

Financial Statements of

**THE MCELVAINE INVESTMENT TRUST**

Year ended December 31, 2007

## **MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying financial statements of The McElvaine Investment Trust (the "Trust") have been prepared by the Manager, McElvaine Investment Management Ltd. The Manager is responsible for the preparation and presentation of the Trust's financial statements and for the development of internal controls over the financial reporting process.

The Manager is responsible for reviewing and approving the financial statements and for overseeing the Trust's financial reporting responsibilities. The Manager has approved the accompanying financial statements of the Trust.

KPMG LLP, the external auditors of the Trust, were appointed by the Manager. As explained in their auditors' report, KPMG LLP have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their auditors' report follows.

**McElvaine Investment Management Ltd.**

**"Tim McElvaine"**

Tim McElvaine, Director

January 16, 2008



**KPMG LLP**  
**Chartered Accountants**  
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## AUDITORS' REPORT

To the Unitholders of  
The McElvaine Investment Trust

We have audited the statement of net assets and the schedule of investment portfolio of The McElvaine Investment Trust as at December 31, 2007, 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 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, 2007 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 16, 2008

# THE McELVAINE INVESTMENT TRUST

## Statement of Net Assets

December 31, 2007, with comparative figures for 2006

	2007	2006
<b>Assets</b>		
Investment portfolio, at fair value	\$ 89,928,126	\$ 97,154,572
Cash and deposits	1,820,208	1,540,311
Subscriptions receivable	228,106	915,918
Distributions and interest receivable	105,275	257,587
	<u>92,081,715</u>	<u>99,868,388</u>
<b>Liabilities</b>		
Redemptions payable	278,177	73,828
Accounts payable and accrued liabilities	75,195	2,301,036
	<u>353,372</u>	<u>2,374,864</u>
Net assets (note 11)	<u>\$ 91,728,343</u>	<u>\$ 97,493,524</u>
Units outstanding (note 3)	<u>3,486,016</u>	<u>3,589,505</u>
Net asset value per unit (note 11)	<u>\$ 26.31</u>	<u>\$ 27.16</u>

Contingency (note 10)

See accompanying notes to financial statements.

Approved by the Manager  
McElvaine Investment Management Ltd.

**"Tim McElvaine"**

Tim McElvaine, Director

# THE McELVAINE INVESTMENT TRUST

## Schedule of Investment Portfolio

December 31, 2007

	Number of shares	Cost	Fair value
<b>Canada - Equities (83.5% of net assets)</b>			
Arbor Memorial Services Inc.	100,000	\$ 905,000	\$ 3,150,000
The Caldwell Partners International Inc.	850,000	1,067,895	1,173,000
EGI Financial Holdings Inc.	306,900	2,587,423	4,422,429
Glacier Ventures International Corporation	3,701,597	7,090,605	16,361,059
Indigo Books & Music Inc.	895,196	4,071,423	12,237,329
Maple Leaf Foods Inc.	600,000	7,764,553	8,898,000
Newfoundland Capital Corp. Ltd.	559,800	5,268,092	11,223,990
Rainmaker Income Fund (note 7)	2,200,000	5,440,037	6,006,000
RavenSource Fund	82,228	589,519	760,609
Shermag Inc.	540,000	1,346,835	432,000
Sun-Rype Products Ltd.	824,700	5,973,400	9,319,110
Village Farms Income Fund	981,699	2,683,900	2,611,320
<b>Total Canadian securities</b>		<b>\$ 44,788,682</b>	<b>\$ 76,594,846</b>
<b>United States - Equities (12.2%)</b>			
Citadel Broadcasting Corp.	3,500,000	13,458,695	7,081,384
Friedman, Billings, Ramsey Group, Inc.	500,000	1,558,269	1,549,515
Montpelier Re Holdings Ltd.	155,200	2,686,887	2,603,976
<b>Total United States securities</b>		<b>\$ 17,703,851</b>	<b>\$ 11,234,875</b>
<b>Miscellaneous securities (2.3%)</b>		<b>\$ 2,822,832</b>	<b>\$ 2,139,481</b>
Transaction costs for securities purchased during the year (note 2(h))		\$ (155,212)	\$ -
<b>Total securities (98.0%)</b>		<b>\$ 65,160,153</b>	<b>\$ 89,928,126</b>
Other assets less liabilities (2.0%)			1,800,217
<b>Net assets (100%)</b>			<b>\$ 91,728,343</b>

See accompanying notes to financial statements.

# THE McELVAINE INVESTMENT TRUST

## Statement of Operations

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Investment income:		
Dividends	\$ 866,259	\$ 1,512,064
Interest	585,968	839,290
Withholding tax	(2,565)	(6,695)
	1,449,662	2,344,659
Expenses:		
Performance incentive fee (note 4)	-	2,106,793
Management fee (note 5)	383,620	353,622
Trustee, custodial and legal fees	128,361	86,048
Audit and tax fees	29,384	30,000
Bank charges and interest	90	170
Goods and services tax	33,264	156,213
	574,719	2,732,846
<b>Net investment gain (loss)</b>	<b>\$ 874,943</b>	<b>\$ (388,187)</b>
Net realized gains:		
Proceeds from sale of securities	\$ 26,230,342	\$ 17,975,304
Securities at cost, beginning of year	65,336,037	50,557,744
Cost of securities purchased during the year	20,515,117	28,587,599
	85,851,154	79,145,343
Securities at cost, end of year	(65,160,153)	(65,336,037)
Cost of securities sold	20,691,001	13,809,306
Gain on sale of securities	5,539,341	4,165,998
Forward foreign currency contracts	-	551,754
Foreign exchange	(64,650)	(25,407)
Transaction costs (note 2(h))	(214,715)	-
	5,259,976	4,692,345
Change in net unrealized appreciation of:		
Securities	(6,067,991)	5,787,193
Forward foreign currency contracts	-	(570,694)
	(6,067,991)	5,216,499
<b>Net gain (loss) from investing activities</b>	<b>\$ (808,015)</b>	<b>\$ 9,908,844</b>
<b>Income from operations</b>	<b>\$ 66,928</b>	<b>\$ 9,520,657</b>
<b>Income from operations per unit (note 2(g))</b>	<b>\$ 0.02</b>	<b>\$ 2.79</b>

See accompanying notes to financial statements.

# THE McELVAINE INVESTMENT TRUST

## Statements of Changes in Net Assets

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Net assets, beginning of year	\$ 97,493,524	\$ 76,534,860
Prospective adoption of new accounting standards (note 2(a))	(987,828)	-
	96,505,696	76,534,860
Income from operations	66,928	9,520,657
Distributions paid from realized capital gains	(1,734,278)	-
Unit transactions (note 3):		
Issued for cash	6,183,233	14,402,407
Reinvestment of distributions	1,734,278	-
Redeemed	(11,027,514)	(2,964,400)
	(3,110,003)	11,438,007
Increase (decrease) in net assets	(4,777,353)	20,958,664
Net assets, end of year	\$ 91,728,343	\$ 97,493,524

See accompanying notes to financial statements.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2007

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## 1. Organization:

The McElvaine Investment Trust (the "Trust") is an unincorporated 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 (the "Trust Agreement"), between McElvaine Investment Management Ltd. and RBC Dexia Investor Services Trust (the "Trustee"). The Trust is managed by McElvaine Investment Management Ltd. (the "Manager" or "Investment Counsel"), which also provides investment counselling services.

Investment capital is contributed to the Trust through the purchase of trust units at a value established on a monthly basis.

## 2. Significant accounting policies:

The financial statements of the Trust are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are described below.

### (a) Prospective adoption of new accounting standards:

The Canadian Institute of Chartered Accountants ("CICA") has issued Handbook Section 3855, *Financial Instruments - Recognition and Measurement* ("S3855"), which the Trust adopted on January 1, 2007. The adoption of S3855 impacts the calculation of the net asset value of an investment fund for financial reporting purposes (the "GAAP NAV") because it requires the fair value of marketable securities to be based on closing bid price. Prior to January 1, 2007, fair value under GAAP was generally determined at either the last sale price or the midpoint between closing bid and asked quotations.

However, for unit sales and redemption pricing purposes (the "trading NAV"), the Trust will continue to calculate net asset value on a basis consistent with the investment funds industry (the "Industry"), which based on a temporary exemption granted by the Canadian Securities Authorities (the "CSA"), continues to calculate trading NAV based upon fair values determined at either the last sale price or the midpoint between closing bid and asked quotations. The Industry is awaiting confirmation from the CSA on whether trading NAV should continue to be calculated on this basis or changed to conform with S3855.

In accordance with the standard, provisions of S3855 have been applied prospectively effective January 1, 2007 without restatement of prior periods. Accordingly, investments recorded in the December 31, 2006 financial statements have been re-valued using bid price and the resulting adjustment to the net assets at the beginning of the year has been recorded in the statement of changes in net assets.



# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2007

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## 2. Significant accounting policies (continued):

### (b) Investments:

Investments are stated at year-end fair values, which are generally determined based on closing bid prices (2006 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 closing bid price 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 realized gains and losses on investments. Prior to January 1, 2006, cost included investment acquisition costs, which under S3855 are now recognized immediately in income from operations (note 2(h)). However, this change in itself has no impact on income from operations as there is an offsetting affect on the change in unrealized appreciation (depreciation) of investments.

### (c) Foreign exchange:

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. 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.

### (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 that would otherwise attract tax, federal income taxes may be incurred by the Trust in respect of alternative minimum tax.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2007

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## 2. Significant accounting policies (continued):

### (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. 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.

### (g) Per unit values:

Per unit amounts are calculated as follows:

Net asset value (NAV)	On the number of units outstanding at the year end
GAAP NAV (effective January 1, 2007)	Investments valued using bid prices (prior to January 1, 2007 GAAP NAV equalled Trading NAV)
Trading NAV	Investments valued using either the last sale price or the midpoint between closing bid and asked quotations
Income from operations	On the quarterly weighted average number of units outstanding during the year reflecting the change in unrealized appreciation based in 2007 on bid prices and in 2006 on either the last sale price or the midpoint between closing bid and asked prices.

### (h) Transaction costs:

In accordance with S3855 and effective January 1, 2007, 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 year incurred, as separately disclosed in the statement of operations. Prior to the adoption of S3855, the Trust's policy was to either add commissions to the cost of securities purchased or deduct them from the proceeds of sale, as applicable. There is no impact on either the net asset value of the Trust or its results of operations as a result of this change in accounting policy.

### (i) 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.

# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2007

### 3. Unitholders' equity:

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.

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

	2007	2006
Balance, beginning of year	3,589,505	3,153,051
Issued for cash	217,395	550,265
Reinvestment of distributions	64,694	-
Redeemed	(385,578)	(113,811)
Balance, end of year	3,486,016	3,589,505

As at December 31, 2007, the Manager and related parties directly or indirectly held 41,599 units (1.2%) of the Trust (2006 - 55,223 units or 2.0%).

Effective January 1, 2008, the capital structure of the Trust was restructured as disclosed in note 12.

### 4. Performance incentive fee:

The Trust will pay to the Investment Counsel an annual incentive fee equal to 25% of the amount by which:

- The increase in trading NAV (note 2(a)) 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;
- The return (the "Base 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 on the previous fiscal year-end of the Trust, adjusted for contributions and redemptions made by the investors. The Average Rate is the twelve month simple average of the Hurdle Rate. The Hurdle Rate is the average yield indicated 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 outstanding at the end of the previous fiscal year and 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

Year ended December 31, 2007

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## 4. Performance incentive fee (continued):

At December 31, 2007, the Trust had a Shortfall carry forward of \$3,176,924 (2006 – nil) which, after adjustment for redemptions as previously described, will be deducted in the calculation of any Incentive Return for the year ended December 31, 2008.

The performance incentive fee, if any, is estimated and accrued monthly during a fiscal year for the purpose of calculating the trading NAV 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.

Effective January 1, 2008, the fees payable to the Manager and Investment Counsel were restructured as disclosed in note 12.

## 5. 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 trading net asset value of the Trust, determined prior to the calculation of any performance incentive fee (note 4) payable to the Manager.

Effective January 1, 2008, the fees payable to the Manager and Investment Counsel were restructured as disclosed in note 12.

## 6. Financial instruments:

### (a) Fair values:

The Trust's investments in securities contracts are carried at fair value. The Manager considers that the fair value of the Trust's financial instruments other than investments in securities 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 are denominated in other than Canadian dollars and not hedged into Canadian dollars.

## 7. Rainmaker Income Fund:

On May 31, 2002, shares held by the Trust in Rainmaker Entertainment Group were exchanged for units in Rainmaker Income Fund. 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. Accordingly, the cost of the units acquired was recorded at the cost of the shares given up in the exchange. 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

Year ended December 31, 2007

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## 8. Income taxes:

All of the income for income tax purposes of the Trust is generally distributed to unitholders so that the Fund is not subject to income tax. 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 both GAAP NAV and trading NAV 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.

## 9. Ravensource Fund management agreement:

On November 1, 2007, the Manager ceased providing portfolio management services to the Ravensource Fund, at which time the Trust owned 82,228 units (5.7%) with a fair value of approximately \$786,922 (2006 - 205,228 units or 13% with a fair value of approximately \$1,755,000). During the year, management fees of \$15,540 were received by the Manager from the Ravensource Fund for portfolio management services provided. At the discretion of the Manager, the management fee income was applied against, and therefore reduced, the monthly management fee charged to the Trust.

## 10. Contingency:

In May 2007 the Manager received unitholder approval to merge the Trust with the McElvaine Fund Ltd. (the "Fund"). The proposed merger is conditional upon the Fund achieving the required tax status. Once this has been achieved, the merger will proceed at such time as deemed appropriate by the Manager.

## 11. Reconciliation of net asset value (note 2(a)):

In accordance with S3855, the calculation of the GAAP NAV of the Trust for financial reporting purposes requires investments to be valued using bid prices. Consistent with a temporary exemption provided to the investment funds industry by the Canadian Securities Authorities, for purposes of unit sales and redemptions, the Trust continues to determine the trading NAV based upon either last sale price or the midpoint between closing bid and ask quotations of investments, which is consistent with Canadian generally accepted accounting principles applicable to the Trust prior to January 1, 2007.

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	Trading NAV	S3855 adjustment	GAAP NAV
NAV at December 31, 2007	\$ 93,450,570	\$ (1,722,227)	\$ 91,728,343
NAV per unit at December 31, 2007	26.81	(0.50)	26.31
NAV at January 1, 2007	97,493,524	(987,828)	96,505,696
NAV per unit at January 1, 2007	27.16	(0.27)	26.89

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# THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2007

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## 12. Subsequent events:

### (a) Capital structure:

Effective January 1, 2008, all outstanding units of the Trust were designated as Series B units. Two new series were created, Series A units and Series F units, in respect of which the principal differences, other than fees (described below) are:

Series A units are available to all investors. May be subject to a fee if redeemed early. Dealers may charge a commission or fee of up to 2% of the total purchase. May be redesignated by the unitholder as Series F.

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

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

### (b) Management fees:

Effective January 1, 2008, the monthly fee the Trust pays to the Manager for management and administration services rendered has been restructured to be based on the month-end trading NAV of the respective series of units of the Trust, determined prior to the calculation of any performance incentive fee (note 12(c)) payable to the Manager at the following rates:

Series A 1/12 of 1.2% per annum

Series B 1/12 of 1.0% per annum

Series F 1/12 of 1.0% per annum

### (c) Performance incentive fees:

Effective January 1, 2008, the fee the Trust pays to the Manager and Investment Counsel for its services as portfolio advisor was restructured to be accrued monthly at a rate of 20% of:

For Series A, payable quarterly on any increase in the Series A trading NAV during a calendar quarter (adjusted for contributions and redemptions of Series A units and distributions on Series A units), but no fee is payable unless the Series A trading NAV at the end of the calendar quarter is greater than the highest quarter-end Series A trading NAV previously achieved by the Trust.

For Series B and F, payable annually on any increase in the respective series trading 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. If in any fiscal year the increase in the respective series trading NAV is less than 6% (a shortfall), it will be carried forward to the next fiscal year and, after adjustment for redemptions, deducted in the fee calculation from any increase in the trading NAV of the respective series of the Trust for that year.