

# MBN CORPORATION



# MIDDLEFIELD

*Performance. One Step at a Time.*



(L-R) **Jeremy Brasseur**, Managing Director, Corporate Development, **Nancy Tham**, Managing Director, Sales and Marketing, **Andy Nasr**, Executive Director and Portfolio Manager, **Rob Lauzon**, Managing Director, Western Canada, Discovery Funds, **Dean Orrico**, President and CIO, **Richard Faiella**, Managing Director, International, and **Dennis da Silva**, Managing Director, Senior Portfolio Manager, MRF Funds

Since its inception in 1979, the Middlefield Group, with over \$3.2 billion in assets under management, has established a strong reputation as a manager of unique investment products designed to balance risk and return to meet the demanding requirements of investment advisors and their clients. These financial products include Mutual Funds, Private and Public Resource Funds, Venture Capital Assets, TSX Publicly Traded Funds and Real Estate Investment Partnerships.

Initial Public Offering

December 2013

**AMERICAN  
CORE SECTORS**   
DIVIDEND FUND

**\$50,000,000**

**AMERICAN CORE SECTORS DIVIDEND FUND**  
*managed by Middlefield Group*

**Price: \$10 per unit**

CIBC WORLD MARKETS INC.	RBC DOMINION SECURITIES INC.	
BMO NESBITT BURNS INC.	SCOTIABANK CAPITAL INC. NATIONAL BANK FINANCIAL INC.	TD SECURITIES INC.
CANACCORD GENUITY CORP.	GMP SECURITIES L.P.	RAYMOND JAMES LTD.
MACKIE RESEARCH CAPITAL CORPORATION	DUNDEE SECURITIES LTD.	MIDDLEFIELD CAPITAL CORPORATION MANULIFE SECURITIES INCORPORATED

Rights Offering

January 2013

# MINT

INCOME FUND

**\$33,971,931**

**MINT INCOME FUND**  
managed by Middlefield Group

**Price: \$9 per unit**

MIDDLEFIELD CAPITAL CORPORATION

Initial Public Offering

February 2013



## MIDDLEFIELD RESOURCE FUNDS

**\$40,000,000**

**MRF 2013 RESOURCE LIMITED PARTNERSHIP**  
managed by Middlefield Group

**Price: \$25 per unit**

CIBC WORLD MARKETS INC.	RBC DOMINION SECURITIES INC.
BMO NESBITT BURNS INC.	SCOTIA CAPITAL INC.
GMP SECURITIES L.P.	NATIONAL BANK FINANCIAL INC.
CANACCORD GENUITY CORP.	TD SECURITIES INC.
	MANULIFE SECURITIES INCORPORATED
	MACQUARIE PRIVATE WEALTH INC.
	MIDDLEFIELD CAPITAL CORPORATION
	RAYMOND JAMES LTD.
	DUNDEE SECURITIES LTD.

Initial Public Offering

March 2013

# GLOBAL DIVIDEND GROWERS

INCOME FUND

**\$65,000,000**

**GLOBAL DIVIDEND GROWERS INCOME FUND**  
managed by Middlefield Group

**Price: \$10 per unit**

CIBC WORLD MARKETS INC.	RBC DOMINION SECURITIES INC.
SCOTIA CAPITAL INC.	TD SECURITIES INC.
BMO NESBITT BURNS INC.	NATIONAL BANK FINANCIAL INC.
CANACCORD GENUITY CORP.	MACQUARIE PRIVATE WEALTH INC.
GMP SECURITIES L.P.	RAYMOND JAMES LTD.
	MACKIE RESEARCH CAPITAL CORPORATION
	MIDDLEFIELD CAPITAL CORPORATION
	DUNDEE SECURITIES LTD.

Cash and Exchange Offering

August 2013

# MINT

INCOME FUND

**\$65,000,000**

**MINT INCOME FUND**  
managed by Middlefield Group

**Price: \$10.0208 per unit**

CANACCORD GENUITY CORP.  
MIDDLEFIELD CAPITAL CORPORATION

Treasury Offering

September 2013

# GLOBAL DIVIDEND GROWERS

INCOME FUND

**\$23,133,596**

**GLOBAL DIVIDEND GROWERS INCOME FUND**  
managed by Middlefield Group

**Price: \$10.04 per unit**

CIBC WORLD MARKETS INC.	RBC DOMINION SECURITIES INC.
BMO NESBITT BURNS INC.	SCOTIA CAPITAL INC.
CANACCORD GENUITY CORP.	NATIONAL BANK FINANCIAL INC.
GMP SECURITIES L.P.	TD SECURITIES INC.
	MANULIFE SECURITIES INCORPORATED
	MACQUARIE PRIVATE WEALTH INC.
	RAYMOND JAMES LTD.
	MACKIE RESEARCH CAPITAL CORPORATION
	MIDDLEFIELD CAPITAL CORPORATION
	DUNDEE SECURITIES LTD.

Initial Public Offering

October 2013



**\$25,000,000**

**DISCOVERY 2013 FLOW-THROUGH LIMITED PARTNERSHIP**  
managed by Middlefield Group

**Price: \$25 per unit**

RBC CAPITAL MARKETS	CIBC WORLD MARKETS INC.
BMO NESBITT BURNS INC.	SCOTIA CAPITAL INC.
CANACCORD GENUITY CORP.	NATIONAL BANK FINANCIAL INC.
GMP SECURITIES L.P.	TD SECURITIES INC.
	MANULIFE SECURITIES INCORPORATED
	MACQUARIE PRIVATE WEALTH INC.
	MIDDLEFIELD CAPITAL CORPORATION
	RAYMOND JAMES LTD.
	DUNDEE SECURITIES LTD.

# Middlefield

## CORPORATE PROFILE

Since its inception in 1979, the Middlefield Group, with over \$3 billion in assets under management, has established a strong reputation as a creator and manager of unique investment products designed to balance risk and return to meet the demanding requirements of investment advisors and their clients. These financial products include Mutual Funds, Private and Public Resource Funds, Venture Capital Assets, TSX Publicly Traded Funds and Real Estate Investment Partnerships.

Many of Middlefield's investment products are designed and managed by our own professionals while some involve strategic partnerships with other "best-in-class" firms that bring unique value to our product offerings. Our investment team comprises portfolio managers, analysts and traders. Guardian Capital LP, one of the pioneers in developing income products, acts as Co-Advisor on several of our income funds while Groppe, Long & Littell, based in Houston and one of the world's leading forecasters of oil and natural gas prices, acts as Special Advisor with respect to the strategic outlook for the energy sector.

Looking ahead, Middlefield remains committed to the goal of developing new and unique investment products to assist investment advisors in providing added value for their clients.

### TABLE OF CONTENTS

	Corporate Profile
3	Shareholders Message and Outlook
5	Annual Management Report of Fund Performance
10	Management's Responsibility for Financial Reporting
10	Independent Auditor's Report
11	Financial Statements
14	Notes to Financial Statements
20	Middlefield Funds Family Corporate Information

---

### A NOTE ON FORWARD LOOKING STATEMENTS

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

MANAGED BY MIDDLEFIELD LIMITED, WHICH IS A MEMBER OF THE MIDDLEFIELD GROUP.

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

## Shareholders Message and Outlook

Global equity markets in developed economies performed well throughout 2013 as monetary policy remained accommodative by the central banks. Mid-year, a rotation out of fixed income into equities was prevalent as the market anticipated higher interest rates and the start of fed tapering due to positive economic news both in the U.S. and Europe.

As we look ahead, continued evidence that global economic growth is reaccelerating is apparent. The recent loss of momentum in the U.S. economy should prove to be a temporary weather related event as growth should pick up in the second half of 2014. Europe’s economy is turning the corner while ongoing reforms in China should avoid a major credit crisis in that country. Central banks seem to be concerned regarding deflation, causing them to maintain their ultra-easy policies which should translate into positive equity

returns again this year. This backdrop bodes well for MBN’s value creation strategy as quality deal flow in the asset management sector has improved recently. In addition, both the public and private equity markets continue to provide the Company with opportunities to grow assets in 2014.

The Company’s positive performance during 2013 was primarily attributable to the strong showing of North American portfolio securities held within the energy, industrial and financial sectors. During the latter half of the year, investor interest returned to the Canadian energy sector as strong oil and natural gas prices combined with a weak Canadian dollar bolstered the sector’s fundamentals. MBN benefitted from these tailwinds through its holdings in Tourmaline Oil, Delphi Energy, Twin Butte Energy and Canadian Natural Resources.

## SHAREHOLDERS MESSAGE AND OUTLOOK

MBN is focused on a dual track strategy to create long-term shareholder value. The first track is to grow assets under management through mergers with other investment funds in order to provide investors with increased trading liquidity and a reduction in per share administrative expenses. The second track is to pursue opportunities within the broader financial services sector to acquire other investment management companies and/or establish such companies with proven, best-in-class investment managers. This latter strategy leverages upon Middlefield's considerable track record as a manager within the investment funds space.

In keeping with MBN's first track strategy, MBN merged with Uranium Focused Energy Fund on August 28, 2013 providing investors with the opportunity to hold shares of an investment company that offered a larger market capitalization, increased trading liquidity and lower operating costs on a per share basis. MBN is now better positioned to pursue its strategy to enhance shareholder value.



**Dean Orrico**  
Director and  
Chief Investment Officer



**Robert Lauzon**  
President and  
Chief Executive Officer

## Investment Philosophy

### SHAREHOLDER VALUE

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

### INVESTMENT STYLE

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

### RISK MANAGEMENT

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

### MANAGEMENT COMMITMENT

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



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

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

## Management Report of Fund Performance

### Investment Objective and Strategies

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

### Risk

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

#### Market Risk

Market risk describes MBN's exposure to volatility in the market value of its underlying securities. Equity and foreign exchange markets continued to exhibit volatility in 2013 due to macroeconomic and political uncertainty across the globe. Volatile commodity prices continued to be affected by infrastructure bottlenecks and weather patterns. The instability in commodity prices and energy pricing differentials led to increased market risk. MBN seeks to mitigate risk through active management, portfolio diversification and through consultation with Groppe, Long & Littell ("Groppe"), an oil and natural gas consulting firm based in Houston, who acts as a Special Advisor to Middlefield Capital Corporation, the advisor to MBN ("MCC" or the "Advisor"). Groppe provides analysis of the global and political forces impacting the prices of oil and natural gas.

### Results of Operations

#### Investment Performance

During 2013, the net assets of MBN increased from \$14.8 million at December 31, 2012 to \$29.7 million at December 31, 2013 and on a per equity share basis

increased from \$5.96 at December 31, 2012 to \$6.67 at December 31, 2013. MBN merged with Uranium Focused Energy Fund ("Uranium") in August 2013 which added \$13.5 million in net assets. The increase in net assets per equity share is attributable to the gains realized from investments resulting from the strong performance of the energy sector.

### Revenue and Expenses

Revenue for the year ended December 31, 2013 amounted to approximately \$0.3 million, down from approximately \$1.0 million in 2012 since 2012 included a \$0.9 million gain on debt forgiveness. Expenses for 2013 totalled \$0.5 million, a decrease of \$0.1 million from the prior year primarily due to the sale of its oil and gas properties and related administration costs in 2013. The management expense ratio ("MER") of 2.47% was significantly lower than in 2012 since a one-time loss on sale of oil and gas properties was included when calculating the MER in 2012. The net investment loss amounted to approximately \$0.2 million in 2013 compared to net investment income of approximately \$0.4 million in the prior year. On a per equity share basis the net investment loss in 2013 amounted to \$0.06 compared to net investment income of \$0.16 in 2012. No dividends were paid to shareholders during 2013.

### Repurchase Agreements

MBN may enter into repurchase agreements with its custodian. MBN receives cash from its custodian against a selected basket of securities as collateral. The collateral securities are returned to MBN when the cash is paid back to its custodian and the agreement is closed. MBN accrues a charge, on a daily basis, on the outstanding value of the repurchase agreements. As at December 31, 2013, MBN had no outstanding repurchase agreements.

### Trends

Equity markets, led by the U.S. and Japan, performed well last year as accommodative policy actions positively affected global economic growth. Europe has exited recession, emerging economies have stabilized and the U.S. is well positioned to benefit from renewed consumer and corporate spending. While equity valuations have increased, we believe that corporate profitability will continue to grow and support equity prices in the U.S. and Canada. Furthermore, although we expect interest rates to gradually rise as the U.S. Federal Reserve slows its quantitative easing program, the U.S. economy is not showing evidence of a cyclical peak. As such, sustained growth in the U.S. will continue with a corresponding positive impact on global trade and corporate profitability in Canada. Canadian equity valuations are very reasonable and corporate earnings, supported by a recovery in the resource sector, are expected to increase as global demand accelerates.

Our equity allocation remains biased toward developed economies where consumers and corporations are expected to increase spending after going through several years of debt reduction. In addition, rising home prices and higher equity markets should also support consumer confidence and encourage additional spending, borrowing, hiring and capital investment.

#### 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. MCC, a company under common control with the Manager and the Advisor to MBN, receives advisory fees from the Manager out of the management fee. MCC also receives brokerage commissions in connection with securities transactions from MBN. All brokerage commissions paid by MBN were at or below market rates. For further details please see the notes to the financial statements.

#### Management Fees

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

#### Recent Developments

On September 10, 2013, MBN received approval from the Toronto Stock Exchange to make a normal course issuer bid for its equity shares. The notice of intent (the “Notice”) enables MBN to purchase up to 384,364 equity shares, being 10% of the public float of the equity shares, during the 12 month period from September 12, 2013 to September 11, 2014. Shareholders may obtain a copy of the Notice, without charge, by contacting MBN.

On August 28, 2013, Uranium merged with MBN, with MBN being the continuing fund. MBN issued 2,136,369 equity shares at a value of \$13.5 million in exchange for the assets of Uranium. The number of equity shares was calculated using an exchange ratio based on the relative net asset values of MBN and Uranium as at the close of trading on August 27, 2013 in accordance with the terms of the merger agreement.

#### Future Accounting Changes

*International Financial Reporting Standards (“IFRS”)*  
MBN will adopt IFRS for its fiscal year beginning January 1, 2014, and will issue its initial financial statements in accordance with IFRS, including comparative information, for the interim period ending June 30, 2014.

The Manager has developed an IFRS changeover plan to meet the implementation date published by the Canadian Accounting Standards Board (“AcSB”). Key elements of the plan include identifying the differences between IFRS and current Canadian generally accepted accounting principles (“Canadian GAAP”), determining appropriate changes to MBN’s accounting policies, working with our valuation agent in implementing the required changes to MBN’s accounting policies, if any, and amending templates to future financial statement disclosures.

IFRS 13 – “Fair Value Measurement,” which defines fair value, sets out the framework for measuring and disclosing fair value. If an asset or liability measured at fair value has a bid or ask price, it requires the valuation to be based on a price within the bid-ask spread that is most representative of fair value. This may result in elimination of the differences between Net Assets per equity share used for financial reporting purposes and Net Asset Value (“NAV”) per equity share used for transactional pricing purposes.

Based on the Manager’s assessment, MBN’s equity shares would be classified as equity under IAS 32 – “Financial Instruments Presentation”. The classification of MBN’s equity shares is not expected to have a material impact on the presentation of the financial statements.

IFRS is expected to affect the overall presentation of financial statements which include the potential elimination of the difference between the Net Assets per equity share and the NAV per equity share and result in additional disclosure in the accompanying notes. The Manager continues to monitor changes to IFRS and the changeover plan may be revised if new standards or interpretations are issued.

#### Financial Highlights

The following tables show selected key financial information about MBN and are intended to help you understand MBN’s financial performance for the indicated periods. “Net Assets” are calculated in accordance with the Chartered Professional Accountants of Canada Handbook section 3855 “Financial Instruments – Recognition and Measurement” (“Section 3855”) and are used for financial reporting purposes. “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. Section 3855 requires the use of valuation techniques for certain types of investments that may differ from those prescribed by NI 81-106. Ratios and supplemental data are derived from MBN’s Net Asset Value.



MBN's Net Assets Per Equity Share <sup>(1)</sup>

	2013	2012	2011	2010	2009
Net Assets, Beginning of Year	\$ 5.96	\$ 6.55	\$ 6.64	\$ 6.90	\$ 4.64
<b>INCREASE (DECREASE) FROM OPERATIONS:</b>					
Total Revenue	0.10	0.44	0.06	0.38	0.14
Total Expenses	(0.16)	(0.28)	(0.20)	(0.23)	(0.16)
Total Income Tax Recovery (Expense)	-	-	0.08	0.02	(0.02)
Realized Gains (Losses) for the Year	0.28	(0.71)	0.44	0.18	(0.60)
Unrealized Gains (Losses) for the Year	0.52	0.03	(0.48)	(0.69)	2.91
Transaction Costs on Purchase and Sale of Investments	(0.02)	(0.01)	(0.05)	(0.02)	(0.01)
<b>TOTAL INCREASE (DECREASE) FROM OPERATIONS <sup>(2)</sup></b>	<b>0.71</b>	<b>(0.59)</b>	<b>(0.09)</b>	<b>(0.26)</b>	<b>2.26</b>
Net Assets, End of Year	\$ 6.67	\$ 5.96	\$ 6.55	\$ 6.64	\$ 6.90

- (1) This information is derived from MBN's audited annual financial statements. The Net Assets per equity share presented in the financial statements may differ from the Net Asset Value calculated for fund pricing purposes. An explanation of the difference can be found in the notes to the financial statements.
- (2) Net Assets are based on the actual number of equity shares outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of equity shares outstanding over the financial period. This schedule is not a reconciliation of Net Asset Value since it does not reflect securityholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.
- (3) There were no dividends paid by MBN.

Ratios and Supplemental Data

	2013	2012	2011	2010	2009
Total Assets (000s) <sup>(1)</sup>	\$ 29,827	\$ 14,887	\$ 8,135	\$ 7,616	\$ 18,799
Total Net Asset Value (000s) <sup>(1)</sup>	\$ 29,717	\$ 14,821	\$ 6,955	\$ 7,522	\$ 16,116
Number of Equity Shares Outstanding <sup>(1)</sup>	4,451,251	2,486,382	1,057,471	1,132,871	2,296,238
Management Expense Ratio ("MER") <sup>(2)</sup>	2.47%	17.78%	2.91%	3.44%	2.64%
MER excluding interest expense and issuance costs <sup>(2)</sup>	2.46%	17.04%	2.69%	3.15%	2.30%
Trading Expense Ratio <sup>(3)</sup>	0.30%	0.20%	0.75%	0.28%	0.23%
Portfolio Turnover Rate <sup>(4)</sup>	438.40%	609.62%	150.55%	52.15%	77.43%
Net Asset Value per Equity Share	\$ 6.68	\$ 5.96	\$ 6.58	\$ 6.64	\$ 7.04
Closing Market Price	\$ 5.00	\$ 4.90	\$ 5.50	\$ 5.62	\$ 6.64

- (1) This information is provided as at December 31 of the year shown.
- (2) The MER is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average Net Asset Value during the period. The MER excluding interest expense and issuance costs has been presented separately as it expresses only the ongoing management and administrative expenses of MBN as a percentage of average Net Asset Value. Issuance costs are one-time costs incurred at inception, and the inclusion of interest expense does not consider the additional revenues that have been generated from the investment of the leverage in income-generating assets.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value during the period.
- (4) MBN's portfolio turnover rate indicates how actively MBN's portfolio investments are managed. A portfolio turnover rate of 100% is equivalent to MBN buying and selling all of the securities in its portfolio once in the course of the year. The higher MBN's portfolio turnover rate in a year, the greater the trading costs payable by MBN in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. MBN's turnover rate is high in 2012 as a result of the disposal of a higher volume of portfolio investments during the year.

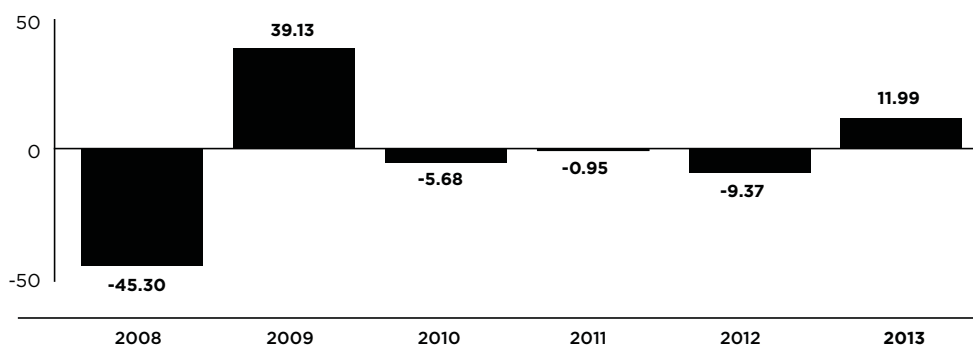
### Past Performance

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

### Year-By-Year Returns

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

#### ANNUAL TOTAL RETURNS %



### Annual Compound Returns

	Periods Ended December 31, 2013			
	One Year	Three Years	Five Years	Since Inception
MBN Corporation	11.99%	0.18%	5.69%	-5.09%
S&P/TSX Composite Index	12.96%	3.37%	11.88%	2.76%

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

MBN underperformed the Index in 2013 returning 11.99% compared to the Index total return of 12.96%. MBN's returns were influenced by the strong performance of the energy sector in addition to holding a large portion of its portfolio in cash on occasion during the year.

# Summary of Investment Portfolio

AS AT DECEMBER 31, 2013

## Top Twenty-Five Holdings\*

DESCRIPTION	% OF NET ASSET VALUE
1 Twin Butte Energy Ltd.	7.6
2 Devon Energy Corp.	5.5
3 Citigroup Inc.	4.7
4 Discover Financial Services	4.0
5 Tourmaline Oil Corp.	3.8
6 Intel Corp.	3.7
7 Tyco International Ltd.	3.7
8 Canadian Natural Resources Limited	3.6
9 Painted Pony Petroleum Ltd.	3.5
10 Microsoft Corp.	3.3
11 Precision Drilling Corporation	3.3
12 Birchcliff Energy Ltd.	3.3
13 Deere & Co.	3.3
14 Wells Fargo & Co.	3.2
15 JPMorgan Chase & Co.	3.1
16 Home Depot Inc.	2.9
17 Bank of America Corp.	2.8
18 Encana Corporation	2.6
19 Cequence Energy Ltd.	2.4
20 Trilogy Energy Corp.	2.3
21 Storm Resources Ltd.	2.0
22 Delphi Energy Corp.	2.0
23 TOP 20 Dividend Trust	1.9
24 Secure Energy Services Inc.	1.5

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

\* MBN has only 24 holdings.

ASSET CLASS	% OF NET ASSET VALUE
Energy	43.4
Financials	17.8
Technology	7.0
Industrials	7.0
Consumer Discretionary	2.9
Diversified	1.9
Cash and Short-Term Investments	20.2
Other Assets (Liabilities)	(0.2)
	100.0
<b>TOTAL NET ASSET VALUE</b>	<b>\$ 29,716,536</b>
<b>TOTAL ASSETS</b>	<b>\$ 29,827,285</b>

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

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to MBN are described in the notes to the financial statements.

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

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

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



**Robert F. Lauzon**  
President  
Middlefield Limited



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

March 17, 2014

## INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF MBN CORPORATION**  
We have audited the accompanying financial statements of MBN Corporation, which comprise the statement of investment portfolio as at December 31, 2013, the statements of net assets as at December 31, 2013 and 2012, and the statements of operations, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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

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

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

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

### OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of MBN Corporation as at December 31, 2013 and 2012, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Professional Accountants,  
Chartered Accountants  
Licensed Public Accountants  
Toronto, Ontario

March 17, 2014

**Deloitte.**

# FINANCIAL STATEMENTS

## STATEMENTS OF NET ASSETS

AS AT DECEMBER 31

	2013	2012
<b>ASSETS:</b>		
Investments at Fair Value	\$ 23,769,040	\$ 8,545,515
Cash	6,016,820	5,734,005
Income and Interest Receivable	28,544	29,397
Margin on Futures Contracts	-	566,657
	<b>29,814,404</b>	<b>14,875,574</b>
<b>LIABILITIES:</b>		
Accounts Payable and Accrued Liabilities	110,749	66,172
Net Assets	\$ 29,703,655	\$ 14,809,402
Equity Shares Issued and Outstanding (Note 10)	4,451,251	2,486,382
Net Assets per Equity Share (Note 7)	\$ 6.67	\$ 5.96

Approved by the Board of Directors:



Director: Vince E. Greco



Director: Robert F. Lauzon

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

	2013	2012
<b>OPERATING ACTIVITIES:</b>		
Net Increase (Decrease) in Net Assets from Operations	\$ 2,304,874	\$ (1,220,926)
Adjustments:		
Purchase of Investments	(277,126,396)	(196,345,947)
Proceeds from Disposition of Investments	264,463,826	195,475,355
Net Realized Gain from Investment Transactions	(871,769)	(147,786)
Net Realized (Gain) Loss on Foreign Currency Transactions	(23,609)	6,430
Change in Net Unrealized Gain on Investments	(1,665,577)	(68,071)
	<b>(12,918,651)</b>	<b>(2,300,945)</b>
Net Change in Non-Cash Working Capital	612,087	(458,273)
	<b>(12,306,564)</b>	<b>(2,759,218)</b>
<b>FINANCING ACTIVITIES:</b>		
Cash Received from Merger (Note 10)	13,522,910	708,592
Proceeds from Issue of Equity Shares	-	8,776,653
Payment of Costs of Issue	-	(96,566)
Repurchase of Equity Shares	(933,531)	(76,691)
Payment on Redemption of Equity Shares	-	(202,877)
Repayment of Loans	-	(998,750)
	<b>12,589,379</b>	<b>8,110,361</b>
Net Increase in Cash	282,815	5,351,143
Cash at Beginning of Year	5,734,005	382,862
Cash at End of Year	\$ 6,016,820	\$ 5,734,005

## SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

Loan Interest Paid	\$ -	\$ -
--------------------	------	------

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

## FINANCIAL STATEMENTS

### STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31

	2013	2012
Net Assets at Beginning of Year	\$ 14,809,402	\$ 6,921,217
<b>OPERATIONS:</b>		
Net Increase (Decrease) in Net Assets from Operations	2,304,874	(1,220,926)
<b>SECURITYHOLDER TRANSACTIONS:</b>		
Cash Received from Merger (Note 10)	13,522,910	708,592
Repurchase of Equity Shares	(933,531)	(76,691)
Proceeds from Issue of Equity Shares	-	8,776,653
Payment of Costs of Issue	-	(96,566)
Payment on Redemption of Equity Shares	-	(202,877)
	12,589,379	9,109,111
Net Increase in Net Assets	14,894,253	7,888,185
Net Assets at End of Year	\$ 29,703,655	\$ 14,809,402
Total Assets	\$ 29,814,404	\$ 14,875,574

### STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31

	2013	2012
<b>INVESTMENT INCOME:</b>		
Interest	\$ 167,611	\$ 87,525
Income from Investments	135,142	71,681
Securities Lending Income (Note 11)	550	310
Gain on Debt Forgiveness (Note 14)	-	857,159
	303,303	1,016,675
<b>EXPENSES (Note 9):</b>		
Management Fee	242,978	170,042
Service Fees	82,722	59,406
Legal	46,489	11,705
Filing Fees	40,783	33,331
Custodial and Valuation Fees	34,143	38,881
Fund Administration	19,762	259,136
Securityholder Reporting Costs	16,823	22,391
Audit Fees	11,762	13,892
Interest and Bank Charges	2,750	7,439
Independent Review Committee Fees	-	120
	498,212	616,343
Net Investment Income (Loss)	(194,909)	400,332
<b>NET GAIN (LOSS) ON INVESTMENTS AND TRANSACTION COSTS:</b>		
Loss on Sale of Oil and Gas Properties (Note 14)	-	(1,794,633)
Net Realized Gain from Investment Transactions	871,769	178,086
Net Realized Gain (Loss) on Foreign Currency Transactions	23,609	(6,430)
Change in Net Unrealized Gain on Investments	1,665,577	68,071
Transaction Costs on Purchase and Sale of Investments (Note 12)	(61,172)	(66,352)
Net Gain (Loss) on Investments and Transaction Costs	2,499,783	(1,621,258)
Net Increase (Decrease) in Net Assets from Operations	\$ 2,304,874	\$ (1,220,926)
Net Increase (Decrease) in Net Assets from Operations per Equity Share	\$ 0.72	\$ (0.53)

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



## FINANCIAL STATEMENTS

### STATEMENT OF INVESTMENT PORTFOLIO

AS AT DECEMBER 31, 2013

Description	No. of Securities	Average Cost	Fair Value
Birchcliff Energy Ltd.	135,000	\$ 994,838	\$ 981,450
Canadian Natural Resources Limited	30,000	1,032,290	1,077,600
Cequence Energy Ltd.	400,000	672,080	712,000
Delphi Energy Corp.	300,000	433,680	579,000
Devon Energy Corp.	25,000	1,656,379	1,643,682
Encana Corporation	40,000	765,312	766,400
Painted Pony Petroleum Ltd.	150,000	984,480	1,041,000
Precision Drilling Corporation	100,000	927,844	993,000
Secure Energy Services Inc.	25,000	383,750	441,000
Storm Resources Ltd.	150,000	502,500	607,500
Tourmaline Oil Corp.	25,000	1,011,370	1,117,500
Trilogy Energy Corp.	25,000	673,950	690,000
Twin Butte Energy Ltd.	1,000,000	1,950,000	2,260,000
<b>ENERGY: 43.4%</b>		<b>11,988,473</b>	<b>12,910,132</b>
Bank of America Corp.	50,000	792,695	827,153
Citigroup Inc.	25,000	1,347,729	1,383,635
Discover Financial Services	20,000	1,095,769	1,188,933
JPMorgan Chase & Co.	15,000	876,424	931,862
Wells Fargo & Co.	20,000	914,308	964,534
<b>FINANCIALS: 17.8%</b>		<b>5,026,925</b>	<b>5,296,117</b>
Intel Corp.	40,000	1,033,080	1,102,871
Microsoft Corp.	25,000	997,596	993,434
<b>TECHNOLOGY: 7.0%</b>		<b>2,030,676</b>	<b>2,096,305</b>
Deere & Co.	10,000	922,814	970,378
Tyco International Ltd.	25,000	1,015,888	1,089,855
<b>INDUSTRIALS: 6.9 %</b>		<b>1,938,702</b>	<b>2,060,233</b>
Home Depot Inc.	10,000	837,954	874,753
<b>CONSUMER DISCRETIONARY: 2.9 %</b>		<b>837,954</b>	<b>874,753</b>
TOP 20 Dividend Trust	50,000	528,271	531,500
<b>DIVERSIFIED: 1.8%</b>		<b>528,271</b>	<b>531,500</b>
EMBEDDED BROKER COMMISSIONS (Note 12)		(13,126)	-
<b>TOTAL INVESTMENTS: 79.8%</b>		<b>22,337,875</b>	<b>23,769,040</b>
<b>CASH: 20.2%</b>		<b>6,016,820</b>	<b>6,016,820</b>
<b>Total Investment Portfolio, including Cash</b>		<b>\$ 28,354,695</b>	<b>\$ 29,785,860</b>

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

## 1. MBN Corporation

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

## 2. Investment Objectives and Strategy

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

## 3. Summary of Significant Accounting Policies

### A. Future Accounting Changes

#### *International Financial Reporting Standards ("IFRS")*

Canadian publicly accountable enterprises, which include funds/investment trusts, will be required to prepare financial statements in accordance with IFRS, as issued by the International Accounting Standards Board. On December 12, 2011, the Canadian Accounting Standards Board amended the deadline for adoption of IFRS for investment companies to fiscal years beginning on or after January 1, 2014. Accordingly, MBN will adopt IFRS for its fiscal year beginning January 1, 2014, and will issue its initial financial statements in accordance with IFRS, including comparative information, for the interim period ending June 30, 2014.

### B. Credit Risk and Fair Value of Financial Instruments

MBN's own credit risk and the credit risk of the counterparty is taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. Management has reviewed its policies concerning valuation of assets and liabilities and determined that the fair values ascribed to the financial assets and financial liabilities in MBN's financial statements incorporate appropriate levels of credit risk.

### C. Investments at Fair Value

Securities listed on a recognized public stock exchange are valued at their closing bid price on the valuation date. Securities with no available bid price are valued at their closing trade price. Securities not listed on a recognized public stock exchange are valued based on recent transactions between willing parties, if such information is available, or alternatively valued using valuation techniques which may include the use of the operating results of the investees, expected future cash flows discounted at appropriate discount rates and comparable peer group valuations adjusted for company specific circumstances.

### D. 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. The change in the difference between fair value and average cost of the investments is recorded as unrealized gain (loss) on investments. Income from investments is recognized on the ex-dividend or ex-distribution date. Interest income is recognized on an accrual basis.

### E. Net Increase (Decrease) in Net Assets from Operations per Equity Share

Net increase (decrease) in net assets from operations per equity share in the Statements of Operations represents the increase (decrease) in net assets from operations divided by the average equity shares outstanding during the year.

### F. Income Taxes

MBN does not qualify as a mutual fund corporation under the provisions of the *Income Tax Act* (Canada) (the "Act"). As a result, it is not entitled to a refund of tax paid in respect of its net realized capital gains. Prior to 2010, MBN qualified as a mutual fund corporation under the Act and was entitled to refunds of taxes paid.

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

#### G. Return of Capital

Distributions received from investment trust units that are treated as a return of capital for tax purposes are used to reduce the average cost of the underlying investments on the Statement of Investment Portfolio.

#### H. Foreign Currency Translation

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

#### I. Financial Instruments

The carrying values of financial instruments, including cash, receivables, payables and accruals approximate the fair value due to their short maturities.

#### J. 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 increase and decrease in net assets from operations during the reporting period. The most significant estimates and assumptions relate to accrued liabilities. Actual results could differ from those estimates.

#### K. Securities Lending

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

### 4. Fair Value Disclosure

The fair values of MBN's financial instruments are classified into levels using the following fair value hierarchy:

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

MBN's investments at fair value as at December 31, 2013 and 2012 trade in active markets and are therefore classified as Level 1.

No transfers between levels have occurred during the years ended December 31, 2013 and 2012.

The reconciliation of investments measured at fair value using unobservable inputs (Level 3) that were sold during 2012 are presented as follows:

2012

Balance at January 1, 2012	\$	122,400
Sales		(142,000)
Realized Gain		19,600
Balance at December 31, 2012	\$	-
Total Change in Unrealized Gain during the Year for Assets held at December 31, 2012	\$	-

## 5. Financial Risk Management

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

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

### A. Price Risk

Price risk is the risk that changes in the prices of MBN's investments will affect MBN's income or the value of its financial instruments. MBN's price risk is driven primarily by volatility in commodity and equity prices. Rising commodity and equity prices may increase the price of an investment while declining commodity and equity prices may have the opposite effect. MBN mitigates price risk by making investing decisions based upon various factors, including comprehensive fundamental analysis prepared by industry experts to forecast future commodity and equity price movements. MBN's market positions are monitored on a daily basis by the portfolio manager and regular financial reviews of publicly available information related to MBN's investments are performed to ensure that any risks are within established levels of risk tolerance. MBN is exposed to price risk through the following financial instrument:

	2013	2012
Investments at Fair Value	\$ 23,769,040	\$ 8,545,515

Based on the above exposure at December 31, 2013, a 10% increase or decrease in the prices of MBN's investments would result in a \$2,376,904 (December 31, 2012 - \$854,552) increase or decrease in net assets of MBN as at December 31, 2013, with all other factors held constant.

### B. Interest Rate Risk

Interest rate risk describes MBN's exposure to changes in the general level of interest rates. MBN's interest rate risk is attributable to interest-bearing financial assets such as cash and to financial liabilities such as loan payable. MBN's interest income and expense are positively correlated to interest rates in that rising interest rates increase both interest income and expense while the reverse is true in a declining interest rate environment. MBN has not hedged its exposure to interest rate movements. MBN seeks to mitigate this risk through active management, which involves monitoring debt levels and analysis of economic indicators to forecast Canadian and global interest rates. MBN is exposed to interest rate risk through the following financial instrument:

	2013	2012
Cash	\$ 6,016,820	\$ 5,734,005

Based on the above exposures at December 31, 2013, a 1% per annum increase or decrease in interest rates would result in a \$60,168 (December 31, 2012 - \$57,340) increase or decrease in net assets of MBN as at December 31, 2013, with all other factors held constant.

## 5. Financial Risk Management (Continued)

## C. Foreign Exchange Rate Risk

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

	2013	2012
Investments at Fair Value	\$ 11,971,089	\$ (246,535)
Cash	55,779	82,611
Income Receivable	4,606	-
Margin on Futures Contracts	-	416,657
Net Exposure	\$ 12,031,474	\$ 252,733

Based on the above exposure at December 31, 2013 a 10% increase or decrease in the Canadian dollar against the U.S. dollar currencies would result in a \$1,203,147 (December 31, 2012 - \$25,273) decrease or increase in net assets of MBN as at December 31, 2013, with all other factors held constant.

## D. Liquidity Risk

Liquidity risk is defined as the risk that MBN may not be able to settle or meet its obligations when due. MBN's obligations are due within one year.

Liquidity risk is managed by investing the majority of MBN's assets in investments that are traded in an active market and can be readily sold and by entering into repurchase agreements. However, MBN may invest in private securities that are not traded on a public stock exchange that may be illiquid. As a result, MBN may not be able to dispose of these investments in a timely manner. MBN mitigates this risk through active management, which involves detailed analysis of such private entities to ensure they are financially sound and would be attractive to potential investors if a sale is necessary. MBN's investment policies and securities legislation limit the amounts invested in illiquid securities and these limits are monitored. As at December 31, 2013 and 2012, MBN did not hold any illiquid securities. MBN retains sufficient cash to maintain liquidity and comply with liquidity requirements as outlined by securities legislation and its investment policies.

## E. Credit Risk

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

MBN has established various internal controls to help mitigate credit risk, including prior approval of all investments by the Advisor whose mandate includes conducting financial and other assessments of these investments on a regular basis. MBN has also implemented policies which ensure that investments can only be made with counterparties that have a minimum acceptable credit rating.

## 6. Capital Management

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

MBN manages and adjusts its capital in response to general economic conditions, the risk characteristics of the underlying assets and working capital requirements. Generally speaking, MBN will reduce leverage when investments are likely to decrease in value and will increase leverage when investment appreciation is anticipated. In order to maintain or adjust its capital structure MBN may enter into repurchase agreements or undertake other activities deemed appropriate under the specific circumstances.

MBN is not subject to any externally imposed capital requirements.

## 7. Net Assets and Net Asset Value

National Instrument 81-106 "Investment Fund Continuous Disclosure" requires that net asset value for transactional pricing purposes ("Net Asset Value"), be calculated based on the fair value of investments using the close or last trade price. The Chartered Professional Accountants of Canada Handbook section 3855 "Financial Instruments - Recognition and Measurement" requires that net assets for financial reporting purposes ("Net Assets"), be calculated using the close or last bid price of an investment. Net Assets per equity share and Net Asset Value per equity share could be different due to the use of different valuation techniques. The Net Asset Value per equity share as at December 31, 2013 was \$6.68 (2012 - \$5.96) compared to the Net Assets per equity share of \$6.67 (2012 - \$5.96).

## 8. Repurchase Agreements

MBN may enter into repurchase agreements with its custodian. MBN receives cash from its custodian against a selected basket of securities as collateral. The collateral securities are returned to MBN when the cash is paid back to its custodian and the agreement is closed. MBN accrues a charge, on a daily basis, on the outstanding value of the repurchase agreements. As at December 31, 2013, MBN had no outstanding repurchase agreements.

## 9. Management Fee and Operating Expenses

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

## 10. Shareholders' Equity

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

The holders of Class M Shares are not entitled to receive dividends. The holders of the Class M Shares are entitled to one vote per share. The Class M Shares are redeemable at the option of either MBN or a holder thereof at a price of \$1.00 per share. The Class M Shares rank subsequent to the equity shares with respect to distributions on the dissolution, liquidation or winding-up of MBN. A trust established for the benefit of the holders from time to time of the equity shares owns all of the issued and outstanding Class M Shares.

On February 23, 2012, the articles were amended to give MBN the right to retract equity shares. During 2013, MBN redeemed no equity shares (2012 - 31,650), issued 2,136,369 equity shares (2012 - 1,475,761), and purchased 171,500 equity shares (2012 - 15,200) pursuant to a normal course issuer bid. All of the equity shares issued in 2013 were issued pursuant to the merger of MBN and Uranium on August 28, 2013. The equity shares were issued in exchange for assets of Uranium of \$13.5 million. The number of equity shares was calculated using an exchange ratio based on the relative net asset value of MBN and Uranium as at the close of trading on August 27, 2013 in accordance with the terms of the merger. All of the equity shares issued in 2012 were issued pursuant to the merger of MBN and Bancorp on February 23, 2012. The equity shares were issued in exchange for the assets of Bancorp of \$9.5 million. The number of equity shares issued was calculated using an exchange ratio based on the relative net asset values of MBN and Bancorp as at the close of trading on February 22, 2012 in accordance with the terms of the merger.



#### 10. Shareholders' Equity (Continued)

The average number of equity shares outstanding during 2013 was 3,186,830 (2012 - 2,285,501). This number was used to calculate the net increase (decrease) in net assets from operations per equity share.

There were no dividends or other distributions paid to shareholders during 2013 and 2012.

#### 11. Securities Lending

MBN has entered into a securities lending program with its custodian. MBN receives collateral of at least 105% of the value of the securities on loan. Collateral is generally comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies. Collateral may also be comprised of securities that are convertible into, or exchangeable for, securities of the same issuer as the securities that are on loan. The market values of the securities on loan and the related collateral at December 31, 2013 were \$1.5 million and \$1.6 million (2012 - \$2.2 million and \$2.3 million), respectively.

#### 12. Transaction Costs

Brokerage commissions and other transaction costs paid in connection with securities transactions for the six months ended December 31, 2013 amounted to \$61,172 (2012 - \$36,052). Included in this amount is \$13,353 (2012 - \$19,904) in brokerage commissions that were paid to MCC, a company under common control with the Manager. All commissions paid by MBN were at or below market rates. Brokerage commissions and other transaction costs are expensed and recorded in the Statements of Operations.

#### 13. Loss Carryforwards

At December 31, 2013, MBN had capital losses of \$15,425,968 (2012 - \$15,425,968) and non-capital losses of \$16,022,741 (2012 - \$16,066,413) available for carryforward for tax purposes. The capital losses can be carried forward indefinitely. The expiry dates of the non-capital losses are as follows:

Expiry Date	Amount
December 31, 2028	\$ 6,118,074
December 31, 2029	2,509,396
December 31, 2030	2,367,928
December 31, 2031	4,545,534
December 31, 2032	481,809
	<hr/>
	\$ 16,022,741

#### 14. Sale of Oil and Gas Properties

On November 15, 2012, MBN completed an agreement with the operator of its oil and gas properties whereby it sold its entire 33.3% interest in oil sands rights on 88 sections of land in the Panny area of Northern Alberta to the operator for a nominal amount of \$10.00. In addition, pursuant to the agreement, all outstanding amounts due to the operator were considered settled. As a result, MBN recognized a Gain on Debt Forgiveness of \$857,159 and a Loss on Sale of Oil and Gas Properties of \$1,794,633 in the Statements of Operations for the year ended December 31, 2012.

#### 15. Comparative Financial Statements

Certain prior year balances in the Statements of Cash Flows and the Statements of Operations have been reclassified to conform with the current year presentation.

# Middlefield

## FUNDS FAMILY

### TSX-LISTED FUNDS

TSX Stock Symbol

• ACTIVEnergy Income Fund	AEU.UN
• American Core Sectors Dividend Fund	ACZ.UN
• COMPASS Income Fund	CMZ.UN
• ENERGY INDEXPLUS Dividend Fund	IDE.UN
• Global Dividend Growers Income Fund	GDG.UN
• INDEXPLUS Income Fund	IDX.UN
• MBN Corporation	MBN
• Middlefield Can-Global REIT Income Fund	RCO.UN
• MINT Income Fund	MID.UN
• Pathfinder Convertible Debenture Fund	PCD.UN
• REIT INDEXPLUS Income Fund	IDR.UN
• YIELDPLUS Income Fund	YP.UN

### MUTUAL FUNDS

Fund Code

#### Series A Securities

FE/LL/DSC

• ActiveIndex REIT Class	MID 600/649/650
• Groppe Tactical Energy Class	MID 125/127/130
• Middlefield Canadian Dividend Growth Class	MID 148/449/450
• Middlefield Canadian High Yield Class	MID 300/349/350
• Middlefield Global Agriculture Class	MID 161/163/166
• Middlefield Global Infrastructure Fund	MID 510/519/520
• Middlefield Income Plus Class	MID 800/849/850
• Middlefield Precious Metals Class	MID 170/174/175
• Middlefield Short-Term Income Class	MID 400/424/425
• Middlefield Uranium Focused Metals Class	MID 210/219/220

#### Series F Securities

• ActiveIndex REIT Class	MID 601
• Groppe Tactical Energy Class	MID 126
• Middlefield Canadian Dividend Growth Class	MID 149
• Middlefield Canadian High Yield Class	MID 301
• Middlefield Global Agriculture Class	MID 162
• Middlefield Global Infrastructure Fund	MID 501
• Middlefield Income Plus Class	MID 801
• Middlefield Precious Metals Class	MID 171

### RESOURCE FUNDS

- MRF 2012 Resource Limited Partnership
- MRF 2013 Resource Limited Partnership
- MRF 2014 Resource Limited Partnership (commenced February 2014)
- Discovery 2012 Flow-Through Limited Partnership
- Discovery 2013 Flow-Through Limited Partnership

### INTERNATIONAL FUNDS

• Middlefield Canadian Income PCC	London UK Stock Exchange (LSE) Symbol:MCT
-----------------------------------	---

## Directors

**Murray J. Brasseur**  
Chairman  
Middlefield Group

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

**Richard L. Faiella, CFA**  
Managing Director  
Middlefield International Limited

**Robert F. Lauzon, CFA**  
Managing Director  
Western Canada  
Middlefield Capital Corporation

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

**Sylvia V. Stinson**  
Executive Vice-President  
and Chief Financial Officer  
Middlefield Group

## Independent Review Committee

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

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

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

**Charles B. Young**  
Former Deputy Chairman  
Canary Wharf

## Advisors

Groppe, Long & Littell  
Guardian Capital LP  
Middlefield Capital Corporation

## Officers

**Henry Lee**  
President  
Middlefield Realty Services Limited

**Nick Lombardi**  
Director  
Horizon on Bay

**Jeremy T. Brasseur**  
Managing Director  
Corporate Development  
Middlefield Capital Corporation

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

**Andy Nasr**  
Managing Director, Investments  
and Senior Portfolio Manager  
Middlefield Capital Corporation

**Eric Valderrama**  
Managing Director  
Middlefield Group

**Michael Bury**  
Executive Director, Investments  
Middlefield Capital Corporation

**Craig Rogers**  
Executive Director,  
Corporate Development  
Middlefield Group

**Douglas D. Sedore**  
Director  
Horizon on Bay

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

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

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

**Polly Tse**  
Senior Vice-President,  
Chief Financial Officer  
MFL Management Limited

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

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

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

**Elenita Garbino**  
Vice-President  
Middlefield Group

**Shiranee Gomez**  
Vice-President  
Middlefield Group

**Vincenzo Greco**  
Vice-President  
Middlefield Limited

**Terry Landriault**  
Vice-President  
Middlefield Group

**Judy Marks**  
Vice-President  
Middlefield Group

**Lilibeth Mondejar**  
Vice-President  
Horizon on Bay

**Victor Ngai**  
Vice-President  
Middlefield Group

**Catherine Rebuldela**  
Vice-President  
Middlefield Limited

**Sarah Roberts**  
Vice-President  
Middlefield Group

**Gabriel Soler**  
Vice-President  
Middlefield Group

**Lidia Assalone**  
Assistant Vice-President  
Horizon on Bay

**Sylvia Casillano**  
Assistant Vice-President  
Middlefield Group

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

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

**Huy Nguyen**  
Director, Trading  
Middlefield Capital Corporation

**Edmun Tsang**  
Director, Corporate Development  
Middlefield Capital Corporation

**Matt Watson**  
Director  
Middlefield Group

## Auditor

Deloitte LLP Chartered  
Professional Accountants

## Legal Counsel

Bennett Jones  
Davies Ward Phillips & Vineberg LLP  
Fasken Martineau DuMoulin LLP  
McCarthy Tétrault

## Bankers

Bank of Montreal  
Canadian Imperial Bank of  
Commerce  
Royal Bank of Canada

## Custodian

RBC Investor Services Trust

## Affiliates

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

Toronto, Canada  
Middlefield Capital Corporation  
First Canadian Place  
58th Floor, P.O. Box 192  
Toronto, Ontario  
Canada M5X 1A6

Telephone (416) 362-0714  
Fax (416) 362-7925

Calgary, Canada  
Middlefield Limited  
812 Memorial Drive NW  
Calgary, Alberta  
Canada T2N 3C8

Telephone (403) 269-2100  
Fax (403) 269-2911

London, England  
Middlefield International Limited  
288 Bishopsgate  
London, England  
EC2M 4QP

Telephone (0207) 814-6644  
Fax (0207) 814-6611

San Francisco, USA  
Middlefield Financial Services Inc.  
One Embarcadero Center, Suite 500  
San Francisco, California  
USA 94111

Telephone (415) 835-1308  
Fax (415) 835-1350



**MIDDLEFIELD GROUP®**

[www.middlefield.com](http://www.middlefield.com) | [invest@middlefield.com](mailto:invest@middlefield.com) | (888) 890-1868