

Financial Statements of

**MALACHITE AGGRESSIVE  
PREFERRED FUND**

Year ended December 31, 2006



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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, 2006 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, 2006 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 flourish or underline.

Chartered Accountants

Toronto, Canada

February 1, 2007

# MALACHITE AGGRESSIVE PREFERRED FUND

## Statement of Net Assets

December 31, 2006, with comparatives for 2005

	2006	2005
<b>Net Assets</b>		
Investments, at market value	\$ 388,463	\$ 564,942
Due from brokers	101,422	7,490
Cash	12,931	—
Accrued income receivable	4,833	2,115
Organization costs, net	—	80
	<hr/>	<hr/>
	\$ 507,649	\$ 574,627
Margin borrowings	\$ —	\$ 68,083
Accounts payable and accrued liabilities	11,447	8,960
Due to brokers	—	33,160
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	11,446	110,203
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Total net assets	\$ 496,202	\$ 464,424
<b>Unitholders' Equity</b>		
Units issued and outstanding (note 3)	\$ 493,523	\$ 463,039
Unrealized appreciation in value of investments	2,679	1,385
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	\$ 496,202	\$ 464,424
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Net asset value per unit	\$ 9.6213	\$ 9.5985

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, 2006, with comparatives for 2005

	2006	2005
Revenue:		
Dividends	\$ 31,415	\$ 21,235
Expenses:		
Professional fees	5,600	6,127
Interest	4,464	440
Amortization	80	320
	10,144	6,887
Amounts that would otherwise have been payable by the Investment fund that were waived or paid by the Manager	(3,314)	(5,190)
	6,830	1,697
Net investment for the period	24,585	19,538
Realized gains	6,100	7,661
Unrealized gains (losses)	1,294	(1,478)
	7,394	6,183
Increase in net assets	\$ 31,979	\$ 25,721
Increase in net assets from operations per unit (based on weighted average number of units outstanding during the year)	\$ 0.6398	\$ 0.5478

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

## Statement of Changes in Net Assets

For the year ended December 31, 2006, with comparatives for 2005

	2006	2005
Net assets at the beginning of the year	\$ 464,424	\$ 438,703
Increase in net assets from operations	31,979	25,721
Capital transactions:		
Distributions to unitholders (note 4)	(30,685)	(27,453)
Units issued on reinvestment of distributions	30,484	27,453
Net assets at end of the year	\$ 496,202	\$ 464,424

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Investment Portfolio

December 31, 2006

Shares	Security	Average cost	Market value	Weight in portfolio
200	Canadian General Investments Ltd. 4.65% Preferred Shares, Series 2	\$ 5,131	\$ 5,330	1.4%
100	National Bank of Canada 1 <sup>st</sup> Pr Series 15	2,727	2,760	0.7%
6,000	Premium Income Corporation Preferred Shares	97,247	96,240	24.8%
100	Canada Life Financial Corporation 6.25% Preferred Shares, Series B	2,780	2,605	0.6%
4,000	Royal Bank of Canada 4.5% First Preferred Shares, Series I	100,360	100,800	25.9%
400	Great West Life Co. 4.5% First Preferred Shares	9,359	9,940	2.6%
400	George Weston Ltd. 4.75% Preferred Shares, Series V	9,690	10,048	2.6%
3,800	George Weston Ltd. 5.8% Preferred Shares, Series I	52,020	51,740	13.3%
10,000	Life and Bane Split Corp. Preferred Shares	106,470	109,000	28.1%
		\$ 385,784	\$ 388,463	100.0%

See accompanying notes to financial statements.

# MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements

For the year ended December 31, 2006

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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:

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.

### (a) Investments:

The value of any security which is listed or dealt in upon a stock exchange shall be determined (a) at a price which shall be determined by the Trustee which shall be no higher than the closing ask price and no lower than 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.

### (b) 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).

# MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

For the year ended December 31, 2006

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

### (c) Income taxes:

The Fund qualifies as a registered investment under the Income Tax Act (Canada) and is subject to the rules relating to minimum tax. 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.

### (d) 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.

### (e) 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.

### (f) 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. 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	\$ 493,524



# MALACHITE AGGRESSIVE PREFERRED FUND

Notes to Financial Statements (continued)

For the year ended December 31, 2006

### 3. Distributions to unitholders:

	Type	Per unit	Total
March 31, 2006	Dividend	0.165275	\$ 7,996
June 30, 2006	Dividend	0.102476	5,044
September 30, 2006	Dividend	0.050227	2,500
December 30, 2006	Dividend	0.180846	9,045
December 30, 2006	Capital gain	0.121966	6,100
			\$ 30,685

### 4. Management fees:

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

### 5. Expenses:

During the period, commissions of \$10,268 (2005 - \$6,721) were incurred with respect to securities transactions.

### 6. 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.

### 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.