



**Australian REIT Income Fund**  
Condensed Interim Financial Statements  
(Unaudited)

June 30, 2015

## Australian REIT Income Fund

<b>STATEMENTS OF FINANCIAL POSITION</b>		
<b>(Unaudited)</b>	<b>June 30,</b>	<b>December 31,</b>
<b>As at</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
<b>Current assets</b>		
Investments	\$ 63,216,090	\$ 76,078,743
Cash	4,392,090	1,244,781
Dividends receivable	1,048,559	1,246,438
Unrealized appreciation on foreign currency forward contracts (Note 6)	-	1,792,239
	<b>68,656,739</b>	<b>80,362,201</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Loan payable (Note 9)	14,987,568	27,978,155
Distributions payable (Note 4)	284,142	284,477
Unrealized depreciation on foreign currency forward contracts (Note 6)	911,555	-
	<b>16,183,265</b>	<b>28,262,632</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>\$ 52,473,474</b>	<b>\$ 52,099,569</b>
<b>Net assets attributable to holders of redeemable units</b>		
Series A	\$ 51,907,622	\$ 51,247,139
Series F	565,852	852,430
<b>Number of redeemable units outstanding (Note 4)</b>		
Series A	5,115,808	5,094,234
Series F	50,402	78,077
<b>Net assets attributable to holders of redeemable units per unit</b>		
Series A	\$ 10.15	\$ 10.06
Series F	11.23	10.92

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

## Australian REIT Income Fund

<b>STATEMENTS OF COMPREHENSIVE INCOME</b>		
<b>(Unaudited)</b>		
<b>For the six-month period ended June 30,</b>	<b>2015</b>	<b>2014</b>
<b>Income</b>		
Net gain (loss) on investments		
Dividends	\$ 1,865,055	\$ 2,722,704
Net realized gain (loss) on sale of investments	1,703,211	(355,012)
Net change in unrealized appreciation (depreciation) of investments	1,185,118	10,082,874
Net gain (loss) on investments	4,753,384	12,450,566
Net gain (loss) on derivatives		
Net realized gain (loss) on foreign exchange	1,333,205	(4,859,237)
Net change in unrealized appreciation (depreciation) of foreign exchange	(2,655,353)	188,501
Net change in warrant appreciation (depreciation)	-	(107,000)
Net gain (loss) on derivatives	(1,322,148)	(4,777,736)
<b>Total income (net)</b>	<b>3,431,236</b>	<b>7,672,830</b>
<b>Expenses (Note 5)</b>		
Management fees	408,570	353,220
Service fees	121,242	102,745
Withholding taxes	199,313	280,101
Unitholder reporting costs	68,512	159,847
Audit fees	7,188	3,480
Transfer agency fees	5,464	5,028
Custodian fees and bank charges	26,671	21,317
Independent review committee fees	4,235	6,787
Interest expense (Note 9)	301,107	298,511
Filing fees	28,699	27,782
Legal fees	18,427	18,095
Transaction costs (Note 8)	78,405	37,962
<b>Total expenses</b>	<b>1,267,833</b>	<b>1,314,875</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$ 2,163,403</b>	<b>\$ 6,357,955</b>
Increase (decrease) in net assets attributable to holders of redeemable units - <b>Series A</b>	\$ 2,096,343	\$ 6,176,550
Increase (decrease) in net assets attributable to holders of redeemable units - <b>Series F</b>	67,060	181,405
Increase (decrease) in net assets attributable to holders of redeemable units per unit - <b>Series A (Note 4)</b>	\$ 0.41	\$ 1.16
Increase (decrease) in net assets attributable to holders of redeemable units per unit - <b>Series F (note 4)</b>	1.06	1.26

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## Australian REIT Income Fund

<b>STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ALL SERIES (Unaudited)</b>			
<b>For the six-month period ended June 30,</b>	<b>2015</b>		<b>2014</b>
Net assets attributable to holders of redeemable units beginning of period	\$	52,099,569	\$ 46,406,811
Increase (decrease) in net assets attributable to holders of redeemable units	\$	2,163,403	\$ 6,357,955
<b>Redeemable unit transactions</b>			
Proceeds from issue of redeemable units on warrants exercised		-	115,643
Payment to unitholders on fractional units on transfer from Series F to Series A		(17)	(34)
Cancellation of redeemable units		-	(190,468)
Redemption of redeemable units		(82,669)	-
Warrants		-	(373,000)
Agents' fees		-	(1,125)
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>	<b>(82,686)</b>	<b>\$ (448,984)</b>
<b>Distributions to holders of redeemable units</b>			
Net investment income		(1,706,812)	(1,807,132)
<b>Total distributions to holders of redeemable units</b>		<b>(1,706,812)</b>	<b>(1,807,132)</b>
<b>Net assets attributable to holders of redeemable units end of period</b>	<b>\$</b>	<b>52,473,474</b>	<b>\$ 50,508,650</b>

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## Australian REIT Income Fund

<b>STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES A (Unaudited)</b>			
<b>For the six-month period ended June 30,</b>	<b>2015</b>		<b>2014</b>
<b>Net assets attributable to holders of redeemable units beginning of period</b>	<b>\$</b>	<b>51,247,139</b>	<b>\$ 44,835,165</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>2,096,343</b>	<b>\$ 6,176,550</b>
<b>Redeemable unit transactions</b>			
Proceeds from issue of redeemable units on warrants exercised		-	115,643
Transfer of units from Series F		249,995	246,671
Cancellation of redeemable units		-	(81,124)
Warrants		-	(373,000)
Agents' fees		-	(1,125)
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>	<b>249,995</b>	<b>\$ (92,935)</b>
<b>Distributions to holders of redeemable units</b>			
Net investment income		(1,685,855)	(1,759,832)
<b>Total distributions to holders of redeemable units</b>		<b>(1,685,855)</b>	<b>(1,759,832)</b>
<b>Net assets attributable to holders of redeemable units end of period</b>	<b>\$</b>	<b>51,907,622</b>	<b>\$ 49,158,948</b>

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## Australian REIT Income Fund

<b>STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES F (Unaudited)</b>			
<b>For the six-month period ended June 30,</b>	<b>2015</b>		<b>2014</b>
Net assets attributable to holders of redeemable units beginning of period	\$	852,430	\$ 1,571,646
Increase (decrease) in net assets attributable to holders of redeemable units	\$	67,060	\$ 181,405
<b>Redeemable unit transactions</b>			
Transfer of units to Series A		(250,012)	(246,705)
Cancellation of redeemable units		-	(109,344)
Redemption of redeemable units		(82,669)	-
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>	<b>(332,681)</b>	<b>\$ (356,049)</b>
<b>Distributions to holders of redeemable units</b>			
Net investment income		(20,957)	(47,300)
<b>Total distributions to holders of redeemable units</b>		<b>(20,957)</b>	<b>(47,300)</b>
<b>Net assets attributable to holders of redeemable units end of period</b>	<b>\$</b>	<b>565,852</b>	<b>\$ 1,349,702</b>

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## Australian REIT Income Fund

<b>STATEMENTS OF CASH FLOWS</b>		
<b>(Unaudited)</b>		
<b>For the six-month period ended June 30,</b>	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 2,163,403	\$ 6,357,955
<b>Add (deduct) items not affecting cash</b>		
Realized (gain) loss on sale of investments	(1,703,211)	355,012
Change in unrealized (appreciation) depreciation of investments	(1,185,118)	(10,082,874)
Proceeds from sale of investments	31,333,020	24,759,619
Purchases of investments	(15,582,038)	(20,354,822)
Net change in non-cash assets and liabilities	2,889,241	(384,199)
<b>Net cash flow provided by (used in) operating activities</b>	<b>\$ 17,915,297</b>	<b>\$ 650,691</b>
<b>Financing activities</b>		
Net (repayment) borrowing of term credit facility (Note 9)	\$ (12,978,155)	\$ 983,008
Proceeds from redeemable units issued on warrants exercised	-	115,643
Payment to unitholders on fractional units on transfer from Series F to Series A	(17)	(34)
Redemption and cancellation of redeemable units	(82,669)	(190,479)
Agents' fees	-	(1,125)
Distributions paid to holders of redeemable units	(1,707,147)	(1,807,642)
<b>Net cash flow provided by (used in) financing activities</b>	<b>\$ (14,767,988)</b>	<b>\$ (900,629)</b>
<b>Net increase (decrease) in cash during the period</b>	<b>3,147,309</b>	<b>(249,938)</b>
Cash, beginning of the period	1,244,781	982,165
<b>Cash, end of the period</b>	<b>\$ 4,392,090</b>	<b>\$ 732,227</b>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid during the period*	301,107	298,511
Dividends received, net of withholding taxes*	1,863,621	2,435,354

\*included in operating activities

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

## Australian REIT Income Fund

<b>SCHEDULE OF INVESTMENTS</b>				
<b>(Unaudited)</b>				
<b>As at June 30, 2015</b>				
<b>Number of Shares</b>	<b>Security</b>	<b>Average Cost (\$)</b>	<b>Carrying Value (\$)</b>	<b>% of Net Assets</b>
<b>EQUITIES</b>				
<b>Real Estate Issuers</b>				
286,320	360 Capital Industrial Fund	641,868	662,125	1.3
399,605	BWP Trust	1,007,312	1,173,340	2.2
831,628	Charter Hall Group	3,520,741	3,606,941	6.9
685,094	Dexus Property Group	4,787,309	4,798,931	9.1
2,665,740	Federation Centres	7,442,271	7,469,166	14.2
1,156,248	Goodman Group	6,089,987	6,956,488	13.3
855,387	Growthpoint Properties Australia Limited	2,183,394	2,569,085	4.9
570,659	Investa Office Fund	1,859,753	2,080,807	4.0
179,122	Lend Lease Corp.	2,441,000	2,583,327	4.9
2,596,584	Mirvac Group	4,656,115	4,609,413	8.8
2,367,419	Scenture Group	8,749,102	8,518,789	16.2
1,469,814	Stockland	6,016,925	5,782,528	11.0
1,186,192	The GPT Group	4,905,583	4,871,585	9.3
464,474	Westfield Corporation Limited	3,407,577	4,064,693	7.8
		57,708,937	59,747,218	113.9
<b>Other Public Issuers</b>				
18,929	Goodman Plus Trust	1,964,265	1,829,971	3.5
20,578	Multiplex SITES Trust	1,877,324	1,638,901	3.1
		3,841,589	3,468,872	6.6
<b>Total investments</b>		<b>61,550,526</b>	<b>63,216,090</b>	<b>120.5</b>
<b>Foreign currency forward contracts (Note 6)</b>			<b>(911,555)</b>	<b>(1.7)</b>
<b>Loan payable</b>			<b>(14,987,568)</b>	<b>(28.6)</b>
<b>Other assets less liabilities</b>			<b>5,156,507</b>	<b>9.8</b>
<b>Net assets attributable to holders of redeemable units</b>			<b>52,473,474</b>	<b>100.0</b>



# Australian REIT Income Fund

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

(Unaudited)

June 30, 2015

### 1. GENERAL INFORMATION

Australian REIT Income Fund (the “Fund”) is an investment fund established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated February 26, 2013 and as amended and restated, being the inception date. There was no significant activity in the Fund from the date of inception to commencement of operations on March 21, 2013. On March 21, 2013, Series A and Series F completed an initial public offering of 5,311,381 and 188,619 units at \$12.00 per unit for gross proceeds of \$63,736,572 and \$2,263,428 respectively. On April 29, 2013, an over-allotment option was exercised on Series A for an additional 33,666 units at a price of \$12.00 per unit for a gross proceed of \$403,992. The address of the Fund’s registered office is 710 Dorval Drive, Oakville, Ontario.

The Fund’s investment objectives are to provide unitholders with stable monthly cash distributions and the opportunity for capital appreciation. To seek to achieve its investment objectives, the Fund will invest in an actively managed portfolio comprised primarily of equity securities listed on the ASX issued by Australian real estate investment trusts and to a lesser extent, issuers principally engaged in the real estate industry in Australia.

The Fund is offering Series A units and Series F units. The Series F units are designed for fee-based and/or institutional accounts and differ from the Series A units in the following ways: (i) Series F units will not be listed on a stock exchange; (ii) the Agents’ fees payable on the issuance of the Series F units were lower than those payable on the issuance of the Series A units; and (iii) no service fee is payable in respect of the Series F units.

### 2. BASIS OF PRESENTATION

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting and should be read in conjunction with the annual financial statements for the period ended December 31, 2014 which have been prepared in accordance with IFRS. These condensed interim financial statements were authorized for issue by Harvest Portfolios Group Inc. (the “Manager”) on August 20, 2015.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at fair value through profit or loss (FVTPL). Transaction costs on financial assets and liabilities at FVTPL are expensed as incurred. Regular way purchases and sales of financial assets are recognized at their trade date. The Fund’s investments and derivative assets and liabilities are measured at fair value through profit or loss (FVTPL), including investments which have been designated at FVTPL. Derivative assets and liabilities are classified as held-for-trading (HFT). The Fund’s obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract’s effective interest rate. Carrying values of other financial assets and liabilities at amortized cost approximate their fair values due to the short term to maturity. The Fund’s accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (NAV) for transactions with unitholders. As at June 30, 2015 and December 31, 2014, there were no differences between the Fund’s NAV per security and its net assets per security calculated in accordance with IFRS.

#### Fair value of investments and derivatives

Investments and derivatives that are traded in an active market are valued at their closing prices through recognized public stock exchanges or through recognized investment dealers on the valuation date. The Fund uses the last traded market price that falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances. Investments held are represented by equities. Derivatives held include foreign currency forward contracts.

## Australian REIT Income Fund

Investments and derivatives held that are not traded in 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. The fair values of certain securities may be 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.

### Classification of redeemable units

Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as a financial liability unless certain criteria are met. In addition to the annual redemption at 100% of NAV, the Fund's units are redeemable at 95% of their market price monthly. As a result, the Fund's units contain multiple contractual obligations and are presented as financial liabilities on transition to IFRS as they do not meet the criteria for classification as equity.

### Cash

Cash is comprised of cash on deposit.

### Investment transactions and income recognition

Net realized gain (loss) on investments and net change in unrealized appreciation (depreciation) on investments are determined on an average cost basis. Dividend income is accounted for 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.

### Allocation of income and expense, and realized and unrealized capital gains and losses

Management fees and service fees directly attributable to a series are charged to that series. The Fund's shared operating expenses, income, and realized and unrealized capital gains and losses are generally allocated proportionately to each series based upon the relative net assets attributable to holders of redeemable units of each series.

### Foreign currency translation

The Fund's subscriptions and redemptions are denominated in Canadian dollars which is also the Fund's functional and presentation currency. Purchases and sales of investments denominated in foreign currencies and foreign currency dividend and interest income are translated into Canadian dollars at the rate of exchange prevailing at the time of the transactions. Realized and unrealized foreign currency gains or (losses) on investments are included in the Statements of Comprehensive Income in "Net realized gain (loss) on sale of investments" and "Net change in unrealized appreciation (depreciation) of investments", respectively. Realized and unrealized foreign currency gains or losses on derivatives are included in the Statements of Comprehensive Income in "Net realized gain (loss) on foreign exchange" and "Net change in unrealized appreciation (depreciation) of foreign exchange", respectively. Foreign currency assets and liabilities in the Statements of Financial Position are translated into Canadian dollars on the statement date.

### Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The fair value of these contracts is based on the difference between the contract rate and current market rate for the underlying currency at the measurement date applied to the contract's notional amount and adjusted for counterparty risk. Upon closing of a contract, the gain or loss is recorded as a realized gain or loss on foreign exchange.

### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## Australian REIT Income Fund

### Redeemable units valuation

The net asset value (NAV) of each series on a particular date will be equal to each series' proportionate share of the assets of the Fund less each series' proportionate share of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV and NAV per unit of each series will be calculated each Business Day "Business Day" means any day on which the TSX is open for trading.

### Increase (decrease) in net assets attributable to holders of redeemable units per unit

"Increase (decrease) in net assets attributable to holders of redeemable units per unit" in the Statements of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units, attributed to each series, divided by the weighted average units outstanding for that series, for the financial period.

### Income and other taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). For tax purposes, the Fund has a December 31 year end. All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statement of financial position as a deferred income tax asset. Capital losses may be carried forward indefinitely to reduce future realized capital gains. Non-capital losses may be carried forward 20 years and applied against future taxable income. As at the last taxation year end, the Fund had no non-capital losses and \$1,240,555 of net capital losses available to be carried forward for income tax purposes.

The Fund may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense.

As the Manager is a resident of Ontario, the expenses paid by the Fund generally 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 the Canada Revenue Agency on behalf of the Fund, in arrears, using each province's HST rate or GST rate in the case of non-participating provinces.

### Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

- a) Fair value measurement of derivatives and securities not quoted in an active market

The Fund may hold financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Refer to Note 7 for further information about the fair value measurement of the Fund's financial instruments.

- b) Classification and measurement of investment and application of the fair value option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, Financial Instruments – Recognition and Measurement (IAS 39). The most significant judgments made includes the determination that certain investments are held-for trading and that the fair value option can be applied to those which are not.

# Australian REIT Income Fund

## Accounting standards issued but not yet adopted

### *IFRS 9, Financial Instruments*

The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however, is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Fund is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

## 4. REDEEMABLE UNITS

The authorized capital of the Fund consists of an unlimited number of transferable units of each 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 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. Series A units trade on the TSX under the symbol HRR.UN and Series F units do not trade. As at June 30, 2015, the closing price for Series A units was \$9.82 per unit (December 31, 2014 - \$9.58 per unit).

The Fund renewed its normal course issuer bid program for the period from May 7, 2015 to May 6, 2016 which allows the Fund to purchase up to 511,380 Series A units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange and other Canadian markets. During the period ended June 30, 2015, no Series A (2014 – 9,900) units were purchased for cancellation (2014 - \$81,124).

### **Warrants**

On May 7, 2014 the Fund filed a short form prospectus that qualifies the Fund for distribution of warrants. Warrants were issued to unitholders of record on May 21, 2014. A total of 5,331,275 Series A warrants and 139,670 Series F warrants were issued to subscribe for 2,665,637 Series A units and 69,835 Series F units of the fund at a subscription price of \$8.93 per unit for Series A units and \$9.26 per unit for Series F units. Two whole warrants entitled the holder to purchase one unit on or before 5:00 p.m. (Toronto time) up to October 31, 2014. Warrants not exercised were void and of no value. Upon the exercise of a warrant, the Fund paid a fee equal to \$0.09 per Series A unit to the registered dealer whose client is exercising the warrant. No exercise fee is paid upon the exercise of Series F warrants. For the year ended December 31, 2014, 3,139,932 Series A warrants and 5,800 Series F warrants were exercised for 1,569,966 Series A units and 2,900 Series F units for gross proceeds of \$14,019,796 in Series A and \$26,854 in Series F. The remaining unexercised warrants expired and were void with no value.

### **Redemptions**

Series A units may be surrendered prior to 5:00 p.m. (Toronto time) on the tenth Business Day before the last Business Day of the applicable month by unitholders for redemption. Upon receipt by the Fund of the redemption notice the unitholder shall be entitled to receive a price per Series A unit equal to the lesser of:

- (a) 95% of the “market price” of the Series A units on the principal market on which the Series A 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 Series A units are quoted for trading on the monthly redemption date.

Notwithstanding the monthly redemption price formula above, at no time will the Fund pay out redemption proceeds greater than the NAV per Unit as determined on the monthly redemption date for each Unit being redeemed.

Series F units may be redeemed or converted to Series A units on a monthly basis on the same terms as the Series A units. During the period ended June 30, 2015 7,825 (2014 – 13,585) Series F units were redeemed and cancelled for \$82,669 (2014 - \$109,344) and 19,850 (2014 - 27,633) Series F units were converted into 21,574 (2014 – 28,881) Series A units.

## Australian REIT Income Fund

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on an annual basis, commencing in September 2014, Series A and Series F units may be surrendered for redemption at the NAV per unit of each series, subject to the required redemption notice period, by the second last business day of September and the unitholder will receive payment on or before the 15<sup>th</sup> business day of the following month. On September 30, 2014, 1,710,453 Series A units were redeemed and cancelled for \$15,619,344 and 55,115 Series F units were redeemed and cancelled for \$540,342.

The following units were redeemed and/or cancelled during the period:

	Units outstanding		Warrants outstanding	
	Series A	Series F	Series A	Series F
<b>Total outstanding as at January 1, 2014</b>	<b>5,311,384</b>	<b>179,132</b>	-	-
Warrants issued	-	-	5,331,275	139,670
Cancellation of redeemable units	(9,900)	-	-	-
Redeemable units redeemed	-	(13,585)	-	-
Redeemable units issued on warrants exercised	12,950	-	(25,900)	-
Transfer between Series	28,881	(27,633)	-	-
<b>Total outstanding as at June 30, 2014</b>	<b>5,343,315</b>	<b>137,914</b>	<b>5,305,375</b>	<b>139,670</b>
<b>Total outstanding as at January 1, 2015</b>	<b>5,094,234</b>	<b>78,077</b>		
Redeemable units redeemed	-	(7,825)	-	-
Transfer between Series	21,574	(19,850)	-	-
<b>Total outstanding as at June 30, 2015</b>	<b>5,115,808</b>	<b>50,402</b>	-	-

The weighted average number of units outstanding during the period ended June 30, 2015 was 5,108,765 units for Series A (2014 – 5,331,295 units) and 63,330 units for Series F (2014 – 143,585 units).

### Issue costs

Certain offering expenses such as costs of creating the Fund, issuance of warrants, the cost of printing and preparing the prospectus, legal expenses of the Fund, certain remuneration to directors and/or officers of the Manager and other out-of-pocket expenses incurred by the agents together with the agent's fees payable by the Fund are included in the carrying amount of the Fund's obligation for net assets attributable to holders of redeemable units. At the initial public offering, directors and/or officers of the Manager were remunerated \$23,493.

### Distributions

The Fund intends to make monthly cash distributions to unitholders of record on the last business day of each month and pay such cash distributions on or before the 15th day of the following month. Beginning in March 2014, the Fund will annually determine and announce the distribution amount for the following year based upon the prevailing market conditions. The distribution amount was \$1,706,812 or \$0.055 per unit per month for the period ended June 30, 2015 (2014 - \$1,807,132 or \$0.055 per unit per month).

During the year the Fund has also made available to unitholders the opportunity to reinvest monthly distributions from the Fund in additional Series A units and/or Series F units, as applicable, by participating in a distribution reinvestment plan which will provide that cash distributions made by the Fund shall, at the election of a unitholder, be automatically reinvested in additional Series A units or Series F units, as applicable, on such unitholder's behalf in accordance with the terms of the plan. Reinvestment of distributions for Series A will occur either through market purchases or units issued from treasury depending on whether the trading price of the Series A units is above or below NAV and if units are available for purchase on the market. Reinvestment of distributions for Series F units will occur through units issued from treasury at NAV. As at June 30, 2015, 98,050 Series A units were enrolled in the reinvestment plan and all reinvestments during the period were from market purchases. No Series F units were enrolled in the reinvestment plan.



## Australian REIT Income Fund

### 5. RELATED PARTY TRANSACTIONS AND OTHER 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 and provides key management personnel to the Fund. The Manager has retained Macquarie Private Portfolio Management Limited ("MPPM" or the "Portfolio Manager") to provide portfolio management services and pays MPPM a fee for its portfolio advisory services, from the management fee received from the Fund, calculated on the basis of the Fund's net asset value. Effective December 31, 2014, the Manager became the Investment Advisor for the currency hedging strategy of the Fund.

The Manager is entitled to a fee of 1.30% of the average daily NAV per unit, plus applicable taxes, per annum of the Fund. The Fund pays service fees to registered dealers on Series A units at a rate of 0.40% of the average daily NAV, plus applicable taxes, per annum of the Fund. No service fee is charged to Series F units. Service fees are accrued daily and paid monthly to the Manager.

#### Operating expenses

The Fund is responsible for operating expenses relating to the carrying on of its business, including custodial services, interest, taxes, legal, audit fees, transfer agency services relating to the issue and redemption of units, and the cost of financial and other reports, costs and expenses for the Fund's Independent Review Committee ("IRC"), including fees and expenses of the IRC members and compliance with applicable laws, regulations and policies. The Manager pays for such expenses on behalf of the Fund, except for certain expenses such as interest, and is then reimbursed by the Fund.

#### Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses are allocated by the Manager on a reasonable basis, across all of the Harvest Portfolios Group Inc. funds, and series of each applicable fund. These expenses were \$63,030 for period ended June 30, 2015 (2014 - \$149,869) and are included in the unitholder reporting costs on the Statements of Comprehensive Income.

### 6. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund enters into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies. Foreign currency forward contracts entered into by the Fund represent a firm commitment to buy or sell a currency at a specified value and point in time based upon an agreed or contracted quantity. The value of the foreign currency forward contract is the difference between the contract rate and the current forward rate at the measurement date applied to the contract's notional amount and adjusted for counterparty risk. The unrealized gains or losses on the forward contract are reported as part of the change in unrealized appreciation or depreciation of foreign exchange in the Statements of Comprehensive Income until it is closed out or partially settled.

At June 30, 2015 and December 31, 2014, the Fund had entered into the following foreign currency forward contracts:

As at June 30, 2015				
Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)
The Bank of Nova Scotia credit rating A+	July 17, 2015	CDN \$64,299,440	AUD \$68,000,000	(\$911,555)

  

As at December 31, 2014				
Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)
The Bank of Nova Scotia credit rating A+	January 16, 2015	CAD \$72,841,875	AUD \$75,000,000	\$1,792,239

# Australian REIT Income Fund

## 7. FINANCIAL RISK MANAGEMENT

Investment activities of the Fund expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The Manager seeks to minimize these risks by employing experienced portfolio managers that will manage the security portfolios of the Fund on a daily basis according to market events and the investment objectives of the Fund. To assist in managing risk, the Manager also maintains governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

### 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 June 30, 2015, 120.5% (December 31, 2014 - 146.1%) of the Fund's net assets attributable to holders of redeemable units were traded on public stock exchange. If equity prices on these exchanges had increased or decreased by 5%, as at year end, with all other factors remaining constant, net assets attributable to holders of redeemable units would have increased or decreased by approximately \$3,160,805 (December 31, 2014 - \$3,803,937).

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.

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

As at June 30, 2015				
Currency	Currency exposure*	Forward contracts*	Net currency exposure*	As a % of net assets
Australian Dollars	\$66,303,037	\$65,210,995	\$1,092,042	2.1%

As at December 31, 2014				
Currency	Currency exposure*	Forward contracts*	Net currency exposure*	As a % of net assets
Australian Dollars	\$76,420,245	\$71,049,636	\$5,370,609	10.3

\* Amounts are in Canadian Dollars

The non-monetary currency exposure is \$63,216,090 (December 31, 2014 – \$76,078,743) and the monetary currency exposure is \$3,086,947 (December 31, 2014 – \$341,502).

As at June 30, 2015, if the Canadian dollar had strengthened or weakened by 5% in relation to the Australian dollar, with all other variables held constant, the Fund's net assets attributable to holders of redeemable units would have increased or decreased, respectively, by approximately \$54,602 or 0.1% (December 31, 2014 - \$268,530 or 0.5% ) based on the net currency exposure. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

As all of the securities in the portfolio investments are denominated in Australian Dollars, the Fund from time to time may enter into a forward currency contract on substantially all of the value of the portfolio investments back to the Canadian dollar. There is no requirement to hedge the currency at all times.

## Australian REIT Income Fund

### Interest rate risk

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

Moreover, fixed income securities with longer terms to maturity are usually more sensitive to changes in interest rates. As at June 30, 2015 and December 31, 2014, the Fund did not hold any fixed income securities.

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 June 30, 2015 the Fund had \$14,987,568 (December 31, 2014 - \$27,978,155) net of prepaid interest of interest bearing liabilities. The interest bearing liabilities have a fixed interest rate and a maturity of less than three months, therefore the exposure to interest rate risk is not considered significant.

### 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 is exposed to redemption of units as described in Note 4. However, the Manager does not expect that the contractual maturity will be representative of the actual cash outflows as holders of those units typically retain them for a longer period. Therefore in order to maintain sufficient liquidity, the Fund primarily invests in securities that are actively traded in public markets and can be readily disposed of to raise liquidity.

As at June 30, 2015 and December 31, 2014, all of the Fund's financial liabilities had maturities of less than three months.

### 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.

All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Ongoing credit assessments are performed on all the Fund's holdings and the exposure level is managed through careful diversification across individual issuers, which helps to minimize this risk. The maximum credit risk of these investments is their fair value at June 30, 2015 and December 31, 2014. The Fund also enters into foreign currency forward contracts which are exposed to credit risk. The maximum credit risk exposure is the unrealized gain (loss) on the forward contracts.

All cash held by the fund is held with a reputable and regulated financial institution.

### Fair value of financial instruments

The Fund classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

**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); and

**Level 3:** Inputs for the asset or liability that are not based on observable market data.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

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



## Australian REIT Income Fund

Securities classification:

Investments at fair value as at June 30, 2015				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Equities</b>				
REITs	59,747,218	-	-	59,747,218
Other	3,468,872	-	-	3,468,872
<b>Total equities</b>	<b>63,216,090</b>	<b>-</b>	<b>-</b>	<b>63,216,090</b>
Foreign currency forward contract (Note 6)	-	(911,555)	-	(911,555)
<b>Total investments at fair value</b>	<b>63,216,090</b>	<b>(911,555)</b>	<b>-</b>	<b>62,304,535</b>

Investments at fair value as at December 31, 2014				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Equities</b>				
REITs	71,844,005	-	-	71,844,005
Other	4,234,738	-	-	4,234,738
<b>Total equities</b>	<b>76,078,743</b>	<b>-</b>	<b>-</b>	<b>76,078,743</b>
Foreign currency forward contract (Note 6)	-	1,792,239	-	1,792,239
<b>Total investments at fair value</b>	<b>76,078,743</b>	<b>1,792,239</b>	<b>-</b>	<b>77,870,982</b>

There were no Level 3 securities held by the Fund as at June 30, 2015 and December 31, 2014 and there were no significant transfers between Level 1 and Level 2 for the period ended June 30, 2015 and the year ended December 31, 2014.

The value of equities is based on quoted prices. The value of the foreign currency forward contract is determined as the difference between the contract rate and the current forward rate at the measurement date applied to the contract's notional amount and adjusted for counterparty risk.

### Concentration Risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk by geography and segment.

Geography:

Country of Issue	June 30, 2015		December 31, 2014	
	\$*	As a % of net assets	\$*	As a % of net assets
Australia	63,216,090	120.5	76,078,743	146.1
<b>Totals</b>	<b>63,216,090</b>	<b>120.5</b>	<b>76,078,743</b>	<b>146.1</b>

\*Stated in Canadian dollars

## Australian REIT Income Fund

Market Segment (percentage of net assets attributable to holders of redeemable units):

	June 30, 2015	December 31, 2014
	% of net assets	% of net assets
Real Estate Issuers	113.9	138.0
Other Public Issuers	6.6	8.1
<b>Total</b>	<b>120.5</b>	<b>146.1</b>

### 8. 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 June 30, 2015 and 2014 amounted to \$Nil.

### 9. LOAN FACILITY

The Fund established a loan facility with a Canadian chartered bank for the purpose of acquiring assets for the portfolio and such other short term funding purposes as may be determined from time to time and in accordance with the investment strategy. The loan is interest bearing at a rate of 0.986% per annum for \$15,000,000, (December 31, 2014 - 1.29% for \$28,000,000), secured against the assets of the Fund and the amount of the loan has a maximum amount available based on the net asset value of the Fund. The outstanding balance on the loan facility was \$15,000,000 at June 30, 2015 (December 31, 2014 - \$28,000,000). The amount of borrowings ranged between \$15,000,000 and \$30,000,000 during the period (2014 - \$27,100,000 and \$28,100,000).

The initial interest paid on the drawdown and renewal of the BA's is deferred and amortized over the term of the BA's, which mature on July 17, 2015 for the loan. The unamortized portion of the deferred interest was \$12,432 at June 30, 2015 (December 31, 2014 - \$21,845) and is netted against the loan facility balance on the Statements of Financial Position. For the period ended June 30, 2015, the Fund recorded interest expense of \$301,107 (2014 - \$298,511).

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**CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

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