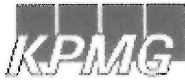


Financial Statements of

THE MCELVAINE INVESTMENT TRUST

Years ended December 31, 2002 and 2001



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AUDITORS' REPORT

To the Unitholders of
The McElvaine Investment Trust

We have audited the statements of net assets of The McElvaine Investment Trust as at December 31, 2002 and 2001, the schedule of investments as at December 31, 2002, the statements of net investment income (loss), net gain (loss) on investments and changes in net assets for the years ended December 31, 2002 and 2001 and the statements of financial highlights for the five years ended December 31, 2002, 2001, 2000, 1999 and 1998. 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 audits.

We conducted our audits 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, 2002 and 2001 and the results of its operations and the changes in its net assets for the years then ended and its financial highlights for the five years ended December 31, 2002, 2001, 2000, 1999 and 1998 in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

January 24, 2003



KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss nonoperating association.

THE McELVAINE INVESTMENT TRUST

Statements of Net Assets

December 31, 2002 and 2001

| | 2002 | 2001 |
|---|----------------------|----------------------|
| Assets | | |
| Investment portfolio, at market value | \$ 26,538,985 | \$ 18,472,874 |
| Cash and deposits (note 3) | 2,786,505 | 921,980 |
| Dividends receivable and other assets | 69,099 | 95,422 |
| | <u>29,394,589</u> | <u>19,490,276</u> |
| Liabilities | | |
| Contributions received in advance | - | 950,000 |
| Accounts payable and accrued liabilities | 38,902 | 995,428 |
| Redemptions payable | 1,943 | 1,579 |
| Income and other taxes payable | 23,583 | 115,065 |
| | <u>64,428</u> | <u>2,062,072</u> |
| Net assets represented by Unitholders' equity | <u>\$ 29,330,161</u> | <u>\$ 17,428,204</u> |
| Units outstanding (note 4(a)) | <u>1,970,978</u> | <u>1,105,940</u> |
| Net asset value per unit | <u>\$ 14.88</u> | <u>\$ 15.76</u> |

See accompanying notes to financial statements.

Approved by the Director of the Manager:

"Tim McElvaine"

McElvaine Services Ltd.

Tim McElvaine, Director

THE McELVAINE INVESTMENT TRUST

Schedule of Investments

December 31, 2002

| | Number of shares | Cost | Market value | |
|---|---|----------------------|-------------------------|---------------------------|
| Investment portfolio: | | | | |
| Canada - Equities (69.1% of net assets) | | | | |
| Arbor Memorial Services | 100,000 | \$ 905,000 | \$ 1,287,500 | |
| Caldwell Partners International | 717,400 | 851,100 | 1,040,230 | |
| Cinar Corp. - Class B (note 7) | 1,388,750 | 5,727,018 | 4,387,905 | |
| Glacier Ventures Int. Corp. | 1,789,710 | 1,662,759 | 2,416,109 | |
| Humpty Dumpty Snack Foods Inc. | 655,700 | 1,313,405 | 1,999,885 | |
| Indigo Books | 199,454 | 780,615 | 857,652 | |
| Rainmaker Income Fund (note 6) | 580,000 | 623,308 | 1,354,300 | |
| Softkey Software Products Inc. | 30,000 | 643,731 | 1,079,850 | |
| Sun-Rype Products Ltd. | 469,400 | 2,104,104 | 3,100,387 | |
| Torstar Corp. - Class B | 100,000 | 1,828,475 | 2,550,000 | |
| Miscellaneous equities | 303,198 | 127,817 | 199,098 | |
| Total Canadian securities | | \$ 16,567,332 | \$ 20,272,916 | |
| United States - Equities (14.2%) | | | | |
| Alderwoods Group | 275,000 | \$ 3,389,305 | \$ 2,054,495 | |
| Mattel Inc. | 70,000 | 1,637,003 | 2,117,727 | |
| Total US securities | | \$ 5,026,308 | \$ 4,172,222 | |
| Japan - Equities (7.3%) | | | | |
| Nikko Cordial Corp. | 400,000 | \$ 2,256,395 | \$ 2,130,013 | |
| Total Japanese securities | | \$ 2,256,395 | \$ 2,130,013 | |
| Total securities | | \$ 23,850,035 | \$ 26,575,151 | |
| Derivative instruments (-0.1%) (see below) | | | (36,166) | |
| Total investments at market value, December 31, 2002 (90.5%) | | | \$ 26,538,985 | |
| Total investments at market value, December 31, 2001 (106.0%) | | | \$ 18,472,874 | |
| Derivative Instruments: | | | | |
| Amounts bought (sold) in foreign currency | Amounts bought (sold) in Canadian dollars | Maturity date | Current market value | Unrealized gain (loss) |
| JPY (156,100,000) | \$ 2,000,000 | January 30, 2003 | \$ 2,083,001 | \$ (83,001) |
| US\$ (5,660,377) | 9,000,000 | January 30, 2003 | 8,953,165 | 46,835 |
| Total derivative instruments, December 31, 2002, unrealized loss | | | | \$ (36,166) |
| Total derivative instruments, December 31, 2001, unrealized loss | | | | \$ (87,411) |

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

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Net Investment Income (Loss)

Years ended December 31, 2002 and 2001

| | 2002 | 2001 |
|---------------------------------------|------------|--------------|
| Investment income: | | |
| Dividends | \$ 171,728 | \$ 434,357 |
| Interest | 203,902 | 137,606 |
| Withholding tax | (5,420) | (528) |
| | 370,210 | 571,435 |
| Expenses: | | |
| Professional fees | 46,532 | 32,591 |
| Bank charges and interest | 16,160 | 1,859 |
| Investment counsel fee (note 9) | - | 957,753 |
| Management fee (note 8) | 107,841 | 55,098 |
| Trustee, custodial and legal fees | 31,861 | 11,516 |
| | 202,394 | 1,058,817 |
| Investment income (loss) before taxes | 167,816 | (487,382) |
| Income and other taxes (note 10) | 19,342 | 152,022 |
| Net investment income (loss) | \$ 148,474 | \$ (639,404) |
| Net investment income (loss) per unit | \$ 0.10 | \$ (0.67) |

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Net Gain (Loss) on Investments

Years ended December 31, 2002 and 2001

| | 2002 | 2001 |
|---|---------------|--------------|
| Net realized gains (losses): | | |
| Proceeds from sale of investments | \$ 11,012,957 | \$ 5,021,000 |
| Cost of investments sold (note 5) | 9,098,816 | 3,972,721 |
| | 1,914,141 | 1,048,279 |
| Currency hedging | (323,414) | (96,022) |
| Foreign exchange | (37,420) | (2,949) |
| | 1,553,307 | 949,308 |
| Change in net unrealized gains and losses: | | |
| Investments | (1,642,847) | 3,069,358 |
| Currency hedging | 51,245 | (105,788) |
| | (1,591,602) | 2,963,570 |
| Net gain (loss) on investments | \$ (38,295) | \$ 3,912,878 |
| Net gain (loss) on investments per unit (note 2(g)) | \$ 0.69 | \$ 4.12 |

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Changes in Net Assets

Years ended December 31, 2002 and 2001

| | 2002 | 2001 |
|---|---------------|---------------|
| Net assets, beginning of year | \$ 17,428,204 | \$ 10,215,387 |
| Increase in net assets from operations: | | |
| Net investment income (loss) | 148,474 | (639,404) |
| Net gain (loss) on investments | (38,295) | 3,912,878 |
| | 110,179 | 3,273,474 |
| Distributions paid from: | | |
| Net investment income | (88,072) | - |
| Realized gains | (2,838,200) | - |
| | (2,926,272) | - |
| Unit trust transactions: | | |
| Issue of units for cash | 12,418,136 | 4,849,638 |
| Reinvestment of distributions | 2,925,147 | - |
| Redemption of units | (625,233) | (910,295) |
| | 14,718,050 | 3,939,343 |
| Increase in net assets | 11,901,957 | 7,212,817 |
| Net assets, end of year | \$ 29,330,161 | \$ 17,428,204 |

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Financial Highlights

Years ended December 31, 2002, 2001, 2000, 1999 and 1998

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|--|----------|----------|----------|----------|----------|
| Data per unit: | | | | | |
| Net asset value, beginning of year | \$ 15.76 | \$ 12.31 | \$ 10.90 | \$ 11.38 | \$ 11.38 |
| Income from operations: | | | | | |
| Net investment income (loss) | 0.10 | (0.67) | (0.33) | (0.49) | 0.34 |
| Net gain (loss) on investments | 0.69 | 4.12 | 2.42 | 3.84 | 1.55 |
| Total income from operations | 0.79 | 3.45 | 2.09 | 3.35 | 1.89 |
| Distribution to investors: | | | | | |
| From net investment income | (0.05) | - | - | - | (0.32) |
| From net realized gains on investments | (1.62) | - | (0.38) | (3.37) | (1.57) |
| Return of capital | - | - | (0.30) | (0.46) | - |
| Total distributions | (1.67) | - | (0.68) | (3.83) | (1.89) |
| Net asset value, end of year | \$ 14.88 | \$ 15.76 | \$ 12.31 | \$ 10.90 | \$ 11.38 |

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2002 and 2001

1. Organization:

The McElvaine Investment Trust (the "Trust") is an unincorporated unit trust, governed by the laws of British Columbia, formed under the terms of a Master Declaration of Trust dated September 27, 1996. The Trust is managed by McElvaine Investment Management Ltd. (the "Manager"), which also provides investment counselling services pursuant to the Master Investment Counsel Agreement (the "Investment Counsel").

2. Significant accounting policies:

(a) General:

The financial statements of the Trust are prepared in accordance with generally accepted accounting principles followed by the investment fund industry in Canada. The significant accounting policies are described below.

(b) Investments:

Investments are stated at year end market 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 the last sale price or closing bid price is unavailable, such securities will be valued at their fair value as determined by the Manager on the basis of the latest reported information available.

Average cost is used to compute realized 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. Investments, other 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 exchange transactions, including the purchase and sale of forward contracts, are included in the statements of net gain (loss) on investments.

(d) Forward foreign currency contracts:

The Trust may enter into forward foreign currency contracts, the purpose of which is to 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. When the contracts are closed or expired, gains and losses are recognized and included in realized gains and losses.

Gains and losses arise due to changes in the value of the foreign currency. 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, 2002 and 2001

4. Unitholders' equity:

(a) Authorized and issued capital:

The Trust has an unlimited number of units authorized pursuant to the Master Declaration of Trust. Redemptions may only occur on the first day of every month with appropriate notice and may be restricted in certain circumstances as set forth in the Offering Memorandum.

Issued units are summarized as follows:

| | 2002 | 2001 |
|--|-----------|-----------|
| Balance, beginning of year | 1,105,940 | 829,735 |
| Issued for cash | 705,329 | 343,793 |
| Issued on reinvestment of distribution | 196,569 | - |
| Redemptions | (36,860) | (67,588) |
| Balance, end of year | 1,970,978 | 1,105,940 |

(b) Unrealized gains and losses:

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

| | 2002 | 2001 |
|--|---------------|---------------|
| Securities held in investment portfolio, at market value | \$ 26,575,151 | \$ 18,560,285 |
| Securities held in portfolio, at cost | 23,850,035 | 14,192,322 |
| | 2,725,116 | 4,367,963 |
| Currency hedging | (36,166) | (87,411) |
| | \$ 2,688,950 | \$ 4,280,552 |

5. Cost of investments sold:

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

| | 2002 | 2001 |
|--|---------------|--------------|
| Investments at cost, beginning of year | \$ 14,192,322 | \$ 8,868,624 |
| Cost of investments purchased | 18,756,529 | 9,296,419 |
| | 32,948,851 | 18,165,043 |
| Investments at cost, end of year | 23,850,035 | 14,192,322 |
| Cost of investments sold | \$ 9,098,816 | \$ 3,972,721 |

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2002 and 2001

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. For tax purposes, this transaction resulted in a capital gain of \$1,284,893 to the Trust. For accounting purposes, the gain has not been recognized, as the exchange does not represent the culmination of the earnings process. The cost of the units acquired has been recorded at the cost of the shares given up in the exchange.

7. Liquidity of investments:

During the year ended December 31, 2002, the Trust purchased Class B securities of Cinar Corp. As at December 31, 2002, this investment represented 15.0% of net assets. Due to a cease-trade order imposed by the British Columbia Securities Commission, the Trust cannot sell this position and will not be able to sell the position until the cease-trade order has been lifted. The Investment Counsel has agreed to waive the Performance Incentive Fee, as defined in note 9, with respect to any increase in the value of Cinar Corp. Class B shares 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. The proceeds received on any sale of such securities may differ significantly from stated market 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 fee payable to the Investment Counsel.

9. Investment counsel fee:

Pursuant to the Master Investment Counsel Agreement, 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 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2002 and 2001

9. Investment counsel fee (continued):

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 Performance Incentive Fee, if any, is determined 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 from cash held in the Trust.

10. Income and other taxes:

| | 2002 | 2001 |
|------------------------|-----------|------------|
| Goods and Services Tax | \$ 10,629 | \$ 72,753 |
| Federal income taxes | 8,713 | 79,269 |
| | \$ 19,342 | \$ 152,022 |

11. Distributions:

Distributions by the Trust are generally declared in December in respect of net investment income and net realized gains, net of 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 asset value of the Trust while reinvestment results in an increase in the number of units outstanding.

12. Fair values:

Canadian generally accepted accounting principles require disclosure of the fair value of financial instruments. The Trust's investments in securities and currency hedging contracts are carried at market values in accordance with Canadian investment fund industry standards. The Manager considers that fair values of financial instruments other than investments in securities and currency hedging contracts approximate their carrying values given their short-term nature.

13. Comparative figures:

Certain comparative figures have been reclassified in order to conform with the current year's presentation.

