



Australian REIT Income Fund

Annual Management Report of Fund Performance

December 31, 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 1-866-998-8298; 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.

Australian REIT Income Fund

CORPORATE OVERVIEW

Harvest Portfolios Group Inc. (“Harvest”) is a Canadian Investment Manager focused on unique income generating investment products. Harvest was founded in 2009 and is focused on developing investment products that follow three investment criteria:

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

Harvest endeavours 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 financial 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.

INVESTMENT PRODUCT

The Australian REIT Income Fund (“the Fund”) invests in a portfolio comprised primarily of Equity Securities listed on the ASX issued by Real Estate Issuers. The Fund will be actively managed to take advantage of opportunities within the Australian real estate sector with a focus on Real Estate Issuers that provide attractive current cash yield and/or capital appreciation opportunities.

Australian REIT Income Fund

PRESIDENT'S MESSAGE

Australian REIT Income Fund

Unitholder letter March 2015

Dear Valued Unitholder,

In 1985 I started my career in the investment business as an advisor; two years later in 1987 the markets suffered their worst one day loss since 1929. That was a difficult time for all investors but there were many lessons to be learned over the next several years. I learned that investments in products that are transparent and businesses that I understood could result in long term gains despite market volatility.

As a unitholder of Harvest it is important to understand our philosophy. The three guiding principles we use when developing our products are:

Keep it Simple: A complex product does not mean it is a better product. We want investors to understand exactly what they are investing in and are comfortable that it meets their objectives.

Transparent: A portfolio should reflect what an investor thought they were buying. Investors can check their statements and our website to verify and most importantly to “know what you own”.

Consistent Income: All of our funds provide consistent monthly or quarterly income. We want to provide income from diverse sources.

We are in a period of low interest rates and whether one feels they are being held there artificially or due to deflationary pressures, it is our opinion that this will continue for the foreseeable future. Investors who are in or approaching retirement, or simply want a structure that pays income, should have comfort that Harvest is focused on that feature and will endeavour to ensure all of our products meet their income and investment objectives.

During my 30 years in the business, I have never seen the volatility and technological influences that move markets like we see today and it is likely here to stay. Regardless, these factors don't change the basics of fundamental investing and Harvest's focus on products that meet your needs. Our goal is to establish products invested in good quality companies that can provide solid returns over the long term.

As we look forward, we want to assure our investors that Harvest will remain committed to its philosophy and appreciate the confidence you have placed in us by investing with us.

Sincerely,

Signed “Michael Kovacs”

Michael Kovacs
President and Chief Executive Officer

Australian REIT Income Fund

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

The management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. For your reference, the annual 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 to provide unitholders with:

- (i) stable monthly cash distributions; and
- (ii) the opportunity for capital appreciation

INVESTMENT STRATEGY

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's manager, Harvest Portfolios Group Inc. ("Harvest") has retained Macquarie Private Portfolio Management Limited ("Macquarie" or "Portfolio Manager") to provide portfolio management services to the Fund.

Harvest believes that Australian REITs offer attractive income and an opportunity for capital gains based on the market's recognition and revaluation of these issuers. In the view of the Portfolio Manager, (i) following the financial crisis of 2008, many participants in the Australian REIT sector reduced leverage, simplified corporate and investment structures, raised additional capital and positioned themselves to grow capital values and distributions; (ii) this restructuring has had a positive effect on share prices though the sector remains undervalued relative to previous peaks; and (iii) distributions from Australian REITs provide a stable yield which together with the possibility of capital growth provides a total return which is appealing relative to fixed interest alternatives.

The Fund will invest in Real Estate Issuers in various sectors, including industrial, residential, office, retail and other real estate sectors and from time to time may invest in debt securities.

RISK

The risks associated with investing in the Fund are as described in the 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 Australian REIT Income Fund returned 27.96% for Series A units and 33.07% for Series U units for the year ending 2014. The Australian REIT market performed very strong for the year ending December 31, 2014. Australian economic data through the end of the year followed the trend that started in late 2013, showing signs of stabilization and improvement across many key macroeconomic indicators. While the economic data during the period had improved, in general the data remained range bound. The market was closely watching the slowing growth in mining capital expenditures and the implications of this for the broader economic data, including employment statistics. This in particular was a focus point for the market and resulted in a continued accommodative policy from the Reserve Bank of Australia (RBA). The benchmark interest rate remained at a historically low 2.5%, with language from the RBA towards the end of the period indicative of potential rate cuts in early 2015. The Australian currency continued to be volatile during the period. The Fund began hedging the currency during the second quarter of 2013 and remained hedged at the end of the year.

Australian REIT Income Fund

The strong fundamentals of the underlying REITs set the backdrop for a very strong recovery post the 2013 correction. There continued to be significant interest in the Australian property markets with significant property acquisitions, takeovers and mergers by domestic REITs. Interest from foreign entities remained high in underlying property transactions while the strong performance was also driven in part by the general decline in broader markets bond yields and term deposit rates, which appears to have inspired domestic investors to look closely at the higher-yielding sectors of the equity market.

RECENT DEVELOPMENTS

Effective January 1, 2014, the Fund prepared its financial statements in compliance with International Financial Reporting Standards (IFRS). The Fund adopted this basis of accounting 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 CPA Canada Handbook ("Canadian GAAP"). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at March 21, 2013 and throughout all periods presented in the financial statements, as if these policies had always been in effect.

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 year ended December 31, 2014, 113,700 (2013 – 41,100) units were purchased for cancellation for \$1,019,933 (2013 - \$352,080).

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. During the year 3,139,932 Series A warrants and 5,800 Series F warrants were exercised for 1,569,966 Series A units and 2,900 Series F units for gross proceeds of \$14,019,796 in Series A and \$26,854 in Series F. The remaining unexercised warrants expired and were cancelled.

Effective December 31, 2014, the Manager became the Investment Advisor for the currency hedging strategy of the Fund.

Subsequent to year end, the Fund has made available to unitholders the opportunity to reinvest monthly distributions from the Fund in additional units by participating in a distribution reinvestment plan which will provide that cash distributions made by the Fund, shall, at the election of a unitholder, be automatically reinvested in additional units on such unitholder's behalf in accordance with the terms of the plan.

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

The Fund pays its manager, Harvest, a management fee, plus applicable taxes, calculated based on the average daily net asset value ("NAV") and paid monthly in arrears, based on an annual rate of 1.30% of the NAV of the Fund. The Manager pays Macquarie, a fee for its portfolio advisory service, from the management fee received from the Fund, calculated on the basis of the Fund's NAV. The Fund pays service fees to registered dealers on Series A units at a rate of 0.40% of the average daily NAV, plus applicable taxes, per annum of the Fund. No service fee is charged to Series F units. Service fees are accrued daily and paid monthly to the Manager.

At its sole discretion, the Manager may waive management fees or absorb expenses of the Fund. During the year there were no fees waived or absorbed. The management expense ratios of the Fund with and without the waivers and absorptions are reported in the Ratios and Supplemental Data table below.

Australian REIT Income Fund

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 \$254,251 for the year ended December 31, 2014 (2013 - \$254,688) and are included in the unitholder reporting costs on the Statement of Comprehensive Income in the annual financial statements.

During the Fund's initial offering, 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. At the initial public offering, directors and/or officers of the Manager were remunerated \$23,493.

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 1.290% per annum for \$28,000,000, (December 31, 2013 - 1.22% for \$4,100,000 and 1.275% for \$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 \$28,000,000 at December 31, 2014 (December 31, 2013 - \$27,100,000). The amount of borrowings ranged between \$27,100,000 and \$28,100,000 during the year (2013 - \$27,100,000 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 January 14, 2015 for the loan. The unamortized portion of the deferred interest was \$21,845 at December 31, 2014 (December 31, 2013 - \$111,161) and is netted against the loan facility balance on the Statements of Financial Position. For the year ended December 31, 2014, the Fund recorded interest expense of \$604,424 (2013 - \$525,559).

RECOMMENDATIONS OR REPORTS BY THE INDEPENDENT REVIEW COMMITTEE

As noted in the "Recent Developments" section above, effective December 31, 2014, the Manager became the Investment Advisor for the currency hedging strategy of the Fund. This matter was brought to the attention of the IRC on September 29, 2014 and the committee resolved that the change provides a fair and reasonable result for the Fund.

Australian REIT Income Fund

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 the year ended December 31, 2014. This information is derived from the Fund's annual financial statements and past audited annual financial statements.

Series A

THE FUND'S NET ASSETS PER UNIT				2014	2013
Net assets - beginning of year ²	\$	8.44	\$	11.18	
Increase (decrease) from operations					
Total revenue		1.11		0.67	
Total expenses		(0.37)		(0.35)	
Realized gains (losses) for the year		(0.45)		(0.73)	
Unrealized gains (losses) for the year		2.05		(1.85)	
Total increase (decrease) from operations¹		2.34		(2.26)	
Distributions³					
From income (excluding dividends)		(0.32)		-	
Return of capital		(0.34)		(0.50)	
Total annual distributions³		(0.66)		(0.50)	
Net assets - end of year^{4, 7}	\$	10.06	\$	8.44	

RATIOS AND SUPPLEMENTAL DATA				2014	2013
Total net asset value	\$	51,247,139	\$	44,835,165	
Number of units outstanding		5,094,234		5,311,384	
Management expense ratio ⁴		4.39%		13.38%	
Management expense ratio before waivers or absorptions ⁴		4.39%		13.37%	
Trading expense ratio ⁵		0.16%		0.67%	
Portfolio turnover rate ⁶		73.61%		32.19%	
Net asset value per unit	\$	10.06	\$	8.44	
Closing market price (HRR.UN)	\$	9.58	\$	7.99	

Australian REIT Income Fund

Series F

THE FUND'S NET ASSETS PER UNIT		2014	2013
Net assets - beginning of year ²	\$	8.77	\$ 11.60
Increase (decrease) from operations			
Total revenue		1.25	0.69
Total expenses		(0.35)	(0.33)
Realized gains (losses) for the year		(0.86)	(0.75)
Unrealized gains (losses) for the year		2.43	(1.92)
Total increase (decrease) from operations²		2.47	(2.31)
Distributions³			
From income (excluding dividends)		(0.32)	-
Return of capital		(0.34)	(0.50)
Total annual distributions³		(0.66)	(0.50)
Net assets - end of year^{4, 7}	\$	10.92	\$ 8.77

RATIOS AND SUPPLEMENTAL DATA		2014	2013
Total net asset value	\$	852,430	\$ 1,571,646
Number of units outstanding		78,077	179,132
Management expense ratio ⁴		3.60%	8.96%
Management expense ratio before waivers or absorptions ⁴		3.60%	8.96%
Trading expense ratio ⁵		0.16%	0.67%
Portfolio turnover rate ⁶		73.61%	32.19%
Net asset value per unit	\$	10.92	\$ 8.77

Explanatory Notes:

1. 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.
2. Net assets, at the commencement of operations on March 21, 2013 was \$11.18, net of agents' commissions and issuance costs of \$0.82 per unit for Series A and net assets, at the beginning of the period was \$11.60, net of agents' commissions and issuance costs of \$0.40 per unit for Series F.
3. Distributions were paid in cash.
4. 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 MER for 2013, the year of inception, included agents' fees of \$3,367,379 and issue costs of \$962,108 for Series A and agents' fees of \$50,927 and issue costs of \$33,952 for Series F, which were treated as one-time expenses and therefore were not annualized. The MER without these costs is 4.74% for Series A and 4.29% for Series F. The MER for 2014, included agents' fee of \$119,247 and issue costs of \$101,651 for Series A, which were treated as one-time expenses and therefore were not annualized. The MER without these costs is 3.95% for Series A.
5. 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.
6. 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.
7. Amounts reported for the 2014 and 2013 periods are reported in accordance with International Financial Reporting Standards. All other prior periods are reported under Canadian generally accepted accounting principles.

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Past Performance

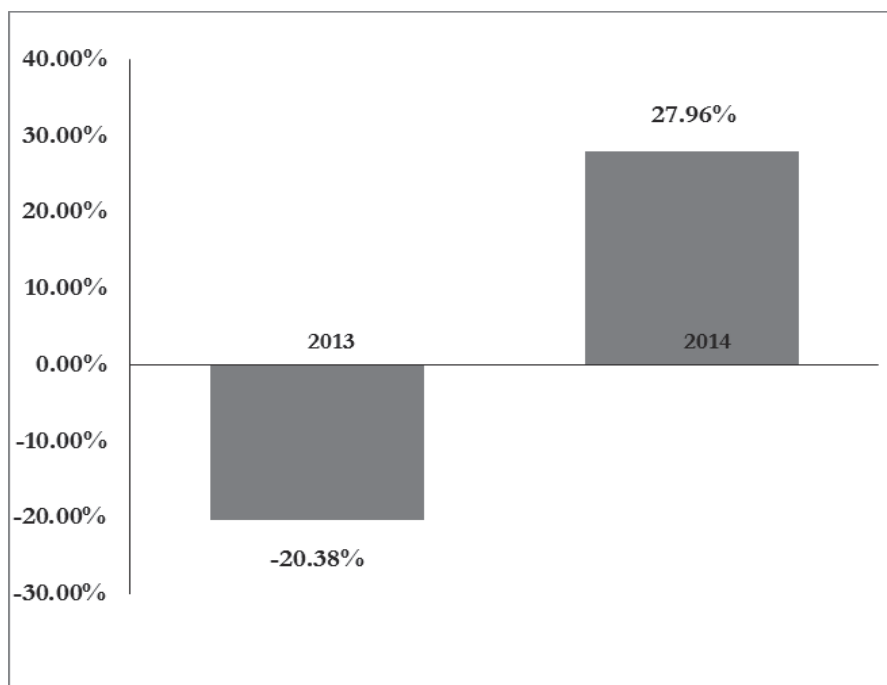
The performance information presented herein assumes all dividends of the Fund during the periods presented were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, or other charges that would have reduced returns or affected performance.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

Fund Performance

Series A



2013 represents the period from March 21 to December 31

Australian REIT Income Fund

Series F



2013 represents the period from March 21 to December 31

ANNUAL 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 benchmark of the S&P/ASX 200 Accumulation A-REIT Index (the “Index”) is used. 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. The return of the Index is calculated without the deduction of management fees and fund expenses whereas the performance of the Fund is calculated after deducting such fees and expenses. 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 A (%)	27.96	-	-	-	1.06
Fund Performance Series F (%)	33.07	-	-	-	3.58
S&P/ASX 200 Accumulation A-REIT Index (%)	27.39	-	-	-	7.86

Australian REIT Income Fund

SUMMARY OF INVESTMENT PORTFOLIO

The Portfolio by Sector 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 "Schedule of Investments" section of the Fund's annual financial statements.

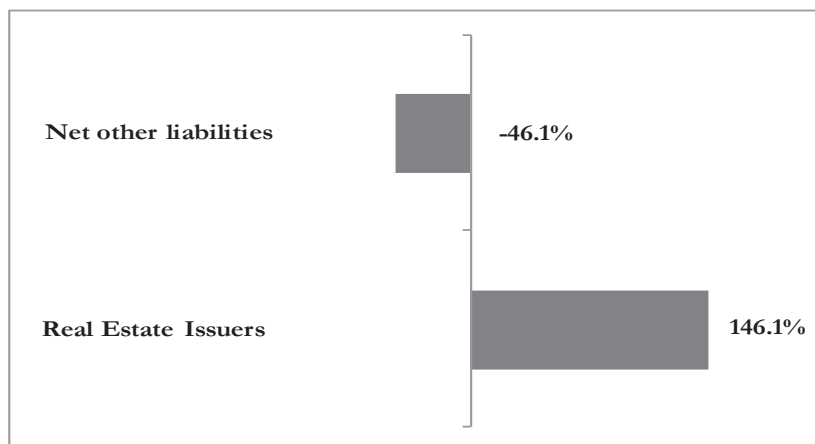
As at December 31, 2014

Top Holdings	% of Net Asset Value
Scenture Group	15.1
Novion Property Group	11.6
Charter Hall Retail Trust	10.8
Westfield Corporation	10.0
The GPT Group	9.4
Dexus Property Group	8.5
Stockland	8.1
Goodman Group	7.5
Abacus Property Group	7.3
Lend Lease Corp.	7.0
Mirvac Group	7.0
Federation Centres Limited	7.0
BWP Trust	5.7
Charter Hall Group	5.4
Cromwell Property Group	4.9
Ardent Leisure Group	4.6
Growthpoint Properties Australia Limited	4.3
Investa Office Fund	3.8
Goodman Plus Trust	3.5
Multiplex SITES Trust	3.3
360 Capital Industrial Fund	1.3
Net other liabilities	(46.1)
	100.0

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.

SECTOR ALLOCATION

Total Net Asset Value (100.0%)



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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.