HARVEST Banks & Buildings Income Fund

2010 Annual Management Report of Fund Performance
2010 Annual Financial Statements

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

CORPORATE OVERVIEW

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

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

INVESTMENT PRODUCT

The Harvest Banks & Buildings Fund(the "Fund") has been created to invest primarily in the Canadian banking, other financial and real estate sectors. The banking, other financial and the real estate sectors represent significant components of the Canadian economy. As the Canadian economy emerges from the economic downturn, the Investment Manager and the Manager believe that a diversified portfolio invested across these sectors will provide investors with an attractive yield and strong capital appreciation potential.

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

PRESIDENT'S MESSAGE

Harvest Banks & Buildings Income Fund
Unitholder letter, February 2011

Dear Valued Unitholder,

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

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

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

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

Your investment Fund will continue to be managed in a conservative manner, with a focus on quality long term securities and the generation of consistent income. Also, keep in mind that in October 2011, the Harvest Banks & Buildings Income Fund will convert to an open ended Mutual Fund and be open to new purchases at daily NAV.

Thank you for your continued confidence in our Funds.

HARVEST Portfolios Group Inc.

Michael Kovacs
President and Chief Executive Officer

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

December 31, 2010

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

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

INVESTMENT OBJECTIVES

The Fund's investment objectives are:

i. to provide Unitholders with monthly distributions (initially targeted to be $0.07 per Trust Unit ($0.84 per annum) representing an annual cash distribution of 7.0% based on the $12.00 per Unit issue price); and

ii. to maximize total return for Unitholders.

INVESTMENT STRATEGIES

The Fund will be invested in an actively managed portfolio that will consist primarily of Banking Issuers, Other Financial Issuers and Real Estate Issuers. The investment strategies of the Fund include buying issuers that have had a history of consistent distributions or dividends. The Investment Manager, in its analysis of an issuer's balance sheet will focus on such leverage metrics as debt/EBITDA, debt/total capitalization, capital ratios and upcoming debt maturity schedules in order to reduce the likelihood of potential debt distress. The Investment Manager will focus on free cash flow and free cash flow yield, earning potential, and the investment's intrinsic value in order to assess dividend sustainability and possible growth in distributions.

RISK

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

RESULTS OF OPERATIONS

During the year the Harvest Banks and Buildings Fund returned 22.95%. This compares with a return of 16.30% for the blended index compromised of a 50% weighting of S&P/TSX Financial Index and a 50% weighting of the S&P/TSX Real Estate Index.

During the year the market sentiment continued to improve despite the fears of the European sovereign debt crisis and the chronic deficit creation in the U.S. , the result was that stock markets ended on a strong note. There is a better tone and confidence to the market and investors are placing more capital into dividend paying companies that have stable balance sheets, a characteristics that the financial and real estate sectors enjoy.

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

The Canadian financial and real estate sector have balance sheets that are notably healthier than many other sectors. It is our view that dividend increase will continue and the fund will continue to stay invested and seek further opportunities in the banking, insurance and real estate sectors in Canada.

CHANGES IN FINANCIAL POSITION

Net Assets of the Fund increased by 11.3% or $2.9 million during the period, from $25.9 million at December 31, 2009 to $28.8 million at December 31, 2010. The change in Net Assets is attributed to distributions paid of $2 million, redemptions of ($0.5) million and $5.5 million increase from investment operations, including market appreciation / (depreciations), income and expenses.

The Fund received approval from the Toronto Stock Exchange to undertake a normal course issuer bid program for the period from December 11, 2009 to December 10, 2010. Pursuant to the issuer bid, the Fund could purchase up to 214,588 of its units for cancellation when the Net Asset Value per unit exceeded its trading price.

The Fund renewed the issuer bid for the period from December 13, 2010 to October 31, 2011, which allows the Fund to purchase up to 210,118 listed trust units of the Fund (the "Units") and 215,118 listed warrants of the Fund (the "Warrants") for cancelation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange (the "TSX"). During the period ended December 31, 2010, 41,000 units (2009 – Nil) were purchased for cancellation.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

RECENT DEVELOPEMENTS

There are no other recent developments to report.

RELATED PARTY TRANSACTIONS

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

MANAGEMENT AND SERVICE FEES

The Fund pays its manager, Harvest, a management fee calculated daily and paid monthly in arrears, based on an annual rate of 1.1% of the net asset value of the Fund.

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

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

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

LOAN FACILITY

The Fund has established a loan facility with a Canadian chartered bank. The amount of the loan is not to exceed 25 per cent of total net asset value. The Fund has the option of borrowing at the prime rate plus 2 per cent of interest. In addition, the Fund is required to pay a standby fee based on the amount of unused borrowings during the period, which is calculated daily, payable quarterly and is included in "Interest expense" on the Statements of Operations. The amount drawn on the loan facility throughout the period ended December 31, 2010 and 2009 was $5,625 million. There were no standby fees applicable as the fund is utilizing the full amount of the facility.

The initial interest paid on the drawdown or renewal of the Bankers Acceptance ("BA") is deferred and amortized over the term of the BA. The unamortized portion of the deferred interest is included under the "Prepaid Interest – loan facility" on the Statements of Financial Position. For the period ended December 31, 2010, the Fund recorded interest expense of $258 thousand (2009 - $36 thousand).

The Loan function is to borrow for the purpose of making investments in accordance with its investment objectives and restrictions, and to pledge its assets to secure the borrowings.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

HARVEST Banks & Buildings Income Fund

FINANCIAL HIGHLIGHTS

The following tables present selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the periods ended December 31, 2010 and 2009.

THE FUND'S NET ASSETS PER UNIT[1]	2010	2009
Net assets - beginning of period[3]	**$12.02**	**$11.17**
Increase /(decrease) from operations		
Total revenue	0.69	0.17
Total expenses	(0.48)	(0.06)
Realized gains (losses) for the period	1.16	-
Unrealized gains for the period	1.18	0.89
Total increase from operations[2]	**2.55**	**1.00**
Distributions[4]		
From income (excluding dividends)	-	-
From dividends	-	-
From net investment income	-	-
From capital gains	(0.96)	-
Return of capital	-	(0.14)
Total annual distributions[4]	**(0.96)**	**(0.14)**
Net assets - end of period[2]	**$13.64**	**$12.02**

RATIOS AND SUPPLEMENTAL DATA	2010	2009
Total net asset value (000's)[1]	**$28,951**	**$26,078**
Number of units outstanding (000's)[1]	2,114	2,155
Management expense ratio[5]	3.76%	9.94%
Management expense ratio before waivers or absorptions[5]	3.76%	3.16%
Trading expense ratio[6]	0.29%	0.33%
Portfolio turnover rate[7]	56.98%	2.79%
Net asset value per unit[1]	$ 13.69	$ 12.10
Closing market price (HBB.UN)	**$ 12.65**	**$ 11.48**

Explanatory Notes:

1. This information is derived from the Fund's audited annual financial statements. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for weekly Net Asset Value purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for weekly Net Asset Value purposes. An explanation of these differences can be found in the Notes to Financial Statements.

2. Net assets and distributions are based on the actual number of securities outstanding at the relevant time. The increase/(decrease) from operations is based on the weighted average number of securities 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.

3. Net assets, beginning of period of $11.17 is net of agents' commissions and issuance costs of $0.83 per unit.

4. Distributions were paid in cash.

5. Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) of the stated period and is expressed as an annualized percentage of daily average NAV during the period. Leverage costs include interest expense and borrowing costs.

6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average NAV during the period.

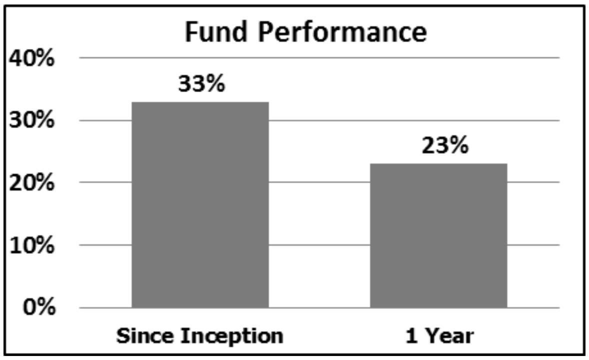
7. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio 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.

PAST PERFORMANCE

The performance information presented herein assumes all dividends of the Fund during the periods presented were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, or other charges that would have reduced returns or affected performance. Past performance of the Fund is not necessarily indicative of how it will perform in the future.

YEAR-BY-YEAR RETURNS

The following charts present the Fund's annual performance for each of the periods shown and illustrate how the Fund's performance varied. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



ANNUAL COMPOUND RETURNS

The annual compound returns table compares the Fund's performance to one or more benchmarks. Benchmarks are usually an index or a composite of more than one index. An index is generally made up of a group of securities. Since the Fund does not necessarily invest in the same securities as an index or in the same proportion, the Fund's performance is not expected to equal the performance of the index.

The following table shows the Fund's annual compound return for each period indicated compared with the following benchmarks:

S&P/TSX Capped Financial Index -The Index is comprised of securities of Canadian financial sector issuers listed on the TSX, selected by S&P using its industrial classifications and guidelines for evaluating issuer capitalization, liquidity and fundamentals.

S&P/TSX Capped Real Estate Index The Index is comprised of securities of Canadian real estate investment trusts ("REITs") listed on the TSX, selected by S&P using its industrial classifications and guidelines for evaluating issuer capitalization, liquidity and fundamentals.

Fund seeks to provide long-term capital growth by replicating, to the extent possible, the performance of the S&P/TSX Capped Financial Index and the S&P®/TSX® Capped REIT Index through investments in the similar issuers of such indices, net of expenses.

A discussion of the performance of the Fund as compared to its benchmarks is found in the Results of Operations section of this report.

Annual Compound Returns	Period Ended December 31, 2010	Since inception(1)
Harvest Banks & Buildings Income Fund	22.95%	32.95%
Blended Benchmark (2)	16.30%	20.68%

(1)Period from October 23, 2009 (commencement of operations) to December 31, 2010

(2)50% weighting S&P/TSX Capped Financials Index and 50% weighting S&P/TSX Capped Real Estate Index

SUMMARY OF INVESTMENT PORTFOLIO

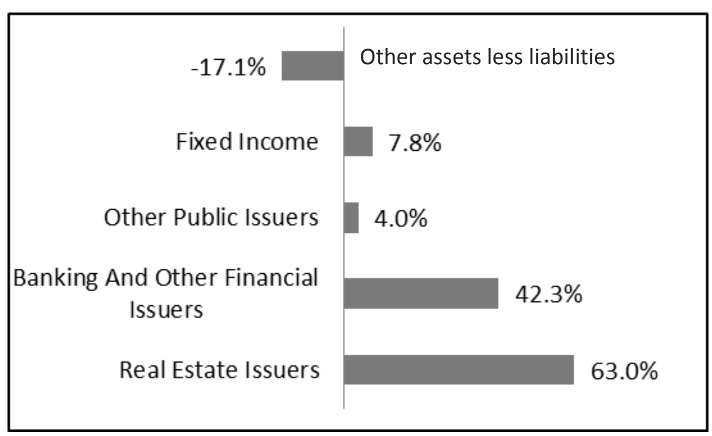
The Portfolio by category chart below provides a portfolio breakdown based on the total transactional net asset value of the Fund's portfolio holdings. A detailed breakdown of the Fund's holdings is available in the "Statement of Investments" section of the Fund's annual report.

AS AT DECEMBER 31, 2010

Top 25 holdings	% of Net Asset Value
E-L Financial Corporation Limited	6.8
Crombie Real Estate Investment Trust	5.9
Artis Real Estate Investment Trust	5.4
Sun Life Financial Inc.	5.1
First Capital Realty Inc.	4.7
Killam Properties Inc.	4.5
Whiterock Real Estate Investment Trust	4.5
Timbercreek Mortgage Investments Corp.	4.3
Great-West Lifeco Inc. Delaware Finance LP 7.13%; June 26, 2018	3.9
Plazacorp Retail Properties ltd.	3.9
Dundee Corporation Series 1 Preferred	3.7
Dundee Wealth Management Inc.	3.6
Cominar Real Estate Investment Trust	3.6
Pure Industrial Real Estate Investment Trust	3.5
BTB Real Estate Investment Trust	3.1
Leisure World Senior Care Corp.	3.1
Bank of America Corporation	3.1
Canadian Imperial Bank of Commerce	3.0
Manulife Financial Corp	3.0
Annaly Capital management Inc.	2.9
American capital Agency Corporation	2.9
Extendicare Real Estate Investment Trust	2.9
Borlex Inc. 6.75% June 30, 2017	2.8
Northern Property Real Estate Investment Trust	2.8
Bank of Montreal	2.6

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

SECTOR ALLOCATION
Total Net Assets (100.0%)



MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

On behalf of Harvest Portfolios Group Inc.,

Michael Kovacs
President

Townsend Haines
Chief Financial Officer

Oakville, Ontario
March 3, 2011

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of
Harvest Banks & Buildings Income Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at December 31, 2010, the statement of financial position as at December 31, 2010 and 2009 and the statements of operations, cash flows, and changes in financial position for the periods then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2010 and 2009 and the results of its operations, its cash flows, and the changes in its financial position for the periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 3, 2011

STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31, 2010 AND 2009

In In thousands ($000's), except per unit figures	2010	2009
Assets		
Investments, at fair value (Cost: $29,287; 2009:$29,019)	$33,783	$30,986
Cash and cash equivalents	606	495
Dividends and interest receivable	193	184
Prepaid interest - loan facility (Note 8)	29	115
	34,611	**31,780**
Liabilities		
Loan payable (Note 8)	5,625	5,625
Payable for investments purchased	-	104
Distributions payable	148	151
	5,773	**5,880**
Net assets representing unitholders' equity	**$28,838**	**$25,900**
Unitholders' equity (Note 3)		
Unitholders' capital	23,068	23,515
Warrants	259	259
Retained earnings	5,511	2,126
Unitholders' equity	**$28,838**	**$25,900**
Number of securities outstanding	**2,114**	**2,155**
Number of warrants outstanding	**2,155**	**2,155**
Net assets per unit	**$13.64**	**$12.02**
Diluted Net assets per unit	**$12.66**	**$ 12.02**

STATEMENTS OF OPERATIONS

FOR THE PERIOD ENDED DECEMBER 31, 2010 AND FROM COMMENCEMENT OF OPERATIONS OCTOBER 23, 2009 TO DECEMBER 31, 2009

In thousands ($000's), except per unit figures	2010	2009
Investment income		
Dividends	$ 1,088	$ 227
Interest	427	128
Less: Foreign withholding taxes	(43)	-
	1,472	**355**
Expenses (Note 4)		
Management fees	325	54
Service fees	108	19
Unitholder reporting costs	155	4
Audit fees	25	12
Transfer agency fees	16	2
Custodian fees and bank charges	39	7
Independent review committee fees	24	14
Interest expense (Note 8)	258	36
Legal Expenses	16	-
Filing Fees	53	-
	1,019	148
Expenses absorbed by Manager	-	(25)
	1,019	**123**
Net investment income (loss)	**453**	**232**
Realized gain /(loss) on sale of investments	**2,564**	6
Transaction costs	(77)	(79)
Net realized and unrealized foreign exchange gain /(loss)	(11)	-
Change in unrealized appreciation/ (depreciation) of investments	2,529	1,967
Net gain /(loss) on investments	**5,005**	**1,894**
Increase/ (decrease) in net assets from operations	**$5,458**	**$ 2,126**
Increase/ (decrease) in net assets from operations per unit	**$2.56**	**$ 1.00**
Increase /(decrease) in net assets from operations – diluted per unit	**$2.56**	**$ 1.00**

The accompanying notes are an integral part of the financial statements

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE PERIOD ENDED DECEMBER 31, 2010 AND FROM COMMENCEMENT OF OPERATIONS OCTOBER 23, 2009 TO DECEMBER 31, 2009

In thousands ($000's), except per unit figures	2010	2009
Net assets, beginning of period	**$ 25,900**	**$ -**
Increase /(decrease) in net assets from operations	5,458	2,126
Unitholder transactions		
Proceeds from issue of units	-	25,866
Cost of units redeemed	(479)	-
Agent's fees	-	(1,358)
Costs of issue	-	(432)
Net unitholder transactions	**(479)**	**24,076**
Distributions to unitholders		
Net investment income	-	-
Capital gains	(2,041)	-
Return of capital	-	(302)
Total distributions to unitholders	**(2,041)**	**(302)**
Net assets , end of period	**$ 28,838**	**$ 25,900**

STATEMENTS OF CASH FLOWS

FOR THE PERIOD ENDED DECEMBER 31, 2010 AND FROM COMMENCEMENT OF OPERATIONS OCTOBER 23, 2009 TO DECEMBER 31, 2009

In thousands ($000's), except per unit figures	2010	2009
Operating Activities		
Increase /(decrease) in net assets from operations	**$ 5,458**	**$ 2,126**
Add (deduct) items not affecting cash:		
Realized gain on sale of investments	(2,565)	(6)
Unrealized appreciation of Investments	(2,529)	(1,967)
Proceeds from sale of investments	19,731	501
Purchases of investments	(17,538)	(29,410)
Total operating activities	**2,557**	**(28,756)**
Net change in non-cash assets and liabilities	**77**	**(299)**
Financing Activities		
Borrowing from loan facility (Note 8)	-	5,625
Cost of units redeemed	(479)	-
Proceeds from units issued	-	25,866
Agents fees	-	(1,358)
Issuance costs	-	(432)
Distributions to Unitholders	(2,044)	(151)
Net Increase /(decrease) in cash and cash equivalents during period from financing activities	**(2,523)**	**29,550**
Net increase in cash during the period	**111**	**495**
Cash and cash equivalents, beginning of period	**495**	**-**
Cash and cash equivalents, end of period	**606**	**495**
Supplemental disclosure of cash flow information		
Amount of interest paid during the period - included in net investment income	**$ 258**	**$ 36**

The accompanying notes are an integral part of the financial statements

STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2010

Number of Shares	Security	Average Cost ($000's)	Fair Value ($000's)
	EQUITY		
	Real Estate Issuers (62.9%)		
29,000	American Capital Agency Corporation	820	828
47,200	Annaly Capital Management Inc.	824	840
117,500	Artis Real Estate Investment Trust	1,020	1,552
24,400	Brookfield Office Properties Canada	462	528
1,188,245	BTB Real Estate Investment Trust	764	903
25,000	Calloway Real Estate Investment Trust	417	584
50,000	Cominar Real Estate Investment Trust	845	1,041
135,000	Crombie Real Estate Investment Trust	1,401	1,704
90,000	Extendicare Real Estate Investment Trust	758	825
89,200	First Capital Realty Inc.	1,107	1,346
47,300	InnVest Real Estate Investment Trust	193	317
125,900	Killam Properties Inc.	907	1,311
83,752	LeisureWorld Senior Care Corp.	830	895
27,700	Northern Property Real Estate Investment Trust	607	801
263,157	Plazacorp Retail Properties Ltd.	1,000	1,092
229,300	Pure Industrial Real Estate Trust	727	1,004
120,000	Timbercreek Mortgage Investment Corp.	1,200	1,254
65,000	Whiterock Real Estate Investment Trust	844	1,310
		14,726	**18,135**
	Banking and Other Financial Issuers (42.3%)		
67,000	Bank of America Corporation	857	888
13,000	Bank of Montreal	665	747
11,000	Canadian Imperial Bank of Commerce	687	860
1,600	CME Group Inc.	495	512
42,600	Dundee Corporation Series 1 Preferred	892	1,069
40,400	Dundee Wealth Management Inc. Series 1 Preferred	929	1,041
43,800	E-L Financial Corporation Limited Series 1 Preferred	892	960
50,800	E-L Financial Corporation Limited Series 2 Preferred	863	1,011
20,000	Great-West Lifeco Inc.	470	527
24,000	Industrial Alliance Insurance and Financial Services Inc. Cl. A Series B Preferred	456	498
140,000	Lloyds Banking Group PLC ADR	610	572
51,000	Manulife Financial Corporation	997	872
11,600	Royal Bank of Canada	601	605
16,000	Sun Life Financial Inc.	463	480
23,000	Sun Life Financial Inc. Cl. A Series 1 Preferred	458	500
22,900	Sun Life Financial Inc. Cl. A Series 2 Preferred	455	502
10,000	The Bank of Nova Scotia	503	570
		11,293	**12,214**
	Other Public Issuers (4.0%)		
46,100	H&R Block, Inc.	610	545
28,100	Pembina Pipeline Corporation	443	607
		1,053	**1,152**
	FIXED INCOME (7.9%)		
785,408	Boralex Inc. 6.75% Jun 30/17	791	796
33,000	BTB Real Estate Investment Trust 8.00% Oct 03/11	27	33
336,000	BTB Real Estate Investment Trust 8.50% Mar 31/13	288	334
1,000,000	Great West Lifeco Delaware Finance LP 7.13% Jun 26/18	1,109	1,119
		2,215	**2,282**
	Total investments (117.1%)	**29,287**	**33,783**
	Liabilities less other assets (-17.1%)		**(4,945)**
	Net Assets (100.0%)		**28,838**

NOTES TO STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2010

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

Management of Financial Instrument Risk

Investment Objectives

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

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

The Fund's investment objectives are:

i. to provide Unitholders with monthly distributions (initially targeted to be $0.07 per Trust Unit ($0.84 per annum) representing an annual cash distribution of 7.0% based on the $12.00 per Unit issue price); and
ii. to maximize total return for Unitholders.

Other price risk

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

As at December 31, 2010, 109.2% (2009 - 87.4%) 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 $1,575 (2009 - $1,355.)

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

Currency risk

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

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

	As at December 31 2010		As at December 31 2009	
Currency	**Currency exposure ($000's)***	**As a % of net assets (%)**	**Currency exposure ($000's)***	**As a % of net assets (%)**
U.S. Dollars	**4,240**	**14.7%**	-	-

*Amounts are in Canadian $s

As at December 31, 2010, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, by approximately $212 (2009 - $Nil) or 0.7% of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material

The accompanying notes are an integral part of the financial statements

NOTES TO STATEMENT OF INVESTMENTS

AS AT DECEMBER 31, 2010

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

Interest rate risk

A Fund that invests in fixed income securities, such as bonds and money market instruments, is sensitive to changes in interest rates. In general, when interest rates are falling, the value of these investments rise. Moreover, fixed income securities with longer terms to maturity are usually more sensitive to changes in interest rates. If interest rates were to change by 1.0%, the increase/ (decrease) in interest earned by the Fund would change by $23 (2009- $39). 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 December 31, 2010, the Fund had a loan facility of $5,625 (2009 – $5,625). If interest rates were to change by 1.0%, the interest expense could increase/(decrease) by $56 (2009 - $56).

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 December 31, 2010 and 2009.

Debt Instruments: December 31, 2010	Fair value	% of Net Assets
Less than 1 year	33	0.1
1 to 3 years	334	1.1
Greater than 5 years	1,915	6.7
Total	**2,282**	**7.9**
Debt Instruments: December 3 1, 2009	**Fair value**	**% of Net Assets**
Less than 1 year	-	-
1 to 3 years	29	0.1
3 to 5 years	271	1.0
Greater than 5 years	3,590	13.9
Total	**3,890**	**15.0**

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.

At December 31, 2010	Less than 1 month	1-3 months	No stated maturity
Loan facility	-	5,625*	-
Distributions payable	148	-	-
Total financial liabilities	**148**	**5,625**	-
At December 31, 2009	**Less than 1 month**	**1-3 months**	**No stated maturity**
Loan facility	-	5,625	-
Distributions payable	151	-	-
Payables for investments purchased	104	-	-
Total financial liabilities	**255**	**5,625**	-

*maturity February 14, 2011

Credit risk

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

The Fund's greatest concentration of credit risk is in its holdings of fixed income debt instruments. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. This risk is largely mitigated by the high quality standards used to select corporate investments. Ongoing credit assessments are performed on all the Fund's holdings and the exposure level is managed through careful diversification across industry sectors and individual issuers, which helps to minimize this risk. The maximum credit risk of these investments is their fair value at December 31, 2010 and 2009.

At December 31, 2010 and 2009, the Fund was invested in debt securities with the following credit ratings:

2010 Debt Securities by Credit Rating*	% of Total Debt Instruments	% of Net Assets
A+	-	-
A-	49.0	3.9
Not Rated	51.0	4.0
Total	**100**	**7.9**
2009 Debt Securities by Credit Rating*	**% of Total Debt Instruments**	**% of Net Assets**
A+	50.6	7.6
A-	41.7	6.3
Not Rated	7.7	1.1
Total	**100**	**15.0**

*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

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIODS ENDED DECEMBER 31, 2010 AND 2009
(In thousands ($000's), except per unit figures)

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 2,000 Units at $12.00 per Unit for gross proceeds of $24,000. Each Unit consists of one trust unit ("Trust Unit") and one warrant ("Warrant"). Each whole Warrant entitles the holder to purchase one Trust Unit at a subscription price of $12.00 on or before 5:00 p.m.(Toronto time) on, and only on, April 15, 2011 (the "Warrant Expiry Time"). Warrants not exercised by the Warrant Expiry Time will be void and of no value. On November 10, 2009, an over-allotment option was exercised for an additional 155 Trust Units at a price of $12.00 per Trust Unit for gross proceeds of $1,866.

The Fund will become an open-end mutual fund on October 18, 2011. On and after the Conversion, the Units will be redeemable at NAV per Unit on a daily basis, at such time the Units will become subject to NI 81-102. The Fund will provide all Unitholders with written notice at least 60 days prior to the Conversion Date.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Financial instruments

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

Valuation of investments

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

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

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

The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager in accordance with Section 3855 methodologies. The fair values of certain securities are determined using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would be used had a ready market for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity. At December 31, 2010 and 2009, there were no securities that required pricing using assumptions.

Cost of investments

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

Cash and cash equivalents

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

Other assets and liabilities

For the purposes of categorization in accordance with CICA Handbook Section 3862, accrued interest and dividends, receivable for securities issued, amounts due from brokers, the Manager, and other Funds, and other 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.

Transaction costs

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

Investment transactions and income recognition

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

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIODS ENDED DECEMBER 31, 2010 AND 2009
(In thousands ($000's), except per unit figures)

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)".

Monetary balance sheet assets and liabilities are translated into Canadian dollars on the balance sheet date and non-monetary assets and liabilities are translated at the rate of exchange prevailing at the time of the transactions.

Securities valuation

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

Increase (decrease) in net assets from operations per unit

"Increase (decrease) in net assets from operations per unit" in the Statements of Operations represents the increase (decrease) in net assets from operations, divided by the weighted average units outstanding for the financial period. The "increase (decrease) in net assets from operations per share – diluted" takes into account the dilutive impact of issuing shares from warrants outstanding when the price that it trades at is higher than the exercise price of $12.00.

Fair value of financial instruments

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

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

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

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

There were no Level 3 securities held by the Fund as at December 31, 2010. There were no transfers between Level 1 and Level 2 for the period ended December 31, 2010 and 2009.

Securities Classification: As at December 31, 2010 and 2009

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Totals**
Investment In Securities ($000's)				
Assets at Fair Value				
EQUITIES				
Common Stock	12,685	-	-	12,685
Depository Receipts	572	-	-	572
Mutual Funds	1,254	-	-	1,254
Preferred Stock	5,581	-	-	5,581
Real Estate Inv. Trust	11,409	-	-	11,409
TOTAL EQUITIES	31,501	-	-	31,501
FIXED INCOME				
Convertible Bonds	-	1,163	-	1,163
Corporate Bonds	-	1,119	-	1,119
TOTAL FIXED INCOME	-	2,282	-	2,282
TOTAL INVESTMENTS IN SECURITIES	31,501	2,282	-	33,783

December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Totals**
Investment In Securities ($000's)				
Assets at Fair Value				
EQUITIES				
Common Stock	7,467	-	-	7,467
Common Stock Units	10,032	-	-	10,032
Limited Partnership Units	740	-	-	740
Preferred Stock	8,348	-	-	8,348
Real Estate Inv. Trust	509	-	-	509
TOTAL EQUITIES	27,096	-	-	27,096
FIXED INCOME				
Convertible Bonds	-	300	-	300
Corporate Bonds	-	3,590	-	3,590
TOTAL FIXED INCOME	-	3,890	-	3,890
TOTAL INVESTMENTS IN SECURITIES	27,096	3,890	-	30,986

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIODS ENDED DECEMBER 31, 2010 AND 2009
(In thousands (000's), except per unit figures)

Transition to International Financial Reporting Standards

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

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

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

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

3. UNITHOLDERS' EQUITY

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

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

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

At December 31, 2009	Units outstanding	Warrants outstanding	Unitholders' capital
Initial Issuance, October 23, 2009	2,000	2,000	22,037
Over allotment	155	155	1,737
Total outstanding as at December 31, 2009	2,155	2,155	23,774
Redemptions	(41)	-	(447)
Total outstanding as at December 31, 2010	**2,114**	**2,155**	**23,327**

The Fund received approval from the Toronto Stock Exchange to undertake a normal course issuer bid program for the period from December 11, 2009 to December 10, 2010. Pursuant to the issuer bid, the Fund could purchase up to 214,588 of its units for cancellation when the Net Asset Value per unit exceeded its trading price. The Fund renewed the issuer bid for the period from December 13, 2010 to October 31, 2011, which allows the Fund to purchase up to 210,118 listed trust units of the Fund (the "Units") and 215,118 listed warrants of the Fund (the "Warrants") for cancelation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange (the "TSX"). During the period ended December 31, 2010, 41,000 units (2009 – Nil) were purchased for cancellation.

Warrants

Each whole Warrant entitles the holder to purchase one Trust Unit at a subscription price of $12.00 on or before 5:00 p.m. (Toronto time) on, and only on, April 15, 2011 (the "Warrant Expiry Time"). Warrants not exercised by the Warrant Expiry Time will be void and of no value. Holders of Warrants who exercise the Warrants will become holders of Trust Units issued through the exercise of the Warrants. Upon the exercise of a Warrant, the Fund will pay a fee equal to $0.18 per Warrant to the registered dealer whose client is exercising the Warrant and $0.12 per Warrant to the Agents.

The warrants trade on the TSX under the symbol HBB.WT. At December 31, 2010 the closing price was $0.52 (2009 - $0.16).

Redemptions

Unitholders who wish to redeem their Trust Units on the First NAV Redemption Date will receive a redemption price per Trust Unit equal to NAV per Trust Unit as at the First NAV Redemption Date. On and after the Conversion Date, Unitholders my redeem Trust Units on any Business Day at the NAV per Trust Unit.

Trust Units may be surrendered for redemption during the Notice Period by the registered Unitholder to the Registrar and Transfer Agent. Trust Units surrendered for redemption by a Unitholder during the Notice Period will be redeemed on the First NAV Redemption Date and the Unitholder will receive payment on or before the seventh Business Day following the First NAV redemption Date.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 31, 2010
(In thousands (000's), except per unit figures)

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 November 2010, the Fund will annually determine and announce the indicative distribution amount for the following year based upon the prevailing market conditions. The Indicative Distribution Amount was be $0.07 per Trust Unit per month ($0.84 per annum) for the first 12 months of the Fund.

If, in any year after such distributions, there would otherwise remain in the Fund, additional net income or net realized capital gains, a special distribution of such portion of the net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the Tax Act will be automatically payable on the last day of that taxation year to Unitholders of record on that date.

4. EXPENSES

Management and service fees

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

The Manager is entitled to a fee of 1.10 per cent of net assets payable monthly. The Fund pays service fees to registered dealers at the rate on 0.40 per cent of the daily net asset value of the Fund. Service fees are accrued daily and paid monthly to the manager, who in turn pays the dealers.

Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of extraordinary services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to Unitholders and other Unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public filing and other obligations. These expenses were $155 for the period ended December 31, 2010 (2009 - $4).

5. SOFT DOLLAR COMMISSIONS

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

The value of such research services included in commissions paid to brokers for the periods ended December 31, 2010 and 2009 amounted to $NIL.

6. INCOME TAXES

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

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

As at the Fund's 2010 taxation year the Fund did not have any tax losses (2009 - $NIL) .

Harmonized sales tax

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

7. NET ASSET VALUE AND NET ASSETS

The NAV 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 ($):	Net asset value ($)	Net asset ($)
As at December 31, 2010	13.69	13.64
As at December 31, 2009	12.10	12.02

8. LOAN FACILITY

The Fund has established a loan facility with a Canadian chartered bank. The amount of the loan is not to exceed 25 per cent of total net asset value. The Fund has the option of borrowing at the prime rate plus 2 per cent of interest. In addition, the Fund is required to pay a standby fee based on the amount of unused borrowings during the period, which is calculated daily, payable quarterly and is included in "Interest expense" on the Statements of Operations. The amount drawn on the loan facility was $5,625 throughout the period ended December 31, 2010 and 2009 and at the year-end. There were no stand by fees applicable as the Fund is utilizing the full amount of the facility.

The initial interest paid on the drawdown or renewal of the Bankers Acceptance ("BA") is deferred and amortized over the term of the BA, which matures February 14, 2011. The unamortized portion of the deferred interest is included under the "Prepaid Interest – loan facility" on the Statements of Financial Position. For the period ended December 31, 2010 and from November 19, 2009 to December 31, 2009, the Fund recorded interest expense of $258 and $36 respectively.

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

9. FINANCIAL STATEMENTS PRESENTATION

Last year figures were reclassified to match current year presentation.

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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.

HARVEST PORTFOLIOS GROUP