

## AUDITORS' REPORT

**To the Unitholders of Middlefield High Income Trust:**

We have audited the statements of net assets of MIDDLEFIELD HIGH INCOME TRUST as at December 31, 2000 and 1999, the statements of operations and changes in net assets for the years then ended and the statement of investment portfolio as at December 31, 2000. These financial statements are the responsibility of the Trust's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Trust's management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2000 and 1999, its results of operations and changes in net assets for the years then ended and its investments held as at December 31, 2000 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
March 7, 2001

Arthur Andersen LLP  
Chartered Accountants

## STATEMENTS OF NET ASSETS

As at December 31	2000	1999
<b>ASSETS:</b>		
Investments at Market Value	\$ 48,030,041	\$ 56,043,770
Cash and Short-Term Investments	1,727,604	2,416,091
Income Receivable	891,095	1,183,427
	<b>50,648,740</b>	59,643,288
<b>LIABILITIES:</b>		
Loan Payable (Note 3)	11,966,405	14,647,526
Unitholder Distributions	1,011,596	1,393,213
Accounts Payable and Accrued Liabilities	89,391	104,756
	<b>13,067,392</b>	16,145,495
Net Assets	<b>\$ 37,581,348</b>	\$ 43,497,793
Units Issued and Outstanding	<b>5,950,562</b>	6,942,765
Net Asset Value per Unit	<b>\$ 6.32</b>	\$ 6.27

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

Approved by the Board of Directors of MINT Management Limited, as Manager:

Director: Murray J. Brasseur

Director: Sylvia V. Stinson

## STATEMENTS OF OPERATIONS

For the years ended December 31	2000	1999
<b>INVESTMENT INCOME:</b>		
Income from Investment Trust Units	\$ 4,109,508	\$ 5,405,798
Interest	1,484,095	1,946,307
	<b>5,593,603</b>	7,352,105
<b>EXPENSES (NOTE 4):</b>		
Interest and Bank Charges	889,030	1,039,944
Management Fee	410,308	528,762
Audit and Legal	108,558	41,913
Marketing	62,156	37,557
Custodian and Trustee Fee	43,811	48,982
Network Fee	14,978	33,917
Transfer Agent Fee	12,840	8,025
Other	22,524	16,121
	<b>1,564,205</b>	1,755,221
Net Investment Income	<b>4,029,398</b>	5,596,884
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>		
Net Realized Loss from Investment Transactions	(17,009,612)	(2,889,128)
Change in Net Unrealized Appreciation (Depreciation) of Investments	16,666,961	(2,078,074)
Net Loss on Investments	<b>(342,651)</b>	(4,967,202)
Net Increase in Net Assets Resulting from Operations	\$ <b>3,686,747</b>	\$ 629,682
Net Investment Income per Unit	\$ <b>0.63</b>	\$ 0.78

## STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31	2000	1999
<b>OPERATIONS:</b>		
Net Increase in Net Assets Resulting from Operations	\$ 3,686,747	\$ 629,682
<b>DISTRIBUTIONS TO UNITHOLDERS</b>		
	(4,301,604)	(5,688,742)
<b>UNITHOLDER TRANSACTIONS:</b>		
Recovery of Issue Costs	-	161,051
Repurchase of Units	(5,301,588)	(2,919,090)
	<b>(5,301,588)</b>	(2,758,039)
Net Decrease in Net Assets	<b>(5,916,445)</b>	(7,817,099)
<b>NET ASSETS:</b>		
Beginning of Year	43,497,793	51,314,892
End of Year	\$ 37,581,348	\$ 43,497,793
<b>INVESTMENT TRANSACTIONS:</b>		
Proceeds from Sale of Investments	\$ 27,533,209	\$ 18,321,430
Less: Cost of Investments Sold:		
Owned at Beginning of Year	79,765,624	90,140,191
Purchased During Year	19,862,130	10,835,991
Owned at End of Year	(55,084,933)	(79,765,624)
	<b>44,542,821</b>	21,210,558
Net Realized Loss from Investment Transactions	\$ (17,009,612)	\$ (2,889,128)
Distribution per Unit (Note 6)	\$ <b>0.68</b>	\$ 0.80

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

### 1. Middlefield High Income Trust

Middlefield High Income Trust (the "Trust") is a closed-end investment trust established under the laws of the Province of Ontario on February 28, 1997 and carries on business under the name of MINT. The investment objective of the Trust is to produce a high level of sustainable income and to minimize the risk of investing in high income securities on a cost effective basis. MINT Management Limited (the "Manager") is the manager and Middlefield Securities Limited (the "Advisor") is the advisor to the Trust.

### 2. Summary of Significant Accounting Policies

#### a. Valuation of Investments

Securities listed on a public stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the average of the closing recorded bid and ask prices. Short-term notes are recorded at cost which approximates market value.

#### b. 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. Dividend income is recognized on the ex-dividend date, and interest income on the accrual basis.

#### c. Income Taxes

The Trust qualifies as a unit trust under the provisions of the Income Tax Act (Canada). Under the terms of the Trust Agreement, any taxable income of the Trust is distributable quarterly to unitholders of record date. The Trust is not subject to tax on the income distributed to unitholders. Accordingly, no provision for income taxes is required.

#### d. Foreign Exchange

Foreign currency amounts are translated into Canadian dollars as follows: market 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.

#### e. Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

### 3. Loan Payable

The Revolving Operating Credit Facility of \$20,000,000 bears interest at the bankers' acceptance rate plus 1% and is secured by a general security agreement. The facility matured on January 19, 2001 and was renewed for \$15,000,000 with a maturity of January 17, 2002. At December 31, 2000, \$12,100,000 (1999 - \$14,700,000) was outstanding under the facility.

### 4. Management Fee and Operating Expenses

The Manager and the Advisor provide investment management and administrative services to the Trust. In consideration for such services the Manager receives a management fee equal to 1% per annum of the net asset value, calculated and paid monthly in arrears based on the net asset value at the end of the preceding month. The Trust is responsible for the payment of all expenses relating to the operation of the Trust and the carrying on of its business.

### 5. Unitholders' Equity

The Trust issued 9,800,000 units at \$10.00 per unit, of which \$4.00 per unit (final installment), was received on February 26, 1998. During 2000, the Trust purchased 273,200 units (1999 - 302,200) pursuant to a normal course issuer bid and 719,000 units (1999 - 160,200) in the market in accordance with the Trust Agreement. During the period from December 31, 2000 to March 7, 2001, a further 212,500 units have been purchased pursuant to a normal course issuer bid and 28,800 units have been purchased in the market.

### 6. Distributions

Commencing with the quarter ending June 30, 1997 and on a quarterly basis thereafter, each unitholder is entitled to receive their prorata share of cash distributions. In 2000, distributions amounted to \$0.68 per unit (1999 - \$0.80). Distributions of the Trust, at the discretion of the unitholder, are reinvested in additional units of the Trust, under the Distribution Reinvestment Plan (the "Plan") without sales charge. During 2000, 16,397 units (1999 - 34,277) were purchased under the Plan.

### 7. Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.