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Brand Leaders Income Fund

Annual Financial Statements

December 31, 2012

The Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, can be obtained at your request, and at no cost, by calling us at 866 998 8298; by writing to us at Harvest Portfolios Group, 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.



Brand Leaders Income Fund

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by Harvest Portfolios Group Inc. in its capacity as Manager of the Fund and approved by the Board of Directors of the Manager. The Fund's Manager is responsible for the information and representation contained in these financial statements.

The Manager maintains appropriate processes 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 judgments made by the Manager. The significant accounting policies, which the Manager believes are appropriate, are described in Note 2 to the financial statements.

PricewaterhouseCoopers LLP are the external auditors of the Fund. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out below.

On behalf of Harvest Portfolios Group Inc.,



Michael Kovacs
President and Chief Executive Officer



Townsend Haines
Chief Financial Officer

Oakville, Canada
March 8, 2013



March 8, 2013

Independent Auditor's Report

To the Unitholders of Brand Leaders Income Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at December 31, 2012, the statements of financial position as at December 31, 2012 and 2011 and the statements of operations, changes in financial position and cash flows for the year ended December 31, 2012 and for the period from July 19, 2011 (commencement of operations) to December 31, 2011, and the related notes, which comprise 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 the 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 the 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2012 and 2011 and the results of its operations, the changes in its financial position and its cash flows for the year ended December 31, 2012 and for the period from July 19, 2011 (commencement of operations) to December 31, 2011 in accordance with Canadian generally accepted accounting principles.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Accountants, Licensed Public Accountants

Brand Leaders Income Fund

STATEMENTS OF FINANCIAL POSITION		
As at December 31,	2012	2011
Assets		
Investments, at fair value (cost \$25,069,489; 2011 - \$25,884,225)	\$ 27,430,666	\$ 26,192,814
Cash and cash equivalents	824,009	588,813
Dividends receivable	9,443	42,648
Unrealized appreciation on foreign currency forward contracts (Note 5)	-	464,172
	28,264,118	27,288,447
Liabilities		
Payable for units cancelled	-	10,030
Distributions payable	165,534	167,679
Payable for options contracts written (cost \$75,003; 2011 - \$176,251) (Note 2)	70,142	242,374
Unrealized depreciation on foreign currency forward contracts (Note 5)	298,367	-
	534,043	420,083
Net assets representing unitholders' equity	\$ 27,730,075	\$ 26,868,364
Unitholders' equity (Note 3)		
Unitholders' capital	25,598,748	27,943,202
Contributed surplus	38,421	35,048
Surplus/ (deficit)	2,092,906	(1,109,886)
Unitholders' equity	\$ 27,730,075	\$ 26,868,364
Number of units outstanding (Note 3)	2,546,678	2,577,778
Net assets per unit (Note 9)	\$ 10.89	\$ 10.42

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

Brand Leaders Income Fund

STATEMENTS OF OPERATIONS		
For the periods ended December 31, (Note 1)	2012	2011
Investment income		
Dividends	\$ 729,142	\$ 308,458
Interest	-	25
Less: foreign withholding taxes	(98,863)	(40,478)
	630,279	268,005
Expenses (Note 4)		
Management fees	289,460	122,780
Service fees	128,382	54,458
Unitholder reporting costs	128,383	43,088
Audit fees	23,588	27,637
Transfer agency fees	10,307	11,085
Custodian fees and bank charges	52,976	30,545
Filing fees	19,645	26,660
Legal fees	6,697	37,621
Independent review committee fees	8,821	-
	668,259	353,874
Net investment loss	(37,980)	(85,869)
Realized and unrealized gain / (loss) on investments and foreign currencies		
Realized gain on sale of investments	434,885	545,035
Transaction costs	(30,396)	(38,416)
Net realized gain/ (loss) on foreign exchange	1,461,192	(2,226,685)
Change in unrealized appreciation/ (depreciation) of foreign exchange	(748,481)	453,583
Change in unrealized appreciation of investments	2,123,572	242,466
Net gain/ (loss) on investments	\$ 3,240,772	\$ (1,024,017)
Increase / (decrease) in net assets from operations	\$ 3,202,792	\$ (1,109,886)
Increase / (decrease) in net assets from operations per unit	\$ 1.25	\$ (0.43)

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

Brand Leaders Income Fund

STATEMENTS OF CHANGES IN FINANCIAL POSITION			
For the periods ended December 31, (Note 1)		2012	2011
Net assets, beginning of the period	\$	26,868,364	\$ -
Increase / (decrease) in net assets from operations		3,202,792	(1,109,886)
Unitholders' transactions			
Proceeds from issue of units		-	31,216,536
Payments on cancellation of units		(343,908)	(228,484)
Agents' fees		-	(1,638,868)
Cost of issue (Note 3)		-	(529,120)
Net unitholders' transactions	\$	(343,908)	\$ 28,820,064
Distributions to unitholders			
Return of capital		(1,997,173)	(841,814)
Total distributions to unitholders		(1,997,173)	(841,814)
Net assets, end of the period	\$	27,730,075	\$ 26,868,364
Deficit, beginning of the period	\$	(1,109,886)	\$ -
Increase/ (decrease) in net assets from operations		3,202,792	(1,109,886)
Surplus/ (deficit), end of the period	\$	2,092,906	\$ (1,109,886)
Contributed surplus, beginning of the period	\$	35,048	\$ -
Cost of units repurchased at less than average cost of unit (Note 3)		3,373	35,048
Contributed surplus, end of the period	\$	38,421	\$ 35,048

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

Brand Leaders Income Fund

STATEMENTS OF CASH FLOWS		
For the periods ended December 31, (Note 1)	2012	2011
Operating activities		
Increase / (decrease) in net assets from operations	\$ 3,202,792	\$ (1,109,886)
Add/ (deduct) items not affecting cash		
Realized gain on sale of investments	(434,885)	(545,035)
Unrealized appreciation of investments	(2,123,572)	(242,466)
Proceeds from sale of investments	5,690,945	3,718,849
Purchases of investments	(4,542,572)	(28,881,788)
Net change in non-cash assets and liabilities	795,744	(506,820)
Net cash flow used in operating activities	2,588,452	(27,567,146)
Financing activities		
Proceeds from units issued	-	31,216,536
Payments on cancellation of units	(353,938)	(218,454)
Agents' fees	-	(1,638,868)
Issuance costs	-	(529,120)
Distribution to unitholders	(1,999,318)	(674,135)
Net cash flow provided by financing activities	\$ (2,353,256)	\$ 28,155,959
Net increase in cash and cash equivalents during the period	235,196	588,813
Cash and cash equivalents, beginning of the period	588,813	-
Cash and cash equivalents, end of the period	\$ 824,009	\$ 588,813

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

Brand Leaders Income Fund

STATEMENT OF INVESTMENTS

As at December 31, 2012

Number of Shares	Security	Average Cost (\$)	Fair Value(\$)	% of Net Assets
EQUITIES				
Banking and Other Financial Issuers				
24,500	American Express Company	1,206,844	1,402,205	5.0
37,200	HSBC Holdings PLC ADR	1,670,728	1,965,715	7.1
		2,877,572	3,367,920	12.1
Consumer Discretionary Issuers				
37,000	The Walt Disney Company	1,403,735	1,833,940	6.6
		1,403,735	1,833,940	6.6
Consumer Staple Issuers				
22,000	Anheuser-Busch InBev SPN ADR	1,177,162	1,914,751	6.9
34,300	Kellogg Co.	1,784,362	1,907,418	6.9
50,200	The Coca-Cola Company	1,677,805	1,812,925	6.5
		4,639,329	5,635,094	20.3
Energy Issuers				
26,900	Royal Dutch Shell PLC Class A ADR	1,855,406	1,847,047	6.7
		1,855,406	1,847,047	6.7
Industrials Issuers				
20,300	3M Co.	1,806,808	1,876,750	6.8
21,200	Caterpillar Inc.	2,093,452	1,891,774	6.8
18,500	Siemens AG SPONS ADR	2,014,352	2,016,487	7.3
25,800	United Parcel Service, Inc. Class B	1,806,992	1,894,311	6.8
		7,721,604	7,679,322	27.7
Information Technology Issuers				
3,100	Apple Computer, Inc.	1,133,108	1,645,257	6.0
88,100	Intel Corporation	1,951,826	1,809,687	6.5
9,900	International Business Machines Corporation	1,735,507	1,888,388	6.8
64,800	Microsoft Corporation	1,751,402	1,724,011	6.2
		6,571,843	7,067,343	25.5
Total equities		25,069,489	27,430,666	98.9
OPTIONS				
Banking and Other Financial Issuers				
(6,500)	American Express Company - Jan 2013 @ USD \$58	(7,502)	(7,767)	(0.1)
(1,200)	American Express Company - Jan 2013 @ USD \$60	(394)	(370)	-
(8,900)	HSBC Holdings PLC ADR - Jan 2013 @ USD \$55	(1,756)	(1,861)	-
		(9,652)	(9,998)	(0.1)
Consumer Discretionary Issuers				
(1,300)	The Walt Disney Company Limited - Jan 2013 @ USD \$50	(1,240)	(1,036)	-
(7,500)	The Walt Disney Company Limited - Jan 2013 @ USD \$53	(1,417)	(821)	-
		(2,657)	(1,857)	-

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

Brand Leaders Income Fund

STATEMENT OF INVESTMENTS (continued)

As at December 31, 2012

Number of Shares	Security	Average Cost (\$)	Fair Value(\$)	% of Net Assets
Consumer Staple Issuers				
(1,300)	Anheuser-Busch InBev SPN ADR- Jan 2013 @ USD \$88	(2,198)	(1,941)	-
(3,900)	Anheuser-Busch InBev SPN ADR- Jan 2013 @ USD \$90	(2,521)	(2,136)	-
(1,600)	Kellogg Co. - Jan 2013 @ USD \$55	(2,228)	(1,912)	-
(6,600)	Kellogg Co. - Jan 2013 @ USD \$58	(1,313)	(986)	-
(4,200)	The Coca-Cola Company - Jan 2013 @ USD \$36	(3,927)	(2,467)	-
(7,800)	The Coca-Cola Company - Jan 2013 @ USD \$38	(2,405)	(1,243)	-
		(14,592)	(10,685)	-
Energy Issuers				
(4,800)	Royal Dutch Shell PLC ADR - Jan 2013 @ USD \$70	(2,387)	(2,151)	-
		(2,387)	(2,151)	-
Industrials Issuers				
(700)	3M Co. - Jan 2013 @ USD \$93	(1,483)	(1,261)	-
(4,100)	3M Co. - Jan 2013 @ USD \$95	(3,507)	(2,408)	-
(1,000)	Caterpillar Inc. - Jan 2013 @ USD \$88	(2,407)	(3,385)	-
(4,000)	Caterpillar Inc. - Jan 2013 @ USD \$90	(5,161)	(7,408)	-
(900)	Siemens AG - Jan 2013 @ USD \$110	(3,616)	(4,929)	-
(3,400)	United Parcel Service, Inc. Class B – Jan 2013 USD \$75	(3,649)	(1,930)	-
(2,700)	United Parcel Service, Inc. Class B – Jan 2013 USD \$78	(757)	(296)	-
		(20,580)	(21,617)	-
Information Technology Issuers				
(700)	Apple Inc. - Jan 2013 @ USD \$525	(11,593)	(15,194)	(0.1)
(16,900)	Intel Corporation - Jan 2013 @ USD \$21	(7,732)	(6,058)	-
(4,200)	Intel Corporation - Jan 2013 @ USD \$23	(460)	(251)	-
(900)	International Business Machines Corporation - Jan 2013 @ USD \$200	(922)	(412)	-
(1,400)	International Business Machines Corporation - Jan 2013 @ USD \$205	(501)	(223)	-
(11,600)	Microsoft Corporation - Jan 2013 @ USD \$28	(3,461)	(1,502)	-
(3,900)	Microsoft Corporation - Jan 2013 @ USD \$29	(466)	(194)	-
		(25,135)	(23,834)	(0.1)
	Total options	(75,003)	(70,142)	(0.2)
	Total investments	24,994,486	27,360,524	98.7
	Foreign currency forward contracts (Note 5)		(298,367)	(1.1)
	Other assets less liabilities		667,918	2.4
	Net assets		27,730,075	100.0

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

Brand Leaders Income Fund

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. ORGANIZATION

Brand Leaders Income Fund (the “Fund”) is an investment fund established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 29, 2011, being the inception date. There was no significant activity in the Fund from the date of Inception, June 29, 2011 to commencement of operations on July 19, 2011.

The information provided in these audited financial statements is for the year ended December 31, 2012 and for the period commencing July 19, 2011 to December 31, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in Canadian dollars. The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

Valuation of investments

The fair value of investments as at the financial reporting date is as follows:

a) Investments are categorized as held for trading in accordance with CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement. Investments held that are traded on an active market are valued at their bid prices through recognized public stock exchanges or through recognized investment dealers on the valuation date. Investments held include equities, option contracts and foreign currency forward contracts. Investments held with no available bid prices are valued at their closing sale price.

b) Investments held that are not traded on an active market are valued using valuation techniques, on such basis and in such a manner established by the Manager. The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager in accordance with CICA Handbook Section 3855 methodologies. The fair values of certain securities are determined using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would be used had a ready market for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity. At December 31, 2012 and 2011, there were no securities that required pricing using assumptions.

National Instrument 81-106 – “Investment Fund Continuous Disclosure” (“NI 81-106”) requires all investment funds to calculate net asset value for all purposes other than for financial statements in accordance with part 14.2, which differs in some respects from the requirements of Section 3855 of Canadian GAAP. Canadian GAAP includes the requirement that the fair value of financial instruments listed on a recognized public stock exchange be valued at their last bid price for securities held in a long position and at their last ask price for securities held in a short position, instead of their close price or the last sale price of the security for the day as required by NI 81-106. This results in differences between net asset value (“NAV”) calculated based on NI 81-106 and on net assets calculated based on Canadian GAAP (“Net assets”). A reconciliation between NAV per unit and Net assets per unit at the period end is provided in Note 9.

Brand Leaders Income Fund

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

Cash and cash equivalents

Cash is comprised of cash on deposit. Cash equivalents are comprised of highly liquid investments having terms to maturity of 90 days or less.

Other assets and liabilities

For the purposes of categorization in accordance with CICA Handbook Section 3862, accrued interest and dividends and other assets are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to unitholders for distributions and redemptions and other liabilities are designated as other financial liabilities and reported at cost or amortized cost, which approximates fair value for these assets and liabilities.

Transaction costs

Transaction costs, such as brokerage commissions, incurred on the purchase and sale of securities by the Fund are expensed in accordance with Section 3855 and are recognized in the Statements of Operations in the period in which they are incurred.

Investment transactions and income recognition

Investment transactions are accounted for on the trade date. The cost of investments represents the amount paid for each security and is determined on an average cost basis excluding transaction costs. Realized gains/ (losses) from the sale of investments and unrealized appreciation/ (depreciation) of investments are calculated on an average cost basis.

Investment income is recorded on an accrual basis. Interest income is recorded on an accrual basis and dividend income is recorded on the ex-dividend date.

Foreign currency translation

Purchases and sales of investments denominated in foreign currencies and foreign currency dividend and interest income are translated into Canadian dollars at the rate of exchange prevailing at the time of the transactions. Realized and unrealized foreign currency gains or (losses) on investments are included in the Statement of Operations in “Realized gain (loss) on sale of investments” and “Unrealized appreciation (depreciation) of investments”, respectively. Realized and unrealized foreign currency gains or losses on assets, liabilities, and income, other than investments denominated in foreign currencies, are included in the Statements of Operations in “Net realized foreign exchange gain/ (loss)” and “Unrealized foreign exchange gain (loss)”.

Assets and liabilities in the Statements of Financial Position are translated into Canadian dollars on the statement date.

Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date, and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on foreign currency forward contracts.

Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a pre-determined price. The seller receives a premium from the purchaser in consideration for the assumption of a future securities price.

The premium paid for purchased options is included in the “Investments, at average cost” on the Statements of Financial Position. The unrealized gain or loss is reflected in the Statements of Operations in “Change in unrealized appreciation (depreciation) in value of investments”.

Brand Leaders Income Fund

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

The premium received upon writing an option is recorded at cost as “Payable for options written” in the Statements of Financial Position. As long as the position of the written option is maintained, the liability for written options is revalued at an amount equal to the current market value of the option, which would have the effect of closing the position. Any gain or loss resulting from revaluation is reflected in the Statements of Financial position in “Payable for options written”.

The gain or loss on sale or expiry of options is reflected in the Statements of Operations in “Net realized gain (loss) on sale of investments”.

Securities valuation

The NAV on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV and NAV per Trust Unit will be calculated on each Thursday during the year (or, if a Thursday is not a Business Day, the Business Day following such Thursday) and on the last Business Day of each month, and any other time as may be determined by the Manager from time to time. “Business Day” means any day on which the TSX is open for trading.

Increase / (decrease) in net assets from operations per unit

“Increase / (decrease) in net assets from operations per unit” in the Statements of Operations represents the increase / (decrease) in net assets from operations, divided by the weighted average units outstanding for the financial period.

Fair value of financial instruments

The table below summarizes the fair value of the Fund’s financial instruments using the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities.

Securities classification:

Investments at fair value as at December 31, 2012				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Equities				
Common shares	19,686,666	-	-	19,686,666
ADR	7,744,000	-	-	7,744,000
Total equities	27,430,666	-	-	27,430,666
Total written options contracts	(70,142)	-	-	(70,142)
Total investments	27,360,524	-	-	27,360,524
Foreign currency forward contracts	-	(298,367)	-	(298,367)
Total investments at fair value	27,360,524	(298,367)	-	27,062,157

Brand Leaders Income Fund

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

Investments at fair value as at December 31, 2011				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Equities				
Common shares	19,478,349	-	-	19,478,349
ADR	6,714,465	-	-	6,714,465
Total equities	26,192,814	-	-	26,192,814
Total written options contracts	(242,374)	-	-	(242,374)
Total investments	25,950,440	-	-	25,950,440
Foreign currency forward contracts	-	464,172	-	464,172
Total investments at fair value	25,950,440	464,172	-	26,414,612

There were no Level 3 securities held by the Fund as at December 31, 2012 and 2011, and there were no significant transfers between Level 1 and Level 2 for the periods ended December 31, 2012 and 2011.

Transition to International Financial Reporting Standards (“IFRS”)

On December 12, 2011, the Canadian Accounting Standards Board (“AcSB”) extended the deferral of the mandatory International Financial Reporting Standards (“IFRS”) changeover date for investment entities to fiscal year beginning on or after January 1, 2014. In October 2012, the IASB issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), which provides an exception to consolidation for a class of entities that are defined as ‘investment entities’. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating those subsidiaries. The Fund expects to meet the proposed criteria to qualify as investment entities and would measure all controlled investments at fair value with changes in fair value recognized through profit or loss.

In addition, on May 12, 2011, the International Accounting Standards Board (“IASB”) issued IFRS 13 – “Fair Value Measurement”, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It only applies when other IFRS standards require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the net asset value per units and net assets per units under current Canadian GAAP.

The Manager is currently assessing the Fund’s Unitholder structure and investments to determine the impact of these standards. The Manager has determined that there will likely be no material impact to the net asset value per units of each series of the Funds due to the changeover to IFRS. The major qualitative impact noted as of December 31, 2012 would be the addition of a statement of cash flows, the classification of puttable instruments, the reporting of future income tax assets or liabilities, where applicable, and additional note disclosures. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

Brand Leaders Income Fund

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

3. UNITHOLDERS' EQUITY

The authorized capital of the Fund consists of an unlimited number of transferable, units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. All units have equal rights and privileges and each unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally in any and all distributions made by the Fund.

The Fund renewed its normal course issuer bid program for the period from August 23, 2012 to August 22, 2013, which allows the Fund to purchase up to 255,097 trust units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange. During the period ended December 31, 2012, 31,100 units were purchased for cancellation for \$343,908 (2011 – 23,600 units).

Contributed surplus

Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders capital. If the redemption price is greater than the average cost per unit, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated and the remaining amount is charge to retained earnings.

Redemptions

Units may be surrendered prior to 5:00 p.m. (Toronto time) on the 10th business day before the last business day of the applicable month by the holders thereof for monthly redemption. Upon receipt by the Fund of the redemption notice, in the manner described below, the holder of a unit shall be entitled to receive a price per unit equal to the lesser of:

- (a) 95% of the "market price" of the units on the principal market on which the units are quoted for trading during the 20 trading day period ending immediately before the monthly redemption date; and
- (b) 100% of the "closing market price" on the principal market on which the units are quoted for trading on the monthly redemption date.

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on an annual basis, commencing in 2013, units may be surrendered for redemption at the Fund's NAV per unit, subject to the required redemption notice period, for the second last business day of January and the unitholder will receive payment on or before the 15th business day of the following month. The following units were redeemed and/or cancelled during the period:

	Units outstanding
Initial issuance – July 19, 2011, including over-allotment on August 3, 2011	2,601,378
Units cancelled	(23,600)
Total outstanding as at December 31, 2011	2,577,778
Units cancelled	(31,100)
Total outstanding as at December 31, 2012	2,546,678

Issue costs

Certain offering expenses such as costs of creating the Fund, the cost of printing and preparing the prospectus, legal expenses of the Fund and other out-of pocket expenses incurred by the agents together with the agents' fees payable by the Fund are reflected as a reduction of unitholders' equity. The expenses paid are shown in the Statements of Changes in Financial Position.

Distributions

The Fund intends to make monthly cash distributions to unitholders of record on the last business day of each month and pay such cash distributions on or before the 15th day of the following month. Beginning in November 2011, the Fund will annually determine and announce the distribution amount for the following year based upon the prevailing market conditions. The distribution amount was \$1,997,173 or \$0.065 per unit per month (\$0.78 in total) for the year ended December 31, 2012 (2011 - \$841,814 or \$0.325).

Brand Leaders Income Fund

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

4. EXPENSES

Management and service fees

Harvest Portfolios Group Inc. is the Manager of the Fund and is responsible for managing or arranging for managing the Fund's overall business and operations. The Manager has retained Highstreet Asset Management Inc. ("Highstreet" or the "Investment Manager") to provide investment management services to the Fund and pays Highstreet a fee for its portfolio advisory service, from the management fee received from the Fund, calculated on the basis of the Fund's net assets.

The Manager is entitled to a fee of 0.90 per cent of the NAV plus HST per annum of the Fund. The Fund pays service fees to registered dealers at the rate on 0.40 per cent of the NAV plus HST per annum of the Fund. Service fees are accrued daily and paid monthly to the Manager, who in turn pays the dealers.

Operating expenses

The Fund is responsible for operating expenses relating to the carrying on of its business, including custodial services, interest, taxes, legal, audit fees, transfer agency services relating to the issue and redemption of units, and the cost of financial and other reports, costs and expenses for the Fund's Independent Review Committee ("IRC"), including fees and expenses of the IRC members and compliance with applicable laws, regulations and policies.

Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses were \$120,538 for the period ended December 31, 2012 (2011 - \$40,955) and are included in the unitholder reporting costs on the Statements of Operations in the annual financial statements.

5. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund enters into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies. Foreign currency forward contracts entered into by the Fund represent a firm commitment to buy or sell a currency at a specified value and point in time based upon an agreed or contracted quantity. The value of the foreign currency forward contract is the gain or loss that would be realized if, on the valuation date, the position in the forward contract was closed out in accordance with its terms. The unrealized gains or losses on the forward contract are reported as part of the change in unrealized appreciation or depreciation of forward foreign currency contracts in the statement of operations until it is closed out or partially settled.

At December 31, 2012, the Fund had entered into the following foreign currency forward contract:

December 31, 2012				
Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized loss
Royal Bank of Canada: Credit rating AA-	January 15, 2013	CDN \$ 27,588,400	US \$ 28,000,000	\$(298,367)

December 31, 2011				
Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain
Royal Bank of Canada: Credit rating AA-	January 20, 2012	CDN \$ 26,541,056	US \$ 25,600,000	\$464,172

Brand Leaders Income Fund

NOTES TO THE FINANCIAL STATEMENTS

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6. FINANCIAL RISK MANAGEMENT

The Fund's investment objectives are to provide unitholders with:

- (i) monthly cash distributions;
- (ii) the opportunity for capital appreciation; and
- (iii) lower overall volatility of portfolio returns than would otherwise be experienced by owning equity securities of the Brand Leaders directly.

Investment activities of the Fund expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The Manager seeks to minimize these risks by employing experienced portfolio managers that will manage the security portfolios of the Fund on a daily basis according to market events and the investment objectives of the Fund. To assist in managing risk, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The value of securities in the Fund's portfolio may be affected by the stock market conditions rather than each company's performance. Developments in the market are affected by general economic and financial conditions. Political, social and environmental factors can also affect the value of any investment.

As at December 31, 2012, 98.9% (2011 - 97.5%) of the Fund's portfolio investments were traded on public stock exchanges. If equity prices on these exchanges had increased or decreased by 5%, as at period end, with all other factors remaining constant, net assets would have increased or decreased by approximately \$1,371,534 (2011 - \$1,309,641).

In practice, the actual trading results may differ and the difference could be material.

Currency risk

Currency risk is the risk that the value of investments denominated in currencies other than the financial currency of the Fund will fluctuate as a result of changes in foreign exchange rates. When a Fund buys an investment priced in a foreign currency and the exchange rate between the Canadian dollar and the foreign currency changes unfavorably, it could reduce the value of the Fund's investment.

The table below summarizes the Fund's exposure to currency risk. Amounts shown are based on the carrying value of monetary and non-monetary assets (including derivatives and the underlying principal (notional) amount of forward currency contracts, if any).

Currency	December 31, 2012		December 31, 2011	
	Net currency exposure (\$) *	As a % of net assets	Net currency exposure (\$) *	As a % of net assets
U.S. Dollars	294,918	1.1	467,631	1.7

*Amounts stated in Canadian dollars

As at December 31, 2012, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, by approximately \$14,746 (2011- \$23,382) or 0.1% (2011 - 0.1%) of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Brand Leaders Income Fund

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December 31, 2012

As all of the securities in the portfolio investments are denominated in U.S. dollars and expected dividends and premiums from call options received are in U.S. dollars, the Fund has entered into a forward currency contract on substantially all of the value of the portfolio investments back to the Canadian dollar at all times.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair value of financial instruments. Interest rate risk arises when the Fund invests in interest-bearing financial instruments. The Fund does not hold any bonds or money market instruments; therefore, the Fund's exposure to interest rate risk is insignificant.

Liquidity risk

Liquidity risk is defined as the risk that a fund may not be able to settle or meet its obligations on time or at a reasonable price.

The Fund is exposed to redemptions as units are redeemable on demand and Unitholders may redeem their units on each valuation date. Therefore in order to maintain sufficient liquidity, the Fund primarily invests in securities that are actively traded in public markets and can be readily disposed of to raise liquidity.

As at December 31, 2012 and 2011, all of the Fund's financial liabilities had maturities of less than three months.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

All transactions executed by the Fund in listed securities are settled/paid for 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 once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at December 31 2012 and 2011, the Fund did not have significant credit rate risk exposure

7. SOFT DOLLAR COMMISSIONS

Brokerage commissions paid to certain brokers may, in addition to paying for the cost of brokerage services in respect of security transactions, also provide for the cost of investment research services provided to the investment manager.

The value of such research services included in commissions paid to brokers for the periods ended December 31, 2012 and 2011 amounted to \$NIL.

8. INCOME TAXES

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada). The Fund is subject to tax on their income including net realized capital gains which are not paid or payable to unitholders. It is the intention of the Fund to distribute all of its net income and sufficient net realized capital gains so the Fund will not be subject to income taxes.

The amount of net realized taxable capital gains available for distribution is reduced by the amount of net capital gains to be retained in the Fund. This is done in order to enable the Fund to fully utilize any available tax credits due to application of the capital gain refund formula attributable to redemptions during the year. In certain circumstances, the fund may distribute a return of capital. A return of capital is taxable but will generally reduce the adjusted cost of the units.

Capital losses may be carried forward indefinitely to reduce future realized capital gains. Non-capital losses may be applied against future taxable income. As at December 31, 2012, the Fund had \$598,831 of non-capital losses for income tax purposes.

Brand Leaders Income Fund

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Harmonized sales tax

As the manager is a resident of Ontario, the expenses paid by the Fund include HST of 13%. HST is calculated using the residency of unitholders in the Fund as at specific times, rather than the physical location of the manager. A blended rate refund is filed with Revenue Canada on behalf of the Fund, in arrears, using each province's HST rate or GST rate in the case of non-participating provinces. Any refund received is applied against future HST payable.

9. NET ASSET VALUE AND NET ASSETS

CICA Handbook Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for long positions held and the asking price for short positions held.

The NAV per unit for purposes of unitholder transactions (i.e. purchases, switches, redemptions) and net assets per unit calculated in accordance with CICA Handbook Section 3855 are shown below:

Per Unit (\$):	NAV	Net assets
December 31, 2012	\$10.89	\$10.89
December 31, 2011	\$10.43	\$10.42

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed from time to time in the Fund's simplified prospectus or offering memorandum. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Fund does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.