2005

Nunavut Trust

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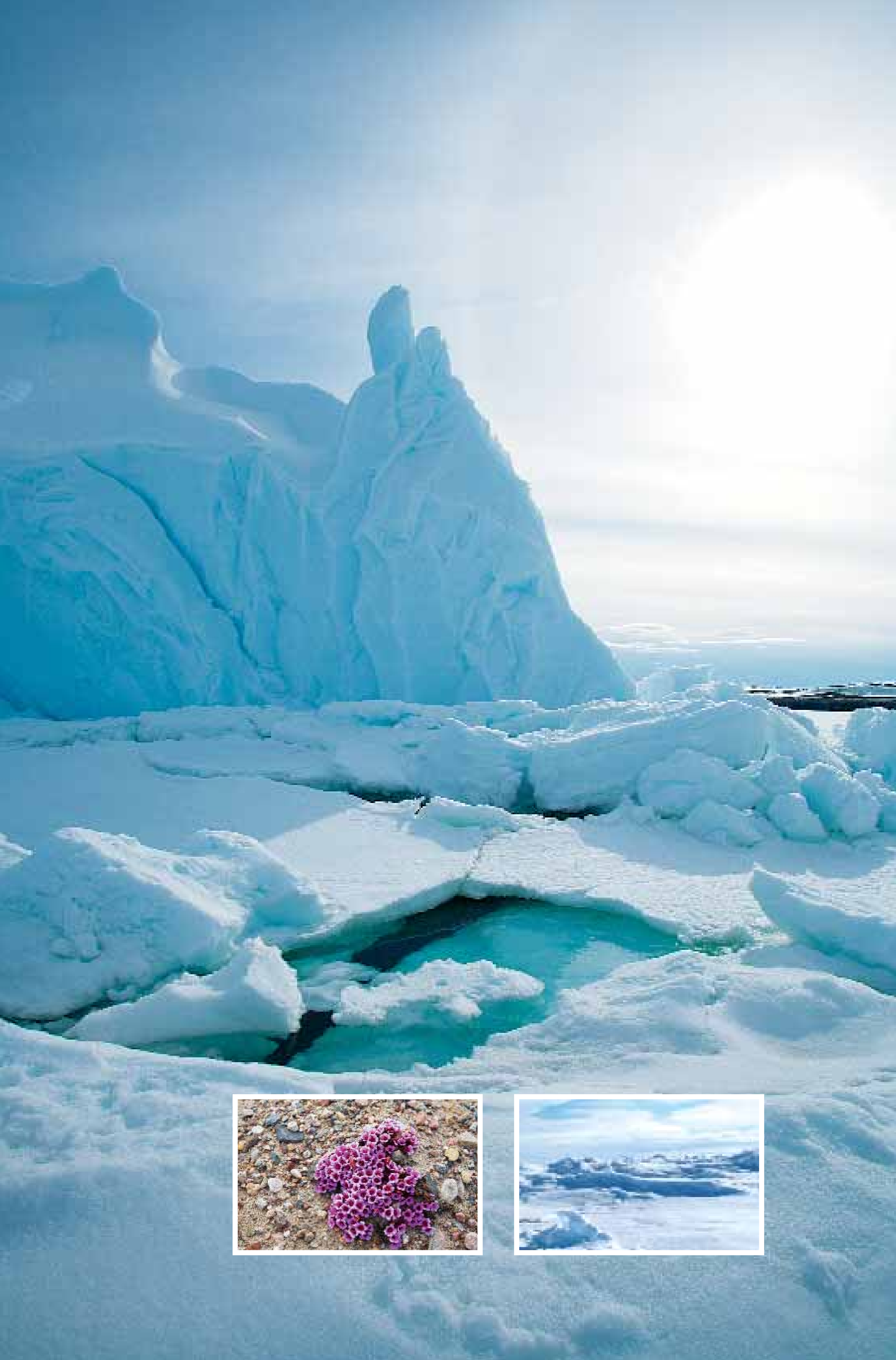
Nunavut Katikhoivia



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Through strategic cooperation we have found a way to provide ongoing, consistent financing to beneficiary organizations.

Message from the Trustees

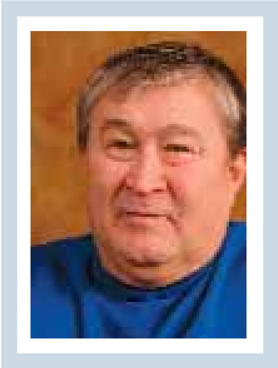
The year 2005 signaled the start of a change in the life cycle of Nunavut Trust. For the first time in it's existence the payments received from the federal government declined as set out in Article 29 of the Nunavut Land Claims Agreement. The payments will continue to decline until the last payment is received in 2007. Trustees and beneficiary organizations alike planned for this change and through strategic cooperation have found a way to provide ongoing, consistent financing to beneficiary organizations while achieving a targeted annual funding limit that would help the trustees meet their obligations as set out in their Trust Deed:

- invest as a prudent person would,
- attempt to generate income that is to be paid out to beneficiary organizations to be used to offer programs to beneficiaries, and
- grow the asset base year by year so that the income produced by the investments will grow and offset the effects of inflation.

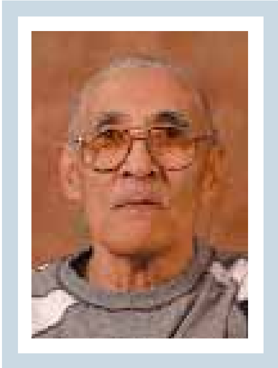
We gave been able to produce above average investment returns with below average operating costs.

Numerous external studies have been undertaken and have determined that a well managed institutional endowment can be expected to earn an average annual rate of return equal to the long term rate of inflation plus 4% to 4 ½% less the costs of managing the investment portfolio (about 1% for portfolios the size of Nunavut Trust). As a result, these endowments distribute between 3% and 3 ½% annually to their beneficiaries. At Nunavut Trust, we have been able to produce above average investment returns and to keep our operating costs below 1%. As a result, our goal is to provide funding to beneficiary organizations at 4% of a 20 quarter moving average of the market value of the Trust's invested assets.

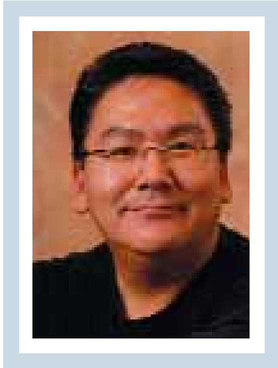
Having researched the ability of similar organizations to preserve their capital and meet beneficiary obligations and having established our own target payout ratio, 2005 was the first year we implemented the new funding policy. The new policy has a number of benefits for the Trust and beneficiary organizations alike. From a planning perspective, the new policy allows the Trust to advise beneficiary organizations of the amount of funding that will be available prior to the start of their budgetary planning process.



Bill Lyall
Kitikmeot Trustee



Jack Kupeuna
Kitikmeot Trustee



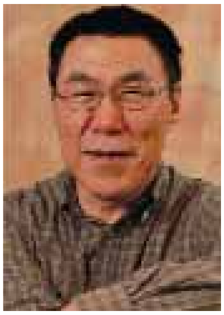
Archie Angnakak
Chairperson & Qikiqtani Trustee

Provided Trust assets continue to grow over the long term at the average rate of inflation, beneficiary funding should also grow at a rate equal to the long term rate of inflation. Since investment markets do not grow at a constant rate, there will be periods when the investment returns will be less than the level of funding provided to beneficiary organizations. When this occurs, the difference will be advanced as a loan to the main beneficiary. In years when the investment returns exceed the level of funding provided to beneficiary organizations, the excess return will be used to repay the outstanding loan. As a result, the beneficiary organizations will receive a steady funding stream that will grow year by year. If over time, it is found that the 4% level of funding is too high or too low, the rate will be adjusted so that the cash flow out of the Trust is maintained at level that will allow the Trust to grow it's assets at a rate sufficient to offset inflation as required under the deed of trust.

As one might expect when implementing a new policy some adjustments were needed in this first year. The 2002 Strategic Financial Plan prepared by the beneficiary organizations assumed that the economic development organizations would be self-sustaining in 2005. Unfortunately that goal was not entirely achieved. After meeting to discuss this situation with the beneficiary organizations, the Trustees agreed to provide an additional $1.8 million of funding for one year so that traditional economic development initiatives would have funding for 2005. The additional funding, called transitional assistance, was approved on a conditional basis. Beneficiary organizations were asked to undertake a global review of programs and operations, including assessment of duplication of mandates, accurate forecasting and priority management. The objective was for them to establish funding requirements commencing in 2006 that would be at or below the 4% cap. By the end of 2005 we were not yet convinced that the objective had been met and the transitional assistance funding was not advanced to the beneficiary organizations. In 2006, the managers within the beneficiary organizations held the initial meetings committing themselves to undertaking the global review and kicking off the process. Sufficient work was done on creating the framework for achieving the cap by the beneficiary organizations which then

Minnie Tatty
Kivalliq Trustee

Dorothy Gibbons
Vice-Chairperson & Kivalliq Trustee



Nutarajuk Arnaujumajuk
Qikiqtani Trustee

allowed the Trust, as a good faith measure, to advance half of the transitional assistance. The remainder will be advanced after the Nunavut Tunngavik Incorporated annual general meeting approves the 2007/08 beneficiary organization budgets with a combined request for funding from the Trust at or below the 4% cap. As Trustees, we are pleased that the beneficiary organizations understand the need for establishing an overall funding cap and more importantly are taking the steps needed to achieve this goal, which is so critical to all current and future generations of Nunavut Inuit.

As we entered 2005, most forecasters were predicting investment returns would be in the mid to high single digits with the most common expectation being 8% to 8 1/2 %. As the year progressed, the impact of interest rate increases, the strong Canadian dollar and the ever escalating price for a barrel of oil did not seem to have as large an impact on markets as many had expected. As a result, the Trust had a reasonably good year producing an investment return of 11.2%. Compared to our peers, in this one year, we slightly underperformed the median manager who earned 11.75% producing a one year ranking at the 57th percentile. Looking at the annualized results achieved over the last ten years, the Trust earned 9.96% per annum outperforming the median manager in our peer group who earned 9.56% per annum and ranked us at the 35th percentile.

This double digit return for 2005 meant that $46.2 million of taxable income was distributed to the beneficiary organizations. And the positive thing to note here is that after increasing the NTI debt for the negotiating loan repayment for 2005, $9.4 million was applied to reduce NTI's outstanding loan balance.

So, where are we? We face many strategic challenges ahead as we move to an unfunded endowment-type entity. The only funds coming into the Trust must come from our ability to make returns. With the outflows more predictable and quantifiable under the new pay out policy we have accomplished step one. We will need the support of the individual beneficiaries of the Nunavut Land Claim Agreement as we do everything possible to protect and grow the settlement funds for the many generations of Nunavut Inuit yet to come.

By year-end we had almost achieved our goal of having at least $1,140 million in assets by the end of May 2007.

The Fund

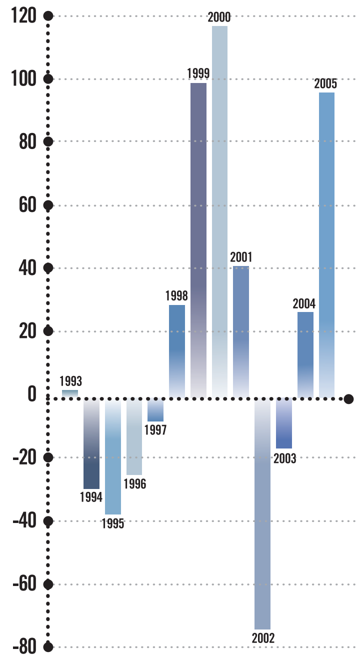
At December 31, 2005, the market value of the Nunavut Trust portfolio was $1,127 million, an increase of $137.6 million above the market value at December 31, 2004. This year, changes in foreign exchange contributed $2.0 million to the Fund's revenue unlike last year when losses from foreign exchange were experienced. While historical analysis shows that market valuations are volatile, it is comforting to note that at year end 2005, the market value of Trust assets had almost achieved the Trust's goal of having at least $1,140 million in assets by the end of May 2007.

The market value reserve graph shown below tries to show whether or not the Trust is achieving its goals at any point in time. If the market value reserve is positive, the trust will have some ability to absorb the effects of a market value decline and will still be able to meet its goals. If the market value reserve is negative, this indicates that the Trust is not achieving its goals. Should the market reserve be negative for an extended period of time action would be required to either increase investment returns (implying taking on a higher level of risk) and/or reduce the funding cap for beneficiary organizations. At the end of 2005, we are pleased to report that the market reserve reached an all time high of $96.7 million. While this is good news, we must not forget that the portfolio risk, measured by the standard deviation of the portfolio, is 14.2% suggesting that in one year out of three, normal market volatility could cause the market value to decline by $156 million. As a result, we are happy to have the market value reserve, but we'd be happier if it were higher.

Market Value Reserve

(in millions of dollars)

$96,674,700



In 2005, the distribution of income to beneficiary organizations was a little higher than cash flow required to fund their budgets. As a consequence, the excess was used to reduce the level of the capital loans to beneficiaries to $113.6 million, a small but meaningful reduction from the $119.0 million that was outstanding at the end of 2004. The goal over time is to reduce the outstanding loan balance to zero. It will take a number of years before this goal can be achieved. As the loan balance declines, the assets of the trust will grow. The additional assets will be invested to produce an investment return increasing the income earned and the amount that can be distributed to the beneficiary organizations.

Recently, trust staff created a projection based upon the economic assumptions used in the last formal asset allocation study prepared by Mercer Investment Consulting Group. The projection suggests that all other things being equal, the Trust should be able to achieve the goal of having $1,140 million in assets by the end of 2007, and be able to grow assets at the rate of inflation thereafter, and thereby achieve the trust deed mandate of preserving the real buying power of trust assets for future generations.

Income Distribution to Beneficiary Organizations

For 2005, the Excess of Revenue over Expenditures was $54.9 million, a decrease from the level achieved in 2004. While the market value of the portfolio grew by a larger amount, the market gains are not recognized as income until the investment managers sell their holdings and realize the gains.

On an annual basis, Nunavut Trust distributes all of its net taxable income to beneficiary organizations. For 2005, the income distribution was $46.2 million. Since the Trust began operations in 2003, a total of $370.7 million of income has been distributed to beneficiary organizations. Although the calculation of the net taxable income is complex a rough estimate can be determined by taking

the income reported on the financial statement and subtracting half the gain on the sale of investments. When Excess of Revenue over Expenditures is greater than the Net Income for Tax Purposes, the difference is retained in the Trust to generate more income and offset the effect of inflation that would otherwise erode the buying power of the Trust capital.

Cash Distributions to Beneficiary Organizations

For several years, the Trustees have been advising beneficiary organizations that we are approaching a new era when there will no longer be any payments received from the Government of Canada. In fact, 2005 was the first year that the payment from the Government of Canada declined from $89.7 million to $71.7 million. These payments will also decrease in 2006 and 2007, when the last payment will be received. When that occurs, the trust will become a mature endowment.

Beneficiary funding must be set at a level that can be sustained over the long term.

Beneficiary organizations need to receive a steady annual cash flow that grows year by year at the rate of inflation or more. Unfortunately, investment markets produce varying rates of return that can be positive in most years but negative in others. As a result, a mismatch exists between the revenue and the disbursement streams. It is the Trustees role to establish a policy that will provide beneficiary organizations with the steady stream of income they need year by year with one key constraint. The level of funding must be set at a level that can be sustained over the long term. In the short term, however, there will be periods when the annual income distribution will be less than the required level of funding and other periods when the distribution will exceed the funding level. As a result, there will be periods when the beneficiary organizations will need to borrow trust capital on a temporary basis and make repayments when the income distribution exceeds the funding level. Based upon historical analyses, the level of beneficiary funding has been set at 4% of a moving average of the market value of the Trust's assets.

Investment Philosophy, Policy and Criteria

The Nunavut Trust investment portfolio reduces the overall portfolio risk by hiring a mix of external investment counselors each being given a portion of the overall portfolio to invest in their individual areas of specialization. Our investment counselors invest in fixed-income securities (bonds, short term investments and cash) as well as equity investments (Canadian stocks, foreign stocks, etc.). The fixed income investments provide a regular and predictable amount of income while the equity investments provide for future growth of our assets that would not be available in the fixed income asset class.

Nunavut Trust's risk profile was developed by the trustees with help from specialists from the actuarial firm Mercer Investment Consulting. To try to support higher levels of beneficiary organizations spending and meet the requirements to grow trust assets, the consultants recommended that the trustees adopt a more aggressive risk profile by increasing the overall level of equity held within the portfolio. With this asset mix, we should expect the portfolio to under perform when markets are declining and outperform when markets are rising. We recognize this will create more volatility in the short term but offers the potential for better relative returns in a market that can be expected to produce substantially lower rates of return than those seen in the past 5 years. Our investment philosophy can be stated in the following manner:

- Our goal is to produce and distribute a positive amount of income for tax purposes each year. A negative result in any single year can be tolerated (if driven by market conditions) but we would not want to see two negative years in a row.

- Variability in investment return over the long term is not of concern unless it becomes significantly greater than the variability of the underlying investment markets themselves.

- There must be enough money available to allow for beneficiary organization spending at an annual level of no more than 4% of the market value of trust assets.

- We expect the investment counselors hired to invest Trust funds to add value relative to the performance of the markets within which they invest over the longer term.

Currently, market conditions are such that many pension funds and endowments have been unable to maintain their funding needs. This has created a demand for new products and services focused on identifying ways to increase investment returns along with tools to help identify and understand the risks that accompany the adoption of new strategies. At Nunavut Trust, we believe our current mix of assets will allow us to achieve our goals; however there may be better ways to structure the portfolio to either reduce the level of risk and/or increase returns. As a result we will be reviewing our investment policy and risk profile as well as the overall portfolio composition over the next year or two.

For some time, the Trust has maintained a very small allocation of assets that were invested in hedge funds. Hedge funds tend to focus on producing absolute returns that are more stable month by month than the traditional asset classes. Traditionally, hedge funds have provided little transparency to their investors and have charged significantly higher management fees. They are also largely unregulated. The Trust took on a very small allocation to hedge funds to learn more about the asset class as few institutional investors had any experience with this investment approach. From a portfolio perspective, the small allocation to hedge funds was adopted so that experience could be gained without impacting the portfolio returns in any significant way. After completing the trial, the Investment Advisory Committee decided that they were unwilling to recommend increasing the allocation to hedge funds to a level that would have an impact on the overall portfolio. As a result, they recommended that the hedge fund investments be terminated. This does not mean that alternative investments will not form part of the Trust portfolio at some future date, but it does mean that they will not be part of the portfolio at this time.

Trust assets are diversified to reduce risk in two ways. First, assets are diversified by asset class and then assets are allocated to different investment counselors who invest using different investment styles.

Diversification by Investment Manager and Style

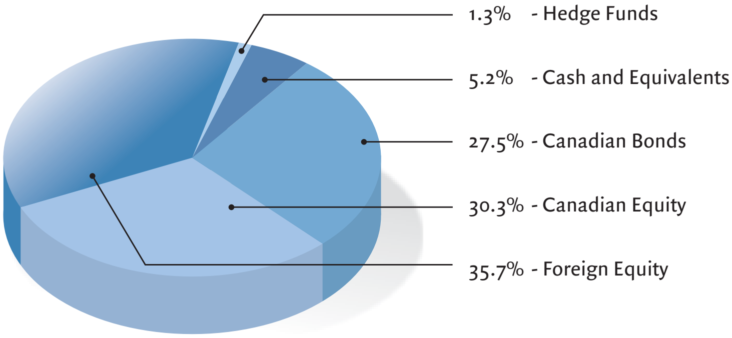
Last year, the Trustees added a new specialty investment product called "income trusts" into the portfolio mix. In 2005, the Toronto Stock Exchange decided that because income trusts were becom-

ing a significant part of the investment marketplace, they would bring income trusts into the S&P TSX Index to make the index more representative of the overall market place. As a result, the commonly used benchmark for measuring an investment counselor's ability to add value through active management changed in a significant way and it is expected that over time, the counselors will start adding income trusts into their Canadian equity portfolios. As a result, there is currently a debate within the investment community as to whether income trusts are a separate asset class or not. At the same time, governments are starting to consider revising their tax structures that have historically favored the income trust structure over the traditional dividend paying company. These external events will cause the Trustees to revisit the need to continue to have a specialty mandate for income trusts.

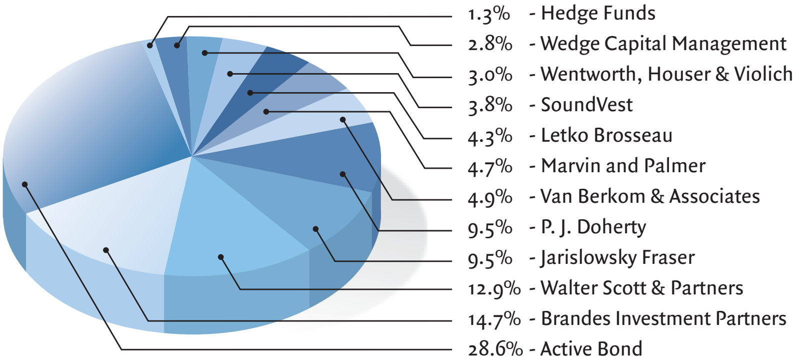
The global equity share of the fund was revisited in its entirety during 2004 and 2005. One global counselor had their mandate reduced in size and limited to US only equities. Two new counselors were brought onto the fund management team. Wentworth, Hauser, Violich Investment Counsel received a global mandate while Wedge Capital Management L.L.P. was hired to carry out a US mid cap equity mandate. The trustees approved the decision to actively make the allocation at the total fund level for a defined portion of global assets to be invested in the United States. In the past, the global counselors individually made this call based on their expertise. Our longer term global counselors will continue to decide their US equity share of the portion of our assets they manage.

The following charts show the diversification of Trust assets.

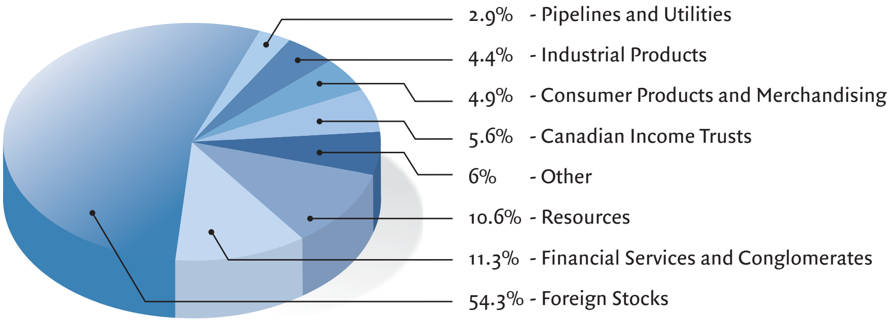
Portfolio by Asset Class



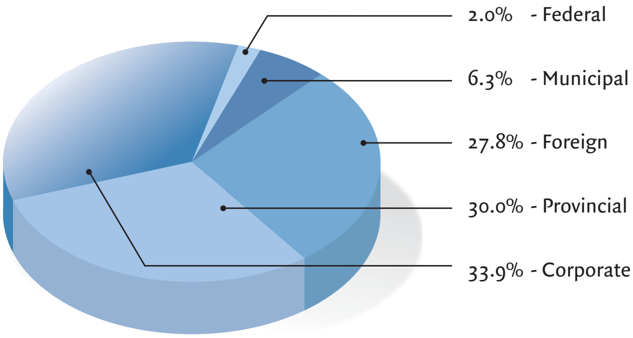
Diversification by Investment Manager and Style



Stocks by Industry Group



Bonds by Issuer



At year-end 2005, the portfolio held 27.5% of its assets in bonds, 30.3% in Canadian equities, 35.7% in foreign investments and 1.3% in hedge funds.

Return on Investment

The Trust Deed clearly defines the goals that are set for the Trustees to achieve. These are:

- To invest as a prudent person would
- To attempt to generate sufficient annual net income to allow the beneficiary corporations to meet their responsibilities to the Inuit of Nunavut
- To attempt to ensure that the Net Capital of the Trust maintains its buying power for future generations.

For the purpose of long term financial planning, the Trustees adopted, as a long-term rate of return, the objective of inflation plus 4.0% per annum net of operating expenses. The selection of a real (after inflation) rate of return is critical given the requirement that the Trustees preserve the real buying power of trust capital for future generations.

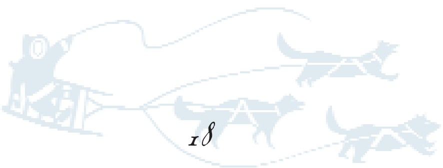
Investment returns are calculated quarterly by an independent outside performance measurement service, the Royal Trust Benchmark Service. At the end of 2005, the returns reported by the Benchmark Service were as follows:

Annual Time Weighted Portfolio Rates of Return (TWRR)

	2000	2001	2002	2003	2004	2005
Actual	9.33%	-2.00%	-6.64%	13.14%	10.70%	11.21%
Benchmark	3.04%	-5.13%	-9.55%	12.17%	9.72%	11.26%
Median	12.44%	2.12%	-4.17%	13.89%	9.30%	11.75%

Annualized (TWRR)

	Last 10 Years	Last 5 Years	Last 3 Years	Last 1 Year
Actual	9.96%	4.96%	11.66%	11.21%
Benchmark	7.33%	3.28%	11.05%	11.26%
Median	9.56%	6.67%	11.7%	11.75%




The Trustees represent all Nunavut
Inuit, past, present and future.

The Trustees, Committees and Administration

Trustees

Each of the three regions in Nunavut appoints two trustees to the Nunavut Trust. The boards of each Regional Inuit Association select who they believe will best represent the interests of all Inuit in Nunavut from applicants in their regions. The Trustees have the overall management and administrative responsibilities defined in the Nunavut Trust Deed, including the determination of the overall portfolio asset mix and ranges of variability, investment policies and objectives, establishment of performance measurement standards used to measure progress against long term goals and objectives and the approval of the selection of investment counselors. As a group they try to define complex issues such as "How risky should an investment be?" or "Is there an industry or a country I do not believe it is best for our fund to buy into?" These men and women from varied backgrounds carry a huge burden of responsibility and adhere to a strict code of conduct. Because they represent everyone past, present and future, they must be able to distance themselves from local or personal issues and political pressures.

Trustees carry a huge burden of responsibility.

On December 31, 2005, the trustees were:

Archie Angnakak, *Chairperson & Qikiqtani Trustee*
Nutarajuk Arnaujumajuk, *Qikiqtani Trustee*
Dorothy Gibbons, *Vice-Chairperson & Kivalliq Trustee*
Minnie Tatty, *Kivalliq Trustee*
Bill Lyall, *Kitikmeot Trustee*
Jack Kupeuna, *Kitikmeot Trustee*

Investment Advisory Committee

To assist the Trustees, a committee consisting of experienced investment professionals well known within the institutional investment community was established to recommend investment policies, strategies and investment counselors to the Trustees.

The external members of the Investment Advisory Committee include:

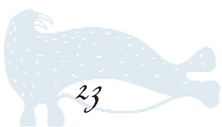
Bonita Then, *Chairperson*
Roger Chiniara,
Arthur Donner
Robert Rabinovitch

Asset Custody

Although the investment counselors are given the authority to determine the selection of individual companies in which Nunavut Trust invests and the weights that each will have within their mandates, they do not physically hold Trust assets within their accounts. Instead, to provide a segregation of duties, Nunavut Trust employs the services of one or more major trust companies specializing in the settlement of security transactions. Based on trading instructions provided by the investment counselor, the Custodian effects the investment transactions and holds the securities of the Trust in segregated investment accounts.

Administration

A small office staff of four carried out the administrative duties on behalf of the Trustees during fiscal 2005. Trust staff is responsible for the accounting, reporting and support activities associated with trust operations. In-house staff included a Chief Executive Officer, a Chief Financial Officer, a Corporate Secretary, and an Administrative Assistant. Staff members are supported by external professionals including a legal advisor (Arthur B. C Drache, Q.C.) and KPMG the external audit firm responsible for the annual external audit of Trust financial statements and the review of income tax returns.



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AUDITORS' REPORT TO THE TRUSTEES

We have audited the balance sheet of Nunavut Trust as at December 31, 2005 and the statements of revenue and expenditures, 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, 2005 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

Ottawa, Canada

March 31, 2006

BALANCE SHEET

December 31, 2005, with comparative figures for December 31, 2004

	2005	2004
Assets		
Invested assets:		
Cash and treasury bills (note 2)	$ 58,445,898	$ 53,745,410
Investments (notes 3 and 11)	908,057,684	827,438,239
	966,503,582	881,183,649
Accrued investment income	4,771,129	4,058,562
Amounts receivable (note 4)	86,614	15,466
Fixed assets (note 5)	70,997	92,276
	$971,432,322	$885,349,953
Liabilities and Capital		
Current liabilities:		
Accrued liabilities	$ 1,040,760	$ 859,432
Due to Nunavut Tunngavik Incorporated	12,326	12,326
	1,053,086	871,758
Capital (note 7)	970,379,236	884,478,195
Commitments (note 9)		
	$971,432,322	$885,349,953

See accompanying notes to financial statements.

STATEMENT OF REVENUE AND EXPENDITURES

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Revenue:		
Interest	$14,691,639	$16,702,214
Dividends	17,539,842	13,391,093
Gain on sale of investments	28,413,670	42,275,118
Foreign exchange gains	2,041,231	—
Royalty	22,413	1,000
Other	186,961	34,397
	62,895,756	72,403,822
Expenditures:		
Professional fees	4,544,612	4,043,778
Unrealized loss on investments	1,553,804	—
Foreign taxes	1,044,370	842,734
Foreign exchange losses	—	4,277,167
Salaries and benefits	438,090	498,543
Travel and accommodations	193,897	300,707
Communications	5,479	8,690
Printing	50,165	44,074
Trustee fees	59,250	94,500
Rent	74,456	91,790
Translation	3,222	2,438
Office and administration	24,291	24,766
Professional development	—	356
Depreciation	21,279	27,213
	8,012,915	10,256,756
Excess of revenue over expenditures	$ 54,882,841	$62,147,066

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN CAPITAL

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Capital, beginning of year	$884,478,195	$777,165,230
Capital contributions from Government of Canada	71,745,785	89,682,231
Capital loans related to repayment of negotiation loans (note 7 and 8)	(3,885,111)	(4,856,389)
Excess of revenue over expenditures	54,882,841	62,147,066
Distribution to beneficiaries (note 6)	(46,193,196)	(41,156,156)
Net repayments from (capital loans to) beneficiaries (note 8)	9,350,722	1,496,213
Capital, end of year	$970,379,236	$884,478,195

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 54,882,841	$ 62,147,066
Depreciation, which does not involve cash	21,279	27,213
Unrealized loss on investments	1,553,804	—
Amortization of bond premiums	2,809,332	—
Gain on sale of investments	(28,413,670)	(42,275,118)
	30,853,586	19,899,161
Increase in accrued investment income	(712,567)	(615,400)
(Increase) decrease in amounts receivable	(71,148)	154,383
Increase in accrued liabilities	181,328	96,544
Increase in Due to Nunavut Tunngavik Incorporated	—	2,821
	30,251,199	19,537,509
Investments:		
Purchases of investments	(342,549,879)	(471,544,901)
Proceeds from sale of investments	285,980,968	413,925,208
Purchase of fixed assets	—	(8,776)
	(56,568,911)	(57,628,469)
Financing:		
Capital contributions	71,745,785	89,682,231
Distribution to beneficiaries	(46,193,196)	(41,156,156)
Net repayments from (capital loans to) beneficiaries	9,350,722	1,496,213
Capital loans related to repayment of negotiation loans	(3,885,111)	(4,856,389)
Residual of tenth negotiating loan payment due to Royal Bank	—	(955,518)
	31,018,200	44,210,381
Increase in cash and cash equivalents	4,700,488	6,119,421
Cash and cash equivalents, beginning of year	53,745,410	47,625,989
Cash and cash equivalents, end of year	$58,445,898	$53,745,410

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

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2005

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 carried at cost. Interest is accrued as earned and dividends are accrued when declared. Investments are evaluated for impairment in their values that may be considered other than temporary. Other than temporary impairments are recognized in earnings in the year identified. 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 expenditures 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 expenditures during the period. Areas requiring 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.

Year ended December 31, 2005

2. Cash and treasury bills:

	2005	2004
Cash	$15,937,528	$ 16,507,386
Treasury bills	42,508,370	37,238,024
	$58,445,898	$53,745,410

3. Investments:

Investments as at December 31, 2005 and December 31, 2004 are as follows:

	Cost 2005	Market 2005	Cost 2004	Market 2004
Bonds	$290,200,582	308,687,449	262,433,917	276,241,060
Stocks	603,203,121	741,346,086	552,968,337	642,002,054
Hedge Funds	14,653,981	13,834,382	12,035,985	13,464,869
	$908,057,684	$1,063,867,917	$827,438,239	$931,707,983

Investments are managed as a pool by investment managers who are under the direction of the Trustees. The values of the bonds are subject to interest rates. The values of the stocks are subject to market value and exchange rate fluctuations. Exposure to a decline in the Euro relative to the Canadian dollar has been protected by the Trust entering into an American style put option. Fluctuation in the relative value of the Canadian dollar against the Euro can result in a positive or a negative effect on the fair value of the foreign exchange forward contracts. The Trust is exposed to the potential loss of a favorable exchange rate in the event of non-performance by the counter party to this American style put option. At December 31, 2005, there was a foreign exchange American style put option for EURO 11,680,000. The Trust has the option to receive Canadian dollars at any time up to and including July 5, 2006 at a predetermined exchange rate.

4. Amounts receivable:

	2005	2004
Due from Inuit Implementation Fund Trust	389	156
Due from Nunavut Hunters Income Support Trust	$ 84,297	$ 13,327
Other	1,928	1,983
	$86,614	$15,466

Year ended December 31, 2005

5. Fixed assets:

			2005	2004
	Cost	Accumulated depreciation	Net book value	Net book value
Office furniture and equipment	$203,403	$145,657	$ 57,746	$ 72,182
Leasehold improvements	71,846	71,846	—	6,842
Sculptures	13,252	—	13,252	13,252
	$288,501	$217,503	$70,998	$92,276

Cost and accumulated depreciation at December 31, 2004 amounted to $288,501 and $196,225 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 has committed to provide the Trust with capital transfer payments and the Trust has agreed to repay the negotiation loans of the Tungavik Federation of Nunavut, on the understanding that Nunavut Tunngavik Incorporated will provide the Trust with promissory notes agreeing to reimburse the Trust for the loan repayments. Nunavut Tunngavik Incorporated refinanced their negotiating loan with the Royal Bank of Canada and Nunavut Trust signed an undertaking to advance the loan repayments to the Royal Bank in the amounts indicated in Schedule 29-3 of the Nunavut Land Claims Agreement. The payment schedule is as follows:

	Gross Capital Payment	Loan Repayment	Net Capital Payment
2006	53,809,338	2,913,833	50,895,505
2007	35,872,892	1,942,555	33,930,337

Year ended December 31, 2005

8. Capital loans to beneficiaries:

The Trust has capital loans outstanding from beneficiaries as follows:

	2005	2004
Due from Nunavut Tunngavik Incorporated	$92,750,796	$101,306,167
Due from Nunavut Elders' Pension Trust	20,829,869	17,740,109
	$113,580,665	$119,046,276

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 and equipment:

2006	49,889
2007	53,912
2008	56,326
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, 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 it's custodian, whereby certain investments owned by the Trust are loaned to certain reputable and well-established brokers/dealers and financial institutions in return for a fee which is shared between the Trust and its custodian. 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