

**THE McELVAINE INVESTMENT TRUST**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 1997**



KPMG  
Chartered Accountants

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## AUDITORS' REPORT

To the Unitholders of The McElvaine Investment Trust (the "Trust")

We have audited the statement of investments and the statement of net assets of the Trust as at December 31, 1997, and the statement of operations, changes in net assets and financial highlights of the Trust 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 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 the Manager, 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, 1997 and the results of its operations, the changes in its net assets and its financial highlights for the year ended December 31, 1997 in accordance with generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada  
February 13, 1998



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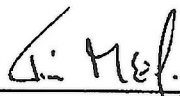


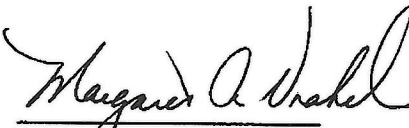
**THE McELVAINE INVESTMENT TRUST**  
**STATEMENT OF NET ASSETS**  
As at December 31

<b>Assets</b>	<b>1997</b>	<b>1996</b>
Investment portfolio, at market value	\$1,795,002	\$ 411,979
Currency hedging, unrealized gains	4,774	-
Cash and deposits (note 3)	1,002,934	906,526
Accounts receivable	<u>2,344</u>	<u>630</u>
	<u><b>2,805,054</b></u>	<u><b>1,319,135</b></u>
<b>Liabilities</b>		
Securities sold short	-	2,720
Currency hedging, unrealized losses	486	-
Contributions received in advance	1,063	152,752
Accounts payable (note 4)	74,841	10,165
Income and other taxes payable	<u>9,231</u>	<u>712</u>
	<u><b>85,621</b></u>	<u><b>166,349</b></u>
Net assets represented by unitholders' equity	<u><b>\$2,719,433</b></u>	<u><b>\$ 1,152,786</b></u>
Units outstanding (note 5)	239,068	112,080
Net asset value per unit	<u><b>\$ 11.38</b></u>	<u><b>\$ 10.29</b></u>

Approved by the Directors of the Manager,

PETER CUNDILL & ASSOCIATES LTD.

  
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Tim McElvaine

  
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Margaret A. Vrabel

See accompanying notes to financial statements

# THE McELVAINE INVESTMENT TRUST

## STATEMENT OF OPERATIONS

For the Year Ended December 31, 1997 and Comparatives for the Three Months Ended December 31, 1996

	1997	1996
<b>Investment income</b>		
Dividends	\$13,255	\$ 2,070
Foreign withholding tax	(177)	-
Interest	<u>28,833</u>	<u>3,943</u>
	<u>41,911</u>	<u>6,013</u>
<b>Expenses</b>		
Audit fees	3,470	3,000
Bank charges and interest	507	-
Custodial fees	423	10
Investment counsel fees (note 6)	59,518	6,399
Management fees (note 7)	7,819	766
Trustee fees	<u>1,500</u>	<u>375</u>
	<u>73,237</u>	<u>10,550</u>
Investment income before taxes	(31,326)	(4,537)
Less: Income and other taxes (note 8)	<u>9,988</u>	<u>759</u>
Net investment loss	<u>\$ (41,314)</u>	<u>\$ (5,296)</u>
<b>Net gain from investing activities</b>		
Net realized gains and losses (note 9(a))	91,769	(227)
Change in net unrealized gains and losses (note 9(b))	<u>181,154</u>	<u>29,690</u>
Net gain from investing activities	<u>272,923</u>	<u>29,463</u>
Income from operations	<u>\$ 231,609</u>	<u>\$ 24,167</u>

See accompanying notes to financial statements

# THE McELVAINE INVESTMENT TRUST

## STATEMENT OF CHANGES IN NET ASSETS

For the Year Ended December 31, 1997 and Comparatives for the Three Months Ended December 31, 1996

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	1997	1996
Income from operations	<u>\$ 231,609</u>	<u>\$ 24,167</u>
Distributions paid from		
Net investment income	-	-
Realized gains	<u>(55,039)</u>	<u>-</u>
Unit trust transactions		
Issue of units for cash	1,346,080	1,128,619
Reinvestment of distribution	55,039	-
Redemption of units	<u>(11,042)</u>	<u>-</u>
	<u>1,390,077</u>	<u>1,128,619</u>
Increase in net assets	1,566,647	1,152,786
Net assets at beginning of period	<u>1,152,786</u>	<u>-</u>
Net assets at end of period	<u>\$2,719,433</u>	<u>\$ 1,152,786</u>

See accompanying notes to financial statements

# THE McELVAINE INVESTMENT TRUST

## STATEMENT OF FINANCIAL HIGHLIGHTS (NOTE 10)

For the Year Ended December 31, 1997 and Comparatives for the Three Months Ended December 31, 1996

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	1997	1996
Net asset value - beginning of period	\$10.29	\$ -
Net asset value at inception		10.00
<b>Income from operations</b>		
Net investment loss	(0.23)	(0.07)
Net gain from investing activities	<u>1.55</u>	<u>0.36</u>
Total income from operations	<u>1.32</u>	<u>0.29</u>
<b>Distributions to investors</b>		
From net investment income	-	-
From net realized gains on investments	<u>(0.23)</u>	<u>-</u>
Total distributions	<u>(0.23)</u>	<u>-</u>
Net asset value - end of period	<u>\$11.38</u>	<u>\$10.29</u>

See accompanying notes to financial statements

**THE McELVAINE INVESTMENT TRUST****Statement of Investments**

As at December 31, 1997

**Investment portfolio**

	<u>Number</u>	<u>Average Cost \$</u>	<u>Market Value \$</u>
<b>CANADA</b>			
<b>Equities (48.7% of total net assets)</b>			
Astral Communications Inc. Class "A"	4,500	59,490	86,625
CSA Management Inc. Class "A" Non-Voting Shares	20,000	134,765	137,000
Denninghouse Inc.	20,000	52,956	68,000
F.C.A. International Ltd.	38,000	66,870	110,580
Jascan Resources Inc.	34,000	36,590	39,100
M-Corp. Inc.	35,500	93,705	65,675
Molson Cos. Ltd. Class "A"	3,700	78,113	94,535
Molson Cos. Ltd. Class "B"	1,000	20,075	25,625
Newfoundland Capital Corporation Limited Class "A"	18,300	73,055	158,295
Okanagan Skeena Group Ltd. Class "A"	30,000	99,015	97,500
Royal Trust Real Estate L.P.	18,800	53,474	131,600
Scott's Restaurants, Inc.	34,000	163,900	170,000
Serval Growth Fund Trust Units	13,000	89,545	108,875
Valerie Gold Resources Ltd.	25,000	29,030	30,250
<b>Total Canadian securities</b>		<u>1,050,583</u>	<u>1,323,660</u>
<b>JAPAN</b>			
<b>Equities (13.0%)</b>			
Henderson Japan Smaller Companies Trust plc	75,000	69,533	56,338
Horipro Inc.	8,000	77,567	70,078
Kansai Sekiwa Real Estate, Ltd.	5,000	31,146	22,995
Kentucky Fried Chicken Japan Ltd.	8,000	125,537	86,722
Tanabe Management Consulting Co., Ltd.	7,000	34,203	25,294
Yasuda Fire & Marine Insurance Co., Ltd., The	15,000	62,868	91,648
<b>Total Japanese securities</b>		<u>400,854</u>	<u>353,075</u>
<b>MISCELLANEOUS</b>			
<b>Equities (3.5%)</b>			
	272,400	96,260	93,981
<b>Put Options (.9%)</b>	95	40,749	24,286
<b>Total Miscellaneous securities</b>		<u>137,009</u>	<u>118,267</u>
<b>Total investment portfolio, December 31, 1997 (66.1%)</b>		<u>\$1,588,446</u>	<u>\$1,795,002</u>
<b>Total investment portfolio, December 31, 1996 (35.7%)</b>		<u>\$ 381,762</u>	<u>\$ 411,979</u>

See accompanying notes to financial statements

**THE McELVAINE INVESTMENT TRUST**  
**Statement of Investments**  
As at December 31, 1997

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	<u>Contract Value at Inception Foreign Currency</u>	<u>Contract Value at Inception</u>	<u>Contract Value at Dec.31,1997</u>	<u>Unrealized Gain (Loss)</u>
<b>Currency hedging, unrealized gains</b>				
Yen, forward date				
March 11, 1998	¥ 6,881,721	\$ 80,000	\$ 75,911	\$ 4,089
June 10, 1998	¥ 8,949,697	100,000	99,902	98
Pound Sterling, forward date				
March 11, 1998	£ 21,164	50,000	49,413	<u>587</u>
<b>Total unrealized gains, December 31, 1997</b>				<b><u>\$ 4,774</u></b>
<b>Currency hedging, unrealized losses</b>				
Yen, forward date				
June 10, 1998	¥ 9,002,002	100,000	100,486	<u>\$ (486)</u>

There was no currency hedging portfolio at December 31, 1996

The credit rating of the counterparty of each of the above contracts is AA  
(Dominion Bond Rating Service)

See accompanying notes to financial statements



**THE McELVAINE INVESTMENT TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended December 31, 1997 and Three Months ended December 31, 1996

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**1. Organization**

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

**2. Summary of significant accounting policies**

The financial statements of the Trust are prepared in accordance with generally accepted accounting policies followed by the mutual fund industry. The significant accounting policies are as follows:

**a. Investments**

Investments are stated at year end market values which are generally determined at the last sale price or between the closing bid and asked quotations reported either by appropriate securities exchanges or in the over-the-counter market. Securities for which reliable quotations are not readily available are valued at fair value, as determined in good faith and pursuant to procedures established by the Manager.

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

**b. 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 and change in unrealized gains and losses on foreign exchange transactions, including the purchase and sale of forward contracts, are included in the statement of operations.

**c. 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 position were closed out. For financial statement purposes this value is recorded as an unrealized gain or loss. When the contracts are closed or expire, gains and losses are recognized and are included in realized gains and losses.

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

**d. Income taxes**

The Trust qualifies as a unit trust for income tax purposes and allocates to its unitholders all net investment income and net realized gains, which would otherwise attract tax in the Trust. The Trust has an accrued tax liability in respect of penalty tax payable on ineligible foreign property holdings held during the year.

**THE McELVAINE INVESTMENT TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended December 31, 1997 and Three Months ended December 31, 1996

**e. 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.

**f. Per unit values**

Per unit amounts are calculated as follows:

Net asset value	On the number of units outstanding at the calendar year end
Net investment income (loss)	On the weighted average number of units outstanding during the period
Distributions	On the number of units outstanding at the date of record

**g. Comparatives**

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

**3. Cash and deposits**

	1997	1996
Cash in bank		
Canadian	\$ 2,929	\$ 182,105
Foreign	215	17
Treasury bills and term deposits maturing within 91 days, at amortized cost which approximates market	<u>999,790</u>	<u>724,404</u>
	<u>\$1,002,934</u>	<u>\$ 906,526</u>

**4. Accounts payable**

Management and investment counsel fees	66,821	7,165
Other	<u>8,020</u>	<u>3,000</u>
	<u>\$ 74,841</u>	<u>\$ 10,165</u>

**THE McELVAINE INVESTMENT TRUST  
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended December 31, 1997 and Three Months ended December 31, 1996

**5. Unitholders' equity**

**a. Authorized and issued capital**

The Trust has an unlimited number of units 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 detailed in the Offering Memorandum.

	1997	1996
Issued units are summarized as follows:		
Balance, beginning of period	112,080	-
Issued for cash	123,193	112,080
Issued on reinvestment of distribution	4,837	-
Redemptions	<u>(1,042)</u>	<u>-</u>
Balance, end of period	<u>239,068</u>	<u>112,080</u>

**b. Unrealized gains and losses**

Included in the equity of the Trust are unrealized gains and losses as follows:

	1997	1996
Investment portfolio, at market value	\$1,795,002	\$ 411,979
Investment portfolio, at cost	<u>1,588,446</u>	<u>381,762</u>
	206,556	30,217
Short sales	-	(527)
Currency hedging	<u>4,288</u>	<u>-</u>
	<u>\$ 210,844</u>	<u>\$ 29,690</u>

**6. 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 (25%) of the amount by which:

- (a) the increase in Net Asset Value of the Trust for each fiscal year since the last fiscal year-end, 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 12 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**

For the Year Ended December 31, 1997 and Three Months ended December 31, 1996

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, 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 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 (1) month of the fiscal year-end of the Trust from cash held in the Trust.

The Performance Incentive Fee for 1997 is \$59,518. As a result of the short fiscal period in 1996, the Investment Counsel elected to defer receipt of the Performance Incentive Fee until December 31, 1997. An incentive fee of \$6,399 was charged to expense in 1996 and is included in accounts payable at December 31, 1997.

**7. Management fee**

The Trust has agreed to pay the Manager, as compensation for management and administration services rendered, a fee of 1/12 of .4% of the Net Asset Value of the Trust, calculated and paid monthly.

**8. Income and other taxes**

	1997	1996
Goods and Services Tax	\$ 5,196	\$ 759
Federal income taxes	<u>4,792</u>	<u>-</u>
	<u>\$ 9,988</u>	<u>\$ 759</u>

The Federal income tax expense in 1997 is in respect of penalty tax on ineligible foreign property held during the year.

**9. Net gain from investing activities**

**a. Net realized gains and losses**

The principal components of net realized gains and losses on investments are as follows:

	1997	1996
Proceeds from sale of investments	\$ 735,509	-
Cost of investments	<u>643,208</u>	<u>-</u>
	92,301	-
Currency hedging	5,951	-
Foreign exchange	<u>(6,483)</u>	<u>(227)</u>
Net realized gains and losses	<u>\$ 91,769</u>	<u>\$ (227)</u>

**THE McELVAINE INVESTMENT TRUST  
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended December 31, 1997 and Three Months ended December 31, 1996

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**b. Change in net unrealized gains and losses**

The principal components of the change in net unrealized gains and losses are as follows:

	1997	1996
Investments	\$ 176,339	\$ 30,217
Short sales	527	(527)
Currency hedging	<u>4,288</u>	<u>-</u>
	<u>\$ 181,154</u>	<u>\$ 29,690</u>

**10. Financial highlights**

**a. Distributions**

Distributions by the Trust are generally declared in December in respect of investment income and 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 by the amount of the distribution per unit, because the distributions paid in cash reduce the net asset value of the Trust while reinvestment results in an increase in the number of units outstanding.

**11. Fair values**

The Canadian Institute of Chartered Accountants requires disclosure of the fair value of financial instruments. The Trust's investments are carried at market values in accordance with mutual fund industry standards. The fair values of financial instruments other than investments and currency hedging contracts approximate their carrying value given their short term nature.