HARVEST CANADIAN INCOME & GROWTH FUND

Annual Financial Statements

December 31, 2011

HARVEST Canadian Income & Growth Fund

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

On behalf of Harvest Portfolios Group Inc.,

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

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

Oakville, Canada
March 2012

pwc

March 19, 2012

Independent Auditor's Report

To the Unitholders of
Harvest Canadian Income & Growth Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statements of investments and financial position as at December 31, 2011 and 2010 and the statements of operations, changes in financial position, and cash flows for the year then December 31, 2011 and for the period from June 29, 2010 (commencement of operations) to December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

PricewaterhouseCoopers LLP, Chartered Accountants
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

Opinion

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

HARVEST Canadian Income & Growth Fund

STATEMENT OF FINANCIAL POSITION

As at December 31,		2011		2010
Assets				
Investments, at fair value (cost $50,738,374; 2010- $42,179,089)	$	54,878,654	$	45,415,032
Cash and cash equivalents		2,211,596		303,126
Dividends and interest receivable		689,572		368,288
Receivable for investments sold		-		881
Pre-paid interest- loan facility (Note 9)		51,285		59,114
		57,831,107		46,146,441
Liabilities				
Loan payable (Note 9)		8,500,000		8,500,000
Distributions payable		276,192		295,854
		8,776,192		8,795,854
Net assets representing unitholders' equity	**$**	**49,054,915**	**$**	**37,350,587**
Unitholders' equity (Note 3)				
Unitholders' capital		44,395,111		33,232,832
Warrants		-		363,399
Contributed surplus		134,632		(9,235)
Retained earnings		4,525,172		3,763,591
Unitholders' equity	**$**	**49,054,915**	**$**	**37,350,587**
Number of units outstanding (Note 3)		**3,945,599**		**3,007,822**
Number of warrants outstanding (Note 3)		**-**		**3,028,322**
Net assets per unit (Note 8)	**$**	**12.43**	**$**	**12.42**

Approved on behalf of Harvest Portfolios Group Inc.,

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

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

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

HARVEST Canadian Income & Growth Fund

STATEMENT OF OPERATIONS

For the periods ended December 31,	2011	2010
Investment income		
Dividends	$ 3,029,120	$ 623,147
Interest	374,318	794,881
Less: foreign withholding taxes	(178,972)	(41,364)
	3,224,466	**1,376,664**
Expenses		
Management fees (Note 4)	543,301	259,397
Service fees (Note 4)	165,158	73,509
Unitholder reporting costs (Note 4)	148,706	146,550
Audit fees	17,676	17,930
Transfer agency fees	12,290	12,700
Custodian fees and bank charges	54,672	15,549
Independent review committee fees	20,722	20,490
Interest expense (Note 9)	276,956	89,490
Filing fees	29,600	42,359
Legal fees	8,653	67,024
	1,277,734	744,998
Expenses absorbed by manager	-	-
	1,277,734	744,998
Net investment income	**1,946,732**	**631,666**
Realized and unrealized gain / (loss) on investments and foreign currencies		
Realized gain on sale of investments	556,583	1,699,341
Realized gain / (loss) on foreign exchange	25,500	(22,005)
Transaction costs	(40,388)	(126,253)
Change in unrealized depreciation of foreign exchange	(208)	(586)
Change in unrealized appreciation of investments	904,337	3,235,943
Net gain on investments	**1,445,824**	**4,786,440**
Increase in net assets from operations	**$ 3,392,556**	**$ 5,418,106**
Increase in net assets from operations per unit	**$ 1.11**	**$ 1.80**

The accompanying notes are an integral part of these financial statements

HARVEST Canadian Income & Growth Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the periods ended December 31,	2011	2010
Net assets, beginning of the period	**$ 37,350,587**	**$ -**
Increase in net assets from operations	**3,392,556**	**5,418,106**
Unitholders' transactions		
Proceeds from issue of units	12,806,724	36,339,864
Payments on cancellation of units	(1,543,809)	(235,735)
Agents' fees	(320,168)	(1,902,035)
Cost of issue	-	(615,098)
Net unitholders' transactions	**10,942,747**	**33,586,996**
Distributions to unitholders		
Net investment income	(491,955)	-
Capital gain	(367,758)	(1,654,515)
Return of capital	(1,771,262)	-
Total distributions to unitholders	**(2,630,975)**	**(1,654,515)**
Net assets, end of the period	**$ 49,054,915**	**$ 37,350,587**
Retained earnings, beginning of the period	**$ 3,763,591**	**$ -**
Increase in net assets from operations	3,392,556	5,418,106
Distributions to unitholders	(2,630,975)	(1,654,515)
Retained earnings, end of the period	**$ 4,525,172**	**$ 3,763,591**
Contributed surplus, beginning of the period	**$ (9,235)**	**$ -**
Cost of shares repurchased at less than (more than) par value	143,867	(9,235)
Contributed surplus, end of the period	**$ 134,632**	**$ (9,235)**

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

HARVEST Canadian Income & Growth Fund

STATEMENT OF CASH FLOWS

For the periods ended December 31,	2011	2010
Operating activities		
Increase in net assets from operations	**$ 3,392,556**	**$ 5,418,106**
Add (deduct) items not affecting cash:		
Realized gain on sale of investments	(556,583)	(1,699,341)
Unrealized appreciation of investments	(904,337)	(3,235,943)
Proceeds from sale of investments	29,019,892	14,039,265
Purchases of investments	(37,022,594)	(54,519,013)
Net change in non-cash assets and liabilities	(312,574)	(428,283)
Net cash flow provided by (used in) operating activities	**(6,383,640)**	**(40,425,209)**
Financing activities		
Borrowing of term credit facility (Note 9)	-	8,500,000
Proceeds from units issued	12,806,724	36,339,864
Payments on cancellation of units	(1,543,809)	(235,735)
Agents' fees	(320,168)	(1,902,035)
Issuance costs	-	(615,098)
Distributions to unitholders	(2,650,637)	(1,358,661)
Net cash flow provided by financing activities	**8,292,110**	**40,728,335**
Net increase in cash and cash equivalents during the period	**1,908,470**	**303,126**
Cash and cash equivalents, at the beginning of the period	303,126	-
Cash and cash equivalents, at the end of the period	**$ 2,211,596**	**$ 303,126**

Supplemental disclosure of cash flow information

	2011	2010
Amount of interest paid during the period included in net investment income	**$ 276,956**	**$ 89,490**

The accompanying notes are an integral part of these financial statements

HARVEST Canadian Income & Growth Fund

STATEMENT OF INVESTMENTS

As at December 31, 2011

Number of Shares	Security	Average Cost ($)	Fair Value ($)	% of Net Assets
	EQUITIES			
	Consumer Discretionary Issuers			
127,977	Liquor Stores NA Ltd.	1,933,758	1,920,935	3.9
75,145	The North West Company ,Inc.	1,480,721	1,511,166	3.1
		3,414,479	3,432,101	7.0
	Consumer Staples Issuers			
47,616	Altria Group Inc.	1,150,221	1,438,065	3.0
70,000	Corby Distilleries Ltd. Cl. A	1,165,059	1,141,700	2.3
395,352	Rogers Sugar, Inc.	1,952,340	2,075,598	4.2
		4,267,620	4,655,363	9.5
	Energy Issuers			
24,443	Keyera Corp.	1,139,209	1,216,284	2.5
141,000	Parkland Fuel Corporation	1,654,620	1,786,470	3.6
		2,793,829	3,002,754	6.1
	Health Care Issuers			
116,477	CML Healthcare, Inc.	1,215,323	1,124,003	2.3
		1,215,323	1,124,003	2.3
	Industrials Issuers			
178,155	Bird Construction, Inc.	1,935,493	2,045,220	4.2
50,796	Brookfield Infrastructure Partners LP	1,047,161	1,431,176	2.9
227,826	Davis + Henderson Income Corporation	3,757,068	3,838,868	7.8
83,800	K-Bro Linen Inc.	1,466,961	1,829,354	3.7
		8,206,683	9,144,618	18.6
	Other Public Issuers			
167,941	Inter Pipeline Fund LP Class A	2,576,506	3,115,305	6.4
99,000	Pembina Pipeline Corporation	1,775,298	2,935,350	6.0
76,378	Veresen Inc.	1,107,691	1,167,820	2.4
		5,459,495	7,218,475	14.8
	Real Estate Issuers			
79,188	American Capital Agency Corporation	2,273,411	2,263,373	4.6
73,338	Annaly Capital Management Inc.	1,319,441	1,192,582	2.4
176,585	Artis Real Estate Investment Trust	1,858,961	2,470,424	5.1
151,265	Leisureworld Senior Care Corp.	1,596,930	1,704,757	3.5
172,777	Medical Facilities	1,951,310	2,007,669	4.1
100,000	Timbercreek Mortgage Investment Corp	1,000,000	1,040,000	2.1
		10,000,053	10,678,805	21.8
	Telecommunication Services Issuers			
65,724	BCE Inc.	2,195,427	2,789,327	5.7
102,691	Bell Aliant, Inc.	2,732,150	2,926,693	6.0
70,063	Manitoba Telecom Services Inc.	2,059,670	2,075,967	4.2
60,000	Telefonica SA ADR	1,312,007	1,049,612	2.1
		8,299,254	8,841,599	18.0
	Utility Issuers			
210,540	Atlantic Power Corporation	2,789,101	3,057,041	6.2
68,709	Northland Power Inc.	1,015,524	1,225,768	2.5
		3,804,625	4,282,809	8.7
	Total equities	**47,461,361**	**52,380,527**	**106.8**

The accompanying notes are an integral part of these financial statements

HARVEST Canadian Income & Growth Fund

SCHEDULE OF INVESTMENTS (continued)

As at December 31, 2011				
Par Value	**Security**	**Average Cost ($)**	**Fair Value ($)**	**% of Net Assets**
	FIXED INCOME			
1,000,000	Boralex Inc. 6.75% Jun 30/17	1,037,500	1,040,000	2.1
3,734,000	Yellow Media, Inc. 7.30% Feb 02/15	2,239,513	1,458,127	3.0
	Total fixed income	**3,277,013**	**2,498,127**	**5.1**
	Total investments	**50,738,374**	**54,878,654**	**111.9**
	Other assets less liabilities		**(5,823,739)**	**(11.9)**
	Net Assets		**49,054,915**	**100.0**

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended December 31, 2011 and 2010

1. ORGANIZATION

HARVEST Canadian Income & Growth Fund (the "Fund") is an investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated May 31, 2010, being the inception date. There was no significant activity in the Fund from the date of inception, May 31, 2010 to commencement of operations on June 29, 2010. On June 29, 2010, the Fund completed an initial public offering of 2.9 million units at $12.00 per unit for gross proceeds of $36,339,864. Each unit consisted of one trust unit and one warrant. On July 20, 2010, an over-allotment option was exercised for an additional 112 thousand Trust Units at a price of $12.00 per Trust Unit for gross proceeds of $1.3 million.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Valuation of investments

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

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

b) Investments held that are not traded on an active market are valued using valuation techniques, on such basis and in such a manner established by the Manager. The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager in accordance with CICA Handbook Section 3855 methodologies. The fair values of certain securities are determined using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would be used had a ready market for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity. At December 31, 2011 there were no securities that required pricing using assumptions.

National Instrument 81-106 – ''Investment Fund Continuous Disclosure'' (''NI 81-106'') requires all investment funds to calculate net asset value for all purposes other than for financial statements in accordance with part 14.2, which differs in some respects from the requirements of Section 3855 of Canadian GAAP. Canadian GAAP includes the requirement that the fair value of financial instruments listed on a recognized public stock exchange be valued at their last bid price for securities held in a long position and at their last ask price for securities held in a short position, instead of their close price or the last sale price of the security for the day as required by NI 81-106. This results in differences between net asset value ("NAV") calculated based on NI 81-106 and on net assets calculated based on Canadian GAAP ("Net assets"). A reconciliation between NAV per unit and Net assets per unit at the period end is provided in Note 8.

Cash and cash equivalents

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

Other assets and liabilities

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

Transaction costs

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

Investment transactions and income recognition

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

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

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

Foreign currency translation

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

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

HARVEST Canadian Income & Growth Fund

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended December 31, 2011 and 2010

Securities valuation

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

Increase / (decrease) in net assets from operations per unit

“Increase / (decrease) in net assets from operations per unit” in the Statement of Operations represents the increase / (decrease) in net assets from operations, divided by the weighted average units outstanding for the financial period.

Fair value of financial instruments

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

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

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

Level 3: Inputs for the asset or liability that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities. There were no Level 3 securities held by the Fund as at December 31, 2011.

There were no Level 3 securities held by the Fund as at December 31, 2011 and 2010. There were no transfers between Level 1 and Level 2 for the periods ended December 31, 2011 and 2010.

Securities Classification:

Investments at fair value as at December 31, 2011				
	Level 1	**Level 2**	**Level 3**	**Total**
Investments at fair value				
Equities				
Common stock	39,818,055	-	-	39,818,055
Limited partnership units	4,546,481	-	-	4,546,481
Mutual fund	-	1,040,000	-	1,040,000
Depository receipts	1,049,612	-	-	1,049,612
REIT	5,926,379	-	-	5,926,379
Total equities	**51,340,527**	**1,040,000**	**-**	**52,380,527**
Fixed income				
Convertible bonds	-	2,498,127	-	2,498,127
Total fixed income	-	**2.498,127**	**-**	**2,498,127**
Total investments at fair value	**51,340,527**	**3,538,127**	**-**	**54,878,654**

Investments at Fair Values as at December 31, 2010				
	Level 1	**Level 2**	**Level 3**	**Total**
Investments at fair value				
Equities				
Common stock	12,247,519	-	-	12,247,519
Common stock units	19,755,934	-	-	19,755,934
Depository receipts	1,359,711	-	-	1,359,711
Limited partnership units	2,349,372	-	-	2,349,372
Mutual fund	-	1,045,000	-	1,045,000
REIT	4,380,386	-	-	4,380,386
Total equities	**40,092,922**	**1,045,000**	**-**	**41,137,922**
Fixed income				
Convertible bonds	-	1,014,000	-	1,014,000
Corporate bonds		3,263,111		3,263,111
Total fixed income	**-**	**4,277,111**	**-**	**4,277,111**
Total investments at fair value	**40,092,922**	**5,322,111**	**-**	**45,415,033**

Transition to International Financial Reporting Standards ("IFRS")

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

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

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

3. UNITHOLDERS' EQUITY

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

The Fund 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 295,762 listed units and 299,007 listed warrants of the Fund for cancellation by way of a normal course issuer bid through the facilities of the TSX. During the period ended December 31, 2011, 129,450 units (2010 – 20,500) and 36,000 warrants (2010 - NIL) were purchased for cancellation.

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

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

For the period ended December 31, 2010	Units outstanding	Warrants outstanding
Initial issuance June 29, 2010	**3,028,322**	**3,028,322**
Units cancelled	(20,500)	
Total outstanding as at December 31, 2010	**3,007,822**	**3,028,322**

For the period ended December 31, 2011	Units outstanding	Warrants outstanding
Total outstanding as at December 31, 2010	**3,007,822**	**3,028,322**
Units issued on exercised warrants	1,067,227	-
Units cancelled	(129,450)	
Warrants cancelled		(36,000)
Warrants exercised		(1,067,227)
Warrants Expired		(1,925,095)
Total outstanding as at December 31, 2011	**3,945,599**	**-**

Redemptions

Prior to the Conversion Date, units may be surrendered prior to 5:00 p.m. (Toronto time) on the 10th business day before the last business day of the applicable month by the holders thereof for monthly redemption. Upon receipt by the Fund of the redemption notice, in the manner described below, the holder of a unit shall be entitled to receive a price per unit equal to the lesser of:

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

(b) 100% of the "closing market price" on the principal market on which the units are quoted for trading on the monthly redemption date.

Redemptions (continued)

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on June 1, 2012, units may be surrendered for redemption at the Fund's NAV per unit, subject to the required redemption notice period, and the unitholder will receive payment on or before the 15th business day of the following month.

The Fund will become an open-end mutual fund on June 20, 2012. 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.

Issue costs

Certain offering expenses such as costs of creating the Fund, the cost of printing and preparing the prospectus, legal expenses of the Fund and other out-of pocket expenses incurred by the agents together with the agents' fees payable by the Fund are reflected as a reduction of unitholders' equity. The expenses paid are shown in the Statement of Changes in Financial Position.

Warrants

Respectively, on March 15, October 18 and November 30, 2011, 2,250, 4,091and 1,060,886 warrants were exercised for total proceeds of $12,806,724. Each warrant entitled the holder to purchase one unit at a subscription price of $12.00. Any warrants not exercised before November 30, 2011expired. The Fund paid a fee equal to $0.18 per warrant to the registered dealer whose client exercised the warrant and $0.12 per warrant to the Agents.

Distributions

The Fund made monthly cash distributions to unitholders of record on the last business day of each month and paid such cash distributions on or before the 15th day of the following month. Each year, the Fund will annually determine and announce the indicative distribution amount for the following year based upon the prevailing market conditions. The indicative distribution amount was $2,630,975 or $0.84 per unit ($0.07 per month) for 2011 (2010- $0.84).

4. EXPENSES

Management and service fees

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

The Manager is entitled to a fee of 1.25 per cent of net assets plus HST payable monthly. The Fund pays service fees to registered dealers at the rate on 0.40 per cent of the daily net asset value of the Fund plus HST. Service fees are accrued daily and paid monthly to the manager, who in turn pays the dealers.

Independent Review Committee ("IRC") Fees

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

Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of extraordinary services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; and other administrative expenses and costs incurred in connection with the Fund's continuous public filing and other obligations. These expenses were $119,050 for the period ended December 31, 2011 (2010-$66,858) and are included in the unitholder reporting costs on the Statement of Operations.

5. FINANCIAL RISK MANAGEMENT

Investment Objectives

The Fund's investment objectives are:

i. to provide unitholders with monthly distributions; and

ii. to maximize 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 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.

Other price risk

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

As at December 31, 2011, 106.8% (2010 - 110.1%) of the Fund's portfolio investments were traded on public stock exchanges. If equity prices on these exchanges had increased or decreased by 5%, as at period end, with all other factors remaining constant, net assets would have increased or decreased by approximately $2,619,026 (2010 - $2,056,896).

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

Currency risk

Currency risk is the risk that the value of investments denominated in currencies other than the financial currency of the Fund will fluctuate as a result of changes in foreign exchange rates. When the Fund buys an investment priced in a foreign currency and the exchange rate between the Canadian dollar and the foreign currency changes unfavorably, it could reduce the value of the Fund's investment.

As at December 31,

	2011		2010	
Currency	**Currency exposure***	**As a % of net assets**	**Currency exposure***	**As a % of net assets**
U.S. Dollars	$ 7,530,205	15.4%	$ 5,580,291	14.9%

*In Canadian dollars

As at December 31, 2011, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, by approximately $376,510 (2010 - $279,015) or 0.8% (2010 - 0.7%) of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair value of financial instruments. A Fund that invests in fixed income securities, such as bonds and money market instruments, is sensitive to changes in interest rates. In general, when interest rates are falling, the value of these investments rise.

Moreover, fixed income securities with longer terms to maturity are usually more sensitive to changes in interest rates. If interest rates were to change by 1.0%, the increase / (decrease) in interest earned by the Fund would change by $24,981 (2010 - $42,771). A Fund that has an interest-bearing liability is exposed to risks associated with the effects of fluctuations in interest rates on its cash flows. As at December 31, 2011, the Fund had a loan facility of $8,500,000. If interest rates were to change by 1.0%, the interest expense could increase / (decrease) by $85,000 (2010 - $85,000).

The table below summarizes the Fund's exposure to interest rate risks by either remaining term to maturity or contractual repricing.

Debt instruments: December 31, 2011	Fair value ($)	% of Net Assets
Less than 1 year	-	-
1 to 3 years	-	-
3 to 5 years	1,458,127	3.0%
Greater than 5 years	1,040,000	2.1%
Total	**2,498,127**	**5.1%**

Debt instruments: December 31, 2010	Fair value ($)	% of Net Assets
Less than 1 year	-	-
1 to 3 years	-	-
3 to 5 years	-	-
Greater than 5 years	4,277,111	11.5
Total	**4,277,111**	**11.5**

Liquidity risk

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

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

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

As at December 31, 2011 ($)	Less than 1 month	1-3 months	No stated maturity
Loan facility	-	8,500,000*	-
Distributions payable	276,192	-	-
Total financial liabilities	**276,192**	**8,500,000**	**-**

*Maturity March 12, 2012

As at December 31, 2010 ($)	Less than 1 month	1-3 months	No stated maturity
Loan facility	-	8,500,000	-
Distributions payable	295,854	-	-
Total financial liabilities	**295,854**	**8,500,000**	**-**

Credit risk

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

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

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

December 31, 2011 Debt Securities by Credit Rating*	% of Total Debt Instruments	% of Net Assets
A+	-	-
A - BBB	-	-
BB-	58.4	3.0
Not Rated	41.6	2.1
Total	**100.0**	**5.1**

December 31, 2010 Debt Securities by Credit Rating*	% of Total Debt Instruments	% of Net Assets
A+	-	-
A - BBB	76.3	8.8
Not Rated	23.7	2.7
Total	**100.0**	**11.5**

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

6. SOFT DOLLAR COMMISSIONS

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

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

7. INCOME TAXES

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

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

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

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

Harmonized sales tax

Effective July 1, 2010, certain provinces have harmonized their provincial sales tax ("PST") with the federal goods and services tax ("GST"). The harmonized sales tax ("HST") combines the GST rate of 5% with the PST rate of certain provinces. For the province of Ontario the HST rate is 13%. As the manager is a resident of Ontario, the expenses paid by the Fund include HST of 13%. HST is calculated using the residency of unitholders in the Fund as at specific times, rather than the physical location of the manager. A blended rate refund is filed with Revenue Canada on behalf of the Fund, in arrears, using each province's HST rate or GST rate in the case of non-participating provinces. Any refund received is applied against future HST payable.

8. NET ASSET VALUE AND NET ASSETS

CICA Handbook Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for long positions held and the asking price for short positions held.

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

Per Unit ($):	Net asset value	Net assets
As at December 31, 2011	$12.46	$12.43
As at December 31, 2010	$12.44	$12.42

9. 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 was $8,500,000 throughout the periods ended December 31, 2011 and 2010. There was no standby fee 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, which matures on March 12, 2012. The unamortized portion of the deferred interest is included under the "Prepaid Interest – loan facility" on the Statement of Financial Position. For the period ended December 31, 2011 and 2010, the Fund recorded interest expense of $276,956 and $89,490 respectively.

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

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