



HARVEST BANKS & BUILDINGS INCOME FUND

**2010 Interim Management Report of Fund Performance
2010 Interim Financial Statements
(Unaudited)**

This document comprises the Fund's Interim Management Report of Fund Performance, which contains financial highlights, and the Interim Financial Statements. The auditors of the Fund have not performed a review of these financial statements.

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 Inc., 710 Dorval Drive, Suite 200, Oakville, Ontario, L6K 3V7; by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.

HARVEST Banks & Buildings Income Fund

CORPORATE OVERVIEW

Harvest Portfolios Group Inc. ("Harvest") is a Canadian Asset Management company focused on unique and long term cash generating investment funds. Harvest was founded by long term members of the investment management industry and is focused on developing income investment funds that follow three main guidelines:

1. Clear and sound investment mandates
2. Transparent portfolio structures
3. Steady and consistent income

INVESTMENT PRODUCT

The Fund has been created to invest primarily in the Canadian banking, other financial and real estate sectors. Harvest currently offers the Canadian investor a TSX-listed investment fund, HARVEST Banks & Buildings Income Fund.

Should you require any additional information on this product, please review our information at www.harvestportfolios.com or on SEDAR at www.sedar.com, or call us at 866 998 8298.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

June 30, 2010

This Interim Management Report of Fund Performance presents management's view of the significant factors and developments affecting the Fund's performance and outlook since inception.

INVESTMENT OBJECTIVES

The Fund's investment objectives are:

- i. to provide Unitholders with monthly distributions (initially targeted to be \$0.07 per Trust Unit (\$0.84 per annum) representing an annual cash distribution of 7.0% based on the \$12.00 per Unit issue price); and
- ii. to maximize total return for Unitholders.

INVESTMENT STRATEGIES

The Fund will be invested in an actively managed portfolio that will consist primarily of Banking Issuers, other Financial Issuers and Real Estate Issuers. The investment strategies of the Fund include buying issuers that have had a history of consistent distributions or dividends. The Investment Manager, in its analysis of an issuer's balance sheet will focus on such value metrics as debt/EBITDA, debt/total capitalization, capital ratios and upcoming debt maturity schedules in order to reduce the likelihood of potential debt distress. The Investment Manager will focus on free cash flow and free cash flow yield, earning potential, and the investment's intrinsic value in order to assess dividend sustainability and possible growth in distributions.

RISK

The composition of the Portfolio taken as a whole may vary from time to time but will be concentrated by geography and may be concentrated by type of security, commodity or industry. General market conditions and the health of the economy as a whole can also affect equity prices. Equity related securities that provide indirect exposure to the equity securities of an issuer, such as convertible debentures, can also be affected by equity risk. Present economic conditions may adversely affect issuers and the pricing of their securities. Further continued volatility or illiquidity could impair materially the profitability of these issuers.

HARVEST Banks & Buildings Income Fund

RESULTS OF OPERATIONS

During the first six months of 2010, Avenue Investment Management Inc. (the portfolio sub-advisor), managed the portfolio in adherence to the investment objectives of the fund.

During the second quarter of 2010 the markets felt the tremors from the European sovereign debt markets. The fear of default or at minimum, government fiscal restraint has put downward pressures on the world stock markets. One net benefit of this situation has been the ability to continue with low interest rates in Canada.

The Canadian economy has been the strongest and most resilient of the developed nations. Canada's relatively benign debt profile and newly designated "safe Haven" status has propelled foreigners to purchase large amounts of Canadian securities, reaching levels not seen since the mid 90's. The overall result is an increase in both domestic and international demand for Canadian banks and real estate stocks.

We continue to believe that the financial and real estate sectors have balance sheets that are notably healthy. In our view, the possibility for dividend increases in the banking sector could occur as early as the fall of this year.

The fund will continue to stay invested and look for opportunities in the banking, insurance and real estate sectors.

RECENT DEVELOPEMENT

There are no other recent developments to report.

FUTURE ACCOUNTING CHANGES

The Canadian Accounting Standards Board ("AcSB") confirmed the plan to adopt the International Financial Reporting Standards ("IFRS") in 2011. All publicly accountable enterprises will be required to implement IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Harvest has commenced developing a changeover plan to meet the timetable published by the AcSB for changeover to IFRS. The key elements of the changeover plan include assessment of significant IFRS and Canadian GAAP differences, analysis and conclusion on accounting policy choices, identification of additional disclosure requirements under IFRS, and preparation of the 2011 financial statements in accordance with IFRS with comparatives. Harvest has presently determined that there will be no impact to the Net Asset Value Per Unit ("NAVPS") from the changeover to IFRS. The impact of IFRS will be mainly in the areas of additional notes disclosures in the financial statements. This present determination is subject to change if new standards or new interpretations of existing standards are issued that impact the Fund's NAVPS.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

RELATED PARTY TRANSACTIONS

There were no related party transactions during the reporting period, except for management fees paid to Harvest.

MANAGEMENT FEES

The Fund pays its manager, Harvest, a management fee calculated daily and paid monthly in arrears, based on an annual rate of 1.1% of the net asset value of the Fund.

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.

The Manager has retained Avenue Investment Management Inc. ("Avenue") to provide investment management services to the Fund and pays Avenue 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 is also responsible for payment of all expenses relating to the operation of the Fund and the carrying on of its business. This includes, but is not limited to, legal, audit and custodial fees, taxes, brokerage fees, interest, operating and administrative fees, costs and expenses. The Fund is also responsible for the fees, costs and expenses of financial and other reports and prospectuses required to comply with all regulatory requirements in connection with the distribution of securities of the Fund. Certain of these fees and expenses are initially paid for by the Manager, and then recovered from the Fund.

LOAN FACILITY

The Fund has established a loan facility with a Canadian chartered bank. The amount of the loan is not to exceed 25 per cent of total net asset value. The Fund has the option of borrowing at the prime rate plus 2 per cent of interest. In addition, the Fund is required to pay a standby fee based on the amount of unused borrowings during the period, which is calculated daily, payable quarterly and is included in "Interest expense" on the Statement of Operations. The amount drawn on the loan facility was \$5,625 during the period ended June 30, 2010 (2009 - \$5,625). There were no stand by fees applicable as the Fund is utilizing the full amount of the facility.

The initial interest paid on the drawdown or renewal of the Bankers Acceptance ("BA") is deferred and amortized over the term of the BA. The unamortized portion of the deferred interest is included under the "Prepaid Interest - loan facility" on the Statement of Net Assets. For the period ended June 30, 2010, the Fund recorded interest expense of \$141 (2009 - \$36).

The Loan function is to borrow for the purpose of making investments in accordance with its investment objectives and restrictions, and to pledge its assets to secure the borrowings.

HARVEST Banks & Buildings Income Fund

FINANCIAL HIGHLIGHTS (Unaudited)

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 periods ended June 30, 2010 and December 31, 2009.

THE FUND'S NET ASSETS PER UNIT¹	2010	2009	RATIOS AND SUPPLEMENTAL DATA	2010	2009
Net assets - beginning of period	<u>\$ 12.02</u>	<u>\$ 11.17</u>	Total net asset value (000's)	\$ 25,522	\$ 26,078
Increase / (decrease) from operations			Number of units outstanding (000's)	2,119	2,155
Total revenue	0.31	0.17	Management expense ratio ⁴	10.90%	9.94%
Total expenses	<u>(0.25)</u>	<u>(0.06)</u>	Management expense ratio excluding issuance fees and agency fees ⁴	4.09%	2.61%
Net investment income	<u>0.06</u>	<u>0.11</u>	Management expense ratio before waivers or absorptions ⁴	4.27%	3.16%
Realized gains (losses) for the period	0.40	-	Management expense ratio excluding interest expense ⁴	3.00%	1.84%
Unrealized gains for the period	<u>(0.06)</u>	<u>0.89</u>	Trading expense ratio ⁵	0.13%	0.33%
Net gain on investments for the period	<u>0.34</u>	<u>0.89</u>	Portfolio turnover rate ⁶	29.54%	2.79%
Total increase from operations²	<u>0.40</u>	<u>1.00</u>	Net asset value per unit ¹	\$ 12.05	\$ 12.10
Distributions³			Closing market price (HBB.UN)	\$ 11.00	\$ 11.48
From income (excluding dividends)	-	-			
From dividends	(0.02)	-			
From net investment income	-	-			
From capital gains	(0.40)	-			
Return of capital	<u>-</u>	<u>(0.14)</u>			
Total annual distributions³	<u>(0.42)</u>	<u>(0.14)</u>			
Net assets - end of period²	<u>\$ 12.00</u>	<u>\$ 12.02</u>			

Explanatory Notes:

- The net assets per unit presented in the financial statements differs from the net asset value (NAV) calculated for fund pricing purposes. An explanation of these differences can be found in the Notes to Financial Statements.
- 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.
- Distributions were paid in cash.
- 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 NAV during the period. Leverage costs include interest expense and borrowing costs. The MER annualized is 3.00%.
- The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average NAV during the period.
- 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.

HARVEST Banks & Buildings Income Fund

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

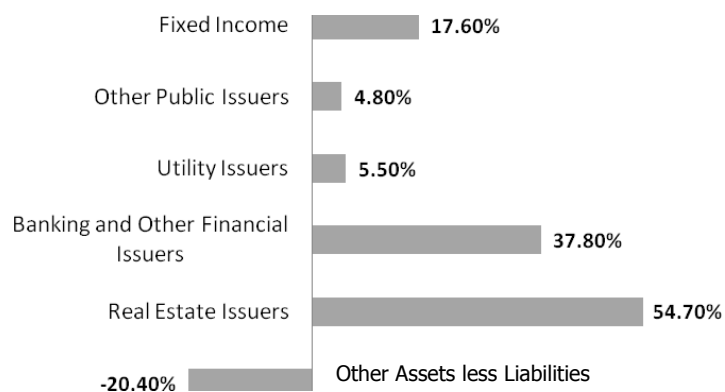
The Portfolio by category chart below provides a portfolio breakdown based on the total transactional net asset value of the Fund's portfolio holdings. A detailed breakdown of the Fund's holdings is available in the "Statement of Investments" section of the Fund's interim report.

AS AT JUNE 30, 2010

Top 25 Holdings	% of Net Asset Value
Great West Lifeco Delaware Finance LP 7.13 June 26/18	8.9
First Capital Realty Inc.	7.4
E-L Financial Corporation Limited	7.0
Artis Real Estate Investment Trust	6.7
Killam Properties Inc.	6.2
Crombie Real Estate Investment Trust	6.0
Sun Life Financial Inc.	5.3
Canadian Imperial Bank of Commerce	4.6
Dundee Corporation Series 1 Preferred	4.0
Plazacorp Retail Properties Limited 7.5% Mar 31/15	3.9
Chartwell Seniors Housing Real Estate Investment Trust	3.8
Dundee Wealth Management Inc. Series 1 Preferred	3.8
Cominar Real Estate Investment Trust	3.6
Whiterock Real Estate Investment Trust	3.6
Manulife Financial LP 4.45% Dec 14/26	3.6
Pure Industrial Real Estate Trust	3.1
Manulife Financial Corporation	3.1
Fort Chicago Energy Partners L.P. Cl. A	3.1
Extendicare Real Estate Investment Trust	3.0
Bank of Montreal	2.9
Boralex Power Income Fund	2.8
Northern Property Real Estate Investment Trust	2.5
Keyera Facilities Income Fund	2.4
Annaly Capital Management Inc.	2.4
InnVest Real Estate Investment Trust	2.3

SECTOR ALLOCATION

Total Net Assets (100%)



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.

HARVEST Banks & Buildings Income Fund

STATEMENT OF NET ASSETS (Unaudited)

AS AT JUNE 30, 2010 AND DECEMBER 31, 2009

In thousands (\$000's), except per unit figures	2010	2009
Assets		
Investments, at fair value (Cost \$28,809; 2009- \$29,019)	\$ 30,635	\$ 30,986
Cash and cash equivalents	307	495
Dividends and interest receivable	234	184
Pre-paid interest - loan facility (Note 9)	27	115
	31,203	31,780
Liabilities		
Loan payable (Note 9)	5,625	5,625
Payable for investments purchased	-	104
Redemptions payable	6	-
Distributions payable	148	151
	5,779	5,880
Net assets representing unitholders' equity	\$ 25,424	\$ 25,900
Unitholders' equity (Note 3)		
Unitholders' capital	23,073	23,515
Warrants	259	259
Contributed surplus	14	-
Retained earnings	2,078	2,126
Unitholders' equity	\$25,424	\$25,900
Number of units outstanding	2,119	2,155
Number of warrants outstanding	2,155	2,155
Net assets per unit	\$ 12.00	\$ 12.02

STATEMENT OF OPERATIONS (Unaudited)

FOR THE PERIOD ENDED JUNE 30, 2010 AND FROM COMMENCEMENT OF OPERATIONS OCTOBER 23, 2009 TO DECEMBER 31, 2009

In thousands (\$000's), except per unit figures	2010	2009
Investment income		
Dividends	\$ 440	\$ 227
Interest	223	128
Less: Withholding taxes	(11)	-
	652	355
Expenses		
Management fees	151	54
Service fees	52	19
Unitholder reporting costs	88	4
Audit fees	20	12
Transfer agency fees	6	2
Custodian fees and bank charges	17	7
Independent review committee fees	14	14
Interest expense (Note 8)	141	36
Filing Fees	53	-
Legal Fees	15	-
	557	148
Expenses absorbed by Manager	(24)	(25)
	533	123
Net investment income (loss)	119	232
Realized gain /(loss) on sale of investments	915	6
Transaction costs	(35)	(79)
Net realized and unrealized foreign exchange gain /(loss)	(9)	-
Unrealized appreciation/ (depreciation) of investments	(141)	1,967
Net gain /(loss) on investments	731	1,894
Increase/ (decrease) in net assets from operations	\$ 850	\$2,126
Increase/ (decrease) in net assets from operations per unit	\$ 0.40	1.00
Increase /(decrease) in net assets from operations - diluted per unit	\$ 0.40	1.00

The accompanying notes are an integral part of the financial statements

HARVEST Banks & Buildings Income Fund

STATEMENT OF CHANGES IN NET ASSETS (Unaudited)

FOR THE PERIOD ENDED JUNE 30, 2010 AND FROM
COMMENCEMENT OF OPERATIONS
OCTOBER 23, 2009 TO DECEMBER 31, 2009

In thousands (\$000's), except per unit figures	2010	2009
Net assets, beginning of period	\$ 25,900	\$ -
Increase /(decrease) in net assets from operations	850	2,126
Unitholder transactions		
Proceeds from issue of units	-	25,866
Cost of units redeemed	(428)	-
Agent's fees	-	(1,358)
Costs of issue	-	(432)
Net unitholder transactions	(428)	24,076
Distributions to unitholders		
Net investment income	(38)	-
Capital gains	(860)	-
Return of capital	-	(302)
Total distributions to unitholders	(898)	(302)
Net assets, end of period	\$ 25,424	\$ 25,900

STATEMENT OF CASH FLOWS (Unaudited)

FOR THE PERIOD ENDED JUNE 30, 2010 AND FROM
COMMENCEMENT OF OPERATIONS
OCTOBER 23, 2009 TO DECEMBER 31, 2009

In thousands (\$000's), except per unit figures	2010	2009
Operating Activities		
Increase /(decrease) in net assets from operations	\$ 850	\$ 2,126
Add (deduct) items not affecting cash:		
Realized gain on sale of investments	(915)	(6)
Return of capital distributions received	8	4
Unrealized appreciation of investments	141	(1,967)
Transaction costs	35	79
Proceeds from sale of investments	9,735	501
Purchases of investments	(8,775)	(29,493)
Total operating activities	1,097	(28,756)
Net change in non-cash assets and liabilities	38	(299)
Financing Activities		
Borrowing from loan facility (Note 9)	-	5,625
Proceeds from units issued	-	25,866
Cost of units redeemed	(422)	-
Agents fees	-	(1,358)
Issuance costs	-	(432)
Distributions to Unitholders	(901)	(151)
Total financing activities	(1,323)	29,550
Net increase in cash and cash equivalents during the period	(188)	495
Cash and cash equivalents, beginning of period	495	-
Cash and cash equivalents, end of period	\$ 307	\$ 495
Supplemental disclosure of cash flow information		
Amount of interest paid during the period - included in net investment income	\$ 141	\$ 36
Income taxes paid (refunded)	-	-
Total	\$ 141	\$ 36

The accompanying notes are an integral part of the financial statements

HARVEST Banks & Buildings Income Fund

STATEMENT OF INVESTMENTS (Unaudited)

AS AT JUNE 30, 2010

Number of Shares	Security	Average Cost (\$000's)	Fair Value (\$000's)	% of Net Assets
EQUITY				
Real Estate Issuers (54.8%)				
18,000	American Capital Agency Corporation	499	505	2.0
33,000	Annaly Capital Management Inc.	564	601	2.4
157,500	Artis Real Estate Investment Trust	1,443	1,701	6.7
25,000	Calloway Real Estate Investment Trust	427	523	2.0
135,600	Chartwell Seniors Housing REIT	795	967	3.8
50,000	Cominar Real Estate Investment Trust	871	928	3.7
135,000	Crombie Real Estate Investment Trust	1,427	1,523	6.0
90,000	Extendicare Real Estate Investment Trust	781	768	3.0
139,200	First Capital Realty Inc.	1,727	1,893	7.4
100,000	InnVest Real Estate Investment Trust	423	588	2.3
188,900	Killam Properties Inc.	1,361	1,589	6.3
27,700	Northern Property Real Estate Investment Trust	607	638	2.5
229,300	Pure Industrial Real Estate Trust	758	782	3.1
65,000	Whiterock Real Estate Investment Trust	889	905	3.6
		<u>12,572</u>	<u>13,911</u>	<u>54.8</u>
Banking and Other Financial Issuers (37.9%)				
13,000	Bank of Montreal	665	750	2.9
11,000	Canadian Imperial Bank of Commerce	687	727	2.9
22,700	Canadian Imperial Bank of Commerce Cl. A Series 30 Preferred	454	456	1.8
42,600	Dundee Corporation Series 1 Preferred	892	1,027	4.0
40,400	Dundee Wealth Management Inc. Series 1 Pref.	929	964	3.8
43,800	E-L Financial Corporation Limited Series 1 Pref.	863	866	3.4
50,800	E-L Financial Corporation Limited Series 2 Pref.	891	916	3.6
20,000	Great-West Lifeco Inc.	470	481	1.9
24,000	Industrial Alliance Insurance and Financial Services Inc. Cl. A Series B Preferred	456	461	1.8
13,000	Manulife Financial Corporation	997	788	3.1
11,600	Royal Bank of Canada	601	588	2.3
16,000	Sun Life Financial Inc.	463	447	1.8
23,000	Sun Life Financial Inc. Cl. A Series 1 Preferred	458	458	1.8
22,900	Sun Life Financial Inc. Cl. A Series 2 Preferred	455	458	1.8
5,000	The Bank of Nova Scotia	226	245	1.0
		<u>9,507</u>	<u>9,632</u>	<u>37.9</u>
Other Public Issuers (4.8%)				
158,000	Boralex Power Income Fund	707	722	2.8
28,100	Pembina Pipeline Income Fund	444	502	2.0
		<u>1,151</u>	<u>1,224</u>	<u>4.8</u>
Utility Issuers (5.4%)				
22,823	Keyera Facilities Income Fund	462	610	2.4
74,200	Fort Chicago Energy Partners L.P. Cl. A	684	773	3.0
		<u>1,146</u>	<u>1,383</u>	<u>5.4</u>
FIXED INCOME (17.6%)				
33,000	BTB Real Estate Investment Trust 8.00% Oct 03/11	27	31	0.1
336,000	BTB Real Estate Investment Trust 8.50% Mar 31/13	288	279	1.1
2,000,000	Great West Lifeco Delaware Finance LP 7.13% Jun 26/18	2,219	2,269	8.9
900,000	Manulife Financial LP 4.45% Dec 14/26	899	906	3.6
1,000,000	Plazacorp Retail Properties Limited 7.50% Mar 31/15	1,000	1,000	3.9
		<u>4,433</u>	<u>4,485</u>	<u>17.6</u>
Total investments		<u>28,809</u>	30,635	120.5
Liabilities less other assets			(5,211)	(20.5)
Net assets			<u>25,424</u>	<u>100.0</u>

NOTES TO STATEMENT OF INVESTMENTS (Unaudited)

AS AT JUNE 30, 2010

(In thousands (\$000's), except per unit figures)

Management of Financial Instrument Risk

Investment Objectives

The Fund's investments are exposed to a variety of financial risks: market risk, interest rate risk, credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial results.

The undertaking of the Fund is to own a portfolio of securities and to derive income and capital gains from these securities and maximize total return for Unitholders.

The Fund's investment objectives are:

- to provide Unitholders with monthly distributions (initially targeted to be \$0.07 per Trust Unit (\$0.84 per annum) representing an annual cash distribution of 7.0% based on the \$12.00 per Unit issue price); and
- to maximize total return for Unitholders.

Other price risk

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 June 30, 2010, 102.9%, (2009 - 87.4%), 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 \$1,308, (2009 - \$1,355).

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

Currency risk

When a Fund buys an investment priced in a foreign currency and the exchange rate between the Canadian dollar and the foreign currency changes unfavorably, it could reduce the value of the Fund's investment.

As at June 30, 2010 and December 31, 2009, the Fund's investments are denominated primarily in Canadian dollars, which are not subject to the risk of currency movements, therefore the Fund had minimal exposure to currency risk.

The accompanying notes are an integral part of the financial statements

HARVEST Banks & Buildings Income Fund

NOTES TO STATEMENT OF INVESTMENTS (Unaudited)

AS AT JUNE 30, 2010

(In thousands (\$000's), except per unit figures)

Interest rate risk

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 rise. 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 (2009- \$39). 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 June 30, 2010, the Fund had a loan facility of \$5,625 (2009 - \$5,625). If interest rates were to change by 1.0%, the interest expense could increase/ (decrease) by \$56 (2009 - \$56).

The table below summarizes the Fund's exposure to interest rate risks relating to debt securities by remaining term to maturity.

June 30, 2010	Fair value	% of Net Assets
Less than 1 year	-	-
1 to 3 years	31	0.1
3 to 5 years	279	1.0
Greater than 5 years	4,175	13.9
Total	4,485	15.0

December 31, 2009	Fair value	% of Net Assets
Less than 1 year	-	-
1 to 3 years	29	0.1
3 to 5 years	271	1.0
Greater than 5 years	3,590	13.9
Total	3,890	15.0

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 primarily invests in securities that are actively traded in public markets and can be readily disposed of to raise liquidity.

The table below analyzes the Fund's financial liabilities into groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

At June 30, 2010	Less than 1 month	1-3 months	No stated maturity
Loan facility	-	-	5,625
Distributions payable	148	-	-
Redemptions payable	6	-	-
Payables for investments purchased	-	-	-
Total financial liabilities	154	-	5,625

At December 31, 2009	Less than 1 month	1-3 months	No stated maturity
Loan facility	-	-	5,625
Distributions payable	151	-	-
Payables for investments purchased	104	-	-
Total financial liabilities	255	-	5,625

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. The Fund has exposure to credit risk in its trading of listed securities. The Fund minimizes the concentration of credit risk by trading with a large number of brokers and counterparties on recognized and reputable exchanges. The risk of default is considered minimal as all transactions are settled and paid for upon delivery using approved brokers.

The Fund's greatest concentration of credit risk is in its 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 high quality 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 June 30, 2010 and December 31, 2009.

At June 30, 2010 and December 31, 2009, the Fund was invested in debt securities with the following credit ratings:

Debt Securities by Credit Rating*	June 30, 2010		December 31, 2009	
	% of Total Debt Instruments	% of Net Assets	% of Total Debt Instruments	% of Net Assets
A+	20.2	3.6	50.6	7.6
A-	50.6	8.9	41.7	6.3
Not Rated	29.2	5.1	7.7	1.1
Total	100.0	17.6	100.0	15.0

*Excludes cash & cash equivalents; Credit ratings are obtained from Standard & Poor's, Moody's and/or, DBRS. Where more than one rating is obtained for a security, the lowest rating has been used.

The accompanying notes are an integral part of the financial statements

HARVEST Banks & Buildings Income Fund

NOTES TO FINANCIAL STATEMENTS (Unaudited)

AS AT JUNE 30, 2010

(In thousands (\$000's), except per unit figures)

1. ORGANIZATION

HARVEST Banks & Buildings Income Fund (the "Fund") is an investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated September 25, 2009, as amended and restated on October 2, 2009, being the inception date. There was no significant activity in the Fund from the date of Inception, October 2, 2009 to commencement of operations on October 23, 2009. On October 23, 2009, the Fund completed an initial public offering of 2,000 Units at \$12.00 per Unit for gross proceeds of \$24,000. Each Unit consists of one trust unit ("Trust Unit") and one warrant ("Warrant"). 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, April 15, 2011 (the "Warrant Expiry Time"). Warrants not exercised by the Warrant Expiry Time will be void and of no value. On November 10, 2009, an over-allotment option was exercised for an additional 155 Trust Units at a price of \$12.00 per Trust Unit for gross proceeds of \$1,866.

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. 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.

Cost of investments

The cost of investments represents the amount paid, net of transactions costs, for each security, and is determined on an average cost basis.

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. Cash and cash equivalents are held for trading and carried at fair market value.

Other assets and liabilities

For the purposes of categorization in accordance with Section 3862, accrued interest and dividends, receivable for securities issued, amounts due from brokers, the Manager, and other Funds, and other assets are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to brokers, accrued expenses and other liabilities are designated as other financial liabilities and reported at cost or amortized cost, which approximates fair value.

Transaction costs

Transaction costs, such as brokerage commissions, incurred on the purchase and sale of securities by the Fund 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. Realized gains and (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 investment 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 "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 and unrealized foreign exchange gain (loss)".

Balance sheet assets and liabilities are translated into Canadian dollars on the balance sheet dates.

HARVEST Banks & Buildings Income Fund

NOTES TO FINANCIAL STATEMENTS (Unaudited)

AS AT JUNE 30, 2010

(In thousands (\$000's), except per unit figures)

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 ("NAV") will be calculated as of 4:00 p.m. (Toronto time) or such other time as the Manager or its agent deem appropriate (the valuation time) every business day (valuation date). A valuation date is each day on which the Toronto Stock Exchange is open for business.

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 share – diluted" takes into account the dilutive impact of issuing shares from warrants outstanding when the price that it trades at is higher than the exercise price of \$12.00.

Adoption of new accounting standards EIC - 173

On January 20, 2009, the CICA Accounting Standards Board ("AcSB") issued Emerging Issues Committee Abstract 173: Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC – 173"). EIC – 173 supplements CICA Handbook Section 3855 wherein it states that fair value takes into account the credit quality of a financial instrument. The EIC affirms that an entity's own credit risk (in the case of financial liabilities) and a counterparty's credit risk (in the case of financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Manager has reviewed its policies over valuation of assets and liabilities and believes that the fair values ascribed to the financial assets and financial liabilities in these financial statements incorporate appropriate levels of credit risk.

Amendments to Section 3862 *Financial Instruments – Disclosures*

In June 2009, the Accounting Standards Board ("AcSB") incorporated the recent amendments to International Financial Reporting Standards ("IFRS") 7, *Financial Instruments: Disclosures*, into CICA Handbook Section 3862, *Financial Instruments – Disclosures*. The amendments expand the disclosures required in respect of fair value measurements recognized in the financial statements. For the purpose of these expanded disclosures, a three-level hierarchy has been introduced as follows:

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.

These amendments are applicable for the Fund's current reporting period. These changes have no impact on the Fund's results of operations or financial position.

The tables below denotes the required classification at June 30, 2010 and December 31, 2009:

June 30, 2010	Level 1	Level 2	Level 3	Totals
Investment In Securities (\$000's)				
Assets at Fair Value				
EQUITIES				
Common Stock	5,132	-	-	5,132
Common Stock Units	4,196	-	-	4,196
Limited Partnership Units	-	-	-	-
Preferred Stock	5,606	-	-	5,606
Real Estate Inv. Trust	11,216	-	-	11,216
TOTAL EQUITIES	26,150	-	-	26,150
FIXED INCOME				
Convertible Bonds	-	310	1,000	310
Corporate Bonds	-	3,175	-	4,175
TOTAL FIXED INCOME	-	3,485	1,000	4,485
TOTAL INVESTMENTS	26,150	3,485	1,000	30,635

There were no transfers between Level 1 and Level 2 for the period ended December 31, 2009.

December 31, 2009	Level 1	Level 2	Level 3	Totals
Investment In Securities (\$000's)				
Assets at Fair Value				
EQUITIES				
Common Stock	7,467	-	-	7,467
Common Stock Units	10,032	-	-	10,032
Limited Partnership Units	740	-	-	740
Preferred Stock	8,348	-	-	8,348
Real Estate Inv. Trust	509	-	-	509
TOTAL EQUITIES	27,096	-	-	27,096
FIXED INCOME				
Convertible Bonds	-	300	-	300
Corporate Bonds	-	3,590	-	3,590
TOTAL FIXED INCOME	-	3,890	-	3,890
TOTAL INVESTMENTS	27,096	3,890	-	30,986

Level 3 Sensitivity Analysis

The Fund applies judgment in determining unobservable inputs to calculate the fair value of Level 3 financial instruments of \$1,000 as of June 30, 2010. The unobservable inputs used in the valuation of these financial instruments primarily include key variables, current market conditions and recent financings by the company, if any. These securities are affected by market activity in their relevant sectors and therefore generally fluctuate similarly.

If relevant market-related inputs increased or decreased by 5%, with all other variables remaining constant, net assets would have possibly increased or decreased by approximately \$50.

HARVEST Banks & Buildings Income Fund

NOTES TO FINANCIAL STATEMENTS (Unaudited)

AS AT JUNE 30, 2010

(In thousands (\$000's), except per unit figures)

Future accounting changes

AcSB confirmed the plan to adopt the International Financial Reporting Standards ("IFRS") in 2011. All publicly accountable enterprises will be required to implement IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Harvest has commenced developing a changeover plan to meet the timetable published by the AcSB for changeover to IFRS. The key elements of the changeover plan include assessment of significant IFRS and Canadian GAAP differences, analysis and conclusion on accounting policy choices, identification of additional disclosure requirements under IFRS, and preparation of the 2011 financial statements in accordance with IFRS with comparatives. Harvest has presently determined that there will be no impact to the Net Asset Value Per Unit ("NAVPS") from the changeover to IFRS. The impact of IFRS will be mainly in the areas of presentation and additional notes disclosures in the financial statements. This present determination is subject to change if new standards or new interpretations of existing standards are issued that impact the Fund's NAVPS.

3. UNITHOLDERS' EQUITY

The authorized capital of the Fund consists of an unlimited number of transferable, Trust 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 Trust Units have equal rights and privileges. Each whole Trust 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.

If the price for the redemption of Trust Units is lower than the original issue price, the difference is included in "contributed surplus" on the Statement of Net Assets. If the price is greater than the original issue price, the difference is charged to "contributed surplus" until the entire amount is eliminated, and the remaining amount is charged to "retained earnings/ (deficit)".

The following units were issued and redeemed during the periods indicated:

At June 30, 2010	Units outstanding	Warrants outstanding	Unitholders' capital	Contributed surplus
Opening balance at December 31, 2009	2,155	2,155	23,774	-
Redemptions	37	-	442	14
Total outstanding as at June 30, 2010	2,119	2,155	23,332	-

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 Net Assets.

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, April 15, 2011 (the "Warrant Expiry Time"). Warrants not exercised by the Warrant Expiry Time will be void and of no value. Holders of Warrants who exercise the Warrants will become holders of Trust Units issued through the exercise of the Warrants. 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.

4. EXPENSES

Management 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 Avenue Investment Management Inc. ("Avenue") to provide investment management services to the Fund and pays Avenue 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 1.10 per cent of net assets payable monthly. The Fund pays service fees to registered dealers at the rate on 0.40 per cent of the daily net asset value of the Fund. Service fees are accrued daily and paid monthly to the manager, who in turn pays the dealers.

Other expenses

The Fund is responsible for all expenses relating to its operation and the carrying on of its business, including legal and audit fees, interest, taxes and administrative costs relating to the issue and redemption of securities as well as the cost of financial and other reports and compliance with all applicable laws, regulations and policies.

5. 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 June 30, 2010 and December 31, 2009 amounted to \$NIL.

6. 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 net income and net realized capital gains during the year which are not paid or payable to unitholders during the year. 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.

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 last taxation year the Fund did not have any tax losses.

HARVEST Banks & Buildings Income Fund

NOTES TO FINANCIAL STATEMENTS (Unaudited)

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(In thousands (\$000's), except per unit figures)

7. 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 asset value (\$)	Net asset (\$)
As at June 30, 2010	12.05	12.00
As at December 31, 2009	12.10	12.02

8. LOAN FACILITY

The Fund has established a loan facility with a Canadian chartered bank. The amount of the loan is not to exceed 25 per cent of total net asset value. The Fund has the option of borrowing at the prime rate plus 2 per cent of interest. In addition, the Fund is required to pay a standby fee based on the amount of unused borrowings during the period, which is calculated daily, payable quarterly and is included in "Interest expense" on the Statement of Operations. The amount drawn on the loan facility for the period ended June 30, 2010 was \$5,625 (2009 - \$5,625). There were no stand by fees applicable as the Fund is utilizing the full amount of the facility.

The initial interest paid on the drawdown or renewal of the Bankers Acceptance ("BA") is deferred and amortized over the term of the BA. The unamortized portion of the deferred interest is included under the "Prepaid Interest – loan facility" on the Statement of Net Assets. For the period ended June 30, 2010, the Fund recorded interest expense of \$141 (2009 - \$36).

The Loan function is to borrow for the purpose of making investments in accordance with its investment objectives and restrictions, and to pledge its assets to secure the borrowings.

9. RELATED PARTY TRANSACTIONS

There were no related party transactions during the reporting period, except for management fees paid to Harvest.

HARVEST Banks & Buildings Income Fund

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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