

Financial Statements of

**MALACHITE AGGRESSIVE
PREFERRED FUND**

Year ended December 31, 2005



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AUDITORS' REPORT

To the Trustee and the Manager of Malachite Aggressive Preferred Fund (the "Fund")

We have audited the statement of net assets of the Fund as at December 31, 2005 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Accountants

Toronto, Canada

February 3, 2006

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Net Assets

December 31, 2005, with comparatives for 2004

	2005	2004
Net Assets		
Investments, at market value (note 2)	\$ 564,942	\$ 504,573
Accrued income receivable	2,115	421
Organization costs	80	400
Due from brokers	7,490	-
	<hr/>	<hr/>
	\$ 574,627	\$ 505,394
Margin borrowings	\$ 68,083	12,105
Accounts payable and accrued liabilities	8,960	\$ 8,150
Due to brokers	33,160	46,690
	<hr/>	<hr/>
	110,203	66,945
	<hr/>	<hr/>
Total net assets	\$ 464,424	\$ 438,449
Unitholders' Equity		
Units issued and outstanding (note 3)	\$ 463,039	\$ 435,586
Unrealized appreciation in value of investments	1,385	2,863
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	\$ 464,424	\$ 438,449
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Net asset value per unit	\$ 9.5985	\$ 9.6333

See accompanying notes to financial statements.

On behalf of the Trustee:

Hymas Investment Management Inc.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Operations

For the year ended December 31, 2005, with comparatives for 2004

	2005	2004
Revenue:		
Dividends	\$ 21,235	\$ 29,297
Expenses:		
Professional fees	6,127	2,273
Interest	440	342
Amortization	320	320
Recovered from manager	(5,190)	-
	<u>1,697</u>	<u>2,935</u>
Income before the undernoted	<u>19,538</u>	<u>26,362</u>
Realized gain on sale of investments	7,661	89,782
Unrealized appreciation (depreciation) of investments	(1,478)	(49,159)
	<u>6,183</u>	<u>40,623</u>
Income from operations	<u>\$ 25,721</u>	<u>\$ 66,985</u>
Income from operations per unit (based on weighted average number of units outstanding during the year)	\$ 0.5478	\$ 1.4756

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Cash Flows

For the year ended December 31, 2005, with comparatives for 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Income from operations	\$ 25,721	\$ 66,985
Items not involving cash:		
Amortization	320	320
Unrealized (appreciation) depreciation of investments	1,478	49,159
Accrued income receivable	(1,694)	1,796
Due from brokers	(7,490)	31,592
Due to brokers	(13,530)	(6,661)
Accounts payable and accrued liabilities	810	(11,821)
Margin borrowings	55,978	12,105
	61,593	143,475
Distributions to unitholders (note 4)	(27,453)	(116,144)
Financing:		
Units issued (redeemed)	27,453	(20,785)
Investing:		
Proceeds on disposal of investments	1,517,843	5,871,173
Purchase of investments	(1,579,436)	(5,952,216)
	(61,847)	(81,043)
Increase (decrease) in cash	-	(74,497)
Cash, beginning of year	-	74,497
Cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements

For the year ended December 31, 2005

Malachite Aggressive Preferred Fund is a “mutual fund in Ontario” as defined in The Securities Act, R.S.O. 1990, Chapter S.5, as amended (the “Act”), subsection 1(1).

Hymas Investment Management Inc. is the Trustee of the fund. The fund is offered as an investment via a Master Declaration of Trust (for the Malachite Funds in general) and an associated Fund Regulation (for the fund itself).

1. Significant accounting policies:

(a) Investments:

Investments are stated at market value, determined as the last bid price on December 31. The difference between the market value and the cost of the investments held is shown as unrealized appreciation in unitholders' equity. The average cost method is used to determine the gain or loss on sale of investments.

(b) Organization costs:

Organization costs of \$1,600 are being amortized on a straight line basis over five years.

(c) Recognition of income and expenses:

The accrual method of recording income and expenses is followed by the Fund, with dividend income being recorded on the ex-dividend date.

(d) Income taxes:

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada) and each year it will distribute, to its unitholders, all of its net income and net realized taxable capital gains. Such income and realized capital gains are taxable in the hands of the unitholders and not in the Fund. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(e) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

For the year ended December 31, 2005

2. Investments:

Shares	Security	Book value	Market value	Weight in portfolio
200	Canadian General Investments Ltd. 4.65% Preferred Shares, Series 2	\$ 5,131	\$ 5,440	1.0%
3,900	National Bank of Canada 1 st Pr Series 15	105,742	106,275	18.8%
4,400	Brookfield Asset Management Inc. Class A Preferred Shares Series 12	124,252	125,400	22.2%
1,600	Canadian Imperial Bank Preferred Shares Series 25	42,576	42,752	7.6%
1,800	Canadian Utilities Ltd. Preferred Shares, Series 6	49,113	48,618	8.6%
7,900	Premium Income Corporation Preferred Shares	130,533	130,429	23.1%
100	Canada Life Financial Corporation 6.25% Preferred Shares, Series B	2,780	2,726	0.5%
3,800	Power Financial Corp. 6% First Preferred Shares Series I	103,429	103,398	18.3%
		\$ 563,556	\$ 564,942	100%

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

For the year ended December 31, 2005

3. Unitholders' equity:

	Units	Value
Outstanding at December 31, 2004	45,513.8244	\$ 435,586
Issued during the year	2,871.0949	27,453
Outstanding at December 31, 2005	48,384.9193	\$ 463,039

4. Distributions to unitholders:

	Type	Per unit	Total
March 31, 2005	Dividend	0.1188	\$ 5,405
June 30, 2005	Dividend	0.1139	5,250
September 30, 2005	Dividend	0.1389	6,476
December 30, 2005	Dividend	0.0562	2,661
December 30, 2005	Capital gain	0.1619	7,661
			\$ 27,453

5. Management fees:

Management fees are payable by the unitholders directly to the Manager and accordingly, are not reflected in these financial statements.

6. Expenses:

During the period, commissions of \$6,721 (2004 - \$17,800) were incurred with respect to securities transactions.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

For the year ended December 31, 2005

7. Fair value of financial assets and financial liabilities:

The fair value of financial assets and liabilities, other than investments, approximate their carrying costs due to the short term to maturity of the instruments.