The McElvaine Investment Trust
and
The McElvaine Limited Partnership

Annual Report
2004

The McElvaine Investment Trust ("the Trust")

The McElvaine Investment Trust is a RRSP eligible fund and is considered Canadian content for RRSPs The Trust was formed on September 27, 1996 with the following philosophy:

1. *Highly satisfactory longer-term performance can be achieved by focusing on companies selling below net asset value.*
2. *Given the size of the Canadian market, a small investment fund has a significant competitive advantage.*
3. *The purpose of an investment vehicle is to make money not to own stocks. This is an important distinction because it means the Trust will only invest when presented with an attractive situation.*
4. *As there are few good ideas, there are times when concentration may be helpful.*
5. *An incentive fee structure rewards performance not asset growth.*

The McElvaine Limited Partnership ("the LP")

Originally I thought The LP's focus would be global. Instead I have concluded it ought to be opportunistic; whether that means a Canadian security, a Japanese security or a private investment depends on the price and the situation. It is a far more flexible fund than the Trust both in terms of where and what it might invest in.

The LP was originally established in 1991 as Cundill Capital Limited Partnership. In the summer of 2000, the Partners of the LP approved a resolution transferring the investment counsel agreement to McElvaine Investment Management Ltd. Peter Cundill remains a substantial partner in the LP as well as a 40% owner of McElvaine Investment Management Ltd.

Performance Summaries as of 31Dec04

The McElvaine Investment Trust[8]

Year to	S&P/TSX Composite Index Return[1]	Trust Pre-fee Return[3]	Trust Net Return[4]	Average Canadian Fund Return[5]	T-bill Rate[6]	Average Cash Balance[7]
Dec04	**14.5%**	**11.3%**	**8.6%**	**12.1%**	**2.2%**	**23%**
Dec03	**26.7%**	**36.5%**	**28.2%**	**20.6%**	**2.9%**	**14%**
Dec02	**-12.4%**	**5.4%**	**5.0%**	**-12.0%**	**2.6%**	**5%**
Dec01	**-12.6%**	**37.2%**	**28.0%**	**-4.2%**	**3.8%**	**2%**
Dec00	**7.4%**	**24.6%**	**19.2%**	**12.0%**	**5.5%**	**9%**
Dec99	**31.6%**	**38.8%**	**29.5%**	**20.7%**	**4.7%**	**26%**
Dec98	**-1.6%**	**21.3%**	**16.6%**	**-2.1%**	**4.7%**	**27%**
Dec97	**15.0%**	**16.8%**	**12.8%**	**14.0%**	**3.2%**	**59%**
8 Year compound	**7.5%**	**23.4%**	**18.2%**	**7.0%**		
$100 invested Jan97 is now	**$178**		**$380**	**$172**		

The McElvaine Limited Partnership[9]

Year to	Morgan Stanley World Index Return[2]	LP Pre-fee Return[3]	LP Net Return[4]	Median Global Fund Return[5]	Deposit Rate[6]	Average Cash Balance[7]
Dec04	**7.3%**	**16.8%**	**13.2%**	**6.0%**	**1.1%**	**26%**
Dec03	**9.4%**	**33.3%**	**27.0%**	**12.8%**	**1.1%**	**11%**
Dec02	**-20.2%**	**-1.2%**	**-1.6%**	**-20.1%**	**0.9%**	**2%**
Dec01	**-11.5%**	**17.4%**	**13.9%**	**-12.4%**	**2.6%**	**-4%**
July to Dec00	**-10.9%**	**15.1%**	**13.6%**	**-8.8%**	**3.2%**	**8%**
$100 invested Jul00 is now	**$74**		**$183**	**$76**		

Notes:

1. As the Trust invests primarily in Canadian securities, we have compared its performance to that of the S&P/TSX Composite Total Return Index (formerly the TSX 300 Total Return Index). This index tracks changes in the share price of 300 of the largest companies (by market capitalization) listed on the Toronto Stock Exchange (and includes the return from reinvested dividends). These companies represent a broad range of industries.
2. The investment objective of the Partnership does not restrict the countries in which it may invest. Accordingly, we have compared its performance to the Morgan Stanley Capital International World Index. This index is designed to measure the performance of equity markets in countries that are considered to have “developed” equity markets. **You should understand that the Partnership’s portfolio may differ substantially from the investments reflected in this index.**
3. “Pre-fee Return” is the increase in the asset value during the period after the deduction of all expenses, other than the management fee and performance incentive fee, and applicable GST, and for the Trust includes distributions reinvested in additional units. The Pre-fee Return gives you the best indication of how the funds’ investments have performed. However, the “Net Return” is a better indicator of the returns actually earned by investors.
4. “Net Return” is the increase in the net asset value of the Trust or the LP during the period, and for the Trust includes distributions reinvested in additional units.
5. We have compared the Trust’s performance to the average return of Canadian equity funds, and have compared the LP’s performance to the average return of Global equity funds, as published on the globefund.com website operated by The Globe and Mail and Bell Globemedia. Copyright 2003 Bell Globemedia Interactive Inc., its affiliates and/or licensors.
6. “T-bill Rate” is the average of the monthly 90-day treasury bill rates during the year. “Deposit Rate” refers to the average 30-day deposit rate paid by a Canadian Bank. We have included these rates because they are used to determine whether the Portfolio Adviser receives a performance incentive fee.
7. “Average Cash Balance” is the average of the month-end cash and short-term bond balances. For example, the 1997 pre-fee return for the Trust of 16.8% was earned while the portfolio was on average only 41% invested.
8. The performance table for the Trust excludes the 3 months from 27Sept96 to 31Dec96 (startup period). During this period, the Trust returned 3.1%.
9. The predecessor to the LP, Peter Cundill LP, was formed in 1979 and had a 21-year compound rate of return of 13.5%.
10. **It is important that you understand that performance is yesterday’s news and you should be careful about using it as a guide to tomorrow. The figures above are unaudited and in many circumstances, simply our estimates.**

My Commitment to Reporting

In the pages that follow I have tried to present the material I believe is important for you to assess the job I did. In other words, I have tried to put myself in your shoes and thought about what I would need to see to understand the performance of my investment. I hope I have done this in a fashion that neither trumpets my successes nor hides my warts.

You will find this report includes:

1. *A general discussion of the issues affecting the funds.*
2. *A specific discussion of each fund including:*
    - i. *a review of pre-fee returns to show you how the portfolio performed.*
    - ii. *a reconciliation of pre-fee returns to your return to allow you to understand the expenses you paid and thus how the fund return became your return.*
3. *The Statement of Net Assets and Schedule of Investments for both the Trust and the LP.*

This report will not include a detailed discussion of our holdings. I have no intention of trying to sell you on each holding of ours. While the enclosed Schedules of Investments list the majority of our holdings, I believe a discussion of each not only has the potential to make me look quite foolish but also would not be in our best interests as partners. I do assume on these matters you trust my judgment and will hold me accountable each year for the collective performance of these individual decisions.

Finally, I work for you. If you believe there are items or issues I have not discussed but you would like to see covered, please let me know.

A prelude:

I am often asked what my favourite business book is. I thought I would take the liberty of sharing an abridged version of it with you:

The Story of the Three Little Pigs

Once upon a time there were three little pigs, who went from home to seek their fortune. The first that went off met a man with a bundle of straw, and said to him:--
"Good man, give me that straw to build me a house."
The man gave the straw, and the little pig built his house with it. Presently came along a wolf, and knocked at the door, and said:--
"Little pig, little pig, let me come in."
But the pig answered:--
"No, no, by the hair of my chiny-chin-chin."
So the wolf said:--
"Then I'll huff, and I'll puff, and I'll blow your house in."
So he huffed, and he puffed, and he blew his house in, and ate up the little pig.
The second little pig met a man with a bundle of furze, and said:--
"Good man, give me that furze to build me a house."
The man gave the furze, and the pig built his house. Then once more came the wolf, and said:
"Little pig, little pig, let me come in."
" No, no, by the hair of my chiny-chin-chin."
"Then I'll puff, and I'll huff, and I'll blow your house in."
So he huffed, and he puffed, and he puffed and he huffed, and at last he blew the house in, and ate up the little pig.
The third little pig met a man with a load of bricks, and said:--
"Good man, give me those bricks to build me a house with."
The man gave the bricks, and he built his house with them. Again the wolf came, and said:--
"Little pig, little pig, let me come in."
"No, no, by the hair of my chiny-chin-chin."
"Then I'll huff, and I'll puff, and I'll blow your house in."
So he huffed, and he puffed, and he huffed, and he puffed, and he puffed and huffed; but he could NOT get the house down.

So the bottom line is that all I do for you is look for cheap brick houses.
(story copied from http://storypalace.ourfamily.com)

To my Partners:

I guess better late than never! Sorry about the delay in the mailing of this annual report but I did want to cover a couple of topics with you. I do this under the "Recent Developments" section.

You may recall last year I said "In this market, investing with me is like hiring Barry Manilow to sing at a biker rally." I sadly did not lie to you and our performance in 2004 was disappointing. So you may rightly ask, what is in store for 2005. My honest answer is "be damned if I know".

As mentioned in the past, I believe it is important you see the "whole field" and as such this report discusses both the Trust and the LP. While I appreciate this does make the Annual Report at times a little cumbersome, I do think it allows you to understand everything I am doing.

My report to you is structured as follows:

1. I will chat about the investment returns of each fund.
2. I will detail how the investment return translated into your return.
3. I will outline how each fund is positioned.
4. I will spend a page ranting from my toadstool.
5. I will chat briefly about some recent developments.

After my report, you will find:

1. The McElvaine Investment Trust Statement of Net Assets and Schedule of Investments.
2. The McElvaine Limited Partnership Statement of Net Assets and Schedule of Investments.
3. The 2000 Annual Report's "From the Toad Stool".
4. A copy of my letter to potential partners from our "marketing" package.
5. Compliance discussion.

By the time you have finished I suspect you will be pleased this is an <u>annual</u> report.

Warning label

First and foremost, I caution you that all figures are my estimates. Secondly, I want to stress that all figures in the body of my report are unaudited. Audited Financial Statements have been sent separately to all partners. Finally, some of my comments could be considered predictions. While my statements are made with the best of intentions, history has shown I am often quite wrong.

Trust and LP Performance

For the Trust, our return for the 12 months ending 31Dec2004 after all fees and expenses was +8.6%. By comparison, the S&P/TSX Composite Total Return Index (including dividends) for this same period was +14.5% while the median Canadian equity fund rose by 12.1%.

For the LP, our return for the 12 months ending 31Dec2004 after all fees and expenses was +13.2%. By comparison, the Morgan Stanley Capital International World Index total return (in Canadian dollars and including dividends) for this same period was +7.3% and TSX total return (including dividends) for this same period was +14.5%. The median Global equity fund rose by 6.0%.

I would expect the two funds to have similar performance over time. Given their portfolios are a little different, in any given period I am not surprised that performance differs. Hopefully my discussion below will shed a little more light on this for you.

Investment return versus your return

To illustrate our performance, I have expressed the details as a percentage of our opening net asset value. I should caution you that these figures are my estimates and are unaudited.

	Trust	*LP*
Returns from investments	11.5%	17.0%
Operating expenses	-0.2%	-0.1%
Taxes paid	0%	-0.1%
	-------	-------
Return pre-management and pre-incentive fee	11.3%	16.8%
Management fee	-0.4%	-0.4%
Incentive fee	-2.1%	-3.0%
GST (tax) on fees	-0.2%	-0.2%
	-------	-------
Net return to you	8.6%	13.2%

A couple of comments:

1. Operating expenses for both funds primarily consist of audit, legal and custodial fees. For the Trust, trustee fees are also included.
2. The management fee is a fixed fee of 4/10 of 1% of the net assets of each fund.
3. The incentive fees are based on the portfolio returns over a hurdle rate. In the case of the Trust, the incentive fee is 25% of the fund return over the average 90 day T-bill rate. For 2004, the T-bill rate monthly average was 2.2%.
4. The incentive fee on the LP is 20% of the fund return over the average monthly Royal Bank of Canada deposit rate. For 2004, this rate was 1.1%.
5. The incentive fees were reduced by my estimate of the after-tax benefit to me of the fees I received from being a director of Sun-Rype.

6. You did pay me an incentive fee in 2004. While I can hardly say I deserved it, I did not hesitate to cash the cheque. One benefit to you of the incentive fee is that it did reduce the funds' taxable income. As a consequence, the Trust had no taxable distribution in 2004 and the LP had a small taxable distribution.
7. While on the subject of tax, I estimate the unrealized gain per unit of each fund for tax purposes as follows:

	Trust	*LP*
At 31Dec04	$4.09	$8.02
As % of unit price	*20%*	*20%*
At 31Dec03	$4.35	$7.99
As % of unit price	*23%*	*23%*

Please keep in mind these are only estimates and change each day as the market prices of our securities change. Furthermore, this does not mean we expect to realize these gains in 2005; events will determine our actions.

Returns from investments

To give you a better idea of where we earned our returns, I have estimated the largest components of our investment returns as follows:

The McElvaine Investment Trust	
Sun-Rype Products	3.1%
HHG plc	1.6%
Glacier Ventures	1.4%
Newfoundland Capital	0.8%
Blockbuster Entertainment	0.8%
Mattel	-0.8%
Torstar	-0.7%
Net return from everything else	5.3%

Returns from investments	11.5%

The McElvaine Limited Partnership	
Sun-Rype Products	5.0%
HHG plc	2.6%
Mitsubishi Securities	1.2%
Glacier Ventures	1.2%
Newfoundland Capital	1.0%
Torstar	-1.0%
Fuji Television	-0.8%
Net return from everything else	7.8%

Returns from investments	17.0%

A couple of observations:

1. Our returns in 2004 were "juiced" by our position in Sun-Rype. I do want to remind you of two points. First, our Sun-Rype returns are unrealized which is great from a tax perspective but it is not the same thing as cash. Secondly, I currently am a director of

Sun-Rype although this is changing as discussed later under the section, “Recent Developments”.

2. HHG plc was also a pleasant experience for us. HHG is essentially a UK-based fund manager. We acquired our position in HHG in late 2003 and early 2004 when it was spun out of an Australian company. I do love investing in the special situation space of the market but it is an area that has become increasingly well covered (sadly for us) over the years. Lots to look at, little to do might be how to describe that space at the moment.
3. Similar to HHG, Blockbuster was a special situation. The bulk of our position was acquired as Blockbuster was spun out of Viacom in late 2004. Both the Trust and the LP acquired shares and the LP recorded a gain for 2004 that was not significantly different from the Trust’s (although it did not make the LP top 5). Our position in Blockbuster was sold in early 2005.
4. As discussed below, Japan continues to be a large position for us. Including the Mitsubishi Securities position, I estimate our Japanese securities add about 1.1% to the Trust’s performance and 1.7% to the LP’s performance.
5. As mentioned in last year’s annual report, our CINAR position was tendered to a takeover early in 2004. We do retain a “litigation certificate” that allows us to participate in any recoveries from litigation CINAR is pursuing. This is carried at zero in the portfolio and its value, if any, is uncertain.

Investments- Both funds

I decided the easiest way to discuss the portfolios was to do it collectively. At the end of March 2005, our holdings were as follows:

The McElvaine Investment Trust

Newfoundland Capital Corporation	11.6%	of net assets
4 Japanese Broadcasting stocks	10.1%	
Sun-Rype Products	9.5%	
Torstar Corp	8.8%	
Indigo Books	8.1%	
All other holdings	41.2%	
Cash, T-bills, and net working capital	10.7%	

The McElvaine Limited Partnership

Sun-Rype Products	15.0%	of net assets
4 Japanese Broadcasting stocks	13.8%	
Newfoundland Capital Corporation	9.9%	
Torstar Corp	7.2%	
HHG plc	6.3%	
All other holdings	29.7%	
Cash, T-bills, and net working capital	18.1%	

First, my usual caveats: I caution you that several of our largest holdings are trading at prices different from our cost so the weighting is partially a consequence of the market rather than a conscious investment decision. In addition, while I am not a trader, I do periodically sell positions so over time the top list may change. The two portfolios differ partially due to their size and focus. As discussed earlier, the Trust is a Canadian-focused fund while the LP has no such constraint. Finally, even in the case of similar security positions, the portfolios may differ slightly due to cash inflows and outflows.

You will note I have included our holdings in the Japanese broadcasters as one position. Our total Japanese position at 31Mar05 was as follows:

The McElvaine Investment Trust	13%	of net assets
The McElvaine Limited Partnership	20%	

Our cash does look relatively low. I estimate if we adjusted for positions that I view as “workouts”, our cash, T-bills and net working capital would be roughly 5% higher in the Trust and about 3% higher in the LP. Of course, cash is not cash until you get it!

You will also note that our portfolio at 31Mar05once again is fairly concentrated with our top 5 positions making up 48% of the Trust (vs 33% last year) and 52% of the LP (36% last year). While I am reasonably pleased with our portfolio, this concentration will be a bit of a bummer if my judgment is off.

Summing up, it is a little tricky out there at the moment. As you know, I have been cautious for a while and certainly history has shown my record at predictions makes the weather forecaster look good. I know you are wondering about what type of ride is ahead for us. Think of it as a turtle powered rickshaw ride with the odd speed-bump.

From the Toad Stool

I will keep this section short as I have a number of developments to discuss with you. In the next section, you will see I am involved once again as a director so the comments below are definitely self-serving.

In the recent press, there has been a lot of discussion of shareholder activism. To use song analogies, there are some investors who follow the suggestion of the Black Eyed Peas song "Let's get it started". (the advantages of having a teenage daughter - I am on my way to becoming a Renaissance Man). I do not fall into that camp. I am a "lover not a fighter". There are times however when some type of action is required.

Shareholder, or more appropriately shareowner, responsibility I think means ensuring the Board is operating in a rational fashion from the position of the owner. An owner I believe thinks about threats, opportunities, cashflows and returns.

I do note a recent trend in board governance to substitute paper and polices for common sense. From a personal point of view, the best directors I think are those who have integrity, common sense and equity. They may or may not be "independent". In my brief career, I have met a number of such people. They are the unsung heros of corporate governance.

Recent Developments

I did want to cover 5 items with you:

1. Separation

   Last year Celina and I separated. I tell you this not for sympathy but rather I would prefer you heard it from me than as gossip. There were no affairs just a relationship that changed. I think very highly of Celina. As you can guess, a separation is not a particularly liquidity enhancing event so the upside for you is I have some financial recovery to do.

   You may be aware of the fact that I actually live in Victoria. For the upcoming year, I expect to work out of Victoria when I have my kids. When they are with their mom, I suspect I will be primarily in the Vancouver office.

2. Office Location

   We expect to move into new offices in the Bentall Center in May 2005. You may be aware that we were subleasing office space from Cundill Investment Research. In an environment that is increasing compliance focused, both the Cundill Group and us felt it was better if we operated out of a different location. We will miss the fellowship of the Cundill staff but are looking forward to our new digs. At least, Di and Kim are; I get stuck with the bill!

3. Humpty Dumpty

Recently there was a little bit of a squirmish with Humpty Dumpty. By way of background, you (meaning you via the Trust and the LP) now own, as a result of several transactions in 2004, 27% of Humpty Dumpty. The bottom line is that Pat Hodgson, Michael Bregman and I formed a group in Feb05 and proposed a number of new directors for the Board of Humpty. These directors were elected 29Mar05 and include me, Michael Bregman, Bonita Then and Gord Henderson.

I do want to caution you not to read too much into these events as the future is of course uncertain. The one thing I am certain about is I am blessed to be associated with such high quality people as Michael, Pat, Bonita and Gord.

Similar to our Sun-Rype experience, because I am now a director of Humpty Dumpty, there are several items I need to discuss with you:

1. Conflicts
2. Compensation
3. Shareholding

On conflicts, once I became a director, the nature of our investment changed. Conflicts are introduced between my responsibilities to you as an investor in my funds and my responsibilities to Humpty Dumpty as a director. While I will continue to operate in our best interests as investors, there will be circumstances when my duty will be to Humpty Dumpty. At the end of the day, I am not overly fussed as I believe we are much better off stepping into the fray than avoiding it.

On compensation, I receive directors fees. By accepting these fees, I am "double dipping" given you already pay me to handle your investments. It is therefore my intention to reduce any incentive fee payable to me in December by the after tax amount of any directors fees I have received. While my solution is not perfect, it does clear my conscience.

On shareholdings, I currently do not directly own any shares of Humpty Dumpty. I may, depending on prices and circumstances, purchase shares of Humpty as I do feel it important that directors own shares. If I do, I will let you know, subject to any OSC limitations, in my "We are here" notes.

4. Sun-Rype

Related to my decision to join Humpty Dumpty's board, it was appropriate that I did not stand for re-election as a director of Sun-Rype Products. I very much enjoyed my involvement with Sun-Rype and feel my experience there took me from "crayons to perfume" as an investor, as a businessman and as a person. My thanks go especially to Merv Geen and my fellow directors.

Eric Sorenson joined Sun-Rype last year as CEO and I have been impressed with the changes and focus he has brought. I am not commenting on whether Sun-Rype is cheap or dear but it remains an important position.

5. Foreign content changes

As you have seen, a recent federal budget has proposed removing the restriction on foreign investment for RSP funds. While this will have no direct impact on how the LP operates, it will substantially increase the number of investment alternatives to the Trust. At the current time, our foreign exposure in the Trust is around 17%, so there will be no immediate impact. The bottom line is I view the change as positive as it will have the dual impact of giving us a bigger pool to fish in as well as perhaps reducing the number of people fishing in our (Canadian) pool.

Personal investments

As I mentioned earlier, my personal financial situation is in some turmoil. The bottom line is I have and will continue to have a substantial investment in the Trust and the LP.

I believe our structure results in me making money when you make money and in me losing money when you lose money. I think our interests are aligned.

Administration

As you may know, Kim was on maternity leave last year. Kim and Marc have a beautiful new daughter (now 1 year old) and Kim started back with us on 01April. In Kim’s absence, Diann Fong, with help from Dominque Lee, did a wonderful job of getting us through 2004. Diann’s responsibilities included politely telling me to butt out whenever I suggested I could give her a hand.

We will be soon again adding a person to help Kim and Di as Dominque recently moved overseas. As of this moment, the “dynamic duo” of Kim and Di are back with a third to come. (Kim calls the group “tim’s angels”. If you have seen the Charlie’s Angels movie you will note that those women can fight. Recognizing this, let’s just say, I do whatever Kim and Di tell me)

Acknowledgements

Kim and Diann really make my life easier. My thanks to both of them.

As I have mentioned in the past, I am blessed to be doing something I enjoy for people I like and respect. Given the number of investment alternatives available in the market place, I consider myself very fortunate to have your trust. Thank you.

Tim McElvaine
April 15, 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

THE McELVAINE LIMITED PARTNERSHIP

Statements of Net Assets

December 31, 2004 and 2003

	2004	2003
Assets		
Investment portfolio, at fair value	$ 56,558,323	$ 52,384,958
Cash and deposits (note 3)	19,907,800	10,778,890
Dividends and interest receivable	133,500	160,800
	76,599,623	63,324,648
Liabilities		
Redemptions payable	530,000	-
Accounts payable and accrued liabilities	2,085,124	2,728,618
	2,615,124	2,728,618
Net assets represented by unitholders' equity	$ 73,984,499	$ 60,596,030
Units outstanding (note 4(a))	1,887,198	1,749,867
Net asset value per unit	$ 39.20	$ 34.63

Appendix A
2000 Annual Report
From the Toad Stool

I want to talk for a second on certainty (or confidence level) and investing. I think this is especially important given our large holdings in several companies. As I get older in this business, I value certainty more and more. Let me clarify what I mean. I am not referring to a prediction of what is going to happen to the stock price. I am referring to certainty over the items I focus on. As discussed in the past, these are:

1. What I think the company is worth
   This is always a guess at a broad range. It does not depend solely on assets on hand.

2. How volatile I think this rough estimate of worth is
   This is a stress test of item 1. I think about the story of the three little pigs. The grass house and the stick house, from the perspective of a pig hoping for longevity, are much more "volatile" structures than the brick house.

3. Do I think mgmt and the board are working for or against us.

Let's take an example: Loewen Group. We purchased the senior bonds of this bankrupt funeral home business around 50 cents per $1 face of bond. I am confident Loewen is a reasonable business that is worth more than we effectively paid via the bonds. I am comfortable with the proposed new structure of the balance sheet and of the business. I am positive Paul Houston and John Lacey will operate in a conservative and honest fashion both with us and with their customers. In other words, I am certain we have a margin of safety.

You will note I said nothing about return. I have no idea what the price will do. Certainty with me is not about price fluctuations, it is about the business and the Board. I do recognize there will be unexpected events. Further, there will be many occasions where I misjudge the risks. I do think, on average, we will do better focusing on those situations where we can be certain about the controllable factors.

Appendix B
Tim's letter in the marketing package

Dear Potential Partner:

In this package we have tried to provide all the information you require to make an informed decision. It is not an exciting package to read and we apologize in advance for that.

As you may be aware, McElvaine Investment Management Ltd. is the Investment Counsel for two funds: The McElvaine Investment Trust (the "Trust") and The McElvaine Limited Partnership (the "Partnership").

This package deals with our "stuff". I think the best place to start is how I view our relationship:

1. I view you as a partner regardless of the technical relationship. You contribute capital and I contribute investment advice. There is a modest flat fee and the profits are divided.

2. The Trust and the Partnership are not products and you are not our customers. We are not trying to "sell" you anything. Our service is "spotty" at best. On the other hand, we do not have a marketing department and a PR agency does not review our correspondence. We will be honest with you and will try to provide the information necessary for you to assess whether we are keeping up our side of the bargain.

3. As a partner, we ask you to be cognizant of your other partners. A partner who comes in for a "flip" does no one any favours (especially as it may be a flop). If you are not comfortable with what you read, please do not join us. We would hate for you to spend your time worrying about what I am up to.

4. We suggest the Trust or the Partnership be only a part of your investment portfolio. We do not expect them to be funds for all seasons. Quite often, in the past, I have been doing the rumba while the market is doing the waltz. It is not a pretty sight. During those periods, we do not ask that you enjoy the show but that you be patient.

5. In the words of Sonny & Cher, "you got me babe". What I mean is the Trust and the Partnership are not managed by a committee; they are managed by me. Our money is invested in the Trust and in the Partnership and my name is on the door. The good news and the bad news is you got me!

6. If you have any questions, please call or email. I am always delighted to talk with my partners. As I stated in the 1998 Annual Report, I have been asked if it wouldn't be easier on the nerves to manage the money of people I didn't know. My response was and is simply that I prefer to be working for people I like and trust. This is an important aspect to me of having my own funds.

7. Please carefully read the Offering Memorandum. Pay particular attention to the *Risk Factors* section. It is important you understand what the fund is about before you invest.

We appreciate your interest.

Tim

Appendix C
Excerpted (and updated) from 2002 Annual Report

Compliance related

Given all the press this year about compliance, I thought I ought to clarify several items with you:

1. *When you buy a stock how do you decide which fund gets what investments?*
   My basic approach is to buy Canadian names first in the Trust as it is RRSP eligible. If I find there is sufficient volume and an attractive price, the LP may participate at that time or it may buy at a later date. The result is, even for similar positions, the Trust and the LP may have a different cost. In the case of non-Canadian ideas, the LP usually invests first.

2. *How is trading and allocation done for the funds?*
   If both accounts are attempting to buy/sell the same stock at the same time, any "fill" will be split evenly between the two. This results in each fund being treated equally. For example, if we buy 10,000 shares of Nikko, the Trust and the LP may each get 5,000. I realize this seems obvious but funny enough it does differ from the standard practice of the mutual fund industry. Most of these firms prefer to split fills pro-rata meaning the amount of a trade a fund gets depends on its relative size. In the example above, as the LP is slightly larger, under pro-rata allocation it would receive almost 6,000 shares to the Trust's 4,000. To me this would be like handing out pieces of a cake depending on one's weight. Anyone who has children knows this would not fly! I believe our approach to allocation, while unconventional, is the fairest.

3. *What is soft-dollaring and do you use it?*
   Soft-dollaring is the use of trade commissions to pay for research services. For example, broker xyz will pay for a fund managers subscription to abc magazine in exchange for commissions. While the debate on this topic can be complex, the bottom line is we do not use soft-dollars.

4. *Do you cross-trade or trade between the Trust and the LP?*
   There were no trades in 2004 (or any earlier year) between the Trust and the LP.

5. *Do you invest in shares directly and what is your personal trading policy?*
   Last year the only investments I made, either directly or indirectly was to invest in the Trust and the LP.

6. *Are there conflicts involved as you are a director of Sun-Rype and Humpty Dumpty?*
   Yes there are a number of conflicts. This issue is covered under the section "Recent Developments". In addition, and as mentioned, I will not be standing for re-election at Sun-Rype meeting in May 2005.

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