

**Annual Information Form**

**of**

**HARVEST BANKS & BUILDINGS INCOME FUND  
(Series A, Series F and Series R Units)**

**Dated: October 18, 2011**

No securities regulatory authority has expressed an opinion about these units and it is an offence to claim otherwise.

The Fund and the Units of the Fund described in this annual information form are not registered with the United States Securities and Exchange Commission and they are sold in the United States only in reliance on exemptions from registration.

<b>INTRODUCTION</b>	<b>1</b>
<b>NAME, FORMATION AND HISTORY OF THE FUND</b>	<b>1</b>
<b>INVESTMENT RESTRICTIONS</b>	<b>2</b>
<b>DESCRIPTION OF UNITS OFFERED BY THE FUND</b>	<b>3</b>
<b>CALCULATION OF NET ASSET VALUE AND VALUATION OF PORTFOLIO SECURITIES</b>	<b>4</b>
<b>PURCHASES AND SWITCHES</b>	<b>7</b>
<b>RESPONSIBILITY FOR FUND OPERATIONS</b>	<b>11</b>
<b>CONFLICTS OF INTEREST</b>	<b>15</b>
<b>FUND GOVERNANCE</b>	<b>16</b>
<b>FEES AND EXPENSES</b>	<b>18</b>
<b>INCOME TAX CONSIDERATIONS FOR INVESTORS</b>	<b>18</b>
<b>REMUNERATION</b>	<b>21</b>
<b>MATERIAL CONTRACTS</b>	<b>21</b>
<b>AUDITOR'S CONSENT</b>	<b>22</b>
<b>CERTIFICATE OF THE FUND, THE MANAGER AND THE PROMOTER</b>	<b>23</b>

## HARVEST BANKS & BUILDINGS INCOME FUND

### INTRODUCTION

This annual information form contains information in connection with Harvest Banks & Buildings Income Fund.

In this annual information form:

- **We, us, our, Harvest** and the **Manager** refer to Harvest Portfolios Group Inc.;
- **You** refers to an individual investor and everyone who invests or may invest in the Fund;
- **Fund** refers to Harvest Banks & Buildings Income Fund, the Units of which are being offered by us under the simplified prospectus relating to this annual information form;
- **Investment Manager** refers to Avenue Investment Management Inc.;
- **IRC** means the Independent Review Committee established by the Manager for the Fund;
- **NI 81-102** means National Instrument 81-102 *Mutual Funds*;
- **Units** refers to units of the Fund;
- **Unitholders** refers to holders of Units of the Fund;
- **Dealer** refers to both the dealer and the registered representative in your province who advises you on your investments;
- **TSX** means the Toronto Stock Exchange.

### NAME, FORMATION AND HISTORY OF THE FUND

The Fund was originally established as a closed-end investment trust 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, October 22, 2009 and October 18, 2011 (the “**Declaration of Trust**”). The initial Units of the Fund, each subsequently redesignated as Series R Units, were delisted from the TSX on October 5, 2011 and the Fund was converted to an open-end mutual fund trust on October 18, 2011, in accordance with the provisions of the Declaration of Trust.

The Declaration of Trust was amended and restated on October 18, 2011 (i) to reflect the conversion (the “**Conversion**”) of the Fund to an open-end mutual fund; (ii) to redesignate the outstanding Units as Series R Units; (iii) to create the Series A and Series F Units; and (iv) to delete any provisions which applied to the Fund only prior to the Conversion.

Harvest is the manager and trustee of the Fund. The registered office of the Fund is located at the head office of the Manager at Suite 200, 710 Dorval Drive, Toronto Street, Oakville, Ontario, L6K 3V7.

## INVESTMENT RESTRICTIONS

The Fund is subject to certain standard investment restrictions and practices contained in securities legislation, including NI 81-102, as amended from time to time (or any successor instrument). This helps to ensure that the investments of the Fund are diversified and relatively liquid and helps to ensure the proper administration of the Fund. The Fund adheres to, and is managed in accordance with, these standard investment restrictions and practices.

The fundamental investment objectives of the Fund are set out in the simplified prospectus of the Fund. Any change to the investment objectives of the Fund requires the approval of a majority of Unitholders votes cast at a meeting called for that purpose. The Trustee may change the Fund's investment strategies from time to time at its discretion.

### Eligibility under the Income Tax Act

The Fund is expected to qualify as a mutual fund trust as defined in the *Income Tax Act* (Canada) (the "**Tax Act**") at all times. The Fund will not engage in any undertaking other than the investment of its funds in property for the purposes of the Tax Act. Provided the Fund qualifies as a mutual fund trust, Units will be qualified investments within the meaning of the Tax Act for registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), deferred profit sharing plans (DPSPs), registered education savings plans (RESPs), registered disability savings plans (RDSPs) and tax-free savings accounts (TFSA) ("**Registered Plans**").

Generally, Units should not be "**prohibited investments**" under the Tax Act for the purposes of RRSPs, RRIFs and TFSA provided that you, as the annuitant of the RRSP or RRIF, or the holder of the TFSA, together with persons or partnerships that do not deal at arm's length with you, own Units having a fair market value that is less than 10% of all of the Units of the Fund. You should consult with your own tax advisor with respect to whether Units would be a prohibited investment under the Tax Act in your particular circumstances.

### Non-Resident Unitholders

The Fund was not established and shall not be maintained for the benefit of one or more non-resident persons within the meaning of the Tax Act. At no time may non-residents of Canada and partnerships (other than "Canadian partnerships" as defined in the Tax Act) be the beneficial owners of more than 50% of the Units and the Trustee shall inform the Registrar and Transfer Agent of this restriction. The Trustee may require a declaration as to the jurisdiction in which a beneficial owner of Units is resident and, if a partnership, as to its status as a "Canadian partnership". If the Trustee becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% or more of the Units then outstanding are, or may be, non-residents and/or partnerships (other than "Canadian partnerships"), or that such a situation is imminent, the Trustee may make a public announcement thereof and the Trustee may send a notice to such non-resident Unitholders and partnerships, chosen in inverse order to the order of acquisition or in such manner as the Trustee may consider equitable and practicable, requiring them to dispose of their Units or a portion thereof to residents of Canada within a specified period of not less than 30 days. If the Unitholders receiving such notice have not disposed of the specified number of Units or provided the Trustee with satisfactory evidence that they are not non-residents or partnerships (other than "Canadian partnerships") within such period, the Trustee may redeem or, on behalf of such Unitholders, dispose of such Units. Upon such redemption or sale, the affected Unitholders shall cease to be beneficial Unitholders of Units and their rights shall be limited to receiving the redemption price or the net proceeds of sale of such Units.

## DESCRIPTION OF UNITS OFFERED BY THE FUND

The Fund is divided into an unlimited number of Units of each series. Additional series of the Fund may be issued in the future without notice to, or approval of, Unitholders. All Units are issued as fully paid and non-assessable. The Fund is permitted to issue fractional Units and the proportionate interest of each Unitholder in the Fund is expressed by the number of Units and fractions thereof held by that Unitholder. Each Unitholder is entitled to one vote for each whole Unit owned at all meetings where Unitholders vote together as well as at all meetings where Unitholders of the particular series vote separately as a series. Each Unit entitles the holder thereof to participate pro rata, in accordance with the provisions of the Declaration of Trust, with respect to all distributions of the same series (except with respect to any special distributions such as Management Fee Distributions discussed and defined on page 19) and, upon liquidation of the Fund to participate pro rata with the other Unitholders of the same series in the net asset value (the “NAV”) of the series of the Fund remaining after satisfaction of outstanding liabilities of the Fund.

All Units are redeemable on the basis described under “**Redemption of Units**” below and they are also fully transferable with the consent of the Trustee as provided in the Declaration of Trust.

The Fund does not intend to hold annual meetings of Unitholders. Unitholders are permitted to vote on all matters that require Unitholder approval under NI 81-102 or under the Declaration of Trust. These matters include, in respect of the Fund:

- (a) (i) any change in the basis of the calculation of a fee or expense charged to the Fund or directly to its Unitholders that could result in an increase in charges to the Fund, or (ii) a new fee or expense is introduced that could result in an increase in charges to the Fund or directly to its Unitholders. (In either case, Unitholder consent will not be required if the change or new fee or expense is a result of a change made by a third party at arm’s length to the Fund. In this case, Unitholders will be sent written notice at least 60 days before the effective date of the change.);
- (b) a change of the Manager, unless the new manager is an affiliate of the Manager;
- (c) a change in the fundamental Investment Objectives of the Fund;
- (d) a decrease in the frequency of the calculation of the NAV per Unit of the Fund; and
- (e) a material reorganization of the Fund.

Unitholders will also be entitled to vote on any modification, amendment, alteration or deletion of rights, privileges or restrictions attaching to the Units which would have a material adverse effect on the interests of Unitholders. Approval of these matters, and those listed above, requires an affirmative vote of at least a majority of Unitholder votes cast at a meeting called to consider these matters.

If approved by the IRC, the Fund may change its auditor or reorganize or transfer its assets (a “**merger**”) to another fund managed by the Manager, or an affiliate of the Manager, by sending you a written notice of any such change at least 60 days before it takes effect provided the merger fulfills the requirements of NI 81-102. In such event, no meeting of Unitholders of the Fund is required to approve

the change.

## **CALCULATION OF NET ASSET VALUE AND VALUATION OF PORTFOLIO SECURITIES**

The NAV of the Fund is valued at the close of business each day that the TSX is open for trading (a “**business day**”) and 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 will be calculated using the fair value of the Fund’s assets and liabilities. Where there is more than one series of Units, a separate NAV is calculated for each series. The NAV per Unit of the Fund or series, as applicable, on any day will be obtained by dividing the NAV of the Fund or series, as applicable, on such day by the number of Units of the Fund or series, as the case may be, then outstanding.

Unless otherwise required by law, the value of the assets held by the Fund is determined as follows:

- (a) the value of any cash on hand or on deposit, bills, demand notes, accounts receivable, prepaid expenses, cash dividends received (or to be received and declared to shareholders of record on a date before the date as of which the NAV is being determined), and interest accrued and not yet received, shall be deemed to be the full amount thereof unless the Manager shall have determined that any such asset is not worth the full amount thereof, in which event the value thereof shall be deemed to be such value as the Manager shall determine to be the reasonable value thereof;
- (b) the value of any security which is listed or dealt in upon a stock exchange shall be determined by (a) in the case of a security which was traded on the day as of which the NAV is being determined, the closing sale price; (b) in the case of a security which was not traded on the day as of which the NAV is being determined, a price which is the average of the closing recorded bid and asked prices; or (c) if no bid or asked quotation is available, the price last determined for such security for the purpose of calculating the NAV. The value of inter-listed securities shall be computed in accordance with directions laid down from time to time by the Manager;
- (c) the value of any security, the resale of which is restricted or limited by reason of a representation, undertaking or agreement by the Fund or by the predecessor in title of the Fund, shall be the lesser of (a) the value based on a reported quotation in common use and (b) that percentage of the market value of securities of the same class, the resale of which is not restricted or limited by reasons of any representation, undertaking or agreement, equal to the percentage that the acquisition cost of the Fund was of the market value of such securities at the time of acquisition, provided that a gradual taking into account of the actual value of the securities may be made when the date on which the restrictions will be lifted is known;
- (d) unlisted securities traded on an over-the-counter market are valued at the closing bid price on that business day;
- (e) long positions in clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- (f) where a covered clearing corporation option, option on futures or over the counter option is written by the Fund, the premium received by the Fund will be reflected as a deferred credit

which will be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option which would have the effect of closing the position; any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment; the deferred credit shall be deducted in arriving at the NAV of the Fund; the securities, if any, which are the subject of a written covered clearing corporation option or over-the-counter option will be valued in the manner described above for listed securities;

- (g) the value of a futures contract, forward contract or swap shall be the gain or loss, if any, that would arise as a result of closing the position in the futures contract or forward contract or swap, as the case may be, on that business day unless daily limits are in effect, in which case fair market value shall be based on the current value of the underlying interest;
- (h) margin paid or deposited in respect of futures contracts, forward contracts, and swaps shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (i) short-term securities may be valued using market quotations, amortized cost or original cost plus accrued interest, unless the Manager determines that these no longer approximate market value of the assets;
- (j) the value of all assets of the Fund valued in terms of a currency other than Canadian currency and liabilities payable in a currency other than Canadian currency shall be translated to Canadian currency using the closing rate of exchange as quoted by customary banking sources on the date of valuation;
- (k) each transaction of purchase or sale of portfolio securities effected by the Fund shall be reflected in the computation of the NAV of the Fund not later than the first computation of the NAV of the Fund made after the date on which the transaction becomes binding;
- (l) the issue or redemption of Units of the Fund shall be reflected in the computation of the NAV not later than the next computation of the NAV or series made after the time of the issue or redemption of the Units of the Fund; and
- (m) if any asset of the Fund cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Manager to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Manager shall make such valuation as it considers fair and reasonable.

The liabilities of the Fund include:

- (a) all bills and accounts payable;
- (b) all administrative expenses payable and/or accrued;
- (c) the fees and reasonable expenses of the IRC established pursuant to National Instrument 81-107 – *Independent Review Committee for Investment Funds* (“**NI 81-107**”).
- (d) all obligations for the payment of money or property, including the amount of any declared but unpaid distributions;
- (e) all allowances authorized or approved by the Manager for taxes or contingencies; and
- (f) all other liabilities of the Fund of whatever kind and nature, except liabilities represented by outstanding Units.

The liabilities of each series include the proportionate share of all common Fund liabilities and the liabilities incurred exclusively by that series.

Harvest may suspend the calculation of the NAV when the right to redeem a Unit is suspended. See “*Suspending your right to redeem Units*” on page 10 below. During any period of suspension there will be no calculation of the NAV and the Fund will not be permitted to issue or redeem any Units. The calculation of the NAV will resume when trading in the Fund’s securities resumes. In the event of a suspension of the calculation of NAV per Unit, a Unitholder may either withdraw his, her or its redemption request prior to the end of the suspension period or receive payment based on the NAV per Unit next calculated after the termination of the suspension.

The NAV of the Fund, for all purposes other than financial statements, is calculated using the valuation principles described above. Pursuant to National Instrument 81-106 – Investment Fund Continuous Disclosure, an investment fund is required to calculate the NAV for the purposes of its financial statements in accordance with the method required for financial reporting under Section 3855 of the Canadian Institute of Chartered Accountants Handbook (“**CICA Handbook**”).

The valuation principles and practices of the Fund outlined above differ from those contained in the CICA Handbook in the following ways: For investments that are traded in an active market where quoted prices are readily and regularly available, the CICA Handbook requires the use of final bid prices for long positions and final ask prices for short positions in the fair valuation of investments, rather than the use of closing or last traded prices for the purpose of determining NAV. For investments that are not traded in an active market, fair valuation techniques are used.



## PURCHASES AND SWITCHES

### General

The Units are offered for sale on a continuous basis through registered dealers. Purchase orders must be placed with dealers or brokers registered in an investor's province of residence. The price of a Unit is the NAV per Unit.

You can buy Units of the Fund or switch from Units of one series to another series of the Fund, or to another fund (when available) through a qualified Dealer.

You can also sell your investment in the Fund through your Dealer. Selling your investment is also known as redeeming. Whether you are buying, selling or switching Units of the Fund, we base the transaction on the value of the Units of the Fund. The price of a Unit is called the NAV per Unit, or the Unit value. We generally calculate the NAV per Unit of each series of the Fund following the close of trading on the TSX (usually 4:00 p.m.) on each day that the TSX is open for trading (a "**Valuation Day**"). In unusual circumstances, we may suspend the calculation of the NAV per Unit.

The NAV per Unit of each series of the Fund is calculated as follows:

- we determine the value of each series' proportionate share of the assets of the Fund;
- we subtract the liabilities of the Fund that are common to all series and the liabilities of the Fund that are specific to the series; and
- finally we divide the balance by the number of Units of the series held by Unitholders.

The Fund is valued and may only be purchased in Canadian dollars. When you place your order through a Dealer, the Dealer sends it to us.

### Securities offered

The Fund offers Series A, Series F and Series R Units. Additional series may be offered in the future without notice to, or approval of, Unitholders.

#### Series A:

Series A Units are available to all investors. Series A Units are available only on a front-end sales charge basis. With the front-end sales charge option, you negotiate and pay your Dealer a sales charge of up to 5.00% of the amount invested at the time you purchase such Units. The sales charge you negotiate is deducted from the amount you invest at the time of purchase and is paid to your Dealer as a commission.

#### Series F:

Series F Units are available to investors who participate in fee-based programs through their Dealer. There is no sales commission payable on purchases of Series F Units of the Fund. Purchasers of Series F Units will be generally required to pay their Dealers a fee for a service or wrap program. These investors pay their Dealer an investment advisory fee for ongoing services. This investment advisory fee is negotiated between the investor and their Dealer. We pay no commissions or service fees to their Dealer. Your Dealer must ensure that you are eligible to buy and continue to hold Series F Units. If you did not qualify to hold Series F Units, or are no longer eligible to hold Series F Units, your Dealer must notify us to switch your Series F Units into Series A Units of the Fund, or to redeem them. If we do not receive such instructions within 30 days, we may, at our discretion, switch your Series F Units into Series A

Units of the Fund, or redeem them.

### **Series R:**

Series R Units are only available to investors who held Units of the Fund at the effective time of the conversion of the Fund into an open ended mutual fund on October 18, 2011. Series R Units are available only on a front-end sales charge basis. With the front-end sales charge option, you negotiate and pay your Dealer a sales charge of up to 5.00% of the amount invested at the time you purchase such Units. The sales charge you negotiate is deducted from the amount you invest at the time of purchase and is paid to your Dealer as a commission.

### **Purchases**

You can purchase Units of the Fund through Dealers who will send your order to the Toronto office of the Fund's registrar and transfer agent. Series A, Series F and Series R Units are qualified for distribution in all Canadian provinces and territories pursuant to the simplified prospectus and this annual information form. Your order must be in the proper form and include all necessary supporting documents. Your Dealer is responsible for sending your order to the Toronto office of the Fund's registrar and transfer agent without cost to you.

If your properly completed order is received at the Toronto office of the Fund's registrar and transfer agent before 4:00 p.m. Eastern time on a valuation day (which is any day the TSX is open for trading), your order will be processed using that day's NAV. If your order is received after that time, your order will be processed using the NAV on the next valuation day. The valuation day used to process your order is called the "**trade date**". Your Dealer will send you a confirmation of your order once your order has been processed. A confirmation shows details of your transaction, including the name of the Fund, the number and series of Units you bought, and the purchase price and the trade date. We do not issue certificates of ownership for the Fund.

We may reject your purchase order within one business day of receiving it. A "**business day**" means any day on which the TSX is open for trading. If rejected, any monies sent with your order will be returned immediately, without interest, once the payment clears. If we accept your order but do not receive payment within three business days, we will redeem your Units on the next business day. If the proceeds are greater than the payment you owe, the difference will belong to the Fund. If the proceeds are less than the payment you owe, your Dealer will be required to pay the difference to the Fund and is entitled to collect this amount and any associated expenses from you.

The minimum initial investment in Series A, Series F and Series R Units must be at least \$1,000. Each additional investment in Series A, Series F and Series R Units must be at least \$100. If the value of your Units is less than \$1,000, we can sell your Units and send you the proceeds. We will give you 30 days' notice first. We reserve the right to change the minimum investment level required at our discretion.

### **Switches**

#### **Switches to another fund**

There are currently no other funds in respect of which you may switch your Units. When the Manager establishes other open-end funds, you will be able to switch from one fund to another fund by contacting your Dealer.

You may have to pay your Dealer a switch fee of up to 2.00% of the value of the Units you are

switching. However, the switch fee is negotiable. If you have held the Units for 90 business days or less, you may also have to pay a short-term trading fee to the fund you are switching out of.

Any switch to another fund is a disposition for tax purposes. If you hold your Units outside a registered plan, you may realize a capital gain (or capital loss) on the switch. For more information on the tax consequences, see “**Income tax considerations for investors**” on page 18.

### **Switching to another series of the Fund**

You can switch your Units of one series to Units of another series of the Fund by contacting your Dealer. You can only switch Units into a different series if you are eligible to buy that other series. No fees apply. You can only switch into Series R Units if you held Series R Units on October 18, 2011.

Switching Units from one series to another series of the Fund is not a disposition for tax purposes.

### **Redemptions**

Unitholders may redeem Units on any business day without charge except for payment of a short-term trading fee, if applicable. To do so, Unitholders must complete a written redemption request. If the redemption request is deposited with a Dealer, the Dealer must send the redemption request to the Toronto office of the Fund’s registrar and transfer agent on the same day. If the Dealer receives the redemption request after the close of business (usually 4:00 p.m. Toronto time) or on a day that is not a business day, the Dealer must send it to the Fund’s registrar and transfer agent on the next business day.

A redemption request received by the registrar and transfer agent before 4:00 p.m. Toronto time on a valuation day (which is any day the TSX is open for trading) will be processed at the NAV per Unit on that valuation day. If the TSX closes earlier than 4:00 p.m. on a particular valuation day, we may impose an earlier deadline for that valuation day. Any orders received after this earlier deadline would be processed as of the next valuation day. A redemption request received by the Fund’s registrar and transfer agent after 4:00 p.m. on a valuation day, or on a day which is not a valuation day will be processed at the NAV per Unit determined on the next valuation day. The cost of sending the redemption request must be paid by the Dealer. As a security measure, a redemption request sent by fax directly by an investor will not be accepted.

For the protection of Unitholders in the Fund, a Unitholder’s signature on any redemption request must be guaranteed by a bank, trust company or a Dealer. This procedure must be followed carefully. Other documentation may be required for redemption by corporations or other Unitholders that are not individuals.

We will not process orders to redeem for:

- a past date
- a future date
- a specific price
- any Units that have not been paid for

If all necessary redemption documents have been properly completed and sent to the Fund’s registrar and transfer agent with the redemption request, the Manager will pay the redemption amount within three business days of the day on which the redemption request was placed. Otherwise, the redemption amount will be paid within three business days after the Fund’s registrar and transfer agent receives the missing documentation. If all necessary documents are not received by the Fund’s registrar and transfer agent within ten business days following the date on which the redemption was requested, the Manager will

reverse the redemption order by processing a purchase order on the tenth business day after the redemption order for the number of Units that were redeemed. The redemption proceeds will be used to pay for the Units purchased. Any excess proceeds belong to the Fund. Any shortfall will initially be paid to the Fund by the Manager, but the Manager will be entitled to collect the shortfall, plus any costs involved, from the Dealer who placed the redemption request. The Dealer may, in turn, collect the shortfall plus any costs involved from the Unitholder who placed the redemption request. Where no Dealer has been involved, the Manager will be entitled to collect the shortfall and costs from the Unitholder who placed the redemption request.

We reserve the right to redeem, without notice, all of the Units that you hold in a series of the Fund, if the value of your investment in that series of the Fund falls below \$1,000 other than as a result of market fluctuations.

If you hold your Units in a non-registered account, you may realize a capital gain or loss when your Units are sold. Capital gains are taxable. For more information on the tax consequences, please see “**Income tax considerations for investors**” on page 21.

### **Suspending your right to redeem Units**

Under extraordinary circumstances the Manager may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on a stock exchange or other market on which securities owned by the Fund are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the total assets of the Fund, without allowance for liabilities, and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; or (ii) with the prior permission of the applicable securities regulatory authorities.

The suspension will apply to all requests for redemption received prior to the suspension in respect of which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by the Manager of the suspension and that the redemption will be effected at a price determined on the first business day following the termination of the suspension. All such Unitholders shall have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

### **Short-term trading**

Redeeming or switching Units of a mutual fund within 90 business days after they were purchased, which is referred to as “**short-term trading**”, may have an adverse effect on other investors in the mutual fund because it can increase trading costs to the mutual fund to the extent the mutual fund purchases and sells portfolio securities in response to each redemption or switch request. An investor who engages in short-term trading also may participate in any appreciation in the NAV of the mutual fund during the short period that the investor was invested in the mutual fund, which reduces the amount of the appreciation that is experienced by other, longer term investors in the mutual fund.

The Fund may charge you a fee of up to 2.00% of the value of the Units you redeem if you engage in short-term trading. The short-term trading fee does not apply if you switch to another series of Units in

the Fund. This fee is paid to the Fund and is in addition to any other fees that may apply. We may in our sole discretion waive the short-term trading fee. We have the discretion to redeem some or all of your Units if we believe you are or may continue to engage in short-term trading.

See also “**Fees and expenses – Short-term trading fees**” on page 17 of the simplified prospectus.

The Fund does not have any arrangements, formal or informal, with any person or company to permit short-term trading.

## **RESPONSIBILITY FOR FUND OPERATIONS**

### **Manager**

Harvest is the manager of the Fund pursuant to an Amended and Restated Management Agreement dated October 18, 2011 (the “**Management Agreement**”). The Manager carries on business at 710 Dorval Drive, Suite 200, Oakville, ON, L6K 3V7. The Manager can be reached at 416-649-4541 or toll free at 1-866-998-8298 or by email at [info@harvestportfolios.com](mailto:info@harvestportfolios.com), and information about the Manager and the Investment Manager may also be obtained at [www.harvestportfolios.com](http://www.harvestportfolios.com).

Pursuant to the Management Agreement, the Manager, is responsible for the overall management and administration of the Fund. The Manager may, subject to certain conditions, delegate certain of its duties to third parties.

Pursuant to the Management Agreement, the Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund and to exercise the care, diligence and skill that a reasonably prudent person would exercise in the circumstances. The Management Agreement provides that the Manager will not be liable in any way for any default, failure or defect in the portfolio held by the Fund if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Manager will incur liability, however, in cases of wilful misconduct, bad faith, negligence, disregard of the Manager’s standard of care or by any material breach or default by it of its obligations under the Management Agreement.

Unless the Manager resigns or is removed as described below, the Manager will continue as Manager until the termination of the Fund. The Manager may resign if the Fund is in breach or default of the provisions of the Management Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days’ notice of such breach or default to the Fund. The Manager is deemed to have resigned if the Manager becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of the Manager or a substantial portion of its assets or in the event the Manager ceases to be resident in Canada for the purposes of the Tax Act or no longer holds the requisite licenses, registrations or other authorizations necessary to carry out its obligations under the Management Agreement. The Manager may resign upon 60 days prior written notice to the Unitholders. If the Manager resigns, it may appoint its successor but, unless its successor is an affiliate of the Manager, its successor must be approved by the Unitholders.

The Manager may not be removed other than by resolution of the Unitholders. In the event that the Manager is in material breach or default of the provisions of the Management Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days’ notice of such breach or default to the Manager, the Trustee shall convene a meeting of Unitholders to vote on the removal of the Manager and appoint a successor manager.

## Directors and Officers of the Manager

The name and municipality of residence of each of the directors, applicable officers and senior management of the Manager and their principal occupation during the past 5 years are as follows:

Name and Municipality of Residence	Position with the Manager	Principal Occupation
Michael Kovacs Oakville, Ontario	President, Chief Executive Officer, Chairman, Director and Chief Compliance Officer	President, Chief Executive Officer and Chief Compliance Officer, Harvest Portfolios Group Inc.
Mark Riden Stouffville, Ontario	Chief Financial Officer	Chief Financial Officer, Harvest Portfolios Group Inc.
Townsend Haines Toronto, Ontario	Chief Investment Officer, Director	Chief Investment Officer, Harvest Portfolios Group Inc.
Mary Medeiros Oakville, Ontario	Vice-President, Operations, Director	Vice President, Operations, Harvest Portfolios Group Inc.
Nick Bontis Ancaster, Ontario	Director	Associate Professor, Strategic Director Management & Director, Undergraduate Programs DeGroot School of Business, McMaster University

During the past five years, all the officers and directors of the Manager listed above have held their present principal occupations except for prior to forming Harvest, Michael Kovacs was Managing Director of Sentry Select Mutual Funds and Senior Vice President of Sentry Select Capital Inc. from 2002–2009; Mark Riden was the owner of Riden & Associates from 2009-2011 and Chief Financial Officer, Stellation Asset Management LLC from 2005-2009; and Townsend Haines was a Registered Representative at Brant Securities from May 2008 to October 2009.

## The Investment Manager

The Manager has retained Avenue Investment Management Inc. (the “**Investment Manager**”) to provide portfolio advisory services to the Fund pursuant to an Investment Management Agreement dated September 25, 2009 (the “**Investment Management Agreement**”). The Investment Manager is located at 47 Colborne Street, Suite 300, Toronto, Ontario M5E 1P8. The Investment Manager was formed in 2002 and until recently has primarily focused on the private client market. The Investment Manager was founded by three investment management professionals, Paul Harris, CFA, Paul Gardner, CFA and Bill Harris, CFA, each with over 20 years of experience who have managed assets or businesses for leading financial institutions in Toronto, Montreal and New York. Each portfolio manager brings sectorial experience to the management of portfolios.

Investment decisions relating to the portfolio of the Fund are made by senior level individuals. The name, title and business experience, for the last five years, of the individuals responsible for the day-to-day management of a material portion of the portfolio of the Fund is as follows:

Name and Title	Length of Service with Investment Manager	Principal Occupation
Paul Harris, CFA	Since 2002	Partner and Portfolio Manager
Paul Gardner, CFA	Since 2002	Partner and Portfolio Manager
Bill Harris, CFA	Since 2004	Partner and Portfolio Manager

Investment decisions made by these individuals are not subject to the oversight, approval or ratification of a committee.

### **Details of the Investment Management Agreement**

The Investment Manager provides investment advisory and portfolio management services to the Fund with respect to the Fund's portfolio pursuant to the Investment Management Agreement. Decisions regarding the purchase and sale of portfolio securities and the execution of transactions for the portfolio will be made by the Investment Manager, in accordance with and subject to the terms of the Investment Management Agreement. Subject to the terms of the Investment Management Agreement, the Investment Manager will implement the investment strategy for the portfolio of the Fund on an ongoing basis.

Under the Investment Management Agreement, the Investment Manager covenants to act honestly and in good faith with a view to the best interests of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. The Investment Management Agreement provides that the Investment Manager and its directors, officers, employees or agents will not be liable for any act, omission or mistake of judgment in the course of, or connected with, the performance of its obligations, nor for the making, retention or sale of any investment, nor for any resultant or other loss to or diminution of the assets of the Fund except if it is caused by the negligence, lack of good faith or wilful misconduct of the Investment Manager.

The Investment Manager or the Manager may terminate the Investment Management Agreement in the following circumstances: (i) upon not less than 90 days prior written notice to the other party; or (ii) by written notice taking immediate effect if the other party is in breach of any of the terms of the Agreement and has not remedied the breach within 30 days of receipt of written notice requiring the breach to be remedied.

The Investment Management Agreement will terminate immediately if any of the following events take place: (i) the Investment Manager or the Manager is subject to a material regulatory issue that would affect the ability of the Investment Manager or the Manager to fulfill its obligations under the Investment Management Agreement or if the Investment Manager or the Manager is unable to provide the investment management services contemplated in the Investment Management Agreement or in any applicable underlying investment management agreements; (ii) the Investment Manager or the Manager become bankrupt, or a petition for bankruptcy is filed against either party and such petition is not dismissed within 60 days; or (iii) the Investment Manager or the Manager makes any assignment for the benefit of its creditors, files any notice under or takes any other benefits of any insolvency law, or if a receiver is appointed for the Investment Manager or the Manager.

### **Brokerage Arrangements**

Pursuant to the Investment Management Agreement, the Investment Manager will make all appropriate brokerage arrangements to implement the purchase and sale of portfolio investments on the best terms available to the Investment Manager acting reasonably, having regard to such factors as the Investment Manager, in good faith, considers relevant to the Fund's interest, including, without limitation, commissions and other costs payable, efficiency of execution and timeliness of delivery, all consistent with requirements of Canadian securities legislation and with acting in the best interests of the Fund.

The Manager has adopted a conservative interpretation of what constitutes “**order execution goods and services**” and “**research goods and services**” which is to adopt the definition set out in NI 23-102 whether the products and services are provided by a dealer directly or by a third party. The Manager may use “**order execution goods and services**” and “**research goods and services**” to benefit clients

other than those whose trades generated the brokerage. However, with the Manager's model portfolio approach to investment management, over a reasonable period of time all clients will receive the benefit of investment decision making products and services purchased with other clients' brokerage. The goods and services that are currently being received by the Manager through broker-related or third party arrangements include financial data feeds, on-line quotation and news, economic analysis and investment analysis. The users of these goods and services include portfolio managers as well as analysts, traders and economists. The Manager does not have any affiliated brokers.

Where brokerage transactions involving client brokerage commissions of the Funds have been or might be directed to a broker in return for the provision of any research goods and services by a broker or a third party, the names of such dealers or third parties will be provided upon request by contacting the Manager at 1-866-998-8298 or via email at [info@harvestportfolios.com](mailto:info@harvestportfolios.com).

### **The Trustee**

Harvest is the trustee of the Fund under the Declaration of Trust, and is responsible for managing all of the Fund's activities. The Trustee holds the actual title to the property in the Fund on behalf of Unitholders. The address of the Trustee where it principally provides services to the Fund is at 710 Dorval Drive, Suite 200, Oakville, Ontario L6K 3V7.

The Trustee may resign upon 60 days' notice to Unitholders and to the Manager. Any such resignation shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns, its successor shall be appointed by the Manager but if the Manager fails to appoint a successor Trustee within 30 days of receipt of the Trustee's resignation then the Manager is required to call a meeting of Unitholders within 60 days thereafter for the purpose of appointing a successor Trustee. If a successor Trustee cannot be found within the 60 day period, the Trustee must terminate the Fund and distribute its assets to Unitholders. The Trustee may be removed by the Manager at any time by notice to the Trustee not less than 90 days before the date that the removal is to take effect, provided that a successor Trustee is appointed or the Fund is terminated in accordance with the provisions of the Declaration of Trust.

### **The Custodian and Fund Accounting Agent**

State Street Trust Company Canada ("State Street") is the custodian of the Fund pursuant to a custodian agreement (the "Custodian Agreement") between the Fund and State Street. The custodian's principal place of business in respect of the Fund is Toronto, Ontario. In accordance with the terms of the Custodian Agreement, the custodian will be responsible for the safekeeping of all of the investments and other assets of the Fund. In the event that any portfolio assets are acquired by the Fund that cannot be held in Canada, the custodian may appoint sub-custodians who are qualified to act as such. In addition, State Street is responsible for providing fund accounting services to the Fund and will calculate the NAV and NAV per Unit pursuant to the terms of a separate Accounting Service Agreement. State Street will receive fees for custodial and fund accounting services provided to the Fund.

The Custodian Agreement provides that it may be terminated by either party at any time on 60 days' written notice unless a different period is agreed to.

### **Independent Review Committee**

As contemplated by NI 81-107, the IRC, the fund governance agency for the Fund, is composed of three members. The IRC reviews conflict of interest matters referred to it by the Manager, including any related policies and procedures, and makes recommendations to the Manager regarding whether the proposed



action of the Manager in respect of a conflict of interest matter achieves a fair and reasonable result for the Fund. In respect of certain matters the IRC grants approvals. See “**Independent Review Committee**” on page 19 for more details.

### **Recordkeeper and Registrar**

International Financial Data Services Limited provides recordkeeper and registrar services to the Fund, from its principal office in Toronto, Ontario.

### **Auditor**

The Fund’s auditors are PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario.

## **CONFLICTS OF INTEREST**

### **Principal Holders of Securities**

To the knowledge of the Manager, as at October 18, 2011, no person owned, beneficially or of record, either directly or indirectly, or exercised control or direction over, more than 10% of the outstanding Units.

To the knowledge of the Manager, as at October 18, 2011, the directors and senior officers of the Manager, in aggregate, did not own, beneficially or of record, either directly or indirectly, or exercise control or direction over more than 10% of the outstanding Units or more than 10% of the voting securities of any person or company that provides services to the Fund or the Manager.

To the knowledge of the Manager, as at October 18, 2011, the members of the IRC of the Fund did not own beneficially, directly or indirectly, in aggregate: (a) more than 10% of the outstanding Units; (b) any class of voting or equity securities of the Manager; or (c) any class of voting or equity securities of any person or company that provides services to the Fund or the Manager.

As at October 18, 2011, Michael Kovacs owned of record and beneficially 2,822,882 common voting shares of the Manager, representing 100% of the issued and outstanding common voting shares of the Manager, and directors and senior officers of the Manager beneficially owned, directly or indirectly, in aggregate, 86.3% of the outstanding non-voting preferred shares of the Manager.

### **Conflicts of Interest**

The management services of the Manager under the Management Agreement are not exclusive and nothing in the Management Agreement prevents the Manager from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities.

Under the Investment Management Agreement, the Investment Manager may become an investment advisor and portfolio manager to mutual funds and discretionary accounts in addition to the Fund. Investments in securities purchased by the Investment Manager on behalf of the Fund and other investment funds or accounts managed by the Investment Manager will be allocated in the sole discretion of the Investment Manager to the Fund and such other investment funds or accounts on a *pro-rata* or other equitable basis having regard to whether the security is currently held in any of the relevant

investment portfolios, the relevant size and rate of growth of the funds and the managed accounts and any other factors which the Investment Manager considers reasonable.

### **Associated and Affiliated Entities**

As Manager and Trustee of the Fund, Harvest is associated with the Fund. The provision of these administrative and management services to the Fund may indirectly benefit the directors and officers of the Manager. No person or company providing services to the Fund or the Manager is an affiliated entity of the Manager.

## **FUND GOVERNANCE**

The Trustee has the ultimate and overriding authority to manage and direct the business and affairs of the Fund, subject to applicable law and the Declaration of Trust. In its capacity as Manager, Harvest manages the overall business and operations of the Fund in accordance with applicable law and the Management Agreement.

The Manager has policies and practices in place in order to comply with applicable securities laws, regulations and rules, including rules on sales practices and relating to conflicts of interest as well as risk management policies and procedures. The Manager also has policies and procedures in place to deal with conflict of interest matters to ensure the Manager manages the Fund in the best interests of the Fund and in compliance with the requirements of NI 81-107.

The Fund is managed in accordance with the investment objectives, guidelines, strategy and restrictions described above and which are monitored regularly by appropriate personnel to ensure compliance therewith.

### **Code of Ethics and Standards of Professional Responsibility**

The Manager has a Code of Ethics and Standards of Professional Conduct (the "**Code**") which applies to all of its employees. The Code is in place to protect the interest of all of the Manager's clients. The Code provides policies governing the conduct of business including conflicts of interest, privacy issues and confidentiality.

The Manager is under a statutory duty imposed by the *Securities Act* (Ontario) to act honestly and in good faith and in the best interests of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

The Declaration of Trust provides that the Trustee shall exercise its powers and discharge its duties as the Trustee honestly, in good faith and in the best interests of the Fund and shall perform the duties of the Trustee to the standard of care, diligence and skill a reasonably prudent person would exercise in the circumstances.

### **Independent Review Committee**

The IRC is comprised of three individuals, each of whom is independent from the Manager and its affiliates. The current members of the IRC are E.M. Jane Davis; James Adam Conyers and Donald Hathaway. See "**Remunerations**" on page 22 for details of the compensation payable to IRC members.

The role of the IRC is to review and to provide approval, or in certain circumstances its recommendation, in respect of conflicts of interest that arise between the Manager's own interests and those of the Fund. NI 81-107 requires the Manager to have policies and procedures relating to conflicts of interest. The Manager is responsible for referring to the IRC any matters in which a reasonable person could view the Manager as having an interest that may conflict with its ability to act in the best interest of the Fund. The IRC reviews each matter and provides its approval or recommendation, as applicable, as to whether the proposed course of action will achieve a fair and reasonable result for the Fund. The IRC has adopted a written charter that includes its mandate, responsibilities and functions, and the policies and procedures it will follow when performing its functions.

The compensation and other reasonable expenses of the IRC are paid *pro rata* out of the assets of the Fund, as well as out of the assets of the other investment funds managed by the Manager.

### **Proxy Voting Procedures**

The proxies associated with securities held by the Fund will be voted by the Investment Manager in the best interests of Unitholders. The Investment Manager has established a proxy voting policy (the "**Proxy Voting Policy**") which contains guidelines (the "**Guidelines**") for the voting of proxies by the partners of the Investment Manager. The Guidelines include provisions to address conflicts of interests that may arise between Unitholders and the Investment Manager. When voting proxies on behalf of shareholders, the Investment Manager votes in a manner consistent with the best interest of Unitholders and votes proxies without regard to any other Investment Manager relationship, business or otherwise.

The Proxy Voting Policy provides that routine, uncontested matters to be considered at annual general meetings will generally be voted in accordance with management's recommendations. More complex, non-routine matters (i.e. certain issues related to the compensation and liability of directors, amendments to the constating documents of an issuer, share and debt issuances, related party transactions, reorganizations, restructurings, shareholder proposals and proposals relating to corporate social responsibility) will generally be decided in accordance with the Guidelines. Non-routine proposals not covered by the Guidelines or other special circumstances will be evaluated on a case-by-case basis.

### **Disclosure of Proxy Voting Guidelines and Record**

A copy of the Fund's proxy voting record for the most recent annual period ending December 31, 2010, is available free of charge to any Unitholder upon request and is also available on the website of the Manager at [www.harvestportfolios.com](http://www.harvestportfolios.com). A copy of the Proxy Voting Policy is available on request, at no cost, by contacting the Manager at 1-866-998-8298 or by writing to the Manager at Suite 200, 710 Dorval Drive, Oakville, Ontario, L6K 3V7 or by e-mail at [info@harvestportfolios.com](mailto:info@harvestportfolios.com). Information contained on the website of the Manager and the Fund is not part of this annual information form and is not incorporated herein by reference.

### **Short-Term Trading**

Short-term trading can increase a Fund's expenses, which affects all Unitholders of the Fund. Excessive trading may require the portfolio manager to sell investments at an inappropriate time and may also force the portfolio manager to hold more cash in the Fund than would otherwise normally be required.

The Fund may charge Unitholders a short-term trading fee of up to 2.00% of the total amount redeemed by the Unitholder, if the Unitholder sells or transfers Units within 90 days of buying them. We will redeem a sufficient number of Units to pay the short-term trading fee.

This fee does not apply in certain circumstances, including: (a) if you switch to another series of the Fund; (b) the redemption of Units purchased by the reinvestment of distributions, if any; (c) the reclassification of Units from one series to another series of the Fund; or (d) redemptions initiated by the Trustee.

We may refuse to accept further purchase orders from you. We will adopt policies on short-term trading mandated by regulation, if and when implemented by securities regulators. These policies will be adopted without amendment to the simplified prospectus or notice to you, unless otherwise required by securities laws. The short-term trading fee is in addition to any other fees you would otherwise be subject to under the simplified prospectus.

## FEES AND EXPENSES

### Management Fee Distributions

To encourage large purchases in the Fund, the Manager may reduce the management fee that it would otherwise be entitled to receive from the Fund with respect to an investment in the Fund. The amount of any management fee reduction is distributed (the "**Management Fee Distribution**") to the investor for whose benefit the fees were reduced. The management fee may be reduced based on the consideration of several factors, including the size of the investment, the expected level of account activity and the assets under administration. The Manager is responsible to negotiate and approve any reductions in the management fee. Where applicable, Management Fee Distributions are calculated on each business day and distributed on a regular basis by the Fund to the applicable investor, generally first out of the net investment income and net realized capital gains of the Fund and then out of capital. All Management Fee Distributions are automatically reinvested in additional Units of the Fund unless you request to receive them in cash. **The management fee reduction will not have adverse tax consequences to the Fund.**

## INCOME TAX CONSIDERATIONS FOR INVESTORS

The following is a summary, as of the date of this annual information form, of the principal Canadian federal income tax considerations under the Tax Act generally applicable to the Fund and to a person who is an individual (other than a trust), who acquires Units and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length and is not affiliated with the Fund and holds the Units as capital property.

This summary is based upon the current provisions of the Tax Act and the regulations there under (the "**Regulations**"), all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) (the "**Minister**") prior to the date hereof (the "**Tax Proposals**"), and counsel's understanding of the current published administrative policies and assessing practices of the CRA. This summary assumes that the Tax Proposals will be enacted as proposed. Except for the Tax Proposals, this summary does not take into account or anticipate any changes in the law, whether by way of legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign tax legislation or considerations, which may differ from those under the Tax Act. There is no assurance that the Tax Proposals will be enacted in the form proposed or at all.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units and does not describe the income tax considerations relating to**

**the deductibility of interest on money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary according to the status of the investor, the provincial or territorial jurisdiction(s) in which the investor resides or carries on business and, generally, the investor's own particular circumstances. Accordingly, the following description of income tax matters is of a general nature only and is not intended to constitute legal or tax advice to any particular investor. Prospective investors should consult their own tax advisors with respect to the income tax consequences of investing in Units, based upon the investor's particular circumstances.**

This summary is based on the assumption that the Fund will qualify at all times as a “**mutual fund trust**” within the meaning of the Tax Act. In order to so qualify, the Fund must comply on a continuous basis with certain minimum distribution requirements relating to the Units, among other things. In the event the Fund were not to qualify as a mutual fund trust at all times, the income tax consequences described below would in some respects be materially and adversely different.

### **Taxation of the Fund**

The Fund will be subject to tax under Part I of the Tax Act on the amount of its income for the year, including the taxable portion of net realized capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Provided the Fund makes distributions in each year of its net income and net realized capital gains, and provided the Fund deducts in computing its income the full amount available for deduction in each year, the Fund will not generally be liable for income tax under Part I of the Tax Act. The “suspended loss” rules in the Tax Act may prevent the Fund from recognizing capital losses on the disposition of securities in certain circumstances which may increase the amount of net realized capital gains of the Fund to be made payable to unitholders.

All of the Fund’s deductible expenses, including expenses common to all series of the Fund and management fees and other expenses specific to a particular series of the Fund, are taken into account in determining the income or losses of the Fund as a whole. Losses by the Fund cannot be allocated to investors but may, subject to certain limitations, be deducted by the Fund from capital gains or other income realized in other years.

### **Taxation of Unitholders**

#### **Holding and Disposition of Units**

A Unitholder will generally be required to include in income for a particular taxation year of the Unitholder such portion of the net income, including the taxable portion of the net realized capital gains, of the Fund for a taxation year as is paid or becomes payable to the Unitholder in that particular taxation year (including Management Fee Distributions), whether received in cash or reinvested in additional Units. Provided that appropriate designations are made by the Fund, to the extent permitted under the Tax Act, such portion of (i) the net realized taxable capital gains of the Fund, (ii) the foreign source income of the Fund and foreign income taxes eligible for the foreign tax credit, and (iii) the taxable dividends received by the Fund on shares of taxable Canadian corporations, as is paid or payable to a Unitholder will effectively retain their character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. With respect to such foreign source income and foreign income taxes, so designated, Unitholders will generally be deemed to have paid as tax to the government of a foreign country the Unitholder's share of the taxes paid or considered to be paid by the Fund and accordingly may be able to reduce Canadian taxes otherwise payable. Certain investors, such as investors who are exempt from Canadian tax, may not be able to benefit from the foreign tax credit mechanism and so will indirectly bear their *pro rata* share of foreign taxes paid by the Fund. To the extent that any amounts are designated as

taxable dividends from taxable Canadian corporations, the applicable gross-up and dividend tax credit rules will apply.

The non-taxable portion of net realized capital gains of the Fund that are paid or become payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year and will not, provided the appropriate designations are made by the Fund, reduce the adjusted cost base of the Units. Any other amount in excess of a Unitholder's share of the net income and net realized capital gain of the Fund for a taxation year that is paid or becomes payable to the Unitholder in such year will not generally be included in computing the Unitholder's income for the year but will reduce the adjusted cost base of Units to the Unitholder. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

The NAV per Unit will reflect any income and gains of the Fund that have accrued or been realized but have not been made payable at the time Units are acquired. A Unitholder who acquires Units may become taxable on the Unitholder's share of such income and gains of the Fund, even if the income and capital gains accrued to the Fund or were realized by the Fund before the Unitholder acquired the Units.

Upon the disposition or deemed disposition by a Unitholder of a Unit, whether on a sale, redemption, repurchase or otherwise, a capital gain (or capital loss) will be realized by the Unitholder to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Unit to the Unitholder immediately before the disposition. In computing the adjusted cost base of any Units acquired by a Unitholder hereunder or on a reinvestment of distributions from the Fund, the cost of such Units must be averaged with the adjusted cost base of any other Units then held by the Unitholder as capital property.

One-half of any capital gain (a "**taxable capital gain**") realized by a Unitholder or designated by the Fund in respect of the Unitholder in a taxation year must be included in computing the income of the Unitholder for that year and one-half of any capital loss (an "**allowable capital loss**") realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder or designated by the Fund in respect of the Unitholder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, against taxable capital gains realized in such year, to the extent and under the circumstances provided for in the Tax Act.

Capital gains realized on the disposition of Units or amounts designated by the Fund to a Unitholder as taxable capital gains or taxable dividends from a taxable Canadian corporation may give rise to a liability for alternative minimum tax.

### **Eligibility for Registered Plans**

The Units will be qualified investments within the meaning of the Tax Act for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("**Registered Plans**").

Notwithstanding the foregoing, if the Units are "**prohibited investments**" for the purposes of a RRSP, RRIF or TFSA, the annuitant or holder, as the case may be, of the RRSP, RRIF or TFSA will be subject to a penalty tax. Provided that the annuitant of the RRSP or RRIF, or the holder of a TFSA, does not hold a "**significant interest**" (as defined in the Tax Act) in the Fund or in any person or partnership that does

not deal at arm's length with the Fund, and provided that such annuitant or holder deals at arm's length with the Fund, the Units will not be prohibited investments for a trust governed by such RRSP, RRIF or TFSA. Unitholders should consult their own tax advisors in this regard.

## **REMUNERATION**

Harvest is entitled to compensation for its services as Trustee of the Fund and for the provisions of services in any other capacity. As of the date of this annual information form, no fees have been paid to Harvest for its services as Trustee of the Fund. No other remuneration, fees or reimbursement of expenses are paid by the Fund to the directors or officers of the Trustee. As of the date of this annual information form, members of the IRC received in their capacity as members of the IRC, annual fees and meeting fees, of which approximately \$10,000 (including the secretarial fees for IRC meetings) is allocable to the Fund, along with nominal amounts as reimbursement for expenses in connection with performing their services and duties for the Fund. For the most recently completed financial year, the IRC members received the following amounts in fees and in reimbursement of expenses (including HST, as applicable), in aggregate, from the Fund: E.M. Jane Davis - \$2,223.68; James Adam Conyers - \$1,667.76 and Donald Hathaway - \$1,475.89. The remaining IRC fees allocated to the Fund were for secretarial services.

## **MATERIAL CONTRACTS**

The Fund is a party to the following material contracts:

- (a) the Declaration of Trust referred to under "Name, Formation and History of the Fund" on page 1;
- (b) the Management Agreement referred to under "Responsibility for Fund Operations – The Manager" on page 13;
- (c) the Investment Management Agreement described under "Responsibility for Fund Operations – Details of the Investment Management Agreement" on page 14; and
- (d) the Custodian Agreement referred to under "Responsibility for Fund Operations – The Custodian and Fund Accounting Agent" on page 15.

Copies of the foregoing documents may be examined during normal business hours at the principal offices of the Manager located at 710 Dorval Drive, Suite 200, Oakville, Ontario, L6K 3V7.

## AUDITOR'S CONSENT

Harvest Banks & Buildings Income Fund (the "Fund")

We have read the Simplified Prospectus and the related Annual Information Form of the Fund dated October 18, 2011 relating to the issue and sale of Series A, Series F and Series R Units of the Fund. We have complied with Canadian generally accepted standards for the auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned Simplified Prospectus of our report to the Unitholders of the Fund on the statement of investments as at December 31, 2010, the statements of financial position as at December 31, 2010 and 2009, and statements of operations, changes in financial position and cash flows for the periods then ended. Our report is dated March 3, 2011.

*(signed) "PricewaterhouseCoopers LLP"*

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario.  
October 18, 2011



## CERTIFICATE OF THE FUND, THE MANAGER AND THE PROMOTER

This annual information form, together with the simplified prospectus and the documents incorporated by reference into the simplified prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by the simplified prospectus, as required by the securities legislation in each of the provinces and territories of Canada and do not contain any misrepresentations.

Dated the 18 day of October, 2011.

*(signed) "Michael Kovacs"*

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MICHAEL KOVACS,  
President and Chief Executive Officer of  
Harvest Portfolios Group Inc.

*(signed) "Mark Riden"*

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MARK RIDEN  
Chief Financial Officer of  
Harvest Portfolios Group Inc.

On behalf of the Board of Directors of Harvest Portfolios Group Inc.  
as Trustee, Manager and Promoter of the Fund

*(signed) "Townsend Haines"*

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TOWNSEND HAINES

*(signed) "Mary Medeiros"*

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MARY MEDEIROS

**HARVEST BANKS & BUILDINGS INCOME FUND**  
**(Series A and Series F and Series R Units)**

Additional information about the Fund is available in the Fund's Fund Facts, management report of fund performance and financial statements. You can get a copy of these documents at no cost by calling toll-free 1-866-998-8298, or from your dealer or by e-mail at [info@harvestportfolios.com](mailto:info@harvestportfolios.com). These documents and other information about the Fund, such as information circulars and material contracts, are also available on the Manager's website at [www.harvestportfolios.com](http://www.harvestportfolios.com) or at [www.sedar.com](http://www.sedar.com).

Manager of the Fund:

Harvest Portfolios Group Inc.  
Suite 200, 710 Dorval Drive  
Oakville, Ontario, L6K 3V7

TOR01: 4662317: v23