

Australian REIT Income Fund

**Interim Financial Statements
(Unaudited)**

June 30, 2017

Australian REIT Income Fund

STATEMENTS OF FINANCIAL POSITION			
(Unaudited)			
As at		June 30, 2017	December 31, 2016
Assets			
Current assets			
Investments	\$	29,699,745	\$ 29,439,377
Cash		602,923	1,875,681
Dividends receivable		459,799	438,275
Unrealized appreciation on foreign currency forward contracts (Note 6)		221,550	390,117
	\$	30,984,017	\$ 32,143,450
Liabilities			
Current liabilities			
Loan payable (Note 9)		9,990,323	9,990,130
Distributions payable (Note 4)		106,968	106,956
Unrealized depreciation on foreign currency forward contracts (Note 6)		2,034	2,612
		10,099,325	10,099,698
Net assets attributable to holders of redeemable units	\$	20,884,692	\$ 22,043,752
Net assets attributable to holders of redeemable units			
Series A	\$	20,530,350	\$ 21,671,695
Series F		354,342	372,057
Number of redeemable units outstanding (Note 4)			
Series A		1,915,627	1,915,416
Series F		29,243	29,243
Net assets attributable to holders of redeemable units per unit			
Series A	\$	10.72	\$ 11.31
Series F		12.12	12.72

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

Australian REIT Income Fund

STATEMENTS OF COMPREHENSIVE INCOME		
(Unaudited)		
For the period ended June 30,	2017	2016
Income		
Net gain (loss) on investments		
Dividends	\$ 785,649	\$ 1,129,285
Net realized gain (loss) on sale of investments	601,889	628,556
Net change in unrealized appreciation (depreciation) of investments	(507,002)	2,366,053
Net gain (loss) on investments	880,536	4,123,894
Net gain (loss) on derivatives		
Net realized gain (loss) on foreign exchange	(762,505)	875,047
Net change in unrealized appreciation (depreciation) of foreign exchange	(145,162)	541,755
Net gain (loss) on derivatives	(907,667)	1,416,802
Total income (net)	\$ (27,131)	\$ 5,540,696
Expenses (Note 5)		
Management fees	\$ \$160,560	\$ 226,000
Service fees	45,925	65,421
Withholding taxes	90,565	119,873
Unitholder reporting costs	28,957	33,894
Audit fees	5,027	5,566
Transfer agency fees	6,387	8,535
Custodian fees and bank charges	22,003	22,314
Independent Review Committee fees	2,400	2,399
Interest expense (Note 9)	96,001	134,943
Filing fees	27,696	26,009
Legal fees	4,608	9,838
Transaction costs (Note 8)	2,283	12,695
Total expenses	492,414	667,487
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (519,545)	\$ 4,873,209
Increase (decrease) in net assets attributable to holders of redeemable units - Series A	\$ (511,480)	\$ 4,796,696
Increase (decrease) in net assets attributable to holders of redeemable units - Series F	(8,065)	76,513
Increase (decrease) in net assets attributable to holders of redeemable units per unit - Series A (Note 4)	\$ (0.27)	\$ 1.73
Increase (decrease) in net assets attributable to holders of redeemable units per unit - Series F (note 4)	(0.28)	1.96

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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 period ended June 30,	2017		2016
Net assets attributable to holders of redeemable units beginning of period	\$	22,043,752	\$ 29,692,103
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(519,545)	\$ 4,873,209
Redeemable unit transactions			
Reinvestment of distributions to holders of redeemable units		2,292	-
Payment to unitholders on fractional units on transfer from Series F to Series A		-	(17)
Net increase (decrease) in redeemable unit transactions	\$	2,292	\$ (17)
Distributions to holders of redeemable units			
Net investment income		(641,807)	(925,490)
Total distributions to holders of redeemable units	\$	(641,807)	\$ (925,490)
Net assets attributable to holders of redeemable units end of period	\$	20,884,692	\$ 33,639,805

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STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES A (Unaudited)			
For the period ended June 30,		2017	2016
Net assets attributable to holders of redeemable units beginning of period	\$	21,671,695	\$ 29,221,142
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(511,480)	\$ 4,796,696
Redeemable unit transactions			
Reinvestment of distributions to holders of redeemable units		2,292	-
Transfer of units from Series F		-	15,915
Net increase (decrease) in redeemable unit transactions	\$	2,292	\$ 15,915
Distributions to holders of redeemable units			
Net investment income		(632,157)	(912,591)
Total distributions to holders of redeemable units	\$	(632,157)	\$ (912,591)
Net assets attributable to holders of redeemable units end of period	\$	20,530,350	\$ 33,121,162

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES F (Unaudited)			
For the period ended June 30,		2017	2016
Net assets attributable to holders of redeemable units beginning of period	\$	372,057	\$ 470,961
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(8,065)	\$ 76,513
Redeemable unit transactions			
Transfer of units to Series A		-	(15,932)
Net increase (decrease) in redeemable unit transactions	\$	-	\$ (15,932)
Distributions to holders of redeemable units			
Net investment income		(9,650)	(12,899)
Total distributions to holders of redeemable units	\$	(9,650)	\$ (12,899)
Net assets attributable to holders of redeemable units end of period	\$	354,342	\$ 518,643

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STATEMENTS OF CASH FLOWS		
(Unaudited)		
For the period ended June 30,	2017	2016
Operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (519,545)	\$ 4,873,209
Add (deduct) items not affecting cash		
Realized (gain) loss on sale of investments	(601,889)	(628,556)
Change in unrealized (appreciation) depreciation of investments	507,002	(2,366,053)
Change in unrealized (appreciation) depreciation of foreign exchange	145,162	(541,755)
Proceeds from sale of investments	3,352,214	2,780,557
Purchases of investments	(3,799,363)	(3,558,035)
Net change in non-cash assets and liabilities	282,971	(82,717)
Net cash flow provided by (used in) operating activities	\$ (633,448)	\$ 476,650
Financing activities		
Net (repayment) borrowing of term credit facility (Note 9)	193	10,072
Payment to unitholders on fractional units on transfer from Series F to Series A	-	(17)
Redemption and cancellation of redeemable units	-	-
Distributions paid to holders of redeemable units (net of reinvested distributions)	(639,503)	(925,482)
Net cash flow provided by (used in) financing activities	\$ (639,310)	\$ (915,427)
Net increase (decrease) in cash during the period	(1,272,758)	(438,777)
Cash, beginning of the period	1,875,681	1,842,945
Cash, end of the period	\$ 602,923	\$ 1,404,168
Supplemental disclosure of cash flow information		
Interest paid during the period*	\$ 96,001	\$ 134,943
Dividends received, net of withholding taxes*	672,832	966,931

*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, 2017				
Number of Shares	Security	Average Cost (\$)	Carrying Value (\$)	% of Net Assets
EQUITIES				
Real Estate Issuers				
72,188	Abacus Property Group	227,059	232,993	1.1
337,505	Asia Pacific Data Centre Group	466,582	590,051	2.8
322,973	Aventus Retail Property Fund	685,280	739,991	3.5
125,002	Centuria Industrial REIT	280,602	307,572	1.5
211,115	Charter Hall Group	918,568	1,156,683	5.5
146,541	Charter Hall Retail REIT	642,580	594,136	2.9
303,364	Dexus Property Group	2,198,370	2,864,870	13.7
449,690	Goodman Group	2,414,041	3,525,498	16.9
53,121	LendLease Group	723,911	881,075	4.2
1,033,478	Mirvac Group	1,861,427	2,192,872	10.5
753,358	Scentre Group	2,815,431	3,039,408	14.6
777,475	Stockland	3,276,677	3,392,291	16.2
612,545	The GPT Group	2,533,224	2,922,847	14.0
724,664	Vicinity Centres	2,048,107	1,855,249	8.9
379,010	Westfield Corporation Limited	3,135,922	3,031,787	14.5
		24,227,781	27,327,323	130.8
Other Public Issuers				
12,241	Goodman Plus Trust, Preferred	1,270,250	1,229,164	5.9
15,004	Multiplex SITES Trust	1,368,810	1,143,258	5.5
		2,639,060	2,372,422	11.4
Total investments		26,866,841	29,699,745	142.2
Foreign currency forward contracts (Note 6)			219,516	1.1
Loan payable (Note 9)			(9,990,323)	(47.9)
Other assets less liabilities			955,754	4.6
Net assets attributable to holders of redeemable units			20,884,692	100.0

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

(Unaudited)

June 30, 2017

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 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, 2016 which have been prepared in accordance with IFRS. These interim financial statements were authorized for issue by Harvest Portfolios Group Inc. (the “Manager”) on August 24, 2017.

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, 2017 and December 31, 2016, 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.

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

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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 forward 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.

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 common liabilities of the Fund and each series specific liabilities, expressed in Canadian dollars

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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 \$2,509,244 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, 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

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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 Manager continues to assess the impact of IFRS 9 by analyzing the Fund's business model. The Manager does not expect any change in the measurement of the financial assets and liabilities of the Fund.

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, 2017, the closing price for Series A units was \$10.60 per unit (December 31, 2016 - \$10.78 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. The program was not renewed after expiry. During the period ended June 30, 2017 and 2016, 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, 2017 no (2016 - nil) Series F units were redeemed and cancelled (2016 - \$nil) and no (2016 - 1,320) Series F units were converted into no (2016 - 1,472) Series A units (2016 - \$15,915).

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, 2016, 861,243 Series A units were redeemed and cancelled for \$10,158,103 and 373 Series F units were redeemed and cancelled for \$4,934.

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

	Units outstanding	
	Series A	Series F
Total outstanding as at January 1, 2016	2,764,434	39,977
Transfer between Series	1,472	(1,320)
Total outstanding as at June 30, 2016	2,765,906	38,657
Total outstanding as at January 1, 2017	1,915,416	29,243
Reinvestment of distributions to holders of redeemable units	211	-
Total outstanding as at June 30, 2017	1,915,627	29,243

The weighted average number of units outstanding during the period ended June 30, 2017 was 1,915,607 units for Series A (2016 - 2,765,413 units) and 29,243 units for Series F (2016 - 39,099 units).

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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 \$641,807 or \$0.055 per unit per month for the period ended June 30, 2017 (2016 - \$925,490 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, 2017, 211 (2016 – nil) 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 retained Macquarie Private Portfolio Management Limited ("MPPM" or the "Portfolio Manager") to provide portfolio management services to the Fund up until termination on June 30, 2017. MPPM was paid 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 July 1, 2017, the Manager assumed the investment management responsibilities 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 \$22,455 for period ended June 30, 2017 (2016 - \$32,445) 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, 2017 and December 31, 2016, the Fund had entered into the following foreign currency forward contracts:

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As at June 30, 2017					
Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)	Contract Price
The Bank of Nova Scotia credit rating A+	August 23, 2017	CAD \$32,650,008	AUD \$32,600,000	\$221,550	0.9985
The Bank of Nova Scotia credit rating A+	August 23, 2017	AUD \$1,600,000	CAD \$1,593,614	\$(2,034)	1.0040
Total				\$219,516	

As at December 31, 2016					
Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)	Contract Price
The Bank of Nova Scotia credit rating A+	January 20, 2017	CAD \$29,212,682	AUD \$29,700,000	\$390,117	1.0167
The Bank of Nova Scotia credit rating A+	January 20, 2017	CAD \$2,229,438	AUD \$2,300,000	\$(2,612)	1.0317
Total		CAD \$31,442,120	AUD \$32,000,000	\$387,505	

Offsetting of foreign currency forward contracts

In 2017, the Fund had foreign exchange settlements for its foreign currency forward contracts that do not meet the criteria for offsetting in the Statements of Financial Position. The following table presents the recognized financial instruments that were not offset, as at June 30, 2017 and December 31, 2016.

June 30, 2017			
Financial assets and liabilities	Gross assets (liabilities)	Amount eligible for offset	Net offset amounts
Derivative assets	\$221,550	-	\$221,550
Derivative liabilities	\$(2,034)	-	\$(2,034)

December 31, 2016			
Financial assets and liabilities	Gross assets (liabilities)	Amount eligible for offset	Net offset amounts
Derivative assets	\$390,117	-	\$390,117
Derivative liabilities	\$(2,612)	-	\$(2,612)

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, 2017, 142.2% (December 31, 2016 – 133.5%) 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 \$1,484,987 (December 31, 2016 - \$1,471,969).

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

Australian REIT Income Fund

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, 2017				
Currency	Currency exposure*	Forward contracts*	Net currency exposure*	As a % of net assets
Australian Dollars	\$29,804,138	\$30,836,878	(\$1,032,740)	(4.9)

As at December 31, 2016				
Currency	Currency exposure*	Forward contracts*	Net currency exposure*	As a % of net assets
Australian Dollars	\$30,972,095	\$31,054,616	(\$82,521)	(0.4)

* Amounts are in Canadian Dollars

The non-monetary currency exposure is \$29,699,745 (December 31, 2016 – \$29,439,377) and the monetary currency exposure is \$104,393 (December 31, 2016 – \$1,532,718).

As at June 30, 2017, 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 \$51,637 or 0.25% (December 31, 2016 - \$4,126 or 0.02%) 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, 2017 and December 31, 2016, 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, 2017 the Fund had \$9,990,323 (December 31, 2016 - \$9,990,130) 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, 2017 and December 31, 2016, all of the Fund's financial liabilities had maturities of less than three months.

Australian REIT Income Fund

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, 2017 and December 31, 2016. 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, 2017				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
Financial Assets				
Equities				
Real Estate Issuers	27,327,323	-	-	27,327,323
Other	2,372,422	-	-	2,372,422
Derivatives				
Foreign currency forward contracts	-	221,550	-	221,550
Total Financial Assets	29,699,745	221,550	-	29,921,295
Financial Liabilities				
Derivatives				
Foreign currency forward contracts	-	(2,034)	-	(2,034)
Total Financial Liabilities	-	(2,034)	-	(2,034)

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Investments at fair value as at December 31, 2016				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
Financial Assets				
Equities				
Real Estate Issuers	27,202,817	-	-	27,202,817
Other	2,236,560	-	-	2,236,560
Derivatives				
Foreign currency forward contracts	-	390,117	-	390,117
Total Financial Assets	29,439,377	390,117	-	29,829,494
Financial Liabilities				
Derivatives				
Foreign currency forward contracts	-	(2,612)	-	(2,612)
Total Financial Liabilities	-	(2,612)	-	(2,612)

There were no Level 3 securities held by the Fund as at June 30, 2017 and December 31, 2016 and there were no significant transfers between Level 1 and Level 2 for the period ended June 30, 2017 and the year ended December 31, 2016.

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, 2017		December 31, 2016	
	\$*	As a % of net assets	\$*	As a % of net assets
Australia	29,699,745	142.2	29,439,377	133.5
Totals	29,699,745	142.2	29,439,377	133.5

*Stated in Canadian dollars

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

	June 30, 2017	December 31, 2016
	% of net assets	% of net assets
Real Estate Issuers	130.8	123.4
Other Public Issuers	11.4	10.1
Total	142.2	133.5

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, 2017 and 2016 amounted to \$nil.

Australian REIT Income Fund

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 0.8685% per annum plus a stamping fee of 0.90% per annum for \$10,000,000, (December 31, 2016 - 0.9% for \$10,000,000), secured against the assets of the Fund and the amount of the loan cannot exceed 62.471% of the net asset value of the Fund. The outstanding balance on the loan facility was \$10,000,000 at June 30, 2017 (December 31, 2016 - \$10,000,000). The amount of borrowings ranged between \$10,000,000 and \$11,000,000 during the period (2016 - \$10,000,000 and \$15,000,000).

The initial interest paid on the drawdown and renewal of the Banker's Acceptance (BA's) is deferred and amortized over the term of the BA's, which mature on July 21, 2017 for the loan. The unamortized portion of the deferred interest was \$9,677 at (December 31, 2016 - \$9,870) and is netted against the loan facility balance on the Statements of Financial Position. For the period ended June 30, 2017, the Fund recorded interest expense of \$96,001 (2016 - \$134,943).

Australian REIT Income Fund

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