

# FIRST QUARTER REPORT 2001

For the quarter ending March 31, 2001

*Press Release*

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## MINT ANNOUNCES FIRST QUARTER RESULTS

Middlefield High Income Trust ("MINT" or the "Trust") is pleased to announce its unaudited financial results for the three months ended March 31, 2001, the details of which are attached.

For the first quarter of 2001, MINT posted a total return of 7.9%. The one year total return to March 31, 2001 was 33.7%. MINT's performance has been driven by strength in the oil and gas royalty trust sector and real estate investment trusts ("REITs"). Favourable conditions in the oil and gas sector continue to result in strong distributions and cash flows for the royalty trusts. REITs also continue to benefit from strong industry cash flows. New construction remains limited in the current environment. Since over-building has typically been a problem in the real estate sector at times of economic slowdown, limited new construction should mitigate the effects of a slowdown in this sector.

With the Bank of Canada and the US Federal Reserve lowering interest rates twice in the first quarter of 2001, and again in May, the spread between short-term Government of Canada bonds and other income-producing vehicles continues to widen. In the current low interest rate environment, MINT offers a diversified portfolio of high yielding securities and presents an attractive investment for income-seeking investors.

On April 26, 2001, MINT made a distribution of \$0.17 per unit for the first quarter of 2001, which is consistent with the \$0.17 per unit distribution for the same period last year. It is anticipated that distributions for the balance of the year will be in line with the first quarter. On an annualized basis the current distribution rate represents a yield of approximately 10.1% based on a unit market price of \$6.75.

MINT is a closed-end investment trust that invests primarily in high yield equities supplemented by high yield debt. This news release contains forward-looking information. Actual future results may differ materially. The risks, uncertainties and other factors that could influence actual results are described in MINT's annual report to unitholders and other documents filed with regulatory authorities.

MINT trades on the Toronto Stock Exchange under the symbol "MID.UN".

For further information, visit our website at [www.middlefield.com](http://www.middlefield.com), or contact the undersigned:

Nancy Tham  
Vice President  
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May 30, 2001

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **March 31, 2001 and 2000 (Unaudited)**

The following discussion and analysis should be read in conjunction with the attached unaudited financial statements. Readers should also refer to Management's Discussion and Analysis in MINT's 2000 annual report.

#### ***Assets***

Total assets increased to \$51.2 million at the end of the first quarter of 2001 versus \$50.6 million at the end of 2000. Net assets were \$37.2 million at March 31, 2001 compared to \$37.6 million at December 31, 2000. Borrowings have increased from \$12 million at year end to \$12.6 million at the end of the first quarter of 2001. To obtain the maximum benefit from leverage, MINT borrows to the extent permitted by its investment guidelines. Net asset value per unit increased to \$6.65 at March 31, 2001 from \$6.32 at the end of 2000.

#### ***Income and Expenses***

Total investment income for the first quarter of 2001 decreased slightly to \$1.4 million compared to \$1.5 million for the same period in 2000. This decline was due primarily to a reduction in the distributions received from the trusts and limited partnerships in the first quarter of 2001. Net investment income decreased to \$1.0 million, or \$0.18 per unit, in the first quarter of 2001, compared to \$1.1 million, or \$0.16 per unit, in the first quarter of 2000. The decrease in net investment income in 2001 was as a result of the reduced distributions received which were offset by lower expenses in the first quarter.

Average borrowings in the first quarter of 2001 were down from the same period last year, resulting in slightly lower interest and bank charges of \$0.2 million for the period ended March 31, 2001. The management fee of \$0.1 million for the first quarter of 2001 remained unchanged from the first quarter of 2000, given that the average assets under administration were similar in both periods. Other operating expenses for the first quarter of 2001 amounted to \$42,000 which reflects a decrease of approximately 56% from \$96,000 for the same period in 2000. The reduced costs in the first quarter of 2001 resulted in a ratio of management fees and other operating expenses to average net asset value (MER) of 1.49% compared to 2.03% in the first quarter of 2000.

## **NOTES TO FINANCIAL STATEMENTS**

### **March 31, 2001 and 2000 (Unaudited)**

#### **1. SIGNIFICANT ACCOUNTING POLICIES**

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They follow the same accounting policies and methods used in the most recent annual financial statements of the Trust. The specific accounting principles used are described on pages 36 through 39 of the Middlefield Managed Funds 2000 annual report, and should be read in conjunction with these interim financial statements.

#### **2. DISTRIBUTIONS**

The Trust paid a distribution of \$0.17 per unit on April 26, 2001 to all unitholders of record on March 30, 2001. 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 the three months ended March 31, 2001, 3,025 units (2000 – 4,320) were purchased under the Plan.

**STATEMENTS OF NET ASSETS**  
**As at March 31, 2001 and December 31, 2000**

|  | <b>March 31</b>   |    | December 31 |
|--|-------------------|----|-------------|
|  | <b>2001</b>       |    | 2000        |
|  | <b>Unaudited</b>  |    | Audited     |
| <b>ASSETS:</b>                           |                   |    |             |
| Investments at Market Value              | \$ 48,902,297     | \$ | 48,030,041  |
| Cash and Short-Term Investments          | 1,345,132         |    | 1,727,604   |
| Income Receivable                        | 905,013           |    | 891,095     |
|  | <b>51,152,442</b> |    | 50,648,740  |
| <b>LIABILITIES:</b>                      |                   |    |             |
| Loan Payable                             | 12,580,029        |    | 11,966,405  |
| Unitholder Distributions                 | 958,640           |    | 1,011,596   |
| Accounts Payable and Accrued Liabilities | 433,735           |    | 89,391      |
|  | <b>13,972,404</b> |    | 13,067,392  |
| Net Assets                               | \$ 37,180,038     | \$ | 37,581,348  |
| Units Issued and Outstanding             | <b>5,589,060</b>  |    | 5,950,562   |
| Net Asset Value per Unit                 | \$ 6.65           | \$ | 6.32        |

**STATEMENTS OF CHANGES IN NET ASSETS**  
**For the three months ended March 31**

| Unaudited   | 2001             | 2000               |
|---|------------------|--------------------|
| <b>OPERATIONS:</b>  |                  |                    |
| Net Increase (Decrease) in Net Assets Resulting from Operations | \$ 2,786,700     | \$ (3,871,271)     |
| <b>DISTRIBUTIONS TO UNITHOLDERS</b>                             | <b>(958,640)</b> | <b>(1,140,184)</b> |
| <b>UNITHOLDER TRANSACTIONS:</b>                                 |                  |                    |
| Repurchase of Units   | (2,229,370)      | (1,604,841)        |
| Net Decrease in Net Assets                                      | <b>(401,310)</b> | <b>(6,616,296)</b> |
| <b>NET ASSETS:</b>  |                  |                    |
| Beginning of Period   | 37,581,348       | 43,497,793         |
| End of Period   | \$ 37,180,038    | \$ 36,881,497      |
| Distribution per Unit (Note 2)                                  | \$ 0.17          | \$ 0.17            |

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

**STATEMENTS OF OPERATIONS**  
**For the three months ended March 31**

| Unaudited   | 2001             | 2000               |
|---|------------------|--------------------|
| <b>INVESTMENT INCOME:</b>                                       |                  |                    |
| Income from Investment Trust Units                              | \$ 1,004,724     | \$ 1,154,336       |
| Interest  | 371,307          | 372,922            |
|   | <b>1,376,031</b> | <b>1,527,258</b>   |
| <b>EXPENSES:</b>  |                  |                    |
| Interest and Bank Charges                                       | 203,255          | 233,689            |
| Management Fee  | 99,773           | 100,287            |
| Marketing   | 11,542           | 4,057              |
| Custodian and Trustee Fee                                       | 10,680           | 11,400             |
| Audit and Legal   | 10,482           | 66,559             |
| Network Fee   | 2,928            | 3,880              |
| Transfer Agent Fee  | 3,210            | 3,210              |
| Other   | 3,400            | 6,490              |
|   | <b>345,270</b>   | <b>429,572</b>     |
| Net Investment Income   | <b>1,030,761</b> | <b>1,097,686</b>   |
| <b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>  |                  |                    |
| Net Realized Loss from Investment Transactions                  | (866,051)        | (7,464,728)        |
| Change in Net Unrealized Appreciation of Investments            | 2,621,990        | 2,495,771          |
| Net Gain (Loss) on Investments                                  | <b>1,755,939</b> | <b>(4,968,957)</b> |
| Net Increase (Decrease) in Net Assets Resulting from Operations | \$ 2,786,700     | \$ (3,871,271)     |
| Net Investment Income per Unit                                  | \$ 0.18          | \$ 0.16            |

**STATEMENTS OF NET REALIZED GAIN (LOSS) FROM INVESTMENT TRANSACTIONS**  
**For the three months ended March 31**

| Unaudited                                      | 2001             | 2000              |
|--|------------------|-------------------|
| Proceeds from Sale of Investments              | \$ 8,968,073     | \$ 3,310,261      |
| Less: Cost of Investments Sold:                |                  |                   |
| Owned at Beginning of Period                   | 55,084,932       | 79,765,624        |
| Purchased During Period                        | 8,084,391        | 1,266,280         |
| Owned at End of Period                         | (53,335,199)     | (70,256,915)      |
|  | <b>9,834,124</b> | <b>10,774,989</b> |
| Net Realized Loss from Investment Transactions | \$ (866,051)     | \$ (7,464,728)    |

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

**STATEMENT OF INVESTMENT PORTFOLIO****As at March 31, 2001**

Unaudited

| Description   | Business                           | % Weight      |
|---|------------------------------------|---------------|
| <b>HIGH YIELD EQUITY:</b>                                   |                                    |               |
| ARC Energy Trust  | Oil and Gas                        | 8.6%          |
| RioCan Real Estate Investment Trust                         | Retail/Office/Industrial Buildings | 8.2%          |
| H&R Real Estate Investment Trust                            | Office/Industrial Buildings        | 7.5%          |
| Canadian Oil Sands Trust                                    | Oil and Gas                        | 7.1%          |
| ACS Freezers Income Trust                                   | Public Refrigeration Warehousing   | 5.4%          |
| Morguard Real Estate Investment Trust                       | Retail/Office/Industrial Buildings | 3.5%          |
| Canadian Real Estate Investment Trust                       | Retail/Office/Industrial Buildings | 3.5%          |
| Superior Propane Income Fund                                | Propane Distribution               | 3.3%          |
| Koch Pipelines Canada, L.P.                                 | Oil Pipeline                       | 3.3%          |
| Summit Real Estate Investment Trust                         | Retail/Office/Industrial Buildings | 3.0%          |
| NAL Oil & Gas Trust   | Oil and Gas                        | 2.7%          |
| Legacy Hotels Real Estate Investment Trust                  | Hotel                              | 2.7%          |
| Northland Power Income Fund                                 | Electricity Generation             | 2.0%          |
| TransCanada Pipelines Limited                               | Oil Pipeline                       | 2.0%          |
| Pembina Pipeline Income Fund                                | Oil Pipeline                       | 1.9%          |
| Fort Chicago Energy Partners L.P.                           | Oil Pipeline                       | 1.8%          |
| KMS Power Income Fund                                       | Electricity Generation             | 1.5%          |
| Residential Equities Real Estate Investment Trust           | Retail/Office/Industrial Buildings | 1.4%          |
| Canadian Imperial Bank of Commerce                          | Financial Services                 | 1.0%          |
| Royal Bank of Canada  | Financial Services                 | 1.0%          |
| Bank of Nova Scotia   | Financial Services                 | 0.8%          |
| Bank of Montreal  | Financial Services                 | 0.8%          |
| The Toronto Dominion Bank                                   | Financial Services                 | 0.8%          |
| Canadian Apartment Properties Real Estate Investment Trust  | Retail/Office/Industrial Buildings | 0.7%          |
|   |                                    | <b>74.5%</b>  |
| <b>HIGH YIELD DEBT:</b>                                     |                                    |               |
| Millar Western Forest Products Ltd. 9.875% due May 15, 2008 | Forest Products                    | 4.8%          |
| Finlay Enterprises, Inc. 9% due May 1, 2008                 | Jewelry Retail                     | 4.4%          |
| Alberta Energy Company Ltd. 8.5% due December 20, 2040      | Oil and Gas                        | 4.3%          |
| Intrawest Corporation 10.5% due February 1, 2010            | Real Estate/Hospitality            | 3.4%          |
| Derlan Industries Limited 10% due January 15, 2007          | Aerospace Manufacturing            | 2.5%          |
| Anchor Lamina Inc. 9.875% due February 1, 2008              | Tool and Die Manufacturing         | 1.9%          |
| Scott Paper Limited 10% due June 6, 2007                    | Paper Products                     | 1.9%          |
| Air Canada Inc. 9% due June 1, 2006                         | Transportation                     | 1.2%          |
| Tembec Inc. 8.3% due January 30, 2003                       | Forest Products                    | 1.0%          |
| Greenstone Resources Ltd. 9% due February 28, 2002          | Gold Mining                        | 0.1%          |
|   |                                    | <b>25.5%</b>  |
| Total Investment Portfolio                                  |                                    | <b>100.0%</b> |

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

## **TRUST PROFILE**

*The primary objectives of MINT are to produce a high level of sustainable income and to minimize the risk of investing in high yield securities on a cost effective basis. MINT is comprised of four asset classes: income funds, high income debt, real estate investment trusts and royalty trusts. Unitholders can acquire additional units by participating in the Distribution Reinvestment Plan. The Plan enables unitholders to reinvest their quarterly distributions in additional units of MINT thereby achieving the benefit of compounding returns. MINT is fully RRSP eligible. MINT trades on the Toronto Stock Exchange under the symbol "MID.UN".*

## **DIRECTORS AND OFFICERS OF THE MANAGER**

**Murray J. Brasseur**  
Director

**J. Dennis Dunlop**  
Senior Vice President

**W. Garth Jestley**  
President and Director

**James S. Parsons**  
Director

**Sylvia V. Stinson**  
Executive Vice President  
and Director

**Anthony P. Traub**  
Secretary-Treasurer and Director

## **AUDITORS**

Arthur Andersen LLP

## **BANK**

The Bank of Nova Scotia

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