

**MBN**

**MBN CORPORATION**

**2016 ANNUAL REPORT**

# MIDDLEFIELD

## CORPORATE PROFILE

The Middlefield Group was established in 1979 and has approximately \$4.5 billion in assets under management. Middlefield is a Specialty Investment Manager which creates investment products designed to balance risk and return to meet the demanding requirements of Financial Advisors and their clients. These financial products include Mutual Funds, Private and Public Resource Funds, Venture Capital Assets, TSX Publicly Traded Funds and Real Estate Investment Funds and Partnerships.

Many of Middlefield's investment products are designed and managed by our own professionals while some involve strategic partnerships with other "best-in-class" firms that bring unique value to our product offerings. Our investment team comprises portfolio managers, analysts and traders. Groppe, Long & Littell, based in Houston and one of the world's leading forecasters of oil and natural gas prices, acts as Special Advisor with respect to the strategic outlook for the energy sector. In 2014, we entered into an exclusive arrangement with Sector & Sovereign Research, LLC ("SSR"), based in Stamford, Connecticut. SSR provides specialized research into sub-sectors of the economy such as Healthcare and Technology. Their unique and proprietary approach to investment research involves simultaneously maintaining both a broad view of the industries they cover as well as fundamental analysis of the sub-sectors that make up those industries.

Looking ahead, Middlefield remains committed to the goal of developing new and unique investment products to assist Financial Advisors in helping clients achieve their objectives.

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### A NOTE ON FORWARD LOOKING STATEMENTS

This document may contain forward looking statements, including statements regarding: MBN, its strategies, goals and objectives; prospects; future performance or condition; possible future actions to be taken by MBN; and the performance of investments, securities, issuers or industries in which MBN may from time to time invest. Forward looking statements include statements that are predictive in nature, that depend upon or refer to future results, events, circumstances, expectations and performance, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and other similar wording. Forward looking statements are not historical facts, but reflect MBN's current beliefs as of the date of this document regarding future results, events, circumstances, expectations or performance and are inherently subject to, among other things, risks, uncertainties and assumptions about MBN and economic factors. Forward looking statements are not guarantees of future performance, and actual results, events, circumstances, expectations or performance could differ materially from those expressed or implied in any forward looking statements contained in this document. Factors which could cause actual results, events, circumstances, expectations or performance to differ materially from those expressed or implied in forward looking statements include, but are not limited to: general economic, political, market and business factors and conditions; commodity price fluctuations; interest and foreign exchange rate fluctuations; global equity and capital markets; the financial condition of each issuer in which MBN invests; the effects of competition in the industries or geographic areas in which MBN may invest; statutory and regulatory developments; unexpected judicial or regulatory proceedings; and catastrophic events. Readers are cautioned that the foregoing list of factors is not exhaustive and to avoid placing undue reliance on forward looking statements due to the inherent uncertainty of such statements. MBN does not undertake, and specifically disclaims, any obligation to update or revise any forward looking statements, whether as a result of new information, future developments, or otherwise.

# MIDDLEFIELD®: A PROVEN LEADER IN ACTIVELY MANAGED INVESTMENTS

Invest like Canada's largest Pension Funds. Middlefield's specialty funds provide alternative solutions that help investors achieve true diversification. Gain access to underrepresented sectors in Canada, while investing in themes with compelling long-term growth.

Please visit [www.middlefield.com](http://www.middlefield.com) to see Middlefield's investment fund platform.



(L to R) JEREMY BRASSEUR, Managing Director, DEAN ORRICO, President and Chief Investment Officer and ROB LAUZON, Managing Director and Deputy Chief Investment Officer



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## MBN CORPORATION PROFILE

MBN CORPORATION (“MBN” OR THE “COMPANY”) IS MANAGED BY MIDDLEFIELD LIMITED, WHICH IS A MEMBER OF THE MIDDLEFIELD GROUP. THE COMPANY’S PRINCIPAL OBJECTIVE IS TO CREATE LONG-TERM VALUE THROUGH A DUAL TRACK STRATEGY OF: (I) GROWING MBN’S ASSETS UNDER MANAGEMENT THROUGH MERGERS WITH OTHER INVESTMENT FUNDS; AND (II) PURSUING OPPORTUNITIES WITH THE BROADER FINANCIAL SERVICES SECTOR TO ACQUIRE INVESTMENT MANAGEMENT COMPANIES AND/OR ESTABLISH SUCH COMPANIES WORKING WITH PROVEN INVESTMENT MANAGERS.

## SHAREHOLDERS MESSAGE AND OUTLOOK

After a volatile start to the year, equity markets recovered with major North American indices finishing 2016 just below their all-time highs. Throughout the year, equities were impacted by numerous macro events including currency devaluation in China, a migrant crisis in Europe, a referendum in the U.K. and the surprise presidential election result in the United States. Ultimately, prospects for improving global growth, led by the United States, pushed stocks higher. In the United States, contrary to pre-election expectations, investors have embraced President Trump due to his pro-growth policies of lower taxes, increased infrastructure spending and reduced regulation. In addition, the Federal Open Market Committee unanimously voted to raise the overnight lending rate by 25 basis points at their meeting on December 14th and is posturing for three additional rate hikes in 2017.

Looking forward in 2017, we are bullish on equities but challenges to the global macro outlook remain. While Chinese economic data appears to have turned the corner, Europe still faces a number of headwinds including the possibility of a ‘hard’ Brexit as well as pivotal elections in France and Germany later this year. President Trump appears adamant on renegotiating trade deals to the benefit of the U.S., potentially impacting global trade or inciting currency wars. As a result, portfolio diversification and tactical asset management remain critical to achieving superior risk-adjusted returns. In addition, prudent active management and a focus on dividend paying stocks are more suitable due to their ability to dampen market volatility.

In 2016, the Company’s holdings in Secure Energy Services, Tourmaline Oil and Suncor Energy benefited from the rebound in energy prices. The strength in the U.S. economy in the second half of the year also drove an appreciation in a number of portfolio holdings including Discover Financial, Fiat Chrysler, J.P. Morgan, and Bristol-Myers Squibb.

These companies are good examples of MBN’s focus on large, best-in-class issuers with positive earnings momentum or a catalyst event contributing to growth in shareholder equity.

MBN is focused on a dual track strategy to create long-term shareholder value. The first track is to grow assets under management through mergers with other investment funds in order to provide investors with increased trading liquidity and a reduction in administrative expenses. The second track is to pursue opportunities within the broader financial services sector to acquire other investment management companies and/or establish such companies with best-in-class investment managers.



**Dean Orrico**

President, CEO and Chief Investment Officer  
Middlefield Capital Corporation



**Robert Lauzon**

President, CEO and Deputy Chief Investment Officer  
Middlefield Limited

# INVESTMENT PHILOSOPHY

**SHAREHOLDER VALUE** The fundamental principle underpinning MBN's activities is the maximization of shareholder value. As a result, it is the focus of management to increase the underlying value of the Company's assets through internal growth and acquisitions, and having that value reflected in the share price.

**INVESTMENT STYLE** MBN's investment style is to actively seek out undervalued situations where there exists the strong possibility of near term capital appreciation and excellent long-term growth potential.

**RISK MANAGEMENT** A fundamental principle underlying MBN's operations is the identification and mitigation of investment risk through a disciplined investment process and the appropriate structuring of each transaction.

**MANAGEMENT COMMITMENT** The most effective way to align the interests of management and those of its shareholders is through management having a significant ownership stake. Management has made large personal investments in MBN.

This annual management report of fund performance contains financial highlights and should be read in conjunction with the complete audited annual financial statements of the investment fund that follow this report.

Shareholders may contact us by calling 1-888-890-1868, by writing to us at Middlefield Group at one of the addresses on the back cover or by visiting our website at [www.middlefield.com](http://www.middlefield.com) to request a copy of the investment fund's annual financial statements, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

## Management Report of Fund Performance

### Investment Objective and Strategies

The investment objective of MBN Corporation ("MBN") is to create long-term value through a dual track strategy of: (i) growing MBN's assets under management through mergers with other investment funds; and (ii) pursuing opportunities with the broader financial services sector to acquire investment management companies and/or establish such companies working with proven investment managers.

### Risk

MBN is exposed to several risks that may affect its performance. The overall risk of MBN is as described in its prospectus dated July 24, 2007. During the past year, the overall risk level of MBN may have been impacted as follows:

### Results of Operations

#### Investment Performance

During 2016, the total equity of MBN increased slightly from \$33.0 million at December 31, 2015 to \$33.9 million at December 31, 2016. On a per equity share basis, total equity increased from \$7.93 at December 31, 2015 to \$8.48 at December 31, 2016. MBN recorded net realized and unrealized gains on its investment portfolio of approximately \$2.1 million or \$0.51 per share in 2016.

#### Related Party Transactions

Pursuant to a management agreement, Middlefield Limited (the "Manager") receives a management fee. For further details please see the "Management Fees" section of this report. Middlefield Capital Corporation ("MCC" or the "Advisor"), the Advisor to MBN and a company under common control with the Manager, receives advisory fees from the Manager out of the management fee. MCC also receives brokerage commissions in connection with securities transactions from MBN. All brokerage commissions paid by MBN to MCC were at or below market rates. For further details please see the notes to the financial statements.

#### Market Risk

Market risk describes the Fund's exposure to volatility in the market value of its underlying securities. Equity markets, interest rates and commodity prices continue to exhibit volatility due to macroeconomic uncertainties and concerns about slowing economic growth. The Fund seeks to mitigate risk through active management and diversification.

### Revenue and Expenses

Revenue for the year ended December 31, 2016 amounted to approximately \$2.4 million, down from approximately \$4.1 million in 2015 due to a decrease in gains from foreign currency transactions. Expenses for 2016 totalled approximately \$0.6 million, similar to the prior year. The management expense ratio (“MER”) increased slightly from 1.65% in 2015 to 1.77% in 2016. During 2016, profit decreased to \$1.8 million from \$3.5 million in the prior year. On a per equity share basis the profit during 2016 decreased to \$0.44 from \$0.84 in 2015.

### Management Fees

Management fees are calculated at 1.1% per annum of the net asset value of MBN and are split between the Manager and the Advisor. The Manager receives fees for the general administration of MBN, including maintaining the accounting records, executing securities trades, monitoring compliance with regulatory requirements, and negotiating contractual agreements, among other things. The Advisor receives fees from the Manager for providing investment advice in respect of the portfolio in accordance with the investment objectives and strategies of MBN.

### Trends

It was a challenging year for North American equity markets. Sharp fluctuations in commodity prices, currencies and yields have fueled investor apprehension and increased volatility. Geopolitical issues have returned to the forefront with increasing concerns about economic growth in China and a delayed recovery in commodity prices. While the U.S. Federal Reserve recently raised interest rates for the first time since 2006, the European Central Bank is looking to stimulate economic activity through quantitative easing and low interest rates.

As the U.S. labour market approaches full employment, we expect higher wages to encourage both consumers and corporations to increase spending after years of debt and expense reduction.

### Recent Developments

On September 19, 2016, MBN received approval from the Toronto Stock Exchange to make a normal course issuer bid for its equity shares. The notice of intent (the “Notice”) enables MBN to purchase up to 306,023 equity shares, being 10% of the public float of the equity shares, during the 12 month period from September 23, 2016 to September 22, 2017. Shareholders may obtain a copy of the Notice, without charge, by contacting MBN.

### Financial Highlights

For financial years beginning before January 1, 2013, Total Equity is calculated in accordance with Canadian generally accepted accounting principles (“GAAP”). For financial years beginning on or after January 1, 2013, Total Equity is calculated in accordance with International Financial Reporting Standards (“IFRS”).

“Net Asset Value” is calculated in accordance with section 14.2 of National Instrument 81-106 “Investment Fund Continuous Disclosure” (“NI 81-106”) and is used for transactional pricing purposes.

The following tables show selected key financial information about MBN and are intended to help you understand MBN’s financial performance for the indicated periods. Ratios and Supplemental Data are derived from MBN’s Net Asset Value.

MBN's Total Equity per Equity Share <sup>(1)</sup>

	2016	2015	2014	2013	2012
Total Equity, Beginning of Year	\$ 7.93	\$ 7.03	\$ 6.68	\$ 5.96	\$ 6.55
<b>INCREASE (DECREASE) FROM OPERATIONS:</b>					
Total Revenue	0.09	0.16	0.05	0.10	0.44
Total Expenses <sup>(3)</sup>	(0.15)	(0.12)	(0.12)	(0.16)	(0.28)
Realized Gains (Losses) for the Year	0.49	0.55	0.81	0.28	(0.71)
Unrealized Gains (Losses) for the Year	0.02	0.26	(0.44)	0.52	0.03
Transaction Costs on Purchase and Sale of Investments	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)
<b>TOTAL INCREASE (DECREASE) FROM OPERATIONS <sup>(2)</sup></b>					
	<b>0.55</b>	<b>0.90</b>	<b>0.35</b>	<b>0.72</b>	<b>(0.59)</b>
Total Equity, End of Year	\$ 8.48	\$ 7.93	\$ 7.03	\$ 6.68	\$ 5.96

- (1) This information is derived from MBN's audited annual financial statements, with the exception of 2013 information, which was re-stated in accordance with IFRS requirements.
- (2) Total Equity is based on the actual number of equity shares outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of equity shares outstanding over the financial year. This schedule is not a reconciliation of Total Equity since it does not reflect securityholder transactions as shown on the Statements of Changes in Equity and accordingly columns may not add.
- (3) There were no dividends paid by MBN.

Ratios and Supplemental Data

	2016	2015	2014	2013	2012
Total Assets (000s) <sup>(1)</sup>	\$ 33,990	\$ 33,062	\$ 30,089	\$ 29,827	\$ 14,887
Total Net Asset Value (000s) <sup>(1)</sup>	\$ 33,900	\$ 32,970	\$ 30,008	\$ 29,717	\$ 14,821
Number of Equity Shares Outstanding <sup>(1)</sup>	3,997,851	4,155,551	4,265,751	4,451,251	2,486,382
Management Expense Ratio ("MER") <sup>(2)</sup>	1.77%	1.65%	1.65%	2.47%	17.78%
MER (Excluding Interest Expense and Issuance Costs) <sup>(2)</sup>	1.77%	1.65%	1.65%	2.46%	17.04%
Trading Expense Ratio <sup>(3)</sup>	0.10%	0.14%	0.33%	0.30%	0.20%
Portfolio Turnover Rate <sup>(4)</sup>	870.87%	1,265.21%	859.97%	438.40%	609.62%
Net Asset Value per Equity Share	\$ 8.48	\$ 7.93	\$ 7.03	\$ 6.68	\$ 5.96

- (1) This information is provided as at December 31 of the year shown.
- (2) The MER is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average Net Asset Value during the year. The MER excluding interest expense and issuance costs has been presented separately as it expresses only the ongoing management and administrative expenses of MBN as a percentage of average Net Asset Value. Issuance costs are one-time costs incurred at inception, and the inclusion of interest expense does not consider the additional revenues that have been generated from the investment of the leverage in income-generating assets.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value during the year.
- (4) MBN's portfolio turnover rate indicates how actively MBN's portfolio investments are managed. A portfolio turnover rate of 100% is equivalent to MBN buying and selling all of the securities in its portfolio once in the course of the year. The higher MBN's portfolio turnover rate in a year, the greater the trading costs payable by MBN 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 a fund.

### Past Performance

The performance information shown, which is based on Net Asset Value does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How MBN has performed in the past does not necessarily indicate how it will perform in the future.

### Year-By-Year Returns

The bar chart shows how MBN's performance has varied from year-to-year for each of the years shown. The chart indicates, in percentage terms, how much an investment made the first day of each financial period would have grown or decreased by the last day of the financial year.



### Annual Compound Returns

	Periods Ended December 31, 2016			
	One Year	Three Years	Five Years	Since Inception
MBN Corporation	6.88%	8.28%	5.20%	-1.02%
S&P/TSX Composite Total Return Index	21.08%	7.06%	8.25%	4.24%

The S&P/TSX Composite Total Return Index (the "Index") is comprised of Canadian stocks traded on the Toronto Stock Exchange and is designed to represent the Canadian equity market.

MBN's total return of 6.88% underperformed the 21.08% total return generated by the Index. The Fund's performance in 2016 was influenced by the relatively conservative positioning of the investment portfolio throughout the first half of the year during a period of heightened volatility.

## Summary of Investment Portfolio

AS AT DECEMBER 31, 2016

### Top Twenty-Five Holdings\*

DESCRIPTION	% OF NET ASSET VALUE
1 Rite Aid Corporation	11.4
2 Bristol-Myers Squibb Company	4.6
3 Bank of America Corporation	4.4
4 JPMorgan Chase & Company	3.4
5 Delphi Energy Corp. 10.00% due July 15, 2021	2.9
6 Discover Financial Services	2.9
7 RioCan Real Estate Investment Trust	2.7
8 ARC Resources Ltd.	2.7
9 Crescent Point Energy Corporation	2.7
10 Royal Bank of Canada	2.7
11 TransCanada Corporation	2.7
12 Newell Brands Inc.	2.6
13 Tourmaline Oil Corp.	2.6
14 Suncor Energy Inc.	2.6
15 Pfizer Inc.	2.6
16 Canadian Natural Resources Ltd.	2.5
17 Enbridge Inc.	2.5
18 Microsoft Corporation	2.5
19 National Bank of Canada	2.4
20 Starbucks Corp.	2.2
21 CI Financial Corp.	2.1
22 The Walt Disney Company	2.1
23 Guardian Capital Group Ltd.	1.5

\*Top Twenty-Five Holdings" excludes any temporary cash investments.

\*MBN has only 23 holdings.

ASSET CLASS	% OF NET ASSET VALUE
Financials	19.4
Energy	13.2
Consumer Staples	11.4
Healthcare	7.2
Consumer Discretionary	6.9
Pipelines	5.1
Corporate Debt	2.9
Real Estate	2.7
Technology	2.5
Cash and Short-Term Investments	28.8
Other Assets (Liabilities)	(0.1)
	100.0
TOTAL NET ASSET VALUE	\$ 33,899,629
TOTAL ASSETS	\$ 33,989,954

The Summary of Investment Portfolio may change over time due to ongoing portfolio transactions. Please visit [www.middlefield.com](http://www.middlefield.com) for the most recent quarter-end Summary of Investment Portfolio.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of MBN Corporation ("MBN") have been prepared by Middlefield Limited (the "Manager"), the manager of MBN and approved by the Board of Directors. The Manager is responsible for the information and representations contained in these financial statements and other financial information contained in this annual report.

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to MBN are described in the notes to the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved

these financial statements. The Board carries out this responsibility through the Audit Committee.

Deloitte LLP is the external auditor of MBN. They have audited the financial statements of MBN in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the financial statements. The auditor has full and unrestricted access to the Audit Committee.



**Robert F. Lauzon**  
President  
Middlefield Limited



**Francisco Z. Ramirez**  
Senior Vice-President  
and Chief Financial Officer  
Middlefield Limited

March 17, 2017

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF MBN CORPORATION

We have audited the accompanying financial statements of MBN Corporation, which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

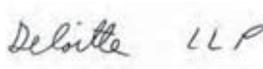
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement

of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of MBN Corporation as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
Licensed Public Accountants  
March 17, 2017

**Deloitte.**

# FINANCIAL STATEMENTS

## Statements of Financial Position

AS AT DECEMBER 31

(In Canadian Dollars)

2016

2015

### ASSETS

#### Current Assets

Investments at Fair Value through Profit or Loss	\$ 24,159,914	\$ 16,506,438
Cash	9,775,558	16,527,165
Income and Interest Receivable	54,482	28,040
Total Assets	33,989,954	33,061,643

### LIABILITIES

#### Current Liabilities

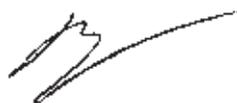
Accounts Payable and Accrued Liabilities	90,325	91,789
Total Liabilities	90,325	91,789
Net Assets	\$ 33,899,629	\$ 32,969,854

### EQUITY

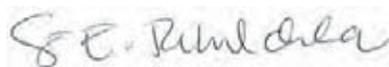
Shareholders' Equity (Note 9)	\$ 35,146,663	\$ 36,723,663
Deficit	(1,247,034)	(3,753,809)
Total Equity	\$ 33,899,629	\$ 32,969,854
Equity Shares Issued and Outstanding	3,997,851	4,155,551
Total Equity per Share	\$ 8.48	\$ 7.93

The accompanying notes to financial statements are an integral part of these financial statements.

Approved by the Board of Directors:



Director: Robert F. Lauzon



Director: Catherine Rebuldela

# FINANCIAL STATEMENTS

## Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31

(In Canadian Dollars)

	2016	2015
<b>REVENUE</b>		
Income from Investments	\$ 150,047	\$ 502,229
Interest Income	208,122	188,630
Securities Lending Income (Loss) (Note 11)	413	(2,009)
Foreign Exchange Gain	937,740	1,450,301
<b>Other Changes in Fair Value of Financial Assets and Financial Liabilities at Fair Value through Profit or Loss</b>		
Net Realized Gain from Investment Transactions	1,044,481	882,541
Change in Net Unrealized Gain on Investments	553,412	618,275
Change in Net Unrealized (Loss) Gain on Foreign Currency Transactions	(474,757)	460,355
<b>Total Revenue</b>	<b>2,419,458</b>	<b>4,100,322</b>
<b>OPERATING EXPENSES (Note 8)</b>		
Audit Fees	18,699	12,113
Custodial Fees	591	2,035
Fund Administration Costs	87,709	94,465
Legal Fees	49,995	10,260
Management Fee	391,564	367,429
Securityholder Reporting Costs	30,060	32,437
Transaction Costs (Note 10)	31,339	43,312
<b>Total Operating Expenses</b>	<b>609,957</b>	<b>562,051</b>
Profit before Tax	1,809,501	3,538,271
Withholding Taxes	9,868	8,672
<b>Profit after Tax</b>	<b>\$ 1,799,633</b>	<b>\$ 3,529,599</b>
<b>Profit after Tax per Equity Share (Note 9)</b>	<b>\$ 0.44</b>	<b>\$ 0.84</b>

The accompanying notes to financial statements are an integral part of these financial statements.

# FINANCIAL STATEMENTS

## Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31

(In Canadian Dollars)

	Shareholders' Equity	Deficit	Total
Balance at January 1, 2015	\$ 37,825,663	\$ (7,817,295)	\$ 30,008,368
Profit after Tax	–	3,529,599	3,529,599
Repurchase of Equity Shares	(1,102,000)	533,887	(568,113)
Balance at December 31, 2015	\$ 36,723,663	\$ (3,753,809)	\$ 32,969,854
Balance at January 1, 2016	\$ 36,723,663	\$ (3,753,809)	\$ 32,969,854
Profit after Tax	–	1,799,633	1,799,633
Repurchase of Equity Shares	(1,577,000)	707,142	(869,858)
Balance at December 31, 2016	\$ 35,146,663	\$ (1,247,034)	\$ 33,899,629

## Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31

(In Canadian Dollars)

	2016	2015
<b>CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES</b>		
Profit after Tax	\$ 1,799,633	\$ 3,529,599
Adjustments:		
Purchases of Investments	(153,541,430)	(213,099,090)
Proceeds from Disposition of Investments	147,485,847	216,519,956
Foreign Exchange Gain on Cash	(462,983)	(1,910,656)
Net Realized Gain from Investment Transactions	(1,044,481)	(882,541)
Change in Net Unrealized Gain on Investments	(553,412)	(618,275)
	(6,316,826)	3,538,993
Net Change in Non-Cash Working Capital	(27,906)	(10,293)
Net Cash (used in) from Operating Activities	(6,344,732)	3,528,700
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Repurchase of Equity Shares	(869,858)	(568,113)
Net Cash used in Financing Activities	(869,858)	(568,113)
Net (Decrease) Increase in Cash	(7,214,590)	2,960,587
Foreign Exchange Gain on Cash	462,983	1,910,656
Cash at Beginning of Year	16,527,165	11,655,922
Cash at End of Year	\$ 9,775,558	\$ 16,527,165

The accompanying notes to financial statements are an integral part of these financial statements.

# FINANCIAL STATEMENTS

## Schedule of Investment Portfolio

AS AT DECEMBER 31, 2016

Description	No. of Securities	Average Cost	Fair Value
Bank of America Corporation	50,000	\$ 1,480,987	\$ 1,481,869
CI Financial Corp.	25,000	730,720	721,750
Discover Financial Services	10,000	950,431	966,769
Guardian Capital Group Ltd.	20,000	475,013	501,000
JPMorgan Chase & Company	10,000	1,113,904	1,157,199
National Bank of Canada	5,000	825,726	817,950
Royal Bank of Canada	10,000	916,547	908,700
<b>FINANCIALS: 19.3%</b>		6,493,328	6,555,237
ARC Resources Ltd.	40,000	950,548	924,400
Canadian Natural Resources Ltd.	20,000	891,082	855,800
Crescent Point Energy Corporation	50,000	915,300	912,500
Suncor Energy Inc.	20,000	872,530	878,000
Tourmaline Oil Corp.	25,000	924,737	897,750
<b>ENERGY: 13.2%</b>		4,554,197	4,468,450
Rite Aid Corporation	350,000	3,365,567	3,867,611
<b>CONSUMER STAPLES: 11.4%</b>		3,365,567	3,867,611
Bristol-Myers Squibb Company	20,000	1,525,764	1,567,429
Pfizer Inc.	20,000	878,946	871,151
<b>HEALTHCARE: 7.2%</b>		2,404,710	2,438,580
Newell Brands Inc.	15,000	929,914	898,173
Starbucks Corp.	10,000	779,969	744,555
The Walt Disney Company	5,000	704,745	698,825
<b>CONSUMER DISCRETIONARY: 6.9%</b>		2,414,628	2,341,553
Enbridge Inc.	15,000	833,362	847,500
TransCanada Corporation	15,000	907,125	908,100
<b>PIPELINES: 5.1%</b>		1,740,487	1,755,600
Delphi Energy Corp. 10.00% due July 15, 2021	900,000	833,040	967,500
<b>CORPORATE DEBT: 2.9%</b>		833,040	967,500
RioCan Real Estate Investment Trust	35,000	896,548	932,050
<b>REAL ESTATE: 2.7%</b>		896,548	932,050
Microsoft Corporation	10,000	824,428	833,333
<b>TECHNOLOGY: 2.5%</b>		824,428	833,333
TRANSACTION COSTS (Note 10)		(3,381)	—
<b>TOTAL INVESTMENTS: 71.2%</b>		23,523,552	24,159,914
<b>CASH: 28.8%</b>		9,775,558	9,775,558
<b>Total Investment Portfolio, Including Cash</b>		<b>\$ 33,299,110</b>	<b>\$ 33,935,472</b>

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 1. MBN Corporation

MBN Corporation ("MBN") is a corporation continued under the laws of Alberta. On February 23, 2012, Middlefield Tactical Energy Corporation amalgamated with Middlefield Bancorp Limited ("Bancorp") and changed its name to MBN Corporation. Middlefield Limited, a company incorporated in Alberta, is the manager of MBN (the "Manager"). Middlefield Capital Corporation ("MCC" or the "Advisor"), a company under common control with the Manager, is the advisor to MBN. Groppe, Long & Littell acts as special advisor to MCC. MBN was listed on the Toronto Stock Exchange ("TSX") and effectively commenced operations on August 2, 2007 when it first issued securities through an initial public offering under the trading symbol "OCF". On February 27, 2012, MBN commenced trading on the TSX under the new symbol "MBN". The previous trading symbol was "OCF". Since "MBN" was also the trading symbol for Bancorp, the historical price series for Bancorp is no longer applicable following the amalgamation. The appropriate historical price series for MBN is that which appears under the symbol "OCF". On August 28, 2013, MBN merged with Uranium Focused Energy Fund ("Uranium") with MBN being the continuing fund. The address of MBN's registered office is 812 Memorial Drive N.W., Calgary, Alberta. These financial statements, expressed in Canadian Dollars, were authorized for issuance by the board of directors of MBN on March 17, 2017.

## 2. Investment Objective and Strategy

MBN's investment objective is to create long-term value through a dual track strategy of: (i) growing MBN's assets under management through mergers with other investment funds; and (ii) pursuing opportunities with the broader financial services sector to acquire investment management companies and/or establish such companies working with proven investment managers.

## 3. Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB") and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

## 4. Summary of Significant Accounting Policies

### A. Financial Instruments

MBN's financial instruments may include: short-term investments, fixed income, equities, structured products, derivatives (collectively referred to as "investments"), cash, accounts receivable – portfolio securities sold, income and interest receivable, accounts receivable, prepaid expenses, accounts payable – portfolio securities purchased and accounts payable and accrued liabilities. MBN recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Regular way purchases and sales of financial assets are recognized at their trade date. MBN's investments and derivative assets and liabilities are measured at fair value. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. MBN's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value ("NAV") for transactions with securityholders.

MBN only offsets financial assets and financial liabilities if MBN has a legally enforceable right to offset recognized amounts and either intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 4. Summary of Significant Accounting Policies (Continued)

### B. Fair Value Measurement

MBN's own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. Investments and futures contracts are valued at fair value using the policies described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. MBN uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

The fair value of financial assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. MBN uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity specific inputs.

### C. Shareholder's Equity

MBN's equity shares are classified as equity as MBN has full discretion with respect to the extent and timing of the repurchase of equity shares. Incremental costs directly attributable to the issue or redemption of equity shares are recognized directly in equity as a deduction from the proceeds or part of the acquisition cost. Where MBN repurchases its own equity shares, the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to MBN's securityholders until the equity shares are cancelled, re-issued or disposed of. Where such equity shares are subsequently sold or reissued, any consideration received is included in equity attributable to MBN's equity holders.

### D. Derivative Transactions

MBN may use derivatives, such as futures contracts, to hedge against losses caused by changes in commodity or index prices. Futures contracts are valued using the last traded price of the accredited futures exchange on which the corresponding futures contract is primarily traded. The value of a futures contract fluctuates daily, and cash settlements made daily, where applicable, by MBN are equal to the unrealized gains or losses on a "mark to market" basis. These unrealized gains or losses are recorded and reported as such until MBN closes out the contract or the contract expires. Margin paid or deposited in respect of a futures contract is reflected in the Statements of Financial Position. Any change in the margin requirement is settled daily. Realized gains or losses from derivative instruments are included in the Statements of Comprehensive Income – Net Realized Gain (Loss) from Investment Transactions. Derivative transactions can only be made with counterparties that have a minimum acceptable credit rating.

### E. Investment Transactions and Income Recognition

Investment transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. The change in the difference between fair value and average cost of the investments is recorded as unrealized gain (loss) on investments. Income from investments is recognized on the ex-dividend or ex-distribution date. Interest income shown on the Statements of Comprehensive Income represents interest from bank deposits received by MBN and if MBN holds fixed income investments, coupon interest accounted for on an accrual basis. MBN does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. Interest income is the tax basis of calculating the interest received and which is subject to tax. Income distributions received are treated consistently with dividends and interest and recorded in income in the Statements of Comprehensive Income.

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 4. Summary of Significant Accounting Policies (Continued)

### F. Profit or Loss after Tax per Equity Share

Profit or loss after tax per equity share in the Statements of Comprehensive Income represents the profit or loss after tax divided by the average equity shares outstanding during the period.

### G. Taxation

MBN does not qualify as a mutual fund corporation under the provisions of the *Income Tax Act* (Canada) (the "Act"). As a result, it is not entitled to a refund of tax paid in respect of its net realized capital gains.

MBN currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown separately in the Statements of Comprehensive Income.

### H. Foreign Currency Translation

Foreign currency amounts are translated into Canadian dollars as follows: fair value of investments, forward currency contracts and other assets and liabilities, at the closing rate of exchange on each business day; income and expenses, and purchases, sales and settlements of investments, at the rate of exchange prevailing on the respective dates of such transactions.

### I. Financial Instruments by Category

MBN classifies its investments at fair value through profit or loss ("FVTPL"). This category has two sub-categories: financial assets and liabilities held for trading and those designated at FVTPL at inception.

A financial asset or liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial instruments that are managed together and which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets and financial liabilities designated at FVTPL at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with MBN's investment strategy. MBN's derivative financial instruments are classified as held for trading. All other investments are designated at FVTPL at inception. All other financial assets are classified as loans and receivables. All financial liabilities are classified as "other financial liabilities".

### J. Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that MBN has made in preparing the financial statements:

#### Determination of Functional Currency

'Functional currency' is the currency of the primary economic environment in which MBN operates. If indicators of the primary economic environment are mixed, then management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The majority of MBN's investments and transactions are denominated in Canadian dollars. Investor subscriptions and redemptions are also received and paid in Canadian dollars. Accordingly, management has determined that the functional currency of MBN is Canadian dollars.

#### Fair Value Measurement of Derivatives and Securities Not Quoted in an Active Market

MBN may hold financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, MBN may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 4. Summary of Significant Accounting Policies (Continued)

### J. Critical Accounting Estimates and Judgments (Continued)

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. MBN considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to Note 5 for further information about the fair value measurement of MBN's financial instruments.

#### Classification and Measurement of Investments and Application of the Fair Value Option

In classifying and measuring financial instruments held by MBN, the Manager is required to make significant judgments about whether or not the business of MBN is to invest on total return basis for the purpose of applying the fair value option for the financial assets under IAS 39, Financial Instruments – Recognition and Measurement.

The most significant judgment made includes the determination that certain investments are held-for-trading and the fair value option can be applied to those which are not.

### K. Securities Lending

MBN may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and is included in the Statements of Comprehensive Income.

### L. Future Accounting Changes

The following standard has been issued by the IASB and has not been adopted by the Fund since it is not yet effective.

The IASB issued IFRS 9 which replaces IAS 39, the current standard for accounting for financial instruments. The standard covers:

- Classification and measurement: requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristic of the financial assets.
- Impairment methodology: replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- Hedge accounting: replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

This standard is effective for annual periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

## 5. Fair Value Disclosure

MBN classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The tables below summarize the fair value of the Fund's financial instruments as at December 31, 2016 and 2015 using the following fair value hierarchy:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable and where there is little, if any, market activity. Inputs into the determination of fair value require significant management judgment or estimation.

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 5. Fair Value Disclosure (Continued)

As at December 31, 2016

Description	Level 1	Level 2	Level 3	Total
Equities	\$ 23,192,414	\$ –	\$ –	\$ 23,192,414
Debt Securities	–	967,500	–	967,500
Total	\$ 23,192,414	\$ 967,500	\$ –	\$ 24,159,914

As at December 31, 2015

Description	Level 1	Level 2	Level 3	Total
Equities	\$ 16,506,438	\$ –	\$ –	\$ 16,506,438
Total	\$ 16,506,438	\$ –	\$ –	\$ 16,506,438

All fair value measurements are recurring. The carrying values of cash, income and interest receivable, and accounts payable and accrued liabilities, approximate their fair values due to their short-term nature. Fair values of MBN's investments are classified as Level 1 when the related security is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

### A. Equities

MBN's investments in equities are classified as Level 1 since the securities are actively traded and reliable prices are observable.

### B. Debt Securities

Debt securities include primarily government or corporate bonds and are classified as Level 1 when the securities are actively traded. Debt securities which are valued using models with inputs including interest rate curves, credit spreads and volatilities are generally observable and therefore these debt securities have been classified as Level 2.

MBN's policy is to recognize transfers in and out of the fair value hierarchy levels as at the end of the reporting period for transfers between Levels 1 and 2 and as at the date of the transfer for transfers in and out of Level 3. No transfers between levels have occurred during the years ended December 31, 2016 and 2015.

## 6. Financial Risk Management

In the normal course of business MBN is exposed to a variety of financial risks: price risk, interest rate risk, foreign exchange rate risk, liquidity risk, credit risk and concentration risk. MBN's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure MBN's risks and related exposures are consistent with its objectives and risk tolerance.

Most of MBN's risks are derived from its investments. The value of the investments within the MBN portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, commodity prices, the market and company news related to specific securities held by MBN. The investments are made in accordance with MBN's risk management policies. The policies establish investment objectives, strategies, criteria and restrictions. The objectives of these policies are to identify and mitigate investment risk through a disciplined investment process and the appropriate structuring of each transaction.

### A. Price Risk

Price risk is the risk that changes in the prices of MBN's investments will affect MBN's income or the value of its financial instruments. MBN's price risk is driven primarily by volatility in commodity and equity prices. Rising commodity and equity prices may increase the price of an investment while declining commodity and equity prices may have the opposite effect. MBN mitigates price risk by making investing decisions based upon various factors, including comprehensive fundamental analysis prepared by industry experts to forecast future commodity and equity

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 6. Financial Risk Management (Continued)

### A. Price Risk (Continued)

price movements. MBN's market positions are monitored on a daily basis by the portfolio manager and regular financial reviews of publicly available information related to MBN's investments are performed to ensure that any risks are within established levels of risk tolerance. MBN is exposed to price risk through the following financial instrument:

	2016	2015
Investments at FVTPL	\$ 24,159,914	\$ 16,506,438

Based on the above exposure at December 31, 2016 a 10% increase or decrease in the prices of MBN's investments would result in a \$2,415,991 (2015 – \$1,650,644) increase or decrease in total equity of MBN, with all other factors held constant.

### B. Interest Rate Risk

Interest rate risk describes MBN's exposure to changes in the general level of interest rates. Interest rate risk arises when MBN invests in interest-bearing financial assets such as cash and debt securities and utilizes financial liabilities such as loan payable. In respect of cash balances and Loan Payable, MBN's interest income and expense are positively correlated to interest rates in that rising interest rates increase both interest income and expense while the reverse is true in a declining interest rate environment. MBN is also exposed to the risk that the value of financial assets such as corporate and government debt will fluctuate due to changes in the prevailing levels of market interest rates. The value of such financial assets is negatively correlated to interest rates. MBN has not hedged its exposure to interest rate movements. MBN seeks to mitigate this risk through active management, which involves monitoring debt levels and analysis of economic indicators to forecast Canadian and global interest rates.

The tables below summarize the Fund's exposure to interest rate risk by remaining term to maturity:

As at December 31, 2016	Less than 1 Year	1 to 5 Years	Greater than 5 Years	Total
Cash	\$ 9,775,558	\$ –	\$ –	\$ 9,775,558
Debt Securities	–	967,500	–	967,500
Total Exposure	\$ 9,775,558	\$ 967,500	\$ –	\$ 10,743,058

As at December 31, 2015	Less than 1 Year	1 to 5 Years	Greater than 5 Years	Total
Cash	\$ 16,527,165	\$ –	\$ –	\$ 16,527,165
Total Exposure	\$ 16,527,165	\$ –	\$ –	\$ 16,527,165

Based on the above exposure at December 31, 2016, a 1% per annum increase or decrease in interest rates would result in a \$63,044 (December 31, 2015 – \$165,272) increase or decrease in total equity of MBN with all other factors held constant.

### C. Foreign Exchange Rate Risk

Foreign exchange rate risk describes the impact on the underlying value of financial instruments due to foreign exchange rate movements. The Canadian dollar is MBN's functional and reporting currency. Foreign investments, commodities, cash, receivables and payables denominated in foreign currencies are affected by changes in the value of the Canadian dollar compared to foreign currencies. As a result, financial assets may depreciate/appreciate in the short-term due to the strengthening/weakening of the Canadian dollar against other currencies, and the reverse would be true for financial liabilities. MBN's exposure to foreign exchange risk relates primarily to its investment in securities, which are denominated in U.S. dollars. MBN has not hedged its exposure to currency

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 6. Financial Risk Management (Continued)

### C. Foreign Exchange Rate Risk (Continued)

fluctuations; however, it closely monitors relevant foreign exchange currency movements. MBN is exposed to foreign exchange rate risk through the following financial instruments:

	2016	2015
Investments at FVTPL	\$ 13,086,914	\$ 14,323,438
Cash	3,633,433	13,769,721
Income and Interest Receivable	–	18,065
<b>Total Exposure</b>	<b>\$ 16,720,347</b>	<b>\$ 28,111,224</b>

Based on the above exposure at December 31, 2016 a 10% increase or decrease in the Canadian dollar against the U.S. dollar would result in a \$1,672,036 (2015 – \$2,811,122) decrease or increase in total equity of MBN, with all other factors held constant.

### D. Liquidity Risk

Liquidity risk is defined as the risk that MBN may not be able to settle or meet its obligations when due. MBN's obligations are due within one year. Liquidity risk is managed by investing the majority of MBN's assets in investments that are traded in an active market and can be readily sold. MBN retains sufficient cash to maintain liquidity and comply with liquidity requirements as outlined by securities legislation and its investment policies.

MBN may invest in securities that are not traded on a public stock exchange that may be illiquid. As a result, MBN may not be able to dispose of these investments in a timely manner. MBN mitigates this risk through active management, which involves detailed analysis of such private entities to ensure they are financially sound and would be attractive to potential investors if a sale is necessary. MBN's investment policies and securities legislation limit the amounts invested in illiquid securities and these limits are monitored. As at December 31, 2016 and 2015, MBN did not hold any illiquid securities.

The tables below present MBN's financial liabilities based on the remaining period to the contractual maturity date. The amounts in the tables reflect the contractual undiscounted cash flows.

As at December 31, 2016

Financial Liabilities	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	Total
Accounts Payable and Accrued Liabilities	\$ 90,325	\$ –	\$ –	\$ 90,325

As at December 31, 2015

Financial Liabilities	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	Total
Accounts Payable and Accrued Liabilities	\$ 91,789	\$ –	\$ –	\$ 91,789

### E. Credit Risk

Credit risk represents the financial loss that MBN would experience if counterparty to a financial instrument failed to meet its obligations to MBN. The carrying amounts of financial assets represent the maximum credit exposure. All transactions executed by MBN in listed securities are settled upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase only once the broker has received the securities. The trade will fail if either party fails to meet its obligations. There is no significant credit risk related to MBN's receivables.

MBN has established various internal controls to help mitigate credit risk, including prior approval of all investments by the Advisor whose mandate includes conducting financial and other assessments of these investments on a regular basis.

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 6. Financial Risk Management (Continued)

### E. Credit Risk (Continued)

MBN has also implemented policies which ensure that investments can only be made with counterparties that have a minimum acceptable credit rating.

As at December 31, 2016 and December 31, 2015, the Fund invested in debt instruments with the following credit ratings:

Debt Instruments by Credit Rating*	As a % of Total Equity	
	2016	2015
No Rating	2.9%	–

\* Credit rating from Standard & Poor's.

### F. Concentration Risk

MBN is exposed to the possible risk inherent in the concentration of the investment portfolio in a small number of industries or investment sectors. The Manager moderates this risk through careful selection of securities in several investment sectors. At December 31, 2016, and 2015, the percentages of MBN's total equity invested in each investment sector were as follows:

Sector	As a % of Total Equity	
	2016	2015
Financials	19.4	17.0
Energy	13.2	–
Consumer Staples	11.4	–
Healthcare	7.2	8.5
Consumer Discretionary	6.9	5.0
Pipelines	5.1	3.5
Corporate Debt	2.9	–
Real Estate	2.7	–
Technology	2.5	9.1
Industrials	–	3.9
Utilities	–	3.1
Total	71.3	50.1

## 7. Capital Management

MBN's capital is its total equity. MBN's objective when managing capital is to safeguard MBN's ability to continue as a going concern in order to provide returns for shareholders, maximize shareholder value and maintain financial strength.

MBN manages and adjusts its capital in response to general economic conditions, the risk characteristics of the underlying assets and working capital requirements. In order to maintain or adjust its capital structure MBN may enter into repurchase agreements or undertake other activities deemed appropriate under the specific circumstances. MBN is not subject to any externally imposed capital requirements.

## 8. Management Fee and Operating Expenses

The Manager provides investment and administrative services to MBN. In consideration for such services the Manager receives a management fee equal to 1.1% per annum of the Net Asset Value, calculated and paid monthly in arrears based on the average Net Asset Value of the preceding month. The Manager is reimbursed for reasonable costs related to maintaining MBN and preparation and distribution of financial statements and other documents to shareholders. MBN is responsible for the payment of all expenses relating to the operation of MBN and the carrying on of its business.

## 9. Shareholders' Equity

MBN is authorized to issue an unlimited number of transferable, non-redeemable equity shares, each of which represents an equal, undivided interest in the total equity of MBN. MBN is also authorized to issue an unlimited number of shares designated as Class M Shares (the "Class M Shares") of which there are 100 Class M Shares issued and outstanding.

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 9. Shareholders' Equity (Continued)

The holders of Class M Shares are not entitled to receive dividends but are entitled to one vote per share. The Class M Shares are redeemable at the option of either MBN or a holder thereof at a price of \$1.00 per share. The Class M Shares rank subsequent to the equity shares with respect to distributions on the dissolution, liquidation or winding-up of MBN.

A trust established for the benefit of the holders from time to time of the equity shares owns all of the issued and outstanding Class M Shares. During the year ended December 31, 2016, MBN issued nil equity shares (2015 – nil) and purchased 157,700 equity shares (2015 – 110,200) pursuant to a normal course issuer bid.

The average number of equity shares outstanding during 2016 was 4,058,956 (2015 – 4,219,354). This number was used to calculate the Profit (Loss) after Tax per Equity Share. There were no dividends or other distributions paid to shareholders during the years ended December 31, 2016 and 2015.

## 10. Transaction Costs

Brokerage commissions and other transaction costs paid in connection with securities transactions for the year ended December 31, 2016 amounted to \$31,339 (2015 – \$43,312). Included in this amount is \$18,725 (2015 – \$14,405) in brokerage commissions that were paid to MCC. All brokerage commissions paid by MBN to MCC were at or below market rates. Brokerage commissions and other transaction costs are expensed and recorded in the Statements of Comprehensive Income.

## 11. Securities Lending

MBN has entered into a securities lending program with its custodian, RBC Investor Services Trust, in order to earn additional revenue. The aggregate market value of all securities loaned by the Fund will not exceed 50% of the fair value of the assets of the Fund. The Fund will receive collateral of at least 105% of the fair value of the securities on loan. Collateral held is generally comprised of cash and securities of, or guaranteed by, the Government of Canada or a province thereof, or the United States government or its agencies. Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, RBC Investor Services Trust, is entitled to receive.

	2016	2015
Gross Securities Lending Income	\$ 691	\$ 263
Securities Lending Charges	(242)	(2,271)
Net Securities Lending Income (Loss)	449	(2,008)
Withholding taxes on Securities Lending Income	(36)	(1)
Net Securities Lending Income received by the fund (Loss paid by the fund)	\$ 413	\$ (2,009)

Securities lending charges represented 35% of the gross securities lending income, all of which was paid to the Fund's custodian.

	2016 (\$000's)	2015 (\$000's)
Securities loaned	\$ 2,695	\$ 738
Collateral received	2,830	775
Collateral percentage of securities loaned	105%	105%

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### 12. Income Taxes and Loss Carryforwards

A reconciliation of the income taxes computed at the Canadian statutory tax rate of 27.00% (2015 – 26.00%) to the effective tax rate is as follows:

	2016		2015	
Income before Income Taxes	\$	1,799,633	\$	3,529,599
Computed Expected Tax Expense		485,901	27.00%	917,696
Difference related to:				
Non-taxable Portion of Capital Gains		(259,386)	(14.41%)	(617,622)
Dividends not Taxable for Income				
Tax Purposes		(20,729)	(1.15%)	(6,292)
Utilization of Previously				
Unrecognized Loss Carryforwards		(205,786)	(11.43%)	(293,782)
Total Income Tax Expense	\$	–	–	\$ –

At December 31, 2016, MBN had capital losses of \$11,153,590 (2015 – \$13,353,966) and non-capital losses of \$15,112,172 (2015 – \$14,771,128) available for carryforward for tax purposes and deductible temporary differences of \$nil (2015 – \$17,590) for which MBN has not recognized a deferred tax asset. The capital losses can be carried forward indefinitely. The expiry dates of the non-capital losses are as follows:

Expiry Date	Amount
December 31, 2028	\$ 4,488,581
December 31, 2029	2,509,396
December 31, 2030	2,367,928
December 31, 2031	4,545,534
December 31, 2032	481,809
December 31, 2035	377,880
December 31, 2036	341,044
	\$ 15,112,172

# MIDDLEFIELD FUNDS FAMILY

## TSX-LISTED FUNDS

TSX Stock Symbol

• ACTIVEnergy Income Fund	AEU.UN
• American Core Sectors Dividend Fund	ACZ.UN
• Globalance Dividend Growers Corp.	GBF
• Global Dividend Growers Income Fund	GDG.UN
• Global Real Estate Dividend Growers Corp.	GRL
• INDEXPLUS Income Fund	IDX.UN
• MBN Corporation	MBN
• Middlefield Can-Global REIT Income Fund	RCO.UN
• Middlefield Healthcare & Wellness Dividend Fund (commenced October 20, 2016)	HWF.UN
• MINT Income Fund	MID.UN
• Pathfinder Income Fund	PCD.UN
• REIT INDEXPLUS Income Fund	IDR.UN
• U.S. Dividend Growers Income Corp.	US

## MIDDLEFIELD MUTUAL FUNDS TRUST FUNDS

Fund Code

Series A Units

FE/LL/DSC

• Global Healthcare Dividend Fund	MID 325/327/330
• Middlefield Global Infrastructure Fund	MID 510/519/520

Series F Units

• Global Healthcare Dividend Fund	MID 326
• Middlefield Global Infrastructure Fund	MID 501

## MIDDLEFIELD MUTUAL FUNDS CORPORATE CLASS FUNDS

Fund Code

Series A Shares

FE/LL/DSC

• Middlefield Canadian Dividend Growers Class	MID 148/449/450
• Middlefield Global Agriculture Class	MID 161/163/166
• Middlefield Global Dividend Growers Class	MID 181/183/186
• Middlefield Global Energy Class	MID 125/127/130
• Middlefield High Yield Class	MID 300/349/350
• Middlefield Income Plus Class	MID 800/849/850
• Middlefield Real Estate Class	MID 600/649/650
• Middlefield Resource Class	MID 910/919/920
• Middlefield Short-Term Income Class	MID 400/424/425
• Middlefield U.S. Dividend Growers Class	MID 710/719/720

Series F Shares

• Middlefield Canadian Dividend Growers Class	MID 149
• Middlefield Global Agriculture Class	MID 162
• Middlefield Global Dividend Growers Class	MID 182
• Middlefield Global Energy Class	MID 126
• Middlefield High Yield Class	MID 301
• Middlefield Income Plus Class	MID 801
• Middlefield Real Estate Class	MID 601
• Middlefield Resource Class	MID 901
• Middlefield U.S. Dividend Growers Class	MID 701

## RESOURCE FUNDS

- MRF 2016 Resource Limited Partnership
- MRF 2017 Resource Limited Partnership (commenced February 23, 2017)

## INTERNATIONAL FUNDS

• Middlefield Canadian Income PCC	London UK Stock Exchange (LSE) Symbol:MCT
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## CORPORATE INFORMATION

## MIDDLEFIELD GROUP®

### Directors

**Dean Orrico**  
President and  
Chief Executive Officer  
Middlefield Capital Corporation

**Jeremy T. Brasseur**  
President and  
Chief Executive Officer  
Middlefield Group Limited

**Robert F. Lauzon, CFA**  
President and  
Chief Executive Officer  
Middlefield Limited

**Dennis da Silva**  
Managing Director  
Resource Group  
Middlefield Capital Corporation

**Andrew Osborne, CFA**  
Executive Director  
Investments  
Middlefield Capital Corporation

**Craig Rogers, CPA, CGA, CFA**  
Executive Director  
Corporate Development  
Middlefield Capital Corporation

**Vince Kraljevic**  
Director, Corporate Development  
Middlefield Capital Corporation

**Edmun Tsang, CFA**  
Director, Trading  
and Portfolio Manager  
Middlefield Capital Corporation

**J. Dennis Dunlop**  
Senior Vice-President  
Middlefield Group

**Shiranee Gomez**  
Senior Vice-President  
Middlefield Group

**Maria F. Herrera, CPA**  
Senior Vice-President  
Middlefield Group

**Terry Landriault**  
Senior Vice-President  
Middlefield Group

**Francis Ramirez**  
Senior Vice-President  
Administration and Compliance  
Middlefield Capital Corporation

**Gabriel Soler**  
Senior Vice-President  
Middlefield Group

**Nicole S. Brasseur**  
Vice-President  
Middlefield Group

**Stephen Chamberlain**  
Vice-President  
Middlefield Realty Services Limited

**Stacy J. Crestohl**  
Vice-President  
Middlefield Group

**Judy Marks**  
Vice-President  
Middlefield Group

**Victor Ngai**  
Vice-President  
Middlefield Group

**Catherine Rebuldela, CPA, CGA**  
Vice-President  
Middlefield Limited

**Sarah Roberts, CPA, CMA**  
Vice-President  
Middlefield Group

**Wendy Teo, CPA, CA, CPA (IL)**  
Vice-President  
Accounting  
Middlefield Capital Corporation

**Jimmy Xu**  
Vice-President  
Middlefield Group

**Sylvia Casillano, CPA, CGA**  
Assistant Vice-President  
Middlefield Group

**Tess David, CPA**  
Assistant Vice-President  
Middlefield Group

**Rose Espinoza**  
Assistant Vice-President  
Middlefield Group

**Scott Hu**  
Associate  
Middlefield Group

**Robert Moffat**  
Associate  
Middlefield Limited

**Thomas Toll**  
Associate  
Middlefield Group

### Auditor

Deloitte LLP, Chartered  
Professional Accountants,  
Licensed Public Accountants

### Legal Counsel

Bennett Jones  
DLA Piper (Canada) LLP  
Fasken Martineau DuMoulin LLP  
McCarthy Tétraut

### Bankers

Bank of Montreal  
Canadian Imperial Bank of Commerce  
Royal Bank of Canada  
The Bank of Nova Scotia  
The Toronto-Dominion Bank

### Custodian

RBC Investor Treasury Services

### Affiliates

Middlefield Group Limited  
Middlefield Capital Corporation  
MFL Management Limited  
MF Properties Limited  
Middlefield International Limited  
Middlefield Limited  
Middlefield Realty Services Limited  
Middlefield Resource Corporation

### Independent Review Committee

**George S. Dembroski**  
Former Vice-Chairman  
RBC Dominion  
Securities Limited

**H. Roger Garland, CPA, CA**  
Former Vice-Chairman  
Four Seasons Hotels Inc.

**Bernard I. Ghert (Chairman)**  
Former Chairman  
Mount Sinai Hospital

**Edward V. Jackson**  
Former Managing Director  
RBC Capital Markets

### Advisors

Middlefield Capital Corporation  
Groppe, Long & Littell  
SSR, LLC

### Officers

**Polly Tse, CPA, CGA, CPA (IL)**  
Chief Financial Officer  
Middlefield Capital Corporation

**Henry Lee**  
President  
Middlefield Realty Services Limited

**Nancy Tham**  
Managing Director  
Sales and Marketing  
Middlefield Capital Corporation

**Michael Bury, CFA**  
Managing Director, Investments  
and Portfolio Manager  
Middlefield Capital Corporation

**Mike Foley, CFA**  
Executive Director  
Investments  
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**Vincenzo Greco**  
Executive Director, Trading  
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