

Financial Statements of

**MALACHITE AGGRESSIVE  
PREFERRED FUND**

Year ended December 31, 2002

## AUDITORS' REPORT

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

We have audited the statements of net assets of the Fund as at December 31, 2002 and the statements of operations, changes in net assets and cash flows for the year ended December 31, 2002. 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, 2002 and the results of its operations, changes in its net assets and its cash flows for the year ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Accountants

Toronto, Canada

January 28, 2002

# MALACHITE AGGRESSIVE PREFERRED FUND

## Statement of Net Assets

December 31, 2002, with comparatives for 2001

	2002	2001
<b>Net Assets</b>		
Investments at market value (note 2)	\$ 302,394	\$ 270,260
Cash	6,220	--
Accrued income receivable	1,505	2,191
Organization costs	1,040	1,360
Due from brokers	--	31,157
	<u>\$ 311,159</u>	<u>\$ 304,968</u>
Accounts payable and accrued liabilities	\$ 4,950	\$ 3,000
Margin borrowings	--	28,997
Due to brokers	--	20,189
	<u>4,950</u>	<u>52,186</u>
<b>Total net assets</b>	<u><b>\$ 306,209</b></u>	<u><b>\$ 252,782</b></u>
<b>Unitholders' Equity</b>		
Units issued and outstanding (note 3)	\$ 317,717	\$ 256,346
Unrealized appreciation (depreciation) in value of investments	1,610	(3,564)
Realized loss on sale of investments	(13,118)	
	<u>\$ 306,209</u>	<u>\$ 252,782</u>
<b>Net asset value per unit</b>	<u><b>\$ 9.5508</b></u>	<u><b>\$ 9.8715</b></u>

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, 2002, with comparatives for the period from the date of commencement, March 30, 2001 to December 31, 2001

	2002	2001
Revenue:		
Dividends	\$ 11,284	\$ 9,610
Interest	2,358	327
	<u>13,642</u>	<u>9,937</u>
Expenses:		
Professional fees	1,067	1,400
Amortization	320	240
	<u>1,387</u>	<u>1,640</u>
Income before the undernoted	<u>12,255</u>	<u>8,297</u>
Realized gain (loss) on sale of investments	(13,118)	15,610
Unrealized appreciation (depreciation) of investments	5,174	(3,564)
	<u>(7,944)</u>	<u>12,046</u>
Income from operations	<u>\$ 4,311</u>	<u>\$ 20,343</u>
Income from operations per unit (based on weighted average number of units outstanding during the year)	<u>\$ 0.1583</u>	<u>\$ 0.8949</u>

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

## Statement of Cash Flows

For the year ended December 31, 2002, with comparatives for the period from the date of commencement, March 30, 2001 to December 30, 2001

	2002	2001
Cash provided by (used in):		
Operations:		
Income from operations	\$ 4,311	\$ 20,343
Items not involving cash;		
Amortization	320	240
Unrealized (appreciation) depreciation of investments	(5,174)	3,564
Accrued income receivable	686	(2,191)
Due from brokers	31,157	(31,157)
Margin borrowings	(28,997)	28,997
Due to brokers	(20,189)	20,189
Accounts payable and accrued liabilities	1,950	3,000
	(15,936)	42,985
Distributions to unitholders (note 4)	(12,255)	(23,907)
Financing:		
Units issued	61,371	256,346
Investing:		
Proceeds on disposal of investments	2,937,390	1,212,144
Purchase of investments	(2,964,350)	(1,485,968)
Organization costs	—	(1,600)
	(26,960)	(275,424)
Cash, end of year	\$ 6,220	\$ —

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

Notes to financial statements

For the year ended December 31, 2002, with comparatives for 2001

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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 Investment Manager and 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.

### (b) Organization costs:

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

### (c) Investment income:

Investment transactions are accounted for on the trade date. Dividend income is 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 in conformity with Canadian generally accepted accounting principles 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, 2002, with comparatives for 2001

## 2. Investments:

Shares	Security	Book value	Market value	Weight in portfolio
5,200	Bombardier Inc. 5.5% Preference Shares, Series 2	\$ 73,158	\$ 74,932	24.8%
100	Bombardier Inc. Preference Shares, Series 3	1,525	1,775	0.6%
100	Brascan Corporation Class A Preference Shares, Series 10	2,544	2,650	0.9%
3,100	Power Corporation of Canada 5.35% First Preferred Shares Series B	72,941	72,571	24.0%
3,000	Power Financial Corporation 5.90% First Preferred Shares, Series F	75,557	75,750	25.0%
3,000	Power Financial Corporation 5.75% First Preferred Shares, Series H	72,640	72,300	23.9%
100	Westcoast Energy Inc. 5.50% First Preferred Shares Series 7	2,419	2,416	0.8%
		\$ 300,784	\$ 302,394	100%

## 3. Unitholder's equity:

	Units	Value
Outstanding at December 31, 2001	25,607.1003	\$ 256,346
Issued during the year	6,453.9922	61,371
Outstanding at December 31, 2002	32,061.0925	\$ 317,717

# MALACHITE AGGRESSIVE PREFERRED FUND

Notes to financial statements (continued)

For the year ended December 31, 2002, with comparatives for 2001

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## 4. Distributions to unitholder:

	Type	Per unit	Total
March 28, 2002	Income	0.1084	\$ 2,775
June 28, 2002	Income	0.0245	635
September 30, 2002	Income	0.1375	3,565
December 31, 2002	Income	0.1671	5,280
			<hr/>
			\$ 12,255

Income is comprised of dividends (92.0751%) and interest (7.9249%).

## 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 \$9,367 (2001 - \$3,771) were incurred with respect to securities transactions.

The Management Expense Ratio ("MER") during the period was 0.50% (2001 - 0.65%).