Australian REIT Income Fund

Interim Financial Statements (Unaudited)

June 30, 2014

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.

STATEMENTS OF FINANCIAL POSITION (Unaudited)

As at	June 30, 2014	December 31, 2013	March 21, 2013
Assets			
Current assets			
Investments (cost: June 30, 2014 - $75,912,210; December 31, 2013 - $81,373,839; March 21, 2013 - $Nil)	$ 75,043,685	$ 70,422,440	$ -
Cash	732,227	982,165	12
Dividends and interest receivable	1,678,809	1,386,400	-
Receivable for investments sold	7,950,705	-	
Unrealized appreciation on foreign currency forward contracts (Note 6)	1,105,424	960,313	-
	86,510,850	**73,751,318**	**12**
Liabilities			
Current liabilities			
Loan payable (Note 9)	27,971,847	26,988,839	-
Payable for investments purchased	7,248,885	-	
Redemptions payable	-	11	-
Distributions payable	301,468	301,978	-
Warrants (Note 4)	480,000	-	-
Unrealized depreciation on foreign currency forward contracts (Note 6)	-	53,679	-
	36,002,200	**27,344,507**	**-**
Net assets attributable to holders of redeemable units	**$ 50,508,650**	**$ 46,406,811**	**$ 12**
Net assets attributable to holders of redeemable units			
Series A*	**$ 49,158,948**	**$ 44,835,165**	**$ 12**
Series F*	**1,349,702**	**1,571,646**	**-**
Number of units outstanding (Note 4)			
Series A	**5,343,315**	**5,311,384**	**1**
Series F	**137,914**	**179,132**	**-**
Number of warrants outstanding (Note 4)			
Series A	**5,305,375**	**n/a**	**n/a**
Series F	**139,670**	**n/a**	**n/a**
Net assets attributable to holders of redeemable units per unit			
Series A	**$ 9.20**	**$ 8.44**	**$ 12.00**
Series F	**9.79**	**8.77**	**-**

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

Australian REIT Income Fund

STATEMENTS OF COMPREHENSIVE INCOME (Unaudited) For the six-month period ended June 30, 2014 and the period from March 21, 2013 (commencement of operations) to June 30, 2013		2014		2013
Income				
Net gain (loss) on investments				
Dividends	$	2,712,796	$	1,722,917
Interest for distribution purposes		9,908		35,835
Net realized gain (loss) on sale of investments		(355,012)		(1,235,012)
Net change in unrealized appreciation (depreciation) of investments		10,082,874		(9,294,427)
Net gain (loss) on investments		12,450,566		(8,770,687)
Net gain (loss) on derivatives				
Net realized gain (loss) on foreign exchange		(4,859,237)		(982,690)
Net change in unrealized appreciation (depreciation) of foreign exchange		188,501		(230,172)
Net change in warrant appreciation (depreciation)		(107,000)		-
Net gain (loss) on derivatives		(4,777,736)		(1,212,862)
Total income (net)		**7,672,830**		**(9,983,549)**
Expenses (Note 5)				
Management fees		353,220		236,493
Service fees		102,745		70,182
Withholding taxes		280,101		259,524
Unitholder reporting costs		159,847		72,729
Audit fees		3,480		5,000
Transfer agency fees		5,028		856
Custodian fees and bank charges		21,317		21,933
Independent review committee fees		6,787		3,762
Interest expense (Note 9)		298,511		206,282
Filing fees		27,782		50,682
Legal fees		18,095		8,082
Transaction costs (Note 8)		37,962		247,216
Total expenses		**1,314,875**		**1,182,741**
Increase (decrease) in net assets attributable to holders of redeemable units	**$**	**6,357,955**	**$**	**(11,166,290)**
Increase (decrease) in net assets attributable to holders of redeemable units - **Series A***	**$**	**6,176,550**	**$**	**(10,776,684)**
Increase (decrease) in net assets attributable to holders of redeemable units - **Series F***		**181,405**		**(389,606)**
Increase (decrease) in net assets attributable to holders of redeemable units per unit - **Series A***	**$**	**1.16**	**$**	**(2.02)**
Increase (decrease) in net assets attributable to holders of redeemable units per unit - **Series F***		**1.26**		**(2.07)**

*Series A and Series F commenced operations March 21, 2013

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STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ALL SERIES (Unaudited) For the six-month period ended June 30, 2014 and the period from March 21, 2013 (commencement of operations) to June 30, 2013		2014		2013
Net assets attributable to holders of redeemable units beginning of period	**$**	**46,406,811**	**$**	**-**
Increase (decrease) in net assets attributable to holders of redeemable units		6,357,955		(11,166,290)
Redeemable unit transactions				
Proceeds from issue of redeemable units		-		66,403,992
Proceeds from issue of redeemable units on warrants exercised		115,643		-
Payment to unitholders on fractional units on transfer from Series F to Series A		(34)		-
Cancellation of redeemable units		(190,468)		(75,795)
Warrants		(373,000)		-
Agents' fees		(1,125)		(3,418,307)
Cost of issue		-		(996,059)
Net increase (decrease) in redeemable unit transactions	**$**	**(448,984)**	**$**	**61,913,831**
Distributions to holders of redeemable units				
Net investment income		(1,807,132)		(912,565)
Capital gains		-		-
Return of capital		-		-
Total distributions to holders of redeemable units		**(1,807,132)**		**(912,565)**
Net assets attributable to holders of redeemable units end of period	**$**	**50,508,650**	**$**	**49,834,976**

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Australian REIT Income Fund

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES A (Unaudited) For the six-month period ended June 30, 2014 and the period from March 21, 2013 (commencement of operations) to June 30, 2013		2014		2013
Net assets attributable to holders of redeemable units beginning of period	**$**	**44,835,165**	**$**	**-**
Increase (decrease) in net assets attributable to holders of redeemable units		**6,176,550**		(10,776,684)
Redeemable unit transactions				
Proceeds from issue of redeemable units		-		64,140,564
Proceeds from issue of redeemable units on warrants exercised		115,643		-
Transfer of units from Series F		246,671		-
Cancellation of redeemable units		(81,124)		(75,795)
Warrants issued		(373,000)		-
Agents' fees		(1,125)		(3,367,380)
Cost of issue		-		(962,108)
Net increase (decrease) in redeemable unit transactions	**$**	**(92,935)**	**$**	**59,735,281**
Distributions to holders of redeemable units				
Net investment income		(1,759,832)		(881,443)
Capital gains		-		-
Return of capital		-		-
Total distributions to holders of redeemable units		**(1,759,832)**		**(881,443)**
Net assets attributable to holders of redeemable units end of period	**$**	**49,158,948**	**$**	**48,077,154**

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Australian REIT Income Fund

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES F (Unaudited) For the six-month period ended June 30, 2014 and the period from March 21, 2013 (commencement of operations) to June 30, 2013		2014		2013
Net assets attributable to holders of redeemable units beginning of period	**$**	**1,571,646**	**$**	**-**
Increase (decrease) in net assets attributable to holders of redeemable units		181,405		(389,606)
Redeemable unit transactions				
Proceeds from issue of redeemable units		-		2,263,428
Proceeds from issue of redeemable units on warrants exercised		-		-
Transfer of units to Series A		(246,705)		-
Cancellation of redeemable units		(109,344)		-
Agents' fees		-		(50,927)
Cost of issue		-		(33,951)
Net increase (decrease) in redeemable unit transactions	**$**	**(356,049)**	**$**	**2,178,550**
Distributions to holders of redeemable units				
Net investment income		(47,300)		(31,122)
Capital gains		-		-
Return of capital		-		-
Total distributions to holders of redeemable units		**(47,300)**		**(31,122)**
Net assets attributable to holders of redeemable units end of period	**$**	**1,349,702**	**$**	**1,757,822**

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Australian REIT Income Fund

STATEMENTS OF CASH FLOWS (Unaudited) For the six-month period ended June 30, 2014 and the period from March 21, 2013 (commencement of operations) to June 30, 2013		2014		2013
Operating activities				
Increase (decrease) in net assets attributable to holders of redeemable units	$	6,357,955	$	(11,166,290)
Add (deduct) items not affecting cash				
Realized (gain) loss on sale of investments		355,012		1,235,012
Unrealized (appreciation) depreciation of investments		(10,082,874)		9,294,427
Proceeds from sale of investments		24,759,619		13,129,124
Purchases of investments		(20,354,822)		(100,942,400)
Net change in non-cash assets and liabilities		(384,199)		(1,234,100)
Net cash flow provided by (used in) operating activities	**$**	**650,691**	**$**	**(89,684,227)**
Financing activities				
Net borrowing of term credit facility (Note 9)	$	983,008	**$**	28,869,619
Proceeds from redeemable units issued		115,643		66,403,992
Payment to unitholders on fractional units on transfer from Series F to Series A		(34)		-
Redemption and cancellation of redeemable units		(190,479)		(70,365)
Agents' fees		(1,125)		(3,418,307)
Issuance costs		-		(996,059)
Distributions paid to holders of redeemable units		(1,807,642)		(608,648)
Net cash flow provided by (used in) financing activities	**$**	**(900,629)**	**$**	**90,180,232**
Net increase (decrease) in cash during the period		(249,938)		496,005
Cash, beginning of the period		982,165		**-**
Cash, end of the period	**$**	**732,227**	**$**	**496,005**
Supplemental disclosure of cash flow information				
Interest received during the period*	$	14,967	$	29,937
Interest paid during the period*		298,511		206,282
Dividends received, net of withholding taxes*		2,420,387		30,905

*included in operating activities

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

Australian REIT Income Fund

SCHEDULE OF INVESTMENTS
(Unaudited)

As at June 30, 2014

Number of Shares	Security	Average Cost ($)	Carrying Value ($)	% of Net Assets
	EQUITIES			
	Real Estate Issuers			
1,612,031	Abacus Property Group	3,705,092	4,051,607	8.0
341,310	Ale Property Group	929,203	995,087	2.0
597,025	Ardent Leisure Group	1,518,900	1,626,581	3.2
9,299	Australand ASSETSTrust	954,972	929,445	1.8
1,131,969	BWP Trust	2,853,432	2,822,280	5.6
3,783,920	CFS Retail Property Trust	8,244,631	7,760,434	15.4
564,787	Charter Hall Group	2,338,416	2,418,846	4.8
1,870,655	Charter Hall Retail Trust	7,958,294	7,296,916	14.5
3,458,981	Cromwell Property Group	3,622,567	3,390,523	6.7
4,040,000	Dexus Property Group	4,642,028	4,508,357	8.9
1,632,000	Federation Centres Limited	4,186,319	4,085,389	8.1
723,252	Goodman Group	3,512,426	3,671,935	7.3
855,387	Growthpoint Properties Australia Limited	2,183,394	2,106,894	4.2
570,659	Investa Office Fund	1,859,752	1,950,606	3.9
189,571	Lend Lease Corp.	2,299,438	2,498,553	4.9
1,699,555	Mirvac Group	2,949,883	3,049,912	6.0
2,644,120	Scenture Group	8,548,550	8,506,385	16.8
1,076,590	Stockland	4,271,277	4,199,484	8.4
810,518	The GPT Group	3,336,381	3,129,016	6.2
319,342	Westfield Corporation	2,155,666	2,295,493	4.5
		72,070,621	71,293,743	141.2
	Other Public Issuers			
18,929	Goodman Plus Trust	1,964,265	1,970,759	3.9
20,578	Multiplex SITES Trust	1,877,324	1,779,183	3.5
		3,841,589	3,749,942	7.4
	Total equities	**75,912,210**	**75,043,685**	**148.6**
	Total investments	**75,912,210**	**75,043,685**	**148.6**
	Foreign currency forward contracts (Note 6)		**1,105,424**	**2.2**
	Other assets less liabilities		**(25,640,459)**	**(50.8)**
	Net assets attributable to holders of redeemable units		**50,508,650**	**100.0**

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

NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)

June 30, 2014

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PRESENTATION AND ADOPTION OF IFRS

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and IFRS 1, First-time Adoption of International Financial Reporting Standards. The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in the Part V of the CICA Handbook ("Canadian GAAP"). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. The impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP is disclosed below.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 15, 2014, which is the date on which the interim financial statements were authorized for issue by Harvest Portfolios Group Inc. (the "Manager"). Any subsequent changes to IFRS that are given effect in the Fund's annual financial statements for the year ending December 31, 2014 could result in restatement of these interim financial statements, including the transition adjustments recognized on transition to IFRS.

The effect of the Fund's transition to IFRS is summarized as follows:

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

Revaluation of investments at fair value through profit and loss

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, Financial Instruments – Recognition and Measurement, which required the use of bid prices for long positions and ask prices for short positions; to the extent such prices are available. Under IFRS, the Fund measures the fair values of its investment using the guidance in IFRS 13, Fair Value Measurement, which requires that if an asset or liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also 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.

Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS.

Equity	December 31, 2013	June 30, 2013	March 21, 2013
Equity as reported under Canadian GAAP	$46,258,310	$49,627,714	$12
Revaluation of investments at FVTPL	$148,501	$207,262	-
Net assets attributable to holders of redeemable units	**$46,406,811**	**$49,834,976**	**$12**

Comprehensive income	December 31, 2013	June 30, 2013
Comprehensive income as reported under Canadian GAAP	($12,630,804)	($11,373,552)
Revaluation of investments at FVTPL	$148,501	$207,262
Increase (decrease) in net assets attributable to holders of redeemable units	**($12,482,303)**	**($11,166,290)**

Reclassification adjustments

In addition to the measurement adjustments noted above, the Fund reclassified certain amounts upon transition in order to conform to its financial statement presentation under IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at fair value through profit or loss (FVTPL). Transaction costs on financial assets and liabilities at FVTPL are expensed as incurred. Regular way purchases and sales of financial assets are recognized at their trade date. The Fund’s investments and derivative assets and liabilities are measured at fair value through profit or loss (FVTPL), including investments which have been designated at FVTPL. Derivative assets and liabilities are classified as held-for-trading (HFT). The Fund’s obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract’s effective interest rate. The Fund’s accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (NAV) for transactions with unitholders.

Fair value of investments

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

Investments held that are not traded in an active market are valued using valuation techniques, on such basis and in such a manner established by the Manager. The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager. The fair values of certain securities may be determined using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would be used had a ready market for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity.

Cash
Cash is comprised of cash on deposit.

Investment transactions and income recognition
The interest for distribution purposes shown on the Statements of Comprehensive Income represents the coupon interest received by the fund accounted for on an accrual basis. The fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. Net realized gain (loss) on investments and net change in unrealized appreciation (depreciation) on investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Dividend income is accounted for on the ex-dividend date.

Distributions received from income trusts are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Distributions from investment trusts treated as a return of capital reduce the average cost of the underlying investment trust. Distributions received from mutual funds are recognized in the same form in which they are received from the underlying funds.

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

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

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

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

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

Income taxes
The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). For tax purposes, the Fund has a December 31 year end. All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statement of financial position as a deferred income tax asset. Capital losses may be carried forward indefinitely to reduce future realized capital gains. Non-capital losses may be applied against future taxable income. As at the last taxation year end, the Fund had $325,128 of non-capital losses and $1,988,888 of net capital losses available to be carried forward for income tax purposes.

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

As the Manager is a resident of Ontario, the expenses paid by the Fund include HST of 13%. HST is calculated using the residency of unitholders in the Fund as at specific times, rather than the physical location of the Manager. A blended rate refund is filed with the Canada Revenue Agency on behalf of the Fund, in arrears, using each province's HST rate or GST rate in the case of non-participating provinces.

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

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

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

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

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

Accounting standards issued but not yet adopted

IFRS 9, Financial Instruments

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

4. REDEEMABLE UNITS

The authorized capital of the Fund consists of an unlimited number of transferable units of each class, each of which represents an equal, undivided interest in the net assets of the Fund. Except as provided in the Declaration of Trust, all units have equal rights and privileges. Each unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally in any and all distributions made by the Fund. Series A units trade on the TSX under the symbol HRR.UN and Series F units do not trade. As at June 30, 2014, the closing price for Series A units was $9.01 per unit (2013 - $7.99 per unit).

The Fund renewed its normal course issuer bid program for the period from May 7, 2014 to May 6, 2015 which allows the Fund to purchase up to 532,751 Series A units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange. During the period ended June 30, 2014, 9,900 (2013 – 8,500) units were purchased for cancellation for $81,124 (2013 - $75,795).

Warrants

On May 7, 2014 the Fund filed a short form prospectus that qualifies the Fund for distribution of warrants. Warrants were issued to unitholders of record on May 21, 2014. A total of 5,331,275 Series A warrants and 139,670 Series F warrants were issued to subscribe for 2,665,637 Series A units and 69,835 Series F units of the fund at a subscription price of $8.93 per unit for Series A units and $9.26 per unit for Series F units. Two whole warrants entitle the holder to purchase one unit on or before 5:00 p.m. (Toronto time) up to October 31, 2014. Warrants not exercised will be void and of no value. Upon the exercise of a warrant, the Fund will pay a fee equal to $0.09 per Series A unit to the registered dealer whose client is exercising the warrant. No exercise fee is paid upon the exercise of Series F warrants.

For the period ended June 30, 2014, 25,900 warrants were exercised. The Series A warrants trade on the TSX under the symbol HRR.WT. Series F warrants do not trade. As at June 30, 2014, the closing price was $0.09 for Series A warrants.

Warrants are classified as a separate component in liabilities upon initial recognition and revalued based on any change in fair value. The revaluation is recorded in the Statement of Comprehensive Income. This results in a difference between net asset value ("NAV") calculated based on NI 81-106 and on net assets calculated based on IFRS ("Net assets"). A reconciliation between NAV per unit and Net assets per unit at the period end is as follows:

Per Unit:	NAV	Net assets
As at June 30, 2014	$9.29	$9.20
As at December 31, 2013	$8.44	$8.44

Redemptions

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

(a) 95% of the "market price" of the Series A units on the principal market on which the Series A units are quoted for trading during the 20 trading day period ending immediately before the monthly redemption date; and

(b) 100% of the "closing market price" on the principal market on which the Series A units are quoted for trading on the monthly redemption date.

Series F units may be redeemed or converted to Series A units on a monthly basis on the same terms as the Series A units. During the period ended June 30, 2014 13,585 (2013 - Nil) Series F units were redeemed and cancelled for $109,344 (2013 - $Nil) and 27,633 (2013 - $Nil) Series F units were converted into 28,881 (2013 - $Nil) Series A units.

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on an annual basis, commencing in September 2014, Series A and Series F units may be surrendered for redemption at the NAV per unit of each series, subject to the required redemption notice period, by the second last business day of September and the unitholder will receive payment on or before the 15th business day of the following month.

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

	Units outstanding		Warrants outstanding	
	Series A	**Series F**	**Series A**	**Series F**
Initial issuance, March 21, 2013 and over-allotment	**5,345,047**	**188,619**	**-**	**-**
Cancellation of redeemable units	(8,500)	-	-	-
Total outstanding as at June 30, 2013	**5,336,547**	**188,619**		
Total outstanding as at January 1, 2014	**5,311,384**	**179,132**	**-**	**-**
Warrants issued	-	-	5,331,275	139,670
Cancellation of redeemable units	(9,900)	-	-	-
Redeemable units redeemed	-	(13,585)	-	-
Redeemable units issued on warrants exercised	12,950	-	(25,900)	-
Transfer between Series	28,881	(27,633)		-
Total outstanding as at June 30, 2014	**5,343,315**	**137,914**	**5,305,375**	**139,670**

The weighted average number of units outstanding during the six-month period ended June 30, 2014 was 5,331,295 units for Series A (2013 – 5,330,996 units) and 143,585 units for Series F (2013 – 181,619 units). .

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

Distributions
The Fund intends to make monthly cash distributions to unitholders of record on the last business day of each month and pay such cash distributions on or before the 15th day of the following month. Beginning in March 2014, the Fund will annually determine and announce the distribution amount for the following year based upon the prevailing market conditions. The distribution amount was $1,807,132 or $0.055 per unit per month for the period ended June 30, 2014 (2013 - $912,565 or $0.055 per unit per month).

5. EXPENSES

Management and service fees
Harvest Portfolios Group Inc. is the Manager of the Fund and is responsible for managing or arranging for managing the Fund's overall business and operations and provides key management personnel to the Fund. The Manager has retained Macquarie Private Portfolio Management Limited ("MPPM" or the "Portfolio Manager") to provide portfolio management services and retained Avenue Investment Management Inc. ("Avenue" or "Investment Advisor") to provide investment advisory services to the Fund and pays MPPM and Avenue a fee for its portfolio advisory and investment advisory services, from the management fee received from the Fund, calculated on the basis of the Fund's net asset value.

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

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

Other expenses
The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses are allocated by the Manager on a reasonable basis, across all of the Harvest Portfolios Group Inc. funds, and series of each applicable fund. These expenses were $149,869 for period ended June 30, 2014 (2013 - $69,747) and are included in the unitholder reporting costs on the Statement of Comprehensive Income.

6. FOREIGN CURRENCY FORWARD CONTRACTS

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

At June 30, 2014 and December 31, 2013, the Fund had entered into the following foreign currency forward contracts:

As at June 30, 2014				
Counterparty	**Settlement Date**	**Purchased currency**	**Sold currency**	**Unrealized gain (loss)**
The Bank of Nova Scotia credit rating A+	September 18, 2014	CAD $76,738,200	AUD $75,500,000	1,105,424

As at December 31, 2013				
Counterparty	**Settlement Date**	**Purchased currency**	**Sold currency**	**Unrealized gain (loss)**
The Bank of Nova Scotia credit rating A+	March 14, 2014	CAD $73,943,100	AUD $77,000,000	960,313
The Bank of Nova Scotia credit rating A+	March 14, 2014	AUD $2,500,000	CAD $2,423,250	(53,679)
Net Total				**906,634**

There were no forward currency contracts as at March 21, 2013.

7. FINANCIAL RISK MANAGEMENT

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

Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The value of securities in the Fund's portfolio may be affected by the stock market conditions rather than each company's performance. Developments in the market are affected by general economic and financial conditions. Political, social and environmental factors can also affect the value of any investment.

As at June 30, 2014, 147.2% (December 31, 2013 - 150.1%) of the Fund's net assets attributable to holders of redeemable units were traded on public stock exchange. If equity prices on these exchanges had increased or decreased by 5%, as at period end, with all other factors remaining constant, net assets attributable to holders of redeemable units would have increased or decreased by approximately $3,752,184 (December 31, 2013 - $3,483,169).

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

Currency risk
Currency risk is the risk that the value of investments denominated in currencies other than the financial currency of the Fund will fluctuate as a result of changes in foreign exchange rates. When the Fund buys an investment priced in a foreign currency and the exchange rate between the Canadian dollar and the foreign currency changes unfavorably, it could reduce the value of the Fund's investment.

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

As at June 30, 2014				
Currency	**Currency exposure***	**Forward contracts***	**Net currency exposure***	**As a % of net assets**
Australian Dollars	$75,070,042	$75,632,776	($562,734)	1.1

* Amounts are in Canadian Dollars

As at December 31, 2013				
Currency	**Currency exposure***	**Forward contracts***	**Net currency exposure***	**As a % of net assets**
Australian Dollars	$72,760,910	$70,613,216	$2,147,694	4.6

* Amounts are in Canadian Dollars

As at June 30, 2014, if the Canadian dollar had strengthened or weakened by 5% in relation to the Australian dollar, with all other variables held constant, the Fund's net assets attributable to holders of redeemable units would have increased or decreased, respectively, by approximately $28,137 (December 31, 2013 - $107,385). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

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

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

Moreover, fixed income securities with longer terms to maturity are usually more sensitive to changes in interest rates. If interest rates were to change by 1.0%, interest earned by the Fund would change by $Nil (2013 - $7,590).

A Fund that has an interest-bearing liability is exposed to risks associated with the effects of fluctuations in interest rates on its cash flows. As at June 30, 2014 the Fund had $28,100,000 (December 31, 2013 - $27,100,000) of interest bearing liabilities. The interest bearing liabilities have a fixed interest rate and a maturity of less than three months, therefore the exposure to interest rate risk is not considered significant.

The table below summarizes the Fund's exposure to interest rate risks by either the remaining term to maturity or contractual repricing as at June 30, 2014 and December 31, 2013.

Debt Instruments: June 30, 2014	Fair value ($)	% of net assets
1 to 3 years	-	-
Total	**-**	**-**

Debt Instruments: December 31, 2013	Fair value ($)	% of net assets
1 to 3 years	759,059	1.6
Total	**759,059**	**1.6**

Liquidity risk
Liquidity risk is defined as the risk that a fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to redemptions as described in Note 4. Therefore in order to maintain sufficient liquidity, the Fund primarily invests in securities that are actively traded in public markets and can be readily disposed of to raise liquidity.

As at June 30, 2014 and December 31, 2013, all of the Fund's financial liabilities, except for warrants issued, had maturities of less than three months. The warrants expire on October 31, 2014 and any unexercised warrants will be void and of no value.

Credit risk
Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

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

The Fund has holdings of fixed income debt instruments. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. This risk is largely mitigated by the standards used to select corporate investments. Ongoing credit assessments are performed on all the Fund's holdings and the exposure level is managed through careful diversification across individual issuers, which helps to minimize this risk. The maximum credit risk of these investments is their fair value at June 30, 2014.

At June 30, 2014 the fund was not invested in any debt securities. At December 31, 2013, the Fund was invested in debt securities which were not rated.

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: Inputs for the asset or liability that are not based on observable market data.

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

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

Securities classification:

Investments at fair value as at June 30, 2014				
	Level 1 ($)	**Level 2 ($)**	**Level 3 ($)**	**Totals ($)**
Equities				
REITs	71,293,743	-	-	71,293,743
Other	3,749,942	-	-	3,749,942
Total equities	**75,043,685**	**-**	**-**	**75,043,685**
Fixed Income				
Corporate Bonds	-	-	-	-
Total fixed income	**-**	**-**	**-**	**-**
Foreign currency forward contract (Note 6)	**-**	**1,105,424**	**-**	**1,105,424**
Total investments at fair value	**75,043,685**	**1,105,424**	**-**	**76,149,109**

Investments at fair value as at December 31, 2013				
	Level 1 ($)	**Level 2 ($)**	**Level 3 ($)**	**Totals ($)**
Equities				
REITs	67,873,053	-	-	67,873,053
Other	1,790,328	-	-	1,790,328
Total equities	**69,663,381**	**-**	**-**	**69,663,381**
Fixed Income				
Corporate Bonds	759,059	-	-	759,059
Total fixed income	**759,059**	**-**	**-**	**759,059**
Foreign currency forward contract (Note 6)	**-**	**906,634**	**-**	**906,634**
Total investments at fair value	**70,422,440**	**906,634**	**-**	**71,329,074**

There were no Level 3 securities held by the Fund as at June 30, 2014 and December 31, 2013 and there were no significant transfers between Level 1 and Level 2 for the six-month period ended June 30, 2014 or December 31, 2013.

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

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

Australian REIT Income Fund

Geography:

	June 30, 2014		December 31, 2013	
Country of Issue	**$***	**As a % of net assets**	**$***	**As a % of net assets**
Australia	50,508,650	100.0	46,406,811	100.0
Totals	**50,508,650**	**100.0**	**46,406,811**	**100.0**

*Stated in Canadian dollars

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

	June 30, 2014	December 31, 2013
Real Estate Issuers	141.2	142.8
Other Public Issuers	7.4	7.3
Fixed Income	-	1.6

8. SOFT DOLLAR COMMISSIONS

Brokerage commissions paid to certain brokers may, in addition to paying for the cost of brokerage services in respect of security transactions, also provide for the cost of investment research services provided to the investment manager. The value of such research services included in commissions paid to brokers for the periods ended June 30, 2014 and 2013 amounted to $NIL.

9. LOAN FACILITY

The Fund established a loan facility with a Canadian chartered bank for the purpose of acquiring assets for the portfolio and such other short term funding purposes as may be determined from time to time and in accordance with the investment strategy. The loan is interest bearing at a rate of 1.272% per annum for $600,000, 1.270% (December 31, 2013 - 1.22%) per annum for $4,500,000 (December 31, 2013 - $4,100,000) and 1.270% (December 31, 2013 - 1.275%) per annum for $23,000,000 (December 31, 2013 - $23,000,000), secured against the assets of the Fund and the amount of the loan has a maximum amount available based on the net asset value of the fund. The outstanding balance on the loan facility was $28,100,000 at June 30, 2014 (December 31, 2013 - $27,100,000). The amount of borrowings ranged between $27,100,000 and $28,100,000 during the period (2013 - $29,000,000 and $36,500,000).

The initial interest paid on the drawdown and renewal of the BA's is deferred and amortized over the term of the BA's, which mature on September 16, 2014 for the loans. The unamortized portion of the deferred interest was $128,153 at June 30, 2014 (December 31, 2013 - $111,161) and is netted against the loan facility balance on the Statements of Financial Position. For the period ended June 30, 2014, the Fund recorded interest expense of $298,511 (2013 - $206,282).

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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