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HARVEST Banks & Buildings Income Fund

Interim Financial Statements (Unaudited)

June 30, 2012

The accompanying interim financial statements have not been reviewed by the external auditors of the Fund. The external auditors will be auditing the annual financial statements of the Fund as at December 31, 2012, in accordance with Canadian generally accepted auditing standards.

HARVEST Banks & Buildings Income Fund

STATEMENTS OF FINANCIAL POSITION (Unaudited)

As at	June 30, 2012	December 31, 2011
Assets		
Investments, at fair value (cost -\$19,805,165; 2011 : \$15,267,258)	\$ 22,466,810	\$ 17,112,084
Cash and cash equivalents	899,059	485,941
Dividends and interest receivable	124,090	131,453
Subscriptions receivable	37,643	-
	23,527,602	17,729,478
Liabilities		
Redemptions payable	29,484	4,220
Distributions payable	55,201	29,723
	\$84,685	33,943
Net assets representing unitholders' equity	\$23,442,917	\$ 17,695,535
Net assets representing unitholders' equity		
Series R	\$ 13,641,327	\$ 16,137,857
Series A*	9,315,722	1,403,211
Series F*	485,868	154,467
Number of units outstanding (Note 3)		
Series R	1,124,917	1,390,604
Series A*	770,230	120,977
Series F*	39,874	13,283
Net assets per unit (Note 8)		
Series R	\$ 12.13	\$ 11.60
Series A*	12.09	11.60
Series F*	12.18	11.63

*Series A & Series F commenced operations on October 22, 2011 and October 27, 2011, respectively.

The accompanying notes are an integral part of these financial statements.

HARVEST Banks & Buildings Income Fund

STATEMENTS OF OPERATIONS (Unaudited)

For the periods ended June 30,	2012	2011
Investment income		
Dividends	\$ 392,388	1,080,842
Interest	21,361	119,976
Less: foreign withholding taxes	(49,908)	(45,023)
	363,841	1,155,795
Expenses		
Management fees (Note 4)	131,344	239,420
Service fees (Note 4)	74,434	77,046
Unitholder reporting costs (Note 4)	26,181	68,767
Audit fees	5,086	15,000
Transfer agency fees	19,393	4,047
Custodian fees and bank charges	13,246	23,738
Independent review committee fees	1,746	9,073
Interest expense (Note 9)	-	97,896
Filing fees	2,487	37,451
Legal fees	8,612	2,264
	282,529	574,702
	\$ 81,312	\$ 581,093
Net investment income		
Realized and unrealized gain / (loss) on investments and foreign currencies		
Realized gain on sale of investments	566,172	\$ 558,981
Realized gain / (loss) on foreign exchange	(4,850)	36,316
Transaction costs	(21,750)	(58,320)
Unrealized appreciation of foreign exchange	304	15,228
Unrealized appreciation of investments	816,819	557,721
Net gain on investments	\$1,356,695	\$1,109,926
Increase in net assets from operations	\$1,438,007	\$1,691,019
Increase in net assets from operations - Series R	\$1,268,838	\$ 1,691,019
Increase in net assets from operations - Series A*	150,884	N/A
Increase in net assets from operations - Series F*	18,285	N/A
Increase /(decrease) in net assets from operations per unit - Series R	\$1.02	\$ 0.58
Increase in net assets from operations per unit - Series A*	0.32	N/A
Increase in net assets from operations per unit - Series F*	0.64	N/A

*Series A & Series F commenced operations on October 22, 2011 and October 27, 2011, respectively.

The accompanying notes are an integral part of these financial statements

HARVEST Banks & Buildings Income Fund

STATEMENTS OF CHANGES IN FINANCIAL POSITION – ALL SERIES (Unaudited)

For the periods ended June 30,	2012	2011
Net assets, beginning of the period	\$ 17,695,535	\$ 28,838,327
Increase / (decrease) in net assets from operations	1,438,007	1,691,019
Unitholders' transactions		
Proceeds from issue of units	11,335,771	24,720,948
Reinvestments of distributions	477,502	-
Cost of units cancelled	-	(238,653)
Cost of units redeemed	(6,754,570)	-
Agents' fees	-	(618,024)
Net unitholders' transactions	\$ 5,058,703	\$ 23,864,271
Distributions to unitholders		
Net investment income	(749,328)	(1,439,576)
Total distributions to unitholders	\$ (749,328)	\$ (1,439,576)
Net assets, end of the period	\$ 23,442,917	\$ 52,954,041

The accompanying notes are an integral part of these financial statements.

HARVEST Banks & Buildings Income Fund

STATEMENTS OF CHANGES IN FINANCIAL POSITION – SERIES R (Unaudited)

For the periods ended June 30,	2012	2011
Net assets, beginning of the period	\$ 16,137,857	\$ 28,838,327
Increase / (decrease) in net assets from operations	1,268,838	1,691,019
Unitholders' transactions		
Proceeds from issue of units	2,271,678	24,720,948
Reinvestments of distributions	357,793	-
Cost of units cancelled	-	(238,653)
Cost of units redeemed	(5,878,514)	-
Agents' fees	-	(618,024)
Net unitholders' transactions	(3,249,043)	23,864,271
Distributions to unitholders		
Net investment income	(516,325)	(1,439,576)
Total distributions to unitholders	\$ (516,325)	\$ (1,439,576)
Net assets, end of the period	\$ 13,641,327	\$ 52,954,041

The accompanying notes are an integral part of these financial statements.

HARVEST Banks & Buildings Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION - SERIES A* (Unaudited)

For the period ended June 30	2012
Net assets, beginning of the period	\$ 1,403,211
Increase/ (decrease) in net assets from operations	150,884
Unitholders' transactions	
Proceeds from issue of units	8,580,871
Reinvestments of distributions	111,192
Cost of units redeemed	(710,042)
Net unitholders' transactions	\$ 7,982,021
Distributions to unitholders	
Net investment income	(220,394)
Total distributions to unitholders	\$ (220,394)
Net assets, end of the period	\$ 9,315,722

*Series A commenced operations on October 22, 2011.

The accompanying notes are an integral part of these financial statements.

HARVEST Banks & Buildings Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION - SERIES F* (Unaudited)

For the period ended June 30,	2012
Net assets, beginning of the period	\$154,467
Increase/ (decrease) in net assets from operations	18,285
Unitholders' transactions	
Proceeds from issue of units	483,222
Reinvestments of distributions	8,517
Cost of units redeemed	(166,014)
Net unitholders' transactions	\$325,725
Distributions to unitholders	
Net investment income	(12,609)
Total distributions to unitholders	(12,609)
Net assets, end of the period	\$485,868

*Series F commenced operations on October 27, 2011.

The accompanying notes are an integral part of these financial statements.

HARVEST Banks & Buildings Income Fund

STATEMENT OF INVESTMENTS (Unaudited)

As at June 30, 2012

Number of Shares	Security	Average Cost (\$)	Fair Value (\$)	% of Net Assets
EQUITIES				
Real Estate Issuers				
24,500	American Capital Agency Corporation	702,699	839,211	3.6
48,600	Annaly Capital Management Inc.	816,927	830,874	3.5
92,500	Artis Real Estate Investment Trust	915,010	1,514,225	6.4
158,824	BTB Real Estate Investment Trust	499,152	724,237	3.1
50,000	Cominar Real Estate Investment Trust	918,488	1,196,000	5.1
70,000	Crombie Real Estate Investment Trust	798,503	1,023,400	4.4
125,900	Killam Properties Inc.	1,127,102	1,637,959	7.0
83,752	Leisureworld Senior Care Corp.	862,223	977,386	4.2
36,000	Mainstreet Equity Corporation	821,831	983,160	4.2
229,300	Pure Industrial Real Estate Trust	794,648	1,036,436	4.4
71,490	Timbercreek Mortgage Investment Corp	758,647	723,479	3.1
		9,015,230	11,486,367	49.0
Banking and Other Financial Issuers				
125,000	Bank of America Corporation	1,020,381	1,041,113	4.4
13,000	Bank of Montreal	734,897	730,600	3.1
20,000	Great-West Lifeco Inc.	500,729	441,400	1.9
20,300	JPMorgan Chase & Co.	733,064	739,426	3.1
157,500	Pacific & Western Credit Corp., Warrants (Exp. 11/26/12)	-	788	-
37,000	Power Corporation of Canada	979,790	883,190	3.8
16,000	Royal Bank of Canada	842,750	834,560	3.6
36,000	Sun Life Financial Inc.	912,750	796,320	3.4
15,000	The Bank of Nova Scotia	781,188	790,050	3.4
14,500	The Toronto-Dominion Bank	1,075,477	1,155,360	4.9
31,000	Wells Fargo & Co.	852,358	1,056,487	4.5
		8,433,384	8,469,294	36.1
Other Public Issuers				
30,000	Inter Pipeline Fund LP, Class A	435,081	576,000	2.5
53,000	Veresen Inc.	696,717	639,710	2.7
		1,131,798	1,215,710	5.2
Health Care Issuers				
60,000	Amica Mature Lifestyles Inc.	540,000	543,000	2.3
		540,000	543,000	2.3
FIXED INCOME				
Par Value				
393,408	Boralex Inc. 6.75% Jun 30/17	396,162	413,079	1.8
336,000	BTB Real Estate Investment Trust 8.50% Mar 31/13	288,591	339,360	1.4
		684,753	752,439	3.2
Total investments		19,805,165	22,466,810	95.8
Other assets less liabilities			976,107	4.2
Net Assets			23,442,917	100.0

The accompanying notes are an integral part of these financial statements.



HARVEST Banks & Buildings Income Fund

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

1. ORGANIZATION

Harvest Banks & Buildings Income Fund (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated September 25, 2009, as amended and restated on October 2, 2009, being the inception date. There was no significant activity in the Fund from the date of inception, October 2, 2009 to commencement of operations on October 23, 2009. On October 23, 2009, the Fund completed an initial public offering of 2 million units at \$12.00 per unit for gross proceeds of \$24,000,000. Each unit consisted of one trust unit and one warrant. On November 10, 2009, an over-allotment option was exercised for an additional 155,000 units at a price of \$12.00 per unit for gross proceeds of \$1.866 million. On April 15, 2011 warrants were exercised for the net proceeds of \$24.72 million. These proceeds resulted in an additional 2.06 million units purchased into the Fund.

The Fund became an open-end mutual fund on October 18, 2011 (the “Conversion Date”). On the Conversion Date, the Units became redeemable at net asset value per unit on a daily basis, and the Fund became subject to National Instrument 81-102.

The Fund offers Series R, Series A and Series F units, only through registered dealers. Series R is the Series in which all existing unitholders at October 18, 2011 were rolled into on the Conversion Date, on a unit-for-unit basis. New purchases in Series R are available to existing unitholders only, in an initial sales charge option. Series A, which commenced operations on October 22, 2011, are available to all investors in an initial sales charge option and have a higher advisory fee than Series R. Series F units, which commenced operations on October 27, 2011, have no initial sales charge option and no advisory fees and are usually only available to investors who have fee-based accounts with the dealers.

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 Financial Instruments – Recognition and Measurement. 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.
- b) Investments held with no available bid prices are valued at their closing sale price. 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 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

HARVEST Banks & Buildings Income Fund

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would be used had a ready market for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity. At June 30, 2012 and December 31, 2011, there were no securities that required pricing using assumptions.

National Instrument 81-106 – “Investment Fund Continuous Disclosure” (“NI 81-106”) requires all investment funds to calculate net asset value for all purposes other than for financial statements in accordance with part 14.2, which differs in some respects from the requirements of Section 3855 of Canadian GAAP. Canadian GAAP includes the requirement that the fair value of financial instruments listed on a recognized public stock exchange be valued at their last bid price for securities held in a long position and at their last ask price for securities held in a short position, instead of their close price or the last sale price of the security for the day as required by NI 81-106. This results in differences between net asset value (“NAV”) calculated based on NI 81-106 and on net assets calculated based on Canadian GAAP (“Net assets”). Reconciliation between NAV per unit and Net assets per unit at the period end is provided in Note 8.

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.

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 net assets are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to brokers, loan payable, accrued expenses and other liabilities are designated as other financial liabilities and reported at cost or amortized cost, which approximates fair value for these assets and liabilities.

Transaction costs

Transaction costs, such as brokerage commissions, incurred on the purchase and sale of securities by the Fund are expensed in accordance with Section 3855 and 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. The cost of investments which represents the amount paid for each security is determined on an average cost basis excluding transaction costs. Realized gains and (losses) from the sale of investments and unrealized appreciation/(depreciation) of investments are calculated on an average cost basis.

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

Distributions received from income 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.

HARVEST Banks & Buildings Income Fund

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

Allocation of income and expense, and realized and unrealized capital gains and losses:

Management fees directly attributable to a series are charged to that series. The Fund's shared operating expenses, income, and realized and unrealized capital gains and losses are generally allocated proportionately to each series based upon the relative Net Asset Value of each series.

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 Statements 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 Statements of Operations in "Net realized and unrealized foreign exchange gain (loss)".

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

Securities valuation

The Net Asset Value per unit of each series of units of each Fund is computed by dividing the Net Asset Value of the series by the number of units of that series outstanding at the time. The Net Asset Value per unit of each series is determined at the close of business each day the Toronto Stock Exchange is open for business.

The Net Asset Value of each series of a Fund is computed by calculating the value of that series' proportionate share of the Fund's common assets less common liabilities and less those series-specific liabilities. Expenses directly attributable to a series are charged to that class. Other income and expenses are allocated to each series proportionately based on the relative Net Asset Value of each series.

Increase (decrease) in net assets from operations per unit

"Increase (decrease) in net assets from operations per unit" in the Statements of Operations represents the increase (decrease) in net assets from operations for the period, attributed to each series, divided by the weighted average units outstanding for that series for the period.

Fair value of financial instruments

There was no significant change in the composition of the Fund's financial instruments levels as at June 30, 2012 compared to the classification as at December 31, 2011. Please refer to the December 31, 2011 audited annual financial statements disclosure of the Fund's financial assets and liabilities into the fair value levels classification

There were no Level 3 securities held by the Fund as at June 30, 2012 and December 31, 2011, and there were no transfers between Level 1 and Level 2 for the periods ended June 30, 2012 and December 31, 2011.

Transition to International Financial Reporting Standards ("IFRS")

As previously confirmed by the Canadian Accounting Standards Board ("AcSB"), most Canadian publicly accountable entities adopted all IFRS, as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB had initially allowed most investment funds to defer adoption of IFRS until fiscal years beginning on or after January 1, 2013. At its December 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises to 2014. The AcSB expects to issue the amendment in March 2012. Accordingly, the Fund will adopt IFRS for the fiscal period beginning January 1, 2014 and will issue its initial financial statements in accordance with IFRS, including comparative financial information, for the interim period ending June 30, 2014. Management has been monitoring developments in the IFRS conversion program and has been assessing the likely impacts on implementation decisions, internal controls, information systems and training.

HARVEST Banks & Buildings Income Fund

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

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In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It only applies when other IFRSs require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in elimination of the differences between the net assets per series unit and NAV per series unit at the financial statements reporting dates.

Based on management's current assessment of the differences between Canadian GAAP and IFRS, other than the impact due to IFRS 13 noted above, it is not expected that there would be any other impact on the Fund's NAV per series unit or net assets per series unit. Management has presently determined that the impact of IFRS to the financial statements would be otherwise limited to additional note disclosures and potential modifications to presentation including unitholders' equity. 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 Fund is authorized to issue an unlimited number of transferable units and series.

Units of the Fund are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit of a particular series. The NAV per unit of a series for the purposes of subscriptions or redemption is computed by dividing the NAV of the Fund attributable to the series (that is, the total fair value of the assets attributable to the series less the liabilities attributable to the series) by the total number of units of the series of the Fund outstanding at such time.

This amount may be different from the Net Asset per unit of a series calculation, which is presented on the Interim Statement of Net Assets. Generally, any differences are due to valuing actively traded securities at bid prices for GAAP purposes while NAV typically utilizes closing price to determine fair value for the purchase and redemption of units. See Note 8 for the details of the comparison between NAV per unit and Net Assets per unit for each series.

Expenses directly attributable to a series are charged to that series. Other expenses, income, realized and unrealized gains and losses from investment transactions are allocated proportionately to each series based upon the relative NAV of each series.

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

	Units outstanding		
	Series R	Series A	Series F
Total outstanding as at December 31, 2010	2,114,483	-	-
Subscriptions	2,060,579	-	-
Subscription (reinvestment of distributions)	22,794	-	-
Redemptions	(2,647,108)	-	-
Units cancelled	(18,700)	-	-
Transfers between Series	(141,444)		
Total outstanding as at December 31, 2011	1,390,604	120,977	13,283
Subscriptions	5,808	668,361	33,922
Subscription (reinvestment of distributions)	29,263	9,115	694
Redemptions	(280,740)	(47,375)	(8,918)
Transfers between Series	(20,018)	19,152	893
Total outstanding as at June 30, 2012	1,124,917	770,230	39,874

HARVEST Banks & Buildings Income Fund

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

Distributions

Monthly distributions to unitholders are declared and paid to unitholders of record on the Valuation Date prior to the month-end, and automatically reinvested into additional units of the Fund at the month-end, unless unitholders specifically requested a cash distribution be paid. The total distributions were \$0.42 per unit (\$0.07 per unit per month) for the period ended June 30, 2012 (June 30, 2011 - \$0.45).

Distributions paid for the periods,	2012	2011
Series R	\$ 516,325	\$ 1,439,576
Series A	\$ 220,394	\$ -
Series F	\$ 12,609	\$ -

4. EXPENSES

Management fees and servicing 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" or the "Investment Manager") 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.

Each series of units pays the Manager an annual management fee based on a percentage of the average daily NAV of the assets of the Fund attributable to that applicable series (the "Management Fee").

Dealers may be paid a servicing fee by the Manager from the Management Fee, in connection with Series A units and Series R units for ongoing services they provide to investors, including investment advice, account statements and newsletters. Generally, the servicing fees, plus applicable taxes, are payable quarterly in arrears based on the total client assets invested in each series of units of the Fund held by all of a Dealer's clients throughout the quarter. The Manager can change or cancel servicing fees at any time.

The fees differ among the series of units of the Fund as set out in the chart below:

Fund Series	Annual Management fee	Dealer Service Fee	Total Fees
A	1.10%	1.25%	2.35%
F	1.10%	0.00%	1.10%
R	1.10%	0.40%	1.50%

Other expenses

The Fund is responsible for all expenses relating to the operation and the carrying on of its business, including legal fees and audit fees, interest, taxes and administrative costs relating to the redemption of securities as well as the cost of financial and other reports, costs and expenses for the Fund's Independent Review Committee ("IRC"), including fees and expenses of the IRC members and compliance with applicable laws, regulations and policies.

Each series of Units is responsible for the operating expenses that relate specifically to that series and for its proportionate share of the operating expenses that are common to all series of the Fund. Expenses that are specific to a series include items such as filing fees, and unitholder servicing costs. The Manager may, in some cases, absorb a portion of the Fund's operating expenses. The Manager may cease doing so at any time without notice to unitholders.

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June 30, 2012

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; costs and expenses for the Fund's Independent Review Committee ("IRC"), including fees and expenses of the IRC members; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses were \$76,750 for the period ended June 30, 2012 (2011 - \$69,000) and are included in the unitholder reporting costs on the Statement of Operations.

5. FINANCIAL RISK MANAGEMENT

Investment Objectives

The Fund's investment objectives are:

- i. to provide unitholders with monthly distributions; and
- ii. to maximize total return for unitholders.

In order to meet the investment objectives, the Fund will be invested in an actively managed portfolio that will consist primarily of Banking Issuers, Other Financial Issuers and Real Estate Issuers.

Investment Strategy

To achieve the investment objective, the portfolio sub-advisor of the Fund, Avenue Investment Management Inc. ("Avenue" or "Investment manager"), will invest in an actively managed portfolio that will consist primarily of Banking Issuers, Other Financial Issuers and Real Estate Issuers. Avenue believes that in this environment, dividend paying issuers in the financial and real estate sector, although negatively impacted by the current credit crisis, have in general, not decreased their dividends or distributions. The issuers in the Canadian banking, other financial and real estate industries have capital ratios and leverage ratios that are conservative in nature and therefore generally justify consistent dividend payout policies.

Avenue will use a combination of top-down, macro analysis to evaluate and identify the most attractive companies and types of securities in the sectors mentioned above. Avenue will also employ a value-based, bottom-up fundamental analysis to identify issuers based on the quality of their assets and the strength of their balance sheets and cash flows. Generally, each company or investment held in the portfolio will have consistent dividend payout history and offers a yield component that will help aid the objectives of the Fund. Avenue will seek to acquire securities that it believes have strong free cash flow metrics and will not defer future dividend or interest payments and will focus on issuers that it believes offer high levels of income and potential for capital appreciation, and that it believes provide the most attractive total return, relative to risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The value of securities in the Fund's portfolio may be affected by the stock market conditions rather than each company's performance. Developments in the market are affected by general economic and financial conditions. Political, social and environmental factors can also affect the value of any investment.

As at June 30, 2012, 96.7% (2011 - 92.5%) of the Fund's net assets 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 \$1,085,718 (2011 - \$818,347).

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

HARVEST Banks & Buildings Income Fund

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

Currency risk

Currency risk is the risk that the value of investments denominated in currencies other than the financial currency of the Fund will fluctuate as a result of changes in foreign exchange rates. When a Fund buys an investment priced in a foreign currency and the exchange rate between the Canadian dollar and the foreign currency changes unfavorably, it could reduce the value of the Fund's investment.

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

As at	June 30, 2012		December 31 2011	
Currency	Currency exposure *	As a % of net assets	Currency exposure *	As a % of net assets
U.S. Dollars	\$4,548,041	19.4%	\$1,428,253	8.1%

*Amounts are in Canadian dollars

As at June 30, 2012, 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 \$227,402 (2011 - \$71,413) or 1.0% (2011 - 0.4%) of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair value of financial instruments. 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 rises. 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 \$ 7,524 (2011 - \$7,451). A Fund that has an interest-bearing liability is exposed to risks associated with the effects of fluctuations in interest rates on its cash flows. As at June 30, 2012 and December 31, 2011, the Fund had no interest bearing liabilities.

The table below summarizes the Fund's exposure to interest rate risks by either the remaining term to maturity or contractual repricing for periods ended June 30, 2012 and December 31, 2011.

Debt Instruments: June 30, 2012	Fair value (\$)	% of Net Assets
Less than 1 year	339,360	1.4
1 to 3 years		
3 to 5 years	413,079	1.8
Greater than 5 years	-	-
Total	752,439	3.2

Debt Instruments: December 31, 2011	Fair value (\$)	% of Net Assets
Less than 1 year	-	-
1 to 3 years	336,000	1.9
3 to 5 years	-	-
Greater than 5 years	409,144	2.3
Total	745,144	4.2

HARVEST Banks & Buildings Income Fund

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Liquidity risk

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

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

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

As at June 30, 2012	Less than 1 month	1-3 months	No stated maturity
Redemptions payable	\$ 29,484	-	-
Distributions payable	\$ 55,201	-	-
Total financial liabilities	\$ 84,685	-	-

As of December 31, 2011	Less than 1 month	1-3 months	No stated maturity
Redemptions payable	\$ 4,220	-	-
Distributions payable	\$ 29,723	-	-
Total financial liabilities	\$ 33,943	-	-

Credit risk

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

The Fund's greatest concentration of credit risk is in its holdings of fixed income debt instruments. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. This risk is largely mitigated by the high quality standards used to select corporate investments. Ongoing credit assessments are performed on all the Fund's holdings and the exposure level is managed through careful diversification across industry sectors and individual issuers, which helps to minimize this risk. The maximum credit risk of these investments is their fair value at June 30, 2012 and December 31, 2011 .

At June 30, 2012 and December 31, 2011, the Fund was invested in debt securities with the following credit ratings:

June 30, 2012 Debt Securities by Credit Rating*	% of Total Debt Instruments	% of Net Assets
A+	-	-
A-	-	-
Not Rated	100.0	3.2
Total	100.0	3.2

HARVEST Banks & Buildings Income Fund

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December 31, 2011 Debt Securities by Credit Rating*	% of Total Debt Instruments	% of Net Assets
A+	-	-
A-	-	-
Not Rated	100.0	4.2
Total	100.0	4.2

*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

6. 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 periods ended June 30, 2012 and June 30, 2011 amounted to \$NIL.

7. 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 their income including net realized capital gains which are not paid or payable to unitholders. 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.

The amount of net realized taxable capital gains available for distribution is reduced by the amount of net capital gains to be retained in the Fund. This is done in order to enable the Fund to fully utilize any available tax credits due to application of the capital gain refund formula attributable to redemptions during the year. In certain circumstances, the fund may distribute a return of capital. A return of capital is taxable but will generally reduce the adjusted cost of the units.

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 2011 taxation year, the Fund did not have any tax losses.

Harmonized sales tax

Effective July 1, 2010, certain provinces have harmonized their provincial sales tax ("PST") with the federal goods and services tax ("GST"). As the manager is a resident of Ontario, the expenses paid by the Fund include HST of 13%. HST is calculated using the residency of unitholders in the Fund as at specific times, rather than the physical location of the manager. A blended rate refund is filed with Revenue Canada on behalf of the Fund, in arrears, using each province's HST rate or GST rate in the case of non-participating provinces. Any refund received is applied against future HST payable.

HARVEST Banks & Buildings Income Fund

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8. NET ASSET VALUE AND NET ASSETS

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

Per Unit (\$):	NAV (\$)	Net asset (\$)
As at June 30, 2012		
Series R	\$12.15	\$12.13
Series A	\$12.12	\$12.09
Series F	\$12.21	\$12.18

Per Unit (\$):	NAV (\$)	Net asset (\$)
As at December 31, 2011		
Series R	\$11.62	\$11.60
Series A	\$11.61	\$11.60
Series F	\$11.64	\$11.63

9. LOAN FACILITY

The Fund previously established a loan facility with a Canadian chartered bank. The loan function was to borrow for the purpose of making investments in accordance with the Fund's investment objectives and restrictions, and to pledge its assets to secure the borrowings. The loan facility was repaid in full and the facility cancelled on August 15, 2011, prior to the Conversion Date. For the period ended June 30, 2011, the Fund recorded interest expense of \$97,896.