



HARVEST Sustainable Income Fund

**2010 Annual Management Report of Fund Performance
2010 Annual Financial Statements**

The Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, can be obtained at your request, and at no cost, by calling us at 866 998 8298; by writing to us at HARVEST Portfolios Group Inc., 710 Dorval Drive, Suite 200, Oakville, Ontario, L6K 3V7; by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.

HARVEST Sustainable Income Fund

CORPORATE OVERVIEW

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

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

INVESTMENT PRODUCT

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

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

PRESIDENT'S MESSAGE

Harvest Sustainable Income Fund
Unitholder letter, February 2011

Dear Valued Unitholder,

2010 completed Harvest's first full year as a Canadian Investment Manager and we are very proud of our achievements and performance over that time. We started the year on the heels of launching the Harvest Banks & Buildings Income Fund, followed by the Harvest Canadian Income & Growth Fund and finishing the year with the Harvest Sustainable Income Fund. Our total Assets Under Management pushed through \$100 million, which is a testament to quality, and well thought out Income generating funds that meet the needs of Canadian investors.

Our Funds are built of the investment principals of i) simple and understandable mandates ii) transparency and iii) income generation. In choosing Avenue Investment Management as the Investment Manager (IM) for these Funds, we felt we had uncovered an IM that was value based in their approach to finding securities and was in lock step with our principals of generating income from these investments without taking on undue risk.

As we move forward into 2011, not only does the economy in Canada continue to show signs of improvement, but developed economies around the world are getting in control of their Fiscal houses. We are excited about the prospects for the developed and developing economies and believe that opportunities to build Global income generating investments for Canadian investors in a similar conservative manner will present themselves as we go forward.

As we start the New Year, interest rates in Canada continue to hover around historical lows while the Canadian dollar hovers above parity with the US dollar. We believe that interest rates will remain low which will leave few fixed income alternatives for investors. We also believe that the Canadian dollar may move higher, but is trading near its historical high which creates more opportunities for Canadians looking for investments abroad.

Your Fund will continue to be managed in a conservative manner, with a focus on quality long term securities and the generation of consistent income.

Thank you for your continued confidence in our Funds.

HARVEST Portfolios Group Inc.



Michael Kovacs
President and Chief Executive Officer

HARVEST Sustainable Income Fund

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

December 31, 2010

The annual management report of fund performance contains financial highlights for the Fund. For your reference, the annual financial statements of the Fund are attached to the annual management report of fund performance. You may obtain additional copies of these documents at your request, and at no cost, by calling toll free at 866 998 8298; by writing to us at HARVEST Portfolios Group Inc., 710 Dorval Drive, Suite 200, Oakville, Ontario, L6K 3V7; by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.

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

INVESTMENT OBJECTIVES

The Fund's investment objectives are:

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

INVESTMENT STRATEGIES

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

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

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

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

RISK

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

RESULTS OF OPERATIONS

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

The Canadian economy continues to outpace the most optimistic expectations. We continue to believe that interest rates will remain low, that commodity price should remain high and this will lead to above average economic growth in Canada.

We believe that the fund will benefit from the continued strong economic growth in Canada. Investors who require steady income, will move out of low yielding fixed income assets and into equities that offer a higher yield and lower volatility.

CHANGES IN FINANCIAL POSITION

The Fund started operations on December 17, 2010 with issuance of 2.75 million units at \$12.00 per unit, for total proceeds of \$33 million. The Fund paid agents' commissions and issue costs of \$2.3 million. As at December 31, 2010, the Fund had an increase in assets due to operations of \$261 thousand.

For the period ended December 31, 2010, the Fund did not have any market purchases of Fund units.

RECENT DEVELOPEMENTS

There are no other recent developments to report.

RELATED PARTY TRANSACTIONS

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

MANAGEMENT AND SERVICE FEES

The Fund pays its manager, Harvest Portfolios group ("Harvest"), a management fee calculated daily and paid monthly in arrears, based on an annual rate of 1.25% of the net asset value of the Fund.

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

The Manager has retained Avenue Investment Management Inc. ("Avenue") to provide investment management services to the Fund and pays Avenue a fee for its portfolio advisory service, from the management fee received from the Fund, calculated on the basis of the Fund's net assets.

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

HARVEST Sustainable Income Fund

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

HARVEST Sustainable Income Fund

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

FINANCIAL HIGHLIGHTS

The following tables present selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period from inception to December 31, 2010.

THE FUND'S NET ASSETS PER UNIT ¹	2010	RATIOS AND SUPPLEMENTAL DATA	2010
Net assets - beginning of period ³	<u>\$ 11.17</u>	Total net asset value (000's)	\$ 30,999
Increase / (decrease) from operations		Number of units outstanding (000's)	2,750
Total revenue	0.07	Management expense ratio ⁵	11.79%
Total expenses	(0.02)	Management expense ratio before waivers or absorptions ⁵	11.79%
Realized gains (losses) for the period	0.01	Trading expense ratio ⁶	0.25%
Unrealized gains for the period	<u>0.03</u>	Portfolio turnover rate ⁷	19.27%
Total increase from operations²	<u>0.09</u>	Net asset value per unit ¹	\$ 11.27
Distributions⁴		Closing market price (HSI.UN)	\$ 11.80
From income (excluding dividends)	-		
From dividends	-		
From capital gains	-		
Return of capital	<u>-</u>		
Total annual distributions⁴	<u>-</u>		
Net assets - end of period²	<u>\$ 11.26</u>		

Explanatory Notes:

- This information is derived from the Fund's audited annual financial statements. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for weekly Net Asset Value purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for weekly Net Asset Value purposes. An explanation of these differences can be found in the Notes to Financial Statements.
- Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/(decrease) from operations is based on the weighted average number of units outstanding over the reporting period. It is not intended that the Fund's net assets per unit table act as a continuity of opening and closing net assets per unit.
- Net assets, beginning of period of \$11.17 is net of agents' fees and costs of issue of \$0.83 per unit.
- Distributions are payable in cash.
- Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) of the stated period and is expressed as an annualized percentage of daily average NAV during the period. The MER for 2010 (the year of inception) was 11.79% and included agents' fees of \$1.733 million and costs of issue of \$552 thousand, which were treated as one-time expenses and therefore were not annualized. The MER excluding agents' fees and costs of issue was 4.43% for 2010.
- The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average NAV during the period.
- The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

HARVEST Sustainable Income Fund

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

YEAR-BY-YEAR RETURNS

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

SUMMARY OF INVESTMENT PORTFOLIO

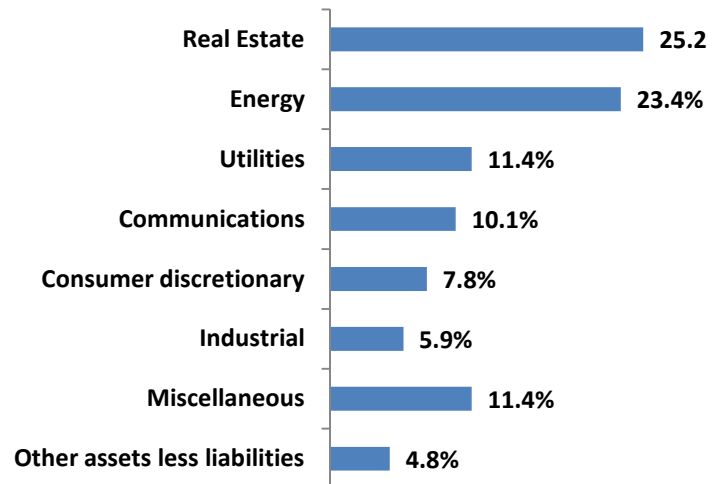
The Portfolio by category chart below provides a portfolio breakdown based on the total transactional net asset value of the Fund's portfolio holdings. A detailed breakdown of the Fund's holdings is available in the "Statement of Investments" section of the Fund's annual report.

AS AT DECEMBER 31, 2010

Top 25 holdings	% of Net Asset Value
Annaly Capital Management Inc.	6.9
Liquor Stores Income Fund	6.0
Canadian Oil Sands Trust	5.3
NAL Oil & Gas Trust	5.1
Bell Aliant Regional Communications Income Fund	4.9
Fort Chicago Energy Partners L.P. Cl. A	4.9
Enerplus Resources Fund	4.3
Rogers Sugar Income Fund	4.1
Whiterock Real Estate Investment Trust	4.1
LeisureWorld Senior Care Corp.	4.1
Peyto Energy Trust	4.0
Artis Real Estate Investment Trust	4.0
Capital Power Income LP	3.3
Just Energy Income Fund	3.1
BTB Real Estate Investment Trust	3.1
Timbercreek Mortgage Investment Corp.	3.0
Boralex Inc. 6.75% Jun 30/17	3.0
Telefonica SA ADR	2.9
Atlantic Power Corporation	2.0
Superior Plus Corporation	2.0
Brookfield Infrastructure Partners LP	2.0
Inter Pipeline Fund L.P., Cl. A	2.0
Northland Power Income Fund	2.0
Westshore Terminals Income Fund	1.9
BCE Inc.	1.2

SECTOR ALLOCATION

Total Net Assets (100%)



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

HARVEST Sustainable Income Fund

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by HARVEST Portfolios Group Inc. in its capacity as Manager of the Fund and approved by the Board of Directors of the Manager. The Fund's Manager is responsible for the information and representation contained in these financial statements.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments made by the Manager. The significant accounting policies, which the Manager believes are appropriate, are described in Note 2 to the financial statements.

PricewaterhouseCoopers LLP are the external auditors of the Fund. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out below.

On behalf of HARVEST Portfolios Group Inc.,



Michael Kovacs
President



Townsend Haines
Chief Financial Officer

Oakville, Canada
March 3, 2011

INDEPENDENT AUDITORS' REPORT

To the Unitholders of
HARVEST Sustainable Income Fund (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at December 31, 2010, the statement of financial position as at December 31, 2010 and the statements of operations and changes in financial position for the period from December 17, 2010 (commencement of operations) to December 31, 2010, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2010 and the results of its operations and the changes in its financial position for the period from December 17, 2010 (commencement of operations) to December 31, 2010 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 3, 2011

HARVEST Sustainable Income Fund

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2010

In thousands (\$000's), except per unit figures	
Assets	
Investments, at fair value (Cost - \$29,315)	\$ 29,499
Cash and cash equivalents	1,272
Dividends and interest receivable	205
	30,976
Liabilities	
Payable for investments purchased	-
Accounts payable and accrued expenses	-
Distributions payable	-
	-
Net assets representing unitholders' equity	\$ 30,976
Unitholders' equity (Note 3)	
Unitholders' capital	30,715
Contributed surplus	-
Retained earnings	261
Unitholders' equity	\$ 30,976
Number of units outstanding	2,750
Net assets per unit	\$ 11.26

STATEMENT OF OPERATIONS

FOR THE PERIOD FROM COMMENCEMENT OF OPERATIONS,
December 17, 2010 TO DECEMBER 31, 2010

In thousands (\$000's), except per unit figures	
Investment income	
Dividends	\$ 121
Interest	88
Less: Foreign withholding taxes	(23)
	186
Expenses (Note 4)	
Management fees	18
Service fees	5
Unitholder reporting costs	9
Audit fees	15
Legal fees	5
Transfer agency fees	1
Filing fees	1
Custodian fees and bank charges	2
	56
Net investment income (loss)	130
Realized gain /(loss) on sale of investments	32
Transaction costs	(78)
Net realized foreign exchange gain /(loss)	(6)
Unrealized appreciation/(depreciation) of foreign exchange	(1)
Unrealized appreciation/ (depreciation) of investments	184
Net gain /(loss) on investments	131
Increase/ (decrease) in net assets from operations	\$ 261
Increase/ (decrease) in net assets from operations per unit	\$ 0.09

The accompanying notes are an integral part of the financial statements

HARVEST Sustainable Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE PERIOD FROM COMMENCEMENT OF OPERATIONS
December 17, 2010 TO DECEMBER 31, 2010

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

Net assets, beginning of period	\$	-
Increase /(decrease) in net assets from operations		261
Unitholder transactions		
Proceeds from issue of units		33,000
Cost of units redeemed		-
Agents' fees		(1,733)
Costs of issue		(552)
Net unitholder transactions		30,715
Distributions to unitholders		
Net investment income		-
Capital gains		-
Return of capital		-
Total distributions to unitholders		-
Net assets , end of period	\$	30,976

The accompanying notes are an integral part of the financial statements

HARVEST Sustainable Income Fund

STATEMENT OF INVESTMENTS AS AT DECEMBER 31, 2010

Number of Shares	Security	Average Cost (\$'000's)	Fair Value (\$'000's)	% of Net Assets
EQUITY				
Consumer Discretionary Issuers (7.9%)				
13,000	Cineplex Galaxy Income Fund	285	291	1.0
122,000	Liquor Stores Income Fund	1,851	1,852	6.0
14,000	The North West Company Fund	304	289	0.9
		<u>2,440</u>	<u>2,432</u>	<u>7.9</u>
Consumer Staples Issuers (4.1%)				
240,000	Rogers Sugar Income Fund	1,270	1,279	4.1
		<u>1,270</u>	<u>1,279</u>	<u>4.1</u>
Energy Issuers (23.4%)				
15,000	AltGas Ltd.	321	325	1.0
62,000	Canadian Oil Sands Trust	1,550	1,639	5.3
128,000	Fort Chicago Energy Partners L.P. Cl. A	1,553	1,521	4.9
41,000	Inter Pipeline Fund L.P. Cl. A	621	611	2.0
122,000	NAL Oil & Gas Trust	1,562	1,579	5.1
14,000	Penn West Energy Trust	322	334	1.1
67,000	Peyto Energy Trust	1,249	1,239	4.0
		<u>7,178</u>	<u>7,248</u>	<u>23.4</u>
Industrials Issuers (5.9%)				
29,600	Brookfield Infrastructure Partners LP	621	619	2.0
56,400	Superior Plus Corporation	627	624	2.0
26,000	Westshore Terminals Income Fund	614	598	1.9
		<u>1,862</u>	<u>1,841</u>	<u>5.9</u>
Materials Issuers (4.3%)				
43,2000	Enerplus Resources Fund	1,253	1,324	4.3
		<u>1,253</u>	<u>1,324</u>	<u>4.3</u>
Real Estate Issuers (25.2%)				
120,500	Annaly Capital Management Inc.	2,192	2,144	6.9
93,700	Artis Real Estate Investment Trust	1,242	1,238	4.0
1,273,000	BTB Real estate Investment Trust	937	968	3.1
119,000	Leisure World Senior Care Corp.	1,225	1,272	4.1
88,400	Timbercreek Mortgage Investment Corp.	943	924	3.0
63,000	Whiterock Real Estate Investment Trust	1,252	1,269	4.1
		<u>7,791</u>	<u>7,815</u>	<u>25.2</u>
Telecommunications Issuers (10.1%)				
10,500	BCE Inc.	351	371	1.2
58,843	Bell Aliant Regional Communications Income Fund	1,538	1,529	4.9
10,800	Manitoba Telecom Services Inc.	308	308	1.0
13,400	Telefonica SA ADR	918	911	3.0
		<u>3,115</u>	<u>3,119</u>	<u>10.1</u>
Utility Issuers (11.4%)				
43,000	Atlantic Power Corporation	631	632	2.0
56,310	Capital Power Income LP	993	1,012	3.3
65,000	Just Energy Income Fund	933	972	3.1
8,600	Keyera Facilities Income Fund	304	302	1.0
39,000	Northland Power Income Fund	617	611	2.0
		<u>3,478</u>	<u>3,529</u>	<u>11.4</u>
FIXED INCOME (2.9%)				
900	Boralex Inc. 6.75% Jun 30/17	928	912	2.9
		<u>928</u>	<u>912</u>	<u>2.9</u>
Total investments (95.2%)		29,315	29,499	95.2
Liabilities less other assets (4.8%)			1,477	4.8
Net Assets (100.0%)			30,976	100.0

NOTES TO STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2010

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

Management of Financial Instrument Risk

Investment Objectives

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

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

The Fund's investment objectives are:

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

Other price risk

The value of securities in the Fund's portfolio may be affected by the stock market conditions rather than each company's performance. Developments in the market are affected by general economic and financial conditions. Political, social and environmental factors can also affect the value of any investment.

As at December 31, 2010, 92.3% of the Fund's portfolio investments were traded on public stock exchanges. If equity prices on these exchanges had increased or decreased by 5%, as at period end, with all other factors remaining constant, net assets would have increased or decreased by approximately \$1,429.

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

Currency risk

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

Currency	Currency exposure (\$'000's)*	As a % of net assets (%)
U.S. Dollars	3,728	11.9%

*In Canadian dollars

As at December 31, 2010, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, by approximately \$186 or 0.6% of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

The accompanying notes are an integral part of the financial statements

HARVEST Sustainable Income Fund

NOTES TO STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2010

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

Interest rate risk

A Fund that invests in fixed income securities, such as bonds and money market instruments, is sensitive to changes in interest rates. In general, when interest rates are falling, the value of these investments rise. Moreover, fixed income securities with longer terms to maturity are usually more sensitive to changes in interest rates. If interest rates were to change by 1.0%, the increase / (decrease) in interest earned by the Fund would change by \$9.

The table below summarizes the Fund's exposure to interest rate risks by either the remaining term to maturity or contractual repricing.

Debt Instruments	Fair value	% of Net Assets
Less than 1 year	-	-
1 to 3 years	-	-
3 to 5 years	-	-
Greater than 5 years	912	2.9
Total	912	2.9

Liquidity risk

Liquidity risk is defined as the risk that a fund may not be able to settle or meet its obligations on time or at a reasonable price.

The Fund primarily invests in securities that are actively traded in public markets and can be readily disposed of to raise liquidity. The Fund had no liabilities at December 31, 2010 that has an impact on liquidity risk.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund has exposure to credit risk in its trading of listed securities. The Fund minimizes the concentration of credit risk by trading with a large number of brokers and counterparties on recognized and reputable exchanges. The risk of default is considered minimal as all transactions are settled and paid for upon delivery using approved brokers.

The Fund's greatest concentration of credit risk is in its holdings of fixed income debt instruments. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. This risk is largely mitigated by the high quality standards used to select corporate investments. Ongoing credit assessments are performed on all the Fund's holdings and the exposure level is managed through careful diversification across industry sectors and individual issuers, which helps to minimize this risk. The maximum credit risk of these investments is their fair value at December 31, 2010.

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

Debt Securities by Credit Rating*	% of Total Debt Instruments	% of Net Assets
A+	-	-
A-	-	-
Not Rated	100	2.9
Total	100	2.9

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

The accompanying notes are an integral part of the financial statements

HARVEST Sustainable Income Fund

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 31, 2010

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

1. ORGANIZATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

Valuation of investments

The fair value of investments as at the financial reporting date is as follows:

a) Investments are categorized as held for trading in accordance with CICA Handbook Section 3855. Investments held that are traded on an active market are valued at their bid prices through recognized public stock exchanges or through recognized investment dealers on the valuation date. Investments held include equities, listed warrants, short-term notes, treasury bills, bonds and other debt instruments. Investments held with no available bid prices are valued at their closing sale price.

b) Investments held that are not traded on an active market are valued using valuation techniques, on such basis and in such a manner established by the Manager.

The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager in accordance with CICA Handbook Section 3855 methodologies. The fair values of certain securities are determined using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different

from the values that would be used had a ready market for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity. At December 31, 2010, there were no securities that required pricing using assumptions.

Cost of investments

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

Cash and cash equivalents

Cash is comprised of cash on deposit. Cash equivalents are comprised of highly liquid investments having terms to maturity of 90 days or less. Cash and cash equivalents are held for trading and carried at fair market value.

Other assets and liabilities

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

Transaction costs

Transaction costs, such as brokerage commissions, incurred on the purchase and sale of securities by the Fund are recognized in the Statement of Operations in the period in which they are incurred.

Investment transactions and income recognition

Investment transactions are accounted for on the trade date. Realized gains/(losses) from the sale of investments and unrealized appreciation/(depreciation) of investments are calculated on an average cost basis.

Investment income is recorded on an accrual basis. Interest income is recorded on an accrual basis and dividend income is recorded on the ex-dividend date.

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

Foreign currency translation

Purchases and sales of investments denominated in foreign currencies and foreign currency dividend and interest income are translated into Canadian dollars at the rate of exchange prevailing at the time of the transactions. Realized and unrealized foreign currency gains or (losses) on investments are included in the Statement of Operations in "Realized gain (loss) on sale of investments" and "Unrealized appreciation (depreciation) of investments", respectively. Realized and unrealized foreign currency gains or losses on assets, liabilities, and income, other than investments denominated in foreign currencies, are included in the Statement of Operations in "Net realized foreign exchange gain (loss)" and "Unrealized foreign exchange gain (loss)", respectively.

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

HARVEST Sustainable Income Fund

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 31, 2010

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

Securities valuation

The NAV on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV and NAV per Trust Unit ("NAV") will be calculated as of 4:00 p.m. (Toronto time) or such other time as the Manager or its agent deem appropriate (the valuation time) every business day (valuation date). A valuation date is each day on which the Toronto Stock Exchange is open for business.

Increase / (decrease) in net assets from operations per unit

"Increase / (decrease) in net assets from operations per unit" in the Statement of Operations represents the increase / (decrease) in net assets from operations, divided by the weighted average units outstanding for the financial period.

Fair value of financial instruments

The table below summarizes the fair value of the Fund's financial instruments using the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities.

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

Securities Classification: As at December 31, 2010

	Level 1	Level 2	Level 3	Totals
Investment In Securities (\$000's)				
Assets at Fair Value				
EQUITIES				
Common Stock	3,532	-	-	3,532
Common Stock Units	14,449	-	-	14,449
Limited Partnership Units	3,152	-	-	3,152
Mutual Fund	924	-	-	924
Depository Receipts	911	-	-	911
Real Estate Inv. Trust	5,619	-	-	5,619
TOTAL EQUITIES	<u>28,587</u>	-	-	<u>28,587</u>
FIXED INCOME				
Convertible Bonds	-	912	-	912
TOTAL FIXED INCOME	-	<u>912</u>	-	<u>912</u>
TOTAL INVESTMENTS IN SECURITIES	<u>28,587</u>	<u>912</u>	-	<u>29,499</u>

Transition to International Financial Reporting Standards

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

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

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

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

3. UNITHOLDERS' EQUITY

The authorized capital of the Fund consists of an unlimited number of transferable, Trust Units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. Except as provided in the Declaration of Trust, all Trust Units have equal rights and privileges. Each whole Trust Unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally in any and all distributions made by the Fund.

Monthly Redemption

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

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

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

HARVEST Sustainable Income Fund

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 31, 2010

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

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

At December 31, 2010	Units outstanding	Unitholders' capital	Contributed surplus
Initial Issuance, December 17, 2010	2,750	30,715	-
Total outstanding as at December 31, 2010	2,750	30,715	-

Issue costs

Certain offering expenses such as costs of creating the Fund, the cost of printing and preparing the prospectus, legal expenses of the Fund and other out-of pocket expenses incurred by the agents together with the agents' fees payable by the Fund are reflected as a reduction of Unitholders' Equity. The expenses paid are shown in the Statement of Changes in Financial Position.

Distributions

The Fund intends to make monthly cash distributions to Unitholders of record on the last Business Day of each month and pay such cash distributions on or before the 15th day of the following month. Beginning in December 2011, the Fund will annually determine and announce the Indicative Distribution Amount for the following year based upon the prevailing market conditions. The Indicative Distribution Amount will be \$0.065 per Unit per month (\$0.78 per annum) for the first 12 months of the Fund. The initial cash distribution is anticipated to be payable on or before February 15th, 2011 to Unitholders of record on January 31, 2011.

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 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.

4. EXPENSES

Management and service fees

HARVEST Portfolios Group Inc. is the Manager of the Fund and is responsible for managing or arranging for managing the Fund's overall business and operations. The Manager has retained Avenue Investment Management Inc. ("Avenue") to provide investment management services to the Fund and pays Avenue a fee for its portfolio advisory service, from the management fee received from the Fund, calculated on the basis of the Fund's net assets.

The Manager is entitled to a fee of 1.25 per cent of net assets payable monthly. The Fund pays service fees to registered dealers at the rate on 0.40 per cent of the daily net asset value of the Fund. Service fees are accrued daily and paid monthly to the manager, who in turn pays the dealers.

Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of extraordinary services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to Unitholders and other Unitholder communications; a reasonable allocation of salaries, benefits and consulting fees;

independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public filing and other obligations. These expenses were \$9 for the period ended December 31, 2010.

5. SOFT DOLLAR COMMISSIONS

Brokerage commissions paid to certain brokers may, in addition to paying for the cost of brokerage services in respect of security transactions, also provide for the cost of investment research services provided to the investment manager.

The value of such research services included in commissions paid to brokers for the period ended December 31, 2010 amounted to \$NIL.

6. INCOME TAXES

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada). The Fund is subject to tax on net income and net realized capital gains during the year which are not paid or payable to unitholders during the year. It is the intention of the Fund to distribute all of its net income and sufficient net realized capital gains so the Fund will not be subject to income taxes.

Capital losses may be carried forward indefinitely to reduce future realized capital gains. Non-capital losses may be applied against future taxable income.

As at the Fund's 2010 taxation year the Fund did not have any tax losses.

Harmonized sales tax

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

7. NET ASSET VALUE AND NET ASSETS

CICA Handbook Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for long positions held and the asking price for short positions held.

The NAV per unit for purposes of unitholder transactions (i.e. purchases, switches, redemptions) and net assets per unit calculated in accordance with CICA Handbook Section 3855 are shown below:

Per Unit (\$):	Net asset value (\$)	Net asset (\$)
As at December 31, 2010	11.27	11.26

8. SUBSEQUENT EVENTS

LOAN FACILITY

The Fund established a loan facility with a Canadian chartered bank. The amount of the loan is not to exceed 25 per cent of total net asset value. The Fund has the option of borrowing at the prime rate plus 2 per cent of interest. In addition, the Fund is required to pay a standby fee based on the amount of unused borrowings during the period, which is calculated daily, payable quarterly. The loan facility of \$7,500 was established on January 24, 2011, and was used to purchase a Bankers Acceptance ("BA"), maturing on July 25, 2011.

The Loan facility will be utilized for the purpose of making investments in accordance with its investment objectives and restrictions, and to pledge its assets to secure the borrowings.

HARVEST Sustainable Income Fund

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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