

Financial Statements of

**MALACHITE AGGRESSIVE
PREFERRED FUND**

Year ended December 31, 2004



KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

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, 2004 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, 2004 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 long, horizontal, slightly curved line that serves as a signature line.

Chartered Accountants

Toronto, Canada

February 2, 2005

April 27, 2005 (note 8)

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Net Assets

December 31, 2004, with comparatives for 2003

	2004	2003
Net Assets		
Investments, at market value (note 2)	\$ 504,573	\$ 472,689
Accrued income receivable	421	2,217
Organization costs	400	720
Cash	–	74,497
Due from brokers	–	31,592
	<hr/>	<hr/>
	\$ 505,394	\$ 581,715
Margin borrowings	\$ 12,105	–
Accounts payable and accrued liabilities	8,150	\$ 19,971
Due to brokers	46,690	53,351
	<hr/>	<hr/>
	66,945	73,322
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Total net assets	\$ 438,449	\$ 508,393
Unitholders' Equity		
Units issued and outstanding (note 3)	\$ 435,586	\$ 456,371
Unrealized appreciation in value of investments	2,863	52,022
Subsequent events (note 8)		
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	\$ 438,449	\$ 508,393
	<hr/>	<hr/>
Net asset value per unit	\$ 9.6333	\$ 11.2861

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, 2004, with comparatives for 2003

	2004	2003
Revenue:		
Dividends	\$ 29,297	\$ 20,423
Interest	—	2,258
	<u>29,297</u>	<u>22,681</u>
Expenses:		
Interest	342	—
Professional fees	2,273	1,743
Amortization	320	320
	<u>2,935</u>	<u>2,063</u>
Income before the undernoted	<u>26,362</u>	<u>20,618</u>
Realized gain on sale of investments	89,782	49,945
Unrealized appreciation (depreciation) of investments	(49,159)	50,412
	<u>40,623</u>	<u>100,357</u>
Income from operations	<u>\$ 66,985</u>	<u>\$ 120,975</u>
Income from operations per unit (based on weighted average number of units outstanding during the year)	\$ 1.4756	\$ 3.2224

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Cash Flows

For the year ended December 31, 2004, with comparatives for 2003

	2004	2003
Cash provided by (used in):		
Operations:		
Income from operations	\$ 66,985	\$ 120,975
Items not involving cash:		
Amortization	320	320
Unrealized (appreciation) depreciation of investments	49,159	(50,412)
Accrued income receivable	1,796	(712)
Due from brokers	31,592	(31,592)
Due to brokers	(6,661)	53,351
Accounts payable and accrued liabilities	(11,821)	15,020
Margin borrowings	12,105	—
	<u>143,475</u>	<u>106,950</u>
Distributions to unitholders (note 4)	(116,144)	(57,444)
Financing:		
Units issued (redeemed)	(20,785)	138,654
Investing:		
Proceeds on disposal of investments	5,871,173	3,750,271
Purchase of investments	(5,952,216)	(3,870,154)
	<u>(81,043)</u>	<u>(119,883)</u>
Increase (decrease) in cash	(74,497)	68,277
Cash, beginning of year	74,497	6,220
Cash, end of year	<u>\$ —</u>	<u>\$ 74,497</u>

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements

For the year ended December 31, 2004

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, 2004

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	1.1%
3,500	National Bank of Canada 6.40% First Preferred Shares Series 13	92,155	92,575	18.3%
3,400	Brascan Corporation Class A Preferred Shares, Series 12	91,560	93,874	18.6%
3,100	BCE Inc 5.28% First Preferred Shares Series S	77,253	77,190	15.3%
4,100	Bank of Montreal Class B Preferred Shares, Series 6	106,760	106,723	21.2%
3,000	Financial 15 Split Corp. 5.25% Preferred Shares	31,619	32,250	6.4%
2,800	Premium Income Corporation Preferred Shares	46,690	46,536	9.2%
100	Canada Life Financial Corporation 6.25% Preferred Shares, Series B	2,780	2,765	0.5%
1,700	Brascan Financial Corp, Fltg Rate Class I Preferred Shares, Series A	39,858	39,270	7.8%
300	Westcoast Energy Inc. 5.50% First Preferred Shares Series 7	7,904	7,950	1.6%
		\$ 501,710	\$ 504,573	100%

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

For the year ended December 31, 2004

3. Unitholders' equity:

	Units	Value
Outstanding at December 31, 2003	45,046.1190	\$ 456,371
Issued (redeemed) during the year (net)	467.7034	(20,785)
Outstanding at December 31, 2004	45,513.8244	\$ 435,586

4. Distributions to unitholders:

	Type	Per unit	Total
March 31, 2004	Income	0.1712	\$ 7,711
June 30, 2004	Income	0.1420	6,459
September 30, 2004	Income	0.1358	6,226
December 31, 2004	Income	0.1677	5,966
December 31, 2004	Capital gain	2.5232	89,782
			\$ 116,144

Income is comprised of dividends.

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 \$17,800 (2003 - \$10,726) were incurred with respect to securities transactions.

The Management Expense Ratio ("MER") during the year was 0.50% (2003 - 0.50%).

MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

For the year ended December 31, 2004

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.

8. Subsequent events:

On November 19, 2004, investment management duties were transferred from Hymas Investment Management Inc. ("HIMI") to Portus Alternative Asset Management, Inc. ("PAAM"). On February 7, 2005, trusteeship of the fund was also transferred from HIMI to PAAM. On March 4, 2005, PAAM was placed in receivership.

On April 27, 2005, Malachite Aggressive Preferred Fund was removed from the list of assets under PAAM's trusteeship thereby discontinuing the receivership as against the Fund. On April 27, 2005, trusteeship was returned to HIMI by court order.

Toron Capital Markets Inc. has agreed to undertake the portfolio management role, and will commence duties as soon as custodial arrangements have been finalized.