

Annual Information Form

OF



For the year ended December 31, 2011

Dated: March 19, 2012

FORWARD LOOKING STATEMENTS	1
INTRODUCTION	1
NAME, FORMATION AND HISTORY OF THE FUND	1
INVESTMENT OBJECTIVES, STRATEGIES AND RESTRICTIONS	1
DESCRIPTION OF UNITS	4
UNITHOLDER MATTERS	5
CALCULATION OF NET ASSET VALUE AND VALUATION OF PORTFOLIO SECURITIES	8
PURCHASE OF UNITS	10
REDEMPTION OF UNITS	11
RESPONSIBILITY FOR FUND OPERATIONS	13
CONFLICTS OF INTEREST	18
FUND GOVERNANCE	19
FEES AND EXPENSES	20
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS	21
REMUNERATION	26
MATERIAL CONTRACTS	26
LEGAL AND ADMINISTRATIVE PROCEEDINGS	27
OTHER MATERIAL INFORMATION	27
RISK FACTORS	28

HARVEST SUSTAINABLE INCOME FUND

FORWARD LOOKING STATEMENTS

Certain statements included in this annual information form (“**Annual Information Form**” or “**AIF**”) constitute forward looking statements or information including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend” and similar expressions to the extent they relate to the Fund, the Manager or the Investment Manager. The forward looking statements and information are not historical facts but reflect the Fund’s, the Manager’s and/or the Investment Manager’s current expectations regarding future results or events. The AIF includes, forward looking statements and although the Fund, the Manager and/or Investment Manager believes such statements or information to be reliable, no assurance can be given that such forward looking statements or information will be accurate. These forward looking statements and information are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under “Risk Factors” and in other sections of this AIF. Accordingly readers should not place undue reliance on forward looking statements and information. All forward looking statements and information is qualified by this cautionary statement.

INTRODUCTION

This AIF contains information applicable to units (each a “**Unit**” and collectively, the “**Units**”) of Harvest Sustainable Income Fund (the “**Fund**”). Information contained in this AIF is given as of December 31, 2011 except as otherwise noted herein. Each summary of the terms of an agreement described herein is qualified in its entirety by the actual terms of such agreement, a copy of which is available under the Fund’s profile on SEDAR at www.sedar.com.

NAME, FORMATION AND HISTORY OF THE FUND

The Fund is an investment fund established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated November 26, 2010 (the “**Declaration of Trust**”). Harvest Portfolios Group Inc. is the manager (in such capacity, the “**Manager**”) and trustee (in such capacity, the “**Trustee**”) of the Fund. The registered office of the Fund is the head office of the Manager located at Suite 209, 710 Dorval Drive, Oakville, Ontario, L6K 3V7.

On December 17, 2010, pursuant to a final prospectus dated November 26, 2010 (the “**Prospectus**”) the Fund completed its initial public offering (the “**Offering**”) of 2,750,000 units (the “**Units**”). The Units of the Fund trade on the Toronto Stock Exchange (the “**TSX**”) under the symbol HSI.UN. Each holder of a Unit is referred to in this document as a “**Unitholder**” and collectively as the “**Unitholders**”.

Unless otherwise defined in this AIF, capitalized terms have the meaning given to them in the Prospectus.

INVESTMENT OBJECTIVES, STRATEGIES AND RESTRICTIONS

Investment Objectives

The Fund’s investment objectives are:

- (a) to provide Unitholders with monthly distributions; and
- (b) to provide Unitholders with long-term capital preservation while reducing volatility.

Investment Strategies

To achieve the investment objectives, the investment manager, Avenue Investment Management Inc. (the “**Investment Manager**”) invests in a diversified portfolio of securities of primarily publicly-traded Sustainable Issuers that have a head office in Canada. Sustainable Issuers include those issuers that provide goods and services in certain sectors including, without limitation, the energy and pipeline sector, the industrial sector, the real estate sector, the retail sector, the telecommunications sector and the utilities sector.

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 focuses 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. The Fund may not hold less than 80% of the total value of the Portfolio in issuers with a head office located in Canada.

Investment Restrictions

The Declaration of Trust contains investment restrictions to the effect that, on and after the initial investment of the assets of and, prior to December 12, 2012, the date upon which the Fund will convert into an open-end mutual fund (the “**Conversion Date**”), the Fund may not:

- (a) purchase any security issued by any issuer (other than short term debt securities issued or guaranteed by the Government of Canada or any Canadian province or municipality) if as a result more than 10% of the Fund’s total assets would consist of securities issued by such issuer;
- (b) hold less than 80% of the total value of the Portfolio in issuers with a head office located in Canada;
- (c) borrow pursuant to the Loan Facility if, immediately after such borrowing, the aggregate amount borrowed would exceed 20% of the value of the total assets of the Fund (25% of NAV). Other than borrowings under the Loan Facility and short-term credits necessary for settlement of securities transactions, which are not considered borrowing, the Fund will not engage in borrowing. The Fund will not borrow under the Loan Facility (except as permitted under NI 81-102) following the Conversion;
- (d) make loans or guarantee obligations, except that the Fund may purchase and hold debt obligations (including bonds, debentures or other obligations and certificates of deposit, bankers’ acceptances and fixed time deposits) in accordance with its investment objectives;
- (e) own more than 10% of the equity value of an issuer for purposes of the SIFT Rules or purchase the securities of an issuer for the purpose of exercising control over management of that issuer;
- (f) invest in any securities of an entity that would be a foreign affiliate of the Fund within the meaning of the Tax Act;
- (g) acquire securities which represent illiquid assets (as defined by NI 81-102) if, immediately after the purchase, more than 10% of the Fund’s total assets, taken at the time of acquisition, would consist of illiquid assets;
- (h) write call or put options;
- (i) sell securities short or maintain short positions;
- (j) invest for the purposes of exercising control over management of any issuer in the Portfolio;

- (k) use derivatives except as permitted by NI 81-102 (as if the Fund was subject to NI 81-102);
- (l) invest in or hold (i) securities of or any interest in any non-resident entity, an interest in or a right or option to acquire such property, or an interest in a partnership which holds any such property if the Fund (or the partnership) would be required to include any significant amounts in income pursuant to section 94.1 of the Tax Act, (ii) an interest in a trust (or a partnership which holds such an interest) which would require the Fund (or the partnership) to report income in connection with such interest pursuant to the rules in proposed section 94.2 of the Tax Act, or (iii) any interest in a non-resident trust (or a partnership which holds such an interest) other than an “exempt foreign trust” for the purposes of proposed section 94 of the Tax Act, each as set forth in the proposed amendments to the Tax Act dated August 27, 2010 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);
- (m) invest in any security that is a tax shelter investment within the meaning of the Tax Act;
- (n) lend Portfolio assets except as permitted by NI 81-102;
- (o) act as an underwriter except to the extent that the Fund may be deemed to be an underwriter in connection with the sale of securities in its Portfolio;
- (p) make any investment or conduct any activity that would result in the Fund failing to qualify as a “unit trust” or a “mutual fund trust” within the meaning of the Tax Act; and
- (q) make or hold any investments that would result in the Fund itself being subject to the tax for SIFT trusts as provided for in the SIFT Rules, and in particular the fair market value of “Canadian real, immovable or resource property” held by the Fund will never exceed 50% of the “equity value” of the Fund, as those terms are defined in the SIFT Rules.

If a percentage restriction on investment or use of assets set forth above is adhered to at the time of the transaction, later changes to the market value of the investment or the total assets of the Fund will not be considered a violation of the restriction (except for the restrictions in paragraph (e) and (q)). Investment restrictions that do not provide for a percentage restriction must be adhered to at all times. If the Fund receives from an issuer subscription rights to purchase securities of that issuer, and if the Fund exercises such subscription rights at a time when the Fund's Portfolio holdings of securities of that issuer would otherwise exceed the limits set forth above, it will not constitute a violation if, prior to receipt of securities upon exercise of such rights, the Fund has sold at least as many securities of the same class and value as would result in the restriction being complied with.

The foregoing investment restrictions may not be changed without the approval of the Unitholders, by a resolution passed by two-thirds of the votes cast at a meeting of Unitholders called for such purpose, unless such changes are necessary to ensure compliance with all applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time.

On or after the Conversion Date, the Fund will be subject to certain standard investment restrictions and practices contained in NI 81-102 which are designed in part to ensure that the investments are diversified and relatively liquid and to ensure proper administration of the Fund and such other investment restrictions as the Trustee may determine, in its sole discretion, from time to time. The Fund is managed in accordance with these restrictions and practices.

Borrowing

Prior to Conversion, the Fund is authorized 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 Fund has established a Loan Facility with a Canadian chartered bank. The amount of the Loan Facility is not to exceed 20% of the value of the total assets of the Fund (25% of NAV) at the time of draw down. Accordingly, the maximum amount of leverage that the Fund could have, at the time of borrowing, is 1.25:1. The Fund has the option of borrowing at the prime rate plus 0.25 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 and payable quarterly. The amount drawn on the Loan Facility was \$6,500,000 for the period ended December 31, 2011. There were no standby fees applicable during the period as the Fund is utilizing the full amount of the facility. For the period ended December 31, 2011, the Fund recorded interest expense of \$223,844. The purpose of the Loan Facility is to borrow for the purpose of making

investments in accordance with the Fund's investment objectives and restrictions, and to pledge the Fund's assets to secure the borrowings.

DESCRIPTION OF UNITS

Units

The Fund is authorized to issue an unlimited number of Units.

Except as provided under "Unitholder Matters — Non-Resident Unitholders", all Units have equal rights and privileges. Each Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, and distributions upon the termination of the Fund. Units are issued only as fully paid and are non-assessable. Units will only be issued through the book-entry only system administered by CDS as described below under "Book Based System".

The Declaration of Trust provides that the Fund may not issue additional Units following completion of the Offering, and prior to the Conversion Date, except: (i) at a price that yields net proceeds of not less than 100% of NAV per Unit calculated as of the close of business on the Business Day immediately prior to the pricing of such offering; (ii) by way of Unit distributions; or (iii) with the approval of Unitholders.

Immediately after a pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such owner's interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the book-entry only system in which case certificates for Units in fully registered form would be issued to beneficial owners of such securities or to their nominees.

Distribution Policy

The Fund intends to make monthly cash distributions to Unitholders of record on the last Business Day of each month and pay such cash distributions on or before the 15th day of the following month. Beginning in December 2011, the Fund makes an annual determination and announcement of the Indicative Distribution Amount for the following year based upon the prevailing market conditions. The Indicative Distribution Amount was \$0.065 per Unit per month (\$0.78 per annum) for the first 12 months of the Fund commencing January 31, 2011 and is to remain the same for the twelve months commencing on January 31, 2012.

It is anticipated that the changes to the taxation of income trusts beginning in 2011 will result in a decline in the amount of distributions paid by certain income trusts. The Investment Manager expects that given the type of income trusts the Fund will invest in that the initial anticipated yield on the Portfolio will be negatively impacted. The negative impact may in whole or in part be offset by the benefits available to taxable investors resident in Canada with respect to the receipt of "eligible dividends" (as defined in the Tax Act). The Fund may not pay distributions at the initial targeted level if returns on the income-generating securities or other returns to the Fund are not sufficient to maintain the initial anticipated yield on the Portfolio.

If the return on the Portfolio (including net realized capital gains from the sale of securities in the Portfolio) is less than the amount necessary to fund the monthly distributions, the Manager will return a portion of the capital of the Fund to Unitholders to ensure the distribution is paid and, accordingly, NAV per Unit will be reduced. See "Risk Factors" in the Prospectus. The amount of distributions may fluctuate and no assurance can be given that

distributions will remain at the initial Indicative Distribution Amount level. Following the Conversion of the Fund to an open-end fund on December 12, 2012, the Fund will not be able to use leverage to pursue its investment strategies and therefore the Fund may not pay a distribution at the initial Indicative Distribution Amount unless the Portfolio yields a higher return to the Fund.

If, in any year after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, a special distribution (either in cash or Units) of such portion of the net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the Tax Act will be automatically payable on the last day of that taxation year to Unitholders of record on that date. Immediately after a pro-rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units may be consolidated such that each Unitholder will hold, after the consolidation, the same number of Units as the Unitholder held before the non-cash distributions, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution. See "Income Tax Considerations" below.

There can be no assurance that the Fund will be able to achieve its monthly distribution objective or make payments on any Distribution Payment Date. Amounts distributed on the Units that represent returns of capital are generally non-taxable to a Unitholder but reduce the Unitholder's adjusted cost base of the Units for tax purposes. See "Income Tax Considerations" below.

Market Purchases

The Fund may purchase Units through the facilities of the TSX if the Manager determines that such purchases are in the best interest of the Fund. Purchases of Units by the Fund will be subject to compliance with any applicable regulatory requirements and limitations.

On January 20, 2012, the Manager, on behalf of the Fund announced that the Fund intends to purchase up to 271,790 listed Units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the TSX. The 271,790 Units represented as at the date thereof 10% of the public float of the Fund. The purchases could commence on January 20, 2012 and will terminate on December 12, 2012 or on such earlier date as the Fund may complete its purchases or provide notice of termination. Any such purchases will be made by the Fund at the prevailing market price at the time of such purchases in accordance with the requirements of the TSX. The Fund will not purchase in any 30-day period in the aggregate more than 54,358 Units (2% of the issued and outstanding Units, as at the date of acceptance of the notice of the normal course issuer bid by the TSX).

The purpose of the normal course issuer bid for Units is to provide the Fund with a mechanism to decrease the potential spread between the Net Asset Value per Unit and the market price of the Units and to provide enhanced liquidity for the Units.

In the 12 months preceding the date of the announcement on January 20, 2012 of the normal course issuer bid, the Fund purchased for cancellation 32,100 Units pursuant to an expiring normal course issuer bid at a weighted average price of \$10.20 per Unit.

UNITHOLDER MATTERS

Meetings of Unitholders

A meeting of Unitholders may be convened by the Manager at any time and must be convened if requisitioned by the holders of not less than 25% of the Units then outstanding by a written requisition specifying the purpose of the meeting. Prior to the Conversion Date, not less than 21 days' and not more than 50 days' notice will be given of any meeting of Unitholders. The quorum at any such meeting is two Unitholders present in person or by proxy except for the purpose of any meeting called by Unitholders to consider item (c) under "Unitholder Matters — Matters Requiring Unitholder Approval" in which case the quorum shall be Unitholders holding 25% of the outstanding Units. If no quorum is present at such meeting when called, the meeting, if called on the requisition of Unitholders,

will be terminated and otherwise will be adjourned for not less than 10 days and at the adjourned meeting the Unitholders then present in person or represented by proxy will form the necessary quorum. At any such meeting, each Unitholder will be entitled to one vote for each Unit registered in the Unitholder's name.

The Fund does not intend to hold annual meetings of Unitholders.

Matters Requiring Unitholder Approval

Prior to the Conversion, any matter to be considered at a meeting of Unitholders, other than certain matters requiring the approval by Extraordinary Resolution as set out below, require the approval of Unitholders by Ordinary Resolution. Pursuant to the Declaration of Trust, the following matters require approval by Extraordinary Resolution:

- (a) a change in the investment objectives of the Fund, unless such change is necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (b) any change in the basis of calculating fees or other expenses that are charged to the Fund that could result in an increase in charges to the Fund other than a fee or expense charged by a person or company that is at arm's length to the Fund and for which Unitholders are sent a written notice of such change at least 60 days before the effective date of such change;
- (c) a change of the manager of the Fund, other than to an affiliate of the Manager;
- (d) the issuance of additional Units other than (a) in connection with any offering of rights, warrants or options to existing Unitholders to acquire Units from treasury; (b) for net proceeds per Unit not less than the NAV per Unit calculated on the date immediately prior to the pricing of the offering, or (c) by way of a distribution paid in additional Units;
- (e) other than in connection with the Conversion, a reorganization with, or transfer of assets to, another entity if the Fund ceases to continue after the reorganization or transfer of assets;
- (f) other than in connection with the Conversion, a reorganization with, or acquisition of assets of, another entity if the Fund continues after the reorganization or acquisition of assets and the transaction would be a material change to the Fund;
- (g) any proposal made by the Manager to amend the terms of, or to not implement, the Conversion, provided that Unitholders are given the right to redeem their Units at the NAV per Unit prior to the implementation of the amended Conversion or in connection with the decision not to implement the Conversion, as the case may be; or
- (h) a termination of the Fund, other than as described under "Termination of the Fund" or in connection with the Conversion.

On and after the Conversion Date, Unitholders will be permitted to vote on all matters that require Unitholder approval under NI 81-102. These matters include, in respect of the Fund:

- (a) any (i) change in the basis of the calculation of a fee or expense charged to the Fund that could result in an increase in charges to the Fund, or (ii) a new fee or expense is introduced that could result in an increase in charges to the Fund (except as disclosed in the Prospectus);
- (b) a change of the Manager, unless the new manager is an affiliate of the Manager;
- (c) a change in the fundamental investment objectives of the Fund;
- (d) a change of the auditor of the Fund;
- (e) a decrease in the frequency of the calculation of the Net Asset Value per Unit of the Fund; and
- (f) a material reorganization of the Fund.

The Unitholders will also be permitted to vote on any modification, amendment, alteration or deletion of rights, privileges or restrictions attaching to the Units which would have a material adverse effect on the interest of the Unitholders. No amendment may be made to the Declaration of Trust which would have the effect of reducing the expenses reimbursable to the Manager or terminating the Manager unless the Manager, in its sole discretion, consents.

Amendments to the Declaration of Trust

The Trustee at the request of the Manager may, without the approval of or notice to Unitholders, amend the Declaration of Trust for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Declaration of Trust which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Declaration of Trust into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the pecuniary value of the interests of the Unitholders;
- (d) maintain the status of the Fund as a “mutual fund trust” for the purposes of the Tax Act or to respond to amendments to such Act or to the interpretation thereof;
- (e) change the name of the Fund;
- (f) provide added protection or benefit to Unitholders;
- (g) make such modifications as may be necessary or desirable for the purpose of implementing the Conversion;
- (h) divide the capital of the Fund into one or more series of Units and to establish the attributes of each series, provided that the rights of existing Unitholders are not changed in an adverse manner; or
- (i) on and after the Conversion Date, to delete any provisions which have application only prior to the Conversion Date.

Except for changes to the Declaration of Trust that require the approval of Unitholders or changes described above that do not require approval of or prior notice to Unitholders, the Declaration of Trust may be amended from time to time by the Trustee, at the request of the Manager, upon not less than 30 days’ prior written notice to Unitholders.

Reporting to Unitholders

The Fund will prepare, file and send to Unitholders unaudited semi-annual and audited annual financial statements of the Fund and other documents in accordance with NI 81-106.

Non-Resident Unitholders

The Fund was not established and shall not be maintained for the benefit of one or more non-resident persons within the meaning of the Tax Act. At no time may non-residents of Canada and partnerships (other than “Canadian partnerships” as defined in the Tax Act) be the beneficial owners of more than 50% of the Units and the Trustee shall inform the Registrar and Transfer Agent of this restriction. The Trustee may require a declaration as to the jurisdiction in which a beneficial owner of Units is resident and, if a partnership, as to its status as a “Canadian partnership”. If the Trustee becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% or more of the Units then outstanding are, or may be, non-residents and/or partnerships (other than “Canadian partnerships”), or that such a situation is imminent, the Trustee may make a public announcement thereof and the Trustee may send a notice to such non-resident Unitholders and partnerships,

chosen in inverse order to the order of acquisition or in such manner as the Trustee may consider equitable and practicable, requiring them to dispose of their Units or a portion thereof to residents of Canada within a specified period of not less than 30 days. If the Unitholders receiving such notice have not disposed of the specified number of Units or provided the Trustee with satisfactory evidence that they are not non-residents or partnerships (other than "Canadian partnerships") within such period, the Trustee may redeem or, on behalf of such Unitholders, dispose of such Units. Upon such redemption or sale, the affected Unitholders shall cease to be beneficial Unitholders of Units and their rights shall be limited to receiving the redemption price or the net proceeds of sale of such Units.

Termination of the Fund

The Fund does not have a fixed termination date. However, the Fund may be terminated at any time upon not less than 90 days' written notice by the Trustee provided that the prior approval of Unitholders has been obtained by a majority vote at a meeting of Unitholders called for that purpose (the "**Termination Date**"); provided, however, that the Trustee may, in its discretion, on 60 days' notice to Unitholders, terminate the Fund without the approval of Unitholders if, in the opinion of the Trustee, the NAV of the Fund is reduced as a result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund. The Fund will also issue a press release ten days prior to the Termination Date setting forth the details of the termination including the fact that, upon termination, the net assets of the Fund will be distributed to Unitholders on a pro rata basis. Immediately prior to the termination of the Fund, including on the Termination Date, the Trustee will, to the extent possible, convert the assets of the Fund to cash and after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund to the Unitholders as soon as practicable after the date of termination or any unliquidated assets may be distributed in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions.

CALCULATION OF NET ASSET VALUE AND VALUATION OF PORTFOLIO SECURITIES

Net Asset Value Calculation

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 will be calculated using the fair value of the Fund's assets and liabilities. The NAV per Unit on any day will be obtained by dividing the NAV of the Fund on such day by the number of Units then outstanding.

Valuation Policies and Procedures of the Fund

Unless otherwise required by law, the value of the assets held by the Fund is determined as follows:

- (a) the value of any cash on hand or on deposit, bills, demand notes, accounts receivable, prepaid expenses, cash dividends received (or to be received and declared to shareholders of record on a date before the date as of which the net asset value is being determined), and interest accrued and not yet received, shall be deemed to be the full amount thereof unless the Manager shall have determined that any such deposit, bill, demand note, account receivable, prepaid expense, cash dividend received or interest is not worth the full amount thereof, in which event the value thereof shall be deemed to be such value as the Manager shall determine to be the reasonable value thereof;
- (b) the value of any security which is listed or dealt in upon a stock exchange shall be determined by (a) in the case of a security which was traded on the day as of which the Net Asset Value is being determined, the closing sale price; (b) in the case of a security which was not traded on the day as of which the Net Asset Value is being determined, a price which is the average of the closing recorded bid and asked prices; or (c) if no bid or asked quotation is available, the price last determined for such security for the purpose of calculating the Net Asset Value. The value of interlisted securities shall be computed in accordance with directions laid down from time to time

by the Manager; and provided however that if, in the opinion of the Manager, stock exchange or over the counter quotations do not properly reflect the prices which would be received by the Fund upon the disposal of shares or securities necessary to effect any redemptions of securities, the Manager may place such value upon such shares or securities as appears to the Manager to most closely reflect the fair value of such shares or securities;

- (c) the value of any security, the resale of which is restricted or limited by reason of a representation, undertaking or agreement by the Fund or by the predecessor in title of the Fund, shall be the lesser of (a) the value based on reported quotation in common use and (b) that percentage of the market value of securities of the same class, the resale of which is not restricted or limited by reasons of any representation, undertaking or agreement, equal to the percentage that the acquisition cost of the Fund was of the market value of such securities at the time of acquisition, provided that a gradual taking into account of the actual value of the securities may be made when the date on which the restrictions will be lifted is known;
- (d) the value of all assets of the Fund valued in terms of a currency other than Canadian currency and liabilities payable in a currency other than Canadian currency shall be translated to Canadian currency using the closing rate of exchange as quoted by customary banking sources on the date of valuation;
- (e) each transaction of purchase or sale of portfolio securities effected by the Fund shall be reflected in the computation of the Net Asset Value of the Fund not later than the first computation of the Net Asset Value of the Fund made after the date on which the transaction becomes binding; and
- (f) the issue or redemption of Units of the Fund shall be reflected in the computation of the Net Asset Value not later than the next computation of the Net Asset Value or series made after the time of the issue or redemption of the Units of the Fund.

The liabilities of the Fund include:

- (a) all bills and accounts payable;
- (b) all administrative expenses payable and/or accrued;
- (c) all obligations for the payment of money or property, including the amount of any declared but unpaid distributions;
- (d) all allowances authorized or approved by the Manager for taxes or contingencies; and
- (e) all other liabilities of the Fund of whatever kind and nature, except liabilities represented by outstanding Units.

Harvest may suspend the calculation of the Net Asset Value when the right to redeem a Unit is suspended. See “Suspension of Redemptions” below. During any period of suspension there will be no calculation of the Net Asset Value and the Fund will not be permitted to issue or redeem any Unit. The calculation of the Net Asset Value will resume when trading in the Fund’s securities resumes.

Except as described below, National Instrument 81-106 — *Investment Fund Continuous Disclosure* (“NI 81-106”) requires an investment fund, such as the Fund, to calculate its net assets in accordance with Canadian GAAP. Canadian GAAP was modified by the introduction of section 3855 *Financial Instruments — Recognition and Measurement of the handbook of the Canadian Institute of Chartered Accountants*. Section 3855 defines fair value as being the closing bid price for long positions and the closing ask price for short positions, in lieu of the closing or last trade price for all positions. Therefore, the combined effect of NI 81-106 and section 3855 would require the Fund to determine the value of securities listed on a recognized public securities exchange or on NASDAQ using the fair value as defined by section 3855. However, since September 8, 2008, NI-81-106 permits investment funds, such as the Fund, to calculate its net asset value in accordance with Canadian GAAP without giving effect to section 3855 for purposes other than issuing annual or interim financial statements, such as the issue and redemption of Units.

Reporting of Net Asset Value

Prior to the Conversion Date, the NAV and the NAV per Unit will be calculated on each Thursday (or if a Thursday is not a Business Day, the Business Day following such Thursday). On or after the Conversion Date, the NAV per Unit will be calculated on each Business Day. Such information will be provided by the Manager to the Unitholders on request by calling toll-free 1-866-998-8298 or daily via the internet at www.harvestportfolios.com, as applicable.

PURCHASE OF UNITS

The Units are listed for trading on the TSX under the symbol “HSI.UN”, and are traded through the facilities of the TSX. Investors may purchase or sell the Units in the market through the facilities of the TSX by contacting their financial advisor.

While the Manager calculates the NAV per Unit at each Valuation Date and publishes it, investors are not able to purchase Units at these amounts and must purchase Units through the facilities of the TSX or by purchasing Units from existing holders of Units, subject to compliance with applicable regulatory requirements.

A dealer may make provision in arrangements that it has with an investor that will require the investor to compensate the dealer for any such losses suffered by the dealer in connection with a failed settlement of a purchase of Units by such investor.

Book-Based System

Registration of interests in and transfers of the Units will be made only through the book-entry only system of CDS. Units must be purchased, transferred and surrendered for retraction only through a CDS Participant. All rights of an owner of Units must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS and the CDS Participant through which the owner holds such Units.

Upon purchase of any Units, the owner will receive only the customary confirmation. References in this AIF to a holder of Units means, unless the context otherwise requires, the owner of the beneficial interest in such Units. The Fund expects that each purchaser of Units under the Offering received a confirmation of the number of Units issued to it from its CDS Participant in accordance with the practices and procedures of that CDS Participant. CDS is responsible for establishing and maintaining book-entry only accounts for its participants holding Units. Certificates evidencing Units were not issued.

Neither the Fund, the Trustee, the Custodian, the Manager, the Investment Manager, the Agents will have any liability for (i) records maintained by CDS relating to the beneficial interests in the Units or the book-entry only accounts maintained by CDS; (ii) maintaining, supervising or reviewing any records relating to such beneficial ownership interests; or (iii) any advice or representation made or given by CDS and made or given with respect to the rules and regulations of CDS or any action taken by CDS or at the direction of the CDS Participants.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such interest (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the book-entry only system in which case certificates for Units in fully registered form would be issued to beneficial owners of such securities or to their nominees.

REDEMPTION OF UNITS

Redemption of Units on the First NAV Redemption Date

Unitholders who wish to redeem their Units on November 16, 2012 (the “**First NAV Redemption Date**”) will receive a redemption price per Unit equal to NAV per Unit as at the First NAV Redemption Date. On and after the Conversion Date, Unitholders may redeem Units on any Business Day at the NAV per Unit.

Units may be surrendered for redemption during the period from the tenth Business Day of October, 2012 until 5:00 p.m. (Toronto time) on the first Business Day of November, 2012 (the “**Notice Period**”) by the registered Unitholder to the Registrar and Transfer Agent. Units surrendered for redemption by a Unitholder during the Notice Period will be redeemed on the First NAV Redemption Date and the Unitholder will receive payment on or before the seventh Business Day following the First NAV Redemption Date.

A dealer may make provision in arrangements that it has with an investor that will require the investor to compensate the dealer for any losses suffered by the dealer in connection with any failure of the investor to satisfy the requirements of the Fund or securities legislation for a redemption of securities of the Fund.

Exercise of Redemption Right

The redemption right must be exercised by causing written notice to be given within the Notice Period and in the manner described below. Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Units which are not paid for by the Fund on the First NAV Redemption Date. An owner of Units who desires to exercise redemption privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice (the “**Redemption Notice**”) of the owner’s intention to redeem Units. An owner who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS and so as to permit CDS to deliver notice to the Registrar and Transfer Agent in advance of the required time. The form of Redemption Notice will be available from a CDS Participant or Registrar and Transfer Agent. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

Except as provided below under “Suspension of Redemptions”, by causing a CDS Participant to deliver to CDS a notice of the owner’s intention to redeem Units, an owner shall be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of the redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Redemption Notice delivered by a CDS Participant regarding an owner’s intent to redeem which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the redemption privilege to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with the owner’s instructions will not give rise to any obligations or liability on the part of the Fund to the CDS Participant or to the owner.

Redemption of Units on and After Conversion Date

On and after the Conversion Date, Unitholders may redeem Units on any Business Day without charge. To do so, Unitholders must complete a written redemption request. If the redemption request is deposited with a dealer, the dealer must send the redemption request to the Toronto office of the Registrar and Transfer Agent on the same day. If the dealer receives the redemption request after the close of business (usually 4:00 p.m. Toronto time) or on a day that is not a Business Day, the dealer must send it to the Registrar and Transfer Agent on the next Business Day.

A redemption request received by the Registrar and Transfer Agent before the close of business (usually 4:00 p.m. Toronto time) on a Business Day will be processed at the NAV per Unit calculated at the close of business on that Business Day. A redemption request received by the Registrar and Transfer Agent after the close of business on a Business Day or on a day which is not a Business Day will be processed at the NAV per Unit determined at the close of business on the next Business Day.

Whenever practicable, a dealer must send such redemption request by courier or fax, to ensure that the Registrar and Transfer Agent receives it as quickly as possible. The cost of sending the redemption request must be paid by the dealer. A redemption request sent by fax directly by an investor will not be accepted.

For the protection of Unitholders in the Fund, a Unitholder's signature on any redemption request must be guaranteed by a bank, trust company or a dealer. This procedure must be followed carefully. Other documentation may be required for redemption by corporations or other Unitholders that are not individuals. If all necessary redemption documents have been properly completed and sent to the Registrar and Transfer Agent with the redemption request, the Manager will pay the redemption amount within three Business Days of the day on which the redemption request was placed. Otherwise, the redemption amount will be paid within three Business Days after the Registrar and Transfer Agent receives the missing documentation. If all necessary documents are not received by the Registrar and Transfer Agent within ten Business Days following the date on which the redemption was requested, the Manager will reverse the redemption order by processing a purchase order on the tenth Business Day after the redemption order for the number of Units that were redeemed. The redemption proceeds will be used to pay for the Units purchased. Any excess proceeds belong to the Fund. Any shortfall will initially be paid to the Fund by the Manager, but the Manager will be entitled to collect the shortfall, plus any costs involved, from the dealer who placed the redemption request. The dealer may, in turn, collect the shortfall plus any costs involved from the Unitholders who placed the redemption request. Where no dealer has been involved, the Manager will be entitled to collect the shortfall and costs from the Unitholders who placed the redemption request. There is no charge for redemptions of Units that were acquired before the Conversion Date.

Suspension of Redemptions

The Manager may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on a stock exchange or other market on which securities owned by the Fund are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the total assets of the Fund, without allowance for liabilities, and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; or (ii) with the prior permission of the applicable securities regulatory authorities, for any period not exceeding 30 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by the Manager of the suspension and that the redemption will be effected at a price determined on the first Business Day following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

Conversion of the Fund

The Units will be redeemable at NAV per Unit on the First NAV Redemption Date. The Fund will become an open-ended mutual fund on December 12, 2012. 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. The Conversion may be implemented either by way of a conversion of the Fund to an open-end mutual fund or by way of a tax-deferred merger with an open-end mutual fund managed by the Manager or an affiliate thereof (including a fund formed after the date of this AIF). On the Conversion Date, the Fund will become subject to NI 81-102. The Declaration of Trust provides that certain provisions thereof that apply before the Conversion Date will cease to apply and those provisions that apply

pursuant to NI 81-102 will thereafter be applicable. For example, the Fund will be able to issue different classes and series of units. The circumstances under which Unitholders will be entitled to vote will be reduced and certain matters which require approval by an Extraordinary Resolution will, after the Conversion Date, require the approval of the holders of a simple majority of the Units voting thereon. Following the conversion of the Fund to an open-end mutual fund on the Conversion Date, it will be subject to NI 81-102 and Unitholders will be entitled to redeem their Units daily. Except with respect to redemptions, the Units will generally have the same characteristics before and after the Conversion Date, although the Manager may also create other classes or units into which the Units would be convertible, at the option of the holder, including a class of units that would not have a Servicing Fee. The conversion of the Fund will not affect the Fund's investment objectives or strategy.

RESPONSIBILITY FOR FUND OPERATIONS

Manager

Harvest Portfolios Group Inc. (the "**Manager**") is the manager of the Fund pursuant to the Management Agreement and trustee of the Fund pursuant to the Declaration of Trust. The Manager carries on business at 710 Dorval Drive, Suite 209, Oakville, ON, L6K 3V7. The Manager can be reached at 416-649-4541 or toll free at 1-866-998-8298 or by email at info@harvestportfolios.com and information about the Manager and the Investment Manager may also be obtained at www.harvestportfolios.com.

Pursuant to the Management Agreement, the Manager, as manager, is responsible for delegating all investment decisions of the Fund in accordance with the investment objectives, strategy, and restrictions and for arranging for the execution of all Portfolio transactions and managing and administering the day-to-day business and affairs of the Fund. The Manager may delegate certain of its powers to third parties, where, in the discretion of the Manager, it would be in the best interests of the Fund to do so. The Manager's duties include, without limitation: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements (including semi-annual and annual financial statements) and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Fund's reports to Unitholders and the Canadian securities regulatory authorities; determining the amount of distributions to be made by the Fund; and negotiating contractual agreements with third party providers of services, including registrars, transfer agents, auditors and printers.

Pursuant to the Management Agreement, the Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund and to exercise the care, diligence and skill of a reasonably prudent person in the circumstances. The Management Agreement provides that the Manager will not be liable in any way for any default, failure or defect in the Portfolio held by the Fund if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Manager will incur liability, however, in cases of wilful misconduct, bad faith, negligence, disregard of the Manager's standard of care or by any material breach or default by it of its obligations under the Management Agreement.

Unless the Manager resigns or is removed as described below, the Manager will continue as Manager until the termination of the Fund. The Manager may resign if the Fund is in breach or default of the provisions of the Management Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days' notice of such breach or default to the Fund. The Manager is deemed to have resigned if the Manager (i) becomes bankrupt or insolvent; (ii) in the event the Manager ceases to be resident in Canada for the purposes of the Tax Act; or (iii) no longer holds the licenses, registrations or other authorizations necessary to carry out its obligations and is unable to obtain them within a reasonable period after their loss. The Manager may resign as Manager of the Fund upon 60 days notice to the Unitholders.

The Manager may not be removed other than by an Extraordinary Resolution of the Unitholders. In the event that the Manager is in material breach or default of the provisions of the Management Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days' notice of such breach or default to the Manager, the Trustee shall give notice thereof to Unitholders and Unitholders may direct the Trustee to remove the Manager and appoint a successor Manager.

The Management Agreement may not be terminated by the Fund without the consent of the Manager unless the Manager is in material breach of the Management Agreement and the material breach where capable of being cured has not been cured within 30 Business Days after such material breach.

The Manager will be reimbursed by the Fund for all reasonable costs and expenses incurred by the Manager on behalf of the Fund as described below under “*Fees and Expenses – Management Fees*”. In addition, the Manager and each of its directors, officers and employees will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against, the Manager, or any of its directors, officers, or employees, in the exercise of its duties as Manager, except those resulting from the Manager’s wilful misconduct, bad faith, negligence, disregard of the Manager’s standard of care or material breach or default by the Manager of its obligations under the Management Agreement.

Directors and Officers of the Manager

The name and municipality of residence of each of the partners, directors, officers and senior management of the Manager and their principal occupation for the last five years are as follows:

Name and Municipality of Residence	Position with the Manager	Principal Occupation for the last five years
Michael Kovacs Oakville, Ontario	President and Chief Executive Officer, Chairman, Chief Compliance Officer, Corporate Secretary and Director	President and Chief Executive, Harvest Portfolios Group Inc. Senior Vice President of Sales & Marketing of Sentry Select Capital and Managing Director of Sentry Select Mutual Funds
Mark Riden Stouffville, Ontario	Chief Financial Officer	Chief Financial Officer, Harvest Portfolios Group Inc. Chief Financial Officer, Stellation Asset Management
Townsend Haines Toronto, Ontario	Chief Investment Officer and Director	Chief Investment Officer, Harvest Portfolios Group Inc.
Mary Medeiros Oakville, Ontario	Vice President of Operations and Director	Vice President of Operations, Harvest Portfolios Group Inc.
Nick Bontis Ancaster, Ontario	Director	Associate Professor, Strategic Director Management & Director, Undergraduate Programs DeGroote School of Business, McMaster University

The Investment Manager

The Manager has retained Avenue Investment Management Inc. (the “**Investment Manager**”) to provide investment management services to the Fund. The Investment Manager is located at 47 Colborne Street, Suite 300, Toronto, Ontario M5E 1P8. The Investment Manager was formed in 2002 and has focused on the private client market. The Investment Manager was founded by three investment management professionals, Paul Harris, CFA, Paul Gardner, CFA and Bill Harris, CFA, each with over 22 years of experience who have managed assets or

businesses for leading financial institutions in Toronto, Montreal and New York. Each portfolio manager brings sectorial experience to the management of portfolios.

Investment decisions relating to the Portfolio are made by senior level individuals. The name, title and business experience, for the last five years, of the individuals responsible for the day-to-day management of a material portion of the Portfolio, implementing a particular material strategy of the Portfolio or managing a particular segment of the Portfolio is as follows:

Name and Title	Length of Service with Investment Manager	Portfolio	Principal Occupation for the Last Five Years
Paul Harris, CFA	Since 2002	Equity Portfolio Fixed Income Portfolio	Partner and Portfolio Manager
Paul Gardner, CFA	Since 2002	Equity Portfolio Fixed Income Portfolio	Partner and Portfolio Manager
Bill Harris, CFA	Since 2004	Equity Portfolio Fixed Income Portfolio	Partner and Portfolio Manager

Investment decisions made by these individuals are not subject to the oversight, approval or ratification of a committee.

Details of the Investment Management Agreement

The Investment Manager provides investment advisory and portfolio management services to the Fund with respect to the Portfolio pursuant to the Investment Management Agreement. Decisions regarding the purchase and sale of Portfolio securities and the execution of transactions for the Portfolio are made by the Investment Manager, in accordance with and subject to the terms of the Investment Management Agreement. Subject to the terms of the Investment Management Agreement, the Investment Manager will implement the investment strategy for the Portfolio on an ongoing basis.

Under the Investment Management Agreement, the Investment Manager covenants to act at all times on a basis which is fair and reasonable to the Manager and the Fund, to act honestly and in good faith with a view to the best interests of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. The Investment Management Agreement provides that the Investment Manager will not be liable in any way to the parties indemnified under the Investment Management Agreement for any default, failure or defect in any of the securities comprising the Portfolio if it satisfied the standard of care, diligence and skill set forth above. The Investment Management Agreement further provides that the Investment Manager will not be liable for any losses in the NAV of the Fund if it has satisfied the standard of care, diligence and skill set forth above. Pursuant to the Investment Management Agreement, the Investment Manager and its officers, directors and employees shall be indemnified, from the assets of the Fund, against all losses (other than loss of profits), expenses and liabilities incurred by any of them in connection with any matter relating to their respective duties under the Investment Management Agreement, unless any such indemnified person is finally adjudicated to have committed a material breach or default of its obligations under the Investment Management Agreement or an act or omission involving wilful misconduct, bad faith, negligence or reckless disregard of such person's duties under the Investment Management Agreement. Under the Investment Management Agreement, the Investment Manager will be responsible for any loss to the Fund that arises out of the Investment Manager's failure to exercise the powers and discharge its duties in good faith and in the best interests of the Fund or its failure to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

The Investment Manager or the Manager may terminate the Investment Management Agreement in the following circumstances: (i) upon not less than 90 days written notice to the other party; or (ii) by written notice taking immediate effect if the other party is in breach of any of the terms of the Agreement and has not remedied the breach within 30 days of receipt of written notice requiring the breach to be remedied.

The Investment Management Agreement shall terminate immediately if any of the following events take place: (i) in the event the Investment Manager or the Manager is subject to a material regulatory issue that would affect the ability of the Investment Manager or the Manager to fulfill its obligations under the Investment Management Agreement or if the Investment Manager is unable to provide the investment management services contemplated in the Investment Management Agreement or in any applicable underlying investment management agreements; (ii) in the event that the Investment Manager or the Manager become bankrupt, or a petition for bankruptcy is filed against either party and such petition is not dismissed within 60 days; or (iii) or in the event that the Investment Manager or the Manager makes any assignment for the benefit of its creditors, files any notice under or takes any other benefits of any insolvency law, or if a receiver is appointed for the Investment Manager or the Manager.

Any termination of the Investment Management Agreement shall not affect the liability of the parties in respect of any action undertaken before such notice was given. During the time period between the date notice of termination is given and the effective date of termination, the Investment Manager has agreed to continue to provide investment advisory or management services to the Fund to the best of its ability in accordance with the standard of care set out above. The Manager is responsible for payment of the investment management fees of the Investment Manager out of the Management Fee. See “*Fees and Expenses — Management Fees*”.

Brokerage Arrangements

Pursuant to the Investment Management Agreement, the Investment Manager will make all appropriate brokerage arrangements to implement the purchase and sale of portfolio investments on the best terms available to the Investment Manager acting reasonably, having regard to such factors as the Investment Manager, in good faith, considers relevant to the Fund’s interest, including, without limitation, commissions and other costs payable, efficiency of execution and timeliness of delivery, all consistent with requirements of Canadian securities legislation and consistent with acting in the best interests of the Fund.

The Investment Manager has primary relationships with six brokers with general sales, research and trade execution capabilities. The Investment Manager uses these primary relationships for the majority portion of its research requirements. The process would not differ for an entity that is an affiliated entity of the Investment Manager. The prime objectives in their brokerage arrangements are to execute trades in an efficient and orderly fashion and to achieve the best transaction cost possible. The Investment Manager does not use or have any client brokerage commission arrangements with any of its brokers nor does it have any intention of using client brokerage commissions for the provision of any good or service other than order execution. As of December 31, 2011, no transactions involving client brokerage commissions of the Fund were directed to a dealer in return for the provision of any good or service other than order execution.

The Trustee

The Manager is the trustee of the Fund under the Declaration of Trust, and is responsible for managing all of the Fund’s activities. The address of the Trustee where it principally provides services to the Fund is at 710 Dorval Drive, Suite 209, Oakville, Ontario L6K 3V7. The directors and officers of the Trustee are listed above under “The Manager”.

Pursuant to the Declaration of Trust, the Trustee will be responsible for certain aspects of the day-to-day administration of the Fund as described in the Declaration of Trust. The Trustee may resign upon 60 days’ notice to Unitholders. The Trustee must be removed if the Trustee is no longer resident in Canada for purposes of the Tax Act, and the Trustee may be removed with the approval of a simple majority vote cast at a meeting of Unitholders called for such purpose or by the Manager (if the Manager is not then the Trustee), if the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Declaration of Trust which breach has not been cured within 30 days after notice thereof has been given to the Trustee.

Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns, its successor may be appointed by the Manager. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 60 days, the Trustee or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor.

The Declaration of Trust provides that the Trustee shall not be liable in carrying out its duties under the Declaration of Trust except where it is in breach of its obligations under the Declaration of Trust or where the Trustee fails to Act honestly and in good faith, and in the best interests of Unitholders to the extent required by laws applicable to trustees, or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee, or any of its officers, directors, employees or agents, in respect of certain liabilities incurred by it in carrying out its duties.

Subject to those matters that require Unitholder approval as described above under “Unitholder Matters – Matters Requiring Unitholder Approval”, the Declaration of Trust gives the Trustee the right in its discretion from time to time to modify, alter or add to the provisions of the Declaration of Trust, and execute any supplemental Declaration of Trust to give effect to such amendments.

The Custodian and Valuation Agent

State Street Trust Company Canada (“**State Street**”) has been appointed as the custodian and valuation agent of the Fund pursuant to separate custodian and valuation agreements between the Fund and State Street. The custodian’s principal place of business in respect of the Fund is Toronto, Ontario. In accordance with the terms of the custodian agreement (the “**Custodian Agreement**”), the custodian is responsible for the safekeeping of all of the investments and other assets of the Fund delivered to it but not those assets of the Fund not directly controlled or held by the custodian as the case may be. In the event that any portfolio assets are acquired by the Fund that cannot be held in Canada, the custodian may appoint sub-custodians who are qualified to act as such.

In carrying out its duties, the custodian is required to exercise:

- (a) the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances, or
- (b) at least the same degree of care which it gives to its own property of a similar kind under its custody, if this is a higher degree of care than in paragraph (a) above.

Except to the extent the Custodian has not complied with its standard of care, the Custodian will not be liable for any act or omission in the course of, or connected to, rendering services under the Custodian Agreement or for loss to, or diminution of, the Fund’s property. In no event shall the custodian be liable for any consequential or special damages. The Fund shall indemnify and save harmless the custodian, and its affiliates, subsidiaries and agents, and their directors, officers, and employees from and against all legal fees, judgments and amounts paid in settlement incurred by such indemnified parties in connection with custodial services provided under the Custodian Agreement except to the extent incurred as a result of a breach of the above standard of care.

The Custodian Agreement provides that it may be terminated by either party at any time on 60 days’ written notice unless a different period is agreed to. Either party may terminate the Custodian Agreement immediately in the event that either party is declared bankrupt or shall be insolvent, the assets or the business of either party shall become liable to seizure or confiscation by a public or governmental authority, or the Manager’s powers and authorities to act on behalf of or represent the Fund have been revoked or terminated.

In addition, State Street is responsible for providing valuation services to the Fund and calculates the NAV and NAV per Unit pursuant to the terms of a separate valuation service agreement. State Street receive fees for custodial and valuation services provided to the Fund as described below “Fees and Expenses – Ongoing Fees and Expenses”.

Registrar and Transfer Agent

Equity Financial Trust Company acts as the registrar and transfer agent for the Units at its principal office at 200 University Avenue, Suite 400, Toronto, Ontario, M5H 4H1.

Auditor

The Fund's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario.

CONFLICTS OF INTEREST

Principal Holders of Securities

To the knowledge of the Manager, as at March 1, 2012, no person owned, beneficially or of record, either directly or indirectly, or exercised control or direction over, more than 10% of the outstanding Units.

To the knowledge of the Manager, as at March 1, 2012, the directors and senior officers of the Manager, in aggregate, did not own, beneficially or of record, either directly or indirectly, or exercise control or direction over more than 10% of the outstanding Units or more than 10% of the voting securities of any person or company that provides services to the Fund or the Manager.

To the knowledge of the Manager, as at March 1, 2012, the members of the Independent Review Committee of the Fund (the "IRC") did not own beneficially, directly or indirectly, in aggregate: (a) more than 10% of the outstanding Units; (b) any class of voting or equity securities of the Manager; or (c) any class of voting or equity securities of any person or company that provides services to the Fund or the Manager.

As at March 1, 2012, Michael Kovacs owned 69.3% of the outstanding common shares of the Manager and directors and senior officers of the Manager beneficially owned, directly or indirectly, in aggregate, 30.7% of the outstanding common shares of the Manager.

Conflicts of Interest

The management services of the Manager under the Management Agreement are not exclusive and nothing in the Management Agreement prevents the Manager from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities. Investments in securities purchased by the Manager on behalf of the Fund and other investment funds or trusts managed by the Manager will be allocated to the Fund and such other investment funds or trusts on a pro-rata basis according to the size of the order and the applicable investment restrictions and policies of the Fund and the other investment funds or trusts.

Under the Investment Management Agreement, the Investment Manager may become an investment advisor and portfolio manager to investment funds, mutual funds and discretionary accounts in addition to the Fund. Investments in securities purchased by the Investment Manager on behalf of the Fund and other investment funds or accounts managed by the Investment Manager will be allocated in the sole discretion of the Investment Manager to the Fund and such other investment funds or accounts on a pro-rata or other equitable basis having regard to whether the security is currently held in any of the relevant investment portfolios, the relevant size and rate of growth of the funds and the managed accounts and any other factors which the Investment Manager considers reasonable.

The Declaration of Trust and the Management Agreement acknowledge that the Trustee and the Manager may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favorable to the Fund than those which would be obtained from parties which are at arm's length for comparable services. The Trustee may act as trustee of, and provide services to, issuers of securities, including issuers of securities in which the Fund has invested or may invest.

The Trustee and the Manager are the same entity. The amount of fees received from the Fund by the Manager and the Trustee is disclosed in the audited financial statements of the Fund.

FUND GOVERNANCE

Policies and Practices

The Manager has policies and practices in place in order to comply with applicable securities laws, regulations and rules, including rules on sales practices and relating to conflicts of interest as well as risk management policies and procedures as outlined below. The Fund is managed in accordance with the investment objectives, guidelines, strategy and restrictions described above and which are monitored regularly by appropriate personnel to ensure compliance therewith.

Code of Ethics and Standards of Professional Responsibility

The Manager has a Code of Ethics and Standards of Professional Conduct (the "**Code**") which applies to all of its employees. The Code is in place to protect the interest of all of the Manager's clients. The Code provides policies governing the conduct of business including conflicts of interest, privacy issues and confidentiality.

The Manager is under a statutory duty imposed by the *Securities Act* (Ontario) to act honestly and in good faith and in the best interests of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

The Declaration of Trust provides that the Trustee shall exercise its powers and discharge its duties as the Trustee honestly, in good faith and in the best interests of the Fund and shall perform the duties of the Trustee to the standard of care, diligence and skill a reasonably prudent person would exercise in the circumstances.

Independent Review Committee

The IRC is comprised of three individuals, each of whom is independent from the Manager, the Fund and entities related to the Manager. The current members of the IRC are Jane Davis, Don Hathaway and Adam Conyers. The role of the IRC is to review and to provide approval or recommendation in respect of conflicts of interest that arise between the Manager's own interests and the Manager's duty to manage the Fund in the best interests of the Fund. NI 81-107 requires the Manager to have policies and procedures relating to conflicts of interest. The Manager is responsible for referring to the IRC any matters in which a reasonable person could view the Manager as having an interest that may conflict with its ability to act in the best interest of the Fund. The IRC reviews each matter and provides its approval or recommendation as to whether the proposed course of actions will achieve a fair and reasonable result for the Fund. The IRC has adopted a written charter that includes its mandate, responsibilities and functions, and the policies and procedures it will follow when performing its functions.

The compensation and other reasonable expenses of the IRC are paid *pro rata* out of the assets of the Fund, as well as out of the assets of the other investment funds for which the IRC acts.

Information and Reports to Unitholders

The Fund will deliver to Unitholders annual and interim financial statements of the Fund and other reports, in each case as from time to time are required by applicable law or applicable regulatory authorities.

Prior to any meeting of Unitholders, the Fund will provide to Unitholders, together with the notice of such meeting, all such information as is required by applicable law to be provided to such Unitholders.

Voting Securities of Other Funds

The Fund did not vote securities of other investment funds during 2011.

Short-Term Trading

As the Fund is a closed-end investment fund, the Fund has no policies and procedures relating to the monitoring, detection and deterrence of short-term trades of securities by Unitholders.

Proxy Voting Procedures

The proxies associated with securities held by the Fund will be voted by the Investment Manager in the best interests of Unitholders. The Fund considers the “best interests” of Unitholders to mean their best long-term economic interests. The Investment Manager has established a proxy voting policy (the “**Proxy Voting Policy**”) which contains guidelines (the “**Guidelines**”) for the voting of proxies; however, each vote is ultimately cast on a case-by-case basis taking into consideration the relevant facts and circumstances at the time of the vote.

The Investment Manager’s proxy voting policies and procedures set out various considerations that the Investment Manager will address when voting, or refraining from voting, proxies, including that:

- (a) the Investment Manager will generally vote with management on routine matters related to the operation of an issuer that are not expected to have a significant economic impact on the issuer and/or its shareholders;
- (b) the Investment Manager will review and analyze on a case-by-case basis, non-routine proposals that are more likely to affect the structure and operation of the issuer and to have a greater impact on the value of the investment;
- (c) the Investment Manager may abstain from voting a proxy if it concludes that (i) the effect on Unitholders’ economic interest or the value of the portfolio holding is indeterminable or insignificant or (ii) the cost of voting is disproportionate to the economic impact the vote would have on the portfolio holdings; and
- (d) any material conflicts that may arise will be resolved in the best interests of the Unitholders and potential procedures to deal with any conflict are identified.

A proxy voting committee of the Investment Manager administers and oversees the proxy voting process. The proxy committee reviews both the proxy voting policies and procedures and their continued effectiveness and appropriateness and the voting practices of the Investment Manager from time to time. In addition, the Manager has reviewed these policies and procedures and will monitor proxy voting by the Investment Manager on behalf of the Fund to ensure that such policies and procedures are followed and that the voting of proxies is carried out in the best interests of Unitholders.

Disclosure of Proxy Voting Guidelines and Record

A copy of the Fund’s proxy voting record for the most recent period ended June 30 of each year is available free of charge to any Unitholder upon request at any time after August 31 of such year and is also available on the website of the Manager at www.harvestportfolios.com. A copy of the Proxy Voting Policy is available on request at no cost by contacting the Manager at 1-866-998-8298 or by writing to the Manager at Suite 209, 710 Dorval Drive, Oakville, Ontario, L6K 3V7 or by e-mail at info@harvestportfolios.com. Information contained on the website of the Manager and the Fund is not part of this annual information form and is not incorporated herein by reference.

FEES AND EXPENSES

Management Fees

Pursuant to the terms of the Declaration of Trust, the Manager is entitled to a fee at an annual rate (the “**Management Fee**”) equal to 1.25% of the Net Asset Value of the Fund, plus an amount equal to the Servicing Fee (defined below) plus applicable taxes. Fees payable to Harvest will be calculated and payable monthly based on the average Net Asset Value of the Fund calculated at each Valuation Time during that month. The Management Fee will be paid in cash. In the aggregate, the Management Fee and Servicing Fee paid by the Fund prior to the

Conversion will be 1.65% annually of the Net Asset Value of the Fund and 2.25% annually of the Net Asset Value of the Fund after the Conversion. The Investment Manager is remunerated by the Manager out of the Management Fee.

Ongoing Fees and Expenses

The Fund pays for all ordinary expenses incurred in connection with the operation and administration of the Fund, including, without limitation, the Management Fee, the Servicing Fee (defined below), custodial fees, fees payable to the Trustee for acting as trustee (except when the Manager is the Trustee), IRC member, legal, audit and valuation fees and expenses, Unitholder reporting costs, registrar costs, transfer and distribution agency costs, printing and mailing costs, regulatory filing, stock exchange and licensing fees and expenses and other administration expenses and costs incurred in connection with the Fund's continuous public filing requirements and investor relations, taxes, brokerage commissions, costs and expenses relating to the issue of Units, costs and expenses of preparing financial and other reports, costs and expenses in connection with the Conversion, costs and expenses arising as a result of complying with all applicable laws, regulations and policies and all amounts paid by the Fund on account of the indebtedness of the Fund and expenditures incurred on termination of the Fund. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager or the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Fund. The Fund is also responsible for all commissions and other costs of portfolio transactions and extraordinary expenses of the Fund which may be incurred from time to time.

Servicing Fee

Prior to the Conversion Date, the Manager will pay a servicing fee (the "**Servicing Fee**") to registered dealers equal to 0.40% annually of the Net Asset Value per Unit for each Unit held by clients of the registered dealer (calculated and paid at the end of each calendar quarter, plus applicable taxes). On and after the Conversion Date, the Manager will pay the Servicing Fee equal to 1.00% annually of the NAV per Unit of each Unit held by clients of the registered dealers (calculated and paid at the end of each calendar quarter commencing on the Conversion Date, plus applicable taxes).

Portfolio Transactions and Brokerage Commissions

The Fund will be responsible to pay commissions to brokers and dealers.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary, as of the date of this annual information form, of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a person who is an individual (other than a trust), who acquires Units and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Fund and holds the Units as capital property.

Generally, Units will be considered to be capital property to a purchaser provided that the purchaser does not hold Units in the course of carrying on a business of buying and selling securities and has not acquired Units in one or more transactions considered to be an adventure in the nature of trade. Certain purchasers who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have Units treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This summary also assumes that the Fund will hold the Portfolio securities as capital property.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the "**Regulations**"), all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) ("**Minister**") prior to the date hereof (the "**Tax Proposals**"), and counsel's understanding of the current published administrative policies and assessing practices of the CRA. This summary assumes that the Tax Proposals will be enacted as proposed. Except for the Tax Proposals, this summary does not take into account or anticipate any changes in the law, whether by way of legislative, governmental or judicial

decision or action, nor does it take into account provincial, territorial or foreign tax legislation or considerations. There is no assurance that the Tax Proposals will be enacted in the form proposed or at all.

This summary is also based on the assumptions that none of the issuers or the securities in the Portfolio will be foreign affiliates of the Fund or of any Unitholder and that none of the securities in the Portfolio will be a "tax shelter investment" within the meaning of section 143.2 of the Tax Act, or an "offshore investment fund property" that would require the Fund to include amounts in income in respect of such securities pursuant to either section 94.1 or paragraph 94(1)(d) of the Tax Act, or an interest in a non-resident trust other than an "exempt foreign trust" as defined in proposed section 94 of the Tax Act, each as contemplated by certain Tax Proposals.

This summary is also based on the assumption that the Fund will at no time be a "SIFT trust" (specified investment flow-through trust) as defined in the Tax Act. Provided that the Fund complies with its investment restrictions and does not hold "non-portfolio property", as defined in the Tax Act, it will not be a SIFT trust. Based upon its Investment Objectives and Investment Restrictions, the Fund should not hold "non-portfolio property". If the Fund were to become a SIFT trust within the meaning of the Tax Act, the income tax considerations discussed herein could be materially and adversely different.

This summary is also based on the assumptions that the Fund will comply with the Investment Restrictions and that none of the issuers of the securities comprising the Portfolio will be foreign affiliates of the Fund or of any Unitholder and that none of the securities comprising the Portfolio will be tax shelter investments or offshore investment fund property.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units and does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary according to the status of the investor, the provincial or territorial jurisdiction(s) in which the investor resides or carries on business and, generally, the investor's own particular circumstances. Accordingly, the following description of income tax matters is of a general nature only and is not intended to constitute legal or tax advice to any particular investor. Investors should consult their own tax advisors with respect to the income tax consequences of investing in Units, based upon the investor's particular circumstances.

Status of the Fund

This summary is based on the assumption that the Fund will qualify at all times as a "unit trust" and a "mutual fund trust" within the meaning of the Tax Act, that the Fund validly elected under the Tax Act to be a mutual fund trust from the date it was established, that the Fund has not been established and will not be maintained primarily for the benefit of non-residents and that not more than 50% (based on fair market value) of the Units will be held by non-residents of Canada, partnerships that are not Canadian partnerships as defined in the Tax Act, or any combination thereof.

In the event the Fund were not to qualify as a mutual fund trust at all times, the income tax consequences described below would in some respects be materially and adversely different. In order to so qualify, the Fund must comply on a continuous basis with certain investment criteria referred to under "Investment Restrictions" and certain minimum distribution requirements relating to the Units.

Taxation of the Fund

The Fund will be subject to tax under Part I of the Tax Act on the amount of its income for the year, including the taxable portion of net realized capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Provided the Fund makes distributions in each year of its net income and net realized capital gains, as described under "Distributions and Reinvestments", and provided the Fund deducts in computing its income the full amount available for deduction in each year, the Fund will not generally be liable for income tax under Part I of the Tax Act.

With respect to an issuer that is a trust resident in Canada whose units are included in the Portfolio and held as capital property for the purposes of the Tax Act, and that is not subject in a taxation year to tax under the SIFT Rules, the Fund is required to include in its income such portion of the net income and the taxable portion of net realized capital gains of such issuer as is paid or becomes payable to the Fund in the year, notwithstanding that certain of such amounts may be reinvested in additional units of the issuer. Provided that appropriate designations are made by the issuer, any net taxable capital gains realized by the issuer, any foreign source income of the issuer and taxable dividends received by the issuer from taxable Canadian corporations that are paid or become payable to the Fund and are designated by the issuer in respect of the Fund will effectively retain their character as such in the hands of the Fund.

The Fund is generally required to reduce the adjusted cost base of the units of such issuer structured as a trust resident in Canada to the extent that all amounts paid or payable in a year by such issuer to the Fund exceed the sum of the amounts included in the income of the Fund for the year plus the Fund's share of the non-taxable portion of capital gains of such issuer for the year. To the extent that the adjusted cost base to the Fund of the unit of such issuer would otherwise be less than zero, the negative amount is deemed to be a capital gain realized by the Fund and the Fund's adjusted cost base of such unit is increased by the amount of such deemed capital gain to zero.

With respect to an issuer that is a limited partnership whose securities are included in the Portfolio and held as capital property for the purposes of the Tax Act, and that is not subject in a taxation year to the tax under the SIFT Rules, the Fund is required to include or, subject to certain restrictions, is entitled to deduct, in computing its income, its share of the net income or loss for tax purposes of the issuer allocated to the Fund for the fiscal period of the issuer ending in the Fund's taxation year, whether or not a distribution is received.

Generally, the adjusted cost base of such securities is the cost of such securities to the Fund plus the share of the income and capital gains of the issuer allocated to the Fund for fiscal years of the issuer ending before the particular time less the share of losses and capital losses of the issuer allocated to the Fund for fiscal years of the issuer ending before the particular time, and less the Fund's share of any distributions received from the issuer before the particular time. If the adjusted cost base to the Fund of the securities of such an issuer would otherwise be less than zero at the end of the fiscal year of the limited partnership, the negative amount is deemed to be a capital gain realized by the Fund and the Fund's adjusted cost base of such securities is increased by the amount of such deemed capital gain to zero.

Under the SIFT Rules, each issuer in the Portfolio that is a "SIFT trust" or "SIFT partnership" as defined under the SIFT Rules (which will generally include income trusts, other than certain real estate investment trusts, and certain partnerships, the units of which are listed or traded on a stock exchange or other public market) will be subject to a special tax in respect of (i) income from business carried on in Canada, and (ii) certain income and capital gains respecting "non-portfolio properties" (collectively, the "**Non-Portfolio Earnings**"). Non-Portfolio Earnings that are earned by a SIFT partnership or are distributed by a SIFT trust to its unitholders are taxed at a rate that is equivalent to the federal general corporate tax rate plus a prescribed amount on account of provincial corporate tax. Any Non-Portfolio Earnings that become payable by a SIFT trust or are earned by a SIFT partnership are taxed as a taxable dividend from a taxable Canadian corporation and are deemed to be an "eligible dividend" eligible for the enhanced gross-up and tax credit rules under the Income Tax Act.

The Fund will be required to include in its income for each taxation year, any dividends received (or deemed to be received) by it in such year on a Portfolio security and all interest that accrues (or deems to accrue) to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. Upon the actual or deemed disposition of indebtedness, the Fund will be required to include in computing its income for the year of disposition all interest that accrued on such indebtedness from the last interest payment date to the date of disposition except to the extent such interest was included in computing the Fund's income for that or another taxation year and such income inclusion will reduce the proceeds of disposition for purposes of computing any capital gain or loss.

The Portfolio may include securities that are not denominated in Canadian dollars. Proceeds of disposition of securities, distributions, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars at the exchange rate quoted by The Bank of Canada at noon on the relevant day or at such other rate of exchange as is acceptable by the Minister. The Fund may realize gains or losses by virtue of the fluctuation in

the value of foreign currencies relative to the Canadian dollar which the Fund will be required to take into account in computing its income.

The Fund will derive income or gains from investments in countries other than Canada and, as a result, may be liable to pay income or profits tax to such countries. To the extent of a) foreign income tax paid, which is not in excess of 15% of such foreign income, and b) foreign capital gains tax paid, neither of which has been deducted in computing the Fund's income, the Fund may designate a portion of its foreign source income in respect of a Unitholder so that such income and a portion of the foreign tax paid by the Fund may be regarded as foreign source income of, and foreign tax paid by, the Unitholder for the purposes of the foreign tax credit provisions of the Tax Act. To the extent that foreign income tax paid by the Fund exceeds 15% of the amount included in the Fund's income from such investments, such excess may generally be deducted by the Fund in computing its income for the purposes of the Tax Act.

In computing its income for tax purposes, the Fund may deduct reasonable administration and other expenses incurred to earn income, generally including interest on borrowed funds used to purchase securities to be included in the Portfolio. The Fund may deduct the costs and expenses of the initial offering paid by the Fund and not reimbursed at a rate of 20% per year, pro-rated where the Fund's taxation year is less than 365 days.

Upon the actual or deemed disposition of a security included in the Portfolio, the Fund will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such security provided such security is capital property to the Fund.

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemption of Units during the year ("**capital gains refund**"). In certain circumstances, the capital gains refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year which may arise upon the sale of securities in connection with redemptions of Units.

If the Conversion occurs by way of a tax-deferred merger involving the Fund and an open-end mutual fund, which qualifies as a "**qualifying exchange**" (as defined under the Tax Act), the taxation year of each of the merging funds (one of the funds being the "**continuing fund**" and the other fund being the "**terminating fund**") during which the merger occurs (the "**Merger Year**") will be deemed to end on the date of the merger. To the extent necessary, the Fund will distribute to the Unitholders a sufficient amount of its net income and net realized capital gains for the Merger Year to ensure the Fund will not be liable for non-refundable income tax on such amounts under the Tax Act. Any unused accumulated loss carryforwards of each merging fund will expire at the end of the Merger Year and will not be available to be deducted against taxable income or gains arising after the merger. Further, unamortized issue expenses incurred by the terminating fund will not be available to be deducted against income and gains in the future taxation years of the continuing fund.

Taxation of Unitholders

Holding and Disposition of Units

A Unitholder will generally be required to include in income for a particular taxation year of the Unitholder such portion of the net income, including the taxable portion of the net realized capital gains, of the Fund for a taxation year as is paid or becomes payable to the Unitholder in that particular taxation year, whether received in cash or reinvested in additional Units. Provided that appropriate designations are made by the Fund, such portion of (i) the net realized taxable capital gains of the Fund, (ii) the foreign source income of the Fund and foreign income taxes eligible for the foreign tax credit, and (iii) the taxable dividends received by the Fund on shares of taxable Canadian corporations, as is paid or payable to a Unitholder will effectively retain their character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. With respect to such foreign source income and foreign income taxes, so designated, Unitholders will generally be deemed to have paid as tax to the government of a foreign country the Unitholder's share of the taxes paid or considered to be paid by the Fund and accordingly may be able to reduce Canadian taxes otherwise payable. Certain investors, such as investors who are exempt from Canadian tax, may not be able to benefit from the foreign tax credit mechanism and so will indirectly bear their *pro rata* share of

foreign taxes paid by the Fund. To the extent that any amounts are designated as taxable dividends from taxable Canadian corporations, the applicable gross-up and dividend tax credit rules will apply.

The non-taxable portion of net realized capital gains of the Fund that are paid or become payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year and will not, provided the appropriate designations are made by the Fund, reduce the adjusted cost base of the Units. Any other amount in excess of a Unitholder's share of the net income of the Fund for a taxation year that is paid or becomes payable to the Unitholder in such year will not generally be included in computing the Unitholder's income for the year but will reduce the adjusted cost base of Units to the Unitholder. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

The NAV per Unit will reflect any income and gains of the Fund that have accrued or been realized but have not been made payable at the time Units are acquired. A Unitholder who acquires Units may become taxable on the Unitholder's share of such income and gains of the Fund.

Under the Tax Act, the Fund is permitted to deduct in computing its income for a taxation year an amount that is less than the amount of its distributions for the year. This will enable the Fund to utilize, in a taxation year, losses from prior years without affecting the ability of the Fund to distribute its income annually. The amount distributed to a Unitholder but not deducted by the Fund will not be included in the Unitholder's income. However, the adjusted cost base of the Unitholder's Units will be reduced by such amount. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain to zero.

On the disposition or deemed disposition of a Unit (whether on a sale, redemption or otherwise), the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. If, at any time, the Fund delivers securities from the Portfolio to any Unitholder upon a redemption of a Unitholder's Units on the termination of the Fund, the Unitholder's proceeds of disposition of the Units will generally be equal to the aggregate of the fair market value of the distributed property and the amount of any cash received, less any capital gain realized by the Fund on the disposition of such distributed property. The cost of any property distributed by the Fund in specie will generally be equal to the fair market value of such property at the time of the distribution. Such securities may or may not be qualified investments for plan trusts. If such securities are not qualified investments for plan trusts, such plan trusts (and, in the case of certain plan trusts, the annuitants or beneficiaries thereunder or holders thereof) may be subject to adverse tax consequences including, in the case of registered education savings plans, revocation of such plan trusts.

For the purpose of determining the adjusted cost base of Units to a Unitholder, when Units are acquired, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property immediately before that time. The cost of Units acquired as a distribution of income or capital gains from the Fund will generally be equal to the amount of the distribution. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units.

If the Conversion is implemented by way of a conversion to an open-end mutual fund, the Conversion will not result in a disposition of Units by the Unitholders. If the Conversion to an open-end mutual fund occurs by way of a merger on a tax-deferred basis, the disposition by a holder of units of the terminating fund in exchange for units of the continuing fund will not result in the realization of a capital gain or capital loss for such holder. Such holder will be deemed to acquire units of the continuing fund under the merger at a cost equal to the "cost amount" (as defined in the Tax Act) of his or her units of the terminating fund.

One-half of any capital gain (a "**taxable capital gain**") realized by a Unitholder or designated by the Fund in respect of the Unitholder in a taxation year must be included in computing the income of the Unitholder for that year and one-half of any capital loss (an "**allowable capital loss**") realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder or designated by the Fund in respect of the

Unitholder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, against taxable capital gains realized in such year, to the extent and under the circumstances provided for in the Tax Act.

Capital gains realized on the disposition of Units or amounts designated by the Fund to a Unitholder as taxable capital gains may give rise to a liability for alternative minimum tax.

Eligibility for Registered Plans

Provided that, at all relevant times, the Fund qualifies as a mutual fund trust within the meaning of the Tax Act or the Units are listed on the TSX (or another designated stock exchange within the meaning of the Tax Act, the Units will be qualified investments within the meaning of the Tax Act for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("**Registered Plans**").

Provided that the holder of a tax-free savings account or the annuitant under a registered retirement savings plan or registered retirement income fund does not hold a significant interest in the Fund or any person or partnership that does not deal at arm's length with the Fund for purposes of the Tax Act, and provided that such holder or annuitant deals at arm's length with the Fund for purposes of the Tax Act, the Units will not be prohibited investments for trusts governed by such tax-free savings account, registered retirement savings plan or registered retirement income fund. Generally, a holder or annuitant, as the case may be, will not have a significant interest in the Fund unless the holder or annuitant, as the case may be, owns interests as a beneficiary under the Fund that have a fair market value of 10% or more of the fair market value of the interests of all beneficiaries under the Fund, either alone or together with persons and partnerships with which the holder or annuitant, as the case may be, does not deal at arm's length. Investors are advised to consult their own tax advisors in this regard.

The Fund has not deviated in the year ended December 31, 2011 from the rules under the Tax Act that apply to the status of the Units as qualified investments within the meaning of the Tax Act for retirement savings plans, retirement income funds, education savings plans, deferred profit sharing plans or other plans registered under the Tax Act; registered investments within the meaning of the Tax Act or non-foreign property under the Tax Act.

REMUNERATION

Remuneration of the Trustee

For the year ended December 31, 2011, the Trustee has not received any remuneration in its capacity as such.

Remuneration of the Independent Review Committee

As of the date of this AIF, members of the IRC received in their capacity as members of the IRC, annual fees and meeting fees, of which approximately \$17,476 (including the secretarial fees for IRC meetings) is allocable to the Fund, along with nominal amounts as reimbursement for expenses in connection with performing their services and duties for the Fund. For the most recently completed financial year, the IRC members received the following amounts in fees and in reimbursement of expenses (including HST, as applicable), in aggregate, from the Fund: Jane Davis - \$3,845; Adam Conyers - \$2,796 and Don Hathaway - \$2,796. The remaining IRC fees allocated to the Fund were for secretarial services.

MATERIAL CONTRACTS

The Fund is a party to the following material contracts:

- (a) the Declaration of Trust referred to under "Name, Formation and History of the Fund";
- (b) the Management Agreement referred to under "Responsibility for Fund Operations – The Management Agreement";
- (c) the Investment Management Agreement described under “Responsibility for Fund Operations – Details of the Investment Management Agreement”; and
- (d) the Custodian Agreement referred to under "Responsibility for Fund Operations – The Custodian".

Copies of the foregoing documents may be examined during normal business hours at the principal offices of the Fund located at 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

The Manager is not aware of any contemplated or ongoing legal or administrative proceedings material to the Fund, to which the Fund, the Manager or the Trustee are a party.

Neither the Manager, nor a director or officer of the Fund, nor a partner, director or officer of the Manager has in the 10 years before the date of this AIF, been subject to any penalties or sanctions imposed by a court or securities regulator relating to trading in securities, promotion or management of a publicly-traded investment fund, or theft or fraud, or been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor in determining whether to purchase securities of the Fund or entered into a settlement agreement with a court, securities regulatory or other regulatory body, in relation to any of the matters referred to above.

OTHER MATERIAL INFORMATION

Termination of the Fund

The Fund does not have a fixed termination date. However, the Fund may be terminated at any time upon not less than 90 days' written notice by the Trustee provided that the prior approval of Unitholders has been obtained by a majority vote at a meeting of Unitholders called for that purpose (the "Termination Date"); provided, however, that the Trustee may in its discretion on 60 days' notice to Unitholders, terminate the Fund without the approval of the Unitholders if, in the opinion of the Trustee, the NAV of the Fund is reduced as a result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund. The Fund will also issue a press release ten days prior to the Termination Date setting forth the details of the termination including the fact that, upon termination, the net assets of the Fund will be distributed to Unitholders on a pro rata basis. Immediately prior to the termination of the Fund, including on the Termination Date, the Trustee will, to the extent possible, convert the assets of the Fund to cash and after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund to Unitholders as soon as practicable after the date of termination or any unliquidated assets may be distributed in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions.

Following such distribution, the Fund will be dissolved. The Manager may, in its discretion and upon not less than 30 days' prior written notice to Unitholders, extend the Termination Date by a maximum of 180 days if the Manager would be unable to convert all the assets of the Fund to cash and the Manager determines that it would be in the best interests of the Unitholders to do so.

Pursuant to the Declaration of Trust, the Fund may also be terminated in the event that the Manager resigns or is removed and a successor Manager is not appointed. If such failure to appoint a successor Manager should occur, the Fund shall be terminated upon the effective date of the resignation or removal of the Manager, the assets of the Fund shall be distributed in accordance with the Fund termination provisions and the Trustee shall continue to act as trustee of the Fund until all of the assets of the Fund have been so distributed.

In the event of termination of the Fund by the Manager without the approval of Unitholders, the TSX will require: (a) that the Fund provide notice to Unitholders of no less than 30 days and no more than 60 days of the Termination Date; (b) that the Fund issue a press release at least 10 business days in advance of the Termination Date; and (c) that notice includes the entitlement of Unitholders upon early termination.

Upon the termination of the Fund, the Declaration of Trust shall continue in force and effect to the extent necessary or desirable to permit the Trustee to wind up the affairs of the Fund and distribute the Fund property to Unitholders as soon as practically possible, and the following special provisions shall apply and prevail, namely: (a) the Trustee shall carry on no activities on behalf of the Fund except for the purpose of winding up the affairs of the Fund; (b) the Trustee shall proceed to wind up the affairs of the Fund and may fulfill or discharge the contracts of the Fund, perform or cause the auditor to perform any final audit of the Fund property, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining Fund property to one or more persons at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities, and do all other acts appropriate to liquidate the Fund's affairs; and (c) the Manager shall sell and convert into money the Fund property and after paying, retiring or providing for the payment of all known liabilities and obligations of the Fund, and providing for indemnity against any other outstanding liabilities and obligations, the Trustee shall divide the proceeds of sale, and any portion of the Fund property not sold in connection with such termination, among the Unitholders rateably according to the respective number of Units held by them. The Trustee and the Manager shall be under no obligation to invest the proceeds of any sale of Fund property after the Termination Date. In making any sale under this provision, the Manager shall have the power to sell by public auction or by private contract and to buy in or rescind or vary any contract of sale and to resell without being answerable for loss and, for said purposes, to do all things, including the execution and delivery of documents, as may be shown to be in its judgment necessary or desirable in connection therewith. The powers of sale and all other powers herein given to the Manager shall continue as to all property at any time remaining in its hands or ownership, even though the time fixed for distribution of Fund property may have passed. Any securities or other Fund property which the Manager was either unable to sell prior to the date determined for termination in accordance with the applicable provisions of the Declaration of Trust or which the Manager considered the sale of to be inappropriate prior to the dissolution of the Fund shall be distributed to Unitholders in kind rather than in cash subject to compliance with applicable law.

RISK FACTORS

An investment in Units is subject to certain risk factors, including but not limited to, the following:

Loss of Investment

An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of no distribution being paid in any period.

No Guaranteed Return

There is no guarantee that an investment in the Fund will earn any positive return in the short term or long term. The Indicative Distribution Amount from year to year may be significantly less than the initial targeted Indicative Distribution Amount. The Manager, on behalf of the Fund, may at any time re-evaluate the Indicative Distribution Amount.

No Assurances of Achieving Investment Objectives

There is no assurance that the Fund will be able to achieve its investment objectives. The funds available for distribution to Unitholders will vary according to, among other things, the levels of dividends or distributions paid on the securities in the Portfolio and the value of the securities in the Portfolio. There is no assurance that the Portfolio will earn any return. No assurance can be given as to the amount of distributions in future years. No assurance can be given that the NAV per Unit will appreciate. It is possible that, due to declines in the market value of the securities in the Portfolio, the Fund will have insufficient Portfolio assets to achieve its investment objectives.

Performance of the Portfolio

The NAV per Unit will vary as the fair value of the securities in the Portfolio varies. The Fund has no control over the factors that affect the fair value of the securities in the Portfolio, including factors that affect the equity markets generally, such as general economic and political conditions and fluctuations in interest rates, and factors unique to each issuer included in the Portfolio, such as changes in management, changes in strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures, changes in distribution policies and other events that may affect the value of its securities. Some global economies are experiencing significantly diminished growth and recessions. No assurance can be given that diminished availability of credit and significant equity devaluations will not adversely affect the markets into which the Fund will invest in.

It is anticipated that the changes to the taxation of income trusts beginning in 2011 will result in some income trusts converting into a corporation which may result in a decline in the amount of distributions of dividends paid by these issuers. The anticipated yield of the Portfolio may be negatively impacted and the Fund may not pay distributions at the initial Indicative Distribution Amount level if returns on the income-generating securities or other returns to the Fund are not sufficient to maintain the initial anticipated yield on the Portfolio.

Composition of Portfolio

The composition of the Portfolio taken as a whole may vary widely from time to time but will be concentrated by geography and may be concentrated by type of security, commodity or industry. Therefore, the Portfolio may be considered less diversified.

Equity Risk

Equities such as common shares or units of income trusts give the holder part ownership in the issuer. The value of an equity security changes with the fortunes of the issuer that issued it. 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.

Leverage

Following the Conversion, the Fund will not be able to use leverage to pursue its investment strategy, therefore the Fund may not pay a distribution at the same Indicative Distribution Amount unless the Portfolio yields a higher return to the Fund.

One element of the investment strategy is the utilization of borrowings to invest in securities. The risk to Unitholders may increase if securities purchased with borrowed funds decline in value. The use of leverage may result in capital losses or a decrease in distributions to Unitholders. If the value of the Portfolio decreases such that the amount borrowed under the Loan Facility exceeds 20% of the value of the total assets within the Portfolio (25% of NAV), the Fund may be required to sell investments in order to comply with the terms of such Loan Facility. Such sales may be required to be done at prices that may adversely affect the value of the Portfolio and the return to the Fund. The interest expense and banking fees incurred in respect of the Loan Facility may exceed the incremental capital gains/losses and income generated by the incremental investment of securities in the Portfolio. In addition, the Fund may not be able to renew the Loan Facility on acceptable terms. There can be no assurance that the borrowing strategy employed by the Fund will enhance returns.

Interest Rate Fluctuations

As the Fund is targeting a monthly distribution representing a yield on the Offering Price of the Units of 6.5% per annum, the trading price of the Units may be affected by the level of interest rates prevailing from time to time. In addition, any decrease in the NAV resulting from an increase in interest rates may also negatively affect the trading

price of the Units. Changes in interest rates may also adversely affect the business of the issuers in which the Fund invests or the trading price of the securities of such issuers.

Trading Price of the Units Relative to Net Asset Value

Units of certain closed-end funds in Canada have traded at a discount from their net asset values. This risk associated with Units of a closed-end fund is a risk separate and distinct from the risk that the Fund's NAV may decrease. The Fund cannot predict whether the Units will trade at a discount from, a premium to, or at the NAV per Unit.

Energy and Pipeline Investments

The energy and pipeline sector may be affected by adverse fluctuations in commodity prices, exchange rates, demand for commodities, general economic conditions and cycles, unanticipated depletion of reserves or resources, land claims, liability for environmental damage, competition, imposition of tariffs, duties or other tax and government regulation, as applicable. As a result of these certain general risks inherent to the energy and pipeline sector, no assurance can be given that the operation of issuers within the sector will not be adversely affected by these risks should they eventuate.

Industrial Investments

The industrial sector may be subject to a variety of risk factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, high leverage, costs associated with environmental and other regulations, the effects of economic slowdown, surplus capacity, increased competition from other providers of goods and services, uncertainties concerning energy costs (among other things), the effects of energy conservation policies and other factors.

Retail Investments

The retail industry is influenced by a number of external factors which affect customer demand, and over which retail issuers exercise no influence, including but not limited to, general economic growth, inflation, interest rates, personal debt levels, unemployment rates and levels of personal disposable income. Changes in inflation rate are unpredictable and may impact the cost of merchandise and the prices charged to consumers which in turn could negatively impact sales and net earnings. A significant and prolonged decline in consumer spending could have an adverse effect on the financial condition and results of a retail issuer's operations.

Telecommunications Investments

There are a number of risk factors associated with the investment by the Fund in the telecommunication sector. These include the introduction of alternative technologies, shortage in skilled workforce, increase in cost of workforce and operating costs, disruption in continued supply of electricity, network disruption in respect of the provision of telecommunication services, adverse changes in general economic, business and credit conditions and adverse changes in government regulations and permits. As a result of these certain general risks inherent to the telecommunication sector, no assurance can be given that the operation of issuers within the sector will not be adversely affected by these risks should they eventuate.

Real Estate Investments

Investments in real estate issuers are subject to the general risks associated with real property investments. Real property investments are affected by various factors including changes in general economic conditions (such as the availability of long term mortgage funds) and in local conditions (such as oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other available space and various other factors.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. A real estate issuer's income and funds available for distributions to its securityholders would be adversely

affected if a significant number of tenants were to become unable to meet their obligations to the real estate issuer or if the real estate issuer were unable to lease a significant amount of available space in its properties on economically favourable lease terms.

Utilities Investments

The value of investments in utility issuers (and the dividends they pay) can be significantly affected by changes in supply of, or demand for, various natural resources, changes in energy prices, international political and economic developments, energy conservation, the success of exploration projects, changes in commodity prices, and tax and other government regulations.

Foreign Currency Exposure

The Portfolio may at times consist of securities denominated in foreign currencies, and, therefore, the NAV, the trading price and the value of the dividends and other distributions received by the Fund will be affected by fluctuations in the value of the other foreign currencies relative to the Canadian dollar. The Fund will not be hedged and accordingly, no assurance can be given that the Fund will not be adversely impacted by changes in foreign exchange rates. As the distributions received on securities held in the Portfolio may include foreign currencies, the distributable cash, when measured in Canadian dollars, may be affected by changes in the value of these currencies relative to the Canadian dollar.

Foreign Market Exposure

The Fund's investments will, at any time, include securities of issuers established in jurisdictions outside Canada and the United States. Although most of such issuers will be subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to Canadian and U.S. companies, some issuers may not be subject to such standards and, as a result, there may be less publicly available information about such issuers than a Canadian or U.S. company. Volume and liquidity in some foreign markets may be less than in Canada and the United States and, at times, volatility of price may be greater than in Canada or the United States. As a result, the price of such securities may be affected by conditions in the market of the jurisdiction in which the issuer is located or its securities are traded. Investments in foreign markets carry the potential exposure to the risk of political upheaval, acts of terrorism and war, all of which could have an adverse impact on the value of such securities.

Recent Global Financial Market Developments

Global financial markets have experienced significant volatility in the last several years. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as governments are attempting to restore liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not materially and adversely affect economies around the world in the near to medium term. No assurance can be given that this stimulus will continue or if it is continued, that it will be successful or that these economies won't be adversely affected by the inflationary pressures resulting from such stimulus, or central banks' efforts to slow inflation. Some of these economies have experienced significantly diminished growth and others have experienced or are experiencing a recession. These market conditions and unexpected volatility or illiquidity in capital markets may also adversely affect the prospects of the Fund and the value of the such issuers in the Portfolio.

Reliance on Management

Unitholders will be dependent on the management of the Manager and Investment Manager. Investors who are not willing to rely on the management of the Manager and Investment Manager should not invest in the Units.

Nature of Units

The Units share certain attributes common to both equity securities and debt instruments. Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. The Units represent a fractional interest in the assets of the Fund. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation, including, for example, the right to bring “oppression” or “derivative” actions.

Redemptions

If holders of a substantial number of Units exercise their redemption right, the number of Units outstanding and the NAV of the Fund could be significantly reduced with the effect of increasing the management expense ratio of the Fund.

Potential Conflicts of Interest

The Manager and the Investment Manager, their respective directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of other accounts, funds or trusts which invest primarily in the securities held by the Fund. Although officers, directors and professional staff of the Manager and the Investment Manager will devote as much time to the Fund as is deemed appropriate to perform its duties, the staff of the Manager and the Investment Manager may have conflicts in allocating their time and services among the Fund and the other funds managed by the Manager and the Investment Manager.

Conversion

After Conversion, Unitholders will not have the right to approve changes to the investment strategy of the Fund.

There may be a time between the de-listing of the Units on the TSX and the Conversion Date where Unitholders may not be able to sell or redeem their Units.

Changes in Legislation

There can be no assurance that income tax, securities and other laws will not be changed in a manner which adversely affects the distributions received by the Fund or by the Unitholders.

Taxation of the Fund

On October 31, 2003 the Department of Finance released a tax proposal (the “**October 2003 Proposals**”) relating to the deductibility of losses under the Tax Act. Under the October 2003 Proposals, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If the October 2003 Proposals were to apply to the Fund, certain losses of the Fund may be limited with after-tax returns to Unitholders reduced as a result. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace the October 2003 Proposals would be released (the “**Alternative Proposal**”). To date, the Alternative Proposal has not been released and no assurance can be given that it will not adversely affect the Fund.

If certain tax proposals released on September 16, 2004 are enacted as proposed (the “**September 2004 Proposals**”), the Fund would cease to qualify as a mutual fund trust for purposes of the Tax Act if, at any time after 2004, the fair market value of all Units held by non-residents, or partnerships that are not Canadian partnerships, or any combination of the foregoing, is more than 50% of the fair market value of all issued and outstanding Units

unless not more than 10% (based on fair market value) of the Fund's property is at any time "taxable Canadian property" within the meaning of the Tax Act and certain other types of specified property. Restrictions on the ownership of Units are intended to limit the number of Units held by non-residents such that non-residents, partnerships that are not Canadian partnerships, or any combination of the foregoing, may not own Units representing more than 50% of the fair market value of all Units. The September 2004 Proposals were not included in Bill C-52, which received Royal Assent on June 22, 2007. Pursuant to an amendment to the Tax Act, the Fund would be deemed not to be a mutual fund trust after any time when it can reasonably be considered that the Fund was established or is maintained primarily for the benefit of non-resident persons unless at that time, all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the September 2004 Proposals.

If the Fund ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading "Income Tax Considerations" would be materially and adversely different in certain respects. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA (as defined hereinafter) respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders.

The CRA has expressed a view that, in certain circumstances, the deductibility of interest on money borrowed to invest in an income trust may be reduced on a pro rata basis in respect of distributions from the income trust that are a return of capital and which are not reinvested for an income earning purpose. Counsel are of the view that, while the ability to deduct interest depends on the facts, based on the jurisprudence and the anticipated nature of income trust distributions, the CRA's view should not affect the Fund's ability to deduct interest on money borrowed to acquire units of income trusts included in the Portfolio securities. If the CRA's view were to apply to the Fund, part of the interest payable by the Fund in connection with money borrowed to acquire certain Portfolio securities could be non-deductible, increasing the net income of the Fund for tax purposes and the taxable component of distributions to Unitholders.

In determining its income for tax purposes, the Fund will treat gains or losses on the disposition of securities in the Portfolio as capital gains and losses. In addition, gains or losses in respect of foreign currency hedges entered into in respect of amounts invested in the Portfolio will likely constitute capital gains or capital losses to the Fund if the securities in the Portfolio are capital property to the Fund and designations with respect to its income and capital gains will be made and reported to Unitholders on this basis. CRA's practice is not to grant advance income tax rulings on the characterization of items as capital gains or income and no advance income tax ruling has been requested or obtained. If these dispositions or transactions of the Fund are determined not to be on capital account, the net income of the Fund for tax purposes and the taxable component of distributions to Unitholders could increase.

The SIFT Rules will apply to a mutual fund trust that is a SIFT trust. The Fund should not be a SIFT trust for the purposes of these rules because, at any time that the Units are listed or traded on a stock exchange or other public market as defined in the Tax Act, the Fund should not hold "non-portfolio property" based on its investment objectives and investment restrictions. If the SIFT Rules were to apply to the Fund, they may have an adverse impact on the Fund including on the distributions received by Unitholders.

Certain issuers of securities included in the Portfolio may be or may become SIFT trusts or SIFT partnerships. In such event, the after-tax returns realized by Unitholders may be reduced to the extent that the Fund receives distributions of income or capital gains from such SIFT trusts or allocations of income or capital gains from such SIFT partnerships. In addition, as a result of the SIFT Rules, it is possible that SIFT trusts or SIFT partnerships may seek to restructure their affairs and organizational structures in a manner that could have an impact upon the returns to the Fund.

HARVEST SUSTAINABLE INCOME FUND

**Harvest Portfolios Group Inc.
Suite 209, 710 Dorval Drive
Oakville, Ontario, L6K 3V7**

Additional information about the Fund is available in the Fund's management report of fund performance and financial statements. You can get a copy of these documents at no cost by calling toll-free 1-866-998-8298, or from your dealer or by e-mail at info@harvestportfolios.com. These documents and other information about the Fund, such as information circulars and material contracts, are also available on the Manager's website at www.harvestportfolios.com or at www.sedar.com.