



2021 ANNUAL REPORT

**MIDDLEFIELD  
HIGH INTEREST**  
INCOME CLASS



MIDDLEFIELD MUTUAL FUNDS

## MIDDLEFIELD CORPORATE PROFILE

The Middlefield Group was established in 1979 and 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 Exchange-Traded Funds, Mutual Funds, Private and Public Resource Funds, Split Share Corporations, Venture Capital Assets, TSX Publicly Traded Funds and Real Estate Investment Funds and Partnerships.

Middlefield's investment team comprises portfolio managers, analysts and traders. While all of our investment products are designed and managed by Middlefield professionals, some involve strategic partnerships with other "best-in-class" firms that bring unique value to our product offerings. In 2014, we entered into an exclusive arrangement with SSR, LLC, based in Stamford, Connecticut. They provide specialized research into sectors of the economy such as Healthcare and Innovation Technology. SSR is an independent investment firm whose analysts have been highly ranked and are recognized as leaders in their respective fields. Their fundamental company level research is often non-consensus and provides guidance on overall portfolio construction and security selection.

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

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### A NOTE ON FORWARD LOOKING STATEMENTS

This document may contain forward looking statements, including statements regarding: the Fund, its strategies, goals and objectives; prospects; future performance or condition; possible future actions to be taken by the Fund; and the performance of investments, securities, issuers or industries in which the Fund 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 the Fund'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 the Fund 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 the Fund invests; the effects of competition in the industries or geographic areas in which the Fund 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. The Fund 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

# Global Real Estate Class

FE/LL/DSC/Series F MID 600 | 649 | 650 | 601



**REFINITIV LIPPER  
FUND AWARDS**

**2021 WINNER  
CANADA**

## *Top-performing Real Estate Fund Over 5 Years*

*"Middlefield is very pleased to be recognized for its performance, especially given the unique challenges faced by the real estate sector in 2021. We are focused on selecting the highest quality companies who are best positioned to benefit from long term, durable trends in the real estate industry."*



(L to R) ROB MOFFAT, Director, Investments and Portfolio Manager, NANCY THAM, Managing Director, Sales, JEREMY BRASSEUR, Executive Chairman, DEAN ORRICO, President and Chief Investment Officer, ROB LAUZON, Chief Investment Officer, POLLY TSE, Chief Financial Officer and SHANE OBATA, Executive Director, Investments and Portfolio Manager

To learn more about *Middlefield Funds*, speak with your financial advisor or contact us at:



**Middlefield Funds**  
YOUR PARTNER IN INCOME & GROWTH

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Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in share value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Investment fund are not guaranteed, their values change frequently and past performance may not be repeated.





## 2021 REVIEW AND OUTLOOK

Global equity markets performed extremely well in 2021. The TSX generated a total return of 25.2%, its best annual performance since 2009. The S&P 500 returned 28.7% and recorded 70 record highs throughout the year. Even more impressive is the 113% return the S&P 500 generated since it bottomed on March 23, 2020. The MSCI World Index generated a total return of 22.4%, slightly underperforming major North American indices due to weakness in Asian markets.

The market's demand for sustainable investing accelerated in 2021, which is designed to better understand the Environmental, Social, and Governance (ESG)-related risks and opportunities in a company. While traditional financial analysis remains core to our investment decisions, incorporating ESG data provides us with a more holistic view of the companies we invest in and also enhances our ability to determine which are more likely to achieve their long-term growth objectives. To support our capabilities in sustainable investing, Steve Erlichman joined Middlefield as Chair, ESG in 2021. Together with Steve, we have refreshed our ESG policy and have established Stewardship Principles which, among other things, guide how Middlefield monitors its portfolio companies and votes corporate proxies.

Elevated geopolitical tensions are contributing to supply chain disruptions, rising costs and increasing concern among investors. Despite the operational challenges, we believe the leading management teams will be able to mitigate the impact of inflation and supply chain bottlenecks. While it will likely take several quarters for these issues to resolve, corporations have demonstrated success in allocating capital more efficiently and in technologies which are enhancing productivity.

We are optimistic that the COVID-19 pandemic will gradually become endemic in 2022 as the economic reopening gains momentum with travel restrictions, vaccine requirements and mask mandates gradually being lifted in multiple jurisdictions. The OECD has forecasted GDP growth of 3.9% in Canada and 3.7% in the U.S. for 2022 – both well-above pre-pandemic trends.

Cyclical sectors such as financials and energy are expected to benefit the most from earnings tailwinds as the economy continues to recover from the COVID-19 pandemic. We are also constructive on quality growth businesses with predictable revenue and cash flow generation whose share prices have declined during late December 2021 and January 2022. Valuations for several high-quality growth industries have significantly corrected in recent weeks and we believe this represents an excellent entry point for select companies within the software, clean power and biotechnology sectors.

In terms of market risks, we are closely following the high levels of inflation and its derivative impacts on market fundamentals. Specifically, inflation is contributing to an accelerated withdrawal of monetary stimulus around the world as central banks begin to prioritize containing inflationary pressures. While the exact number and timing of rate hikes is not certain, it is clear that central banks around the world are on the cusp of a prolonged tightening cycle. The Bank of England has been the first major central bank to initiate liftoff, imposing back-to-back rate hikes for the first time since 2004. Jerome Powell, Chair of the FOMC, has recently stressed the strength of the U.S. labour market and reiterated the Fed's intention to use multiple tools to temper inflation. These tools are likely to include a runoff of Treasuries and mortgage backed securities from the Fed's balance sheet beginning in the latter half of 2022, an issue that is quickly growing in importance for investors. Similar to interest rate hikes, we believe the market will be able to absorb a balance sheet runoff as long as it is done at a gradual pace and is appropriately communicated. The Bank of Canada has signaled its hiking cycle is likely to begin at the March 2022 meeting but with inflation being lower in Canada and less upside to commodity prices than this time last year, we believe the Bank of Canada will likely remain less hawkish than its US counterpart.

Real estate investment trusts (REITs) provide an optimal solution against this backdrop and can serve as a useful tool to dampen the impacts of inflation and rising interest rates. This is due to the fact that real estate owners have the ability to pass on rising costs via higher rents and many leases also include inflation-linked escalators. Forward earnings growth for REITs is expected to be well above historical averages for several years, yet Canadian REITs still trade at a discount to their net asset values on average. Increasing cash flows from rising rental income also supports distribution growth, a core tenet of long-term investing. We expect many REITs to increase their distributions in 2022 which are taxed efficiently in Canada, making them an attractive source of stable and growing income.

The Middlefield Family of mutual funds, which are listed at the end of this report, currently includes eight different funds within the multi-class structure and three mutual fund trusts. The multi-class structure of Middlefield Mutual Funds enables investors to benefit from superior tax efficiencies unavailable to other forms of investment funds. In addition, almost all classes are offered in F-Series.

Middlefield Global Real Estate Class provides exposure to the global and Canadian real estate markets through an actively managed strategy and has consistently delivered attractive total returns over its 10+ year history. The Fund generated a total return of 35.8% in 2021, outperforming its benchmark and building upon its longstanding track record. The Series F shares of the Fund were recognized in 2021 by Refinitiv Lipper Fund Awards for the Best Five-Year Performance in the Real Estate Equity category. We expect REITs to generate solid performance in 2022 with operating metrics trending more positively as landlords recover from the pandemic.

Income Plus Class generated a total return of 30.9% in 2021, outperforming both the S&P 500 Index and S&P/TSX Composite Index. The Fund is focused on high quality issuers with stable cash flows and track records of growing dividends. Real estate and financials are both sectors that meet these criteria and finished 2021 as the top two sector weights in the portfolio. In addition to REITs, financials should continue with dividends bumps in 2022 and perform well against an inflationary backdrop. The forthcoming rate hiking cycle will also provide a significant profitability tailwind for the lending business of banks and other financial services, thus improving their net interest margins. Bank of Nova Scotia, a holding in the Fund, announced a dividend increase of 23% in November of 2021.

Global Infrastructure Fund generated a total return of 13.2%, lagging the broader market but outperforming the S&P Global Infrastructure Index which returned 11.9%. The asset class likely underperformed due to rising interest rate expectations and higher discount rates being applied to future cash flows. The Fund is focused on companies that have the ability to offset these risks and grow their cash flows over time. Utilities, the Fund's largest weighting, are a sector in which companies typically achieve a degree of inflation pass-through in rate negotiations with regulators. In light of the recovery in commodity prices, we also have a positive view on energy infrastructure companies that have exposure to the resurgence of capital investment in the energy sector. Enbridge Inc., a core holding in the Fund, benefits from both dynamics as it operates critical energy infrastructure assets that are in high demand as well as a premier North American utility franchise.

Global Healthcare Dividend Fund generated a total return of 19.0% in 2021. We are bullish on healthcare in 2022 and believe it is an excellent time to add exposure. Past headwinds for the biopharma industry, including drug pricing, regulatory uncertainty and lack of M&A, are gradually turning into tailwinds. The share prices of many innovative biotechnology companies have declined by more than 50% from recent highs while a number of large-cap incumbents are sitting on record amounts of cash. Medtech companies are also well-positioned to benefit from declining COVID-19 hospitalizations and pent-up demand for elective surgeries. The healthcare sector finished the year trading at a forward P/E multiple of just 17.3x, more than 4 turns cheaper than the S&P 500 multiple of 21.6x. In addition, Canadians are typically underexposed to healthcare which is the second largest sector in the S&P 500 behind Information technology.

### Outlook

Although inflation is elevated and interest rates are rising, we expect a gradual easing of supply chain bottlenecks and labour shortages and expect management teams to continue to identify methods to employ new and innovative technologies to suppress rising costs. That said, with central bankers pivoting to tight from easy monetary policy and geopolitical tensions in Russia/Ukraine and Iran impacting already high oil and gas prices, market volatility is expected to remain high.

As a result, unlike 2021 where "a rising tide lifted all boats", we believe active management and careful stock selection are critical in the current market environment. In addition, investing in stable businesses with competent management teams should prove to be beneficial to performance. Rising interest rates are likely to have an outsized impact on companies with limited earnings visibility or excessive leverage. Our conviction lies in identifying the highest quality businesses who possess predictable streams of cash flow and healthy balance sheets. Dividend-paying and dividend-growing equities typically fit this description and will continue to form the foundation of Middlefield's portfolios.



**Dean Orrico**  
President and CEO  
Middlefield Capital Corporation



**Robert F. Lauzon**  
Managing Director and Chief Investment Officer  
Middlefield Capital Corporation

# An Award-Winning Family of Mutual Funds

## TRUST FUNDS

### GLOBAL HEALTHCARE DIVIDEND FUND

[MID 325/327/330] Series F [MID 326]

The Fund's objectives are to provide stable cash distributions and long-term total returns. The Fund invests primarily in dividend paying securities of global issuers operating in, or deriving a significant portion of their revenue or earnings from, the healthcare industry.

### INDEXPLUS INCOME FUND

[MID 435/437/440] Series F [MID 436]

The Fund's objectives are to pay monthly distributions and outperform the S&P/TSX Composite High Dividend Index. The Fund invests in a diversified portfolio of equity income securities of which a portion tracks the Index. The remainder of the portfolio is actively managed to enhance returns and reduce the risks associated with indexing, while maintaining low-cost exposure to the underlying equity income market.



4-STAR RATING (MORNINGSTAR)

### MIDDLEFIELD GLOBAL INFRASTRUCTURE FUND

[MID 510/519/520] Series F [MID 501]

The Fund's objective is to maximize long-term total return by investing in a diversified portfolio of companies that own, develop, maintain or are involved in the global infrastructure sector.



4-STAR RATING (MORNINGSTAR)

## CORPORATE CLASS FUNDS

### MIDDLEFIELD INCOME PLUS CLASS

[MID 800/849/850] Series F [MID 801]

The objective of this Fund is to provide a stable level of income while emphasizing capital preservation by investing in a diversified portfolio of equity and fixed income securities. Income Plus Class received Fundata's FUNDGRADE® "A" Award for outstanding performance in the 2013 calendar year.



WINNER OF THE 2017  
THOMSON REUTERS  
LIPPER FUND AWARDS  
CANADA



### MIDDLEFIELD U.S. DIVIDEND GROWERS CLASS

[MID 710/719/720] Series F [MID 701]

The objective of this Fund is to maximize long-term total return by investing primarily in dividend paying equity and fixed income securities of U.S. issuers.

### MIDDLEFIELD GLOBAL DIVIDEND GROWERS CLASS

[MID 181/183/186] Series F [MID 182]

The objective of this Fund is to maximize long-term total return by investing primarily in dividend paying equity and fixed income securities of global issuers.



4-STAR RATING (MORNINGSTAR)

### MIDDLEFIELD GLOBAL REAL ESTATE CLASS

[MID 600/ 649/ 650] Series F [MID 601]

The Fund's objectives are to provide a stable level of income and maximize long-term total return. The Fund invests primarily in equities, including real estate investment trusts and common stocks, as well as equity-related and fixed income securities of issuers operating in the real estate sector.



5-STAR RATING (MORNINGSTAR)



REFINITIV LIPPER  
FUND AWARDS  
2021 WINNER  
CANADA

### MIDDLEFIELD CANADIAN DIVIDEND GROWERS CLASS

[MID 148/449/450] Series F [MID 149]

The objective of this Fund is to provide long-term growth of capital through investment in equity and some debt securities. Investments are primarily in dividend paying equity and fixed income securities of Canadian issuers.

### MIDDLEFIELD GLOBAL SUSTAINABLE ENERGY CLASS

[MID 125/127/130] Series F [MID 126]

This Fund seeks to maximize long-term total return by investing in a portfolio of issuers that operate in or have exposure to the sustainable energy sector.

### MIDDLEFIELD GLOBAL AGRICULTURE CLASS

[MID 161/163/166] Series F [MID 162]

The objective of this Fund is to provide long-term growth of capital by investing in equity securities of issuers operating in the agricultural sector.

### MIDDLEFIELD HIGH INTEREST INCOME CLASS

[MID 400/424/425]

The objective of this Fund is to provide a high level of interest income by investing in high quality fixed income securities, while emphasizing capital preservation and liquidity.

All mutual funds are RRSP, RRIF, DPSP, RESP, RDSP and TFSA eligible. The Fund codes are listed in brackets after each fund name.

# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

FOR THE YEAR ENDED DECEMBER 31, 2021

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.

Securityholders 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's Discussion of Fund Performance

### Investment Objective and Strategies

Middlefield High Interest Income Class (the "Fund") is a mutual fund class of Middlefield Mutual Funds Limited. The Fund's objective is to provide a high level of interest income, while emphasizing capital preservation and liquidity. The Fund invests in high quality fixed-income securities, with maturities of generally not more than three years, including treasury bills and other short-term debt instruments. Investments are predominantly issued or guaranteed by federal or provincial governments, banks, or trust and loan companies, and may also include high grade commercial paper issued by corporations.

### Risk

The Fund is exposed to several risks that may affect its performance. The overall risk of the Fund is as described in its prospectus dated July 12, 2021. During 2021, the overall risk level of the Fund may have been impacted as follows:

#### Interest Rate Risk

The general level of interest rates impacts the earnings of the Fund. Equity markets continue to exhibit volatility due to high levels of inflation, supply chain bottlenecks, labour shortages, as well as the uncertain recovery from the Coronavirus outbreak. The Fund seeks to mitigate risk through active management and diversification.

### Results of Operations

#### Investment Performance

The net assets of the Fund decreased from \$14.7 million at December 31, 2020 to \$9.4 million at December 31, 2021. Net assets on a per share basis increased from \$12.17 at December 31, 2020 to \$12.20 at December 31, 2021. The increase stemmed primarily from earnings within the Fund.

### Revenue and Expenses

Revenue for the year ended December 31, 2021 amounted to \$85,000, down from \$108,000 in 2020 primarily due to decreased yields on the Fund's investments. Operating expenses for the year ended December 31, 2021, amounted to \$52,000, down from \$58,000 in 2020, which resulted in a management expense ratio ("MER") of 0.45%.

### Trends

The Bank of Canada has signaled its hiking cycle is likely to begin at the March 2022 meeting but with inflation being lower in Canada and less upside to commodity prices than this time last year, we believe the Bank of Canada will likely remain less hawkish than its US counterpart.

### 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 the Fund 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 from the Fund in connection with securities transactions. All brokerage commissions paid by the Fund to MCC were at or below market rates. For further details please see the notes to the financial statements.

### Management Fees

Management fees are calculated at 0.5% per annum of the net asset value of the Fund and are split between the Manager, the Advisor and investment dealers who receive trailing commissions. The Manager receives fees for the general administration of the Fund, 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 objective and strategies of the Fund.

### Financial Highlights

Net Assets Attributable to Holders of Redeemable Shares are 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.

# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

FOR THE YEAR ENDED DECEMBER 31, 2021

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the

indicated periods. Ratios and Supplemental Data are derived from the Fund's Net Asset Value.

## The Fund's Net Assets Per Share <sup>(1)</sup> – Series A

	2021	2020	2019	2018	2017
Net Assets Attributable to Holders of Redeemable Shares, Beginning of Year	\$ 12.17	\$ 12.11	\$ 11.91	\$ 11.76	\$ 11.68
<b>INCREASE (DECREASE) FROM OPERATIONS:</b>					
Total Revenue	0.09	0.11	0.27	0.22	0.13
Total Expenses <sup>(3)</sup>	(0.06)	(0.06)	(0.07)	(0.07)	(0.05)
Realized Gains (Losses) for the Year	-	-	-	-	-
Unrealized Gains (Losses) for the Year	-	-	-	-	-
<b>TOTAL INCREASE (DECREASE) FROM OPERATIONS <sup>(2)</sup></b>	<b>0.03</b>	<b>0.06</b>	<b>0.20</b>	<b>0.15</b>	<b>0.08</b>
Net Assets Attributable to Holders of Redeemable Shares, End of Year	\$ 12.20	\$ 12.17	\$ 12.11	\$ 11.91	\$ 11.76

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements.

<sup>(2)</sup> Net Assets Attributable to Holders of Redeemable Shares are based on the actual number of shares outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of shares outstanding over the financial year. This schedule is not a reconciliation of Net Asset Value since it does not reflect shareholder transactions as shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Shares and accordingly columns may not add.

<sup>(3)</sup> There were no distributions paid by the Fund.

## Ratios and Supplemental Data – Series A

	2021	2020	2019	2018	2017
Total Net Asset Value (000s) <sup>(1)</sup>	\$ 9,400	\$ 14,700	\$ 10,337	\$ 10,043	\$ 10,151
Number of Shares Outstanding <sup>(1)</sup>	770,485	1,208,234	853,478	843,168	862,937
Management Expense Ratio ("MER") <sup>(2)</sup>	0.45%	0.49%	0.54%	0.58%	0.44%
MER before waivers or absorptions <sup>(2)</sup>	0.70%	0.74%	0.81%	0.85%	0.70%
Trading Expense Ratio <sup>(3)</sup>	-	-	-	-	-
Portfolio Turnover Rate <sup>(4)</sup>	-	-	-	-	-
Net Asset Value Per Share	\$ 12.20	\$ 12.17	\$ 12.11	\$ 11.91	\$ 11.76

<sup>(1)</sup> This information is provided as at December 31 of the year shown.

<sup>(2)</sup> 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. Commencing in 2012, the Manager waived 50% of the Fund's 0.50% per annum management fee. The MER for 2021 would have amounted to 0.70% (December 31, 2020 – 0.74%) without the waiver. The Manager retains the right to discontinue this waiver any time.

<sup>(3)</sup> 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.

<sup>(4)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio investments are managed. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund 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.



# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

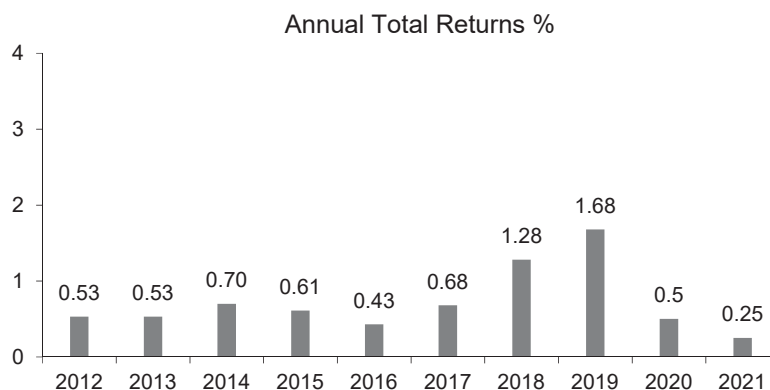
FOR THE YEAR ENDED DECEMBER 31, 2021

## 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 the Fund 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 the Fund'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 year would have grown or decreased by the last day of the financial year.



## Annual Compound Returns

	Periods Ended December 31, 2021			
	One Year	Three Years	Five Years	Ten Years
Middlefield High Interest Income Class – Series A	0.25%	0.81%	0.87%	0.72%
91 Day T-Bill Index	0.11%	0.73%	0.85%	0.81%

The 91 Day T-Bill Index (the "Index") represents the average rate of return on 91 day Canadian treasury bills.

The Fund's total return of 0.25% in 2021 outperformed the 0.11% return generated by the Index. The Fund's performance in 2021 was influenced by the low interest rate environment.

## Summary of Investment Portfolio

AS AT DECEMBER 31, 2021

### Top Twenty-Five Holdings\*

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

\*The Fund held only cash as at December 31, 2021

ASSET CLASS	% OF NET ASSET VALUE
Cash and Short-Term Investments	100%

TOTAL NET ASSET VALUE	\$ 9,400,205
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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 Middlefield High Interest Income Class (the "Fund") have been prepared by Middlefield Limited (the "Manager"), the manager of Fund 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 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 the Fund 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.

Deloitte LLP is the external auditor of the Fund. They have audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the financial statements.



Jeremy Brasseur  
Director



Craig Rogers  
Director

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Middlefield High Interest Income Class (the "Fund")

### Opinion

We have audited the financial statements of the Fund, which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable shares and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue

as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants  
Licensed Public Accountants  
Toronto, Ontario  
March 24, 2022

# FINANCIAL STATEMENTS

## Statements of Financial Position

AS AT DECEMBER 31

(In Canadian Dollars)

2021

2020

### ASSETS

#### Current Assets

Cash	\$	9,404,168	\$	14,704,632
Income and Interest Receivable		5,204		9,000
Subscriptions Receivable		3,656		6,498
Total Assets		9,413,028		14,720,130

### LIABILITIES

#### Current Liabilities

Accounts Payable and Accrued Liabilities		10,671		16,663
Management Fee Payable (Note 7)		2,152		3,923
Total Liabilities (Excluding Net Assets Attributable to Holders of Redeemable Shares)	\$	12,823	\$	20,586

Net Assets Attributable to Holders of Redeemable Shares – Series A	\$	9,400,205	\$	14,699,544
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Mutual Fund Shares Issued and Outstanding (Note 6)		770,485		1,208,234
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Net Assets Attributable to Holders of Redeemable Shares per Share – Series A	\$	12.20	\$	12.17
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The accompanying notes to financial statements are an integral part of these financial statements.

Approved by the Board of Directors:



Director: Francisco Z. Ramirez



Director: Catherine E. Rebulde



# FINANCIAL STATEMENTS

## Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31

(In Canadian Dollars)

	2021	2020
<b>REVENUE(LOSS)</b>		
Interest Income for Distribution Purposes	\$ 84,534	\$ 107,552
<b>OPERATING EXPENSES</b> (Note 7)		
Audit Fees	3,224	5,332
Custodial Fees	-	760
Fund Administration Costs	12,531	11,992
Legal Fees	865	-
Management Fee	28,349	29,040
Securityholder Reporting Costs	6,772	10,565
Total Operating Expenses	51,741	57,689
Profit (Loss)	\$ 32,793	\$ 49,863
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares – Series A	\$ 32,793	\$ 49,863
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares per Share – Series A (Note 6)	\$ 0.03	\$ 0.05

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares – Series A

FOR THE YEARS ENDED DECEMBER 31

(In Canadian Dollars)

	2021	2020
Net Assets Attributable to Holders of Redeemable Shares at Beginning of Year	\$ 14,699,544	\$ 10,337,065
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares	32,793	49,863
<b>REDEEMABLE SHARE TRANSACTIONS:</b>		
Proceeds from Issue of Shares	204,841	4,802,941
Payment on Redemption of Shares	(5,536,973)	(490,325)
	(5,332,132)	4,312,616
Net Assets Attributable to Holders of Redeemable Shares at End of Year	\$ 9,400,205	\$ 14,699,544

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

# FINANCIAL STATEMENTS

## Statements of Cash Flows

FOR THE YEAR ENDED DECEMBER 31

(In Canadian Dollars)

	2021	2020
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>		
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares	\$ 32,793	\$ 49,863
Adjustments:		
Proceeds from Maturity of Investments	-	28,478,745
Purchases of Investments	-	(18,493,675)
	<b>32,793</b>	<b>10,034,933</b>
Net Change in Non-Cash Working Capital	<b>(3,967)</b>	<b>15,030</b>
Net Cash from (used in) Operating Activities	<b>28,826</b>	<b>10,049,963</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>		
Proceeds from Issue of Shares	<b>207,683</b>	12,889,215
Payment on Redemption of Shares	<b>(5,536,973)</b>	(8,578,913)
Net Cash from (used in) Financing Activities	<b>(5,329,290)</b>	<b>4,310,302</b>
Increase (Decrease) in Cash	<b>(5,300,464)</b>	14,360,265
Cash at Beginning of Year	<b>14,704,632</b>	344,367
Cash at End of Year	<b>\$ 9,404,168</b>	<b>\$ 14,704,632</b>

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

## Schedule of Investment Portfolio

AS AT DECEMBER 31, 2021

(In Canadian Dollars)

Description	Average Cost	Fair Value
Cash: 100%	\$ 9,404,168	\$ 9,404,168
Total Investment Portfolio, including Cash	<b>\$ 9,404,168</b>	<b>\$ 9,404,168</b>

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

## 1. Middlefield High Interest Income Class

Middlefield High Interest Income Class (the "Fund") is one of eight classes of issued mutual fund shares of Middlefield Mutual Funds Limited (the "Corporation"), a mutual fund corporation continued under the laws of Alberta. Effective January 1, 2017, switches between classes of a mutual fund corporation are considered a disposition at fair market value for tax purposes, resulting in the recognition of capital gains or losses for investors. The changes have not affected switches between Series A and Series F securities of the same Mutual Fund class. The Fund first issued shares on June 11, 2004. The investment objective of the Fund is to provide a high level of interest income by investing in high quality fixed-income securities. Middlefield Limited is the manager of the Fund (the "Manager"). The address of the Fund'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 the Fund on March 24, 2022.

## 2. 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.

## 3. Summary of Significant Accounting Policies

### A. Basis of Accounting

#### IFRS 9 *Financial Instruments* ("IFRS9")

The Fund classifies and measures financial instruments in accordance with IFRS 9, which requires assets to be carried at amortized cost or fair value, with changes in fair value recognized in profit and loss or other comprehensive income, based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. The Fund's financial assets and liabilities are classified at fair value through profit or loss ("FVTPL") and amortized cost.

#### Classification, Measurement, Impairment and Hedge Accounting

The Fund classifies its investments in debt and equity securities based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. These financial assets are managed and their performance is evaluated on a fair value basis. The Fund also manages these financial assets with the objective of realizing cash flows through sales. Further, an option to irrevocably designate any equity securities at fair value through other comprehensive income ("FVOCI") was chosen upon adoption. Consequently, these financial assets are mandatorily measured at FVTPL.

Financial assets or financial liabilities held for trading are those acquired principally for the purpose of selling or repurchasing in the near future or on initial recognition they are a part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short term profit taking. All derivatives and short positions are included in this category and mandatorily measured at FVTPL. The financial assets and liabilities measured at amortized cost include cash collateral posted on derivative positions, accrued income, due to and from brokers and other short term receivables and payables.

IFRS 9 uses the expected credit loss model ("ECL"), as the new impairment model for financial assets carried at amortized cost. The Fund's financial assets measured at amortized cost consist of trade receivables with no financing component and which have maturities of less than 12 months, as such, it has chosen to apply the simplified ECL approach, whereby any loss allowance is recognized based on the lifetime of ECLs. Due to the high quality and short-term nature of the trade receivables, there are no expected credit losses associated with them and they are not considered impaired at the reporting dates.

The Fund does not apply general hedge accounting to any of its derivatives positions.

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

## 3. Summary of Significant Accounting Policies (continued)

### B. Financial Instruments

The Fund'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, subscriptions receivable, prepaid expenses, accounts payable – portfolio securities purchased, management fee payable, accounts payable and accrued liabilities, redemptions payable and distributions payable. The Fund 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. The Fund's investments and derivative assets and liabilities are measured at fair value. The Fund's Net Assets Attributable to Holders of Redeemable Shares 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. The Fund'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 shareholders.

The Fund only offsets financial assets and financial liabilities if the Fund 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.

### C. Redeemable Shares and Net Assets Attributable to Holders of Redeemable Shares

The Fund has one series of redeemable shares in issue, Series A, for which the management fee rate is 0.5%.

Redeemable shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's NAV attributable to the share class. The redeemable shares are classified as financial liabilities and are measured at the redemption amounts.

Redeemable shares are issued and redeemed based on the Fund's NAV per share, calculated by dividing the net assets of the Fund, calculated in accordance with the Fund's Simplified Prospectus, by the number of redeemable shares in issue. The Fund's Simplified Prospectus requires that investment positions are valued on the basis of the last traded market price for the purpose of determining the trading NAV per share for subscriptions and redemptions.

The financial assets and liabilities at fair value through profit or loss in the Statements of Financial Position are based on closing prices in accordance with IFRS.

Distributions are declared at the discretion of the board of directors of the Corporation. The board of directors has adopted a policy of annually assessing the Corporation's net income and net realized capital gains and declaring distributions including, if applicable, capital gains dividends to refund tax which would otherwise be payable by the Corporation. Distributions to holders of redeemable shares are recognized in the Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares. Income not distributed is included in Net Assets Attributable to Holders of Redeemable Shares. No distributions have been paid by the Fund.

### D. Fair Value Measurement

The Fund'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. The Fund 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. The Fund 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.



# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

## 3. Summary of Significant Accounting Policies (continued)

### 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 an unrealized gain (loss) on investments. Income from investments is recognized on the ex-dividend or ex-distribution date. Interest income for distribution purposes shown on the Statements of Comprehensive Income represents the interest received on bank deposits by the Fund and, if the Fund holds fixed income investments, coupon interest accounted for on an accrual basis. The Fund 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. The interest income for distribution purposes 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.

### F. Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares Per Share

Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares per share in the Statements of Comprehensive Income represents the increase (decrease) in Net Assets Attributable to Holders of Redeemable Shares divided by the average shares outstanding during the year.

### G. Income Taxes

The Corporation qualifies as a mutual fund corporation as defined in the *Income Tax Act* (Canada) (the "Tax Act"). The Corporation is subject to tax at the full corporate rate on its taxable income. Dividends received from taxable Canadian corporations are generally not included in the taxable income of the Corporation but are subject to a special tax, refunded at a rate of 38 1/3% of taxable dividends distributed by the Corporation to its shareholders. Capital gains realized in the year are included in the taxable income of the Fund at the applicable capital gains rate. The Corporation is eligible for a refund calculated on a formula basis when mutual fund shares are redeemed or when capital gains dividends are paid to shareholders. The Corporation endeavours to pay out sufficient Canadian dividends and net capital gains so that it will not be subject to refundable income taxes in respect of income from those sources. However, the Corporation will be liable for non-refundable income tax if its income from other sources exceeds its expenses for the year.

Temporary differences between the carrying values of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. The most significant temporary difference is that between the reported fair value of the investment portfolio and its adjusted cost base ("ACB") for income tax purposes. To the extent that the fair value of the portfolio exceeds its ACB, a future tax liability arises. Since capital gains taxes payable by the Corporation are refundable under the relevant provisions of the Tax Act, the future tax liability is fully offset by these future refundable taxes. Conversely, when the ACB exceeds the fair value of the portfolio, a future tax asset is generated. In such cases, a full valuation allowance is taken to offset this asset given the uncertainty that such future tax assets will ultimately be realized.

### 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. 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 the Fund has made in preparing the financial statements:

#### Determination of Functional Currency

'Functional currency' is the currency of the primary economic environment in which the Fund 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 the Fund'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 the Fund is Canadian dollars.

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

## 3. Summary of Significant Accounting Policies (continued)

### I. Critical Accounting Estimates and Judgments (continued)

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

The Fund 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, the Fund 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.

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. The Fund 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 4 for further information about the fair value measurement of the Fund's financial instruments.

## 4. Fair Value Disclosure

The Fund 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 Fund held only cash as at December 31, 2021 and 2020.

All fair value measurements above are recurring. The carrying values of cash, income and interest receivable, subscriptions receivable, accounts payable and accrued liabilities, management fee payable and the Fund's obligation for Net Assets Attributable to Holders of Redeemable Shares approximates their fair values due to their short-term nature.

Fair values 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.

#### Short-Term Investments

The Fund's short-term investments include government promissory notes and treasury bills, and bankers' acceptances and bank obligations. These securities are valued using models with inputs including interest curves, credit spreads, and volatilities are generally observable and therefore these securities have been classified as Level 2.

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

## 4. Fair Value Disclosure (continued)

The Fund'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 occurred during the years ended December 31, 2021 and 2020.

## 5. Financial Risk Management

In the normal course of business the Fund is exposed to a variety of financial risks: interest rate risk, liquidity risk, credit risk and concentration risk. The Fund'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 the Fund's risks and related exposures are consistent with its objectives and risk tolerance.

Most of the Fund's risks are derived from its investments. The value of the investments within the Fund's 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 the Fund. The investments are made in accordance with the Fund'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. Interest Rate Risk

Interest rate risk describes the Fund's exposure to changes in the general level of interest rates. Interest rate risk arises when the Fund invests in interest-bearing financial assets such as cash, bankers' acceptances, treasury bills, promissory notes and other debt securities. The earnings of the Fund are positively correlated to interest rates as they relate to interest on cash balances. Rising interest rates serve to increase the Fund's earnings while the reverse is true in a declining interest rate environment. The Fund is also exposed to the risk that the value of financial assets such as bonds and debentures 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. The Fund seeks to mitigate this risk through active management, which involves 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, 2021 and 2020.

As at December 31, 2021	Less than 1 Year
Cash	\$ 9,404,168
Total Exposure	\$ 9,404,168

As at December 31, 2020	Less than 1 Year
Cash	\$ 14,704,632
Total Exposure	\$ 14,704,632

Based on the above exposure at December 31, 2021, a 1% per annum increase or decrease in interest rates would result in a \$94,042 (December 31, 2020 – \$147,046) increase or decrease in net assets of the Fund, with all other factors held constant.

### B. Liquidity Risk

Liquidity risk is defined as the risk that the Fund may not be able to settle or meet its obligations when due. The Fund is exposed to daily cash redemptions of its shares. The shares of the Fund are issued and redeemed on demand at the NAV per share. All other obligations of the Fund are due within one year. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily sold. The Fund retains sufficient cash to maintain liquidity and comply with liquidity requirements as outlined by securities legislation and its investment policies.

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

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

## 5. Financial Risk Management (continued)

### B. Liquidity Risk (continued)

As at December 31, 2021

Financial Liabilities	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	Total
Accounts Payable and Accrued Liabilities	\$ 10,671	\$ -	\$ -	\$ 10,671
Management Fee Payable	2,152	-	-	2,152
Net Assets Attributable to Holders of Redeemable Shares	9,400,205	-	-	9,400,205
Total	\$ 9,413,028	\$ -	\$ -	\$ 9,413,028

As at December 31, 2020

Financial Liabilities	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	Total
Accounts Payable and Accrued Liabilities	\$ 16,663	\$ -	\$ -	\$ 16,663
Management Fee Payable	3,923	-	-	3,923
Net Assets Attributable to Holders of Redeemable Shares	14,699,544	-	-	14,699,544
Total	\$ 14,720,130	\$ -	\$ -	\$ 14,720,130

### C. Credit Risk

Credit risk represents the financial loss that the Fund would experience if a counterparty to a financial instrument failed to meet its obligations to the Fund. The Fund is exposed to credit risk on its debt instruments, derivative assets, cash and cash equivalents and other short term trade receivables. The Fund measures credit risk and lifetime ECLs related to the trade receivables using historical analysis and forward looking information in determining the ECL. The carrying amounts of financial assets represent the maximum credit exposure. All transactions executed by the Fund 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 the Fund's receivables.

The Fund's credit risk is primarily attributable to its investment in debt instruments because the issuer of the instrument may be unable to make interest payments or repay the principal amount on maturity. The concentration of credit risk of investments in debt instruments is minimal since the Fund invests in a variety of debt instruments issued by numerous issuers.

The Fund 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. The Fund 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, 2021 and 2020 the Fund did not hold any short-term investments.



# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

## 5. Financial Risk Management (continued)

### D. Concentration Risk

The Fund is exposed to the possible risk inherent in the concentration of the investment portfolio in a small number of investment sectors. The Manager moderates this risk through careful selection of securities in several investment sectors. The Fund held only cash as at December 31, 2021 and 2020.

## 6. Share Capital

The mutual fund shares and five common shares of the Corporation have equal rights and privileges except that the common shares may not be redeemed. Changes in issued mutual fund shares of the Fund are summarized as follows:

	Number of Shares – Series A	
	2021	2020
Shares Outstanding at Beginning of Year	1,208,234	853,478
Shares Issued	16,821	395,159
Shares Redeemed	(454,570)	(40,403)
Net Increase (Decrease)	(437,749)	354,756
Shares Outstanding at End of Year	770,485	1,208,234

The average number of Series A shares outstanding during the year ended December 31, 2021 was 939,631 (December 31, 2020 – 970,159). These numbers were used to calculate the respective Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares per share.

## 7. Management Fee and Operating Expenses

The Manager provides investment and administrative services to the Fund. In consideration for such services the Manager receives a monthly fee in arrears of 0.50% per annum of the average daily NAV of the Fund. During 2021, the Manager waived 50% (2020 – 50%) of the management fee. The Manager is reimbursed for reasonable costs related to maintaining the Fund and preparation and distribution of financial statements and other documents to shareholders. For the year ended December 31, 2021, management fees before the absorption of expenses amounted to \$28,000. The Fund is responsible for the payment of all expenses relating to the operation of the Fund and the carrying on of its business.

## 8. Transaction Costs

There were no brokerage commissions or other transaction costs paid in connection with securities transactions during 2021 and 2020.

## 9. Loss Carryforwards

At December 31, 2021, the Corporation had no non-capital losses (December 31, 2020 – \$nil) and no capital losses (December 31, 2020 – \$nil) available for carryforward for tax purposes.

## 10. Capital Management

The Fund's capital is its Net Assets Attributable to Holders of Redeemable Shares, representing shareholders' equity. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders, maximize shareholder value and maintain financial strength.

The Fund is not subject to any externally imposed capital requirements. The Fund's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2020.

11. The outbreak of the novel coronavirus (COVID-19) has led to governments around the world enacting emergency measures that resulted in business disruptions, volatility in markets and a global economic slowdown. The Manager uses judgment in assessing the impact from such events on assumptions and estimates applied in reporting the assets and liabilities in the Fund's financial statements at December 31, 2021. The duration and full extent of impact of the COVID-19 pandemic are unknown at the reporting date and it is therefore not possible to reliably estimate the entire impact on the financial results and position of the Fund in future periods.

# MIDDLEFIELD FUNDS FAMILY |

EXCHANGE - TRADED FUNDS (ETFs)	TSX Stock Symbol
• Middlefield Healthcare Dividend ETF (formerly Healthcare & Life Sciences ETF)	MHCD
• Middlefield Health & Wellness ETF	HWF
• Middlefield Innovation Dividend ETF (formerly Global Innovation Dividend Fund)	MINN
• Middlefield Sustainable Global Dividend ETF (formerly Global Dividend growers Income Fund)	MDIV
• Middlefield Sustainable Infrastructure Dividend ETF (formerly Sustainable Infrastructure Dividend Fund)	MINF
• Middlefield Real Estate Dividend ETF (formerly Middlefield REIT INDEXPLUS ETF)	MREL
• Middlefield U.S. Equity Dividend ETF (formerly Middlefield American Core Dividend ETF)	MUSA
<b>TSX-LISTED FUNDS</b>	
• E Split Corp.	ENS   ENS.PR.A
• International Clean Power Dividend Fund	CLP.UN
• MBN Corporation	MBN
• Middlefield Global Real Asset Fund	RA.UN
• MINT Income Fund	MID.UN
• Real Estate Split Corp. (formerly Real Estate & E-Commerce Split Corp.)	RS   RS.PR.A
• Sustainable Agriculture & Wellness Dividend Fund	AGR.UN
• Sustainable Innovation & Health Dividend Fund	SIH.UN
• Sustainable Real Estate Dividend Fund (commenced March 30, 2022)	MSRE.UN
• Workplace Technology Dividend Fund (commenced November 17, 2021)	WORK.UN
<b>MIDDLEFIELD MUTUAL FUNDS TRUST FUNDS</b>	<b>Fund Code</b>
<b>Series A Units</b>	<b>FE/LL/DSC</b>
• Global Healthcare Dividend Fund	MID 325/327/330
• INDEXPLUS Income Fund	MID 435/437/440
• Middlefield Global Infrastructure Fund	MID 510/519/520
<b>Series F Units</b>	
• Global Healthcare Dividend Fund	MID 326
• INDEXPLUS Income Fund	MID 436
• Middlefield Global Infrastructure Fund	MID 501
<b>MIDDLEFIELD MUTUAL FUNDS CORPORATE CLASS FUNDS</b>	<b>Fund Code</b>
<b>Series A Shares</b>	<b>FE/LL/DSC</b>
• 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 Real Estate Class	MID 600/649/650
• Middlefield Global Sustainable Energy Class	MID 125/127/130
• Middlefield High Interest Income Class	MID 400/424/425
• Middlefield Income Plus Class	MID 800/849/850
• Middlefield U.S. Dividend Growers Class	MID 710/719/720
<b>Series F Shares</b>	
• Middlefield Canadian Dividend Growers Class	MID 149
• Middlefield Global Agriculture Class	MID 162
• Middlefield Global Dividend Growers Class	MID 182
• Middlefield Global Real Estate Class	MID 601
• Middlefield Global Sustainable Energy Class	MID 126
• Middlefield Income Plus Class	MID 801
• Middlefield U.S. Dividend Growers Class	MID 701
<b>RESOURCE FUNDS</b>	
• Discovery 2021 Short Duration LP (commenced September 22, 2021)	
• MRF 2021 Resource Limited Partnership	
• MRF 2022 Resource Limited Partnership (commenced February 17, 2022)	
<b>INTERNATIONAL FUNDS</b>	
• Middlefield Canadian Income PCC	London UK Stock Exchange (LSE) Symbol:MCT

**Dean Orrico**

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Executive Chairman

**Robert F. Lauzon, CFA**

Chief Investment Officer

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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

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**Advisors**

Middlefield Capital Corporation

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Assistant Vice-President

**Scott Hu**

Associate, Information Technology

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Accountant

**Stephen Chamberlain**

Vice-President,

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MFL Management Limited

MF Properties Limited

Middlefield International Limited

Middlefield Limited

Middlefield Realty Services Limited

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