



Australian REIT Income Fund
Condensed Interim Financial Statements
(Unaudited)

June 30, 2016

Australian REIT Income Fund

STATEMENTS OF FINANCIAL POSITION			
(Unaudited)			
As at		June 30, 2016	December 31, 2015
Assets			
Current assets			
Investments	\$	47,174,691	\$ 43,402,604
Cash		1,404,168	1,842,945
Dividends receivable		737,591	695,110
	\$	49,316,450	\$ 45,940,659
Liabilities			
Current liabilities			
Loan payable (Note 9)		14,987,341	14,989,928
Distributions payable (Note 4)		154,251	154,243
Unrealized depreciation on foreign currency forward contracts (Note 6)		535,053	1,104,385
		15,676,645	16,248,556
Net assets attributable to holders of redeemable units	\$	33,639,805	\$ 29,692,103
Net assets attributable to holders of redeemable units			
Series A	\$	33,121,162	\$ 29,221,142
Series F		518,643	470,961
Number of redeemable units outstanding (Note 4)			
Series A		2,765,906	2,764,434
Series F		38,657	39,977
Net assets attributable to holders of redeemable units per unit			
Series A	\$	11.97	\$ 10.57
Series F		13.42	11.78

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

Australian REIT Income Fund

STATEMENTS OF COMPREHENSIVE INCOME		
(Unaudited)		
For the six-month period ended June 30,	2016	2015
Income		
Net gain (loss) on investments		
Dividends	\$ 1,129,285	\$ 1,865,055
Net realized gain (loss) on sale of investments	628,556	1,703,211
Net change in unrealized appreciation (depreciation) of investments	2,366,053	1,185,118
Net gain (loss) on investments	4,123,894	4,753,384
Net gain (loss) on derivatives		
Net realized gain (loss) on foreign exchange	875,047	1,333,205
Net change in unrealized appreciation (depreciation) of foreign exchange	541,755	(2,655,353)
Net gain (loss) on derivatives	1,416,802	(1,322,148)
Total income (net)	\$ 5,540,696	\$ 3,431,236
Expenses (Note 5)		
Management fees	\$ 226,000	\$ 408,570
Service fees	65,421	121,242
Withholding taxes	119,873	199,313
Unitholder reporting costs	33,894	68,512
Audit fees	5,566	7,188
Transfer agency fees	8,535	5,464
Custodian fees and bank charges	22,314	26,671
Independent Review Committee fees	2,399	4,235
Interest expense (Note 9)	134,943	301,107
Filing fees	26,009	28,699
Legal fees	9,838	18,427
Transaction costs (Note 8)	12,695	78,405
Total expenses	667,487	1,267,833
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 4,873,209	\$ 2,163,403
Increase (decrease) in net assets attributable to holders of redeemable units - Series A	\$ 4,796,696	\$ 2,096,343
Increase (decrease) in net assets attributable to holders of redeemable units - Series F	76,513	67,060
Increase (decrease) in net assets attributable to holders of redeemable units per unit - Series A (Note 4)	\$ 1.73	\$ 0.41
Increase (decrease) in net assets attributable to holders of redeemable units per unit - Series F (note 4)	1.96	1.06

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Australian REIT Income Fund

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ALL SERIES (Unaudited)			
For the six-month period ended June 30,	2016		2015
Net assets attributable to holders of redeemable units beginning of period	\$	29,692,103	\$ 52,099,569
Increase (decrease) in net assets attributable to holders of redeemable units	\$	4,873,209	\$ 2,163,403
Redeemable unit transactions			
Payment to unitholders on fractional units on transfer from Series F to Series A		(17)	(17)
Redemption of redeemable units		-	(82,669)
Net increase (decrease) in redeemable unit transactions	\$	(17)	\$ (82,686)
Distributions to holders of redeemable units			
Net investment income		(925,490)	(1,706,812)
Total distributions to holders of redeemable units	\$	(925,490)	\$ (1,706,812)
Net assets attributable to holders of redeemable units end of period	\$	33,639,805	\$ 52,473,474

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STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES A (Unaudited)			
For the six-month period ended June 30,	2016		2015
Net assets attributable to holders of redeemable units beginning of period	\$	29,221,142	\$ 51,247,139
Increase (decrease) in net assets attributable to holders of redeemable units	\$	4,796,696	\$ 2,096,343
Redeemable unit transactions			
Transfer of units from Series F		15,915	249,995
Net increase (decrease) in redeemable unit transactions	\$	15,915	\$ 249,995
Distributions to holders of redeemable units			
Net investment income		(912,591)	(1,685,855)
Total distributions to holders of redeemable units	\$	(912,591)	\$ (1,685,855)
Net assets attributable to holders of redeemable units end of period	\$	33,121,162	\$ 51,907,622

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STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES F (Unaudited)			
For the six-month period ended June 30,	2016		2015
Net assets attributable to holders of redeemable units beginning of period	\$	470,961	\$ 852,430
Increase (decrease) in net assets attributable to holders of redeemable units	\$	76,513	\$ 67,060
Redeemable unit transactions			
Redemption of redeemable units		-	(82,669)
Transfer of units to Series A		(15,932)	(250,012)
Net increase (decrease) in redeemable unit transactions	\$	(15,932)	\$ (332,681)
Distributions to holders of redeemable units			
Net investment income		(12,899)	(20,957)
Total distributions to holders of redeemable units	\$	(12,899)	\$ (20,957)
Net assets attributable to holders of redeemable units end of period	\$	518,643	\$ 565,852

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STATEMENTS OF CASH FLOWS		
(Unaudited)		
For the six-month period ended June 30,	2016	2015
Operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 4,873,209	\$ 2,163,403
Add (deduct) items not affecting cash		
Realized (gain) loss on sale of investments	(628,556)	(1,703,211)
Change in unrealized (appreciation) depreciation of investments	(2,366,053)	(1,185,118)
Change in unrealized (appreciation) depreciation of foreign exchange	(541,755)	2,655,353
Proceeds from sale of investments	2,780,557	31,333,020
Purchases of investments	(3,558,035)	(15,582,038)
Net change in non-cash assets and liabilities	(82,717)	2,33,888
Net cash flow provided by (used in) operating activities	\$ 476,650	\$ 17,915,297
Financing activities		
Net (repayment) borrowing of term credit facility (Note 9)	10,072	(12,978,155)
Payment to unitholders on fractional units on transfer from Series F to Series A	(17)	(17)
Redemption and cancellation of redeemable units	-	(82,669)
Distributions paid to holders of redeemable units (net of reinvested distributions)	(925,482)	(1,707,147)
Net cash flow provided by (used in) financing activities	\$ (915,427)	\$ (14,767,988)
Net increase (decrease) in cash during the period	(438,777)	3,147,309
Cash, beginning of the period	1,842,945	1,244,781
Cash, end of the period	\$ 1,404,168	\$ 4,392,090
Supplemental disclosure of cash flow information		
Interest paid during the period*	\$ 134,943	\$ 301,107
Dividends received, net of withholding taxes*	966,931	1,863,621

*included in operating activities

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

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SCHEDULE OF INVESTMENTS (Unaudited)

As at June 30, 2016

Number of Shares	Security	Average Cost (\$)	Carrying Value (\$)	% of Net Assets
EQUITIES				
Real Estate Issuers				
203,393	360 Capital Industrial Fund	455,964	538,913	1.6
337,505	Asia Pacific Data Centre Group	466,582	478,134	1.4
247,272	Aventus Retail Property Fund	502,360	564,311	1.7
369,391	Aveo Group Limited	972,241	1,132,341	3.4
208,084	BWP Trust	524,532	732,440	2.2
479,971	Charter Hall Group	2,031,983	2,348,537	7.0
444,190	Cromwell Property Group	460,614	435,980	1.3
425,296	Dexus Property Group	3,081,968	3,709,622	11.0
664,980	Goodman Group	3,502,466	4,572,040	13.6
607,638	Growthpoint Properties Australia Limited	1,551,009	1,850,919	5.5
57,481	Lend Lease Corp.	783,327	700,369	2.1
1,977,341	Mirvac Group	3,561,446	3,862,467	11.5
1,481,980	Scentre Group	5,476,848	7,050,815	20.9
1,111,903	Stockland	4,609,392	5,064,303	15.0
842,632	The GPT Group	3,484,766	4,408,259	13.1
1,559,914	Vicinity Centres	4,412,095	5,008,072	14.9
242,446	Westfield Corporation Limited	1,778,686	2,496,873	7.4
		37,656,279	44,954,395	133.6
Other Public Issuers				
12,241	Goodman Plus Trust	1,270,250	1,193,781	3.5
15,004	Multiplex SITES Trust	1,368,810	1,026,515	3.1
		2,639,060	2,220,296	6.6
	Total investments	40,295,339	47,174,691	140.2
	Foreign currency forward contracts (Note 6)		(535,053)	(1.6)
	Loan payable (Note 9)		(14,987,341)	(44.6)
	Other assets less liabilities		1,986,508	6.0
	Net assets attributable to holders of redeemable units		33,639,805	100.0

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

June 30, 2016

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, L6K 3V7.

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, 2015 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 22, 2016.

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, 2016 and December 31, 2015, 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.

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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 Financial Instruments – Presentation 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.

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Redeemable units valuation

The 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 \$3,229,443 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.

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,

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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 series, each of which represents an equal, undivided interest in the net assets of the Fund. Except as provided in the Declaration of Trust, all units have equal rights and privileges. Each unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally in any and all distributions made by the Fund. Series A units trade on the TSX under the symbol HRR.UN and Series F units do not trade. As at June 30, 2016, the closing price for Series A units was \$11.55 per unit (December 31, 2015 - \$9.79 per unit).

The Fund renewed its normal course issuer bid program for the period from May 11, 2016 to May 10, 2017 which allows the Fund to purchase up to 276,543 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, 2016 and 2015, no Series A units were purchased for cancellation.

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, 2016 no (2015 – 7,825) Series F units were redeemed and cancelled (2015 - \$82,669) and 1,320 (2015 – 19,850) Series F units were converted into 1,472 (2015 – 21,574) Series A units.

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 15th business day of the following month. On September 30, 2015, 2,355,934 Series A units were redeemed and cancelled for \$22,271,115 and 3,330 Series F units were redeemed and cancelled for \$34,988.

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

	Units outstanding	
	Series A	Series F
Total outstanding as at January 1, 2015	5,094,234	78,077
Redeemable units redeemed	-	(7,825)
Transfer between Series	21,574	(19,850)
Total outstanding as at June 30, 2015	5,115,808	50,402
Total outstanding as at January 1, 2016	2,764,434	39,977
Redeemable units redeemed	-	-
Transfer between Series	1,472	(1,320)
Total outstanding as at June 30, 2016	2,765,906	38,657

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The weighted average number of units outstanding during the period ended June 30, 2016 was 2,765,413 units for Series A (2015 – 5,108,765 units) and 39,099 units for Series F (2015 – 63,330 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 total distribution amount was \$925,490 or \$0.055 per unit per month for the period ended June 30, 2016 (2015 - \$1,706,812 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. During the period ended June 30, 2016 and 2015, no reinvested Series A units were issued from treasury and all other reinvestments were from market purchases. No Series F units were enrolled in the reinvestment plan.

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, who in turn pays the dealers quarterly.

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 \$32,445 for period ended June 30, 2016 (2015 - \$63,030) and are included in the unitholder reporting costs on the Statements of Comprehensive Income.

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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, 2016 and December 31, 2015, the Fund had entered into the following foreign currency forward contracts:

As at June 30, 2016					
Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)	Contract Price
The Bank of Nova Scotia credit rating A+	July 28, 2016	CAD \$46,804,212	AUD \$49,000,000	(\$535,053)	1.0469

As at December 31, 2015					
Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)	Contract Price
The Bank of Nova Scotia credit rating A+	January 15, 2016	CAD \$42,331,694	AUD \$43,000,000	(\$1,104,385)	1.0158

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, 2016, 140.2% (December 31, 2015 – 146.2%) 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 \$2,358,735 (December 31, 2015 - \$2,170,130).

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).

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As at June 30, 2016				
Currency	Currency exposure*	Forward contracts*	Net currency exposure*	As a % of net assets
Australian Dollars	\$47,640,455	\$47,339,265	\$301,190	0.9

As at December 31, 2015				
Currency	Currency exposure*	Forward contracts*	Net currency exposure*	As a % of net assets
Australian Dollars	\$44,905,793	\$43,436,079	\$1,469,714	4.9

* Amounts are in Canadian Dollars

The non-monetary currency exposure is \$47,174,691 (December 31, 2015 – \$43,402,604) and the monetary currency exposure is \$465,764 (December 31, 2015 – \$1,503,189).

As at June 30, 2016, 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 \$15,059 or 0.04% (December 31, 2015 - \$73,486 or 0.2%) 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.

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, 2016 and December 31, 2015, 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, 2016 the Fund had \$14,987,341 (December 31, 2015 - \$14,989,928) 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, 2016 and December 31, 2015, 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.

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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, 2016 and December 31, 2015. 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:

Securities classification:

Investments at fair value as at June 30, 2016				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
Equities				
Real Estate Issuers	44,954,395	-	-	44,954,395
Other	2,220,296	-	-	2,220,296
Total equities	47,174,691	-	-	47,174,691
Foreign currency forward contract (Note 6)	-	(535,053)	-	(535,053)
Total investments at fair value	47,174,691	(535,053)	-	46,639,638

Investments at fair value as at December 31, 2015				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
Equities				
Real Estate Issuers	41,065,798	-	-	41,065,798
Other	2,336,806	-	-	2,336,806
Total equities	43,402,604	-	-	43,402,604
Foreign currency forward contract (Note 6)	-	(1,104,385)	-	(1,104,385)
Total investments at fair value	43,402,604	(1,104,385)	-	42,298,219

There were no Level 3 securities held by the Fund as at June 30, 2016 and December 31, 2015 and there were no significant transfers between Level 1 and Level 2 for the period ended June 30, 2016 and the year ended December 31, 2015.

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.

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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, 2016		December 31, 2015	
	\$*	As a % of net assets	\$*	As a % of net assets
Australia	47,174,691	140.2	43,402,604	146.2
Totals	47,174,691	140.2	43,402,604	146.2

*Stated in Canadian dollars

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

	June 30, 2016	December 31, 2015
	% of net assets	% of net assets
Real Estate Issuers	133.6	138.3
Other Public Issuers	6.6	7.9
Total	140.2	146.2

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, 2016 and 2015 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 0.918% per annum for \$15,000,000 (December 31, 2015 – 0.852% for \$15,000,000), 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, 2016 (December 31, 2015 - \$15,000,000). The amount of borrowings was consistently \$15,000,000 during the period (2015 – ranged between \$15,000,000 and \$30,000,000).

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 January 15, 2016 for the loan. The unamortized portion of the deferred interest was \$12,659 at June 30, 2016 (December 31, 2015 - \$10,072) and is netted against the loan facility balance on the Statements of Financial Position. For the period ended June 30, 2016, the Fund recorded interest expense of \$134,943 (2015 - \$301,107).

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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

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