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**ANNUAL FINANCIAL STATEMENTS**

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**Harvest Banks & Buildings Income ETF**

**December 31, 2018**



# Harvest Banks & Buildings Income ETF

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

On behalf of Harvest Portfolios Group Inc.,

*Signed* "Michael Kovacs"

Michael Kovacs  
President and Chief Executive Officer

*Signed* "Daniel Lazzer"

Daniel Lazzer  
Chief Financial Officer

Oakville, Canada  
March 14, 2019



## *Independent auditor's report*

To the Unitholders and Trustee of Harvest Banks & Buildings Income ETF (the Fund)

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and its financial performance and its cash flows for the period from March 26, 2018 (commencement of operations) to December 31, 2018 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2018;
  - the statement of comprehensive income (loss) for the period from March 26, 2018 (commencement of operations) to December 31, 2018;
  - the statement of changes in net assets attributable to holders of redeemable units for the period from March 26, 2018 (commencement of operations) to December 31, 2018;
  - the statement of cash flows for the period from March 26, 2018 (commencement of operations) to December 31, 2018; and
  - the notes to the financial statements, which include a summary of significant accounting policies.
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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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*PricewaterhouseCoopers LLP*  
*PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2*  
*T: +1 416 863 1133, F: +1 416 365 8215*



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### *Other information*

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Christopher Pitts.

**(Signed) "PricewaterhouseCoopers LLP"**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario,  
March 14, 2019

# Harvest Banks & Buildings Income ETF

<b>STATEMENT OF FINANCIAL POSITION</b>	
<b>As at December 31,</b>	<b>2018</b>
<b>Assets</b>	
<b>Current assets</b>	
Investments	\$ 2,219,870
Cash	97,332
Dividends and interest receivable	8,887
	<b>2,326,089</b>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Distributions payable (Note 4)	11,450
	<b>11,450</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>\$ 2,314,639</b>
<b>Number of redeemable units outstanding (Note 4)</b>	<b>125,000</b>
<b>Net assets attributable to holders of redeemable units per unit</b>	<b>\$ 18.52</b>

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

# Harvest Banks & Buildings Income ETF

<b>STATEMENT OF COMPREHENSIVE INCOME (LOSS)</b>	
<b>For the period from March 26, 2018 (commencement of operations) to December 31, 2018</b>	<b>2018</b>
<b>Income</b>	
Net gain (loss) on investments	
Dividends	\$ 72,035
Net realized gain (loss) on sale of investments	(1,921)
Net change in unrealized appreciation (depreciation) of investments	(143,778)
Net gain (loss) on investments	(73,664)
Other gain (loss)	
Net realized gain (loss) on foreign exchange	3,830
Other gain (loss)	3,830
<b>Total income (net)</b>	<b>\$ (69,834)</b>
<b>Expenses (Note 5)</b>	
Management fees	\$ 16,836
Withholding taxes	2,352
Unitholder reporting costs	5,635
Audit fees	32,074
Transfer agency fees	7,005
Custodian fees and bank charges	31,294
Independent Review Committee fees	111
Filing fees	8,626
Legal fees	78
Transaction costs (Note 7)	680
<b>Total expenses</b>	<b>104,691</b>
Expenses absorbed by manager (Note 5)	(73,809)
<b>Total expenses (net)</b>	<b>30,882</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$ (100,716)</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit (Note 4)</b>	<b>\$ (0.88)</b>

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

## Harvest Banks & Buildings Income ETF

<b>STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	
For the period from March 26, 2018 (commencement of operations) to December 31, 2018	
	2018
Net assets attributable to holders of redeemable units beginning of period	\$ -
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (100,716)
<b>Redeemable unit transactions</b>	
Proceeds from issue of redeemable units	2,511,535
<b>Net increase (decrease) in redeemable unit transactions</b>	<b>\$ 2,511,535</b>
<b>Distributions to holders of redeemable units</b>	
Return of capital	(96,180)
<b>Total distributions to holders of redeemable units</b>	<b>\$ (96,180)</b>
<b>Net assets attributable to holders of redeemable units end of period</b>	<b>\$ 2,314,639</b>

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



# Harvest Banks & Buildings Income ETF

<b>STATEMENT OF CASH FLOWS</b>	
For the period from March 26, 2018 (commencement of operations) to December 31,	<b>2018</b>
<b>Operating activities</b>	
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (100,716)
<b>Add (deduct) items not affecting cash:</b>	
Realized (gain) on sale of investments	1,921
Change in unrealized (appreciation) depreciation of investments	143,778
Proceeds from sale of investments**	248,394
Purchases of investments**	(320,024)
Net change in non-cash assets and liabilities	(8,887)
<b>Net cash flow provided by (used in) operating activities</b>	<b>\$ (35,534)</b>
<b>Financing activities **</b>	
Proceeds from redeemable units issued	217,596
Distributions paid to holders of redeemable units (net of reinvested distributions)	(84,730)
<b>Net cash flow provided by (used in) financing activities</b>	<b>\$ 132,866</b>
Net increase (decrease) in cash during the period	97,332
Cash, beginning of the period	-
<b>Cash, end of the period</b>	<b>\$ 97,332</b>
<b>Supplemental disclosure of cash flow information</b>	
Dividends received, net of withholding taxes*	\$ 60,796

\*included in operating activities

\*\*net cash inflows (outflows) excludes trades that were not settled in cash (in-kind trades)

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

# Harvest Banks & Buildings Income ETF

<b>SCHEDULE OF INVESTMENTS</b>				
<b>As at December 31, 2018</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>Financials</b>				
2,890	Bank of America Corporation	113,257	97,215	4.2
1,540	Bank of Montreal	151,496	137,353	5.9
1,385	Canadian Imperial Bank of Commerce	159,100	140,827	6.1
808	JPMorgan Chase & Co.	115,430	107,683	4.7
5,510	Manulife Financial Corporation	132,163	106,729	4.6
1,775	Morgan Stanley	121,562	96,081	4.2
1,328	Royal Bank of Canada	132,614	124,088	5.4
2,875	Sun Life Financial Inc.	153,211	130,209	5.6
1,955	The Bank of Nova Scotia	153,361	133,038	5.7
1,624	The Toronto-Dominion Bank	119,185	110,205	4.8
5,575	Timbercreek Financial Corp.	50,694	48,781	2.1
		<b>1,402,073</b>	<b>1,232,209</b>	<b>53.3</b>
<b>Real Estate</b>				
492	Alexandria Real Estate Equities, Inc.	78,007	77,404	3.3
1,770	Allied Properties Real Estate Investment Trust	71,432	78,446	3.4
7,270	Chartwell Retirement Residences	113,427	99,381	4.3
755	Digital Realty Trust, Inc.	103,052	109,824	4.7
7,125	First Capital Realty Inc.	143,213	134,306	5.8
7,300	InterRent Real Estate Investment Trust	85,399	95,265	4.1
9,880	Killam Apartment Real Estate Investment Trust	138,689	157,487	6.8
1,000	Prologis, Inc.	81,693	80,165	3.5
5,040	SmartCentres Real Estate Investment Trust	146,999	155,383	6.7
		<b>961,911</b>	<b>987,661</b>	<b>42.6</b>
	<b>Total investments</b>	<b>2,363,984</b>	<b>2,219,870</b>	<b>95.9</b>
	<b>Other assets less liabilities</b>		<b>94,769</b>	<b>4.1</b>
	<b>Net assets attributable to holders of redeemable units</b>		<b>2,314,639</b>	<b>100.0</b>

# Harvest Banks & Buildings Income ETF

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

December 31, 2018

### 1. GENERAL INFORMATION

Harvest Banks & Buildings Income ETF (the "Fund") is an investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated January 26, 2018 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 March 26, 2018. The address of the Fund's registered office is 710 Dorval Drive, Oakville, Ontario, L6K 3V7.

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.

### 2. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). These financial statements were authorized for issue by Harvest Portfolios Group Inc. (the "Manager") on March 14, 2019.

### 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 December 31, 2018 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 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's units include different redemption rights and in some instances are at 95% of market value of the units on the exchange. As a result, the Fund's units contain multiple contractual obligations 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.

# Harvest Banks & Buildings Income ETF

## 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. Dividend income is accounted for on the ex-dividend date. The cost of investments is determined using the average cost method.

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.

## 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 Statement 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 and liabilities, 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 Statement of Financial Position are translated into Canadian dollars on the statement date.

## Redeemable units valuation

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

## Increase (decrease) in net assets attributable to holders of redeemable units per unit

"Increase (decrease) in net assets attributable to holders of redeemable units per unit" in the Statement of Comprehensive Income (Loss) represents the increase (decrease) in net assets attributable to holders of redeemable units, divided by the weighted average units outstanding, for the financial period.

## Income and other taxes

As at December 31, 2018, the Fund was a unit trust however has until March 31, 2019 to qualify as a mutual fund trust under the Income Tax Act (Canada) ("Act"). Subsequent to December 31, 2018, the Manager determined that the Fund would not meet mutual fund trust status and therefore be considered a financial institution under the Act. The result is the Fund being subject to the mark-to-market rules with respect to the investments that qualify as 'mark to market property' under the Act and therefore all realized gains and losses, and changes in unrealized gains and losses, with respect to mark to market property are taxed as income on a yearly basis. For the year ended December 31, 2018, all distributions were considered return of capital as the Fund had net realized losses for the year.

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 has \$90,405 non-capital losses and no net capital losses available to be carried forward for income tax purposes.

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

As the Manager is a resident of Ontario, the expenses paid by the Fund 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.

# Harvest Banks & Buildings Income ETF

## 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.

## 4. REDEEMABLE UNITS

The authorized capital of the Fund consists of an unlimited number of transferable units of one class representing an equal, undivided interest in the net assets of the Fund. Except as provided in the Declaration of Trust, all units have equal rights and privileges. Each unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally in any and all distributions made by the Fund. The units trade on the TSX under the symbol HCB. As at December 31, 2018, the closing price of the units was \$18.80 per unit.

### Subscriptions and Redemptions

On any trading day, a designated broker or underwriter may place a subscription or redemption order for an integral multiple of the prescribed number of units of the ETF. A trading day is each day on which the TSX is opened for business.

If the subscription or redemption order is accepted, the ETF will issue or redeem units to/from the designated broker or underwriter generally by the second trading day after the date on which the subscription or redemption order is accepted. For each prescribed number of units issued or redeemed, a designated broker or underwriter must deliver or receive payment consisting of:

- (a) A basket of applicable securities and cash in an amount sufficient so that the value of the securities, and the cash received is equal to the NAV of the units issued or redeemed; or  
(b) Cash in the amount equal to the NAV of the units issued or redeemed.

On any trading day, unitholders may redeem units for cash or exchange units for baskets of securities and cash. Units redeemed for cash may be redeemed at a redemption price per unit equal to 95% of the closing price for the units on the TSX on the effective day of the redemption, subject to a maximum redemption price per unit equal to NAV. Units exchanged for baskets of securities will be exchanged at a price equal to the NAV of the units on the effective date of the exchange request, payable by delivery of baskets of securities and cash. The units will be redeemed in the exchange.

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

	Units outstanding
<b>Initial issuance, March 26, 2018</b>	<b>100,000</b>
Redeemable units issued	25,000
<b>Total outstanding as at December 31, 2018</b>	<b>125,000</b>

The weighted average number of units outstanding during the period ended December 31, 2018 was 115,054.

### Distributions

The Fund intends to make monthly cash distributions to unitholders of record on the last business day of each month and pay such cash distributions on or before the 15th day of the following month. The distribution amount was \$96,180 for the year ended December 31, 2018.

# Harvest Banks & Buildings Income ETF

## 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 Fund pays the Manager an annual management fee of 0.85%, plus applicable taxes, based on a percentage of the average daily net asset value ("NAV") of the Fund.

### Operating expenses

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

The Manager may, in some cases, absorb a portion of the Fund's operating expenses. For the period ended December 31, 2018 the Fund absorbed \$73,809 expenses. 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 \$1,916 for the period ended December 31, 2018 and are included in the unitholder reporting costs on the Statement of Comprehensive Income (Loss) in the financial statements.

## 6. FINANCIAL RISK MANAGEMENT

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

### 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, 2018, 95.9% 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 period end, with all other factors remaining constant, net assets attributable to holders of redeemable units would have increased or decreased by approximately \$110,994.

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.

## Harvest Banks & Buildings Income ETF

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).

Currency	As at December 31, 2018	
	Currency exposure*	As a % of net assets
U.S. Dollars	\$640,983	27.7

\*Amounts are in Canadian dollars

The non-monetary currency exposure is \$568,372 and the monetary currency exposure is \$72,611.

As at December 31, 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 \$32,049 or 1.4%. 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, 2018.

As at December 31, 2018 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 redemption of units as described in Note 4. Since the settlement of redemptions is primarily by delivery of securities, the Fund is not exposed to any significant liquidity risk. 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. In addition, the Fund retains sufficient cash and cash equivalent positions to maintain liquidity.

As at December 31, 2018 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.

As at December 31, 2018, the Fund did not have significant credit risk exposure. All cash held by the fund is held with a reputable and regulated financial institution.

### Fair value of financial instruments

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

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

**Level 3:** Inputs for the asset or liability that are not based on observable market data.

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



## Harvest Banks & Buildings Income ETF

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, 2018				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Financial Assets</b>				
<b>Equities</b>				
Common Stock	1,232,209	-	-	1,232,209
REIT	888,280	-	-	888,280
Trust Unit	99,381	-	-	99,381
<b>Total Financial Assets</b>	<b>2,219,870</b>	<b>-</b>	<b>-</b>	<b>2,219,870</b>

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

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	December 31, 2018
	% of net assets
Canada	71.3
United States of America	24.6
<b>Totals</b>	<b>95.9</b>

Market Segment:

As at	December 31, 2018
	% of net assets
Financials	53.3
Real Estate	42.6
<b>Total</b>	<b>95.9</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 December 31, 2018 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.