THE McELVAINE INVESTMENT TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 1998

KPMG LLP
Chartered Accountants

Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

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

AUDITORS' REPORT

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

We have audited the statement of net assets of the Trust as at December 31, 1998 and 1997, and the statement of investments as at December 31, 1998. We have also audited the statements of operations and changes in net assets of the Trust for the years ended December 31, 1998 and 1997, and the statements of financial highlights for each of the years in the three year period ended December 31, 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 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, 1998 and 1997 and the results of its operations and the changes in its net assets for the years then ended and financial highlights for each of the years in the three year period ended December 31, 1998, in accordance with generally accepted accounting principles.

KPMG LLP
Chartered Accountants

Vancouver, Canada

February 19, 1999

THE McELVAINE INVESTMENT TRUST

STATEMENT OF NET ASSETS

As at December 31

	1998	1997
Assets		
Investment portfolio, at market value	$3,433,955	$1,795,002
Currency hedging, unrealized gains	-	4,774
Cash and deposits (note 4)	914,636	1,002,934
Accounts receivable and other assets	4,259	2,344
	4,352,850	2,805,054
Liabilities		
Currency hedging, unrealized losses	17,794	486
Contributions received in advance	42,063	1,063
Accounts payable (note 5)	101,513	74,841
Income and other taxes payable	17,316	9,231
	178,686	85,621
Net assets represented by unitholders' equity	$4,174,164	$ 2,719,433
Units outstanding (note 6(a))	366,811	239,068
Net asset value per unit	$ 11.38	$ 11.38

Approved by the Director of the Manager,

MCELVAINE INVESTMENT MANAGEMENT LTD.

Tim McElvaine

(See Note 2)

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

STATEMENT OF OPERATIONS

For the Periods Ended December 31

	1998	1997
Investment income		
Dividends	$195,834	$ 13,255
Foreign withholding tax	(1,056)	(177)
Interest	38,277	28,833
	233,055	41,911
Expenses		
Audit fees	4,800	3,470
Bank charges and interest	975	507
Custodial fees	180	423
Investment counsel fees (note 7)	98,136	59,518
Management fees (note 8)	14,610	7,819
Trustee fees	1,375	1,500
	120,076	73,237
Investment income before taxes	112,979	(31,326)
Less: Income and other taxes (note 9)	20,023	9,988
Net investment income (loss)	$ 92,956	$ (41,314)
Net gain from investing activities		
Net realized gains and losses (note 10(a))	495,013	91,769
Change in net unrealized gains and losses (note10(b))	(148,567)	181,154
Net gain from investing activities	346,446	272,923
Income from operations	$ 439,402	$ 231,609

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST
STATEMENT OF CHANGES IN NET ASSETS
For the Periods Ended December 31

	1998	1997
Income from operations	$ 439,402	$ 231,609
Distributions paid from		
Net investment income	(99,620)	-
Realized gains	(495,013)	(55,039)
	(594,633)	(55,039)
Unit trust transactions		
Issue of units for cash	1,018,706	1,346,080
Reinvestment of distribution	592,313	55,039
Redemption of units	(1,057)	(11,042)
	1,609,962	1,390,077
Increase in net assets	1,454,731	1,566,647
Net assets at beginning of year	2,719,433	1,152,786
Net assets at end of year	$4,174,164	$ 2,719,433

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

STATEMENT OF FINANCIAL HIGHLIGHTS (NOTE 11)

For the Periods Ended December 31

	1998	1997	1996
Net asset value - beginning of year	$11.38	$10.29	$ -
Net asset value at inception			10.00
Income from operations			
Net investment income (loss)	0.34	(0.23)	(0.07)
Net gain from investing activities	1.55	1.55	0.36
Total income from operations	1.89	1.32	0.29
Distributions to investors			
From net investment income	(0.32)	-	-
From net realized gains on investments	(1.57)	(0.23)	-
Total distributions	(1.89)	(0.23)	-
Net asset value - end of year	$11.38	$11.38	$10.29

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments
As at December 31, 1998

Investment portfolio

	Number	Average Cost $	Market Value $
CANADA			
Equities (52.9% of total net assets)			
Bovar Inc. Class "A"	660,000	271,670	165,000
CSA Management Inc. Class "A" Non-Voting Shares	25,000	170,210	220,000
Concord Pacific Group Inc.	200,000	238,076	140,000
Denison Mines Ltd.	2,000,000	301,765	180,000
Jascan Resources Inc.	96,900	96,755	80,427
MacMillan Bloedel Ltd.	20,000	256,420	306,000
Mikes Restaurants Inc.	69,100	150,727	145,110
Municipal Bankers Corporation	21,200	21,280	21,200
Municipal Bankers Corporation Class "A" Non-Voting Shares	123,700	119,452	154,625
Okanagan Skeena Group Ltd. Class "A"	40,000	135,430	175,000
Okanagan Skeena Group Ltd. Class "B"	10,000	38,610	48,750
Royal Trust Real Estate L.P.	19,800	5,105	108,900
Scott's Restaurants, Inc.	54,000	263,192	383,400
Scott's Restaurants, Inc. Class "C"	11,200	56,590	77,280
		2,125,282	2,205,692
Bonds (5.8%)			
Federal Business Development Bank of Canada S&P 500 Bear Note due March 16, 2000 (Face value $255,000)		233,498	240,937
Total Canadian securities		2,358,780	2,446,629
JAPAN	Number		
Equities (19.4%)			
Asahi Broadcasting Corporation	2,000	153,515	121,946
Dai-Ichi Kikaku Co., Ltd.	9,000	61,317	162,188
Horipro Inc.	8,000	77,567	60,160
Kansai Sekiwa Real Estate, Ltd.	40,000	197,437	212,998
Kentucky Fried Chicken Japan Ltd.	9,000	137,392	130,482
Takara Printing Co., Ltd.	10,000	50,591	67,748
Tanabe Management Consulting Co., Ltd.	15,000	67,058	55,890
Total Japanese securities		744,877	811,412

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments
As at December 31, 1998

	Number	Average Cost $	Market Value $
MISCELLANEOUS			
Equities (3.8%)	225,800	197,446	158,840
Put Options (.4%)	55	52,781	17,074
Total Miscellaneous securities		250,227	175,914
Total Investment portfolio, December 31, 1998 (82.3%)		$3,353,884	$3,433,955
Total investment portfolio, December 31, 1997 (66.1%)		$ 1,588,446	$ 1,795,002

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments

As at December 31, 1998

	Contract Value at Inception Foreign Currency	Contract Value at Inception	Contract Value at Dec.31,1998	Unrealized Gain (Loss)
Currency hedging, unrealized losses				
Yen, forward date June 9, 1999	¥ 61,258,439	$ 832,000	$ 849,794	$ (17,794)
Currency hedging, unrealized losses December 31, 1997				$ (486)
Currency hedging, unrealized gains, December 31, 1997				$ 4,774

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 Years Ended December 31, 1998 and 1997

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. During the year ended December 31, 1998, the Trust was managed by Cundill Funds Inc. (formerly Peter Cundill & Associates Ltd.) (the "Manager") which also provided investment counselling services pursuant to the Master Investment Counsel Agreement (see note 2).

2. **Subsequent event**

Effective January 31, 1999, the Master Investment Counsel and Master Management Agreements were assigned from Cundill Funds Inc. to McElvaine Investment Management Ltd.

3. **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. In respect of any securities for which a 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 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 gains and losses 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. Put options

The Trust may buy put options, which are contracts entitling the holder of the option to sell the underlying security, at a specified price, on or before the contract's stated expiration date. The risk in buying an option is that the Trust pays a premium whether or not the option is exercised. The premium paid for the purchase of the put option is included in the statement of net assets as an investment and is marked-to-market to reflect the current market value of the option. When the contracts are exercised or expire, gains or losses are recognized and included in realized gains and losses.

e. 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 in the taxation year.

f. Income and expenses

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

g. Per unit values

Per unit amounts are calculated as follows:

Net asset value	On the number of units outstanding at the 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

4. Cash and deposits

	1998	1997
Cash in bank		
Canadian	$ 47,618	$ 2,929
Foreign	49	215
Treasury bills and term deposits maturing within 91 days, at amortized cost which approximates market value	866,969	999,790
	$ 914,636	$ 1,002,934

5. Accounts payable

	1998	1997
Management and investment counsel fees	99,513	66,821
Other	2,000	8,020
	$ 101,513	$ 74,841

6. 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 detailed in the Offering Memorandum.

Issued units are summarized as follows:	1998	1997
Balance, beginning of year	239,068	112,080
Issued for cash	75,779	123,193
Issued on reinvestment of distribution	52,050	4,837
Redemptions	(86)	(1,042)
Balance, end of year	366,811	239,068

b. Unrealized gains and losses

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

	1998	1997
Investment portfolio, at market value	$ 3,433,955	$ 1,795,002
Investment portfolio, at cost	3,353,884	1,588,446
	80,071	206,556
Currency hedging	(17,794)	4,288
	$ 62,277	$ 210,844

7. 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 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.

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 explained 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 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.

8. Management fee

The Trust has agreed to pay the Manager, as compensation for management and administration services rendered, a fee of 1/12 of 0.4% of the Net Asset Value of the Trust, calculated and paid monthly.

9. Income and other taxes

	1998	1997
Goods and Services Tax	$ 8,582	$ 5,196
Federal income taxes	11,441	4,792
	$ 20,023	$ 9,988

The Federal income tax expense is in respect of penalty tax on ineligible foreign property holdings in the taxation year.

10. 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:

	1998	1997
Proceeds from sale of investments	$ 1,975,028	735,509
Cost of investments sold	1,347,499	643,208
	627,529	92,301
Currency hedging	(132,544)	5,951
Foreign exchange	28	(6,483)
Net realized gains and losses	$ 495,013	$ 91,769

b. Change in net unrealized gains and losses

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

	1998	1997
Investments	$ (126,485)	$ 176,339
Short sales	-	527
Currency hedging	(22,082)	4,288
	$ (148,567)	$ 181,154

11. Financial highlights

a. 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 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.

12. Fair values

Generally accepted accounting principles require disclosure of the fair value of financial instruments. The Trust's investments and currency hedging contracts 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.

13. Uncertainty due to the Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could effect the Trust's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Trust, including those related to the efforts of investees, suppliers, or other third party issues, will be fully resolved.