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AUDITORS' REPORT TO THE TRUSTEES

We have audited the balance sheet of Nunavut Trust as at December 31, 2008 and the statements of operations, changes in capital and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

April 21, 2009

BALANCE SHEET

December 31, 2008, with comparative figures for December 31, 2007

	2008	2007
Assets		
Invested assets:		
Cash and treasury bills (note 2)	$ 33,803,928	$ 45,393,116
Investments (notes 3 and 11)	1,052,514,287	1,092,096,792
	1,086,318,215	1,137,489,908
Accrued investment income	4,480,733	4,877,705
Amounts receivable (note 4)	51,100	12,579
Fixed assets (note 5)	93,189	105,382
	$ 1,090,943,237	$1,142,485,574
Liabilities and Capital		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,846,960	$ 1,399,524
Capital (note 7)	1,089,096,277	1,141,086,050
Commitments (note 9)		
	$1,090,943,237	$1,142,485,574

See accompanying notes to financial statements.

STATEMENT OF OPERATIONS

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Revenue:		
Interest	$ 17,421,677	$21,099,094
Dividends	23,198,598	20,238,445
Net realized gain on sales of investments	—	64,681,952
Foreign exchange gains	171,093	—
Royalty	—	3,738
Other	756,272	562,459
	41,547,640	106,585,688
Expenditures:		
Professional fees	4,270,132	4,912,160
Net realized loss on sales of investments	12,577,159	—
Unrealized impairment allowance on investments	31,441,760	13,700,196
Foreign taxes paid	1,540,697	1,233,748
Foreign exchange losses	—	865,620
Salaries and benefits	586,375	388,271
Travel and accommodations	218,477	189,810
Communications	4,428	3,247
Printing	55,339	56,636
Trustee fees	54,750	61,250
Rent	113,980	90,193
Translation	2,402	1,583
Office and administration	29,799	29,570
Professional development	1,181	350
Depreciation	16,257	17,048
	50,912,736	21,549,682
(Deficiency) excess of revenue over expenditures	$ (9,365,096)	$ 85,036,006

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN CAPITAL

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Capital, beginning of year	$1,141,086,050	$1,062,244,159
Capital contributions from Government of Canada (note 7)	—	35,872,892
Capital loans related to repayment of negotiation loans (note 7 and 8)	—	(1,255,000)
(Deficiency) excess of revenue over expenditures	(9,365,096)	85,036,006
Distribution to beneficiaries (note 6)	(35,831,598)	(66,289,754)
(Capital loans to) repayments from beneficiaries (note 8)	(6,793,079)	25,477,747
Capital, end of year	$1,089,096,277	$1,141,086,050

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
Operations:		
(Deficiency) excess of revenue over expenses	$ (9,365,096)	$ 85,036,006
Depreciation, which does not involve cash	16,257	17,048
Unrealized impairment allowance on investments	31,441,760	13,700,196
Amortization of bond premiums	1,076,406	973,722
Loss (Gain) on sale of investments	12,577,159	(64,681,952)
	35,746,486	35,045,020
Decrease in accrued investment income	396,972	78,745
(Increase) decrease in amounts receivable	(38,521)	909,310
Decrease in Due to Nunavut Tunngavik Incorporated	—	(12,326)
Increase in accrued liabilities	447,436	161,637
	36,552,373	36,182,386
Investments:		
Purchases of investments	(324,498,505)	(379,916,162)
Proceeds from sale of investments	318,985,685	285,027,363
Purchase of fixed assets	(5,325)	(26,307)
Disposition of fixed assets	1,261	—
	(5,516,884)	(94,915,106)
Financing:		
Capital contributions	—	35,872,892
Distribution to beneficiaries	(35,831,598)	(66,289,754)
(Loans to) repayments from beneficiaries	(6,793,079)	25,477,747
Capital loans related to repayment of negotiation loans	—	(1,255,000)
	(42,624,677)	(6,194,115)
Decrease in cash and treasury bills	(11,589,188)	(64,926,835)
Cash and treasury bills, beginning of year	45,393,116	110,319,951
Cash and treasury bills, end of year	$ 33,803,928	$ 45,393,116

The Trust considers cash and treasury bills to be highly liquid investments
See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2008

The Trust was created on April 23, 1990 by deed of trust. The purpose of the Trust is to manage on behalf of the beneficiaries, capital transfers paid to the Inuit of Nunavut pursuant to the Nunavut Land Claims Agreement with the Government of Canada.

1. Significant accounting policies:

(a) Fixed assets:
Fixed assets are stated at cost. Depreciation is provided using the following annual rates and basis:

Asset	Basis	Annual Rate
Sculptures	Not being depreciated	
Office furniture and equipment	Declining balance	20%
Leasehold improvements	Straight line	Lease term

(b) Treasury bills:
Treasury bills are securities of such high liquidity and safety that they are virtually as good as cash and are recorded at cost. Interest is accrued as earned.

(c) Investments:
Bonds and stocks are recorded as of the settlement date and are carried at cost. Interest is accrued as earned and dividends are accrued when declared. The net realized gain on sales of investments is the difference between proceeds received and the average cost of investments sold. Investments are evaluated for impairment in their values that may be considered other than temporary which would then be recognized in earnings in the year identified but which would not be reversed with subsequent increases in value. Foreign exchange forward contracts are marked to market with gains and losses on these contracts included in income.

(d) Foreign Currency:
Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(e) Use of estimates:
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Significant estimates include assessment of investment impairment. Such assessments are based on an analysis of current and past market values, the intent and ability of the portfolio to hold the investments until maturity or forecasted recovery, fundamental characteristics of the issuer as well as the economy and industry segment within which it operates. Actual results could differ from those estimates.

(f) Future accounting standards:

Financial Instruments:

In its 2007 financial statements, the Trust had advised that in 2008 it would be adopting the new fair-value based accounting standards for financial instruments. During 2008, Canada's Accounting Standards Board withdrew the requirement for private companies to adopt the new standards and the Trust has elected to continue with the cost-based model.

International Financial Reporting Standards:

In March 2008, the Canadian Accounting Standards Board confirmed its decision to require all publicly accountable enterprises to report under IFRS for years beginning on or after January 1, 2011. The Trust is currently evaluating the applicability of this decision to the Trust and, if applicable, the impact of these new standards on its financial statements.

2. Cash and treasury bills:

	2008	2007
Cash	$ 13,721,512	$ 11,444,952
Treasury bills	20,082,416	33,948,164
	$ 33,803,928	$ 45,393,116

Year ended December 31, 2008

3. Investments:

Investments as at December 31, 2008 and December 31, 2007 are as follows:

	Cost 2008	**Market 2008**	Cost 2007	Market 2007
Bonds	$ 297,940,409	$ 308,878,548	$ 355,015,676	$ 363,477,358
Stocks	708,894,705	613,681,576	728,384,945	845,236,776
Pooled Funds	45,679,173	41,844,029	8,696,171	9,346,687
	$1,052,514,287	$964,404,153	$1,092,096,792	$1,218,060,821

The Trust's investment policies, as established by the Trustees, reduce risk by diversifying the investments in two ways. Investments are diversified by asset class and then portions of each asset class are allocated to different, uncorrelated investment managers who use varying investment styles. This multi-manager strategy allows the Trust to invest in a broad range of securities 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. The values of the bonds are subject to changes in market interest rates. At December 31, 2008 the bond portfolio had maturity dates between 2009 and 2049 (2007 – between 2008 and 2049) and carried an average effective yield of 3.96% (2007 – 4.55%). The values of the stocks are subject to market value changes and exchange rate fluctuations resulting from the Trust holding stocks denominated in currencies other than the Canadian dollar.

Fair values for bonds and equities were determined using year end quoted market prices. Pooled fund investments are valued at the unit values supplied by the pooled fund manager, which represent the Trust's proportionate share of underlying net assets at fair values determined using closing market prices.

Year ended December 31, 2008

4. Amounts receivable:

	2008	2007
Due from Inuit Implementation Fund Trust	$ 913	$ 816
Due from Nunavut Hunters Income Support Trust	48,580	9,555
Other	1,607	2,208
	$ 51,100	$12,579

5. Fixed assets:

			2008	2007
	Cost	Accumulated depreciation	Net book value	Net book value
Office furniture and equipment	$ 210,195	$ 160,117	$ 50,078	$ 61,262
Leasehold improvements	107,043	80,200	26,843	30,868
Sculptures	16,268	—	16,268	13,252
	$ 333,506	$ 240,317	$ 93,189	$ 105,382

Cost and accumulated depreciation at December 31, 2007 amounted to $353,234 and $247,852 respectively.

6. Distribution to beneficiaries:

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

7. Capital:

Under the terms of the Nunavut Land Claims Agreement, the Government of Canada completed the last capital transfer payment to the Trust during 2007 and at the same time the Trust advanced to the Royal Bank of Canada on behalf of Nunavut Tunngavik Incorporated the final payment against the negotiation loans of the Tunngavik Federation of Nunavut.

Year ended December 31, 2008

8. Capital loans to beneficiaries:

The Trust has capital loans outstanding from beneficiaries as follows:

	2008	2007
Due from Nunavut Tunngavik Incorporated	$ 50,125,673	$45,817,299
Due from Nunavut Elders' Pension Trust	28,614,494	26,129,789
	$ 78,740,167	$71,947,088

The capital loans are secured by promissory notes and are due thirty days after repayment has been demanded. Interest at the rate of one percent per annum above the prime rate of the Trust's bank is payable after the expiry of the thirtieth day after demand. These loans have been recorded as a reduction in capital.

9. Commitments:

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

(b) The Trust is committed to the following payments under leases for office space:

2009	57,936
2010	58,740
Each of the years 2011 through August 31, 2015	60,350

10. Fair value of financial instruments:

The fair value of the Trust's cash and treasury bills, accrued investment income, amounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The fair value of investments is disclosed in Note 3.

11. 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 $377,579 (2007 – $251,201). 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 collateral, replacement securities, with an aggregate market value never less than the percentage of the aggregate market value of the loaned securities which is the highest of (a) the minimum percentage required by any applicable pension legislation or regulatory authority or by the Income Tax Act (Canada), the regulations thereunder of Interpretation Bulletins issued by Canada Customs and Revenue Agency (b) the minimum percentage required by any legislation applicable to or regulatory authority having jurisdiction over the securities dealers who borrowed the securities; or (c) 105%. As part of its service, the custodian monitors and calculates the aggregate market value of the loaned securities and of the collateral on a daily basis and follows up with the borrowers for immediate replenishment of collateral securities when the value of the collateral falls below the value of the securities out on loan. 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.