HARVEST PORTFOLIOS GROUP

HARVEST BANKS & BUILDINGS INCOME FUND

Annual Financial Statements

December 31, 2011

HARVEST Banks & Buildings Income Fund

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

On behalf of Harvest Portfolios Group Inc.,

(Signed) "Michael Kovacs"	*(Signed)* "B. Mark Riden CA"
President and Chief Executive Officer	Chief Financial Officer

Oakville, Canada
March 2012

March 19, 2012

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 statements of investments and financial position as at December 31, 2011 and 2010 and the statements of operations, changes in financial position, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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.

PricewaterhouseCoopers LLP, Chartered Accountants
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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2011 and 2010 and the results of its operations, the changes in its financial position, and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

HARVEST Banks & Buildings Income Fund

STATEMENT OF FINANCIAL POSITION

As at December 31,	2011	2010
Assets		
Investments, at fair value (cost $15,267,258; 2010 - $29,287,072)	$ 17,112,084	$ 33,783,481
Cash and cash equivalents	485,941	605,797
Dividends and interest receivable	131,453	193,167
Pre-paid interest- loan facility (Note 9)	-	28,896
	17,729,478	**34,611,341**
Liabilities		
Loan payable (Note 9)	-	5,625,000
Redemptions payable	4,220	-
Distributions payable	29,723	148,014
	$33,943	**5,773,014**
Net assets representing unitholders' equity	**$ 17,695,535**	**$ 28,838,327**
Unitholders' equity (Note 3)		
Unitholders' capital	16,402,422	23,068,857
Warrants	-	258,658
Contributed surplus	-	31,445
Retained earnings	1,293,113	5,510,812
Unitholders' equity	**$ 17,695,535**	**$ 28,838,327**
Net assets representing unitholders' equity		
Series R	**$ 16,137,857**	**$ 28,838,327**
Series A	**1,403,211**	**N/A**
Series F	**154,467**	**N/A**
Number of units outstanding (Note 3)		
Series R	**1,390,604**	**2,114,483**
Series A	**120,977**	**N/A**
Series F	**13,283**	**N/A**
Net assets per unit (Note 8)		
Series R	**$ 11.60**	**$ 13.64**
Series A	**11.60**	**N/A**
Series F	**11.63**	**N/A**
Number of warrants outstanding	-	**2,155,483**

Approved on behalf of the Manager,

(Signed) "Michael Kovacs"
President and Chief Executive Officer

(Signed) "B. Mark Riden CA"
Chief Financial Officer

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

HARVEST PORTFOLIOS GROUP

HARVEST Banks & Buildings Income Fund

STATEMENT OF OPERATIONS

For the periods ended December 31,		2011		2010
Investment income				
Dividends	$	1,596,169	$	1,088,248
Interest		239,203		426,819
Less: foreign withholding taxes		(67,478)		(43,085)
		1,767,894		**1,471,982**
Expenses				
Management fees (Note 4)		452,961		324,516
Service fees (Note 4)		151,275		108,123
Unitholder reporting costs (Note 4)		181,447		154,486
Audit fees		24,947		25,185
Transfer agency fees		44,436		15,781
Custodian fees and bank charges		48,783		39,190
Independent review committee fees		16,220		24,438
Interest expense (Note 9)		120,832		258,744
Filing fees		54,194		52,804
Legal fees		150,729		16,328
		1,245,824		1,019,595
Expenses absorbed by manager		(49,854)		-
		1,195,970		1,019, 595
Net investment income	**$**	**571,924**	**$**	**452,387**
Realized and unrealized gain / (loss) on investments and foreign currencies				
Realized gain on sale of investments	$	446,843	$	2,564,792
Realized gain / (loss) on foreign exchange		69,521		(10,970)
Transaction costs		(138,329)		(77,312)
Unrealized appreciation / (depreciation) of foreign exchange		169		(564)
Unrealized appreciation/ (depreciation) of investments		(2,651,583)		2,529,521
Net gain /(loss) on investments	$	(2,273,379)	$	5,005,467
Increase /(decrease) in net assets from operations	$	(1,701,455)	$	5,457,854
Decrease in net assets from operations - **Series R**	$	(1,753,578)	$	5,457,854
Increase in net assets from operations - **Series A**		50,182		N/A
Increase in net assets from operations - **Series F**		1,941		N/A
Decrease in net assets from operations per unit - **Series R**	$	(0.60)	$	2.56
Increase in net assets from operations per unit - **Series A**		0.51		N/A
Increase in net assets from operations per unit - **Series F**		0.08		N/A

The accompanying notes are an integral part of these financial statements

HARVEST Banks & Buildings Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION – ALL SERIES

For the periods ended December 31,	2011	2010
Net assets, beginning of the period	**$ 28,838,327**	**$ 25,900,169**
Increase / (decrease) in net assets from operations	**(1,701,455)**	**5,457,854**
Unitholders' transactions		
Proceeds from issue of units	27,958,576	-
Reinvestments of distributions	281,955	-
Cost of units cancelled	(235,233)	-
Cost of units redeemed	(34,312,367)	(478,830)
Agents' fees	(618,024)	-
Net unitholders' transactions	**(6,925,093)**	**(478,830)**
Distributions to unitholders		
Net investment income	(92,800)	**-**
Capital gain	**-**	(2,040,866)
Return of capital	(2,423,444)	-
Total distributions to unitholders	**$ (2,516,244)**	$ (2,040,866)
Net assets, end of the period	**$ 17,695,535**	$ 28,838,327

Retained earnings, beginning of the period	**$ 5,510,812**	**$ 2,093,824**
Increase / (decrease) in net assets from operations	(1,701,455)	5,457,854
Distributions to unitholders	(2,516,244)	(2,040,866)
Retained earnings, end of the period	**$ 1,293,113**	**$ 5,510,812**
Contributed surplus, beginning of the period	**$ (31,445)**	**$ -**
Cost of shares repurchased at less than (more than) par value	31,445	(31,445)
Contributed surplus, end of the period	**$ -**	**$ (31,445)**

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

HARVEST Banks & Buildings Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION – SERIES R

For the periods ended December 31,		2011		2010
Net assets, beginning of the period	**$**	**28,838,327**	**$**	**25,900,169**
Increase / (decrease) in net assets from operations		**(1,753,578)**		**5,457,854**
Unitholders' transactions				
Proceeds from issue of units		26,070,534		-
Reinvestments of distributions		262,225		-
Cost of units cancelled		(235,233)		-
Cost of units redeemed		(33,936,617)		(478,830)
Agents' fees		(618,024)		-
Net unitholders' transactions		**(8,457,115)**		**(478,830)**
Distributions to unitholders				
Net investment income		(91,834)		**-**
Capital gain		**-**		(2,040,866)
Return of capital		(2,397,943)		-
Total distributions to unitholders	**$**	**(2,489,777)**	$	(2,040,866)
Net assets, end of the period	**$**	**16,137,857**	$	28,838,327
Retained earnings, beginning of the period	**$**	**5,510,812**	**$**	**2,093,824**
Increase / (decrease) in net assets from operations		(1,753,578)		5,457,854
Distributions to unitholders		(2,489,777)		(2,040,866)
Retained earnings, end of the period	**$**	**1,319,580**	**$**	**5,510,812**
Contributed surplus, beginning of the period	**$**	**(31,445)**	**$**	**-**
Cost of shares repurchased at less than (more than) par value		(31,445)		(31,445)
Contributed surplus, end of the period	**$**	**-**	**$**	**(31,445)**

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

HARVEST Banks & Buildings Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION - SERIES A

For the period from the commencement of operations October 18, 2011 to December 31, 2011

Net assets, beginning of the period	$	-
Increase in net assets from operations		50,182
Unitholders' transactions		
Proceeds from issue of units		1,492,005
Reinvestments of distributions		14,497
Cost of units redeemed		(132,239)
Net unitholders' transactions		**1,374,263**
Distributions to unitholders		
Net investment income		(775)
Return of capital		(20,459)
Total distributions to unitholders		**(21,234)**
Net assets, end of the period	**$**	**1,403,211**

Retained earnings, beginning of the period	**$**	**-**
Increase in net assets from operations		50,182
Distributions to unitholders		(21,234)
Retained earnings, end of the period	**$**	**28,948**

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

HARVEST PORTFOLIOS GROUP

HARVEST Banks & Buildings Income Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION - SERIES F

For the period from the commencement of operations October 18, 2011 to December 31, 2011

Net assets, beginning of the period	$	-
Increase in net assets from operations		1,941
Unitholders' transactions		
Proceeds from issue of units		396,037
Reinvestments of distributions		5,233
Cost of units redeemed		(243,511)
Net unitholders' transactions		**157,759**
Distributions to unitholders		
Net investment income		(191)
Return of capital		(5,042)
Total distributions to unitholders		**(5,233)**
Net assets, end of the period	**$**	**154,467**

Deficit, beginning of the period	**$**	**-**
Increase in net assets from operations		1,941
Distributions to unitholders		(5,233)
Deficit, end of the period	**$**	**(3,292)**

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

HARVEST Banks & Buildings Income Fund

STATEMENT OF CASH FLOWS

For the periods ended December 31,	2011	2010
Operating activities		
Increase (decrease) in net assets from operations	$ (1,701,455)	$ 5,457,854
Add (deduct) items not affecting cash:		
Realized gain on sale of investments	(446,843)	(2,564,792)
Change in unrealized appreciation /(depreciation) of investments	2,651,583	(2,529,521)
Proceeds from sale of investments	43,866,128	19,731,491
Purchases of investments	(29,399,471)	(17,538,987)
Net change in non-cash assets and liabilities	90,610	77,242
Net cash flow provided by (used in) operating activities	**15,060,552**	**2,633,287**
Financing activities		
Borrowing of term credit facility (Note 9)	(5,625,000)	-
Proceeds from units issued	28,205,611	-
Cost of units cancelled	(235,233)	(478,830)
Cost of units redeemed	(34,273,227)	-
Agents' fees	(618,024)	-
Distributions to unitholders	(2,634,535)	(2,043,736)
Net cash flow provided by financing activities	**(15,180,408)**	**(2,522,566)**
Net increase in cash and cash equivalents during the period	(119,856)	110,721
Cash and cash equivalents, at the beginning of the period	$ 605,797	$ 495,076
Cash and cash equivalents, at the end of the period	**$ 485,941**	**$ 605,797**
Supplemental disclosure of cash flow information		
Amount of interest paid during the period included in net investment income	**$ 120,832**	**$ 258, 744**

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

HARVEST PORTFOLIOS GROUP

HARVEST Banks & Buildings Income Fund

STATEMENT OF INVESTMENTS

As at December 31, 2011

Number of Shares	Security	Average Cost ($)	Fair Value ($)	% of Net Assets
	EQUITIES			
	Real Estate Issuers			
14,500	American Capital Agency Corporation	409,755	414,443	2.3
23,600	Annaly Capital Management Inc.	411,948	383,771	2.2
117,500	Artis Real Estate Investment Trust	1,225,760	1,643,825	9.3
594,123	BTB Real Estate Investment Trust	342,393	522,828	3.0
50,000	Cominar Real Estate Investment Trust	945,955	1,100,500	6.2
100,000	Crombie Real Estate Investment Trust	1,118,155	1,399,000	7.9
125,900	Killam Properties Inc.	1,127,103	1,455,404	8.2
83,752	Leisureworld Senior Care Corp.	862,223	943,885	5.3
229,300	Pure Industrial Real Estate Trust	829,247	953,888	5.4
25,490	Timbercreek Mortgage Investment Corp	265,219	265,096	1.5
45,450	Whiterock Real Estate Investment Trust	465,585	601,758	3.4
		8,003,343	9,684,398	54.7
	Banking And Other Financial Issuers			
13,000	Bank of Montreal	734,897	725,790	4.1
11,000	Canadian Imperial Bank of Commerce	793,891	811,140	4.6
20,000	Great-West Lifeco Inc.	500,729	406,400	2.3
157,500	Pacific & Western Credit Corp., Warrants (Exp. 11/26/12)	-	4,725	-
16,000	Royal Bank of Canada	842,749	830,720	4.7
16,000	Sun Life Financial Inc.	465,112	302,400	1.7
15,000	The Bank of Nova Scotia	781,188	761,250	4.3
7,700	The Toronto-Dominion Bank	531,539	587,125	3.3
21,000	Wells Fargo & Co.	523,991	589,322	3.4
		5,174,096	5,018,872	28.4
	Other Public Issuers			
46,000	Inter Pipeline Fund LP, Class A	708,349	853,300	4.8
53,000	Veresen Inc.	696,717	810,370	4.6
		1,405,066	1,663,670	9.4
	Total equities	**14,582,505**	**16,366,940**	**92.5**
Par Value				
	FIXED INCOME			
393,408	Boralex Inc. 6.75% Jun 30/17	396,162	409,144	2.3
336,000	BTB Real Estate Investment Trust 8.50% Mar 31/13	288,591	336,000	1.9
	Total fixed income	**684,753**	**745,144**	**4.2**
	Total investments	**15,267,258**	**17,112,084**	**96.7**
	Other assets less liabilities		**583,451**	**3.3**
	Net Assets		**17,695,535**	**100.0**

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

HARVEST Banks & Buildings Income Fund

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended December 31, 2011 and 2010

1. ORGANIZATION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Valuation of investments

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

a) Investments are categorized as held for trading in accordance with CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement. Investments held that are traded on an active market are valued at their bid prices through recognized public stock exchanges or through recognized investment dealers on the valuation date. Investments held include equities, listed warrants, short-term notes, treasury bills, bonds and other debt instruments.

b) Investments held with no available bid prices are valued at their closing sale price. Investments held that are not traded on an active market are valued using valuation techniques, on such basis and in such a manner established by the Manager. The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager in accordance with Section 3855 methodologies. The fair value 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, 2011 and 2010, 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"). A reconciliation between NAV per unit and Net assets per unit at the period end is provided in Note 8.

Cash and cash equivalents

Cash is comprised of cash on deposit. Cash equivalents are comprised of highly liquid investments having terms to maturity of 90 days or less.

Other assets and liabilities

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

Transaction costs

Transaction costs, such as brokerage commissions, incurred on the purchase and sale of securities by the Fund are expensed in accordance with Section 3855 and are recognized in the Statement of Operations in the period in which they are incurred.

Investment transactions and income recognition

Investment transactions are accounted for on the trade date. The cost of investments which represents the amount paid for each security is determined on an average cost basis excluding transaction costs. Realized gains and (losses) from the sale of investments and unrealized appreciation/(depreciation) of investments are calculated on an average cost basis.

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

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

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

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

Securities valuation
The net asset value 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 net asset value and net asset value per unit will be calculated as of 4:00 p.m. (Toronto time) or such other time as the Manager or its agent deem appropriate every business day. A valuation date (a “Valuation Day”) is each day on which the Toronto Stock Exchange (“TSX”) 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.

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 assets or liabilities 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, 2011 and 2010. There were no transfers between Level 1 and Level 2 for the periods ended December 31, 2011 and December 31, 2010.

HARVEST Banks & Buildings Income Fund

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended December 31, 2011 and 2010

Securities Classification:

Investments at fair value as at December 31, 2011				
	Level 1	**Level 2**	**Level 3**	**Totals**
Equities				
Common stock	8,223,806	-	-	8,223,806
Mutual fund	-	265,096	-	265,096
Limited partnership	853,300	-	-	853,300
REIT	7,020,013	-	-	7,020,013
Warrants	-	4,725	-	4,725
Total equities	**16,097,119**	**269,821**	**-**	**16,366,940**
Fixed income				
Corporate bonds	-	745,144	-	745,144
Total fixed income	-	**745,144**	**-**	**745,144**
Total investments at fair value	**16,097,119**	**1,014,965**	**-**	**17,112,084**

Investments at fair value as at December 31, 2010				
	Level 1	**Level 2**	**Level 3**	**Totals**
Equities				
Common stock	12,686,487	-	-	12,686,487
Depository receipts	571,746	-	-	571,746
Mutual fund	-	1,254,000	-	1,254,000
Preferred stock	5,580,409	-	-	5,580,409
REIT	11,409,096	-	-	11,409,096
Total Equities	**30,247,738**	**1,254,000**	**-**	**31,501,738**
Fixed Income				
Convertible Bonds	-	1,162,884	-	1,162,884
Corporate bonds	-	1,118,859	-	1,118,859
Total fixed income	**-**	**2,281,743**	**-**	**2,281,743**
Total investments at fair value	**30,247,738**	**3,535,743**	**-**	**33,783,481**

Transition to International Financial Reporting Standards ("IFRS")

As previously confirmed by the Canadian Accounting Standards Board ("AcSB"), most Canadian publicly accountable entities adopted all IFRS, as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB had initially allowed most investment funds to defer adoption of IFRS until fiscal years beginning on or after January 1, 2013. At its December 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises to 2014. The decision was in response to the possibility that the IASB may not complete its Investment Entities project before January 1, 2013. The AcSB expects to issue the amendment in March 2012. Accordingly, the Fund will adopt IFRS for the fiscal period beginning January 1, 2014 and will issue its initial financial statements in accordance with IFRS, including comparative financial information, for the interim period ending June 30, 2014. Management has been monitoring developments in the IFRS conversion program and has been assessing the likely impacts on implementation decisions, internal controls, information systems and training.

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

Based on management's current assessment of the differences between Canadian GAAP and IFRS, other than the impact due to IFRS 13 noted above, it is not expected that there would be any other impact on the Funds' NAV per series unit or net assets per series unit. Management has presently determined that the impact of IFRS to the financial statements would be otherwise limited to additional note disclosures and potential modifications to presentation including unitholders' equity. However, this determination is subject to change as we finalize our assessment of potential IFRS differences and as new standards are issued by the IASB prior to the Fund's adoption of IFRS.

3. UNITHOLDERS' EQUITY

The authorized capital of the Fund consists of an unlimited number of transferable, units of one Series, 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 following units were issued and redeemed during the periods indicated:

	Units outstanding	**Warrants outstanding**
Total outstanding as at December 31, 2009	2,155,483	2,155,483
Subscriptions	-	-
Cancelled units	(41,000)	-
Total outstanding as at December 31, 2010	2,114,483	2,155,483

	Units outstanding	Warrants outstanding
Total outstanding as at December 31, 2010	2,114,483	2,155,483
Subscriptions	2,060,079	-
Redemptions	(1,975,215)	-
Cancelled units	(18,700)	-
Warrants exercised	-	(2,060,079)
Warrants expired	-	(78,400)
Cancelled Warrants	-	(17,000)
Total outstanding as at October 18, 2011	2,180,647	-

	Units outstanding		
	SERIES R	SERIES A	SERIES F
Total outstanding as at October 18, 2011 (post conversion)	2,180,647	-	-
Subscriptions	498	23,466	2,249
Subscription (reinvestment of distributions)	22,794	-	-
Redemptions	(671,893)	(11,592)	(21,365)
Transfers between Series	(141,444)	109,103	32,399
Total outstanding as at December 31, 2011	1,390,604	120,977	13,283

The Fund renewed the normal course issuer bid programme for the period from December 13, 2010 to October 31, 2011, which allowed the Fund to purchase up to 210,118 listed units and 215,118 listed warrants of the Fund for cancellation by way of a normal course issuer bid through the facilities of the TSX. During the period ended October 18, 2011, 18,700 units (2010 – 41,000) were purchased for cancellation.

If the price for the redemption of the Fund units or warrants is lower than the average issue price, the difference is included in "Contributed surplus" on the Statement of Financial Position. If the price is greater than the original issue price, the difference is charged to "Contributed surplus" until the entire amount is eliminated, and the remaining amount is charged to "Retained earnings".

Warrants

On April 15, 2011, 2,060,079 million warrants were exercised, for total proceeds of $24,720,948. Each warrant entitled the holder to purchase one unit at a subscription price of $12.00. Any warrants not exercised expired. The Fund paid a fee equal to $0.18 per warrant to the registered dealer whose client exercised the warrant and $0.12 per warrant to the Agents. On January 10 and February 14, 2011, 12,000 and 5,000 warrants were purchased for cancellation at $0.52 and $0.58 respectively, through the normal course issuer bid programme.

Redemptions

In accordance with the Fund prospectus, unitholders who filed during the notice period redeemed their units on September 16, 2011 (the "First NAV Redemption Date"). Unitholders redeemed $ 23,302,537 or 1,975,215 units on the First NAV Redemption Date NAV of $11.80. Unitholder received payment on or before September 27, 2011.

After the Conversion Date, units may be redeemed at the NAV per unit on any business day.

Distributions

While a listed fund, the Fund declared monthly cash distributions to unithioldеrs of record on the last business day of each month and paid such cash distributions on or before the 15th day of the following month. After the Conversion Date, monthly distributions to unitholders are declared and paid to unitholders of record on the Valuation Date prior to the month-end, and automatically reinvested into additional units of the Fund at the month-end, unless unitholders specifically requested a cash distribution be paid. The total distributions were $0.84 per unit ($0.07 per unit per month) for the period ended December 31, 2011 (2010 - $0.96).

Distributions paid for the period December 31,	2011	2010
Series R	$2,489,777	$2,040,866
Series A	$21,234	N/A
Series F	$5,233	N/A

4. EXPENSES

Management fees and servicing fees

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

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

For the Series A units, the Management Fee is equal to an annual rate of 2.35% of the NAV per Unit, plus applicable taxes including HST.

For the Series F units, the Management Fee is equal to an annual rate of 1.10% of the NAV per Unit, plus applicable taxes including HST.

For the Series R units, the Management Fee is equal to an annual rate of 1.50% of the NAV per Unit, plus applicable taxes including HST.

The Management Fees accrue daily and are paid monthly.

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

Series A:

For Series A units, Dealers will receive an annual servicing fee equal to 1.25% of the NAV per unit for each unit held by clients of the Dealer (calculated and paid at the end of each calendar quarter, plus applicable taxes).

Series F:

For Series F units, there are no servicing fees paid, but the unitholder may be charged a negotiable advisory fee directly by the Dealer.

Series R:

For Series R units, Dealers will receive an annual servicing fee equal to 0.40% of the NAV per unit for each unit held by clients of the Dealer (calculated and paid at the end of each calendar quarter, plus applicable taxes).

Independent Review Committee ("IRC") Fees

The IRC, is required under National Instrument 81-107, reviews conflict of interest matters referred to it by the manager and provided recommendations or approves actions, as appropriate, that are in the best interest of the Fund. There are currently three members of the IRC who are independent of Harvest and its affiliates. IRC members are compensated by way of an annual retainer fee and a per meeting attendance fee, as well as reimbursed for expenses associated with IRC duties. These costs are allocated among the individual funds appropriately by assets.

Other expenses

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

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

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 offering and other obligations. These expenses were $131,081 for the period ended December 31, 2011 (2010 - $86,677) and are included in the unitholder reporting costs on the Statement of Operations.

5. FINANCIAL RISK MANAGEMENT

Investment Objectives

The Fund's investment objectives are:

i. to provide unitholders with monthly distributions; and

ii. to maximize total return for unitholders.

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

Investment Strategies

To achieve the investment objective, the Investment Manager, will invest in an actively managed portfolio that will consist primarily of Banking Issuers, Other Financial Issuers and Real Estate Issuers. The Manager believes that in this

5. FINANCIAL RISK MANAGEMENT (continued)

environment, dividend paying issuers, banks and REITs offer consistent distributions. These issuers, although negatively impacted by the current credit crisis, have in general, not decreased their dividends or distributions. The issuers in the Canadian banking, other financial and real estate industries have capital ratios and leverage ratios that are conservative in nature and therefore generally justify consistent dividend payout policies.

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

Other price risk

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

As at December 31, 2011, 92.5% (2010 - 109.2%) 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 $818,347 (2010 - $1,575,087.)

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 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, 2011		As at December 31 2010	
Currency	**Currency exposure ***	**As a % of net assets**	**Currency exposure ***	**As a % of net assets**
U.S. Dollars	1,428,253	8.1%	4,239,942	14.7%

*Amounts are in Canadian $s

As at December 31, 2011, 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 $71,413 (2010 - $211,997) or 0.4% (2010 - 0.7%) of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair value of financial instruments. A Fund that invests in fixed income securities, such as bonds and money market instruments, is sensitive to changes in interest rates. In general, when interest rates are falling, the value of these investments rises. Moreover, fixed income securities with longer terms to maturity are usually more sensitive to changes in interest rates. If interest rates were to change by 1.0%, the increase/ (decrease) in interest earned by the Fund would change by $7,451 (2010 - $22,817). 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, 2011, the Fund had a loan facility of $NIL (2010 - $5,625,000). If interest rates were to change by 1.0%, the interest expense could increase/(decrease) by $NIL (2010 - $56,250).

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, 2011 and 2010.

Debt Instruments: December 31, 2011	**Fair value ($)**	**% of Net Assets**
Less than 1 year	-	0.0
1 to 3 years	336,000	1.9
3 to 5 years	-	-
Greater than 5 years	409,144	2.3
Total	**745,144**	**4.2**

Debt Instruments: December 31, 2010	**Fair value ($)**	**% of Net Assets**
Less than 1 year	33,000	0.1
1 to 3 years	333,480	1.1
3 to 3 years	-	-
Greater than 5 years	1,915,263	6.7
Total	**2,281,743**	**7.9**

Liquidity risk

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

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

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

As at December 31, 2011	**Less than 1 month**	**1-3 months**	**No stated maturity**
Payable for investments purchased	4,220	-	-
Distributions payable	29,723	-	-
Total financial liabilities	**33,943**	**-**	**-**

As of December 31, 2010	Less than 1 month	1-3 months	No stated maturity
Loan facility	-	5,625,000	-
Distributions payable	148,014	-	-
Total financial liabilities	**148,014**	**5,625,000**	**-**

*maturity August 15, 2011

Credit risk

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

The Fund's greatest concentration of credit risk is in its holdings of fixed income debt instruments. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. This risk is largely mitigated by the high quality standards used to select corporate investments. Ongoing credit assessments are performed on all the Fund's holdings and the exposure level is managed through careful diversification across industry sectors and individual issuers, which helps to minimize this risk. The maximum credit risk of these investments is their fair value at December 31, 2011 and 2010.

At December 31, 2011 and 2010, the Fund was invested in debt securities with the following credit ratings:

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

December 31, 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	**100.0**	**7.9**

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

6. SOFT DOLLAR COMMISSIONS

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

The value of such research services included in commissions paid to brokers for the periods ended December 31, 2011 and 2010 amounted to $NIL.

7. INCOME TAXES

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

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

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

As at the Fund’s 2011 taxation year, the Fund did not have any tax losses.

Harmonized sales tax

Effective July 1, 2010, certain provinces have harmonized their provincial sales tax (“PST”) with the federal goods and services tax (“GST”). The harmonized sales tax (“HST”) combines the GST rate of 5% with the PST rate of certain provinces. For the province of Ontario the HST rate is 13%. 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.

8. NET ASSET VALUE AND NET ASSETS

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

Per Unit ($):	NAV ($)	Net asset ($)
As at December 31, 2011		
Series R	$11.62	$11.60
Series A	$11.61	$11.60
Series F	$11.64	$11.63
As at December 31, 2010 – Series R	$13.69	$13.64

9. LOAN FACILITY

The Fund previously established a loan facility with a Canadian chartered bank. The loan function was to borrow for the purpose of making investments in accordance with the Fund's investment objectives and restrictions, and to pledge its assets to secure the borrowings. The loan facility was repaid in full and the facility cancelled on August 15, 2011, prior to the Conversion Date.

The initial interest paid on the drawdown or renewal of the Bankers Acceptance ("BA") was deferred and amortized over the term of the BA, which matured August 15, 2011. The unamortized portion of the deferred interest was included under the "Prepaid Interest – loan facility" on the Statement of Financial Position. For the period ended December 31, 2011, the Fund recorded interest expense of $120,832 (2010 - $258,744).

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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.