

Financial Statements of

**THE MCELVAINE INVESTMENT TRUST**

Year ended December 31, 2013



**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](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of The McElvaine Investment Trust

We have audited the accompanying financial statements of The McElvaine Investment Trust, which comprise the schedule of investment portfolio and the statement of net assets as at December 31, 2013, the statements of operations and changes in net assets for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Manager's Responsibility for the Financial Statements*

The Manager is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as the Manager 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 an 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 the Manager, 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 net assets of The McElvaine Investment Trust as at December 31, 2013, and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

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Chartered Accountants

March 12, 2014  
Vancouver, Canada

# THE McELVAINE INVESTMENT TRUST

## Statement of Net Assets

December 31, 2013, with comparative information for 2012

	Notes	2013	2012
<b>Assets</b>			
Investment portfolio, at fair value		\$ 25,959,114	\$ 27,840,473
Receivable from forward currency contracts	3	79,973	511,011
Option contracts	3	3,191	62,677
Cash and deposits		11,357,431	8,362,163
Dividends and interest receivable		117,404	61,436
		37,517,113	36,837,760
<b>Liabilities</b>			
Due to broker		394,016	-
Payable on forward currency contracts	3	169,265	99,046
Accounts payable and accrued liabilities		77,933	66,913
Redemptions payable		1,127,562	222,497
		1,768,776	388,456
<b>Net assets</b>		<b>\$ 35,748,337</b>	<b>\$ 36,449,304</b>
Net assets by series:			
Series A		\$ 51,501	\$ 43,540
Series B		35,000,357	35,822,393
Series F		77,426	64,722
Series X		619,053	518,649
		\$ 35,748,337	\$ 36,449,304
Number of units outstanding:			
Series A	4	3,290	3,290
Series B		1,746,246	2,140,627
Series F		9,175	9,175
Series X		77,045	77,045
Net assets per unit:			
Series A	5	\$ 15.65	\$ 13.23
Series B		20.04	16.73
Series F		8.44	7.05
Series X		8.04	6.73

See accompanying notes to financial statements.

Approved by the Manager  
McElvaine Investment Management Ltd.

**“Tim McElvaine”**

Tim McElvaine, Director

# THE McELVAINE INVESTMENT TRUST

## Statement of Operations

Year ended December 31, 2013, with comparative information for 2012

	Notes	2013	2012
<b>Investment income:</b>			
Dividends		\$ 458,284	\$ 581,826
Interest		120,206	263
Withholding tax		(2,458)	(14,695)
		576,032	567,394
<b>Expenses:</b>			
Management fee	6	370,672	387,311
Trustee, custodial and legal fees		55,361	24,900
Audit and tax fees		52,525	26,341
Other		36,654	43,705
		515,212	482,257
Net investment income		60,820	85,137
Realized loss on sale of securities		(1,408,805)	(196,131)
Foreign exchange		77,589	(406,780)
Forward foreign currency contracts		229,968	1,305,712
Option contracts		-	99,876
Transaction costs		(62,368)	(32,887)
Change in unrealized appreciation of investments		7,908,728	5,697,531
Net gain on investments		6,745,112	6,467,321
Income from operations		\$ 6,805,932	\$ 6,552,458
<b>Income from operations by series:</b>			
Series A		\$ 7,961	\$ 6,347
Series B		6,684,863	6,432,161
Series F		12,704	10,057
Series X		100,404	103,893
		\$ 6,805,932	\$ 6,552,458
<b>Income from operations per unit</b>			
Series A		\$ 2.42	\$ 1.93
Series B		3.35	2.99
Series F		1.39	1.10
Series X		1.31	1.29

See accompanying notes to financial statements.

# THE McELVAINE INVESTMENT TRUST

## Statement of Changes in Net Assets

Year ended December 31, 2013, with comparative information for 2012

	Notes	Series A	Series B	Series F	Series X	Total
Net assets, December 31, 2011		\$ 37,193	\$ 39,605,205	\$ 54,665	\$ 699,833	\$ 40,396,896
Income from operations		6,347	6,432,161	10,057	103,893	6,552,458
Unit transactions:	4					
Issued for cash		-	275,000	-	-	275,000
Redeemed		-	(10,489,973)	-	(285,077)	(10,775,050)
		-	(10,214,973)	-	(285,077)	(10,500,050)
Increase (decrease) in net assets		6,347	(3,782,812)	10,057	(181,184)	(3,947,592)
Net assets, December 31, 2012		43,540	35,822,393	64,722	518,649	36,449,304
Income from operations		7,961	6,684,863	12,704	100,404	6,805,932
Unit transactions:	4					
Issued for cash		-	1,482,499	-	-	1,482,499
Redeemed		-	(8,989,398)	-	-	(8,989,398)
		-	(7,506,899)	-	-	(7,506,899)
Increase (decrease) in net assets		7,961	(822,036)	12,704	100,404	(700,966)
Net assets, December 31, 2013		\$ 51,501	\$ 35,000,357	\$ 77,426	\$ 619,053	\$ 35,748,337

See accompanying notes to financial statements.

# THE McELVAINE INVESTMENT TRUST

Schedule of Investment Portfolio

Year ended December 31, 2013

Portfolio of investments	Number of shares / par value	Cost	Fair value
<b>Canada - Equities (39.4%)</b>			
Blackberry Ltd.	100,000	\$ 785,535	\$ 789,000
The Caldwell Partners International Inc.	1,500,000	1,255,294	1,380,000
Carmanah Technologies Corp.	6,029,000	797,392	904,350
EGI Financial Holdings Inc.	150,000	1,226,344	2,061,000
Glacier Media Inc.	1,800,000	4,080,370	2,430,000
Legumex Walker Inc.	379,100	1,086,122	1,857,590
MBAC Fertilizer Corp.	750,000	1,437,668	1,095,000
Opta Minerals Inc.	40,100	49,226	68,170
Orca Exploration Group Inc. Class B	210,700	965,659	495,145
Rainmaker Entertainment Inc.	1,900,000	3,968,585	304,000
Ten Peaks Coffee Co. Inc.	300,000	855,633	1,002,000
Torstar Corp. Class B	72,500	456,133	420,500
Village Farms International Inc.	1,000,000	1,868,824	1,270,000
<b>Total Canadian equities</b>		<b>\$ 18,832,785</b>	<b>\$ 14,076,755</b>
<b>United States - Equities (11.5%)</b>			
ING U.S. Inc	50,000	\$ 1,040,505	\$ 1,868,745
News Corp.	50,000	781,313	958,304
The Howard Hughes Corp.	10,000	470,994	1,277,596
<b>Total United States equities</b>		<b>\$ 2,292,812</b>	<b>\$ 4,104,645</b>
<b>Foreign - Equities (15.6%)</b>			
Monex Group Inc.	400,000	\$ 1,197,050	\$ 1,900,679
NBNK Investments	64,000	38,468	37,228
RHJ International	600,000	4,549,495	3,235,639
Symphony International Holdings	500,000	396,535	404,168
<b>Total foreign equities</b>		<b>\$ 6,181,548</b>	<b>\$ 5,577,714</b>
<b>Canada - Corporate Bonds (6.1%)</b>			
Rainmaker Entertainment Inc. 8% 03/31/2016	2,200,000	\$ 2,200,000	\$ 2,200,000
<b>Total Canadian corporate bonds</b>		<b>\$ 2,200,000</b>	<b>\$ 2,200,000</b>
Transaction costs		\$ (62,368)	\$ -
<b>Total investment portfolio at fair value (72.6%)</b>		<b>\$ 29,444,777</b>	<b>\$ 25,959,114</b>
Net forward foreign currency contracts and options (-0.2%)			(86,101)
Other assets less liabilities (27.6%)			9,875,324
<b>Net assets</b>			<b>\$ 35,748,337</b>

See accompanying notes to financial statements.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

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## 1. Organization:

The McElvaine Investment Trust (the "Trust") is a unit trust governed by the laws of British Columbia, which was formed pursuant to a Declaration of Trust dated September 27, 1996, as amended May 15, 2002, January 1, 2008 and April 23, 2012 (the "Trust Agreement"), between McElvaine Investment Management Ltd. as manager and the Trust. Prior to April 23, 2012, RBC Dexia Investor Services Trust ("RBC Dexia") acted as trustee of the Trust pursuant to the Trust Agreement. Effective April 23, 2012, McElvaine Investment Management Ltd. was appointed as the replacement trustee of the Trust following the resignation of RBC Dexia. The Trust is managed by McElvaine Investment Management Ltd. (the "Manager" or "Investment Counsel"), which also provides investment counseling services.

## 2. Significant accounting policies:

The financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to investment companies. The significant accounting policies are described below.

### (a) Investments:

Investments are stated at period-end fair values, which are generally determined based on closing bid prices reported either by appropriate securities exchanges or in the over-the-counter market. Investments for which a current market value quotation is not available are valued in such manner, as in the opinion of the Manager, most accurately reflects the investments' fair value.

### (b) Options and forward foreign currency contracts:

The Trust may enter into options and forward foreign currency contracts for both hedging and non-hedging purposes. The carrying value of these options and forward contracts as reflected in the statement of net assets are the gain or loss that would be realized if, on valuation day, the positions were closed out.

### (c) Valuation of series:

Net assets are calculated monthly for each series of units. Net assets of a particular series of units is computed by calculating the value of that series' proportionate share of the assets and liabilities of the Trust common to all series plus net assets of the Trust attributable only to that series. Expenses directly attributable to a series are charged to that series. Other expenses are allocated proportionately based upon the net assets of each series in relation to the total net assets value of the Trust.

Net asset values are calculated for each series units at each month end valuation date. The net asset value per unit used for transacting subscriptions and redemptions of each series is further described in note 5.



# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

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## 2. Significant accounting policies (continued):

### (d) 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. Distributions received from income or royalty trusts are recorded as income, capital gain or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Distributions from income and royalty trusts that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment and are included as a reduction of the "cost of securities purchased during the year" in the statements of operations.

Investment income, net realized gains (losses) and change in net unrealized appreciation (depreciation) of securities are allocated among series of units based on each series' proportionate share of the net assets of the Trust.

### (e) Transaction costs:

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities by the Trust, are charged to income from operations in the period incurred.

### (f) Foreign exchange:

The financial statements of the Trust are denominated in Canadian dollars. 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. Purchases and sales of foreign securities and the related income and gains (losses) are translated into Canadian dollars at the rate of exchange prevailing at the date of the respective transaction. 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.

### (g) Per unit values:

Per unit amounts for each series of the Trust are calculated as follows:

Net assets per unit	On the number of units outstanding at the period-end with investments valued using closing bid prices.
Income (loss) from operations	On the monthly weighted average number of units outstanding during the period.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

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## 2. Significant accounting policies (continued):

### (h) Use of estimates:

The preparation of financial statements requires the Manager 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 year. Actual results could differ from those estimates.

### (i) Future accounting changes:

On February 13, 2008, the Accounting Standards Board (“AcSB”) confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board (“IASB”), on January 1, 2011. Subsequently the AcSB deferred the mandatory IFRS changeover for Canadian investment funds to January 1, 2014.

As a result the Trust will publish its first annual audited financial statements in accordance with IFRS for the year ending December 31, 2014, with comparatives for the year ending December 31, 2013, and prepare an opening IFRS statement of net assets at January 1, 2013.

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of the impact of IFRS, and the impact of new standards issued by the IASB prior to the Fund's adoption of IFRS. The criteria contained within IAS 32 *Financial Instruments: Presentation* may require unitholders' equity to be classified as a liability within the Trust's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Trust's unitholder structure to confirm the appropriate classification in accordance with IFRS.

IFRS is also expected to affect the overall presentation of financial statements, such as the inclusion of a Statement of Cash Flows in the financial statements. Overall, enhanced disclosure requirements are expected.

Upon adoption of IFRS the Fund will apply IFRS 13 *Fair Value Measurement*. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It applies when other IFRSs require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the NAV per unit and net assets per unit under current Canadian GAAP.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

## 2. Significant accounting policies (continued):

### (i) Future accounting changes (continued):

In October 31, 2012, the IASB published *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*, which provides an exemption from consolidation of subsidiaries under IFRS 10 *Consolidated Financial Statements* for entities which meet the definition of an 'investment entity'. A qualifying investment entity is *required* to account for investments in controlled entities - as well as investments in associates and joint ventures - at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. The consolidation exception is mandatory - not optional.

## 3. Commitments:

### (a) Forward foreign currency contracts:

At December 31, 2013 and 2012, the Trust had the following outstanding contracts to sell (buy) Euros and Japanese Yen and to receive Canadian dollars:

December 31, 2013:

	Contract value at inception	Contract value at inception	Contract value at December 31	Settlement date	Unrealized gain/(loss)
EUR	3,000,000	CAD (4,224,600)	CAD (4,393,865)	January 16, 2014	\$ (169,265)
YEN	150,000,000	CAD (1,597,104)	CAD (1,517,131)	January 16, 2014	79,973
Net unrealized gain					\$ (89,292)

December 31, 2012:

	Contract value at inception	Contract value at inception	Contract value at December 31	Settlement date	Unrealized gain/(loss)
EUR	3,500,000	CAD (4,501,700)	CAD (4,600,746)	February 15, 2013	\$ (99,046)
YEN	500,000,000	CAD (6,271,952)	CAD (5,760,941)	January 16, 2013	511,011
Net unrealized gain					\$ 411,965

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

### 3. Commitments (continued):

(b) Option contracts:

December 31, 2013:

Number of contracts	Description	Expiration date	Cost	Fair value	Unrealized gain (loss)
3,000	Proshares Ultrashort 20+ @ 25 Call option	January 2014	\$ 256,128	\$ 3,191	\$ (252,937)

December 31, 2012:

Number of contracts	Description	Expiration date	Cost	Fair value	Unrealized gain (loss)
3,000	Proshares Ultrashort 20+ @ 25 Call option	January 2014	\$ 256,128	\$ 62,677	\$ (193,451)

### 4. Unitholders' equity:

Pursuant to the Trust Agreement, the Trust is authorized to issue an unlimited number of units in three distinct series of units and prior to February 26, 2009 offered a fourth series of unit. Each series of unit is described further below:

Series A units are available to all investors. Dealers may charge a commission or fee of up to 2% of the total purchase of Series A units. These units may be redesigned at the discretion of the unitholder as Series F units.

Series B units are available only from the Manager. These units may qualify for redesignation by the unitholder as Series A or F units.

Series F units are available to investors having fee-based accounts with a qualifying dealer and to qualifying groups of investors. These units may qualify for redesignation by the unitholder as Series A units.

Prior to February 26, 2009, Series X units were designated as "Series A units". As of their redesignation date, Series X units are no longer offered for sale to the public.

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 McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

## 4. Unitholders' equity (continued):

Continuity of the number of issued units is summarized as follows:

	2013	2012
Series A:		
Balance, beginning of year	3,290	3,290
Issued for cash	-	-
Redeemed	-	-
Balance, end of year	3,290	3,290
Series B:		
Balance, beginning of year	2,140,627	2,803,618
Issued for cash	77,606	16,891
Redeemed	(471,987)	(679,882)
Balance, end of year	1,746,246	2,140,627
Series F:		
Balance, beginning of year	9,175	9,175
Issued for cash	-	-
Redeemed	-	-
Balance, end of year	9,175	9,175
Series X:		
Balance, beginning of year	77,045	122,841
Issued for cash	-	-
Redeemed	-	(45,796)
Balance, end of year	77,045	77,045

The Manager, its officers and directors invest in units of the Trust from time to time in the normal course of business. All transactions between the Manager, its officers, its directors and the Trust are measured at the respective net asset value at the time of subscription or redemption.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

## 5. Reconciliation of net assets and net asset value:

In accordance with GAAP, the calculation of the net assets of the Trust for financial reporting purposes ("Net Assets") requires investments to be valued using the closing bid price. Consistent with the investment funds industry, in accordance with Rules and Policies issued by the Canadian Securities Administrators and its Trust Agreement, the Trust determines net asset value ("NAV") for purposes of unit subscriptions and redemptions based upon either last sale price or the midpoint between closing bid and ask quotations.

December 31, 2013:

	NAV	Difference	Net assets
By series:			
Series A	\$ 51,767	\$ (266)	\$ 51,501
Series B	35,180,810	(180,453)	35,000,357
Series F	77,825	(399)	77,426
Series X	622,244	(3,191)	619,053
	<u>\$ 35,932,646</u>	<u>\$ (184,309)</u>	<u>\$ 35,748,337</u>

Per unit:			
Series A	\$ 15.74	\$ (0.09)	\$ 15.65
Series B	20.15	(0.11)	20.04
Series F	8.48	(0.04)	8.44
Series X	8.08	(0.04)	8.04

December 31, 2012:

	NAV	Difference	Net assets
By series:			
Series A	\$ 44,001	\$ (461)	\$ 43,540
Series B	36,201,528	(379,135)	35,822,393
Series F	65,407	(685)	64,722
Series X	524,138	(5,489)	518,649
	<u>\$ 36,835,074</u>	<u>\$ (385,770)</u>	<u>\$ 36,449,304</u>

Per unit:			
Series A	\$ 13.37	\$ (0.14)	\$ 13.23
Series B	16.91	(0.18)	16.73
Series F	7.13	(0.08)	7.05
Series X	6.80	(0.07)	6.73

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

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## 6. Management and other services:

### (a) Management fees:

The Trust pays a monthly fee to the Manager for management and administration services rendered, based on the NAV of the respective series (prior to the calculation of any performance incentive fees, described below, on the last business day of the preceding month). The monthly fee payable to the Manager is based upon the following rates:

Series A 1/12 of 2.0% per annum;

Series B 1/12 of 1.0% per annum;

Series F 1/12 of 1.0% per annum; and

Series X 1/12 of 1.2% per annum

### (b) Performance fees:

The Trust will pay the Manager a performance incentive fee for its services as a portfolio advisor at a rate of 20% (the "Incentive Fee Rate") on the following basis:

- (i) For Series A, payable annually on any increase in the Series A NAV during the fiscal year (adjusted for contributions and redemptions of Series A units and for any shortfall, as described below) in excess of a 12% return (the "Series A Hurdle Rate").
- (ii) For Series B and F, payable annually on any increase in the respective series NAV during the fiscal year (adjusted for contributions and redemptions of the respective series units and for any shortfall, as described below) in excess of a 6% return (the "Series B and F Hurdle Rate").
- (iii) If in any fiscal year the increase in a series NAV is less than the respective hurdle rate (a shortfall), the difference will be carried forward to the next fiscal year and, after adjustment for series redemptions, deducted from any increase in the NAV in the performance incentive fee calculation of the respective series of the Trust for that year.
- (iv) For Series X, payable quarterly on any increase in the Series X NAV during a calendar quarter (adjusted for redemptions and distributions on Series X units), but no fee is payable unless the Series X NAV at the end of the calendar quarter is greater than the highest quarter-end Series X NAV previously achieved by the Trust.

The performance incentive fee, if any, is estimated and accrued monthly during a fiscal year for the purpose of calculating the net assets per series and 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 either cash or units, at the discretion of the Investment Counsel.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

## 6. Management and other services (continued):

### (b) Performance fees (continued):

The adjusted shortfall carried forward in respect of each of Series A and B of the Trust at December 31, 2013 and 2012, as applicable, was as follows:

	2013	2012
Series A	\$ -	\$ 3,303
Series B	15,157,009	24,148,651

Performance fees of \$2,141 were earned by the Investment Counsel in respect to Series F for the year ended December 31, 2013, all of which were waived by the Investment Counsel.

There was no shortfall carried forward in respect of Series F of the Trust as at December 31, 2013 and December 31, 2012.

No performance fee was paid in respect of Series X of the Trust during the year ended December 31, 2013 and 2012 as the Series X NAV did not exceed the highest quarter-end Series X NAV previously achieved by the Trust.

## 7. Financial instruments:

### (a) Risk management:

The Trust may be exposed to a variety of financial risks. The Trust's exposures to financial risks are concentrated in its investment holdings, including derivative instruments. The Schedule of Investment Portfolio groups securities by asset type and geographic region. The Manager manages the potential effects of these financial risks on the Trust's performance by overseeing and regularly monitoring the Trust's position and market events, and diversifies the investment portfolio within the constraints of the investment guidelines. The fundamental investment objective of the Trust is to provide long-term capital appreciation by investing primarily in equity securities that are trading below their intrinsic value, as determined by Investment Counsel.

### (b) Credit risk:

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. As at December 31, 2013, the Trust was exposed to credit risk through its investment in Rainmaker Entertainment Inc. debentures, which are not rated. As this investment represents 6.1% of the net assets of the Trust, in the Manager's opinion, the Trust does not have significant exposure to credit risk. As at December 31, 2012, the Trust was not exposed to significant credit risk.



# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

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## 7. Financial instruments (continued):

### (c) Liquidity risk:

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust's exposure to liquidity risk is concentrated in the monthly cash redemptions of units. The Trust primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Trust retains sufficient cash and deposit positions to maintain liquidity. The Trust may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. However, the Trust requires appropriate notice of unit redemptions, which may be restricted in certain circumstances. Accordingly, in the Manager's opinion, as at December 31, 2013 and 2012, the Trust does not have significant exposure to liquidity risk.

### (d) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Trust's primary interest rate risk relates to the investment of cash and deposits. From time to time, the Trust may also hold convertible debt securities of portfolio investees that the Trust will expect to be converted into equity investments. On this basis, the fair value of these investments is derived primarily from the fair value of the underlying equity of the portfolio investee. As at December 31, 2013, the Trust was exposed to interest rate risk through its investment in Rainmaker Entertainment Inc. debentures. As this investment represents 6.1% of the net assets of the Trust, in the Manager's opinion, the Trust does not have significant exposure to interest rate risk. As at December 31, 2012, the Trust was not exposed to significant interest rate risk.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

## 7. Financial instruments (continued):

### (e) Currency risk:

Currency risk is the risk that the value of the investments denominated in currencies other than the Canadian dollar will fluctuate due to changes in foreign exchange rates. The tables below summarize the Trust's exposure to currency risk as at December 31, 2013 and 2012. Amounts shown are based on the carrying value of assets and liabilities (including derivatives, which are comprised of options and forward currency contracts).

December 31, 2013	Investments	Cash	Net other liabilities	Derivatives	Total
Canadian dollar	\$ 16,276,755	\$ 5,564,216	\$ (1,088,091)	\$ 5,821,704	\$ 26,574,584
US dollar	4,508,813	5,793,215	(394,016)	3,191	9,911,203
Euro	3,235,639	-	-	(4,393,865)	(1,158,226)
Japanese yen	1,900,679	-	-	(1,517,131)	383,548
British pound	37,228	-	-	-	37,228
	\$ 25,959,114	\$ 11,357,431	\$ (1,482,107)	\$ (86,101)	\$ 35,748,337

December 31, 2012	Investments	Cash	Net other liabilities	Derivatives	Total
Canadian dollar	\$ 15,869,907	\$ 8,338,574	\$ (227,974)	\$ 10,773,652	\$ 34,754,159
US dollar	5,118,486	23,589	-	62,677	5,204,752
Euro	3,843,631	-	-	(4,600,746)	(757,115)
Japanese yen	3,008,449	-	-	(5,760,941)	(2,752,492)
	\$ 27,840,473	\$ 8,362,163	\$ (227,974)	\$ 474,642	\$ 36,449,304

As at December 31, 2013, if the Canadian dollar had strengthened or weakened by 5% in relation to all other foreign currencies, with all other factors remaining constant, the net assets of the Trust could have decreased or increased by approximately \$458,684 (2012 - \$623,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

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## 7. Financial instruments (continued):

### (f) Other price risk:

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. All securities present a risk of loss of capital. The Investment Counsel moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy of the Trust. The Trust's investment portfolio is monitored on a daily basis by the Investment Counsel. Except for written options and securities sold short, the maximum risk resulting from financial instruments is equivalent to their fair values as set forth in the Trust's statement of net assets. Possible losses from written options and securities sold short can be unlimited.

The asset type and geographical breakdown of securities is disclosed in the Trust's Schedule of Investment Portfolio.

For the Trust, the most significant exposure to other price risk arises from its investment in equity securities as disclosed in the Trust's statement of investment portfolio. As at December 31, 2013, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased, respectively by approximately \$2.4 million (approximately 6.6% of net assets), (2012 - \$3.2 million; approximately 9% of net assets). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

### (g) Fair value:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. All of the Trust's assets and liabilities are financial instruments. The Trust's investments, derivatives and cash are carried at fair value in the financial statements. The carrying value of the Trust's other financial instruments approximate fair value due to their short term to maturity.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Trust's investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

## 7. Financial instruments (continued):

(g) Fair value (continued):

The three levels of the fair value hierarchy are as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1);
- Inputs other than quoted prices in active markets included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Trust's assets recorded at fair value have been categorised as follows:

December 31, 2013	Level 1	Level 2	Level 3	Total
Cash and deposits	\$ 11,357,431	\$ -	\$ -	\$ 11,357,431
Equities	23,759,114	-	-	23,759,114
Bonds	-	-	2,200,000	2,200,000
Derivatives	-	(86,101)	-	(86,101)
	\$ 35,116,545	\$ (86,101)	\$ 2,200,000	\$ 37,230,444

December 31, 2012	Level 1	Level 2	Level 3	Total
Cash and deposits	\$ 8,362,163	\$ -	\$ -	\$ 8,362,163
Equities	27,840,473	-	-	27,840,473
Derivatives	-	474,642	-	474,642
	\$ 36,202,636	\$ 474,642	\$ -	\$ 36,677,278

There were no transfers between Level 1 and Level 2 during the year.

The following table summarizes the Level 3 securities for the year ended December 31, 2013.

2013	Opening balance	Net purchase	Net sales	Transfers in/out	Realized gain (loss)	Unrealized gain (loss)	Ending balance
<b>Bonds</b>	\$ -	\$ 2,200,000	\$ -	\$ -	\$ -	\$ -	\$ 2,200,000

As at December 31, 2012, there were no financial instruments categorized as Level 3.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2013

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## **8. Capital management:**

The capital of the Trust is represented by the net assets of the Trust as allocated to the participating shares. The capital received by the Trust is utilized within the investment mandate of the Fund. There are no external restrictions on the capital of the Trust.

## **9. Income taxes:**

The Trust qualifies as a mutual fund unit trust under the Income Tax Act (Canada) and is not subject to income tax on the portion of its income, including net realized capital gains, which is paid or made payable to unitholders during the period. All or substantially all of the income for income tax purposes of the Trust is distributed to unitholders and, accordingly, no provision for income taxes has been made in the financial statements.

As at December 31, 2013, the Trust had capital tax loss carryforwards of \$1,058,039 (December 31, 2012 - \$105,873).