

Financial Statements of

THE MCELVAINE INVESTMENT TRUST

Years ended December 31, 2004 and 2003



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

AUDITORS' REPORT

To the Unitholders of
The McElvaine Investment Trust

We have audited the statement of net assets of The McElvaine Investment Trust as at December 31, 2004, the schedule of investments as at December 31, 2004, and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Trust's Manager. 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, 2004 and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

January 14, 2005

THE McELVAINE INVESTMENT TRUST

Statements of Net Assets

December 31, 2004 and 2003

	2004	2003
Assets		
Investment portfolio, at fair value	\$ 53,199,537	\$ 45,226,864
Cash and deposits (note 3)	13,465,625	9,393,723
Subscriptions receivable	25,000	403,536
Dividends and interest receivable	112,023	179,200
	<u>66,802,185</u>	<u>55,203,323</u>
Liabilities		
Due to broker	331,708	-
Accounts payable and accrued liabilities	1,207,764	2,634,764
Redemptions payable	601,252	740,056
Income and other taxes payable	97,553	199,368
	<u>2,238,277</u>	<u>3,574,188</u>
Net assets represented by unitholders' equity	\$ 64,563,908	\$ 51,629,135
Units outstanding (note 4(a))	<u>3,116,883</u>	<u>2,706,597</u>
Net asset value per unit	\$ 20.71	\$ 19.08

See accompanying notes to financial statements.

Approved by the Director of the Manager:

" Tim McElvaine "

Tim McElvaine, Director,
McElvaine Investment Management Ltd.

THE McELVAINE INVESTMENT TRUST

Schedule of Investments

December 31, 2004

	Number of shares	Cost	Market value
Investment portfolio:			
Canada - Equities (65.6% of net assets)			
Arbor Memorial Services	100,000	\$ 905,000	\$ 1,830,000
Caldwell Partners International	767,400	921,845	1,450,386
Emergis Inc.	700,000	2,332,340	2,548,000
Forest and Marine Investments Ltd.	294,600	1,230,191	1,178,400
Glacier Ventures Int. Corp.	1,789,710	1,662,759	3,579,420
Humpty Dumpty Snack Foods Inc.	1,255,700	3,053,405	3,264,820
Indigo Books	928,396	4,127,665	4,456,301
Madison Pacific Properties	197,585	102,035	264,764
Newfoundland Capital Corp.	559,800	5,268,092	6,997,500
Premium Brands Inc.	270,000	2,320,950	2,632,500
Rainmaker Income Fund (note 6)	580,000	623,308	2,285,200
Sun-Rype Products Ltd.	582,700	3,073,052	6,380,565
Torstar Corp. - Class B	250,000	5,151,187	5,500,000
Total Canadian securities		\$ 30,771,829	\$ 42,367,856
United States - Equities (1.6%)			
Blockbuster Inc.	100,000	\$ 817,884	\$ 1,055,570
Total US securities		\$ 817,884	\$ 1,055,570
Japan - Equities (6.3%)			
TV Asahi Corp.	689	\$ 1,126,104	\$ 1,675,703
Mitsubishi Securities	100,000	1,214,610	1,311,920
Nippon TV Network	6,000	938,231	1,079,703
Total Japanese securities		\$ 3,278,945	\$ 4,067,326
Great Britain - Equities (4.2%)			
HHG PLC	2,000,000	\$ 1,805,397	\$ 2,679,886
Total Great Britain securities		\$ 1,805,397	\$ 2,679,886
Miscellaneous equities (4.5%)			
		\$ 2,478,078	\$ 2,897,013
Total securities		\$ 39,152,133	\$ 53,067,651
Derivative instruments (0.2%) (see below)			131,886
Total investments at fair value, December 31, 2004 (82.4%)			\$ 53,199,537
Total investments at fair value, December 31, 2003 (87.6%)			\$ 45,226,864

THE McELVAINE INVESTMENT TRUST

Schedule of Investments (continued)

December 31, 2004

Derivative Instruments:

Amounts bought (sold) forward in foreign currency	Amounts receivable (payable) in Canadian dollars	Maturity date	Current fair value of foreign currency	Unrealized gain
JPY (350,000,000)	\$ 4,211,388	January 20, 2005	\$ 4,098,928	\$ 112,460
GBP (1,000,000)	2,316,745	January 20, 2005	2,297,319	19,426
<hr/> Total derivative instruments, December 31, 2004, unrealized gain				\$ 131,886
<hr/> Total derivative instruments, December 31, 2003, unrealized gain				\$ 502,889

The credit rating of the counterparty, Royal Bank of Canada, to each of the above contracts, is AA (low) - Dominion Bond Rating Service Ltd.

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Operations

Years ended December 31, 2004 and 2003

	2004	2003
Investment income:		
Dividends	\$ 411,344	\$ 218,525
Interest	370,317	434,112
Withholding tax	(5,928)	(12,498)
	775,733	640,139
Expenses:		
Performance incentive fee (note 9)	1,142,268	2,583,484
Management fee (note 8)	238,197	161,976
Trustee, custodial and legal fees	59,795	63,835
Audit and tax fees	31,000	32,000
Bank charges and interest	823	214
	1,472,083	2,841,509
Investment loss before tax	(696,350)	(2,201,370)
Goods and services tax	101,085	201,996
Net investment loss	\$ (797,435)	\$(2,403,366)
Net gain from investing activities:		
Net realized gains (losses):		
Proceeds from sale of investments	\$ 19,076,837	\$ 10,644,656
Cost of investments sold (note 5)	16,681,877	9,178,407
	2,394,960	1,466,249
Forward foreign currency contracts	812,815	1,784,747
Foreign exchange	13,617	(13,982)
	3,221,392	3,237,014
Change in net unrealized gains and losses:		
Investments	2,650,182	8,540,220
Forward foreign currency contracts	(371,003)	539,055
	2,279,179	9,079,275
Net gain from investing activities	\$ 5,500,571	\$ 12,316,289
Income from operations	\$ 4,703,136	\$ 9,912,923
Income from operations per unit	\$ 1.58	\$ 4.20

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Changes in Net Assets

Years ended December 31, 2004 and 2003

	2004	2003
Net assets, beginning of year	\$ 51,629,135	\$ 29,330,161
Income from operations	4,703,136	9,912,923
Unit transactions:		
Issue of units for cash	11,276,252	13,413,190
Redemption of units	(3,044,615)	(1,027,139)
	8,231,637	12,386,051
Increase in net assets	12,934,773	22,298,974
Net assets, end of year	\$ 64,563,908	\$ 51,629,135

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2004 and 2003

1. Organization:

The McElvaine Investment Trust (the "Trust") is an unincorporated unit trust, governed by the laws of British Columbia and formed by Declaration of Trust dated September 27, 1996 and amended May 15, 2002, as a Trust Agreement between McElvaine Investment Management Ltd. and the Royal Trust Company (the "Trust Agreement"). The Trust is managed by McElvaine Investment Management Ltd. (the "Manager" or "Investment Counsel"), which also provides investment counselling services. The Royal Trust Company is the Trustee of the Trust.

2. Significant accounting policies:

(a) General:

The financial statements of the Trust are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. The significant accounting policies are described below.

(b) Investments:

Investments are stated at year end fair values, which are generally determined at either the last sale price or the midpoint between the closing bid and asked quotations reported either by appropriate securities exchanges or in the over-the-counter market. In respect of any securities for which a last sale price or midpoint is not considered to be representative of fair value, such securities will be valued at their fair value as determined by the Trustee, in consultation with the Manager, on the basis of the latest reported information available.

Average cost is used to compute gains and losses on investments.

(c) Foreign exchange:

Purchases and sales of foreign securities and the related income and gains and losses are translated into Canadian dollars at the rates of exchange prevailing at the date of the respective transaction. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the close of each business day. Realized gains and losses and the change in unrealized gains and losses on foreign currency transactions, including the purchase and sale of forward contracts, are included in the statements of operations.

(d) Forward foreign currency contracts:

The Trust may enter into forward foreign currency contracts, the purpose of which is to provide an economic hedge against exposure to foreign currency fluctuations. The carrying value of these forward contracts is the gain or loss that would be realized if, on valuation day, the positions were closed out. For financial statement purposes this value is recorded as an unrealized gain or loss in the statements of operations. When the contracts are closed or expire, gains and losses are included in realized gains and losses in the statements of operations.

Gains and losses arise due to changes in the value of the foreign currency in relation to the Canadian dollar. Losses may also occur if the counterparty does not perform under the contract.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

(e) Income taxes:

The Trust qualifies as a unit trust for income tax purposes. Although the Trust allocates to its unitholders net investment income and net realized gains which would otherwise attract tax, federal income taxes may be incurred by the Trust in respect of alternative minimum tax.

(f) Income and expenses:

The accrual method of recording income and expenses is followed by the Trust, with dividends recorded as receivable on the ex-dividend date of the related shares.

(g) Per unit values:

Per unit amounts are calculated as follows:

Net asset value	On the number of units outstanding at the year end.
Income from operations	On the monthly weighted average number of units outstanding during the year

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income, expenses, gains and losses during the reporting period. Actual results could differ from those estimates.

(i) Generally accepted accounting principles:

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1100, ("Section 1100") "*Generally Accepted Accounting Principles*" ("GAAP"), effective for fiscal years beginning on or after October 1, 2003.

Section 1100 primarily impacts the disclosure within an investment fund's financial statements, and certain disclosures previously in general use in the investment fund industry are no longer considered GAAP.

The Trust, in conjunction with other investment funds, has assessed the impact of Section 1100 on its financial statement presentation and disclosures, and has made revisions accordingly. These revisions did not impact the net assets or income from operations of the Trust.

3. Cash and deposits:

	2004	2003
Canadian	\$ 13,458,541	\$ 8,125,639
Foreign	7,084	1,268,084
	<u>\$ 13,465,625</u>	<u>\$ 9,393,723</u>

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2004 and 2003

4. Unitholders' equity:

(a) Authorized and issued units:

The Trust has an unlimited number of units authorized pursuant to the Trust Agreement. Redemptions may only occur on the last business day of every month, with appropriate notice, and may be restricted in certain circumstances in accordance with the Trust Agreement.

The number of issued units are summarized as follows:

	2004	2003
Balance, beginning of year	2,706,597	1,970,978
Issued for cash	561,696	790,400
Redemptions	(151,410)	(54,781)
Balance, end of year	3,116,883	2,706,597

(b) Unrealized gains:

Included in unitholders' equity of the Trust are unrealized gains as follows:

	2004	2003
Securities in investment portfolio, at fair value	\$ 53,067,651	\$ 44,723,975
Securities in investment portfolio, at cost	39,152,133	33,458,639
	13,915,518	11,265,336
Forward foreign currency contracts	131,886	502,889
	\$ 14,047,404	\$ 11,768,225

5. Cost of investments sold:

The continuity of the cost of investments purchased and sold by the Trust is as follows:

	2004	2003
Investments at cost, beginning of year	\$ 33,458,639	\$ 23,850,035
Cost of investments purchased	22,375,371	18,787,011
	55,834,010	42,637,046
Investments at cost, end of year	39,152,133	33,458,639
Cost of investments sold	\$ 16,681,877	\$ 9,178,407

6. Rainmaker Income Fund:

On May 31, 2002, shares held by the Trust in Rainmaker Entertainment Group were exchanged for a proportionate number of units in Rainmaker Income Fund ("Rainmaker"). For tax purposes, this transaction resulted in a capital gain of \$1,284,893 to the Trust during the year ended December 31, 2002. For accounting purposes, the gain was not recognized as the exchange did not represent the culmination of the earnings process. The cost of the units acquired was recorded at the cost of the shares given up in the exchange. No units of Rainmaker have been acquired or disposed of since May 31, 2002. A realized gain or loss on investment will be recorded for accounting purposes when the investment is sold in the normal course, which amount will be adjusted for tax purposes by the previously reported capital gain.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2004 and 2003

7. Liquidity of investments:

During the 2002 year, the Trust purchased Class B securities of Cinar Corp. ("Cinar"). In early 2004 a group of third parties purchased the Cinar shares for US \$3.60 per share in cash plus a prorata distribution of the potential net proceeds, if any, from the settlement of certain outstanding litigation. Such litigation remains outstanding, and the Manager has ascribed no value to the entitlement to potential litigation proceeds in these financial statements.

The Investment Counsel has waived the Performance Incentive Fee, as defined in note 9, with respect to any increase in the value of Cinar Corp. Class B shares previously held by the Trust relative to the cost of those shares to the Trust.

The Trust may hold large positions in certain securities and, as a result, may not be able to liquidate such positions on a timely basis. Accordingly, the proceeds received on any sale of such securities may differ significantly from stated fair value.

8. Management fee:

The Trust has agreed to pay the Manager, as compensation for management and administration services rendered, a monthly fee of 1/12 of 0.4% of the net asset value of the Trust, determined prior to the calculation of any fees payable to the Manager, referred to in note 9.

9. Performance incentive fee:

The Trust will pay to the Investment Counsel an annual incentive fee (the "Performance Incentive Fee") equal to twenty-five percent (25%) of the amount by which:

- (a) The increase in net asset value of the Trust for each fiscal year as calculated at the close of business on each fiscal year-end, adjusted for contributions and redemptions made by the investors, for the waiver outlined in note 7, and for any Shortfall, as defined below, from the previous fiscal year (the "Incentive Return"), exceeds;
- (b) The return that would be generated annually by the average interest rate (the "Average Rate") applied to the net asset value of the Trust as calculated at the close of business of the previous fiscal year-end of the Trust, adjusted for contributions and redemptions made by the investors (the "Base Return"). The Average Rate is the twelve month simple average of the Hurdle Rate. The "Hurdle Rate" is the average yield indicated by the Bank of Canada on the last 91 day T-bill auction by the Bank of Canada in each month.

If in any fiscal year the Incentive Return is less than the Base Return, no Performance Incentive Fee shall be paid for that fiscal year and the difference between the Base Return and the Incentive Return (the "Shortfall") is carried forward to the succeeding fiscal year and, after adjustment for redemptions, as set out below, deducted in the calculation of the Incentive Return for that year. The Shortfall deducted in any year is reduced by an amount such that the proportion that the reduction bears to the Shortfall is equal to the proportion that the number of units which were outstanding at the end of the previous fiscal year and which are redeemed during the year bears to the total number of units outstanding at the end of the previous fiscal year.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2004 and 2003

9. Performance incentive fee (continued):

The Performance Incentive Fee, if any, is estimated and accrued monthly during a fiscal year for the purpose of calculating the net asset value per unit at the end of each month, but is paid to the Investment Counsel annually within one month of the fiscal year-end of the Trust in cash or units, at the discretion of the Investment Counsel.

10. Related party transactions:

Certain parties related to the Manager own units of the Trust.

11. Distributions:

Distributions by the Trust are generally declared in December in respect of net investment income and net realized gains, net of income tax loss carry forwards applied for the current fiscal year.

The payment or reinvestment of distributions reduces the net asset value per unit because distributions paid in cash reduce the net assets of the Trust while reinvestment results in an increase in the number of units outstanding.

12. Financial instruments:

(a) Fair values:

The Trust's investments in securities and forward foreign currency contracts are carried at fair value. The Manager considers that fair values of financial instruments other than investments in securities and forward foreign currency contracts approximate their carrying values given their short-term nature.

(b) Foreign currency risk:

The Trust is exposed to foreign currency risk to the extent that assets denominated in other than Canadian dollars differ from amounts hedged through forward foreign currency contracts.

13. Portfolio transactions:

A statement of portfolio transactions is not included as part of these financial statements, but will be provided to any unitholder, without charge, on request. Requests may be made in writing to McElvaine Investment Management Ltd., Suite 200 - 1100 Melville Street, Vancouver, BC, V6E 4A6.