HARVEST CANADIAN INCOME & GROWTH FUND

Management Report of Fund Performance

December 31, 2011

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

HARVEST Canadian Income & Growth Fund

CORPORATE OVERVIEW

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

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

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

INVESTMENT PRODUCT

The Harvest Canadian Income and Growth Fund (the "Fund") has been created to provide investors with income and the potential for capital appreciation over the course of the business cycle by investing primarily in dividend paying securities of publicly-traded utilities, industrials, communications, real estate and retail issuers domiciled in Canada.

HARVEST Canadian Income & Growth Fund

PRESIDENT'S MESSAGE

HARVEST Canadian Income and Growth Fund
Unitholder letter February, 2012

Dear Valued Unitholder,

2011 proved to be a year of challenges for global stock markets as we witnessed three major events that stalled global growth. First, the policy gridlock in both Europe and the US to their debt burdens, secondly, the earthquake and tsunami which lead to the nuclear crisis in Japan, and finally the surge in Oil prices due to the political upheaval and/or regime change in the Middle East.

The issues surrounding US and European fiscal policy will no doubt continue to hamper the prospects for global growth. We expect this to translate into overall slower growth in the developed world of 1% - 2% which in turn will keep the prospects for growth in emerging nations at lower than recent averages.

These overall economic conditions reduce inflationary pressures and assist in subduing interest rates. We have in the past and continue to believe that the present scenario of historically low interest rates will continue to stay low for the foreseeable future. These conditions work favourably for well managed corporations with strong balance sheets and solid growth profiles.

Harvest Funds are constructed in well managed businesses that we believe stand the tests of all economic conditions. These Funds are built on the investment principals of i) simple and understandable mandates ii) transparency, and iii) income generation. With the challenges that have faced many businesses over 2011, we can look at the names in the portfolios and are confident that we have invested in businesses that can stand up to these conditions and meet the mandates that our unitholders have invested for.

The Harvest Canadian Income & Growth Fund saw strong positive returns from all sectors, with Industrials having the greatest impact followed by Utilities and Real Estate. We believe that high quality companies with strong balance sheets and the ability to maintain and grow dividends will outperform in volatile markets.

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

HARVEST Canadian Income & Growth Fund

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

The management report of fund performance contains financial highlights for the Fund. For your reference, the annual financial statements of the Fund are attached to the annual management report of fund performance. You may obtain additional copies of these documents at your request, and at no cost, by calling toll free at 1(866) 998-8298; by writing to us at HARVEST Portfolios Group Inc., 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; or by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.

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

INVESTMENT OBJECTIVES AND STRATEGY

The Fund's investment objectives are:

(i) to provide unitholders with monthly distributions; and

(ii) to maximize long-term total return for unitholders while reducing volatility.

Harvest believes that in today's low interest rate environment, many investors are looking for yield. Government bond rates or GICs are not a suitable option for many yield-sensitive investors. Harvest and the Investment Manager believe that the Canadian economy is highly dynamic and progressive and as a result has outperformed other G7 economies. However investors seeking to invest in the Canadian market may find that this market has relatively poor diversification due to its overweighting in the financials and resources sectors, which are cyclical in nature. The Investment Manager strategically reduces portfolio volatility by investing a large portion of the Fund in Canadian issuers that generate the majority of their income in less cyclical segments of the economy.

Investment Strategy
The Fund has been created to provide investors with income and the potential for capital appreciation by investing in an actively managed portfolio comprised primarily of dividend-paying securities and income trust units of publicly-traded utilities, industrial, communications, real estate and retail issuers domiciled in Canada. The Investment Manager will focus on the less cyclical segments of the Canadian equities market with the goal of reducing volatility by diversifying away from the main sectors (financials, energy and materials) that make up the majority of the market capitalization on the Toronto Stock Exchange (the "TSX").

The Investment Manager will invest primarily in companies that it believes have: (i) proven long-term histories of earnings; (ii) established and experienced management; and (iii) business models that are not primarily dependent on commodity prices.

The Investment Manager will focus on free cash flow and free cash flow yield, earnings potential, and the investment's intrinsic value in order to assess dividend sustainability and growth in distributions, with a view to delivering:

1. Attractive income generation;
2. Opportunity for capital gains; and
3. Lower volatility relative to the overall S&P/TSX composite index.

HARVEST Canadian Income & Growth Fund

RISK

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

RESULTS OF OPERATIONS

During the period ended December 31, 2011 the Harvest Canadian Income and Growth Fund returned 10.14%. This compares with a return (11.07%) for the S&P/TSX composite index.

In 2011 we witnessed three major events that stalled global growth and the bull market in equities. First, the world price of oil surged due to the political upheaval and/or regime change in the Middle East. Second, disruptions in the supply chain were felt due to the earthquake, tsunami and nuclear crisis in Japan. Finally, volatility in equity markets persisted due to policy gridlock in both the U.S. and Europe in regards to their respective debt burdens.

Of these three significant events of 2011, the uncertainty in U.S. and European fiscal policy response to the management of their debt burden will be the greatest threat to global growth and equity markets in 2012. In the U.S. the situation may be further exasperated by continued weakness in housing, minimal employment growth and income gains as well as a continued stalemate over debt reductions due to the election cycle they are now entering. In Europe, if political leaders are unable to negotiate long term fiscal reform, the impact of fiscal uncertainty, fiscal austerity or both could potentially unravel the already battered currency compact. Emerging market economies would be impacted due to lessening demand from the U.S. and Europe and they may be forced to stimulate their economies in order to avoid a hard landing. Any further cooling of emerging market growth will most likely lead to reduced demand for commodities and hence weaker economic climates for commodity rich nations such as Canada.

We expect continued economic and market volatility in 2012 including, recessions in parts of the world (E.U. periphery), anemic growth of 1%-2% in developed countries (U.S., Canada, Germany) and below average growth in emerging markets (China). Inflation will remain subdued and interest rates in the developed world will remain low. Well managed corporations with strong balance sheets and consistent growth profiles are expected to thrive and we continue to highlight the divergence between bond yields and equity earnings yield as a fundamental reason to consider equity investment over the long term.

The portfolio adviser uses a bottom-up strategy that emphasizes the analysis of individual companies to determine if they can maintain and increase their income distributions overtime. This analysis also focuses on selecting securities and allocating investments among asset classes with the objective of maximizing the risk-adjusted returns for the Fund. The Fund continues to use leverage in an opportunistic way to increase returns and enhance yield.

CHANGES IN FINANCIAL POSITION

Net assets of the Fund increased by 31.3% or $11,704,328 during the period, from $37,350,587 at December 31, 2010 to $49,054,915 at December 31, 2011. The change in net assets is attributed to a large part by the net proceeds from the issue of additional units (the exercise of warrants) of $12,806,724, less agents' fees of $320,168. In addition, there was an increase of $3,392,556 due to net investment income of $1,946,732, market appreciation of $904,129 and realized gains on investments of $556,583.

The Fund renewed the normal course issuer bid programme for the period from July 21, 2011 to June 29, 2012, which allows the Fund to purchase up to 245,760 listed units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the TSX. During the period ended December 31, 2011, 129,450 units were purchased for cancellation for $1,543,809 and distributions of $2,630,975 or $0.84 per unit ($0.07 per unit per month) were paid.

HARVEST Canadian Income & Growth Fund

RECENT DEVELOPMENTS

At the close of business on November 30, 2011, the Fund issued an additional 1.1 million units through the exercising of the remaining outstanding warrants. This raised additional net proceeds of $12.7 million to the Fund.

The Fund will become an open-end mutual fund on June 20, 2012 (the "Conversion Date"). On and after the Conversion Date, the units will be redeemable at NAV per unit on a daily basis, at such time the Fund units will become subject to NI 81-102. The Fund will provide all Unitholders with written notice at least 60 days prior to the Conversion Date.

RELATED PARTY TRANSACTIONS

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

MANAGEMENT AND OTHER FEES

The Fund pays its manager, Harvest, a management fee calculated based on the net asset value and paid monthly in arrears, based on an annual rate of 1.25% of the net asset value of the Fund.

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

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

The Fund is also responsible for payment of all expenses relating to the operation of the Fund and the carrying on of its business. This includes, but is not limited to, legal, audit and custodial fees, taxes, brokerage fees, interest, operating and administrative fees, costs and expenses.

The Manager is 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; and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses were $119,050 for the period ended December 31, 2011 and are included in the unitholder reporting costs on the Statement of Operations in the Annual Financial Statements.

LOAN FACILITY

The Fund has established a loan facility with a Canadian chartered bank. The amount of the loan is not to exceed 25 per cent of total net asset value. The Fund has the facility in place to borrow at the rate of 1.75 per cent of interest by way of Bankers Acceptance ("BA"). In addition, the Fund is required to pay a standby fee based on the amount of unused borrowings during the period, which is calculated daily, payable quarterly and is included in "Interest expense" on the Statement of Operations. The amount drawn on the loan facility throughout the period ended December 31, 2011 was $8.5 million. There were no standby fees applicable as the Fund is utilizing the full amount of the facility.

The initial interest paid on the drawdown or renewal of the BA is deferred and amortized over the term of the BA. The unamortized portion of the deferred interest is included under the "Prepaid interest – loan facility" on the Statements of Financial Position. For the period ended December 31, 2011, the Fund recorded interest expense of $276,956.

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

HARVEST Canadian Income & Growth Fund

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.

RECOMMENDATION OR REPORTS BY THE INDEPENDENT REVIEW COMMITTEE

The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period ended December 31, 2011.

HARVEST Canadian Income & Growth Fund

FINANCIAL HIGHLIGHTS

The following tables present selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 2 years. This information is derived from the Fund's annual financial statements as at December 31, 2011 and 2010.

THE FUND'S NET ASSETS PER UNIT[1]	2011	2010
Net assets - beginning of period[3]	**$ 12.42**	**$ 11.17**
Increase /(decrease) from operations		
Total revenue	1.06	.46
Total expenses	(0.42)	(0.25)
Realized gains (losses) for the period	0.16	0.55
Unrealized gains for the period	0.31	1.04
Total increase from operations[2]	**1.11**	**1.80**
Distributions[4]		
From income (excluding dividends)	-	-
From dividends	(0.16)	-
From capital gains	(0.12)	(0.55)
Return of capital	(0.56)	-
Total annual distributions[4]	**(0.84)**	**(0.55)**
Net assets - end of period[2]	**$ 12.43**	**$ 12.42**

RATIOS AND SUPPLEMENTAL DATA	2011	2010
Total net asset value	**$ 49,180,568**	**37,406,232**
Number of units outstanding	3,945,599	3,007,822
Number of warrants outstanding	-	3,028,322
Management expense ratio[5]	3.03%	10.99%
Management expense ratio before waivers or absorptions[5]	3.03%	10.99%
Trading expense ratio[6]	0.10%	0.35%
Portfolio turnover rate[7]	66.53%	46.92%
Net asset value per unit[1]	$ 12.46	$ 12.44
Closing market price (HCF.UN)	**$ 12.09**	**$ 11.70**
Closing market price (HCF.WT)	**$ -**	**$ 0.11**

Explanatory Notes:

1. The Net Assets per unit presented in the financial statements differs from the Net Asset value calculated for fund pricing purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for fund pricing purposes. An explanation of these differences can be found in the Notes to Financial Statements.
2. Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/(decrease) from operations is based on the weighted average number of units outstanding over the reporting period. It is not intended that the Fund's net assets per unit table act as a continuity of opening and closing net assets per unit.
3. Net assets, at the inception of the period ended 2010 was $11.17, net of agents' commissions and issuance costs of $0.83 per unit.
4. Distributions were paid in cash.
5. Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) of the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The MER for 2010 (the year of inception) was 10.99% and included agent's fees of $1.9 million and costs of issue of $615 thousand, which were treated as one-time expenses and therefore were not annualized.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
7. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio turnover rate, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains. There is not necessarily a relationship between a high turnover rate and the performance of a Fund. These ratios are annualized.

HARVEST Canadian Income & Growth Fund

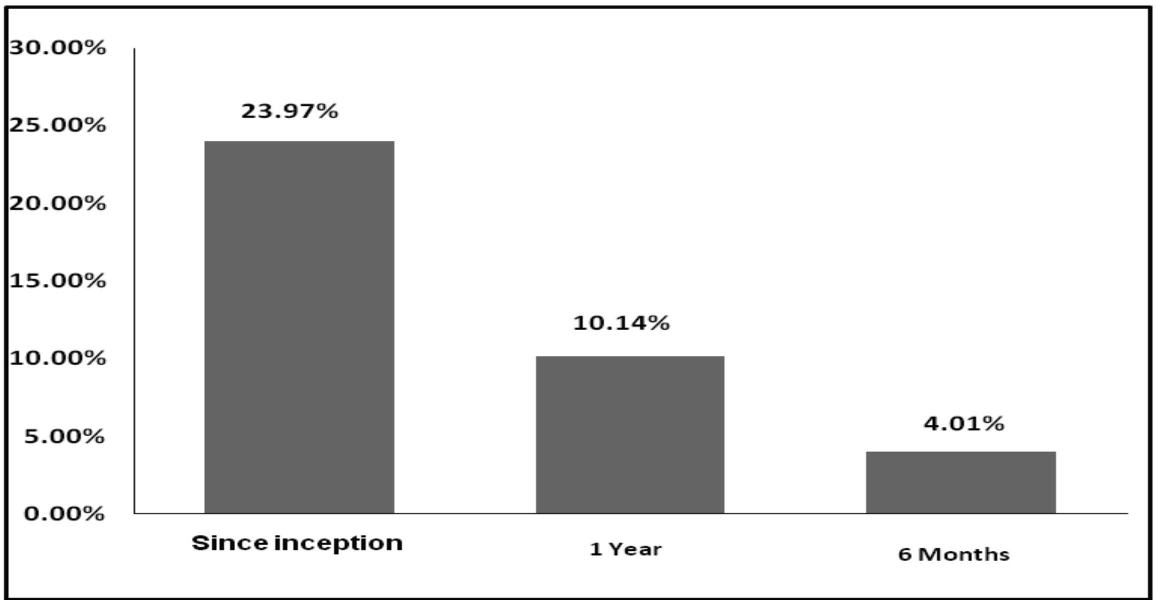
Past Performance

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

YEAR-BY-YEAR RETURNS

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

Fund Performance



ANNUALIZED COMPOUND RETURNS

The following table shows the annual compound returns for the Fund. All returns are in Canadian dollars, on a total return basis, net of fees.

For comparison, the S&P/TSX Composite Index returns are included.

The S&P/TSX Composite Index is a capitalization-weighted index that measures market activity of a universe of stocks traded on the Toronto Stock Exchange (the "Index").

While the Fund uses this benchmark for long-term performance comparisons, it is not managed relative to the composition of the Index. As a result, the Fund may experience periods when its performance is not aligned with the Index, either positively or negatively. Please see the "Results of Operations" section of this report for a discussion on recent performance.

Investment Return %	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
Fund Performance (%)	10.1	N/A	N/A	N/A	24.4
S&P/TSX Composite Index (%)	-11.1	N/A	N/A	N/A	6.1

HARVEST Canadian Income & Growth Fund

SUMMARY OF INVESTMENT PORTFOLIO

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

The Yield percentage included in the Top 25 Holdings below, shows the annual dividend rate of the Fund's holding, divided by its closing market price

As at December 31, 2011

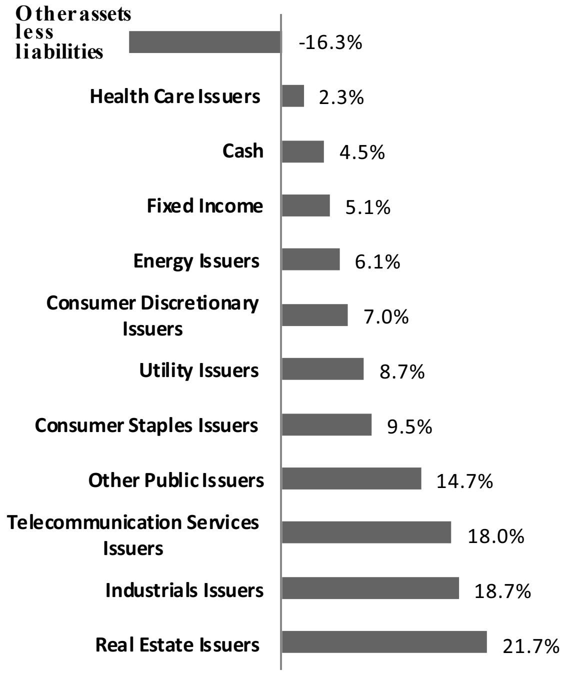
Top 25 Holdings	% of Net Asset Value	Yield (%)
Davis + Henderson Income Corporation	7.8	7.4
Inter Pipeline Fund L.P., Cl. A	6.4	5.6
Atlantic Power Corporation	6.2	7.9
Pembina Pipeline Corporation	6.0	5.3
Bell Aliant, Inc.	6.0	6.7
BCE Inc.	5.7	5.1
Artis Real Estate Investment Trust	5.0	7.7
American Capital Agency Corporation	4.6	19.9
Rogers Sugar, Inc.	4.2	6.5
Manitoba Telecom Services Inc.	4.2	5.7
Bird Construction, Inc.	4.2	5.7
Medical Facilities	4.1	9.4
Liquor Stores NA Ltd.	3.9	7.2
K-Bro Linen Inc.	3.8	5.0
Parkland Fuel Corporation	3.6	8.0
Leisureworld Senior Care Corp.	3.5	7.5
North West Company, Inc.	3.1	4.8
Yellow Media, Inc. 7.30% Feb 02/15	3.0	43.6
Altria Group Inc.	2.9	5.5
Brookfield Infrastructure Partners LP	2.9	5.1
Northland Power Inc.	2.5	6.0
Keyera Corp.	2.5	4.1
Annaly Capital Management Inc.	2.4	14.3
Veresen Inc.	2.4	6.5
Corby Distilleries Ltd. Cl. A	2.3	3.7
	103.2	

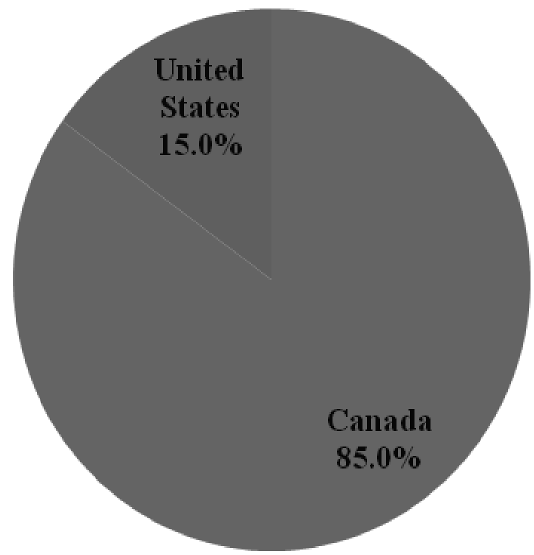
This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund. Quarterly updates of the Fund's investment portfolio are available from Harvest Portfolios Group Inc. at **www.harvestportfolios.com**

HARVEST Canadian Income & Growth Fund

SECTOR ALLOCATION:	GEOGRAPHIC ALLOCATION:

Total Net Assets (100.0%)





Head Office

710 Dorval Drive, Suite 209
Oakville, ON L6K 3V7
Phone Number: 416.649.4541
Toll Free: 866.998.8298
Fax Number: 416.649.4542
Email: info@harvestportfolios.com

Western Canada Office

1155 West Pender Street, Suite 708
Vancouver, BC V6E 2P4

Eastern Canada Office

1250 René Lévesque Blvd. West, Suite 2200
Montreal, Quebec H3B 4W8

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed from time to time in the Fund's simplified prospectus or offering memorandum. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Fund does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

HARVEST PORTFOLIOS GROUP