



PRESERVATION • TRANSPARENCY • INCOME

HARVEST SUSTAINABLE INCOME FUND

**2011 Interim Management Report of Fund Performance
2011 Interim Financial Statements
(Unaudited)**

HARVEST Sustainable Income Fund

CORPORATE OVERVIEW

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

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

INVESTMENT PRODUCT

The Harvest Sustainable Income Fund (the “Fund”) will be invested in a diversified portfolio of securities of publicly-traded Sustainable issuers that have a head office in Canada, in order to seek to provide investors with exposure to issuers that offer sustainable income, capital preservation and reduced volatility.

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

The semi-annual management report of fund performance contains financial highlights for the Fund. For your reference, the semi-annual unaudited financial statements of the Fund are attached to the semi-annual 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 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.

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:

- i. to provide Unitholders with monthly distributions; and
- ii. to provide Unitholders with long-term capital preservation while reducing volatility.

The Fund will be invested in a diversified portfolio of securities of primarily publicly-traded Sustainable Issuers that have a head office in Canada. The Fund will invest primarily in Sustainable Issuers that operate in the energy and pipeline, real estate and industrial sectors.

The Manager and Investment Manager believe that the businesses of the Sustainable Issuers generally possess one or more of the following characteristics:

- 1) a history of generating stable earnings with an attractive yield;
- 2) steady earnings stream due to long life assets;
- 3) low exposure to short-term commodity price fluctuations;
- 4) significant barriers to entry; and
- 5) a dominant product and/or service position.

The Investment Manager will focus on value metrics such as debt/EBITDA, debt/total capitalization, capital ratios and upcoming debt maturity schedules in order to reduce the potential for debt distress.

RISK

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

RESULTS OF OPERATIONS

The Fund received its assets on December 17, 2010 and during the final days of the fiscal year, we focused on effectively allocating the capital and implementing the stated strategy and objectives of the Harvest Sustainable Income Fund. The goal of the fund is to focus on mainly three sectors: real estate, energy and pipeline, and industrials and will have at least 80% invested in Canada.

During the second quarter markets encountered a number of issues ranging from the restructuring of Greek debt, to China’s attempts at lowering inflation by raising interest rates, to the growing debate over the US debt ceiling limits. These issues continued to create uncertainty in the minds of investors, resulting generally in higher levels of volatility in stock markets.

Historically low interest rates in Canada continue to attract investors to higher dividend paying investments such as utilities and real estate companies. We believe the capital flows for these types of investments should remain strong as these companies continue to meet profitability and cash flow expectations. These factors should assist the fund in outperforming the more volatile sectors. We believe that the capital flows for these types of investments should remain strong as these companies meet profitability and cash flow expectations.

The fund continues to benefit from the ongoing desire for yield and stability. A number of the holdings are high yielding dividend paying companies that have converted from Income Trusts. The yields from many of these equities did not change noticeably; however, their payout ratios declined which has led to improved investment profiles.

At the end of the second quarter, the fund was 90% invested in Canadian securities which we believe will benefit from the low interest rate environment as investors seek higher yielding investments in dividend paying equities with lower volatility.

CHANGES IN FINANCIAL POSITION

The Fund started operations on December 17, 2010 with issuance of 2.75 million units at \$12.00 per unit, for total proceeds of \$33 million. The Fund paid agents’ commissions and issue costs of \$2.3 million.

As at June 30, 2011, the Fund had an increase in assets due to operations of \$2.3 million, including market appreciation, income and expenses, before distributions paid of \$1.1 million and redemptions of 244 thousand.

The Fund received approval in 2011 from the Toronto Stock Exchange (the “TSX”) to undertake a normal course issuer bid program for the period from January 17, 2011 to January 16, 2012 which allows the Fund to purchase up to 275,000 listed Trust Units of the Fund for cancellation by way of a normal course issuer bid through

HARVEST Sustainable Income Fund

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

the facilities of the TSX when the Net Asset Value of the Fund exceeded its trading price. During the six month period ended June 30, 2011, 21,600 Trust Units (2010–NIL) were purchased for cancellation.

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. The Indicative Distribution Amount will be \$0.065 per Unit per month (\$0.78 per annum) for the first 12 months of the Fund. The initial cash distribution was paid on February 15th, 2011 to Unitholders of record on January 31, 2011. During the first six months, a total of \$0.39 per Unit in distributions was paid to Unitholders from income of the Fund.

RECENT DEVELOPEMENT

There are no other recent developments to report.

RELATED PARTY TRANSACTIONS

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

MANAGEMENT AND SERVICE FEES

The Fund pays its manager, Harvest Portfolios group (“Harvest”), a management fee calculated daily and paid monthly in arrears, based on an annual rate of 1.25% 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 Manager is reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of extraordinary services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to Unitholders and other Unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund’s continuous public offering and other obligations. These expenses were \$78 for the period ended June 30, 2011.

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 .25 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 Statements of Operations. The amount drawn on the loan facility was \$7.5 million, commencing January 21, 2011, throughout the period ended June 30, 2011. There were no standby 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 Statements of Financial Position. For the period ended June 30, 2011, the Fund recorded interest expense of \$104.

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.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2011, the Canadian Accounting Standards Board (“AcSB”) amended their mandatory requirement for all Canadian publicly accountable enterprises to prepare their financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), permitting investment companies, which includes mutual funds, to defer the adoption of IFRS to fiscal years beginning on or after January 1, 2013.

The AcSB has deferred the mandatory IFRS adoption date to coincide with a new consolidation standard for investment companies that the IASB is scheduled to publish in the first quarter of 2012. Under the current IFRS guidance, investment companies are required to consolidate their controlled investments. The IASB has announced that they will propose that investment companies be exempted from consolidating their controlled investments and account for them at fair value. Canadian GAAP permits investment companies to fair value their investments regardless of whether those investments are controlled.

The Fund will adopt the IFRS on January 1, 2013. The Fund expects to report its financial results for the six month period ended June 30, 2013 prepared on an IFRS basis. The Fund will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2013. Further revisions by the AcSB to the IFRS adoption date for investment companies are possible.

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as we finalize our assessment of potential IFRS differences and as new standards are issued by the IASB prior to the Fund’s adoption of IFRS.

HARVEST Sustainable Income Fund

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 June 30, 2011 and December 31, 2010.

THE FUND'S NET ASSETS PER UNIT ¹	2011	2010
Net assets - beginning of period ³	\$ 11.26	\$11.17
Increase /(decrease) from operations		
Total revenue	0.43	0.07
Total expenses	(0.21)	(0.02)
Realized gains (losses) for the period	0.13	0.01
Unrealized gains for the period	0.48	0.03
Total increase from operations²	0.83	0.09
Distributions⁴		
From income (excluding dividends)	(0.39)	-
From dividends	-	-
From net investment income	-	-
From capital gains	-	-
Return of capital	-	-
Total annual distributions⁴	(0.39)	(0.96)
Net assets - end of period²	\$11.71	\$11.26

RATIOS AND SUPPLEMENTAL DATA	2011	2010
Total net asset value (000's) ¹	\$32,032	\$30,999
Number of units outstanding (000's) ¹	2,728	2,750
Management expense ratio ⁵	3.54%	11.79%
Management expense ratio before waivers or absorptions ⁵	3.54%	11.79%
Trading expense ratio ⁶	0.08%	0.25%
Portfolio turnover rate ⁷	55.88%	19.27%
Net asset value per unit ¹	\$ 11.74	\$ 11.27
Closing market price (HSLUN)	\$11.25	\$11.80

Explanatory Notes:

- This information is derived from the Fund's unaudited financial statements as at June 30, 2011 and audited annual financial statements as at December 31, 2010. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for weekly Net Asset Value purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for weekly Net Asset Value 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.
- Net assets, beginning of period of \$11.17 is net of agents' fees and costs of issue of \$0.83 per unit.
- Distributions are payable 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. The MER for 2010 (the year of inception) was 11.79% and included agents' fees of \$1.733 million and costs of issue of \$552 thousand, which were treated as one-time expenses and therefore were not annualized. The MER excluding agents' fees and costs of issue was 4.43% for 2010.
- 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 Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

HARVEST Sustainable 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 semi-annual unaudited financial statements.

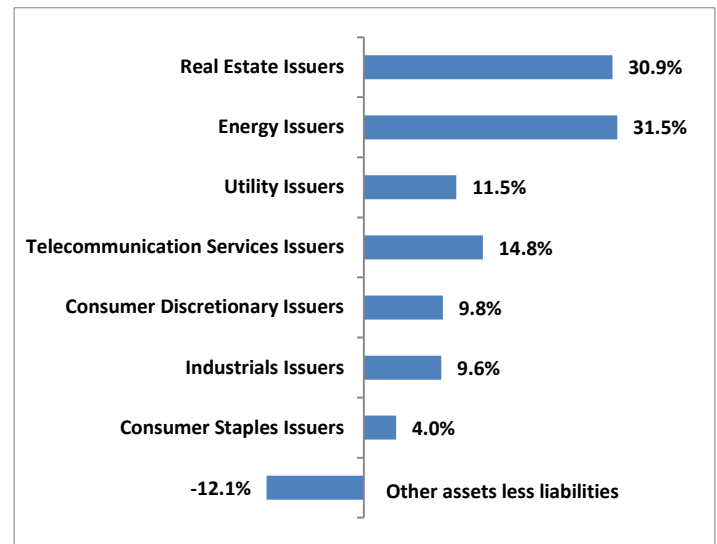
AS AT JUNE 30, 2011

Top 25 holdings	% of Net Asset Value
Annaly Capital Management Inc.	6.5
Aecon Group Inc.	6.1
Liquor Stores NA Ltd.	5.7
Inter Pipeline Fund LP, Class A	5.6
Medical Facilities	5.6
Manitoba Telecom Services Inc.	5.3
Bell Aliant, Inc.	5.3
Veresen Inc.	4.9
Peyto Exploration & Development Corporation	4.5
NAL Energy Corp	4.2
Artis Real Estate Investment Trust	4.1
Enerplus Corp.	4.1
LeisureWorld Senior Care Corp.	4.0
Rogers Sugar Inc.	4.0
Whiterock Real Estate Investment Trust	3.9
BTB Real Estate Investment Trust	3.8
K-Bro Linen Inc.	3.4
Capital Power Income LP	3.3
Northland Power Inc.	3.2
Telefonica SA ADR	3.0
Timbercreek Mortgage Investment Corp.	3.0
Crescent Point Energy Corp.	2.9
Just Energy Group, Inc.	2.9
Boralex Inc. 6.75% Jun 30/17	2.9
Keyera Corp.	2.4

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.

SECTOR ALLOCATION

Total Net Assets (100%)





HARVEST SUSTAINABLE INCOME FUND

**2011 Interim Financial Statements
(Unaudited)**

Notice to Reader:

These interim financial statements and related notes for the six month period ended June 30, 2011 have been prepared by Management of Harvest Portfolios Group Inc. The auditors of the Fund have not audited these interim financial statements.

HARVEST Sustainable Income Fund

STATEMENT OF FINANCIAL POSITION (unaudited)

AS AT June 30, 2011 and DECEMBER 31, 2010

In thousands (\$'000's), except per unit figures	2011	2010
Assets		
Investments, at fair value (Cost - \$37,204, 2010 \$29,315)	\$ 38,666	\$ 29,499
Cash and cash equivalents	665	1,272
Dividends and interest receivable	288	205
Pre-paid interest – loan facility (Note 8)	16	-
	39,635	30,976
Liabilities		
Loan payable (Note 8)	7,500	-
Redemptions payable	7	-
Distributions payable	177	-
	7,684	-
Net assets representing unitholders' equity	\$ 31,951	\$ 30,976
Unitholders' equity (Note 3)		
Unitholders' capital	30,470	30,715
Retained earnings	1,481	261
Unitholders' equity	\$ 31,951	\$ 30,976
Number of units outstanding	2,728	2,750
Net assets per unit	\$ 11.71	\$ 11.26

STATEMENT OF OPERATIONS (unaudited)

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2011

In thousands (\$'000's), except per unit figures	
Investment income	
Dividends	\$ 1,119
Interest	119
Less: Foreign withholding taxes	(51)
	1,187
Expenses (Note 4)	
Management fees	225
Service fees	64
Unitholder reporting costs	78
Audit fees	15
Transfer agency fees	7
Custodian fees and bank charges	25
Independent review committee fees	10
Interest Expense	104
Filing fees	11
Legal fees	26
	565
Net investment income	622
Realized gain /(loss) on sale of investments	412
Transaction costs	(25)
Unrealized appreciation/ (depreciation) of investments	1,278
Net gain on investments	1,665
Increase in net assets from operations	\$ 2,287
Increase in net assets from operations per unit	\$ 0.83

The accompanying notes are an integral part of the financial statements

HARVEST Sustainable Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION (unaudited)

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2011

In thousands (\$000's), except per unit figures	
Net assets, beginning of period	\$ 30,976
Increase in net assets from operations	2,287
Unitholder transactions	
Cost of units redeemed	(244)
Net unitholder transactions	(244)
Distributions to unitholders	
Net investment income	(1,068)
Total distributions to unitholders	(1,068)
Net assets, end of period	\$ 31,951

STATEMENTS OF CASH FLOWS (unaudited)

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2011

In thousands (\$000's), except per unit figures	
Operating Activities	
Increase /(decrease) in net assets from operations	\$ 2,287
Add (deduct) items not affecting cash:	
Realized loss on sale of investments	(412)
Return of capital received	1
Unrealized appreciation (depreciation) of investments	(1,278)
Transaction costs	25
Proceeds from sale of investments	20,694
Purchases of investments	(28,206)
Amortization of discount/premium	9
Total operating activities	(6,880)
Net change in non-cash assets and liabilities	
	(99)
Financing Activities	
Borrowing of term credit facility (Note 9)	7,500
Cost of units redeemed	(237)
Distributions to Unitholders	(891)
Net Increase in cash during period from financing activities	6,372
Net increase (decrease) in cash during the period	(607)
Cash and cash equivalents, beginning of period	1,272
Cash and cash equivalents, end of period	\$ 665

Supplemental disclosure of cash flow information

Amount of interest paid during the period - included in net investment income	\$ 104
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The accompanying notes are an integral part of the financial statements

HARVEST Sustainable Income Fund

STATEMENT OF INVESTMENTS (unaudited)

AS AT JUNE 30, 2011

Number of Shares	Security	Average	Fair	%
		Cost (\$000's)	Value (\$000's)	of Net Assets
EQUITY				
Consumer Discretionary Issuers (9.8%)				
28,000	Cineplex, Inc.	609	745	2.3
122,000	Liquor Stores NA Ltd.	1,855	1,815	5.7
29,000	North West Company, Inc.	624	586	1.8
		<u>3,088</u>	<u>3,146</u>	<u>9.8</u>
Consumer Staples Issuers (4.0%)				
240,000	Rogers Sugar, Inc.	1,275	1,284	4.0
Energy Issuers (31.6%)				
22,000	Canadian Oil Sands Ltd.	551	611	1.9
21,000	Crescent Point Energy Corp.	929	932	3.0
43,200	Enerplus Corp.	1,255	1,315	4.1
113,000	Inter Pipeline Fund L.P. Class A	1,706	1,790	5.6
17,600	Keyera Corp.	613	769	2.4
122,000	NAL Energy Corp.	1,567	1,345	4.2
14,000	Penn West Petroleum Ltd.	321	311	1.0
67,000	Peyto Exploration & Development Corporation	1,252	1,441	4.5
113,000	Veresen Inc.	1,376	1,568	4.9
		<u>9,570</u>	<u>10,082</u>	<u>31.6</u>
Industrials Issuers (9.6%)				
29,600	Brookfield Infrastructure Partners LP	621	714	2.2
51,000	K-Bro Linen Inc.	965	1,097	3.4
56,400	Superior Plus Corporation	627	633	2.0
26,000	Westshore Terminals Investment Corp.	615	620	2.0
		<u>2,828</u>	<u>3,064</u>	<u>9.6</u>
Real Estate Issuers (30.8%)				
120,500	Annaly Capital Management Inc.	2,192	2,095	6.6
93,700	Artis Real Estate Investment Trust	1,216	1,312	4.1
1,273,000	BTB Real estate Investment Trust	903	1,196	3.7
119,000	Leisure World Senior Care Corp.	1,230	1,289	4.0
150,000	Medical Facilities	1,874	1,764	5.5
88,400	Timbercreek Mortgage Investment Corp.	944	948	3.0
94,500	Whiterock Real Estate Investment Trust	1,225	1,241	3.9
		<u>9,584</u>	<u>9,845</u>	<u>30.8</u>
Telecommunications Services Issuers (14.8%)				
10,500	BCE Inc.	351	397	1.2
58,843	Bell Aliant, Inc.	1,541	1,689	5.3
51,800	Manitoba Telecom Services Inc.	1,567	1,690	5.3
40,200	Telefonica SA ADR	919	949	3.0
		<u>4,378</u>	<u>4,725</u>	<u>14.8</u>
Utility Issuers (11.5%)				
44,300	Atlantic Power Corporation	651	646	2.0
56,310	Capital Power Income LP	978	1,070	3.4
65,000	Just Energy Group, Inc.	935	923	2.9
64,000	Northland Power Inc.	1,020	1,028	3.2
		<u>3,584</u>	<u>4,616</u>	<u>11.5</u>
FIXED INCOME (8.9%)				
1,900	Aecon Group Inc. 7.00% Sep 30/14	1,970	1,933	6.0
900	Boralex Inc. 6.75% Jun 30/17	927	920	2.9
		<u>2,897</u>	<u>2,853</u>	<u>8.9</u>
Total investments (121.0%)		37,204	38,666	121.0
Liabilities less other assets (-21.0%)			(6,715)	(21.0)
Net Assets (100.0%)			<u>\$31,951</u>	<u>100.0</u>

NOTES TO STATEMENT OF INVESTMENTS

(unaudited)

AS AT JUNE 30, 2011

(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:

- i. to provide Unitholders with monthly distributions and
- ii. to maximize total return for Unitholders while reducing volatility.

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, 2011, 112.1% (December 31, 2010 - 92.3%) 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 \$1,791 (December 31, 2010 - \$1,429).

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.

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

Currency	As at June 30, 2011		As at December 31, 2010	
	Currency exposure (\$000's)*	As a % of net assets (%)	Currency exposure (\$000's)*	As a % of net assets (%)
U.S. Dollars	3,968	12.4%	3,728	11.9%

*In Canadian dollars

The accompanying notes are an integral part of the financial statements

HARVEST Sustainable Income Fund

NOTES TO STATEMENT OF INVESTMENTS (unaudited)

AS AT JUNE 30, 2011

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

As at June 30, 2011, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, by approximately \$198 (December 31, 2010 - \$184) or 0.6% (December 31, 2010 - 0.6%) of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

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 \$29 (December 31, 2010 - \$9). 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, 2011, the Fund had a loan facility of \$7,500 (December 31, 2010 - NIL). If interest rates were to change by 1.0%, the interest expense could increase/(decrease) by \$75 (December 31, 2010 - NIL).

The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity for the periods ended June 30, 2011 and December 31, 2010.

Debt Instruments June 30, 2011	Fair value	% of Net Assets
Less than 1 year	-	-
1 to 3 years	-	-
3 to 5 years	1,933	6.0
Greater than 5 years	920	2.9
Total	2,853	8.9
Debt Instruments December 31, 2010	Fair value	% of Net Assets
Less than 1 year	-	-
1 to 3 years	-	-
3 to 5 years	-	-
Greater than 5 years	912	2.9
Total	912	2.9

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 at the remaining period end 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 are not significant. The Fund had no liabilities at December 31, 2010 that had an impact on liquidity risk.

At June 30, 2011	Less than 1 month	1-3 months	No stated maturity
Loan facility	-	7,500*	-
Payable for investments purchased	7	-	-
Distributions payable	177	-	-
Total financial liabilities	184	7,500	-

*maturity July 25, 2011

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, 2011 and December 31, 2010.

At June 30, 2011 and December 31, 2010, the Fund was invested in debt securities with the following credit ratings:

June 30, 2011 Debt Securities by Credit Rating*	% of Total Debt Instruments	% of Net Assets
A+	-	-
A-	-	-
Not Rated	100	8.9
Total	100	8.9
December 31, 2010 Debt Securities by Credit Rating*	% of Total Debt Instruments	% of Net Assets
A+	-	-
A-	-	-
Not Rated	100	2.9
Total	100	2.9

*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 Sustainable Income Fund

NOTES TO FINANCIAL STATEMENTS (unaudited)

AS AT JUNE 30, 2011

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

1. ORGANIZATION

HARVEST Sustainable Income Fund (the "Fund") is an investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated November 26, 2010, being the inception date. There was no significant activity in the Fund from the date of Inception, November 26, 2010 to commencement of operations on December 17, 2010. On December 17, 2010, the Fund completed an initial public offering of 2,750 Units at \$12.00 per Unit for gross proceeds of \$33,000.

The Fund will become an open-end mutual fund on December 12, 2012 (the "Conversion Date"). On and after the conversion, the Units will be redeemable at NAV per Unit on a daily basis, at such time the Units will become subject to NI 81-102. The Fund will provide all Unitholders with written notice at least 60 days prior to the Conversion Date.

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.

Financial instruments

The Fund's financial instruments include cash, investments, receivable for securities issued, receivable for investments sold, dividends and interest receivable, accrued management and advisory fees, accrued expenses, payable for securities redeemed, payable for distributions, payable for investments purchased, and payable for the Loan facility and relevant interest charges. Investments are fair valued based on the policies described below.

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. At June 30, 2011 and December 31, 2010, there were no securities that required pricing using assumptions.

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 CICA Handbook 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.

HARVEST Sustainable Income Fund

NOTES TO FINANCIAL STATEMENTS (unaudited)

AS AT JUNE 30, 2011

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

Investment transactions and income recognition

Investment transactions are accounted for on the trade date. 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 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 foreign exchange gain (loss)" and "Unrealized foreign exchange gain (loss)", respectively.

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

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.

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.

There were no Level 3 securities held by the Fund as at June 30, 2011 and December 31, 2010. There were no transfers between Level 1 and Level 2 for the period ended June 30, 2011 and December 31, 2010.

Securities Classification:

June 30, 2011	Level 1	Level 2	Level 3	Totals
Investment In Securities (\$000's)				
Assets at Fair Value				
EQUITIES				
Common Stock	10,183	-	-	10,183
Common Stock Units	14,315	-	-	14,315
Limited Partnership Units	3,574	-	-	3,574
Mutual Fund	-	948	-	948
Depository Receipts	949	-	-	949
Real Estate Inv. Trust	5,844	-	-	5,844
TOTAL EQUITIES	34,865	948	-	35,813
FIXED INCOME				
Convertible Bonds	-	912	-	912
Corporate Bonds	-	1,933	-	1,933
TOTAL FIXED INCOME	-	2,853	-	2,853
TOTAL INVESTMENTS IN SECURITIES	34,865	3,801	-	38,666

December 31, 2010	Level 1	Level 2	Level 3	Totals
Investment In Securities (\$000's)				
Assets at Fair Value				
EQUITIES				
Common Stock	3,532	-	-	3,532
Common Stock Units	14,449	-	-	14,449
Limited Partnership Units	3,152	-	-	3,152
Mutual Fund	-	924	-	924
Depository Receipts	911	-	-	911
Real Estate Inv. Trust	5,619	-	-	5,619
TOTAL EQUITIES	27,663	924	-	28,587
FIXED INCOME				
Convertible Bonds	-	912	-	912
TOTAL FIXED INCOME	-	912	-	912

HARVEST Sustainable Income Fund

NOTES TO FINANCIAL STATEMENTS (unaudited)

AS AT JUNE 30, 2011

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

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.

The Fund received approval in 2011 from the Toronto Stock Exchange (the "TSX") to undertake a normal course issuer bid program for the period from January 17, 2011 to January 16, 2012 which allows the Fund to purchase up to 275,000 listed Trust Units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the TSX when the Net Asset Value of the Fund exceeded its trading price. During the six month period ended June 30, 2011, 21,600 Trust Units (2010-NIL) were purchased for cancellation.

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 Statements of Financial Position. 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".

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

	Units outstanding	Unitholders' capital
Total outstanding as at December 31, 2010	2,750	30,715
Redemptions	(22)	(245)
Total outstanding as at June 30, 2011	2,728	30,470

Monthly Redemption

Prior to the Conversion Date, Units may be surrendered prior to 5:00 p.m. (Toronto time) on the 10th Business Day before the last Business Day of the applicable month by the holders thereof for Monthly Redemption. Upon receipt by the Fund of the redemption notice, in the manner described below, the holder of a Unit shall be entitled to receive a price per Unit (the "Monthly Redemption Price") equal to the lesser of:

- 95% of the "market price" of the Units on the principal market on which the Units are quoted for trading during the 20 trading day period ending immediately before the Monthly Redemption Date; and
- 100% of the "closing market price" on the principal market on which the Units are quoted for trading on the Monthly Redemption Date

On and after the Conversion Date, Unitholders may redeem Trust Units on any Business Day at the NAV per trust Unit.

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 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 1.25 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 the operation and the carrying on of its business, including legal fees and audit fees, interest, taxes and administrative costs relating to the redemption of securities as well as the cost of financial and other reports and compliance with applicable laws, regulations and policies.

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of extraordinary services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to Unitholders and other Unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses were \$78 for the period ended June 30, 2011 (December 31, 2010 - \$9).

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, 2011 and December 31, 2010 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 December 31, 2010, the Fund's most recent taxation year, the Fund did not have any tax losses.

HARVEST Sustainable Income Fund

NOTES TO FINANCIAL STATEMENTS (unaudited)

AS AT JUNE 30, 2011

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

Harmonized sales tax

Effective July 1, 2010, goods and services tax ("GST") was replaced by the harmonized sales tax ("HST") in certain provinces and is imposed at higher rates than the GST. Since the applicable HST is being paid by the Fund, it has resulted in an overall increase in expenses incurred by the Fund since the effective date of implementation.

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, 2011	11.74	11.71
As at December 31, 2010	11.27	11.26

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 .25 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 Statements of Operations. The amount drawn on the loan facility was \$7,500, commencing January 21, 2011, throughout the period ended June 30, 2011. There were no standby 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 Statements of Financial Position. For the period ended June 30, 2011, the Fund recorded interest expense of \$104.

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. The Loan facility will be repaid prior to the Conversion Date.

HARVEST Sustainable 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.