Financial Statements of

NUNAVUT TRUST

Year ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Trustees of Nunavut Trust

We have audited the accompanying financial statements of Nunavut Trust, which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nunavut Trust as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

July 13, 2017

Ottawa, Canada

NUNAVUT TRUST

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Operating cash	$ 469,083	$ 329,458
Invested assets (notes 6 and 10)	1,651,202,613	1,611,352,268
	$ 1,651,671,696	$ 1,611,681,726
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 1,325,648	$ 1,885,860
Net assets	1,650,346,048	1,609,795,866
Commitments (notes 8 and 11)		
	$ 1,651,671,696	$ 1,611,681,726

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

NUNAVUT TRUST

Statement of Comprehensive Income

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Investment income (note 12)	$ 93,563,088	$ 186,087,983
Portfolio management expenses (note 13)	9,973,160	10,402,497
Investment income, net of investment portfolio management expenses	83,589,928	175,685,486
Administrative expenses	740,896	1,081,627
Increase in net assets	$ 82,849,032	$ 174,603,859

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

NUNAVUT TRUST

Statement of Changes in Net Assets

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Balance, beginning of year	$ 1,609,795,866	$ 1,479,988,162
Increase in net assets	82,849,032	174,603,859
Net distributions to beneficiaries (note 9)	(42,298,850)	(44,796,155)
Balance, end of year	$ 1,650,346,048	$ 1,609,795,866

The accompanying notes are an integral part of these financial statements

NUNAVUT TRUST

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Cash flows from operating activities:		
Interest received	$ 7,614,990	$ 8,395,486
Dividends received	17,399,839	16,818,210
Limited partnership distributions	15,314,137	11,013,160
Purchases of investments	458,073,294	394,110,936
Proceeds from sale of investments	(439,545,040)	(370,668,632)
Operating expenses paid	(11,274,268)	(11,402,339)
	47,582,952	48,266,821
Cash flows from financing activities:		
Net distributions to beneficiaries	(42,298,850)	(44,796,155)
Increase in cash and cash equivalents	5,284,102	3,470,666
Cash and cash equivalents, beginning of year	63,359,763	57,222,092
Foreign exchange impact on cash and cash equivalents	2,302,771	2,667,005
Cash and cash equivalents, end of year	$ 70,946,636	$ 63,359,763
Cash and cash equivalents at the end of the period are comprised of:		
Operating cash	$ 469,083	$ 329,458
Investment cash	70,477,553	63,030,305
Total cash and cash equivalents	$ 70,946,636	$ 63,359,763

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 July 13, 2017.

(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 6 (b) and (c).

3. Change in accounting policies:

Except for the changes below, the Trust has consistently applied the accounting policies set out in note 4 to all periods presented in these financial statements.

(a) IAS 7 *Statement of Cash Flows*:

In 2016, the Trust changed its presentation of cash flows from operating activities to the direct cash flow method from the indirect method. The change was applied retrospectively. The principles specified by IAS 7 for the preparation of a statement of cash flows are still followed.

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. Upon initial recognition, all financial assets are classified based on the nature and purpose of the financial instrument, or as designated by the Trust, as (i) fair value through profit or loss, (ii) held-to-maturity investments, (iii) loans and receivables or (iv) available-for-sale financial assets. All financial liabilities are classified or designated as (i) financial liabilities at fair value through profit or loss or (ii) other financial liabilities.

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 classified as loans and receivables and financial liabilities classified as other liabilities 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 classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at fair value through profit or loss if the Trust manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Trust's documented risk management or investment strategy. 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 10).

(ii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables which are included in amounts receivable.

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Trust on terms that the Trust would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

(iii) Other financial liabilities:

Accounts payable and accrued liabilities are classified as other financial liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities 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.

(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. New standards and interpretations not yet adopted:

The following new standards and amendments issued by the International Accounting Standards Board (the "IASB") have been assessed as having a possible effect on the Trust's financial statements in the future. The Trust is currently determining the impact of these standards and amendments on its financial statements. The Trust does not plan to adopt these standards early.

(a) IFRS 9 *"Financial Instruments"*:

The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted.

6. Invested assets:

(a) Investments:

Investments are comprised of the following:

	2016	2015
Investment cash	$ 70,477,553	$ 63,030,305
Stocks	719,983,564	867,947,158
Bonds	105,965,844	106,179,073
Pooled funds	303,899,707	277,419,448
Limited partnerships	448,443,981	295,378,733
Accrued income	2,431,964	1,397,551
Investments	$ 1,651,202,613	$ 1,611,352,268

6. 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 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).

6. Invested assets (continued):

(c) Fair value hierarchy:

	Level 1	Level 2	Level 3	Total
December 31, 2016:				
Investment cash	$ 70,477,553	$ –	$ –	$ 70,477,553
Stocks and fixed income	825,949,408	–	–	825,949,408
Accrued income	2,431,964	–	–	2,431,964
Stocks (pooled funds)	–	160,936,183	–	160,936,183
Fixed Income (pooled funds)	–	142,963,524	–	142,963,524
Real estate (limited partnerships)	–	–	170,282,706	170,282,706
Infrastructure (limited partnerships)	–	–	125,069,047	125,069,047
Private debt (limited partnership)	–	–	153,092,228	153,092,228
	$ 898,858,925	$ 303,899,707	$ 448,443,981	$1,651,202,613

	Level 1	Level 2	Level 3	Total
December 31, 2015:				
Investment cash	$ 63,030,305	$ –	$ –	$ 63,030,305
Stocks and fixed income	974,126,231	–	–	974,126,231
Accrued income	1,397,551	–	–	1,397,551
Stocks (pooled funds)	–	146,452,092	–	146,452,092
Fixed Income (pooled funds)	–	130,967,356	–	130,967,356
Real estate (limited partnerships)	–	–	92,829,978	92,829,978
Infrastructure (limited partnerships)	–	–	102,764,676	102,764,676
Private debt (limited partnership)	–	–	99,784,079	99,784,079
	$1,038,554,087	$ 277,419,448	$ 295,378,733	$1,611,352,268

There were no transfers between Level 1 and Level 2 during 2015 and 2016 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.

6. Invested assets (continued):

(c) Fair value hierarchy (continued):

The table below itemizes the changes in the Trust's estimate of level 3 fair value investments from January 1, 2016 to December 31, 2016.

	Market value
Opening balance January 1, 2016	$ 295,378,733
Contributions	228,248,037
Return of capital	(65,607,748)
Gains included in change in fair value of financial instruments at fair value through profit or loss:	
Change in estimated unrealized gains	(9,402,329)
Net realized loss on sales of investments	(172,712)
Closing balance December 31, 2016	$ 448,443,981

7. 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:

The Trust is exposed to the risk of financial loss if a customer or counterparty for the Trust's receivables from trade relationships or debt securities fails to meet its contractual obligations. Credit risk is minimized by dealing with a variety of borrowers with investment grade securities of BBB and above and through underwriting and credit assessment of non-investment grade securities, and further through ongoing monitoring of credit exposure. 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.

7. 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 $1,325,648 (2015 - $1,885,860).

(f) 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:

	2016	2015
Euro (EUR)	$ 195,861,223	$ 126,816,052
Pound Sterling (GBP)	114,082,718	88,767,056
US Dollar (USD)	690,402,138	893,137,748
Emerging Market Currencies (CAD)	231,258,666	93,200,991
Other Developed Market Currencies (CAD)	96,016,967	137,950,673

Sensitivity analysis:

A strengthening of the Canadian dollar, against the foreign currencies noted above, at December 31, 2016 would have decreased equity and profit or loss by $66,381,086 (2015 - $66,993,626). 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 2015. A weakening of the Canadian dollar against the above currencies at December 31, 2016 would have had an equal but opposite effect on the above currencies, on the basis that all other variables remain constant.

7. Financial instruments (continued):

(g) 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, 2016, the bond portfolio had maturity dates between 2017 and 2028 (2015 - between 2016 and 2028) and carried an average effective yield of 5.91% (2015 - 6.22%). At the reporting date, the Trust held interest-bearing financial instruments of $248,900,748 (2015 - $236,120,217).

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 $9,760,292 (2015 - $8,867,436).

(h) Equity price 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 $44,045,987 (2015 - an increase of $50,720,012); an equal price movement in the opposite direction would have decreased equity by $44,045,987 (2015 - a decrease of $50,720,012).

8. Capital management:

The Trust's policy is to maintain a capital base that grows with inflation to maintain the capital base in real terms and that allows the Trust to continue to make distributions to beneficiary organizations and to 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 loans when the income distributed is greater than the 4%.

The Trust utilizes an investment strategy, asset allocation, and choice of available investment products to meet its capital management objectives of growing the Trust assets with inflation and distributing taxable income to the beneficiaries. There are no externally imposed capital requirements or changes in how capital is managed from the previous year. The Trust considers investment alternatives 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 of the assets invested in.

(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, 2016, the Trust has committed $57,500,000 CAD, $190,832,500 US, £85,000,000 GBP, and €196,219,000 EUR to limited partnerships as part of this allocation. As at December 31, 2016, uncalled commitments total $245,930,296 CAD which is comprised $13,138,740 CAD, $86,083,371 US, £31,322,542 GBP, and €46,103,998 EUR. These commitments are called upon as they are required for the limited partnerships to purchase assets in accordance with their limited partnership agreements.

9. 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, Nunavut Economic and Social Development Trust Inc. 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:

	2016	2015
Due from Nunavut Tunngavik Incorporated	$ 15,035,493	$ 21,992,971

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.

Reconciliation of distributions to beneficiaries:

	2016	2015
Increase in net assets	$ 82,849,032	$ 174,603,859
Remove change in fair value of financial instruments at fair value through profit or loss	32,016,889	(29,925,588)
Net realized gains on sales of investments	(42,062,415)	(56,935,850)
Other	(425,614)	511,199
Income before allocations	72,377,892	88,253,620
Distribution to beneficiaries	(49,256,328)	(55,000,000)
Net income	23,121,564	33,253,620
Net capital losses of other years applied	(23,121,564)	(33,253,620)
Taxable Income	$ –	$ –

9. Related parties (continued):

(b) Capital loans to beneficiaries (continued):

	2016	2015
Distribution to beneficiaries	$ 49,256,328	$ 55,000,000
Decrease in capital loan	(6,957,478)	(10,203,845)
Net distribution to beneficiaries	$ 42,298,850	$ 44,796,155

(d) Key management personnel compensation:

Key management personnel are responsible for planning, directing and controlling the activities of the Trust and include the Chief Executive Officer, the Chief Financial Officer and the members of the Board of Trustees.

For the year ended December 31, 2016, key management personnel compensation includes salaries, short-term benefits, and Trustee honoraria of $770,272 (2015 - $667,978). Total salaries were $808,901 (2015 - $717,552).

10. 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 $215,362 (2015 - $166,720). At December 31, 2016, securities out on loan had a value of $185,586,471 (2015 - $122,396,129). 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; or (b) the prevailing market practice; or (c) 105%.

10. Security lending arrangement (continued):

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, 2016 had a value of $196,242,035 (2015 - $129,818,747). 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.

11. Operating leases:

The Trust leases office space under an operating lease. The lease has a 10-year term from September 1, 2016 to August 31, 2025, with an option to renew the lease after that date.

Non-cancellable future minimum lease payments as follows:

	2016	2015
Less than one year	$ 42,732	$ 42,732
Between one and five years	177,259	172,511
More than five years	174,093	221,573
	$ 394,084	$ 436,816

During the year ended December 31, 2016 an amount of $42,732 was included in rent expense in profit or loss in respect of operating leases (2015 - $54,477).

12. Investment income:

Investment income is comprised of the following:

		2016		2015
Dividends	$	17,507,486	$	20,510,574
Interest		7,820,223		8,369,001
Limited partnership distributions		15,314,137		11,013,160
Capital gain on sales of investments		84,586,083		111,930,257
Change in fair value of financial instruments at fair value through profit or loss		(32,016,889)		29,925,588
Foreign exchange gains		352,048		4,339,403
Investment income	$	93,563,088	$	186,087,983

13. Portfolio management expenses:

Portfolio management expenses are comprised of the following:

		2016		2015
Investment management fees	$	6,115,245	$	6,967,490
Foreign taxes paid		2,211,362		2,121,931
Transaction costs		780,430		431,142
Other portfolio management expenses		866,123		881,934
Portfolio management expenses	$	9,973,160	$	10,402,497

14. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.