Australian REIT Income Fund

Annual Financial Statements

December 31, 2013

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.

Australian REIT 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 is the external auditor 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 included as an integral part of the financial statements.

On behalf of Harvest Portfolios Group Inc.,

(Signed) "Michael Kovacs"

Michael Kovacs
President and Chief Executive Officer

(Signed) "Townsend Haines"

Townsend Haines
Chief Financial Officer

Oakville, Canada
March 19, 2014

March 19, 2014

Independent Auditor's Report

To the Unitholders of
Australian REIT Income Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statements of investments and financial position as at December 31, 2013 and the statements of operations, changes in financial position and cash flows for the period from March 21, 2013 (commencement of operations) to December 31, 2013, 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, 2013 and the results of its operations, the changes in its financial position and its cash flows for the period from March 21, 2013 to December 31, 2013 in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

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STATEMENT OF FINANCIAL POSITION As at December 31, 2013		2013
Assets		
Investments, at fair value (cost: $81,373,839)	$	70,273,939
Cash and cash equivalents		982,165
Dividends and interest receivable		1,386,400
Unrealized appreciation on foreign currency forward contracts (Note 5)		960,313
Pre-paid interest – loan facility (Note 10)		111,161
		73,713,978
Liabilities		
Loan payable (Note 10)		27,100,000
Redemptions payable		11
Distributions payable		301,978
Unrealized depreciation on foreign currency forward contracts (Note 5)		53,679
		27,455,668
Net assets representing unitholders' equity	**$**	**46,258,310**
Unitholders' equity (Note 3)		
Unitholders' capital		58,772,946
Contributed surplus		116,168
Deficit		(12,630,804)
Unitholders' equity	**$**	**46,258,310**
Net assets representing unitholders' equity		
Series A*	**$**	**44,691,693**
Series F*		**1,566,617**
Number of units outstanding (Note 3)		
Series A*		**5,311,384**
Series F*		**179,132**
Net assets per unit (Note 9)		
Series A*	**$**	**8.41**
Series F*		**8.75**

*Series A and Series F commenced operations March 21, 2013

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

Australian REIT Income Fund

STATEMENT OF OPERATIONS **For the period from March 21, 2013 (commencement of operations) to December 31, 2013**		**2013**
Investment income		
Dividends	$	4,075,719
Interest		65,959
Less: foreign withholding taxes		(473,848)
		3,667,830
Expenses (Note 4)		
Management fees		595,818
Service fees		176,039
Unitholder reporting costs		267,882
Audit fees		50,608
Transfer agency fees		12,609
Custodian fees and bank charges		64,842
Independent review committee fees		10,292
Interest expense (Note 10)		525,559
Filing fees		50,682
Legal fees		167,859
		1,922,190
Net investment income	**$**	**1,745,640**
Realized and unrealized gain (loss) on investments and foreign currencies		
Realized gain (loss) on sale of investments		(2,252,847)
Realized gain (loss) on foreign exchange		(1,664,469)
Transaction costs (Note 6)		(270,979)
Change in unrealized appreciation (depreciation) of foreign exchange		911,751
Change in unrealized appreciation (depreciation) of investments		(11,099,900)
	$	**(14,376,444)**
Increase (decrease) in net assets from operations	**$**	**(12,630,804)**
Increase (decrease) in net assets from operations - Series A*	**$**	**(12,196,994)**
Increase (decrease) in net assets from operations - Series F*		**(433,810)**
Increase (decrease) in net assets from operations per unit - Series A*	**$**	**(2.29)**
Increase (decrease) in net assets from operations per unit - Series F*		**(2.33)**

*Series A and Series F commenced operations March 21, 2013

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

STATEMENT OF CHANGES IN FINANCIAL POSITION – ALL SERIES For the period from March 21, 2013 (commencement of operations) to December 31, 2013		2013
Net assets, beginning of the period	**$**	**-**
Increase (decrease) in net assets from operations		**(12,630,804)**
Unitholders' transactions		
Proceeds from issue of units		66,403,992
Payment to unitholders on fractional units on transfer from Series F to Series A		(19)
Payments on cancellation of units		(371,026)
Agents' fees		(3,418,306)
Cost of issue		(996,060)
Net unitholders' transactions	**$**	**61,618,581**
Distributions to unitholders		
Return of capital		(2,729,467)
Total distributions to unitholders		**(2,729,467)**
Net assets, end of the period	**$**	**46,258,310**
Retained earnings (deficit), beginning of the period	**$**	**-**
Increase (decrease) in net assets from operations		(12,630,804)
Deficit, end of the period	**$**	**(12,630,804)**
Contributed surplus, beginning of the period	**$**	**-**
Cost of units repurchased at less than average cost per unit		116,168
Contributed surplus, end of the period	**$**	**116,168**

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

Australian REIT Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION – SERIES A For the period from March 21, 2013 (commencement of operations) to December 31, 2013		2013
Net assets, beginning of the period	**$**	**-**
Increase (decrease) in net assets from operations		**(12,196,994)**
Unitholders' transactions		
Proceeds from issue of units		64,140,564
Transfer of units from Series F		67,171
Payments on cancellation of units		(352,080)
Agents' fees		(3,367,379)
Cost of issue		(962,108)
Net unitholders' transactions	**$**	**59,526,168**
Distributions to unitholders		
Return of capital		(2,637,481)
Total distributions to unitholders		**(2,637,481)**
Net assets, end of the period	**$**	**44,691,693**
Retained earnings (deficit), beginning of the period	**$**	**-**
Increase (decrease) in net assets from operations		(12,196,994)
Deficit, end of the period	**$**	**(12,196,994)**
Contributed surplus, beginning of the period	**$**	**-**
Cost of units repurchased at less than average cost per unit		92,729
Contributed surplus, end of the period	**$**	**92,729**

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

STATEMENT OF CHANGES IN FINANCIAL POSITION – SERIES F For the period from March 21, 2013 (commencement of operations) to December 31, 2013		2013
Net assets, beginning of the period	**$**	**-**
Increase (decrease) in net assets from operations		**(433,810)**
Unitholders' transactions		
Proceeds from issue of units		2,263,428
Transfer of units to Series A		(67,190)
Payment on cancellation of units		(18,946)
Agents' fees		(50,927)
Cost of issue		(33,952)
Net unitholders' transactions	**$**	**2,092,413**
Distributions to unitholders		
Return of capital		(91,986)
Total distributions to unitholders		**(91,986)**
Net assets, end of the period	**$**	**1,566,617**
Retained earnings (deficit), beginning of the period	**$**	**-**
Increase (decrease) in net assets from operations		(433,810)
Deficit, end of the period	**$**	**(433,810)**
Contributed surplus, beginning of the period	**$**	**-**
Cost of units repurchased at less than average cost per unit		23,439
Contributed surplus, end of the period	**$**	**23,439**

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

STATEMENT OF CASH FLOWS For the period from March 21, 2013 (commencement of operations) to December 31, 2013		2013
Operating activities		
Increase (decrease) in net assets from operations	$	(12,630,804)
Add (deduct) items not affecting cash		
Realized (gain) loss on sale of investments		2,252,847
Unrealized (appreciation) depreciation of investments		11,099,900
Proceeds from sale of investments		21,336,944
Purchases of investments		(104,963,630)
Net change in non-cash assets and liabilities		(2,404,184)
Net cash flow provided by (used in) operating activities	**$**	**(85,308,927)**
Financing activities		
Borrowing of term credit facility (Note 10)	$	27,100,000
Proceeds from units issued		66,403,992
Payments cancellation of units		(371,045)
Agents' fees		(3,418,306)
Issuance costs		(996,060)
Distribution to unitholders		(2,427,489)
Net cash flow provided by (used in) financing activities	**$**	**86,291,092**
Net increase (decrease) in cash and cash equivalents during the period		982,165
Cash and cash equivalents, beginning of the period		-
Cash and cash equivalents, end of the period	**$**	**982,165**
Supplemental disclosure of cash flow information		
Amount of interest paid during the period	$	**636,720**

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

Australian REIT Income Fund

STATEMENT OF INVESTMENTS As at December 31, 2013				
Number of Shares	**Security**	**Average Cost ($)**	**Fair Value ($)**	**% of Net Assets**
	EQUITIES			
	Real Estate Issuers			
1,651,031	Abacus Property Group	3,794,730	3,641,037	7.9
1,026,608	Challenger Diversified Property Group	2,966,760	2,420,128	5.2
4,127,000	Dexus Property Group	4,741,992	3,942,598	8.5
1,035,000	General Property Trust	4,294,662	3,345,039	7.2
772,901	Growthpoint Properties Australia	1,983,325	1,807,344	3.9
1,106,590	Stockland	4,390,300	3,797,309	8.2
826,048	BWP Trust	2,056,147	1,719,615	3.7
735,252	Goodman Group	3,570,703	3,305,821	7.1
3,558,981	Cromwell Property Group	3,727,296	3,298,467	7.1
570,659	Investa Office Fund	1,859,753	1,692,440	3.7
341,310	ALE Property Group	929,203	882,470	1.9
9,299	Australand Asset Trust	954,972	849,024	1.9
651,506	Australia Holdings Limited	2,437,056	2,371,915	5.1
4,677,846	CFS Retail Property Trust	10,181,171	8,604,167	18.6
1,913,255	Charter Hall Retail Trust	8,139,526	6,529,038	14.1
1,632,000	Federation Centres Limited	4,186,319	3,614,581	7.8
1,739,555	Mirvac Group	3,019,310	2,777,982	6.0
326,292	Westfield Group	3,744,841	3,129,533	6.8
2,986,214	Westfield Retail Trust	9,697,349	8,402,230	18.2
		76,675,415	**66,130,738**	**142.9**
	Other Public Issuers			
18,929	Goodman Plus Trust	1,964,265	1,780,432	3.9
20,578	Multiplex SITES Trust	1,877,324	1,603,784	3.5
		3,841,589	**3,384,216**	**7.4**
	Total equities	**80,517,004**	**69,514,954**	**150.3**
Par Value				
	FIXED INCOME			
782,800	ALE Property Trust 6.58% Aug 20/16	856,835	758,985	1.6
	Total fixed income	**856,835**	**758,985**	**1.6**
	Total investments	**81,373,839**	**70,273,939**	**151.9**
	Foreign currency forward contracts (Note 5)		**906,634**	**2.0**
	Other assets less liabilities		**(24,922,263)**	**(53.9)**
	Net Assets		**46,258,310**	**100.0**

CONCENTRATION BY GEOGRAPHY AS AT DECEMBER 31, 2013		
Country of Issue	**$***	**As a % of net assets**
Australia	46,258,310	100.0
Totals	**46,258,310**	**100.0**

*Stated in Canadian dollars

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

Australian REIT Income Fund

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. ORGANIZATION

Australian REIT Income Fund (the "Fund") is an investment fund established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated February 26, 2013, being the inception date. There was no significant activity in the Fund from the date of Inception to commencement of operations on March 21, 2013. On March 21, 2013, Series A and Series F completed an initial public offering of 5,311,381 and 188,619 units at $12.00 per unit for gross proceeds of $63,736,572 and $2,263,428 respectively. On April 29, 2013, an over-allotment option was exercised on Series A for an additional 33,666 units at a price of $12.00 per unit for a gross proceed of $403,992.

The Fund's investment objectives are to provide unitholders with stable monthly cash distributions and the opportunity for capital appreciation. To seek to achieve its investment objectives, the Fund will invest in an actively managed portfolio comprised primarily of equity securities listed on the ASX issued by Australian real estate investment trusts and to a lesser extent, issuers principally engaged in the real estate industry in Australia.

The fund is offering Series A units and Series F units. The Series F units are designed for fee-based and/or institutional accounts and differ from the Series A units in the following ways: (i) Series F units will not be listed on a stock exchange; (ii) the Agents' fees payable on the issuance of the Series F units were lower than those payable on the issuance of the Series A units; and (iii) no service fee is payable in respect of the Series F units.

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 CPA Canada Handbook Section 3855 Financial Instruments – Recognition and Measurement. Investments held that are traded in 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 CPA Canada Handbook Section 3855 methodologies. The fair values of certain securities may be 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, 2013 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"). The reconciliation between NAV per unit and Net assets per unit at the period end is provided in Note 9.

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 CPA Canada Handbook Section 3862, accrued dividends and interest 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.

Distributions received from income trusts are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Distributions from investment trusts treated as a return of capital reduce the average cost of the underlying investment trust. Distributions received from mutual funds are recognized in the same form in which they are received from the underlying funds.

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 "Change in 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 "Realized gain (loss) on foreign exchange" and "Change in unrealized appreciation (depreciation) of foreign exchange". Foreign currency 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 realized gain or loss on foreign currency forward contracts.

Allocation of income and expense, and realized and unrealized capital gains and losses
Management fees and service fee directly attributable to a series are charged to that series. The Fund's shared operating expenses, income, and realized and unrealized capital gains and losses are generally allocated proportionately to each series based upon the relative Net Asset Value of each series.

Australian REIT Income Fund

Securities valuation
The NAV of each series on a particular date will be equal to each series' proportionate share of the assets of the Fund less each series' proportionate share of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV and NAV per unit of each series will be calculated each Business Day "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, attributed to each series, divided by the weighted average units outstanding for that series 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 asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability 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, 2013				
	Level 1 ($)	**Level 2 ($)**	**Level 3 ($)**	**Totals ($)**
Equities				
REITs	66,130,738	-	-	66,130,738
Other	3,384,216	-	-	3,384,216
Total equities	**69,514,954**	**-**	**-**	**69,514,954**
Fixed Income				
Corporate Bonds	758,985	-	-	758,985
Total fixed income	**758,985**	**-**	**-**	**758,985**
Foreign currency forward contract (Note 5)	**-**	**906,634**	**-**	**906,634**
Total investments at fair value	**70,273,939**	**906,634**	**-**	**71,180,573**

There were no Level 3 securities held by the Fund as at December 31, 2013 and there were no significant transfers between Level 1 and Level 2 for the period ended December 31, 2013.

Transition to International Financial Reporting Standards ("IFRS")
Investment entities in Canada that are publicly accountable enterprises are required to adopt IFRS for annual periods beginning on or after January 1, 2014. As a result, calendar year reporters need to prepare their comparative financial information on an IFRS basis as of January 1, 2013, the date of transition to IFRS.

The Fund will have to prepare annual financial statements for the first time as of December 31, 2014 with comparatives in accordance with IFRS and semi-annual financial statements for the first time as of June 30, 2014 with comparatives in accordance with IFRS.

The Manager has developed a plan to convert the Fund's financial statements to IFRS by establishing a cross-functional IFRS team represented by management and the Fund's service providers (accounting and transfer agent). The Fund does not anticipate any impact on its business arrangements.

As at December 31, 2013, the Manager believes that the major areas of difference between the Fund's current accounting policies and those expected to apply under IFRS have been identified, including the:

- classification of redeemable instruments issued by the Fund,
- elimination of the differences between net asset value per unit and net asset per unit, and
- classification and measurement of the Fund's investments.

The table in Note 9 summarizes the 2013 quantitative impact of the changeover from Canadian GAAP to IFRS.

3. UNITHOLDERS' EQUITY

The authorized capital of the Fund consists of an unlimited number of transferable, Units of each 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 May 7, 2013 to May 6, 2014, which allows the Fund to purchase up to 534,304 Class A 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, 2013, 41,100 units were purchased for cancellation for $352,080.

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 the remaining amount is charged to retained earnings.

Redemptions
Series A units may be surrendered prior to 5:00 p.m. (Toronto time) on the tenth Business Day before the last Business Day of the applicable month by unitholders for redemption. Upon receipt by the Fund of the redemption notice the unitholder shall be entitled to receive a price per Series A unit equal to the lesser of:

> (a) 95% of the "market price" of the Series A units on the principal market on which the Series A 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 Series A units are quoted for trading on the monthly redemption date.

Series F units may be redeemed or converted to Series A units on a monthly basis on the same terms as the Series A units. During the period ended December 31, 2013 2,316 Series F units were redeemed and cancelled for $18,946 and 7,171 units were converted into 7,437 Series A units.

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on an annual basis, commencing in September 2014, Series A and Series F units may be surrendered for redemption at the NAV per unit of each series, subject to the required redemption notice period, by the second last business day of September 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	
	Series A	**Series F**
Initial issuance, March 21, 2013 and over-allotment	**5,345,047**	**188,619**
Cancellations during the period	(41,100)	-
Redeemed during the period	-	(2,316)
Transfer between Series	7,437	(7,171)
Total outstanding as at December 31, 2013	**5,311,384**	**179,132**

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, certain remuneration to directors and/or officers of the Manager and other out-of pocket expenses incurred by the agents together with the agent's 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.

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 March 2014, the Fund will annually determine and announce the distribution amount for the following year based upon the prevailing market conditions. The distribution amount was $2,729,467 or $0.055 per unit per month ($0.495 per unit in total) for the period ended December 31, 2013.

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 Macquarie Private Portfolio Management Limited ("MPPM" or the "Portfolio Manager") to provide portfolio management services and retained Avenue Investment Management Inc. ("Avenue" or "Investment Advisor") to provide investment advisory services to the Fund and pays MPPM and Avenue a fee for its portfolio advisory and investment advisory services, 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 1.30% of NAV per unit, plus applicable taxes, per annum of the Fund. The Fund pays service fees to registered dealers on Series A units at a rate of 0.40% of the NAV, plus applicable taxes, per annum of the Fund. No service fee is charged to Series F units. Service fees are accrued daily and paid monthly to the Manager.

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. The Manager pays for such expenses on behalf of the Fund, except for certain expenses such as interest, and is then reimbursed by the Fund.

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 $254,688 for the period ended December 31, 2013 and are included in the unitholder reporting costs on the Statement of Operations.

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, 2013, the Fund had entered into the following foreign currency forward contracts:

Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)
The Bank of Nova Scotia credit rating A+	March 14, 2014	CAD $73,943,100	AUD $77,000,000	$ 960,313
The Bank of Nova Scotia credit rating A+	March 14, 2014	AUD $2,500,000	CAD $2,423,250	$ (53,679)
Net Total				**$ 906,634**

6. FINANCIAL RISK MANAGEMENT

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 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, 2013, 150.3% of the Fund’s net assets were traded on public stock exchange. 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 $3,475,748.

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.

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).

	As at December 31, 2013			
Currency	**Currency exposure***	**Forward contracts***	**Net currency exposure***	**As a % of net assets**
Australian Dollars	$72,611,279	$70,613,216	$1,998,063	4.3

*In Canadian dollars

As at December 31, 2013, if the Canadian dollar had strengthened or weakened by 5% in relation to the Australian dollar, with all other variables held constant, the Fund’s net assets would have increased or decreased, respectively, by approximately $99,903 of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

As all of the securities in the portfolio investments are denominated in Australian Dollars, the Fund from time to time may enter into a forward currency contract on substantially all of the value of the portfolio investments back to the Canadian dollar. There is no requirement to hedge the currency 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. A Fund that invests in fixed income securities, such as bonds and money market instruments, is sensitive to changes in interest rates. In general, when interest rates are falling, the value of these investments rises.

Moreover, fixed income securities with longer terms to maturity are usually more sensitive to changes in interest rates. If interest rates were to change by 1.0%, the increase (decrease) in interest earned by the Fund would change by $7,590.

A Fund that has an interest-bearing liability is exposed to risks associated with the effects of fluctuations in interest rates on its cash flows. As at December 31, 2013 the Fund had $27,100,000 of interest bearing liabilities. The interest bearing liabilities have a fixed interest rate and a maturity of less than three months, therefore the exposure to interest rate risk is not considered significant.

The table below summarizes the Fund's exposure to interest rate risks by either the remaining term to maturity or contractual repricing as at December 31, 2013.

Debt Instruments: December 31, 2013	Fair Value ($)	% of Net Assets
1 to 3 years	758,985	1.6
Total	**758,895**	**1.6**

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 described in Note 3. 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, 2013, 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.

The Fund has holdings of fixed income debt instruments. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. This risk is largely mitigated by the standards used to select corporate investments. Ongoing credit assessments are performed on all the Fund's holdings and the exposure level is managed through careful diversification across industry sectors and individual issuers, which helps to minimize this risk. The maximum credit risk of these investments is their fair value at December 31, 2013.

At December 31, 2013, the Fund was invested in debt securities which were not rated.

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 period ended December 31, 2013 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 not 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 the Fund's 2013 taxation year end, the Fund had $325,128 of non-capital losses and $1,988,888 of net 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.

9. NET ASSET VALUE AND NET ASSETS

CPA Canada 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 net asset value per unit for purposes of unitholder transactions (i.e. purchases, switches, redemptions) and net assets per unit calculated in accordance with Section 3855 is shown below:

Per Unit:	NAV	Net assets
As at December 31, 2013		
Series A	$8.44	$8.41
Series F	$8.77	$8.75

10. LOAN FACILITY

The Fund established a loan facility with a Canadian chartered bank during the period for the purpose of acquiring assets for the portfolio and such other short term funding purposes as may be determined from time to time and in accordance with the investment strategy. The loan is interest bearing at a rate of 1.22% per annum for $4,100,000 and 1.275% per annum for $23,000,000, secured against the assets of the Fund and the amount of the loan has a maximum amount available based on the net asset value of the fund. The outstanding balance on the loan facility was $27,100,000 at December 31, 2013. The amount of borrowings ranged between $27,100,000 and $36,500,000 during the period.

The initial interest paid on the drawdown and renewal of the BA's is deferred and amortized over the term of the BA's, which mature on January 20, 2014 and March 20, 2014 respectively. The unamortized portion of the deferred interest is included under the "Prepaid Interest – loan facility" on the Statement of Financial Position. For the period ended December 31, 2013, the Fund recorded interest expense of $525,559.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

HARVEST
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