Financial Statements of

NUNAVUT TRUST

And Independent Auditors' Report thereon

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Trustees of Nunavut Trust

Opinion

We have audited the financial statements of Nunavut Trust (the Trust), which comprise:

- the statement of financial position as at December 31, 2018
- the comprehensive income for the year then ended
- the changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at end of December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Trust to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 26, 2019

NUNAVUT TRUST
Statement of Financial Position

December 31, 2018, with comparative information for 2017

		2018		2017
Assets				
Operating cash	$	825,571	$	250,884
Invested assets (notes 5, 6 and 9)		1,751,242,422		1,801,161,099
	$	1,752,067,993	$	1,801,411,983
Liabilities and Net Assets				
Accounts payable and accrued liabilities	$	1,843,953	$	1,861,670
Distribution payable (note 8)		27,275,520		–
Net assets		1,722,948,520		1,799,550,313
Commitments (note 7 and 10)				
	$	1,752,067,993	$	1,801,411,983

The accompanying notes are an integral part of these financial statements.

NUNAVUT TRUST

Statement of Comprehensive Income

Year ended December 31, 2018, with comparative information for 2017

		2018		2017
Investment income (note 11)	$	17,307,927	$	211,205,013
Portfolio management expenses (note 12)		9,852,474		10,140,408
Investment income, net of portfolio management expenses		7,455,453		201,064,605
Administrative expenses		814,028		847,079
Increase in net assets	$	6,641,425	$	200,217,526

The accompanying notes are an integral part of these financial statements.

NUNAVUT TRUST

Statement of Changes in Net Assets

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Balance, beginning of year	$ 1,799,550,313	$ 1,650,346,048
Increase in net assets	6,641,425	200,217,526
Net distributions to beneficiaries (note 8)	(55,967,698)	(51,013,261)
Distribution payable (note 8)	(27,275,520)	–
Balance, end of year	$ 1,722,948,520	$ 1,799,550,313

The accompanying notes are an integral part of these financial statements

NUNAVUT TRUST

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Cash flows from operating activities:		
Interest received	$ 6,945,786	$ 4,789,920
Dividends received	19,580,021	18,189,535
Limited partnership distributions	23,372,837	20,016,769
Proceeds from sale of investments	605,989,471	353,014,640
Purchases of investments	(628,628,896)	(318,817,549)
Operating expenses paid	(10,684,222)	(10,451,465)
	16,574,997	66,741,850
Cash flows from financing activities:		
Net distributions to beneficiaries	(55,967,698)	(51,013,261)
Increase (decrease) in cash and cash equivalents	(39,392,701)	15,728,589
Cash and cash equivalents, beginning of year	87,278,196	70,946,636
Foreign exchange impact on cash and cash equivalents	1,200,574	602,971
Cash and cash equivalents, end of year	$ 49,086,069	$ 87,278,196
Cash and cash equivalents at the end of the period are comprised of:		
Operating cash	$ 825,571	$ 250,884
Investment cash	48,260,498	87,027,312
Total cash and cash equivalents	$ 49,086,069	$ 87,278,196

The Trust considers cash and cash equivalents to be highly liquid investments.

The accompanying notes are an integral part of these financial statements.

1. Reporting entity:

Nunavut Trust (the "Trust") is domiciled in Canada and was created on April 23, 1990 by deed of trust. The address of the Trust's registered office is 50 O'Connor Street, Suite 1415, Ottawa, Ontario, Canada, K1P 6L2. The Trust, on behalf of its beneficiaries, received the capital transfers paid to the Inuit of the Nunavut Settlement Area pursuant to the Agreement Between the Inuit of the Nunavut Settlement Area and Her Majesty the Queen in right of Canada between 1993 and 2007. The Trust's mandate is to invest the capital transfers to protect them from the effects of inflation and to provide income to its beneficiaries.

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were authorized for issue by the Board of Trustees on June 26, 2019.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except financial instruments at fair value through profit or loss which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Trust's functional currency.

(d) Use of estimates and judgements:

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Significant estimates are used primarily in the valuation of real estate, infrastructure, and private debt investments held through limited partnerships. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Further information about the assumptions made in measuring fair values is included in notes 5(b) and (c).

3. Change in accounting policies:

The Trust has initially applied IFRS 9 from January 1, 2018. As a result of the adoption of IFRS 9, the Entity has adopted consequent amendments to IFRS 7.

The adoption of IFRS 9 has not had a significant impact on the Entity's accounting policies related to financial assets and liabilities, and did not impact opening retained earnings.

The Trust has applied IFRS 9 retrospectively but has elected not to restate comparatives in accordance with the transition requirements. As a result, the comparative information provided continues to be in accordance with the Trust's previous accounting policy as disclosed in our 2017 financial statements.

4. Significant accounting policies:

(a) Financial instruments:

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification. The Trust initially recognizes financial assets and financial liabilities at FVTPL on the date on which the Trust becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognized on the date on which they are originated. Upon initial recognition, all financial assets are classified based on the business model for managing the financial assets and the contractual terms of the cash flows, as (i) fair value through profit or loss, (ii) fair value through other comprehensive income, or (iii) amortised cost. All financial liabilities are classified or designated as (i) financial liabilities at fair value through profit or loss or (ii) amortised cost.

Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a settlement-date basis. Transaction costs for financial assets and financial liabilities classified as amortised cost are capitalized. Transaction costs for financial assets at fair value through profit or loss are recognized as expenses in profit or loss as incurred.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or when the rights to receive the contractual cash flows on the financial asset are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Trust derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Trust has a legal right to offset the amounts and intends either to settle them on a net basis or realise the asset and settle the liability simultaneously.

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

The Trust has the following financial instruments:

(i) Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss if it is an equity investment that is not designated as fair value through other comprehensive income, or is a non-equity investment that's business model leads to it being classified as fair value through profit or loss, or has contractual cash flows that are not solely principal and interest. The Trust classifies its invested assets at fair value through profit or loss (previously classified as held for trading or designated as fair value through profit or loss) as the Trust manages and evaluates its investments on a fair value basis. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend or interest income, are recognised in profit or loss.

Financial assets at fair value through profit or loss consist of cash and cash equivalents, investments and investments on loan. Cash and cash equivalents comprise cash balances and treasury bills with maturities of three months or less. Investments consist of bonds and stocks held by the custodian and managed by the Trust's various fund managers, investments in pooled funds, and investments in limited partnerships. Investments on loan consist of bonds, stocks, and treasury bills that the custodian has loaned to reputable brokers/dealers in return for a fee (note 9).

(ii) Financial liabilities at amortised cost:

Financial liabilities at amortised cost are liabilities not classified as held for trading, or is not designated at fair value through profit or loss on initial recognition. Such liability are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

(b) Foreign currency transactions:

Transactions in foreign currencies are translated to Canadian dollars which is the Trust's presentation and functional currency, using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at period end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of the Trust are recognized in profit or loss.

4. Significant accounting policies (continued):

(c) Revenue:

Revenue consists primarily of investment income, which is reported on the accrual basis. Investment income includes interest income, dividends, net realized gain or loss on sales of investments, foreign exchange gains or losses, changes in fair market value of investments, and distributions from pooled fund and limited partnership investments. Interest income is recognized as it accrues in profit or loss. Dividend income is recognized in profit or loss on the date that the Trust's right to receive payment is established which, in the case of quoted securities, is the ex-dividend date. Net gain or loss on sales of investments include the difference between proceeds received on investment sales and the investment acquisition cost. Foreign exchange gains are the result of investments held in global portfolios impacted by exchange rates when dividends and interest are received. Distributions from pooled fund and limited partnership investments include the Trust's proportionate share of interest, dividends and realized gains.

(d) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

5. Invested assets:

(a) Investments:

Investments are comprised of the following:

	2018	2017
Investment cash	$ 48,260,498	$ 87,027,312
Stocks	759,252,555	828,846,748
Bonds	102,543,034	103,262,973
Pooled funds	317,977,741	341,275,591
Limited partnerships	519,512,370	438,343,276
Accrued income	3,696,224	2,405,199
Investments	$ 1,751,242,422	$ 1,801,161,099

5. Invested assets (continued):

(a) Investments (continued):

The Trust's investment policies, as approved by the Trustees, attempt to reduce risk by diversifying the investment portfolio in two ways. Investments are diversified by asset class and then portions of each asset class are allocated to different, low-correlated investment managers who use varying investment styles. The multi-manager strategy allows the Trust to invest in a broad range of investments which do not all move in the same direction as the general market at the same time. The investment policies manage the risks and returns of the investments over the long term and accept that there will be short-term volatility in investment returns.

(b) Determination of fair values:

(i) Investments in equity instruments:

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted close-of-market prices at the measurement date.

(ii) Investments in fixed income instruments:

Fixed income securities quoted in an active market are valued at quoted closing market prices. Where a quoted year-end price in an active market is not available, an estimated value is calculated using discounted cash flows based on current market yields, comparable securities, and financial analysis, as appropriate.

(ii) Investments in pooled funds:

The fair value of financial assets in pooled funds is determined from the unit values supplied by the pooled fund managers, which represent the Trust's proportionate share of underlying net assets at fair values determined using quoted market prices, or alternative valuation methods where quoted market prices are not available.

(iii) Investments in limited partnerships:

The fair value of financial assets forming part of limited partnerships is determined from the Trust's share of the fair value shown on the audited financial statements of the limited partnerships.

The table below identifies financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

5. Invested assets (continued):

(c) Fair value hierarchy:

	Level 1	Level 2	Level 3	Total
December 31, 2018:				
Investment cash	$ 48,260,498	$ –	$ –	$ 48,260,498
Stocks and fixed income	861,795,589	–	–	861,795,589
Accrued income	3,696,224	–	–	3,696,224
Stocks (pooled funds)	–	181,886,984	–	181,886,984
Fixed Income (pooled funds)	–	136,090,757	–	136,090,757
Real estate (limited partnerships)	–	–	164,011,195	164,011,195
Infrastructure (limited partnerships)	–	–	177,314,481	177,314,481
Private debt (limited partnerships)	–	–	146,412,808	146,412,808
Timber (limited partnership)	–	–	31,773,886	31,773,886
	$ 913,752,311	$ 317,977,741	$ 519,512,370	$1,751,242,422

	Level 1	Level 2	Level 3	Total
December 31, 2017:				
Investment cash	$ 87,027,312	$ –	$ –	$ 87,027,312
Stocks and fixed income	932,109,721	–	–	932,109,721
Accrued income	2,405,199	–	–	2,405,199
Stocks (pooled funds)	–	199,815,040	–	199,815,040
Fixed Income (pooled funds)	–	141,460,551	–	141,460,551
Real estate (limited partnerships)	–	–	192,594,231	192,594,231
Infrastructure (limited partnerships)	–	–	135,139,285	135,139,285
Private debt (limited partnerships)	–	–	110,609,760	110,609,760
	$1,021,542,232	$ 341,275,591	$ 438,343,276	$1,801,161,099

There were no transfers between Level 1 and Level 2 during 2017 and 2018 fiscal years.

Investments in real estate, infrastructure, and private debt limited partnerships are not actively traded and use valuation techniques that require inputs that are both unobservable and significant, and, therefore, are categorized as Level 3 in the fair value hierarchy. The significant inputs used in Level 3 investments include: interest rates, economic growth, foreign exchange rates, commodity prices, occupancy rates, population growth and spread, industrial activity and transportation activity.

5. Invested assets (continued):

(c) Fair value hierarchy (continued):

The table below reconciles the Trust's estimate of level 3 fair value investments from January 1, 2018 to December 31, 2018.

		Market value
Opening balance January 1, 2018	$	438,343,276
Contributions		165,575,045
Return of capital		(101,836,834)
Gains included in change in fair value of financial instruments at fair value through profit or loss:		
Change in estimated unrealized gains		14,832,922
Net realized gain on sales of investments		2,597,961
Closing balance December 31, 2018	$	519,512,370

6. Financial instruments:

(a) Overview:

The Trust has exposure to the following market related risks associated with financial instruments: credit risk, liquidity risk, currency risk, interest rate risk, and equity risk.

This note presents information about the Trust's exposure to each of the above risks and the Trust's objectives, policies and processes for measuring and managing risk.

(b) Risk management framework:

The Board of Trustees has overall responsibility for the oversight of the Trust's risk management framework. A Statement of Investment Policies and Procedures outlines the investment fund structure, the risk and return objectives, and fund constraints. The Board of Trustees reviews and approves this document annually. Management is tasked with ongoing portfolio design and monitoring as well as the development and evaluation of systems to assess and respond to various risk exposures.

(c) Credit risk:

Credit risk is the possibility of loss due to the failure of a counterparty or guarantor to meet payment obligations in accordance with agreed-upon terms. The Trust is exposed to credit risk through fixed income securities and through loans of securities. Credit risk is controlled through underwriting and credit assessment of fixed income securities and ongoing monitoring of credit exposure, and obtaining collateral where appropriate. Investments are recorded at fair value. The carrying amount of financial assets represents the maximum credit exposure. The Trust does not expect any counterparties to fail to meet their obligations.

6. Financial instruments (continued):

(d) Liquidity risk:

Liquidity risk is the risk that the Trust will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Trust's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable financial or non-financial losses.

The Trust establishes budgets and cash flow projections to ensure it has the necessary funds.

The Trust's financial liabilities include accounts payable and accrued liabilities of $1,843,953 (2017 - $1,861,487).

(e) Currency risk:

The Trust is exposed to currency risk on sales, purchases and borrowings for cash, stocks, bonds, and limited partnerships that are denominated in a currency other than the functional currency of the Trust, which is the Canadian dollar.

The following indicates the Canadian dollar equivalent in currencies to which the Trust has significant exposure:

	2018	2017
Euro (EUR)	$ 187,379,954	$ 180,267,357
Pound Sterling (GBP)	105,745,118	138,072,542
US Dollar (USD)	782,467,845	743,507,326
Emerging Market Currencies (in CAD)	237,710,088	262,398,083
Developed Market Currencies (in CAD)	80,375,404	94,021,197

Sensitivity analysis:

A strengthening of the Canadian dollar, against the foreign currencies noted above, at December 31, 2018 would have decreased equity and profit or loss by $69,683,920 (2017 - $70,913,324). This analysis is based on foreign currency exchange rate variances of 5% that the Trust considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2017. A weakening of the Canadian dollar against the above currencies at December 31, 2018 would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant.

6. Financial instruments (continued):

(f) Interest rate risk:

The Trust's fixed income investments, which include investment grade securities, non-investment grade securities, and emerging market debt securities, are subject to interest rate risk as a result of fluctuations in interest rates and the degree of volatility of these rates.

The values of the fixed income investments are subject to changes in market interest rates. At December 31, 2018, the bond portfolio had maturity dates between 2019 and 2029 (2017 - between 2018 and 2028) and carried an average effective yield of 5.59% (2017 - 4.84%). At the reporting date, the Trust held interest-bearing financial instruments of $238,633,791 (2017 - $244,723,523).

Sensitivity analysis:

A change of 100 basis points in interest rates would have increased or decreased net assets as at the reporting date and investment income for the year by $8,742,893 (2017 - $9,295,326).

(g) Equity risk:

The Trust's equity investments are listed on a number of different stock exchanges and as such, the values of the stocks are subject to market price fluctuations. For such investments, classified at fair value through profit or loss, a five percent increase in the relative stock exchanges at the reporting date would have increased equity by $47,056,977 (2017 - $51,434,055).

7. Net asset management:

The Trust's policy is to maintain an invested asset base that grows with inflation and allows the Trust to continue to make distributions to beneficiary organizations and fund Trust operating costs. The Trust's goal is to produce and distribute income for tax purposes to the beneficiary organizations. The Trust attempts to distribute 4% of the five-year moving average of the market value of the Trust assets. Beneficiary organizations borrow from the Trust when the income distributed is less than this 4% and repay capital loans when the income distributed is greater than the 4%.

7. Net asset management (continued):

The Trust utilizes an investment strategy, asset allocation, and choice of available investment products to meet its objectives of growing the Trust assets with inflation and distributing taxable income to its beneficiaries. There have been no changes to the approach during the year. The Trust invests in alternative assets to balance the types of income being generated by Trust assets. In order for the Trust assets to grow with inflation, the income generated cannot be purely interest and dividends, but must also include gains in market values.

(a) The Trust has committed to provide funding to the Nunavut Elders' Pension Trust for the operation of the Nunavut Elders' Benefit Plan within limits established by the Trustees of The Trust.

(b) As at December 31, 2018, the Trust has committed $107,500,000 CAD, $230,832,500 US, £85,000,000 GBP and €196,219,000 EUR to limited partnerships as part of this allocation. As at December 31, 2018, uncalled commitments total $201,111,546 CAD which is comprised $36,705,209 CAD, $78,201,647 USD, £19,578,831 GBP and €15,077,987 EUR. These commitments are called upon as they are required for the limited partnerships to purchase assets in accordance with their limited partnership agreements.

8. Related parties:

(a) Distributions to beneficiaries:

Pursuant to the deed of trust, net income for tax purposes of the Trust as defined therein is to be distributed to the beneficiaries unless otherwise directed by the Trustees. The beneficiaries are Nunavut Tunngavik Incorporated, and Nunavut Elders' Pension Trust.

(b) Capital loans to beneficiaries:

The Trust has capital loans outstanding from beneficiaries which have been advanced from capital as follows:

	2018	2017
Due from Nunavut Tunngavik Incorporated	$ –	$ 11,276,620

The distributions to the beneficiaries are based on a calculation of taxable income rather than on the increase in net assets. Differences between the actual distributions and the taxable income increase or decrease the balance of the capital loans of the beneficiaries.

8. Related parties (continued):

(b) Capital loans to beneficiaries (continued):

Reconciliation of distributions to beneficiaries:

		2018		2017
Increase in net assets	$	6,641,425	$	200,217,526
Remove change in fair value of financial instruments at fair value through profit or loss		159,042,740		(114,179,569)
Net realized gains on sales of investments		(62,878,852)		(27,650,338)
Other		1,813,114		690,179
Income before allocations		104,618,427		59,077,798
Allocation of income to beneficiaries		(94,519,838)		(54,772,134)
Net income		10,098,589		4,305,664
Net capital losses of other years applied		(10,098,589)		(4,305,664)
Taxable Income	$	–	$	–

		2018		2017
Allocation of income to beneficiaries	$	94,519,838	$	54,772,134
Decrease in capital loan		(11,276,620)		(3,758,873)
Distribution payable at year end		(27,275,520)		–
Net distribution to beneficiaries	$	55,967,698	$	51,013,261

(c) Key management personnel compensation:

The key management personnel, responsible for planning, directing and controlling the activities of the Trust, include the Chief Executive Officer, the Managing Director of Investments and the members of the Board of Trustees. For the year ended December 31, 2018, key management personnel compensation includes salaries, benefits, and Trustee honoraria of $901,211 (2017 - $820,806).

9. Security lending arrangement:

The Trust participates in a security lending program with its custodian, whereby certain investments owned by the Trust are loaned to certain reputable brokers/dealers and financial institutions in return for a fee which is shared between the Trust and its custodian. Security lending revenue is reported as part of interest revenue in the amount of $289,322 (2017 - $246,906). At December 31, 2018, securities out on loan had a value of $145,594,229 (2017 - $144,012,907). This program exposes the Trust to the risk that the borrower fails to return the borrowed security. To minimize this risk, the borrower is required to provide non-cash collateral, replacement securities, with an aggregate market value never less than the percentage of aggregate market value of the loaned securities which is the highest of (a) the minimum percentage required by any applicable legislation or regulatory authority having jurisdiction over the Trust; (b) the prevailing market practice; or (c) 105%.

The collateral received is non-cash in nature and is comprised of bonds issued by the Government of Canada, Government of Canada Agencies, the Government of the United States, the governments of other OECD countries, the governments of certain Canadian provinces as well as certain corporate-issued bonds and convertible corporate-issued bonds. Contractual terms agreed with the custodian require that it monitor and calculate the aggregate market value of the loaned securities and of the collateral on a daily basis and pursue the borrowers to replenish collateral should its value fall below the required amount. If at any time the value of the collateral held against the loaned securities falls below the required amount, the custodian shall indemnify the Trust for the shortfall.

The collateral held at December 31, 2018 had a value of $155,302,287 (2017 - $152,159,456). Securities out on loan can be recalled at any time and the terms of the agreement with the custodian can be terminated upon one day's notice.

10. Operating leases:

The Trust leases an office under operating leases. The lease is a 10-year term from September 1, 2015 to August 31, 2025, with an option to renew the lease after that date.

Non-cancellable future minimum lease payments as follows:

	2018	2017
Less than one year	$ 42,732	$ 42,732
Between one and five years	186,755	182,007
More than five years	79,133	126,613
	$ 308,620	$ 351,352

During the year ended December 31, 2018 an amount of $42,732 was included in rent expense in profit or loss in respect of operating leases (2017 - $42,732).

11. Investment income:

Investment income is comprised of the following:

	2018	2017
Dividends	$ 20,125,311	$ 18,282,658
Interest	7,584,433	4,595,162
Limited partnership distributions	23,372,837	20,016,769
Net realized gain on sales of investments	125,268,086	54,130,856
Change in fair value of financial instruments at fair value through profit or loss	(159,042,740)	114,179,568
Investment income	$ 17,307,927	$ 211,205,013

12. Portfolio management expenses:

Portfolio management expenses are comprised of the following:

	2018	2017
Investment management fees	$ 7,447,055	$ 7,218,705
Foreign taxes paid	2,025,281	2,439,670
Transaction costs	380,138	482,033
Portfolio management expenses	$ 9,852,474	$ 10,140,408

13. Comparative information:

Certain comparative information has been adjusted for immaterial corrections as well as certain reclassification to conform to the financial statement presentation adopted in the current year.