

Financial Statements of

**MALACHITE AGGRESSIVE  
PREFERRED FUND**

Year ended December 31, 2007



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## **AUDITORS' REPORT**

To the Unitholders of Malachite Aggressive Preferred Fund (the "Fund")

We have audited the statements of net assets and investment portfolio of the Fund as at December 31, 2007 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's manager. 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 and its investments held as at December 31, 2007 and the results of its operations and the changes in its net assets 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 long, horizontal, slightly wavy line that serves as a decorative underline.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

January 10, 2008

# MALACHITE AGGRESSIVE PREFERRED FUND

## Statement of Net Assets

December 31, 2007, with comparatives for 2006

	2007	2006
<b>Net Assets</b>		
Investments, at market value	\$ 747,278	\$ 388,463
Due from brokers	89,597	101,422
Cash	24,454	12,931
Accrued income receivable	2,649	4,833
	<hr/>	<hr/>
	\$ 863,978	\$ 507,649
Accounts payable and accrued liabilities	\$ 12,479	\$ 11,447
Due to brokers	62,974	—
	<hr/>	<hr/>
	75,453	11,447
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<b>Total net assets and unitholders' equity</b>	<b>\$ 788,525</b>	<b>\$ 496,202</b>
<b>Unitholders' Equity</b>		
Units issued and outstanding (note 3)	\$ 784,700	\$ 493,523
Unrealized appreciation in value of investments	3,825	2,679
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	\$ 788,525	\$ 496,202
	<hr/>	<hr/>
Net asset value per unit	\$ 9.0070	\$ 9.6213

See accompanying notes to financial statements.

On behalf of the Trustee:

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Hymas Investment Management Inc.

# MALACHITE AGGRESSIVE PREFERRED FUND

## Statement of Operations

For the year ended December 31, 2007, with comparatives for 2006

	2007	2006
Investment income:		
Dividends	\$ 38,608	\$ 31,415
Expenses:		
Audit fees	6,210	5,600
Interest	1,003	4,464
Other	62	—
Amortization	—	80
	<u>7,275</u>	<u>10,144</u>
Amounts that would otherwise have been payable by the Investment fund that were paid or absorbed by the Manager	<u>(3,079)</u>	<u>(3,314)</u>
	<u>4,196</u>	<u>6,830</u>
<b>Net investment income for the year</b>	<b>34,412</b>	<b>24,585</b>
Net realized gains (losses)	(21,097)	6,100
Net change in unrealized gains	1,145	1,294
Transaction costs	<u>(23,625)</u>	<u>—</u>
	<u>(43,577)</u>	<u>7,394</u>
<b>Net increase (decrease) in net assets</b>	<b>\$ (9,165)</b>	<b>\$ 31,979</b>
Increase (decrease) in net assets from operations per unit (based on weighted average number of units outstanding during the year)	\$ (0.1323)	\$ 0.6398

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

## Statement of Changes in Net Assets

For the year ended December 31, 2007, with comparatives for 2006

	2007	2006
Net assets at the beginning of the year	\$ 496,202	\$ 464,424
Increase (decrease) in net assets from operations	(9,165)	31,979
Capital transactions:		
Distributions to unitholders - net investment income	(34,410)	(24,585)
Distributions to unitholders - realized gains	-	(6,100)
Units issued for cash	310,000	-
Units issued on reinvestment of distributions	27,917	30,484
Units redeemed	(2,019)	-
Net assets at end of the year	\$ 788,525	\$ 496,202

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Investment Portfolio

December 31, 2007

Shares	Security	Average cost	Market value	Weight in portfolio
200	Canadian General Investments Ltd. 4.65% Preferred Shares, Series 2	\$ 5,131	\$ 5,050	0.7%
6,400	BAM Split Corp. Preferred Shares	123,970	119,680	16.0%
6,900	Premium Income Corporation Preferred Shares	105,989	104,673	14.0%
100	Canada Life Financial Corporation 6.25% Preferred Shares, Series B	2,780	2,589	0.3%
4,800	Royal Bank of Canada 4.5% First Preferred Shares, Series D	101,402	101,712	13.6%
900	Royal Bank of Canada 4.45% First Preferred Shares, Series F	19,040	18,909	2.5%
1,600	Royal Bank of Canada 4.6% First Preferred Shares, Series C	33,696	34,944	4.7%
4,100	Royal Bank of Canada 4.5% First Preferred Shares, Series E	84,774	87,412	11.7%
3,000	CU Inc. Preferred Shares	61,274	61,740	8.3%
5,000	Bank of Montreal Preferred Shares	104,502	105,750	14.2%
400	Life and Bane Split Corp. Preferred Shares	4,259	4,028	0.5%
1,200	Canadian Imperial Bank of Commerce Preferred Shares, Series 30	24,291	25,248	3.4%
3,900	Canadian Imperial Bank of Commerce Preferred Shares, Series 32	72,345	75,543	10.1
		\$ 743,453	\$ 747,278	100.0%

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

## Notes to Financial Statements

For the year ended December 31, 2007

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Malachite Aggressive Preferred 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). Hymas Investment Management Inc. is the Trustee and Manager of the fund.

### 1. Summary of significant accounting policies:

#### (a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

The Canadian Securities Administrators issued the National Instrument 81-106, Investment Fund Disclosure (the "Instrument"), which became effective for investment funds with a fiscal year ended on or after June 1, 2005. The Instrument establishes standardized continuous disclosure requirements for investment funds' financial statements and introduces the requirement of management reports of fund performance to be made available to all Unitholders. The Instrument impacts the disclosure of the investment fund and, accordingly, has no impact on the valuation of the fund or on calculation of the net asset value per security of the fund. The following is a summary of significant accounting policies followed by the Fund in the preparation of these financial statements.

#### (b) Adoption of new accounting standards:

On April 1, 2005, The Canadian Institute of Chartered Accountants ("CICA") issued Section 3855, "Financial Instruments – Recognition and Measurement" of the CICA Handbook – Accounting, which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 applies to fiscal years beginning on or after October 1, 2006.

Section 3855 requires bid prices (for investments held) and ask prices (for investments sold short) to be used in the fair valuation of investments, and that transaction costs are expensed in the statement of operations (and not be capitalized to the cost of an investment). For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry.

# MALACHITE AGGRESSIVE PREFERRED FUND

## Notes to Financial Statements

For the year ended December 31, 2007

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### 1. Summary of significant accounting policies (continued):

#### (c) Investments:

The value of any security which is listed or dealt in upon a stock exchange shall be determined (a) at the closing bid price; or (b) if no bid or asked quotation is available, at the price last determined for such security for the purpose of calculating the Net Asset Value of the Fund, provided that, if in the opinion of the Trustee, stock exchange or over-the-counter quotations do not properly reflect the prices which would be received by the Fund upon the disposal of securities necessary to effect any redemptions of Units, the Trustee may place such value upon such securities as appears to the Trustee to most closely reflect the fair value of the securities.

#### (d) Investment Transactions and Income:

Investment transactions are accounted for as of the trade date. Realized gains and losses from investment transactions are calculated on an average cost basis. The difference between market value and average cost, as recorded in the financial statements, is included in the Statement of Operations as part of unrealized gains (losses). Dividend income is recognized on the ex-dividend date.

#### (e) Transactions costs:

In accordance with Section 3855, portfolio transaction costs are expensed and are included in "Transaction costs" in the statements of operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges. The statement of investments includes only those transaction costs incurred on the acquisition on portfolio investments. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments. The impact on the net asset value of the investment fund is the same regardless of which accounting method is utilized.

#### (f) Income taxes:

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada) and has been registered with the Canada Revenue Agency ("CRA") as a Registered Investment. All or substantially all of the net income for tax purposes and net taxable capital gains realized in any year are distributed to Unitholders such that no income tax is payable by the Fund.





# MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

For the year ended December 31, 2007

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## 1. Summary of significant accounting policies (continued):

### (g) 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.

### (h) Net Asset Value per Unit:

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

### (i) Increase in Net Assets from Operations per Unit:

The increase in net assets from operations per unit in the statement of operations represents the change in net assets from operations divided by the average number of units outstanding during the period.

## 2. Future accounting standards:

The Canadian Institute of Chartered Accountants has issued several new standards which are effective for the Fund for the reporting period beginning on January 1, 2008. The following accounting standards relate to financial instruments: – Section 3862, Financial Instruments – Disclosures, Section 3863, Financial Instruments – Presentation, Section 1530, Comprehensive Income and Section 1535, Capital Disclosures. These sections emphasize disclosure on how the fund manages its capital and its financial risk exposure on financial instruments, and their required changes will be reflected in future reporting documents. None of these required reporting changes are expected to have a material impact on the expenses or performance of the Fund.

# MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

For the year ended December 31, 2007

### 3. Unitholders' equity:

	Units	Value
Outstanding at December 31, 2005	48,384.9193	\$ 463,039
Issued during the year	3,188.6543	30,484
Outstanding at December 31, 2006	51,573.5736	493,523
Issued during the year	36,026.9596	303,507
Redeemed during the year	(54.439)	(2,019)
Distributions in excess of income	–	(10,311)
Outstanding at December 31, 2007	87,546.0942	\$ 784,700

### 4. Management fees:

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

### 5. 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.

### 6. Income tax status:

The Fund has net realized capital losses of \$44,722 available for utilization against net realized gains for tax purposes. Capital losses have no expiry date.

### 7. 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.