



**HARVEST Banks & Buildings Income Fund**

Annual Financial Statements

December 31, 2017

# HARVEST Banks & Buildings Income 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"

*Signed* "Daniel Lazzar"

Michael Kovacs  
President and Chief Executive Officer

Daniel Lazzar  
Chief Financial Officer

Oakville, Canada  
March 26, 2018



March 26, 2018

## **Independent Auditor's Report**

### **To the Unitholders of Harvest Banks & Buildings Income Fund ("the Fund")**

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016 and the statements of comprehensive income (loss), changes in net assets attributable to holders of redeemable units and cash flows for the years ended December 31, 2017 and December 31, 2016, 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 audit 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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**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario

# HARVEST Banks & Buildings Income Fund

STATEMENTS OF FINANCIAL POSITION			
As at December 31,	2017		2016
<b>Assets</b>			
<b>Current assets</b>			
Investments	\$	11,091,276	\$ 13,077,624
Cash		535,893	992,737
Dividends and interest receivable		37,210	28,498
		<b>11,664,379</b>	<b>14,098,859</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Redemptions payable		17,469	505
Distributions payable (Note 4)		280,240	26,592
		<b>297,709</b>	<b>27,097</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>11,366,670</b>	<b>\$ 14,071,762</b>
<b>Net assets attributable to holders of redeemable units</b>			
Series R	\$	4,644,993	\$ 5,461,668
Series A		5,174,344	6,507,514
Series F		1,339,800	1,968,823
Series D		207,533	133,757
<b>Number of redeemable units outstanding (Note 4)</b>			
Series R		322,545	365,649
Series A		381,095	454,319
Series F		89,067	124,982
Series D		13,976	8,839
<b>Net assets attributable to holders of redeemable units per unit</b>			
Series R	\$	14.40	\$ 14.94
Series A		13.58	14.32
Series F		15.04	15.75
Series D		14.85	15.13

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

# HARVEST Banks & Buildings Income Fund

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)			
For the year ended December 31,	2017		2016
<b>Income</b>			
Net gain (loss) on investments			
Dividends	\$	320,581	\$ 705,554
Interest for distribution purposes		124,527	44,881
Net realized gain (loss) on sale of investments		2,522,379	620,784
Net change in unrealized appreciation (depreciation) of investments		(1,582,388)	1,205,364
Net gain (loss) on investments		1,385,099	2,576,583
Other income			
Net realized gain (loss) on foreign exchange		(10,266)	13,620
Net change in unrealized appreciation (depreciation) of foreign exchange		(1,597)	1,156
Other income		(11,863)	14,776
<b>Total income (net)</b>	<b>\$</b>	<b>1,373,236</b>	<b>\$ 2,591,359</b>
<b>Expenses (Note 5)</b>			
Management fees	\$	156,727	\$ 189,185
Service fees		104,330	128,572
Withholding taxes		14,466	12,002
Unitholder reporting costs		36,676	33,477
Audit fees		32,732	29,513
Transfer agency fees		42,817	37,150
Custodian fees and bank charges		40,960	42,997
Independent Review Committee fees		2,196	2,200
Filing fees		22,062	23,708
Legal fees		6,551	7,157
Transaction costs (Note 7)		9,229	12,123
<b>Total expenses</b>		<b>468,746</b>	<b>518,084</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>904,490</b>	<b>\$ 2,073,275</b>
Increase (decrease) in net assets attributable to holders of redeemable units -			
<b>Series R</b>	\$	390,893	\$ 788,454
<b>Series A</b>		378,290	896,406
<b>Series F</b>		121,303	372,106
<b>Series D</b>		14,004	16,309
Increase (decrease) in net assets attributable to holders of redeemable units per			
unit - <b>Series R (Note 4)</b>	\$	1.14	\$ 1.92
unit - <b>Series A (Note 4)</b>		0.93	1.60
unit - <b>Series F (Note 4)</b>		1.19	2.35
unit - <b>Series D (Note 4)</b>		1.23	3.49

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

## HARVEST Banks & Buildings Income Fund

<b>STATEMENTS OF CHANGES IN NET ASSETS</b>				
<b>ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>				
<b>ALL SERIES</b>				
<b>For the year ended December 31,</b>	<b>2017</b>		<b>2016</b>	
Net assets attributable to holders of redeemable units beginning of year	\$	14,071,762	\$	17,009,965
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>904,490</b>	<b>\$</b>	<b>2,073,275</b>
<b>Redeemable unit transactions</b>				
Proceeds from issue of redeemable units		260,343		395,235
Reinvestments of distributions to holders of redeemable units		883,527		555,306
Redemption of redeemable units		(3,334,807)		(5,016,821)
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>	<b>(2,190,937)</b>	<b>\$</b>	<b>(4,066,280)</b>
<b>Distributions to holders of redeemable units</b>				
Net investment income		-		(94,479)
Capital gain		(1,418,645)		-
Return of capital		-		(850,719)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>	<b>(1,418,645)</b>	<b>\$</b>	<b>(945,198)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$</b>	<b>11,366,670</b>	<b>\$</b>	<b>14,071,762</b>

<b>STATEMENTS OF CHANGES IN NET ASSETS</b>				
<b>ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>				
<b>SERIES R</b>				
<b>For the year ended December 31,</b>	<b>2017</b>		<b>2016</b>	
Net assets attributable to holders of redeemable units beginning of year	\$	5,461,668	\$	6,306,733
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>390,893</b>	<b>\$</b>	<b>788,454</b>
<b>Redeemable unit transactions</b>				
Proceeds from issue of redeemable units		-		29,230
Reinvestments of distributions to holders of redeemable units		371,451		230,065
Redemption of redeemable units		(1,006,190)		(1,474,841)
Transfer of redeemable units		(18,880)		(75,267)
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>	<b>(653,619)</b>	<b>\$</b>	<b>(1,290,813)</b>
<b>Distributions to holders of redeemable units</b>				
Net investment income		-		(37,698)
Capital gain		(553,949)		-
Return of capital		-		(305,008)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>	<b>(553,949)</b>	<b>\$</b>	<b>(342,706)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$</b>	<b>4,644,993</b>	<b>\$</b>	<b>5,461,668</b>

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

## HARVEST Banks & Buildings Income Fund

<b>STATEMENTS OF CHANGES IN NET ASSETS</b>				
<b>ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>				
<b>SERIES A</b>				
<b>For the year ended December 31,</b>	<b>2017</b>		<b>2016</b>	
Net assets attributable to holders of redeemable units beginning of year	\$	6,507,514	\$	9,119,811
Increase (decrease) in net assets attributable to holders of redeemable units	\$	378,290	\$	896,406
<b>Redeemable unit transactions</b>				
Proceeds from issue of redeemable units		62,691		171,364
Reinvestments of distributions to holders of redeemable units		392,840		261,727
Redemption of redeemable units		(1,371,371)		(2,019,131)
Transfer of redeemable units		(134,465)		(1,459,499)
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>	<b>(1,050,305)</b>	<b>\$</b>	<b>(3,045,539)</b>
<b>Distributions to holders of redeemable units</b>				
Net investment income		-		(28,716)
Capital gain		(661,155)		-
Return of capital		-		(434,448)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>	<b>(661,155)</b>	<b>\$</b>	<b>(463,164)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$</b>	<b>5,174,344</b>	<b>\$</b>	<b>6,507,514</b>

<b>STATEMENTS OF CHANGES IN NET ASSETS</b>				
<b>ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>				
<b>SERIES F</b>				
<b>For the year ended December 31,</b>	<b>2017</b>		<b>2016</b>	
Net assets attributable to holders of redeemable units beginning of year	\$	1,968,823	\$	1,554,410
Increase (decrease) in net assets attributable to holders of redeemable units	\$	121,303	\$	372,106
<b>Redeemable unit transactions</b>				
Proceeds from issue of redeemable units		108,475		108,608
Reinvestments of distributions to holders of redeemable units		109,614		61,345
Redemption of redeemable units		(936,865)		(1,517,446)
Transfer of redeemable units		153,345		1,524,860
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>	<b>(565,431)</b>	<b>\$</b>	<b>177,367</b>
<b>Distributions to holders of redeemable units</b>				
Net investment income		-		(28,065)
Capital gain		(184,895)		-
Return of capital		-		(106,995)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>	<b>(184,895)</b>	<b>\$</b>	<b>(135,060)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$</b>	<b>1,339,800</b>	<b>\$</b>	<b>1,968,823</b>

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



## HARVEST Banks & Buildings Income Fund

<b>STATEMENT OF CHANGES IN NET ASSETS</b>			
<b>ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			
<b>SERIES D</b>			
<b>For the year ended December 31,</b>		<b>2017</b>	<b>2016</b>
Net assets attributable to holders of redeemable units beginning of year	\$	133,757	\$ 29,011
Increase (decrease) in net assets attributable to holders of redeemable units	\$	14,004	\$ 16,309
<b>Redeemable unit transactions</b>			
Proceeds from issue of redeemable units		89,177	86,033
Reinvestments of distributions to holders of redeemable units		9,622	2,169
Redemption of redeemable units		(20,381)	(5,403)
Transfer of redeemable units		-	9,906
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>	<b>78,418</b>	<b>\$ 92,705</b>
<b>Distributions to holders of redeemable units</b>			
Capital gain		(18,646)	-
Return of capital		-	(4,268)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>	<b>(18,646)</b>	<b>\$ (4,268)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$</b>	<b>207,533</b>	<b>\$ 133,757</b>

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

# HARVEST Banks & Buildings Income Fund

STATEMENTS OF CASH FLOWS			
For the year ended December 31,	2017		2016
<b>Operating activities</b>			
Increase (decrease) in net assets attributable to holders of redeemable units	\$	904,490	\$ 2,073,275
<b>Add (deduct) items not affecting cash:</b>			
Realized (gain) on sale of investments		(2,522,379)	(620,784)
Change in unrealized (appreciation) depreciation of investments		1,582,388	(1,205,364)
Change in unrealized (appreciation) depreciation of foreign exchange.		1,597	(1,156)
Proceeds from sale of investments		6,423,709	6,709,382
Purchases of investments		(3,497,370)	(1,444,764)
Net change in non-cash assets and liabilities		(10,309)	21,394
<b>Net cash flow provided by (used in) operating activities</b>	<b>\$</b>	<b>2,882,126</b>	<b>\$ 5,531,983</b>
<b>Financing activities</b>			
Proceeds from redeemable units issued		260,343	395,235
Redemption of redeemable units		(3,317,843)	(5,024,404)
Distributions paid to holders of redeemable units (net of reinvested distributions)		(281,470)	(399,662)
<b>Net cash flow provided by (used in) financing activities</b>	<b>\$</b>	<b>(3,338,970)</b>	<b>\$ (5,028,831)</b>
Net increase (decrease) in cash during the year		(456,844)	503,152
Cash, beginning of the year		992,737	489,585
<b>Cash, end of the year</b>	<b>\$</b>	<b>535,893</b>	<b>\$ 992,737</b>
<b>Supplemental disclosure of cash flow information</b>			
Interest received during the year*	\$	124,527	\$ 44,803
Dividends received, net of withholding taxes*		297,403	713,790

\*included in operating activities

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

## HARVEST Banks & Buildings Income Fund

<b>SCHEDULE OF INVESTMENTS</b>				
<b>As at December 31, 2017</b>				
<b>Number of Shares</b>	<b>Security</b>	<b>Average Cost (\$)</b>	<b>Carrying Value (\$)</b>	<b>% of Net Assets</b>
<b>EQUITIES</b>				
<b>Banking and Other Financial Issuers</b>				
12,300	Bank of America Corporation	100,405	454,941	4.0
6,500	Bank of Montreal	424,212	653,835	5.8
5,600	Canadian Imperial Bank of Commerce	629,706	686,224	6.0
4,200	JPMorgan Chase & Co.	151,668	562,760	4.9
22,000	Manulife Financial Corporation	484,220	576,840	5.1
7,000	Morgan Stanley	390,668	460,196	4.0
7,000	Royal Bank of Canada	368,703	718,550	6.3
11,300	Sun Life Financial Inc.	286,502	586,244	5.2
7,800	The Bank of Nova Scotia	435,512	632,736	5.6
9,100	The Toronto-Dominion Bank	337,477	670,215	5.9
22,000	Timbercreek Financial Corp.	222,246	211,640	1.9
6,300	Wells Fargo & Company	219,431	478,904	4.2
		4,050,750	6,693,085	58.9
<b>Real Estate Issuers</b>				
2,400	Alexandria Real Estate Equities, Inc.	363,359	392,695	3.5
7,100	Allied Properties Real Estate Investment Trust	255,834	298,768	2.6
35,000	Chartwell Retirement Residences	522,388	569,100	5.0
26,300	Crombie Real Estate Investment Trust	293,415	362,940	3.2
3,400	Digital Realty Trust, Inc.	500,681	485,217	4.3
30,000	First Capital Realty Inc.	571,508	621,600	5.5
39,300	Killam Apartment Real Estate Investment Trust	423,482	558,846	4.9
72,500	Pure Industrial Real Estate Trust	334,443	490,825	4.3
20,000	Smart Real Estate Investment Trust	546,490	618,200	5.4
		3,811,600	4,398,191	38.7
	<b>Total investments</b>	<b>7,862,350</b>	<b>11,091,276</b>	<b>97.6</b>
	<b>Other assets less liabilities</b>		<b>275,394</b>	<b>2.4</b>
	<b>Net assets attributable to holders of redeemable units</b>		<b>11,366,670</b>	<b>100.0</b>

# HARVEST Banks & Buildings Income Fund

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

December 31, 2017

### 1. GENERAL INFORMATION

Harvest Banks & Buildings Income Fund (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated September 25, 2009 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 October 23, 2009. 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 October 18, 2011 (the “Conversion Date”). On the Conversion Date, the Units became redeemable at 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 to maximize total return for unitholders. As part of the investment strategy the Fund will invest in an actively managed portfolio that will consist primarily of Banking Issuers, Other Financial Issuers and Real Estate Issuers.

The Fund offers Series R, Series A, Series F and Series D units, only through registered dealers. Series R is the series in which all existing unitholders at October 18, 2011 were rolled into on the Conversion Date, on a unit-for-unit basis. New purchases in Series R are available to existing unitholders only, with an initial sales charge option. Series A units, which were created on October 18, 2011 but commenced operations on October 22, 2011, are available to all investors with an initial sales charge option and have a higher service fee than Series R. Series F units, which were created on October 18, 2011 but commenced operations on October 27, 2011, 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.

### 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 26, 2018.

### 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, 2017 and December 31, 2016, there were no differences between the Fund’s NAV per security and its net assets per security calculated in accordance with IFRS.

#### 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 are represented by equities.

## **HARVEST Banks & Buildings Income Fund**

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. 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.

### **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.

## HARVEST Banks & Buildings Income Fund

### **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 year.

### **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 had no capital or non-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 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 include 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 Manager does not expect any change in the measurement of the financial assets and liabilities of the Fund.

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## 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 redemptions 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 year indicated:

	Units outstanding			
	Series R	Series A	Series F	Series D
<b>Total outstanding as at January 1, 2016</b>	<b>462,797</b>	<b>689,629</b>	<b>108,972</b>	<b>2,107</b>
Redeemable units issued	2,215	13,048	7,690	6,205
Redeemable units issued on reinvestment	16,949	20,000	4,279	157
Redeemable units redeemed	(110,697)	(154,770)	(105,161)	(361)
Redeemable units transferred between Series	(5,615)	(113,588)	109,202	731
<b>Total outstanding as at December 31, 2016</b>	<b>365,649</b>	<b>454,319</b>	<b>124,982</b>	<b>8,839</b>
Redeemable units issued	-	4,396	6,832	5,826
Redeemable units issued on reinvestment	25,498	28,457	7,168	646
Redeemable units redeemed	(67,373)	(96,617)	(59,615)	(1,335)
Redeemable units transferred between Series	(1,229)	(9,460)	9,700	-
<b>Total outstanding as at December 31, 2017</b>	<b>322,545</b>	<b>381,095</b>	<b>89,067</b>	<b>13,976</b>

The weighted average number of units outstanding during the year ended December 31, 2017 was 343,782 units for Series R (2016 – 411,109 units), 404,806 units for Series A (2016 – 561,175 units), 101,798 units for Series F (2016 – 158,543 units) and 11,408 units for Series D (2016 – 4,675 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 \$1,418,645 which included an additional distribution amount at the end of the year in the amount \$701,526. The annual distribution rate was \$0.84 per unit plus an additional amount for Series R of \$0.87 per unit, Series A of \$0.88 per unit, Series F of \$1.18 per unit and Series D of \$0.66 per unit for the year ended December 31, 2017 (2016 - \$945,198 or \$0.84 per unit).

## 5. RELATED PARTY TRANSACTIONS AND OTHER EXPENSES

### Management fees and servicing fees

Harvest Portfolios Group Inc. is the Manager of the Fund and is responsible for managing the Fund's overall business and operations and provides key management personnel to the Fund. The Manager retained Avenue Investment Management Inc. ("Avenue" or the "Investment Manager") to provide investment management services to the Fund up until termination on January 15, 2017. Avenue was paid 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. On January 16, 2017, the Manager assumed the investment management responsibilities of the Fund.

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, Series D and Series R units for ongoing services they provide to investors, including investment advice, account statements and newsletters. Generally, the servicing fees, plus applicable taxes, are payable 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:

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Fund Series	Annual Management Fee	Dealer Service Fee	Total Fees
R	1.10%	0.40%	1.50%
A	1.10%	1.25%	2.35%
F	1.10%	0.00%	1.10%
D	1.10%	0.25%	1.35%

### Operating expenses

The Fund is responsible for all expenses relating to the operation and the carrying on of its business, including legal fees and audit fees, interest, taxes and administrative costs relating to the redemption of securities as well as the cost of financial and other reports, costs and expenses for the Fund's Independent Review Committee ("IRC"), including fees and expenses of the IRC members and compliance with applicable laws, regulations and policies. 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. There were no absorptions for the year ended December 31, 2017 and 2016. 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 \$27,937 for the year ended December 31, 2017 (2016 - \$27,793) and are included in the unitholder reporting costs on the Statements of Comprehensive Income (Loss).

## 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.

### 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, 2017, 97.6% (December 31, 2016 – 92.9%) 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 assets attributable to holders of redeemable units would have increased or decreased by approximately \$554,564 (December 31, 2016 - \$653,881).

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).



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Currency	As at December 31, 2017		As at December 31, 2016	
	Currency exposure*	As a % of net assets	Currency exposure*	As a % of net assets
U.S. Dollars	\$2,847,560	25.1	\$3,501,142	24.9

\*Amounts are in Canadian dollars

The non-monetary currency exposure is \$2,834,713 (December 31, 2016 - \$3,270,211) and the monetary currency exposure is \$12,847 (December 31, 2016 - \$230,931).

As at December 31, 2017, 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 assets attributable to holders of redeemable units would have increased or decreased, respectively, by approximately \$142,378 (December 31, 2016 - \$175,057) or 1.3% (December 31, 2016 - 1.2%). 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. The Fund held no fixed income securities at the end of December 31, 2017 and December 31, 2016.

As at December 31, 2017 and December 31, 2016 the Fund had no interest-bearing liabilities.

### 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, 2017 and December 31, 2016, all of the Fund's financial liabilities had maturities of less than three months.

### Credit risk

Credit risk is the risk that the 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 no holdings of fixed income debt instruments as at December 31, 2017 and December 31, 2016. 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, 2017 and December 31, 2016.

### 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.

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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 December 31, 2017				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Financial Assets</b>				
<b>Equities</b>				
Common Stock	7,314,685	-	-	7,314,685
REIT	3,776,591	-	-	3,776,591
<b>Total Financial Assets</b>	<b>11,091,276</b>	<b>-</b>	<b>-</b>	<b>11,091,276</b>

Investments at fair value as at December 31, 2016				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Financial Assets</b>				
<b>Equities</b>				
Common Stock	10,172,631	-	-	10,172,631
Limited Partnership	797,000	-	-	797,000
REIT	2,107,993	-	-	2,107,993
<b>Total Financial Assets</b>	<b>13,077,624</b>	<b>-</b>	<b>-</b>	<b>13,077,624</b>

There were no Level 3 securities held by the Fund as at December 31, 2017 and December 31, 2016. There were no transfers between Level 1 and Level 2 for the year ended December 31, 2017 or for the year ended December 31, 2016.

The value of 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, 2017		December 31, 2016	
	\$*	% of net assets	\$*	% of net assets
Canada	8,256,563	72.7	9,807,413	69.6
United States of America	2,834,713	24.9	3,270,211	23.3
<b>Totals</b>	<b>11,091,276</b>	<b>97.6</b>	<b>13,077,624</b>	<b>92.9</b>

\*Stated in Canadian dollars

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

	December 31, 2017	December 31, 2016
	% of net assets	% of net assets
Banking and Other Financial Issuers	58.9	58.9
Real Estate Issuers	38.7	22.0
Pipeline Issuers	-	6.3
Utility Issuers	-	5.7
<b>Total</b>	<b>97.6</b>	<b>92.9</b>

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### **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 year ended December 31, 2017 and 2016 amounted to \$nil.

# HARVEST Banks & Buildings Income 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.