

Annual Information Form

OF

HARVEST BANKS & BUILDINGS INCOME FUND

For the year ended December 31, 2010

Dated: March 30, 2011

INTRODUCTION	1
NAME, FORMATION AND HISTORY OF THE FUND	1
INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS	1
DESCRIPTION OF TRUST UNITS AND WARRANTS	5
UNITHOLDER MATTERS	8
CALCULATION OF NET ASSET VALUE AND VALUATION OF PORTFOLIO SECURITIES	10
PURCHASE OF TRUST UNITS AND WARRANTS	12
RESPONSIBILITY FOR FUND OPERATIONS	15
CONFLICTS OF INTEREST	20
FUND GOVERNANCE	20
FEES AND EXPENSES	22
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS	23
REMUNERATION	26
REMUNERATION OF THE INDEPENDENT REVIEW COMMITTEE	26
MATERIAL CONTRACTS	27
LEGAL AND ADMINISTRATIVE PROCEEDINGS	27
OTHER MATERIAL INFORMATION	27
RISK FACTORS	28

HARVEST BANKS & BUILDINGS INCOME FUND

INTRODUCTION

This annual information form (“**Annual Information Form**” or “**AIF**”) contains information applicable to trust units (each a “**Trust Unit**” and collectively, the “**Trust Units**”) and warrants (each a “**Warrant**”, and collectively, the “**Warrants**”) of Harvest Banks & Buildings Income Fund (the “**Fund**”). Information contained in this AIF is given as of December 31, 2010 except as otherwise noted herein.

NAME, FORMATION AND HISTORY OF THE FUND

The Fund is a closed-end investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated September 25, 2009, as amended on October 2, 2009 and October 22, 2009, (the “**Declaration of Trust**”). Harvest Portfolios Group Inc. is the manager (in such capacity, the “**Manager**”) and trustee (in such capacity, the “**Trustee**”) of the Fund. The registered office of the Fund is the head office of the Manager located at Suite 200, 710 Dorval Drive, Toronto Street, Oakville, Ontario, L6K 3V7.

On October 23, 2009, pursuant to a final prospectus dated October 2, 2009 (the “**Prospectus**”) the Fund completed its initial public offering of 24,000,000 Units (the “**Units**”), each Unit representing one transferable, redeemable Trust Unit and one Warrant. Each Warrant entitled the holder to purchase one Trust Unit at a subscription price of \$12.00 only on April 15, 2011. On November 10, 2009, an over-allotment option was exercised for an additional 155,481 Units (the initial offering and the over-allotment, collectively, the “**Offering**”). On November 10, 2009 the Units separated into Trust Units and Warrants which now trade on the Toronto Stock Exchange (the “**TSX**”) independently under the symbols: HBB.UN and HBB.WT. Each holder of a Trust Unit is referred to in this document as a “**Unitholder**” and collectively as the “**Unitholders**”.

Unless otherwise defined in this AIF, capitalized terms have the meaning given to them in the Prospectus.

INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS

Investment Objectives

The Fund’s investment objectives are:

- (a) to provide Unitholders with monthly distributions (initially targeted to be \$0.07 per Trust Unit (\$0.84 per annum) representing an annual cash distribution of 7.0% based on the \$12.00 per Unit issue price); and
- (b) to maximize total return for Unitholders.

In order to meet the investment objectives, the net proceeds of the Offering will be invested in an actively managed portfolio that will consist primarily of Banking Issuers, Other Financial Issuers and Real Estate Issuers.

Investment Strategies

To achieve the investment objective, the Investment manager, Avenue Investment Management Inc. (the “**Investment Manager**”) will invest in an actively managed portfolio that will consist primarily of Banking Issuers, Other Financial Issuers and Real Estate Issuers.

The Investment Manager will use a combination of top-down, macro analysis to evaluate and identify the most attractive companies and types of securities in the sectors mentioned above. The Investment Manager will also employ a value-based, bottom-up fundamental analysis to identify issuers based on the quality of their assets and the strength of their balance sheets and cash flows. Generally, each company or investment held in the Portfolio will

have consistent dividend payout history and offers a yield component that will help aid the objective of the Fund. The Investment Manager which employs a committee-based decision making structure will seek to acquire securities that it believes have strong free cash flow metrics and will not defer future dividend or interest payments.

The investment strategies of the Fund include buying issuers that have had a history of consistent distributions or dividends. The Investment Manager, in its analysis of an issuer's balance sheet will focus on such leverage metrics as debt/EBITDA, debt/total capitalization, capital ratios and upcoming debt maturity schedules in order to reduce the likelihood of potential debt distress. The Investment Manager will focus on free cash flow and free cash flow yield, earning potential, and the investment's intrinsic value in order to project consistent dividend sustainability and possible growth in distributions.

The Investment Manager will focus on issuers that it believes offer high levels of income and potential for capital appreciation. Presently, investors are faced with historically low interest rates. For many investors, GICs or Government Bonds are not an option due to their low after tax yields. As well, owning growth issuers with little to no dividend growth may be too risky for certain investors. The Investment Manager believes that in this environment, dividend paying issuers, banks and REITs offer consistent distributions. These issuers, although negatively impacted by the current credit crisis, have in general not decreased their dividends or distributions. The issuers in the Canadian banking, other financial and real estate industries have capital ratios and leverage ratios that are conservative in nature and therefore generally justify consistent dividend payout policies.

The Investment Manager will actively manage portfolio allocation across types of securities in order to capitalize on opportunities that it believes provide the most attractive total return relative to risk. The Investment Manager believes that current market conditions are more favorable for investing in securities senior to common equity, essentially "moving up the capital structure" from common equity to preferred shares, convertible debt securities and unsecured bonds. The Investment Manager believes that current market conditions are also more favorable for investing in securities of issuers with long-term assets and lower debt levels. This characteristic at times is reflected in issuers that have senior debt credit ratings of investment grade or near investment grade (generally, those rated BBB or better by Standard & Poor's). The Investment Manager will apply a top-down macroeconomic analysis to identify the most attractive investments and will take into consideration interest rates, inflation rates, corporate profitability, market liquidity and valuation levels in the market as a whole. In particular, the Investment Manager will consider the impact of any shifts in these sectorial trends on investment potential. As well the Investment Manager will employ a combination of bottom up fundamental and technical analysis, based on attributes such as earnings and distribution growth, attractive valuations and quality of management.

The capital structure will be considered when investing in any issuer. The Investment Manager will focus not only on yield potential but look at risk adjusted rates of returns. At times, the issuer's debt instruments will be purchased with the intent of receiving equity like returns with the benefits of lower price volatility due to the nature of the bond market.

The Fund may invest up to 10% of the Portfolio in Other Public Issuers, which may include issuers in the utilities sector. This sector has similar characteristics to Canadian banking, other financial and real estate issuers. There are also the added potential benefits of lower volatility relative to the Canadian banking, other financial and real estate sectors and increased diversification.

Investment Restrictions

The Declaration of Trust contains investment restrictions to the effect that, on and after the initial investment of the assets of and, prior to the Conversion Date, the Fund may not:

- a) purchase any security issued by any issuer (other than short term debt securities issued or guaranteed by the Government of Canada or any Canadian province or municipality) if as a result more than 10% of the Fund's total assets would consist of securities issued by such issuer;

- b) purchase:**
 - (i) less than 25% or more than 75% of the total value of the Portfolio in securities of Bank Issuers and/or Other Financial Issuers;
 - (ii) less than 25% or more than 75% of the total value of the Portfolio in securities of Real Estate Issuers;
 - (iii) more than 10% of the total value of the Portfolio in securities of Other Public Issuers; and
 - (iv) securities such that less than 75% of the total value of the Portfolio is represented by issuers with a head office located in Canada;
- c) borrow more than 20% of the total assets of the Fund (after giving effect to the borrowing);**
- d) make loans or guarantee obligations, except that the Fund may purchase and hold debt obligations (including bonds, debentures or other obligations and certificates of deposit, bankers' acceptances and fixed time deposits) in accordance with its investment objectives;**
- e) own more than 10% of the equity value of an issuer for purposes of the SIFT Rules or purchase the securities of an issuer for the purpose of exercising control over management of that issuer;**
- f) invest in any securities of an entity that would be a foreign affiliate of the Fund within the meaning of the Tax Act;**
- g) hold securities of any non-resident corporation or trust or other entity (or a partnership which holds such securities) if the Fund (or partnership) would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Tax Act or to include any amounts in income pursuant to proposed section 94.1 or 94.3 of the Tax Act, nor invest in any interest in a non-resident trust other than an "exempt foreign trust" as defined in proposed section 94 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities and non-resident trusts that were previously before the 39th Parliament (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);**
- h) invest in any security that is a tax shelter investment within the meaning of the Tax Act;**
- i) lend Portfolio assets except as permitted by NI 81-102;**
- j) act as an underwriter except to the extent that the Fund may be deemed to be an underwriter in connection with the sale of securities in its Portfolio;**
- k) make any investment or conduct any activity that would result in the Fund failing to qualify as a "unit trust" or a "mutual fund trust" within the meaning of the Tax Act. Under the current statutory definition of a "unit trust" including proposed amendments to the Tax Act set forth in Bill C-10, which was previously before the 39th Parliament (or such proposals as amended or enacted, or successor provisions thereto), among other requirements:**
 - i.** at least 80% of the property of the Fund, at all times, must consist of any combination of: (a) shares, (b) any property that, under the terms or conditions of which or under an agreement, is convertible into, is exchangeable for or confers a right to acquire, shares, (c) cash, (d) bonds, debentures, mortgages, hypothecary claims, notes and other similar obligations, (e) marketable securities, (f) real property situated in Canada and interests in such property or immovables situated in Canada and real rights in such immovables, and (g) rights to and interests in — or, for civil law, rights in or to — any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada;
 - ii.** not less than 95% of the income from the Fund (determined without reference to subsections 49(2.1) and 104(6) of the Tax Act) for each year must be derived from, or from the disposition of, investments described in (i) above; and

- iii. not more than 10% of the property of the Fund may consist of bonds, securities or shares in the capital stock of any one corporation or debtor other than Her Majesty in right of Canada or a province or a Canadian municipality; and
- l) make or hold any investments that would result in the Fund itself being subject to the tax for SIFT trusts as provided for in the SIFT Rules, and in particular the fair market value of “Canadian real, immovable or resource property” held by the Fund will never exceed 50% of the “equity value” of the Fund, as those terms are defined in the SIFT Rules. If a percentage restriction on investment or use of assets set forth above is adhered to at the time of the transaction, later changes to the market value of the investment or the total assets of the Fund will not be considered a violation of the restriction (except for the restrictions in paragraphs (k) and (l)).

If a percentage restriction on investment or use of assets set forth above is adhered to at the time of the transaction, later changes to the market value of the investment or the total assets of the Fund will not be considered a violation of the restriction (except for the restrictions in paragraphs (k) and (l)). Investment restrictions that do not provide for a percentage restriction must be adhered to at all times. If the Fund receives from an issuer subscription rights to purchase securities of that issuer, and if the Fund exercises such subscription rights at a time when the Fund’s Portfolio holdings of securities of that issuer would otherwise exceed the limits set forth above, it will not constitute a violation if, prior to receipt of securities upon exercise of such rights, the Fund has sold at least as many securities of the same class and value as would result in the restriction being complied with.

The foregoing investment restrictions may not be changed without the approval of the Unitholders, by a resolution passed by two-thirds of the votes cast at a meeting of Unitholders called for such purpose, unless such changes are necessary to ensure compliance with all applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time.

On or after the Conversion Date, the Fund will be subject to certain standard investment restrictions and practices contained in NI 81-102 and such other investment restrictions as the Trustee may determine, in its sole discretion, from time to time.

Borrowing

Prior to Conversion, the Fund is authorized to borrow for the purpose of making investments in accordance with its investment objectives and restrictions, and to pledge its assets to secure the borrowings. The Fund has established a loan facility with a Canadian chartered bank. The amount of the loan is not to exceed 25 per cent of the total Net Asset Value of the Fund. The Fund has the option of borrowing at the prime rate plus 2 per cent of interest. In addition, the Fund is required to pay a standby fee based on the amount of unused borrowings during the period, which is calculated daily and payable quarterly. The amount drawn on the loan facility was \$5,625,000 during the period ended December 31, 2010. There were no stand by fees applicable as the Fund is utilizing the full amount of the facility. For the period ended December 31, 2010, the Fund recorded interest expense of \$258,000. The function of the Loan is to borrow for the purpose of making investments in accordance with the Fund’s investment objectives and restrictions, and to pledge the Fund’s assets to secure the borrowings.

DESCRIPTION OF TRUST UNITS AND WARRANTS

Trust Units

The Fund is authorized to issue an unlimited number of Trust Units.

Except as provided under “Other Material Information — Non-Resident Unitholders”, all Trust Units have equal rights and privileges. Each Trust Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, and distributions upon the termination of the Fund. Trust Units are issued only as fully paid and are non-assessable. Trust Units will only be issued through the book-entry system administered by CDS as described below.

The Declaration of Trust provides that the Fund will not, prior to the Conversion Date, issue additional Trust Units following completion of the Offering, except Trust Units that are issued pursuant to the exercise of Warrants. On and after the Conversion Date, the Trustee shall have sole discretion in determining whether the capital of the Fund is divided into one or more additional classes or series of Trust Units and the attributes which shall attach to each class or series of Trust Units. The Trustee shall cause the Declaration of Trust to be amended by setting out in a schedule thereto any such class or series of Trust Units.

Immediately after a pro rata distribution of Trust Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Trust Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Trust Units as the Unitholder held before the non-cash distribution, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution.

Until changed by the Trustee, the Trust Units of the Fund shall have the following attributes:

- (a) each Trust Unit shall be without nominal or par value;
- (b) a Trust Unit shall entitle the holder thereof to vote:
 - (i) at all meetings where all Unitholders vote together, and
 - (ii) at all meetings where Unitholders of a particular class or series vote separately as a class or Series;
- (c) at each meeting of Unitholders each Unitholder shall have one vote for each whole Trust Unit owned by such Unitholder;
- (d) each Trust Unit shall entitle the holder thereof to participate pro rata, in accordance with the provisions of the Declaration of Trust, with respect to all distributions of the same class or series (except with respect to any special distributions) and, upon liquidation of the Fund to participate pro rata with the other Unitholders of the same class or series in the class or series Net Asset Value of the Fund remaining after the satisfaction of outstanding liabilities of the Fund as provided in Article XI of the Declaration of Trust;
- (e) distributions shall be allocated firstly among each class of the Fund and then among each series of Trust Units of the Fund in such manner and at such times as the Trustee considers appropriate and equitable;
- (f) no person shall be entitled, as a matter of right, to subscribe for or purchase any Trust Units, and there shall be no pre-emptive rights attaching to the Trust Units;
- (g) there shall be no cancellation or surrender provisions attaching to the Trust Units except as set out herein;

- (h) all Trust Units shall be issued as fully paid and non-assessable so that there shall be no liability for future calls or assessments with respect to the Trust Units;
- (i) all Trust Units shall be fully transferable with the consent of the Trustee as provided in the Declaration of Trust;
- (j) subject to applicable conditions and requirements determined from time to time by the Trustee and stated in the Prospectus, Trust Units of a particular class or series of Trust Units of the Fund may, at the option of the holder, be redesignated as Trust Units of any other class or series of the Fund based on the applicable class or series Net Asset Value per Trust Unit for the two classes or series of Trust Units on the date of the redesignation;
- (k) the number of Trust Units and classes or series of Trust Units of the Fund which may be issued is unlimited; and
- (l) after the Conversion Date, fractional Trust Units of a class or series of the Fund may be issued and shall be proportionately entitled to all the same rights as whole Trust Units of that same class or series, except that fractional Trust Units shall not, except to the extent that they may represent in the aggregate one or more whole Trust Units held by a Unitholder, entitle the holders thereof to notice of, or to attend or to vote at, meetings of Unitholders.

Warrants

The following is a summary only and subject to, and is qualified in its entirety by reference to, the detailed provisions in the Warrant Indenture.

Each Warrant entitles the holder to purchase one Trust Unit at the subscription price of \$12.00 per Trust Unit by notifying the Warrant Agent between the first Business Day of April, 2011 and 5:00 p.m. (Toronto time) on April 15, 2011 the (“**Warrant Notice Period**”). All unexercised Warrants will expire at 5:00 p.m. (Toronto time) on April 15, 2011 (the “**Warrant Expiry Time**”). All Warrants will be exercised effective as at 5:00 p.m. on April 15, 2011 (the “**Warrant Exercise Date**”). Holders who exercise the Warrants will become holders of Trust Units, issued through the exercise of the Warrants. Warrants not exercised prior to 5:00 P.M. (Toronto time) on April 15, 2011 will be void and of no value. Upon the exercise of a Warrant, the Fund will pay a fee equal to \$0.18 per Warrant to the broker whose client is exercising the Warrant and \$0.12 per Warrant to the Agents.

Dilution to Existing Unitholders

If a Unitholder wishes to retain its current percentage ownership in the Fund and assuming that all Warrants are exercised, it should purchase all of the Trust Units for which it may subscribe pursuant to the Warrants delivered under the Offering. If that Unitholder does not do so and other holders of Warrants exercise any of their Warrants, that Unitholder’s current percentage ownership in the Fund will be diluted. The subscription rights in effect under the Warrants for Trust Units of the Fund issuable upon the exercise of the Warrants shall be subject to adjustment from time to time if, prior to the Warrant Expiry Time, the Fund shall:

- (a) subdivide, re-divide or change its outstanding Trust Units into a greater number of Trust Units;
- (b) reduce, combine or consolidate its outstanding Trust Units into a smaller number of Trust Units;
- (c) distribute to holders of all or substantially all of the Fund’s outstanding Trust Units any securities of the Fund including rights, options or warrants to acquire Trust Units or securities convertible into or exchangeable for Trust Units or property or assets, including evidence of indebtedness (other than in connection with the distribution and exercise of the Warrants);
- (d) reclassify the Trust Units or reorganize the capital of the Fund; or
- (e) consolidate, amalgamate, or merge the Fund with or into any other trust or other entity, or sell or convey the property and assets of the Fund as an entirety or substantially as an entirety (other than in connection with the redemption or retraction of Trust Units).

Distribution Policy

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 November 2010, the Fund will annually determine and announce the Indicative Distribution Amount for the following year based upon the prevailing market conditions. The Indicative Distribution Amount was \$0.07 per Trust Unit per month (\$0.84 per annum) for the first 12 months of the Fund.

If the return on the Portfolio (including net realized capital gains from the sale of securities in the Portfolio) is less than the amount necessary to fund the monthly distributions, the Manager will return a portion of the capital of the Fund to Unitholders to ensure the distribution is paid and, accordingly, NAV per Trust Unit would be reduced. See “Investment Strategies” and “Risk Factors” in the Prospectus. The amount of distributions may fluctuate and no assurance can be given that distributions will remain at the Indicative Distribution Amount level. Following the Conversion, the Fund will not be able to use leverage to pursue its investment strategy and therefore the Fund may not pay a distribution at the initial Indicative Distribution Amount unless the Portfolio yields a higher return to the Fund.

If, in any year after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, a special distribution (either in cash or Trust Units) of such portion of the net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the Tax Act will be automatically payable on the last day of that taxation year to Unitholders of record on that date. Immediately after a pro-rata distribution of Trust Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Trust Units may be consolidated such that each Unitholder will hold, after the consolidation, the same number of Trust Units as the Unitholder held before the non-cash distributions, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution. See “*Canadian Federal Income Tax Considerations*” below.

There can be no assurance that the Fund will be able to achieve its monthly distribution objective or make payments on any Distribution Payment Date. Amounts distributed on the Trust Units that represent returns of capital are generally non-taxable to a Unitholder but reduce the Unitholder’s adjusted cost base of the Trust Units for tax purposes. See “*Canadian Federal Income Tax Considerations*” below.

Market Purchases

The Fund may purchase Trust Units through the facilities of the TSX if the Manager determines that such purchases are in the best interest of the Fund. Purchases of Trust Units by the Fund will be subject to compliance with any applicable regulatory requirements and limitations.

On December 9, 2010, the Manager, on behalf of the Fund announced that the Fund intends to purchase up to 210,118 listed Trust Units and 215,118 listed Warrants for cancellation by way of a normal course issuer bid through the facilities of the TSX. The 210,118 Trust Units and 215,118 Warrants represent approximately 10% of the public float of the Fund. The purchases could commence on December 13, 2010 and will terminate on October 31, 2011 or on such earlier date as the Fund may complete its purchases or provide notice of termination. Any such purchases will be made by the Fund at the prevailing market price at the time of such purchases in accordance with the requirements of the TSX. The Fund will not purchase in any 30-day period more than 42,290 Trust Units and 43,110 Warrants (2% of the issued and outstanding Trust Units and Warrants, respectively, as at the date of acceptance of the notice of the normal course issuer bid by the TSX).

The purpose of the normal course issuer bid for Trust Units is to provide the Fund with a mechanism to decrease the potential spread between the Net Asset Value per Trust Unit and the market price of the Trust Units and to provide enhanced liquidity for the Trust Units. In the 12 months preceding the date of the announcement, the Fund purchased for cancellation 41,000 Trust Units pursuant to an expiring normal course issuer bid at an average price of \$11.69 per Trust Unit. The purpose of the normal course issuer bid for the Warrants is to provide the Fund with a mechanism to decrease the dilution of the Net Asset Value per Trust Unit upon exercise of the Warrants.

UNITHOLDER MATTERS

Meetings of Unitholders

A meeting of Unitholders may be convened by the Manager at any time and must be convened if requisitioned by the holders of not less than 20% of the Trust Units then outstanding by a written requisition specifying the purpose of the meeting. Prior to the Conversion Date, not less than 21 days' and not more than 50 days' notice will be given of any meeting of Unitholders. The quorum at any such meeting is two Unitholders present in person or by proxy except for the purpose of any meeting called to consider item (d) under "*Matters Requiring Unitholder Approval*" below in which case the quorum shall be Unitholders holding 20% of the outstanding Trust Units. If no quorum is present at such meeting when called, the meeting, if called on the requisition of Unitholders, will be terminated and otherwise will be adjourned for not less than 10 days and at the adjourned meeting the Unitholders then present in person or represented by proxy will form the necessary quorum. At any such meeting, each Unitholder will be entitled to one vote for each Trust Unit registered in the Unitholder's name. The Fund does not intend to hold annual meetings of Unitholders.

Matters Requiring Unitholder Approval

Prior to the Conversion Date, pursuant to the Declaration of Trust, the following matters require the approval of two-thirds of the votes cast by Unitholders voting thereon (other than item (i) which require approval by a simple majority vote) at a meeting called and held for such purpose:

- (a) a change in the investment objectives of the Fund as described under "*Investment Objectives*";
- (b) a change in the investment restrictions of the Fund as described under "*Investment Restrictions*";
- (c) any change in the basis of calculating fees or other expenses that are charged to the Fund which could result in an increase in charges to the Fund other than a fee or expense charged by a person or company that is at arm's length to the Fund and for which Unitholders are sent a written notice of such change at least 60 days before the effective date of such change;
- (d) a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position or, except as described herein, a change in the trustee of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (e) a reorganization with, or transfer of assets to, a mutual fund trust, if:
 - (i) the Fund ceases to continue after the reorganization or transfer of assets; and
 - (ii) the transaction results in Unitholders becoming unitholders in the mutual fund trust;
- (f) a reorganization with, or acquisition of assets of, a mutual fund trust, if:
 - (i) the Fund continues after the reorganization or acquisition of assets;
 - (ii) the transaction results in the securityholders of the mutual fund trust becoming Unitholders of the Fund; and
 - (iii) the transaction would be a material change to the Fund;
- (g) except as described under "*Description of Trust Units and Warrants — Trust Units*", the issuance of Trust Units for net proceeds less than the most recently calculated NAV per Trust Unit prior to the date upon which the price of the Trust Units for such issuance is determined;
- (h) an amendment, modification or variation in the provisions or rights attaching to the Trust Units; and
- (i) a reduction in the frequency of calculating the NAV per Trust Unit.

On and after the Conversion Date, Unitholders will be permitted to vote on all matters that require Unitholder approval under NI 81-102. These matters include, in respect of the Fund:

- (a) any (i) change in the basis of the calculation of a fee or expense charged to the Fund that could result in an increase in charges to the Fund, or (ii) a new fee or expense is introduced that could result in an increase in charges to the Fund;
- (b) a change of the Manager, unless the new manager is an affiliate of the Manager;
- (c) a change in the fundamental investment objectives of the Fund;
- (d) a change of the auditor of the Fund;
- (e) a decrease in the frequency of the calculation of the Net Asset Value per Trust Unit of the Fund; and
- (f) a material reorganization of the Fund.

The Unitholders will also be permitted to vote on any modification, amendment, alteration or deletion of rights, privileges or restrictions attaching to the Trust Units which would have a material adverse effect on the interest of the Unitholders. No amendment may be made to the Declaration of Trust which would have the effect of reducing the expenses reimbursable to the Manager or terminating the Manager unless the Manager, in its sole discretion, consents.

Amendments to the Declaration of Trust

The Trustee at the request of the Manager may, without the approval of or notice to Unitholders, amend the Declaration of Trust for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Declaration of Trust which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Declaration of Trust into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the pecuniary value of the interests of the Unitholders;
- (d) maintain the status of the Fund as a “mutual fund trust” for the purposes of the Tax Act or to respond to amendments to such Act or to the interpretation thereof;
- (e) provide added protection or benefit to Unitholders;
- (f) to effect the Conversion; or
- (g) on and after the Conversion Date, to delete any provisions which have application only prior to the Conversion Date.

Except for changes to the Declaration of Trust which require the approval of Unitholders or changes described above which do not require approval of or prior notice to Unitholders, the Declaration of Trust may be amended from time to time by the Manager upon not less than 30 days’ prior written notice to Unitholders.

Reporting to Unitholders

The Fund will prepare, file and send to Unitholders unaudited semi-annual and audited annual financial statements of the Fund and other documents in accordance with National Instrument 81-106.

Non-Resident Unitholders

The Fund was not established and shall not be maintained for the benefit of one or more non-resident persons within the meaning of the Tax Act. At no time may non-residents of Canada and partnerships (other than “Canadian partnerships” as defined in the Tax Act) be the beneficial owners of more than 50% of the Trust Units and the Trustee shall inform the Registrar and Transfer Agent of this restriction. The Trustee may require a declaration as to the jurisdiction in which a beneficial owner of Trust Units is resident and, if a partnership, as to its status as a “Canadian partnership”. If the Trustee becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% or more of the Trust Units then outstanding are, or may be, non-residents and/or partnerships (other than “Canadian partnerships”), or that such a situation is imminent, the

Trustee may make a public announcement thereof and the Trustee may send a notice to such non-resident Unitholders and partnerships, chosen in inverse order to the order of acquisition or in such manner as the Trustee may consider equitable and practicable, requiring them to dispose of their Trust Units or a portion thereof to residents of Canada within a specified period of not less than 30 days. If the Unitholders receiving such notice have not disposed of the specified number of Trust Units or provided the Trustee with satisfactory evidence that they are not non-residents or partnerships (other than “Canadian partnerships”) within such period, the Trustee may redeem or, on behalf of such Unitholders, dispose of such Trust Units. Upon such redemption or sale, the affected Unitholders shall cease to be beneficial Unitholders of Trust Units and their rights shall be limited to receiving the redemption price or the net proceeds of sale of such Trust Units.

Termination of the Fund

The Fund does not have a fixed termination date. However, the Fund may be terminated at any time upon not less than 90 days’ written notice by the Trustee provided that the prior approval of Unitholders has been obtained by a majority vote at a meeting of Unitholders called for that purpose (the “**Termination Date**”); provided, however, that the Trustee may, in its discretion, on 60 days’ notice to Unitholders, terminate the Fund without the approval of Unitholders if, in the opinion of the Trustee, the NAV of the Fund is reduced as a result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund. The Fund will also issue a press release ten days prior to the Termination Date setting forth the details of the termination including the fact that, upon termination, the net assets of the Fund will be distributed to Unitholders on a pro rata basis. Immediately prior to the termination of the Fund, including on the Termination Date, the Trustee will, to the extent possible, convert the assets of the Fund to cash and after paying or making adequate provision for all of the Fund’s liabilities, distribute the net assets of the Fund to the Unitholders as soon as practicable after the date of termination or any unliquidated assets may be distributed in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions.

CALCULATION OF NET ASSET VALUE AND VALUATION OF PORTFOLIO SECURITIES

Net Asset value Calculation

The NAV on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV will be calculated using the fair value of the Fund’s assets and liabilities. The NAV per Trust Unit on any day will be obtained by dividing the NAV of the Fund on such day by the number of Trust Units then outstanding; provided however, that where as a result of such calculation the basic NAV per Trust Unit is greater than \$11.70, then a diluted NAV per Trust Unit will be calculated. The diluted NAV per Trust Unit shall be calculated by adding to the denominator the total number of Trust Units issuable pursuant to Warrants, then outstanding and by adding to the numerator the product of such number of Warrants and the net proceeds realized by the Fund pursuant to the exercise of the Warrants. The diluted NAV per Trust Unit shall be deemed to be the resulting quotient.

Valuation Policies and Procedures of the Fund

Unless otherwise required by law, the value of the assets held by the Fund is determined as follows:

- (a) the value of any cash on hand or on deposit, bills, demand notes, accounts receivable, prepaid expenses, cash dividends received (or to be received and declared to shareholders of record on a date before the date as of which the net asset value is being determined), and interest accrued and not yet received, shall be deemed to be the full amount thereof unless the Manager shall have determined that any such deposit, bill, demand note, account receivable, prepaid expense, cash dividend received or interest is not worth the full amount thereof, in which event the value thereof shall be deemed to be such value as the Manager shall determine to be the reasonable value thereof;

- (b) the value of any security which is listed or dealt in upon a stock exchange shall be determined by (a) in the case of a security which was traded on the day as of which the Net Asset Value is being determined, the closing sale price; (b) in the case of a security which was not traded on the day as of which the Net Asset Value is being determined, a price which is the average of the closing recorded bid and asked prices; or (c) if no bid or asked quotation is available, the price last determined for such security for the purpose of calculating the Net Asset Value. The value of inter-listed securities shall be computed in accordance with directions laid down from time to time by the Manager; and provided however that if, in the opinion of the Manager, stock exchange or over the counter quotations do not properly reflect the prices which would be received by the Fund upon the disposal of shares or securities necessary to effect any redemptions of securities, the Manager may place such value upon such shares or securities as appears to the Manager to most closely reflect the fair value of such shares or securities;
- (c) The value of any security, the resale of which is restricted or limited by reason of a representation, undertaking or agreement by the Fund or by the predecessor in title of the Fund, shall be the lesser of (a) the value based on reported quotation in common use and (b) that percentage of the market value of securities of the same class, the resale of which is not restricted or limited by reasons of any representation, undertaking or agreement, equal to the percentage that the acquisition cost of the Fund was of the market value of such securities at the time of acquisition, provided that a gradual taking into account of the actual value of the securities may be made when the date on which the restrictions will be lifted is known;
- (d) the value of all assets of the Fund valued in terms of a currency other than Canadian currency and liabilities payable in a currency other than Canadian currency shall be translated to Canadian currency using the closing rate of exchange as quoted by customary banking sources on the date of valuation;
- (e) each transaction of purchase or sale of portfolio securities effected by the Fund shall be reflected in the computation of the Net Asset Value of the Fund not later than the first computation of the Net Asset Value of the Fund made after the date on which the transaction becomes binding; and
- (f) the issue or redemption of Trust Units of the Fund shall be reflected in the computation of the Net Asset Value not later than the next computation of the Net Asset Value or series made after the time of the issue or redemption of the Trust Units of the Fund.

The liabilities of the Fund include:

- (a) all bills and accounts payable;
- (b) all administrative expenses payable and/or accrued;
- (c) all obligations for the payment of money or property, including the amount of any declared but unpaid distributions;
- (d) all allowances authorized or approved by the Manager for taxes or contingencies; and
- (e) all other liabilities of the Fund of whatever kind and nature, except liabilities represented by outstanding Trust Units.

Harvest may suspend the calculation of the Net Asset Value when the right to redeem a Trust Unit is suspended. See “*Suspension of Redemptions*” below. During any period of suspension there will be no calculation of the Net Asset Value and the Fund will not be permitted to issue or redeem any Trust Unit. The calculation of the Net Asset Value will resume when trading in the Fund’s securities resumes.

Except as described below, National Instrument 81-106 — Investment Fund Continuous Disclosure (“NI 81-106”) requires an investment fund, such as the Fund, to calculate its net assets in accordance with Canadian GAAP. Canadian GAAP was recently modified by the introduction of section 3855 *Financial Instruments — Recognition and Measurement* of the handbook of the Canadian Institute of Chartered Accountants. Section 3855 redefines fair value as being the closing bid price for long positions and the closing ask price for short positions, in lieu of the closing or last trade price for all positions. Section 3855 applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2006.

Therefore, the combined effect of NI 81-106 and section 3855 would require the Fund to determine the value of securities listed on a recognized public securities exchange or on NASDAQ using the fair value as defined by section 3855. However, since September 8, 2008, NI-81-106 permits investment funds, such as the Fund, to calculate its net asset value in accordance with Canadian GAAP without giving effect to section 3855 for purposes other than issuing annual or interim financial statements, such as the issue and redemption of Trust Units.

Reporting of Net Asset Value

Prior to the Conversion Date, the Net Asset Value, the Net Asset Value per Trust Unit and diluted NAV per Trust Units, if applicable, will be calculated on each Thursday (or if a Thursday is not a Business Day, the Business Day following such Thursday). On or after the Conversion Date, the NAV per Trust Unit will be calculated on each Business Day. Such information will be provided by the Manager to the Unitholders on request by calling toll-free 1-866-998-8298 or daily via the Internet at www.harvestportfolios.com.

PURCHASE OF TRUST UNITS AND WARRANTS

The Trust Units and Warrants are listed for trading on the TSX under the symbol “HBB.UN” and “HBB.WT”, respectively and are traded through the facilities of the TSX. Investors may purchase or sell the Trust Units and Warrants in the market through the facilities of the TSX by contacting their financial advisor.

While the Manager calculates the NAV per Trust Unit at each Valuation Date and publishes it, investors are not able to purchase Trust Units at these amounts and must purchase Trust Units through the facilities of the TSX or by purchasing Trust Units from existing holders of Trust Units, subject to compliance with applicable regulatory requirements.

A dealer may make provision in arrangements that it has with an investor that will require the investor to compensate the dealer for any such losses suffered by the dealer in connection with a failed settlement of a purchase of Trust Units by such investor.

Warrant Agent

The Warrant Agent has been appointed the agent of the Fund to receive subscriptions and payments from holders of Warrants, to act as registrar and transfer agent for the Warrants and to perform certain services relating to the exercise and transfer of Warrants pursuant to the Warrant Indenture. Holders of Warrants desiring to exercise such Warrants and purchase Trust Units should ensure that subscriptions and payment in full of the subscription price therefor is received during the applicable Warrant Notice Period by the Warrant Agent.

Warrant Subscription Right

A holder of Warrants may subscribe for the resulting whole number of Trust Units or any lesser whole number of Trust Units by instructing the CDS Participant holding the holder’s Warrants to exercise all or a specified number of such Warrants and forwarding \$12.00 per Warrant for each Trust Unit subscribed for in accordance with the terms of the Offering to the CDS Participant which holds the subscriber’s Warrants.

The subscription price is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of a CDS Participant, by direct debit from the holder’s brokerage account, or by electronic funds transfer or other similar payment mechanism. All payments must be forwarded to the appropriate office of the CDS Participant. The entire subscription price for Trust Units subscribed for must be paid at the time of subscription and must be received by the Warrant Agent during the applicable Warrant Notice Period. Accordingly, a holder of Warrants subscribing through a CDS Participant must deliver its payment and instructions sufficiently in advance of the applicable Warrant Exercise Date to allow the CDS Participant to properly exercise the Warrants on its behalf. Unitholders are encouraged to contact their broker or other CDS Participant as each CDS Participant may have a different cut-off time.

Payment of the subscription price will constitute a representation to the CDS Participant that the subscriber is not a citizen or resident of the United States of America, its territories or possessions or the agent of any such person and is not purchasing the Trust Units for resale to any such person.

Subscriptions for Trust Units made through a CDS Participant will be irrevocable and subscribers will be unable to withdraw their subscriptions for Trust Units once submitted. Holders of Warrants who wish to exercise their Warrants and receive Trust Units are reminded that because Warrants must be exercised through a CDS Participant, a significant amount of time may elapse from the date of exercise and the date the Trust Units issuable upon the exercise thereof are issued to the holder.

Sale or Transfer of Warrants

Holders of Warrants in Canada may, instead of exercising their Warrants to subscribe for Trust Units sell or transfer their Warrants. Holders of Warrants through CDS Participants who wish to sell or transfer their Warrants must do so in the same manner in which they sell or transfer Trust Units namely, by providing instructions to the CDS Participant holding their Warrants in accordance with the policies and procedures of the CDS Participant.

Book-Based System

Registration of interests in and transfers of the Trust Units and Warrants will be made only through the book-entry only system of CDS. Trust Units and Warrants, as applicable, must be purchased, transferred and surrendered for retraction only through a CDS Participant. All rights of an owner of Trust Units and Warrants must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS and the CDS Participant through which the owner holds such Trust Units and/or Warrants.

Upon purchase of any Trust Units and/or Warrants, the owner will receive only the customary confirmation. References in this AIF to a holder of Trust Units means, unless the context otherwise requires, the owner of the beneficial interest in such Trust Units. The Fund expects that each purchaser of Units under the Offering received a confirmation of the number of Trust Units and Warrants issued to it from its CDS Participant in accordance with the practices and procedures of that CDS Participant. CDS is responsible for establishing and maintaining book-entry only accounts for its participants holding Trust Units and Warrants. Certificates evidencing Trust Units and Warrants were not issued.

Neither the Fund, the Trustee, the Custodian, the Manager, the Investment Manager, the Agents or the Warrant Agent will have any liability for (i) the records maintained by CDS or CDS Participants relating to the beneficial interests in the Trust Units, the Warrants or the book-entry only accounts maintained by them; (ii) maintaining, supervising or reviewing any records relating to such beneficial ownership interests and Warrants; or (iii) any advice or representation made or given by CDS and made or given with respect to the rules and regulations of CDS or any action taken by CDS or at the direction of the CDS Participants.

The ability of a beneficial owner of Trust Units or a person having an interest in Warrants held through a CDS Participant to pledge such interests or otherwise take action with respect to such interest (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Trust Units through the book-entry only system in which case certificates for Trust Units in fully registered form would be issued to beneficial owners of such securities or to their nominees.

REDEMPTION OF TRUST UNITS

Redemption of Trust Units on the First NAV Redemption Date

Unitholders who wish to redeem their Trust Units on September 26, 2011 (the “**First NAV Redemption Date**”) will receive a redemption price per Trust Unit equal to NAV per Trust Unit as at the First NAV Redemption Date. On and after the Conversion Date, Unitholders may redeem Trust Units on any Business Day at the NAV per Trust Unit. Trust Units may be surrendered for redemption during the period from the tenth Business Day of August 2011 until 5:00 p.m. (Toronto time) on the fifth Business Day of September 2011 (the “**Notice Period**”) by the registered Unitholder to the Registrar and Transfer Agent. Trust Units surrendered for redemption by a Unitholder during the Notice Period will be redeemed on the First NAV Redemption Date and the Unitholder will receive payment on or before the seventh Business Day following the First NAV Redemption Date.

Exercise of Redemption Right

The redemption right must be exercised by causing written notice to be given within the Notice Period and in the manner described below. Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Trust Units which are not paid for by the Fund on the First NAV Redemption Date. An owner of Trust Units who desires to exercise redemption privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice (the “**Redemption Notice**”) of the owner’s intention to redeem Trust Units. An owner who desires to redeem Trust Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS and so as to permit CDS to deliver notice to the Registrar and Transfer Agent in advance of the required time. The form of Redemption Notice will be available from a CDS Participant or Registrar and Transfer Agent. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

Except as provided below under “Suspension of Redemptions”, by causing a CDS Participant to deliver to CDS a notice of the owner’s intention to redeem Trust Units, an owner shall be deemed to have irrevocably surrendered his or her Trust Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of the redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Redemption Notice delivered by a CDS Participant regarding an owner’s intent to redeem which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the redemption privilege to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with the owner’s instructions will not give rise to any obligations or liability on the part of the Fund to the CDS Participant or to the owner.

Redemption of Trust Units on and After Conversion Date

On and after the Conversion Date, Unitholders may redeem Trust Units on any Business Day without charge. To do so, Unitholders must complete a written redemption request. If the redemption request is deposited with a dealer, the dealer must send the redemption request to the Toronto office of the registrar and transfer agent on the same day. If the dealer receives the redemption request after the close of business (usually 4:00 p.m. Toronto time) or on a day that is not a Business Day, the dealer must send it to the registrar and transfer agent on the next Business Day.

A redemption request received by the registrar and transfer agent before the close of business (usually 4:00 p.m. Toronto time) on a Business Day will be processed at the NAV per Trust Unit calculated at the close of business on that Business Day. A redemption request received by the registrar and transfer agent after the close of business on a Business Day or on a day which is not a Business Day will be processed at the NAV per Trust Unit determined at the close of business on the next Business Day. Whenever practicable, a dealer must send such redemption request by courier or fax, to ensure that the registrar and transfer agent receives it as quickly as possible. The cost of sending the redemption request must be paid by the dealer. A redemption request sent by fax directly by an investor will not

be accepted. For the protection of Unitholders in the Fund, a Unitholder's signature on any redemption request must be guaranteed by a bank, trust company or a dealer. This procedure must be followed carefully. Other documentation may be required for redemption by corporations or other Unitholders that are not individuals. If all necessary redemption documents have been properly completed and sent to the registrar and transfer agent with the redemption request, the Manager will pay the redemption amount within three Business Days of the day on which the redemption request was placed. Otherwise, the redemption amount will be paid within three Business Days after the registrar and transfer agent receives the missing documentation. If all necessary documents are not received by the registrar and transfer agent within ten Business Days following the date on which the redemption was requested, the Manager will reverse the redemption order by processing a purchase order on the tenth Business Day after the redemption order for the number of Trust Units that were redeemed. The redemption proceeds will be used to pay for the Trust Units purchased. Any excess proceeds belong to the Fund. Any shortfall will initially be paid to the Fund by the Manager, but the Manager will be entitled to collect the shortfall, plus any costs involved, from the dealer who placed the redemption request. The dealer may, in turn, collect the shortfall plus any costs involved from the Unitholders who placed the redemption request. Where no dealer has been involved, the Manager will be entitled to collect the shortfall and costs from the Unitholders who placed the redemption request. There is no charge for redemptions of Trust Units that were acquired before the Conversion Date.

Suspension of Redemptions

The Manager may direct the Trustee to suspend the redemption of Trust Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on a stock exchange or other market on which securities owned by the Fund are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the total assets of the Fund, without allowance for liabilities, and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; or (ii) with the prior permission of the applicable securities regulatory authorities, for any period not exceeding 30 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by the Manager of the suspension and that the redemption will be effected at a price determined on the first Business Day following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

Conversion of the Fund

The Trust Units will be redeemable at NAV per Trust Unit on the First NAV Redemption Date. The Fund will become an open-ended mutual fund on or before October 18, 2011. On and after the Conversion, the Trust Units will be redeemable at NAV per Trust Unit on a daily basis, at such time the Trust Units will become subject to NI 81-102. The Fund will be subject to certain standard investment restrictions and practices contained in NI 81-102 and such other investment restrictions as the Trustee may determine, in its sole discretion, from time to time. The Declaration of Trust provides that certain provisions thereof that apply before the Conversion Date will cease to apply.

RESPONSIBILITY FOR FUND OPERATIONS

Manager

Harvest Portfolios Group Inc. (the "**Manager**") is the manager and trustee of the Fund pursuant to the Declaration of Trust. The Manager carries on business at 710 Dorval Drive, Suite 200, Oakville, ON, L6K 3V7. The Manager can be reached at 416-649-4541 or toll free at 1-866-998-8298 or by email at info@harvestportfolios.com and information about the Manager and the Portfolio Manager may also be obtained at www.harvestportfolios.com.

Pursuant to the Declaration of Trust, the Manager, as manager, is responsible for providing or causing to be provided, management and administrative services to the fund. The Manager may delegate certain of its powers to third parties, where, in the discretion of the Manager, it would be in the best interests of the Fund to do so. The Manager's duties include, without limitation: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements (including semi-annual and annual financial statements) and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Fund's reports to Unitholders and the Canadian securities regulatory authorities; determining the amount of distributions to be made by the Fund; and negotiating contractual agreements with third party providers of services, including registrars, transfer agents, auditors and printers.

Pursuant to the Declaration of Trust, the Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund and to exercise the care, diligence and skill of a reasonably prudent person in the circumstances. The Declaration of Trust provides that the Manager will not be liable in any way for any default, failure or defect in the Portfolio held by the Fund if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Manager will incur liability, however, in cases of wilful misconduct, bad faith, negligence, disregard of the Manager's standard of care or by any material breach or default by it of its obligations under the Declaration of Trust.

Unless the Manager resigns or is removed as described below, the Manager will continue as Manager until the termination of the Fund. The Manager may resign if the Fund is in breach or default of the provisions of the Declaration of Trust and, if capable of being cured, any such breach or default has not been cured within 30 days' notice of such breach or default to the Fund. The Manager is deemed to have resigned if the Manager becomes bankrupt or insolvent or in the event the Manager ceases to be resident in Canada for the purposes of the Tax Act.

The Manager may not be removed other than by an Extraordinary Resolution of the Unitholders. In the event that the Manager is in material breach or default of the provisions of the Declaration of Trust and, if capable of being cured, any such breach or default has not been cured within 30 days' notice of such breach or default to the Manager, the Trustee shall give notice thereof to Unitholders and Unitholders may direct the Trustee to remove the Manager and appoint a successor Manager.

The Manager will be reimbursed by the Fund for all reasonable costs and expenses incurred by the Manager on behalf of the Fund as described below under "*Fees and Expenses – Management Fees*". In addition, the Manager and each of its directors, officers, employees, shareholders and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against, the Manager, or any of its directors, officers, employees, shareholders or agents, in the exercise of its duties as Manager, except those resulting from the Manager's wilful misconduct, bad faith, negligence, disregard of the Manager's standard of care or material breach or default by the Manager of its obligations under the Declaration of Trust.

Directors and Officers of the Manager

The name and municipality of residence of each of the directors, applicable officers and senior management of the Manager and their principal occupation are as follows:

Name and Municipality of Residence	Position with the Manager	Principal Occupation
Michael Kovacs Oakville, Ontario	President and Chief Executive Officer, Chairman, Executive Board Member and Director	President and Chief Executive, Harvest Portfolio Group Inc.
Townsend Haines Toronto, Ontario	Chief Financial Officer, Executive Board Member and Director	Chief Financial Officer, Harvest Portfolio Group Inc.

Nick Bontis Ancaster, Ontario	Executive Board Member and Director	Associate Professor, Strategic Director Management & Director, Undergraduate Programs DeGroote School of Business, McMaster University
----------------------------------	--	--

The Investment Manager

The Manager has retained Avenue Investment Management Inc. (the “**Investment Manager**”) to provide portfolio advisory services to the Fund. The Investment Manager is located at 47 Colborne Street, Suite 300, Toronto, Ontario M5E 1P8. The Investment Manager was formed in 2002 and until recently has primarily focused on the private client market. The Investment Manager was founded by three investment management professionals, Paul Harris, CFA, Paul Gardner, CFA and Bill Harris, CFA, each with over 20 years of experience who have managed assets or businesses for leading financial institutions in Toronto, Montreal and New York. Each portfolio manager brings sectorial experience to the management of portfolios.

Investment decisions relating to the Portfolio are made by senior level individuals. The name, title and business experience, for the last five years, of the individuals responsible for the day-to-day management of a material portion of the Portfolio is as follows:

Name and Title	Length of Service with Investment Manager	Portfolio	Principal Occupation for the Last Five Years
Paul Harris, CFA	Since 2002	Equity Portfolio Fixed Income Portfolio	Partner and Portfolio Manager
Paul Gardner, CFA	Since 2002	Equity Portfolio Fixed Income Portfolio	Partner and Portfolio Manager
Bill Harris, CFA	Since 2004	Equity Portfolio Fixed Income Portfolio	Partner and Portfolio Manager

Investment decisions made by these individuals are not subject to the oversight, approval or ratification of a committee.

Details of the Investment Management Agreement

The Investment Manager provides investment advisory and portfolio management services to the Fund with respect to the Portfolio pursuant to the Investment Management Agreement. Decisions regarding the purchase and sale of Portfolio securities and the execution of transactions for the Portfolio will be made by the Investment Manager, in accordance with and subject to the terms of the Investment Management Agreement. Subject to the terms of the Investment Management Agreement, the Investment Manager will implement the investment strategy for the Portfolio on an ongoing basis.

Under the Investment Management Agreement, the Investment Manager covenants to act at all times on a basis which is fair and reasonable to the Manager and the Fund, to act honestly and in good faith with a view to the best interests of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. The Investment Management Agreement provides that the Investment Manager will not be liable in any way to the parties indemnified under the Investment Management Agreement for any default, failure or defect in any of the securities comprising the Portfolio if it satisfied the standard of care, diligence and skill set forth above. The Investment Management Agreement further provides that the Investment Manager will not be liable for any losses in the NAV of the Fund if it has satisfied the standard of care, diligence and skill set forth above. Pursuant to the Investment Management Agreement, the Investment Manager and its officers, directors and employees shall be indemnified, from the assets of the Fund, against all losses (other than loss of profits), expenses and liabilities incurred by any of them in connection with any matter relating to their respective duties under the Investment Management Agreement, unless any such indemnified person is finally adjudicated to have committed a material breach or default of its obligations under the Investment Management Agreement or an Act or omission involving wilful misconduct, bad faith, negligence or reckless disregard of such person’s duties under the Investment Management Agreement. Under the Investment Management

Agreement, the Investment Manager will be responsible for any loss to the Fund that arises out of the Investment Manager's failure to exercise the powers and discharge its duties in good faith and in the best interests of the Fund or its failure to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

The Investment Manager or the Manager may terminate the Investment Management Agreement in the following circumstances: (i) upon not less than 90 days written notice to the other party; or (ii) by written notice taking immediate effect if the other party is in breach of any of the terms of the Agreement and has not remedied the breach within 30 days of receipt of written notice requiring the breach to be remedied.

The Investment Management Agreement shall terminate immediately if any of the following events take place: (i) in the event the Investment Manager or the Manager is subject to a material regulatory issue that would affect the ability of the Investment Manager or the Manager to fulfill its obligations under the Investment Management Agreement or if the Investment Manager or the Manager is unable to provide the investment management services contemplated in this Agreement or in any applicable underlying investment management agreements; (ii) in the event that the Investment Manager or the Manager become bankrupt, or a petition for bankruptcy is filed against either party and such petition is not dismissed within 60 days; or (iii) or in the event that the Investment Manager or the Manager makes any assignment for the benefit of its creditors, files any notice under or takes any other benefits of any insolvency law, or if a receiver is appointed for the Investment Manager or the Manager. Any termination of this Investment Management Agreement shall not affect the liability of the parties in respect of any action undertaken before such notice was given. During the time period between the date notice of termination is given and the effective date of termination, the Investment Manager agrees to continue to provide investment advisory or management services to the Fund to the best of its ability in accordance with the standard of care set out above. The Manager is responsible for payment of the investment management fees of the Investment Manager out of the Management Fee. See "*Fees and Expenses — Ongoing Fees and Expenses*".

Brokerage Arrangements

Pursuant to the Investment Management Agreement, the Investment Manager will make all appropriate brokerage arrangements to implement the purchase and sale of portfolio investments on the best terms available to the Investment Manager acting reasonably, having regard to such factors as the Investment Manager, in good faith, considers relevant to the Fund's interest, including, without limitation, commissions and other costs payable, efficiency of execution and timeliness of delivery, all consistent with requirements of Canadian securities legislation and consistent with acting in the best interests of the Fund. As of December 31, 2010, no transactions involving client brokerage commissions of the Fund were directed to a dealer in return for the provision of any good or service other than order execution.

The Trustee

The Manager is the trustee of the Fund under the Declaration of Trust, and is responsible for managing all of the Fund's activities. The address of the Trustee where it principally provides services to the Fund is at 710 Dorval Drive, Suite 200, Oakville, Ontario L6K 3V7.

Pursuant to the Declaration of Trust, the Trustee will be responsible for certain aspects of the day-to-day administration of the Fund as described in the Declaration of Trust. The Trustee may resign upon 60 days' notice to Unitholders. The Trustee must be removed if the Trustee is no longer resident in Canada for purposes of the Tax Act, and the Trustee may be removed with the approval of a simple majority vote cast at a meeting of Unitholders called for such purpose or by the Manager (if the Manager is not then the Trustee), if the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Declaration of Trust which breach has not been cured within 30 days after notice thereof has been given to the Trustee.

Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns, its successor may be appointed by the Manager. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 60 days, the Trustee or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor.

The Declaration of Trust will provide that the Trustee shall not be liable in carrying out its duties under the Declaration of Trust except where it is in breach of its obligations under the Declaration of Trust or where the Trustee fails to Act honestly and in good faith, and in the best interests of Unitholders to the extent required by laws applicable to trustees, or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Declaration of Trust will contain other customary provisions limiting the liability of the Trustee and indemnifying the Trustee, or any of its officers, directors, employees or agents, in respect of certain liabilities incurred by it in carrying out its duties.

Subject to those matters that require Unitholder approval as described above under “*Unitholder Matters – Matters Requiring Unitholder Approval*”, the Declaration of Trust gives the Trustee the right in its discretion from time to time to modify, alter or add to the provisions of the Declaration of Trust, and execute any supplemental Declaration of Trust to give effect to such amendments.

The Custodian and Valuation Agent

State Street Trust Company Canada (“**State Street**”) will be appointed as the custodian and valuation agent of the Fund pursuant to separate custodian and valuation agreements between the Fund and State Street. The custodian’s principal place of business in respect of the Fund is Toronto, Ontario. In accordance with the terms of the custodian agreement (the “**Custodian Agreement**”), the custodian will be responsible for the safekeeping of all of the investments and other assets of the Fund delivered to it but not those assets of the Fund not directly controlled or held by the custodian as the case may be. In the event that any portfolio assets are acquired by the Fund that cannot be held in Canada, the custodian may appoint sub-custodians who are qualified to act as such.

In carrying out its duties, the custodian is required to exercise:

- (a) the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances, or
- (b) at least the same degree of care which it gives to its own property of a similar kind under its custody, if this is a higher degree of care than in paragraph (a) above.

Except to the extent the Custodian has not complied with its standard of care, the Custodian will not be liable for any Act or omission in the course of, or connected to, rendering services under the Custodian Agreement or for loss to, or diminution of, the Fund’s property. In no event shall the custodian be liable for any consequential or special damages. The Fund shall indemnify and save harmless the custodian, and its affiliates, subsidiaries and agents, and their directors, officers, and employees from and against all legal fees, judgments and amounts paid in settlement incurred by such indemnified parties in connection with custodial services provided under the Custodian Agreement except to the extent incurred as a result of a breach of the above standard of care.

The Custodian Agreement provides that it may be terminated by either party at any time on 60 days’ written notice unless a different period is agreed to. Either party may terminate the Custodian Agreement immediately in the event that either party is declared bankrupt or shall be insolvent, the assets or the business of either party shall become liable to seizure or confiscation by a public or governmental authority, or the Manager’s powers and authorities to act on behalf of or represent the Fund have been revoked or terminated. In addition, State Street will be responsible for providing valuation services to the Fund and will calculate the NAV and NAV per Trust Unit pursuant to the terms of a separate valuation service agreement. State Street will receive fees for custodial and valuation services provided to the Fund as described above.

Transfer Agent and Registrar

Equity Financial Trust Company (formerly Equity Transfer & Trust Company) acts as the registrar and transfer agent for the Trust Units and the Warrants at its principal office at 200 University Avenue, Suite 400, Toronto, Ontario, M5H 4H1.

Auditor

The Fund’s auditors are PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario.

CONFLICTS OF INTEREST

Principal Holders of Securities

To the knowledge of the Manager, as at March 18, 2011, no person owned, beneficially or of record, either directly or indirectly, or exercised control or direction over, more than 10% of the outstanding Trust Units.

To the knowledge of the Manager, as at March 18, 2011, the directors and senior officers of the Manager, in aggregate, did not own, beneficially or of record, either directly or indirectly, or exercise control or direction over more than 10% of the outstanding Trust Units or more than 10% of the voting securities of any person or company that provides services to the Fund or the Manager.

To the knowledge of the Manager, as at March 18, 2011, the members of the Independent Review Committee of the Fund (the "IRC") did not own beneficially, directly or indirectly, in aggregate: (a) more than 10% of the outstanding Trust Units; (b) any class of voting or equity securities of the Manager; or (c) any class of voting or equity securities of any person or company that provides services to the Fund or the Manager.

As at March 18, 2011, Michael Kovacs owned 100% of the outstanding common shares of the Manager and directors and senior officers of the Manager beneficially owned, directly or indirectly, in aggregate, 86.3% of the outstanding non-voting preferred shares of the Manager.

Conflicts of Interest

The management services of the Manager under the Management Agreement are not exclusive and nothing in the Management Agreement prevents the Manager from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities.

Under the Investment Management Agreement, the Investment Manager may become an investment advisor and portfolio manager to mutual funds and discretionary accounts in addition to the Fund. Investments in securities purchased by the Investment Manager on behalf of the Fund and other investment funds or accounts managed by the Investment Manager will be allocated in the sole discretion of the Investment Manager to the Fund and such other investment funds or accounts on a *pro-rata* or other equitable basis having regard to whether the security is currently held in any of the relevant investment portfolios, the relevant size and rate of growth of the funds and the managed accounts and any other factors which the Investment Manager considers reasonable.

The Declaration of Trust and the Management Agreement acknowledge that the Trustee and the Manager may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favorable to the Fund than those which would be obtained from parties which are at arm's length for comparable services. The Trustee may act as trustee of, and provide services to, issuers of securities, including issuers of securities in which the Fund has invested or may invest.

FUND GOVERNANCE

Policies and Practices

The Manager has policies and practices in place in order to comply with applicable securities laws, regulations and rules, including rules on sales practices and relating to conflicts of interest as well as risk management policies and procedures as outlined below. The Fund is managed in accordance with the investment objectives, guidelines, strategy and restrictions described above and which are monitored regularly by appropriate personnel to ensure compliance therewith.

Code of Ethics and Standards of Professional Responsibility

The Manager has a Code of Ethics and Standards of Professional Conduct (the "**Code**") which applies to all of its employees. The Code is in place to protect the interest of all of the Manager's clients. The Code provides policies governing the conduct of business including conflicts of interest, privacy issues and confidentiality.

The Manager is under a statutory duty imposed by the *Securities Act* (Ontario) to act honestly and in good faith and in the best interests of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

The Declaration of Trust provides that the Trustee shall exercise its powers and discharge its duties as the Trustee honestly, in good faith and in the best interests of the Fund and shall perform the duties of the Trustee to the standard of care, diligence and skill a reasonably prudent person would exercise in the circumstances.

Independent Review Committee

The IRC is comprised of three individuals, each of whom is independent from the Manager and its affiliates. The current members of the IRC are E.M. Jane Davis; James Adam Conyers and Donald Hathaway. The role of the IRC is to review and to provide approval or recommendation in respect of conflicts of interest that arise between the Manager's own interests and the Manager's duty to manage the Fund in the best interests of the Fund. NI 81-107 requires the Manager to have policies and procedures relating to conflicts of interest. The Manager is responsible for referring to the IRC any matters in which a reasonable person could view the Manager as having an interest that may conflict with its ability to act in the best interest of the Fund. The IRC reviews each matter and provides its approval or recommendation as to whether the proposed course of actions will achieve a fair and reasonable result for the Fund. The IRC has adopted a written charter that includes its mandate, responsibilities and functions, and the policies and procedures it will follow when performing its functions.

The compensation and other reasonable expenses of the IRC are paid *pro rata* out of the assets of the Fund, as well as out of the assets of the other investment funds for which the IRC acts.

Information and Reports to Unitholders

The Fund will deliver to Unitholders annual and interim financial statements of the Fund and other reports, in each case as from time to time are required by applicable law or applicable regulatory authorities.

Prior to any meeting of Unitholders, the Fund will provide to Unitholders, together with the notice of such meeting, all such information as is required by applicable law to be provided to such Unitholders.

Voting Securities of Other Funds

The Fund did not vote securities of other investment funds that it held during 2010.

Short-Term Trading

As the Fund is a closed-end investment fund, the Fund has no policies and procedures relating to the monitoring, detection and deterrence of short-term trades of securities by Unitholders.

Proxy Voting Procedures

The proxies associated with securities held by the Fund will be voted by the Investment Manager in the best interests of Unitholders. The Investment Manager has established a proxy voting policy (the "**Proxy Voting Policy**") which contains guidelines (the "**Guidelines**") for the voting of proxies by the partners of the Investment Manager. The Guidelines include provisions to address conflicts of interests that may arise between Unitholders and the Investment Manager. When voting proxies on behalf of shareholders, the Investment Manager votes in a manner

consistent with the best interest of Unitholders and votes proxies without regard to any other Investment Manager relationship, business or otherwise.

The Proxy Voting Policy provides that routine, uncontested matters to be considered at annual general meetings will generally be voted in accordance with management's recommendations. More complex, non-routine matters (i.e. certain issues related to the compensation and liability of directors, amendments to the constating documents of an issuer, share and debt issuances, related party transactions, reorganizations, restructurings, shareholder proposals and proposals relating to corporate social responsibility) will generally be decided in accordance with the Guidelines. Non-routine proposals not covered by the guidelines or other special circumstances will be evaluated on a case-by-case basis.

Disclosure of Proxy Voting Guidelines and Record

A copy of the Fund's proxy voting record for the most recent annual period ending December 31, 2010, is available free of charge to any Unitholder upon request and is also available on the website of the Manager at www.harvestportfolios.com. A copy of the Proxy Voting Policy is available on request at no cost by contacting the Manager at 1-866-998-8298 or by writing to the Manager at Suite 200, 710 Dorval Drive, Oakville, Ontario, L6K 3V7 or by e-mail at info@harvestportfolios.com. Information contained on the website of the Manager and the Fund is not part of this annual information form and is not incorporated herein by reference.

FEES AND EXPENSES

Management Fees

Pursuant to the terms of the Declaration of Trust, the Manager is entitled to an annual management fee (the "**Management Fee**") equal to 1.10% of the Net Asset Value of the Fund, plus an amount equal to the Servicing Fee (defined below), plus applicable taxes. The Management Fee will be calculated and payable monthly based on the average Net Asset Value of the Fund calculated at each Valuation Time during that month. The Management Fee will be paid in cash. The Investment Manager is remunerated by the Manager out of the Management Fee.

Ongoing Expenses

The Fund will pay for all expenses incurred in connection with the operation and administration of the Fund, including, without limitation, the Management Fee, the Servicing Fee (defined below), custodial fees, IRC member, legal, audit and valuation fees and expenses, Unitholder reporting costs, registrar costs, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administration expenses and costs incurred in connection with the Fund's continuous public filing requirements and investor relations, taxes, brokerage commissions, costs and expenses relating to the issue of Trust Units and Warrants, costs and expenses of preparing financial and other reports, costs and expenses in connection with the Conversion, costs and expenses arising as a result of complying with all applicable laws, regulations and policies and all amounts paid by the Fund on account of the indebtedness of the Fund. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Custodian or the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Fund.

Servicing Fee

The Manager will pay a servicing fee (the "**Servicing Fee**") to registered dealers equal to 0.40% annually of the Net Asset Value per Trust Unit for each Trust Unit held by clients of the registered dealer (calculated and paid at the end of each calendar quarter).

Warrant Exercise Fee

Upon exercise of a Warrant, the Fund will pay a fee equal to \$0.12 per Warrant to the Agents and a fee equal to \$0.18 per Warrant to the dealer whose client is exercising the Warrant.

Portfolio Transactions and Brokerage Commissions

The Fund will be responsible to pay commissions to brokers and dealers.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary, as of the date of this annual information form, of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a person who is an individual (other than a trust), who acquires Trust Units and/or Warrants and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Fund and holds the Trust Units and/or Warrants as capital property.

Generally, Trust Units and Warrants will be considered to be capital property to a purchaser provided that the purchaser does not hold Trust Units or Warrants in the course of carrying on a business of buying and selling securities and has not acquired Trust Units or Warrants in one or more transactions considered to be an adventure in the nature of trade. Certain purchasers who might not otherwise be considered to hold their Trust Units as capital property may, in certain circumstances, be entitled to have Trust Units treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This election is unavailable in respect of the Warrants. This summary also assumes that the Fund will hold the Portfolio securities as capital property.

This summary is based upon the current provisions of the Tax Act and the regulations there under (the "**Regulations**"), all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) ("Minister") prior to the date hereof (the "**Tax Proposals**"), and counsel's understanding of the current published administrative policies and assessing practices of the CRA. This summary assumes that the Tax Proposals will be enacted as proposed. Except for the Tax Proposals, this summary does not take into account or anticipate any changes in the law, whether by way of legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign tax legislation or considerations. There is no assurance that the Tax Proposals will be enacted in the form proposed or at all.

This summary is also based on the assumption that the Fund will at no time be a "SIFT trust" (specified investment flow-through trust) as defined in the Tax Act. Provided that the Fund does not hold "non-portfolio property", as defined in the Tax Act, it will not be a SIFT trust. Based upon its Investment Objectives and Investment Restrictions, the Fund should not hold "non-portfolio property".

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Trust Units and Warrants and does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Trust Units and Warrants. Moreover, the income and other tax consequences of acquiring, holding or disposing of Trust Units and Warrants will vary according to the status of the investor, the provincial or territorial jurisdiction(s) in which the investor resides or carries on business and, generally, the investor's own particular circumstances. Accordingly, the following description of income tax matters is of a general nature only and is not intended to constitute advice to any particular investor. Prospective investors should consult their own tax advisors with respect to the income tax consequences of investing in Trust Units and Warrants, based upon the investor's particular circumstances.

This summary is based on the assumption that the Fund will qualify at all times as a "unit trust" and a "mutual fund trust" within the meaning of the Tax Act, that the Fund validly elected under the Tax Act to be a mutual fund trust from the date it was established, that the Fund has not been established and will not be maintained primarily for the benefit of non-residents and that not more than 50% (based on fair market value) of the Trust Units will be held by non-residents of Canada, partnerships that are not Canadian partnerships as defined in the Tax Act, or any combination thereof.

In the event the Fund were not to qualify as a mutual fund trust at all times, the income tax consequences described below would in some respects be materially and adversely different. In order to so qualify, the Fund must comply

on a continuous basis with certain investment criteria referred to under "Investment Restrictions" and certain minimum distribution requirements relating to the Trust Units.

This summary is also based on the assumptions that the Fund will comply with the Investment Restrictions and that none of the issuers of the securities comprising the Portfolio will be foreign affiliates of the Fund or of any Unitholder and that none of the securities comprising the Portfolio will be tax shelter investments or offshore investment fund property.

Taxation of the Fund

The Fund will be subject to tax under Part I of the Tax Act on the amount of its income for the year, including the taxable portion of net realized capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Provided the Fund makes distributions in each year of its net income and net realized capital gains, as described under "Distributions and Reinvestments", and provided the Fund deducts in computing its income the full amount available for deduction in each year, the Fund will not generally be liable for income tax under Part I of the Tax Act.

The Fund will be required to include in its income for each taxation year, any dividends received (or deemed to be received) by it in such year on a Portfolio security and all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year.

The Portfolio may include securities that are not denominated in Canadian dollars. Proceeds of disposition of securities, distributions, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars at the exchange rate quoted by The Bank of Canada at noon on the relevant day or at such other rate of exchange as is acceptable by the Minister. The Fund may realize gains or losses by virtue of the fluctuation in the value of foreign currencies relative to the Canadian dollar which the Fund will be required to take into account in computing its income.

The Fund will derive income or gains from investments in countries other than Canada and, as a result, may be liable to pay income or profits tax to such countries. To the extent of a) foreign income tax paid, which is not in excess of 15% of such foreign income, and b) foreign capital gains tax paid, neither of which has been deducted in computing the Fund's income, the Fund may designate a portion of its foreign source income in respect of a Unitholder so that such income and a portion of the foreign tax paid by the Fund may be regarded as foreign source income of, and foreign tax paid by, the Unitholder for the purposes of the foreign tax credit provisions of the Tax Act. To the extent that foreign income tax paid by the Fund exceeds 15% of the amount included in the Fund's income from such investments, such excess may generally be deducted by the Fund in computing its income for the purposes of the Tax Act.

In computing its income for tax purposes, the Fund may deduct reasonable administration and other expenses incurred to earn income, generally including interest on borrowed funds used to purchase securities to be included in the Portfolio. The Fund may deduct the costs and expenses of the initial offering paid by the Fund and not reimbursed at a rate of 20% per year, pro-rated where the Fund's taxation year is less than 365 days.

Upon the actual or deemed disposition of a security included in the Portfolio, the Fund will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such security provided such security is capital property to the Fund.

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemption of Trust Units during the year ("**capital gains refund**"). In certain circumstances, the capital gains refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year which may arise upon the sale of securities in connection with redemptions of Trust Units.

Taxation of Unitholders

Holding and Disposition of Trust Units

A Unitholder will generally be required to include in income for a particular taxation year of the Unitholder such portion of the net income, including the taxable portion of the net realized capital gains, of the Fund for a taxation year as is paid or becomes payable to the Unitholder in that particular taxation year, whether received in cash or reinvested in additional Trust Units. Provided that appropriate designations are made by the Fund, such portion of (i) the net realized taxable capital gains of the Fund, (ii) the foreign source income of the Fund and foreign income taxes eligible for the foreign tax credit, and (iii) the taxable dividends received by the Fund on shares of taxable Canadian corporations, as is paid or payable to a Unitholder will effectively retain their character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. With respect to such foreign source income and foreign income taxes, so designated, Unitholders will generally be deemed to have paid as tax to the government of a foreign country the Unitholder's share of the taxes paid or considered to be paid by the Fund and accordingly may be able to reduce Canadian taxes otherwise payable. Certain investors, such as investors who are exempt from Canadian tax, may not be able to benefit from the foreign tax credit mechanism and so will indirectly bear their *pro rata* share of foreign taxes paid by the Fund. To the extent that any amounts are designated as taxable dividends from taxable Canadian corporations, the applicable gross-up and dividend tax credit rules will apply. Based on the Investment Strategies of the Fund, the Manager does not anticipate dividends being received from taxable Canadian corporations.

The non-taxable portion of net realized capital gains of the Fund that are paid or become payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year and will not, provided the appropriate designations are made by the Fund, reduce the adjusted cost base of the Trust Units. Any other amount in excess of a Unitholder's share of the net income of the Fund for a taxation year that is paid or becomes payable to the Unitholder in such year will not generally be included in computing the Unitholder's income for the year but will reduce the adjusted cost base of Trust Units to the Unitholder. To the extent that the adjusted cost base of a Trust Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Trust Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

The NAV per Trust Unit will reflect any income and gains of the Fund that have accrued or been realized but have not been made payable at the time Trust Units are acquired. A Unitholder who acquires Trust Units may become taxable on the Unitholder's share of such income and gains of the Fund. If the Fund elects to have a December 15 year-end, where a Unitholder acquires Trust Units in a calendar year after December 15 of such year, such Unitholder may become taxable on income that accrued or had been realized in the taxation year ending on December 15 of such calendar year but had not been made payable at the time the Trust Units were acquired.

Upon the disposition or deemed disposition by a Unitholder of a Trust Unit, whether on a sale, redemption, repurchase or otherwise, a capital gain (or capital loss) will be realized by the Unitholder to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Trust Unit to the Unitholder immediately before the disposition. In computing the adjusted cost base of any Trust Units acquired by a Unitholder hereunder or on a reinvestment of distributions from the Fund, the cost of such Trust Units must be averaged with the adjusted cost base of any other Trust Units then held by the Unitholder as capital property.

One-half of any capital gain (a "**taxable capital gain**") realized by a Unitholder or designated by the Fund in respect of the Unitholder in a taxation year must be included in computing the income of the Unitholder for that year and one-half of any capital loss (an "**allowable capital loss**") realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder or designated by the Fund in respect of the Unitholder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, against taxable capital gains realized in such year, to the extent and under the circumstances provided for in the Tax Act.

Capital gains realized on the disposition of Trust Units or amounts designated by the Fund to a Unitholder as taxable capital gains may give rise to a liability for alternative minimum tax.

Warrants

The exercise of a Warrant will not constitute a disposition of property for purposes of the Tax Act and, consequently, no gain or loss will be realized upon the exercise of a Warrant. A Trust Unit acquired by a Unitholder upon the exercise of a Warrant will have a cost to the Unitholder equal to the aggregate of the subscription price for such Trust Unit and the adjusted cost base, if any, to the Unitholder of the Warrant so exercised. The cost of a Trust Unit acquired by a Unitholder upon the exercise of a Warrant will be averaged with the adjusted cost base to the Unitholder of all other Trust Units held at that time as capital property to determine the adjusted cost base of each such Trust Unit to the Unitholder.

Upon the disposition of a Warrant by a Unitholder, other than pursuant to the exercise thereof, the Unitholder will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of reasonable costs of the disposition, exceed (or are less than) the adjusted cost base, if any, of the Warrant to the Unitholder. Any such capital gain (or capital loss) will be treated as described above under "Holding and Disposition of Trust Units".

Upon the expiry of an unexercised Warrant, a Unitholder will realize a capital loss equal to the adjusted cost base, if any, of the Warrant to the Unitholder.

Eligibility for Registered Plans

Provided that (i) the Fund qualifies, and continues at all times to qualify, as a mutual fund trust within the meaning of the Tax Act, (ii) the Trust Units are listed on the TSX (or another designated stock exchange) or (iii) the Fund is a registered investment under the Tax Act at all relevant times, the Trust Units will be qualified investments within the meaning of the Tax Act for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("**Registered Plans**").

With respect to the Warrants only, provided that (i) the Warrants are listed on the TSX (or another designated stock exchange) or (ii) the Trust Units are qualified investments within the meaning of the Tax Act and the Trust deals at arm's length with each person who is an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust, the Warrants will be qualified investments within the meaning of the Tax Act for Registered Plans.

Notwithstanding the foregoing, if the Trust Units or Warrants are "prohibited investments" for the purposes of a tax-free savings account ("**TFSA**"), a holder of a trust governed by such TFSA will be subject to a penalty tax as set out in the Tax Act. Provided that the holder of a TFSA does not hold a "significant interest" (as defined in the Tax Act) in the Fund or in any person or partnership that does not deal at arm's length with the Fund, and provided that such holder deals at arm's length with the Fund, the Trust Units and Warrants will not be prohibited investments for a trust governed by a TFSA. Holders should consult their own tax advisors in this regard.

REMUNERATION

Remuneration of the Trustee

For the year ended December 31, 2010, the Trustee has not received any remuneration in its capacity as such.

Remuneration of the Independent Review Committee

As of the date of this AIF, members of the IRC received in their capacity as members of the IRC, annual fees and meeting fees, of which approximately \$10,000 (including the secretarial fees for IRC meetings) is allocable to the

Fund, along with nominal amounts as reimbursement for expenses in connection with performing their services and duties for the Fund. For the most recently completed financial year, the IRC members received the following amounts in fees and in reimbursement of expenses (including HST, as applicable), in aggregate, from the Fund: E.M. Jane Davis - \$2,223.68; James Adam Conyers - \$1,667.76 and Donald Hathaway - \$1,475.89. The remaining IRC fees allocated to the Fund were for secretarial services.

MATERIAL CONTRACTS

The Fund is a party to the following material contracts:

- (a) the Declaration of Trust referred to under "Name, Formation and History of the Fund";
- (b) the Management Agreement referred to under "Responsibility for Fund Operations – The Management Agreement";
- (c) the Investment Management Agreement described under “Responsibility for Fund Operations – Details of the Investment Management Agreement”;
- (d) the Custodian Agreement referred to under "Responsibility for Fund Operations – The Custodian"; and
- (e) the Warrant Indenture referred to under "Description of Trust Units and Warrants - Warrants".

Copies of the foregoing documents may be examined during normal business hours at the principal offices of the Fund located at 710 Dorval Drive, Suite 200, Oakville, Ontario, L6K 3V7.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

The Manager is not aware of any ongoing legal or administrative proceedings material to the Fund, to which the Fund, the Manager or the Trustee are a party.

OTHER MATERIAL INFORMATION

Termination of the Fund

The Fund does not have a fixed termination date. The Manager may, at its discretion, terminate the Fund without the approval of the Unitholders if, in its opinion, it would be in the best interests of the Fund and the Unitholders to terminate the Fund. Immediately prior to the termination of the Fund (the "**Termination Date**"), the Manager will, to the extent practicable, convert the assets of the Fund to cash and the Trustee shall, after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund to Unitholders either as soon as practicable after the Termination Date or, should the termination occur in connection with a permitted merger, any unliquidated assets may be distributed in kind rather than in cash, subject to compliance with any securities or other laws applicable to such distributions.

Following such distribution, the Fund will be dissolved. The Manager may, in its discretion and upon not less than 30 days' prior written notice to Unitholders, extend the Termination Date by a maximum of 180 days if the Manager would be unable to convert all the assets of the Fund to cash and the Manager determines that it would be in the best interests of the Unitholders to do so.

Pursuant to the Declaration of Trust, the Fund may also be terminated in the event that the Manager resigns or is removed and a successor Manager is not appointed. If such failure to appoint a successor Manager should occur, the Fund shall be terminated upon the effective date of the resignation or removal of the Manager, the assets of the Fund shall be distributed in accordance with the Fund termination provisions and the Trustee shall continue to act as trustee of the Fund until all of the assets of the Fund have been so distributed.

In the event of termination of the Fund by the Manager without the approval of Unitholders, the TSX will require: (a) that the Fund provide notice to Unitholders of no less than 30 days and no more than 60 days of the Termination Date; (b) that the Fund issue a press release at least 10 business days in advance of the Termination Date; and (c) that notice includes the entitlement of Unitholders upon early termination.

Upon the termination of the Fund, the Declaration of Trust shall continue in force and effect to the extent necessary or desirable to permit the Trustee to wind up the affairs of the Fund and distribute the Fund property to Unitholders as soon as practically possible, and the following special provisions shall apply and prevail, namely: (a) the Trustee shall carry on no activities on behalf of the Fund except for the purpose of winding up the affairs of the Fund; (b) the Trustee shall proceed to wind up the affairs of the Fund and may fulfill or discharge the contracts of the Fund, perform or cause the auditor to perform any final audit of the Fund property, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining Fund property to one or more persons at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities, and do all other acts appropriate to liquidate the Fund's affairs; and (c) the Manager shall sell and convert into money the Fund property and after paying, retiring or providing for the payment of all known liabilities and obligations of the Fund, and providing for indemnity against any other outstanding liabilities and obligations, the Trustee shall divide the proceeds of sale, and any portion of the Fund property not sold in connection with such termination, among the Unitholders rateably according to the respective number of Trust Units held by them. The Trustee and the Manager shall be under no obligation to invest the proceeds of any sale of Fund property after the Termination Date. In making any sale under this provision, the Manager shall have the power to sell by public auction or by private contract and to buy in or rescind or vary any contract of sale and to resell without being answerable for loss and, for said purposes, to do all things, including the execution and delivery of documents, as may be shown to be in its judgment necessary or desirable in connection therewith. The powers of sale and all other powers herein given to the Manager shall continue as to all property at any time remaining in its hands or ownership, even though the time fixed for distribution of Fund property may have passed. Any securities or other Fund property which the Manager was either unable to sell prior to the date determined for termination in accordance with the applicable provisions of the Declaration of Trust or which the Manager considered the sale of to be inappropriate prior to the dissolution of the Fund shall be distributed to Unitholders in kind rather than in cash subject to compliance with applicable law.

RISK FACTORS

An investment in Trust Units is subject to certain risk factors, including but not limited to, the following:

Loss of Investment

An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of no distribution being paid in any period.

No Guaranteed Return

There is no guarantee that an investment in the Fund will earn any positive return in the short term or long term. The Indicative Distribution Amount from year to year may be significantly less than the initial targeted Indicative Distribution Amount. The Manager, on behalf of the Fund, may at any time re-evaluate the Indicative Distribution Amount.

No Assurances of Achieving Investment Objectives

There is no assurance that the Fund will be able to achieve its investment objectives. The funds available for distribution to Unitholders will vary according to, among other things, the levels of dividends or distributions paid on the securities in the Portfolio and the value of the securities in the Portfolio. There is no assurance that the Portfolio will earn any return. No assurance can be given as to the amount of distributions in future years. No assurance can be given that the NAV per Trust Unit will appreciate. It is possible that, due to declines in the market

value of the securities in the Portfolio, the Fund will have insufficient Portfolio assets to achieve its investment objectives.

Performance of the Portfolio

The NAV per Trust Unit will vary as the fair value of the securities in the Portfolio varies. The Fund has no control over the factors that affect the fair value of the securities in the Portfolio, including factors that affect the equity markets generally, such as general economic and political conditions and fluctuations in interest rates, and factors unique to each issuer included in the Portfolio, such as changes in management, changes in strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures, changes in distribution policies and other events that may affect the value of its securities. Some global economies are experiencing significantly diminished growth and recessions. No assurance can be given that diminished availability of credit and significant equity devaluations will not adversely affect the markets into which the Fund will invest in the near to medium term.

Composition of Portfolio

The composition of the Portfolio taken as a whole may vary widely from time to time but will be concentrated by geography and may be concentrated by type of security, commodity or industry. Therefore, the Portfolio may be considered less diversified.

Equity Risk

Equities such as common shares or units of income trusts give the holder part ownership in the issuer. The value of an equity security changes with the fortunes of the issuer that issued it. General market conditions and the health of the economy as a whole can also affect equity prices. Equity related securities that provide indirect exposure to the equity securities of an issuer, such as convertible debentures, can also be affected by equity risk. Present economic conditions may adversely affect issuers and the pricing of their securities. Further continued volatility or illiquidity could impair materially the profitability of these issuers.

Leverage

Following the Conversion, the Fund will not be able to use leverage to pursue its investment strategy. One element of the investment strategy is the utilization of borrowings to invest in securities. The risk to Unitholders may increase if securities purchased with borrowed funds decline in value. The use of leverage may result in capital losses or a decrease in distributions to Unitholders. If the value of the Portfolio decreases such that the amount borrowed under the Loan Facility exceeds 20% of the value of the total assets within the Portfolio (25% of NAV), the Fund may be required to sell investments in order to comply with the terms of such Loan Facility. Such sales may be required to be done at prices that may adversely affect the value of the Portfolio and the return to the Fund. The interest expense and banking fees incurred in respect of the Loan Facility may exceed the incremental capital gains/losses and income generated by the incremental investment of securities in the Portfolio. In addition, the Fund may not be able to renew the Loan Facility on acceptable terms. There can be no assurance that the borrowing strategy employed by the Fund will enhance returns. Currently the Investment Manager does not utilize leverage in connection with the management of any of their funds.

Interest Rate Fluctuations

As the Fund is targeting a monthly distribution representing a yield on the Offering Price of the Units of 7.0% per annum, the trading price of the Trust Units may be affected by the level of interest rates prevailing from time to time. In addition, any decrease in the NAV resulting from an increase in interest rates may also negatively affect the trading price of the Trust Units. Changes in interest rates may also adversely affect the business of the issuers in which the Fund invests or the trading price of the securities of such issuers.

Trading Price of the Trust Units Relative to Net Asset Value

Trust Units of certain closed-end funds in Canada have traded at a discount from their net asset values. This risk associated with Trust Units of a closed end fund is a risk separate and distinct from the risk that the Fund's NAV may decrease. The Fund cannot predict whether the Trust Units will trade at a discount from, a premium to, or at the NAV per Trust Unit.

Foreign Currency Exposure

The Portfolio may at times consist of securities denominated in foreign currencies, and, therefore, the NAV, the trading price and the value of the dividends and other distributions received by the Fund will be affected by fluctuations in the value of the other foreign currencies relative to the Canadian dollar. The Fund will not be hedged and accordingly, no assurance can be given that the Fund will not be adversely impacted by changes in foreign exchange rates. As the distributions received on securities held in the Portfolio may include foreign currencies, the distributable cash, when measured in Canadian dollars, may be affected by changes in the value of these currencies relative to the Canadian dollar.

General Risks of Investing in Banking Issuers and Other Financial Issuers

The NAV of the Fund will fluctuate with interest rate changes and the corresponding changes in the value of the securities of Banking Issuers and Other Financial Issuers in the Portfolio. The value of securities of Banking Issuers and Other Financial Issuers is also affected by such factors as general economic conditions and the customers of such Banking Issuers creditworthiness. Customers of Banking Issuers and Other Financial Issuers may default on their obligations to pay interest and/or principal amounts.

General Risks Related to the Performance of Real Estate Issuers

The Fund competes for suitable real property investments with individuals, corporations, REITs and similar vehicles, and institutions (both Canadian and foreign) which are presently seeking or which may seek in the future investments in Real Estate Issuers similar to those sought by the Fund. An increased availability of investment funds allocated for investment in real estate would tend to increase competition for real property investments and increase purchase prices, reducing the yield on such investments.

Investments in Real Estate Issuers are subject to the general risks associated with real property investments, which include changes in general economic conditions, the availability of financing, changes in local conditions (such as oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other available space and various other factors. In addition, real property is typically illiquid and, as a result, Real Estate Issuers have a limited ability to adjust their portfolios in response to changes in economic or other conditions.

The yields available from investments in real estate depend upon the amount of revenues generated and expenses incurred. These risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, the attractiveness of properties to tenants, and the ability of the owner to provide adequate maintenance at an economic cost. The performance of the economy in each of the areas in which properties are located affects occupancy, market rental rates and expenses.

These factors consequently can have an impact on revenues from the properties and their underlying values. The financial results and labour decisions of major local employers may also have an impact on the revenues from and value of certain properties.

Reliance on Management

Unitholders will be dependent on the management of the Manager and Investment Manager. Investors who are not willing to rely on the management of the Manager and Investment Manager should not invest in the Trust Units.

Conversion

After Conversion, Unitholders will not have the right to approve changes to the investment strategy of the Fund.

There may be a time between the last Annual Redemption Date and the Conversion Date where Unitholders may not be able to sell or redeem their Trust Units.

Potential Conflicts of Interest

The Manager and the Investment Manager, their respective directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of other accounts, funds or trusts which invest primarily in the securities held by the Fund. Although officers, directors and professional staff of the Manager and the Investment Manager will devote as much time to the Fund as is deemed appropriate to perform its duties, the staff of the Manager and the Investment Manager may have conflicts in allocating their time and services among the Fund and the other funds managed by the Manager and the Investment Manager.

Changes in Legislation

There can be no assurance that income tax, securities and other laws will not be changed in a manner which adversely affects the distributions received by the Fund or by the Unitholders.

HARVEST BANKS & BUILDINGS INCOME FUND

**Harvest Portfolios Group Inc.
Suite 200, 710 Dorval Drive
Oakville, Ontario, L6K 3V7**

Additional information about the Fund is available in the Fund's management report of fund performance and financial statements. You can get a copy of these documents at no cost by calling toll-free 1-866-998-8298, or from your dealer or by e-mail at info@harvestportfolios.com. These documents and other information about the Fund, such as information circulars and material contracts, are also available on the Manager's website at www.harvestportfolios.com or at www.sedar.com.