

Annual Financial Statements

BMO Harris Private Portfolios

December 31, 2012

BMO Harris Canadian Bond Income Portfolio

Independent Auditor's Report

To the Unitholders of:

BMO Harris Canadian Money Market Portfolio
BMO Harris Canadian Special Growth Portfolio
BMO Harris U.S. Equity Portfolio
BMO Harris International Equity Portfolio
BMO Harris U.S. Growth Portfolio
BMO Harris Canadian Income Equity Portfolio
BMO Harris Canadian Bond Income Portfolio
BMO Harris Canadian Growth Equity Portfolio

BMO Harris Canadian Conservative Equity Portfolio
BMO Harris Canadian Total Return Bond Portfolio
BMO Harris Canadian Corporate Bond Portfolio
BMO Harris Diversified Yield Portfolio
BMO Harris Emerging Markets Equity Portfolio
BMO Harris U.S. Special Equity Portfolio
(collectively the "Portfolios")

We have audited the accompanying financial statements of each of the Portfolios, which comprise the statement of investment portfolio as at December 31, 2012 and the statements of net assets as at December 31, 2012 and 2011 and the statement of operations and changes in net assets for the years then ended, and the related notes, which comprise a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements of each of the Portfolios in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements,

whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of each of the Portfolios present fairly, in all material respects, the financial position of each of the Portfolios as at December 31, 2012 and December 31, 2011 and the results of each of their operations and the changes in each of their net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 28, 2013

BMO Harris Canadian Bond Income Portfolio

STATEMENT OF NET ASSETS

(in thousands of Canadian dollars, except per unit data)

As at	December 31, 2012	December 31, 2011
Assets		
Cash	1,483	5,916
Investments at fair value	1,793,127	1,763,872
Income receivable	6,010	6,093
Subscriptions receivable	2,108	847
Total assets	1,802,728	1,776,728
Liabilities		
Accrued expenses	98	97
Redemptions payable	1,380	1,196
Total liabilities	1,478	1,293
Net assets representing unitholders' equity	1,801,250	1,775,435
Net assets per unit	\$ 10.98	\$ 11.08

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

BMO Harris Canadian Bond Income Portfolio

STATEMENT OF OPERATIONS

(in thousands of Canadian dollars, except per unit data)

For the years ended	December 31, 2012	December 31, 2011
Investment Income		
Interest	58,292	50,291
Securities lending revenue	371	324
	58,663	50,615
Expenses		
Sub-advisory fees	487	—
Audit fees	27	25
Independent Review Committee fees	3	2
Custodian fees	36	32
Legal and filing fees	81	89
Unitholder servicing fees (note 5)	349	342
Printing and stationery fees	13	8
Operating expenses absorbed by the Manager	(487)	—
	509	498
Net investment income for the year	58,154	50,117
Realized gain (loss) on sale of investments	149	(2,273)
Realized gain (loss) on foreign exchange	(1)	1
Change in unrealized appreciation (depreciation) in value of investments	(16,563)	64,942
Increase in net assets from operations	41,739	112,787
Increase in net assets from operations per unit (note 2)	0.26	0.79

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

BMO Harris Canadian Bond Income Portfolio

STATEMENT OF CHANGES IN NET ASSETS

(in thousands of Canadian dollars)

For the years ended	December 31, 2012	December 31, 2011
Net assets – beginning of year	1,775,435	1,295,450
Increase in net assets from operations	41,739	112,787
Unit Transactions:		
Proceeds from sale of units	443,770	631,067
Reinvested distributions	55,898	47,779
Amounts paid on units redeemed	(457,501)	(261,926)
Total unit transactions	42,167	416,920
Distributions to Unitholders from:		
Net investment income	(58,067)	(49,700)
Return of capital	(24)	(22)
Total distributions paid to unitholders	(58,091)	(49,722)
Net assets – end of year	1,801,250	1,775,435

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

BMO Harris Canadian Bond Income Portfolio

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2012 (in thousands of Canadian dollars, unless otherwise noted)

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
Money Market Investments			
<i>Federal – 6.0%</i>			
Government of Canada, Treasury Bills, 0.950% Jan 4, 2013	2,000	1,995	2,000
Government of Canada, Treasury Bills, 0.956% Jan 4, 2013	2,000	1,995	2,000
Government of Canada, Treasury Bills, 0.972% Jan 17, 2013	1,000	998	1,000
Government of Canada, Treasury Bills, 0.972% Jan 17, 2013	2,000	1,995	1,999
Government of Canada, Treasury Bills, 0.974% Jan 17, 2013	1,000	998	1,000
Government of Canada, Treasury Bills, 0.993% Jan 17, 2013	12,000	11,968	11,994
Government of Canada, Treasury Bills, 0.989% Jan 31, 2013	2,000	1,995	1,998
Government of Canada, Treasury Bills, 0.992% Jan 31, 2013	9,000	8,978	8,992
Government of Canada, Treasury Bills, 0.995% Jan 31, 2013	4,500	4,489	4,496
Government of Canada, Treasury Bills, 0.953% Feb 14, 2013	19,800	19,762	19,777
Government of Canada, Treasury Bills, 0.993% Feb 14, 2013	15,000	14,960	14,982
Government of Canada, Treasury Bills, 0.949% Feb 28, 2013	8,000	7,982	7,988
Government of Canada, Treasury Bills, 0.960% Feb 28, 2013	3,000	2,992	2,995
Government of Canada, Treasury Bills, 0.962% Feb 28, 2013	2,000	1,995	1,997
Government of Canada, Treasury Bills, 0.970% Feb 28, 2013	8,000	7,980	7,987
Government of Canada, Treasury Bills, 0.982% Mar 14, 2013	5,000	4,987	4,990
Government of Canada, Treasury Bills, 0.917% Mar 28, 2013	2,000	1,996	1,996
Government of Canada, Treasury Bills, 1.040% Mar 28, 2013	10,000	9,948	9,975
		108,013	108,166
<i>Provincial – 6.8%</i>			
Province of New Brunswick, Treasury Bills, 1.022% Mar 5, 2013	7,000	6,982	6,987
Province of New Brunswick, Treasury Bills, 1.022% Mar 21, 2013	10,000	9,976	9,978
Province of Newfoundland, Treasury Bills, 1.021% Feb 28, 2013	5,000	4,988	4,992
Province of Ontario, Treasury Bills, 1.008% Jan 2, 2013	1,500	1,496	1,500
Province of Ontario, Treasury Bills, 0.999% Jan 16, 2013	3,000	2,993	2,999
Province of Ontario, Treasury Bills, 1.022% Feb 6, 2013	5,000	4,987	4,995
Province of Ontario, Treasury Bills, 1.020% Feb 20, 2013	11,100	11,074	11,084
Province of Ontario, Treasury Bills, 1.021% Feb 27, 2013	9,530	9,507	9,515
Province of Ontario, Treasury Bills, 1.000% Mar 6, 2013	5,000	4,988	4,991
Province of Ontario, Treasury Bills, 1.098% May 22, 2013	15,000	14,919	14,936
Province of Ontario, Treasury Bills, 1.098% May 22, 2013	4,000	3,978	3,983
Province of Quebec, Treasury Bills, 1.030% Jan 25, 2013	4,500	4,489	4,497
Province of Quebec, Treasury Bills, 1.030% Feb 1, 2013	9,000	8,977	8,992
Province of Quebec, Treasury Bills, 1.019% Feb 15, 2013	10,000	9,976	9,987
Province of Quebec, Treasury Bills, 1.039% Feb 15, 2013	15,000	14,958	14,979
Province of Quebec, Treasury Bills, 1.021% Feb 22, 2013	9,000	8,980	8,987
		123,268	123,402
Total Money Market Investments – 12.8%		231,281	231,568

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

BMO Harris Canadian Bond Income Portfolio

STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2012 (in thousands of Canadian dollars, unless otherwise noted)

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
Bonds & Debentures			
<i>Federal Bonds – 65.1%</i>			
Government of Canada, 3.500% Jun 1, 2013	94,341	98,403	95,310
Government of Canada, 5.250% Jun 1, 2013	34,333	36,199	34,931
Government of Canada, 2.500% Jun 1, 2015	83,658	84,733	86,284
Government of Canada, 3.000% Dec 1, 2015	97,372	101,847	102,207
Government of Canada, 4.250% Jun 1, 2018	16,900	18,231	19,360
Government of Canada, 3.750% Jun 1, 2019	59,484	62,440	67,389
Government of Canada, 3.500% Jun 1, 2020	618,554	651,324	698,394
Government of Canada, Series A55, 8.000% Jun 1, 2023	43,942	70,799	69,340
		1,123,976	1,173,215
<i>Provincial Bonds – 12.3%</i>			
Alberta Capital Finance Authority, Notes, 4.900% Jun 1, 2015	2,000	2,007	2,166
Alberta Capital Finance Authority, Notes, 4.350% Jun 15, 2016	30,000	29,168	32,797
Province of British Columbia, Series BCEC-19, European Medium Term Notes, Unsecured, Unsubordinated, 5.500% Apr 24, 2013	14,530	15,912	14,716
Province of Manitoba, Medium Term Notes, 5.200% Dec 3, 2015	6,000	5,965	6,635
Province of New Brunswick, Notes, 4.500% Jun 2, 2020	25,000	26,051	28,468
Province of Nova Scotia, Medium Term Notes, Unsecured, 4.450% Oct 24, 2021	15,760	15,688	17,852
Province of Ontario, 4.300% Mar 8, 2017	42,200	41,216	46,419
Province of Quebec, Senior, Unsecured, Notes, 5.500% Dec 1, 2014	44,016	46,256	47,471
Province of Quebec, Medium Term Notes, 4.500% Dec 1, 2017	9,700	10,814	10,850
Province of Quebec, Medium Term Notes, 4.500% Dec 1, 2018	7,600	7,890	8,570
Province of Saskatchewan, Medium Term Notes, 5.500% Jun 17, 2019	4,000	3,938	4,842
		204,905	220,786
<i>Municipal Bonds – 3.4%</i>			
Municipal Finance Authority of British Columbia, Unsecured, 4.900% Dec 2, 2014	9,000	8,996	9,591
Municipal Finance Authority of British Columbia, 5.100% Nov 20, 2018	17,635	17,569	20,424
Municipal Finance Authority of British Columbia, 4.875% Jun 3, 2019	27,000	26,942	30,757
		53,507	60,772
<i>Corporate Bonds & Debentures – 5.2%</i>			
Bank of Nova Scotia, Deposit Notes, Senior, 4.560% Oct 30, 2013	5,800	5,798	5,947
Bank of Nova Scotia, Fixed-to-Floating, Unsecured, Notes, Subordinated, Callable, 4.990% Mar 27, 2018	25,962	25,957	26,134
Bell Canada, Series M-21, Medium Term Notes, Unsecured, Unsubordinated, 3.600% Dec 2, 2015	4,000	3,993	4,170

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

BMO Harris Canadian Bond Income Portfolio

STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2012 (in thousands of Canadian dollars, unless otherwise noted)

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
Canadian Imperial Bank of Commerce, Deposit Notes, Unsecured, 3.400% Jan 14, 2016	5,000	4,998	5,207
GE Capital Canada Funding Company, Series A, Medium Term Notes, 5.100% Jun 1, 2016	5,866	5,786	6,393
Genworth MI Canada Inc., Senior, Unsecured, Notes, 4.590% Dec 15, 2015	4,320	4,320	4,434
IGM Financial, Inc., Senior, Unsecured, Notes, Unsubordinated, 6.580% Mar 7, 2018	11,951	13,313	13,947
Manulife Bank of Canada, Deposit Notes, Senior, Sinkable, 3.967% Apr 1, 2013	457	457	460
Royal Bank of Canada, Deposit Notes, Senior, 4.710% Dec 22, 2014	8,500	8,324	8,990
Royal Bank of Canada, Deposit Notes, Senior, Unsecured, Unsubordinated, 3.660% Jan 25, 2017	1,189	1,189	1,255
Sun Life Financial Inc., Series A, Medium Term Notes, Fixed-to-Floating, Senior, Unsecured, Callable, 4.800% Nov 23, 2035	7,950	7,983	8,366
Toronto-Dominion Bank, The, Deposit Notes, Senior, Unsecured, 4.854% Feb 13, 2013	1,100	1,176	1,104
Toronto-Dominion Bank, The, Medium Term Notes, Fixed-to-Floating, Subordinated, Callable, 5.690% Jun 3, 2018	7,845	7,870	7,963
		91,164	94,370
<i>Asset Backed Securities – 0.7%</i>			
Eagle Credit Card Trust, Series 2010-1, Class A, Secured, Credit Card Receivables-Backed Notes, 2.782% Dec 17, 2013	5,000	5,000	5,064
Gloucester Credit Card Trust, Series 2004-1, Asset-Backed, 5.376% May 15, 2014	7,000	7,000	7,352
		12,000	12,416
Total Bonds & Debentures – 86.7%		1,485,552	1,561,559
Total Investment Portfolio – 99.5%		1,716,833	1,793,127
Other Assets Less Liabilities – 0.5%			8,123
NET ASSETS – 100.0%			1,801,250

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

BMO Harris Canadian Bond Income Portfolio

STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2012 (in thousands of Canadian dollars, unless otherwise noted)

The Portfolio's Investment Portfolio is concentrated in the following segments as at:

	December 31, 2012	December 31, 2011
Money Market Investments		
Federal	6.0%	3.6%
Provincial	6.8%	9.9%
Bonds & Debentures		
Federal	65.1%	60.7%
Provincial	12.3%	13.5%
Municipal	3.4%	3.5%
Asset Backed Securities	0.7%	0.7%
Corporate	5.2%	7.4%
Other Assets Less Liabilities	0.5%	0.7%
	100.0%	100.0%

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

BMO Harris Canadian Bond Income Portfolio

NOTES TO FINANCIAL STATEMENTS

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2012

1. The Portfolio

BMO Harris Canadian Bond Income Portfolio [“the Portfolio”] is an open-ended mutual fund trust established by a Declaration of Trust under the laws of the Province of Ontario, most recently amended on September 18, 2007. BMO Harris Investment Management Inc. (“the Manager”) is the Manager of the Portfolio.

The information provided in these audited financial statements is for the years ended December 31, 2012 and December 31, 2011.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), including estimates and assumptions made by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported years. Actual results could differ from estimates.

Valuation of investments

Canadian GAAP requires the use of bid prices for long positions and ask prices for short positions in the fair valuation of investments traded in an active market, rather than the use of closing prices currently used for the purpose of determining Net Asset Value (“NAV”). For investments that are not traded in an active market, Canadian GAAP requires the use of valuation techniques, incorporating factors that market participants would consider in setting a price.

The NAV is the fair value of the total assets of a Portfolio less the fair value of its total liabilities at a Valuation Date (“the Valuation Date” is each day on which the Toronto Stock Exchange is open for trading) determined in accordance with Part 14 of National Instrument 81-106 – Investment Portfolio Continuous Disclosure (“NI 81-106”) for the purpose of processing unitholder transactions. For financial statement purposes, valuations are determined in accordance with Canadian GAAP. This may result in a difference between the Net Assets per unit and the NAV per unit. Refer to Note 8(b) for the details of the comparison between NAV per unit and Net Assets per unit.

Investments are deemed to be held for trading.

Investments are recorded at their fair value with the change between this amount and average cost being recorded as unrealized appreciation (depreciation) in value of investments in the Statement of Operations.

Securities listed on a recognized public securities exchange in North America are valued for financial statement purposes at their bid prices for long positions and ask prices for short positions. Procedures are in place to fair value securities traded in countries outside of North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market.

For bonds, debentures, asset-backed securities and other debt securities, the fair value represents the bid price provided by independent security pricing services. Short-term investments are included in the Statement of Investment Portfolio at their fair value. Unlisted warrants are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price and terms of the warrant.

The Manager uses fair value pricing when the price of a security held in a Portfolio is unavailable, unreliable or not considered to reflect the current value, and may determine another value which it considers to be fair and reasonable using the services of third-party valuation service providers, or using a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data including volatility, comparable companies and other applicable rates or prices.

Investment transactions

Investment transactions are accounted for on the trade date. Realized gains (losses) from the sale of investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments which exclude brokerage commissions and other trading expenses. All net realized gains (losses), unrealized appreciation

BMO Harris Canadian Bond Income Portfolio

NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2012

(depreciation) in value, and transaction costs are attributable to investments and derivative instruments which are deemed held for trading, and are included in the Statement of Operations.

Client brokerage commissions, where applicable, are used as payment for order execution services or research services. The portfolio advisers or Managers may select brokers, including their affiliates, who charge a commission in excess of that charged by other brokers ("soft dollars") if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. It is the Manager's objective that over time, all clients receive benefits from client brokerage commissions.

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Portfolio are expensed and included in "Commissions and other portfolio transaction costs" in the Statement of Operations.

Cost of investments

The cost of investments represents the amount paid for each security and is determined on an average cost basis.

Income recognition

Interest income is recognized on accrual basis. Dividend income and distributions from investment trust units are recognized on the ex-dividend and ex-distribution date, respectively.

Interest on inflation-indexed bonds will be paid based on a principal value, which is adjusted for inflation. The inflation adjustment of the principal value is recognized as part of interest income in the Statement of Operations. If held to maturity, the Portfolio will receive, in addition to a coupon interest payment, a final payment equal to the sum of the par value and the inflation compensation accrued from the original issue date. Interest is accrued on each Valuation Day based on the inflation adjusted par value at that time and is included in "Interest" in the Statement of Operations.

Translation of foreign currencies

The fair value of investments and other assets and liabilities in foreign currencies are translated into the Portfolio's functional currency at the rates of exchange prevailing at the year-end date. Purchases and sales of investments, and income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) on completed transactions are included in "Realized gain (loss) on sale of investments" and unrealized foreign exchange gains (losses) are included in "Change in unrealized appreciation (depreciation) in value of investments" in the Statement of Operations. Realized and unrealized foreign exchange gains (losses) on assets (other than investments) and liabilities are included in "Realized gain (loss) on foreign exchange" in the Statement of Operations.

Forward currency contracts

A forward currency contract is an agreement between two parties (the Portfolio and the counterparty) to purchase or sell a currency against another currency at a set price on a future date. The Portfolio may enter into forward currency contracts for hedging purposes which can include the hedging of all or a portion of the currency exposure of an investment or group of investments, either directly or indirectly. The Portfolio may also enter into these contracts for non-hedging purposes which can include increasing the exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one country to another.

The value of forward currency contracts entered into by the Portfolio is recorded as the difference between the value of the contract on the Valuation Date and the value on the date the contract originated.

Changes in the value of open forward currency contracts at each Valuation Date are recognized in the Statement of Operations as "Change in unrealized appreciation (depreciation) in value of forward currency contracts."

Amounts realized at the close of the contracts are recorded as "Realized gain (loss) on forward currency contracts" in the Statement of Operations.

BMO Harris Canadian Bond Income Portfolio

NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2012

Securities lending

A Portfolio may engage in securities lending pursuant to the terms of an agreement which includes restrictions as set out in Canadian securities legislation. Collateral held is government Treasury Bills and qualified Notes.

Income from securities lending, where applicable, is included in the Statement of Operations and is recognized when earned. The securities on loan continue to be displayed in the Statement of Investment Portfolio. The market value of the securities loaned and collateral held is determined daily. Aggregate values of securities on loan and related collateral held in trust as at December 31, 2012 and December 31, 2011, where applicable, are disclosed in Note 8(h).

Increase or decrease in net assets from operations per unit

“Increase (decrease) in net assets from operations per unit” in the Statement of Operations represents the increase (decrease) in net assets from operations divided by the weighted average number of units outstanding during the year.

Short-term trading penalty

To discourage excessive trading, the Portfolio may, at the Manager’s sole discretion, charge a short-term trading penalty. This penalty is paid directly to the Portfolio and is included in “Interest” in the Statement of Operations.

Other assets and liabilities

Income receivable, subscriptions receivable and due from broker are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to broker, redemptions payable and accrued expenses are designated as financial liabilities and reported at amortized cost. Other assets and liabilities are short-term in nature, and are carried at cost or amortized cost which approximates fair value.

3. Unit valuation

Units of the Portfolio are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit. The NAV per unit for the purposes of subscription or redemption is computed by dividing the NAV of the Portfolio (that is, the total fair value of the assets less its liabilities) by the total number of units outstanding at such time. This amount may be different from the Net Asset per unit which is presented on the Statement of Net Assets. Generally, any differences are due to valuing actively traded securities at bid prices for Canadian GAAP purposes while NAV typically utilizes closing price to determine fair value for the purchase and redemption of units. See Note 8(b) for the comparison between NAV per unit and Net Assets per unit.

Capital

The capital of the Portfolio is represented by issued and redeemable units with no par value. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Portfolio’s NAV per unit upon redemption. The Portfolio has no restrictions or specific capital requirements on the subscriptions and redemptions of units except as disclosed in Note 8(a), if any. The relevant movements in capital are shown on the Statement of Changes in Net Assets. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 6, the Portfolio endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

BMO Harris Canadian Bond Income Portfolio

NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2012

4. Income taxes

The Portfolio qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) (the "Tax Act"). Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year will be paid to unitholders. Part of the Portfolio's net income and net realized capital gains not paid or payable, is subject to income tax. It is the intention of the Portfolio to distribute all of its income and sufficient net realized capital gains so that the Portfolio will not be subject to income tax. Income tax on net realized capital gains not paid or payable is generally recoverable by virtue of refunding provisions contained in tax legislation, as redemptions occur.

Non-capital losses that arose in 2004 and 2005 are available to be carried forward for ten years and applied against future taxable income. Non-capital losses that arose in 2006 and thereafter are available to be carried forward for twenty years. Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.

The Portfolio's estimated non-capital and capital losses for income tax purposes as of the tax year-ended December 2012 are included in Note 8(c), if applicable.

5. Related party transactions

(a) Unitholder servicing, sub-advisory commissions and other portfolio transaction costs

The Portfolio is provided with certain facilities and services by affiliates of the Manager. Expenses incurred in the administration of the Portfolio were paid to BMO Trust Company (the Trustee) and to BMO Asset Management Inc. (the Registrar) and charged to the Portfolio. These expenses are included in "Unitholder servicing fees" in the Statement of Operations.

The sub-advisors (including affiliates of the Manager, where applicable) engaged by the Manager provide investment advice and make investment decisions for the

Portfolio's investment portfolio. For these services the sub-advisors receive sub-advisory fees that are paid monthly by the Manager and charged to the Portfolio. These expenses are included in "Sub-advisory fees" in the Statement of Operations. Any sub-advisory fees less than or equal to 0.15% of the net asset value of the Portfolio are absorbed by the Manager.

The Portfolio may execute trades with and or through BMO Nesbit Burns Inc., an affiliate of the Manager based on established standard brokerage agreements at market prices. These fees are included in "Commissions and other portfolio transaction costs" in the Statement of Operations.

Refer to Note 8(d) for related party fees charged to the Portfolio for the years ended December 31, 2012 and 2011.

(b) Other related party transactions

From time to time, the Manager may on behalf of the Portfolio enter into transactions or arrangements with or involving other members of Bank of Montreal Group of Companies, or certain other persons or companies that are related or connected to the Manager of the Portfolio. These transactions or arrangements may include transactions or arrangements with or involving Bank of Montreal Group of Companies, BMO Trust Company, BMO Nesbitt Burns Inc., Harris Investment Management Inc., BMO Asset Management Inc., BMO Investments Inc., Pyrford International Ltd, Lloyd George Management Inc. or other investment funds offered by BMO, and may involve the purchase or sale of portfolio securities through or from a member of Bank of Montreal Group of Companies, the purchase or sale of securities issued or guaranteed by a member of Bank of Montreal Group of Companies, the purchase or sale of securities issued or guaranteed by a member of Bank of Montreal group of Companies, entering into forward contracts with a member of Bank of Montreal Group of Companies acting as counterparty, the purchase or redemption of units of other BMO Harris Private Portfolios or the provision of services to the Manager.

BMO Harris Canadian Bond Income Portfolio

NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2012

6. Financial instrument risk

The Portfolio may be exposed to a variety of financial risks that are concentrated in its investment holdings, including derivative instruments. The Statement of Investment Portfolio groups securities by asset type, geographic region and/or market segment. The Portfolio's risk management practice includes the monitoring of compliance to investment guidelines.

The Manager manages the potential effects of these financial risks on the Portfolio's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Portfolio's positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

(a) Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Portfolio, will fluctuate due to changes in foreign exchange rates. Investments in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Portfolio's functional currency in determining fair value. The Portfolio may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. The Portfolio's exposure to currency risk, if any, is further discussed in Note 8(f).

(b) Interest rate risk

Interest rate risk is the risk that the fair value of the Portfolio's interest-bearing investments will fluctuate due to changes in market interest rates. The Portfolio's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds, money market instruments, short-term investments and debentures) and interest rate derivative instruments, if any. Other assets and liabilities are short-term in nature and/or non-interest bearing. The Portfolio's exposure to interest rate risk, if any, is further discussed in Note 8(f).

(c) Other market risk

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. Other assets and liabilities are monetary items that are short-term in nature, and as such they are not subject to other market risk. The Portfolio's exposure to other market risk, if any, is further discussed in Note 8(f).

(d) Credit risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Portfolio's unrealized gain (loss) of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by its carrying amount. The Portfolio's exposure to credit risk, if any, is further discussed in Note 8(f).

The Portfolio may enter into securities lending transactions with approved counterparties. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient approved credit rating and the market value of collateral held by the Portfolio must be at least 102% of the fair value of securities loaned, if any, as disclosed in Note 8(h).

(e) Liquidity risk

The Portfolio's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Portfolio primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Portfolio retains sufficient cash and cash equivalent positions to maintain liquidity. The Portfolio may, from time to time, enter into over-the-counter derivative

BMO Harris Canadian Bond Income Portfolio

NOTES TO FINANCIAL STATEMENTS (cont'd)

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contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. Securities for which a market quotation could not be obtained and may be illiquid are identified on the Statement of Investment Portfolio. The proportion of illiquid securities to NAV of the Portfolio is monitored by the Manager to ensure it does not exceed the regulatory limit and does not significantly affect the liquidity required to meet the Portfolio's financial obligations.

7. Future accounting standards

Canadian investment entities will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, for fiscal years beginning on or after January 1, 2014. For reporting periods commencing January 1, 2014, the Portfolio will adopt IFRS as the basis for preparing its financial statements. The Portfolio will report its financial results for the interim period ending June 30, 2014, prepared on an IFRS basis. It will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2013 (transition date). A summary of the significant standards impacting the Portfolio under IFRS are outlined below.

Based on the Portfolio's analysis to date, the more significant accounting changes that will result from its adoption of IFRS will be in the areas of fair valuation, cash flow presentation, consolidation of investments and classification of net assets representing unitholders' equity. The differences described in the sections that follow are based on Canadian GAAP and IFRS that are in effect as of this date. This should not be considered a comprehensive list of the main accounting changes when the Portfolio adopts IFRS.

The framework for fair valuation is set out under IFRS 13 Fair Value Measurement, which includes the requirements for the measurement and disclosure of fair value. If an asset or liability measured at fair value has a bid price and an ask price, the standard requires

valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. Thus this standard will impact the net assets per unit for financial statement reporting purposes compared to current standards, and may also result in the elimination of the differences between the net asset per unit and NAVPU at the financial statement reporting date. The Manager has not identified any changes that will impact NAVPU as a result of the transition to IFRS.

Where the Portfolio holds controlling interest in an investment, it is the Manager's expectation that the Portfolio will qualify as an Investment Entity in accordance with IFRS 10 Consolidated Financial Statements. As such, the Portfolio will not be required to consolidate its investments, but rather to fair value its investments regardless of whether those investments are controlled. However, where in certain circumstances the Portfolio does not have all the typical characteristics of an investment entity, even though it qualifies as an investment entity, it may be required to make additional financial statements disclosures on its investments in accordance with IFRS 12 Disclosure of Interests in Other Entities.

In addition to the financial statements currently presented for the Portfolio, Statement of Cash Flows will now be included in the financial statements in accordance with the requirement of IFRS 1 First-time Adoption of IFRS, and prepared in line with IAS 7 Statement of Cash Flows.

The criteria contained within IAS 32 Financial Instruments: Presentation may require unitholders' equity to be classified as a liability within the Portfolio's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Portfolio's unitholder structure to confirm classification.

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NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2012

8. Portfolio specific information

(a) Portfolio information and change in units

The Portfolio's inception date was May 15, 1997.

The number of units that have been issued and are outstanding are disclosed in the table below.

For the years ended (in thousands of units)	Dec. 31, 2012	Dec. 31, 2011
Units issued and outstanding, beginning of year	160,302	121,495
Issued for cash	40,193	58,709
Issued on reinvestment of distributions	5,063	4,425
Redeemed during the year	(41,485)	(24,327)
Units issued and outstanding, end of year	164,073	160,302

(b) Comparison of NAV per unit to Net Assets per unit

Dec. 31, 2012		Dec. 31, 2011	
NAV per unit	Net Assets per unit	NAV per unit	Net Assets per unit
10.98	10.98	11.08	11.08

(c) Income taxes

As at the tax year-ended December 2012, the Portfolio had the following estimated capital and non-capital losses available for income tax purposes:

Total capital losses (\$)	Total non- capital losses (\$)	Non-capital losses that expire in 2026 and thereafter (\$)		
		2014 (\$)	2015 (\$)	(\$)
16,572	—	—	—	—

(d) Related party transactions

The related party fees charged for unitholder servicing fees are as follows:

	Dec. 31, 2012	Dec. 31, 2011
Unitholder servicing (\$)	255	250

(e) Brokerage commissions and soft dollars

There were no brokerage commissions charged to the Portfolio during the years ended December 31, 2012 or December 31, 2011.

There were no ascertainable soft dollars or client brokerage commissions paid or payable to dealers by the Portfolio during the years.

(f) Financial instrument risk

The Portfolio's objectives are to provide a high level of interest income and to preserve the capital invested. The Portfolio invests primarily in high quality fixed income securities such as bonds and debentures issued by governments and corporations in Canada that mature in more than one year.

No changes affecting the overall level of risk of investing in the Portfolio were made during the year.

Currency risk

As at December 31, 2012 and December 31, 2011, the Portfolio did not have any significant exposure to currency risk.

Interest rate risk

The following table summarizes the Portfolio's exposure to interest rate risk by remaining term to maturity.

Number of years	Interest rate exposure as at	
	Dec. 31, 2012 \$	Dec. 31, 2011 \$
Less than 1 year	389,099	296,381
One to three years	279,302	238,863
Three to five years	102,921	270,637
Five to ten years	944,100	938,188
Greater than ten years	77,705	19,803
Total	1,793,127	1,763,872

As at the years ended December 31, 2012 and December 31, 2011, if the prevailing interest rates had been raised or lowered by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, Net Assets could possibly have decreased or increased, respectively, by approximately \$75,822 (December 31, 2011 – \$79,356). The Portfolio's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

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NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2012

Other market risk

The Portfolio was not significantly exposed to other market risk as at December 31, 2012 and December 31, 2011, as it was invested fully in fixed income securities.

Credit risk

The Portfolio's credit risk exposure grouped by credit ratings is listed in the following table:

Credit rating	As a % of Net Assets	
	Dec. 31, 2012	Dec. 31, 2011
R-1 High	6.0	3.6
R-1 Mid	6.5	10.0
R-1 Low	0.3	—
AAA	71.2	66.9
AA	7.5	9.6
A	8.0	9.2
Total	99.5	99.3

(g) Fair value hierarchy

The Portfolio classifies its financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are valued based on the quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets or based on unobservable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect the Manager's determination of assumptions that market participants might reasonably use in valuing the securities. The table below shows the relevant disclosure.

As at December 31, 2012

Financial assets	Level 1	Level 2	Level 3	Total
Debt securities	9,906	1,783,221	—	1,793,127

As at December 31, 2011

Financial assets	Level 1	Level 2	Level 3	Total
Debt securities	—	1,763,872	—	1,763,872

Significant transfers

There were no significant transfers between the levels during the year.

(h) Securities lending

The Portfolio had assets involved in securities lending transactions outstanding as at December 31, 2012 and December 31, 2011 as follows:

	Dec. 31, 2012	Dec. 31, 2011
Aggregate value of securities on loan (\$)	786,330	571,544
Aggregate value of collateral received for the loan (\$)	828,716	602,707

9. Subsequent events

Effective January 25, 2013, the Portfolio's investment strategies were changed to permit the Portfolio to invest in fixed income securities in reference to the characteristics of a widely recognized Canadian short-term bond index. In addition to this change, the Portfolio's name was changed to BMO Harris Canadian Short-Term Bond Portfolio.

Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by an affiliate of the Manager and approved by the Board of Trustees of the Portfolios. Management is responsible for the information and representations contained in these financial statements.

The affiliate of the Manager maintains appropriate processes to ensure that relevant and reliable information is produced. The financial statements have been prepared in accordance with the accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies which management believes are appropriate for the Portfolio are described in Note 2 of the financial statements. The Trustee (BMO Trust Company) is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Trustee reviews the financial statements of the Portfolios, adequacy of the internal controls, the audit process and financial reporting with management and external auditors.

PricewaterhouseCoopers LLP is the external auditor of the Portfolios. The auditor has been appointed by Board of the Manager and of the Trustees and cannot be changed without the prior approval for the Independent Review Committee and 60 days notice to the Unitholders. They have audited the financial statements in accordance with generally accepted auditing standards in Canada 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.



Richard Mason
Chief Executive Officer
BMO Harris Investment Management Inc.
March 7, 2013



Robert J. Schauer
Chief Financial Officer
BMO Harris Private Portfolios
March 7, 2013

Manager

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