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## ANNUAL FINANCIAL STATEMENTS

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**Australian REIT Income Fund**

**December 31, 2022**



# Australian REIT 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"

Michael Kovacs  
President and Chief Executive Officer

*Signed* "Daniel Lazzer"

Daniel Lazzer  
Chief Financial Officer

Oakville, Canada  
March 15, 2023



## Independent auditor's report

To the Unitholders and Trustee of Australian REIT Income Fund (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, 2022 and 2021 and its financial performance and its cash flows for the years then ended 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 statements of financial position as at December 31, 2022 and 2021;
- the statements of comprehensive income (loss) for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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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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### Other information

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

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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.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
March 15, 2023

# Australian REIT Income Fund

STATEMENTS OF FINANCIAL POSITION			
As at December 31,	2022		2021
<b>Assets</b>			
<b>Current assets</b>			
Investments	\$	8,683,021	\$ 11,372,125
Cash		62,593	18,588
Dividends receivable		129,838	115,479
Receivable for investments sold		-	206,085
		<b>8,875,452</b>	<b>11,712,277</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Loan payable (Note 10)		2,693,530	2,698,868
Distributions payable (Note 4)		36,523	36,898
Unrealized depreciation on foreign currency forward contracts (Note 6)		-	36,051
		<b>2,730,053</b>	<b>2,771,817</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>6,145,399</b>	<b>\$ 8,940,460</b>
<b>Net assets attributable to holders of redeemable units</b>			
Series A	\$	6,050,342	\$ 8,732,704
Series F		95,057	207,756
<b>Number of redeemable units outstanding (Note 4)</b>			
Series A		655,948	658,267
Series F		8,100	12,595
<b>Net assets attributable to holders of redeemable units per unit</b>			
Series A	\$	9.22	\$ 13.27
Series F		11.74	16.50

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

# Australian REIT Income Fund

<b>STATEMENTS OF COMPREHENSIVE INCOME (LOSS)</b>		
<b>For the year ended December 31,</b>	<b>2022</b>	<b>2021</b>
<b>Income</b>		
Net gain (loss) on investments		
Dividends	\$ 438,637	\$ 451,166
Net realized gain (loss) on sale of investments	(248,988)	(52,401)
Net change in unrealized appreciation (depreciation) of investments	(2,282,817)	1,417,721
Net gain (loss) on investments	(2,093,168)	1,816,486
Net gain (loss) on derivatives		
Net realized gain (loss) on foreign exchange	151,629	384,046
Net change in unrealized appreciation (depreciation) of foreign exchange	38,708	241,379
Net gain (loss) on derivatives	190,337	625,425
<b>Total income (net)</b>	<b>\$ (1,902,831)</b>	<b>\$ 2,441,911</b>
<b>Expenses (Note 5)</b>		
Management fees	\$ 93,194	\$ 116,165
Service fees	-	34,190
Withholding taxes	52,425	65,697
Unitholder reporting costs	29,909	33,707
Audit fees	23,783	18,241
Transfer agency fees	20,295	20,842
Custodian fees and bank charges	28,285	37,124
Independent Review Committee fees	225	429
Interest expense (Note 10)	96,230	47,533
Filing fees	32,724	29,680
Legal fees	4,852	6,098
Transaction costs (Note 9)	2,223	2,309
<b>Total expenses</b>	<b>384,145</b>	<b>412,015</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$ (2,286,976)</b>	<b>\$ 2,029,896</b>
Increase (decrease) in net assets attributable to holders of redeemable units - <b>Series A</b>	\$ (2,232,418)	\$ 1,984,942
Increase (decrease) in net assets attributable to holders of redeemable units - <b>Series F</b>	(54,558)	44,954
Increase (decrease) in net assets attributable to holders of redeemable units per unit - <b>Series A (Note 4)</b>	\$ (3.38)	\$ 2.85
Increase (decrease) in net assets attributable to holders of redeemable units per unit - <b>Series F (Note 4)</b>	(5.13)	3.53

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

## Australian REIT Income Fund

<b>STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ALL SERIES</b>			
<b>For the year ended December 31,</b>	<b>2022</b>		<b>2021</b>
<b>Net assets attributable to holders of redeemable units beginning of year</b>	<b>\$</b>	<b>8,940,460</b>	<b>\$ 8,001,001</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>(2,286,976)</b>	<b>\$ 2,029,896</b>
<b>Redeemable unit transactions</b>			
Reinvestment of distributions to holders of redeemable units		8,161	7,586
Redemption of redeemable units		(75,335)	(632,133)
<b>Net redeemable unit transactions</b>	<b>\$</b>	<b>(67,174)</b>	<b>\$ (624,547)</b>
<b>Distributions to holders of redeemable units</b>			
From net investment income		-	(40,014)
Return of capital		(440,911)	(425,876)
<b>Total distributions to holders of redeemable units</b>	<b>\$</b>	<b>(440,911)</b>	<b>\$ (465,890)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$</b>	<b>6,145,399</b>	<b>\$ 8,940,460</b>

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

# Australian REIT Income Fund

## STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES A

For the year ended December 31,	2022	2021
Net assets attributable to holders of redeemable units beginning of year	\$ 8,732,704	\$ 7,807,319
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (2,232,418)	\$ 1,984,942
<b>Redeemable unit transactions</b>		
Reinvestment of distributions to holders of redeemable units	8,161	7,586
Redemption of redeemable units	(24,078)	(632,133)
Transfer of units from Series F	-	22,471
<b>Net redeemable unit transactions</b>	<b>\$ (15,917)</b>	<b>\$ (602,076)</b>
<b>Distributions to holders of redeemable units</b>		
From net investment income	-	(38,707)
Return of capital	(434,027)	(418,774)
<b>Total distributions to holders of redeemable units</b>	<b>\$ (434,027)</b>	<b>\$ (457,481)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$ 6,050,342</b>	<b>\$ 8,732,704</b>

## STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS SERIES F

For the year ended December 31,	2022	2021
Net assets attributable to holders of redeemable units beginning of year	\$ 207,756	\$ 193,682
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (54,558)	\$ 44,954
<b>Redeemable unit transactions</b>		
Redemption of redeemable units	(51,257)	-
Transfer of units to Series A	-	(22,471)
<b>Net redeemable unit transactions</b>	<b>\$ (51,257)</b>	<b>\$ (22,471)</b>
<b>Distributions to holders of redeemable units</b>		
From net investment income	-	(1,307)
Return of capital	(6,884)	(7,102)
<b>Total distributions to holders of redeemable units</b>	<b>\$ (6,884)</b>	<b>\$ (8,409)</b>
<b>Net assets attributable to holders of redeemable units end of year</b>	<b>\$ 95,057</b>	<b>\$ 207,756</b>

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

# Australian REIT Income Fund

STATEMENTS OF CASH FLOWS		
For the year ended December 31,	2022	2021
<b>Operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (2,286,976)	\$ 2,029,896
<b>Add (deduct) items not affecting cash:</b>		
Foreign exchange (gain) loss on cash	1,250	(634)
Realized (gain) loss on sale of investments	248,988	52,401
Change in unrealized (appreciation) depreciation of investments	2,282,817	(1,417,721)
Change in unrealized (appreciation) depreciation of foreign exchange	(38,708)	(241,379)
Proceeds from sale of investments	1,921,185	545,631
Purchases of investments	(1,557,801)	-
Net change in non-cash assets and liabilities	(11,702)	20,743
<b>Net cash flow provided by (used in) operating activities</b>	<b>\$ 559,053</b>	<b>\$ 988,937</b>
<b>Financing activities</b>		
Net (repayment) borrowing of term credit facility (Note 10)	(5,338)	398
Redemption of redeemable units	(75,335)	(632,133)
Distributions paid to holders of redeemable units (net of reinvestments)	(433,125)	(461,163)
<b>Net cash flow provided by (used in) financing activities</b>	<b>\$ (513,798)</b>	<b>\$ (1,092,898)</b>
Net increase (decrease) in cash during the year	45,255	(103,961)
Foreign exchange gain (loss) on cash	(1,250)	634
Cash, beginning of the year	18,588	121,915
<b>Cash, end of the year</b>	<b>\$ 62,593</b>	<b>\$ 18,588</b>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid during the year*	\$ 96,230	\$ 47,533
Dividends received, net of withholding taxes*	371,853	407,835

\*included in operating activities

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

## Australian REIT Income Fund

<b>SCHEDULE OF INVESTMENTS</b>				
<b>As at December 31, 2022</b>				
<b>Number of Shares</b>	<b>Security</b>	<b>Average Cost (\$)</b>	<b>Fair Value (\$)</b>	<b>% of Net Assets</b>
	<b>EQUITIES</b>			
	<b>Real Estate</b>			
147,036	Centuria Industrial REIT	378,236	422,911	6.9
69,815	Charter Hall Group	304,332	771,038	12.5
170,041	Charter Hall Retail REIT	730,452	600,375	9.8
81,264	Dexus	615,786	580,591	9.4
76,790	Goodman Group	577,481	1,228,923	20.0
684,801	HomeCo Daily Needs REIT	890,356	811,218	13.2
100,600	Ingenia Communities Group	488,096	414,549	6.7
358,278	Mirvac Group	646,704	703,509	11.5
236,058	Scentre Group	882,606	626,731	10.2
229,775	Stockland	956,643	768,917	12.5
191,745	The GPT Group	794,720	742,410	12.1
366,264	Vicinity Centres	1,018,500	675,296	11.0
132,755	Waypoint REIT Limited	328,866	336,553	5.5
	<b>Total investments</b>	<b>8,612,778</b>	<b>8,683,021</b>	<b>141.3</b>
	<b>Loan payable (Note 10)</b>		<b>(2,700,000)</b>	<b>(43.9)</b>
	<b>Other assets less liabilities</b>		<b>162,378</b>	<b>2.6</b>
	<b>Net assets attributable to holders of redeemable units</b>		<b>6,145,399</b>	<b>100.0</b>

# Australian REIT Income Fund

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

December 31, 2022

### 1. GENERAL INFORMATION

Australian REIT Income Fund (the “Fund”) is an investment fund established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated February 26, 2013 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 21, 2013. On March 21, 2013, Series A and Series F completed an initial public offering of 5,311,381 and 188,619 units at \$12.00 per unit for gross proceeds of \$63,736,572 and \$2,263,428 respectively. On April 29, 2013, an over-allotment option was exercised on Series A for an additional 33,666 units at a price of \$12.00 per unit for a gross proceed of \$403,992. The address of the Fund’s registered office is 610 Chartwell Road, Oakville, Ontario, L6J 4A5.

The Fund’s investment objectives are to provide unitholders with stable monthly cash distributions and the opportunity for capital appreciation. To seek to achieve its investment objectives, the Fund will invest in an actively managed portfolio comprised primarily of equity securities listed on the Australian Securities Exchange (“ASX”) issued by Australian real estate investment trusts and to a lesser extent, issuers principally engaged in the real estate industry in Australia.

The Fund is offering Series A units and Series F units. The Series F units are designed for fee-based and/or institutional accounts and differ from the Series A units in the following ways: (i) Series F units will not be listed on a stock exchange; (ii) the Agents’ fees payable on the issuance of the Series F units were lower than those payable on the issuance of the Series A units; and (iii) no service fee is payable in respect of the Series F units.

### 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 15, 2023.

### 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 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. 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, 2022 and 2021, 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 and derivatives

Investments and derivatives 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. Derivatives held include foreign currency forward contracts.

Investments and derivatives held that are not traded in 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.

# Australian REIT Income Fund

## 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. In addition to the annual redemption at 100% of NAV, the Fund's units are redeemable at 95% of their market price monthly. As a result, the Fund's units contain multiple contractual obligations and are presented as financial liabilities on transition to IFRS 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 sale of investments and net change in unrealized appreciation (depreciation) of 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.

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

Management 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 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 Statements of Financial Position are translated into Canadian dollars on the statement date.

## Foreign currency forward contracts

The Fund will enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The fair value of these contracts is based on the difference between the contract rate and current forward market rate for the underlying currency at the measurement date applied to the contract's notional amount and adjusted for counterparty risk. Upon closing of a contract, the gain or loss is included in the Statements of Comprehensive Income (Loss) in "Net realized gain (loss) on foreign exchange". The unrealized gains or losses on forward contracts are included in the Statements of Comprehensive Income (Loss) in "Net change in unrealized appreciation (depreciation) of foreign exchange".

## Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## Redeemable units valuation

The NAV of each series on a particular date will be equal to each series' proportionate share of the assets of the Fund less each series' proportionate share of the common liabilities of the Fund and each series specific liabilities, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV and NAV per unit will be calculated on any day on which the Toronto Stock Exchange ("TSX") is open for trading ("Business Day").

## 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.

# Australian REIT Income Fund

## 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 7 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 each series, each of which represents an equal, undivided interest in their respective series' 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. Series A units trade on the TSX under the symbol HRR.UN and Series F units do not trade. As at December 31, 2022, the closing price for Series A units was \$8.65 per unit (December 31, 2021 - \$12.74 per unit).

### Redemptions

Series A units may be surrendered prior to 5:00 p.m. (Toronto time) on the tenth Business Day before the last Business Day of the applicable month by unitholders for redemption. Upon receipt by the Fund of the redemption notice the unitholder shall be entitled to receive a price per Series A unit equal to the lesser of:

- (a) 95% of the "market price" of the Series A units on the principal market on which the Series A units are quoted for trading during the 20 trading-day period ending immediately before the monthly redemption date; and  
(b) 100% of the "closing market price" on the principal market on which the Series A units are quoted for trading on the monthly redemption date.

Notwithstanding the monthly redemption price formula above, at no time will the Fund pay out redemption proceeds greater than the NAV per Unit as determined on the monthly redemption date for each Unit being redeemed.

Series F units may be redeemed or converted to Series A units on a monthly basis on the same terms as the Series A units. During the year ended December 31, 2022 4,495 Series F units were redeemed and cancelled for \$51,257 and no Series F units were converted into Series A units. During the year ended December 31, 2021 no Series F units were redeemed and cancelled and 1,750 Series F units were converted into 2,147 Series A units for \$22,471.

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on an annual basis, commencing in September 2014, Series A and Series F units may be surrendered for redemption at the NAV per unit of each series, subject to the required redemption notice period, by the second last Business Day of September and the unitholder will receive payment on or before the 15<sup>th</sup> Business Day of the following month. During the year ended December 31, 2022 3,133 Series A units were redeemed and cancelled for \$24,078. In the prior year ended December 31, 2021 53,054 Series A units were redeemed and cancelled for \$632,133.

## Australian REIT Income Fund

The following units were issued, redeemed and/or cancelled during the year:

	Units outstanding	
	Series A	Series F
<b>Total outstanding as at January 1, 2021</b>	<b>708,516</b>	<b>14,345</b>
Reinvestment of distributions to holders of redeemable units	658	-
Redeemable units redeemed	(53,054)	-
Transfer between series	2,147	(1,750)
<b>Total outstanding as at December 31, 2021</b>	<b>658,267</b>	<b>12,595</b>
Reinvestment of distributions to holders of redeemable units	814	-
Redeemable units redeemed	(3,133)	(4,495)
<b>Total outstanding as at December 31, 2022</b>	<b>655,948</b>	<b>8,100</b>

The weighted average number of units outstanding during the year ended December 31, 2022 was 657,836 units for Series A (2021 – 697,142 units) and 10,628 units for Series F (2021 – 12,748 units).

### 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 Fund will annually determine and announce the distribution amount for the following year based upon the prevailing market conditions. The total distribution amount was \$440,911 for the year ended December 31, 2022 (2021 - \$465,890).

During the year the Fund has also made available to unitholders the opportunity to reinvest monthly distributions from the Fund in additional Series A units and/or Series F units, as applicable, by participating in a distribution reinvestment plan which will provide that cash distributions made by the Fund shall, at the election of a unitholder, be automatically reinvested in additional Series A units or Series F units, as applicable, on such unitholder's behalf in accordance with the terms of the plan. Reinvestment of distributions for Series A will occur either through market purchases or units issued from treasury depending on whether the trading price of the Series A units is above or below NAV and if units are available for purchase on the market. Reinvestment of distributions for Series F units will occur through units issued from treasury at NAV. During the year ended December 31, 2022 and 2021 all reinvested Series A units were issued from treasury and no reinvestments were from market purchases. No Series F units were enrolled in the reinvestment plan.

## 5. RELATED PARTY TRANSACTIONS AND OTHER EXPENSES

### Management and service fees

The Manager is responsible for managing the Fund's overall business and operations and provides key management personnel to the Fund. The Manager is entitled to a fee of 1.30% of the average daily NAV per unit, plus applicable taxes, per annum of the Fund. Prior to January 1, 2022 the Fund paid service fees to registered dealers on Series A units at a rate of 0.40% of the average daily NAV, plus applicable taxes, per annum of the Fund. No service fee is charged to Series F units. Service fees are accrued daily and paid monthly to the Manager, who in turn pays the dealers quarterly.

Effective January 1, 2022 the Fund no longer pays service fees on Series A units.

### Operating expenses

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

### Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries and benefits; and other administrative expenses and costs incurred in connection with the Fund's 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 \$2,418 for year ended December 31, 2022 (2021 - \$3,959) and are included in the unitholder reporting costs on the Statements of Comprehensive Income (Loss).

# Australian REIT Income Fund

## Waivers and absorptions

At its sole discretion, the Manager may waive management fees or absorb expenses of the Fund. There were no management fee waivers or expense absorptions for the year ended December 31, 2022 or 2021.

## 6. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund enters into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies. Foreign currency forward contracts entered into by the Fund represent a firm commitment to buy or sell a currency at a specified value and point in time based upon an agreed or contracted quantity. The value of each foreign currency forward contract is the difference between the contract rate and the current forward rate at the measurement date applied to the contract's notional amount and adjusted for counterparty risk.

As at December 31, 2022, the Fund had not entered into any foreign currency contracts. As of December 31, 2021, the Fund had entered into the following foreign currency forward contracts:

As at December 31, 2021					
Counterparty	Settlement date	Purchased currency	Sold currency	Unrealized gain (loss)	Contract price
The Bank of Nova Scotia credit rating A+	January 14, 2022	CAD \$11,560,273	AUD \$12,600,000	(\$36,051)	1.0899
<b>Total</b>				<b>(\$36,051)</b>	

## Offsetting of foreign currency forward contracts

As at December 31, 2022, the Fund had not entered into any foreign currency contracts. As of December 31, 2021, the Fund did not have foreign exchange settlements for its foreign currency forward contracts that met the criteria for offsetting in the Statements of Financial Position. The following table presents the recognized financial instruments that were not offset, as at December 31, 2021. There would be no further offsetting in the event of bankruptcy of the counterparty.

As at December 31, 2021			
Financial assets and liabilities	Gross assets (liabilities)	Amount eligible for offset	Net offset amounts
Derivative assets	-	-	-
Derivative liabilities	(\$36,051)	-	(\$36,051)

## 7. 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 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. The spread of the coronavirus ("COVID-19") over the last couple of years has had a significant impact on the global economy. Although COVID-19 continues to exist, most countries have largely lifted COVID-19 related restrictions and the world has returned to a more normal level of activity. The lasting impact of COVID-19 has been significant supply chain issues which have begun to subside however persist in some industries, and a significant rise in inflation. Inflationary pressures have been exacerbated by the war in Ukraine and continue to impact global commodity supplies and costs. Central banks globally have quickly raised interest rates to address inflation although increasing the likelihood for a global recession. The above factors continue to impact global economies and financial markets, and uncertainty of the impact on financial performance of the Fund's investments persists. The Fund's future investment results may be materially adversely affected as a result.

As at December 31, 2022, 141.3% (December 31, 2021 – 127.2%) of the Fund's net assets attributable to holders of redeemable units were traded on public stock exchange. 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 \$434,151 (December 31, 2021 - \$568,606).

# Australian REIT Income Fund

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

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

As at December 31, 2022				
Currency	Currency exposure*	Forward contracts*	Net currency exposure*	As a % of net assets
Australian Dollar	\$8,707,563	\$-	\$8,707,563	141.7

\* In Canadian dollars

As at December 31, 2021				
Currency	Currency exposure*	Forward contracts*	Net currency exposure*	As a % of net assets
Australian Dollar	\$11,388,075	\$11,596,324	(\$208,249)	(2.3)

\* In Canadian dollars

The non-monetary currency exposure was \$8,683,021 (December 31, 2021 – \$11,372,125) and the monetary currency exposure was \$24,542 (December 31, 2021 – \$15,950).

As at December 31, 2022, if the Canadian dollar had strengthened or weakened by 5% in relation to the Australian dollar, with all other variables held constant, the Fund's net assets attributable to holders of redeemable units would have decreased or increased, respectively, by approximately \$435,378 or 7.1% (December 31, 2021 - \$10,412 or 0.1%) based on the net currency exposure. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

As all of the securities in the portfolio investments are denominated in Australian dollars, the Fund from time to time may enter into a foreign currency forward contract on substantially all of the value of the portfolio investments back to the Canadian dollar. There is no requirement to hedge the currency at all times.

## 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. As at December 31, 2022 and 2021, the Fund did not hold any fixed income securities.

A fund that has an interest-bearing liability is exposed to risks associated with the effects of fluctuations in interest rates on its cash flows. As at December 31, 2022 the Fund had \$2,693,530 (December 31, 2021 - \$2,698,868) net of prepaid interest of interest-bearing liabilities. The interest-bearing liabilities have a fixed interest rate and a maturity of less than three months, therefore the exposure to interest rate risk is not considered significant.

## 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. However, the Manager does not expect that the contractual redemptions will be representative of the actual cash outflows as holders of those units typically retain them for a longer period. 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.

As at December 31, 2022 and 2021, all the Fund's financial liabilities had maturities of less than three months.

## Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

## Australian REIT Income 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 also enters into foreign currency forward contracts which are exposed to credit risk. The maximum credit risk exposure is the unrealized gain on the forward contracts.

As at December 31, 2022 and 2021, 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.

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

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

Securities classification:

Investments at fair value as at December 31, 2022				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Financial Assets</b>				
<b>Equities</b>				
Real Estate	8,683,021	-	-	8,683,021
<b>Total Financial Assets</b>	<b>8,683,021</b>	-	-	<b>8,683,021</b>

Investments at fair value as at December 31, 2021				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Financial Assets</b>				
<b>Equities</b>				
Real Estate	11,372,125	-	-	11,372,125
<b>Total Financial Assets</b>	<b>11,372,125</b>	-	-	<b>11,372,125</b>
<b>Financial Liabilities</b>				
<b>Derivatives</b>				
Foreign currency forward contracts	-	(36,051)	-	(36,051)
<b>Total Financial Liabilities</b>	-	<b>(36,501)</b>	-	<b>(36,501)</b>

There were no Level 3 securities held by the Fund as at December 31, 2022 and 2021 and there were no significant transfers between Level 1 and Level 2 for the year ended December 31, 2022 and 2021.

The value of equities is based on quoted prices. The value of the foreign currency forward contract is determined as the difference between the contract rate and the current forward rate at the measurement date applied to the contract's notional amount and adjusted for counterparty risk.

### 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 industry segment. All investments held operate in Australia as outlined in the investment objectives of the Fund.

# Australian REIT Income Fund

Market Segment:

As at	December 31, 2022	December 31, 2021
	% of net assets	% of net assets
Real Estate	141.3	127.2
Net other liabilities	(41.3)	(26.8)
Foreign currency forward contracts	-	(0.4)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## 8. TAXATION

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). For tax purposes, the Fund has a December 15 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 Statements 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 for 20 years and applied against future taxable income.

As at the last taxation year end, the Fund had \$2,145,619 of capital losses, which can be carried forward indefinitely and applied against future capital gains. There are no non-capital losses available to offset against income in future years.

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 in the Statements of Comprehensive Income (Loss).

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.

## 9. 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, 2022 and 2021 amounted to \$nil.

## 10. LOAN FACILITY

The Fund established a revolving term loan facility with a Canadian chartered bank for the purpose of acquiring assets for the portfolio and such other short-term funding purposes as may be determined from time to time and in accordance with the investment strategy. The loan facility is drawn down by way of a Banker's Acceptance (BA's) with a shorter-term maturity and renewed on an ongoing basis. The loan outstanding at December 31, 2022 is interest bearing at a rate of 4.60578% per annum plus a stamping fee of 1.25% per annum for \$2,700,000, (December 31, 2021 – 0.44250% plus 1.25% for \$2,700,000), secured against the assets of the Fund and the amount of the loan cannot exceed 62.471% of the net asset value of the Fund up to the maximum available credit. Throughout the year the Fund was in compliance with all covenants. The amount of borrowings remained at \$2,700,000 during the year (2021 – \$2,700,000).

The initial interest paid on the drawdown and renewal of the Banker's Acceptance is deferred and amortized over the term of the BA's, which mature on January 16, 2023 for the loan. The loan amount was renewed on January 16, 2023. The unamortized portion of the deferred interest was \$6,470 at December 31, 2022 (December 31, 2021 - \$1,132) and is netted against the loan facility balance on the Statements of Financial Position. For the year ended December 31, 2022, the Fund recorded interest expense of \$96,230 (2021 - \$47,533).



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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.