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Australian REIT Income Fund

Interim Management Report of Fund Performance

June 30, 2013

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, 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.

Australian REIT Income Fund

CORPORATE OVERVIEW

Harvest Portfolios Group Inc. (“Harvest”) is a Canadian Investment Manager focused on unique income generating investment products. Harvest was founded by long term members of the investment management industry and is focused on developing investment products that follow the investment philosophy of:

1. Clear investment objectives
2. Transparency
3. Income generation

Harvest’s mandate is to develop investment products that are clear in their mandate and easy for our investors to understand. We strive to be transparent, so that our investors can open their financial reports and know exactly what they own. Our funds are also invested to provide investors with consistent monthly or quarterly income; therefore, we seek to invest our fund portfolios in well managed companies that have a history of steady cash flow and pay dividends or distributions.

INVESTMENT PRODUCT

The Australian REIT Income Fund (“the Fund”) has been created to invest in a portfolio comprised primarily of Equity securities listed on the ASX issued by Real Estate Issuers. The Fund will be actively managed to take advantage of opportunities within the Australian real estate sector with a focus on Real Estate Issuers that provide an attractive current cash yield and/or capital appreciation opportunities.

Australian REIT Income Fund

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

The management report of fund performance contains financial highlights for the Fund. For your reference, the interim financial statements of the Fund are attached to the interim 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 1(866) 998-8298; by writing to us at Harvest Portfolios Group Inc., 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; or by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.

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

INVESTMENT OBJECTIVES AND STRATEGY

The Fund's investment objectives are to provide unitholders with:

- (i) stable monthly cash distributions; and
- (ii) the opportunity for capital appreciation

INVESTMENT STRATEGY

To seek to achieve its investment objectives, The Fund will invest in an actively managed portfolio comprised primarily of equity securities listed on the ASX issued by Australian real estate investment trusts and to a lesser extent, issuers principally engaged in the real estate industry in Australia.

The Fund's manager, Harvest Portfolios Group Inc. ("Harvest") has retained Macquarie Private Portfolio Management Limited ("Macquarie" or "Portfolio Manager") to provide portfolio management services to the Fund.

Harvest believes that Australian REITs offer attractive income and an opportunity for capital gains based on the market's recognition and revaluation of these issuers. In the view of the Portfolio Manager, (i) since the financial crisis of 2008, many participants in the Australian REIT sector have reduced leverage, simplified corporate and investment structures, raised additional capital and are positioned to grow capital values and distributions; (ii) this restructuring has had a positive effect on share prices though the sector remains considerably undervalued relative to previous peaks; and (iii) distributions from Australian REITs provide a stable yield which together with the possibility of capital growth provides a total return which is appealing relative to fixed interest alternatives.

The Fund will invest in Real Estate Issuers in various sectors, including industrial, residential, office, retail and other real estate sectors and from time to time may invest in debt securities.

RISK

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

RESULTS OF OPERATIONS

The sentiment and tone towards the underlying Australian REITs since the inception of the Fund in late March through the early second quarter was generally positive. However moderating economic data and expectations of slowing mining capital expenditures, led the RBA's decision to cut interest rates in May. While this was not entirely unexpected, it served to add some downward pressure in the broader Australian equity and currency markets. The relatively muted economic data in Australia and China compared with better than expected Canadian and U.S. data, also served to exacerbate the volatility in the currency markets. The Fund hedged the currency during the second quarter to mitigate any further shorter term downside currency risks, as expectations for an uptick in the near term currency market volatility had increased.

Despite relatively high volatility in the underlying share prices, fundamentally the Australian REITs continued to do what we had expected since the inception of the Fund. Balance sheets in general remain intact, rates have started to compress and property acquisitions have continued by both the domestic REITs and foreign entities. With June being the end of the financial year for most Australian companies, there were several annual strategic outlooks from many of the underlying REITs. The positive sentiment towards the sector was echoed by many of the forecasts and was reaffirmed with dividend increases and share buybacks announced during the June quarter.

Australian REIT Income Fund

Expectations of rising rates in North America however rippled through the global markets impacting higher yielding equities, in particular global REITs. The Fund's leverage exacerbated the volatility during this time and while fundamentally we believe that the broader economic cycle and the fundamentals for Australian REITs remain positive, they were not immune to the broader global selling pressures.

The Fund remains well diversified and is positioned to benefit from the resumption in the upward trend in the underlying Australian REITs as the global markets and fund flows stabilize.

RECENT DEVELOPMENTS

The Fund commenced a normal course issuer bid program for the period from May 7, 2013 to May 6, 2014, which allows the Fund to purchase up to 534,304 Class A trust units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange. During the period ended June 30, 2013, 8,500 units were purchased for cancellation for \$75,795.

RELATED PARTY TRANSACTIONS

There were no related party transactions during the reporting period, except for management fees and other expense reimbursements paid to Harvest, as noted below in Management and Other Fees.

MANAGEMENT AND OTHER FEES

The Fund pays its Manager, Harvest, a management fee, plus applicable taxes, calculated based on the net asset value and paid monthly in arrears, based on an annual rate of 1.30% of the net asset value of the Fund. The Manager pays Macquarie, 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 pays service fees to registered dealers on Series A units at a rate of 0.40% of the NAV, plus applicable taxes, per annum of the Fund. No service fee is charged to Series F units. Service fees are accrued daily and paid monthly to the Manager.

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.

Operating expenses

The Fund is responsible for operating expenses relating to the carrying on of its business, including custodial services, interest, taxes, legal, audit fees, transfer agency services relating to the issue and redemption of units, and 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.

Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses are allocated by the Manager on a reasonable basis, across all of the Harvest Portfolios Group Inc. funds, and series of each applicable fund. These expenses were \$69,747 for the period ended June 30, 2013 and are included in the unitholder reporting costs on the Statement of Operations in the interim financial statements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Investment entities in Canada that are publicly accountable enterprises are required to adopt IFRS for annual periods beginning on or after January 1, 2014. As a result, calendar year reporters need to prepare their comparative financial information on an IFRS basis as of January 1, 2013, the date of transition to IFRS.

The Fund will have to prepare annual financial statements for the first time as of December 31, 2014 with comparatives in accordance with IFRS and semi annual financial statements for the first time as of June 30, 2014 with comparatives in accordance with IFRS.

Australian REIT Income Fund

The Manager has developed a plan to convert the Fund's financial statements to IFRS by establishing a cross-functional IFRS team represented by management and the Fund's service providers (accounting and transfer agent). The Fund does not anticipate any impact on its business arrangements.

As at June 30, 2013, the Manager believes that the major areas of difference between the Fund's current accounting policies and those expected to apply under IFRS have been identified, including the:

- requirement to include a statement of cash flows,
- classification of redeemable instruments issued by the Fund,
- elimination of the differences between net asset value per unit and net asset per unit, and
- classification and measurement of the Fund's investments.

The Manager and the Fund service providers are in the process of developing the Fund's approach to financial statement presentation and disclosure related to these items, as well as finalizing any quantitative impacts upon transition. The Manager does not currently expect that the transition to IFRS will have a significant impact on the Fund's net asset value per unit.

RECOMMENDATIONS OR REPORTS BY THE INDEPENDENT REVIEW COMMITTEE

The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period ended June 30, 2013.

FINANCIAL HIGHLIGHTS

The following tables present selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period ended June 30, 2013. This information is derived from the Fund's unaudited interim financial statements.

Series A

THE FUND'S NET ASSETS PER UNIT¹		2013
Net assets - beginning of period ³	\$	11.18
Increase (decrease) from operations		
Total revenue		0.27
Total expenses		(0.12)
Realized gains (losses) for the period		(0.41)
Unrealized gains (losses) for the period		(1.80)
Total increase (decrease) from operations²		(2.06)
Distributions⁴		
From income		(0.17)
Return of capital		-
Total annual distributions⁴		(0.17)
Net assets - end of period²	\$	8.97

RATIOS AND SUPPLEMENTAL DATA		2013
Total net asset value¹	\$	48,077,154
Number of units outstanding ¹		5,336,547
Management expense ratio ⁵		11.90%
Management expense ratio before waivers or absorptions ⁵		11.90%
Trading expense ratio ⁶		1.52%
Portfolio turnover rate ⁷		25.51%
Net asset value per unit¹	\$	9.01
Closing market price (HRR.UN)	\$	8.60

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Series F

THE FUND'S NET ASSETS PER UNIT¹	2013
Net assets - beginning of period ³	\$ 11.60
Increase (decrease) from operations	
Total revenue	0.28
Total expenses	(0.11)
Realized gains (losses) for the period	(0.43)
Unrealized gains (losses) for the period	(1.84)
Total increase (decrease) from operations²	(2.10)
Distributions⁴	
From income	(0.17)
Return of capital	-
Total annual distributions⁴	(0.17)
Net assets - end of period²	\$ 9.28

RATIOS AND SUPPLEMENTAL DATA	2013
Total net asset value¹	\$ 1,757,821
Number of units outstanding ¹	188,619
Management expense ratio ⁵	7.86%
Management expense ratio before waivers or absorptions ⁵	7.86%
Trading expense ratio ⁶	1.52%
Portfolio turnover rate ⁷	25.51%
Net asset value per unit¹	\$ 9.32

Explanatory Notes:

- The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for fund pricing purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for fund pricing purposes. An explanation of these differences can be found in the Notes to Financial Statements.
- Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the reporting period. It is not intended that the Fund's net assets per unit table act as a continuity of opening and closing net assets per unit.
- Net assets, at the beginning of the period was \$11.18, net of agents' commissions and issuance costs of \$0.82 per unit for Series A and net assets, at the beginning of the period was \$11.60, net of agents' commissions and issuance costs of \$0.40 per unit for Series F.
- Distributions were paid in cash.
- Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) of the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The MER for 2013, the year of inception, included agents' fees of \$3,367,380 and issue costs of \$962,108 for Series A and agents' fees of \$50,927 and issue costs of \$33,951 for Series F, which were treated as one-time expenses and therefore were not annualized. The MER without these costs is 4.22% for Series A and 3.76% for Series F.
- The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio turnover rate, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains. There is not necessarily a relationship between a high turnover rate and the performance of a Fund. These ratios are annualized.

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.

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SUMMARY OF INVESTMENT PORTFOLIO

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

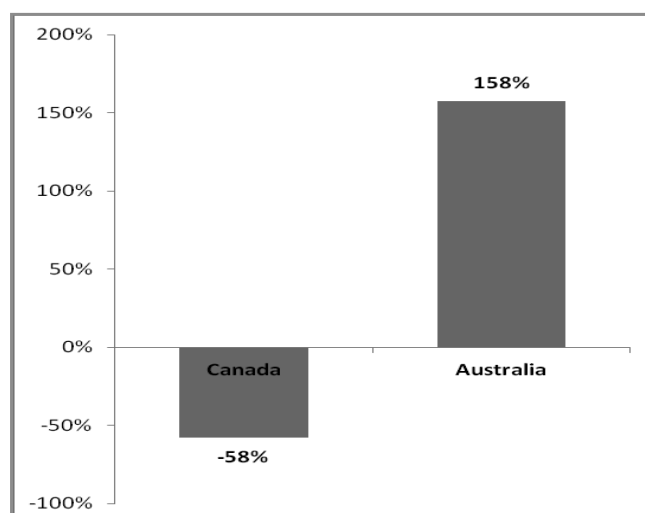
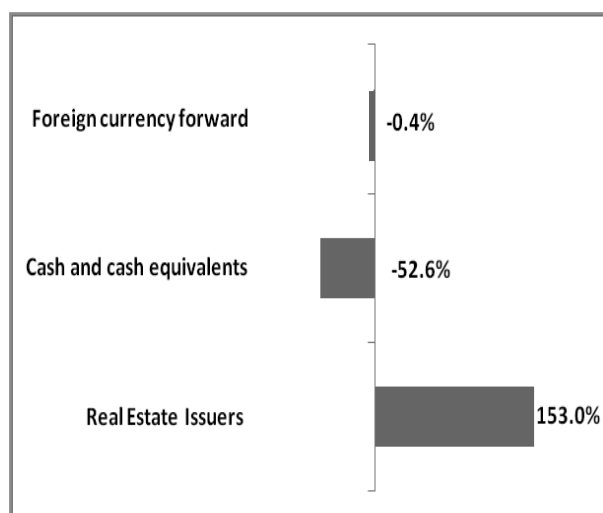
As at June 30, 2013

Top 24 Holdings	% of Net Asset Value
Westfield Retail Trust	20.9
CFS Retail Property Trust Group	18.3
Charter Hall Retail REIT	14.2
The GPT Group	8.8
Dexus Property Group	8.6
Stockland	7.9
Federation Centres Limited	7.5
Abacus Property Group	7.3
Cromwell Property Group	6.8
Commonwealth Property Office Fund	6.6
Australand Property Group	5.5
Mirvac Group	5.4
Westfield Group	5.4
Challenger Diversified Property Group	4.8
Goodman PLUS Trust	3.5
Goodman Group	3.4
Growthpoint Properties Australia	3.3
Multiplex SITES Trust	3.3
Investa Office Fund	3.2
BWP Trust	3.1
ALE Property Group	1.8
ALE Property Trust 6.94% Aug 20/14	1.7
Australand ASSETS Trust	1.7
Net other liabilities	(53.0)
	100.0


SECTOR ALLOCATION

GEOGRAPHIC ALLOCATION

Total Net Asset Value (100.0%)



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



Australian REIT Income Fund
Interim Financial Statements (Unaudited)
June 30, 2013

The accompanying unaudited interim financial statements have not been reviewed by the external auditors of the Fund.

Australian REIT Income Fund

STATEMENTS OF FINANCIAL POSITION		2013
As at June 30, 2013 (Unaudited)		
Assets		
Investments, at fair value (cost: \$85,565,774)	\$	76,064,085
Cash and cash equivalents		496,005
Dividends and interest receivable		1,438,387
Receivable for investments sold		1,012,490
Pre-paid interest – loan facility (Note 10)		130,381
		79,141,348
Liabilities		
Loan payable (Note 10)		29,000,000
Redemptions payable		5,430
Distributions payable		303,917
Unrealized depreciation on foreign currency forward contracts (Note 5)		204,287
		29,513,634
Net assets representing unitholders' equity	\$	49,627,714
Unitholders' equity (Note 3)		
Unitholders' capital		60,830,356
Contributed surplus		170,910
Retained earnings (deficit)		(11,373,552)
Unitholders' equity	\$	49,627,714
Net assets representing unitholders' equity		
Series A*		47,877,202
Series F*		1,750,512
Number of units outstanding (Note 3)		
Series A*		5,336,547
Series F*		188,619
Net assets per unit (Note 8)		
Series A*	\$	8.97
Series F*		9.28

*Series A and Series F commenced operations March 21, 2013

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

Australian REIT Income Fund

STATEMENTS OF OPERATIONS (Unaudited)	
For the period from March 21, 2013 (commencement of operations) to June 30, 2013	
	2013
Investment income	
Dividends	\$ 1,722,917
Interest	35,835
Less: foreign withholding taxes	(259,524)
	1,499,228
Expenses (Note 4)	
Management fees	236,493
Service fees	70,182
Unitholder reporting costs	72,729
Audit fees	5,000
Transfer agency fees	856
Custodian fees and bank charges	21,933
Independent review committee fees	3,762
Interest expense (Note 10)	206,282
Filing fees	50,682
Legal fees	8,082
	676,001
Net investment income	\$ 823,227
Realized and unrealized gain (loss) on investments and foreign currencies	
Realized gain (loss) on sale of investments	(1,235,012)
Realized gain (loss) on foreign exchange	(982,690)
Transaction costs	(247,216)
Change in unrealized appreciation (depreciation) of foreign exchange	(230,172)
Change in unrealized appreciation (depreciation) of investments	(9,501,689)
	\$ (12,196,779)
Increase (decrease) in net assets from operations	\$ (11,373,552)
Increase (decrease) in net assets from operations - Series A*	\$ (10,676,636)
Increase (decrease) in net assets from operations - Series F*	(396,916)
Increase (decrease) in net assets from operations per unit - Series A*	\$ (2.06)
Increase (decrease) in net assets from operations per unit - Series F*	(2.10)

*Series A and Series F commenced operations March 21, 2013

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

Australian REIT Income Fund

STATEMENTS OF CHANGES IN FINANCIAL POSITION – ALL SERIES (Unaudited)	
For the period from March 21, 2013 (commencement of operations) to June 30, 2013	
	2013
Net assets, beginning of the period	\$ -
Increase (decrease) in net assets from operations	(11,373,552)
Unitholders' transactions	
Proceeds from issue of units	66,403,992
Payments on cancellation of units	(75,795)
Agents' fees	(3,418,307)
Cost of issue	(996,059)
Net unitholders' transactions	\$ 61,913,831
Distributions to unitholders	
Net investment income	(912,565)
Total distributions to unitholders	(912,565)
Net assets, end of the period	\$ 49,627,714
Retained earnings (deficit), beginning of the period	\$ -
Increase (decrease) in net assets from operations	(11,373,552)
Retained earnings (deficit), end of the period	\$ (11,373,552)
Contributed surplus, beginning of the period	\$ -
Cost of units repurchased at less than average cost per unit	170,910
Contributed surplus, end of the period	\$ 170,910

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

Australian REIT Income Fund

STATEMENTS OF CHANGES IN FINANCIAL POSITION – SERIES A (Unaudited)	
For the period from March 21, 2013 (commencement of operations) to June 30, 2013	
	2013
Net assets, beginning of the period	\$ -
Increase (decrease) in net assets from operations	(10,976,636)
Unitholders' transactions	
Proceeds from issue of units	64,140,564
Payments on cancellation of units	(75,795)
Agents' fees	(3,367,380)
Cost of issue	(962,108)
Net unitholders' transactions	\$ 59,735,281
Distributions to unitholders	
Net investment income	(881,443)
Total distributions to unitholders	(881,443)
Net assets, end of the period	\$ 47,877,202
Retained earnings (deficit), beginning of the period	\$ -
Increase (decrease) in net assets from operations	(10,976,636)
Retained earnings (deficit), end of the period	\$ (10,976,636)
Contributed surplus, beginning of the period	\$ -
Cost of units repurchased at less than average cost per unit	170,910
Contributed surplus, end of the period	\$ 170,910

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

Australian REIT Income Fund

STATEMENTS OF CHANGES IN FINANCIAL POSITION – SERIES F (Unaudited)		
For the period from March 21, 2013 (commencement of operations) to June 30, 2013		2013
Net assets, beginning of the period	\$	-
Increase (decrease) in net assets from operations		(396,916)
Unitholders' transactions		
Proceeds from issue of units		2,263,428
Agents' fees		(50,927)
Cost of issue		(33,951)
Net unitholders' transactions	\$	2,178,550
Distributions to unitholders		
Net investment income		(31,122)
Total distributions to unitholders		(31,122)
Net assets, end of the period	\$	1,750,512
Retained earnings (deficit), beginning of the period	\$	-
Increase (decrease) in net assets from operations		(396,916)
Retained earnings (deficit) end of the period	\$	(396,916)

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

Australian REIT Income Fund

STATEMENT OF CASH FLOWS (Unaudited)	
For the period from March 21, 2013 (commencement of operations) to June 30, 2013	
	2013
Operating activities	
Increase (decrease) in net assets from operations	\$ (11,373,552)
Add (deduct) items not affecting cash	
Realized gain (loss) on sale of investments	1,235,012
Unrealized appreciation (depreciation) of investments	9,501,689
Proceeds from sale of investments	13,129,124
Purchases of investments	(100,942,400)
Net change in non-cash assets and liabilities	(1,364,481)
Net cash flow provided by (used in) operating activities	\$ (89,814,608)
Financing activities	
Borrowing of term credit facility (Note 10)	\$ 29,000,000
Proceeds from units issued	66,403,992
Payments cancellation of units	(70,365)
Agents' fees	(3,418,307)
Issuance costs	(996,059)
Distribution to unitholders	(608,648)
Net cash flow provided by (used in) financing activities	\$ 90,310,613
Net increase (decrease) in cash and cash equivalents during the period	496,005
Cash and cash equivalents, beginning of the period	-
Cash and cash equivalents, end of the period	\$ 496,005
Supplemental disclosure of cash flow information	
Amount of interest paid during the period	\$ 336,663

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

Australian REIT Income Fund

STATEMENT OF INVESTMENTS (Unaudited)

As at June 30, 2013

Number of Shares	Security	Average Cost (\$)	Fair Value (\$)	% of Net Assets
EQUITIES				
Real Estate Issuers				
1,651,031	Abacus Property Group	3,794,730	3,619,098	7.3
341,310	ALE Property Group	929,204	876,698	1.8
9,299	Australand ASSETS Trust	954,972	844,079	1.7
811,506	Australand Property Group	3,035,560	2,719,196	5.5
711,000	BWP Trust	1,805,190	1,544,797	3.1
4,727,846	CFS Retail Property Trust Group	10,289,994	9,108,052	18.4
1,026,608	Challenger Diversified Property Group	2,966,760	2,389,137	4.8
1,928,255	Charter Hall Retail REIT	8,203,341	7,094,286	14.3
3,116,081	Commonwealth Property Office Fund	3,749,439	3,309,944	6.7
3,623,981	Cromwell Property Group	3,795,370	3,394,509	6.8
4,127,000	Dexus Property Group	4,741,992	4,264,200	8.6
1,632,000	Federation Centres Limited	4,186,319	3,703,457	7.5
359,252	Goodman Group	1,860,718	1,692,927	3.4
1,185,000	The GPT Group	4,917,077	4,382,646	8.8
703,583	Growthpoint Properties Australia	1,819,016	1,617,006	3.3
570,659	Investa Office Fund	1,859,752	1,603,574	3.2
1,739,555	Mirvac Group	3,019,310	2,696,078	5.4
1,176,590	Stockland	4,668,019	3,942,520	7.9
242,292	Westfield Group	2,883,514	2,676,606	5.4
3,476,214	Westfield Retail Trust	11,288,561	10,372,520	20.9
		80,768,838	71,851,330	144.8
Other Public Issuers				
18,929	Goodman PLUS Trust	1,964,265	1,761,342	3.6
20,578	Multiplex SITES Trust	1,877,324	1,597,638	3.2
		3,841,589	3,358,980	6.8
	Total equities	84,610,427	75,210,310	151.6
FIXED INCOME				
872,800	ALE Property Trust 6.94% Aug 20/14	955,347	853,775	1.7
	Total fixed income	955,347	853,775	1.7
	Total investments	85,565,774	76,064,085	153.3
	Other assets less liabilities		(26,436,371)	(53.3)
	Net Assets		49,627,714	100.0

CONCENTRATION BY GEOGRAPHY AS AT JUNE 30, 2013

Country of Issue	\$*	As a % of net assets
Canada	(28,964,962)	(58.4)
Australia	78,592,676	158.4
Totals	49,627,714	100.0

*Stated in Canadian dollars

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

Australian REIT Income Fund

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

1. ORGANIZATION

Australian REIT Income Fund (the “Fund”) is an investment fund established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated February 26, 2013, being the inception date. There was no significant activity in the Fund from the date of Inception to commencement of operations on March 21, 2013. On March 21, 2013, Series A and Series F completed an initial public offering of 5,311,381 and 188,619 units at \$12.00 per unit for gross proceeds of \$63,736,572 and \$2,263,428 respectively. On April 29, 2013, an over-allotment option was exercised on Series A for an additional 33,666 units at a price of \$12.00 per unit for a gross proceed of \$403,992.

The fund is offering Series A units and Series F units. The Series F units are designed for fee-based and/or institutional accounts and differ from the Series A units in the following ways: (i) Series F units will not be listed on a stock exchange; (ii) the Agents’ fees payable on the issuance of the Series F units were lower than those payable on the issuance of the Series A units; and (iii) no service fee is payable in respect of the Series F units.

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 in an active market are valued at their bid prices through recognized public stock exchanges or through recognized investment dealers on the valuation date. Investments held include equities, listed warrants, short-term notes, treasury bills, bonds and other debt instruments. Investments held with no available bid prices are valued at their closing sale price.
- b) Investments held that are not traded on an active market are valued using valuation techniques, on such basis and in such a manner established by the Manager. The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager in accordance with CICA Handbook Section 3855 methodologies. The fair values of certain securities are determined using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would be used had a ready market for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity. At June 30, 2013 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”). The reconciliation between NAV per unit and Net assets per unit at the period end is provided in Note 9.

Australian REIT Income Fund

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 dividends and interest and other assets are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to unitholders for distributions 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 represents the amount paid for each security and is determined on an average cost basis excluding transaction costs. 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 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.

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 “Change in 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 “Realized gain (loss) on foreign exchange” and “Change in unrealized appreciation (depreciation) of foreign exchange”. Assets and liabilities in the Statement of Financial Position are translated into Canadian dollars on the statement date.

Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date, and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a realized gain or loss on foreign currency forward contracts.

Securities valuation

The NAV of each series on a particular date will be equal to each series’ proportionate share of the assets of the Fund less each series’ proportionate share of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV and NAV per unit of each series will be calculated each Business Day “Business Day” means any day on which the TSX is open for trading.

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, attributed to each series, divided by the weighted average units outstanding for that series for the financial period.

Australian REIT Income Fund

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.

Securities classification:

Investments at Fair Values as at June 30, 2013				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
Equities				
REITs	71,851,330	-	-	71,851,330
Other	3,358,980	-	-	3,358,980
Total equities	75,210,310	-	-	75,210,310
Fixed Income				
Corporate Bonds	853,775	-	-	853,775
Total fixed income	853,775	-	-	853,775
Total investments at fair value	76,064,085	-	-	76,064,085

There were no Level 3 securities held by the Fund as at June 30, 2013 and there were no significant transfers between Level 1 and Level 2 for the periods ended June 30, 2013.

Transition to International Financial Reporting Standards ("IFRS")

Investment entities in Canada that are publicly accountable enterprises are required to adopt IFRS for annual periods beginning on or after January 1, 2014. As a result, calendar year reporters need to prepare their comparative financial information on an IFRS basis as of January 1, 2013, the date of transition to IFRS.

The Fund will have to prepare annual financial statements for the first time as of December 31, 2014 with comparatives in accordance with IFRS and semi annual financial statements for the first time as of June 30, 2014 with comparatives in accordance with IFRS.

The Manager has developed a plan to convert the Fund's financial statements to IFRS by establishing a cross-functional IFRS team represented by management and the Fund's service providers (accounting and transfer agent). The Fund does not anticipate any impact on its business arrangements.

As at June 30, 2013, the Manager believes that the major areas of difference between the Fund's current accounting policies and those expected to apply under IFRS have been identified, including the:

- requirement to include a statement of cash flows,
- classification of redeemable instruments issued by the Fund,
- elimination of the differences between net asset value per unit and net asset per unit, and
- classification and measurement of the Fund's investments.

The Manager and the Fund service providers are in the process of developing the Fund's approach to financial statement presentation and disclosure related to these items, as well as finalizing any quantitative impacts upon transition. The Manager does not currently expect that the transition to IFRS will have a significant impact on the Fund's net asset value per unit.

Australian REIT Income Fund

3. UNITHOLDERS' EQUITY

The authorized capital of the Fund consists of an unlimited number of transferable, Units of each 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 units have equal rights and privileges. Each unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally in any and all distributions made by the Fund.

The Fund commenced a normal course issuer bid program for the period from May 7, 2013 to May 6, 2014, which allows the Fund to purchase up to 534,304 Class A trust units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange. During the period ended June 30, 2013, 8,500 units were purchased for cancellation for \$75,795.

Contributed Surplus

Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders' capital. If the redemption price is greater than the average cost per unit, the difference is first charged to contributed surplus until the balance of the contributed surplus is eliminated, and the remaining amount is charged to retained earnings.

Redemptions

Series A units may be surrendered prior to 5:00 p.m. (Toronto time) on the tenth Business Day before the last Business Day of the applicable month by unitholders for redemption. Upon receipt by the Fund of the redemption notice the unitholder shall be entitled to receive a price per Series A unit equal to the lesser of:

- (a) 95% of the "market price" of the Series A units on the principal market on which the Series A units are quoted for trading during the 20 trading day period ending immediately before the monthly redemption date; and
- (b) 100% of the "closing market price" on the principal market on which the Series A units are quoted for trading on the monthly redemption date.

Series F units may be redeemed on a monthly basis on the same terms as the Series A units. This will be achieved through a conversion to Series A units.

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on an annual basis, commencing in September 2014, Series A and Series F units may be surrendered for redemption at the NAV per unit of each series, subject to the required redemption notice period, by the second last business day of September and the unitholder will receive payment on or before the 15th business day of the following month. The following units were redeemed and/or cancelled during the period:

	Units outstanding	
	Series A	Series F
Initial issuance, March 21, 2013 and over-allotment	5,345,047	188,619
Cancellations during the period	(8,500)	-
Total outstanding as at June 30, 2013	5,336,547	188,619

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, certain remuneration to directors and/or officers of the Manager and other out-of-pocket expenses incurred by the agents together with the agent's 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 March 2014, the Fund will annually determine and announce the distribution amount for the following year based upon the prevailing market conditions. The distribution amount was \$912,565 or \$0.055 per unit per month (\$0.165 per unit in total) for the period ended June 30, 2013.

Australian REIT Income Fund

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 Macquarie Private Portfolio Management Limited ("MPPM" or the "Portfolio Manager") to provide portfolio management services and retained Avenue Investment Management Inc. ("Avenue" or "Investment Advisor") to provide investment advisory services to the Fund and pays MPPM and Avenue a fee for its portfolio advisory and investment advisory services, 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 1.30% of NAV per unit, plus applicable taxes, per annum of the Fund. The Fund pays service fees to registered dealers on Series A units at a rate of 0.40% of the NAV, plus applicable taxes, per annum of the Fund. No service fee is charged to Series F units. Service fees are accrued daily and paid monthly to the Manager.

Operating expenses

The Fund is responsible for operating expenses relating to the carrying on of its business, including custodial services, interest, taxes, legal, audit fees, transfer agency services relating to the issue and redemption of units, and 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. The Manager pays for such expenses on behalf of the Fund, except for certain expenses such as interest, and is then reimbursed by the Fund.

Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses are allocated by the Manager on a reasonable basis, across all of the Harvest Portfolios Group Inc. funds, and series of each applicable fund. These expenses were \$69,747 for the period ended June 30, 2013 and are included in the unitholder reporting costs on the Statement of Operations.

5. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund enters into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies. Foreign currency forward contracts entered into by the Fund represent a firm commitment to buy or sell a currency at a specified value and point in time based upon an agreed or contracted quantity. The value of the foreign currency forward contract is the gain or loss that would be realized if, on the valuation date, the position in the forward contract was closed out in accordance with its terms. The unrealized gains or losses on the forward contract are reported as part of the change in unrealized appreciation or depreciation of forward foreign currency contracts in the Statement of Operations until it is closed out or partially settled.

At June 30, 2013, the Fund had entered into the following foreign currency forward contract:

Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)
The Bank of Nova Scotia credit rating A+	July 12, 2013	CAD \$77,016,000	AUD \$80,000,000	(\$204,287)

6. FINANCIAL RISK MANAGEMENT

INVESTMENT OBJECTIVE AND STRATEGY

Investment activities of the Fund expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The Manager seeks to minimize these risks by employing experienced portfolio managers that will manage the security portfolios of the Fund on a daily basis according to market events and the investment objectives of the Fund. To assist in managing risk, the Manager also maintains governance

Australian REIT Income Fund

structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

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, 2013, 151.6% of the Fund's portfolio investments were traded on public stock exchange. 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 \$3,760,516.

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

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

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

Currency	As at June 30, 2013	
	Currency exposure*	As a % of net assets
Australian Dollars	\$359,899	0.7%

*In Canadian dollars

As at June 30, 2013, 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 \$17,995 of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

As all of the securities in the portfolio investments are denominated in Australian Dollars, the Fund from time to time may enter into a forward currency contract on substantially all of the value of the portfolio investments back to the Canadian dollar. There is no requirement to hedge the currency at all times.

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 \$8,538.

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, 2013 the Fund had \$29,000,000 of interest bearing liabilities. The interest bearing liabilities have a fixed interest rate and a maturity of less than three months, therefore the exposure to interest rate risk is not considered significant.

Australian REIT Income Fund

The table below summarizes the Fund's exposure to interest rate risks by either the remaining term to maturity or contractual repricing as at June 30, 2013.

Debt Instruments: June 30, 2013	Fair Value (\$)	% of Net Assets
1 to 3 years	853,775	1.7
Total	853,775	1.7

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 is exposed to redemptions as described in Note 3. Therefore in order to maintain sufficient liquidity, the Fund primarily invests in securities that are actively traded in public markets and can be readily disposed of to raise liquidity.

As at June 30, 2013, all of the Fund's financial liabilities had maturities of less than three months.

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.

All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at June 30, 2013, the Fund did not have significant credit rate risk exposure.

7. SOFT DOLLAR COMMISSIONS

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

The value of such research services included in commissions paid to brokers for the period ended June 30, 2013 amounted to \$NIL.

8. 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 not 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.

Harmonized sales tax

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.

Australian REIT Income Fund

9. 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 (\$):	NAV (\$)	Net assets (\$)
As at June 30, 2013		
Series A	\$9.01	\$8.97
Series F	\$9.32	\$9.28

10. LOAN FACILITY

The Fund established a loan facility with a Canadian chartered bank during the period for the purpose of acquiring assets for the portfolio and such other short term funding purposes as may be determined from time to time and in accordance with the investment strategy. The loan is interest bearing at a rate of 1.22% for \$4,000,000 and 1.275% for \$25,000,000, secured against the assets of the Fund and the amount of the loan has a maximum amount available based on the net asset value of the fund. The outstanding balance on the loan facility was \$29,000,000 at June 30, 2013.

The initial interest paid on the drawdown and renewal of the BA's is deferred and amortized over the term of the BA's, which mature on July 25, 2013 and September 23, 2013 respectively. The unamortized portion of the deferred interest is included under the "Prepaid Interest – loan facility" on the Statement of Financial Position. For the period ended June 30, 2013, the Fund recorded interest expense of \$206,282.

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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.