2008

Nunavut Trust

ᓄᓇᕗᑦ ᐸᐸᑦᑎᕕᖓᑦ

Nunavut Katikhoivia

Look through the struggles in the financial
world to the doors of opportunity
that the crisis has put before us.

ᑕᑯᒋᑦᓯ ᐊᒃᓱᕈᕈᑕᐅᓯᒪᓕᕐᑐᑦ ᑮᓇᐅᔭᓕᓇᕈᐅᕙᒃᑐᓂᑦ
ᐃᖏᕐᕋᕙᓪᓚᐊᑎᓪᓗᑕ ᐱᓕᓇᐊᖑᓕᕈᓐᓇᕐᕕᐅᔪᓄᑦ
ᑐᐊᕕᕐᓇᖅᓯᓯᒪᓂᐅᔪᓂᑦ ᑕᐃᑯᖕᖓᖅᑎᑕᐅᓯᒪᓕᖅᑎᓪᓗᑕ.

Takuhiuk ayuqhautigiyait kiinauyaqtuqtutigut
nunaryuanganni ukununngauvalliayungnaqtut
pivaallirnikhamut ilaaayuqhautiptingnit kinguani.

Table of Contents | ᐃᓗᓖᑦ | Iuiiia

Financial Highlights 1

Message from the Trustees 1

The Year in Review..10

Looking Ahead 18

Audited Financial Statements 55

ᓇᐃᑦᑐᒥᒃ ᐅᓂᒃᑳᖅᑕᐅᔪᑦ
Naittumik Unikkaaqtaujut 24

ᐸᐸᑦᑎᕕᒃᑯᓐᓂ ᑎᒍᒥᐊᖅᑎᐅᔪᑦ ᐅᖃᐅᓯᒃᓴᖏᑦ
Tuhaqtittihimaniit Tigumiaqatigiiktunin 24

ᕿᒥᖅᕿᓗᒍ ᑮᓇᐅᔭᓕᕆᓂᕐᒥ ᐊᖅᑰᒍᑎᓚᐅᖅᑕᕗᑦ
Ukiumi Ihivgiugutait...36

ᓂᓇᐅᕆᔭᐅᔪᑦ ᓯᕗᓂᐅᓂᐊᖅᑐᒥ
Hivumuuqpallianiq Tautukhugu.....................46

ᑯᓇᕗᑦ ᑮᓇᐅᔭᖏᓂᒃ ᐸᐸᑦᓯᔩᑦ
Kinauyanut Tuhaktakhak 66

Message from the Trustees

Life as a trustee is certainly a challenging one with a great deal of responsibility sitting on our shoulders to preserve, protect and grow the assets you have entrusted to us. We felt that weight very strongly during times like those we saw over the last year and a half. While 2007 was a wild ride through the investment world very few investors were prepared for the even more spectacular world market crashes of 2008. And from what we have seen of 2009 the ride is not over yet. For the last twenty-two months, the global economy has been working its way through a system wide financial crisis that started by the freeze up of the asset-backed commercial paper market, creating a downward liquidity spiral that quickly spread throughout the worldwide credit community. Liquidity providers, in attempts to reduce their risks, required borrowers with high debt levels to post additional collateral and refused to provide short term financing. These two factors caused many borrowers with immediate cash needs to have to make quick, non-strategic sales of high quality assets resulting in a downward push on asset prices since there were many sellers and few buyers. The end result was a very deep market price decline in every market throughout the world. If we look back in history, the market decline experienced in the last half of 2008 and the first quarter of 2009 was the second largest in history after the great depression of 1929.

Nunavut Trust was not immune and we did see the market value of our assets decline, just like all other institutional investors. At year end 2008, the market value of Trust assets was $1.003 billion and the 12 months of 2008 produced an investment return of -17.6% for our portfolio. Our performance in 2008 was below that of the median endowment fund but we expect this result when markets drop because we have assumed more risk (and higher expected long term returns) by holding more equities and fewer bonds than the median endowment. In comparison to a pool of 47 diversified funds our results were just slightly below

median while funds with high allocations to alternative asset classes performed significantly worse than the Trust.

We share with you the wisdom we have gained as we have managed Trust funds on your behalf over the last 18 years: do not let short term events cause you to shift away from your long term strategy. Short term events can change future assumptions and estimates if research indicates that a market shift is expected to be prolonged or permanent. For example, perhaps a particular industry is being replaced with newer technology or distribution methods which render old delivery vehicles and their manufacturers obsolete.

“Hold to a well thought out strategy over a long period of time.”

In this case former stock price highs are not considered likely to be achieved again. For this reason we were concerned that past economic and market assumptions used in our most recent asset allocation study may be optimistic so we commissioned an update to the market investment return assumptions and carried out a new, independent asset allocation study. The results of the study indicated that our existing asset mix was sufficient to allow us to achieve our stated goals but there was a great deal more downside risk than we were comfortable with. In order to increase our probability of success and modestly reduce the overall volatility of the portfolio the study recommended adding certain alternative assets.

As trustees, we continue to focus our attention on our mandate and on investing for the long term as well as avoiding the panic and short term decisions that a year like 2008 can encourage. We know that the Canadian Institute of Actuaries tells us that if we invested $1,000 at the end of 1968 after inflation our investment would be worth $5,004 at the end of 2008. That is close to a 4½% real rate of return. Yes there were ups and downs along the way but holding to a well thought out strategy over a long period of time, such as these 40 years of history, has proven to be a successful course of action for many. At Nunavut Trust our strategy is to capture most of the up swings of the market valuations, leaving some of the return at the top end on the table, and to attempt to minimize the impact of the down swings.

We can learn from what we experienced, from what similar entities suffered and see through the struggles in the financial world to the doors of opportunity that the crisis has put before us. Equity prices at such low valuations present bargains if the underlying companies are financially secure and have good future outlooks. We are carefully confirming our assumptions and our strategies and plan to continue managing your assets in a cautious and long term fashion. We challenge the recipients of our income to wisely make use of the resources we can provide them with in a manner that unfolds real benefits for them over many years. As always, it has been our pleasure to guard and guide your investment portfolio.

Bill Lyall
Chairperson and
Kitikmeot Trustee

Peter Tapatai
Kivalliq Trustee

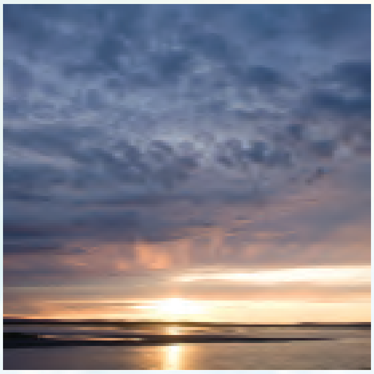
Jack Kupeuna
Kitikmeot Trustee

"Our strategy recognizes the possibilities of the upside but never loses sight of the potential downside."

The Year in Review

2008 was a year that most investors wish they could forget. While the first six months of 2008 produced surprisingly buoyant markets despite the problems that were appearing in the sub-prime mortgage market in the USA, July showed some market weakness and in September 2008 the plunge occurred. The combination of investor fear, lack of liquidity and contracting economies caused the second largest and most rapid decline in every global investment market around the world simultaneously. In September 2008, shortly after the collapse of Lehman Brothers, Warren Buffet, the 78-year-old Chairman of Berkshire Hathaway, the most successful investment company in the world, said he didn't think he'd ever seen people so fearful of the economic outlook. Living through the market events of 2008 can present a very real risk that we might let our fears focus our attention on short term results. Consequently, it is important that we remind ourselves that we are long term investors and not day-traders.

The seeds that bloomed into the current global market crisis were actually planted several years ago as central bankers established a low interest rate and easy credit environment in the hope that their actions would keep the economy growing after the high tech wreck. Over time, these conditions led to rapidly increasing housing prices. American homeowners increased their mortgages and used the cash to go on a spending spree that kept economies around the globe growing. Vendors of virtually every product were offering very attractive buy now, pay later programs to consumers who were eager to buy. At the same time, the investment banks developed financially engineered products for investors who needed to earn higher than market returns. These products became quite popular and were sold to investors throughout the world. Many of these products were short term investments secured by long term assets. As a result, the seller of the short term notes would have to issue new



short term notes as the outstanding notes matured. Things worked quite well for a while but eventually the investment world came to understand that the assets used as collateral for the loans were not as high quality as they had been led to believe. When their short term notes matured, they refused to buy new issues so the issuers were unable raise enough cash to pay the investors whose notes were maturing freezing the credit markets. Investors who held the frozen paper had to raise the cash they needed for other activities such as paying off those financed luxury purchases from any liquid assets they had spreading the contagion to the equity markets. Investors

“Higher investment returns are always tied to higher levels of risk.”

forgot one of the most important principles of investing: higher investment returns are always tied to higher levels of risk.

Given this rather ugly reality, how did Nunavut Trust’s portfolio fare? Independently calculated rates of return reported by RBC Dexia Services for Nunavut Trust can be seen in these charts on both an annual and a cumulative basis.

While no one likes to have investment valuations decline, we can take comfort in the fact that despite our higher equity content and our higher foreign content we did almost as well as our peers.

Certain large investment funds that some thought were leading edge in their strategy because of their heavy use of alternative investments and asset backed commercial paper produced much worse returns than funds that invested in traditional investment products.

During 2007 the rise in the value of the Canadian dollar vs the US dollar eroded our investment returns but the 2008 year produced the exact opposite effect: the Canadian dollar drop from $1.0087 US to $0.8084 US gave a boost to the return of the portion of our invested assets denominated in US dollars.

Annual TWRR

	2008	2007	2006	2005	2004
Actual	-17.58%	0.28%	12.32%	11.21%	10.65%
Benchmark	-18.27%	-0.58%	13.31%	11.26%	9.72%
Median	-14.27%	0.51%	12.6%	10.63%	9.29%

Cumulative TWRR

	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Actual	-17.58%	-2.45%	2.70%	4.25%
Benchmark	-18.27%	-2.71%	2.37%	2.44%
Median	-14.27%	-1.43%	3.16%	4.51%

The Trust mandate, unchanged since the creation of the Trust, requires that the assets must grow at the rate of inflation to preserve the real buying power of the land claim settlement. As we look back on 2008 we report how the Trust was performing relative to its mandate or long term objective by comparing the current portfolio market value to an inflation adjusted value of trust capital. In 9 of the last 16 years (since we commenced operations in 1993) the market value was above the inflation adjusted value and in 7 years it was behind. While we were behind this target in 2008 we believe we will still be able to achieve our goal. When consultants were asked "what are the long-term consequences of the large losses experienced in 2008?" they answered "not much if markets fully recover in the next 3 or 4 years".

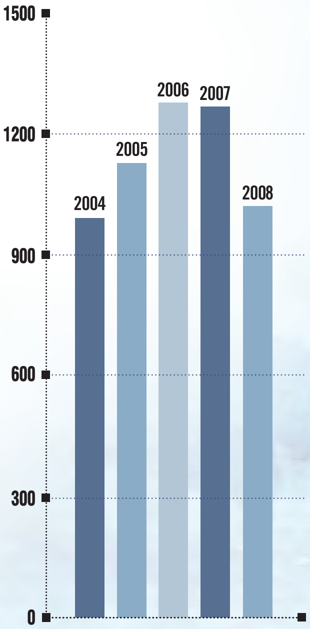
Another way to see if we are meeting our mandate is to take the inflation adjusted value and apply the statistical portfolio volatility to see if our current market value is within the range values that would be normal for a portfolio with our portfolio's volatility. Using this measure, statistical measures suggests any market value between $798 million and $1,297 million could be considered within the normal range of volatility. The market value of the Trust portfolio is in the middle of this range at a value of $1.003 million.

As we can see in our Statement of Operations for the year ended December 31, 2008 the Trust earned only $1.3 million (1.7%) less in interest and dividends on its investments as compared to the 2007 year. Other than the significant drop in the market value of the

Invested Assets and Accrued Investment Income

(at market)

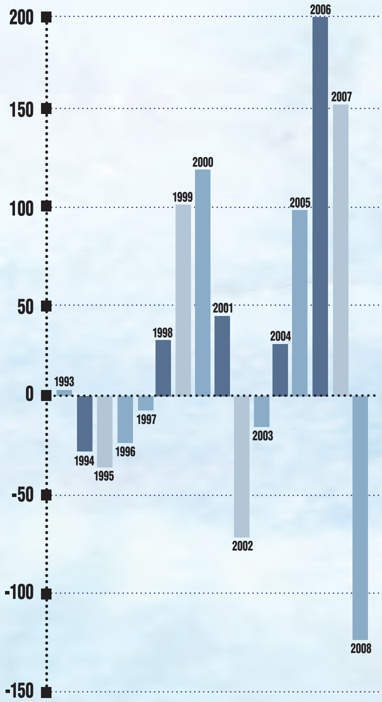
$1,002,688,814



Market Value Reserve

(in millions of dollars)

$-123,403,346



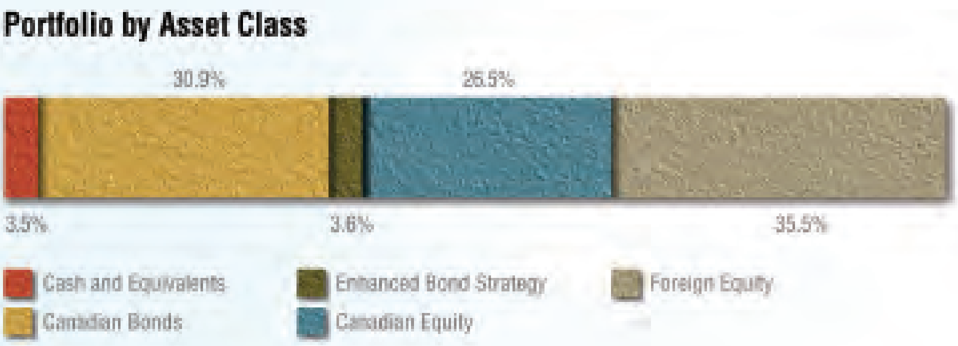
portfolio from the prior year end, the largest difference the economic times had on our financial results was in the effects of trading activity. For 2007 our selling of assets for portfolio repositioning resulted in net realized gains of $64.7 million. For 2008 there were no net gains, rather the trading activity required to defensively position the portfolio and fund distributions produced net realized losses of $12.6 million.

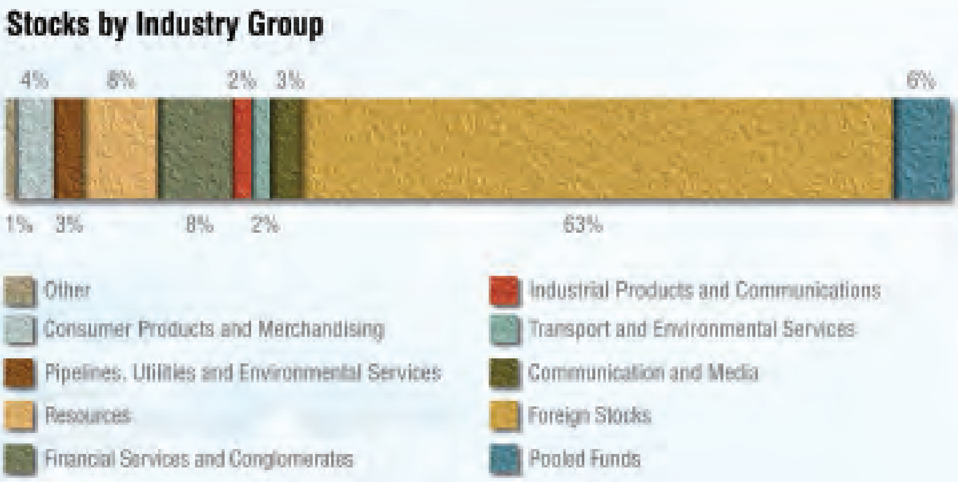
In the past, we have talked about how net income for accounting and financial reporting purposes differs from the income for tax purposes that is required to be used to calculate the distributions made to beneficiary organizations. In 2008 accounting rules yielded a net loss of $9.3 million while tax rules produced a net income, subsequently distributed to beneficiary organizations, of $35.8 million.

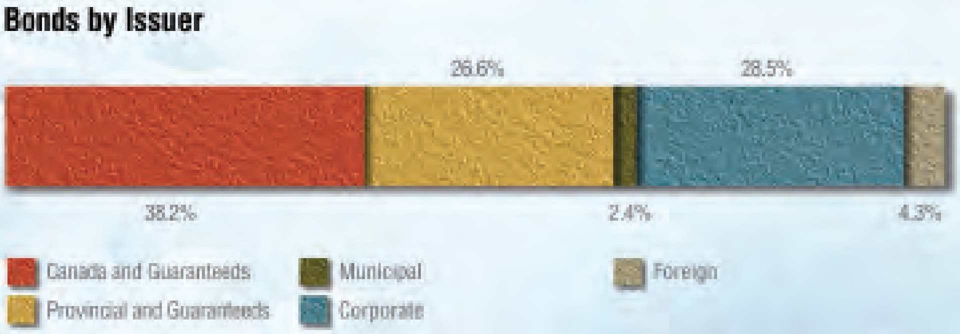
Losses on sales of investments represent an accounting expense but not an expense in the calculation of taxable income. Similarly, any allowance taken for possible future losses under accounting rules is not deductible for tax purposes.

Within the mix of the portfolio few changes were made in 2008.

The following charts show the diversification of Trust assets:







Looking Ahead

For financial years beginning on or after January 1, 2011 new International Financial Reporting Standards (IFRS) will come into effect for organizations defined under the standards as publicly accountable enterprises. Nunavut Trust may be considered a publicly accountable enterprise under this definition. We are currently assessing whether this definition applies. If it is applicable then starting in 2011 Trust financial statements will be prepared on a market value rather than a cost base for assets and liabilities. The impact of these new standards will be evaluated over the coming months.

At present, central banks around the world have been doing their best to recapitalize the global financial system. In addition, governments have been spending trillions of dollars to try to stimulate economic recovery and get us back on the path of global economic growth. Whether this approach will be successful or not is still unknown. The good news is that in late March 2009 after the markets bottomed (MSCI World Index was 688.64), we have seen a remarkable recovery (MSCI World Index was 1,080.57 at August 21, 2009). That said, we still have a long way to go to reach the previous market high

of 1,402.13. There is no doubt that markets will recover it's just a matter of how long it will take.

While there is no consensus, forecasters are moving towards a common view that this recession will be "U" shaped, meaning that it will likely take several years for the recovery to be complete. Some of the more pessimistic forecasters suggest that this financial crisis is not that unusual. They point to the financial crises that occurred in Japan in the 1990's and in Finland, Norway and Sweden in the 1980's. They point out that these cases were somewhat similar to our current crisis because they started with asset price inflation (high real estate prices) that led to increasing financial leverage at low interest rates that was used to fund current consumer consumption. The result was large current account deficits and slowing economic growth. Japan suffered a decade of economic stagnation while its economy adjusted.

No one knows when the recession will end, but we do know we have committed to providing beneficiary organizations with a level of funding equal to four percent of a 20 quarter moving average of the market value of trust assets. If markets remain depressed for a lengthy period of time, beneficiary funding will not experience the sort of annual growth that it has in the past. This coming year, the averaging process is making total beneficiary organization funding grow even though the market value of the assets at the end of 2008 was lower than it was in 2007. The averaging process is operating just as we hoped it would. Should the economic recovery not occur for several years and if we see a return to high

inflation, we may find ourselves in a situation where the level of funding is not growing and beneficiary organizations will be forced to make difficult decisions. Hopefully that will not occur but we must recognize that the possibility exists and plan operations based on the assumption that this will occur. With a market value reserve at an all time low of -$123.4 million we must together with our beneficiary organizations exercise caution now. A lack of heeding the seriousness of these times can have long term, restrictive effects on the income the Trust has available to distribute.

In the fall of 2008, the trust completed an asset allocation study that attempted to model a range of reasonable outcomes for the next ten years. While we have done these in the past, post 2007 there are no further external inflows into the trust so we felt it important to model cash flow effects rather than simply asset growth and rates of return. We must fund our operations and our distributions through internally generated cash flows. We asked the consultants to do the study for each of the asset classes net of investment management fees, net of income tax, and to separate the returns into interest, dividends, realized capital gains and unrealized capital gains. The results forecasted the value of the portfolio and the value of the beneficiary organizations' loan positions 10 years into the future for many different asset mixes under hundreds of economic scenarios. The breakpoints for the 25th and 75th percentiles were shown. While it is always nice to see just how large the portfolio could grow to if all the balls fell in our favor, the reality of how low the portfolio could fall if just a few economic variables shifted against us was particularly sobering. We were surprised to discover that our current asset mix is very close to the optimum. The overall portfolio volatility could be reduced if we add some exposure to certain alternative asset classes provided we select vehicles that are focused upon generating annual cash flow rather than high levels of capital appreciation. As a result, over the next few quarters we will be looking to add some exposure to these asset classes should opportunities meeting our desired characteristics appear.

In last year's annual report we said we thought our conservative investment policies would place us in a good position to weather the difficult times we were expecting. In 2008, we experienced the worst investment markets in a generation and although we, like our peers, were battered, we have survived and are able to provide our beneficiary organizations with the agreed upon level of funding over the short term. Unlike some funds we did not have to cut back on our distributions to those who use our income.

We are however, long term investors and we plan to continue investing in the same way we have for the last 16 years. We know that markets will recover and then move on to reach new market highs. Nunavut Trust has been around long enough to have experienced the market downturns in 1994 and in 2001. And after each decline, we have seen markets recover and seen our assets grow. While 2008 was a much more severe downturn than anyone was expecting, we can be confident that a slow recovery is now happening and we believe we are in a strong enough position to meet our objectives over the long term.

"We survived the worst investment markets in a generation and now we look forward to the anticipated slow recovery."