

Financial Statements of

**MALACHITE AGGRESSIVE  
PREFERRED FUND**

Year ended December 31, 2003



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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, 2003 and the statements of operations and cash flows for the year ended December 31, 2003. 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, 2003 and the results of its operations, changes in its net assets and its cash flows for the year ended December 31, 2003 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 horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Accountants

Toronto, Canada

January 23, 2004

# MALACHITE AGGRESSIVE PREFERRED FUND

## Statement of Net Assets

December 31, 2003, with comparatives for 2002

	2003	2002
<b>Net Assets</b>		
Investments, at market value (note 2)	\$ 472,689	\$ 302,394
Cash	74,497	6,220
Due from brokers	31,592	–
Accrued income receivable	2,217	1,505
Organization costs	720	1,040
	<hr/>	<hr/>
	\$ 581,715	\$ 311,159
Accounts payable and accrued liabilities	\$ 19,971	\$ 4,950
Due to brokers	53,351	–
	<hr/>	<hr/>
	73,322	4,950
<b>Total net assets</b>	<hr/> <b>\$ 508,393</b>	<hr/> <b>\$ 306,209</b>
<b>Unitholders' Equity</b>		
Units issued and outstanding (note 3)	\$ 456,371	\$ 317,717
Unrealized appreciation in value of investments	52,022	1,610
Realized loss on sale of investments	–	(13,118)
	<hr/>	<hr/>
	\$ 508,393	\$ 306,209
<b>Net asset value per unit</b>	<hr/> <b>\$ 11.2861</b>	<hr/> <b>\$ 9.5508</b>

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, 2003, with comparatives for 2002

	2003	2002
Revenue:		
Dividends	\$ 20,423	\$ 11,284
Interest	2,258	2,358
	<u>22,681</u>	<u>13,642</u>
Expenses:		
Professional fees	1,743	1,067
Amortization	320	320
	<u>2,063</u>	<u>1,387</u>
Income before the undernoted	<u>20,618</u>	<u>12,255</u>
Realized gain (loss) on sale of investments	49,945	(13,118)
Unrealized appreciation of investments	50,412	5,174
	<u>100,357</u>	<u>(7,944)</u>
Income from operations	<u>\$ 120,975</u>	<u>\$ 4,311</u>
Income from operations per unit (based on weighted average number of units outstanding during the year)	<u>\$ 3.2224</u>	<u>\$ 0.1583</u>

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

## Statement of Cash Flows

For the year ended December 31, 2003, with comparatives for 2002

	2003	2002
Cash provided by (used in):		
Operations:		
Income from operations	\$ 120,975	\$ 4,311
Items not involving cash:		
Amortization	320	320
Unrealized appreciation of investments	(50,412)	(5,174)
Accrued income receivable	(712)	686
Due from brokers	(31,592)	31,157
Due to brokers	53,351	(20,189)
Accounts payable and accrued liabilities	15,020	1,950
Margin borrowings	—	(28,997)
	106,950	(15,936)
Distributions to unitholders (note 4)	(57,444)	(12,255)
Financing:		
Units issued	138,654	61,371
Investing:		
Proceeds on disposal of investments	3,750,271	2,937,390
Purchase of investments	(3,870,154)	(2,964,350)
	(119,883)	(26,960)
Increase in cash	68,277	6,220
Cash, beginning of year	6,220	—
Cash, end of year	\$ 74,497	\$ 6,220

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

Notes to financial statements

For the year ended December 31, 2003

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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, 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 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, 2003

## 2. Investments:

Shares	Security	Book value	Market value	Weight in portfolio
5,300	Bombardier Inc. 5.5% Preference Shares, Series 3	\$ 75,466	\$ 124,179	26.3%
200	Brascan Corporation Class A Preference Shares, Series 2	3,857	4,608	1.0%
200	Canada Life Financial Corporation, 6.25% First Preferred Shares, Series B	5,395	5,522	1.2%
2,500	Canadian Imperial Bank of Commerce, 6.0% First Preferred Shares, Series 24	66,123	66,750	14.2%
3,200	Canadian Utilities Ltd., 6% Second Preferred Shares, Series X	85,016	85,920	18.2%
100	Magna International Inc., 8.65% Preferred Securities, due September 30, 2048, redeemable September 21, 2004	2,644	2,585	0.5%
200	Maritime Life Assurance Co. 6.10% Second Preferred Shares, Series 3	5,314	5,424	1.1%
2,800	Power Corporation of Canada 5.6% First Preferred Shares Series A	71,152	71,988	15.2%
600	Power Financial Corporation 5.5% First Preferred Shares, Series D	15,473	15,576	3.3%
300	Power Financial Corporation 6.0% First Preferred Shares, Series I	7,958	8,067	1.7%
100	Westcoast Energy Inc. 5.50% First Preferred Shares Series 7	2,419	2,540	0.5%
3,000	Weston Ltd. George 5.8% First Preferred Shares, Series 1	79,850	79,530	16.8%
		\$ 420,667	\$ 472,689	100%

# MALACHITE AGGRESSIVE PREFERRED FUND

Notes to financial statements (continued)

For the year ended December 31, 2003

### 3. Unitholders' equity:

	Units	Value
Outstanding at December 31, 2002	32,061.0925	\$ 317,717
Issued during the year	12,985.0265	138,654
Outstanding at December 31, 2003	45,046.1190	\$ 456,371

### 4. Distributions to unitholders:

	Type	Per unit	Total
March 31, 2003	Income	0.1176	\$ 4,387
June 30, 2003	Income	0.1672	6,288
September 30, 2003	Income	0.1543	5,868
December 31, 2003	Income	0.0955	4,075
December 31, 2003	Capital gain	0.8629	36,826
			\$ 57,444

Income is comprised of dividends (90.0%) and interest (10.0%).

### 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 \$10,726 (2002 - \$9,367) were incurred with respect to securities transactions.

The Management Expense Ratio ("MER") during the year was 0.50% (2002 - 0.50%).



# **MALACHITE AGGRESSIVE PREFERRED FUND**

Notes to financial statements (continued)

For the year ended December 31, 2003

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**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.