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Australian REIT Income Fund

Annual Management Report of Fund Performance

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

CORPORATE OVERVIEW

Harvest Portfolios Group Inc. (“Harvest”) is a Canadian Investment Manager focused on unique income generating investment products. Harvest was founded in 2009 by long term members of the investment management industry and is focused on developing investment products that follow the investment philosophy of:

1. Clear investment objectives
2. Transparency
3. Income generation

Harvest’s mandate is to develop investment products that are clear in their mandate and easy for our investors to understand. We strive to be transparent, so that our investors can open their financial reports and know exactly what they own. Our funds are also invested to provide investors with consistent monthly or quarterly income; therefore, we seek to invest our fund portfolios in well managed companies that have a history of steady cash flow and pay dividends or distributions.

INVESTMENT PRODUCT

The Australian REIT Income Fund (“the Fund”) invests in a portfolio comprised primarily of Equity securities listed on the ASX issued by Real Estate Issuers. The Fund will be actively managed to take advantage of opportunities within the Australian real estate sector with a focus on Real Estate Issuers that provide an attractive current cash yield and/or capital appreciation opportunities.

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PRESIDENT'S MESSAGE

Australian REIT Income Fund

Unitholder letter March 2014

Dear Valued Unitholder,

As 2013 appears in the rear-view mirror, it will be remembered as the year US Equities rebounded on the back of positive economic sentiment both in the US and abroad. It will also be remembered as the year the Euro zone emerged from recession driving additional positive sentiment into previously beaten down stock markets. Here at home, our heavily resource weighted markets turned out positive numbers but at lower levels than our US and European counterparts. All in though, a good year for developed Western markets producing returns beyond expectations at the outset of the year.

Leading into the fourth quarter economic data continued to strengthen led by strong US manufacturing and housing data coupled with strengthening employment statistics. In addition the US Federal Reserve announced that it would begin to taper bond-buying stimulus starting in January 2014 which was also positively viewed by market as a signal of confidence in the economy. Though some may argue that a strengthening economy may lead to higher interest rates we don't believe that over the balance of 2014, rates will climb much higher than they are today. We also believe that the markets have become more comfortable with a potential 3% 10 year US Treasury Yield.

When constructing Harvest products we want to ensure that the underlying securities can meet the tests of all economic conditions. Being invested in market traded securities will lead to volatility which is a reality we can endeavor to dampen but can't completely control. What we can control are the investments we make and the quality of the companies we buy. All of our Funds are built on the basic investment principals of i) simple and understandable mandates, ii) transparency and iii) income generation.

As we look towards 2014 and into the future we want to assure our investors that Harvest Portfolios will remain committed to quality products that generate consistent income over the long term.

We appreciate your investment and support of Harvest Funds.

Sincerely,

(Signed) "Michael Kovacs"

Michael Kovacs
President and Chief Executive Officer

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MANAGEMENT DISCUSSION OF FUND PERFORMANCE

The management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. For your reference, the annual financial statements of the Fund are attached to the management report of fund performance. You may obtain additional copies of these documents at your request, and at no cost, by calling toll free at 1(866) 998-8298; by writing to us at Harvest Portfolios Group Inc., 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; or by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.

Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGY

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

- (i) stable monthly cash distributions; and
- (ii) the opportunity for capital appreciation

INVESTMENT STRATEGY

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 manager, Harvest Portfolios Group Inc. ("Harvest") has retained Macquarie Private Portfolio Management Limited ("Macquarie" or "Portfolio Manager") to provide portfolio management services to the Fund.

Harvest believes that Australian REITs offer attractive income and an opportunity for capital gains based on the market's recognition and revaluation of these issuers. In the view of the Portfolio Manager, (i) since the financial crisis of 2008, many participants in the Australian REIT sector have reduced leverage, simplified corporate and investment structures, raised additional capital and are positioned to grow capital values and distributions; (ii) this restructuring has had a positive effect on share prices though the sector remains considerably undervalued relative to previous peaks; and (iii) distributions from Australian REITs provide a stable yield which together with the possibility of capital growth provides a total return which is appealing relative to fixed interest alternatives.

The Fund will invest in Real Estate Issuers in various sectors, including industrial, residential, office, retail and other real estate sectors and from time to time may invest in debt securities.

RISK

The risks associated with investing in the Fund are as described in the prospectus. There were no material changes to the Fund over the period that affected the overall level of risk of the Fund.

RESULTS OF OPERATIONS

The sentiment towards the underlying Australian REITs since the inception of the Fund in late March through the early second quarter was generally positive. However, the robust economic data in the United States during the second quarter resulted in expectations of higher interest rates in the US. This impacted many higher yielding equities around the world, in particular global REITs. Also during the second quarter, Canadian economic data was also relatively strong compared to Australia and China where economic data was relatively muted. This served to increase the volatility in the Australian currency. The impact of sell-off in global REITs and the Australian currency market volatility were exacerbated by the Funds leverage and had a negative impact on the Fund's performance during this period. The Fund did hedge the currency exposure during the second quarter to mitigate any further downside currency risks, as expectations for currency market volatility had increased. The Fund's currency exposure has remained hedged through the end of 2013.

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Despite relatively high volatility in the underlying share prices through the late second quarter and early third quarter of 2013, the fundamentals for the Australian REITs in general continue to be sound. Balance sheets in general remain intact, physical property valuations have improved and property acquisitions have continued by both the domestic REITs and foreign entities, including further involvement in the Australian REIT space by the Canada Pension Plan Investment Board. The positive sentiment towards the sector was echoed by many of the forecasts and was reaffirmed with dividend increases and share buybacks announced by several Australian REITs during the year.

Following volatile summer months, the Australian economic data through the fourth quarter continued to show signs of improvement. In particular retail sales, housing indicators and business confidence indicators post the federal election earlier in the fall, all stood out positively. Post the sell-off during the summer months, the underlying share prices of the Australian REITs were relatively stable through the end of the year.

RECENT DEVELOPMENTS

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.

RELATED PARTY TRANSACTIONS

There were no related party transactions during the reporting period, except for management fees and other expense reimbursements paid to Harvest, as noted below in Management and Other Fees.

MANAGEMENT AND OTHER FEES

The Fund pays its Manager, Harvest, a management fee, plus applicable taxes, calculated based on the net asset value and paid monthly in arrears, based on an annual rate of 1.30% of the net asset value of the Fund. The Manager pays Macquarie, 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 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.

At its sole discretion, the Manager may waive management fees or absorb expenses of the Fund. The management expense ratios of the Fund with and without the waivers and absorptions are reported in the Ratios and Supplemental Data table below.

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

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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.

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 below summarizes the 2013 quantitative impact of the changeover from Canadian GAAP to IFRS.

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

RECOMMENDATIONS OR REPORTS BY THE INDEPENDENT REVIEW COMMITTEE

The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period ended December 31, 2013.

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FINANCIAL HIGHLIGHTS

The following tables present selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period ended December 31, 2013. This information is derived from the Fund's audited annual financial statements.

Series A

THE FUND'S NET ASSETS PER UNIT¹	2013
Net assets - beginning of period ³	\$ 11.18
Increase (decrease) from operations	
Total revenue	0.67
Total expenses	(0.35)
Realized gains (losses) for the period	(0.73)
Unrealized gains (losses) for the period	(1.88)
Total increase (decrease) from operations²	(2.29)
Distributions⁴	
Return of capital	(0.50)
Total annual distributions⁴	(0.50)
Net assets - end of period²	\$ 8.41

RATIOS AND SUPPLEMENTAL DATA	2013
Total net asset value¹	\$ 44,835,164
Number of units outstanding ¹	5,311,384
Management expense ratio ⁵	13.37%
Management expense ratio before waivers or absorptions ⁵	13.37%
Trading expense ratio ⁶	0.67%
Portfolio turnover rate ⁷	32.19%
Net asset value per unit¹	\$ 8.44
Closing market price (HRR.UN)	\$ 7.99

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Series F

THE FUND'S NET ASSETS PER UNIT¹		2013
Net assets - beginning of period ³	\$	11.60
Increase (decrease) from operations		
Total revenue		0.69
Total expenses		(0.33)
Realized gains (losses) for the period		(0.75)
Unrealized gains (losses) for the period		(1.94)
Total increase (decrease) from operations²		(2.33)
Distributions⁴		
Return of capital		(0.50)
Total annual distributions⁴		(0.50)
Net assets - end of period²	\$	8.75

RATIOS AND SUPPLEMENTAL DATA		2013
Total net asset value¹	\$	1,571,646
Number of units outstanding ¹		179,132
Management expense ratio ⁵		8.96%
Management expense ratio before waivers or absorptions ⁵		8.96%
Trading expense ratio ⁶		0.67%
Portfolio turnover rate ⁷		32.19%
Net asset value per unit¹	\$	8.77

Explanatory Notes:

1. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for fund pricing purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for fund pricing purposes. An explanation of these differences can be found in the Notes to Financial Statements.
2. Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the reporting period. It is not intended that the Fund's net assets per unit table act as a continuity of opening and closing net assets per unit.
3. Net assets, at the commencement of operations on March 21, 2013 was \$11.18, net of agents' commissions and issuance costs of \$0.82 per unit for Series A and net assets, at the beginning of the period was \$11.60, net of agents' commissions and issuance costs of \$0.40 per unit for Series F.
4. Distributions were paid in cash.
5. Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) of the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The MER for 2013, the year of inception, included agents' fees of \$3,367,379 and issue costs of \$962,108 for Series A and agents' fees of \$50,927 and issue costs of \$33,952 for Series F, which were treated as one-time expenses and therefore were not annualized. The MER without these costs is 4.74% for Series A and 4.29% for Series F.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
7. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio turnover rate, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains. There is not necessarily a relationship between a high turnover rate and the performance of a Fund. These ratios are annualized.

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YEAR-BY-YEAR RETURNS

National Instrument 81-106, the regulatory guideline for Continuous Disclosure, does not permit reporting of performance for any investment fund that has been in existence less than one year.

SUMMARY OF INVESTMENT PORTFOLIO

The Portfolio by Sector chart below provides a portfolio breakdown based on the total transactional net asset value of the Fund's portfolio holdings. A detailed breakdown of the Fund's holdings is available in the "Statement of Investments" section of the Fund's annual financial statements.

As at December 31, 2013

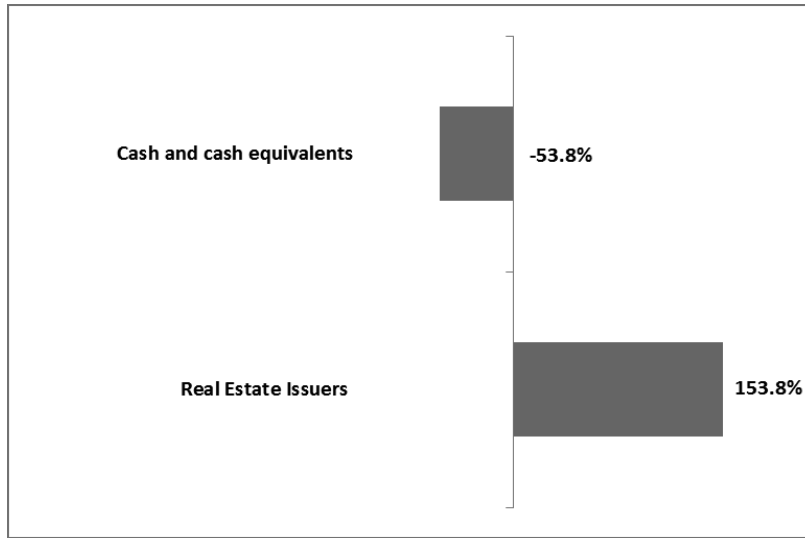
Top 24 Holdings	% of Net Asset Value
CFS Retail Property Trust Group	18.6
Westfield Retail Trust	18.2
Charter Hall Retail REIT	14.1
Dexus Property Group	8.5
Stockland	8.2
Abacus Property Group	7.8
Federation Centres Limited	7.8
The GPT Group	7.2
Goodman Group	7.1
Cromwell Property Group	7.1
Westfield Group	6.7
Mirvac Group	6.0
Challenger Diversified Property Group	5.3
Australand Property Group	5.1
Growthpoint Properties Australia	3.9
Goodman PLUS Trust	3.9
BWP Trust	3.7
Investa Office Fund	3.7
Multiplex SITES Trust	3.5
Forward Foreign Currency Contracts	2.1
ALE Property Group	1.9
Australand ASSETS Trust	1.8
ALE Property Trust	1.6
Net other liabilities	(53.8)
	100.0

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund. Quarterly updates of the Fund's investment portfolio are available from Harvest Portfolios Group Inc. at www.harvestportfolios.com

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SECTOR ALLOCATION

Total Net Asset Value (100.0%)



Head Office

710 Dorval Drive, Suite 209
Oakville, ON L6K 3V7
Phone Number: 416.649.4541
Toll Free: 866.998.8298
Fax Number: 416.649.4542
Email: info@harvestportfolios.com

Western Canada Office

1155 West Pender Street, Suite 708
Vancouver, BC V6E 2P4

Eastern Canada Office

1250 René Lévesque Blvd. West, Suite 2200
Montreal, Quebec H3B 4W8

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.