

**THE MCELVAINE INVESTMENT TRUST**

**Financial Statements**

**December 31, 1996**

# THE McELVAINE INVESTMENT TRUST

## Statement of Net Assets

As at December 31, 1996

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### Assets

|                                       |                  |
|---------------------------------------|------------------|
| Investment portfolio, at market value | \$ 411,979       |
| Cash and deposits (note 3)            | 906,526          |
| Accounts receivable                   | <u>630</u>       |
|                                       | <u>1,319,135</u> |

### Liabilities

|                                    |                |
|------------------------------------|----------------|
| Securities sold short              | 2,720          |
| Contributions received, in advance | 152,752        |
| Accounts payable (note 4)          | 10,165         |
| Other taxes payable                | <u>712</u>     |
|                                    | <u>166,349</u> |

|   |                     |
|---|---------------------|
| Net assets represented by unitholders' equity | <u>\$ 1,152,786</u> |
| Units outstanding (note 5)                    | 112,080             |
| Net asset value per unit                      | <u>\$ 10.29</u>     |

See accompanying notes to financial statements

# THE McELVAIN INVESTMENT TRUST

## Statement of Net Investment Loss

For the Period from formation on September 27, 1996 to December 31, 1996

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### Investment income

|           |              |
|-----------|--------------|
| Dividends | \$ 2,070     |
| Interest  | <u>3,943</u> |
|           | <u>6,013</u> |

### Expenses

|                                  |               |
|----------------------------------|---------------|
| Audit fees                       | 3,000         |
| Custodial fees                   | 10            |
| Goods and services tax           | 758           |
| Investment counsel fees (note 6) | 6,399         |
| Management fees (note 7)         | 766           |
| Trustee fees                     | <u>375</u>    |
|                                  | <u>11,308</u> |

Net investment loss \$ (5,295)

Net investment loss per unit \$ ( 0.07)

See accompanying notes to financial statements

# THE McELVAINE INVESTMENT TRUST

## Statement of Net Gain on Investments

For the Period from formation on September 27, 1996 to December 31, 1996

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### Realized gains and losses

|                  |       |
|------------------|-------|
| Foreign exchange | (227) |
|------------------|-------|

### Change in net unrealized gains & losses

|             |               |
|-------------|---------------|
| Investments | 30,217        |
| Short sales | <u>(527)</u>  |
|             | <u>29,690</u> |

|                         |                  |
|-------------------------|------------------|
| Net gain on investments | <u>\$ 29,462</u> |
|-------------------------|------------------|

|                                  |                |
|----------------------------------|----------------|
| Net gain on investments per unit | <u>\$ 0.39</u> |
|----------------------------------|----------------|

See accompanying notes to financial statements

# THE McELVAINE INVESTMENT TRUST

## Statement of Changes in Net Assets

For the Period from formation on September 27, 1996 to December 31, 1996

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### Increase (decrease) in net assets from operations

|                         |               |
|-------------------------|---------------|
| Net investment loss     | \$ (5,295)    |
| Net gain on investments | <u>29,462</u> |
|                         | <u>24,167</u> |

### Unit trust transactions

|                         |                  |
|-------------------------|------------------|
| Issue of units for cash | 1,128,619        |
| Redemption of units     | <u>-</u>         |
|                         | <u>1,128,619</u> |

|  |                  |
|--|------------------|
| Increase in net assets and net assets at end of year | <u>1,152,786</u> |
|--|------------------|

See accompanying notes to financial statements

**THE McELVAINE INVESTMENT TRUST**  
**Statement of Investments**  
As at December 31 1996

**Investment portfolio**

|  | <u>Number</u> | <u>Average<br/>Cost<br/>\$</u> | <u>Market<br/>Value<br/>\$</u> |
|--|---------------|--------------------------------|--------------------------------|
| <b>CANADA</b>  |               |                                |                                |
| <b>Equities</b>                                      |               |                                |                                |
| Astral Communications Inc. Class "A"                 | 4,500         | 59,490                         | 61,875                         |
| Denninghouse Inc.                                    | 18,000        | 46,881                         | 49,500                         |
| F.C.A. International Ltd.                            | 35,000        | 61,950                         | 75,250                         |
| M-Corp. Inc.   | 5,000         | 12,765                         | 11,500                         |
| Molson Cos. Ltd. Class "A"                           | 2,500         | 49,489                         | 53,750                         |
| Molson Cos. Ltd. Class "B"                           | 1,000         | 20,075                         | 21,675                         |
| Newfoundland Capital Corporation Limited Class "A"   | 10,000        | 25,415                         | 31,000                         |
| Scott's Restaurants, Inc. Class "C"                  | 4,300         | 23,405                         | 23,973                         |
| Scott's Restaurants, Inc.                            | 11,000        | <u>61,735</u>                  | <u>63,250</u>                  |
| <b>Total Canadian securities</b>                     |               | <u>361,205</u>                 | <u>391,773</u>                 |
| <b>UNITED STATES</b>                                 |               |                                |                                |
| <b>Call and Put Options</b>                          |               |                                |                                |
| CMX Silver Dec97/550 Call Option on Futures          | 4             | 7,175                          | 4,986                          |
| S&P 500 Index Dec97/650 Put Options                  | 1             | 2,856                          | 2,346                          |
| S&P 500 Index Jun97/775 Put Options                  | 2             | <u>10,526</u>                  | <u>12,874</u>                  |
| <b>Total U.S. securities</b>                         |               | <u>20,557</u>                  | <u>20,206</u>                  |
| <b>Total investment portfolio, December 31, 1996</b> |               | <u>\$ 381,762</u>              | <u>\$ 411,979</u>              |

There was no investment portfolio at December 31, 1995

**Securities sold short**

|                                     | <u>Number</u> | <u>Proceeds</u> | <u>Market<br/>Value</u> |
|-------------------------------------|---------------|-----------------|-------------------------|
| <b>UNITED STATES</b>                |               |                 |                         |
| <b>Options</b>                      |               |                 |                         |
| S&P 500 Index Jun97/650 Put Options | 2             | <u>\$ 2,193</u> | <u>\$ 2,720</u>         |

See accompanying notes to financial statements

**THE McELVAINE INVESTMENT TRUST**  
**Statement of Investments**  
As at December 31, 1996

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**Securities sold, not yet purchased**

|                                     | <u>Number</u> | <u>Proceeds</u> | <u>Market Value</u> |
|-------------------------------------|---------------|-----------------|---------------------|
| <b>UNITED STATES</b>                |               |                 |                     |
| <b>Options</b>                      |               |                 |                     |
| S&P 500 Index Jun97/650 Put Options | 2             | <u>\$ 2,193</u> | <u>\$ 2,720</u>     |

See accompanying notes to financial statements

## THE McELVAINE INVESTMENT TRUST

### NOTES TO FINANCIAL STATEMENTS

For the Period from formation on September 27, 1996 to 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.

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 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 unrealized gains and losses on foreign exchange transactions, are included in net gains and losses on investments.

##### c. 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. Accordingly, no provision for income taxes is reflected in the financial statements for the Trust.

##### 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.

##### e. Per unit values

Per unit amounts are calculated as follows:

|  |   |
|--|---|
| Net asset value                                  | On the number of units outstanding at the year end              |
| Net investment income<br>Net gain on investments | On the average number of units<br>outstanding during the period |
| Distributions                                    | On the number of units outstanding<br>at the date of record     |



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

For the Period from formation on September 27, 1996 to December 31, 1996

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**3. Cash and deposits**

|   |                       |
|---|-----------------------|
| Cash in bank  | <b>\$ 182,122</b>     |
| Treasury bills and term deposits<br>maturing within 91 days, at amortized<br>cost which approximates market | <u><b>724,404</b></u> |

**\$ 906,526**

**4. Accounts payable**

|   |                     |
|---|---------------------|
| Management and investment<br>counsel fees | <b>7,165</b>        |
| Other                                     | <u><b>3,000</b></u> |

**\$ 10,165**

**5. Unitholders' equity**

**a. Authorized and issued capital**

The Trust has an unlimited number of units pursuant to the Master Declaration of Trust, redeemable at the option of the unitholders.

Issued units are summarized as follows:

|                                   |                       |
|-----------------------------------|-----------------------|
| Issued for cash during the period | <b>112,080</b>        |
| Redemptions                       | <u><b>-</b></u>       |
| Balance, end of period            | <u><b>112,080</b></u> |

**b. Unrealized gains and losses**

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

|                                      |                         |
|--------------------------------------|-------------------------|
| Investment portfolio at market value | <b>\$ 411,979</b>       |
| at cost                              | <u><b>381,762</b></u>   |
|                                      | <b>30,217</b>           |
| Short sales                          | <u><b>(527)</b></u>     |
|                                      | <b><u>\$ 29,690</u></b> |

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

For the Period from formation on September 27, 1996 to December 31, 1996

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**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.

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.

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

**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. 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 approximate their carrying value given their short term nature.