

Financial Statements of

THE McELVAINE INVESTMENT TRUST

Year ended December 31, 2009

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 22, 2010



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, 2009, 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, 2009 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 22, 2010

THE McELVAINE INVESTMENT TRUST

Statement of Net Assets

December 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Investment portfolio, at fair value	\$ 65,393,561	\$ 65,907,625
Cash and deposits	10,611,027	5,020,640
Subscriptions receivable	191,653	165,533
Distributions and interest receivable	84,493	185,908
	76,280,734	71,279,706
Liabilities		
Redemptions payable	1,125,781	3,177,149
Accounts payable and accrued liabilities	282,005	98,792
Due to brokers	14,670	-
	1,422,456	3,275,941
Net assets	\$ 74,858,278	\$ 68,003,765
Net assets by series:		
Series A	\$ 57,095	\$ -
Series B	73,579,957	66,929,391
Series F	127,680	119,940
Series X	1,093,546	954,434
Number of units outstanding (note 3):		
Series A	4,375	-
Series B	4,609,224	4,980,847
Series F	18,901	21,123
Series X	168,975	175,357
Net assets per unit (note 11):		
Series A	\$ 13.05	\$ -
Series B	15.96	13.44
Series F	6.76	5.68
Series X	6.47	5.44

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, 2009

	Number of shares/ par value	Cost	Fair value
Canada – Convertible Debentures (4.7%)			
TimberWest Forest Corp., 9%, Feb. 11, 2014	\$ 2,739,363	\$ 3,047,031	\$ 3,533,778
Total Canadian convertible debentures		\$ 3,047,031	\$ 3,533,778
Canada - Equities (65.9%)			
Arbor Memorial Services	100,000	\$ 905,000	\$ 2,240,000
Caldwell Partners International Inc.	2,341,500	1,991,265	1,077,090
EGI Financial Holdings Inc.	600,000	4,905,375	6,606,000
Glacier Media Inc.	5,242,600	11,884,298	10,485,199
Indigo Books & Music Inc.	675,000	4,758,508	10,354,500
Maple Leaf Foods Inc.	300,000	3,039,390	3,480,000
PRT Forest Regeneration Income Fund	915,800	1,315,095	1,868,232
Rainmaker Entertainment Inc.	5,451,228	9,868,492	2,453,053
Sun Gro Horticulture Income Fund	400,000	1,167,450	1,532,000
Sun-Rype Products Ltd.	485,073	3,380,510	4,157,076
Swiss Water Decaffeinated Coffee Income Fund	515,600	1,557,112	1,825,224
TimberWest Forest Corp.	400,000	1,755,841	1,732,000
Village Farms Income Fund	2,008,183	4,140,019	1,465,974
Total Canadian equities		\$ 50,668,355	\$ 49,276,348
United States - Equities (9.2%)			
Adaptec Inc.	200,000	\$ 627,675	\$ 702,394
Arlington Asset Investment Corp.	250,000	4,580,829	3,983,729
FBR Capital Markets Corp.	112,565	451,492	726,926
HCC Insurance Holdings Inc.	50,000	1,420,121	1,466,117
Total United States securities		\$ 7,080,117	\$ 6,879,166
Foreign - Equities (4.2%)			
RHJ International	159,092	\$ 1,238,994	\$ 1,277,828
Yamaha Corp.	150,000	1,623,324	1,885,105
Total Foreign securities		\$ 2,862,318	\$ 3,162,933
Miscellaneous securities (3.3%)		\$ 2,405,472	\$ 2,447,595
Transaction costs (note 2(d))		\$ (256,817)	\$ -
Total securities (87.3%)		\$ 65,806,476	\$ 65,299,820
Forward foreign currency contracts (0.0%) (note 4)			
Net unrealized gain on forward foreign currency contracts			\$ 93,741
Total investment portfolio at fair value, December 31, 2009 (87.3%)			\$ 65,393,561
Other assets less liabilities (12.7%)			9,464,717
Net assets (100%)			\$ 74,858,278

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statement of Operations

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Investment income:		
Dividends	\$ 545,413	\$ 726,418
Interest	367,594	166,499
Withholding tax	(23,066)	(42,506)
Other income	-	32,579
	889,941	882,990
Expenses:		
Performance incentive fee (note 5)	1,237	-
Management fee (note 6)	702,961	742,084
Trustee, custodial and legal fees	72,254	134,816
Audit and tax fees	48,666	30,084
Bank charges and interest	179	178
Goods and services tax	40,394	47,506
	865,691	954,668
Net investment income (loss)	\$ 24,250	\$ (71,678)
Net realized gains:		
Proceeds from sale of securities	\$ 37,490,270	\$ 46,993,802
Securities at cost, beginning of year	86,987,878	65,160,153
Cost of securities purchased during the year	25,693,082	66,799,784
	112,680,960	131,959,937
Securities at cost, end of year	(65,806,476)	(86,987,878)
Cost of securities sold	46,874,484	44,972,059
Gain (loss) on sale of securities	(9,384,214)	2,021,743
Foreign exchange	(80,790)	(328,781)
Forward foreign currency contracts	1,196,300	(1,303,199)
Transaction costs (note 2(d))	(264,200)	(380,778)
	(8,532,904)	8,985
Change in net unrealized appreciation (depreciation) of:		
Securities	20,575,481	(45,850,152)
Forward foreign currency contracts	84,665	9,076
	20,660,146	(45,841,076)
Net gain (loss) from investing activities	12,127,242	(45,832,091)
Income (loss) from operations	\$ 12,151,492	\$(45,903,769)
Income (loss) from operations by series:		
Series A	\$ 7,371	\$ -
Series B	11,950,182	(44,998,799)
Series F	19,764	(77,718)
Series X	174,175	(827,252)
Income (loss) from operations per unit (note 2(h)):		
Series A	\$ 2.44	\$ -
Series B	2.44	(12.44)
Series F	0.99	(4.95)
Series X	1.01	(5.21)

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statement of Changes in Net Assets

Year ended December 31, 2009, with comparative figures for 2008

	Series A	Series B	Series F	Series X	Total
Net assets, December 31, 2007	\$ -	\$ 91,728,343	\$ -	\$ -	\$ 91,728,343
Loss from operations	-	(44,998,799)	(77,718)	(827,252)	(45,903,769)
Unit transactions (note 3):					
Issued for cash	-	15,180,154	246,641	1,965,149	17,391,944
Issued to McElvaine Value Fund Ltd. for securities	-	32,759,686	-	-	32,759,686
Redeemed	-	(27,739,993)	(48,983)	(183,463)	(27,972,439)
	-	20,199,847	197,658	1,781,686	22,179,191
Increase (decrease) in net assets	-	(24,798,952)	119,940	954,434	(23,724,578)
Net assets, December 31, 2008	-	66,929,391	119,940	954,434	68,003,765
Income from operations	7,371	11,950,182	19,764	174,175	12,151,492
Unit transactions (note 3):					
Issued for cash	49,724	16,957,079	24,019	6,638	17,037,460
Redeemed	-	(22,256,695)	(36,043)	(41,701)	(22,334,439)
	49,724	(5,299,616)	(12,024)	(35,063)	(5,320,998)
Increase (decrease) in net assets	57,095	6,650,566	7,740	139,112	6,854,513
Net assets, December 31, 2009	\$ 57,095	\$ 73,579,957	\$ 127,680	\$ 1,093,546	\$ 74,858,278

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2009

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 and January 1, 2008 (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 Series A, B or F units at a value established on a monthly basis (note 10).

2. Significant accounting policies:

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

(a) New accounting standards:

Effective on January 1, 2009, the Trust adopted the recent amendments to Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, *Financial Instruments – Disclosures* ("S3862"), which establishes a fair value hierarchy that categorizes the inputs used to calculate a financial instrument's fair value. The hierarchy contains three "levels" of fair value inputs 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 assets 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).

(b) 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 relative net assets of each series. Expenses are accrued monthly.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2009

2. Significant accounting policies (continued):

(c) 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 ("net assets"). 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.

The Trust calculates net asset value for unit sales and redemption pricing purposes ("NAV") on a basis consistent with the investment funds industry, in accordance with Rules and Policies issued by the Canadian Securities Administrators (the "CSA"). A reconciliation between net assets and NAV at the period end is disclosed in note 10.

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

(d) Transaction costs:

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

(e) 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.

(f) 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, which is recorded in the schedule of investments portfolio, 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2009

2. Significant accounting policies (continued):

(g) 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 statement 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.

(h) 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
Net asset value ("NAV") per unit	On the number of units outstanding at the period-end with investments valued using either the last sale price or the midpoint between closing bid and ask quotations
Income (loss) from operations	On the monthly weighted average number of units outstanding during the period

(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, 2009

3. Unitholders' equity:

Pursuant to the Trust Agreement which was amended and restated as of January 1, 2008, the Trust is authorized to issue an unlimited number of units in three distinct series of units as follows:

Series A units were first made available for sale on February 26, 2009 and 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. Effective January 1, 2008, all then outstanding units of the Trust were designated as Series B units.

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.

Prior to February 26, 2009, Series X units were designated as "Series A units". As of that 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.

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

	2009	2008
Series A:		
Balance, beginning of year	-	-
Issued for cash	4,375	-
Redeemed	-	-
Balance, end of year	4,375	-
Series B:		
Balance, beginning of year	4,980,847	3,486,016
Issued for cash	1,346,684	1,096,933
Issued to the McElvaine Value Fund Ltd. For securities	-	2,170,002
Redeemed	(1,718,307)	(1,772,104)
Balance, end of year	4,609,224	4,980,847
Series F:		
Balance, beginning of year	21,123	-
Issued for cash	3,510	26,846
Redeemed	(5,732)	(5,723)
Balance, end of year	18,901	21,123
Series X:		
Balance, beginning of year	175,357	-
Issued for cash	1,211	207,622
Redeemed	(7,593)	(32,265)
Balance, end of year	168,975	175,357

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2009

4. Forward foreign currency contracts:

At December 31, 2009, the Trust had the following outstanding contracts to sell Japanese Yen and receive Canadian dollars:

Contract value at inception	Contract value at inception	Contract value at December 31	Settlement date		
YEN133,744,000	CAD1,599,966	CAD1,506,225	January 20, 2010	\$	93,741
Net unrealized gain				\$	93,741

5. Performance incentive fee:

Effective January 1, 2008 (February 26, 2009 for Series A), the Trust will pay the Investment Counsel an incentive fee for its services as portfolio advisor at a rate of 20% (the "Incentive Fee Rate") of:

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").

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").

If in any fiscal year the increase in the respective series NAV is less than the respective Series A Hurdle Rate or Series B and F Hurdle Rate (a shortfall), the respective difference will be carried forward to the next fiscal year and, after adjustment for redemptions, deducted in the fee calculation from any increase in the NAV of the respective series of the Trust for that year.

For Series X, payable quarterly on any increase in the Series X NAV during a calendar quarter (adjusted for contributions, 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 asset value 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.

An incentive fee of \$1,237 is payable in respect of Series A of the Trust for the year ending December 31, 2009. Series A was first offered during 2009.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2009

5. Performance incentive fee (continued):

The adjusted shortfall carried forward in respect of each of Series B and F of the Trust at December 31, 2009 and December 31, 2008 was as follows:

	December 31, 2009	December 31, 2008
Series B	\$ 45,015,566	\$ 55,379,101
Series F	64,879	90,106

The shortfall carried forward in respect of Series B includes shortfall transferred to the Trust in respect of units issued to investors who redeemed shares of McElvaine Value Fund Ltd and used the proceeds to subscribe for Series B units of the Trust.

No incentive fee was paid in respect of Series X of the Trust during the years ended December 31, 2009 or 2008 as the Series X NAV did not exceed the highest quarter-end Series X NAV previously achieved by the Trust.

6. Management fee:

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 fee (note 5)) on the last business day of the preceding month. Effective January 1, 2008 (February 26, 2009 for Series A), 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

Series X 1/12 of 1.2% per annum

7. Financial instruments:

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, geographic region and/or market segment. 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2009

7. Financial instruments (continued):

(a) 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, 2009 and 2008. Amounts shown are based on the carrying value of monetary and non-monetary assets (including derivatives and underlying principal (notional) amount of forward currency contracts, if any).

December 31, 2009	Investments	Cash	Net other liabilities	Derivatives (note 4)	Total
Canadian dollar	\$ 55,257,721	\$ 10,604,270	\$ (1,146,310)	\$ 1,599,966	\$ 66,315,647
US dollar	6,879,166	6,757	-	-	6,885,923
European euro	1,277,828	-	-	-	1,277,828
Japanese yen	1,885,105	-	-	(1,506,225)	378,880
	\$ 65,299,820	\$ 10,611,027	\$ (1,146,310)	\$ 93,741	\$ 74,858,278

December 31, 2008	Investments	Cash	Net other liabilities	Derivatives (note 4)	Total
Canadian dollar	\$ 52,351,226	\$ 4,507,301	\$ (2,924,500)	\$ 17,297,143	\$ 71,231,170
US dollar	13,547,323	513,339	-	(17,288,067)	(3,227,405)
	\$ 65,898,549	\$ 5,020,640	\$ (2,924,500)	\$ 9,076	\$ 68,003,765

As at December 31, 2009, 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 asset value of the Trust could have decreased or increased by approximately \$427,000 (2008 – increased or decreased by \$161,000), respectively. In practice, actual results may differ from the sensitivity analysis and the difference could be material.

(b) Interest rate risk:

Interest rate risk is the risk that the market value of the Trust's interest bearing investments, such as bonds, money market instruments and debentures, will fluctuate due to changes in market interest rates. The Trust's exposure to interest rate risk is concentrated in its investment in debt securities. As at December 31, 2009 the Trust held one debt security with a fair value of \$3,533,778 (4.7% of net assets) and a maturity date of 2014.

All other securities, comprising equity securities and forward foreign currency contracts, were not subject to significant interest rate risk.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2009

7. Financial instruments (continued):

(c) Liquidity risk:

The Trust's exposure to liquidity risk is concentrated in the monthly cash redemptions of shares. 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 cash equivalent 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 redemption, which may be restricted in certain circumstances. Accordingly, as at December 31, 2009, the Trust did not have significant exposure to liquidity risk.

(d) 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. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the counter derivative instruments is represented by any unrealized gain on the contractual obligations with the counterparty as at the reporting date. As at December 31, 2009, the Trust's exposure to credit risk related primarily to the TimberWest Forest Corp. convertible debentures.

(e) Other market risk:

Other market 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. Other assets and liabilities are monetary items that are short term in nature and are not subject to other market risk.

The geographical and market sector breakdown of securities is disclosed in the Trust's Schedule of Investment Portfolio. For additional information on other market risks, refer to the Trust's Confidential Offering Memorandum.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2009

7. Financial instruments (continued):

(f) Fair value:

The Trust's assets recorded at fair value have been categorised in the following table according to the fair value hierarchy set out in note 2(a).

	Level 1	Level 2	Level 3	Total
Equities	\$ 61,766,042	\$ -	\$ -	\$ 61,766,042
Bonds	-	3,533,778	-	3,533,778
Derivatives (note 4)	-	93,741	-	93,741
	\$ 61,766,042	\$ 3,627,519	\$ -	\$ 65,393,561

There were no significant transfers between Level 1 and Level 2 during the year and no investments were classified as Level 3 investments at any time during the year.

8. 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.

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 payable to unitholders. 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.

The payment or reinvestment of distributions reduces the net asset value 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2009

10. 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 CSA, the Trust determines net assets value for purposes of unit sales and redemption ("NAV") based upon either last sale price or the midpoint between closing bid and ask quotations.

	NAV	S3855 adjustment	Net Assets
By series at December 31, 2009:			
Series A	\$ 58,014	\$ (919)	\$ 57,095
Series B	74,768,475	(1,188,518)	73,579,957
Series F	129,333	(1,653)	127,680
Series X	1,110,986	(17,440)	1,093,546
	<u>\$ 76,066,808</u>	<u>\$ (1,208,530)</u>	<u>\$ 74,858,278</u>
Per unit at December 31, 2009:			
Series A	\$ 13.26	\$ (0.21)	\$ 13.05
Series B	16.22	(0.26)	15.96
Series F	6.84	(0.08)	6.76
Series X	6.57	(0.10)	6.47

11. Future changes in accounting standards:

The Manager is in the process of implementing a changeover plan to meet the timetable published by the CICA for changeover to International Financial Reporting Standards ("IFRS"). As at December 31, 2009, the Manager does not believe the impact on net assets from the changeover to IFRS will be significant. The impact of adopting IFRS is expected to be mainly in presentation and additional disclosures in the financial statements of the Trust.

Financial Statements of

THE McELVAINE INVESTMENT TRUST

Year ended December 31, 2008

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, Director

January 16, 2009



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

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, 2008, 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, 2008 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, 2009

THE McELVAINE INVESTMENT TRUST

Statement of Net Assets

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Investment portfolio, at fair value	\$ 65,907,625	\$ 89,928,126
Cash and deposits	5,020,640	1,820,208
Subscriptions receivable	165,533	228,106
Distributions and interest receivable	185,908	105,275
	71,279,706	92,081,715
Liabilities		
Redemptions payable	3,177,149	278,177
Accounts payable and accrued liabilities	98,792	75,195
	3,275,941	353,372
Net assets	\$ 68,003,765	\$ 91,728,343
Net assets by series:		
Series A	\$ 954,434	\$ -
Series B	66,929,391	91,728,343
Series F	119,940	-
Number of units outstanding (note 3):		
Series A	175,357	-
Series B	4,980,847	3,486,016
Series F	21,123	-
Net assets per unit:		
Series A	\$ 5.44	\$ -
Series B	13.44	26.31
Series F	5.68	-

See accompanying notes to financial statements.

Approved by the Manager
McElvaine Investment Management Ltd.

Tim McElvaine, Director

THE McELVAINE INVESTMENT TRUST

Schedule of Investment Portfolio

December 31, 2008

	Number of shares	Cost	Fair value
Canada - Equities (77.0% of net assets)			
Arbor Memorial Services Inc.	100,000	\$ 905,000	\$ 1,900,000
Canaccord Capital Inc.	250,000	826,010	1,007,500
CanWest Global Communications Corp.	1,750,000	4,419,211	1,365,000
EGI Financial Holdings Inc.	762,898	6,235,407	4,966,466
Forest & Marine Investments Ltd.	499,800	1,654,271	69,972
Glacier Ventures International Corporation	5,000,000	11,431,848	10,750,000
GMP Capital Trust	200,000	781,440	1,008,000
Indigo Books & Music Inc.	784,996	5,533,941	9,231,553
Maple Leaf Foods Inc.	500,000	5,065,650	5,530,000
Newfoundland Capital Corp. Ltd.	309,800	2,915,425	5,266,600
Rainmaker Entertainment Inc. (note 8)	5,451,228	9,868,492	3,270,736
Sun-Rype Products Ltd.	415,573	2,774,587	2,289,807
The Caldwell Partners International Inc.	850,000	1,067,895	578,000
TimberWest Forest Corp.	850,000	3,827,496	3,009,000
Village Farms Income Fund	2,008,183	4,140,019	2,108,592
Total Canadian securities		\$ 61,446,692	\$ 52,351,226
United States - Equities (19.9%)			
CBS Corporation, Class B	500,000	\$ 5,630,692	\$ 5,055,306
Citadel Broadcasting Corp.	3,852,634	7,559,657	760,977
Friedman, Billings, Ramsey Group, Inc.	4,642,554	5,328,326	922,734
Sotheby's	100,000	1,128,059	1,087,601
The McGraw-Hill Companies, Inc.	200,000	6,237,033	5,720,705
Total United States securities		\$ 25,883,767	\$ 13,547,323
Transaction costs for securities (note 2(d))		\$ (342,580)	\$ -
Total securities (96.9%)		\$ 86,987,878	\$ 65,898,549
Forward foreign currency contracts (0.0%) (note 4)			
Net unrealized gain on forward foreign currency contracts			9,076
Total investment portfolio at fair value, December 31, 2008 (96.9%)			\$ 65,907,625
Other assets less liabilities (3.1%)			2,096,140
Net assets (100%)			\$ 68,003,765

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statement of Operations

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Investment income:		
Dividends	\$ 726,418	\$ 866,259
Interest	166,499	585,968
Withholding tax	(42,506)	(2,565)
Other income	32,579	13,316
	882,990	1,462,978
Expenses:		
Management fee (note 6)	742,084	383,620
Trustee, custodial and legal fees	134,816	128,361
Audit and tax fees	30,084	42,700
Bank charges and interest	178	90
Goods and services tax	47,506	33,264
	954,668	588,035
Net investment gain (loss)	\$ (71,678)	\$ 874,943
Net realized gains:		
Proceeds from sale of securities	\$ 46,993,802	\$ 26,230,342
Securities at cost, beginning of year	65,160,153	65,336,037
Cost of securities purchased during the year (note 3)	66,799,784	20,515,117
	131,959,937	85,851,154
Securities at cost, end of year	(86,987,878)	(65,160,153)
Cost of securities sold	44,972,059	20,691,001
Gain on sale of securities	2,021,743	5,539,341
Foreign exchange	(328,781)	(64,650)
Forward foreign currency contracts	(1,303,199)	-
Transaction costs (note 2(d))	(380,778)	(214,715)
	8,985	5,259,976
Change in net unrealized appreciation (depreciation) of:		
Securities	(45,850,152)	(6,067,991)
Forward foreign currency contracts	9,076	-
	(45,841,076)	(6,067,991)
Net loss from investing activities	(45,832,091)	(808,015)
Income (loss) from operations	\$(45,903,769)	\$ 66,928
Income (loss) from operations by series:		
Series A	\$ (827,252)	\$ -
Series B	(44,998,799)	66,928
Series F	(77,718)	-
Income (loss) from operations per unit:		
Series A	\$ (5.21)	\$ -
Series B	(12.44)	0.02
Series F	(4.95)	-

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statement of Changes in Net Assets

Year ended December 31, 2008, with comparative figures for 2007

	Series A	Series B	Series F	Total
Net assets, December 31, 2006	\$ -	\$ 96,505,696	\$ -	\$ 96,505,696
Income from operations	-	66,928	-	66,928
Distributions paid from realized capital gains	-	(1,734,278)	-	(1,734,278)
Unit transactions (note 3):				
Issued for cash	-	6,183,233	-	6,183,233
Reinvestment of distributions	-	1,734,278	-	1,734,278
Redeemed	-	(11,027,514)	-	(11,027,514)
	-	(3,110,003)	-	(3,110,003)
Decrease in net assets	-	(4,777,353)	-	(4,777,353)
Net assets, December 31, 2007	-	91,728,343	-	91,728,343
Loss from operations	(827,252)	(44,998,799)	(77,718)	(45,903,769)
Unit transactions (note 3):				
Issued for cash	1,965,149	15,180,154	246,641	17,391,944
Issued to McElvaine Value Fund Ltd. for securities	-	32,759,686	-	32,759,686
Redeemed	(183,463)	(27,739,993)	(48,983)	(27,972,439)
	1,781,686	20,199,847	197,658	22,179,191
Decrease in net assets	954,434	(24,798,952)	119,940	(23,724,578)
Net assets, December 31, 2008	\$ 954,434	\$ 66,929,391	\$ 119,940	\$ 68,003,765

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2008

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 and January 1, 2008 (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 Series A, B or F units at a value established on a monthly basis (note 10).

2. Significant accounting policies:

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

(a) Changes in accounting standards:

The Canadian Institute of Chartered Accountants ("CICA") has issued Handbook Section 3862, *Financial Instruments Disclosures* ("S3862") and Section 3863, *Financial Instruments Presentation* ("S3863"), which the Trust adopted on January 1, 2008. The new standards increase the emphasis on the disclosure of risks associated with financial instruments, and how those risks are managed (refer to note 7). Adoption of the new standards did not impact the Trust's net assets. Risks of investing in the Trust are disclosed in more detail in the Trust's Confidential Offering Memorandum.

(b) Valuation of units:

Net assets are calculated for each series of units. Net assets attributable to a particular series of units are 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.

For unit sales and redemption pricing purposes, the Trust continues to calculate net asset value (NAV, note 10) on a basis consistent with the investment funds industry and in accordance with Rules and Policies implemented by the Canadian Securities Administrators (the "CSA") whereby investments are valued at either the last sale price or the midpoint between closing bid and asked quotations.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2008

2. Significant accounting policies (continued):

(c) 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. In respect of any securities for which the closing bid price is not considered to be representative of fair value, such securities are 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.

(d) Transaction costs:

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities, are charged to income (loss) from operations in the period incurred, as separately disclosed in the statement of operations.

(e) Foreign exchange:

Purchases and sales of foreign securities and the related income 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 valuation 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 statement of operations.

(f) Forward foreign currency contracts:

The Trust may enter into forward foreign currency contracts, the purpose of which is to provide an economic hedge against investment portfolio exposure to foreign currency fluctuations. The carrying value of these forward contracts, which is recorded in the schedule of investment portfolio, 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 statement 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2008

2. Significant accounting policies (continued):

(g) 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 statement 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.

Expenses directly attributable to a series are charged to that series, and other expenses are allocated proportionately based upon the relative net assets of each series.

(h) 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
Net asset value ("NAV") per unit (note 10)	On the number of units outstanding at the period-end with investments valued using either the last sale price or the midpoint between closing bid and asked quotations
Income (loss) from operations	On the monthly weighted average number of units outstanding during the period

(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.

(j) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2008

3. Unitholders' equity:

Pursuant to the Trust Agreement, the Trust is authorized to issue an unlimited number of units in three distinct series of units as follows:

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. Effective January 1, 2008, all outstanding units of the Trust were designated as Series B units.

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.

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:

	2008	2007
Series A:		
Balance, beginning of year	-	-
Issued for cash	207,622	-
Redeemed	(32,265)	-
Balance, end of year	175,357	-
Series B:		
Balance, beginning of year	3,486,016	3,589,505
Issued for cash	1,096,933	217,395
Issued to the McElvaine Value Fund Ltd. for securities	2,170,002	-
Reinvestment of distributions	-	64,694
Redeemed	(1,772,104)	(385,578)
Balance, end of year	4,980,847	3,486,016

On October 27, 2008 the British Columbia Securities Commission granted a decision document (the "Decision") to the Manager permitting a transfer of all or a portion of the investment portfolio of the McElvaine Value Fund Ltd. (the "Fund") to the Trust in exchange for units of the Trust. In accordance with the Decision, the Fund transferred securities, with a fair value at the date of transfer of \$32,759,686, to the Trust in exchange for 2,170,002 Class B units of the Trust.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2008

3. Unitholders' equity (continued):

	2008	2007
Series F:		
Balance, beginning of year	-	-
Issued for cash	26,846	-
Redeemed	(5,723)	-
Balance, end of year	21,123	-

4. Forward foreign currency contacts:

At December 31, 2008, the Trust had the following outstanding contracts to sell US dollars and receive Canadian dollars:

Contract value at inception	Contract value at inception	Contract value at December 31	Settlement date	
USD 6,000,000	CAD 7,531,160	CAD (7,409,694)	January 21, 2009	\$ 121,466
USD 8,000,000	CAD 9,765,983	CAD (9,878,373)	February 18, 2009	(112,390)
	CAD 17,297,143	CAD (17,288,067)		
Net unrealized gain				\$ 9,076

The credit rating of the counterparty to each of the above forward foreign currency contacts is the Royal Bank of Canada, which is rated A-1+ by Standard & Poor's.

5. Performance incentive fee:

Effective January 1, 2008, the Trust will pay the Investment Counsel an incentive fee for its services as portfolio advisor at a rate of 20% (the "Incentive Fee Rate") of:

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

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 "Hurdle Rate"). If in any fiscal year the increase in the respective series NAV is less than the Hurdle Rate (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 NAV of the respective series of the Trust for that year.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2008

5. Performance incentive fee (continued):

The performance incentive fee, if any, is estimated and accrued 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 month of the fiscal year-end of the Trust in either cash or units, at the discretion of the Investment Counsel.

Prior to January 1, 2008, the incentive fee was calculated on the same basis as the current fee for Series B and F above, except the Incentive Fee Rate was 25%, and the Hurdle Rate was the twelve month simple average of the yield indicated on the last 91 T-bill auction by the Bank of Canada each month.

6. Management fee:

Effective January 1, 2008, the Trust pays to the Manager for management and administration services rendered a monthly fee based on the month-end NAV of the respective series of units of the Trust, determined prior to the calculation of any performance incentive fee (note 5) 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

Prior to January 1, 2008, the Trust paid the Manager a monthly fee of 1/12 of 0.4% of the NAV of the Trust's units now designated as Series B units.

7. Financial instruments:

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, geographic region and/or market segment. 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 by diversifying the investment portfolio within the constraints of the Trust's investment objective. The fundamental investment objective of this 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2008

7. Financial instruments (continued):

(a) Currency Risk:

Currency risk is the risk that the value of the investments denominated in currencies other than the functional currency of the Trust will fluctuate due to changes in foreign exchange rates. The table below summarizes the Trust's exposure to currency risk as at December 31, 2008. Amounts shown are based on the carrying value of monetary and non-monetary assets (including derivatives and underlying principal (notional) amount of forward currency contracts, if any).

	Investments	Cash	Net other liabilities	Derivatives (note 4)	Total
Canadian Dollar	\$ 52,351,226	\$ 4,507,301	\$ (2,924,500)	\$ 17,297,143	\$ 71,231,170
US Dollar	13,547,323	513,339	-	(17,288,067)	(3,227,405)
	\$ 65,898,549	\$ 5,020,640	\$ (2,924,500)	\$ 9,076	\$ 68,003,765

As at December 31, 2008, 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 asset value of the Trust would have increase or decreased, respectively, by approximately \$161,000. In practice, actual results may differ from the sensitivity analysis and the difference could be material.

(b) Interest rate risk:

Interest rate risk is the risk that the market value of the Trust's interest bearing investments, such as bonds, money market instruments and debentures, will fluctuate due to changes in market interest rates. Net other liabilities are short-term in nature and/or non interest bearing. As at December 31, 2008, the Trust held only equity securities and forward foreign currency contracts and therefore did not have significant exposure to interest rate risk.

(c) Liquidity risk:

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 requires 5 days notice of redemptions, which allows it to manage sufficient cash and cash equivalent positions to maintain liquidity. The Trust may, from time to time, enter into over-the counter derivative contracts or invest in unlisted securities not traded in an organized market, which may represent liquidity risks. As at December 31, 2008, the Trust did not have significant exposure to liquidity risk.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2008

7. Financial instruments (continued):

(d) 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. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the counter derivative instruments is represented by the Trust's unrealized gain in respect of the contractual obligations with the counterparty as at the reporting date. The credit exposure of monetary assets and debt instruments is represented by their carrying amounts. As at December 31, 2008, the Trust's cash and deposits were with a major Canadian chartered bank, and it otherwise did not have significant exposure to credit risk.

(e) Other market risk:

Other market 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. Other assets and liabilities of the Trust are monetary items that are short term in nature and are not subject to other market risk.

For additional information on other market risks, refer to the Trust's Confidential Offering Memorandum.

8. 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.

9. Income taxes:

The Trust qualifies as a mutual 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, paid or payable to unitholders. 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 these financial statements.

The payment or reinvestment of distributions reduces the net assets per unit (and the net asset value 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2008

10. Reconciliation of net assets and net asset value (note 2(b)):

In accordance with S3855, 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 and in accordance with Rules and Policies implemented by the CSA, the Trust determines net asset value ("NAV") for purposes of unit sales and redemptions by valuing investments either based upon last sale price or the midpoint between closing bid and asked quotations.

	NAV	S3855 adjustment	Net Assets
By series at December 31, 2008:			
Series A	\$ 978,520	\$ (24,086)	\$ 954,434
Series B	68,426,706	(1,497,315)	66,929,391
Series F	122,514	(2,574)	119,940
	<u>\$ 69,527,740</u>	<u>\$ (1,523,975)</u>	<u>\$ 68,003,765</u>
Per unit at December 31, 2008:			
Series A	\$ 5.58	\$ (0.14)	\$ 5.44
Series B	13.74	(0.30)	13.44
Series F	5.80	(0.12)	5.68

11. Future changes in accounting standards:

At December 31, 2008 the Manager has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (CICA) for changeover to International Financial Reporting Standards (IFRS). The key elements of the plan include disclosures of the quantitative impact, if any, in the 2009 financial statements and the preparation of the 2011 financial statements, including comparative figures from the preceding year, in accordance with IFRS. The Manager currently believes that there will be no impact to net asset value per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions is expected to be mainly in the area of additional note disclosures in the financial statements of the Trust.

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
Assets		
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
	92,081,715	99,868,388
Liabilities		
Redemptions payable	278,177	73,828
Accounts payable and accrued liabilities	75,195	2,301,036
	353,372	2,374,864
Net assets (note 11)	\$ 91,728,343	\$ 97,493,524
Units outstanding (note 3)	3,486,016	3,589,505
Net asset value per unit (note 11)	\$ 26.31	\$ 27.16

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
Canada - Equities (83.5% of net assets)			
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
Total Canadian securities		\$ 44,788,682	\$ 76,594,846
United States - Equities (12.2%)			
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
Total United States securities		\$ 17,703,851	\$ 11,234,875
Miscellaneous securities (2.3%)		\$ 2,822,832	\$ 2,139,481
Transaction costs for securities purchased during the year (note 2(h))		\$ (155,212)	\$ -
Total securities (98.0%)		\$ 65,160,153	\$ 89,928,126
Other assets less liabilities (2.0%)			1,800,217
Net assets (100%)			\$ 91,728,343

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
Net investment gain (loss)	\$ 874,943	\$ (388,187)
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
Net gain (loss) from investing activities	\$ (808,015)	\$ 9,908,844
Income from operations	\$ 66,928	\$ 9,520,657
Income from operations per unit (note 2(g))	\$ 0.02	\$ 2.79

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

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

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

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

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

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.

	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

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Year ended December 31, 2007

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.

Financial Statements of

THE MCELVAINE INVESTMENT TRUST

Years ended December 31, 2006 and 2005

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, 2007



KPMG LLP
Chartered Accountants
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Canada

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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, 2006, 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, 2006 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.

A handwritten signature in black ink that reads 'KPMG LLP'.

Chartered Accountants

Vancouver, Canada

January 16, 2007

THE McELVAINE INVESTMENT TRUST

Statements of Net Assets

December 31, 2006 and 2005

	2006	2005
Assets		
Investment portfolio, at fair value	\$ 97,154,572	\$ 77,159,780
Cash and deposits	1,540,311	2,890,267
Subscriptions receivable	915,918	-
Distributions and interest receivable	257,587	171,772
	99,868,388	80,221,819
Liabilities		
Due to broker	-	105
Redemptions payable	73,828	177,204
Accounts payable and accrued liabilities	2,301,036	3,509,650
	2,374,864	3,686,959
Net assets	\$ 97,493,524	\$ 76,534,860
Units outstanding (note 3)	3,589,505	3,153,051
Net asset value per unit	\$ 27.16	\$ 24.27

Contingency (note 10)

See accompanying notes to financial statements.

Approved by the Manager
McElvaine Investment Management Ltd.

"Tim McElvaine"

Tim McElvaine, Director

THE McELVAIN INVESTMENT TRUST

Schedule of Investment Portfolio

December 31, 2006

	Number of shares	Cost	Fair value
Canada - Equities (85.1% of net assets)			
Arbor Memorial Services Inc.	100,000	\$ 905,000	\$ 2,540,000
The Caldwell Partners International Inc.	850,000	1,067,895	1,334,500
EGI Financial Holdings Inc.	306,900	2,587,423	3,038,310
Fairfax Financial Holdings Ltd.	15,000	1,822,190	3,475,050
Glacier Ventures International Corporation	3,701,597	7,090,605	11,104,791
Indigo Books & Music Inc.	895,196	4,071,423	13,517,460
Maple Leaf Foods Inc.	500,000	6,209,642	6,170,000
Newfoundland Capital Corp. Ltd.	559,800	5,268,092	10,258,335
Rainmaker Income Fund (note 7)	1,580,000	3,578,107	5,095,500
RavenSource Fund	205,228	1,506,233	1,754,699
Saskatchewan Wheat Pool Inc.	741,074	3,941,935	6,573,326
Shermag Inc.	540,000	1,346,835	1,290,600
Sun-Rype Products Ltd.	736,200	4,911,588	9,644,220
Torstar Corp. - Class B	250,000	5,151,187	4,902,500
Village Farms Income Fund	816,999	2,262,984	2,254,917
Total Canadian securities		\$ 51,721,139	\$ 82,954,208
United States - Bond (0.7% of net assets)			
Specialty Foods Group, Inc.	1,250,000	\$ 1,389,445	\$ 727,311
United States - Equities (2.9% of net assets)			
Montpelier Re Holdings Ltd.	130,200	2,264,463	2,819,664
Total United States securities		\$ 3,653,908	\$ 3,546,975
Japan - Equities (6.8%)			
Fuji Television Network	1,000	2,659,707	2,656,419
Nippon TV Network Corp.	6,000	938,231	1,034,832
TV Asahi Corp.	689	1,126,104	1,594,760
TV Tokyo Corporation	29,000	1,187,461	1,367,958
Total Japanese securities		\$ 5,911,503	\$ 6,653,969
Miscellaneous securities (4.1%)			
		\$ 4,049,487	\$ 3,999,420
Total securities (99.6%)		\$ 65,336,037	\$ 97,154,572
Other assets less liabilities (0.4% of net assets)			338,952
Net assets (100%)			\$ 97,493,524

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Operations

Years ended December 31, 2006 and 2005

	2006	2005
Investment income:		
Dividends	\$ 1,512,064	\$ 639,212
Interest	839,290	531,405
Withholding tax	(6,695)	(7,230)
	2,344,659	1,163,387
Expenses:		
Performance incentive fee (note 4)	2,106,793	3,210,388
Management fee (note 5)	353,622	287,641
Trustee, custodial and legal fees	86,048	112,034
Audit and tax fees	30,000	25,000
Bank charges and interest	170	662
Goods and services tax	156,213	254,455
	2,732,846	3,890,180
Net investment loss	\$ (388,187)	\$(2,726,793)
Net realized gains:		
Proceeds from sale of securities	\$ 17,975,304	\$ 5,442,021
Securities at cost, beginning of year	50,557,744	39,152,133
Cost of securities purchased during the year	28,587,599	16,468,677
	79,145,343	55,620,810
Securities at cost, end of year	(65,336,037)	(50,557,744)
Cost of securities sold	13,809,306	5,063,066
Gain on sale of securities	4,165,998	378,955
Forward foreign currency contracts	551,754	1,025,890
Foreign exchange	(25,407)	(10,826)
	4,692,345	1,394,019
Change in net unrealized appreciation of:		
Securities	5,787,193	12,115,824
Forward foreign currency contracts	(570,694)	438,808
	5,216,499	12,554,632
Net gain from investing activities	\$ 9,908,844	\$ 13,948,651
Income from operations	\$ 9,520,657	\$ 11,221,858
Income from operations per unit	\$ 2.79	\$ 3.55

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Changes in Net Assets

Years ended December 31, 2006 and 2005

	2006	2005
Net assets, beginning of year	\$ 76,534,860	\$ 64,563,908
Income from operations	9,520,657	11,221,858
Unit transactions (note 3):		
Issued for cash	14,402,407	4,357,916
Redeemed	(2,964,400)	(3,608,822)
	11,438,007	749,094
Increase in net assets	20,958,664	11,970,952
Net assets, end of year	\$ 97,493,524	\$ 76,534,860

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2006 and 2005

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:

(a) General:

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

(b) Investments:

Investments are stated at year end fair values, which are generally determined 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 a last sale price or midpoint 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.

(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.

THE McELVAIN INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(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.

(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	On the number of units outstanding at the year end.
Income from operations	On the monthly weighted average number of units outstanding during the year

(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 period. Actual results could differ from those estimates.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(i) Adoption of future accounting standards:

(i) Valuation of securities/pricing of unit transactions:

The Canadian Institute of Chartered Accountants (CICA) has issued Handbook Section 3855, *Financial Instruments – Recognition and Measurement* (S3855), which applies to fiscal years beginning on or after October 1, 2006. The adoption of S3855 will impact the calculation of the net asset value of an investment fund for financial reporting purposes because it will require marketable securities to be valued at bid price rather than either the last sale price or the midpoint between closing bid and asked quotations, as is the current accounting policy of the Trust.

For unit sales and redemption pricing purposes, the Trust will continue to calculate the net asset value on a basis consistent with the investment funds industry, which is itself awaiting confirmation from the Canadian Securities Authorities on whether the net asset value should either continue to be calculated in accordance with the existing principles-based approach or be changed to conform with the S3855 valuation for financial reporting purposes.

(ii) Transaction costs:

S3855 requires that transaction costs, such as brokerage commissions incurred in the purchase and sale of securities by the Trust, be charged to income from operations in the period incurred. Until December 31, 2006, the Trust's policy has been to either add commissions to the cost of the securities purchased or deduct them from the proceeds of sale, as applicable. For the fiscal year beginning January 1, 2007, the Trust will operate in a manner that facilitates financial reporting under either policy on a prospective basis (that is, without retroactive restatement of prior periods). Adoption of an amended accounting policy is not expected to have a material impact on the financial statements and will, in itself, have no impact on the quarterly pricing of the Trust's units for purchase and redemption by clients.

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:

	2006	2005
Balance, beginning of year	3,153,051	3,116,883
Issued for cash	550,265	194,710
Redeemed	(113,811)	(158,542)
Balance, end of year	3,589,505	3,153,051

As at December 31, 2006, the Manager and related parties directly or indirectly held 55,223 units (2%) of the Trust.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2006 and 2005

4. Performance incentive fee:

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

- (a) The increase in net asset value 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;
- (b) 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 performance incentive fee, if any, is estimated and accrued 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 month of the fiscal year-end of the Trust in either cash or units, at the discretion of the Investment Counsel.

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

6. Financial instruments:

- (a) Fair values:

The Trust's investments in securities and forward foreign currency contracts are carried at fair value. The Manager considers that the fair value of the Trust's financial instruments other than investments in securities and forward foreign currency contracts 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2006 and 2005

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.

8. Income taxes:

(a) Distributions:

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. No distributions were made in 2006 or 2005.

The payment or reinvestment of distributions reduces the net asset value 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.

(b) Loss-carry forwards:

The Trust has non-capital losses for income tax purposes of \$1,262,000 available to reduce net investment income and net taxable capital gains in future years up to and including 2015.

9. Ravensource Fund management agreement:

On January 1, 2007, the Manager began providing portfolio management services to the Ravensource Fund, in which the Trust owned 205,228 units (13%) with a fair value of approximately \$1,755,000 as at December 31, 2006.

10. Contingency:

The Manager plans to ask the unitholders of the Trust to approve the acquisition of The McElvaine Limited Partnership during the first half of 2007.

Financial Statements of

THE MCELVAINE INVESTMENT TRUST

Years ended December 31, 2005 and 2004

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, Director

January 13, 2006



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
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Canada

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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, 2005, 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, 2005 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 13, 2006

THE McELVAINE INVESTMENT TRUST

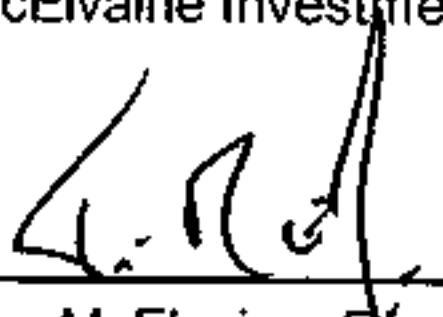
Statements of Net Assets

December 31, 2005 and 2004

	2005	2004
Assets		
Investment portfolio, at fair value	\$ 77,159,780	\$ 53,199,537
Cash and deposits	2,890,267	13,465,625
Subscriptions receivable	-	25,000
Dividends and interest receivable	171,772	112,023
	80,221,819	66,802,185
Liabilities		
Due to broker	105	331,708
Redemptions payable	177,204	601,252
Accounts payable and accrued liabilities	3,509,650	1,305,317
	3,686,959	2,238,277
Net assets	\$ 76,534,860	\$ 64,563,908
Units outstanding (note 3)	3,153,051	3,116,883
Net asset value per unit	\$ 24.27	\$ 20.71

See accompanying notes to financial statements.

Approved by the Manager
McElvaine Investment Management Ltd.



Tim McElvaine, Director

THE McELVAINE INVESTMENT TRUST

Schedule of Investment Portfolio

December 31, 2005

	Number of shares	Cost	Fair value
Canada - Equities (81.5% of net assets)			
Arbor Memorial Services Inc.	100,000	\$ 905,000	\$ 2,130,000
BCE Inc.	50,000	1,372,250	1,393,500
The Caldwell Partners International Inc.	850,000	1,067,895	1,479,000
Canfor Corporation	100,000	1,143,980	1,343,000
Glacier Ventures International Corporation	2,697,560	4,137,632	8,578,241
Hollinger Canadian Newspapers, LP	2,428,700	95,842	910,763
Humpty Dumpty Snack Foods Inc.	1,255,700	3,053,405	3,515,960
Indigo Books & Music Inc.	935,196	4,163,612	8,790,842
Newfoundland Capital Corp. Ltd.	559,800	5,268,092	9,460,620
Rainmaker Income Fund (note 7)	1,180,000	2,573,307	3,835,000
Ravensource Fund	155,900	1,111,609	1,221,477
Saskatchewan Wheat Pool Inc.	741,074	3,941,935	4,935,552
Shermag Inc.	500,000	1,260,000	1,900,000
Sun-Rype Products Ltd.	604,200	3,331,909	7,310,820
Torstar Corp. - Class B	250,000	5,151,187	5,535,000
Total Canadian securities		\$ 38,577,655	\$ 62,339,775
Japan - Equities (11.8%)			
Fuji Television Network	1,000	\$ 2,659,707	\$ 2,939,442
Mitsubishi Securities	125,000	1,476,333	1,830,966
Nippon TV Network	6,000	938,231	1,076,608
TV Asahi Corp.	689	1,126,104	1,997,999
TV Tokyo Corp.	29,000	1,187,461	1,156,675
Total Japanese securities		\$ 7,387,836	\$ 9,001,690
Great Britain - Equities (1.9%)			
Henderson Group PLC	960,000	\$ 450,909	\$ 1,429,460
Miscellaneous securities (4.9%)		\$ 4,141,344	\$ 3,818,161
Total securities (100.1%)		\$ 50,557,744	\$ 76,589,086
Forward foreign currency contracts (0.7%):			
Contract value at inception (local currency)	Contract value at inception (Canadian dollars)	Contract value at December 31, 2005 (Canadian dollars)	Settlement date
JPY (750,000,000)	\$ 7,950,811	\$ 7,430,800	January 11, 2006
GBP (500,000)	1,053,008	1,002,325	January 11, 2006
Total unrealized gain on forward foreign currency contracts			\$ 570,694
Total investment portfolio at fair value, December 31, 2005 (100.8%)			\$ 77,159,780
Other assets less liabilities (-0.8%)			(624,920)
Net assets (100%)			\$ 76,534,860

The credit rating of the counterparty to each of the above forward foreign currency contracts is the Royal Bank of Canada, which is rated AA (low) by the Dominion Bond Rating Service Ltd.

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Operations

Years ended December 31, 2005 and 2004

	2005	2004
Investment income:		
Dividends	\$ 639,212	\$ 411,344
Interest	531,405	370,317
Withholding tax	(7,230)	(5,928)
	1,163,387	775,733
Expenses:		
Performance incentive fee (note 4)	3,210,388	1,142,268
Management fee (note 5)	287,641	238,197
Trustee, custodial and legal fees	112,034	59,795
Audit and tax fees	25,000	31,000
Bank charges and interest	662	823
Goods and services tax	254,455	101,085
	3,890,180	1,573,168
Net investment loss	\$ (2,726,793)	\$ (797,435)
Net realized gains (losses):		
Proceeds from sale of securities	\$ 5,442,021	\$ 19,076,837
Securities at cost, beginning of year	39,152,133	33,458,639
Cost of securities purchased during the year	16,468,677	22,375,371
	55,620,810	55,834,010
Securities at cost, end of year	(50,557,744)	(39,152,133)
Cost of securities sold	5,063,066	16,681,877
Gain on sale of securities	378,955	2,394,960
Forward foreign currency contracts	1,025,890	812,815
Foreign exchange	(10,826)	13,617
	1,394,019	3,221,392
Change in net unrealized appreciation of:		
Securities	12,115,824	2,650,182
Forward foreign currency contracts	438,808	(371,003)
	12,554,632	2,279,179
Net gain from investing activities	\$ 13,948,651	\$ 5,500,571
Income from operations	\$ 11,221,858	\$ 4,703,136
Income from operations per unit	\$ 3.55	\$ 1.58

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Changes in Net Assets

Years ended December 31, 2005 and 2004

	2005	2004
Net assets, beginning of year	\$ 64,563,908	\$ 51,629,135
Income from operations	11,221,858	4,703,136
Unit transactions (note 3):		
Issued for cash	4,357,916	11,276,252
Redeemed	(3,608,822)	(3,044,615)
	749,094	8,231,637
Increase in net assets	11,970,952	12,934,773
Net assets, end of year	\$ 76,534,860	\$ 64,563,908

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2005 and 2004

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.

2. Significant accounting policies:

(a) General:

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

(b) Investments:

Investments are stated at year end fair values, which are generally determined 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 a last sale price or midpoint 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.

(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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2005 and 2004

2. Significant accounting policies (continued):

(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.

(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 year end.
Income from operations	On the monthly weighted average number of units outstanding during the year

(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 period. Actual results could differ from those estimates.

(i) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

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:

	2005	2004
Balance, beginning of year	3,116,883	2,706,597
Issued for cash	194,710	561,696
Redeemed	(158,542)	(151,410)
Balance, end of year	3,153,051	3,116,883

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2005 and 2004

4. Performance incentive fee:

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

- (a) The increase in net asset value 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;
- (b) 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 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 estimated and accrued 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 month of the fiscal year-end of the Trust in either cash or units, at the discretion of the Investment Counsel.

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

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2005 and 2004

6. Financial instruments:

(a) Fair values:

The Trust's investments in securities and forward foreign currency contracts are carried at fair value. The Manager considers that the fair value of the Trust's financial instruments other than investments in securities and forward foreign currency contracts 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.

8. Income taxes:

(a) Distributions:

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. No distributions were made in 2005 or 2004.

The payment or reinvestment of distributions reduces the net asset value 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.

(b) Loss-carry forwards:

The Trust has non-capital losses for income tax purposes of \$1,513,000 available to reduce net investment income and net taxable capital gains in future years up to and including 2015.

Financial Statements of

THE MCELVAINE INVESTMENT TRUST

Years ended December 31, 2004 and 2003



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AUDITORS' REPORT

To the Unitholders of
The McElvaine Investment Trust

We have audited the statement of net assets of The McElvaine Investment Trust as at December 31, 2004, the schedule of investments as at December 31, 2004, 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 management, 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, 2004 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 14, 2005

THE McELVAINE INVESTMENT TRUST

Statements of Net Assets

December 31, 2004 and 2003

	2004	2003
Assets		
Investment portfolio, at fair value	\$ 53,199,537	\$ 45,226,864
Cash and deposits (note 3)	13,465,625	9,393,723
Subscriptions receivable	25,000	403,536
Dividends and interest receivable	112,023	179,200
	66,802,185	55,203,323
Liabilities		
Due to broker	331,708	-
Accounts payable and accrued liabilities	1,207,764	2,634,764
Redemptions payable	601,252	740,056
Income and other taxes payable	97,553	199,368
	2,238,277	3,574,188
Net assets represented by unitholders' equity	\$ 64,563,908	\$ 51,629,135
Units outstanding (note 4(a))	3,116,883	2,706,597
Net asset value per unit	\$ 20.71	\$ 19.08

See accompanying notes to financial statements.

Approved by the Director of the Manager:

"Tim McElvaine"

Tim McElvaine, Director,
McElvaine Investment Management Ltd.

THE McELVAINE INVESTMENT TRUST

Schedule of Investments

December 31, 2004

	Number of shares	Cost	Market value
Investment portfolio:			
Canada - Equities (65.6% of net assets)			
Arbor Memorial Services	100,000	\$ 905,000	\$ 1,830,000
Caldwell Partners International	767,400	921,845	1,450,386
Emergis Inc.	700,000	2,332,340	2,548,000
Forest and Marine Investments Ltd.	294,600	1,230,191	1,178,400
Glacier Ventures Int. Corp.	1,789,710	1,662,759	3,579,420
Humpty Dumpty Snack Foods Inc.	1,255,700	3,053,405	3,264,820
Indigo Books	928,396	4,127,665	4,456,301
Madison Pacific Properties	197,585	102,035	264,764
Newfoundland Capital Corp.	559,800	5,268,092	6,997,500
Premium Brands Inc.	270,000	2,320,950	2,632,500
Rainmaker Income Fund (note 6)	580,000	623,308	2,285,200
Sun-Rype Products Ltd.	582,700	3,073,052	6,380,565
Torstar Corp. - Class B	250,000	5,151,187	5,500,000
Total Canadian securities		\$ 30,771,829	\$ 42,367,856
United States - Equities (1.6%)			
Blockbuster Inc.	100,000	\$ 817,884	\$ 1,055,570
Total US securities		\$ 817,884	\$ 1,055,570
Japan - Equities (6.3%)			
TV Asahi Corp.	689	\$ 1,126,104	\$ 1,675,703
Mitsubishi Securities	100,000	1,214,610	1,311,920
Nippon TV Network	6,000	938,231	1,079,703
Total Japanese securities		\$ 3,278,945	\$ 4,067,326
Great Britain - Equities (4.2%)			
HHG PLC	2,000,000	\$ 1,805,397	\$ 2,679,886
Total Great Britain securities		\$ 1,805,397	\$ 2,679,886
Miscellaneous equities (4.5%)		\$ 2,478,078	\$ 2,897,013
Total securities		\$ 39,152,133	\$ 53,067,651
Derivative instruments (0.2%) (see below)			131,886
Total investments at fair value, December 31, 2004 (82.4%)			\$ 53,199,537
Total investments at fair value, December 31, 2003 (87.6%)			\$ 45,226,864

THE McELVAINE INVESTMENT TRUST

Schedule of Investments (continued)

December 31, 2004

Derivative Instruments:

Amounts bought (sold) forward in foreign currency	Amounts receivable (payable) in Canadian dollars	Maturity date	Current fair value of foreign currency	Unrealized gain
JPY (350,000,000)	\$ 4,211,388	January 20, 2005	\$ 4,098,928	\$ 112,460
GBP (1,000,000)	2,316,745	January 20, 2005	2,297,319	19,426
Total derivative instruments, December 31, 2004, unrealized gain				\$ 131,886
Total derivative instruments, December 31, 2003, unrealized gain				\$ 502,889

The credit rating of the counterparty, Royal Bank of Canada, to each of the above contracts, is AA (low) - Dominion Bond Rating Service Ltd.

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Operations

Years ended December 31, 2004 and 2003

	2004	2003
Investment income:		
Dividends	\$ 411,344	\$ 218,525
Interest	370,317	434,112
Withholding tax	(5,928)	(12,498)
	775,733	640,139
Expenses:		
Performance incentive fee (note 9)	1,142,268	2,583,484
Management fee (note 8)	238,197	161,976
Trustee, custodial and legal fees	59,795	63,835
Audit and tax fees	31,000	32,000
Bank charges and interest	823	214
	1,472,083	2,841,509
Investment loss before tax	(696,350)	(2,201,370)
Goods and services tax	101,085	201,996
Net investment loss	\$ (797,435)	\$(2,403,366)
Net gain from investing activities:		
Net realized gains (losses):		
Proceeds from sale of investments	\$ 19,076,837	\$ 10,644,656
Cost of investments sold (note 5)	16,681,877	9,178,407
	2,394,960	1,466,249
Forward foreign currency contracts	812,815	1,784,747
Foreign exchange	13,617	(13,982)
	3,221,392	3,237,014
Change in net unrealized gains and losses:		
Investments	2,650,182	8,540,220
Forward foreign currency contracts	(371,003)	539,055
	2,279,179	9,079,275
Net gain from investing activities	\$ 5,500,571	\$ 12,316,289
Income from operations	\$ 4,703,136	\$ 9,912,923
Income from operations per unit	\$ 1.58	\$ 4.20

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Changes in Net Assets

Years ended December 31, 2004 and 2003

	2004	2003
Net assets, beginning of year	\$ 51,629,135	\$ 29,330,161
Income from operations	4,703,136	9,912,923
Unit transactions:		
Issue of units for cash	11,276,252	13,413,190
Redemption of units	(3,044,615)	(1,027,139)
	8,231,637	12,386,051
Increase in net assets	12,934,773	22,298,974
Net assets, end of year	\$ 64,563,908	\$ 51,629,135

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2004 and 2003

1. Organization:

The McElvaine Investment Trust (the "Trust") is an unincorporated unit trust, governed by the laws of British Columbia and formed by Declaration of Trust dated September 27, 1996 and amended May 15, 2002, as a Trust Agreement between McElvaine Investment Management Ltd. and the Royal Trust Company (the "Trust Agreement"). The Trust is managed by McElvaine Investment Management Ltd. (the "Manager" or "Investment Counsel"), which also provides investment counselling services. The Royal Trust Company is the Trustee of the Trust.

2. Significant accounting policies:

(a) General:

The financial statements of the Trust are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. The significant accounting policies are described below.

(b) Investments:

Investments are stated at year end fair values, which are generally determined 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 a last sale price or midpoint 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 gains and losses on investments.

(c) 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. 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

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

(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 year end.
Income from operations	On the monthly weighted average number of units outstanding during the year

(h) Use of estimates:

The preparation of financial statements requires management 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 period. Actual results could differ from those estimates.

(i) Generally accepted accounting principles:

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1100, ("Section 1100") "*Generally Accepted Accounting Principles*" ("GAAP"), effective for fiscal years beginning on or after October 1, 2003.

Section 1100 primarily impacts the disclosure within an investment fund's financial statements, and certain disclosures previously in general use in the investment fund industry are no longer considered GAAP.

The Trust, in conjunction with other investment funds, has assessed the impact of Section 1100 on its financial statement presentation and disclosures, and has made revisions accordingly. These revisions did not impact the net assets or income from operations of the Trust.

3. Cash and deposits:

	2004	2003
Canadian	\$ 13,458,541	\$ 8,125,639
Foreign	7,084	1,268,084
	<u>\$ 13,465,625</u>	<u>\$ 9,393,723</u>

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2004 and 2003

4. Unitholders' equity:

(a) Authorized and issued units:

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.

The number of issued units are summarized as follows:

	2004	2003
Balance, beginning of year	2,706,597	1,970,978
Issued for cash	561,696	790,400
Redemptions	(151,410)	(54,781)
Balance, end of year	3,116,883	2,706,597

(b) Unrealized gains:

Included in unitholders' equity of the Trust are unrealized gains as follows:

	2004	2003
Securities in investment portfolio, at fair value	\$ 53,067,651	\$ 44,723,975
Securities in investment portfolio, at cost	39,152,133	33,458,639
	13,915,518	11,265,336
Forward foreign currency contracts	131,886	502,889
	\$ 14,047,404	\$ 11,768,225

5. Cost of investments sold:

The continuity of the cost of investments purchased and sold by the Trust is as follows:

	2004	2003
Investments at cost, beginning of year	\$ 33,458,639	\$ 23,850,035
Cost of investments purchased	22,375,371	18,787,011
	55,834,010	42,637,046
Investments at cost, end of year	39,152,133	33,458,639
Cost of investments sold	\$ 16,681,877	\$ 9,178,407

6. Rainmaker Income Fund:

On May 31, 2002, shares held by the Trust in Rainmaker Entertainment Group were exchanged for a proportionate number of units in Rainmaker Income Fund ("Rainmaker"). 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. The cost of the units acquired was recorded at the cost of the shares given up in the exchange. No units of Rainmaker have been acquired or disposed of since May 31, 2002. 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

Years ended December 31, 2004 and 2003

7. Liquidity of investments:

During the 2002 year, the Trust purchased Class B securities of Cinar Corp. ("Cinar"). In early 2004 a group of third parties purchased the Cinar shares for US \$3.60 per share in cash plus a prorata distribution of the potential net proceeds, if any, from the settlement of certain outstanding litigation. Such litigation remains outstanding, and the Manager has ascribed no value to the entitlement to potential litigation proceeds in these financial statements.

The Investment Counsel has waived the Performance Incentive Fee, as defined in note 9, with respect to any increase in the value of Cinar Corp. Class B shares previously held by the Trust relative to the cost of those shares to the Trust.

The Trust may hold large positions in certain securities and, as a result, may not be able to liquidate such positions on a timely basis. Accordingly, the proceeds received on any sale of such securities may differ significantly from stated fair value.

8. 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 net asset value of the Trust, determined prior to the calculation of any fees payable to the Manager, referred to in note 9.

9. Performance incentive fee:

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 as calculated at the close of business on each fiscal year-end, adjusted for contributions and redemptions made by the investors, for the waiver outlined in note 7, 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 twelve 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 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 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 McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2004 and 2003

9. Performance incentive fee (continued):

The Performance Incentive Fee, if any, is estimated and accrued 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 month of the fiscal year-end of the Trust in cash or units, at the discretion of the Investment Counsel.

10. Related party transactions:

Certain parties related to the Manager own units of the Trust.

11. Distributions:

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 the net asset value 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.

12. Financial instruments:

(a) Fair values:

The Trust's investments in securities and forward foreign currency contracts are carried at fair value. The Manager considers that fair values of financial instruments other than investments in securities and forward foreign currency contracts 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 denominated in other than Canadian dollars differ from amounts hedged through forward foreign currency contracts.

13. Portfolio transactions:

A statement of portfolio transactions is not included as part of these financial statements, but will be provided to any unitholder, without charge, on request. Requests may be made in writing to McElvaine Investment Management Ltd., Suite 200 - 1100 Melville Street, Vancouver, BC, V6E 4A6.

Financial Statements of

THE McELVAINE INVESTMENT TRUST

Years ended December 31, 2003 and 2002



KPMG LLP
Chartered Accountants
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Vancouver BC V7Y 1K3
Canada

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Telefax (604) 691-3031
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AUDITORS' REPORT

To the Unitholders of
The McElvaine Investment Trust

We have audited the statements of net assets of The McElvaine Investment Trust as at December 31, 2003 and 2002, the schedule of investments as at December 31, 2003, the statements of net investment income (loss), net gain (loss) on investments and changes in net assets for the years ended December 31, 2003 and 2002 and the statements of financial highlights for the five years ended December 31, 2003, 2002, 2001, 2000 and 1999. 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 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 management, 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, 2003 and 2002 and the results of its operations and the changes in its net assets for the years then ended and its financial highlights for the five years ended December 31, 2003, 2002, 2001, 2000 and 1999 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

January 16, 2004



KPMG LLP, a Canadian limited liability partnership is the Canadian member of KPMG International, a Swiss nonoperating association.

THE McELVAINE INVESTMENT TRUST

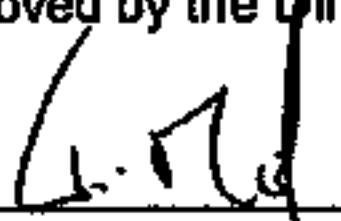
Statements of Net Assets

December 31, 2003 and 2002

	2003	2002
Assets		
Investment portfolio, at market value	\$ 45,226,864	\$ 26,538,985
Cash and deposits (note 3)	9,393,723	2,786,505
Subscriptions receivable	403,536	-
Dividends and interest receivable	179,200	69,099
	55,203,323	29,394,589
Liabilities		
Accounts payable and accrued liabilities	2,634,764	38,902
Redemptions payable	740,056	1,943
Income and other taxes payable	199,368	23,583
	3,574,188	64,428
Net assets represented by unitholders' equity	\$ 51,629,135	\$ 29,330,161
Units outstanding (note 4(a))	2,706,597	1,970,978
Net asset value per unit	\$ 19.08	\$ 14.88

See accompanying notes to financial statements.

Approved by the Director of the Manager:


McElvaine Investment Management Ltd.
Tim McElvaine, Director

THE McELVAINE INVESTMENT TRUST

Schedule of Investments

December 31, 2003

	Number of shares	Cost	Market value
Investment portfolio:			
Canada - Equities (60.9% of net assets)			
Arbor Memorial Services	100,000	\$ 905,000	\$ 1,485,000
Caldwell Partners International	767,400	921,845	1,304,580
Cinar Corp. - Class B (note 7)	1,388,750	5,727,018	6,478,584
Glacier Ventures Int. Corp.	1,789,710	1,662,759	2,791,948
Glendale International Corporation	200,000	1,320,000	1,400,000
Humpty Dumpty Snack Foods Inc.	655,700	1,313,405	1,757,276
Indigo Books	497,096	2,138,337	2,584,899
Newfoundland Capital Corp.	400,000	3,424,000	4,710,000
Rainmaker Income Fund (note 6)	580,000	623,308	2,262,000
Sun-Rype Products Ltd.	541,200	2,648,944	4,335,012
Torstar Corp. - Class B	80,000	1,462,780	2,320,800
Total Canadian securities		\$ 22,147,396	\$ 31,430,099
United States - Equities (8.4%)			
Alderwoods Group	100,000	\$ 1,232,475	\$ 1,217,306
Mattel Inc. (note 6)	125,000	2,776,381	3,112,724
Total US securities		\$ 4,008,856	\$ 4,330,030
Japan - Equities (10.5%)			
Asahi Breweries Ltd.	50,000	\$ 442,414	\$ 589,034
TV Asahi Corp.	689	1,126,104	1,354,199
Mitsubishi Securities	75,000	464,209	1,055,377
Nikko Cordial Corp.	180,000	924,026	1,295,754
Nippon TV Network	6,000	938,231	1,152,505
Total Japanese securities		\$ 3,894,984	\$ 5,446,869
Great Britain - Equities (2.6%)			
HHG PLC	1,500,000	\$ 1,339,622	\$ 1,353,290
Total Great Britain securities		\$ 1,339,622	\$ 1,353,290
Miscellaneous equities (4.2%)		\$ 2,067,781	\$ 2,163,687
Total securities		\$ 33,458,639	\$ 44,723,975
Derivative instruments (1.0%) (see below)			502,889
Total investments at market value, December 31, 2003 (87.6%)			\$ 45,226,864
Total investments at market value, December 31, 2002 (90.5%)			\$ 26,538,985

THE McELVAINE INVESTMENT TRUST

Schedule of Investments (continued)

December 31, 2003

Derivative Instruments:

Amounts bought (sold) in foreign currency	Amounts bought (sold) in Canadian dollars	Maturity date	Current market value	Unrealized gain (loss)
JPY (600,000,000)	\$ 7,125,045	January 15, 2004	\$ 7,243,328	\$ (118,283)
US\$ (7,800,000)	10,707,814	January 15, 2004	10,086,642	621,172
Total derivative instruments, December 31, 2003, unrealized gain				\$ 502,889
Total derivative instruments, December 31, 2002, unrealized loss				\$ (36,166)

The credit rating of the counterparty to each of the above contracts, Royal Bank of Canada, is AA (low) - Dominion Bond Rating Service Ltd.

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Net Investment Income (Loss)

Years ended December 31, 2003 and 2002

	2003	2002
Investment income:		
Dividends	\$ 218,525	\$ 171,728
Interest	434,112	203,902
Withholding tax	(12,498)	(5,420)
	640,139	370,210
Expenses:		
Performance incentive fee (note 9)	2,583,484	-
Management fee (note 8)	161,976	107,841
Professional fees	32,000	46,532
Trustee, custodial and legal fees	63,835	31,861
Bank charges and interest	214	16,160
	2,841,509	202,394
Investment income (loss) before taxes	(2,201,370)	167,816
Income and other taxes (note 11)	201,996	19,342
Net investment income (loss)	\$ (2,403,366)	\$ 148,474
Net investment income (loss) per unit	\$ (1.02)	\$ 0.10

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Net Gain (Loss) on Investments

Years ended December 31, 2003 and 2002

	2003	2002
Net realized gains (losses):		
Proceeds from sale of investments	\$ 10,644,656	\$ 11,012,957
Cost of investments sold (note 5)	9,178,407	9,098,816
	1,466,249	1,914,141
Forward foreign currency contracts	1,784,747	(323,414)
Foreign exchange	(13,982)	(37,420)
	3,237,014	1,553,307
Change in net unrealized gains and losses:		
Investments	8,540,220	(1,642,847)
Forward foreign currency contracts	539,055	51,245
	9,079,275	(1,591,602)
Net gain (loss) on investments	\$ 12,316,289	\$ (38,295)
Net gain on investments per unit (note 2(g))	\$ 5.22	\$ 0.69

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Changes in Net Assets

Years ended December 31, 2003 and 2002

	2003	2002
Net assets, beginning of year	\$ 29,330,161	\$ 17,428,204
Increase in net assets from operations:		
Net investment income (loss)	(2,403,366)	148,474
Net gain (loss) on investments	12,316,289	(38,295)
	9,912,923	110,179
Distributions paid from:		
Net investment income	-	(88,072)
Realized gains	-	(2,838,200)
	-	(2,926,272)
Unit trust transactions:		
Issue of units for cash	13,413,190	12,418,136
Reinvestment of distributions	-	2,925,147
Redemption of units	(1,027,139)	(625,233)
	12,386,051	14,718,050
Increase in net assets	22,298,974	11,901,957
Net assets, end of year	\$ 51,629,135	\$ 29,330,161

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Financial Highlights

Years ended December 31, 2003, 2002, 2001, 2000 and 1999

	2003	2002	2001	2000	1999
Data per unit:					
Net asset value, beginning of year	\$ 14.88	\$ 15.76	\$ 12.31	\$ 10.90	\$ 11.38
Income from operations:					
Net investment income (loss)	(1.02)	0.10	(0.67)	(0.33)	(0.49)
Net gain on investments	5.22	0.69	4.12	2.42	3.84
Total income from operations	4.20	0.79	3.45	2.09	3.35
Distributions to investors:					
From net investment income	-	(0.05)	-	-	-
From net realized gains on investments	-	(1.62)	-	(0.38)	(3.37)
Return of capital	-	-	-	(0.30)	(0.46)
Total distributions	-	(1.67)	-	(0.68)	(3.83)
Net asset value, end of year	\$ 19.08	\$ 14.88	\$ 15.76	\$ 12.31	\$ 10.90

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2003 and 2002

1. Organization:

The McElvaine Investment Trust (the "Trust") is an unincorporated unit trust, governed by the laws of British Columbia and formed by Declaration of Trust dated September 27, 1996 and amended May 15, 2002, as a Trust Agreement between McElvaine Investment Management Ltd. and the Royal Trust Company (the "Trust Agreement"). The Trust is managed by McElvaine Investment Management Ltd. (the "Manager"), which also provides investment counselling services. The Royal Trust Company is the Trustee of the Trust.

2. Significant accounting policies:

(a) General:

The financial statements of the Trust are prepared in accordance with generally accepted accounting principles followed by the investment fund industry in Canada. The significant accounting policies are described below.

(b) Investments:

Investments are stated at year end market values, which are generally determined 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 last sale price or closing bid price is unavailable, 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.

(c) 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 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 net gain (loss) on investments.

(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. When the contracts are closed or expired, gains and losses are recognized and included in realized gains and losses.

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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2003 and 2002

2. Significant accounting policies (continued):

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

(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 year end.
Net investment income (loss)	On the monthly weighted average number of units outstanding during the year
Net gain (loss) on investments	On the number of units outstanding at the date of record.
Distributions	

Net gain (loss) on investments per unit includes an amount necessary to reconcile the change in net asset value per unit at the end of the year with the net asset value per unit at the beginning of the year, as net investment income per unit is calculated based on the average number of units outstanding during the year whereas the distribution per unit is calculated based on the actual number of units outstanding at the date of record. The reconciling amount is also affected by fluctuations in net asset value in relation to unit transactions during the year.

(h) Use of estimates:

The preparation of financial statements requires management 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 period. Actual results could differ from those estimates.

3. Cash and deposits:

	2003	2002
Cash and deposits in bank:		
Canadian	\$ 8,125,639	\$ 2,776,311
Foreign	1,268,084	10,194
	<u>\$ 9,393,723</u>	<u>\$ 2,786,505</u>

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2003 and 2002

4. Unitholders' equity:

(a) Authorized and issued units:

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.

Issued units are summarized as follows:

	2003	2002
Balance, beginning of year	1,970,978	1,105,940
Issued for cash	790,400	705,329
Issued on reinvestment of distribution	-	196,569
Redemptions	(54,781)	(36,860)
Balance, end of year	2,706,597	1,970,978

(b) Unrealized gains and losses:

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

	2003	2002
Securities in investment portfolio, at market value	\$ 44,723,975	\$ 26,575,151
Securities in investment portfolio, at cost	33,458,639	23,850,035
	11,265,336	2,725,116
Forward foreign currency contracts	502,889	(36,166)
	\$ 11,768,225	\$ 2,688,950

5. Cost of investments sold:

The continuity of the cost of investments purchased and sold by the Trust is as follows:

	2003	2002
Investments at cost, beginning of year	\$ 23,850,035	\$ 14,192,322
Cost of investments purchased	18,787,011	18,756,529
	42,637,046	32,948,851
Investments at cost, end of year	33,458,639	23,850,035
Cost of investments sold	\$ 9,178,407	\$ 9,098,816

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2003 and 2002

6. Mattel Inc. / Rainmaker Income Fund:

On January 17, 2003, shares held by the Trust in Softkey Software Products Inc. were exchanged by the issuer for shares of Mattel Inc. ("Mattel"). For tax purposes, this transaction resulted in a capital gain of \$448,021 to the Trust. For accounting purposes, the gain was not recognized as the exchange did not represent the culmination of the earnings process. The cost of the shares acquired has been recorded at the cost of the shares given up in the exchange. No shares of Mattel have been disposed of since January 17, 2003. A gain or loss on investment will be recorded when the investment is sold in the normal course, which amount will be adjusted for tax purposes by the previously reported capital gain.

On May 31, 2002, shares held by the Trust in Rainmaker Entertainment Group were exchanged for a proportionate number of units in Rainmaker Income Fund ("Rainmaker"). 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. The cost of the units acquired was recorded at the cost of the shares given up in the exchange. No units of Rainmaker have been acquired or disposed of since May 31, 2002. A gain or loss on investment will be recorded when the investment is sold in the normal course, which amount will be adjusted for tax purposes by the previously reported capital gain.

7. Liquidity of investments:

During the year ended December 31, 2002, the Trust purchased Class B securities of Cinar Corp. ("Cinar"). As at December 31, 2003, this investment represented 12.5% (2002 - 15.0%) of net assets. Due to a cease-trade order imposed by the British Columbia Securities Commission, the Trust cannot sell this position, and will not be able to sell the position until the cease-trade order has been lifted. The Manager has agreed to waive the Performance Incentive Fee, as defined in note 9, with respect to any increase in the value of Cinar Corp. Class B shares held by the Trust relative to the cost of those shares to the Trust.

An offer has been made by a group of third parties to purchase Cinar for US \$3.60 per share in cash plus a prorata distribution of the potential net proceeds, if any, from the settlement of certain outstanding litigation. Cinar's Board of Directors has approved the arrangement and has recommended that Cinar's shareholders vote for the arrangement resolution at a special general meeting to be held February 17, 2004. The arrangement requires the approval of 2/3 of the holders of Variable Multiple Voting Shares and 2/3 of the holders of Limited Voting Shares.

The Trust may hold large positions in certain securities and, as a result, may not be able to liquidate such positions on a timely basis. Accordingly, the proceeds received on any sale of such securities may differ significantly from stated market value.

8. 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 net asset value of the Trust, determined prior to the calculation of any fees payable to the Manager.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2003 and 2002

9. Performance incentive fee:

The Trust will pay to the Manager 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 as calculated at the close of business on each fiscal year-end, adjusted for contributions and redemptions made by the investors, for the waiver outlined in note 7, and 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 twelve 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 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 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 of any fiscal year is further reduced by the Trust's pro-rata share of fees paid in respect of any securities held by the Trust which are securities of other partnerships, funds, or portfolios that are already subject to fees paid or payable to the Manager.

The Performance Incentive Fee, if any, is determined and accrued 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 Manager annually within one month of the fiscal year-end of the Trust in cash or units, at the discretion of the Manager.

10. Related party transactions:

Certain parties related to the Manager own units of the Trust.

11. Income and other taxes:

	2003	2002
Goods and Services Tax	\$ 201,996	\$ 10,629
Federal income taxes	-	8,713
	\$ 201,996	\$ 19,342

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2003 and 2002

12. Distributions:

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 the net asset value 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.

13. Financial Instruments:

(a) Fair values:

Generally accepted accounting principles in Canada require disclosure of the fair value of financial instruments. The Partnership's investments in securities and forward foreign currency contracts are carried at market values in accordance with Canadian investment fund industry standards. The General Partner considers that fair values of financial instruments other than investments in securities and forward foreign currency contracts approximate their carrying values given their short-term nature.

(b) Foreign currency risk:

The Partnership is exposed to foreign currency risk to the extent that assets denominated in other than Canadian dollars differ from amounts hedged through forward foreign currency contracts.

14. Comparative figures:

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

15. Portfolio transactions:

A statement of portfolio transactions is not included as part of these financial statements, but will be provided to any unitholder, without charge, on request. Requests may be made in writing to McElvaine Investment Management Ltd., Suite 200 - 1100 Melville Street, Vancouver, BC, V6E 4A6.

Financial Statements of

THE MCELVAINE INVESTMENT TRUST

Years ended December 31, 2002 and 2001



KPMG LLP

Chartered Accountants

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Vancouver BC V7Y 1K3
Canada

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Telefax (604) 691-3031

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AUDITORS' REPORT

To the Unitholders of
The McElvaine Investment Trust

We have audited the statements of net assets of The McElvaine Investment Trust as at December 31, 2002 and 2001, the schedule of investments as at December 31, 2002, the statements of net investment income (loss), net gain (loss) on investments and changes in net assets for the years ended December 31, 2002 and 2001 and the statements of financial highlights for the five years ended December 31, 2002, 2001, 2000, 1999 and 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 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 management, 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, 2002 and 2001 and the results of its operations and the changes in its net assets for the years then ended and its financial highlights for the five years ended December 31, 2002, 2001, 2000, 1999 and 1998 in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

January 24, 2003



KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario,
is the Canadian member firm of KPMG International, a Swiss nonoperating association.

THE McELVAINE INVESTMENT TRUST

Statements of Net Assets

December 31, 2002 and 2001

	2002	2001
Assets		
Investment portfolio, at market value	\$ 26,538,985	\$ 18,472,874
Cash and deposits (note 3)	2,786,505	921,980
Dividends receivable and other assets	69,099	95,422
	29,394,589	19,490,276
Liabilities		
Contributions received in advance	-	950,000
Accounts payable and accrued liabilities	38,902	995,428
Redemptions payable	1,943	1,579
Income and other taxes payable	23,583	115,065
	64,428	2,062,072
Net assets represented by Unitholders' equity	\$ 29,330,161	\$ 17,428,204
Units outstanding (note 4(a))	1,970,978	1,105,940
Net asset value per unit	\$ 14.88	\$ 15.76

See accompanying notes to financial statements.

Approved by the Director of the Manager:

"Tim McElvaine"

McElvaine Services Ltd.

Tim McElvaine, Director

THE McELVAINE INVESTMENT TRUST

Schedule of Investments

December 31, 2002

	Number of shares	Cost	Market value
Investment portfolio:			
Canada - Equities (69.1% of net assets)			
Arbor Memorial Services	100,000	\$ 905,000	\$ 1,287,500
Caldwell Partners International	717,400	851,100	1,040,230
Cinar Corp. - Class B (note 7)	1,388,750	5,727,018	4,387,905
Glacier Ventures Int. Corp.	1,789,710	1,662,759	2,416,109
Humpty Dumpty Snack Foods Inc.	655,700	1,313,405	1,999,885
Indigo Books	199,454	780,615	857,652
Rainmaker Income Fund (note 6)	580,000	623,308	1,354,300
Softkey Software Products Inc.	30,000	643,731	1,079,850
Sun-Rype Products Ltd.	469,400	2,104,104	3,100,387
Torstar Corp. - Class B	100,000	1,828,475	2,550,000
Miscellaneous equities	303,198	127,817	199,098
Total Canadian securities		\$ 16,567,332	\$ 20,272,916
United States - Equities (14.2%)			
Alderwoods Group	275,000	\$ 3,389,305	\$ 2,054,495
Mattel Inc.	70,000	1,637,003	2,117,727
Total US securities		\$ 5,026,308	\$ 4,172,222
Japan - Equities (7.3%)			
Nikko Cordial Corp.	400,000	\$ 2,256,395	\$ 2,130,013
Total Japanese securities		\$ 2,256,395	\$ 2,130,013
Total securities		\$ 23,850,035	\$ 26,575,151
Derivative instruments (-0.1%) (see below)			(36,166)
Total investments at market value, December 31, 2002 (90.5%)			\$ 26,538,985
Total investments at market value, December 31, 2001 (106.0%)			\$ 18,472,874

Derivative Instruments:

Amounts bought (sold) in foreign currency	Amounts bought (sold) in Canadian dollars	Maturity date	Current market value	Unrealized gain (loss)
JPY (156,100,000)	\$ 2,000,000	January 30, 2003	\$ 2,083,001	\$ (83,001)
US\$ (5,660,377)	9,000,000	January 30, 2003	8,953,165	46,835
Total derivative instruments, December 31, 2002, unrealized loss				\$ (36,166)
Total derivative instruments, December 31, 2001, unrealized loss				\$ (87,411)

The credit rating of the counterparty to each of the above contracts, Royal Bank of Canada, is AA (low) - Dominion Bond Rating Service Ltd.

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Net Investment Income (Loss)

Years ended December 31, 2002 and 2001

	2002	2001
Investment income:		
Dividends	\$ 171,728	\$ 434,357
Interest	203,902	137,606
Withholding tax	(5,420)	(528)
	370,210	571,435
Expenses:		
Professional fees	46,532	32,591
Bank charges and interest	16,160	1,859
Investment counsel fee (note 9)	-	957,753
Management fee (note 8)	107,841	55,098
Trustee, custodial and legal fees	31,861	11,516
	202,394	1,058,817
Investment income (loss) before taxes	167,816	(487,382)
Income and other taxes (note 10)	19,342	152,022
Net investment income (loss)	\$ 148,474	\$ (639,404)
Net investment income (loss) per unit	\$ 0.10	\$ (0.67)

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Net Gain (Loss) on Investments

Years ended December 31, 2002 and 2001

	2002	2001
Net realized gains (losses):		
Proceeds from sale of investments	\$ 11,012,957	\$ 5,021,000
Cost of investments sold (note 5)	9,098,816	3,972,721
	1,914,141	1,048,279
Currency hedging	(323,414)	(96,022)
Foreign exchange	(37,420)	(2,949)
	1,553,307	949,308
Change in net unrealized gains and losses:		
Investments	(1,642,847)	3,069,358
Currency hedging	51,245	(105,788)
	(1,591,602)	2,963,570
Net gain (loss) on investments	\$ (38,295)	\$ 3,912,878
Net gain (loss) on investments per unit (note 2(g))	\$ 0.69	\$ 4.12

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Changes in Net Assets

Years ended December 31, 2002 and 2001

	2002	2001
Net assets, beginning of year	\$ 17,428,204	\$ 10,215,387
Increase in net assets from operations:		
Net investment income (loss)	148,474	(639,404)
Net gain (loss) on investments	(38,295)	3,912,878
	110,179	3,273,474
Distributions paid from:		
Net investment income	(88,072)	-
Realized gains	(2,838,200)	-
	(2,926,272)	-
Unit trust transactions:		
Issue of units for cash	12,418,136	4,849,638
Reinvestment of distributions	2,925,147	-
Redemption of units	(625,233)	(910,295)
	14,718,050	3,939,343
Increase in net assets	11,901,957	7,212,817
Net assets, end of year	\$ 29,330,161	\$ 17,428,204

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Financial Highlights

Years ended December 31, 2002, 2001, 2000, 1999 and 1998

	2002	2001	2000	1999	1998
Data per unit:					
Net asset value, beginning of year	\$ 15.76	\$ 12.31	\$ 10.90	\$ 11.38	\$ 11.38
Income from operations:					
Net investment income (loss)	0.10	(0.67)	(0.33)	(0.49)	0.34
Net gain (loss) on investments	0.69	4.12	2.42	3.84	1.55
Total income from operations	0.79	3.45	2.09	3.35	1.89
Distribution to investors:					
From net investment income	(0.05)	-	-	-	(0.32)
From net realized gains on investments	(1.62)	-	(0.38)	(3.37)	(1.57)
Return of capital	-	-	(0.30)	(0.46)	-
Total distributions	(1.67)	-	(0.68)	(3.83)	(1.89)
Net asset value, end of year	\$ 14.88	\$ 15.76	\$ 12.31	\$ 10.90	\$ 11.38

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2002 and 2001

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. The Trust is managed by McElvaine Investment Management Ltd. (the "Manager"), which also provides investment counselling services pursuant to the Master Investment Counsel Agreement (the "Investment Counsel").

2. Significant accounting policies:

(a) General:

The financial statements of the Trust are prepared in accordance with generally accepted accounting principles followed by the investment fund industry in Canada. The significant accounting policies are described below.

(b) Investments:

Investments are stated at year end market values, which are generally determined 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 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 gains and losses on investments.

(c) 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 the change in unrealized gains and losses on foreign exchange transactions, including the purchase and sale of forward contracts, are included in the statements of net gain (loss) on investments.

(d) 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 positions were closed out. For financial statement purposes this value is recorded as an unrealized gain or loss. When the contracts are closed or expired, gains and losses are recognized and included in realized gains and losses.

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

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2002 and 2001

2. Significant accounting policies (continued):

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

(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 year end.
Net investment income (loss)	On the weighted average number of units outstanding during the year.
Net gain (loss) on investments	
Distributions	On the number of units outstanding at the date of record.

Net gain (loss) on investments per unit includes an amount necessary to reconcile the change in net asset value per unit at the end of the year with the net asset value per unit at the beginning of the year, as net investment income per unit is calculated based on the average number of units outstanding during the year whereas the distribution per unit is calculated based on the actual number of units outstanding at the date of record. The reconciling amount is also affected by fluctuations in net asset value in relation to unit transactions during the year.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management 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 period. Actual results could differ from those estimates.

3. Cash and deposits:

	2002	2001
Cash in bank:		
Canadian	\$ 2,776,311	\$ 937,670
Foreign	10,194	(15,690)
	\$ 2,786,505	\$ 921,980

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2002 and 2001

4. 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 set forth in the Offering Memorandum.

Issued units are summarized as follows:

	2002	2001
Balance, beginning of year	1,105,940	829,735
Issued for cash	705,329	343,793
Issued on reinvestment of distribution	196,569	-
Redemptions	(36,860)	(67,588)
Balance, end of year	1,970,978	1,105,940

(b) Unrealized gains and losses:

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

	2002	2001
Securities held in investment portfolio, at market value	\$ 26,575,151	\$ 18,560,285
Securities held in portfolio, at cost	23,850,035	14,192,322
	2,725,116	4,367,963
Currency hedging	(36,166)	(87,411)
	\$ 2,688,950	\$ 4,280,552

5. Cost of investments sold:

The continuity of the cost of investments purchased and sold by the Trust is as follows:

	2002	2001
Investments at cost, beginning of year	\$ 14,192,322	\$ 8,868,624
Cost of investments purchased	18,756,529	9,296,419
	32,948,851	18,165,043
Investments at cost, end of year	23,850,035	14,192,322
Cost of investments sold	\$ 9,098,816	\$ 3,972,721

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2002 and 2001

6. Rainmaker Income Fund:

On May 31, 2002, shares held by the Trust in Rainmaker Entertainment Group were exchanged for a proportionate number of units in Rainmaker Income Fund. For tax purposes, this transaction resulted in a capital gain of \$1,284,893 to the Trust. For accounting purposes, the gain has not been recognized, as the exchange does not represent the culmination of the earnings process. The cost of the units acquired has been recorded at the cost of the shares given up in the exchange.

7. Liquidity of investments:

During the year ended December 31, 2002, the Trust purchased Class B securities of Cinar Corp. As at December 31, 2002, this investment represented 15.0% of net assets. Due to a cease-trade order imposed by the British Columbia Securities Commission, the Trust cannot sell this position and will not be able to sell the position until the cease-trade order has been lifted. The Investment Counsel has agreed to waive the Performance Incentive Fee, as defined in note 9, with respect to any increase in the value of Cinar Corp. Class B shares held by the Trust relative to the cost of those shares to the Trust.

The Trust may hold large positions in certain securities and, as a result, may not be able to liquidate such positions on a timely basis. The proceeds received on any sale of such securities may differ significantly from stated market value.

8. 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 net asset value of the Trust, determined prior to the calculation of any fee payable to the Investment Counsel.

9. 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 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 twelve month simple average of the Hurdle Rate. The "Hurdle Rate" is the average yield indicated by the Bank of Canada on the last 91 day T-bill auction by the Bank of Canada in each month.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2002 and 2001

9. Investment counsel fee (continued):

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 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 and accrued 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 month of the fiscal year-end of the Trust from cash held in the Trust.

10. Income and other taxes:

	2002	2001
Goods and Services Tax	\$ 10,629	\$ 72,753
Federal income taxes	8,713	79,269
	\$ 19,342	\$ 152,022

11. 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 because 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:

Canadian generally accepted accounting principles require disclosure of the fair value of financial instruments. The Trust's investments in securities and currency hedging contracts are carried at market values in accordance with Canadian investment fund industry standards. The Manager considers that fair values of financial instruments other than investments in securities and currency hedging contracts approximate their carrying values given their short-term nature.

13. Comparative figures:

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

Financial Statements of

THE MCELVAINE INVESTMENT TRUST

Years ended December 31, 2001 and 2000



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AUDITORS' REPORT

To the Unitholders of
The McElvaine Investment Trust

We have audited the statements of net assets of The McElvaine Investment Trust as at December 31, 2001 and 2000 and the schedule of investments as at December 31, 2001 and the statements of net investment loss, net gain on investments and changes in net assets for the years ended December 31, 2001 and 2000 and the statements of financial highlights for the five year period ended December 31, 2001. 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 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 management, 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, 2001 and 2000 and the results of its operations and the changes in its net assets for the years then ended and its financial highlights for the five year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

January 25, 2002



KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is a member firm of KPMG International, a Swiss association.

THE McELVAINE INVESTMENT TRUST

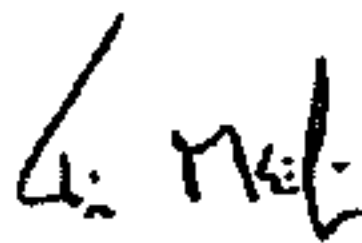
Statements of Net Assets

December 31, 2001 and 2000

	2001	2000
Assets		
Investment portfolio, at market value	\$ 18,472,874	\$ 10,185,593
Cash and deposits (note 3)	921,980	492,122
Accounts receivable and other assets	95,422	43,744
	<u>19,490,276</u>	<u>10,721,459</u>
Liabilities		
Contributions received, in advance	950,000	6,000
Accounts payable and accrued liabilities	995,428	463,058
Redemptions payable	1,579	1,015
Income and other taxes payable	115,065	35,999
	<u>2,062,072</u>	<u>506,072</u>
Net assets represented by Unitholders' equity	\$ 17,428,204	\$ 10,215,387
Units outstanding (note 4(a))	1,105,940	829,735
Net asset value per unit	\$ 15.76	\$ 12.31

See accompanying notes to financial statements.

Approved by the Director of the General Partner:



McElvaine Services Ltd.
Tim McElvaine, Director

THE McELVAINE INVESTMENT TRUST

Schedule of Investments

December 31, 2001

	Number of shares	Average cost	Market value
Investment portfolio:			
Canada – Equities (87.8% of net assets)			
Arbor Memorial Services	100,000	\$ 905,000	\$ 1,400,000
BNN Investments Ltd.	62,475	286,944	616,004
Caldwell Partners International	374,700	407,182	449,640
Concord Pacific Group Inc.	420,700	374,017	551,117
Fairfax Financial Holdings Ltd.	4,500	758,708	738,000
Glacier Ventures Int. Corp.	789,710	552,759	631,768
Humpty Dumpty Snack Foods Inc.	643,300	1,285,257	1,608,250
Rainmaker Entertainment Grp. Ltd.	580,000	687,107	1,160,000
Softkey Software Products Inc.	25,000	454,500	821,750
Sun-Rype Products Ltd.	450,000	1,986,928	2,902,500
Torstar Corp. - Class B	90,000	1,618,025	1,998,000
West Fraser Timber Co. Ltd.	22,500	577,800	865,125
Westshore Terminals Income Fund	150,000	556,898	847,500
Miscellaneous equities	6,043,985	1,189,017	726,769
Total Canadian securities		\$ 11,640,142	\$ 15,316,423
United States			
Bonds (6.4%)			
Loewen Group - 8.25% 2003/04/15	U.S.\$ 1,000,000	\$ 750,172	\$ 1,114,827
Equities (11.4%)			
Liquid Audio Inc.	200,000	744,225	748,527
Mattel Inc.	45,000	916,727	1,232,680
Total U.S. securities		\$ 2,411,124	\$ 3,096,034
Japan - Equities (0.8%)			
Fuji Television Inc.	23	\$ 141,056	\$ 147,828
Total Japanese securities		\$ 141,056	\$ 147,828
Total securities		\$ 14,192,322	\$ 18,560,285
Derivative instruments (- 0.5%) (see below)			(87,411)
Total investments at market value, December 31, 2001 (105.9%)			\$ 18,472,874
Total investments at market value, December 31, 2000 (99.7%)			\$ 10,185,593

THE McELVAINE INVESTMENT TRUST

Schedule of Investments (continued)

December 31, 2001

Derivative Instruments:

Amounts bought (sold) in U.S. dollars	Amounts bought (sold) in Canadian dollars	Maturity date	Current market value	Unrealized gain (loss)
\$ (2,560,925)	\$ 3,991,000	January 23, 2002	\$ 4,078,411	\$ (87,411)
Total derivative instruments, December 31, 2001, unrealized loss				\$ (87,411)
Total derivative instruments, December 31, 2000, unrealized gain				\$ 18,377

The credit rating of the counterparty for the above contract, Bank of Montreal, is AA (low) - Dominion Bond Rating Service Ltd.

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Net Investment Loss

Years ended December 31, 2001 and 2000

	2001	2000
Investment income:		
Dividends	\$ 434,357	\$ 124,439
Interest	137,606	113,530
Withholding tax	(528)	(3,283)
	571,435	234,686
Expenses:		
Audit fees	32,591	11,259
Bank charges and interest	1,859	1,580
Investment counsel fees (note 7)	957,753	386,221
Management fees (note 6)	55,098	35,080
Trustee, custodial and legal fees	11,516	5,920
	1,058,817	440,060
Investment loss before taxes	(487,382)	(205,374)
Income and other taxes (note 8)	152,022	40,109
Net investment loss	\$ (639,404)	\$ (245,483)
Net investment loss per unit	\$ (0.67)	\$ (0.33)

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Net Gain on Investments

Years ended December 31, 2001 and 2000

	2001	2000
Realized gains and losses:		
Proceeds from sale of investments	\$ 5,021,000	\$ 3,283,343
Cost of investments sold (note 5)	3,972,721	2,708,661
	1,048,279	574,682
Currency hedging	(96,022)	(37,369)
Foreign exchange	(2,949)	(3,850)
	949,308	533,463
Change in net unrealized gains and losses:		
Investments	3,069,358	1,300,956
Currency hedging	(105,788)	(8,975)
	2,963,570	1,291,981
Net gain on investments	\$ 3,912,878	\$ 1,825,444
Net gain on investments per unit	\$ 4.12	\$ 2.42

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Changes in Net Assets

Years ended December 31, 2001 and 2000

	2001	2000
Net assets, beginning of year	\$ 10,215,387	\$ 6,558,105
Increase in net assets from operations:		
Net investment loss	(639,404)	(245,483)
Net gain on investments	3,912,878	1,825,444
	3,273,474	1,579,961
Distributions paid from:		
Realized gains	-	(297,695)
Return of capital	-	(235,769)
	-	(533,464)
Unit trust transactions:		
Issue of units for cash	4,849,638	2,426,646
Reinvestment of distribution	-	533,464
Redemption of units	(910,295)	(349,325)
	3,939,343	2,610,785
Increase in net assets	7,212,817	3,657,282
Net assets, end of year	\$ 17,428,204	\$ 10,215,387

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Statements of Financial Highlights

Years ended December 31, 2001, 2000, 1999, 1998 and 1997

	2001	2000	1999	1998	1997
Data per unit:					
Net asset value, beginning of year	\$ 12.31	\$ 10.90	\$ 11.38	\$ 11.38	\$ 10.29
Income from operations:					
Net investment income (loss)	(0.67)	(0.33)	(0.49)	0.34	(0.23)
Net gain on investments	4.12	2.42	3.84	1.55	1.55
Total income from operations	3.45	2.09	3.35	1.89	1.32
Distribution to investors:					
From net investment income	-	-	-	(0.32)	-
From net realized gains on investments	-	(0.38)	(3.37)	(1.57)	(0.23)
Return of capital	-	(0.30)	(0.46)	-	-
Total distributions	-	(0.68)	(3.83)	(1.89)	(0.23)
Net asset value, end of year	\$ 15.76	\$ 12.31	\$ 10.90	\$ 11.38	\$ 11.38

See accompanying notes to financial statements.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2001 and 2000

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. The Trust is managed by McElvaine Investment Management Ltd. (the "Manager"), which also provides investment counselling services pursuant to the Master Investment Counsel Agreement (the "Investment Counsel"). Effective January 31, 1999, the Master Investment Counsel and Master Management Agreements were assigned from Cundill Funds Inc. to McElvaine Investment Management Ltd.

2. Significant accounting policies:

(a) General:

The financial statements of the Trust are prepared in accordance with generally accepted accounting principles followed by the investment fund industry in Canada. The significant accounting policies are described below:

(b) Investments:

Investments are stated at year end market values, which are generally determined 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 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.

(c) 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 the change in unrealized gains and losses on foreign exchange transactions, including the purchase and sale of forward contracts, are included in the statement of net gain on investments.

(d) 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 expired, gains and losses are recognized and included in realized gains and losses.

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

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2001 and 2000

2. Significant accounting policies (continued):

(e) 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 investments and is marked-to-market to reflect the current market value of the option. When the contracts are disposed of, exercised or expire, gains or losses are recognized and included in realized gains and losses. No put options were outstanding at December 31, 2001.

(f) 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.

(g) 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.

(h) 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 (loss)	On the weighted average number of units outstanding during the year.
Net gain on investments	
Distributions	On the number of units outstanding at the date of record.

Net gain (loss) on investments per unit includes an amount necessary to reconcile the change in net asset value per unit at the end of the year with the net asset value per unit at the beginning of the year, as net investment income per unit is calculated based on the average number of units outstanding during the year whereas the distribution per unit is calculated based on the actual number of units outstanding at the time of each distribution.

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management 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 period. Actual results could differ from those estimates.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2001 and 2000

3. Cash and deposits:

	2001	2000
Cash in bank:		
Canadian	\$ 937,670	\$ 485,182
Foreign	(15,690)	6,940
	<u>\$ 921,980</u>	<u>\$ 492,122</u>

4. 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 set forth in the Offering Memorandum.

Issued units are summarized as follows:

	2001	2000
Balance, beginning of year	829,735	601,478
Issued for cash	343,793	216,782
Issued on reinvestment of distribution	-	43,330
Redemptions	(67,588)	(31,855)
Balance, end of year	<u>1,105,940</u>	<u>829,735</u>

(b) Unrealized gains and losses:

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

	2001	2000
Securities held in investment portfolio, at market value	\$ 18,560,285	\$ 10,167,216
Securities held in portfolio, at cost	14,192,322	8,868,624
	4,367,963	1,298,592
Currency hedging	(87,411)	18,377
	<u>\$ 4,280,552</u>	<u>\$ 1,316,969</u>

5. Cost of investments sold:

The principal components of the cost of investments sold by the Trust are as follows:

	2001	2000
Investments at average cost, beginning of year	\$ 8,868,624	\$ 5,992,747
Cost of investments purchased	9,296,419	5,584,538
	18,165,043	11,577,285
Investments at average cost, end of year	14,192,322	8,868,624
Cost of investments sold	<u>\$ 3,972,721</u>	<u>\$ 2,708,661</u>

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2001 and 2000

6. 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 net asset value of the Trust, determined prior to the calculation of any fee payable to the Investment Counsel.

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 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 twelve 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 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 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 and accrued 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 month of the fiscal year-end of the Trust from cash held in the Trust.

8. Income and other taxes:

	2001	2000
Goods and Services Tax	\$ 72,753	\$ 30,394
Federal income taxes	79,269	9,715
	\$ 152,022	\$ 40,109

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

Years ended December 31, 2001 and 2000

9. 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 distributions paid in cash reduce the net asset value of the Trust while reinvestment results in an increase in the number of units outstanding.

10. Fair values:

Canadian generally accepted accounting principles require disclosure of the fair value of financial instruments. The Trust's investments in securities and currency hedging contracts are carried at market values in accordance with Canadian investment fund industry standards. The fair values of financial instruments other than investments in securities and currency hedging contracts approximate their carrying values given their short term nature.

11. Comparative figures:

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

**THE McELVAINE INVESTMENT
TRUST**

FINANCIAL STATEMENTS

Years ended December 31, 2000 and 1999



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AUDITORS' REPORT

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

We have audited the statements of net assets of the Trust as at December 31, 2000 and 1999, and the statement of investments as at December 31, 2000. We have also audited the statements of net investment loss, net gain on investments and changes in net assets of the Trust for the years ended December 31, 2000 and 1999, and the statements of financial highlights for each of the years in the five year period ended December 31, 2000. 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 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 investments of the Trust as at December 31, 2000, its financial position as at December 31, 2000 and 1999 and the results of its operations and the changes in its net assets for the years then ended, and its financial highlights for each of the years in the five year period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

January 26, 2001



KPMG LLP, a Canadian limited liability partnership, is regulated under the laws of Ontario as a member firm of KPMG International, a Swiss entity.

THE McELVAINE INVESTMENT TRUST

Statements of Net Assets

As at December 31

Assets	2000	1999
Investment portfolio, at market value	\$10,167,216	\$5,990,383
Currency hedging, unrealized gains	18,377	27,352
Cash, deposits and margin deposits (note 3)	492,122	1,850,747
Accounts receivable and other assets	25,886	24,357
Income taxes recoverable	17,858	-
	<u>10,721,459</u>	<u>7,892,839</u>
 Liabilities		
Contributions received in advance	6,000	859,848
Accounts payable and accrued liabilities	463,058	434,302
Redemptions payable	1,015	-
Income and other taxes payable	35,999	40,584
	<u>506,072</u>	<u>1,334,734</u>
 Net assets represented by Unitholders' equity	<u>\$10,215,387</u>	<u>\$ 6,558,105</u>
 Units outstanding (note 4(a))	829,735	601,478
 Net asset value per unit	<u>\$ 12.31</u>	<u>\$ 10.90</u>

Approved by the Director of the Manager,

McELVAINE INVESTMENT MANAGEMENT LTD.

"Tim McElvaine"

Tim McElvaine

Director

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statements of Net Investment Loss

For the years ended December 31

	2000	1999
Investment income		
Dividends	\$ 124,439	\$ 237,784
Interest	113,530	58,386
Withholding tax	<u>(3,283)</u>	<u>(3,192)</u>
	234,686	292,978
Expenses		
Audit fees	11,259	7,951
Bank charges and interest	1,580	1,316
Investment counsel fees (note 7)	386,221	428,021
Management fees (note 6)	35,080	24,118
Trustee, custodial and legal fees	<u>5,920</u>	<u>2,442</u>
	440,060	463,848
Net investment loss before taxes	(205,374)	(170,870)
Income and other taxes (note 8)	<u>40,109</u>	<u>43,402</u>
Net investment loss	<u>\$ (245,483)</u>	<u>\$ (214,272)</u>
Net investment loss per unit	<u>\$ (.33)</u>	<u>\$ (.49)</u>

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statements of Net Gain on Investments

For the years ended December 31

	2000	1999
Realized gains and losses		
Proceeds from sale of investments	\$ 3,283,343	\$ 5,319,446
Cost of investments sold	<u>2,708,661</u>	<u>3,563,615</u>
	574,682	1,755,831
Currency hedging	(37,369)	(41,891)
Foreign exchange	<u>(3,850)</u>	<u>(8,434)</u>
	<u>533,463</u>	<u>1,705,506</u>
Change in net unrealized gains & losses		
Investments	1,300,956	(82,435)
Currency hedging	<u>(8,975)</u>	<u>45,146</u>
	<u>1,291,981</u>	<u>(37,289)</u>
Net gain on investments	<u>\$ 1,825,444</u>	<u>\$ 1,668,217</u>
Net gain on investments per unit	<u>\$ 2.42</u>	<u>\$ 3.84</u>

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Changes in Net Assets

For the years ended December 31

	2000	1999
Net assets at beginning of year	\$ 6,558,105	\$ 4,174,164
Increase in net assets from operations:		
Net investment loss	(245,483)	(214,272)
Net gain on investments	<u>1,825,444</u>	<u>1,668,217</u>
	1,579,961	1,453,945
Distributions paid from:		
Realized gains	(297,695)	(1,502,055)
Return of capital	<u>(235,769)</u>	<u>(203,450)</u>
	(533,464)	(1,705,505)
Unit trust transactions:		
Issue of units for cash	2,426,646	1,457,146
Reinvestment of distribution	533,464	1,705,505
Redemption of units	<u>(349,325)</u>	<u>(527,150)</u>
	2,610,785	2,635,501
Increase in net assets	<u>3,657,282</u>	<u>2,383,941</u>
Net assets at end of year	<u><u>\$ 10,215,387</u></u>	<u><u>\$ 6,558,105</u></u>

See accompanying notes to financial statements

THE MCELVAINE INVESTMENT TRUST

Statements of Financial Highlights
For the Years Ended December 31

Data per unit

	2000	1999	1998	1997	* 1996
Net asset value – beginning of period	\$ 10.90	\$ 11.38	\$ 11.38	\$ 10.29	\$ 10.00
Income from operations					
Net investment income (loss)	(0.33)	(0.49)	0.34	(0.23)	(0.07)
Net gain on investments	<u>2.42</u>	<u>3.84</u>	<u>1.55</u>	<u>1.55</u>	<u>0.36</u>
Total income from operations	<u>2.09</u>	<u>3.35</u>	<u>1.89</u>	<u>1.32</u>	<u>0.29</u>
Distribution to investors					
From net investment income	-	-	(0.32)	-	-
From net realized gains on investments	(0.38)	(3.37)	(1.57)	(0.23)	-
Return of capital	<u>(0.30)</u>	<u>(0.46)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total distributions	<u>(0.68)</u>	<u>(3.83)</u>	<u>(1.89)</u>	<u>(0.23)</u>	<u>-</u>
Net asset value – end of period	<u>\$12.31</u>	<u>\$ 10.90</u>	<u>\$ 11.38</u>	<u>\$ 11.38</u>	<u>\$ 10.29</u>

* September 27, 1996 (inception) to December 31, 1996

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments

As at December 31, 2000

Investment portfolio	Number of Shares	Average Cost \$	Market Value \$
CANADA			
Equities (79.5% of net assets)			
Bovar Inc. Class "A"	1,687,600	464,181	295,330
Concord Pacific Group Inc.	420,700	374,017	357,595
Denison Mines Ltd.	3,000,000	345,990	255,000
Fairfax Financial Holdings Ltd.	5,300	814,956	1,211,050
Glacier Ventures International	669,110	440,917	595,508
Highwood Resources Ltd.	506,000	316,130	197,340
Humpty Dumpty Snack Foods	324,000	672,516	648,000
Lindsey Morden Group Inc.	23,100	200,874	167,475
Oceanex Income Fund Trust	75,000	557,218	682,500
Rainmaker Entertainment Group Ltd.	580,000	687,107	986,000
Softkey Software Products	25,000	454,500	650,000
Sun-Rype Products Ltd.	225,000	610,765	933,750
Tri-White Corporation	200,000	408,877	384,000
West Fraser Timber Co., Ltd.	13,400	282,070	358,450
Westshore Terminals ITU	100,000	283,290	405,000
Total Canadian Securities		6,913,408	8,126,998
UNITED STATES			
Bonds (6.8%)			
Loewen Group	(Face Value)		
8.25 % 2003/04/15	US\$ 1,000,000	750,172	690,069
Equities (10.0%)			
Mattel Inc.	35,000	653,672	758,176
Merchants Group Inc.	10,000	238,760	262,526
Total U.S. Securities		1,642,604	1,710,771

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments

As at December 31, 2000

Investment portfolio

	Number Of Shares	Average Cost \$	Market Value \$
MISCELLANEOUS			
Equities (3.0%)	1,248,605	235,247	302,726
Put Options (.2%)	800	77,365	26,721
Total Miscellaneous securities		312,612	329,447
Total Securities		8,868,624	10,167,216
Derivative Instruments (0.2%) (see schedule of Derivative Instruments)			18,377
Total Investments at Market Value (99.7%)			\$ 10,185,593

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments

As at December 31, 2000

SCHEDULE OF DERIVATIVE INSTRUMENTS

Forward Currency Contracts *

Amounts Bought (Sold) in U.S. Dollars	Amounts Bought (Sold) in Canadian \$	Maturity Date	Current Market Value \$	Unrealized Gain (Loss) \$
(1,255,783)	1,900,000	Mar. 13, 2001	1,881,623	18,377
Total Derivative Instruments (Market Value)				<u>\$ 18,377</u>

* The credit rating of the counterparty for the above contract, Bank of Montreal, is AA (low) - Dominion Bond Rating Service Ltd.

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2000 and 1999

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. The Trust is managed by McElvaine Investment Management Ltd. (the "Manager"), which also provides investment counselling services pursuant to the Master Investment Counsel Agreement (the "Investment Counsel"). Effective January 31, 1999, the Master Investment Counsel and Master Management Agreements were assigned from Cundill Funds Inc. to McElvaine Investment Management Ltd.

2. Summary of significant accounting policies

a. General

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

b. Investments

Investments are stated at year end market values, which are generally determined at 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 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.

c. 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 the change in unrealized gains and losses on foreign exchange transactions, including the purchase and sale of forward contracts, are included in the statement of net gain on investments.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2000 and 1999

d. 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 included in realized gains and losses.

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

e. 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 investments and is marked-to-market to reflect the current market value of the option. When the contracts are disposed of, exercised or expire, gains or losses are recognized and included in realized gains and losses.

f. Income taxes

The Trust qualifies as a unit trust for income tax purposes and allocates to its unitholders all net investment income and realized net 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 during the taxation year.

g. 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.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2000 and 1999

h. 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 (loss)	On the weighted average number of units outstanding during the year
Distributions	On the number of units outstanding at the date of record

i. Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management 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 period. Actual results could differ from those estimates.

3. Cash and cash equivalents

	2000	1999
Cash in bank		
Canadian	\$ 485,182	\$ 1,359,184
Foreign	6,940	473
Treasury bills and term deposits maturing within 91 days, at amortized cost which approximates market value	-	491,090
	<u>\$ 492,122</u>	<u>\$ 1,850,747</u>

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2000 and 1999

4. 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 set forth in the Offering Memorandum.

	2000	1999
Issued units are summarized as follows:		
Balance, beginning of year	601,478	366,811
Issued for cash	216,782	114,042
Issued on reinvestment of distribution	43,330	156,421
Redemptions	<u>(31,855)</u>	<u>(35,796)</u>
Balance, end of year	<u>829,735</u>	<u>601,478</u>

b. Unrealized gains and losses

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

	2000	1999
Investment portfolio, at market value	\$ 10,167,216	\$ 5,990,383
Investment portfolio, at cost	<u>8,868,624</u>	<u>5,992,747</u>
	1,298,592	(2,364)
Currency hedging	<u>18,377</u>	<u>27,352</u>
	<u>\$ 1,316,969</u>	<u>\$ 24,988</u>

5. Cost of investments sold

The principal components of the cost of investments sold by the Trust are as follows:

	2000	1999
Investments at average cost, beginning of year	\$ 5,992,747	\$ 3,353,884
Cost of investments purchased	<u>5,584,538</u>	<u>6,202,478</u>
	11,577,285	9,556,362
Investments at average cost, end of year	<u>8,868,624</u>	<u>5,992,747</u>
Cost of investments sold	<u>\$ 2,708,661</u>	<u>\$ 3,563,615</u>

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2000 and 1999

6. 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 net asset value of the Trust, determined prior to the calculation of any fee payable to the Investment Counsel.

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 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 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 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 and accrued monthly during a fiscal year for the purpose of calculating the Net Asset Value per Unit at the end of each month, but is paid to the Investment Counsel annually within one (1) month of the fiscal year-end of the Trust from cash held in the Trust.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2000 and 1999

8. Income and other taxes

	2000	1999
Goods and Services Tax	\$ 30,394	\$ 32,580
Federal income taxes	<u>9,715</u>	<u>10,822</u>
	<u>\$ 40,109</u>	<u>\$ 43,402</u>

The Federal income taxes are in respect of a penalty tax on ineligible foreign property holdings in the taxation year.

9. 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 distributions paid in cash reduce the net asset value of the Trust while reinvestment results in an increase in the number of units outstanding.

10. Fair values

Canadian 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 Canadian mutual fund industry standards. The fair values of financial instruments other than investments and currency hedging contracts approximate their carrying values given their short term nature.

THE McELVAINE INVESTMENT TRUST

REPORT AND FINANCIAL STATEMENTS

For the years ended December 31, 1999 and 1998

THE McELVAINE INVESTMENT TRUST

Statements of Net Assets

As at December 31

	1999	1998
Assets		
Investment portfolio, at market value	\$ 5,990,383	\$ 3,433,955
Currency hedging, unrealized gains	27,352	-
Cash and cash equivalents (note 3)	1,850,747	914,636
Accounts receivable and other assets	<u>24,357</u>	<u>4,259</u>
	<u>7,892,839</u>	<u>4,352,850</u>
Liabilities		
Currency hedging, unrealized losses	-	17,794
Contributions received in advance	859,848	42,063
Accounts payable (note 4)	434,302	101,513
Income and other taxes payable	<u>40,584</u>	<u>17,316</u>
	<u>1,334,734</u>	<u>178,686</u>
Net assets represented by unitholders= equity	<u>\$ 6,558,105</u>	<u>\$ 4,174,164</u>
Units outstanding (note 5(a))	601,478	366,811
Net asset value per unit	<u>\$ 10.90</u>	<u>\$ 11.38</u>

Approved by the Director of the Manager,

McELVAINE INVESTMENT MANAGEMENT LTD.

"Tim McElvaine"

Tim McElvaine

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statements of Net Investment Income (Loss)

For the Years Ended December 31

	1999	1998
Investment income		
Dividends	\$ 237,784	\$ 195,834
Interest	58,386	38,277
Foreign withholding tax	<u>(3,192)</u>	<u>(1,056)</u>
	<u>292,978</u>	<u>233,055</u>
 Expenses		
Audit fees	7,951	4,800
Bank charges and interest	1,316	975
Investment counsel fees (note 6)	428,021	98,136
Management fees (note 7)	24,118	14,610
Trustee, custodial and legal fees	<u>2,442</u>	<u>1,555</u>
	<u>463,848</u>	<u>120,076</u>
Investment income (loss) before taxes	(170,870)	112,979
Income and other taxes (note 8)	<u>43,402</u>	<u>20,023</u>
Net investment income (loss)	<u>\$ (214,272)</u>	<u>\$ 92,956</u>

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statements of Net Gain on Investments

For the Years Ended December 31

	1999	1998
Realized gains and losses		
Proceeds from sale of investments	\$ 5,319,446	\$ 1,975,028
Cost of investments sold	<u>3,563,615</u>	<u>1,347,499</u>
	1,755,831	627,529
Currency hedging	(41,891)	(132,544)
Foreign exchange	<u>(8,434)</u>	<u>28</u>
	<u>1,705,506</u>	<u>495,013</u>
 Change in net unrealized gains and losses		
Investments	(82,435)	(126,485)
Currency hedging	<u>45,146</u>	<u>(22,082)</u>
	<u>(37,289)</u>	<u>(148,567)</u>
 Net gain on investments	<u>\$ 1,668,217</u>	<u>\$ 346,446</u>

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statements of Changes in Net Assets For the Years Ended December 31

	1999	1998
Increase in assets from operations:		
Net investment income (loss)	\$ (214,272)	\$ 92,956
Net gain from investing activities	<u>1,668,217</u>	<u>346,446</u>
	<u>1,453,945</u>	<u>439,402</u>
Distributions paid from:		
Net investment income	-	(99,620)
Realized gains	(1,502,055)	(495,013)
Return of capital	<u>(203,450)</u>	<u>-</u>
	<u>(1,705,505)</u>	<u>(594,633)</u>
Unit trust transactions:		
Issue of units for cash	1,457,146	1,018,706
Reinvestment of distribution	1,705,505	592,313
Redemption of units	<u>(527,150)</u>	<u>(1,057)</u>
	<u>2,635,501</u>	<u>1,609,962</u>
Increase in net assets	2,383,941	1,454,731
Net assets at beginning of year	<u>4,174,164</u>	<u>2,719,433</u>
Net assets at end of period	<u>\$ 6,558,105</u>	<u>\$ 4,174,164</u>

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statements of Financial Highlights

For the Years Ended December 31

	1999	1998	1997	1996 Sept. 27, 1996 (Inception) to Dec. 31, 1996
Per unit outstanding				
Net asset value – beginning of period	\$11.38	\$11.38	\$10.29	\$10.00
Income from operations				
Net investment income (loss)	(0.49)	0.34	(0.23)	(0.07)
Net gain from investing activities	<u>3.84</u>	<u>1.55</u>	<u>1.55</u>	<u>0.36</u>
Total income from operations	<u>3.35</u>	<u>1.89</u>	<u>1.32</u>	<u>0.29</u>
Distribution to investors				
From net investment income	-	(0.32)	-	-
From net realized gains on investments	(3.37)	(1.57)	(0.23)	-
Return of capital	<u>(0.46)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total distributions	<u>(3.83)</u>	<u>(1.89)</u>	<u>(0.23)</u>	<u>-</u>
Net asset value - end of period	<u>\$ 10.90</u>	<u>\$ 11.38</u>	<u>\$ 11.38</u>	<u>\$ 10.29</u>

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments

As at December 31, 1999

Investment portfolio

	<u>Number</u>	<u>Average Cost \$</u>	<u>Market Value \$</u>
CANADA			
Equities (59.7% of total net assets)			
Bovar Inc. Class "A"	1,067,000	370,967	224,070
Concord Pacific Group Inc.	450,000	400,066	328,500
Denison Mines Ltd.	2,068,000	308,045	237,820
FACS Records Storage Income Fund	42,250	339,705	310,538
Highwood Resources Ltd.	400,000	262,600	276,000
Jascan Resources Inc.	361,500	308,449	325,350
Mikes Restaurants Inc.	80,000	173,904	168,000
Oceanex Income Fund Trust	50,000	401,386	422,500
Rainmaker Entertainment Group Ltd.	466,100	543,303	512,710
Small Fry Snack Foods Ltd.	200,000	455,015	410,000
Sun-Rype Products Ltd.	200,000	521,490	700,000
		<u>4,084,930</u>	<u>3,915,488</u>
Bonds (3.8%)			
Federal Business Development Bank of Canada S&P 500 Bear Note due March 16, 2000 (Face value \$255,000)		<u>233,498</u>	<u>252,718</u>
Total Canadian securities		<u>4,318,428</u>	<u>4,168,206</u>
UNITED STATES			
Equities (10.3%)			
Mattel Inc.	35,000	653,672	662,974
TPI Enterprises Inc.	660,000	<u>0</u>	<u>12,383</u>
		<u>653,672</u>	<u>675,357</u>
Bonds (5.6%)			
Loewen Group International 8.25% due April 15, 2003 Series 2 (Face value US\$500,000)		<u>401,317</u>	<u>368,018</u>
Total United States securities		<u>1,054,989</u>	<u>1,043,375</u>

THE McELVAINE INVESTMENT TRUST

See accompanying notes to financial statements

Statement of Investments
As at December 31, 1999

Investment portfolio

	<u>Number</u>	<u>Average Cost \$</u>	<u>Market Value \$</u>
JAPAN			
Equities (7.1%)			
Asahi Broadcasting Corporation	2,000	150,155	254,338
Chubu-Nippon Broadcasting Co., Ltd.	15,000	<u>172,191</u>	<u>211,949</u>
Total Japanese securities		<u>322,346</u>	<u>466,287</u>
MISCELLANEOUS			
Equities (4.0%)	243,100	<u>219,619</u>	<u>260,425</u>
Put Options (.8%)	400	<u>77,365</u>	<u>52,090</u>
Total Miscellaneous securities		<u>296,984</u>	<u>312,515</u>
Total investment portfolio, December 31, 1999 (91.3%)		<u>\$5,992,747</u>	<u>\$5,990,383</u>
Total investment portfolio, December 31, 1998 (82.3%)		<u>\$3,353,884</u>	<u>\$3,433,955</u>

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments

As at December 31, 1999

	<u>Contract Value at Inception Foreign Currency</u>	<u>Contract Value at Inception</u>	<u>Contract Value at Dec.31,1999</u>	<u>Unrealized Gain (Loss)</u>
Currency hedging, unrealized gains				
Yen, forward date				
March 09, 2000	- 35,283,379	\$ 506,000	\$ 503,077	\$ 2,923
U.S. Dollar, forward date				
March 09, 2000	U\$ 392,409	579,000	565,690	13,310
April 26, 2000	U\$ 292,934	433,000	421,881	<u>11,119</u>
Total unrealized gains, December 31, 1999				<u>\$ 27,352</u>
Total unrealized gains, December 31, 1998				<u>\$ Nil</u>
Total unrealized losses, December 31, 1998				<u>\$ (17,794)</u>

The credit rating of the counterparty to all 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, 1999 and 1998

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. The Trust is managed by McElvaine Investment Management Ltd. (the "Manager"), which also provides investment counselling services pursuant to the Master Investment Counsel Agreement (the "Investment Counsel"). Effective January 31, 1999, the Master Investment Counsel and Master Management Agreements were assigned from Cundill Funds Inc. to McElvaine Investment Management Ltd.

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 in Canada. 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 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 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 the change in unrealized gains and losses on foreign exchange transactions, including the purchase and sale of forward contracts, are included in the statement of net gain on investments.

c. Forward 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 included in realized gains and losses.

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

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 1999 and 1998

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 investments and is marked-to-market to reflect the current market value of the option. When the contracts are disposed of, 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 realized net 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 during 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 year end
Net investment income (loss)	On the weighted average number of units outstanding during the year
Distributions	On the number of units outstanding at the date of record

h. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 period. Actual results could differ from those estimates.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 1999 and 1998

3. Cash and cash equivalents

	1999	1998
Cash in bank		
Canadian	\$ 1,359,184	\$ 47,618
Foreign	473	49
Treasury bills and term deposits maturing within 91 days, at amortized cost which approximates market value	<u>491,090</u>	<u>866,969</u>
	<u>\$ 1,850,747</u>	<u>\$ 914,636</u>

4. Accounts payable

	1999	1998
Management and investment counsel fees	\$ 430,192	\$ 99,513
Other	<u>4,110</u>	<u>2,000</u>
	<u>\$ 434,302</u>	<u>\$ 101,513</u>

5. 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 set forth in the Offering Memorandum.

	1999	1998
Issued units are summarized as follows:		
Balance, beginning of year	366,811	239,068
Issued for cash	114,042	75,779
Issued on reinvestment of distribution	156,421	52,050
Redemptions	<u>(35,796)</u>	<u>(86)</u>
Balance, end of year	<u>601,478</u>	<u>366,811</u>

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 1999 and 1998

b. Unrealized gains and losses

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

	1999	1998
Investment portfolio, at market value	\$ 5,990,383	\$ 3,433,955
Investment portfolio, at cost	<u>5,992,747</u>	<u>3,353,884</u>
	(2,364)	80,071
Currency hedging	<u>27,352</u>	<u>(17,794)</u>
	<u>\$ 24,988</u>	<u>\$ 62,277</u>

6. Investment counsel fee

Pursuant to the Master Investment Counsel Agreement, the Trust will pay to the Investment Counsel an annual incentive fee (the "Performance Incentive Fee") equal to twenty-five percent (25%) of the amount by which:

- (a) the increase in Net Asset Value 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
- (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 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 which were outstanding at the end of the previous fiscal year and which are redeemed during the year bears to the total number of Units outstanding at the end of the previous fiscal year.

The Performance Incentive Fee, if any, is determined monthly during a fiscal year for the purpose of calculating the Net Asset Value per Unit at the end of each month, but is paid to the Investment Counsel annually within one (1) month of the fiscal year-end of the Trust from cash held in the Trust.

THE McELVAINE INVESTMENT TRUST

Notes to Financial Statements

For the Years Ended December 31, 1999 and 1998

7. Management fee

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

8. Income and other taxes

	1999	1998
Goods and Services Tax	\$ 32,580	\$ 8,582
Federal income taxes	<u>10,822</u>	<u>11,441</u>
	<u>\$ 43,402</u>	<u>\$ 20,023</u>

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

9. 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.

10. 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 values given their short term nature.

11. 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.

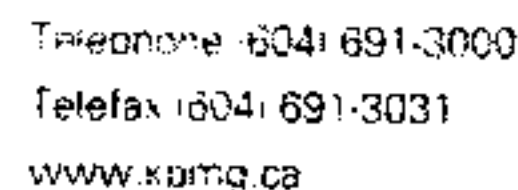
The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could effect the Trust's ability to conduct normal business operations.

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 parties, will be fully resolved.

THE McELVAINE INVESTMENT TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 1998



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.

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	<u>4,259</u>	<u>2,344</u>
	<u>4,352,850</u>	<u>2,805,054</u>
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	<u>17,316</u>	<u>9,231</u>
	<u>178,686</u>	<u>85,621</u>
Net assets represented by unitholders' equity	<u>\$4,174,164</u>	<u>\$ 2,719,433</u>
Units outstanding (note 6(a))	366,811	239,068
Net asset value per unit	<u>\$ 11.38</u>	<u>\$ 11.38</u>

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	<u>38,277</u>	<u>28,833</u>
	<u>233,055</u>	<u>41,911</u>
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	<u>1,375</u>	<u>1,500</u>
	<u>120,076</u>	<u>73,237</u>
Investment income before taxes	112,979	(31,326)
Less: Income and other taxes (note 9)	<u>20,023</u>	<u>9,988</u>
Net investment income (loss)	<u>\$ 92,956</u>	<u>\$ (41,314)</u>
Net gain from investing activities		
Net realized gains and losses (note 10(a))	495,013	91,769
Change in net unrealized gains and losses (note 10(b))	<u>(148,567)</u>	<u>181,154</u>
Net gain from investing activities	<u>346,446</u>	<u>272,923</u>
Income from operations	<u>\$ 439,402</u>	<u>\$ 231,609</u>

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

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	<u>1.55</u>	<u>1.55</u>	<u>0.36</u>
Total income from operations	<u>1.89</u>	<u>1.32</u>	<u>0.29</u>
Distributions to investors			
From net investment income	(0.32)	-	-
From net realized gains on investments	<u>(1.57)</u>	<u>(0.23)</u>	<u>-</u>
Total distributions	<u>(1.89)</u>	<u>(0.23)</u>	<u>-</u>
Net asset value - end of year	<u>\$11.38</u>	<u>\$11.38</u>	<u>\$10.29</u>

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments

As at December 31, 1998

Investment portfolio

	<u>Number</u>	<u>Average Cost \$</u>	<u>Market Value \$</u>
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
		<u>2,125,282</u>	<u>2,205,692</u>
Bonds (5.8%)			
Federal Business Development Bank of Canada S&P 500 Bear Note due March 16, 2000 (Face value \$255,000)		<u>233,498</u>	<u>240,937</u>
Total Canadian securities		<u>2,358,780</u>	<u>2,446,629</u>
JAPAN			
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		<u>744,877</u>	<u>811,412</u>

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments

As at December 31, 1998

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

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

Statement of Investments

As at December 31, 1998

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

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.

THE McELVAINE INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 1998 and 1997

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	<u>866,969</u>	<u>999,790</u>
	<u>\$ 914,636</u>	<u>\$ 1,002,934</u>

5. Accounts payable

Management and investment counsel fees	99,513	66,821
Other	<u>2,000</u>	<u>8,020</u>
	<u>\$ 101,513</u>	<u>\$ 74,841</u>

THE McELVAINE INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 1998 and 1997

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.

	1998	1997
Issued units are summarized as follows:		
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	<u>(86)</u>	<u>(1,042)</u>
Balance, end of year	<u>366,811</u>	<u>239,068</u>

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	<u>3,353,884</u>	<u>1,588,446</u>
	80,071	206,556
Currency hedging	<u>(17,794)</u>	<u>4,288</u>
	<u>\$ 62,277</u>	<u>\$ 210,844</u>

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:

- 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
- the return that would be generated annually by the average interest rate (the "Average Rate") applied to the Net Asset Value of the Trust as calculated at the close of business of the previous fiscal year-end of the Trust, adjusted for contributions and redemptions made by the Investors (the "Base Return"). The Average Rate is the 12 month simple average of the Hurdle Rate. The "Hurdle Rate" is the average yield indicated by the Bank of Canada on the last 91 day T-bill auction by the Bank of Canada in each month.

THE McELVAINE INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 1998 and 1997

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	<u>11,441</u>	<u>4,792</u>
	<u>\$ 20,023</u>	<u>\$ 9,988</u>

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	<u>1,347,499</u>	<u>643,208</u>
	627,529	92,301
Currency hedging	(132,544)	5,951
Foreign exchange	<u>28</u>	<u>(6,483)</u>
Net realized gains and losses	<u>\$ 495,013</u>	<u>\$ 91,769</u>

THE McELVAINE INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 1998 and 1997

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	<u>(22,082)</u>	<u>4,288</u>
	<u>\$ (148,567)</u>	<u>\$ 181,154</u>

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.

THE McELVAINE INVESTMENT TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 1997



KPMG
Chartered Accountants

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Vancouver BC V7Y 1K3 Canada

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Telefax (604) 691-3031
<http://www.kpmg.ca>

AUDITORS' REPORT

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

We have audited the statement of investments and the statement of net assets of the Trust as at December 31, 1997, and the statement of operations, changes in net assets and financial highlights of the Trust for the year then ended. These financial statements are the responsibility of the Trust's Manager. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1997 and the results of its operations, the changes in its net assets and its financial highlights for the year ended December 31, 1997 in accordance with generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada
February 13, 1998



Member Firm of
KPMG International



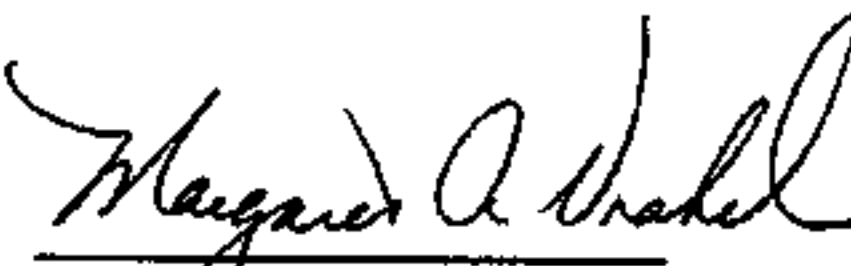
THE McELVAINE INVESTMENT TRUST
STATEMENT OF NET ASSETS
As at December 31

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

Approved by the Directors of the Manager,

PETER CUNDILL & ASSOCIATES LTD.


Tim McElvaine


Margaret A. Vrabel

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

STATEMENT OF OPERATIONS

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

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

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

STATEMENT OF CHANGES IN NET ASSETS

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

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

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST

STATEMENT OF FINANCIAL HIGHLIGHTS (NOTE 10)

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

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

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST**Statement of Investments**

As at December 31, 1997

Investment portfolio

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

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST**Statement of Investments**

As at December 31, 1997

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

There was no currency hedging portfolio at December 31, 1996

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

See accompanying notes to financial statements

THE McELVAINE INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS

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

1. Organization

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

2. Summary of significant accounting policies

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

a. Investments

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

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

b. Foreign exchange

Purchases and sales of foreign securities and the related income and gains and losses are translated into Canadian dollars at the rates of exchange prevailing at the date of the respective transaction. Investments, other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the close of each business day. Realized and change in unrealized gains and losses on foreign exchange transactions, including the purchase and sale of forward contracts, are included in the statement of operations.

c. Forward foreign currency contracts

The Trust may enter into forward foreign currency contracts, the purpose of which is to hedge against exposure to foreign currency fluctuations. The carrying value of these forward contracts is the gain or loss that would be realized if, on valuation day, the position were closed out. For financial statement purposes this value is recorded as an unrealized gain or loss. When the contracts are closed or expire, gains and losses are recognized and are included in realized gains and losses.

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

d. Income taxes

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

THE McELVAINE INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS

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

e. Income and expenses

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

f. Per unit values

Per unit amounts are calculated as follows:

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

g. Comparatives

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

3. Cash and deposits

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

4. Accounts payable

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

THE McELVAINE INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS

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

5. Unitholders' equity

a. Authorized and issued capital

The Trust has an unlimited number of units pursuant to the Master Declaration of Trust. Redemptions may only occur on the first day of every month with appropriate notice and may be restricted in certain circumstances as detailed in the Offering Memorandum.

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

b. Unrealized gains and losses

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

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

6. Investment counsel fee

Pursuant to the Master Investment Counsel Agreement, the Trust will pay to the Investment Counsel an annual Incentive Fee (the "Performance Incentive Fee") equal to twenty-five (25%) of the amount by which:

- (a) the increase in Net Asset Value of the Trust for each fiscal year since the last fiscal year-end, as calculated at the close of business on each fiscal year-end, adjusted for contributions and redemptions made by the Investors and for any Shortfall (as defined below) from the previous fiscal year (the "Incentive Return"), exceeds
- (b) the return that would be generated annually by the average interest rate (the "Average Rate") applied to the Net Asset Value of the Trust as calculated at the close of business of the previous fiscal year-end of the Trust, adjusted for contributions and redemptions made by the Investors (the "Base Return"). The Average Rate is the 12 month simple average of the Hurdle Rate. The "Hurdle Rate" is the average yield indicated by the Bank of Canada on the last 91 day T-bill auction by the Bank of Canada in each month.

THE McELVAINE INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS

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

If in any fiscal year the Incentive Return is less than the Base Return, no Performance Incentive Fee shall be paid for that fiscal year and the difference between the Base Return and the Incentive Return (the "Shortfall") is carried forward to the succeeding fiscal year and, after adjustment for redemptions, deducted in the calculation of the Incentive Return for that year. The Shortfall deducted in any year is reduced by an amount such that the proportion that the reduction bears to the Shortfall is equal to the proportion that the number of units which were outstanding at the end of the previous fiscal year and which are redeemed during the year bears to the total number of units outstanding at the end of the previous fiscal year.

The Performance Incentive Fee, if any, is determined monthly during a fiscal year for the purpose of calculating the Net Asset Value per unit at the end of each month, but is paid to the Investment Counsel annually within one (1) month of the fiscal year-end of the Trust from cash held in the Trust.

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

7. Management fee

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

8. Income and other taxes

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

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

9. Net gain from investing activities

a. Net realized gains and losses

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

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

THE McELVAINE INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS

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

b. Change in net unrealized gains and losses

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

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

10. Financial highlights

a. Distributions

Distributions by the Trust are generally declared in December in respect of investment income and realized gains, net of loss carry forwards applied, for the current fiscal year.

The payment or reinvestment of distributions reduces the net asset value per unit by the amount of the distribution per unit, because the distributions paid in cash reduce the net asset value of the Trust while reinvestment results in an increase in the number of units outstanding.

11. Fair values

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

THE MCELVAINE INVESTMENT TRUST

Financial Statements

December 31, 1996

THE McELVAINE INVESTMENT TRUST

Statement of Net Assets

As at December 31, 1996

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 McELVAINE INVESTMENT TRUST

Statement of Net Investment Loss

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

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	<u>\$ (5,295)</u>
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Net investment loss per unit	<u>\$ (0.07)</u>
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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

Realized gains and losses

Foreign exchange	(227)
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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>
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Net gain on investments per unit	<u>\$ 0.39</u>
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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

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>
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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 Cost \$</u>	<u>Market Value \$</u>
CANADA			
Equities			
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>
Total Canadian securities		<u>361,205</u>	<u>391,773</u>
UNITED STATES			
Call and Put Options			
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>
Total U.S. securities		<u>20,557</u>	<u>20,206</u>
Total investment portfolio, December 31, 1996		<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 Value</u>
UNITED STATES			
Options			
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

Securities sold, not yet purchased

	<u>Number</u>	<u>Proceeds</u>	<u>Market Value</u>
UNITED STATES			
Options			
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

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	On the average number of units
Net gain on investments	outstanding during the period
Distributions	On the number of units outstanding
	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

3. Cash and deposits

Cash in bank **\$ 182,122**

Treasury bills and term deposits
maturing within 91 days, at amortized
cost which approximates market **724,404**

\$ 906,526

4. Accounts payable

Management and investment
counsel fees **7,165**

Other **3,000**

\$ 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 **112,080**

Redemptions **-**

Balance, end of period **112,080**

b. Unrealized gains and losses

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

Investment portfolio at market value **\$ 411,979**
at cost **381,762**

Short sales **30,217**
(527)

\$ 29,690

THE McELVAINE INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS

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

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.