian overview

Most domestic sectors of the Canadian economy put in strong performances in 2005, with investment leading the way rising 7.1% followed by consumption (3.9%) and government spending (3.2%). Final domestic demand grew 4.3%.

However, real GDP growth was held to only 2.9% as the external sector was a drag on growth. Despite the strength of the Canadian dollar, real exports rose 2.1%, but real imports rose 7.1%. In real terms, the external sector was a drag on growth in every province in 2005. In nominal terms, the external sector fared better, with exports rising 5.1% and imports rising 6.1%. The better performance on a nominal basis was due to high prices for Canada's commodity exports.

The Canadian dollar continued its upward trend of the previous three years in 2005, rising from an average of 83.2¢ US in 2004 to 85.6¢ US in 2005. The Canadian dollar continued to benefit from strong commodity prices.

Canadian real GDP
Annual average % Change



Canada's performance in 2006 is expected to be slightly stronger than in 2005, with growth estimated at 3.1%. The mainstay will continue to be investment, which is expected to make a slightly greater contribution to growth. The impact of the strong Canadian dollar will be tempered by still high commodity prices. The earlier tightening is expected to have more of a dampening impact on consumption this year.

Going forward, the restraint from the loonie will ease, though the impact of higher interest rates will intensify. Investment will continue to be an important source of growth. In total, GDP is expected to rise 3.1% in 2007 and 3.0% on average over the period 2008-2010.

The pace of hiring has picked up from 1.4% in 2005 to 2.0% in 2006, which will contribute to the unemployment rate dropping to 6.3% this year from 6.8% in 2005. However, we don't expect the upward trend in employment growth to continue, with growth of 1.3% in 2007 and 0.8% over the 2008-10 period. This slowing pace of employment growth reflects the expectation that firms will increasingly respond to rising demand by adding capital rather than new workers. This will contribute to an improvement in productivity in the Canadian economy.

The often predicted end of the housing boom has been slow in coming. Housing starts were 225,481 in 2005, which was down 3.4% from 2004, but further expected declines have not materialized. We now expect housing starts in 2006 to be about the same as in 2005. Nonetheless, higher interest rates will eventually move housing starts lower — a development which we now expect to happen starting in 2007.

After bottoming out in the spring of 2004 at 2%, the Bank of Canada raised the target for the overnight rate to 2.5% by the early fall of that year. It then moved onto the sidelines, holding the rate steady until September 2005. Since then, it raised the rate seven times to 4.25%. The Bank of Canada now appears satisfied that the current level of the overnight rate is sufficient to contain inflationary pressures. We therefore expect that the Bank of Canada will hold the overnight rate steady at 4.25% for the foreseeable future.

The Canadian dollar has continued to rise in 2006. In the first six months of 2006, the Canadian dollar averaged 88.3¢ US, up from 85.6¢ US in 2005. We expect the currency to average just over 90¢ US for the year as a whole, then rise to 92¢ in 2007 on general weakness in the greenback, before easing off to 90¢ US in 2008.

Canadian Provincial Outlook

Annual average % change (unless otherwise indicated)
July 17, 2006

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	CA
Real GDP											
2003	6.2	1.5	0.9	1.7	2.1	1.6	1.8	3.8	3.1	2.7	1.8
2004	-1.4	1.8	1.4	2.0	2.3	2.7	2.3	3.4	4.3	4.0	3.3
2005	0.4	2.0	1.1	0.5	2.2	2.8	2.7	3.2	4.5	3.5	2.9
2006	5.0	2.0	2.0	2.5	2.2	2.7	3.5	3.2	5.2	4.0	3.1
2007	2.5	2.0	2.2	2.3	2.5	3.0	3.0	2.5	4.5	3.5	3.1
2008-10	1.5	2.2	2.4	2.3	2.5	3.0	2.5	2.5	3.8	3.2	3.0
Employment											
2003	2.2	2.0	2.0	0.0	1.6	3.0	0.6	1.7	2.7	2.5	2.4
2004	1.0	1.3	2.6	2.1	1.5	1.7	1.1	0.8	2.4	2.4	1.8
2005	-0.1	2.0	0.2	0.1	1.0	1.3	0.6	0.8	1.5	3.3	1.4
2006	0.4	1.6	0.5	2.3	1.1	1.8	1.2	0.2	4.1	2.8	2.0
2007	0.2	0.9	0.6	0.6	1.0	1.4	0.4	0.0	2.1	1.4	1.3
2008-10	0.0	0.4	0.4	0.2	0.6	1.1	0.0	0.0	1.5	1.0	0.8
Unemployment rate (%)											
2003	16.5	10.9	9.1	10.3	9.1	6.9	5.0	5.6	5.1	8.1	7.6
2004	15.7	11.3	8.8	9.8	8.5	6.8	5.3	5.3	4.6	7.2	7.2
2005	15.2	10.9	8.4	9.7	8.3	6.6	4.7	5.1	4.0	5.9	6.8
2006	15.6	10.9	8.0	9.0	8.2	6.1	4.4	5.0	3.4	4.6	6.3
2007	15.6	10.8	7.9	8.9	8.0	6.0	4.3	4.9	3.4	4.5	6.2
2008-10	15.6	10.7	7.8	8.9	8.0	6.0	4.3	4.9	3.4	4.5	6.1
Housing starts (000s)											
2003	2.7	0.8	5.1	4.5	50.3	85.2	4.2	3.3	36.2	26.2	218
2004	2.9	0.9	4.7	3.9	58.4	85.1	4.4	3.8	36.3	32.9	233
2005	2.5	0.9	4.8	4.0	50.9	78.8	4.7	3.4	40.8	34.7	225
2006	2.4	0.9	5.4	4.0	46.0	75.0	4.8	3.3	46.0	37.0	225
2007	2.0	0.7	4.8	3.4	39.0	70.0	4.1	3.0	38.0	29.0	194
2008-10	1.9	0.7	4.5	3.2	35.0	68.0	3.4	2.9	31.0	25.0	176
Retail sales											
2003	6.1	1.0	1.8	0.5	4.5	3.4	3.6	5.0	4.4	2.7	3.6
2004	0.3	0.1	2.8	1.7	4.2	3.2	6.7	4.1	10.3	6.3	4.7
2005	2.4	3.2	3.1	5.6	6.0	4.9	6.6	7.8	12.4	6.0	6.3
2006	4.0	4.0	6.8	5.3	4.7	5.4	5.4	5.8	16.0	6.6	6.8
2007	4.1	4.2	5.6	4.8	4.7	5.2	5.0	5.2	12.0	5.9	6.1
2008-10	4.2	4.3	4.4	4.4	4.7	5.0	4.7	4.7	8.0	5.3	5.4
Consumer prices											
2003	2.9	3.5	3.4	3.4	2.5	2.7	1.8	2.3	4.4	2.2	2.9
2004	1.8	2.2	1.8	1.4	1.9	1.9	2.0	2.2	1.4	2.0	1.8
2005	2.6	3.2	2.8	2.4	2.3	2.2	2.7	2.3	2.1	2.0	2.2
2006	2.1	2.7	2.3	2.2	1.9	2.1	1.8	2.0	3.2	1.5	2.2
2007	1.5	1.8	1.7	1.4	1.2	1.4	1.5	1.5	2.0	1.3	1.5
2008-10	1.8	2.1	2.1	2.0	1.8	1.9	1.9	2.0	2.4	2.0	1.9

Newfoundland and Labrador

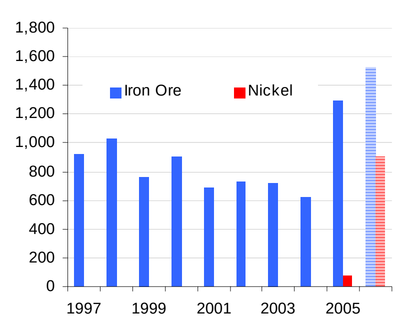
After two years of poor performance, Newfoundland and Labrador is rebounding strongly in 2006. The economy shrank 1.4% in 2004 due to a decline in offshore oil production and strikes in the iron ore industry and the provincial public service. This weakness continued well into 2005, but with the startup of production at the Voisey's Bay nickel development and the White Rose offshore oil project late in 2005, the economy managed to post positive growth of 0.4% for 2005 as a whole. Due to the strength of commodity prices, nominal GDP rose 10.8%. In 2006, with a full year of production from these two megaprojects, the province should post growth of 5.0% — the second highest among the provinces. While strong, the 2006 growth rate is not as strong as was expected three months ago, due to operational problems at the Terra Nova offshore oil project. On average over 2006 and 2007, growth will be about the same as previously expected, but with less growth coming in 2006 and more in 2007.

Voisey's Bay and White Rose start up

Mining and oil extraction is the largest industry in the province, accounting for 17.4% of provincial GDP in 2005. Mining output jumped sharply in 2005. Labour peace at the province's two iron ore mines resulted in a 30% increase in iron ore production. At the same time, iron ore prices rose 70%, resulting in the value of iron ore shipments more than doubling in 2005.

Up until 2004, iron ore accounted for almost all of the value of mineral shipments in the province. In 2004, for example, iron ore accounted for 98% of mineral shipments by value. In 2005, this dropped to 84% as the Voisey's Bay nickel development started production. In 2006, iron ore's share is expected to drop below 60% as Voisey's Bay is in production for the full year.

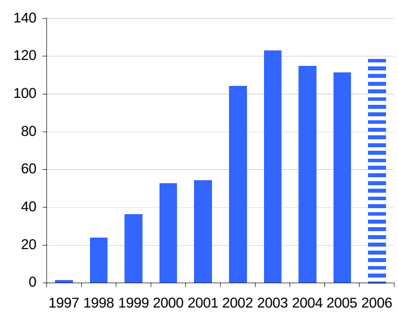
Labrador's mineral shipments jump
Millions of dollars



Despite the startup of White Rose in late 2005, oil production fell 3.1% in 2005 to 111.3 million barrels. The decline was mainly due to operational problems at Terra Nova.

Oil production will rise in 2006 as White Rose is brought up to full production, but the increase will not be as large as previously expected due to continuing operational problems at Terra Nova. These problems, plus scheduled maintenance at Terra Nova, will offset much of the additional production coming from White Rose.

Newfoundland oil production rises less than previously expected
Millions of barrels



In 2007, with White Rose operating at capacity and assuming that the problems at Terra Nova can be overcome, oil production should rise sharply. Beyond 2007, production will gradually decline as the existing fields mature. Fortunately, reserve estimates have recently been revised upwards, suggesting that the pace of decline will be slower than previously believed.

A tough year for the fishery

2005 was a tough year for the fishery. Fish landings declined 2.5% by volume and 23.9% by value. Crab and shrimp, which now account for two-thirds of the landed value of seafood, were negatively affected by a late start to the crab season, low crab prices, a 20% European Union tariff on shrimp, and the strong Canadian dollar.

Manufacturing facing challenges

Manufacturing shipments fell 2.2% in 2005. The decline was mainly due to a drop in transportation equipment, resulting from the end of construction at White Rose. Despite the closure of one of the province's three newsprint mills late in 2005, newsprint production rose 4.1% by volume and 7.5% by value. However, the closure of that mill will result in a substantial drop in newsprint production in 2006.

The seafood product preparation and packaging sector is facing challenges. The value of shipments rose 0.4% in 2005, but the industry is facing difficulties due to the strength of the Canadian dollar, overcapacity in the province, and Chinese competition. The industry is undergoing a period of restructuring, with a number of plants closing or laying off workers.

Weak labour markets restrain consumers

Retail sales rose 2.4% in 2005, while real consumer spending rose 2.0%. Retail sales have slowed so far in 2006, with sales up only 1.6% year-to-date to April. We expect consumers to open their wallets a bit wider over the remainder of the year and over the medium term, but consumers will be restrained by minimal employment growth.

Labour markets put in a mixed performance in 2005. On the one hand, employment fell 0.1%. On the other hand, the unemployment rate fell to 15.2% — the lowest rate since 1981 — as the labour force declined 0.7%.

More recently, the unemployment rate has risen to average 15.6% so far this year (to May). Employment over the first five months is down 0.3% compared to the 2005 average, while the labour force has risen 0.2%. For 2006 as a whole, we expect employment growth of only 0.4%. However, with the labour force expected to grow 0.9%, the unemployment rate will average 15.6%. In 2007 and beyond, we expect both employment and labour force growth to be virtually flat, with the result that the unemployment rate stays near 2006 levels.

Investment drops as megaprojects end
Housing starts fell 13.0% in 2005 to 2,498. Despite the drop in starts, investment in housing rose 0.9% in 2005 thanks to renovation activity and the trend to larger, more feature-laden houses. We expect a further 4% drop in housing starts in 2006 to about 2,400 as pent-up demand has largely been satisfied. Once again, despite the expected large drop in starts, Statistics Canada's survey of investment intentions points to only a small 0.8% drop in housing investment in 2006.

Non-residential investment rose a mere 0.1% in 2005, with investment in non-residential structures rising 8.8% but investment in machinery and equipment falling 10.3%. Statistics Canada's survey of private and public investment intentions points to an 8.8% decline in non-residential investment in 2006. The mining and oil and gas extraction sector, which wound up construction of the two megaprojects in 2005, accounts for all of the decline. Investment in non-residential structures is expected to decline 10.7%, while investment in machinery and equipment is expected to decline 5.1%.

Oil revenues boost fiscal situation
Real government spending on current goods and services rose 1.2% in 2005, following a 0.2% drop in 2004. The decline in 2004 and the rebound in 2005 were partly due to a strike by the provincial public service in 2004. In addition, an improved fiscal situation in 2005-06 caused the province to boost spending.

The province's fiscal balance has improved markedly in the past few years. After posting a deficit of $914 million in 2003-04, the deficit fell to $489 million in 2004-05. The fiscal balance for 2005-06 is now estimated as a surplus of $77 million. The main reason for the improved fiscal situation is the 2005 Atlantic Accord reached between the province and the federal government. The Accord allows the province to keep 100% of its offshore oil royalties. Previously, because of clawbacks under the equalization program, every $1 in oil royalties resulted in a 70¢ reduction in equalization transfers. The agreement is for eight years, with an extension for a further eight years if the province remains eligible for equalization. The benefit to Newfoundland and Labrador was estimated at the time the agreement was reached at about $2.6 billion, with the actual amount depending on oil prices and production volumes over that period. The federal government guaranteed the province at least $2 billion, which came in the form of an up-front payment. With this $2 billion applied against the province's debt, debt service costs have dropped sharply — down 16.7% in 2006-07 vs. 2005-06.

The 2005 Atlantic Accord could not have come at a better time for Newfoundland and Labrador. Up until recently, oil royalties from the province's offshore oil projects have been small. Royalty rates are low in the early years of a project, and then rise as capital costs are recovered. Also, oil prices have been setting records recently. Thus, the province is simultaneously benefiting from the increase in royalty rates, high oil prices, and the elimination of clawbacks by the federal government.

With the stronger fiscal situation, the 2006-07 provincial budget called for program spending to increase 8.2%. The 2006-07 surplus is projected at $6 million.

Export volumes down, values up
Real exports fell 1.1% in 2005, but strong oil and mineral prices resulted in exports rising 16.3% in value terms. Imports rose 0.2% in real terms and 4.2% in nominal terms in 2005.

So far in 2006 (to April), international merchandise export values are up 16.6%, with exports of refined oil and iron ore accounting for almost all of the increase. International import values are up 29.6%, with imports of crude oil accounting for most of the increase. (The province imports crude oil and exports refined oil.)

Medium-term outlook
In 2007 and later, Newfoundland and Labrador's economic prospects depend, to a large extent, on whether further megaprojects proceed. There are a number of potential megaprojects, but none have been committed to at this point.

The on-again, off-again Hebron offshore oil project has been cancelled again after the project's partners were unable to reach a suitable agreement with the provincial government. Continuing exploration raises the possibility of other offshore oil projects in the future, but there are no definite proposals at this point.

Newfoundland and Labrador Refining Corporation is studying the possibility of building a 300,000 barrel per day oil refinery at a cost of up to $2 billion. This would be the second oil refinery in the province, and the largest oil refinery in Canada.

After evaluating three private sector proposals for the Lower Churchill hydroelectric development, the provincial government has decided that Newfoundland and Labrador Hydro, a provincial crown corporation, will take the lead in any development of the project. A decision on whether or not to proceed with the project is not expected until 2009. If a decision is made at that time, power could start to flow in 2015. The project, with a 2.8 gigawatt capacity, is estimated to cost between $6 and 9 billion.

Another potential megaproject is Inco's $800 million hydromet nickel processing facility. Inco has set up a hydromet demonstration facility in the province. It plans to evaluate the technology and then decide in 2008 whether to build a full-scale facility. There have also been two proposals for iron ore mining developments in Labrador — one to build a new mine and another to expand an existing one.

Prince Edward Island

At 2.0%, Prince Edward Island's real GDP growth in 2005 accelerated slightly from that of the previous two years — 1.5% in 2003 and 1.8% in 2004. The 2005 gains were strong in consumption and investment, modest in government spending, and negative in the external sector. By industry, strength in manufacturing, construction and the service sector was partly offset by weakness in agriculture and the fishery. Growth in 2006 should be similar to 2005 at about 2.0%. Consumption will remain strong. Though investment in residential and non-residential structures will exceed last year's growth rate, this will be largely offset by reduced investment in machinery and equipment. Government restraint will be less severe in 2006, but the external sector will continue to be a drag on growth.

Growth accelerates a little in 2005

Prince Edward Island's economy grew 2.0% in 2005. Output of the goods-producing sector was flat, but the service sector's output rose 2.5%.

The goods sector was held back by agriculture and fishing. Agricultural output declined 11.6%, primarily due to a reduced potato harvest resulting from fewer seeded acres. Fishing declined 8.1%, mainly due to lobster landings, which were down 7.4% by volume (though up about 3% by value). The weakness in agriculture and fishing was offset by strength in manufacturing and construction. The value of manufacturing shipments rose 5.1% in 2005, with the real value of manufacturing output rising 3.2%. Food manufacturing accounted for 62.7% of Prince Edward Island's manufacturing shipments in 2005. Shipments of processed foods rose 5.1%, with an increase in fish products partially offset by a decrease in potato products. Transportation equipment manufacturing has grown rapidly in the past few years, as a number of aerospace companies have set up or expanded in the province. It is the second largest manufacturing subsector in the province, accounting for over 12% of shipments in 2005. However, transportation equipment shipments slipped 1.4% in 2005. Shipments of chemical products, the third largest manufacturing subsector, rose 14.5%.

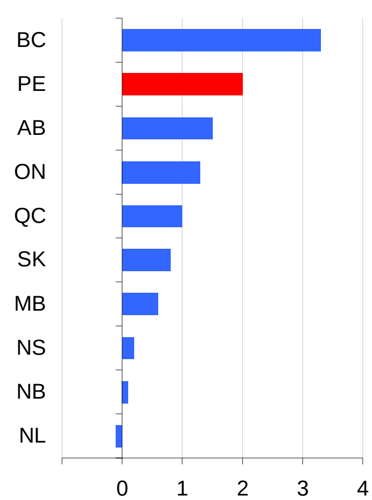
The output of the construction industry rose 3.5% in 2005. The value of residential construction fell 1.6%, as housing starts declined from 919 in 2004 to 862 in 2005. Non-residential construction rose 5.8%, led by major projects in the utility, public administration and education sectors.

There were broad-based gains across all major components of the service sector. The sharpest gains were in arts, entertainment and recreation (5.8%), accommodation, food and beverages (4.5%), and wholesale trade (4.4%).

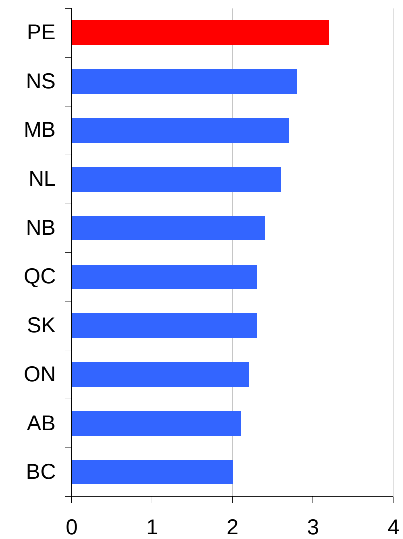
After rising only 0.1% in 2004, retail sales rose 3.2% in 2005. Real consumption expenditure rose 2.7% thanks to good gains in employment and labour income. Employment rose 2.0% in 2005 — a growth rate surpassed only by British Columbia. This strong employment growth allowed the unemployment rate to decline to 10.9% in 2005 from 11.3% in 2004. Labour income advanced 4.4%.

Real government spending on current goods and services rose only 1.3% in 2005, as the provincial government engaged in fiscal restraint to reduce its deficit.

PEI had second highest employment growth rate in 2005
% Change



PEI had highest rate of consumer price inflation in 2005
% Change



The external sector was a drag on growth in 2005 in both real and nominal terms. In real terms, exports rose 3.0% while imports rose 3.7%. In nominal terms, exports rose 1.9% while imports rose 4.7%.

In 2005, PEI experienced the highest rate of consumer price inflation among the provinces, at 3.2%. Excluding energy prices, inflation was only 1.5%, but PEI had the highest rate of energy price inflation in the country, at 15.8%.

Growth of about 2% again in 2006

Growth in 2006 should match the 2005 performance.

In the first five months of 2006, housing starts have been running at an average annual rate of 1,140 compared to 1,120 in the same period in 2005. Residential building permits are up 13.9% year-to-date to April. We expect housing starts to taper off over the remainder of the year, and average about 900 for the year as a whole. This would represent a 4.4% increase in housing starts over 2005. Statistics Canada's investment intentions survey reports a 0.8% increase in housing investment in 2006.

As for non-residential construction, signs are mixed. Non-residential building permits are down 40.9% year-to-date to April. However, investment in residential construction in the first quarter of 2006 was up 37.1% from the first quarter of 2005 and 19.4% from the 2005 average. In Statistics Canada's investment intentions survey, respondents reported an expected 10.8% increase in investment in non-residential construction. Investment in machinery and equipment is projected to decline 1.8% after double-digit gains in 2005.

A number of major projects will be started, continued, or wrapped up in PEI in 2006. Construction wrapped up in early 2006 on the National Research Council's Institute for Nutrisciences and Health at the University of Prince Edward Island. Construction of a $50 million, 30 megawatt wind farm is to be started and completed in 2006. A $32 million expansion of the Atlantic Veterinary College at UPEI broke ground in 2005, with completion expected in 2008. Construction continues on a new $39 million federal building, which is expected to ready for occupancy in mid-2007. A $21 million upgrade to Charlottetown's water treatment plant is planned. In addition, Maritime Electric is planning to spend $30 million to upgrade the province's electricity distribution system, although this may depend on the federal government coming through with funding for a new $30 million cable from the mainland.

Employment gains have weakened off considerably in 2006. After a 2.0% rise in employment in 2005, employment is up only 0.8% so far in 2006 (year-to-date to May). Despite this weaker employment growth, the unemployment rate has held steady, averaging 10.9% so far this year.

Island consumers continue to spend. After retail sales advanced 3.2% in 2005, retail sales are up 3.7% so far in 2006 (year-to-date to April). Wholesale sales, however, have been very weak. After declining 11.3% in 2005, wholesale sales are down 25.4% so far in 2006 (year-to-date to April). Statistics Canada attributes the steep drop to the consolidation of wholesale trade activities in other Maritime provinces.

Manufacturing shipments have weakened off early in 2006. Shipments in the first four months of 2006 were down 1.7% over the same period in 2005. A sharp gain in shipments of durable goods has been more than offset by a sharp drop in manufactured food shipments. Meanwhile, most tourism indicators are pointing upward early in 2006.

Prince Edward Island was one of only three provinces that budgeted to run deficits in 2006-07, the others being Ontario and Saskatchewan. (Saskatchewan budgeted for a surplus on its main operating fund, but a deficit for its consolidated operations.) In order to contain the deficit at $12.5 million, program spending is budgeted to rise only 2.3%, though this is higher than the 1.0% increase budgeted last year for 2005-06. The small business corporate income tax rate will be reduced from 6.5% to 1% over the next five years by way of 1.1 percentage point decreases on April 1 of each year. The first decrease, from 6.5% to 5.4%, was effective April 1, 2006.

International exports values were up 15.5% in the four months of 2006 year-over-year. Fresh potato exports were up 70.4% thanks to higher potato prices.

Medium term outlook

Employment growth will fall from 2.0% in 2005 to 1.6% in 2006, 0.9% in 2007, and 0.6% on average over the 2008-10 period. Nonetheless, employment growth should be sufficient to keep the unemployment rate fairly steady over that period.

A number of recent announcements will help support the economy over the next few years. Information technology and business services firm CGI Group will establish an IT application development and maintenance service centre in Charlottetown. The centre will initially employ 150, with plans for future expansion. Wiebel Aerospace has announced plans to add 90 jobs in PEI's increasingly important aerospace sector. Master Packaging is spending $14 million to expand its Borden-Carleton plant, adding 58 jobs.

The provincial government has set a goal of obtaining 15% of the province's electricity needs from renewable sources by 2010, and is looking at the possibility of 100% by 2015. The wind farm being built in 2006, combined with the one already operating, will bring to 12% the amount of electricity generated by wind on the Island. Further projects, whether wind or other types of renewable generation, will be necessary for the province to meet its goals.

The provincial government has reduced the deficit from over $120 million in 2003-04 to $18 million in 2005-06 and to a budgeted $12.5 million in 2006-07. With most of the work on deficit reduction done, less fiscal restraint will be required in the future, which will allow the government sector to contribute more to growth.

Nova Scotia

Nova Scotia's economy grew only 1.1% in 2005. Consumption grew moderately, government spending grew strongly, and investment rose very strongly, but the external sector was a major drag on growth. In 2006, the provincial economy is picking up steam, with growth of 2.0% expected. Consumers have opened their wallets wider, housing construction continues unabated, non-residential construction is booming, and government spending is strong thanks to solid offshore gas royalties, but the external sector will continue to depress growth in 2006.

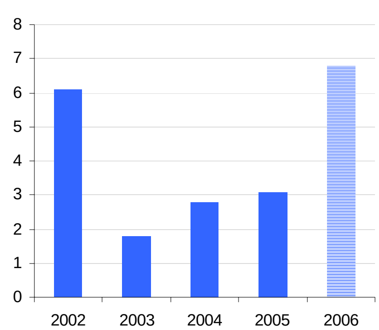
Consumers go on a spending spree

Retail sales rose a respectable 3.1% in 2005, while real consumption rose 2.2%. Retail sales have picked up substantially in 2006. So far in 2006, retail sales are running 7.7% ahead of 2005.

Labour markets put in a mixed performance last year. Employment rose only 0.2%, but the labour force declined 0.2%. As a result, the unemployment rate fell from 8.8% in 2004 to 8.4% in 2005 — the lowest rate since the current labour force survey began in 1976. Labour income rose 5.2% in 2005 — the best performance in five years.

Over the first five months of 2006, employment has shown no growth relative to the same period a year earlier. Labour force growth has been negative and the unemployment rate has drifted down to 8.0%. There are more recent signs of a recovery in employment, with larger monthly employment gains and positive labour force growth over the last few months. For 2006 as a whole, we expect employment growth of 0.5%.

Retail sales rebounding in Nova Scotia in 2006
% Change



Offshore gas royalties boost government

Government spending on current goods and services rose a strong 3.5% in 2005. Provincial government program spending rose 7.6% in 2005-06, and the province ran a larger-than-expected surplus of $151 million, mostly due to sharply higher-than-expected offshore gas royalties.

Provincial program spending is budgeted to rise a solid 7.1% in 2006-07. Even so, the province expects to post another surplus, this time of $72 million, thanks to even higher offshore gas royalties. This points to another strong increase in real government spending in 2006.

Booming investment in 2006

Real investment spending rose a strong 4.8% in 2005. Housing starts rose 1.2% to 4,775. Real residential investment rose a stronger 4.9% in 2005, thanks to strong renovation activity. Investment in machinery and equipment also did well, rising 15.5%. Investment in non-residential construction fared less well, falling 6.9%.

So far in 2006, housing starts are running well head of 2005 rates. Statistics Canada's investment intentions survey points to a 4.0% increase in housing construction in 2006, but activity early in the year suggests even stronger growth. Housing starts averaged 6,400 (annualized) in the first five months of 2006 compared to 4,800 in the first five months of 2005. We expect some slowing in the pace of residential construction over the remainder of the year, but the total could still hit 5,400 for the year as a whole. If this level is achieved, it will be the highest number of starts since 1990.

Statistics Canada's investment intentions survey points to a 21.0% increase in non-residential construction investment in 2006. Especially large increases are expected in the manufacturing, and transportation and warehousing sectors. That survey also projects a 5.6% increase in investment in machinery and equipment.

Construction is being supported by a number of major projects. These include the $400 million cleanup of the Sydney tar ponds, the $333 million cleanup of Halifax harbour (the Halifax Harbour Solutions project), the $270 million Dartmouth Crossing retail development, the $220 million expansion of the Halifax airport, the multi-year, $123 million expansion of the Nova Scotia Community College, the 5-year, $100 million expansion of the Port of Halifax, the $100 million compression deck at the Sable Offshore Energy Project, the $100 million upgrade to Imperial Oil's Dartmouth refinery, the $98 million expansion of the Michelin tire plant, and the $45 million divisional headquarters for the RCMP.

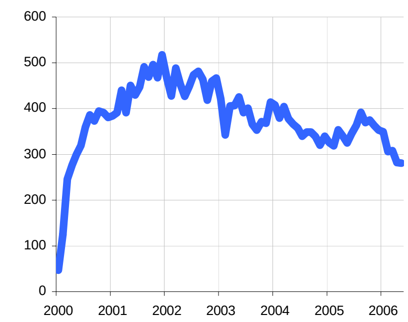
Anadarko Petroleum, the proponent of a $650 million liquid natural gas terminal at Bear Head on Cape Breton Island, has suspended work on the project as it has so far been unable to arrange gas supply contracts. There is no definite word on a $5 billion petrochemical plant, liquid natural gas terminal and electricity co-generation plant at Goldboro, proposed by Keltic Petrochemicals.

External sector holds back economy

The external sector was a major drag on growth in 2005. Real exports fell 0.3% while real imports rose 3.3%. Combined, the external sector subtracted 2.2 percentage points from real GDP growth in 2005. In nominal terms, export growth almost matched import growth, with nominal exports rising 4.4% and nominal imports rising 4.9%. The value of international merchandise exports rose 3.5%. Of the province's top five international merchandise exports by value, oil and gas (mostly natural gas) rose 14.4%, seafood fell 5.8%, rubber products (mostly tires) fell 2.7%, paper products rose 13.0%, and wood products fell 7.2%. International merchandise import values rose 6.1%.

So far in 2006, the value of international merchandise exports is running a mere 0.1% over year-earlier levels. Oil and gas export values are running 41.5% ahead of last year, despite natural gas production running 6.8% lower than a year ago, due to sharply higher natural gas prices. Seafood is down 3.0%, rubber products are up 0.4%, wood products

Nova Scotia's natural gas production is declining
Millions of cubic metres per month



are up 2.4%, and paper products are down 65.5%. The sharp drop in exports of paper products is due to a lockout at one of the province's major mills. The value of international merchandise imports is up 3.2% so far this year.

Goods sector stalled, services grow
Goods sector output was almost flat (up only 0.1%) in 2006 while service sector output rose 2.0%. Within the goods sector, gains in mining and oil and gas extraction (up 6.1%), manufacturing (up 1.0%), and utilities (up 0.4%) were offset by declines in agriculture, forestry, fishing and hunting (down 6.1%) and construction (down 0.7%). Within the service sector, gains were led by education (up 3.8%), health and social assistance (up 3.1%), wholesale trade (up 3.1%) and retail trade (up 2.9%).

Based on employment numbers, these trends appear to be continuing in 2006. Over the first five months of 2006, employment in the goods sector was down 5.2% compared to the same period a year earlier, while employment in the service sector was up 1.2%. Employment gains in the service sector have not been broadly based, but rather concentrated in business services and health. A number of customer contact, business outsourcing and information technology companies have established or expanded operations in Nova Scotia recently. The largest of these is Research In Motion, which opened a technical support operations centre in April. The centre opened with 50 employees, but the company plans to have 1,200 employees at the centre within five years.

Offshore gas prospects remain uncertain
Natural gas production fell 2.9% in 2005. The future of Nova Scotia's offshore gas industry remains uncertain. The Sable Offshore Energy Project began production in late 1999, and production peaked in late 2001 at over 500 million cubic metres of gas per month. However, production has been declining since, despite the addition of Tier II, as the start of production at new fields cannot offset the declining production from existing fields. SOEP natural gas production in the first five months of 2006 was down 8.1% from the same period in 2005. The addition of a compression deck will boost production starting late in 2006, allowing natural gas production to rise in 2007. However, SOEP natural gas production is expected to resume its declining trend in 2008.

Interest in Deep Panuke — the province's next best hope for gas development — has been revived by high natural gas prices. EnCana, the project operator, expects to file a development plan application later this year with the Canada-Nova Scotia Offshore Petroleum Board. However, the company does not expect to make a decision on whether or not to proceed with the project until late 2007. Other offshore exploration activity has been hit and miss, with occasional encouraging signs offset by disappointments. Six exploration licenses were allowed to expire in 2005. Overall, prospects for future offshore gas development are uncertain.

Future developments
In addition to Deep Panuke, the Bear Head LNG terminal and the Keltic Petrochemical proposal, there are several other possible future developments in Nova Scotia. A new $120 million Metro Centre and expanded convention centre in Halifax are in the planning stages. There is the possibility of a $60 million inland container terminal to supplement facilities at the Port of Halifax. A $200 million project has been proposed for the Halifax waterfront, which includes a museum with a naval heritage centre, a marine heritage centre, a marine life centre and eight theatres. The proposal also includes a dry-docked ship, hotel, office, condos, and retail space. Also, a $150 million twin-tower hotel/condominium complex, nicknamed the Twisted Sisters, has been proposed for downtown Halifax.

New Brunswick

New Brunswick's economy advanced a much weaker-than-expected 0.5% in 2005. Moderate growth in consumption and government spending and strong gains in investment were offset by a very weak external sector. By industry, manufacturing was the hardest hit.

The New Brunswick economy should recover in 2006. Consumption, government spending and investment will remain solid, and the external sector will be less of a drag on growth. Manufacturing will continue to experience problems in 2006, but will not repeat its dismal performance of 2005. Overall, real GDP is expected to rebound to 2.5% in 2006.

Retail sales improve

After two years of minimal gains, retail sales surged in 2005, rising 5.6%. This allowed real consumption expenditure to advance 2.6%. Retail sales are running at about the same pace so far in 2006 (up 5.5% year-to-date to April), which suggests another good year for real consumption expenditure.

Employment flat in '05, recovers in '06

Employment was almost flat in 2005 (up only 0.1%). With no change in the labour force, the unemployment rate fell a notch from 9.8% in 2004 to 9.7% in 2005 — the lowest rate since the current labour force survey began in 1976. Labour income rose 3.5% in 2005, while labour productivity rose 0.4%. Employment was down 8.4% in the goods-producing sector, led by a huge 14.3% drop in manufacturing jobs. Employment in the service sector rose 2.8%, with large gains in public administration (13.6%), information culture and recreation (13.1%), trade (7.5%), education (6.6%) and transportation and warehousing (5.1%) offset by job losses in professional, scientific and technical services (-6.1%), finance, insurance, real estate and leasing (-3.8%) and health (-2.6%).

In 2006, employment has picked up. Year-to-date to May, employment is up 2.3%, exceeding labour force growth of 2.0% and allowing the unemployment rate to average 9.2% so far this year. Goods sector employment is up 0.5% year-to-date to May thanks to very strong gains in construction. The manufacturing sector appears to have stopped shedding jobs. Service sector employment is up 2.8% year-to-date to May. We expect employment gains across all industries of 2.3% in 2006.

Non-residential construction booms in '06

Real investment in non-residential structures rose 2.7% in 2005, but such construction is expected to jump 12.2% in 2006. The largest increases are anticipated in the retail trade (up 43.1%) and transportation and warehousing (up 62.0%) sectors. The latter reflects work on the $750 million Canaport liquid natural gas terminal near Saint John. Construction on the Canaport LNG terminal began last September, and the terminal is scheduled to be in operation in 2008. There is also a $350 million pipeline planned to transport natural gas from the terminal to the US border. The utilities sector should see a big jump in construction activity in 2006 from work on the $1.4 billion refurbishment of the Point Lapreau nuclear power plant. The refurbishment is to be completed by 2009.

Investment in machinery and equipment rose a strong 11.6% in 2005, led by the manufacturing sector. In 2006, M&E investment is expected to decline 6.4%, again mainly due to the manufacturing sector. M&E investment in the manufacturing sector was boosted in 2005 by a number of projects, including upgrades at the Irving Oil refinery and the Irving Paper mill.

In 2005, there were 3,959 housing starts in New Brunswick, virtually unchanged from the 2004 figure of 3,947. Real investment in residential structures rose 2.1%. Over the first five months of 2006, housing starts have averaged 4,100 (annualized), up from 3,600 in the first five months of 2005. We expect this number to drop as the year progresses as the unusually high number of starts early in the year may be weather related. For the year as a whole we expect starts to be little changed from 2005 at about 4,000. Statistics Canada's investment intentions survey reported that housing investment is expected to rise 3.7% in nominal dollars in 2006.

Government finances in good shape

Real government spending on current goods and services rose 2.1% in 2005. The provincial government loosened the purse strings in 2005-06, allowing program spending to rise 6.3%. The surplus for 2005-06 is estimated at $117 million.

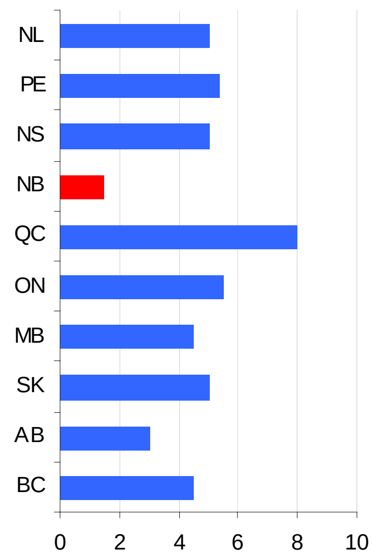
The provincial government's finances are in good shape, with annual surpluses and declining debt relative to GDP. This should allow government spending to make a solid contribution to growth going forward. For 2006-07, the provincial government surplus is budgeted to fall to $22 million. Provincial program spending is budgeted to rise 4.1%, but revenue only 0.1%. Revenue will be held back by a number of tax cuts. Effective July 1, 2006, the province will rebate the provincial portion of the harmonized sales tax on home electricity and heating costs. In 2007, the low income tax reduction will be increased such that individuals with incomes below $13,750 and families with incomes below $22,000 will pay no provincial income tax. The corporate capital tax will be phased out, starting with a reduction to 0.25% in 2006, and then to 0.2% in 2007, 0.1% in 2008, and zero in 2009. The general corporate income tax rate will fall from 13% to 12% on July 1, 2007.

New Brunswick has positioned itself as friendly to small business. The provincial corporate income tax rate for small business stands at 2% and will decline to 1.5% on July 1, 2006 and 1% on July 1, 2007. The net income limit for the small business rate stands at $450,000, and will rise to $475,000 on July 1, 2006 and $500,000 on July 1, 2007. New Brunswick already has the lowest small business corporate income tax rate in the country, and these reductions will further its advantage.

External sector drags economy down

The domestic sectors of New Brunswick's economy put in reasonably good performances in 2005, with consumption growing 2.6%, government spending 2.1% and investment 5.8%, but the external sector dragged down overall economic growth to 0.5%. Real exports fell 0.3% while real imports rose 2.6%. Together, exports and

Small business corporate income tax rates
%, effective July 1, 2006



imports subtracted 2.5 percentage points from growth.

The value of international merchandise exports rose 13.1% in 2005 and imports 16.3%. Of the provinces top six international exports by value, only refined petroleum products showed an increase due to higher oil prices. Prepared seafoods, paper products, lumber, plywood and pulp all recorded decreases. Early in 2006, these same trends are continuing. International merchandise export values are up 3.1% year-to-date to April. Of the major export categories, only the refined petroleum products category is showing an increase. International merchandise imports are up 3.7%.

Manufacturing is the weak link

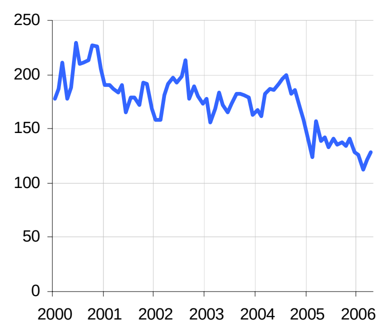
By expenditure category, exports were the weak link in 2005 in New Brunswick. By industry, it was manufacturing. This is not just coincidence. Manufactured products account for over 90% of New Brunswick's international merchandise exports. Further, the value of international manufacturing exports account for 64% of manufacturing shipments.

New Brunswick experienced the weakest manufacturing performance among the provinces in 2005. Output of the province's manufacturing sector declined 5.4% in 2005. Manufacturing shipments managed to rise 7.0% in 2005, but this was mostly due to high prices for refined petroleum products, the province's largest export. Manufactured food product shipments fell 4.4%, pulp and paper products fell 23.6%, and wood products fell 7.8%.

So far in 2006, food and pulp and paper shipments continue to show negative growth, but the pace of decline has slowed. Wood products shipments continue to decline at a similar pace to 2005. However, manufacturing employment has stabilized.

2005 was a hard year for the pulp and paper industry in Canada generally, and New

New Brunswick paper product shipments
$ millions, monthly



Brunswick was no exception. Two pulp mills — one in Nackawic and the other in Miramichi were closed in late 2004. The pulp mill and container board facility in Bathurst was closed in 2005. The paper mill in Miramichi was idled for eight months in 2005. There have been some more encouraging signs in 2006. The Nackawic pulp mill re-opened under new owners in January 2006. The paper mill in Miramichi has re-opened, though it was idled for three months early this year.

Québec

Québec's economy grew 2.2% in 2005, underperforming the Canadian average for the second consecutive year. Strong gains in consumption were moderated by weak government spending and investment and a drag from the external sector.

In 2006, Québec is projected to again post growth of 2.2%. Somewhat weaker consumer spending will be offset by stronger government expenditures and less of a drag from the external sector. The investment climate will continue to be weak.

Consumers drive the economy

Consumers were the engine of growth in Québec in 2005. Retail sales rose 6.0% and real consumer spending rose 3.6% — the latter tied with Ontario for the fastest pace east of Alberta. Consumers are not spending quite so freely in 2006, however. Retail sales are up only 3.9% so far this year (year-to-date to April) and are expected to hit only 4.7% for the whole year.

Consumer spending was strong in 2005 despite fairly weak labour markets. The unemployment rate did manage to fall from 8.5% in 2004 to 8.3% in 2005, but this was due to slow labour force growth rather than strong employment growth. This year, the unemployment rate has been drifting a little lower, and employment gains have been slightly better than last year.

Investment stalls

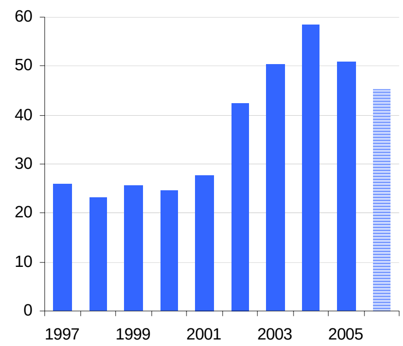
After a big 10.7% jump in 2004, investment expenditure gained only 0.9% in 2005. Investment expenditure growth would have been negative if not for the government — government investment rose 7.4% while private investment fell 0.3%.

Québec, like most of Canada, has been experiencing a housing boom over the past few years. The number of housing starts fell 12.9% in 2005 to 50,910, but remained at historically high levels. Real investment in residential structures, which includes renovation activity, fell a less dramatic 2.5%.

Statistics Canada's investment intentions survey projects a 3.1% decline in nominal

Québec's housing boom wanes

Housing starts, thousands



expenditures on housing in 2006. Housing starts over the first five months of 2006 averaged 48,240 (annualized), down 7.9% from the first five months of 2005. We expect housing starts to decline to about 46,000 for the full year as pent-up demand is being fulfilled. Further declines over subsequent years will bring housing starts down to a sustainable level of about 35,000 annually over the 2008-10 period.

Real investment in non-residential structures fell 1.4% in 2005. Statistics Canada's investment intentions survey projects a 4.0% increase in such investment in 2006. Real investment in machinery and equipment rose 6.3% in 2005. Intentions are for a 2.2% increase (nominal) in 2006, which suggests little change in real terms.

A number of hydroelectric projects are currently underway or scheduled to begin soon, which will support non-residential construction over the medium term. Construction continues on the $800 million extension of the Montréal metro to Laval which is scheduled to start operation in early 2007. Work continues on the 10-year $716 million upgrade and expansion at Montréal's Trudeau Airport. Most of the work on the airport itself is complete, but future work includes a new transborder departures area, a 300 room hotel and road and rail transportation links. Construction will continue to 2010 on two superhospitals in Montréal, each with a cost of over $1 billion.

In the private sector, $350 million is being spent to upgrade an oil refinery near Québec City. Another $200 million may be invested to build a pipeline from the refinery to a distribution centre in Montréal. The first phase of an expected $800 million redevelopment of the former General Motors assembly plant site in Boisbriand is expected to open later this year. $1 billion is being spent between 2004 and 2014 to expand the ski resort at Mont Tremblant. A $350 million entertainment and shopping complex is under construction near Mirabel. A $300 million theme park has been proposed for the former Mirabel Airport near Montréal. A $300 million retail and entertainment complex is under construction in Brossard. Two liquid natural gas terminals, each with a cost of about $700 million, have been proposed.

Hydroelectric construction booming

Québec is in the midst of a hydroelectric boom. Hydro-Québec plans to increase hydroelectric generating capacity by 2,848 megawatts between now and 2014. This includes 986 megawatts from $4 billion worth of projects currently under construction, 888 megawatts from the $4 billion Eastmain-1-A/Sarcelle/Rupert project, and 600 megawatts from the first phase of the Romaine project. Construction could begin by the end of this year or early next on the Eastmain-1-A/Sarcelle/Rupert project. Over the longer term, two other major hydroelectric projects are being studied. The Romaine River project could generate 1,500 megawatts. Construction could begin as earlier as 2009, with power flowing by 2014. This may be followed by the 1,500 megawatt Petit Mécatina River project.

In addition to these hydroelectric developments, there are other electricity generation and transmission projects. TransCanada is building a $500 million, 550 megawatt gas-fired generator at Bécancour which is to be in service later this year. Hydro-Québec has entered into contracts for 990 megawatts of wind power to come on stream between 2006 and 2012, and has issued a call for tenders for 2,000 more megawatts of wind power to come on line between 2009 and 2013. Hydro-Québec will also invest $5 billion between 2006 and 2010 to maintain existing and add new transmission capacity. This includes a planned 1,250 megawatt connection with Ontario.

Modest government spending increases
Real government spending on current goods and service rose only 1.1% in 2005. In order to keep the budget balanced, provincial government program spending rose only 2.7% (nominal) in 2005-06. For 2006-07, provincial program spending is budgeted to rise somewhat faster, at 3.9%. The provincial government's capital spending plan includes $1.5 billion over five years for public transit initiatives, including renovating stations and purchasing new cars for Montreal's metro, and developing a new commuter train service in northeastern Montréal.

The spring 2006 budget included modest personal and corporate income tax cuts. The main tax cut for individuals was a doubling of the tax deduction for workers from $500 to $1,000 effective in 2007. (The initial $500 amount was announced in the previous year's budget and became effective in 2006.) For businesses, the main item was a reduction in the small business corporate income tax rate from 8.5% to 8% effective March 29, 2006. Some tax measures announced in the previous year's budget are still being phased in. These include a halving of the corporate capital tax from 0.6% to 0.29% by 2009, and an increase in the general corporate income tax rate from 8.9% in 2005 to 11.9% in 2009. Despite the increases in the corporate income tax rate, Québec will still have the second lowest such rate in the country. Last year's budget also introduced a 5% capital tax credit for manufacturing and processing investment which effectively eliminates the corporate capital tax on manufacturing and processing investments.

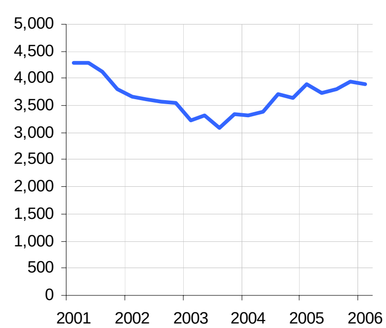
External sector drags down growth
As in every other province, the external sector was a drag on growth in Québec in 2005. Real exports rose 2.7%, but real imports rose 4.9%. Together, the external sector subtracted 1.2 percentage points from growth.

The value of international merchandise exports rose 3.5% in 2005. Québec's top international merchandise exports by value are aerospace, paper, aluminum, machinery, electrical and electronic equipment, wood products, and other transportation equipment (excluding aerospace). With the exception of wood products, all of these top categories recorded increased international exports in 2005. The value of international merchandise imports rose 13.6% in 2006.

So far in 2006, the value of international exports are up 2.0% (year-to-date to April), with double-digit gains in aluminum, machinery and other transportation equipment partially offset by double-digit declines in aerospace and electrical and electronic equipment. The value of international merchandise imports is up 3.6% over the same period. The gap between international export and import growth is narrowing, suggesting that the external sector should not be as big a drag on growth in 2006 as it was in 2005.

Industry performance
Growth in 2005 was concentrated in the service sector. The goods sector advanced 0.8% while the service sector gained 2.9%. Within the goods sector, construction declined 0.4% but manufacturing gained 1.0%. The gain for manufacturing came despite employment in that sector falling 2.3%. Québec's largest manufacturing subsectors are transportation equipment (mainly aerospace), primary metal products (mainly aluminum), chemicals, paper products, food products and wood products. Solid gains in the first three subsectors offset losses in the next three.

Québec aerospace production
$ millions, quarterly, annualized



Transportation equipment, which grew 7.8% in 2005, was boosted by aerospace, which recorded a 9.5% gain. Sales of Bombardier's regional jets have been declining as airlines are moving to larger jets and competitors are taking market share. Notably, Bombardier has shelved development of its proposed C-Series passenger jet, at least for now. However, the company's sales of corporate jets and turboprops have been strong.

Primary metal products advanced 5.2% following the opening of Alcan's new $1.4 billion Alouette aluminum plant in 2005. The paper products and wood products subsectors both posted declines in output in 2005. Overcapacity, the strong Canadian dollar, and a 20% reduction in the allowable cut over three years have resulted in many mills closing or reducing production. The tentative resolution of the softwood lumber dispute with the US should help the industry going forward. Both the federal and provincial governments have announced a number of assistance packages for the forest products industry.

Output gains in the service sector were broadly based, with positive growth in every major service subsector. Growth was particularly strong in wholesale trade (up 7.0%), business services (up 4.1%), information and culture (up 4.1%) and retail trade (up 4.0%).

Ontario

Ontario's economy grew 2.7% in 2004 and 2.8% in 2005, slightly below Canada's growth of 3.3% and 2.9% in the two years, respectively. Most expenditure categories displayed moderate to strong growth in 2004 and 2005, but the external sector weighed heavily on the overall economic performance. In 2005, consumption, government spending and investment were all stronger than in 2004, but the external sector was even more of a drag on growth. The net result was that the overall economic performance was very similar in both years.

Ontario is expected to put in another subpar performance in 2006, with growth of 2.7% compared to a Canadian rate of 3.1%. Ontario is struggling with the adjustment to the strong Canadian dollar, which has hit the manufacturing sector particularly hard. On the other hand, the service sector is performing quite well. Growth should rise to 3% in 2007 and subsequent years, as the manufacturing sector adjusts to the strong Canadian dollar and electricity generation projects boost the economy.

Consumers are spending again

After two years of modest gains, retail sales rose a respectable 4.9% in 2005, prompting a strong 3.6% rise in real consumption expenditure (up from 3.2% in 2004). Consumer confidence was boosted by moderately strong labour markets. Labour income rose 4.8% in 2005, employment rose 1.3% and the unemployment rate fell 0.2 percentage points to 6.6%.

Retail sales have been running at about the same pace this year as last, as the labour market continues to perform well. In fact, the rate of employment growth has picked up and the unemployment rate has dropped significantly, averaging 6.2% over the first five months of the year. However, the economy is now at or very near full employment, so further large declines in the unemployment rate will prove more difficult to achieve over the medium term.

Government spending strong

Following a deficit of $5.5 billion in 2003-04, the provincial government deficit fell to $1.6 billion in 2004-05 and an estimated $1.4 billion in 2005-06. In 2005-06, provincial government program spending rose 8.8%, including $2.1 billion in one-time year-end spending. Excluding this extra spending, the rate of spending growth was only 4.8%.

For 2006-07, the deficit is budgeted at $2.4 billion, but this includes a $1 billion reserve, so the underlying deficit is $1.4 billion. The rate of program spending increase is only 1.9% in 2006-07, but 4.8% excluding the one-time spending in 2005-06. The government is on track to eliminate the deficit in 2008-09, and possibly one year earlier if the reserve in 2007-08 is not needed.

The centerpiece of the 2006-07 budget was transportation. The budget included $800 million for public transit initiatives (including $670 million to extend the Toronto subway to York Region) and $400 million for northern and rural roads. This is in addition to the $30 billion five-year ReNew Ontario infrastructure program announced last year. The government also announced that it will eliminate the corporate capital tax by 2010 — two years earlier than previously scheduled.

Real government spending on current goods and services rose 3.9% in 2005, up from 3.5% in 2004. Such spending should rise in the 3.5 – 4.0% range again in 2006.

M&E investment strong

In 2003 and 2004, Ontario businesses invested heavily in machinery and equipment (M&E) but with no apparent impact on productivity. M&E investment rose 6.2% in 2003 and 8.2% in 2004, yet labour productivity fell 0.2% in both years. Fortunately, this situation improved markedly in 2005 — labour productivity jumped a sharp 2.5% as M&E investment rose 11.1%. Government M&E investment was also strong in 2005, rising 7.8%. M&E investment is expected to remain strong in 2006. Statistics Canada's investment intentions survey reported an expected 8.2% increase in M&E investment for the year.

Housing starts declined 7.4% in 2005 to 78,795, yet real residential investment managed to rise 0.9% thanks to renovation activity. With pent-up demand being fulfilled, and with higher interest rates in 2006, we expect starts to drop about 5% this year. This more moderate rate of decline in starts, coupled with strong renovation activity, points to stronger gains in residential investment this year than last. Statistics Canada's investment intentions survey reported an expected 1.1% drop in housing investment in 2006, but more recent housing starts numbers suggest that this may be too pessimistic. Over the medium term, housing starts should decline gradually to a more sustainable pace of about 68,000 annually.

Business investment in non-residential structures was one of the weakest expenditure components in 2005, declining 2.3% in real terms. Government investment in structures was also weak, declining 2.7%. Indications for 2006 are mixed. Real investment in non-residential buildings (both private and government) was down 1.6% in the first quarter year-over-year, and non-residential building permits were down 3.8% year-to-date to April 2006. On the other hand, investment intentions for capital expenditures on non-residential construction are up 13.1%. The discrepancy may be due to the fact that the investment in non-residential buildings data and the building permits data do not capture engineering construction (bridges, roads, pipelines, power stations, etc.). Indeed, the largest increases in capital expenditure intentions are in the utilities sector, much of which is engineering construction. Sharp gains in construction investment are also expected in retail trade, transportation and warehousing, and mining sectors. The last of these is in large part due to a $1 billion diamond mine being built on James Bay.

Exports depress growth 4 years running

As it was in the three preceding years, the external sector was a drag on growth in 2005. Export volumes rose 2.8%, but imports rose 4.8%. Together, the external sector subtracted 0.9 percentage points from growth.

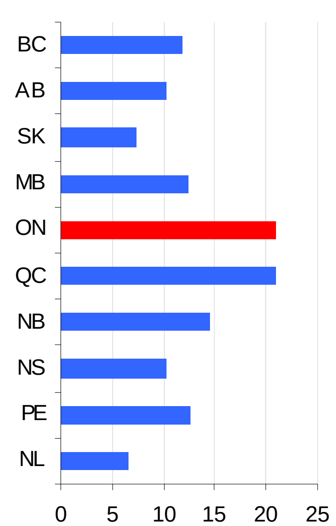
International merchandise export values rose a mere 0.7% in 2005. Ontario's top five international merchandise exports are, in order by value, motor vehicles and parts, machinery, electrical and electronic equipment, plastics, and precious metals (mostly gold). Of these, electrical and electronic equipment gained 13.4%, plastics 2.3% and precious metals 25.7% in 2005, but motor vehicles and parts declined 2.8% and machinery declined 0.5%. International merchandise imports rose 3.6%. Over the first four months of 2006, international merchandise exports were up 1.6% by value compared to the first four months of 2005. Motor vehicles and parts, electrical and electronic equipment, and precious metals showed gains of 3.0%, 15.6% and 24.0%, respectively, but machinery and plastics both reported losses of 5.6% and 1.6%, respectively. International import values were up 2.1% over the same period.

Manufacturing surprisingly strong

Considering the strength of the Canadian dollar, Ontario's manufacturing sector did surprisingly well in 2005. Growth in the manufacturing sector declined from 3.8% in 2004 to a still respectable 2.4% in 2005. However, other data indicate problems in the sector. Manufacturing employment declined 3.3% in 2005 as the sector shed 35,800 jobs. The value of manufacturing shipments rose only 0.9% in 2005. With real manufacturing output rising 2.4%, this suggests that manufacturers are lowering prices, squeezing profit margins and holding the line on wage

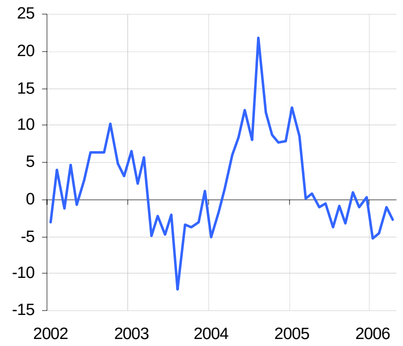
Ontario and Québec have largest manufacturing sectors

Manufacturing, share of GDP, %, 2005



Ontario manufacturing shipments

Y/Y % change, monthly



increases in order to battle the effects of the rising Canadian dollar. The performance of the manufacturing sector is deteriorating further in 2006. Year-to-date to April, manufacturing shipments were down 3.4%. Manufacturing employment was down 5.4% year-to-date to May.

A number of major announcements have been made in the auto sector over the last 18 months. GM, Ford and Chrysler announced new investments of $2.5 billion, $1 billion and $770 million, respectively. Toyota began construction in Woodstock on its second auto assembly plant in the province in October 2005 — an $800 million plant with a capacity of 100,000 vehicles per year and 1,300 workers. Then, in February 2006, well before the completion of construction, Toyota announced an expansion of that plant to a capacity of 150,000 vehicles with 2,000 workers at a cost of $1.1 billion. The plant is to open in 2008. In May, auto parts maker Linamar announced a $1.1 billion investment over five years, creating 3,000 jobs. Also in May, Honda announced that it will build a $154 million engine plant near its assembly plant in Alliston.

At the same time as these major positive developments have been announced, there have been other, more negative developments. In November, GM announced that it will lay off 3,900 workers in Ontario by 2008. In January, Ford indicated that it would lay off 2,300 in Ontario. Fortunately, recent developments suggest that the layoffs at GM and Ford may not be quite as severe as originally announced. Many auto parts suppliers have announced layoffs or closures recently, though there are a smattering of suppliers setting up or expanding.

Electricity to power future growth

There is somewhat less urgency to build new electricity generating stations now that the government has abandoned its pledge to eliminate coal-fired generation by 2009. But rising demand and an aging fleet of generators means that the province must still make major investments in the sector.

Ontario added over 600 megawatts of capacity in 2005, including 515 megawatts from the return to service of the second of four nuclear reactors at the Pickering A station which had been out of service since 1997, at a cost of $1 billion. Ontario currently has about 11,400 megawatts of nuclear capacity, and plans to bring production back up to 14,000 megawatts — about where it was before several reactors were idled in the mid 1990s. To do this, the province plans to spend up to $46 billion over the next two decades to build two new reactors and refurbish up to six others. This is in addition to the $4.25 billion investment by Bruce Power to return two mothballed reactors to service over the next four years, and to keep two other currently operating reactors in service. Ontario is also looking at importing power from Manitoba and, via Québec, Labrador, which would require major investments in transmission capacity.

In the meantime, the province is looking to natural gas, hydro and wind power to meet its rising electricity needs. There are currently five gas-fired stations under construction or soon to start construction, with a combined capacity of about 3,300 megawatts. Power from the first of these is to come on line in the summer of 2007. Ontario Power Generation is spending $1 billion to add production to its Sir Adam Beck hydroelectric facility in Niagara Falls, for completion in 2008. 200 megawatts of wind power came online earlier this year, with an additional 480 megawatts expected to come online over the next 15 months. The province has contracts in place to bring wind generating capacity to 1,370 megawatts by 2010.

Manitoba

In 2005, Manitoba's economy put in its best performance in five years. Real GDP growth rose to 2.7%, after averaging only 1.7% in the preceding four years. The domestic economy put in a strong performance, with a very strong gain in investment, a solid advance in consumption, and a modest increase in government spending. The external sector was a slight drag on growth. Growth in 2005 would have been well above 3% if not for heavy rains which depressed agricultural output. In 2006, a construction boom and a rebound in agriculture will push growth up to 3.5%. Other sectors will also continue to be strong.

Balanced growth in 2005

Manitoba's domestic economy put in a strong performance in 2005, with final domestic demand advancing 3.4%. Consumption rose 3.1%, investment 5.7%, and government spending 2.0%. The external sector was a drag on growth, bringing real GDP growth down to 2.7%.

With retail sales rising 6.6% in 2005, real consumer spending rose 3.1%. Consumer spending was boosted by a solid 4.5% gain in labour income. Employment growth slowed to 0.6% in 2005 from 1.1% in 2004, but almost zero labour force growth meant that the unemployment rate declined sharply from 5.3% in 2004 to 4.7% in 2005. All of the employment growth was in the service sector, as goods sector employment was virtually flat. Labour productivity jumped 2.9%, second only to Alberta which gained 3.0%.

Investment was one of the highlights of Manitoba's economy in 2005, advancing 5.7%. More accurately, private investment was a highlight, rising 7.2%, as government investment declined 5.6%. Housing investment gained 5.1%. Manitoba bucked the national trend toward lower housing starts with a 6.6% gain in 2005 to 4,731. Investment in non-residential structures rose 2.6% while investment in machinery and equipment rose 10.6%.

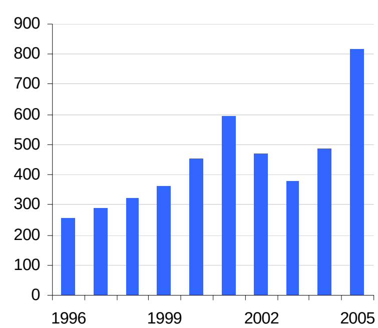
Real government spending on current goods and services rose only 2.0%. Provincial government program spending rose 7.9% in nominal dollars in 2005-06, but this was apparently not enough to offset a slower pace of spending growth by other levels of government. The provincial government posted a surplus estimated at $251 million in 2005-06, down from a $599 million surplus in 2004-05.

The external sector was a drag on growth in every province in 2005, but Manitoba's external sector performance was the best — or the least bad — of all the provinces. Real exports rose 3.2% while real imports rose 3.7%. On net, Manitoba's external sector subtracted only 0.4 percentage points from growth, compared to the Canadian average of 1.4 percentage points. Manitoba's top international merchandise exports are: electricity, wheat, nickel, hogs, pork, canola, copper, frozen vegetables, and buses.

Many industrial sectors of the Manitoba economy did well in 2005. The goods sector grew a relatively strong 2.6%. The agricultural sector declined 15.5% as heavy rains resulted in a significantly lower number of seeded acres, with further rains resulting in some seeded acres being flooded out. Farm cash receipts fell 4.1%, but net farm income plummeted 96%. Agriculture's loss was a gain for utilities. Those same rains helped the utilities sector advance 29.3% thanks to high water levels which boosted hydroelectric output. The construction sector gained 3.7% and the mining and oil and gas sector 0.5%.

Despite the strength of the Canadian dollar, manufacturing managed growth of 1.6%. Manitoba's top five manufacturing industries are: food, transportation equipment, machinery, fabricated metal products and chemicals. Of these, shipments of food declined 2.5%, and chemicals declined 1.9%, but transportation equipment rose 5.8%, machinery rose 7.6%, and fabricated metal products rose 15.1%.

Electricity exports surge
$ millions



The service sector grew 2.9% in 2005 — a little faster than the goods sector — led by wholesale trade (+7.8%), information and culture (+5.1%), retail trade (+4.6%), education (+4.2%) and business services (+4.0%). The only declines in the service sector were in professional, scientific and technical services (-0.6%) and accommodation and food services (-2.4%).

Construction boom in 2006

Manitoba's economy is strengthening further in 2006, thanks to a construction boom and an expected rebound in agriculture. We forecast growth of 3.5% in 2006.

The pace of retail sales growth has slowed a bit from last year (up 5.3% year-to-date to April compared to 6.6% last year), but appears to be picking up steam again. Employment growth is accelerating and is running at about double last year's pace. Despite rising employment, the strengthening economy is expected to draw more people into the labour force limiting the drop in the unemployment rate to 4.4% in 2006. International exports were up 12.9% year-to-date to April.

The provincial government's 2006-07 budget projects a surplus of $148 million, down from $251 million in 2005-06. Program spending is projected to rise 3.4%. A number of tax cuts were announced. The education support levy on residential property was eliminated. The middle personal income tax rate will fall from 13.5% to 13% and the basic personal exemption will increase by $100, both in 2007. The farmland education tax reduction was increased. The drop in the general corporate income tax rate from 15% to 14.5%, which was to occur on July 1, 2006, was advanced to January 1, 2006. And further decreases were announced, to 14% on January 1, 2007 and 13% on July 1, 2008. The small business corporate income tax rate, which was scheduled to fall from 4.5% to 4% in 2007, will now fall to 3% instead. Finally, the corporate capital tax will be phased out, starting with a 20% reduction on July 1, 2008.

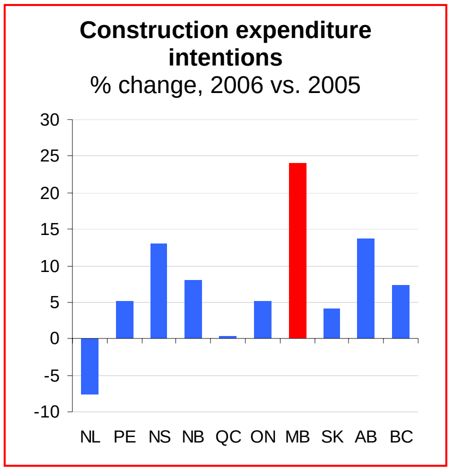
But the real story for Manitoba in 2006 is in construction. In Statistics Canada's investment intentions survey, Manitoba had the highest expected increase in construction expenditures in the country, at 24.1%.

Investment intentions for housing are up 6.8%. Housing starts over the first five months of 2006 have averaged about 5,300 (annualized) so far this year, which is well above both the average for the first five months of 2005 of 4,100 and the total for all of 2005 of 4,731. We expect the housing starts numbers to drift downward through the remainder of the year, but they will still be strong enough to beat 2005's level.

Investment intentions for non-residential construction are up 36.5%, with some very large gains in many sectors: 29.8% for finance and insurance, 30.8% for public administration, 34.0% for retail trade, 52.7% for education, 55.9% for transportation and warehousing, 55.6% for utilities, and 411% (yes 411%) for manufacturing. Non-residential building permits were up 43.6% in the first four months of 2006 compared to the same period a year earlier.

Construction began last year and will continue until 2009 on the $665 million Red River floodway expansion. Also in 2005, Manitoba Hydro began construction of its new $258 million head office building in downtown Winnipeg, which is scheduled for completion in 2007. A $560 million upgrade to the Winnipeg airport, including a new terminal building, parking garage and roadwork, began in 2005 and will continue until 2009. Husky Energy is building a $145 million ethanol plant, to be in operation by mid-2007. OlyWest is building a $200 million pork processing plant in Winnipeg, which is to be completed in 2008.

Agriculture should put in a strong performance in 2006, at least relative to 2005. Crop conditions at the time of writing were generally good, compared to dismal conditions a year ago.



On the other hand, there are some weaker trends. After surging 16.4% in 2005, wholesale trade was up only 2.4% year-to-date to April, and looks set to head into negative territory. Manufacturing shipments were up only 0.6% year-to-date to April. But these less positive trends are not enough to offset the overall strength in the economy.

Medium-term outlook

Manitoba's real economic growth has averaged about 2½% annually over the past ten years. Its well-diversified economy means that it is not subject to the large swings in economic fortunes experienced in some other provinces. Over the medium term, we expect Manitoba's economy to grow at or slightly above its long-term average. A number of large construction projects will keep the economy humming for the next few years.

Manitoba has an estimated 5,000 megawatts of undeveloped hydroelectric potential. Construction is expected to begin soon on the $1 billion, 200 megawatt Wuskwatim project. Manitoba Hydro and native groups reached an agreement in June on the project. Some of the regulatory approvals have been received and the remainder are expected to come within the next few weeks or months. Construction is expected to start immediately after the last approvals are received and to continue for six years.

Construction could begin before the end of the decade on two other, larger projects: the 600 megawatt Gull (Keeyask) project and the 1,380 megawatt Conawapa facility. The latter, with an estimated price tag of $3.4 billion plus up to $2.5 billion for the associated transmission lines, would provide a significant boost to the provincial economy. However, these projects are only at the proposal stage at this point. Development of these projects would depend on agreements with native groups, as well as securing new electricity supply contracts. Manitoba and Ontario are studying the possibility of building transmission lines from northern Manitoba to southern Ontario.

In addition to these hydroelectric projects, the province plans to have up to 1,000 megawatts of wind power capacity in place over the next decade. Manitoba's first wind farm, a $210 million, 99 megawatt facility in St. Leon, went on line earlier this year.

Construction activity will also receive a boost from the $261 million Canadian Museum for Human Rights. However, construction will not begin until full funding is in place — $311 million including a $50 million endowment fund — which could be as early as next year. So far, $200 million has been raised.

Saskatchewan

Saskatchewan's economy grew 3.2% in 2005 — the third highest growth rate among the provinces for the second consecutive year — thanks to booming markets for oil, gas, potash and uranium, a strong manufacturing sector and solid gains in the service sector.

In 2006, Saskatchewan's economy continues to be strong. Growth is forecast at 3.2% again in 2006, and then declining to a more sustainable pace of 2.5% in 2007 and over the medium term. Medium-term growth could be higher if a number of major projects proceed.

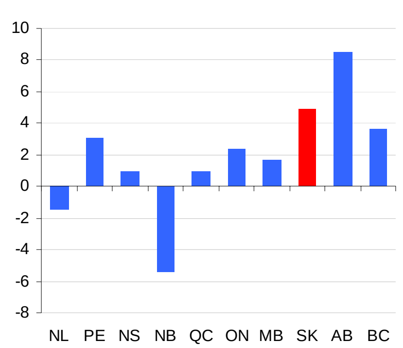
Goods sector booms in 2005

Saskatchewan was one of only two provinces where the goods sector grew more than the service sector in 2005 (the other being British Columbia). Output of the goods sector rose 3.5%, which trailed only Alberta and British Columbia.

Output of the agriculture, forestry, fishing and hunting sector (which in Saskatchewan is mostly agriculture) rose 6.7%. Crop production rose 16%, but was of poor quality. Agriculture benefited from the re-opening of the US border to imports of live Canadian cattle. Farm cash receipts rose 5.8%, with crop receipts down but livestock receipts up. Net farm income fell 13.1%.

The mining and oil and gas extraction sector gained 2.3% in 2005. Oil production fell 1.2%, but natural gas production rose 0.9%. Potash production rose 5.1% and uranium production was flat (down 0.1%). Strong prices for all four of the province's main resource commodities boosted profits in the sector.

Real manufacturing output
% change, 2005 vs. 2004



Utilities gained 3.0% in 2005, and construction 2.7%. The advance in construction was all from housing. Real residential investment rose 5.4% (even though housing starts fell 9.1%) while real investment in non-residential structures was flat.

The manufacturing sector grew 4.9% in 2005, second only to Alberta. Within manufacturing, shipments of wood products (Saskatchewan's third largest manufacturing subsector after food and chemicals) led the way with a 16.7% gain.

The service sector advanced 3.2%, led by wholesale trade (8.4%), retail trade (5.4%), transportation and warehousing (5.3%), business services (4.0%), and professional, scientific and technical services (3.4%). Arts, entertainment and recreation was the only sector in which output fell in 2005.

By expenditure category, real growth in 2005 was broadly-based, with consumption rising 3.2%, government spending 3.3%, investment 4.3% and exports 2.6%. A 5.4% increase in real imports resulted in the external sector subtracting 1.6 percentage points from growth. On a nominal basis, however, strong commodity prices resulted in export values rising 8.9%, exceeding nominal import growth of 7.7%.

A 0.8% gain in employment in 2005, coupled with only a 0.5% rise in the labour force, allowed the unemployment rate to decline to 5.1%. Saskatchewan bucked the national trend, with almost all of the increase in employment coming from the goods sector, including an increase in manufacturing employment.

Strong performance continues in 2006

So far in 2006, Saskatchewan's economy continues to put in a strong performance.

Employment in the first five months of 2006 was down 0.5% year-over-year. Though stronger growth in the last few months should result in employment showing a gain for 2006 overall, the gain is unlikely to match the 2005 increase of 0.8%. The unemployment rate has averaged 5.1% so far this year — unchanged from 2005. We expect the unemployment rate to average 5.0% for all of 2006.

Wholesale and retail trade will show good gains in 2006, but will not match the pace of last year. Retail sales look set to rise about 6% this year, but this is below last year's 7.8% rise. Wholesale trade is running well off the blistering pace of 2005 of 14.3%.

On the other hand, manufacturing is doing even better than last year. Though manufacturing shipments have taken a tumble in the last few months, they are still running 13.9% ahead of last year — up from 2005's 8.4% gain.

Agriculture should show reasonable growth in 2006. It is looking like an average year for crops. As of late June, crop development had progressed at an average rate. Soil moisture conditions were rated as adequate in the southwest and surplus in the northeast, but generally improving. Ranchers will benefit from the US border being opened to exports of live Canadian cattle for the full year.

Mineral production was down sharply early in 2006. Potash production fell 41.1% in the first quarter of 2006 year-over-year due to unsettled negotiations with China, a major export customer. Uranium production fell 33.5% in January and February of 2006 compared to the same two months of 2005 due to production problems and maintenance shutdowns. Oil production was up 2.4% year-to-date to February, while natural gas production rose 2.7% over the same period.

Housing starts in 2006 are running slightly below 2005 levels, but the pace of decline is slower than last year. Statistics Canada's investment intentions survey reported an expected 2.2% increase in capital expenditure on housing construction in 2006.

Investment intentions for non-residential structures are up 4.7% in 2006. All of the increase and then some is expected to come from the mining and oil and gas sector, with some offset by the utilities sector. A number of major projects are being completed this year. Husky Energy is wrapping up construction on a $500 million expansion of its heavy oil upgrader and also a $100 million ethanol plant, both in Lloydminster. A $250 million, 150 megawatt wind farm (the Centennial Wind Power Facility) was connected to the grid earlier this year. A $130 million upgrade to the Poplar River coal-fired generating station, which began last year, is to be completed this year. Construction of the Cigar Lake uranium mine is ongoing, with production expected to begin in late 2007. (Production has been delayed due to flooding at the mine, and the cost of the mine has increased from $520 million to $660 million due to the flooding and higher costs for materials and labour.) Three different potash companies are investing US$368 million to expand capacity. The additional capacity will come on line this year and next. Construction continues on the $120 million Health Sciences Centre at the University of Saskatchewan, to be completed in 2010. Construction on a $110 million pork-processing plant in Saskatoon is scheduled to begin this year and be in operation by 2008.

Investment intentions for machinery and equipment are up 11.5% in 2006. This follows a 9.6% increase in real business investment in machinery and equipment in 2005.

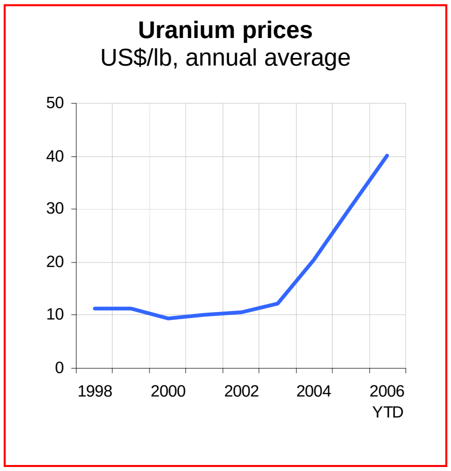
Provincial government program spending is budgeted to rise only 0.1% in 2006-07. Program spending is being limited due to the fast rate of growth in 2005-06 (10.8%) and an expected decline in revenues. Revenues will decline because of falling natural resource royalties and business tax cuts. The fiscal balance is budgeted to fall from a surplus estimated at $510 million in 2005-06 to a deficit of $113 million. Though a deficit, it represents only 0.25% of GDP, meaning that the budget is essentially balanced.

Medium-term outlook

Saskatchewan's medium-term prospects depend to a large extent on agriculture, mining, oil and gas. Although the province has diversified itself considerably, these primary industries are still the engine of Saskatchewan's economy, accounting for over 20% of GDP.

With high oil, gas and uranium prices, exploration activity is strong. However, oil production has been fairly constant over the past few years. The number of wells drilled rose 15.3% in 2005, but oil production fell nonetheless. Natural gas production has crept up only slowly in recent years. These trends are likely to continue over the medium term.

Uranium output, on the other hand, is set to jump with production from the Cigar Lake mine beginning in late 2007. Further, uranium exploration is at a fever pitch as uranium prices have skyrocketed. Uranium prices languished at around US$10/lb for years until they began to rise in mid-2003. Prices are now in excess of $US40/lb thanks to renewed worldwide interest in nuclear power generation.



Potash production capacity in Saskatchewan is increasing also. In addition to the capacity expansions already under construction, further investments in yet more capacity are being contemplated.

Husky Energy is contemplating a further expansion of its heavy oil upgrader at a cost of $2.3 billion. A decision on this project is not expected until late 2007. Sask Power is studying the possibility of building a $1.5 billion, 450 megawatt clean-coal generating station. Also, there is very early talk of a $3 billion poly-generation plant at Belle Plaine. This plant would use waste from Alberta's oil sands to generate electricity, hydrogen, carbon dioxide and steam which would be used for expanded oil recovery, potash mining and fertilizer production.

Over the medium term, Saskatchewan's economic prospects will be buoyed by a number of business tax cuts announced in the 2006 budget. The general corporate income tax rate will fall from 17% to 14% on July 1, 2006, to 13% on July 1, 2007, and to 12% on July 1, 2008. Saskatchewan's manufacturing and processing corporate income tax rate remains at 10%. The net income limit for the small business corporate income tax rate (5%) will rise from $300,000 to $400,000 on July 1, 2006, to $450,000 on July 1, 2007, and to $500,000 on July 1, 2008. The general corporate capital tax on non-financial institutions will be phased out. Effective July 1, 2006, new capital will be exempt from the capital tax, i.e. the tax will apply on existing capital only. Also, effective July 1, 2006, the capital tax rate will drop from 0.6% to 0.3%, with further decreases to 0.15% on July 1, 2007 and zero on July 1, 2008. In addition, the resource surcharges levied on resource producers will be reduced. The non-refundable investment tax credit for manufacturing and processing was converted to a refundable credit. Finally, education property taxes on agricultural land were reduced. The cost to the provincial treasury of all of these tax cuts is estimated at $95 million in 2006-07, and $190 million annually once fully phased in.

Alberta

Alberta's real GDP grew 4.5% in 2005 and a huge 15.3% on a nominal basis. Both the real and nominal gains were the strongest among the provinces and Alberta's best performance in five years. The economy was boosted by high energy prices, which prompted feverish activity in the oil and gas sector. This boom trickled down to virtually every other sector of the economy. Alberta led the country in almost every economic indicator in 2005.

In 2006, Alberta's performance will be even stronger. Real GDP growth will rise to 5.2%, as construction on and production from a number of oil sands projects ramps up, before easing to 4.5% in 2007 and 3.8% over 2008-10 as oil prices moderate.

Alberta booms in 2005

There were only two sectors which posted negative real growth in Alberta in 2005. One was arts, entertainment and recreation. The other, surprisingly, was mining and oil and gas extraction. Output of the mining and oil and gas extraction sector, which in Alberta is almost all oil and gas, fell 0.7% in 2005. Total oil production fell 2.1%. Conventional oil production continued its downward trend, falling 4.8% to 571,000 barrels per day. More surprisingly, oil sands production also fell in 2005 — by 0.3% to 991,000 barrels per day — due to production problems at a number of operations. Natural gas production was almost flat (up 0.4%) at 13.1 billion cubic feet per day. Natural gas production has leveled off in the last few years.

This underlines the fact that, in 2005 at least, Alberta was not undergoing an oil and gas production boom, but rather an oil and gas price and construction boom. High oil and gas prices are boosting profits and investment in the sector, and this is trickling down to the rest of the economy. Corporate profits rose 32.6% in 2005. Capital expenditures by the mining and oil and gas sector rose 24.4% in 2005 to $30.8 billion.

Other sectors of the economy are coming along for the ride. The construction sector — the main beneficiary of the investment boom in the oil sands — grew 15.9% in 2005. Overall, real investment rose 17.0% in 2005, with strength in every investment category. Business real investment in non-residential structures rose 20.5%. Business real investment in machinery and equipment rose 13.4%. Government real investment in structures rose 13.0%. Government real investment in machinery and equipment rose 27.8%. And real housing investment rose 15.0% as housing starts jumped 12.6% to 40,847.

Wholesale trade advanced 12.3% in real terms, as wholesale sales rose 15.6%. Retail trade surged 9.4%, as retail sales rose 12.4% and real consumer spending gained 7.0%.

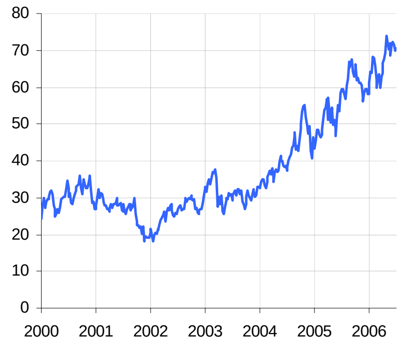
Manufacturing advanced 8.5% in real terms in 2005 — the best performance in the country — with the value of shipments rising 12.2%. Alberta's top five manufactured products are, by value of shipments: petroleum and coal products, chemicals, food, machinery, and fabricated metal products. Of these, shipments of machinery and fabricated metal products, which are inputs into the construction of oil sands projects, rose 31.6% and 11.4%, respectively.

Transportation and warehousing grew 6.4%. Agriculture expanded 4.9%, thanks to the end of the US ban on imports of live Canadian cattle under 30 months old. However, net farm income fell 50.6% as operating expenses rose quickly and receipts fell slightly.

The unemployment rate tumbled from 4.6% in 2004 to 4.0% in 2005, as employment advanced 1.5%. Labour income rose 9.7%, average weekly earnings rose 5.2%, and labour productivity rose 3.0%.

In real terms, Alberta's exports rose only 0.4% in 2005, while the surging economy increased imports at an 8.1% pace. Thus, the external sector subtracted 3.3 percentage points from growth — the worst external sector performance of any province. But in nominal terms, it was an entirely different story — exports rose 14.5% while imports rose only 7.6%. On net, the external sector contributed 5.5 percentage points to nominal GDP growth, the second best performance among the provinces after Newfoundland and Labrador. The value of international merchandise exports jumped 19.3% in 2005, with natural gas rising 28.9% and oil 20.6%. Oil and gas accounted for 71% of the province's international merchandise exports in 2005.

Oil prices skyrocket
West Texas Intermediate
US$/bbl, weekly, end of week



Real current government spending rose 4.8%, as surging oil and gas royalty revenues prompted the provincial government to open the spending taps even wider.

Despite the sizzling economy, inflation remained below the national average in 2005. The low inflation rate was, in part, due to government policies. The government issues natural gas rebates to consumers when natural gas prices exceed certain thresholds.

The boom continues in 2006

2006 looks to be yet another banner year for Alberta as the oil and gas sector continues to boom. Indeed, at 5.2%, real GDP growth in 2006 will exceed even last year's stellar performance.

Oil prices continue to be near record highs. In the first six months of 2006, oil prices have averaged US$67.20/bbl (WTI spot) — up from an average of US$56.61 in 2005. Natural gas prices have averaged C$7.39/GJ (Alberta gas reference price) so far in 2006, which is down from the 2005 average of C$7.87, but still high by historical standards.

The oil and gas boom in 2006 will be weighted more toward production and less toward construction than in 2005. Oil production was up 17.0% year-over-year in January (the latest month for which statistics are available). For the year as a whole, the Canadian Association of Petroleum Producers forecasts oil production to rise 13.6% in 2006 as capacity expands and last year's production problems are overcome. This compares to last year's drop in oil production of 2.1%. (However, problems following the startup of Syncrude's stage 3 expansion in May and extended maintenance at the Athabasca Oil Sands Project may lower this forecast somewhat.) Natural gas production was down 3.3% year-over-year in January, but should be closer to flat for the year as a whole.

On the other hand, capital expenditures by the mining and oil and gas sector are expected to increase a solid 7.9% in 2006 to $33.2 billion, but this is well below the 24.4% pace of 2005. Construction expenditures in the sector are expected to rise 14.7%, partially offset by a 21.8% decline in expenditures on machinery and equipment.

Investment intentions for capital expenditures outside of the oil and gas sector (and housing) are expected to rise 14.5%, consisting of a 21.9% increase in construction expenditure and a 10.0% increase in expenditure on machinery and equipment.

Outside of oil and gas, economic indicators so far in 2006 point to a very strong year in most sectors. After increasing a remarkable 12.4% in 2005, retail sales are up an even stronger 16.6% so far in 2006. (Retail sales received a boost in January when every Albertan received a $400 resource rebate from the government.) Ditto for wholesale sales, which rose 15.5% in 2005 but are up 16.5% so far this year. After rising 12.2% last year, manufacturing shipments are up "only" 9.6% so far this year.

The housing market just keeps on going. We expect housing starts to rise 12.6% to 46,000 in 2006, matching the rate of increase in the previous year. This would be the second highest number of starts in Alberta's history, exceeded only by 1978 when there were 47,925.

The labour market has picked up speed in 2006. After growth of "only" 1.5% in 2005, employment in the first five months of 2006 is already up 3.2% from the 2005 average. There were 93,000 (5.2%) more people employed in May of 2006 than in May of 2005. Of these, 21,100 were in construction and 19,100 were in public administration. This robust employment growth has pushed the unemployment rate down to 3.4%, which is arguably well below full employment. Labour shortages are being felt in many regions of the province.

The gain in employment in public administration reflects sharply higher provincial government spending. Program spending rose 13.1% in 2005-06. In 2006-07, program spending is budgeted to rise a relatively modest 4.1%, but base operating spending (i.e. excluding natural gas rebates, capital grants and amortization) is budgeted to rise 8.1%. The provincial government surplus is expected to fall from $8.6 billion in 2005-06 to $4.1 billion in 2006-07, due to lower oil and gas royalties and corporate income tax cuts. The general corporate income tax rate was reduced from 11.5% to 10% effective April 1, 2006.

Signs of the booming economy are finally showing themselves in consumer prices. After having the lowest inflation rate in the country in 2004 at 1.4%, Alberta now has the highest in 2006. We expect an annual average inflation rate of 3.2% this year.

Medium-term outlook

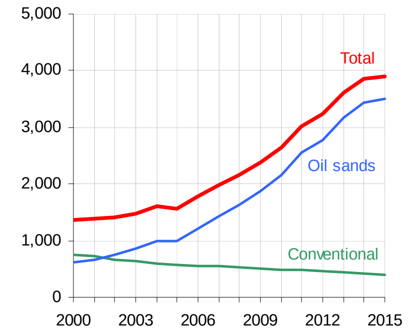
Our medium-term forecast for Alberta's economy assumes that oil prices decline gradually from over US$70/bbl currently to about US$60/bbl in 2007 and about US$50/bbl by the end of the decade. Though well below recent peaks, such prices are still high enough to stimulate rapid rates of investment in the oil sands.

We project growth of 4.5% in 2007, and an average of 3.8% over the 2008-10 period. We expect that Alberta will have the highest real GDP growth rate in the country in each of the next five years

Conventional oil production has been

Oil sands production rising rapidly

Thousands of barrels per day



Source: Canadian Association of Petroleum Producers

declining about 5% per year recently and will likely continue to do so over the medium term. Natural gas production has leveled off in the last few years. In addition, though it is in the early stages of development in Alberta, coal bed methane may be a large source of gas in the future.

Oil sands production will rise sharply in coming years. From about one million barrels per day currently, oil sands production is expected to be over two million barrels per day by the end of the decade, and as much as 3.5 million barrels per day by the middle of the next decade, as a number of multi-billion dollar oil sands developments come on line.

The Alberta government's inventory of major projects that have been recently completed, are currently under construction, or are proposed to start construction within two years lists 1,021 projects with a value totaling $133.1 billion as of March 2006. Of this, $84.1 billion are in the oil sands, and a further $4.6 billion are for pipelines, including pipelines to transport the increased oil output to the West Coast and to the US. These projects will keep Alberta's economy humming for years to come, provided that oil prices stay high.

British Columbia

British Columbia's real GDP growth rate of 3.5% was the second highest in the nation for the second consecutive year in 2005, fueled by a construction boom. Growth will rise to 4.0% in 2006 as the construction boom continues and strengthens, thanks to continued strong housing demand and a myriad of major projects, including preparations for the 2010 Winter Olympics. Over 2007-10, growth will continue to be strong, at well over 3%.

Strong performance in 2005

In 2004, BC posted real GDP growth of 4.0% as the forest products sector — one of the province's traditional economic engines — boomed. Combined, the forestry and logging, wood product manufacturing and pulp and paper manufacturing industries advanced 15.2% in 2004. Remarkably, in 2005, BC's economy grew almost as fast (3.5%) as in 2004 despite the boom in the forest products sector coming to an end. In 2005, the forestry and logging, wood product manufacturing and pulp and paper manufacturing industries combined gained only 1.2%.

The goods sector grew 3.9% in 2005, down sharply from 7.6% growth in 2004. The main reason for the slower growth was forest products, as mentioned above, but the construction sector and the mining and oil and gas sector posted slower growth as well. The construction sector continued to boom in 2005, growing 5.0%, though well down from growth of 8.7% in 2004 and 13.8% in 2003. The utilities sector was the only goods-producing sector that bettered its 2004 performance. It rose 8.4% thanks to an 11.8% increase in electric power generation.

Growth in the services sector, on the other hand, rose from 3.0% in 2004 to 3.5% in 2005. The sharpest gains were in wholesale trade (9.3%), transportation and warehousing (5.8%), information and culture (5.1%), business services (4.7%) and retail trade (4.4%), but every service sector registered positive growth in BC in 2005.

By expenditure category, consumption was strong, government spending weak and investment very strong. The external sector was a significant drag on growth

Strong labour markets supported consumer spending in 2005. Employment rose a nation-leading 3.3% in 2005, and the unemployment rate dropped sharply from 7.2% in 2004 to 5.9% in 2005. Labour income rose 6.3%. Not surprisingly, consumers continued to spend. Retail sales rose 6.0% in 2005, real consumption expenditure rose 4.6%.

Investment was a major source of strength for BC's economy in 2005, with real investment rising 8.2%. Residential investment rose 8.6%, as housing starts rose 5.3% to 34,667 — an eleven-year high. Government investment rose 6.0%. Business investment advanced 9.7%, with spending on machinery and equipment climbing 16.7% but, perhaps surprisingly, spending on non-residential structures declining 1.8% — its second consecutive annual decline.

Despite a 10.0% jump in provincial government spending in 2005-06, real government spending on current goods and services rose only 1.5% in 2005. This is because much of the 2005-06 spending came late in the fiscal year, and will therefore show up in calendar 2006 rather than calendar 2005. Indeed, a $1 billion signing bonus for provincial public service workers was included in 2005-06 spending, even though the fiscal year was over three months ago and the amount has still not been paid out. The provincial government ran a surplus estimated at $1.475 billion in 2005-06, as high natural gas prices boosted natural resource royalties and income tax collections were stronger than expected.

Real exports (international and interprovincial) rose 2.9% in 2005, while real imports rose 6.0%. On a nominal basis, however, export growth slightly exceeded import growth, 6.5% to 6.2%. BC's top five international merchandise exports are, in order by value: lumber, natural gas, coal, pulp, and copper. The value of international merchandise exports increased 10.6% in 2005. The main reason for the advance was higher prices for natural gas and coal.

Growth will bounce back up in 2006

Following the 3.5% increase in 2005, BC's economic growth in 2006 will bounce back up to where it was in 2004 — 4.0%.

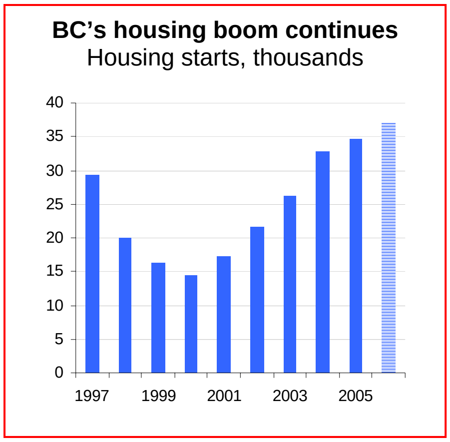
The forest products sector is showing stronger growth this year than last. So far this year, timber harvests are up 19.9%, lumber production is up 4.2%, plywood production is up 4.9%, paper production is up 3.5% and pulp shipments are up 4.7%. Despite the higher production, the value of forest product shipments is down due to lower prices. Wood product shipments were down 4.0% year-to-date to April, while paper product shipments (including pulp) were down 2.1% over the same period. A number of government assistance packages for the forest products industry have been announced. The industry should receive a boost from the resolution of the softwood lumber dispute with the US.

However, production in the mining and energy industries is generally down. Year-to-date, copper production is up 5.6% and gold production is flat, but coal production is down 12.0%, lead is down 50%, zinc is down 37.1%, molybdenum is down 3.8%, silver is down 16.7%, oil is down 8.9% and electricity is down 5.4%. Mineral and energy prices have generally been strong, with copper, gold, silver, zinc and oil prices all well above year-earlier levels.

The impact of production volumes and prices can be seen in international export values. By value, international merchandise exports are up 8.0% (year-to-date to April). Export vales of natural gas, coal and copper have all seen double-digit increases due to high prices, but lumber and pulp have declined.

BC's construction boom is now in its fourth year. The much predicted peak in housing construction has yet to occur. Last year, housing starts rose to 5.3% to 34,667. So far in 2006, housing starts have averaged 38,400 (annualized). We expect some slowing over the remainder of the year, but we still expect the 2006 total to reach 37,000, an increase of 6.7%.

Non-residential construction is also booming. In Statistics Canada's investment intentions



survey, respondents reported an expected 9.5% increase in capital expenditures for non-residential construction in 2006, up from 5.8% in 2005. As was the case last year, almost all of the increase is coming from public investment, which is expected to jump 20.0% in 2006, rather than private investment, which expected to rise only 2.6%. This trend is confirmed in the building permits data. Year-to-date to April, industrial and commercial building permits were down 0.9% and 5.4%, respectively, while institutional and governmental building permits were up 25.2%. Capital expenditure on machinery and equipment, both public and private, is expected to rise 4.6%.

Consumers continue to be major source of strength in 2006. So far in 2006, retail sales are up 7.0%, surpassing last year's gain of 6.0%. Retail sales will receive a further boost from the $1 billion signing bonus being paid to provincial government workers, and the one percentage point drop in the GST on July 1.

Employment gains — up 3.4% year-to-date to May — continue to be impressive. And the unemployment rate keeps dropping, from 5.9% in 2005 to an average of 4.7% so far this year. The unemployment rate hit an all-time low of 4.4% in March, though it has crept up a bit since. Of the 62.900 new jobs created in BC between May 2005 and May 2006, 55,000 were in the service sector. Of these, 35,400 were in wholesale and retail trade and 29,000 were in health care and social assistance.

Provincial government spending is budgeted to rise only 0.6% in 2006-07, yet it will still make a significant contribution to growth in 2006. This is partly because, as noted earlier, much of the spending in fiscal 2005-06 came late in the fiscal year and so will impact calendar 2006 more than calendar 2005. The provincial government surplus is budgeted to decline from $1.5 billion in 2005-06 to $600 million in 2006-07. The 2006-07 surplus includes an $850 million forecast allowance, to guard against forecast errors. This may turn out to be needed, as natural gas royalties look set to come in below budget. The budget included only small, targeted tax cuts.

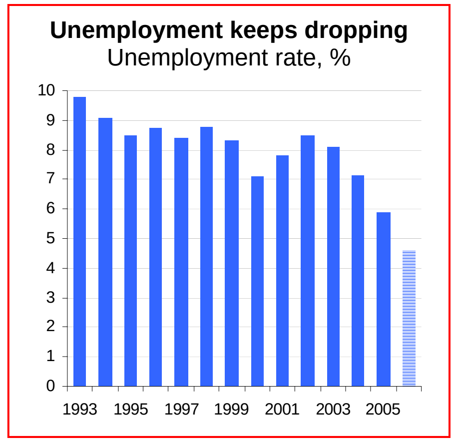
Medium-term outlook

We expect growth to fall back to 3.5% in 2007 and 3.2% over the 2008-10 period. The gradual decline in growth will result in both consumption and investment moderating to more sustainable levels. The flurry of construction projects now underway or soon to begin will wind down as the 2010 Winter Olympics approaches.

There are many major projects currently under construction or expected to start over the medium term that should keep the construction boom going in BC for several years. A new $500 million container terminal is being built at the Port of Prince Rupert. A $1 billion expansion at the Port of Vancouver will begin this year and continue until 2010. Further, road and rail networks to handle the increased traffic at the Port of Vancouver will be built under the province's Gateway program, including the $650 million Golden Ears Bridge over the Fraser River, the $800 South Fraser Perimeter Road, and the $1.5 billion Port Mann Bridge expansion.

Other transportation infrastructure projects include the ten-year $1.8 billion expansion of the Vancouver Airport, the $1.7 billion Richmond-Airport-Vancouver rapid transit line, the planned $800 million Coquitlam light rail service, the $626 million upgrade of the Sea-to-Sky Highway, and the $960 million upgrade of the TransCanada Highway through the Kicking Horse Canyon.

Many of these transportation infrastructure projects are timed to be completed just



before the 2010 Winter Olympics. The Olympics itself has a $580 million infrastructure budget for various sports venues, athletes villages, and other facilities. Though not part of the Olympics capital budget, the Vancouver Convention Centre, which is currently undergoing a $615 million expansion, will serve as the Olympic Broadcast Centre.

There are a several major energy infrastructure projects in the pipeline. Kinder Morgan has begun the first phase of a proposed expansion of its pipeline from Edmonton to Vancouver to the BC lower mainland. All proposed phases of the expansion are estimated to cost $1.6 billion for the BC portion of the line. The company is also considering building a $600 million spur from the main line terminating in Kitimat. Enbridge has proposed another pipeline, with an estimated cost of $4 billion, running from Edmonton to Kitimat. There are two proposals to build LNG terminals (one at Kitimat, the other at Prince Rupert). Further, if built, the proposed Alaska Pipeline would go through northern BC.

Other ongoing or proposed major projects ($500 million or more) include several ski resorts, a hydro generating station and a water treatment plant. Continuing investment in the forest products, mining and oil and gas industries will provide further impetus to business investment over the medium term.