

Financial Statements of

**MALACHITE AGGRESSIVE
PREFERRED FUND**

Year ended December 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Malachite Aggressive Preferred Fund

We have audited the accompanying financial statements of Malachite Aggressive Preferred Fund, which comprise the statement of financial position as at December 31, 2015, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Malachite Aggressive Preferred Fund, as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

March 29, 2016
Toronto, Canada

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Investments, at fair value	\$ 5,474,714	\$ 7,299,219
Cash	84,671	90,263
Due from brokers	39,562	—
Subscriptions receivable	—	111
Accrued income receivable	3,927	3,699
	<u>5,602,874</u>	<u>7,393,292</u>
Liabilities		
Accrued liabilities (note 4)	60,246	56,137
Due to brokers	66,132	116,302
	<u>126,378</u>	<u>172,439</u>
Net assets attributable to holders of redeemable units	<u>\$ 5,476,496</u>	<u>\$ 7,220,853</u>
Redeemable units issued and outstanding	672,958.5440	683,141.9120
Net asset value attributable to holders of redeemable units per unit	<u>\$ 8.1379</u>	<u>\$ 10.5701</u>

See accompanying notes to financial statements.

On behalf of the Trustee:

Hymas Investment Management Inc.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Comprehensive Income

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Investment income:		
Dividends	\$ 350,187	\$ 380,230
Net realized gains (losses) on investments	(559,526)	117,803
Net change in unrealized appreciation (depreciation) on investments	(1,145,387)	383,893
	(1,354,726)	881,926
Expenses:		
Legal and audit	19,157	9,600
Interest	6,826	2,646
Transaction costs	5,870	5,321
Other	17	1,035
	31,870	18,602
Amounts that would otherwise have been payable by the investment fund that were paid or absorbed by the Investment Manager	(4,461)	(928)
	27,409	17,674
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (1,382,135)	\$ 864,252
Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit (based on weighted average number of units outstanding during the year)	\$ (2.3387)	\$ 1.2318

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Net assets attributable to holders of redeemable units, beginning of year	\$ 7,220,853	\$ 6,971,633
Increase (decrease) in net assets attributable to holders of redeemable units from operations	(1,382,135)	864,252
Capital transactions:		
Proceeds from issue of units	1,358,241	486,000
Reinvested distributions	239,368	257,514
Units redeemed	(1,631,184)	(990,599)
	(33,575)	(247,085)
Distributions to unitholders:		
Net investment income	(328,647)	(367,947)
Net assets attributable to holders of redeemable units, end of year	\$ 5,476,496	\$ 7,220,853

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (1,382,135)	\$ 864,252
Cost of investments purchased	(10,280,539)	(9,093,223)
Proceeds on sale of investments	10,400,131	9,338,033
Adjustments for non-cash items:		
Net realized losses (gains) on investments	559,526	(117,803)
Net change in unrealized depreciation (appreciation) on investments	1,145,387	(383,893)
Change in non-cash balances related to operations:		
Due from brokers	(39,562)	—
Subscriptions receivable	111	(111)
Accrued income receivable	(228)	(1,162)
Accrued liabilities	4,109	(311,287)
Due to brokers	(50,170)	69,026
	<u>356,630</u>	<u>363,832</u>
Financing activities:		
Amounts paid on redemption of redeemable units	(1,631,184)	(990,599)
Proceeds from issuance of redeemable units	1,358,241	486,000
Distributions to unitholders of redeemable units	(89,279)	(110,433)
	<u>(362,222)</u>	<u>(615,032)</u>
Decrease in cash	(5,592)	(251,200)
Cash, beginning of year	90,263	341,463
Cash, end of year	<u>\$ 84,671</u>	<u>\$ 90,263</u>

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Schedule of Investments

December 31, 2015

Number of shares	Security	Book value	Market value	Weight in portfolio
3,600	AIMIA Inc. 4.50% cum RT RST reset Preferred shares, Series 1	\$ 70,621	\$ 45,180	0.8%
2,700	Atlantic Power Preferred Equity Ltd. cum Redeemable RT RST Preferred Series 2	33,355	29,376	0.5%
1,600	Brookfield Asset Management Inc. 4.20% cum CL - A Preferred RT RST Series 34	31,978	32,816	0.6%
2,600	Brookfield Asset Management Inc. 4.85% cum CL - A Preferred Series 36	55,337	53,274	1.0%
7,800	Brookfield Asset Management Inc. 4.75% cum Preferred Series 17 CL A	166,102	154,830	2.8%
3,500	Brookfield Asset Management Inc. 5.40% cum 6.5 Year RST Preferred Series 24	60,815	58,800	1.1%
10,000	Brookfield Asset Management Inc. Preferred Series 26	177,906	180,000	3.3%
3,800	BCE Inc. 3.110% cum RED 1st Preferred Series-AF	62,546	53,352	1.0%
2,500	Bank of Montreal non-cum 4.00% 5 Year RT RST CL B Preferred Series 27	51,020	50,500	0.9%
5,100	Bank of Nova Scotia 3.70% non-cum 5 Year RT RST Preferred Series 32 (4863 SEG)	119,021	106,641	1.9%
4,200	Canaccord Genuity Group Inc. 5.75% cum 5 Year rate RT RST 1st Series-C Preferred	83,391	54,012	1.0%
5,700	Canadian Utilities Ltd. 4.00% 5 Year rate RT RST cum RED 2nd S-Y Preferred	108,390	114,969	2.1%
4,500	Canadian Utilities Ltd. 4.50% cum RDM 2nd Preferred Series CC	90,917	93,105	1.7%

MALACHITE AGGRESSIVE PREFERRED FUND

Schedule of Investments (continued)

December 31, 2015

Number of shares	Security	Book value	Market value	Weight in portfolio
21,100	Canadian Utilities Ltd. 4.50% cum RED 2nd Preferred Series DD	439,414	435,715	8.0%
2,900	Enbridge Inc. 4.00% cum RT RST Preferred Series N	56,803	50,460	0.9%
8,500	Enbridge Inc. Cum Redeemable Preferred Series R	171,214	143,735	2.6%
2,400	Fairfax Financial Holdings Ltd. 5.00% cum 5 Year RT RST Preferred Series K	46,658	49,800	0.9%
1,100	Great-West Lifeco Inc. 4.85% non-cum 1st Preferred S-H Perp	24,566	24,200	0.4%
11,700	Great-West Lifeco Inc. 4.50% non-cum 1st Preferred Series I	262,971	245,232	4.5%
35,100	Great-West Lifeco Inc. 3.65% non-cum 5 Year RT RST 1st Preferred Series N	751,645	491,049	9.0%
6,100	Husky Energy Inc. 4.45% cum RT RST RED 1st Preferred Series 1	104,421	79,910	1.5%
8,700	Husky Energy Inc. cum RT RST Preferred Series 3	183,172	160,689	2.9%
1,700	Industrial Alliance Insurance & Finance 4.60% non-cum CL-A Preferred Series - B	38,665	36,125	0.7%
30,800	Intact Financial Corporation 4.20% non-cum RT RST CL-A Preferred Series 1	673,320	513,128	9.4%
700	Intact Financial Corporation 4.20% non-cum RT RST CL-A Preferred Series 3	16,149	14,595	0.3%
4,900	Innergex Renewable Energy Inc. cum RT RST Preferred Series A	77,351	64,680	1.2%
36,800	Manulife Financial Corporation 4.20% non-cum RT RST Preferred Series 3	774,301	551,632	10.1%

MALACHITE AGGRESSIVE PREFERRED FUND

Schedule of Investments (continued)

December 31, 2015

Number of shares	Security	Book value	Market value	Weight in portfolio
1,400	Manulife Financial Corporation 3.80% non-cum RT RST Preferred Series 13	28,462	28,560	0.5%
2,800	Northland Power Inc. 5.00% cum RT RST Preferred Series 3	51,574	54,208	1.0%
1,100	Partners Value Split Corporation cum CL AA Preferred Series 6	26,025	25,135	0.5%
2,000	Partners Value Split Corporation Preferred CL AA Series 7	48,111	48,700	0.9%
9,000	Power Financial Corporation 4.40% non-cum 5 Year RT RST 1st Preferred shares Series P	166,368	130,140	2.4%
27,600	Sun Life Financial Inc. 4.35% non-cum RT RST Preferred Series 8R	595,717	425,040	7.7%
25,300	Sun Life Financial Inc. Class A non-cum FLTG rate Preferred Series 9QR	342,137	354,200	6.5%
1,700	Transalta Corporation 4.60% cum RT RST 1st Preferred Series-A	19,424	16,762	0.3%
3,300	Transalta Corporation 4.60% cum RT RST 1st Preferred Series C	40,742	40,359	0.7%
3,200	Toronto Dominion Bank 3.80% non-cum 5 Year RT RST Preferred Series 3	67,084	62,848	1.1%
3,200	Toronto Dominion Bank 3.75% non-cum RT RST Preferred Series 5	62,802	62,272	1.1%
1,700	Transalta Corporation 4.00% cum RED 1st Preferred shares Series 7	32,640	32,130	0.6%
200	Transcanada Corporation 4.25% cum RED RT RST 1st Preferred Series 9	3,859	3,760	0.1%
22,200	Transcanada Corporation Cum RED 1st Preferred Series 2	359,532	302,795	5.5%
Total investments		\$ 6,576,526	\$ 5,474,714	100.0%

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements

Year ended December 31, 2015

1. The Fund:

Malachite Aggressive Preferred Fund (the "Fund") is an unincorporated open-ended mutual fund trust established under the laws of the Province of Ontario by a Master Declaration of Trust (for the Malachite Funds in general) and an associated Fund Regulation (for the Fund itself) as amended January 13, 2005. The address of the Fund's registered office is c/o 268 Poplar Plains Road, Suite 801, Toronto, ON, M4V 2P2.

The investment objective of the Fund is to generate both capital appreciation and income, while maintaining a relatively low level of risk. To achieve its objectives, the Fund invests in a diverse portfolio of Canadian preferred stocks.

Hymas Investment Management Inc. ("Hymas") is the trustee and manager (the "Investment Manager") of the Fund. The Investment Manager provides investment management services to the Fund and is responsible for the day-to-day operations of the Fund.

These financial statements were authorized for issue by the Investment Manager on March 29, 2016.

2. Basis of preparation:

(a) Basis of accounting:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

2. Basis of preparation (continued):

(b) Basis of measurement:

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss which are presented at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Fund's functional currency.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) Financial instruments:

(i) Recognition, initial measurement and classification:

Financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are initially recognized on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

Financial assets and financial liabilities at FVTPL are initially recognized at fair value, with transaction costs recognized in profit or loss. Financial assets or financial liabilities not at FVTPL are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and subsequently measured at amortized cost.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

3. Significant accounting policies (continued):

The Fund classifies financial assets and financial liabilities into the following categories:

Financial assets at FVTPL:

- Held for trading: derivative financial instruments; and
- Designated as at fair value through profit or loss: debt securities and equity investments.

Financial assets at amortized cost:

- Loans and receivables: all other financial assets.

Financial liabilities at FVTPL:

- Held for trading: derivative financial instruments and redeemable units; and
- Financial liabilities at amortized cost: all other financial liabilities.

(ii) Fair value measurement:

Investments in securities listed on a public securities exchange or traded on an over-the-counter market are valued at the last bid price on the Toronto Stock Exchange. Securities with no available closing prices are valued at the last available sale or close price. In respect of any unlisted or non-exchange traded securities, or securities for which a closing bid price or last close sale price are unavailable or securities for which market quotations are, in the Investment Manager's opinion, inaccurate, unreliable, or not reflective of all available material information, such securities are valued at their fair value as determined by the Investment Manager.

The fair values of other financial assets and liabilities approximates their carrying values due to the short-term nature of these instruments.

Fair value policies used for financial reporting purposes are the same as those used to measure the net asset value for transactions with unitholders.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

3. Significant accounting policies (continued):

(iii) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iv) Derecognition:

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in such transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

The Fund derecognizes a liability when its contractual obligations are discharged, cancelled or expired.

(b) Cash:

Cash is cash on deposit and is carried at cost, which approximates its fair value.

(c) Other assets and liabilities:

Amounts due from brokers and accrued income receivable are designated as receivables and shown as other assets. They are recorded at amortized cost, which approximates their fair value. Similarly, accrued liabilities and amounts due to brokers are designated as financial liabilities and are recorded at amortized cost, which approximates their fair value.

(d) Redeemable units:

Redeemable units, which are classified as financial liabilities, are measured at the redemption amount and are considered a residual interest in the assets of the Fund after deducting all of its liabilities.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

3. Significant accounting policies (continued):

Increase (decrease) in net assets attributable to holders of redeemable units per unit in the statement of comprehensive income represents the net increase in the net assets attributable to holders of redeemable units for the year divided by the average number of units outstanding during the year.

Net asset value attributable to holders of redeemable units per unit is computed by dividing the net asset attributable to holders of redeemable units of the Fund at the valuation date by the total number of units of the Fund outstanding.

(e) Investment transactions and income recognition:

All income, net realized and unrealized appreciation (depreciation) and transaction costs are attributable to investments that are designated at FVTPL. Investment transactions are accounted for on the trade date, that is, on the day that a buy or sell order is executed. The cost of investments represents the amount paid for each security, and is determined on an average cost basis including transaction costs. Realized gains and losses on investment transactions are computed as proceeds of disposition less their average cost. The unrealized appreciation or depreciation of investments represents the difference between their average cost and fair value at the year-end date. Dividend income is recorded on the ex-dividend and interest income is recorded daily on an accrual basis.

Income and realized capital gains are distributed to the unitholders in proportion to the amount of equity invested. For management and service fees, refer to note 5.

(f) Transactions costs:

Transaction costs, such as brokerage commission incurred in the purchase and sale of portfolio securities paid to external third parties are recognized as expenses in the statement of comprehensive income based on the trade date.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

3. Significant accounting policies (continued):

(g) Critical accounting estimates and judgments:

In preparing these financial statements, the Investment Manager has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(h) Future changes in accounting policies:

The International Accounting Standards Board ("IASB") has issued the following new standards and amendments to existing standards that are not yet effective. The Fund has not yet begun the process of assessing the impact the new and amended standards will have on its financial statements or whether to early adopt any of the new standards.

IFRS 9, Financial Instruments ("IFRS 9"):

In July 2014, the IASB issued IFRS 9 to replace International Accounting Standard 39, Financial Instruments - Recognition and Measurement. IFRS 9 addresses classification and measurement, impairment and hedge accounting. The new standard requires assets to be classified based on the Fund's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. Financial assets will be measured at FVTPL unless certain conditions are met which permit measurement at amortized cost or value through other comprehensive income. The classification and measurement of liabilities remain generally unchanged, with the exception of liabilities recorded at FVTPL. For financial liabilities designated at FVTPL, IFRS 9 requires the presentation of the effects of changes in the Fund's own credit risk in other comprehensive income instead of net income. IFRS 9 is effective for fiscal years beginning on January 1, 2018, though early adoption is permitted. The Investment Manager is currently assessing the impact of this new standard on the Fund's financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

4. Related party balances:

Included in accrued liabilities are distributions payable to unitholders of \$14,019 (2014 - \$25,896) and amounts due to the Investment Manager of \$27,168 (2014 - \$18,863).

5. Management fees and expenses:

- (a) The Investment Manager provides management, distribution and administrative services to the Fund for which it receives a monthly management fee directly from the unitholders and, accordingly, no management fees are reflected in these financial statements.
- (b) The Fund is responsible for the payment of all expenses relating to its operations. Operating expenses incurred by the Fund may include, but are not limited to, accounting, legal and audit fees, trustee and custodial fees, portfolio transaction costs, interest and bank charges, administrative costs excluding any salaries to the principal shareholder of the Investment Manager, investor servicing costs and costs of reports and prospectuses.
- (c) At its sole discretion, the Investment Manager may absorb expenses of the Fund. The expenses absorbed are shown on the statement of comprehensive income. Such absorptions can be terminated at any time, but can be expected to continue until such time as the Fund is of sufficient size to reasonably absorb all expenses incurred in its operations. It is current policy of Hymas to absorb all Fund expenses in excess of 0.50%.

6. Income taxes:

The Fund qualified as a mutual fund under the Income Tax Act (Canada) and, accordingly, is not subject to income taxes on the portion of its net income, including net realized gains (losses) on investments, which is paid or payable to unitholders. Such distributed income is taxable in the hands of the unitholders.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

6. Income taxes (continued):

Temporary differences between the carrying value of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. The most significant temporary difference is that between the reported fair value of the Fund's investment portfolio and its adjusted cost base for income tax purposes. Since the Fund's distribution policy is to distribute all net realized capital gains, future tax liabilities with respect to unrealized capital gains and future tax assets with respect to unrealized capital losses will not be realized by the Fund and are, therefore, not recorded by the Fund. Unused realized capital losses represent future tax assets to the Fund but due to the uncertainty that they will be realized by offsetting future capital gains, no net tax benefit is recorded by the Fund.

As at the most recent taxation year end of December 31, 2015, the Fund had capital losses of approximately \$665,000 available to reduce future net realized capital gains.

7. Brokerage commissions:

Commissions paid to brokers in connection with portfolio transactions are disclosed in the statement of comprehensive income of the Fund. The Investment Manager does not have any soft dollar arrangements where third party services such as investment research, statistical or other similar services were paid for by brokers.

8. Redeemable units:

The authorized capital of the Fund consists of an unlimited number of units without par value. The Fund is required to distribute any net income and capital gains that it has earned in the year. Income earned by the Fund is distributed to unitholders at least once per year, if necessary, and these distributions are either paid in cash or reinvested by unitholders into additional units of the Fund. Distributions payable to holders of redeemable units are recognized in the statement of changes in net assets attributable to holders of redeemable units.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

8. Redeemable units (continued):

Unit transactions for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Opening	683,141.9120	706,226.4696
Subscriptions	147,689.2361	46,221.9904
Distributions reinvested	27,454.8527	24,629.3025
Redemptions	(185,327.4568)	(93,935.8505)
Closing	672,958.5440	683,141.9120

9. Financial instruments:

Essentially all of the assets and liabilities of the Fund are financial instruments. These financial instruments are comprised of investments, amounts due from brokers, cash, accrued income receivable, accrued liabilities and amounts due to brokers. Investments are recorded at fair value based on the accounting policies described above. All other financial instruments are carried at cost or amortized cost, which given their short-term nature, closely approximates their fair value.

The Fund measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. All the Fund's investments were classified as Level 1 as at December 31, 2015 and 2014.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

10. Financial instrument risk:

In the normal course of business, the Fund is exposed to a variety of financial risks: market risk (comprised of market price risk and interest rate risk), counterparty credit risk, liquidity risk and credit risk. The value of investments in the Fund's portfolio can fluctuate on a daily basis as a result of changes in interest rates, market and economic conditions and factors specific to individual securities within the Fund. The level of risk depends on the Fund's investment objectives and the type of securities in which it invests.

(a) Risk management:

The Fund seeks to provide long-term capital growth in addition to a high level of after-tax income through investment primarily in preferred shares and preferred securities listed on the Toronto Stock Exchange. This Fund is sold to investors as a private placement which, therefore, exempts it from issuing a prospectus, providing that the investor meets certain requirements. The Investment Manager takes a conservative approach to risk management by focusing research efforts on the analysis of a market price into its fair and liquidity components, to achieve superior investment returns by selling liquidity to the market, taking advantage of mispricing while at all times keeping the client's tax and commission considerations in view.

(b) Market risk:

(i) Market price risk:

Market price risk arises primarily from uncertainties about future market prices of the instruments held. Market price fluctuations may be caused by factors specific to an individual investment, or factors affecting all securities traded in a market or industry sector. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value. If prices on the Toronto Stock Exchange for these securities, as approximated by either the S&P/TSX Preferred Share Index or the BMO Capital Markets "50" index had increased or decreased by 5% as at December 31, 2015, with all other variables held constant, the net assets of the Fund would have increased or decreased, respectively by approximately \$270,000 (2014 - \$360,000) (approximately 5.0% of total net assets). In practice the actual results may differ from this sensitivity analysis and the difference could be material.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

10. Financial instrument risk (continued):

(ii) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments where the values of those instruments fluctuate due to changes in levels of market interest rates. The majority of the Fund's financial assets are preferred shares, which are not interest-bearing and not included in the computation of overall market interest rates. The Fund's financial liabilities are primarily short-term in nature and generally not interest bearing. Therefore, the Fund's exposure to interest rate risk is best reflected by the yields on preferred shares as reflected by either of the two indices referred to in market price risk, above.

(c) Counterparty credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to honour an obligation or commitment that it has entered into with the Fund. The Fund's main exposure to credit risk is its trading of listed securities. It minimizes the concentration of credit risk by trading with a number of counterparties on a recognized and reputable exchange. The risk of default is considered minimal as all transactions are settled and paid for upon delivery using an approved broker. The Fund's maximum credit risk exposure as at the reporting dates is represented by the respective carrying amounts of the financial assets in the statement of financial position.

(d) Liquidity risk:

The Fund is exposed to monthly cash redemptions of units. It, therefore, invests its assets in investments that are traded in an active market and can be readily disposed of. The Fund's listed securities are considered readily realizable.

The Fund's liquidity position is monitored on a regular basis and all the Fund's financial liabilities are short-term in nature and due within 90 days.

(e) Credit risk:

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of counterparty on its obligation to the Fund. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and balances due from brokers and receivables. Credit risk is managed by dealing with counterparties the Fund believes to be creditworthy and by regular monitoring of credit exposures.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

11. Capital management:

The capital of the Fund is represented by issued redeemable units with no par value. The units of the Fund are entitled to distributions, if any, and any redemptions are based on the Fund's net assets attributable to holders of redeemable shares per unit. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the statement of changes in net assets attributable to holders of redeemable units. The Fund endeavours to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

12. Filing exemption:

The Fund will not be filing its financial statements with the Ontario Securities Commission or any other Canadian securities regulatory authority, in reliance upon the exemption in this regard provided by Section 2.11 of National Instrument 81-106.