



HARVEST Banks & Buildings Income Fund
Interim Management Report of Fund Performance

June 30, 2012

The Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, can be obtained at your request, and at no cost, by calling us at 866 998 8298; by writing to us at Harvest Portfolios Group, 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.

HARVEST Banks & Buildings Income Fund

CORPORATE OVERVIEW

Harvest Portfolios Group Inc. (“Harvest”) is a Canadian Asset Investment Manager focused on unique income generating investment products. Harvest was founded by long term members of the investment management industry and is focused on developing investment products that follow the investment philosophy of:

1. Clear investment objectives
2. Transparency
3. Income generation

Harvest’s mandate is to develop investment products that are clear in their mandate and easy for our investors to understand. We strive to be transparent, so that our investors can open their reports and know exactly what they own. Our funds are also invested to provide investors with consistent monthly or quarterly income; therefore, we seek to invest our fund portfolios in well managed companies that have a history of steady cash flow and pay dividends or distributions.

INVESTMENT PRODUCT

The Harvest Banks & Buildings Fund (the “Fund”) has been created to invest primarily in the Canadian banking, other financial and real estate sectors. The banking, other financial and the real estate sectors represent significant components of the Canadian economy. As the Canadian economy generally expands, Harvest believes that a diversified portfolio invested across these sectors will provide investors with an attractive yield and strong capital appreciation potential.

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MANAGEMENT DISCUSSION OF FUND PERFORMANCE

The management report of fund performance contains financial highlights for the Fund. For your reference, the interim, unaudited financial statements of the Fund are attached to the management report of fund performance. You may obtain additional copies of these documents at your request, and at no cost, by calling toll free at 1(866) 998-8298; by writing to us at HARVEST Portfolios Group Inc., 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; or by visiting our website at www.harvestportfolios.com; or on SEDAR at www.sedar.com.

Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGY

The Fund's investment objectives are:

- i. to provide unitholders with monthly distributions; and
- ii. to maximize total return for unitholders.

The Fund will invest in an actively managed portfolio that will consist primarily of Banking Issuers, Other Financial Issuers and Real Estate Issuers.

INVESTMENT STRATEGY

To achieve the investment objective, the portfolio sub-advisor of the Fund, Avenue Investment Management Inc. ("Avenue" or "Investment manager"), invests in an actively managed portfolio that consists primarily of Banking Issuers, Other Financial Issuers and Real Estate Issuers. Avenue believes that in this environment, dividend paying issuers in the financial and real estate will continue to maintain 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 justify consistent dividend payout policies.

Avenue uses a combination of top-down, macro analysis to evaluate and identify the most attractive companies and types of securities in the sectors mentioned above. Avenue also employs 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 objectives of the Fund. Avenue seeks to acquire securities that it believes have strong free cash flow metrics and will not defer future dividend or interest payments and will focus on issuers that it believes offer high levels of income and potential for capital appreciation, and that it believes provide the most attractive total return, relative to risk.

RISK

The risks associated with investing in the Fund are as described in the simplified prospectus. There were no material changes to the Fund over the period that affected the overall level of risk of the Fund.

RESULTS OF OPERATIONS

The Harvest Banks and Buildings Income Fund closely tracked the benchmark with a positive return of 7.69%, for the period ended June 30th 2012 versus the benchmark which returned 7.71% for the same period.

During the period, Canada and U.S. data (specifically manufacturing and service) showed signs of modest economic growth. At the same time on the international stage, fear of a global recession due to a mismanaged European debt crisis and uncertainty over a China slow-down remain of primary concern. This created safe haven US Treasury buying pushing 10-year yields to a record low of just under 1.5%. Inflation in Canada and the rest of the developed world will continue to remain subdued and interest rates will remain low.

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RESULTS OF OPERATIONS (continued)

The Fund continues to increase its exposure to US financials as we see a slow turnaround in the housing sector. The real estate sector in Canada continues to perform well with occupancy rates remaining high and capitalization rates continuing to fall.

CHANGES IN FINANCIAL POSITION

The net assets of the Fund increased by 32.5% or \$5,747,382 during the period, from \$17,695,535 at December 31, 2011 to \$23,442,917 at June 30, 2012. The change in net assets is attributed to net proceeds from the issue of additional units and reinvestment of distributions of \$11,813,273, offset by redemptions of \$6,754,570. Net assets due to investment operations increased by \$1,438,007, including realized investment and foreign exchange gains of \$539,572, and unrealized appreciation of market and foreign exchange depreciation of \$817,123.

During the period, the Fund paid \$749,328 in distributions or \$0.42 per unit (2011 - \$0.42) or \$0.07 per unit per month.

RECENT DEVELOPMENTS

There are no recent developments to report.

RELATED PARTY TRANSACTIONS

There were no related party transactions during the reporting period, except for management fees and other expense reimbursements paid to Harvest, as noted below in Management and Other Fees.

MANAGEMENT AND OTHER FEES

Harvest Portfolios Group Inc. is the Manager of the Fund and is responsible for managing or arranging for managing the Fund's overall business and operations. The Manager pays Avenue a fee for its portfolio advisory service, from the management fee received from the Fund, calculated on the basis of the Fund's net assets.

Each series of units pays the Manager an annual management fee based on a percentage of the average daily NAV of the assets of the Fund attributable to that applicable series (the "Management Fee").

Dealers may be paid a servicing fee by the Manager from the Management Fee, in connection with Series A units and Series R units for ongoing services they provide to investors, including investment advice, account statements and newsletters. Generally, the servicing fees, plus applicable taxes, are payable quarterly in arrears based on the total client assets invested in each series of units of the Fund held by all of a Dealer's clients throughout the quarter. The Manager can change or cancel servicing fees at any time.

The fees differ among the series of units of the Fund as set out in the chart below:

Fund Series	Annual Management fee	Dealer Service Fee	Total Fees
A	1.10%	1.25%	2.35%
F	1.10%	0.00%	1.10%
R	1.10%	0.40%	1.50%

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Other expenses

The Fund is responsible for all expenses relating to the operation and the carrying on of its business, including legal fees and audit fees, interest, taxes and administrative costs relating to the redemption of securities as well as the cost of financial and other reports, costs and expenses for the Fund's Independent Review Committee ("IRC"), including fees and expenses of the IRC members and compliance with applicable laws, regulations and policies.

Each series of Units is responsible for the operating expenses that relate specifically to that series and for its proportionate share of the operating expenses that are common to all series of the Fund. Expenses that are specific to a series include items such as filing fees, and unitholder servicing costs. The Manager may, in some cases, absorb a portion of the Fund's operating expenses. The Manager may cease doing so at any time without notice to unitholders.

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses were \$76,750 for the period ended June 30, 2012 and are included in the unitholder reporting costs on the Statement of Operations in the unaudited interim financial statements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

As previously confirmed by the Canadian Accounting Standards Board ("AcSB"), most Canadian publicly accountable entities adopted all IFRS, as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB had initially allowed most investment funds to defer adoption of IFRS until fiscal years beginning on or after January 1, 2013. At its December 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises to 2014. Accordingly, the Fund will adopt IFRS for the fiscal period beginning January 1, 2014 and will issue its initial financial statements in accordance with IFRS, including comparative financial information, for the interim period ending June 30, 2014. Management has been monitoring developments in the IFRS conversion program and has been assessing the likely impacts on implementation decisions, internal controls, information systems and training.

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

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

RECOMMENDATION OR REPORTS BY THE INDEPENDENT REVIEW COMMITTEE

The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period ended June 30, 2012.

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FINANCIAL HIGHLIGHTS

The following tables present selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for past periods. This information is derived from the Fund's unaudited interim financial statements at June 30, 2012 and past audited annual financial statements.

THE FUND'S NET ASSETS PER UNIT ¹	Series R			
	2012	2011	2010	2009
Net assets - beginning of period³	\$11.60	\$13.64	\$12.02	\$11.17
Increase /(decrease) from operations				
Total revenue	0.21	0.61	0.69	0.17
Total expenses	(0.16)	(0.41)	(0.48)	(0.06)
Realized gains (losses) for the period	0.35	0.12	1.16	-
Unrealized gains for the period	0.62	(0.92)	1.18	0.89
Total increase /(decrease) from operations²	1.02	(0.60)	2.55	1.00
Distributions⁴				
From income (excluding dividends)	-	-	-	-
From dividends	(0.42)	-	-	-
From net investment income	-	(0.03)	-	-
From capital gains	-	-	(0.96)	-
Return of capital	-	(0.81)	-	(0.14)
Total annual distributions⁴	(0.42)	(0.84)	(0.96)	(0.14)
Net assets - end of period²	\$12.13	\$11.60	\$13.64	\$12.02

THE FUND'S NET ASSETS PER UNIT ¹	Series A		Series F	
	2012	2011	2012	2011
Net assets - beginning of period³	\$11.60	\$11.27	\$11.63	\$11.27
Increase /(decrease) from operations				
Total revenue	0.21	0.11	0.21	0.05
Total expenses	(0.17)	(0.07)	(0.13)	(0.04)
Realized gains (losses) for the period	0.22	(0.21)	0.26	(0.56)
Unrealized gains for the period	0.06	0.68	0.30	0.63
Total increase /(decrease) from operations²	0.32	0.51	0.64	0.08
Distributions⁴				
From income (excluding dividends)	-	-	-	-
From dividends	(0.42)	-	(0.42)	-
From net investment income	-	-	-	-
From capital gains	-	(0.21)	-	(0.21)
Return of capital	-	-	-	-
Total annual distributions⁴	(0.42)	(0.21)	(0.42)	(0.21)
Net assets - end of period²	\$12.09	\$11.60	\$12.18	\$11.63

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FINANCIAL HIGHLIGHTS (continued)

Series R

RATIOS AND SUPPLEMENTAL DATA	2012	2011	2010	2009
Total net asset value¹	\$ 13,668,273	\$ 16,155,009	\$28,950,939	\$26,078,036
Number of units outstanding ¹	1,124,917	1,390,604	2,114,483	2,155,483
Number of warrants outstanding	-	-	2,115,483	2,155,483
Management expense ratio ⁵	2.62%	4.14%	3.76%	9.94%
Management expense ratio before waivers or absorptions ⁵	2.62%	4.14%	3.76%	3.16%
Trading expense ratio ⁶	0.10%	0.47%	0.29%	0.33%
Portfolio turnover rate ⁷	16.92%	79.38%	56.98%	2.79%
Net asset value per unit¹	\$ 12.15	\$ 11.62	\$ 13.69	\$ 12.10
Closing market price (HBB.UN)	n/a	n/a	\$ 12.65	\$ 11.48
Closing market price (HBB.WT)	n/a	n/a	\$ 0.52	\$ 0.16

Series A

RATIOS AND SUPPLEMENTAL DATA	2012	2011
Total net asset value¹	\$ 9,334,134	\$ 1,404,702
Number of units outstanding ¹	770,230	120,977
Management expense ratio ⁵	2.83%	3.15%
Management expense ratio before waivers or absorptions ⁵	2.83%	3.15%
Trading expense ratio ⁶	0.10%	0.47%
Portfolio turnover rate ⁷	16.92%	79.38%
Net asset value per unit¹	\$ 12.12	\$ 11.61

Series F

RATIOS AND SUPPLEMENTAL DATA	2012	2011
Total net asset value¹	\$ 486,827	\$ 154,631
Number of units outstanding ¹	39,874	13,283
Management expense ratio ⁵	2.16%	1.73%
Management expense ratio before waivers or absorptions ⁵	2.16%	1.73%
Trading expense ratio ⁶	0.10%	0.47%
Portfolio turnover rate ⁷	16.92%	79.38%
Net asset value per unit¹	\$ 12.21	\$ 11.64

Explanatory Notes:

- The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for fund pricing purposes. An explanation of these differences can be found in the Notes to Financial Statements.
- Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/(decrease) from operations is based on the weighted average number of units outstanding over the reporting period. It is not intended that the Fund's net assets per unit table act as a continuity of opening and closing net assets per unit.
- Net assets, at the commencement of operations was \$11.17, net of agents' commissions and issuance costs of \$0.83 per unit. On Conversion Day, all Fund units were exchanged one-for-one into Series R, at an NAV of \$11.27. Series A and F commenced operations on October 22, 2011 and October 27, 2011 respectively.

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FINANCIAL HIGHLIGHTS (continued)

4. Distributions were paid in cash until Conversion Day, after which, an automatic reinvestment or cash option was made available.
5. Management expense ratio (“MER”) is based on total expenses (excluding commissions and other portfolio transaction costs) of the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The 2011 MER for Series R includes a one-time conversion cost, not annualized, of \$190,113 and interest expense of \$120,832. The MER without the conversion and interest costs is 3.05%.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
7. The Fund’s portfolio turnover rate indicates how actively the Fund’s portfolio advisor manages its portfolio investments. A portfolio turnover of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund’s portfolio turnover rate, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains. There is not necessarily a relationship between a high turnover rate and the performance of a Fund. These ratios are annualized.

Past Performance

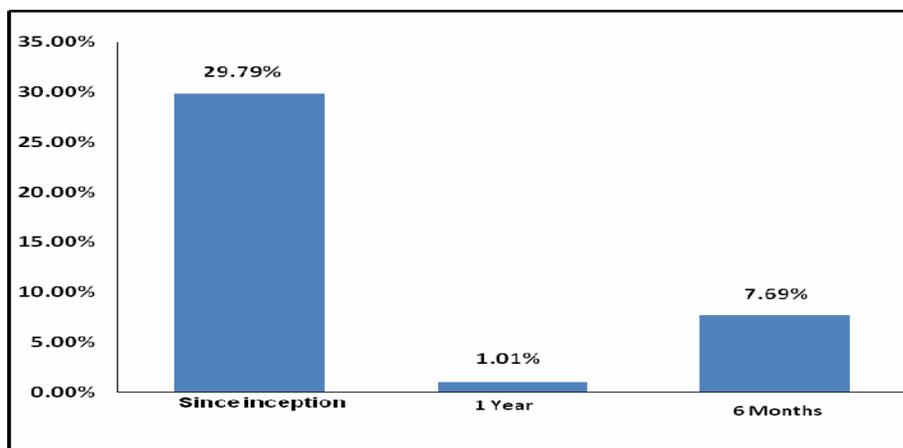
The performance information presented herein assumes all dividends of the Fund during the periods presented were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, or other charges that would have reduced returns or affected performance. Past performance of the Fund is not necessarily indicative of how it will perform in the future.

YEAR-BY-YEAR RETURNS

The following charts present the Fund’s performance for each of the periods shown and illustrate how the Fund’s performance varied for the **Series R**. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

Series A and Series F performance returns are not disclosed in accordance with National Instrument 81-106, the regulatory guideline for Continuous Disclosure, which does not permit reporting of performance for any investment fund or series that has been in existence less than one year.

Fund Performance



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ANNUALIZED COMPOUND RETURNS

The following table shows the annual compound returns for the Fund. All returns are in Canadian dollars, on a total return basis, net of fees.

For comparison purposes, a blended benchmark of the S&P/TSX Composite Index (the “Index”) is used. This blended benchmark is comprised of a 50% sector weighting of the S&P/TSX Financial Index and a 50% sector weighting of the S&P/TSX Real Estate Index.

The Index is a capitalization-weighted index that measures market activity of a universe of stocks traded on the Toronto Stock Exchange. The sector weightings are comprised of the universe of stocks identified in the Financials sub sector.

While the Fund uses this benchmark for long-term performance comparisons, it is not managed relative to the composition of the Index. As a result, the Fund may experience periods when its performance is not aligned with the Index, either positively or negatively. Please see the “Results of Operations” section of this report for a discussion on recent performance.

Investment Return %	1 Year	3 Years	5 Years	10 Years	Since Inception
Fund Performance Series R (%)	1.01	N/A	N/A	N/A	29.79
50% S&P/TSX Financial, 50% S&P/TSX Real Estate (%)	0.08	N/A	N/A	N/A	27.66

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SUMMARY OF INVESTMENT PORTFOLIO

The Portfolio by category chart below provides a portfolio breakdown based on the total transactional net asset value of the Fund's portfolio holdings. A detailed breakdown of the Fund's holdings is available in the "Statement of Investments" section of the Fund's unaudited interim financial statements.

As at June 30, 2012

Top 25 Holdings	% of Net Asset Value	Yield (%)
Killam Properties Inc.	7.1	4.38
Artis Real Estate Investment Trust	6.5	6.60
Cominar Real Estate Investment Trust	5.1	5.99
The Toronto-Dominion Bank	4.9	3.65
Wells Fargo & Company	4.5	2.62
Bank of America Corporation	4.5	0.50
Pure Industrial Real Estate Trust	4.4	6.45
Crombie Real Estate Investment Trust	4.4	6.08
Mainstreet Equity Corp.	4.2	0.00
Leisureworld Senior Care Corporation	4.2	7.29
Cash	3.9	0.00
Power Corporation of Canada	3.8	4.73
American Capital Agency Corp.	3.6	14.90
Royal Bank of Canada	3.6	4.32
Annaly Capital Management, Inc.	3.6	12.98
Sun Life Financial Inc.	3.4	6.40
The Bank of Nova Scotia	3.4	4.20
JPMorgan Chase & Co.	3.2	3.31
Bank of Montreal	3.1	4.92
BTB Real Estate Investment Trust	3.1	8.74
Timbercreek Mortgage Investment Corporation	3.1	7.94
Veresen Inc.	2.7	8.08
Inter Pipeline Fund LP, Class A	2.5	5.40
Amica Mature Lifestyles Inc.	2.3	4.64
Great-West Lifeco Inc.	1.9	5.54
Total	97.0	

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund. Quarterly updates of the Fund's investment portfolio are available from Harvest Portfolios Group Inc. at www.harvestportfolios.com

