Energy Leaders Income Fund

Annual Financial Statements

For the period from May 18, 2012 (commencement of operations) to 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.

Energy 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
Energy Leaders Income Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments, the statement of financial position as at December 31, 2012 and the statements of operations, changes in financial position and cash flows for the period from May 18, 2012 (commencement of operations) to December 31, 2012, 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 audit. We conducted our audit 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 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 the Fund as at December 31, 2012 and the results of its operations, the changes in its financial position and its cash flows for the period from May 18, 2012 (commencement of operations) to December 31, 2012 in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

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Energy Leaders Income Fund

STATEMENT OF FINANCIAL POSITION As at December 31,		2012
Assets		
Investments, at fair value (cost $24,573,598)	$	25,908,002
Cash and cash equivalents		276,559
Dividends and interest receivable		27,216
		26,211,777
Liabilities		
Distributions payable		159,943
Payable for options contracts written (cost $96,612)		77,830
	$	**237,773**
Net assets representing unitholders' equity	**$**	**25,974,004**
Unitholders' equity (Note 3)		
Unitholders' capital		23,977,909
Warrants		414,000
Retained earnings		1,582,095
Unitholders' equity	**$**	**25,974,004**
Number of units outstanding (Note 3)		**2,284,900**
Number of warrants outstanding (Note 3)		**2,300,000**
Net assets per unit (Note 8)	**$**	**11.37**

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

Energy Leaders Income Fund

STATEMENT OF OPERATIONS For the period from May 18, 2012 (commencement of operations) to December 31, 2012		2012
Investment income		
Dividends	$	555,239
Interest		3,597
Less: foreign withholding taxes		(39,566)
		519,270
Expenses (Note 4)		
Management fees		187,001
Service fees		74,711
Unitholder reporting costs		82,170
Audit fees		32,036
Transfer agency fees		15,052
Custodian fees and bank charges		37,733
Filing fees		46,545
Legal fees		20,083
Independent review committee fees		8,115
		503,446
Net investment income		**15,824**
Realized and unrealized gain / (loss) on investments and foreign currencies		
Realized gain on sale of investments		391,187
Transaction costs		(69,991)
Net realized loss on foreign exchange		(107,769)
Unrealized appreciation of foreign exchange		1,414
Unrealized appreciation of investments		1,353,186
Net gain on investments	**$**	**1,568,027**
Increase in net assets from operations	**$**	**1,583,851**
Increase in net assets from operations per unit	**$**	**0.71**

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

Energy Leaders Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION For the period from May 18, 2012 (commencement of operations) to December 31, 2012		2012
Net assets, beginning of the period	**$**	**-**
Increase in net assets from operations		1,583,851
Unitholders' transactions		
Proceeds from issue of units		27,600,000
Payments on cancellation of units		(170,332)
Agents' fees		(1,449,000)
Cost of issue		(467,820)
Net unitholders' transactions	**$**	**25,512,848**
Distributions to unitholders		
Net investment income		-
Return of capital		(1,122,695)
Total distributions to unitholders		**(1,122,695)**
Net assets, end of the period	**$**	**25,974,004**
Balance, beginning of the period	**$**	**-**
Increase in net assets from operations		1,583,851
Cost of units repurchased (Note 3)		(1,756)
Retained earnings, end of the period	**$**	**1,582,095**

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

Energy Leaders Income Fund

STATEMENT OF CASH FLOWS For the period from May 18, 2012 (commencement of operations) to December 31, 2012		2012
Operating activities		
Increase in net assets from operations	$	1,583,851
Add / (deduct) items not affecting cash		
Realized gain on sale of investments		(391,187)
Unrealized appreciation of investments		(1,353,186)
Proceeds from sale of investments		5,167,522
Purchases of investments		(29,253,321)
Net change in non-cash assets and liabilities		(27,216)
Net cash flow used in operating activities		**(24,273,537)**
Financing activities		
Proceeds from units issued		27,600,000
Payments on cancellation of units		(170,332)
Agents' fees		(1,449,000)
Issuance costs		(467,820)
Distribution to unitholders		(962,752)
Net cash flow provided by financing activities	**$**	**24,550,096**
Net increase in cash and cash equivalents during the period		276,559
Cash and cash equivalents, beginning of the period		**-**
Cash and cash equivalents, end of the period	**$**	**276,559**
	$	
Supplemental disclosure of cash flow information		
Amount of interest paid during the period included in net investment income	**$**	**70**

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

Energy Leaders Income Fund

STATEMENT OF INVESTMENTS
As at December 31, 2012

Number of Shares	Security	Average Cost ($)	Fair Value ($)	% of Net Assets
	EQUITIES			
	Energy Issuers			
43,200	BP PLC-SPONS ADR	1,672,601	1,791,543	6.9
84,900	Canadian Oil Sands Limited	1,750,185	1,710,735	6.6
53,300	Cenovus Energy Inc.	1,687,093	1,774,357	6.8
16,200	Chevron Corporation	1,686,540	1,745,625	6.7
31,800	ConocoPhillips	1,692,997	1,836,786	7.1
81,600	Encana Corporation	1,644,233	1,599,360	6.1
31,100	Ensco PLC, Class A	1,530,092	1,834,751	7.0
20,700	Exxon Mobil Corporation	1,737,662	1,784,912	6.9
62,300	Marathon Oil Corporation	1,543,070	1,901,284	7.3
78,900	Petroleo Brasileiro SA ADR	1,573,152	1,528,792	5.9
61,900	Spectra Energy Corp	1,808,040	1,686,918	6.5
72,500	STATOIL ASA - SPON ADR	1,705,630	1,809,038	7.0
131,300	Talisman Energy Inc.	1,402,601	1,473,186	5.7
56,300	The Williams Companies, Inc.	1,735,751	1,834,775	7.1
30,800	TOTAL SA - SPON ADR	1,403,951	1,595,940	6.1
	Total equities	**24,573,598**	**25,908,002**	**99.7**
	OPTIONS			
	Energy Issuers			
(12,900)	BP PLC-SPON ADR - Jan 2013 @ USD $43	(7,057)	(3,725)	-
(25,400)	Canadian Oil Sands Limited - Jan 2013 @ CAD $21	(3,810)	(6,350)	-
(15,900)	Cenovus Energy Inc. - Jan 2013 @ CAD $34	(7,314)	(6,837)	-
(4,800)	Chevron Corporation - Jan 2013 @ USD $115	(1,385)	(430)	-
(9,500)	ConocoPhillips - Jan 2013 @ USD $60	(5,197)	(2,176)	-
(24,400)	Encana Corporation - Jan 2013 @ CAD $21	(6,100)	(3,172)	-
(9,300)	Ensco PLC, Class A - Jan 2013 @ USD $60	(12,791)	(10,186)	(0.1)
(6,200)	Exxon Mobil Corporation - Jan 2013 @ USD $90	(3,638)	(1,667)	-
(15,800)	Marathon Oil Corporation - Jan 2013 @ USD $32	(6,800)	(3,933)	-
(2,800)	Marathon Oil Corporation - Jan 2013 @ USD $33	(564)	(335)	-
(17,700)	Petroleo Brasileiro SA ADR - Jan 2013 @ USD $20	(11,443)	(7,578)	-
(5,900)	Petroleo Brasileiro SA ADR - Jan 2013 @ USD $21	(1,761)	(1,175)	-
(18,500)	Spectra Energy Corp - Jan 2013 @ USD $28	(5,121)	(4,605)	-
(39,300)	Talisman Energy Inc. - Jan 2013 @ CAD $12	(7,860)	(8,253)	(0.1)
(16,800)	The Williams Companies, Inc. - Jan 2013 @ USD $33	(11,196)	(10,538)	(0.1)
(9,200)	Total SA ADR - Jan 2013 @ USD $53	(4,575)	(6,870)	-
	Total options	**(96,612)**	**(77,830)**	**(0.3)**
	Total investments	**24,476,986**	**25,830,172**	**99.4**
	Other assets less liabilities		**143,832**	**0.6**
	Net Assets		**25,974,004**	**100.0**

CONCENTRATION BY GEOGRAPHY AS AT DECEMBER 31, 2012		
Country of Issue	**$***	**As a % of net assets**
Canada	6,453,046	24.8
United States of America	19,520,958	75.2
Totals	**25,974,004**	**100.0**

*Stated in Canadian dollars

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

Energy Leaders Income Fund

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. ORGANIZATION

Energy 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 April 27, 2012, being the inception date. There was no significant activity in the Fund from the date of Inception to commencement of operations on May 18, 2012. On May 18, 2012, the Fund completed an initial public offering of 2,300,000 units at $12.00 per unit for gross proceeds of $27,600,000.

Each unit consisted of one trust unit and one warrant, which separated upon Fund's closing and the units and warrants trade separately on the Toronto Stock Exchange. Each warrant entitles the holder to purchase one unit at a subscription price of $12.00 on or before 5:00 p.m. (Toronto time) on June 14, 2013, when the warrants expire. Warrants not exercised will be void and of no value.

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, listed warrants, short-term notes, treasury bills, bonds and other debt instruments. 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, 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 8.

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 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 Statement 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 Statement of Operations in “Net realized foreign exchange gain/ (loss)” and “Unrealized foreign exchange gain (loss)”.

Assets and liabilities in the Statement 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 Statement of Financial Position. The unrealized gain or loss is reflected in the Statement of Operations in “Unrealized appreciation (depreciation) in value of investments”. Realized gains and losses related to options are included in “Realized gain (loss) on sale of investments” in the Statement of Operations. The premium received upon writing an option is recorded at cost as ‘‘Payable for options contracts written” in the Statement 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 Statement of Financial position in ‘‘Payable for options contracts written”.

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 Statement of Operations represents the increase / (decrease) in net assets from operations, divided by the weighted average units outstanding for the financial period. The "increase / (decrease) in net assets from operations per unit – diluted" takes into account the dilutive impact of issuing units from warrants outstanding when the price that it trades at is higher than the exercise price of $12.00.

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.

There were no Level 3 securities held by the Fund as at December 31, 2012.

Securities classification:

Investments at fair value as at December 31, 2012				
	Level 1 ($)	**Level 2 ($)**	**Level 3 ($)**	**Total ($)**
Equities				
Common shares	19,182,689	-	-	19,182,689
ADR	6,725,313	-	-	6,725,313
Total equities	**25,908,002**	**-**	**-**	**25,908,002**
Total written options contracts	(77,830)	-	-	(77,830)
Total investments at fair value	**25,830,172**	**-**	**-**	**25,830,172**

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

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.

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. Except as provided in the Declaration of Trust, all units have equal rights and privileges. 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 commenced a normal course issuer bid program for the period from June 22, 2012 to June 21, 2013, which allows the Fund to purchase up to 229,880 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, 15,100 units were purchased for cancellation for $170,332.

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 of the contributed surplus is eliminated, and any remaining amounts are charged 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, by the second last business day of November 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	Warrants outstanding
Initial issuance –	**2,300,000**	**2,300,000**
Cancellation during the period	15,100	-
Total outstanding as at December 31, 2012	**2,284,900**	**2,300,000**

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 Statement of Changes in Financial Position. During the period ended December 31, 2012, directors and/or officers of the Manager, were remunerated $26,891 on the initial public offering of the Fund.

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 indicative distribution amount for the following year based upon the prevailing market conditions. The distribution amount was $1,122,695 or 0.07 per unit per month ($0.49 in total) for the period ended December 31, 2012.

Warrants

Each whole warrant entitles the holder to purchase one trust unit at a subscription price of $12.00 on or before 5:00 p.m. (Toronto time) on, and only on, June 14, 2013. Warrants not exercised will be void and of no value. Upon the exercise of a warrant, the Fund will pay a fee equal to $0.18 per warrant to the registered dealer whose client is exercising the warrant and $0.12 per warrant to the Agents.

For the period ended December 31, 2012, no warrants were purchased for cancellation. The warrants trade on the TSX under the symbol HEN.WT. At December 31, 2012, the closing price was $0.01.

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 1.00 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.

4. EXPENSES

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 are allocated by the Manager on a reasonable basis, across all of the Harvest Portfolios Group Inc. funds, and series of each applicable fund. These expenses were $82,170 for the period ended December 31, 2012 and are included in the unitholder reporting costs on the Statement of Operations in the annual financial statements.

5. FINANCIAL RISK MANAGEMENT

INVESTMENT OBJECTIVES AND STRATEGY

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

(iv) monthly cash distributions;
(v) the opportunity for capital appreciation; and
(vi) lower overall volatility of portfolio returns than would otherwise be experienced by owning equity securities of the Energy Issuers 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, 99.7% 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 $1,295,400.

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 the 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.

Currency	Currency exposure ($)	As a % of net assets
U.S. Dollars	19,520,958	75.2

*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 $976,048 or 3.8% of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

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, 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, the Fund does not have significant credit rate risk exposure

6. 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 period ended December 31, 2012 amounted to $NIL.

7. 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 $157,328 of non-capital losses for income tax purposes.

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.

8. 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 ($):	Net assets	NAV
December 31, 2012	$11.37	$11.38

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

HARVEST
PORTFOLIOS GROUP