



# **HARVEST Canadian Income & Growth Fund**

**Annual Financial Statements**

**December 31, 2015**

# **HARVEST Canadian Income & Growth Fund**

## **MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying financial statements have been prepared by Harvest Portfolios Group Inc. in its capacity as Manager of the Fund and approved by the Board of Directors of the Manager. The Fund's Manager is responsible for the information and representation contained in these financial statements.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments made by the Manager. The significant accounting policies, which the Manager believes are appropriate, are described in Note 3 to the financial statements.

PricewaterhouseCoopers LLP is the external auditor of the Fund. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is included as an integral part of the financial statements.

On behalf of Harvest Portfolios Group Inc.,

*Signed* "Michael Kovacs"

Michael Kovacs  
President and Chief Executive Officer

*Signed* "Daniel Lazzer"

Daniel Lazzer  
Chief Financial Officer

Oakville, Canada  
March 21, 2016



March 21, 2016

## **Independent Auditor's Report**

### **To the Unitholders of Harvest Canadian Income & Growth Fund (the Fund)**

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at December 31, 2015 and 2014 and the statements of comprehensive income (loss), changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario

# HARVEST Canadian Income & Growth Fund

STATEMENTS OF FINANCIAL POSITION			
As at December 31,		2015	2014
<b>Assets</b>			
<b>Current assets</b>			
Investments	\$	24,818,391	\$ 51,418,657
Cash		2,169,498	759,632
Dividends and interest receivable		216,737	280,850
Subscriptions receivable		500	20,170
		<b>27,205,126</b>	<b>52,479,309</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Redemptions payable		63,693	90,403
Distributions payable (Note 4)		38,869	76,224
		<b>102,562</b>	<b>166,627</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>27,102,564</b>	<b>\$ 52,312,682</b>
<b>Net assets attributable to holders of redeemable units</b>			
Series R	\$	16,299,051	\$ 31,486,334
Series A		8,876,673	18,110,870
Series F		1,907,720	2,713,949
Series D		19,120	1,529
<b>Number of redeemable units outstanding (Note 4)</b>			
Series R		1,380,416	2,148,465
Series A		747,881	1,230,552
Series F		152,161	177,707
Series D		1,590	104
<b>Net assets attributable to holders of redeemable units per unit</b>			
Series R	\$	11.81	\$ 14.66
Series A		11.87	14.72
Series F		12.54	15.27
Series D		12.02	14.70

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

# HARVEST Canadian Income & Growth Fund

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)			
For the year ended December 31,	2015	2014	
<b>Income</b>			
Net gain (loss) on investments			
Dividends	\$ 1,772,690	\$ 2,389,186	
Interest for distribution purposes	122,275	324,176	
Net realized gain (loss) on sale of investments	2,011,891	4,602,200	
Net change in unrealized appreciation (depreciation) of investments	(8,068,632)	(823,726)	
Net gain (loss) on investments	(4,161,776)	6,491,836	
Other income			
Net realized gain (loss) on foreign exchange	(8,758)	(5,340)	
Net change in unrealized appreciation (depreciation) of foreign exchange	55,802	1,717	
Other income	47,044	(3,623)	
<b>Total income (net)</b>	<b>\$ (4,114,732)</b>	<b>\$ 6,488,213</b>	
<b>Expenses (Note 5)</b>			
Management fees	\$ 594,141	\$ 861,915	
Service fees	487,004	712,089	
Withholding taxes	16,540	27,031	
Unitholder reporting costs	65,826	60,779	
Audit fees	31,378	37,034	
Transfer agency fees	60,962	84,288	
Custodian fees and bank charges	36,993	49,783	
Independent Review Committee fees	4,178	16,790	
Filing fees	21,499	14,850	
Legal fees	12,596	44,916	
Transaction costs (Note 7)	53,591	82,223	
<b>Total expenses</b>	<b>\$ 1,384,708</b>	<b>\$ 1,991,698</b>	
Expenses absorbed by Manager (Note 5)	(86,682)	(103,929)	
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$ (5,412,758)</b>	<b>\$ 4,600,444</b>	
Increase (decrease) in net assets attributable to holders of redeemable units - <b>Series R</b>	\$ (3,106,729)	\$ 2,877,193	
Increase (decrease) in net assets attributable to holders of redeemable units - <b>Series A</b>	(1,969,579)	1,482,170	
Increase (decrease) in net assets attributable to holders of redeemable units - <b>Series F</b>	(334,065)	241,052	
Increase (decrease) in net assets attributable to holders of redeemable units - <b>Series D</b>	(2,385)	29	
Increase (decrease) in net assets attributable to holders of redeemable units per unit - <b>Series R (Note 4)</b>	\$ (1.77)	\$ 1.12	
Increase (decrease) in net assets attributable to holders of redeemable units per unit - <b>Series A (Note 4)</b>	(1.84)	1.10	
Increase (decrease) in net assets attributable to holders of redeemable units per unit - <b>Series F (Note 4)</b>	(1.88)	1.34	
Increase (decrease) in net assets attributable to holders of redeemable units per unit - <b>Series D (Note 4)</b>	(3.19)	0.29	

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

## HARVEST Canadian Income & Growth Fund

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ALL SERIES			
For the year ended December 31,		2015	2014
Net assets attributable to holders of redeemable units beginning of year	\$	52,312,682	\$ 66,931,265
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(5,412,758)	\$ 4,600,444
<b>Redeemable unit transactions</b>			
Proceeds from issue of redeemable units		1,051,076	3,667,448
Reinvestments of distributions to holders of redeemable units		1,743,166	2,358,710
Redemption of redeemable units		(20,112,956)	(21,846,147)
<b>Net increase (decrease) in redeemable unit transactions</b>	\$	<b>(17,318,714)</b>	\$ <b>(15,819,987)</b>
<b>Distributions to holders of redeemable units</b>			
Capital gains		(1,292,466)	(1,971,443)
Return of capital		(1,186,180)	(1,427,597)
<b>Total distributions to holders of redeemable units</b>	\$	<b>(2,478,646)</b>	\$ <b>(3,399,040)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	\$	<b>27,102,564</b>	\$ <b>52,312,682</b>

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES R			
For the year ended December 31,		2015	2014
Net assets attributable to holders of redeemable units beginning of year	\$	31,486,334	\$ 44,525,036
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(3,106,729)	\$ 2,877,193
<b>Redeemable unit transactions</b>			
Proceeds from issue of redeemable units		247,902	277,819
Reinvestments of distributions to holders of redeemable units		1,035,139	1,510,674
Redemption of redeemable units		(11,430,317)	(15,068,893)
Transfer of units		(487,617)	(515,440)
<b>Net increase (decrease) in net assets from redeemable unit transactions</b>	\$	<b>(10,634,893)</b>	\$ <b>(13,795,840)</b>
<b>Distributions to holders of redeemable units</b>			
Capital gains		(779,529)	(1,229,632)
Return of capital		(666,132)	(890,423)
<b>Total distributions to holders of redeemable units</b>	\$	<b>(1,445,661)</b>	\$ <b>(2,120,055)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	\$	<b>16,299,051</b>	\$ <b>31,486,334</b>

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## HARVEST Canadian Income & Growth Fund

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES A			
For the year ended December 31,		2015	2014
Net assets attributable to holders of redeemable units beginning of year	\$	18,110,870	\$ 19,758,412
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(1,969,579)	\$ 1,482,170
<b>Redeemable unit transactions</b>			
Proceeds from issue of redeemable units		656,310	2,891,616
Reinvestments of distributions to holders of redeemable units		596,250	733,572
Redemption of redeemable units		(7,457,207)	(5,627,962)
Transfer of units		(175,635)	106
<b>Net increase (decrease) in net assets from redeemable unit transactions</b>	<b>\$</b>	<b>(6,380,282)</b>	<b>\$ (2,002,668)</b>
<b>Distributions to holders of redeemable units</b>			
Capital gains		(468,581)	(653,686)
Return of capital		(415,755)	(473,358)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>	<b>(884,336)</b>	<b>\$ (1,127,044)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$</b>	<b>8,876,673</b>	<b>\$ 18,110,870</b>

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES F			
For the year ended December 31,		2015	2014
Net assets attributable to holders of redeemable units beginning of year	\$	2,713,949	\$ 2,647,817
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(334,065)	\$ 241,052
<b>Redeemable unit transactions</b>			
Proceeds from issue of redeemable units		118,189	496,513
Reinvestments of distributions to holders of redeemable units		111,107	114,421
Redemption of redeemable units		(1,216,762)	(1,149,292)
Transfer of units		663,252	515,334
<b>Net increase (decrease) in net assets from redeemable unit transactions</b>	<b>\$</b>	<b>(324,214)</b>	<b>\$ (23,022)</b>
<b>Distributions to holders of redeemable units</b>			
Capital gains		(44,356)	(88,101)
Return of capital		(103,594)	(63,797)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>	<b>(147,950)</b>	<b>\$ (151,898)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$</b>	<b>1,907,720</b>	<b>\$ 2,713,949</b>

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



## HARVEST Canadian Income & Growth Fund

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES D			
For the year ended December 31,		2015	2014
Net assets attributable to holders of redeemable units beginning of year	\$	1,529	\$ -
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(2,385)	\$ 29
<b>Redeemable unit transactions</b>			
Proceeds from issue of redeemable units		28,675	1,500
Reinvestments of distributions to holders of redeemable units		670	43
Redemption of redeemable units		(8,670)	-
<b>Net increase (decrease) in redeemable unit transactions</b>	\$	<b>20,675</b>	\$ <b>1,543</b>
<b>Distributions to holders of redeemable units</b>			
Capital gains		-	(25)
Return of capital		(699)	(18)
<b>Total distributions to holders of redeemable units</b>	\$	<b>(699)</b>	\$ <b>(43)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	\$	<b>19,120</b>	\$ <b>1,529</b>

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

# HARVEST Canadian Income & Growth Fund

STATEMENTS OF CASH FLOWS			
For the year ended December 31,	2015		2014
<b>Operating activities</b>			
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(5,412,758)	\$ 4,600,444
<b>Add (deduct) items not affecting cash:</b>			
Realized (gain) loss on sale of investments		(2,011,891)	(4,602,200)
Change in unrealized (appreciation) depreciation of investments		8,068,632	823,726
Change in unrealized (appreciation) depreciation of foreign exchange		(55,802)	(1,717)
Proceeds from sale of investments		27,118,071	35,570,089
Purchases of investments		(6,574,547)	(18,057,014)
Net change in non-cash assets and liabilities		119,915	98,901
<b>Net cash flow provided by (used in) operating activities</b>	<b>\$</b>	<b>21,251,620</b>	<b>\$ 18,432,229</b>
<b>Financing activities</b>			
Proceeds from redeemable units issued		1,070,746	4,222,150
Redemption and cancellation of redeemable units		(20,139,666)	(22,368,826)
Distributions paid to holders of redeemable units (net of reinvested distributions)		(772,834)	(1,055,837)
<b>Net cash flow provided by (used in) financing activities</b>	<b>\$</b>	<b>(19,841,754)</b>	<b>\$ (19,202,509)</b>
Net increase (decrease) in cash during the year		1,409,866	(770,280)
Cash, beginning of the year		759,632	1,529,912
<b>Cash, end of the year</b>	<b>\$</b>	<b>2,169,498</b>	<b>\$ 759,632</b>
<b>Supplemental disclosure of cash flow information</b>			
Interest received during the year*	\$	122,275	\$ 354,381
Dividends received, net of withholding taxes*		1,820,263	2,430,851

\*included in operating activities

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

# HARVEST Canadian Income & Growth Fund

SCHEDULE OF INVESTMENTS				
As at December 31, 2015				
Number of Shares	Security	Average Cost (\$)	Carrying Value (\$)	% of Net Assets
<b>EQUITIES</b>				
<b>Consumer Discretionary Issuers</b>				
67,200	Leon's Furniture Limited	849,044	946,176	3.5
270,000	Sirius XM Canada Holdings Inc.	1,983,194	1,123,200	4.1
		2,832,238	2,069,376	7.6
<b>Consumer Staples Issuers</b>				
15,640	Altria Group, Inc.	377,803	1,264,643	4.7
47,654	Corby Spirit and Wine Limited Cl. A	854,185	898,278	3.3
366,661	Rogers Sugar, Inc.	1,941,417	1,554,642	5.7
		3,173,405	3,717,563	13.7
<b>Energy Issuers</b>				
28,014	Keyera Corp.	834,830	1,127,844	4.2
49,614	Parkland Fuel Corporation	797,367	1,155,510	4.3
130,000	Whitecap Resources, Inc.	2,158,663	1,179,100	4.3
		3,790,860	3,462,454	12.8
<b>Information Technology Issuers</b>				
42,536	DH Corporation	860,181	1,344,988	5.0
		860,181	1,344,988	5.0
<b>Industrials Issuers</b>				
40,000	Westshore Terminals Investment Corporation	886,384	466,000	1.7
140,000	Stuart Olson Inc.	1,149,162	796,600	2.9
		2,035,546	1,262,600	4.6
<b>Pipeline Issuers</b>				
19,500	Enbridge Inc.	864,825	897,000	3.3
61,313	Inter Pipeline Ltd.	1,084,359	1,361,762	5.1
27,028	Pembina Pipeline Corporation	484,674	814,894	3.0
		2,433,858	3,073,656	11.4
<b>Banks and Other Financials Issuers</b>				
29,600	Great-West Lifeco Inc.	986,864	1,022,088	3.8
75,000	Regions Financial Corporation	592,879	1,000,152	3.7
		1,579,743	2,022,240	7.5

# HARVEST Canadian Income & Growth Fund

## SCHEDULE OF INVESTMENTS (continued)

As at December 31, 2015

Number of Shares	Security	Average Cost (\$)	Carrying Value (\$)	% of Net Assets
<b>Real Estate Issuers</b>				
158,000	BTB Real Estate Investment Trust	542,945	696,780	2.6
66,200	Mainstreet Equity Corporation	2,200,630	1,990,634	7.3
102,048	Timbercreek Mortgage Investment Corporation	932,435	773,524	2.9
		3,676,010	3,460,938	12.8
<b>Telecommunication Services Issuers</b>				
27,600	TELUS Corporation	1,020,924	1,055,976	3.9
		1,020,924	1,055,976	3.9
<b>Materials Issuers</b>				
50,000	Chemtrade Logistics Income Fund	905,155	893,000	3.3
80,000	Labrador Iron Ore Royalty Corporation	1,139,840	767,200	2.8
		2,044,995	1,660,200	6.1
	<b>Total equities</b>	<b>23,447,760</b>	<b>23,129,991</b>	<b>85.4</b>
<b>Par Value</b>				
<b>FIXED INCOME</b>				
1,608,000	Yellow Pages Digital & Media Solutions Limited 8.00% Nov 30/22	1,611,750	1,688,400	6.2
	<b>Total fixed income</b>	<b>1,611,750</b>	<b>1,688,400</b>	<b>6.2</b>
	<b>Total investments</b>	<b>25,059,510</b>	<b>24,818,391</b>	<b>91.6</b>
	<b>Other assets less liabilities</b>		<b>2,284,173</b>	<b>8.4</b>
	<b>Net assets attributable to holders of redeemable units</b>		<b>27,102,564</b>	<b>100.0</b>

# HARVEST Canadian Income & Growth Fund

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

December 31, 2015

### 1. GENERAL INFORMATION

Harvest Canadian Income & Growth Fund (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated May 31, 2010 and as amended and restated, being the inception date. There was no significant activity in the Fund from the date of inception to commencement of operations on June 29, 2010. The address of the Fund’s registered office is 710 Dorval Drive, Oakville, Ontario, L6K 3V7.

The Fund became an open-end mutual fund on June 20, 2012 (the “Conversion Date”). On the conversion, the units became redeemable at the net asset value per unit on a daily basis, and the Fund became subject to National Instrument 81-102 Investment Funds.

The Fund’s investment objectives are to provide unitholders with monthly distributions and maximize long-term total return for unitholders while reducing volatility. The Fund was created to provide investors with income and the potential for capital appreciation. As part of the investment strategy, the Fund will invest in an actively managed portfolio comprised primarily of dividend-paying equity and debt securities of publicly-traded utilities, industrial, communications, real estate and retail issuers domiciled in Canada.

The Fund offers Series R, Series A, Series F and Series D units, only through registered dealers. On conversion, all existing unitholders at June 20, 2012 were rolled into Series R on the Conversion Date, on a unit-for-unit basis. New purchases in Series R are available, in an initial sales charge option. Series A units, which were created on June 20, 2012 but commenced operations on June 25, 2012, are available to all investors in an initial sales charge option and have a higher service fee than Series R. Series F units, which were created on June 20, 2012 but commenced operations on July 9, 2012, have no initial sales charge option and no service fees and are usually only available to investors who have fee-based accounts with the dealers. Series D units, which were created on June 20, 2014 but commenced operations on July 9, 2014, have no initial sales charge option, a lower service fee than Series R and Series A and are available to all investors.

On November 6, 2013 the Harvest Sustainable Income Fund (“HSI”) and on November 22, 2013 the Canadian Premium Select Income Fund (“HCS”) were merged into the Fund. The holders of Series R, A and F units of HSI received 934,364 Series R units, 20,019 Series A units and 13,759 Series F units of the Fund. The holders of Series R units of HCS received 1,026,519 Series R units of the Fund. The value of the units issued of the Fund was equal to the fair value of the assets transferred from HSI and HCS. The value of the assets transferred from HSI was \$13,763,197 and the value of the assets transferred from HCS was \$14,714,673. The mergers took place on a tax deferred basis for HSI and HCS and its unitholders.

### 2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These financial statements were authorized for issue by Harvest Portfolios Group Inc. (the “Manager”) on March 21, 2016.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at fair value through profit or loss (FVTPL). Transaction costs on financial assets and liabilities at FVTPL are expensed as incurred. Regular way purchases and sales of financial assets are recognized at their trade date. The Fund’s investments and derivative assets and liabilities are measured at fair value through profit or loss (FVTPL), including investments which have been designated at FVTPL. Derivative assets and liabilities are classified as held-for-trading (HFT). The Fund’s obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract’s effective interest rate. Carrying values of other financial assets and liabilities at amortized cost and net assets attributable to holders of redeemable units approximate their fair values due to the short term to maturity. The Fund’s accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (NAV) for transactions with unitholders. As at December 31, 2015, and December 31, 2014, there were no differences between the Fund’s NAV per security and its net assets per security calculated in accordance with IFRS.

# HARVEST Canadian Income & Growth Fund

## 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 on 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.

## Classification of redeemable units

Under IFRS, IAS 32 Financial Instruments – Presentation requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as a financial liability unless certain criteria are met. The Fund has issued multiple classes of units which are equally subordinate, but which are subject to different fees (Note 5). As a result, not all units have identical features and are presented as financial liabilities as they do not meet the criteria for classification as equity.

## 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 (Loss) 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.

## Allocation of income and expense, and realized and unrealized capital gains and losses

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

## Foreign currency translation

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

# HARVEST Canadian Income & Growth Fund

## Redeemable units valuation

The NAV per unit of each series is determined at the close of business each day the Toronto Stock Exchange is open for business. The NAV of each series of the Fund is computed by calculating the value of that series' proportionate share of the Fund's common assets less common liabilities and less those series-specific liabilities. Expenses directly attributable to a series are charged to that series. Other income and expenses are allocated to each series proportionately based on the relative NAV of each series.

## 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 (Loss) represents the increase (decrease) in net assets attributable to holders of redeemable units, attributed to each series, divided by the weighted average units outstanding for that series, for the financial period.

## Income and other taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). For tax purposes, the Fund has a December 31 year end. All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statement of financial position as a deferred income tax asset. Capital losses may be carried forward indefinitely to reduce future realized capital gains. Non-capital losses may be carried forward 20 years and applied against future taxable income. As at the last taxation year end, the Fund did not have any tax losses available to be carried forward for income tax purposes.

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

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

## Critical accounting estimates and judgments

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

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

The Fund may hold financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Refer to Note 6 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.

# HARVEST Canadian Income & Growth Fund

## 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 Fund is authorized to issue an unlimited number of transferable units and series. Units of the Fund are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit of a particular series. The NAV per unit of a series for the purposes of subscriptions or redemption is computed by dividing the NAV of the Fund attributable to the series (that is, the total fair value of the assets attributable to the series less the liabilities attributable to the series) by the total number of units of the series of the Fund outstanding at such time.

The following units were issued and redeemed during the periods indicated:

	Units Outstanding			
	Series R	Series A	Series F	Series D
<b>Total outstanding as at January 1, 2014</b>	<b>3,077,537</b>	<b>1,362,396</b>	<b>178,720</b>	<b>-</b>
Redeemable units issued	18,636	195,432	32,089	101
Redeemable units issued on reinvestment	101,732	49,280	7,467	3
Redeemable units redeemed	(1,014,498)	(376,694)	(74,431)	-
Redeemable units transferred between Series	(34,942)	138	33,862	-
<b>Total outstanding as at December 31, 2014</b>	<b>2,148,465</b>	<b>1,230,552</b>	<b>177,707</b>	<b>104</b>
Redeemable units issued	17,203	46,477	7,729	2,035
Redeemable units issued on reinvestment	75,479	43,316	7,725	50
Redeemable units redeemed	(826,784)	(558,631)	(86,561)	(599)
Redeemable units transferred between Series	(33,947)	(13,833)	45,561	-
<b>Total outstanding as at December 31, 2015</b>	<b>1,380,416</b>	<b>747,881</b>	<b>152,161</b>	<b>1,590</b>

The weighted average number of units outstanding during the year ended December 31, 2015 was 1,755,685 units for Series R (2014 – 2,567,694 units), 1,072,580 units for Series A (2014 – 1,348,751 units), 177,471 units for Series F (2014 – 180,318 units) and 748 units for Series D (2014 – 101 units).

### Distributions

Monthly distributions to unitholders are declared and paid to unitholders of record on the Valuation Date prior to the month-end, and automatically reinvested at NAV into additional units of the Fund at the month-end, unless unitholders specifically requested a cash distribution be paid. The total distributions were \$2,478,646 (\$0.84 per unit) for the year ended December 31, 2015 (2014 - \$3,399,040 or \$0.84 per unit).



# HARVEST Canadian Income & Growth Fund

## 5. RELATED PARTY TRANSACTIONS AND OTHER EXPENSES

### Management and service fees

Harvest Portfolios Group Inc. is the Manager of the Fund and is responsible for managing or arranging for managing the Fund's overall business and operations and provides key management personnel to the Fund. The Manager has retained Avenue Investment Management Inc. ("Avenue" or the "Investment Manager") to provide investment management services to the Fund and 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 asset value.

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

Dealers may be paid a servicing fee, in connection with Series A units, Series R units and Series D units for ongoing services they provide to investors, including investment advice, account statements and newsletters. Generally, the servicing fees, plus applicable taxes, are payable monthly 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 month. 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
R	1.25%	1.00%	2.25%
A	1.25%	1.25%	2.50%
F	1.25%	0.00%	1.25%
D	1.25%	0.25%	1.50%

### 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.

The Manager may, in some cases, absorb a portion of the Fund's operating expenses. The amount of absorption for the year ended December 31, 2015 was \$86,682 (2014 - \$103,929). The Manager may cease doing so at any time without notice to unitholders.

### 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 \$56,294 for the year ended December 31, 2015 (2014 - \$58,715) and are included in the unitholder reporting costs on the Statements of Comprehensive Income (Loss) in the annual financial statements.

## 6. 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 a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

# HARVEST Canadian Income & Growth Fund

## 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 December 31, 2015, 85.4% (December 31, 2014 – 94.9%) of the Fund's net assets attributable to holders of redeemable units were traded on public stock exchanges. If equity prices on these exchanges had increased or decreased by 5%, as at year end, with all other factors remaining constant, net asset attributable to holders of redeemable units would have increased or decreased by approximately \$1,156,500 (December 31, 2014 - \$2,482,477).

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 functional currency of the Fund will fluctuate as a result of changes in foreign exchange rates. When a Fund buys an investment priced in a foreign currency and the exchange rate between the Canadian dollar and the foreign currency changes unfavorably, it could reduce the value of the Fund's investment.

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

	As at December 31, 2015		As at December 31, 2014	
Currency	Currency exposure*	As a % of net assets	Currency exposure*	As a % of net assets
U.S. Dollars	\$3,567,283	13.2	\$9,044,126	17.3

\* Amounts are in Canadian Dollars

The non-monetary currency exposure is \$2,264,795 (December 31, 2014 – \$9,009,343) and the monetary currency exposure is \$1,302,488 (December 31, 2014 – \$34,783).

As at December 31, 2015, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other variables held constant, the Fund's net asset attributable to holders of redeemable units would have increased or decreased, respectively, by approximately \$178,364 (December 31, 2014 - \$452,206) or 0.7% (December 31, 2014 – 0.9%). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

## 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 \$16,884 (December 31, 2014 - \$17,691).

As at December 31, 2015 and December 31, 2014 the Fund had no interest bearing liabilities.

The table below summarizes the Fund's exposure to interest rate risks by either the remaining term to maturity or contractual repricing as at December 31, 2015 and December 31, 2014.

Debt Instruments: December 31, 2015	Fair value (\$)	% of net assets
Greater than 5 years	1,688,400	6.2
<b>Total</b>	<b>1,688,400</b>	<b>6.2</b>

Debt Instruments: December 31, 2014	Fair value (\$)	% of net assets
Greater than 5 years	1,769,121	3.4
<b>Total</b>	<b>1,769,121</b>	<b>3.4</b>

# HARVEST Canadian Income & Growth Fund

## 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 units are redeemable on demand and Unitholders may redeem their units on each valuation date. 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. Redeemable units are redeemable on demand at the holder's option, however, the Manager does not expect that the contractual maturity will be representative of the actual cash flows as the holder of the instruments typically retain these for a longer period.

As at December 31, 2015 and December 31, 2014 all of the Fund's financial liabilities had maturities of less than three months.

## 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 industry sectors and individual issuers, which helps to minimize this risk. The maximum credit risk of these investments is their fair value at December 31, 2015 and December 31, 2014.

At December 31, 2015 and December 31, 2014, the Fund was invested in debt securities with the following credit ratings:

December 31, 2015 Debt Securities by Credit Ratings*	% of Total Debt Instruments	% of net assets
CCC+	100.0	6.2
<b>Total</b>	<b>100.0</b>	<b>6.2</b>

December 31, 2014 Debt Securities by Credit Ratings*	% of Total Debt Instruments	% of net assets
CCC	100.0	3.4
<b>Total</b>	<b>100.0</b>	<b>3.4</b>

\*Excludes cash & cash equivalents; Credit ratings are obtained from Standard & Poor's, Moody's and/or, DBRS. Where more than one rating is obtained for a security, the lowest rating has been used.

## 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:

# HARVEST Canadian Income & Growth Fund

Securities classification:

Investments at fair value as at December 31, 2015				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Equities</b>				
Common stock	21,540,211	-	-	21,540,211
REIT	696,780	-	-	696,780
Trust Units	893,000	-	-	893,000
<b>Total equities</b>	<b>23,129,991</b>	<b>-</b>	<b>-</b>	<b>23,129,991</b>
<b>Fixed income</b>				
Corporate bonds	1,688,400	-	-	1,688,400
<b>Total fixed income</b>	<b>1,688,400</b>	<b>-</b>	<b>-</b>	<b>1,688,400</b>
<b>Total investments at fair value</b>	<b>24,818,391</b>	<b>-</b>	<b>-</b>	<b>24,818,391</b>

Investments at fair value as at December 31, 2014				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Equities</b>				
Common stock	43,383,998	-	-	43,383,998
Limited partnership units	2,996,825	-	-	2,996,825
REIT	3,268,713	-	-	3,268,713
<b>Total equities</b>	<b>49,649,536</b>	<b>-</b>	<b>-</b>	<b>49,649,536</b>
<b>Fixed income</b>				
Corporate bonds	1,769,121	-	-	1,769,121
<b>Total fixed income</b>	<b>1,769,121</b>	<b>-</b>	<b>-</b>	<b>1,769,121</b>
<b>Total investments at fair value</b>	<b>51,418,657</b>	<b>-</b>	<b>-</b>	<b>51,418,657</b>

There were no Level 3 securities held by the Fund as at December 31, 2015 and December 31, 2014 and there were no significant transfers between Level 1 and Level 2 for the year ended December 31, 2015 or for the year ended December 31 2014.

The value of the equities and Level 1 debt securities is based on quoted prices.

## Concentration Risk

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

Geography:

As at	December 31, 2015		December 31, 2014	
Country of Issue	\$*	% of net assets	\$*	% of net assets
<b>Canada</b>	22,553,596	83.2	42,409,314	81.1
<b>United States of America</b>	2,264,795	8.4	9,009,343	17.2
<b>Totals</b>	<b>24,818,391</b>	<b>91.6</b>	<b>51,418,657</b>	<b>98.3</b>

\*Stated in Canadian dollars

## HARVEST Canadian Income & Growth Fund

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

Market Segment	December 31, 2015	December 31, 2014
	% of net assets	% of net assets
Banks and Other Financials	7.5	4.8
Consumer Discretionary Issuers	7.6	14.3
Consumer Staples Issuers	13.7	10.6
Energy Issuers	12.8	12.5
Information Technology Issuers	5.0	8.6
Industrial Issuers	4.6	6.6
Materials Issuers	6.1	-
Other Public Issuers	-	1.1
Pipeline Issuers	11.4	9.4
Real Estate Issuers	12.8	15.4
Telecommunication Service Issuers	3.9	2.2
Utility Issuers	-	9.4
Fixed Income	6.2	3.4
<b>Total</b>	<b>91.6</b>	<b>98.3</b>

### 7. 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 years ended December 31, 2015 and 2014 amounted to \$NIL.

## HARVEST Canadian Income & Growth Fund

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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.