

2005
CHARTERHOUSE
PREFERRED SHARE INDEX CORPORATION

Annual Report
Period ended July 31, 2005

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To Our Shareholders

We are pleased to provide the audited financial results of Charterhouse Preferred Share Index Corporation (the “Company”) for the period from November 10, 2004 (date of inception) to July 31, 2005. The Company effectively commenced operations on November 10, 2004 when we issued 2,425,000 preferred shares at \$25.00 per share through an initial public offering.

The Company offers investors:

1. low-cost exposure to an indexed portfolio (the “Index Portfolio”) of fixed-rate preferred shares and preferred securities of Canadian issuers that is reasonably representative of the investible universe of such securities; and
2. quarterly return of capital distributions.

As at July 31, 2005, the Index Portfolio was broadly diversified in terms of industry and security type, comprising of 82 securities issued by 29 issuers. These securities had an average DBRS rating of Pfd-2.

During the period from inception to July 31, 2005, the Company paid a total of \$0.7025 in return of capital distributions per preferred share.

This report, along with the accompanying consolidated annual financial statements of the Company and the Management Report of Fund Performance, is submitted to you on behalf of the Board of Directors.



Peter Rizakos
Chief Executive Officer



Frederick Chann
Chief Financial Officer

October 18, 2005

Annual Management Report of Fund Performance

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Company. The complete consolidated annual financial statements are appended to this report.

Securityholders may obtain a copy of the Company's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, at no cost by calling (866) 977-6311, or by sending a request to 229 Yonge Street, Suite 308, Toronto, Ontario M5B 1N9.

Management Discussion of Fund Performance

Introduction

On November 10, 2004 ("Inception"), the Company (referred to below as "we" or "our") effectively began operations when we completed the initial public offering of 2,425,000 preferred shares (the "Preferred Shares") at a price of \$25.00 per share.

Investment Objectives and Strategies

Our investment objectives are to provide holders of our Preferred Shares (our "Shareholders") with:

1. low-cost exposure to an indexed portfolio (the "Portfolio") that is reasonably representative of the universe of Toronto Stock Exchange ("TSX") listed fixed rate preferred shares and preferred securities of Canadian issuers ("Portfolio Securities"); and
2. quarterly return of capital distributions.

To qualify for our Portfolio, a preferred share or preferred security must meet certain minimum criteria, including credit rating and issue size.

Return of capital distributions are not generally subject to tax but do reduce the adjusted cost base of the Preferred Shares to an investor.

Risk

There are risks associated with an investment in our Preferred Shares. Our initial public offering prospectus (the "Prospectus") contains a full discussion of these risks. The Prospectus is available on our website at www.charterhousefinancial.com or SEDAR at www.sedar.com.

Our Preferred Shares are suitable for investors who are:

1. investing for the medium to long term;
2. interested in receiving tax efficient quarterly income; and
3. willing to accept a moderate level of volatility in the net asset value of their investment.

From Inception to July 31, 2005, the following developments have influenced the overall performance and level of risk of our Preferred Shares:

1. Dominion Bond Rating Service ("DBRS") upgraded two Falconbridge issues in our Portfolio from Pfd-3 to Pfd-3(High). Since the initial Portfolio was assembled, we added three new securities, Bank of Nova Scotia Series 13, National Bank Series 16 and Great-West Lifeco Series H. All three securities were rated higher than Pfd-2, the average rating of our Portfolio Securities. As a result, the overall quality of our Portfolio

improved. Despite the downgrade of CIBC subsequent to July 31 2005, the overall quality of our Portfolio remains high.

2. The Canadian dollar weakened during the period from 83.5 US cents to 81.6 US cents. This had a positive impact on the Canadian dollar value of our five US dollar securities. Since July 31, 2005, the Canadian dollar has strengthened to 84.8 US cents as at October 17, 2005. At the same time, our US dollar exposure is declining. Two of our US dollar securities were redeemed and a third will be redeemed at the end of October.
3. We experienced some refinancing of higher coupon issues with lower coupon ones. For instance, in February 2005, CIBC issued 4.80% Series 30 preferred shares and subsequently redeemed its Series 21 and 22 preferred shares, which paid dividends at rates of 6.00% and 6.25% respectively. If this trend continues, it will reduce the current income from our Portfolio.

Since our initial Portfolio was assembled, 13 new securities that meet our Portfolio criteria have come to market. These securities pay dividends at an average rate of 4.9%. In comparison, our initial Portfolio had a current yield of about 5.2%. We have been purchasing these new securities using proceeds from the redemption of existing ones. We estimate that quarterly distributions will be reduced by about \$0.002 per Preferred Share as a result of this portfolio reallocation.

4. To increase our net investment income and quarterly distributions, we borrow on a short term basis at rates lower than the current yield of our Portfolio to invest in additional Portfolio Securities. Since we started borrowing in mid-January 2005, we have experienced an increase in borrowing rates. According to Bank of Canada, the benchmark 90-day bankers' acceptance rate went from 2.57% to 2.66% as at July 31, 2005 and has further increased to 3.12% by October 17, 2005. At our current level of borrowings, a 1% increase in interest rates would reduce the quarterly distribution by about \$0.009 per Preferred Share.

Results of Operations

a) Portfolio

We assembled most of the Portfolio on or before January 31, 2005. Our Portfolio initially consisted of 79 securities issued by 29 different issuers. The Portfolio Securities had an average DBRS rating of Pfd-2. Using available cash, we bought three more securities in July 2005.

During the period, our Portfolio decreased by about 1.0% in value. This represented a drop in NAV per Preferred Share from \$23.52 at Inception to \$23.28 as at July 31, 2005. The depreciation of the Canadian dollar (against the US dollar) had a 0.12% positive impact on our Portfolio's value over this period.

Within our Portfolio, only retractable preferred shares did not fall in value. The preferred securities fell by 3.7% on average. Our straight perpetual issues and fixed-floater issues dropped by an average of 1.6% and 1.4%, respectively.

By issuer, Brookfield Properties (5 issues), Fortis (2 issues) and Great-West Lifeco (5 issues) provided the most significant gains whereas CIBC (11 issues), Power Financial (7 issues) and BCE (4 issues) accounted for the largest losses.

b) Distributions

Our investment income was \$2,282,448. After deducting expenses of \$530,500, including \$135,463 in interest expense, our net investment income totalled \$1,751,948, or \$0.72 per Preferred Share.

During the initial stages of our operations when we were assembling the Portfolio, investment income was lower. As a result, our initial distribution for the period ended January 31, 2005 was limited to \$0.1585 per Preferred Share.

Once our Portfolio was assembled, we were able to increase the quarterly distribution to \$0.2720 per Preferred Share, in line with the estimated current yield indicated in our Prospectus. Based on the closing market price of our Preferred Shares on July 29, 2005 of \$24.50, this represented an annualized current yield of 4.44%.

In total, we paid cash distributions of \$1,703,290 or \$0.7025 per Preferred Share during the period. For tax purposes, these distributions are treated as return of capital.

c) Liquidity and Capital Resources

As at July 31, 2005, our outstanding borrowing was \$9,053,433 representing 13.8% of total assets or 16.0% of net assets, including the Preferred Shares. We used these borrowed funds to purchase more Portfolio Securities in order to increase our net investment income and quarterly distributions on our Preferred Shares.

We borrowed \$8,553,258 by way of three bankers' acceptances at a weighted average rate of 2.67%. We borrowed the rest in the form of a prime rate loan at 4.25% that was drawn down at the end of July and repaid at the beginning of August. Once the prime rate loan was repaid, our borrowings dropped to \$8.6 million (or 13.1% of total assets), a level we maintained for most of the period.

During the period, our minimum and maximum borrowings were nil and \$9,053,433, respectively. These borrowings were drawn down in compliance with our borrowing restrictions and loan covenants.

The TSX approved our application for a normal course issuer bid program. This program is in effect from January 14, 2005 to January 13, 2006. It allows us to buy up to 242,100 of our Preferred Shares for cancellation when they are trading below NAV. Purchases under the issuer bid are therefore accretive. During the period ended July 31, 2005, we bought 500 Preferred Shares for cancellation at an average price of \$23.325.

Recent Developments

On August 2, 2005, CIBC announced that it would pay US\$2.4 billion to settle a class action litigation relating to Enron Corp. Following the announcement, DBRS reduced the rating of CIBC's preferred shares from Pfd-1 (Low) to Pfd-2 (High).

Also on August 2, 2005, CIBC redeemed two securities in our Portfolio, Series 21 and 22, at \$26.00 and US\$26.00 per share respectively. On October 7, 2005, Royal Bank redeemed its Series P preferred shares at US\$25.75 per share. Pursuant to our investment guidelines, we reinvested the proceeds from these redemptions in a number of qualifying securities that have been issued subsequent to the assembly of our initial Portfolio.

As a result, our exposure to CIBC was reduced from 9.83% as at July 31, 2005 to 8.30% as at October 17, 2005, and will fall further when its Series 20 preferred shares are redeemed on October 31, 2005. The overall quality of our Portfolio remains high. Our Portfolio Securities continue to have an average rating of Pfd-2.

Finally, The Toronto-Dominion Bank announced the redemption of its Series J preferred shares which will take place on October 31, 2005. We will reinvest the proceeds from the redemption of this issue and CIBC Series 20 in qualifying issues in accordance with our investment guidelines.

Financial Highlights

The following tables show selected key financial information about the Company and are intended to help readers better understand our financial performance for the period ended July 31, 2005. This information is derived from our audited annual consolidated financial statements.

The Company's Net Asset Value (NAV) per Preferred Share

	2005 ⁽¹⁾
NAV, beginning of the period ⁽²⁾	\$23.52
Increase (decrease) from operations: ⁽³⁾	
Total revenue	\$0.94
Total expenses	\$(0.22)
Realized gains for the period	\$0.01
Unrealized losses for the period	<u>\$(0.27)</u>
Total increase (decrease) from operations	<u>\$0.46</u>
Distributions:	
From income (excluding dividends)	\$-
From dividends	\$-
From capital gains	\$-
Return of capital	<u>\$(0.70)</u>
Total annual distributions ⁽⁴⁾	<u>\$(0.70)</u>
NAV at July 31 of year shown	<u>\$23.28</u>

- (1) Results are for the period from November 10, 2004 (date of inception) to July 31, 2005.
- (2) NAV, beginning of the period is calculated by deducting agents' fees and other expenses relating to our initial public offering from the issue price of \$25.00.
- (3) NAV and distributions are based on the actual number of Preferred Shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of Preferred Shares over the financial period.
- (4) Distributions were paid in cash.

Ratios and Supplemental Data

	2005
Net assets, including the Preferred Shares (000s) ⁽¹⁾	\$56,437
Number of Preferred Shares outstanding ⁽¹⁾	2,424,500
Management expense ratio: ⁽²⁾	
Excluding interest expense and one-time issue costs ⁽³⁾	0.96%
Including interest expense but excluding one-time issue costs	1.28%
Including interest expense and one-time issue costs	7.56%
Before waivers or absorptions	7.56%
Portfolio turnover rate ⁽⁴⁾	9.65%
Trading expense ratio ⁽⁵⁾	0.18%
Closing market price	\$24.50

- (1) This information is provided as at July 31.
- (2) Management expense ratio is expressed as an annualized percentage of daily average net assets during the period.
- (3) One-time issue costs include agents' fees and other expenses relating to our initial public offering. Such costs do not impact on ongoing fund expenses.
- (4) The Company's portfolio turnover rate indicates how actively the Company's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the year. The higher the company's portfolio turnover rate in a year, the greater the trading costs payable by the Company in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Company.
- (5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

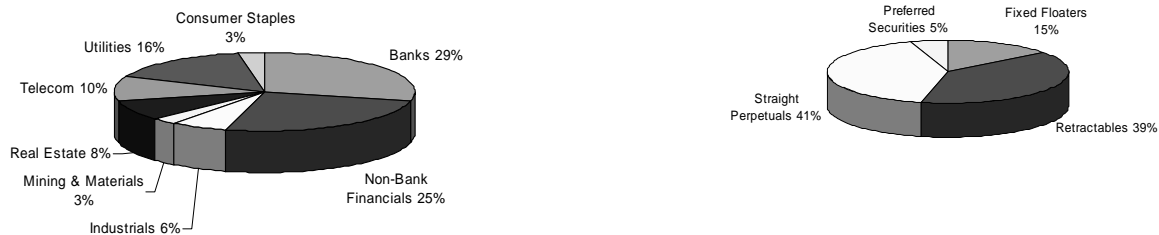
Management Fees

Under our agreement with Charterhouse PSI Management Corporation (the “Manager”), the Manager is responsible for providing all management and administrative services and facilities to us. These services include monitoring the performance of Jove Investment Management Inc. (“Jove”, formerly Felcom Management Corp.), the Index Administrator, administering distributions, providing financial reports to our Shareholders, making sure that we comply with all applicable laws and managing the relationships with our third party service providers, such as State Street Trust Company Canada, our custodian.

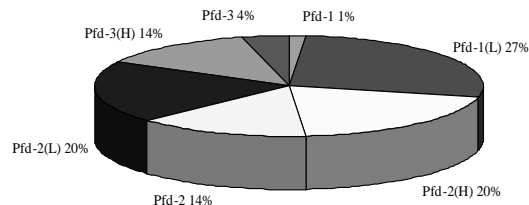
For these services, Charterhouse Preferred Share Index Corporation pays the Manager a fee equal to 0.05% per annum of its NAV and Charterhouse PSI Investment Corporation pays the Manager a fee equal to 0.40% per annum of its NAV plus, in both cases, applicable taxes. From Inception to July 31, 2005, we paid the Manager a total (including GST) of \$198,903. The Manager is responsible for paying Jove’s fees.

Summary of Investment Portfolio

As at July 31, 2005, our Portfolio was comprised of 82 classes or series of securities issued by 29 different issuers. It was broadly diversified both in terms of industry and security type:



The weighted average DBRS rating of our Portfolio Securities was Pfd-2. Below is a breakdown by DBRS rating:



As at July 31, 2005, our Portfolio was valued at \$65.3 million and the top 25 issuers follow:

Issuer	Type of Security	No. of Classes or Series of Securities	% Total Portfolio Value
Canadian Imperial Bank of Commerce	Preferred shares	11	9.83%
Power Financial Corporation	Preferred shares	7	9.19%
Brookfield Properties Corp.	Preferred shares	6	8.04%
Great-West Lifeco Inc.	Preferred shares	5	5.51%
Bank of Montreal	Preferred shares	4	5.30%
BCE Inc.	Preferred shares	4	5.22%
Brascan Corp.	Preferred shares	3	4.08%
Toronto-Dominion Bank	Preferred shares	3	3.98%
Power Corp. of Canada	Preferred shares	3	3.94%
Royal Bank of Canada	Preferred shares	3	3.94%
Bell Canada	Preferred shares	3	3.91%
Fortis Inc.	Preferred shares	2	2.71%
Falconbridge Ltd.	Preferred shares	2	2.64%
George Weston Ltd.	Preferred shares	2	2.64%
Laurentian Bank of Canada	Preferred shares	2	2.63%
Westcoast Energy Inc.	Preferred shares	2	2.62%
Nova Scotia Power Inc.	Preferred shares	2	2.61%
Canadian Utilities Ltd.	Preferred shares	2	2.57%
Brascan Corp.	Preferred securities	2	2.52%
National Bank of Canada	Preferred shares	2	1.53%
Bank of Nova Scotia	Preferred shares	2	1.51%
Manulife Financial Corp.	Preferred shares	1	1.34%
Enbridge Inc.	Preferred shares	1	1.33%
Great-West Life Assurance Co.	Preferred shares	1	1.33%
IGM Financial Inc.	Preferred shares	<u>1</u>	<u>1.33%</u>
		76	92.25%

This summary of investment portfolio may change due to ongoing portfolio transactions of the Company and a quarterly update is available.

Management Responsibility for Financial Reporting

The accompanying financial statements have been prepared by management of the Company and approved by the Board of Directors of the Company. The Company is responsible for the information and representations contained in these financial statements and other sections of the Annual Report. The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Certain amounts reported in these statements are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Company are described in Note 2 to the financial statements.



Peter Rizakos
Chief Executive Officer



Frederick Chann
Chief Financial Officer

Toronto, Canada
September 23, 2005

September 23, 2005

Auditors' Report

To the Shareholders of Charterhouse Preferred Share Index Corporation (the Fund)

We have audited the consolidated statement of financial position of the Fund as at July 31, 2005 and the consolidated statements of operations, changes in shareholder's equity and retained earnings and cash flows for the period from November 10, 2004 (date of inception) to July 31, 2005. 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 management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at July 31, 2005 and the results of its operations and the changes in its shareholder's equity and retained earnings and its cash flows for the period from November 10, 2004 (date of inception) to July 31, 2005 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Ontario

Consolidated Statement of Financial Position

As at July 31, 2005

Assets	
Cash, term deposits and short-term debt instruments	\$ 55,736
Investments, at market value (cost – \$66,002,925)	65,340,666
Accrued interest and dividends	255,164
Prepaid expenses	14,769
Total assets	<u>\$65,666,335</u>
Liabilities	
Due to brokers	\$ 105,000
Accounts payable and accrued expenses	70,600
Loans payable (Note 6)	9,053,433
Preferred shares (Note 3)	<u>56,437,202</u>
Total liabilities	<u>65,666,235</u>
Shareholder's equity	
Class A shares (Note 3)	100
Retained earnings	-
Total shareholder's equity	<u>100</u>
Liabilities and shareholder's equity	<u>\$65,666,335</u>
Preferred shares outstanding	2,424,500
Net Asset Value per Preferred Share (Note 2f)	\$23.28

Signed and approved on behalf of the Board of Directors of Charterhouse Preferred Share Index Corporation



Director



Director

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Operations

	For the period from November 10, 2004 (date of inception) to July 31, 2005
Investment income	
Interest	\$ 198,942
Dividends	<u>2,083,506</u>
	<u>2,282,448</u>
Expenses	
Management fees (Note 5)	198,903
Audit fees	32,100
Directors' fees	32,145
Custodial fees	55,948
Shareholder reporting costs	9,807
Other administrative expenses	66,134
Interest and bank charges	<u>135,463</u>
	<u>530,500</u>
Net investment income before distributions on preferred shares	1,751,948
Realized and unrealized gain on investments	
Net realized gain on investments	24,625
Net realized gain on foreign exchange	115
Unrealized loss on investments	<u>(662,259)</u>
Increase in net assets from operations before distributions on preferred shares	<u>\$1,114,429</u>
Increase in net assets from operations per preferred share (Note 2g)	\$0.46

Consolidated Statement of Changes in Shareholder's Equity & Retained Earnings

	For the period from November 10, 2004 (date of inception) to July 31, 2005
Changes in shareholder's equity	
Share capital – beginning of period	\$ -
Proceeds from issuance of Class A shares	<u>100</u>
Share capital – end of period	<u>\$ 100</u>
Changes in retained earnings:	
Retained earnings – beginning of period	\$ -
Increase in net assets from operations before distributions on preferred shares	1,114,429
Distributions paid to preferred shareholders	(1,703,290)
Deficit attributable to preferred shares	<u>588,861</u>
Retained earnings – end of period	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Cash Flows

	For the period from November 10, 2004 (date of inception) to July 31, 2005
Cash flows from operating activities:	
Operations:	
Increase in net assets from operations before distributions on preferred shares	\$1,114,429
Items not affecting cash:	
Net realized gain on investments	(24,625)
Net realized gain on foreign exchange	(115)
Unrealized loss on investments	<u>662,259</u>
Net investment income before distributions on preferred shares	\$1,751,948
Changes in non-cash working capital:	
Increase in accrued interest and dividends	(255,164)
Increase in prepaid expenses	(14,769)
Increase in due to brokers	105,000
Increase in accounts payable and accrued expenses	70,600
Net realized gain on foreign exchange	115
Cash provided by operating activities	1,657,730
Cash flows from investing activities:	
Purchase of portfolio assets (Note 7)	(56,450,908)
Proceeds of disposition of portfolio assets	3,890,533
Cash used in investing activities	(52,560,375)
Cash flows from financing activities:	
Proceeds from issuance of preferred shares and Class A shares (Note 3)	47,207,175
Compensation paid in respect of the issuance of preferred shares	(3,587,274)
Amounts paid for repurchase of preferred shares	(11,663)
Increase in borrowings	9,053,433
Distributions paid to preferred shareholders	(1,703,290)
Cash provided by financing activities	50,958,381
Increase (decrease) in cash, term deposits and short-term debt instruments	55,736
Cash, term deposits and short-term debt instruments, beginning of period	-
Cash, term deposits and short-term debt instruments, end of period	\$55,736

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Investment Portfolio – As At July 31, 2005

No. of Shares	Issuer	Security Description	Cost (\$)	Market Value (\$)	% of Portfolio
CANADIAN \$ PREFERRED SHARES					
32,600	Aliant Inc	5.45% Cum. Redeem. Pref., Series 2	866,106	839,450	
32,950	Bank Of Montreal	4.75% Non-Cum. Class B Pref., Series 6	865,103	856,700	
31,300	Bank Of Montreal	5.30% Non-Cum. Class B Pref., Series 5	861,369	832,893	
33,800	Bank Of Montreal	4.80% Non-Cum. Class B Pref., Series 4	882,765	881,166	
6,500	Bank Of Nova Scotia	4.80% Non-Cum. Pref., Series 13	165,880	162,825	
31,600	Bank Of Nova Scotia	5.25% Non-Cum. Pref., Series 12	865,155	821,600	
33,400	BCE Inc.	6.174% Cum. Redeem. First Pref., Series R	872,251	852,034	
32,250	BCE Inc.	5.54% Cum. Redeem. First Pref., Series AC	866,971	857,850	
32,320	BCE Inc.	5.45% Cum. Redeem. First Pref., Series AA	866,959	852,440	
32,200	BCE Inc.	5.319% Cum. Redeem. First Pref., Series Z	867,490	848,470	
33,100	Bell Canada	5.25% Cum. Redeem. Class A Pref., Series 17	863,854	844,050	
33,400	Bell Canada	4.40% Cum. Redeem. Class A Pref., Series 16	867,911	878,420	
32,650	Bell Canada	5.55% Cum. Redeem. Class A Pref., Series 19	866,914	832,575	
30,580	Brascan Corp.	5.75% Cum. Class A Pref., Series 10	865,401	859,298	
33,700	Brascan Corp.	5.40% Cum. Class A Pref., Series 12	892,932	925,402	
31,596	Brascan Corp.	5.50% Non-Cum. Class A Pref., Series 11	867,299	878,369	
32,200	Brookfield Properties Corp.	6.00% Redeem. Cum. Class AAA, Pref., Series F	868,814	882,280	
33,600	Brookfield Properties Corp.	5.75% Redeem. Cum. Class AAA, Pref., Series H	867,679	870,240	
34,600	Brookfield Properties Corp.	5.20% Redeem. Cum. Class AAA, Pref., Series K	866,620	875,726	
35,200	Brookfield Properties Corp.	5.00% Redeem. Cum. Class AAA, Pref., Series J	871,053	890,208	
33,300	Brookfield Properties Corp.	5.20% Redeem. Cum. Class AAA, Pref., Series I	868,400	866,133	
30,600	Canada Life Financial Corp.	6.25% Non-Cum. Pref., Series B	868,392	833,850	
22,000	Canadian Imperial Bank of Commerce	5.40% Non-Cum. Class A Pref., Series 29	594,000	572,000	
22,200	Canadian Imperial Bank of Commerce	5.60% Non-Cum. Class A Pref., Series 27	599,515	590,520	
22,000	Canadian Imperial Bank of Commerce	5.75% Non-Cum. Class A Pref., Series 26	593,780	588,500	
21,700	Canadian Imperial Bank of Commerce	6.00% Non-Cum. Class A Pref., Series 25	590,576	580,475	
21,700	Canadian Imperial Bank of Commerce	6.00% Non-Cum. Class A Pref., Series 24	591,871	579,607	
21,000	Canadian Imperial Bank of Commerce	5.30% Non-Cum. Class A Pref., Series 23	591,876	585,270	
22,300	Canadian Imperial Bank of Commerce	6.00% Non-Cum. Class A Pref., Series 21 ⁽¹⁾	595,936	579,354	
21,310	Canadian Imperial Bank of Commerce	4.95% Non-Cum. Class A Pref., Series 19	590,794	586,451	
22,000	Canadian Imperial Bank of Commerce	5.50% Non-Cum. Class A Pref., Series 18	589,380	568,260	
31,300	Canadian Utilities Ltd.	6.00% Cum. Redeem. Second Pref., Series X	866,536	844,474	
31,600	Canadian Utilities Ltd.	5.80% Cum. Redeem. Second Pref., Series W	866,246	832,660	
33,600	E-L Financial Corporation	5.30% Non-Cum. Redeem. Pref., Series 1	868,512	855,120	
33,500	Enbridge Inc.	5.50% Cum. Redeem. Pref., Series A	868,568	867,650	
32,680	EPCOR Preferred Equity Inc.	5.50% Cum. Redeem. First Pref., Series I	867,694	866,020	
33,500	Falconbridge Ltd.	6.10% Cum. Pref., Series G	866,465	862,290	
32,200	Falconbridge Ltd.	6.50% Cum. Pref., Series H	867,860	859,740	
31,140	Fortis Inc.	5.45% Cum. Redeem. First Pref., Series C	866,850	861,021	
32,900	Fortis Inc.	4.90% Cum. Redeem. First Pref., Series E	872,053	907,711	
31,280	Great-West Life Assurance Co.	5.55% Non-Cum. Pref., Series O	868,748	871,930	
32,240	Great-West Lifeco Inc.	4.70% Non-Cum. First Pref., Series D	868,078	876,928	
31,525	Great-West Lifeco Inc.	4.80% Non-Cum. First Pref., Series E	868,388	874,819	
31,900	Great-West Lifeco Inc.	5.90% Non-Cum. First Pref., Series F	866,866	867,680	
33,950	Great-West Lifeco Inc.	5.20% Non-Cum. First Pref., Series G	867,116	874,552	
4,200	Great-West Lifeco Inc.	4.85% Non-Cum. First Pref., Series H	105,000	105,000	

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Investment Portfolio – As At July 31, 2005 (Cont'd)

No. of Shares	Issuer	Security Description	Cost (\$)	Market Value (\$)	% of Portfolio
30,543	IGM Financial Inc.	5.75% Non-Cum. First Pref., Series A	869,442	870,476	
34,200	Laurentian Bank of Canada	5.25% Non-Cum. Class A Pref., Series 10	866,117	873,468	
32,100	Laurentian Bank of Canada	6.00% Non-Cum. Class A Pref., Series 9	867,425	842,304	
33,100	Manulife Financial Corp.	4.10% Non-Cum. Class A Pref., Series 1	868,512	877,812	
5,700	National Bank of Canada	4.85% Non-Cum. First Pref., Series 16	144,324	142,557	
32,200	National Bank of Canada	5.85% Non-Cum. First Pref., Series 15	867,049	857,808	
31,600	Nova Scotia Power Inc.	4.90% Cum. First Pref., Series C	867,917	872,002	
28,000	Nova Scotia Power Inc.	5.90% Cum. First Pref., Series D	868,637	830,900	
33,100	Power Corp. of Canada	5.35% Non-Cum. First Pref., Series B	867,630	854,311	
32,740	Power Corp. of Canada	5.80% Non-Cum. First Pref., Series C	884,477	867,610	
32,900	Power Corp. of Canada	5.60% Non-Cum. First Pref., Series A	867,094	852,768	
30,700	Power Financial Corp.	5.20% Non-Cum. First Pref., Series C	867,523	862,670	
32,300	Power Financial Corp.	5.50% Non-Cum. First Pref., Series D	866,266	844,322	
31,800	Power Financial Corp.	6.00% Non-Cum. First Pref., Series I	868,015	852,240	
32,740	Power Financial Corp.	4.70% Non-Cum. First Pref., Series J	873,716	875,795	
32,000	Power Financial Corp.	5.75% Non-Cum. First Pref., Series H	860,140	841,920	
32,400	Power Financial Corp.	5.90% Non-Cum. First Pref., Series F	881,167	866,700	
33,300	Power Financial Corp.	5.25% Non-Cum. First Pref., Series E	867,731	859,140	
34,500	Royal Bank of Canada	4.90% Non-Cum. First Pref., Series W	865,200	867,675	
31,300	Royal Bank of Canada	6.10% Non-Cum. First Pref., Series S	867,933	839,153	
31,900	Toronto-Dominion Bank	4.60% Non-Cum. Redeem. Class A First Pref., Series N	868,049	872,465	
31,900	Toronto-Dominion Bank	4.70% Non-Cum. Redeem. Class A First Pref., Series M	867,996	884,587	
32,300	Toronto-Dominion Bank	5.10% Non-Cum. Redeem. Class A First Pref., Series J	865,108	845,937	
33,600	Westcoast Energy Inc.	5.60% Cum. Redeem. First Pref., Series 8	876,318	854,448	
33,300	Westcoast Energy Inc.	5.50% Cum. Redeem. First Pref., Series 7	868,121	855,810	
31,860	George Weston Ltd.	5.15% Cum. Redeem. Pref., Series II	869,051	866,592	
32,400	George Weston Ltd.	5.80% Cum. Pref., Series I	877,607	856,332	
SUBTOTAL			58,756,586	58,187,813	89.1%
US \$ PREFERRED SHARES					
26,450	Bank of Montreal	5.95% Non-Cum. Class B, Series 10	864,742	894,858	
27,800	Brookfield Properties Corp.	5.25% Class AAA Series G	863,306	868,969	
18,600	Canadian Imperial Bank of Commerce	6.25% Non-Cum. Class A Pref., Series 22 ⁽¹⁾	598,288	592,797	
19,000	Canadian Imperial Bank of Commerce	5.15% Non-Cum. Class A Pref., Series 20	597,512	598,092	
27,235	Royal Bank of Canada	5.75% First Pref. Non-Cum. Series P	861,580	865,330	
SUBTOTAL			3,785,428	3,820,046	5.8%
PREFERRED SECURITIES					
31,200	Brascan Corp.	8.30% Preferred Securities, due Jun. 30, 2051	865,064	829,452	
31,400	Brascan Corp.	8.35% Preferred Securities, due Dec. 31, 2050	867,297	819,540	
31,200	Enbridge Inc.	7.80% Preferred Securities, due Mar. 31, 2051	862,304	842,400	
32,300	TransAlta Corp.	7.75% Preferred Securities, due Dec. 31, 2050	866,246	841,415	
SUBTOTAL			3,460,911	3,332,807	5.1%
PORTFOLIO TOTAL			66,002,925	65,340,666	100%

Note

(1) These securities will be redeemed on August 2, 2005, with proceeds to be reinvested in other eligible securities.

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Annual Financial Statements

1. OPERATIONS

Charterhouse Preferred Share Index Corporation (the “Company”) was incorporated pursuant to the *Business Corporations Act* (Ontario) on September 22, 2004. These consolidated financial statements incorporate the results of the Company’s wholly-owned subsidiary, Charterhouse PSI Investment Corporation (“IndexCo”). The Company holds all of IndexCo’s outstanding Class A shares and preferred shares (“IndexCo Preferred Shares”).

Charterhouse PSI Management Corporation (the “Manager”) is responsible for managing the affairs of the Company and IndexCo. Jove Investment Management Inc. (formerly Felcom Management Corp.) has been retained by the Manager to acquire and maintain the investment portfolio (the “Index Portfolio”).

The Company and IndexCo effectively commenced operations on November 10, 2004 when the Company issued 2,425,000 preferred shares at \$25.00 per share through an initial public offering and in turn, the Company acquired preferred shares issued by IndexCo. The Company’s preferred shares are listed on the Toronto Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and they include estimates and assumptions made by management that affect the reported amounts of assets and liabilities at the date of these financial statements and the reported amounts of income and expenses during the period. Actual results could differ from these estimates.

The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements:

(a) Valuation of investments

The Company’s investments are presented at market value. Investments in publicly traded securities are valued at their closing prices. If a closing price is not available, then that investment is valued at the latest available sale price, or lacking any recent sales or any record thereof, the value will be calculated as the simple average of the latest available offer price and the latest available bid price. The difference between market value and average cost, as recorded in the accounts, is shown as unrealized gain (loss) of the investment portfolio. Short-term investments are valued at cost which, when taken together with accrued interest income thereon, approximates their market value.

(b) Investment transactions and income recognition

Investment transactions are recorded on trade date. Realized gains or losses from investment transactions and unrealized gains or losses in the value of investments are calculated on an average cost basis. Interest income and expenses are recognized daily on an accrual basis. Dividend income is recognized on the ex-dividend date. Net realized gains or losses on investments include net realized gains or losses from foreign currency changes.

(c) Foreign currency translation

The market value of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the rate of exchange applicable on the valuation date. Investment transactions and income derived from investments are translated at the rate of exchange on the date of such transactions.

(d) Fair value of financial instruments

The fair value of the Company’s financial instruments, which are composed of cash, term deposits and short-term debt instruments, accrued interest and dividends, accounts payable and accrued expenses approximates their carrying value.

(e) Income taxes

The Company is a “mutual fund corporation” as defined in the Income Tax Act (Canada) (the “Tax Act”). As a mutual fund corporation, the Company is entitled, in certain circumstances, to a refund of tax paid by it in respect of its net realized capital gains.

Charterhouse Preferred Share Index Corporation

IndexCo will be required to include any dividends received on the securities comprising the Index Portfolio (“Index Portfolio Securities”) in computing its income, and will be entitled to deduct such dividends in computing its taxable income. In computing its income, IndexCo will also include net taxable capital gains realized on dispositions of Index Portfolio Securities and interest received or accrued on the Index Portfolio Securities.

Having regard to expected income, gains and deductions, neither the Company nor IndexCo expects to be subject to any appreciable amount of non-refundable income tax. Accordingly, no income tax provision has been recorded.

The Company follows the liability method of measuring income taxes based on temporary differences. Future income taxes arise from differences in the timing of recognition of certain items of income and expenses for financial statement and tax purposes including share issuance costs and tax loss carry-forwards. Management does not believe that it is more likely than not that the benefit of the future tax asset will be realized. Therefore, no future tax asset has been recorded on the financial statements.

(f) Net Asset Value per Preferred Share

Net Asset Value per Preferred Share is calculated by dividing the value attributable to preferred shares by the total number of preferred shares outstanding on the valuation date. The value attributable to preferred shares is defined as the aggregate value of the assets of the Company, less the aggregate value of the liabilities of the Company excluding the preferred shares, less the redemption value of the Class A shares then outstanding.

(g) Increase in net assets from operations per preferred share

Increase in net assets from operations per preferred share is calculated by dividing increase in net assets from operations before distributions on preferred shares by the weighted average number of preferred shares outstanding during the period from November 10, 2004 (commencement of operations) to July 31, 2005.

3. SHARE CAPITAL

Class A Shares

The Company is authorized to issue an unlimited number of Class A shares. The Company issued 100 Class A shares to a trust for cash consideration of \$100. As of July 31, 2005, 100 Class A shares are outstanding.

The Class A shares rank subsequent to the preferred shares with respect to the payment of dividends, distributions upon a redemption, retraction or otherwise and distributions upon a dissolution, liquidation or winding-up of the Company. Holders of the Class A shares are entitled to one vote per share.

At any time when there are any preferred shares issued and outstanding, holders of Class A shares are not entitled to receive any dividends but are entitled to \$1.00 per share on the dissolution, liquidation or winding-up of the Company. During such time, the Class A shares are retractable and redeemable at a price of \$1.00 per share.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares.

Issued	Number of shares	Amount
Preferred shares – beginning of period	-	-
Issue:		
For cash	1,888,283	\$47,207,075
Pursuant to exchange offer	536,717	13,417,925
Less: Issuance costs		(3,587,274)
Net proceeds	2,425,000	\$57,037,726
Purchase for cancellation	(500)	(11,663)
Deficit attributable to preferred shares		(588,861)
Preferred shares – end of period	2,424,500	\$56,437,202

On November 10, 2004, the Company completed its initial public offering of 2,425,000 preferred shares at a price of \$25.00 per share, including 536,717 preferred shares issued pursuant to an exchange offer. The amount of agents’ fees and issuance costs paid totalled \$3,587,274, resulting in net proceeds to the Company, including the securities acquired through the exchange offer, of \$57,037,726.

Charterhouse Preferred Share Index Corporation

The Company received approval from the Toronto Stock Exchange to undertake a normal course issuer bid program for the period from January 14, 2005 to January 13, 2006. Pursuant to the issuer bid, the Company may purchase up to 242,100 of its preferred shares for cancellation when the Net Asset Value per Preferred Share exceeds its trading price. During the period ended July 31, 2005, 500 preferred shares were purchased for cancellation at an average price of \$23.325.

The preferred shares rank in priority to the Class A shares with respect to the payment of dividends, distributions upon a redemption, retraction or otherwise and distributions upon a dissolution, liquidation, or winding up of the Company. Except under certain limited circumstances related to fundamental changes to the Company and as required by law, holders of preferred shares are not entitled to receive notice of, to attend or to vote at any meeting of shareholders of the Company.

The preferred shares will be redeemed by the Company on July 31, 2014. The redemption price will be the net amount realized on the disposition of the portfolio securities held by IndexCo (the "Index Portfolio Securities") plus (minus) any other assets (liabilities) of both IndexCo and the Company.

Preferred shares may be surrendered between October 15 and November 15 in any year for retraction on the last business day of November in that year for a retraction price equal to the net amount realized on the disposition of the *pro rata* share of the Index Portfolio Securities plus (minus) the *pro rata* share of any other assets (liabilities) of both IndexCo and the Company represented by the retracted preferred shares. Preferred shares surrendered at any other time will be retracted on the last business day of the relevant month at a price based upon the market value of the preferred shares as of that date.

For accounting purposes, the preferred shares have been presented as liabilities in these financial statements in accordance with Section 3860 of the CICA Handbook. Unaudited quarterly financial statements for the period ended January 31, 2005 and for the quarter ended April 30, 2005 presented the preferred shares as equity.

4. DISTRIBUTIONS TO PREFERRED SHAREHOLDERS

The Company intends to pay quarterly distributions, to the extent that cash dividends received by the Company on the IndexCo Preferred Shares and other income received by the Company in such quarter exceed estimated expenses and any taxes payable by the Company. The policy of the Company is to pay quarterly distributions on the last day of January, April, July and October in each year.

For the period from November 10, 2004 (commencement of operations) to July 31, 2005, the Company declared and paid return of capital distributions of \$0.7025 per preferred share.

5. MANAGEMENT FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Company and IndexCo, for which it is paid a management fee equal to 0.05% per annum of the net asset value of the Company and 0.40% per annum of the net asset value of IndexCo plus, in both cases, applicable taxes. Management fees are calculated weekly and payable monthly in arrears. The Manager is responsible for paying fees to Jove Investment Management Inc.

6. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, IndexCo has a 364-day renewable revolving credit facility that provides for maximum borrowings of \$10.0 million at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage stamping fee. The credit facility is secured by a first priority security interest over all of IndexCo's assets.

The credit facility is used by IndexCo (i) to provide leverage in order to increase the quarterly dividends on the IndexCo Preferred Shares; (ii) to acquire Index Portfolio Securities between rebalancings of the Index Portfolio; and (iii) for working capital purposes. Borrowings are limited to 15% of the aggregate value of IndexCo's assets.

Charterhouse Preferred Share Index Corporation

At July 31, 2005, total borrowings aggregated \$9,053,433. Of this amount, \$8,553,258 had been drawn down by way of three bankers' acceptances at a weighted average rate of 2.67%. The balance of the borrowings had been drawn down as a prime rate loan. The applicable prime rate was 4.25%.

During the period ended July 31, 2005, the Company's minimum and maximum borrowings were \$ Nil and \$9,053,433, respectively.

7. INVESTMENT TRANSACTIONS

Investment transactions for the period from November 10, 2004 (commencement of operations) to July 31, 2005 were as follows:

	For the period from November 10, 2004 to July 31, 2005
Proceeds from sale of investments	\$3,890,533
Less cost of investments sold:	
Investments at cost – beginning of period	-
Investments purchased during the period – cash	56,450,908
Investments purchased during the period – exchange offer	13,417,925
Investments at cost – end of period	(66,002,925)
Cost of investments sold during the period	3,865,908
Net realized gain on sale of investments	\$24,625

Total commissions paid to dealers for portfolio transactions during the period totalled \$73,037.

Corporate Information

Manager

Charterhouse PSI Management Corporation

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Custodian and Valuation Agent

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Index Administrator

Jove Investment Management Inc.

26 Wellington Street East

Suite 900

Toronto, Ontario M5E 1S2

Officers & Directors

William J. Braithwaite ⁽¹⁾⁽²⁾

Director & Chairman, Corporate Governance Committee

Frederick Chann

Director & Chief Financial Officer

Harvey Naglie ⁽¹⁾⁽²⁾

Director & Chairman, Audit Committee

John K. Philp ⁽¹⁾⁽²⁾

Director & Chairman of the Board

Peter Rizakos

Director & Chief Executive Officer

Legal Counsel

Osler, Hoskin & Harcourt LLP

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Registrar & Transfer Agent

Computershare Investor Services Inc.

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Toronto, Ontario M5J 2Y1

Listing

The Toronto Stock Exchange

Ticker Symbol

PFD.PR.A

(1) Audit Committee Member

(2) Corporate Governance Committee Member

CHARTERHOUSE