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## INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

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**HARVEST Banks & Buildings Income Fund**

**June 30, 2018**



# HARVEST Banks & Buildings Income Fund

STATEMENTS OF FINANCIAL POSITION (Unaudited)			
As at		June 30, 2018	December 31, 2017
<b>Assets</b>			
<b>Current assets</b>			
Investments	\$	9,812,447	\$ 11,091,276
Cash		317,632	535,893
Dividends and interest receivable		31,706	37,210
Subscription receivable		800	-
		<b>10,162,585</b>	<b>11,664,379</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Redemptions payable		16,755	17,469
Distributions payable (Note 4)		18,459	280,240
		<b>35,214</b>	<b>297,709</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>10,127,371</b>	<b>\$ 11,366,670</b>
<b>Net assets attributable to holders of redeemable units</b>			
Series R	\$	4,171,328	\$ 4,644,993
Series A		4,478,449	5,174,344
Series F		1,249,180	1,339,800
Series D		228,414	207,533
<b>Number of redeemable units outstanding (Note 4)</b>			
Series R		301,054	322,545
Series A		345,099	381,095
Series F		86,010	89,067
Series D		15,960	13,976
<b>Net assets attributable to holders of redeemable units per unit</b>			
Series R	\$	13.86	\$ 14.40
Series A		12.98	13.58
Series F		14.52	15.04
Series D		14.31	14.85

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

# HARVEST Banks & Buildings Income Fund

STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)			
For the period ended June 30,	2018		2017
Income			
Net gain (loss) on investments			
Dividends	\$	139,240	\$ 261,027
Net realized gain (loss) on sale of investments		460,918	1,779,577
Net change in unrealized appreciation (depreciation) of investments		(505,434)	(1,681,403)
Net gain (loss) on investments		94,724	359,201
Other income			
Net realized gain (loss) on foreign exchange		731	3,705
Net change in unrealized appreciation (depreciation) of foreign exchange		(853)	(8,111)
Other income		(122)	(4,406)
Total income (net)	\$	94,602	\$ 354,795
Expenses (Note 5)			
Management fees	\$	65,576	\$ 82,435
Service fees		43,700	54,963
Withholding taxes		6,878	6,290
Unitholder reporting costs		18,265	19,441
Audit fees		7,883	5,177
Transfer agency fees		21,703	21,444
Custodian fees and bank charges		18,239	18,752
Independent Review Committee fees		706	1,527
Filing fees		21,155	21,962
Legal fees		4,183	1,017
Transaction costs (Note 7)		2,649	7,672
Total expenses		210,937	240,680
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(116,335)	\$ 114,115
Increase (decrease) in net assets attributable to holders of redeemable units - Series R			
	\$	(37,526)	\$ 51,841
Increase (decrease) in net assets attributable to holders of redeemable units - Series A			
		(69,843)	36,636
Increase (decrease) in net assets attributable to holders of redeemable units - Series F			
		(6,957)	24,459
Increase (decrease) in net assets attributable to holders of redeemable units - Series D			
		(2,009)	1,179
Increase (decrease) in net assets attributable to holders of redeemable units per unit - Series R (Note 4)			
	\$	(0.12)	\$ 0.15
Increase (decrease) in net assets attributable to holders of redeemable units per unit - Series A (Note 4)			
		(0.19)	0.09
Increase (decrease) in net assets attributable to holders of redeemable units per unit - Series F (Note 4)			
		(0.08)	0.22
Increase (decrease) in net assets attributable to holders of redeemable units per unit - Series D (Note 4)			
		(0.13)	0.11

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## HARVEST Banks & Buildings Income Fund

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ALL SERIES (Unaudited) For the period ended June 30,					2018	2017
Net assets attributable to holders of redeemable units beginning of period	\$		11,366,670	\$		14,071,762
Increase (decrease) in net assets attributable to holders of redeemable units	\$		(116,335)	\$		114,115
<b>Redeemable unit transactions</b>						
Proceeds from issue of redeemable units			115,881			215,740
Reinvestments of distributions to holders of redeemable units			206,619			230,892
Redemption of redeemable units			(1,124,346)			(1,798,529)
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>		<b>(801,846)</b>	<b>\$</b>		<b>(1,351,897)</b>
<b>Distributions to holders of redeemable units</b>						
Net investment income			(321,118)			(376,538)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>		<b>(321,118)</b>	<b>\$</b>		<b>(376,538)</b>
<b>Net assets attributable to holders of redeemable units end of period</b>	<b>\$</b>		<b>10,127,371</b>	<b>\$</b>		<b>12,457,442</b>

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES R (Unaudited) For the period ended June 30,					2018	2017
Net assets attributable to holders of redeemable units beginning of period	\$		4,644,993	\$		5,461,668
Increase (decrease) in net assets attributable to holders of redeemable units	\$		(37,526)	\$		51,841
<b>Redeemable unit transactions</b>						
Proceeds from issue of redeemable units			3,950			-
Reinvestments of distributions to holders of redeemable units			89,061			97,139
Redemption of redeemable units			(401,060)			(403,231)
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>		<b>(308,049)</b>	<b>\$</b>		<b>(306,092)</b>
<b>Distributions to holders of redeemable units</b>						
Net investment income			(128,090)			(148,330)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>		<b>(128,090)</b>	<b>\$</b>		<b>(148,330)</b>
<b>Net assets attributable to holders of redeemable units end of period</b>	<b>\$</b>		<b>4,171,328</b>	<b>\$</b>		<b>5,059,087</b>

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## HARVEST Banks & Buildings Income Fund

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES A (Unaudited) For the period ended June 30,					2018	2017
Net assets attributable to holders of redeemable units beginning of period	\$		5,174,344	\$		6,507,514
Increase (decrease) in net assets attributable to holders of redeemable units	\$		(69,843)	\$		36,636
<b>Redeemable unit transactions</b>						
Proceeds from issue of redeemable units			82,260			47,374
Reinvestments of distributions to holders of redeemable units			91,266			103,223
Redemption of redeemable units			(637,942)			(851,246)
Transfer of redeemable units			(10,857)			(73,787)
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>		<b>(475,273)</b>	<b>\$</b>		<b>(774,436)</b>
<b>Distributions to holders of redeemable units</b>						
Net investment income			(150,779)			(177,671)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>		<b>(150,779)</b>	<b>\$</b>		<b>(177,671)</b>
<b>Net assets attributable to holders of redeemable units end of period</b>	<b>\$</b>		<b>4,478,449</b>	<b>\$</b>		<b>5,592,043</b>

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES F (Unaudited) For the period ended June 30,					2018	2017
Net assets attributable to holders of redeemable units beginning of period	\$		1,339,800	\$		1,968,823
Increase (decrease) in net assets attributable to holders of redeemable units	\$		(6,957)	\$		24,459
<b>Redeemable unit transactions</b>						
Proceeds from issue of redeemable units			550			107,370
Reinvestments of distributions to holders of redeemable units			22,205			28,500
Redemption of redeemable units			(81,640)			(526,255)
Transfer of redeemable units			10,857			73,787
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$</b>		<b>(48,028)</b>	<b>\$</b>		<b>(316,598)</b>
<b>Distributions to holders of redeemable units</b>						
Net investment income			(35,635)			(45,980)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>		<b>(35,635)</b>	<b>\$</b>		<b>(45,980)</b>
<b>Net assets attributable to holders of redeemable units end of period</b>	<b>\$</b>		<b>1,249,180</b>	<b>\$</b>		<b>1,630,704</b>

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# HARVEST Banks & Buildings Income Fund

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES D (Unaudited) For the period ended June 30,					2018	2017
Net assets attributable to holders of redeemable units beginning of period	\$		207,533	\$		133,757
Increase (decrease) in net assets attributable to holders of redeemable units	\$		(2,009)	\$		1,179
<b>Redeemable unit transactions</b>						
Proceeds from issue of redeemable units			29,121			60,996
Reinvestments of distributions to holders of redeemable units			4,087			2,030
Redemption of redeemable units			(3,704)			(17,797)
<b>Net increase (decrease) in redeemable unit transactions</b>	\$		<b>29,504</b>	\$		<b>45,229</b>
<b>Distributions to holders of redeemable units</b>						
Net investment income			(6,614)			(4,557)
<b>Total distributions to holders of redeemable units</b>	\$		<b>(6,614)</b>	\$		<b>(4,557)</b>
<b>Net assets attributable to holders of redeemable units end of period</b>	\$		<b>228,414</b>	\$		<b>175,608</b>

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# HARVEST Banks & Buildings Income Fund

STATEMENTS OF CASH FLOWS (Unaudited)			
For the period ended June 30,		2018	2017
<b>Operating activities</b>			
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(116,335)	\$ 114,115
<b>Add (deduct) items not affecting cash:</b>			
Realized (gain) on sale of investments		(460,918)	(1,779,577)
Change in unrealized (appreciation) depreciation of investments		505,434	1,681,403
Change in unrealized (appreciation) depreciation of foreign exchange.		853	8,111
Proceeds from sale of investments		1,182,337	4,463,321
Purchases of investments		51,976	(3,215,808)
Net change in non-cash assets and liabilities		4,651	(16,095)
<b>Net cash flow provided by (used in) operating activities</b>	<b>\$</b>	<b>1,167,998</b>	<b>\$ 1,255,470</b>
<b>Financing activities</b>			
Proceeds from redeemable units issued		115,081	215,740
Redemption of redeemable units		(1,125,060)	(1,736,378)
Distributions paid to holders of redeemable units (net of reinvested distributions)		(376,280)	(149,106)
<b>Net cash flow provided by (used in) financing activities</b>	<b>\$</b>	<b>(1,386,259)</b>	<b>\$ (1,669,744)</b>
Net increase (decrease) in cash during the period		(218,261)	(414,274)
Cash, beginning of the period		535,893	992,737
<b>Cash, end of the period</b>	<b>\$</b>	<b>317,632</b>	<b>\$ 578,463</b>
<b>Supplemental disclosure of cash flow information</b>			
Dividends received, net of withholding taxes*	\$	137,866	\$ 246,753

\*included in operating activities

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

# HARVEST Banks & Buildings Income Fund

SCHEDULE OF INVESTMENTS (Unaudited)				
As at June 30, 2018				
Number of Shares	Security	Average Cost (\$)	Carrying Value (\$)	% of Net Assets
<b>EQUITIES</b>				
<b>Financials</b>				
11,600	Bank of America Corporation	94,691	429,896	4.3
6,200	Bank of Montreal	404,633	630,044	6.2
5,500	Canadian Imperial Bank of Commerce	618,461	628,980	6.2
3,200	JPMorgan Chase & Co.	115,557	438,357	4.3
22,000	Manulife Financial Corporation	484,220	519,640	5.1
7,000	Morgan Stanley	390,668	436,201	4.3
6,300	Royal Bank of Canada	331,833	623,637	6.2
11,300	Sun Life Financial Inc.	286,502	596,979	5.9
7,800	The Bank of Nova Scotia	435,512	580,632	5.7
8,400	The Toronto-Dominion Bank	311,518	639,156	6.3
22,000	Timbercreek Financial Corp.	222,246	201,080	2.0
6,300	Wells Fargo & Company	219,430	459,170	4.6
		3,915,271	6,183,772	61.1
<b>Real Estate</b>				
2,400	Alexandria Real Estate Equities, Inc.	363,359	398,087	3.9
7,100	Allied Properties Real Estate Investment Trust	251,065	297,135	2.9
28,900	Chartwell Retirement Residences	410,974	443,037	4.4
26,300	Crombie Real Estate Investment Trust	282,633	334,536	3.3
3,000	Digital Realty Trust, Inc.	441,777	440,066	4.4
25,000	First Capital Realty Inc.	476,257	516,500	5.1
39,300	Killam Apartment Real Estate Investment Trust	400,581	588,714	5.8
2,400	Smart Real Estate Investment Trust	547,038	610,600	6.0
		3,173,684	3,628,675	35.8
<b>Total investments</b>		<b>7,088,955</b>	<b>9,812,447</b>	<b>96.9</b>
<b>Other assets less liabilities</b>			<b>314,924</b>	<b>3.1</b>
<b>Net assets attributable to holders of redeemable units</b>			<b>10,127,371</b>	<b>100.0</b>



# HARVEST Banks & Buildings Income Fund

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

### 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 interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting and should be read in conjunction with the annual financial statements for the year ended December 31, 2017 which have been prepared in accordance with IFRS. These interim financial statements were authorized for issue by Harvest Portfolios Group Inc. (the “Manager”) on August 21, 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) based on its business model. The Fund’s obligation for net assets attributable to holders of redeemable units is presented at the redemption amount, which approximates fair value. 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. Carrying values of other financial assets and liabilities at amortized cost 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 June 30, 2018 and December 31, 2017, there were no differences between the Fund’s NAV per security and its net assets per security calculated in accordance with IFRS 9.

#### 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

## HARVEST Banks & Buildings Income Fund

within the bid-ask spread that is most representative of fair value based on specific facts and circumstances. Investments held are represented by equities.

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**

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 investments and derivatives under IFRS 9

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about the business model in which the portfolio of investments and derivatives is held. The Manager has determined that the Fund’s business model is one in which its portfolio is managed and performance evaluated on a fair value basis under IFRS 9.

## **Accounting standards effective January 1, 2018**

The Funds have adopted IFRS 9, Financial Instruments in the current reporting period commencing January 1, 2018, replacing IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 introducing 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. The business model determined by the Fund is the fair value business model.

Upon transition to IFRS 9, the Fund’s portfolio investments and derivative instruments previously either designated at fair value through profit and loss or held for trading under IAS 39 continued to be categorized as fair value through profit and loss.

Other financial assets and liabilities previously classified as loans and receivables under IAS 39 are categorized as amortized cost under IFRS 9.

# HARVEST Banks & Buildings Income Fund

## 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 period indicated:

	Units outstanding			
	Series R	Series A	Series F	Series D
<b>Total outstanding as at January 1, 2017</b>	<b>365,649</b>	<b>454,319</b>	<b>124,982</b>	<b>8,839</b>
Redeemable units issued	-	3,297	6,761	4,005
Redeemable units issued on reinvestment	6,541	7,273	1,816	135
Redeemable units redeemed	(26,880)	(59,354)	(33,034)	(1,163)
Redeemable units transferred between Series	-	(5,087)	4,617	-
<b>Total outstanding as at June 30, 2017</b>	<b>345,310</b>	<b>400,448</b>	<b>105,142</b>	<b>11,816</b>
<b>Total outstanding as at January 1, 2018</b>	<b>322,545</b>	<b>381,095</b>	<b>89,067</b>	<b>13,976</b>
Redeemable units issued	279	6,165	37	1,946
Redeemable units issued on reinvestment	6,356	6,931	1,514	283
Redeemable units redeemed	(28,126)	(48,255)	(5,360)	(245)
Redeemable units transferred between Series	-	(837)	752	-
<b>Total outstanding as at June 30, 2018</b>	<b>301,054</b>	<b>345,099</b>	<b>86,010</b>	<b>15,960</b>

The weighted average number of units outstanding during the period ended June 30, 2018 was 307,473 units for Series R (2017 – 355,929 units), 362,417 units for Series A (2017 – 427,597 units), 85,291 units for Series F (2017 – 110,943 units) and 15,617 units for Series D (2017 – 10,770 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 \$321,118 (\$0.42 per unit) for the period ended June 30, 2018 (2017 - \$376,538 or \$0.42 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:

# HARVEST Banks & Buildings Income Fund

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 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. There were no absorptions for the period ended June 30, 2018 and 2017. 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 \$14,918 for the period ended June 30, 2018 (2017 - \$14,161) 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 June 30, 2018, 96.9% (December 31, 2017 – 97.6%) 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 \$490,622 (December 31, 2017 - \$554,564).

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).



# HARVEST Banks & Buildings Income Fund

	As at June 30, 2018		As at December 31, 2017	
Currency	Currency exposure*	As a % of net assets	Currency exposure*	As a % of net assets
U.S. Dollars	\$2,725,459	26.9	\$2,847,560	25.1

\*Amounts are in Canadian dollars

The non-monetary currency exposure is \$2,601,777 (December 31, 2017 - \$2,834,713) and the monetary currency exposure is \$123,683 (December 31, 2017 - \$12,847).

As at June 30, 2018, 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 \$136,273 (December 31, 2017 - \$142,378) or 1.4% (December 31, 2017 - 1.3%). 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 June 30, 2018 and December 31, 2017.

As at June 30, 2018 and December 31, 2017 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 June 30, 2018 and December 31, 2017, 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 June 30, 2018 and December 31, 2017. 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 June 30, 2018 and December 31, 2017.

## 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.

## HARVEST Banks & Buildings Income Fund

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

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

Securities classification:

Investments at fair value as at June 30, 2018				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Financial Assets</b>				
<b>Equities</b>				
Common Stock	6,183,772	-	-	6,183,772
REIT	3,628,675	-	-	3,628,675
<b>Total Financial Assets</b>	<b>9,812,447</b>	<b>-</b>	<b>-</b>	<b>9,812,447</b>

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>

There were no Level 3 securities held by the Fund as at June 30, 2018 and December 31, 2017. There were no transfers between Level 1 and Level 2 for the period ended June 30, 2018 and 2017.

The value of equities 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	June 30, 2018		December 31, 2017	
Country of Issue	\$*	% of net assets	\$*	% of net assets
Canada	7,210,670	71.1	8,256,563	72.7
United States of America	2,601,777	25.8	2,834,713	24.9
<b>Totals</b>	<b>9,812,447</b>	<b>96.9</b>	<b>11,091,276</b>	<b>97.6</b>

\*Stated in Canadian dollars

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

	June 30, 2018	December 31, 2017
	% of net assets	% of net assets
Financials	61.1	58.9
Real Estate	35.8	38.7
<b>Total</b>	<b>96.9</b>	<b>97.6</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 period ended June 30, 2018 and 2017 amounted to \$nil.



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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 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.