

# Annual Financial Statements

BMO Harris Private Portfolios

December 31, 2013

**BMO Harris Canadian Mid-Term Bond Portfolio**

*(formerly BMO Harris Canadian Total Return Bond Portfolio)*

# Independent Auditor's Report

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## 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 Short-Term Bond Portfolio  
BMO Harris Canadian Growth Equity Portfolio

BMO Harris Canadian Conservative Equity Portfolio  
BMO Harris Canadian Mid-Term 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")*

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We have audited the accompanying financial statements of each of the Portfolios, which comprise the statement of investment portfolio as at December 31, 2013 and the statements of net assets as at December 31, 2013 and 2012 and the statements 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, 2013 and December 31, 2012 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 Professional Accountants,  
Licensed Public Accountants  
Toronto, Ontario  
March 27, 2014

## BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

### STATEMENT OF NET ASSETS

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

As at	December 31, 2013	December 31, 2012
<b>Assets</b>		
Cash	2,634	1,826
Investments at fair value	873,248	1,006,363
Income receivable	4,543	5,889
Subscriptions receivable	401	867
Due from broker	2,489	—
Total assets	883,315	1,014,945
<b>Liabilities</b>		
Due to broker	1,793	—
Accrued expenses	95	78
Redemptions payable	1,644	1,373
Total liabilities	3,532	1,451
Net assets representing unitholders' equity	879,783	1,013,494
Net assets per unit	\$ 10.36	\$ 11.07

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

## BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

### STATEMENT OF OPERATIONS

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

For the periods ended	December 31, 2013	December 31, 2012
<b>Investment Income</b>		
Interest	40,875	38,151
Securities lending revenue	164	192
Foreign taxes	—	—
	41,039	38,343
<b>Expenses</b>		
Sub-advisory fees	1,374	307
Audit fees	14	16
Independent Review Committee fees	3	3
Custodian fees	19	22
Legal and filing fees	88	43
Unitholder servicing fees (note 5)	365	319
Printing and stationery fees	17	12
Operating expenses absorbed by the Manager	(1,374)	(307)
	506	415
Net investment income for the period	40,533	37,928
Realized gain on sale of investments	2,613	37,645
Realized gain (loss) on foreign exchange	—	—
Change in unrealized depreciation in value of investments	(50,931)	(46,027)
Increase (decrease) in net assets from operations	(7,785)	29,546
Increase (decrease) in net assets from operations per unit (note 2)	(0.07)	0.32

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

## BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

### STATEMENT OF CHANGES IN NET ASSETS

(in thousands of Canadian dollars)

For the periods ended	December 31, 2013	December 31, 2012
Net assets – beginning of period	1,013,494	1,042,204
Increase (decrease) in net assets from operations	(7,785)	29,546
<b>Unit Transactions:</b>		
Proceeds from sale of units	887,542	216,577
Reinvested distributions	63,938	45,518
Amounts paid on units redeemed	(1,011,471)	(273,192)
Total unit transactions	(59,991)	(11,097)
<b>Distributions to Unitholders from:</b>		
Net investment income	(40,977)	(38,063)
Capital gains	(4,880)	(9,049)
Return of capital	(20,078)	(47)
Total distributions paid to unitholders	(65,935)	(47,159)
Net assets – end of period	879,783	1,013,494

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

## BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

### STATEMENT OF INVESTMENT PORTFOLIO

*As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)*

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
<b>Bonds &amp; Debentures</b>			
<i>Federal Bonds – 33.5%</i>			
Canada Housing Trust, Mortgage Bonds, Series 30, Secured, 3.750% Mar 15, 2020	37,200	40,603	39,854
Canada Housing Trust, Mortgage Bonds, Series 36, Secured, 3.350% Dec 15, 2020	30,450	32,525	31,765
Canada Housing Trust, Mortgage Bonds, Series 52, Secured, 2.350% Sep 15, 2023	14,500	13,617	13,482
Canada Housing Trust, Mortgage Bonds, Series 55, Secured, 3.150% Sep 15, 2023	17,500	17,592	17,441
Government of Canada, 1.750% Mar 1, 2019	58,000	57,725	57,106
Government of Canada, 3.500% Jun 1, 2020	60,838	66,058	65,447
Government of Canada, Series 1, 1.500% Jun 1, 2023	77,350	71,150	69,247
		299,270	294,342
<i>Provincial Bonds – 38.5%</i>			
Financement-Quebec, Unsecured Notes, 2.450% Dec 1, 2019	10,000	9,969	9,846
Province of Alberta, Notes, 4.000% Dec 1, 2019	1,850	2,038	2,000
Province of Alberta, Senior, Unsecured, Notes, 2.550% Dec 15, 2022	9,500	9,295	8,968
Province of British Columbia, 4.100% Dec 18, 2019	11,250	12,345	12,225
Province of British Columbia, Notes, 3.700% Dec 18, 2020	13,500	14,432	14,286
Province of British Columbia, Notes, 3.250% Dec 18, 2021	2,500	2,617	2,535
Province of British Columbia, Senior, Unsecured, Notes, Unsubordinated, 2.700% Dec 18, 2022	3,000	2,967	2,866
Province of Manitoba, 4.150% Jun 3, 2020	3,000	3,345	3,247
Province of Manitoba, Debentures, 3.850% Dec 1, 2021	5,000	5,455	5,249
Province of New Brunswick, Notes, 4.400% Jun 3, 2019	3,000	3,326	3,279
Province of New Brunswick, Notes, 4.500% Jun 2, 2020	7,500	8,492	8,236
Province of Nova Scotia, Medium Term Notes, Unsecured, 4.450% Oct 24, 2021	8,000	9,026	8,676
Province of Ontario, 4.400% Jun 2, 2019	57,584	64,156	62,959
Province of Ontario, Series HC, Unsecured, 9.500% Jul 13, 2022	3,000	4,372	4,347
Province of Ontario, Unsecured, 2.850% Jun 2, 2023	84,750	81,477	80,091
Province of Ontario, Series HP, Bonds, 8.100% Sep 8, 2023	5,000	6,875	6,845
Province of Quebec, Unsecured, Notes, 4.500% Dec 1, 2019	36,750	40,836	40,346
Province of Quebec, Unsecured, 3.500% Dec 1, 2022	34,000	34,810	33,993
Province of Quebec, Unsecured, Notes, 3.000% Sep 1, 2023	27,000	25,697	25,595
Province of Saskatchewan, Unsecured, Debentures, 3.900% Jul 28, 2020	2,600	2,893	2,795
		344,423	338,384
<i>Municipal Bonds – 1.9%</i>			
Municipal Finance Authority of British Columbia, Series DR, Debentures, Unsecured, 4.875% Jun 3, 2019	10,500	11,884	11,667

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

## BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

*As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)*

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
Municipal Finance Authority of British Columbia, Series DT, Debentures, Unsecured, 4.450% Jun 1, 2020	4,500	4,930	4,900
		16,814	16,567
<b><i>Corporate Bonds &amp; Debentures – 25.4%</i></b>			
407 International Inc., Series 10-A3, Medium Term Notes, Senior, Secured, 4.300% May 26, 2021	1,750	1,941	1,858
Alimentation Couche-Tard Inc., Series 2, Senior, Unsecured, Notes, 3.319% Nov 1, 2019	3,000	3,020	2,922
AltaGas Ltd., Medium Term Notes, Senior, Unsecured, 3.720% Sep 28, 2021	5,000	5,106	4,936
AltaLink, L.P., Medium Term Notes, Unsecured, 2.978% Nov 28, 2022	5,000	4,982	4,713
Bank of Montreal, Deposit Notes, Senior, Unsecured, 2.840% Jun 4, 2020	6,500	6,422	6,365
Bank of Nova Scotia, Fixed to Floating, Subordinated, Callable, 3.036% Oct 18, 2024	5,000	5,048	4,937
bcIMC Realty Corp., Series 8, Unsecured, Notes, 2.960% Mar 7, 2019	2,750	2,798	2,750
bcIMC Realty Corporation, Series 10, Unsecured, Notes, 3.510% Jun 29, 2022	2,000	2,057	1,952
Bell Aliant Regional Communications LP, Medium Term Notes, Senior, Unsecured, 3.540% Jun 12, 2020	1,500	1,488	1,476
Bell Canada, Series M-25, Senior, Unsecured, Debentures, Unsubordinated, 3.350% Jun 18, 2019	3,000	3,040	2,998
Bell Canada, Series M-24, Medium Term Notes, Senior, Unsecured, 4.950% May 19, 2021	5,000	5,642	5,333
Bell Canada, Series M-26, Senior, Unsecured, Notes, 3.350% Mar 22, 2023	3,750	3,690	3,466
Bell Canada, Medium Term Notes, Senior, Unsecured, Callable, 4.700% Sep 11, 2023	1,000	1,027	1,020
Brookfield Asset Management Inc., Medium Term Notes, Senior, Unsecured, 3.950% Apr 9, 2019	5,000	5,140	5,066
BRP Finance ULC, Series 7, Medium Term Notes, Unsecured, 5.140% Oct 13, 2020	5,000	5,492	5,329
Calloway Real Estate Investment Trust, Series H, Senior, Unsecured, Debentures, 4.050% Jul 27, 2020	2,000	2,025	1,986
Cameco Corporation, Series D, Senior, Unsecured, Notes, Unsubordinated, 5.670% Sep 2, 2019	4,000	4,590	4,387
Canadian Natural Resources Limited, Medium Term Notes, Senior, Unsecured, 3.050% Jun 19, 2019	1,500	1,524	1,485
Canadian Utilities Limited, Debentures, Senior, Unsecured, 3.122% Nov 9, 2022	1,000	996	947

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

## BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

*As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)*

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
Capital Desjardins Inc., Series G, Senior, Secured, Notes, 5.187% May 5, 2020	5,100	5,820	5,609
Choice Properties Real Estate Investment Trust, Series B, Senior, Unsecured, Notes, Callable, 4.903% Jul 5, 2023	200	200	201
CIBC Capital Trust, Series A, Tier 1 Notes, Fixed to Floating, Subordinated, Unsecured, 9.976% Jun 30, 2108	4,000	5,340	5,185
CU Inc., Medium Term Notes, Senior, Unsecured, Callable, 6.800% Aug 13, 2019	3,000	3,778	3,585
Enbridge Gas Distribution Inc., Medium Term Notes, Senior, Unsecured, 4.040% Nov 23, 2020	2,000	2,187	2,104
Enbridge Inc., Medium Term Notes, Unsecured, Callable, 4.770% Sep 2, 2019	2,500	2,792	2,706
Enbridge Inc., Medium Term Notes, Unsecured, Unsubordinated, 4.530% Mar 9, 2020	7,000	7,714	7,469
First Capital Realty Inc., Series M, Senior, Unsecured, Notes, 5.600% Apr 30, 2020	2,000	2,258	2,179
First Capital Realty Inc., Series P, Senior, Unsecured, Notes, 3.950% Dec 5, 2022	3,000	3,097	2,834
GE Capital Canada Funding Company, Medium Term Notes, Senior, Unsecured, Unsubordinated, 4.600% Jan 26, 2022	5,000	5,504	5,334
Greater Toronto Airports Authority, Series 2009-1, Medium Term Notes, Secured, 5.960% Nov 20, 2019	500	607	580
Greater Toronto Airports Authority, Series 2012-1, Medium Term Notes, Secured, Callable, 3.040% Sep 21, 2022	1,000	998	955
Great-West Lifeco Inc., Senior, Unsecured, Notes, Unsubordinated, 4.650% Aug 13, 2020	2,000	2,166	2,151
HSBC Bank of Canada, Deposit Notes, Senior, Unsecured, 2.938% Jan 14, 2020	4,250	4,275	4,196
Husky Energy Inc., Medium Term Notes, Senior, Unsecured, Unsubordinated, 5.000% Mar 12, 2020	2,000	2,258	2,172
Hydro One Inc., Medium Term Notes, Senior, Unsecured, 3.200% Jan 13, 2022	2,750	2,841	2,707
IGM Financial, Inc., Senior, Unsecured, Notes, Unsubordinated, 7.350% Apr 8, 2019	1,500	1,852	1,792
Intact Financial Corporation, Series 1, Medium Term Notes, Senior, Unsecured, Unsubordinated, 5.410% Sep 3, 2019	2,000	2,297	2,216
Inter Pipeline Ltd., Series 4, Medium Term Notes, Senior, Unsecured, 3.448% Jul 20, 2020	5,000	5,000	4,986
Loblaw Companies Limited, Medium Term Notes, Senior, Unsecured, 5.220% Jun 18, 2020	2,000	2,277	2,176
Loblaw Companies Limited, Series 2023, Senior, Unsecured, Notes, Callable, 4.860% Sep 12, 2023	2,000	2,050	2,037

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



## BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

*As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)*

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
Manitoba Telecom Services Inc., Series 8, Medium Term Notes, Unsecured, 5.625% Dec 16, 2019	500	571	553
Manulife Financial Capital Trust II, Fixed to Floating, Unsecured, Notes, Subordinated, Callable, 7.405% Dec 31, 2108	4,000	4,778	4,755
Manulife Financial Corporation, Medium Term Notes, Senior, Unsecured, 7.768% Apr 8, 2019	3,000	3,804	3,639
NAV Canada, Series 2009-1, Medium Term Notes, Senior, Unsecured, 5.304% Apr 17, 2019	2,000	2,329	2,240
Omers Realty Corporation, Medium Term Notes, Senior, Unsecured, 3.203% Jul 24, 2020	750	750	745
RioCan Real Estate Investment Trust, Series R, Senior, Unsecured, Notes, 3.716% Dec 13, 2021	6,500	6,458	6,194
Rogers Communications, Inc., Senior, Unsecured, Notes, Unsubordinated, 4.700% Sep 29, 2020	4,000	4,410	4,234
Rogers Communications, Inc., Senior, Unsecured, Notes, Unsubordinated, 5.340% Mar 22, 2021	6,000	6,849	6,527
Royal Bank of Canada, Deposit Notes, Senior, Unsecured, 2.980% May 7, 2019	2,000	2,014	2,002
Royal Bank of Canada, Series 15, Medium Term Notes, Fixed to Floating, Subordinated, Callable, 2.990% Dec 6, 2024	7,000	7,039	6,887
Scotiabank Tier I Trust, Scotia BaTS III, Series 2009-1, Fixed to Floating, Senior, Unsecured, Notes, Callable, 7.802% Jun 30, 2108	3,000	3,784	3,616
Shaw Communications Inc., Senior, Unsecured, Notes, Unsubordinated, 5.650% Oct 1, 2019	4,500	5,093	4,951
Sobeys Inc., Senior, Unsecured, Notes, Callable, 4.700% Aug 8, 2023	2,000	2,000	1,990
Sun Life Cap Trust II, Senior Unsecured Notes, Subordinated, Callable, 5.863% Dec 31, 2108	1,500	1,672	1,680
Sun Life Financial Inc., Series E, Senior, Unsecured, Debentures, 4.570% Aug 23, 2021	2,000	2,183	2,123
TD Capital Trust IV, CaTS, Series 3, Fixed to Floating, Unsecured, Notes, Subordinated, Callable, 6.631% Jun 30, 2108	3,500	4,321	4,070
TELUS Corporation, Series CG, Senior, Unsecured, Notes, Unsubordinated, 5.050% Dec 4, 2019	4,000	4,550	4,352
TELUS Corporation, Series CH, Senior, Unsecured, Notes, Unsubordinated, 5.050% Jul 23, 2020	2,000	2,270	2,172
TELUS Corporation, Series CJ, Unsecured, Notes, Callable, 3.350% Mar 15, 2023	3,500	3,522	3,266
Teranet Holdings LP, Senior, Secured, Notes, 4.807% Dec 16, 2020	5,500	6,139	5,833
Thomson Reuters Corporation, Unsecured, Notes, Unsubordinated, 4.350% Sep 30, 2020	3,500	3,812	3,622
Toronto Hydro Corporation, Series 8, Senior, Unsecured, Debentures, 2.910% Apr 10, 2023	3,500	3,499	3,250

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

## BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

*As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)*

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
TransCanada PipeLines Limited, Medium Term Notes, Unsecured, 3.650% Nov 15, 2021	2,500	2,645	2,524
TransCanada Pipelines Limited., Medium Term Notes, Senior, Unsecured, Callable, 3.690% Jul 19, 2023	2,500	2,475	2,453
Wells Fargo Financial Canada Corporation, Medium Term Notes, Senior, Unsecured, 2.944% Jul 25, 2019	5,900	5,969	5,862
Westcoast Energy Inc., Series 9, Medium Term Notes, Senior, Unsecured, Unsubordinated, 5.600% Jan 16, 2019	2,000	2,319	2,221
Westcoast Energy Inc., Medium Term Notes, Senior, Unsecured, 3.120% Dec 5, 2022	3,000	2,993	2,780
Winnipeg Airports Authority, Series E, Secured, Notes, 3.039% Apr 13, 2023	2,500	2,500	2,314
		232,087	223,955
<b>Total Investment Portfolio – 99.3%</b>		<b>892,594</b>	<b>873,248</b>
<b>Other Assets Less Liabilities – 0.7%</b>			<b>6,535</b>
<b>NET ASSETS – 100.0%</b>			<b>879,783</b>

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

	December 31, 2013	December 31, 2012
<b>Money Market Investments</b>		
Federal	—%	0.7%
Provincial	—%	1.6%
<b>Bonds &amp; Debentures</b>		
Federal	33.5%	31.8%
Provincial	38.5%	26.8%
Municipal	1.9%	2.5%
Corporate	25.4%	30.3%
Asset Backed Securities	—%	5.6%
<b>Other Assets Less Liabilities</b>	<b>0.7%</b>	<b>0.7%</b>
	<b>100.0%</b>	<b>100.0%</b>

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

# BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

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## NOTES TO FINANCIAL STATEMENTS

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

*December 31, 2013*

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### 1. The Portfolio

BMO Harris Canadian Mid-Term Bond 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 periods ended December 31, 2013 and 2012.

### 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 periods. 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 7(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, if any, are included in the Statement of Investment Portfolio at their fair value. Unlisted warrants, if any, 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.

When the price of a security held in a Portfolio is unavailable, unreliable or not considered to reflect the current value, the Manager 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 Mid-Term Bond Portfolio

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

*December 31, 2013*

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(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 Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

*December 31, 2013*

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### 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, 2013 and December 31, 2012, where applicable, are disclosed in Note 7(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 period.

### 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.

### 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. As a result, 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”).

The differences between the Portfolio’s accounting policies under Canadian Generally Accepted Accounting Principles (“GAAP”) and IFRS requirements will result in measurement and recognition differences on transition to IFRS. The net impact of these differences will be recorded in the increase/ decrease in net assets attributable to redeemable unitholders.

### Significant accounting changes resulting from our adoption of IFRS

The main accounting changes listed below should not be considered a comprehensive list of impacts of adopting IFRS, but rather the most significant of certain key changes.

The framework for fair valuation is set out under IFRS 13 Fair Value Measurement (“IFRS 13”), 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 Net Asset Value per unit (“NAVPU”) at the financial statement reporting date.

# BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

*December 31, 2013*

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While IFRS does not require interest income to be disclosed for debt instruments measured at Fair Value through Profit or Loss, when interest income is disclosed, IFRS requires that the effective interest rate method of calculating accrued interest be used rather than the straight-line amortization method. The Manager is assessing the impact of this change to the Portfolio's financial statements. 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 hold the investments at Fair Value through Profit or Loss regardless of whether those investments are controlled. If the Portfolio fair values the investments it controls, it may be required to make additional financial statement disclosures on its controlled investments in accordance with IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12"). IFRS 12 also requires additional disclosures if the Portfolio is determined to qualify as an investment entity without having all of the typical characteristics of an investment entity.

The criteria contained within IAS 32 Financial Instruments: Presentation ("IAS 32") will result in the classification of the unitholders' equity as a liability within the Portfolio's Statement of Net Assets, unless all conditions required for equity classification are met. The Manager is currently assessing the Portfolio's unitholder structure to determine classification under IAS 32.

Under IFRS, cash flows statement is one of the primary financial statements required to be presented. The Portfolio will therefore be presenting cash flows statement in its set of financial statements in accordance with the presentation requirements in IAS 7 Statement of Cash Flows ("IAS 7").

### 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 7(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 7(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 Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

December 31, 2013

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### 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 2013 are included in Note 7(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, effective October 26, 2012, 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 7(d) for related party fees charged to the Portfolio for the periods ended December 31, 2013 and 2012.

#### (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., Pymford 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.

### 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.

# BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

*December 31, 2013*

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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 7(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 7(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 7(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 7(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 7(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 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.



# BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

December 31, 2013

### 7. Portfolio specific information

#### (a) Portfolio information, change in units and significant events

The Portfolio's inception date was June 28, 2000.

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

For the periods ended (in thousands of units)	Dec. 31, 2013	Dec. 31, 2012
Units issued and outstanding, beginning of period	91,518	92,487
Issued for cash	81,703	19,254
Issued on reinvestment of distributions	5,977	4,082
Redeemed during the period	(94,314)	(24,305)
Units issued and outstanding, end of period	84,884	91,518

#### Name change

Effective January 25, 2013, the Portfolio changed its name from BMO Harris Canadian Total Return Bond Portfolio to BMO Harris Canadian Mid-Term Bond Portfolio.

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

Dec. 31, 2013		Dec. 31, 2012	
NAV per unit	Net Assets per unit	NAV per unit	Net Assets per unit
10.36	10.36	11.07	11.07

#### (c) Income taxes

As at the tax year-ended December 2013, there were no capital and non-capital losses carried forward.

#### (d) Related party transactions

The related party fees charged for unitholder servicing and sub-advisory fees are as follows:

	Dec. 31, 2013	Dec. 31, 2012
Unitholder servicing (\$)	248	234

#### (e) Brokerage commissions and soft dollars

There were no brokerage commissions charged to the Portfolio during the periods ended December 31, 2013 and December 31, 2012.

There were no ascertainable soft dollars paid or payable to dealers by the Portfolio during the periods.

#### (f) Financial instrument risk

The Portfolio's objective is to produce superior returns through a combination of interest income and capital growth while also pursuing capital preservation. 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.

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 mid-term bond index.

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

#### Currency risk

As at December 31, 2013 and December 31, 2012, 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, 2013 \$	Dec. 31, 2012 \$
Less than 1 year	—	39,507
One to three years	—	206,216
Three to five years	—	145,050
Five to ten years	842,119	215,710
Greater than ten years	31,129	399,880
<b>Total</b>	<b>873,248</b>	<b>1,006,363</b>

# BMO Harris Canadian Mid-Term Bond Portfolio

(formerly BMO Harris Canadian Total Return Bond Portfolio)

## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

December 31, 2013

As at the periods ended December 31, 2013 and December 31, 2012, 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 \$55,374 (December 31, 2012 – \$71,715). 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.

### Other market risk

The Portfolio was not significantly exposed to other market risk as at December 31, 2013 and December 31, 2012, as it 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, 2013	Dec. 31, 2012
R-1 High	—	0.7
R-1 Mid	—	1.6
AAA	40.2	41.2
AA	21.1	33.5
A	25.3	22.3
BBB	12.7	—
<b>Total</b>	<b>99.3</b>	<b>99.3</b>

### (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, 2013

Financial assets	Level 1	Level 2	Level 3	Total
Debt securities	873,248	—	—	873,248

#### As at December 31, 2012

Financial assets	Level 1	Level 2	Level 3	Total
Debt securities	37,691	968,672	—	1,006,363

### Significant transfers

Transfers are made between the various fair value hierarchy levels due to changes in the availability of quoted market prices or observable market inputs due to changing market conditions.

During the period ended December 31, 2013, \$128,406 of debt securities were transferred from Level 2 to Level 1 as values of these securities have now been obtained that are based on market quotations.

### (h) Securities lending

The Portfolio had assets involved in securities lending transactions outstanding as at December 31, 2013 and December 31, 2012 as follows:

	Dec. 31, 2013	Dec. 31, 2012
Aggregate value of securities on loan (\$)	251,390	208,476
Aggregate value of collateral received for the loan (\$)	267,757	219,957

## Management's Responsibility for Financial Reporting

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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 17, 2014



**Robert J. Schauer**  
Chief Financial Officer  
BMO Harris Private Portfolios  
March 17, 2014

**Manager**

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[www.bmoharrisprivatebanking.com](http://www.bmoharrisprivatebanking.com)

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