

2007 Year End Strategy Letter

Pay attention to the bond market. Canadian and U.S. bond yields peaked then fell, mid-2007, breaking a rising trend that begun mid-2003. As the cracks in the financial system became more pervasive, bond prices began rising, yields falling, a pattern continued through the year-end, for both cracks and bonds.

Rising bond prices are a clue to October's reversal in share prices and the tumbles in the telltale bank and transportation shares. Equity markets seem to have peaked five years to the month the bull market began. Equities staggered through the New Year without matching their previous highs. We did enjoy a Santa Claus rally but hardly to a degree suggested by the 100 basis point interest rate cuts in the U.S. and the magnitude of liquidity pushed into the commercial banking systems. The crisis in bad debts is turning into a deflationary problem, for now.

Somewhat illustrative is an unusual "rate/market" event pointed out by James Stack of InvestTech Research. Only in three periods in the last 77 years, did the stock market fall 2.5% the day of or the day after a discount rate cut. There were five times in between 1929 and 1933. There was one time, on September 17, 2001 after the attacks on the World Trade Centre and one year before the stock markets bottomed. Finally, last quarter when on October 31st and December 11th when the markets fell.

Early in the New Year, stock liquidation is resuming. It is bothering us, but not surprising us. The markets suggest Washington's policy actions are confirming the severity of the financial crisis.

The collapse in interest rates, as determined by the market not the central banker, warns of a serious slowdown in growth in 2008. The low rates suggest commercial banks are raising lending standards, curtailing lending, and buying bonds. This will protract any recovery. We will see more receding economic statistics out of the U.S. following those evidencing the debacle in housing, mortgage lending and collateralized asset lending.

On January 8, as we were preparing our year-end letter, the CEO of AT&T, Randall Stephenson, said that AT&T was disconnecting more home-phone and high-speed Internet customers for failing to pay their bills. The comment sparked a fierce sell-off on the day. The housing problem is a consumer problem and it is tipping into essential services.

If we see more interest rate cuts (it is an election year) to rescue the mortgaged consumer and suffering commercial banks, the U.S. runs the risk of further undermining confidence in the U.S. dollar, triggering further runs in oil and gold prices and triggering a reversal from disinflation to inflation. We quote from Marc Faber of the GBD Report, "the Fed never quite understood that larger and larger injections of liquidity into the system leading to excessive debt growth, brings about a gross misallocation of capital". May we suggest a misallocation of confidence? A confidence we think will take time to recover.

Value buyers argue that bond yields remain low and they offer little competition to the estimated returns on stocks. Estimated equity earnings yields now exceed bond yields by nearly 400 basis points. Analysts expect that to prevail. We do not. In an economy rich in saving and poor in debt, we would agree. This is an economy poor in savings and rich in unsupported debt. We expect the grit in the financial engine will severely grind corporate returns and in the end cut earning and earnings yields. In absolute terms, bond yields below four percent are punk but they are a haven in a storm.

What do we do now? For years, we have attended to improving the value and credit quality of our equity and bond portfolios. We have kept our equity exposure low relative to our peers in our balanced funds. We have tried to keep our equity valuations low in an over-valued global market. We have emphasised income over growth. That has cost us in terms of relative performance. Nevertheless, we continue to exercise very conservative policies as we fully expect equity prices will reflect the reality of the business/debt cycle and provide a better "opportunity" - to use a hackneyed euphemism for lower prices...but better value.

We own bonds and companies in all our accounts in which we have long-term confidence. We will buy more of what we own. We will emphasise measurable value and businesses able to benefit from the turmoil. And yes, we fully expect more brickbats and bruises before we can earn bouquets.

Pooled Fund Performance Review

Pooled Fund Annualized Performance Summary^{+^}

Period Ending Dec. 31, 2007	3 Mos	6 Mos	YTD	1 Yr	2 Yr	3 Yr	5 Yr	8 Yr	10 Yr	Inception
	%	%	%	%	%	%	%	%	%	%
QV Canadian Balanced Fund	0.3	1.4	3.3	3.3	6.2	8.0	9.8	11.7	9.0	9.1
<i>*Balanced Fund Benchmark</i>	<i>0.0</i>	<i>1.9</i>	<i>6.8</i>	<i>6.8</i>	<i>9.0</i>	<i>11.2</i>	<i>12.2</i>	<i>7.6</i>	<i>8.1</i>	<i>8.4</i>
QV Canadian Small Cap Fund	-1.0	0.8	12.2	12.2	12.8	17.8	22.6	21.5	16.3	15.7
<i>BMO Small Cap Unweighted Index</i>	<i>-3.9</i>	<i>-10.6</i>	<i>-0.4</i>	<i>-0.4</i>	<i>6.0</i>	<i>8.6</i>	<i>16.1</i>	<i>9.4</i>	<i>6.5</i>	<i>6.1</i>
QV Canadian Income Fund	1.4	3.0	4.1	4.1	4.3	4.7	4.9	-	-	4.9
<i>DEX Short Term Bond Index</i>	<i>1.6</i>	<i>3.5</i>	<i>4.1</i>	<i>4.1</i>	<i>4.1</i>	<i>3.5</i>	<i>4.1</i>	-	-	<i>4.3</i>
QV Global Equity Fund	-1.1	-3.7	-8.3	-8.3	-	-	-	-	-	-8.3
<i>MSCI World Index (\$CA)</i>	<i>-3.5</i>	<i>-7.9</i>	<i>-9.2</i>	<i>-9.2</i>	<i>3.5</i>	<i>3.7</i>	<i>4.6</i>	<i>-3.3</i>	<i>1.6</i>	<i>3.1</i>
QV Canadian Equity Fund	-1.2	-1.1	5.3	5.3	11.0**	15.3**	19.4**	20.2**	-	5.3
<i>S&P/TSX Composite Total Return</i>	<i>-1.3</i>	<i>0.7</i>	<i>9.8</i>	<i>9.8</i>	<i>13.5</i>	<i>16.9</i>	<i>18.3</i>	<i>8.4</i>	<i>9.5</i>	<i>10.0</i>

* The Balanced Fund Index is weighted 5% in the DEX (formerly Scotia Capital Markets) 91-Day Treasury Bill Index, 45% in the DEX (formerly Scotia Capital Markets) Bond Universe, 40% in the S&P/TSX Composite Total Return Index, and 10% MSCI World Index (C\$)

+ Returns beyond 1 year are shown as annualized ^ All performance data is shown on a gross or before fee basis ** Cdn equity carve-out of QV Cdn Balanced Fund

Capital Markets Review

Period Ending Dec. 31, 2007	3 Mos	6 Mos	YTD	1 Yr	2 Yr	3 Yr	5 Yr	8 Yr	10 Yr
	%	%	%	%	%	%	%	%	%
DEX 91-Day T-Bill Index	1.1	2.3	4.4	4.4	4.2	3.7	3.2	3.6	3.8
DEX Bond Universe Index	2.7	4.5	3.7	3.7	3.9	4.7	5.6	6.9	6.3
S&P 500 Index (\$CA)	-4.1	-8.4	-10.6	-10.6	1.8	1.7	2.7	-3.0	2.1
S&P 500 Index (\$US)	-3.3	-1.4	5.5	5.5	10.5	8.6	12.8	1.7	5.9
MSCI World Index (\$US)	-2.3	0.1	9.6	9.6	15.0	13.3	17.5	3.5	7.5

Fund Review - Global Equity Fund

The *QV Global Equity Fund* invests in the shares of larger companies operating outside of Canada for long-term capital gain and dividend income.

Performance

Earning a negative 8.3% versus the S&P 500 negative of 10.6% (as expressed in Canadian dollars) does us little credit when *we did choose* 2007 as the launch date for QV's Global Equity Fund. In retrospect, we could have won the short-term performance game by doing nothing and remaining confident of our country's financial and resource attractiveness.

Had we not needed to contend with the 16.8% appreciation in the Canadian dollar, we would have achieved an 8.5% positive return compared to the S&P 500's return of 5.5%, a very small consolation. Our Loonie proved to be the world's best in 2007 appreciating against all the major currencies. We gained 5.7% against the Euro, 9.6% against the Yen and even our resource counterpart the Australian dollar by 5.3%.

Inside the Fund

We introduced **Graco Inc.**, in a small way into the Global Equity Fund. Graco is engaged in industrial machinery. It manufactures pumps for moving and guns for applying fluids and semi-solid materials. Customers include the housing, auto, food, chemical and plastics industries. The downturn will no doubt slow demand in the U.S., however, 41% of sales are to Europe and Asia where demand remains firm. Graco enjoys a debt free balance sheet, an enviable history of 20% growth rates in earnings and dividends over the past 10 years. Graco has increased its dividend annually for the last eight years.

A Little Bit of Strategy

For most of the last 100 years, the Dow Jones Industrial Index rarely traded near or at three times book value. For the last 10 years, the Index rarely traded under three times book value. If, as we think, inventive financing and ever larger injections of central bank liquidity are things of the past, we should expect to see earnings growth and the price to book ratio ease to more historic norms in the U.S. We illustrate to underscore our caution with respect to the price to book ratio in the fund.

Offsetting the recessionary environment and high valuations, are the weak US dollar, yet more expensive valuations in emerging market valuations and the possibility of sharply lower rates from the Federal Reserve Board in an election year, all of which may give a lift to the U.S. equity markets.

Nearly half our holdings in the Fund are in American companies. It is a reasonable question to ask why in light of our bearish financial outlook.

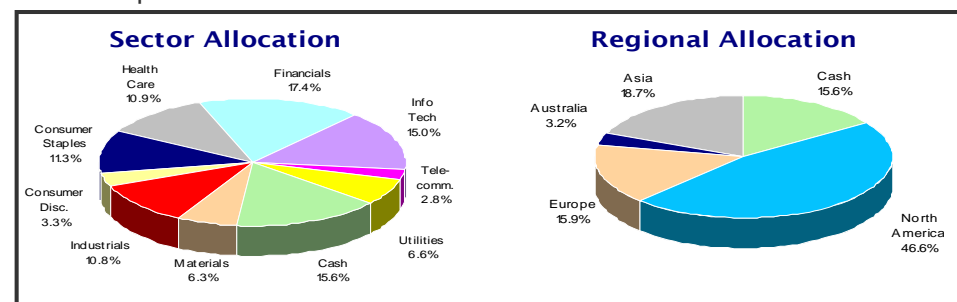
As most of these companies are multinationals, they gain from the translation of foreign currencies into their earning and from demand abroad for their products. In a way, this is our natural hedge from U.S. dollar weakness in response to lower administered rates. We do think the large dollar holdings in the hands of foreign investors (sovereign funds) must find a long-term home as contrasted with the commodity and currency placements we have seen since the Fed began cutting late last year. We think excellent U.S. companies should attract such funds in time.

Fund Characteristics

Monthly, to keep ourselves consistent, we measure the character of our portfolio and compare it to the Standard and Poor's 500 Index. The purpose is to build a portfolio with better growth, better credit standards and lower valuations than the market. The character we measure by value (price to earning, cash flow and book), by growth (return on equity), by credit risk (debt to equity & cash flow to debt), and by dividend yield, to name a few. Here is our risk management table.

Character	QV Global	S&P 500	Character	QV Global	S&P 500
P/Earnings	15.9x	14.7x	ROE Next	22.5%	21.6%
P/Cash Flw	12.5x	9.7x	5Yr ROE	20.5%	20.8%
P/Book	3.6x	2.8x	Debt/Eqty	29.0%	71.0%
Div. Yield	2.7%	2.0%	CFlo/Debt	110.0%	11.0%

The table discloses with respect to dividends, growth and credits standards, we are living up to our intent - better or equal qualities compared to the market. Valuation requires improvement. We are paying up for growth. Ironically last year it was the more expensive stocks that provided better results than the value situations. However, over the long run, we would prefer to display lower multiples of earnings and invested capital, believing value is a prime determinant of returns. We will work on it.



Fund Review - Global Equity Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
CASH/BILLS									
CASH									
87,879	CASH - CANADIAN DOLLARS	1.00	87,878.78	1.00	87,878.78	0.00	0.5	0.00	0.00
104,300,000	CASH - JAPANESE YEN	1.00 JP	922,429.20	1.00 JP	922,429.20	0.00 JP	5.6	0.00	0.00
7,600	CASH - SINGAPORE DOLLAR	1.00 SG	5,223.48	1.00 SG	5,223.48	0.00 SG	0.0	0.00	0.00
685,497	CASH - U.S. DOLLARS	1.00 US	677,339.76	1.00 US	677,339.76	0.00 US	4.1	0.00	0.00
			1,692,871.22		1,692,871.22		10.2	0.00	
TREASURY BILLS									
460,000	CANADA GOVT T/B DISCNT FEB 07 08	98.28	452,074.20	98.28	452,074.20	0.00	2.7	17,857.51	3.95
450,000	CANADA GOVT T/B DISCNT MAR 20 08	99.00	445,477.50	99.00	445,477.50	0.00	2.7	16,844.01	3.78
			897,551.70		897,551.70		5.4	34,701.52	
CASH/BILLS TOTALS			2,590,422.92		2,590,422.92		15.6	34,701.52	
US EQUITY									
MATERIALS									
11,900	DU PONT E I DE NEMOU COMMON	50.68 US	678,619.44	44.09 US	518,427.42	1.64 US	3.1	19,283.76	3.72
			678,619.44		518,427.42		3.1	19,283.76	
INDUSTRIALS									
6,000	GRACO INC COMMON	39.32 US	220,816.06	37.26 US	220,899.64	0.66 US	1.3	3,912.88	1.77
23,300	HEARTLAND EXPRESS IN COMMON	16.48 US	424,739.16	14.18 US	326,462.31	0.08 US	2.0	1,841.82	0.56
6,400	UNITED PARCEL SV INC CLASS B	71.40 US	515,510.97	70.72 US	447,221.96	1.68 US	2.7	10,624.05	2.38
			1,161,066.19		994,583.91		6.0	16,378.75	
CONSUMER DISCRETIONARY									
700	WASHINGTON POST CO CLASS B	789.99 US	626,000.41	791.43 US	547,408.39	8.20 US	3.3	5,671.69	1.04
			626,000.41		547,408.39		3.3	5,671.69	
CONSUMER STAPLES									
7,600	JOHNSON & JOHNSON COMMON	64.64 US	521,901.73	66.70 US	500,887.65	1.66 US	3.0	12,465.87	2.49
7,000	KIMBERLY CLARK CORP COMMON	69.00 US	541,729.84	69.34 US	479,603.98	2.12 US	2.9	14,663.40	3.06
			1,063,631.57		980,491.63		5.9	27,129.27	
HEALTH CARE									
49,900	PFIZER INC COMMON	26.08 US	1,529,448.92	22.73 US	1,120,729.70	1.16 US	6.8	57,195.18	5.10
4,600	STRYKER CORP COMMON	66.47 US	325,761.36	74.72 US	339,621.83	0.33 US	2.0	1,499.94	0.44
			1,855,210.28		1,460,351.53		8.8	58,695.12	
FINANCIALS									
17,050	MERCURY GENERAL CORP COMMON	53.12 US	1,064,438.20	49.81 US	839,154.30	2.08 US	5.1	35,041.98	4.18
14,400	WELLS FARGO & CO COMMON	34.92 US	530,616.70	30.19 US	429,562.64	1.24 US	2.6	17,643.51	4.11
			1,595,054.90		1,268,716.94		7.7	52,685.49	
INFORMATION TECHNOLOGY									
25,100	CISCO SYSTEMS INC COMMON	29.47 US	768,045.26	27.07 US	671,368.98	0.00 US	4.1	0.00	0.00

Fund Review - Global Equity Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
23,400	MICROSOFT CORP COMMON	31.95 US	777,305.86	35.60 US	823,126.82	0.44 US	5.0	10,173.48	1.24
			1,545,351.12		1,494,495.81		9.0	10,173.48	
TELECOMMUNICATION SERVICES									
11,200	AT&T INC COMMON	40.16 US	490,167.23	41.56 US	459,932.88	1.42 US	2.8	15,714.74	3.42
			490,167.23		459,932.88		2.8	15,714.74	
US EQUITY TOTALS			9,015,101.14		7,724,408.50		46.6	205,732.30	
INT'L EQUITY MATERIALS									
7,600	BHP BILLITON LTD SP ADR(2 ORDS)	61.13 US	488,700.61	70.04 US	525,969.58	0.94 US	3.2	7,058.99	1.34
			488,700.61		525,969.58		3.2	7,058.99	
INDUSTRIALS									
38,000	SINGAPORE AIRLINES SGD0.50(1000 LOT)	19.25 SG	505,203.30	17.38 SG	453,920.41	0.55 SG	2.7	14,364.57	3.16
4,500	WARTSILA OYJ ABP 'B'EUR3.5	49.39 EU	326,397.52	52.09 EU	338,199.53	1.75 EU	2.0	11,362.05	3.36
			831,600.82		792,119.95		4.8	25,726.62	
CONSUMER STAPLES									
15,900	HEINEKEN HOLDING EUR1.6	37.06 EU	848,320.49	38.73 EU	888,486.34	0.68 EU	5.4	15,599.55	1.76
			848,320.49		888,486.34		5.4	15,599.55	
HEALTH CARE									
5,400	NOVO-NORDISK AS ADR(1 'B' ORD)	55.45 US	313,873.40	64.86 US	346,076.10	0.62 US	2.1	3,304.38	0.95
			313,873.40		346,076.10		2.1	3,304.38	
FINANCIALS									
80,300	SWIRE PAC LTD SP ADR (1 ORD A)	10.80 US	1,019,574.64	13.95 US	1,106,854.80	0.40 US	6.7	31,548.93	2.85
1,800	ZURICH FIN SVS GRP CHF0.10	375.10 CH	581,629.60	332.50 CH	521,892.00	11.00 CH	3.1	17,265.60	3.31
			1,601,204.24		1,628,746.80		9.8	48,814.53	
INFORMATION TECHNOLOGY									
3,410	SAMSUNG ELECTRONICS GDR 144A (0.5 ORD)	310.73 US	1,244,783.71	292.75 US	986,398.00	2.70 US	6.0	9,090.70	0.92
			1,244,783.71		986,398.00		6.0	9,090.70	
UTILITIES									
82,700	CLP HOLDINGS LTD SP ADR (1 ORD)	7.10 US	628,550.49	6.75 US	551,582.12	0.32 US	3.3	25,767.47	4.67
12,200	FORTUM OYJ EUR3.40	22.91 EU	411,163.12	30.81 EU	542,322.55	0.73 EU	3.3	12,849.58	2.37
			1,039,713.61		1,093,904.67		6.6	38,617.04	
INT'L EQUITY TOTALS			6,368,196.88		6,261,701.43		37.8	148,211.81	
PORTFOLIO TOTALS IN CANADIAN DOLLARS			17,973,720.94		16,576,532.86		100.0	388,645.63	

1.00 US = 0.9881 CA; 1.00 SG = 0.6873 CA; 1.00 JP = 0.008844 CA; 1.00 EU = 1.4428 CA; 1.00 CH = 0.872 CA

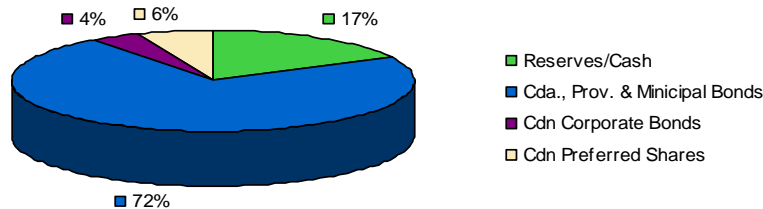
Fund Review - Canadian Income Fund

The *QV Canadian Income Fund* provides interest and dividend income from Canadian bonds, preferred shares, trusts and common stocks. As the bond portfolio is short in term, the Fund has low risk to capital.

Performance

The Income Fund rose 1.4% in the quarter and 4.1% in the year. The Canadian bond market rose sharply in the latter half of 2007, erasing earlier losses. Investors fled to the relative safe haven of government bonds amid the uncertainty caused by collapse of the US sub-prime mortgage market. Despite an economy operating at near capacity levels and rising inflation, fears of a US recession have prompted the Bank of Canada to reverse its neutral stance and cut their policy lending rate, providing support to the bond market.

Fund Composition



Inside the Fund

The proceeds from a maturing corporate bond were re-invested into two longer-dated Canadian government bonds, a 9-year Canada bond and 5-year Ontario bond, serving to reduce the Fund's corporate bond exposure, while increasing the average term to maturity. We extended the term of the Fund's bonds to 3.5 years from 2.9 years as fundamentals improve for the bond market. The sale of a higher yield preferred security, coupled with rising bond prices, lowered the overall income yield for the Fund in the quarter.

The fall-out in the US sub-prime mortgage market was not isolated to US institutions. The fourth quarter began with Canadian banks disclosing their exposure to the sub-prime mortgage market through their involvement in packaging and selling commercial paper backed by sub-prime mortgages.

The rapid growth in sub-prime mortgage lending at the latter stages of the US housing boom was equally paralleled by the growth in demand of debt instruments backed by these higher yielding mortgages.

Packaged together with higher quality mortgages, credit agencies often rated these debt instruments as AAA, on par with federal government bonds, adding to the attractiveness of these securities.

Rising default rates, coupled with declining housing prices, created panic as investors lost trust in the value of the underlying assets. Banks were forced to write off their asset-backed security exposure, and lending in this market became more expensive and more difficult.

In Canada, CIBC announced the largest exposure to the asset-backed commercial paper market. The bank warned in December that they could be forced to write-off at least \$2 billion of their \$9 billion dollars in total exposure. The potential for further erosion of CIBC's capital base and a subsequent credit rating downgrade, combined with our concern over CIBC's risk management policies, led us to sell the Fund's holding of the CIBC Series 18 Preferred Shares. Deteriorating credit conditions have

increased corporate yields versus government bonds. We feel this re-pricing of corporate bonds will continue into the New Year as investors seek stability of high quality government bonds. We will be alert to opportunities in the corporate bond market given suitable rewards.

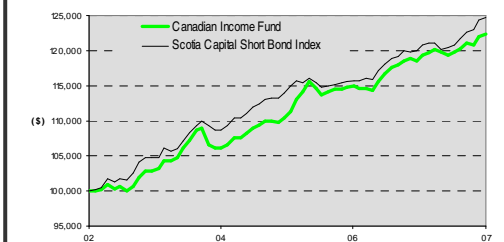
For now, we will continue to focus on owning high quality government bonds. We expect the Bank of Canada will continue to ease rates given the prospect of a US recession. With the Bank of Canada in easing mode, we will seek opportunities from upcoming maturities to extend term to enhance the yield and return in the Fund.

Cdn Income Bond Characteristics

Credit Ratings as issued by Standard & Poor's	(%) of bond portfolio
AAA	74%
AA	26%
A	0%
< A/Not rated	0%
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Weighted Average Term to Maturity	3.5 years
Average Bond Portfolio Yield	4.1%
Total Portfolio Yield	4.1%

Investment Values

Based on \$100,000 Investment at Inception*



* Assume reinvestment of income and capital gains distributions

Fund Review - Canadian Income Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
CASH/BILLS									
CASH									
7,818	CASH - CANADIAN DOLLARS	1.00	7,817.55	1.00	7,817.55	0.00	0.1	0.00	0.00
			7,817.55		7,817.55		0.1	0.00	
TREASURY BILLS									
778,000	CANADA GOVT T/B DISCNT FEB 07 08	99.31	772,649.79	99.31	772,649.79	0.00	10.5	29,096.69	3.77
515,000	CANADA GOVT T/B DISCNT MAR 20 08	99.02	509,971.25	99.02	509,971.25	0.00	6.9	19,191.29	3.76
			1,282,621.04		1,282,621.04		17.4	48,287.99	
CASH/BILLS TOTALS			1,290,438.59		1,290,438.59		17.5	48,287.99	
FIXED INCOME									
GOVERNMENT BONDS									
500,000	ALBERTA PROV 4.000 SEP 01 10	97.82	489,100.00	100.05	500,250.00	4.00	6.8	20,000.00	3.98
500,000	ALBERTA TREASURY MTN 4.100 DEC 01 11	98.35	491,750.00	99.70	498,500.00	4.10	6.8	20,500.00	4.18
450,000	BC MUNI FINANCE 4.000 DEC 01 10	99.78	448,996.50	99.42	447,401.25	4.00	6.1	18,000.00	4.21
200,000	BC MUNI FINANCE 4.750 APR 22 12	99.76	199,514.00	102.19	204,380.00	4.75	2.8	9,500.00	4.19
800,000	CANADA GOVT 4.000 JUN 01 16	98.71	789,663.40	100.23	801,840.00	4.00	10.9	32,000.00	3.97
755,000	CANADA HOUSING TRST 3.550 MAR 15 09	98.26	741,900.40	99.49	751,126.85	3.55	10.2	26,802.50	3.99
1,000,000	CANADA HOUSING TRST 4.050 MAR 15 11	99.79	997,900.00	99.82	998,180.00	4.05	13.6	40,500.00	4.11
608,000	CANADA HOUSING TRST 4.400 MAR 15 08	100.85	613,173.08	100.06	608,346.56	4.40	8.3	26,752.00	4.06
500,000	ONTARIO PROV 4.750 JUN 02 13	101.36	506,782.00	102.35	511,750.00	4.75	7.0	23,750.00	4.26
			5,278,779.38		5,321,774.66		72.3	217,804.50	
CORPORATE BONDS									
300,000	BANK OF NOVA SCOTIA 4.295 AUG 22 08	99.61	298,827.00	99.83	299,493.00	4.30	4.1	12,885.00	4.56
			298,827.00		299,493.00		4.1	12,885.00	
STRAIGHT PREFERRED									
8,000	IND ALLNCE & FNCL NC CLASS A PRF SER B	25.00	200,000.00	20.75	166,000.00	1.15	2.3	9,200.00	5.54
6,100	POWER FINANCIAL CORP PFD 1 SER D 5.50%	24.97	152,291.18	24.86	151,646.00	1.38	2.1	8,387.50	5.53
5,000	ROYAL BANK CDA PFD 1 SER N	26.18	130,889.00	25.28	126,400.00	1.18	1.7	5,875.00	4.65
			483,180.18		444,046.00		6.0	23,462.50	
FIXED INCOME TOTALS			6,060,786.56		6,065,313.66		82.5	254,152.00	
PORTFOLIO TOTALS IN CANADIAN DOLLARS			7,351,225.15		7,355,752.25		100.0	302,439.99	

Fund Review - Canadian Balanced Fund

The *QV Canadian Balanced Fund* invests in larger Canadian companies and high quality fixed income securities for long-term income and capital gains.

Performance

The Canadian Balanced Fund rose 0.3% in the quarter, and 3.2% over one year. Compared to the historical annual returns for the Balanced Fund, last year's return is a low. In the context of deteriorating economic conditions, the return is not unexpected.

The fixed income component of the Balanced Fund rose 2.4% in the quarter, 3.5% in the year compared to the benchmark return of 2.7% and 3.7% respectively. Bonds outperformed in the quarter.

The equity component of the Fund fell 1.1% in the quarter, and rose 4.7% over one year. The positive returns were generated in the first six months of the year as acquisitions and resource sector zeal bolstered Canadian stocks. In a market where confidence is high and short-term earnings momentum is driving equity market performance, our style emphasizing value, capital preservation and income will not and did not outperform the Index return of 9.8% over one year.

Asset Mix

The asset mix for the Canadian Balanced Fund remained virtually unchanged in the quarter. We maintained our evenly balanced exposure to bonds and Canadian equities throughout the past year, as high equity valuations and our concerns about the speculative nature of the corporate bond and equity markets prompted our more conservative stance.

Inside the Fund

Fixed Income

Within the bond segment of our Balanced Fund, we extended the term to maturity of the bonds slightly to 7 ½ years with the sale of two short-dated bonds and the purchase of a AAA rated, 10-year Alberta Capital Finance Authority Bond. The change in tone of Central Banks from inflation fighting to recession fighting continues to provide underlying support to the bond market. The extension of term increases the yield of our bonds and enhances the potential for a greater return in this environment.

We continue to maintain a high quality bond portfolio to protect against deteriorating credit conditions. Corporate bond returns were lower than government bonds in the quarter and in the year, but remained in

positive territory. We expect corporate bonds will continue to underperform in the near term as investors seek the relative safety of government bonds in this uncertain credit environment. But in time, as corporate bond yields increase, they will provide a buying opportunity. The credit quality of our bonds remains high, with one exception. Our small exposure to a 9-year Bell Canada bond. The planned debt-financed buyout of Bell Canada by an investor group led by the Ontario Teachers Pension Plan has resulted in a credit downgrade of Bell Canada's bonds to non-investment grade. The privatisation deal should be completed by the second quarter of this year, pending a legal petition by Bell bondholders for dispensation prior to the deal closing. We will continue to hold the bond, awaiting the outcome of the petition.

We reduced our preferred share holdings by half with the sale of the George Weston, Class A preferred and a CIBC retractable preferred. Deteriorating credit quality with both issuers prompted our decision to sell. We expect credit quality to remain an issue in the preferred market.

Canadian Equities

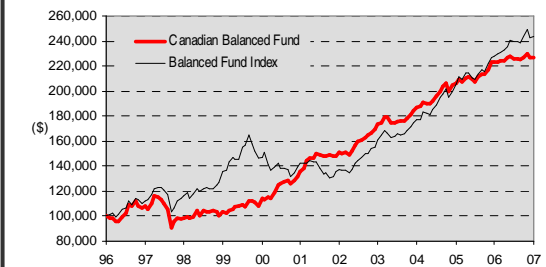
Please refer to the *Canadian Equity Fund* for a review of the past quarter's transactions.

Asset Mix - Canadian Balanced Fund

	Mar-07	Jun-07	Sep-07	Dec-07
Cash/T-bills	7%	5%	7%	6%
Fixed Income				
Bonds	47%	44%	45%	47%
Preferred Shares	5%	5%	5%	3%
Equities				
Income/Royalty Trusts	2%	3%	3%	3%
Common Shares	39%	43%	40%	41%
TOTAL	100%	100%	100%	100%

Investment Values

Based on \$100,000 Investment at Inception*



* Assume reinvestment of income and capital gains distributions

Fund Review - Canadian Balanced Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
CASH/BILLS									
CASH									
137,043	CASH - CANADIAN DOLLARS	1.00	137,042.85	1.00	137,042.85	0.00	0.1	0.00	0.00
			137,042.85		137,042.85		0.1	0.00	
TREASURY BILLS									
1,000,000	CANADA GOVT T/B DISCNT FEB 07 08	99.37	993,690.00	99.37	993,690.00	0.00	1.1	37,147.58	3.74
4,770,000	CANADA GOVT T/B DISCNT MAR 20 08	99.05	4,724,555.60	99.05	4,724,555.60	0.00	5.0	176,632.09	3.74
			5,718,245.60		5,718,245.60		6.1	213,779.67	
CASH/BILLS TOTALS			5,855,288.45		5,855,288.45		6.2	213,779.67	
FIXED INCOME									
GOVERNMENT BONDS									
6,050,000	ALBERTA CAP FIN AUTH 4.350 JUN 15 16	99.65	6,028,749.99	99.55	6,022,714.50	4.35	6.4	263,175.00	4.41
2,200,000	ALBERTA CAP FIN AUTH 4.650 JUN 15 17	100.30	2,206,600.00	101.60	2,235,222.00	4.65	2.4	102,300.00	4.44
4,000,000	BC MUNI FINANCE 4.000 DEC 01 10	99.48	3,979,350.00	99.42	3,976,900.00	4.00	4.2	160,000.00	4.21
4,000,000	CANADA HOUSING TRST 3.550 SEP 15 10	98.64	3,945,780.00	98.67	3,946,600.00	3.55	4.2	142,000.00	4.07
1,120,000	CMHC 5.500 JUN 01 12	101.82	1,140,369.50	105.70	1,183,840.00	5.50	1.3	61,600.00	4.08
3,455,000	MANITOBA PROV 4.800 DEC 03 14	102.38	3,537,236.62	102.55	3,543,102.50	4.80	3.8	165,840.00	4.37
5,000,000	NEW BRUNSWICK PROV 4.300 DEC 03 15	99.70	4,984,820.00	99.25	4,962,500.00	4.30	5.3	215,000.00	4.41
2,000,000	ONTARIO PROV 4.700 JUN 02 37	105.13	2,102,600.00	101.45	2,029,020.00	4.70	2.2	94,000.00	4.61
3,120,000	ONTARIO PROV 4.750 JUN 02 13	99.48	3,103,623.79	102.35	3,193,320.00	4.75	3.4	148,200.00	4.26
5,000,000	TORONTO ON 4.550 MAY 20 15	101.07	5,053,740.00	99.89	4,994,400.00	4.55	5.3	227,500.00	4.57
5,090,000	YORK ON 4.600 MAY 25 15	100.62	5,121,808.16	100.19	5,099,772.80	4.60	5.4	234,140.00	4.57
			41,204,678.05		41,187,391.80		43.7	1,813,755.00	
CORPORATE BONDS									
500,000	BANK OF NOVA SCOTIA 4.290 SEP 22 09	100.16	500,775.00	99.33	496,640.00	4.29	0.5	21,450.00	4.70
1,500,000	BELL CANADA 4.640 FEB 22 16	98.75	1,481,275.00	82.85	1,242,750.00	4.64	1.3	69,600.00	7.49
500,000	CONSUMER GAS 5.000 MAR 31 09	100.06	500,310.00	100.68	503,385.00	5.00	0.5	25,000.00	4.43
400,000	CU INC 6.145 NOV 22 17	102.75	411,000.00	108.93	435,700.00	6.15	0.5	24,580.00	4.99
320,000	SUN LIFE CAP TRUST 6.865 DEC 31 11 PER	102.62	328,384.00	106.50	340,800.00	6.87	0.4	21,968.00	5.05
			3,221,744.00		3,019,275.00		3.2	162,598.00	
STRAIGHT PREFERRED									
90,500	IND ALLNCE & FNCL NC CLASS A PRF SER B	25.00	2,262,550.00	20.75	1,877,875.00	1.15	2.0	104,075.00	5.54
34,600	POWER FINANCIAL CORP PFD 1 SER D 5.50%	24.77	856,927.64	24.86	860,156.00	1.38	0.9	47,575.00	5.53
			3,119,477.64		2,738,031.00		2.9	151,650.00	
FIXED INCOME TOTALS			47,545,899.69		46,944,697.80		49.8	2,128,003.00	
CANADIAN EQUITY									
ENERGY									
55,480	CDN OIL SANDS TRUST TRUST UNIT	19.10	1,059,732.72	38.71	2,147,630.80	2.20	2.3	122,056.00	5.68

Fund Review - Canadian Balanced Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
25,100	ENBRIDGE INC COMMON	37.75	947,466.09	40.01	1,004,251.00	1.23	1.1	30,873.00	3.07
31,299	ENCANA CORPORATION COMMON	41.69	1,304,768.88	67.50	CA2,112,682.50	0.80 US	2.2	24,741.23	1.17
20,500	HUSKY ENERGY INC COMMON	44.46	911,512.00	44.59	914,095.00	1.32	1.0	27,060.00	2.96
50,705	TRANSCANADA CORP COMMON	37.86	1,919,924.72	40.54	2,055,580.70	1.36	2.2	68,958.80	3.35
41,700	TRICAN WELL SERVICE COMMON	23.79	991,856.44	19.23	801,891.00	0.10	0.9	4,170.00	0.52
			7,135,260.85		9,036,131.00		9.6	277,859.03	
MATERIALS									
11,500	AGNICO EAGLE MINES COMMON	39.51	454,388.00	54.42	CA 625,830.00	0.18 US	0.7	2,045.37	0.33
22,550	GOLDCORP INC COMMON	35.99	811,464.87	33.80	CA 762,190.00	0.18 US	0.8	4,010.70	0.53
34,000	RUSSEL METALS INC COMMON	28.45	967,459.80	25.45	865,300.00	1.80	0.9	61,200.00	7.07
18,700	TECK COMINCO LTD CLASS B SUB VTG	49.88	932,735.64	35.43	662,541.00	1.00	0.7	18,700.00	2.82
			3,166,048.31		2,915,861.00		3.1	85,956.06	
INDUSTRIALS									
36,300	CDN NATL RAILWAY COMMON	45.52	1,652,490.69	46.65	1,693,395.00	0.84	1.8	30,492.00	1.80
46,600	TOROMONT INDS LTD COMMON	23.16	1,079,474.21	28.26	1,316,916.00	0.48	1.4	22,368.00	1.70
115,550	TRANSCONTINENTAL INC CLASS A SUB VTG	19.57	2,261,195.68	15.74	1,818,757.00	0.28	1.9	32,354.00	1.78
			4,993,160.58		4,829,068.00		5.1	85,214.00	
CONSUMER DISCRETIONARY									
43,300	ASTRAL MEDIA INC CLASS A NON VTG	35.44	1,534,766.54	46.64	2,019,512.00	0.40	2.1	17,320.00	0.86
54,500	REITMANS CDA LTD CLASS A NON VTG	21.29	1,160,420.30	19.19	1,045,855.00	0.64	1.1	34,880.00	3.34
			2,695,186.83		3,065,367.00		3.2	52,200.00	
CONSUMER STAPLES									
66,800	METRO INC CLASS A SUB VTG	25.71	1,717,433.57	26.35	1,760,180.00	0.46	1.9	30,728.00	1.75
68,200	SAPUTO INC COMMON	16.19	1,104,270.54	29.83	2,034,406.00	0.48	2.2	32,736.00	1.61
			2,821,704.11		3,794,586.00		4.0	63,464.00	
FINANCIALS									
41,460	BANK OF NOVA SCOTIA COMMON	40.77	1,690,529.99	50.28	2,084,608.80	1.88	2.2	77,944.80	3.74
1,395	E-L FINANCIAL CORP COMMON	696.88	972,148.73	565.00	788,175.00	0.50	0.8	697.50	0.09
19,600	GMP CAPITAL TRUST TRUST UNIT	23.84	467,294.38	24.70	484,120.00	1.68	0.5	32,928.00	6.80
38,121	GREAT-WEST LIFECO COMMON	26.02	991,743.90	35.57	1,355,963.97	1.10	1.4	41,933.10	3.09
47,800	IND ALLNCE & FNCL COMMON	30.14	1,440,477.29	42.58	2,035,324.00	0.80	2.2	38,240.00	1.88
22,050	ING CANADA INC LTD VTG	49.74	1,096,814.11	39.62	873,621.00	1.08	0.9	23,814.00	2.73
22,800	NATIONAL BK CDA COMMON	59.36	1,353,309.13	52.29	1,192,212.00	2.48	1.3	56,544.00	4.74
31,200	POWER FINANCIAL CORP COMMON	27.96	872,430.46	40.77	1,272,024.00	1.25	1.3	39,000.00	3.07
16,427	TORONTO DOMINION BK COMMON	72.04	1,183,335.47	69.50	1,141,676.50	2.28	1.2	37,453.56	3.28
			10,068,083.45		11,227,725.27		11.9	348,554.96	
INFORMATION TECHNOLOGY									
35,100	COGNOS INCORPORATED COMMON	42.15	1,479,483.47	57.12	2,004,912.00	0.00	2.1	0.00	0.00
			1,479,483.47		2,004,912.00		2.1	0.00	

Fund Review - Canadian Balanced Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
TELECOMMUNICATION SERVICES									
34,384	BCE INC COMMON	28.63	984,445.65	39.65	1,363,325.60	1.46	1.4	50,200.64	3.68
35,856	TELUS CORP NON VTG	57.20	2,051,072.40	48.01	1,721,446.56	1.80	1.8	64,540.80	3.75
			3,035,518.05		3,084,772.16		3.3	114,741.44	
UTILITIES									
33,900	CDN UTILITIES LTD CLASS A NON VTG	33.98	1,151,919.04	46.40	1,572,960.00	1.26	1.7	42,714.00	2.72
			1,151,919.04		1,572,960.00		1.7	42,714.00	
CANADIAN EQUITY TOTALS			36,546,364.69		41,531,382.43		44.0	1,070,703.50	
PORTFOLIO TOTALS IN CANADIAN DOLLARS			89,947,552.82		94,331,368.68		100.0	3,412,486.17	

Fund Review - Canadian Equity Fund

The *QV Canadian Equity Fund* invests for long-term capital gain and dividend income from larger Canadian companies. The equities in the *QV Canadian Balanced Fund* and *QV Canadian Equity Fund* are the same and held in the same proportions in the two Funds.

Performance

The Canadian Equity Fund declined 1.2% in the quarter compared to a decline of 1.3% for the S&P/TSX Composite Index. Over one year, the Canadian Equity Fund returned 5.3% versus the Index return of 9.8%.

The S&P/TSX Composite appreciated with the support of a few “darling” stocks, not unlike the 1999 market when Northern Telecom almost single handedly lifted the index. Three stocks - Research in Motion, Potash Corp. and Alcan contributed over 70% of the year’s return on the index. We have considered all three but they did not pass our hurdle for a rate of return. We prefer not to take the valuation risk associated with these companies and do think this “narrow market” is an indicator of some speculation. That said, Rio Tinto thought otherwise, and bid for Alcan.

2007 was not without some successes. We received takeout bids for our holdings in Cognos Inc. and BCE Inc, which will be effective in 2008.

The year scored a record for takeovers. Bids totaling \$145.6 billion acquired thirty companies in the S&P/TSX Composite Index. This is in contrast to deals of \$92.0 billion in 2006 and \$26.3 billion in 2005. The average take-out premium on these companies was 19%, contributing significantly to the index returns.

Two of our names Transcontinental, a printer and publisher, and Metro, a grocer, declined meaningfully during the year. We believe these companies have strong business franchises, balance sheets, and management. They face the challenges of the high Canadian dollar, and/or softer U.S. business conditions and increasing competitive pressures. We have added to Transcontinental. At the appropriate value, we will add to Metro.

Inside the Fund

We eliminated positions in three companies in the back half of 2007. We sold **TransAlta** and **RONA**. We looked upon TransAlta as an opportunity in the run up in provincial electricity prices. The trade worked advantageously. With RONA, we became concerned about their aggressive expansion strategy funded by debt in a housing market we felt would decline. We eliminated our position in **West Fraser Timber**.

West Fraser faces challenges with the pine beetle infestation, the strong Canadian dollar, and the collapse in US housing.

West Fraser has a strong management team, has low cost raw material and an adequate balance sheet. We may re-enter this position at better prices.

We added **Russel Metals Inc.** and **Enbridge Inc.** Russell Metals is a steel distribution company. Russel has a yield of over 7%. It has raised its dividend every year for the past six years. Russel’s managers are major shareholders and are conservative in their financing. We have owned Russel many years in our small cap portfolios. We are taking a long view of Russel for we do realize that in the event of a general slowdown, Russel’s business would also decline.

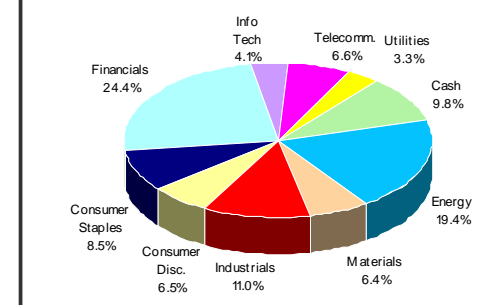
Enbridge Inc. is one of North America’s largest pipeline companies. We like the company’s stable return on equity, attractive dividend yield and an anticipated earnings growth of 10% per year from projects under development. Enbridge business is 95% regulated, which provides a steady business model with little commodity exposure. It has raised its dividend at a 10-year compound rate of 8.8%.

Outlook

The sentiment change in 2007 was dramatic. From the beginning of the year to the peak in July, the market rose over 17%. In the following months, the market rolled over and dropped approximately 13% suffering from the cracks in the credit markets.

We think the credit crunch will lead to a recessionary environment. This suggests that the defensive utilities, insurance, consumer staples, health care and telecom stocks would benefit. Consumer discretionary, resource and financial stocks would suffer.

Sector Allocation



Fund Review - Canadian Equity Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
CASH/BILLS									
CASH									
23,375	CASH - CANADIAN DOLLARS	1.00	23,374.58	1.00	23,374.58	0.00	0.4	0.00	0.00
			23,374.58		23,374.58		0.4	0.00	
TREASURY BILLS									
175,000	CANADA GOVT T/B DISCNT FEB 07 08	98.53	172,422.50	98.53	172,422.50	0.00	3.3	6,812.43	3.95
320,000	CANADA GOVT T/B DISCNT MAR 20 08	99.00	316,784.00	99.00	316,784.00	0.00	6.1	11,977.96	3.78
			489,206.50		489,206.50		9.3	18,790.39	
CASH/BILLS TOTALS			512,581.08		512,581.08		9.8	18,790.39	
CANADIAN EQUITY									
ENERGY									
6,090	CDN OIL SANDS TRUST TRUST UNIT	31.82	193,766.61	38.71	235,743.90	2.20	4.5	13,398.00	5.68
2,800	ENBRIDGE INC COMMON	37.74	105,668.22	40.01	112,028.00	1.23	2.1	3,444.00	3.07
3,750	ENCANA CORPORATION COMMON	62.09	232,843.00	67.50 CA	253,125.00	0.80 US	4.8	2,964.30	1.17
2,500	HUSKY ENERGY INC COMMON	42.89	107,221.60	44.59	111,475.00	1.32	2.1	3,300.00	2.96
5,450	TRANSCANADA CORP COMMON	37.07	202,055.93	40.54	220,943.00	1.36	4.2	7,412.00	3.35
4,350	TRICAN WELL SERVICE COMMON	21.31	92,720.20	19.23	83,650.50	0.10	1.6	435.00	0.52
			934,275.56		1,016,965.40		19.4	30,953.30	
MATERIALS									
1,300	AGNICO EAGLE MINES COMMON	46.27	60,156.50	54.42 CA	70,746.00	0.18 US	1.4	231.22	0.33
2,525	GOLDCORP INC COMMON	27.99	70,683.67	33.80 CA	85,345.00	0.18 US	1.6	449.09	0.53
3,900	RUSSEL METALS INC COMMON	28.45	110,973.33	25.45	99,255.00	1.80	1.9	7,020.00	7.07
2,200	TECK COMINCO LTD CLASS B SUB VTG	46.21	101,661.12	35.43	77,946.00	1.00	1.5	2,200.00	2.82
			343,474.62		333,292.00		6.4	9,900.31	
INDUSTRIALS									
4,350	CDN NATL RAILWAY COMMON	55.90	243,182.50	46.65	202,927.50	0.84	3.9	3,654.00	1.80
5,600	TOROMONT INDS LTD COMMON	26.03	145,758.00	28.26	158,256.00	0.48	3.0	2,688.00	1.70
13,600	TRANSCONTINENTAL INC CLASS A SUB VTG	20.66	281,026.96	15.74	214,064.00	0.28	4.1	3,808.00	1.78
			669,967.46		575,247.50		11.0	10,150.00	
CONSUMER DISCRETIONARY									
4,875	ASTRAL MEDIA INC CLASS A NON VTG	42.98	209,510.18	46.64	227,370.00	0.40	4.3	1,950.00	0.86
5,875	REITMANS CDA LTD CLASS A NON VTG	20.82	122,290.13	19.19	112,741.25	0.64	2.2	3,760.00	3.34
			331,800.31		340,111.25		6.5	5,710.00	
CONSUMER STAPLES									
7,900	METRO INC CLASS A SUB VTG	35.75	282,447.85	26.35	208,165.00	0.46	4.0	3,634.00	1.75
7,950	SAPUTO INC COMMON	25.61	203,602.96	29.83	237,148.50	0.48	4.5	3,816.00	1.61
			486,050.81		445,313.50		8.5	7,450.00	

Fund Review - Canadian Equity Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
FINANCIALS									
4,450	BANK OF NOVA SCOTIA COMMON	51.75	230,282.75	50.28	223,746.00	1.88	4.3	8,366.00	3.74
145	E-L FINANCIAL CORP COMMON	664.29	96,322.25	565.00	81,925.00	0.50	1.6	72.50	0.09
2,450	GMP CAPITAL TRUST TRUST UNIT	21.46	52,572.70	24.70	60,515.00	1.68	1.2	4,116.00	6.80
4,500	GREAT-WEST LIFECO COMMON	35.78	160,993.00	35.57	160,065.00	1.10	3.1	4,950.00	3.09
5,900	IND ALLNCE & FNCL COMMON	37.68	222,326.00	42.58	251,222.00	0.80	4.8	4,720.00	1.88
2,850	ING CANADA INC LTD VTG	45.45	129,540.42	39.62	112,917.00	1.08	2.2	3,078.00	2.73
2,450	NATIONAL BK CDA COMMON	56.59	138,656.00	52.29	128,110.50	2.48	2.4	6,076.00	4.74
3,425	POWER FINANCIAL CORP COMMON	40.88	140,021.39	40.77	139,637.25	1.25	2.7	4,281.25	3.07
1,725	TORONTO DOMINION BK COMMON	72.41	124,915.17	69.50	119,887.50	2.28	2.3	3,933.00	3.28
			1,295,629.67		1,278,025.25		24.4	39,592.75	
INFORMATION TECHNOLOGY									
3,750	COGNOS INCORPORATED COMMON	42.74	160,271.18	57.12	214,200.00	0.00	4.1	0.00	0.00
			160,271.18		214,200.00		4.1	0.00	
TELECOMMUNICATION SERVICES									
3,700	BCE INC COMMON	38.11	140,998.00	39.65	146,705.00	1.46	2.8	5,402.00	3.68
4,150	TELUS CORP NON VTG	56.73	235,411.65	48.01	199,241.50	1.80	3.8	7,470.00	3.75
			376,409.65		345,946.50		6.6	12,872.00	
UTILITIES									
3,700	CDN UTILITIES LTD CLASS A NON VTG	46.25	171,130.42	46.40	171,680.00	1.26	3.3	4,662.00	2.72
			171,130.42		171,680.00		3.3	4,662.00	
CANADIAN EQUITY TOTALS			4,769,009.68		4,720,781.40		90.2	121,290.36	
PORTFOLIO TOTALS IN CANADIAN DOLLARS			5,281,590.76		5,233,362.48		100.0	140,080.75	

Fund Review - Canadian Small Cap Fund

The **QV Canadian Small Cap Fund** provides investors with a superior long-term rate of return by investing in common shares of small and mid-cap Canadian companies

Performance

The final quarter of 2007 has been a challenging one, particularly for investors in the Canadian small cap market. The first half of the year was characterized by small companies outperforming the overall market. The second half of the year wiped out all the gains leaving the small cap market in marginally negative territory for the year. As concerns grew with the global financial crisis investors migrated to larger more established businesses and in turn sold their small company shares. The Canadian Small Cap Fund posted negative returns as did the benchmark BMO Small Cap (unweighted) index in the quarter, returning -1.0% and -3.9% respectively. For the year, the Fund has significantly outperformed the market, with a gain of 12.2% versus a loss of 0.4% for the benchmark. Our ability to continue to post strong gains in what has been a volatile and difficult year was a result of our broadly diversified portfolio and focus on high quality defensive businesses.

Inside the Fund

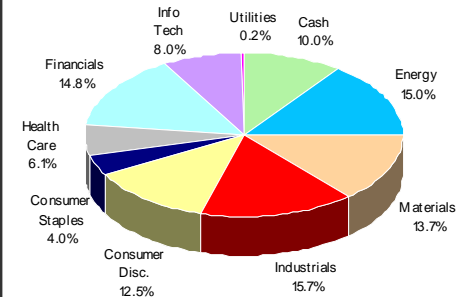
What a difference half a year and a financial crisis makes! The major reversal in the markets midway through led to a sharp sell-off in the small cap market in particular. When the market turned negative in the last six months of the year the Fund still managed to gain nearly 1.0% with the benchmark down over 10%. A contributing factor to performance was that earlier in the year while the investing world was a "perfect place" we did the unthinkable. We sold while others were buying. We wrote back then, "we were very active in selling positions in which we had lost confidence in and believed we could find more attractive alternatives. A significant portion of the cash we raised was reinvested in existing core holdings in the Fund with the view to holding more of what we believe in the most. This was beneficial as we added to a number of our stable high quality businesses which performed well."

During this final quarter we continued the theme of battening down the hatches. The portfolio today has very strong financial measures. In comparison to the overall market, there continues to be a significant growth and valuation advantage as well as broad based diversification.

We believe the financial system repair will take time and in such an environment small cap stocks have historically performed poorly. It will be difficult to swim against this tide should our concerns for the economy and the markets come to fruition. That being said, it is from these difficult periods in stock market history which long term investors have profited. Even though the economic and stock market environment is becoming challenged many companies' valuations are discounting a very weak environment already. At some point the economy and market will repair itself, much like it has for the past century. The key to success will be to preserve the capital which was built over this past cycle. Capital preservation continues to be our focus inside the Fund.

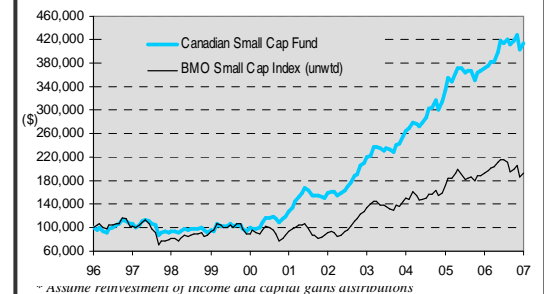
We added two new names to the Fund in the quarter, **Transcontinental Inc.** and **Axia Netmedia Corp.** Transcontinental is a company we have invested in for nearly a decade at QV. It is a commercial printer with a long history of consistent operations and currently trades at an extremely attractive valuation. Axia Netmedia is an internet infrastructure provider for rural communities. This company is responsible for the Alberta Supernet and is growing internationally as well. For a small company it has an impressive management team.

Sector Allocation



Investment Values

Based on \$100,000 Investment at Inception*



Fund Review - Canadian Small Cap Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
CASH/BILLS									
CASH									
50,125	CASH - CANADIAN DOLLARS	1.00	50,125.13	1.00	50,125.13	0.00	0.0	0.00	0.00
			50,125.13		50,125.13		0.0	0.00	
TREASURY BILLS									
13,664,000	CANADA GOVT T/B DISCNT FEB 07 08	98.94	13,518,636.67	98.94	13,518,636.67	0.00	9.7	525,901.12	3.89
310,000	CANADA GOVT T/B DISCNT MAR 20 08	99.22	307,575.80	99.22	307,575.80	0.00	0.2	11,060.41	3.60
			13,826,212.47		13,826,212.47		9.9	536,961.53	
CASH/BILLS TOTALS			13,876,337.60		13,876,337.60		10.0	536,961.53	
FIXED INCOME									
CORPORATE BONDS									
221,464	TAIGA BLDG PRODS LTD 14.000 SEP 01 20	100.00	221,464.00	98.75	218,695.70	14.00	0.2	31,004.96	14.21
			221,464.00		218,695.70		0.2	31,004.96	
FIXED INCOME TOTALS			221,464.00		218,695.70		0.2	31,004.96	
CANADIAN EQUITY									
ENERGY									
304,080	ALTAGAS INCOME TRUST TRUST UNIT	26.44	8,039,530.28	26.44	8,039,875.20	2.10	5.8	638,568.00	7.94
203,929	CRESCENT POINT ENRGY TRUST UNIT	20.15	4,109,994.37	24.81	5,059,478.49	2.40	3.6	489,429.60	9.67
330,400	PASON SYSTEMS COMMON	14.09	4,655,217.13	12.49	4,126,696.00	0.17	3.0	56,168.00	1.36
101,500	SAVANNA ENERGY COMMON	19.38	1,966,865.99	16.01	1,625,015.00	0.10	1.2	10,150.00	0.62
159,452	TRISTAR OIL&GAS COMMON	11.60	1,850,003.45	12.54	1,999,528.08	0.00	1.4	0.00	0.00
			20,621,611.22		20,850,592.77		15.0	1,194,315.60	
MATERIALS									
172,000	CANAM GROUP INC COMMON	12.53	2,154,565.14	14.15	2,433,800.00	0.16	1.8	27,520.00	1.13
159,100	CASCADES INC COMMON	11.56	1,839,124.77	8.44	1,342,804.00	0.16	1.0	25,456.00	1.90
166,710	CCL INDUSTRIES INC CLASS B NON VTG	35.45	5,909,040.41	38.61	6,436,673.10	0.48	4.6	80,020.80	1.24
569,520	IAMGOLD CORP COMMON	8.74	4,977,363.77	8.09	4,607,416.80	0.06 US	3.3	33,764.56	0.73
268,700	METALLIC VENTRS GOLD COMMON	2.48	666,383.70	2.20	591,140.00	0.00	0.4	0.00	0.00
110,220	RUSSEL METALS INC COMMON	26.70	2,942,464.98	25.45	2,805,099.00	1.80	2.0	198,396.00	7.07
405,900	TAIGA BUILDING PROD COMMON	1.78	723,218.80	1.60	649,440.00	0.18	0.5	73,062.00	11.25
			19,212,161.57		18,866,372.90		13.6	438,219.36	
INDUSTRIALS									
123,800	GLV INC CLASS A SUB VTG	9.26	1,146,179.71	12.26	1,517,788.00	0.05	1.1	6,190.00	0.41
67,750	LOCKERBIE & HOLE INC COMMON	10.36	702,070.00	13.00	880,750.00	0.00	0.6	0.00	0.00
50,350	MAJOR DRILLING GRP COMMON	25.08	1,262,664.61	62.60	3,151,910.00	0.00	2.3	0.00	0.00
210,450	MARTINREA INTL COMMON	11.97	2,518,467.07	12.22	2,571,699.00	0.00	1.9	0.00	0.00
217,660	MULLEN GROUP INCOME FD	22.13	4,815,875.32	17.60	3,830,816.00	1.80	2.8	391,788.00	10.23
131,250	RICHELIEU HARDWARE COMMON	24.16	3,171,396.43	24.16	3,171,000.00	0.28	2.3	36,750.00	1.16

Fund Review - Canadian Small Cap Fund

QUANTITY	SECURITY DESCRIPTION	UNIT COST	BOOK VALUE	UNIT PRICE	MARKET VALUE	COUPON/DIVIDEND	% OF PORTFOLIO	ANNUAL INCOME	YIELD AT MARKET
319,300	TRANSCONTINENTAL INC CLASS A SUB VTG	17.54	5,599,265.77	15.74	5,025,782.00	0.28	3.6	89,404.00	1.78
249,100	TRIMAC INCOME FUND TRUST UNIT	9.90	2,467,067.64	7.00	1,743,700.00	0.93	1.3	230,467.32	13.22
			21,682,986.55		21,893,445.00		15.8	754,599.32	
CONSUMER DISCRETIONARY									
178,700	COSSETTE COMMUNICAT SUB VTG	12.14	2,169,472.96	11.01	1,967,487.00	0.00	1.4	0.00	0.00
931,200	GLACIER VENTURES COMMON	3.34	3,114,428.00	4.59	4,274,208.00	0.00	3.1	0.00	0.00
78,900	LE CHATEAU INC CLASS A SUB VTG	11.51	908,300.39	14.55	1,147,995.00	0.50	0.8	39,450.00	3.44
416,500	LEONS FURNITURE LTD COMMON	12.01	5,000,239.45	12.90	5,372,850.00	0.28	3.9	116,620.00	2.17
144,430	UNI SELECT INC COMMON	29.33	4,235,470.87	31.42	4,537,990.60	0.43	3.3	62,104.90	1.37
			15,427,911.67		17,300,530.60		12.5	218,174.90	
CONSUMER STAPLES									
130,130	EMPIRE LTD CLASS A NON VTG	41.81	5,440,342.52	42.80	5,569,564.00	0.66	4.0	85,885.80	1.54
			5,440,342.52		5,569,564.00		4.0	85,885.80	
HEALTH CARE									
196,450	ATRIUM INNOVATIONS COMMON	18.30	3,595,536.32	20.75	4,076,337.50	0.00	2.9	0.00	0.00
191,600	AXCAN PHARMA INC COMMON	17.56	3,363,699.96	22.69	4,347,404.00	0.00	3.1	0.00	0.00
			6,959,236.28		8,423,741.50		6.1	0.00	
FINANCIALS									
56,500	ADDENDA CAPITAL COMMON	21.50	1,214,960.27	22.50	1,271,250.00	1.32	0.9	74,580.00	5.87
130,760	CDN WESTERN BANK COMMON	22.53	2,945,514.83	31.35	4,099,326.00	0.40	3.0	52,304.00	1.28
345,200	CROMBIE REIT	12.41	4,285,034.68	11.13	3,842,076.00	0.85	2.8	293,406.19	7.64
9,276	E-L FINANCIAL CORP COMMON	590.12	5,473,957.07	565.00	5,240,940.00	0.50	3.8	4,638.00	0.09
76,970	HOME CAPITAL GROUP COMMON	32.20	2,478,359.82	41.90	3,225,043.00	0.44	2.3	33,866.80	1.05
140,100	MORNEAU SOBECO INCOME FUND	12.46	1,745,329.65	14.59	2,044,059.00	0.88	1.5	123,669.07	6.05
165,010	WESTERN FINL COMMON	2.91	479,769.70	5.26	867,952.60	0.04	0.6	6,600.40	0.76
			18,622,926.02		20,590,646.60		14.8	589,064.46	
INFORMATION TECHNOLOGY									
104,300	AASTRA TECHNOL COMMON	31.72	3,308,005.31	34.11	3,557,673.00	0.00	2.6	0.00	0.00
505,600	AXIA NETMEDIA COMMON	3.29	1,665,148.78	3.18	1,607,808.00	0.00	1.2	0.00	0.00
39,300	CONSTELLATION SFTWR COMMON	20.09	789,541.25	25.24 CA	991,932.00	0.15 US	0.7	5,824.85	0.59
266,650	GENNUM CORP COMMON	11.63	3,101,040.94	10.60	2,826,490.00	0.14	2.0	37,331.00	1.32
89,100	SOFTCHOICE CORP COMMON	16.71	1,488,935.97	23.32	2,077,812.00	0.40	1.5	35,640.00	1.72
			10,352,672.26		11,061,715.00		8.0	78,795.85	
UTILITIES									
52,035	ALTAGAS UTILITY GRP COMMON	7.32	381,125.54	5.90	307,006.50	0.16	0.2	8,325.60	2.71
			381,125.54		307,006.50		0.2	8,325.60	
CANADIAN EQUITY TOTALS			118,700,973.62		124,863,614.87		89.9	3,367,380.90	
PORTFOLIO TOTALS IN CANADIAN DOLLARS			132,798,775.23		138,958,648.17		100.0	3,935,347.39	

Portfolio Risk Management Terms

Price to Earnings Multiple

The Price to Earnings Multiple is the ratio of a company's share price to its earnings per share. This ratio indicates how many times an investor is paying for each dollar of earnings. A lower number is more attractive.

Return on Equity - 4 Year Average

The Return on Equity - 4 year average is the four year average of the earnings per share expressed as a percentage of the book value per common share. The book value (equity) is the amount shareholders have invested into the firm. This is a common profitability measure. A higher rather than lower percentage is desirable.

Dividend Yield

The Dividend Yield is the annual dividend rate expressed as a percentage of the current price of the stock. The higher the yield, the more income is paid to the investor.

Percentage of Debt to Shareholder's Equity

The Percentage of Debt to Shareholder Equity shows the amount of debt (leverage) used by the company relative to share holders investment (book value) to in their business. Typically, the lower the debt to equity ratio, the lower the financial risk of the company.

Average Yield to Maturity

The Average Yield to Maturity refers to the average annual percent that will be earned on capital if a bond or bond portfolio is held to maturity. The yield to maturity calculation considers the bond's market price, the term (the time remaining to the bond's maturity), and the coupon (the bond's yield at its initial sale). The yield to maturity assumes the semi-annual payments received are reinvested at the prevailing interest rate. The higher the yield the more attractive a bond is.

Average Term to Maturity

The Average Term to Maturity is the time remaining until the bond portfolio is repaid by the borrower to the investor. The shorter the average term to maturity for a bond, the less sensitive or more stable the price of the bond is to changes in interest rates.

Disclosures

Please note that due to rounding differences, the individual components of various portfolio column totals may not sum to exactly 100 percent.

Pooled fund returns are quoted gross of fees (before fees) within the fund reviews; whereas, individual portfolio reviews are quoted accordingly to whether the portfolio is comprised of pooled and/or segregated holdings. The Pooled portion of the return is net of fees (after fees) and the segregated portion of the return is gross of fees.

Please be advised that the Contribution, Withdrawal and Income columns in the Portfolio History table reflect cumulative transactions from the previous date to the next date's record.

QV Investors acts for and may invest in the following related companies:

- Industrial Alliance (Clarington Funds)
- Western Financial Group
- CI Funds
- Ethical Funds

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