Financial Statements of

MALACHITE AGGRESSIVE PREFERRED FUND

Year ended December 31, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Malachite Aggressive Preferred Fund, which comprise the statements of net assets and investment portfolio as at December 31, 2012, the statements of operations, changes in net assets and unitholders' equity 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 Canadian generally accepted accounting principles, 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.

Auditor's 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 consolidated 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, 2012, and the results of its operations and the changes in its net assets and unitholders' equity for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 18, 2013

Toronto, Canada

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Net Assets

December 31	2012	2011
Net Assets		
Investments, at fair value*	$ 6,795,865	$ 4,977,759
Subscriptions receivable	43,000	350,000
Accrued income receivable	7,800	10,633
Cash	113,174	57,582
Due from brokers	74,559	–
	$ 7,034,398	$ 5,395,974
Accrued liabilities	$ 88,663	$ 66,378
Due to brokers	79,580	242,477
	168,243	308,855
Total net assets and unitholders' equity	$ 6,866,155	$ 5,087,119
Unitholders' Equity		
Units issued and outstanding	$ 6,639,398	$ 5,350,190
Unrealized (depreciation) appreciation in value of investments	226,757	(263,071)
	$ 6,866,155	$ 5,087,119
Net asset value per unit	$ 10.8307	$ 10.0793

*Cost of investments is reflected on the statement of investment portfolio.

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

Year ended December 31		2012		2011
Investment income:				
Dividends	$	298,603	$	251,449
Expenses:				
Legal and audit		10,850		11,400
Interest		1,486		1,067
Other		286		340
		12,622		12,807
Amounts that would otherwise have been payable by the Investment fund that were paid or absorbed by the Manager		–		(1,000)
		12,622		11,807
Net investment income		285,981		239,642
Net realized gains (losses)		(77,178)		140,590
Net change in unrealized gains		489,828		(364,868)
Transaction costs		(4,714)		(6,027)
		407,936		(230,305)
Increase in net assets from operations	$	693,917	$	9,337
Increase in net assets from operations per unit (based on weighted average number of units outstanding during the year)	$	1.2705	$	0.0236

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Changes in Net Assets

Year ended December 31	2012	2011
Net assets at the beginning of the year	$ 5,087,119	$ 2,819,050
Increase in net assets from operations	693,917	9,337
Capital transactions:		
Proceeds from issue of units	1,446,000	2,566,500
Reinvested distributions	194,010	274,542
Units redeemed	(268,910)	(208,104)
Distributions to unitholders:		
Net capital losses (gains)	–	(134,563)
Investment income	(285,981)	(239,643)
Net assets, December 31	$ 6,866,155	$ 5,087,119

Statement of Changes in Unitholders' equity

	Units
Units issued and outstanding:	
Balance, January 1, 2011	261,849.2113
Units issued for cash, including reinvested distributions	262,011.5555
Units redeemed	(19,149.9910)
Balance, December 31, 2011	504,710.7758
Units issued for cash, including reinvested distributions	154,626.7713
Units redeemed	(25,381.8317)
Outstanding at December 31, 2012	633,955.7154

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Investments

December 31, 2012

Number of shares	Security		Average cost		Fair value	Weight in portfolio
8,800	Atlantic Power Preferred Equity Cum Redeemable Preference, Series 1	$	161,230	$	121,880	1.8%
2,000	BCE Inc 4.6% Cumulative Redeemable 1st Preferred Shares, Series 28		44,112		44,320	0.7%
27,100	BAM Split Corp. Class AA Preferred Shares, Series 3		602,871		659,885	9.7%
1,500	Bank of Nova Scotia 5% Non-Cumulative 5 Yr Reset Preference Shares 20		37,030		37,245	0.6%
7,300	Bank of Nova Scotia 6.25% Non-Cumulative 5 Yr Reset Preference Shares, Series 28		197,284		193,085	2.8%
2,800	Brookfield Soundvest Split Trust Preferred Shares		26,019		26,824	0.4%
1,100	Canaccord Financial Inc. 5.75% Cumulative, 5 Yr Reset 1st Preferred Shares, Series C		19,865		20,680	0.3%
6,900	First National Financial Corp. Class A Preference Shares, Series 1 4.65% 5 Yrs Rate Reset		132,576		116,886	1.7%
3,000	Financial 15 Split Corp 5.25% Cumulative Redeemable Retr Pfd		28,814		30,570	0.4%
11,800	Great-West Lifeco Inc. 5.40% Non-Cumulative First Preferred Shares, Series P		301,791		310,340	4.6%
21,700	Great-West Lifeco Inc. 4.80% Non-Cumulative First Preferred Shares, Series R		546,325		549,010	8.1%
21,100	Great-West Lifeco Inc. 5.15% Non-Cumulative First Preferred Shares, Series Q		539,000		552,398	8.1%
22,200	HSBC Bank Canada 6.6% Non-Cumulative 5 Yr Reset Preference Shares, Series E		604,963		588,966	8.7%

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Investments (continued)

December 31, 2012

Shares	Security	Average cost	Fair value	Weight in portfolio
23,500	Industrial Alliance Insurance & Financial Services Inc., 4.6% Non-Cum Class A Preferred Shares, Series B	544,205	582,800	8.6%
3,500	Industrial Alliance Insurance & Financial Services Inc., 4.3% Non-Cumulative Preferred Shares, Series G 5-year Rate Reset	90,512	91,035	1.3%
6,100	Canadian Life Companies Split Corp 2012 Preferred Shares	57,948	60,695	0.9%
6,100	WTS Canadian Life Cos Split Corp WT Exp 06/03/13	1,207	2,287	0.0%
6,100	WTS Canadian Life Cos Split Corp WT Exp 06/02/14	1,207	1,342	0.0%
14,600	Manulife Financial Corp. 4.5% Class A Preferred Shares, Series 3	348,387	358,430	5.3%
13,800	Manulife Financial Corp., 4.65% Non-Cumulative Class A Preferred Series 2	325,156	344,448	5.1%
12,700	Royal Bank of Canada, 6.25% Non-Cum. 5-Year Rate Reset First Preferred Shares, Series AR	343,543	334,645	4.9%
2,700	Royal Bank of Canada, 6.25% Non-Cum., 5-yr Reset Preferred Shares, Series AT	73,637	72,414	1.1%
6,300	Royal Bank of Canada, 6.25% Non-Cum. 5-Year Rate Reset First Preferred Shares, Series AV	172,878	169,722	2.5%
4,800	Brompton Split Banc Corp 5.25% Preferred Shares	49,354	49,392	0.7%
20,200	Sun Life Financial Inc. 4.45% Non-Cumulative Class A Preferred Shares, Series 3	451,140	492,072	7.2%
17,600	Sun Life Financial Inc. 4.45% Non-Cumulative Class A Preferred Shares, Series 4	375,021	430,320	6.3%
18,900	Sun Life Financial Inc. 4.5% Non-Cumulative Class A Preferred Shares, Series 5	402,847	462,294	6.8%

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Investments (continued)

December 31, 2012

Shares	Security	Average cost	Fair value	Weight in portfolio
2,700	Transalta Corporation 4.6% Cumulative Rate reset 1st Preferred Shares, Series C	63,437	65,070	1.0%
1,000	Toronto Dominion Bank 6.25% Non-cum 5 Yr Reset Class A Preferred Shares, Series AE	26,750	26,810	0.4%
Net assets		$6,569,109	$6,795,865	100.0%

See accompanying notes to financial statements.

1. The Fund:

(a) 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. (“Hymas”) is the Trustee and Manager of the fund.

(b) The authorized capital of the fund consists of an unlimited number of units without par value. The number of units outstanding is disclosed in the statement of changes in unitholders’ equity.

(c) The financial statements of the Fund include the statement of investments and the statement of net assets at December 31, 2012 and the statement of operations, and the statements of changes in net assets and unitholders’ equity for the year ended December 31, 2012.

2. Summary of significant accounting policies:

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and reflect the following policies:

(a) Accounting estimates:

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

(b) Valuation of investments:

Investments are categorized as held-for-trading and therefore recorded at fair value. Investments in securities listed on a public securities exchange or traded on an over-the-counter market are valued at the closing bid price. Securities with no available closing bid prices are valued at the last sale or close price. Securities for which a closing bid price or last sale or close price are unavailable or securities for which market quotations are unreliable or not reflective of all available material information are valued at their fair value as determined by the Manager using available sources of information and commonly accepted industry valuation techniques including valuation models.

2. Summary of significant accounting policies (continued):

(c) Cash:

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

(d) Other assets and liabilities:

Amounts due from broker 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 from broker are designated as financial liabilities and are recorded at amortized cost, which approximates their fair value.

(e) Investment transactions and income recognition:

All income, net realized and unrealized appreciation/(depreciation) and transaction costs are attributable to investments that are deemed held-for-trading. 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 period-end date. Dividend income is recorded on the ex-dividend and interest income is recorded daily on an accrual basis.

Income and realized and unrealized capital gain/(loss) are distributed to the unitholders in proportion to the amount of equity invested. For management and service fees, refer to note 4.

(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 operations based on trade date.

2. Summary of significant accounting policies (continued):

(g) Fair value measurements:

The Fund adopted the amendments to CICA 3862, *Financial Instruments – Disclosures* on January 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value used to value the Fund's investments. The hierarchy of inputs is summarized below:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- 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 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

At December 31, 2012 all of the Fund's investments were valued using Level 1 inputs.

(h) Capital management:

The Manager manages the capital of the Fund, which consists of the net assets of the Fund, in accordance with the investment objectives set out in the Fund's Master Declaration of Trust as amended January 13, 2005, and the Regulation pertaining to Malachite Aggressive Preferred Fund.

(i) Increase in net assets from operations per unit:

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

2. Summary of significant accounting policies (continued):

(j) Net asset value per unit:

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

(k) Future changes in accounting policies:

The Canadian Accounting Standards Board has confirmed the plan to adopt International Financial Reporting Standards ("IFRS") in 2011. All publicly accountable enterprises will be required to implement IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2014.

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager does not expect that net assets attributable to unitholders or net asset value per unit will be impacted by the changeover to IFRS. Currently, the Manager expects that the impact of IFRS on the Fund's financial statements will result in additional disclosures and potentially different presentation of unitholder interests and certain other items.

3. Related party balances:

Included in accrued liabilities are distributions payable to unitholders of $26,327 (2011 - $43,702) and amounts due to the Manager of $49,318.54 (2011 - $13,602).

4. Management fees and expenses:

(a) Hymas, the Manager, provides management, distribution and administrative services to the Fund. In consideration for the services provided, Hymas 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 Manager, investor servicing costs and costs of reports and prospectuses.

4. Management fees and expenses (continued):

(c) At its sole discretion, Hymas may absorb expenses of the Fund. The expenses absorbed are shown on the statement of operations. 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%.

5. 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, which is paid or payable to unitholders. Such distributed income is taxable in the hands of the unitholders.

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, 2012, the Fund had capital losses of $77,178 available to reduce future net realized capital gains.

6. Brokerage commissions:

Commissions paid to brokers in connection with portfolio transactions are disclosed in the statement of operations of the Fund. Hymas 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.

7. Reconciliation of NAV:

Net assets reported in these financial statements are accounted for using GAAP (“GAAP Net Assets”) and use the closing bid price for the fair value of investments traded in an active market. The net asset value (“NAV”) for purposes of unitholders’ purchases, switches and redemptions is calculated in accordance with the valuation rules as set out in the Fund’s Master Declaration of Trust as amended January 13, 2005, and uses the last bid quotation on the Toronto Stock Exchange to value investments traded in an active market. The Canadian Securities Administrators require reconciliation between NAV and GAAP net assets.

At December 31, 2012, there was no difference between NAV and GAAP Net Assets on a per unit basis.

8. Financial instruments:

Essentially all of the assets and liabilities of the Fund are financial instruments. These financial instruments are comprised of investments, amount due from brokers, cash, accrued income receivable, accounts payable and 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.

9. 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 and liquidity 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.

9. Financial instrument risk (continued):

(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 Manager takes a conservative approach to risk management by focusing research efforts on the analysis of a market price into it's "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 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, 2012, with all other variables held constant, the net assets of the Fund would have increased or decreased, respectively by approximately $339,793 (approximately 4.8% of total net assets). In practice the actual results may differ from this sensitivity analysis and the difference could be material.

(c) 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.

9. Financial instrument risk (continued):

(d) Counterparty credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fair 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.

10. 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.