



The McElvaine Investment Trust
and
The McElvaine Limited Partnership

Annual Report
2007

The McElvaine Investment Trust (“the Trust”)

The McElvaine Investment Trust is a RRSP eligible fund. 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. 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.*
- 3. As there are few good ideas, there are times when concentration may be helpful.*
- 4. An incentive fee structure rewards performance not asset growth.*

McElvaine Fund Ltd. , formerly The McElvaine Limited Partnership (“the LP”)

The LP was converted to McElvaine Fund Ltd. in January 2008. 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.

Performance Summary as of 31Dec07

The McElvaine Investment Trust⁷ Series B

Year (Period)	Pre-fee Return ⁽¹⁾⁽²⁾ - Series B Units	Net Return ⁽¹⁾⁽³⁾ - Series B Units	Index ⁽⁴⁾	Average Cash Balance ⁽⁵⁾
2007	1.0%	0.6%	9.8%	9%
2006	15.1%	11.9%	17.3%	11%
2005	22.9%	17.2%	24.1%	13%
2004	11.3%	8.6%	14.5%	23%
2003	36.5%	28.2%	26.7%	14%
2002	5.4%	5.0%	-12.4%	5%
2001	37.2%	28.0%	-12.6%	2%
2000	24.6%	19.2%	7.4%	9%
1999	38.8%	29.5%	31.6%	26%
1998	21.3%	16.6%	-1.6%	27%
1997	16.8%	12.8%	15.0%	59%
11 Year Compound	20.4%	15.8%	9.6%	
\$100 invested Jan97 is now		\$501	\$274	

Notes:

- (1) The “Pre-fee Return” and “Net Return” information includes distributions reinvested in additional units.
- (2) “Pre-fee Return” is our estimate of the increase in the asset value of the Trust during the period after the deduction of all expenses, other than the management fee and performance incentive fee, and applicable GST. The Pre-fee Return gives you the best indication of how the Trust’s investments have performed. However, the “Net Return” is a better indicator of the returns actually earned by investors.
- (3) “Net Return” is our estimate of the increase in the net asset value of the Series B units during the period, which is based upon the fees in effect prior to January 1, 2008. No Series A units or Series F units were issued during the periods shown. The Net Return for each series of units will differ since the fee and expense structure for each series units differs.
- (4) 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. The Trust may often invest in small-cap and mid-cap companies that are not included in the S&P/TSX Composite Total Return Index, and therefore, other indices may also be appropriate comparisons for the Trust.
- (5) “Average Cash Balance” is our estimate of the average of the month-end cash and short-term bond balances held by the Trust. We have included this to allow you to assess how the Trust was invested in order to generate the returns shown. For example, the 1997 Pre-fee Return of 16.8% was earned while the portfolio was on average only 41% invested.
- (6) This Performance Table excludes the three months from 27Sep96 to 31Dec96 (startup period). During this period, the Trust returned 3.1%
- (7) **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.

Sometimes it is best to start with a musical intro. Brenda Lee said it best with her song:

*You wore out your welcome mat
You used to be the cat's meow
You're in the doghouse now
You're such a handsome hound
You'll wind up in the pound.*

*All you can say is bow-wow-wow
You're in the doghouse now
It was grand
yes, it was swell
But you bit the hand
That fed you so well.*

*I hate a dog who begs
With his tail between his legs
Find a new place to bum your chow
Who's in the doghouse now?*

*On the town
Out on the trail
Don't come 'round
Go chase your own tail
I heard from Socrates
"Sleep with dog
Wake up with fleas."
I never liked you anyhow
You're in the doghouse now.*

*You're in the doghouse now.
You're in the doghouse now.
Down, boy.*

Well, I guess the upside is at least I was not neutered!

To my Partners:

First and foremost, I apologize for our recent performance. I know it is unsettling but please try not to worry about what I am up to. I feel good about what we own. This is more than just talk as I have virtually all of my investments (meaning 98%+) in our funds and our stocks. I eat my own cooking and am your partner, not a disinterested fund manager.

I have changed the format of the annual report. I figured I would put my commentary up front and have any analysis on performance in the back. Given my 2007 performance, you are right to be skeptical of this approach!

Before I get started, I do want to stress that we are different from most of the other funds out there. First, I come in each day focused on only one portfolio (essentially the same stocks in both funds and hopefully soon to be one fund!). Secondly, we do not own very many stocks. Thirdly, all my money is in our funds and my name is on the door. Fourthly, I do not pay attention to how our portfolio is positioned relative to any index. Finally, I get paid the most when you make money. You are my partner, not my client.

Trust and LP Performance

For the Trust, our return for the 12 months ending 31Dec2007 after all fees and expenses was +0.6%. By comparison, the S&P/TSX Composite Total Return Index (including dividends) for this same period was +9.8%.

For the LP (now McElvaine Fund Ltd. or “MFL”), our return for the 12 months ending 31Dec2007 after all fees and expenses was +2.4%.

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. A more detailed analysis will follow in the annual report.

Investments - Both Funds

As mentioned, I like what we own. The businesses we own are cash generative, reasonably financed, have important presences in their industries, and finally, have owners on the board. I have no idea how any of these will perform next quarter; I do feel confident they will perform well over time.

So let's get down to details. 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. Finally, even in the case of similar security positions, the portfolios may differ slightly due to cash inflows and outflows. Our portfolios, at the end of February, looked as follows:

The McElvaine Investment Trust

*McElvaine Fund Ltd. (formerly
The McElvaine Limited
Partnership)*

Glacier Ventures	18.7%	20.2%
Newfoundland Capital	14.3%	14.9%
Indigo Books	13.4%	7.5%
Sun-Rype Products	11.3%	16.1%
Maple Leaf Foods	9.4%	8.7%
Rainmaker Income Fund	8.0%	6.4%
Citadel Broadcasting	5.3%	5.1%
EGI Financial	4.9%	8.0%
All other securities	13.2%	4.9%
Net working capital incl cash	1.5%	8.2%

You may recall I look primarily at 3 things when I assess an investment. 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 management and the board are working for or against us.

I think I can confidently say the following about our holdings:

1. All trade below my estimate of their value;
2. I believe there to be little financial risk in our positions (meaning I do not think we own straw houses);
3. I would expect in aggregate their earnings to be higher this year than last;
4. Several of the businesses are being restructured which I believe will significantly increase their value (think pig bungalow being redeveloped into condo!); and
5. All have a significant owner presence on their board.

Each company of course has issues but the bottom line is I like what we own. Of course, it would be nice if the stock prices went up sooner rather than later but I do not control that.

I also want to comment on volatility. The volatility I focus on is the volatility of the underlying “worth” of the company. This is much different from the volatility in the stock price. This is the concept of “Mr. Market” that Ben Graham, the father of value investing, talked about some 70 or so years ago.

Mr. Market is an emotional beast. Some days he feels great and has no fear while other days he is depressed and wants to sell. My job is to match Mr. Market’s “moods” against what I think the businesses are worth. The key point I want to make is that while I am measured based on how Mr. Market feels on any given day, I focus my efforts on ensuring that, regardless of Mr. Market’s

view, we have a margin of safety. This ties into another concept of Ben Graham's: in the short run, the market is a voting machine, in the long run it is a weighing machine meaning emotion affects the day to day price of a stock but over a longer period, it is the underlying value that wins out. I firmly believe this and am quite confident in the underlying value of our investments.

From the Toad Stool

On the assumption that most people do not read my annual report (not being modest but realistic), I thought I would highlight last year's "From the Toad Stool":

I chatted a little during my speech about my lessons of the last 10 years. I thought I might take a moment and mention them again here:

- Lesson 1: Good people = good things.
- Lesson 2: Always took longer and cost more than I thought.
- Lesson 3: Best ideas had a double whammy:
 - Valuation was cheap
 - Operations improved

Expanding on these, I have found that a good board leads to good outcomes. Each business will have its challenges but a rational and shareowner oriented board will make the best of any situation. Further, I think ownership by board members is much more important than any legal policy.

Lesson 2 perhaps is a result of me not being very bright. Someone once asked me why I hold our securities for so long and the simple answer is it takes them a long time to go up.

In Lesson 3, I have found bad news often gives us the potential for a double whammy. However this usually takes some time as operational changes are never quick. A couple examples of reasonably successful double whammies currently in the portfolio include Sun-Rype and Indigo Books.

I am sorry that it took me 10 years to figure these things out. As I mentioned at the fêtes, as I approach the next 10 years, I don't think I am any dumber than I was 10 years ago and am looking forward to hopefully making us all a lot of money and having fun too!

Recent Developments

We have made a number of changes in the last year or so. I realize the only thing that counts at the end of the day is our performance. I will therefore not try to soften the blow by describing our administrative achievements. I would like to say that Kim, Di and Geoff have been great and have significantly improved our operations over the last year. If only I had performed half as well on the investment side, we would have shot the lights out!

I would like to mention that we are large owners of Rainmaker Income Fund. We recently bought additional shares bringing our ownership position to approximately 32%. You may recall I joined the Board about a year ago. As has been my usual practice, any performance fees owing to me are reduced by the net after tax fees I received from being a director.

Personal investments

My personal life, as usual, is full. Thankfully I am blessed with a wonderful partner, Kate, and 6 kids. As mentioned in the past, my “overhead” is high so I am motivated to work!

My earnings primarily come from the performance fees on the funds. This means that years such as 2007, I feel the pinch directly. Lean for you means lean for me!

In addition, my direct and indirect investment portfolio at 29Feb08, ignoring cash, looks roughly as follows (please note this excludes a Trust I set up for my kids as well as Kate’s investments. If these were included, the investment in our stuff would be even higher):

Investment in the Trust, MFL and Trust/MFL-held securities	98.2%
Other securities owned	1.8%

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.

Acknowledgements

When people ask me what things I have done right in business over the years, my first and only answer is hiring good people. Thank you Kim, Diann and Geoff.

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
March 5, 2008

Review of Fund Performance

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 31Dec2007 after all fees and expenses was +0.6%. By comparison, the S&P/TSX Composite Total Return Index (including dividends) for this same period was +9.8%.

For the LP (now McElvaine Fund Ltd. or “MFL”), our return for the 12 months ending 31Dec2007 after all fees and expenses was +2.4%.

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.

	<i>Trust</i>	<i>LP</i>
Returns from investments	1.2%	3.0%
Operating expenses	-0.2%	-0.1%
Taxes paid	0%	0%
	-----	-----
Return pre-management and pre-incentive fee	1.0%	2.9%
Management fee	-0.4%	-0.4%
Incentive fee	0%	-0.1%
GST (tax) on fees	0%	0%
	-----	-----
Net return to you	0.6%	2.4%

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 2007, the T-bill rate monthly average was 4.2%.
4. The incentive fee on the LP is 20% of the fund return over the average monthly Royal Bank of Canada deposit rate. For 2007, this rate was 2.3%.
5. I did not receive any incentive fee from the Trust; I did receive a small incentive fee from the LP. The LP's incentive fee was reduced by my estimate of the after-tax benefit to me of ½ the fees I received from being a trustee of Rainmaker Income Fund.
6. I estimate the unrealized gain per unit of each fund for tax purposes as follows:

	<i>Trust</i>	<i>LP</i>
At 31Dec07	\$7.25	\$10.78
<i>As % of unit price</i>	<i>27%</i>	<i>22%</i>
At 31Dec06	\$8.42	\$11.74
<i>As % of unit price</i>	<i>31%</i>	<i>25%</i>

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 2008; 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

Glacier Ventures	6.1%
Newfoundland Capital	1.6%
Saskatchewan Wheat Pool (Viterra)	1.4%
EGI Financial	1.4%
Maple Leaf Foods	1.3%
Sun-Rype Products	-1.2%
Citadel Broadcasting	-6.7%
Net return from everything else	-2.7%

Returns from investments	1.2%

The McElvaine Limited Partnership

Glacier Ventures	6.8%
EGI Financial	2.3%
Newfoundland Capital	1.7%
Maple Leaf Foods	1.5%
Saskatchewan Wheat Pool (Viterra)	1.2%
Sun-Rype Products	-1.8%
Citadel Broadcasting	-6.3%
Net return from everything else	-2.4%

Returns from investments	3.0%

A couple of observations:

1. The primary difference in the returns between the two funds was related to the relative weightings of positions. For example, Glacier, EGI and Sun-Rype had somewhat larger weightings in the LP hence the change in value of these holdings had a larger impact.
2. The two “bookends” were Glacier and Citadel. Glacier you may recall is primarily a publisher of community papers and we have been an owner for many years. I have a lot of respect for Sam Grippo and Jon Kennedy.
3. Citadel Broadcasting is a large US radio network and broadcaster. It was spun out of Disney in June of 2007 and was quite a volatile stock. I established a position perhaps too quickly and it hurt our 2007 results. I realize I do not look very bright on this holding but I continue to believe rather than wrong, I was just early.
4. Since about May 2006, I have not hedged our foreign currency exposure. This was primarily due to the fact for the bulk of this time we have had a reduced foreign currency exposure. I may resume hedging in 2008.

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:

3. 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.
4. 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, Kim, Geoff, Diann and I 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 McElvaine Fund Ltd. (formerly The McElvaine Limited Partnership). We are in the process of merging our funds with the result that the Trust will be our focus.

This package deals with our "stuff". The best place to start is how we view our relationship:

1. We view you as a partner regardless of the technical relationship. You contribute capital and we contribute investment advice. There is a modest flat fee and the profits are divided.
2. The Trust is not a product and you are not our customers. We are not trying to "sell" you anything. 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. I would hate for you to spend your time worrying about what I am up to.
4. We suggest the Trust be only a part of your investment portfolio. We do not expect it to be a fund 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 that means is the Trust is not managed by a committee; it is managed by me. Our money is invested in the Trust 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 stated in our 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 fund.
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.

I appreciate your interest.



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