

Semi-Annual Financial Statements

BMO Harris Private Portfolios

June 30, 2014

BMO Harris Diversified Yield Portfolio

NOTICE OF NO AUDITOR REVIEW OF THE SEMI-ANNUAL FINANCIAL STATEMENTS

BMO Harris Investment Management Inc., the Manager of the Portfolios, appoints independent auditors to audit the Portfolio's Annual Financial Statements. Under Canadian securities laws (National Instrument 81-106), if an auditor has not reviewed the Semi-Annual Financial Statements, this must be disclosed in an accompanying notice.

The Portfolio's independent auditors have not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

BMO Harris Diversified Yield Portfolio

(unaudited)

STATEMENT OF FINANCIAL POSITION

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

As at	June 30 2014	December 31 2013	January 1 2013
Assets			
Current Assets			
Cash	78,908	34,696	61,671
Investments			
Non-derivative financial assets	1,583,568	1,443,188	1,398,235
Receivable for investments sold	184	—	—
Subscriptions receivable	1,156	2,325	668
Interest receivable	1	1	1
Dividends receivable	5,046	3,329	4,168
Distribution receivable from investment trusts	305	814	976
Total assets	1,669,168	1,484,353	1,465,719
Liabilities			
Current Liabilities			
Redemptions payable	1,111	733	433
Distributions payable	708	—	—
Accrued expenses	74	119	95
Total liabilities	1,893	852	528
Net assets attributable to holders of redeemable units	1,667,275	1,483,501	1,465,191
Net assets attributable to holders of redeemable units per unit	\$ 18.58	\$ 17.39	\$ 16.14

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

BMO Harris Diversified Yield Portfolio

(unaudited)

STATEMENT OF COMPREHENSIVE INCOME

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

For the periods ended	June 30 2014	June 30 2013
Income		
Interest income	213	464
Dividend income	27,789	27,021
Distribution from investment trusts	2,780	2,564
Other changes in fair value of investments and derivatives		
Net realized gain	11,255	25,736
Change in unrealized appreciation (depreciation)	92,407	(21,613)
Net gain in fair value of investments and derivatives	134,444	34,172
Foreign exchange (loss) gain on cash	(33)	81
Total other (loss) income	(33)	81
Total income	134,411	34,253
Expenses		
Sub-advisory fees	885	946
Audit fees	10	21
Independent review committee fees	5	2
Custodian fees	10	11
Legal and filing fees	31	43
Unitholder servicing fees	207	218
Printing and stationery fees	7	11
Commissions and other portfolio transaction costs (note 6)	137	315
Operating expenses absorbed by the Manager	(885)	(946)
Total expenses	407	621
Increase in net assets attributable to holders of redeemable units	134,004	33,632
Increase in net assets attributable to holders of redeemable units per unit (note 3)	1.54	0.36

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

BMO Harris Diversified Yield Portfolio

(unaudited)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

(All amounts in thousands of Canadian dollars)

For the periods ended	June 30 2014	June 30 2013
Net assets attributable to holders of redeemable units at beginning of period	1,483,501	1,465,191
Increase in net assets attributable to holders of redeemable units	134,004	33,632
Distributions to holders of redeemable units		
From net investment income	(28,457)	(27,992)
Return of capital	(1,586)	(2,848)
Total distributions to holders of redeemable units	(30,043)	(30,840)
Redeemable unit transactions		
Proceeds from redeemable units issued	170,642	197,236
Reinvestments of distributions to holders of redeemable units	28,640	29,604
Redemption of redeemable units	(119,469)	(137,762)
Net increase from redeemable unit transactions	79,813	89,078
Net increase in net assets attributable to holders of redeemable units	183,774	91,870
Net assets attributable to holders of redeemable units at end of period	1,667,275	1,557,061

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BMO Harris Diversified Yield Portfolio

(unaudited)

STATEMENT OF CASH FLOWS

(All amounts in thousands of Canadian dollars)

For the periods ended	June 30 2014	June 30 2013
Cash flows from operating activities		
Increase in net assets attributable to holders of redeemable units	134,004	33,632
Adjustments for:		
Foreign exchange loss (gain) on cash	33	(81)
Net realized gain on sale of investments and derivatives	(11,255)	(25,736)
Change in unrealized (appreciation) depreciation of investments and derivatives	(92,407)	21,613
Increase in receivable for investments sold	(184)	—
Increase in interest receivable	—	(142)
Increase in dividends receivable	(1,717)	(1,392)
Decrease (increase) in distribution receivable from investment trusts	509	(53)
Increase in accrued interest on money market investments	—	(96)
Decrease in accrued expenses	(45)	(7)
Amortization of premium and discount	46	14
Return of capital distributions received	1,695	2,688
Purchases of investments	(130,572)	(239,943)
Proceeds from sale and maturity of investments	92,113	102,613
Net cash from operating activities	(7,780)	(106,890)
Cash flows used in financing activities		
Distributions paid to holders of redeemable units, net of reinvested distributions	(695)	(642)
Proceeds from issuances of redeemable units	171,811	197,426
Amounts paid on redemption of redeemable units	(119,091)	(136,273)
Net cash used in financing activities	52,025	60,511
Foreign exchange (loss) gain on cash	(33)	81
Net increase (decrease) in cash	44,245	(46,379)
Cash at beginning of period	34,696	61,671
Cash at end of period	78,908	15,373
Supplementary Information		
Interest received, net of withholding taxes*	265	245
Dividends received, net of withholding taxes*	26,073	25,629

*These items are from operating activities

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

BMO Harris Diversified Yield Portfolio

(unaudited)

SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2014 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
Bonds & Debentures			
<i>Corporate Bonds & Debentures — 0.3%</i>			
Stuart Olson Inc., Notes, Subordinated, Convertible, 6.000% Jun 30, 2015	4,750	4,765	4,869
Total Bonds & Debentures — 0.3%		4,765	4,869

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Preferred Shares			
<i>Fixed/Floaters Preferreds— 12.7%</i>			
Aimia Inc., Series 1, Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Mar 31, 2015, \$25.00	240,700	6,091	6,160
Bank of Nova Scotia, Series 20, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Oct 26, 2018, \$25.00	288,200	7,204	7,300
BCE Inc Ser Y Pfd BCE Inc., Series Y, Cumulative, Convertible, 5-Year Rate Reset Preferred, Redeemable, Apr 21, 2015, \$25.25	178,300	3,879	3,994
BCE Inc., Series R, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2015, \$25.00	272,400	5,958	6,113
Brookfield Asset Management Inc., Series 24, Class A, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 30, 2016, \$25.00	644,800	16,299	16,475
Brookfield Asset Management Inc., Series 9, Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Nov 1, 2016, \$25.00	100,000	2,325	2,200
Brookfield Asset Management, Series 40, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2019, \$25.00	388,280	9,707	9,882
Brookfield Asset Sr 18 Pf Brookfield Asset Management Inc., Series 18, Class A, Cumulative, Preferred, Redeemable, Jun 30, 2015, \$25.25	667,300	12,620	14,254
Brookfield Office Properties Inc., Series L, Class AAA, Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Sep 30, 2014, \$25.00	401,800	10,242	10,149
Brookfield Office Properties Inc., Series P, Class AAA, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2017, \$25.00	491,800	12,305	12,388
Brookfield Renewable Power Preferred Equity Inc., Series 1, Class A, Cumulative, Preferred, Exchangeable, Perpetual, Redeemable, Apr 30, 2015, \$25.00	202,350	5,102	4,897
Canadian Imperial Bank of Commerce, Series 33, Class A, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jul 31, 2014, \$25.00	294,950	7,534	7,365
Canadian Imperial Bank of Commerce, Series 39, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2019, \$25.00	342,200	8,555	8,671
Enbridge Inc., Series 9, Cumulative, Fixed/Floater Rate Preferred, Redeemable, Dec 1, 2019, \$25.00	330,260	8,257	8,405
Enbridge Inc., Series B, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 1, 2017, \$25.00	654,155	16,358	16,288
Enbridge Inc., Series D, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 1, 2018, \$25.00	324,640	8,145	8,067
Enbridge Inc., Series P, Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Mar 1, 2019, \$25.00	335,555	8,376	8,268

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

BMO Harris Diversified Yield Portfolio

(unaudited)

SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2014 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Intact Financial Corporation, Series 1, Class A, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Dec 31, 2017, \$25.00	399,800	10,044	9,703
Manulife Financial Corporation, Class 1, Series 1, Non-Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Sep 19, 2019, \$25.00	285,400	7,309	7,218
Manulife Financial Corporation, Series 3, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jun 19, 2016, \$25.00	213,700	5,330	5,001
Royal Bank of Canada, Series AJ, Non-Cumulative, Fixed to Floating Rate Preferred, Redeemable, Feb 24, 2019, \$25.00	218,150	5,686	5,541
Royal Bank of Canada, Series AL, Non-Cumulative, Fixed to Floating Rate Preferred, Redeemable, Feb 24, 2019, \$25.00	531,000	13,583	14,119
Royal Bank of Canada, Series AT, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Aug 24, 2019, \$25.00	118,600	3,220	3,010
Toronto Dominion Bank, The, Series AK, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2019, \$25.00	173,300	4,682	4,402
TransCanada Corporation, Series 7, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Apr 30, 2019, \$25.00	410,390	10,243	10,358
		209,054	210,228
<i>Floating Perpetual Preferreds— 2.2%</i>			
Bank of Nova Scotia, Series 19, Non-Cumulative, Floating Rate, Perpetual, Preferred, Redeemable, Apr 28, 2018, \$25.00	197,000	5,074	5,025
Bank of Nova Scotia, Series 23, Non-Cumulative, Floating Rate, Preferred, Perpetual, Convertible, Redeemable, Jan 26, 2019, \$25	320,200	8,130	8,162
BCE Inc., Series AD, Cumulative, Floating Rate, Perpetual, Preferred, Convertible, Redeemable, May 08, 2015, \$25.25	506,560	11,691	11,282
Brookfield Asset Sr 13 Pf Brookfield Asset Management Inc., Series 13, Class A, Cumulative, Floating Perpetual Preferred, Redeemable, Apr 23, 2015, \$25.00	150,200	2,487	2,624
Toronto Dominion Bank, The, Series T, , Non-Cumulative, Floating Rate, Preferred, Perpetual, Redeemable, Jul 31, 2018, \$25.00	377,150	9,705	9,598
		37,087	36,691
<i>Retractable Preferreds— 1.6%</i>			
Brookfield Office Properties Inc., Series K, Cumulative, Exchangeable, Soft Retractable Preferred, Redeemable, Dec 13, 2014, \$25.33	455,400	10,088	11,668
Canadian Imperial Bank of Commerce, Series 26, Non-Cumulative, Retractable Preferred, Redeemable, Jan 27, 2015, \$25.00	376,500	9,231	9,612
Manulife Financial Corporation, Series 1, Non-Cumulative, Soft Retractable Preferred, Redeemable, Jul 19, 2014, \$25.25	207,700	5,308	5,298
		24,627	26,578
<i>Straight Preferreds— 7.2%</i>			
Bank of Nova Scotia, Series 14, Non-Cumulative, Preferred, Redeemable, Apr 26, 2015, \$25.00	503,300	13,021	12,945
Bank of Nova Scotia, Series 15, Non-Cumulative, Preferred, Redeemable, Jul 29, 2014, \$25.50	651,800	15,236	16,802

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BMO Harris Diversified Yield Portfolio

(unaudited)

SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2014 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Bank of Nova Scotia, Series 17, Non-Cumulative, Preferred, Redeemable, Apr 26, 2015, \$25.50	599,500	15,036	15,599
Brookfield Office Properties Inc., Series N, Class AAA, Cumulative Exchangeable, Retractable Preferred, Redeemable, Jun 30, 2016, \$25.00	441,100	11,143	11,314
Power Corporation of Canada, Series A, Non-Cumulative, Preferreds, Redeemable, May 08, 2015, \$25.00	227,700	5,539	5,736
Power Corporation Of Canada, Series D, Non-Cumulative, Preferred, Perpetual, Redeemable, Oct 31, 2014, \$25.00	218,100	4,694	5,298
Power Financial Corporation, Series F, Non-Cumulative, First Preferred, Perpetual, Redeemable, Jul 17, 2014, \$25.00	491,600	12,065	12,590
Power Financial Corporation, Series H, Non-Cumulative, First Preferred, Perpetual, Redeemable, Dec 10, 2014, \$25.00	364,000	8,906	9,311
Power Financial Corporation, Series I, Non-Cumulative, First Preferred, Perpetual, Redeemable, Apr 30, 2015, \$25.00	181,000	4,562	4,641
Royal Bank of Canada, Series AB, Non-Cumulative, First Preferred, Perpetual, Redeemable, Aug 24, 2014, \$25.25	531,500	11,555	13,543
Toronto-Dominion Bank, The, Class A, Series R, Non-Cumulative, Preferred, Redeemable, Apr 29, 2015, \$25.50	492,300	12,344	13,051
		114,101	120,830
Total Preferred Shares — 23.7%		384,869	394,327

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Equities			
<i>Consumer Discretionary — 6.1%</i>			
Aimia Inc.	1,557,800	20,054	29,100
Cineplex Inc.	860,365	15,968	35,662
Thomson Reuters Corporation	969,300	36,902	37,657
		72,924	102,419
<i>Consumer Staples — 2.2%</i>			
Loblaw Companies Limited	580,300	19,938	27,634
North West Company Inc., The,	372,300	7,397	8,805
		27,335	36,439
<i>Energy — 21.9%</i>			
ARC Resources Ltd.	1,034,800	21,377	33,621
Baytex Energy Corp.	776,000	24,169	38,218
Bonavista Energy Corporation	803,105	18,855	13,147
Crescent Point Energy Corp.	883,480	26,570	41,780
Enbridge Inc.	799,200	20,465	40,463
Inter Pipeline Ltd.	1,321,800	12,411	43,778
Keyera Corp.	619,679	14,151	48,713
Peyto Exploration & Development Corp.	546,973	16,760	22,048
TransCanada Corporation	383,600	15,174	19,537
Trinidad Drilling Ltd.	1,322,900	9,679	16,020
Vermilion Energy, Inc.	632,100	21,233	46,933
		200,844	364,258

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

BMO Harris Diversified Yield Portfolio

(unaudited)

SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2014 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Financials — 25.8%			
Allied Properties REIT	535,400	9,407	18,926
Artis REIT	552,500	4,942	8,702
Bank of Nova Scotia	934,410	51,959	66,474
Brookfield Asset Management Inc., Class A	1,019,140	33,942	47,910
Calloway REIT	491,380	8,634	13,051
Canadian Apartment Properties REIT	794,152	8,719	18,154
Dream Office REIT	508,882	15,939	14,905
H&R REIT	514,700	7,915	11,920
IGM Financial Inc.	414,000	16,250	21,147
Intact Financial Corporation	524,205	29,762	38,571
Manulife Financial Corporation	999,800	20,581	21,206
RioCan REIT	1,192,500	16,830	32,567
Royal Bank of Canada	572,300	30,266	43,655
Toronto-Dominion Bank, The,	1,303,200	48,766	71,585
		303,912	428,773
Industrials — 8.5%			
Canadian National Railway Company	275,600	8,659	19,127
Finning International Inc.	498,500	12,760	14,875
Morneau Shepell Inc.	1,202,300	11,288	20,716
Progressive Waste Solutions Ltd.	1,081,900	22,180	29,633
SNC-Lavalin Group Inc.	304,300	12,723	17,077
Westshore Terminals Investment Corporation	615,500	14,957	20,071
WSP Global Inc.	549,075	13,431	20,750
		95,998	142,249
Materials — 0.5%			
Teck Resources Limited, Class B	362,500	12,992	8,831
Telecommunication Services — 2.8%			
BCE Inc.	653,100	26,218	31,610
Rogers Communications Inc., Class B	367,200	12,676	15,768
		38,894	47,378
Utilities — 3.2%			
Brookfield Infrastructure Partners L.P.	612,500	24,113	27,275
Brookfield Renewable Energy Partners L.P.	848,145	14,989	26,750
		39,102	54,025
Total Equities — 71.0%		792,001	1,184,372
Total Investment Portfolio — 95.0%		1,181,635	1,583,568
Other Assets Less Liabilities — 5.0%			83,707
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS — 100.0%			1,667,275

+ Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio

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

BMO Harris Diversified Yield Portfolio

(unaudited)

NOTES TO FINANCIAL STATEMENTS

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

June 30, 2014

1. The Portfolio

BMO Harris Diversified Yield 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 Manger”) is the Manager of the Portfolio. The address of the Portfolio’s registered office is 1 First Canadian Place, 41st Floor, Toronto, Ontario.

The information provided in these interim financial statements is for the periods ended June 30, 2014 and June 30, 2013, except for the comparative information in the Statement of Financial Position and the related notes, which are as at December 31, 2013 and January 1, 2013.

These financial statements were authorized for issue by BMO Trust Company, the trustee, on August 12, 2014.

2. Basis of preparation and presentation

These interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) IAS 34 Interim Financial Reporting. These are the Portfolio’s first interim financial statements during the first year of reporting in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

As required by Canadian securities legislation and the Canadian Accounting Standards Board, the Portfolio has adopted this basis of accounting effective January 1, 2014. The Portfolio’s financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), as previously defined and as described in the notes to the Portfolio’s annual financial statements for the year ended December 31, 2013. Canadian GAAP, as previously defined, differs in some areas from IFRS. To comply with IFRS, the Portfolio has amended certain accounting policies, classification, measurement and disclosure previously applied in the Canadian GAAP financial statements.

As required under IFRS, the Portfolio has:

- provided comparative financial information including an opening Statement of Financial Position as at the transition date
- retroactively applied all IFRS, other than in respect of elections taken under IFRS 1; and
- applied all mandatory exceptions as applicable for the first-time adopters of IFRS.

The interim financial statements should be read in conjunction with the Portfolio’s Canadian GAAP annual financial statements for the year-ended December 31, 2013.

Note 8(h) contains reconciliations and descriptions of the effects of the transition to IFRS on the Portfolio’s reported financial position, financial performance and cash flows.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 12, 2014, the date the Manager approved the statements. Any subsequent changes to IFRS that are given effect in the Portfolio’s annual financial statements for the period ending December 31, 2014 could result in a restatement of these interim financial statements, including the transition adjustments.

3. Summary of significant accounting policies

Financial instruments

The Portfolio records financial instruments at fair value. Investment transactions are accounted for on the trade date. The Fund’s investments are either designated as fair value through profit or loss (“FVTPL”) at inception or classified as held for trading. The changes in the investment fair values and related transaction costs are recorded in the Portfolio’s Statement of Comprehensive Income.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future, or on initial recognition, are part of a portfolio of identified financial instruments that the Portfolio manages together and that have a recent actual pattern of short-term profit taking. The Portfolio classifies all derivatives and short positions as held for trading. The Portfolio does not designate any derivatives as hedges in a hedging relationship.

The Portfolio designates all other investments as FVTPL, as they have reliably measurable fair values, are part of a group of financial assets or liabilities that are managed and have their performance evaluated on a fair value basis in accordance with the Fund’s investment strategy.

The Portfolio’s redeemable units contain multiple contractual obligations and consequently, do not meet the conditions to be classified as equity. As a result, the Fund’s obligations for net assets attributable to holders of redeemable units are presented at the redemption amounts.

BMO Harris Diversified Yield Portfolio

(unaudited)

NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2014

All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid or discounted, when appropriate, at the contract's effective interest rate.

Cost of investments

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

Fair value measurement

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

For exchange traded securities, close prices are considered to be fair value if they fall within the bid-ask spread. In circumstances where the close price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

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 fair value is represented by bid prices provided by independent security pricing services. Short-term investments, if any, are amortized at cost which approximates fair value.

Exchange traded funds held as investments are valued at their respective Net Asset Value ("NAV") on each Valuation Date (the "Valuation Date" is each day on which the Toronto Stock Exchange is open for trading), as these values are the most readily and regularly available.

For securities where market quotes are not available, unreliable or not considered to reflect the current value, the Portfolio may determine another value which it considers to be fair and reasonable, 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. These estimation techniques include discounted

cash flows, internal models that utilize observable data, or comparisons with other securities that are substantially similar. In limited circumstances, the Fund uses internal models where the inputs are not based on observable market data.

Derivative instruments

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, or other financial or commodity prices or indices.

Derivative instruments are either regulated exchange-traded contracts or negotiated over-the-counter contracts. The Portfolio may use these instruments for trading purposes, as well as to manage the Portfolio's risk exposures.

Derivatives are marked to fair value. Realized and unrealized gains and losses are recorded in the Statement of Comprehensive Income.

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 economic 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 shifting the 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.

Income recognition

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

Interest income from interest bearing investments is recognized in the Statement of Comprehensive Income using the effective interest rate. Interest receivable shown in the Statement of Financial Position is accrued based on the interest bearing instruments' stated rates of interest.

Interest on inflation-indexed bonds is paid based on a principal value, which is adjusted for inflation.

BMO Harris Diversified Yield Portfolio

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NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2014

The inflation adjustment of the principal value is recognized as part of interest income in the Statement of Comprehensive Income. 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 Date based on the inflation adjusted par value at that time and is included in "Interest income" in the Statement of Comprehensive Income.

Foreign currency translation

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 period-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 gains (losses)" and unrealized foreign exchange gains (losses) are included in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to cash are included as "Foreign exchange gain (loss) on cash".

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 Comprehensive Income and is recognized when earned. The market value of the securities loaned and collateral held is determined daily. Aggregate values of securities held in trust as at June 30, 2014, and December 31, 2013 and January 1, 2013, where applicable, are disclosed in Note 8(e).

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 "Short-term penalty fees" in the Statement of Comprehensive Income.

Cash

Cash is comprised of cash and deposits with banks, which include banker acceptances and overnight demand deposits. Cash is recorded at amortized cost.

Other assets and other liabilities

Dividend receivable, interest receivable, distributions from investment trust units receivable, due from broker and subscriptions receivable, are initially measured at fair value and subsequently measured at amortized cost. Similarly, due to broker, redemptions payable and accrued expenses, are initially measured at amortized cost. Other assets and liabilities are short-term in nature, and are carried at cost or amortized cost, which approximates fair value.

Increase or decrease in net assets attributable to holders of redeemable units

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

Taxation

The Portfolio qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada). Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year will be paid to unitholders so that the Portfolio will not be subject to income tax. As a result, the Portfolio has determined that it is in substance not taxable and therefore does not record income taxes in the Statement of Comprehensive Income and or recognize any deferred tax assets in the Statement of Financial Position.

The Portfolio may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis with the related withholding taxes shown as a separate expense in the Statement of Comprehensive Income.

Investments in subsidiaries, joint ventures and associates

Subsidiaries are entities over which the Portfolio has control through its exposure or rights to variable returns from its investment, and has the ability to affect those returns through its power over the entity. The Portfolio has determined that it is an investment entity and as such, it accounts for subsidiaries at fair value. Joint ventures are those where the Portfolio exercises joint control through an agreement with other shareholders. Associates are investments in which the Portfolio exerts significant influence over operating, investing, and financing decisions (such as companies in which the

BMO Harris Diversified Yield Portfolio

(unaudited)

NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2014

Portfolio owns 20% - 50% of voting shares), all of which have been designated at FVTPL.

Accounting standards issued but not yet adopted

Below are accounting standards issued or amended but not yet effective and not yet adopted. The Manager does not expect the adoption of these standards or amendments to have a significant impact to the Portfolio's financial statements.

In July 2014, the IASB issued the most recent version of IFRS 9 Financial Instruments, which addresses classification and measurement, impairment and hedge accounting.

The new standard requires assets to be carried at amortised cost, fair value through profit and loss or fair value through

comprehensive income based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The classification and measurement of liabilities remains generally unchanged with the exception of liabilities recorded at fair value through profit and loss. For these liabilities, fair value changes attributable to changes in the entity's own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income.

The new standard also addresses impairment of financial assets. It also introduced a new hedge accounting model that expands the scope of eligible hedged items and risks eligible for hedge accounting, and aligns hedge accounting more closely with risk management.

The new standard is effective for the Portfolio for its fiscal year beginning January 1, 2018. The Portfolio is evaluating the impact of this standard on its financial statements.

4. Critical accounting estimates and judgments

The most significant accounting estimates and judgments that the Portfolio has made in preparing the financial statements relate to the fair value measurement and classification of investments.

The Portfolio has established policies and control procedures that are intended to ensure these judgments are well controlled, independently reviewed, and consistently applied from period to period. The estimates of the value of the Portfolio's assets and liabilities are believed to be appropriate as at the reporting date.

The Portfolio may hold financial instruments that are not quoted in active markets. Note 3 discusses the estimates used in determining fair value.

In classifying and measuring financial instruments held by the Portfolio, the Manager is required to make significant judgments about whether or not the business of the Portfolio is to invest on a total return basis for the purpose of applying the fair value options for financial assets.

5. Units and unit transactions

The redeemable units of the Portfolio are classified as liabilities.

The units have no par value and are entitled to distributions, if any. Upon redemption, a unit is entitled to a proportionate share of the Portfolio's NAV. The Portfolio is required to pay distributions in an amount not less than the amount necessary to ensure the Portfolio will not be liable for income taxes. The Portfolio has no restrictions or specific capital requirements on the subscriptions and redemptions of units except as disclosed in Note 8(a). The relevant movements in redeemable units are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 7, the Portfolio endeavours to invest the subscriptions received in appropriate investments, while maintaining sufficient liquidity to meet redemptions, with such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

Redeemable 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 of a particular series. 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 the liabilities) by the total number of units of the Portfolio outstanding at such time.

6. 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

BMO Harris Diversified Yield Portfolio

(unaudited)

NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2014

servicing fees” in the Statement of Comprehensive Income.

The sub-advisors (including affiliates of the Manager, where applicable) engaged by the Manager provide investment advice and make investment decisions for the Portfolio. For these services, the sub-advisors receive sub-advisory fees that are paid monthly by the Manager. These expenses are included in “Sub-advisory fees” in the Statement of Comprehensive Income. 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 Comprehensive Income. Refer to Note 8(d) for related party fees charged to the Portfolio for the periods ended June 30, 2014 and June 30, 2013.

(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 subsidiaries or affiliates of Bank of Montreal group, 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 subsidiaries or affiliates of Bank of Montreal, 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., F&C Asset Management plc, or other investment funds offered by BMO, and may involve the purchase or sale of portfolio securities through or from a subsidiary or affiliate of Bank of Montreal, the purchase or sale of securities issued or guaranteed by a subsidiary or affiliate of Bank of Montreal, entering into forward contracts with a subsidiary or affiliate of Bank of Montreal acting as counterparty, the purchase or redemption of units of other BMO Harris Private Portfolios or the provision of services to the Manager.

7. Financial instrument risk

The Portfolio’s activities expose it to a variety of risks associated with the financial instruments, as follows: market risk (including currency risk, interest rate risk and other market risk), credit risk and liquidity risk. The concentration table groups securities by asset

type, geographic location and/or market segment. The Portfolio’s risk management practice outlines 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 financial instruments 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 disclosed in Note 8(e).

(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(e).

(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 or market segment. 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(e).

BMO Harris Diversified Yield Portfolio

(unaudited)

NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2014

(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 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(e).

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, as disclosed in Note 8(e).

(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. The proportion of illiquid securities to the 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 Diversified Yield Portfolio

(unaudited)

NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2014

8. Portfolio specific information

(a) Portfolio information and change in units

The Portfolio's inception date was November 1, 2002.

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)	Jun. 30, 2014	Jun. 30, 2013
Units issued and outstanding, beginning of period	85,316	90,795
Issued for cash	9,523	11,926
Issued on reinvestment of distributions	1,570	1,805
Redeemed during the period	(6,672)	(8,346)
Units issued and outstanding, end of period	89,737	96,180

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

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the periods ended June 30, 2014 and June 30, 2013 is calculated as follows:

	Jun. 30, 2014	Jun. 30, 2013
Increase in net assets attributable to holders of redeemable units	134,004	33,632
Weighted average units outstanding during the period	87,206	93,558
Increase in net assets attributable to holders of redeemable units per unit	1.54	0.36

(c) Income taxes

As at the tax year-ended December 2013, the Portfolio had the following capital and non-capital losses for income tax purposes:

Total Capital Losses (\$)	Total Non-Capital Losses (\$)	Non-Capital Losses That Expire in		
		2014 (\$)	2015 (\$)	2026 and thereafter (\$)
32,459	—	—	—	—

(d) Related party transactions

Unitholder servicing

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

	Jun. 30, 2014	Jun. 30, 2013
Unitholder servicing (\$)	135	144

Brokerage commissions and soft dollars

Brokerage commissions paid on securities transactions and amounts paid to related parties of the Manager for brokerage services provided to the Portfolio for the periods are as follows:

	Jun. 30, 2014	Jun. 30, 2013
Total brokerage amounts paid (\$)	138	315
Total brokerage amounts paid to related parties (\$)	5	15

The Manager may select brokers who charge a commission in "soft dollars" if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. There were no ascertainable soft dollars paid or payable to dealers by the Portfolio during the periods.

(e) Financial instrument risk

The Portfolio's objective is to provide income by investing primarily in a diversified portfolio of Canadian securities.

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

Currency risk

As at June 30, 2014, December 31, 2013, and January 1, 2013 the Portfolio did not have any significant exposure to currency risk.

Interest rate risk

As at June 30, 2014, December 31, 2013 and January 1, 2013, the Portfolio did not have any significant exposure to interest rate risk.

Other market risk

The Portfolio has a significant exposure to other market risk arising from its investment in equity securities. The Portfolio's exposure to equity securities determine the extent to which the Portfolio reacts to the movements in the relevant Benchmark. Using historical correlation between the Portfolio's return and the return of its Benchmark, if the Benchmark, S&P/TSX Composite Index, had increased or decreased by 10%, with all other variables held constant, the Net Assets of the Portfolio would have increased or decreased, respectively, by \$67,079 (December 31, 2013 - \$62,528; January 1, 2013 - \$61,807). Historical correlation may not be representative of future correlation, and accordingly, actual results may differ and the difference could be material.

BMO Harris Diversified Yield Portfolio

(unaudited)

NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2014

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 as at		
	Jun. 30, 2014	Dec. 31, 2013	Jan. 1, 2013
A	2.4	1.8	12.3
BBB	16.6	18.5	8.9
BB	4.6	5.1	5.4
Unrated	0.3	0.3	0.3
Total	23.9	25.7	26.9

Securities lending

There were no assets involved in securities lending transactions as at June 30, 2014, December 31, 2013 and January 1, 2013.

Concentration risk

The following is a summary of the Portfolio's concentration risk:

	Jun. 30, 2014	Dec. 31, 2013	Jan. 1, 2013
Bonds & Debentures			
Corporate Bonds & Debentures	0.3%	0.3%	0.3%
Equities			
Consumer Discretionary	6.1%	6.8%	6.5%
Consumer Staples	2.2%	2.3%	2.4%
Energy	21.9%	21.0%	21.0%
Financials	25.8%	26.6%	26.5%
Industrials	8.5%	8.9%	7.3%
Materials	0.5%	0.7%	0.9%
Telecommunication Services	2.8%	2.1%	2.2%
Utilities	3.2%	3.2%	1.7%
Preferred Shares			
Preferred Shares	23.7%	25.4%	26.6%
Other Assets Less Liabilities	5.0%	2.7%	4.6%
	100.0%	100.0%	100.0%

(f) Financial assets and financial liabilities

Categories of financial assets and financial liabilities

The table below shows the categories of financial assets and financial liabilities.

	Jun. 30, 2014	Dec. 31, 2013	Jan. 1, 2013
Financial assets designated at FVTPL	1,583,568	1,443,188	1,398,235
Loans and receivables	6,692	6,469	5,813
Financial liabilities measured at amortized cost	1,893	852	528

Net gains and losses on financial assets and financial liabilities at fair value

	Jun. 30, 2014	Jun. 30, 2013
Net realized gains on financial assets at FVTPL		
Designated at FVTPL	42,037	55,785
	42,037	55,785
Total net realized gains on financial assets at FVTPL	42,037	55,785
Change in unrealized gains (losses) on financial assets at FVTPL		
Designated at FVTPL	92,407	(21,613)
	92,407	(21,613)
Total change in unrealized gains (losses) on financial assets at FVTPL	92,407	(21,613)

(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 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 observable 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 tables below show the relevant disclosure.

BMO Harris Diversified Yield Portfolio

(unaudited)

NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2014

As at Jun. 30, 2014

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	1,184,372	—	—	1,184,372
Preferred Securities	394,327	—	—	394,327
Debt Securities	4,869	—	—	4,869
Total	1,583,568	—	—	1,583,568

As at Dec. 31, 2013

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	1,060,886	—	—	1,060,886
Preferred Securities	377,523	—	—	377,523
Debt Securities	4,779	—	—	4,779
Total	1,443,188	—	—	1,443,188

As at Jan. 1, 2013

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	1,003,895	—	—	1,003,895
Preferred Securities	389,412	—	—	389,412
Debt Securities	4,928	—	—	4,928
Total	1,398,235	—	—	1,398,235

Transfers between levels

There were no transfers between levels during the periods.

(h) Transition to IFRS

The differences between the Portfolio's Canadian GAAP accounting policies and IFRS requirements resulted in measurement and classification differences on transition to IFRS. The net impact of these differences was recorded in opening Net Assets as of January 1, 2013.

The following information reflects the Portfolio's transition elections under IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), the standard for first-time adoption and the significant accounting changes resulting from our adoption of IFRS. The general principle under IFRS 1 is retroactive application, such that the Portfolio's Statement of Financial Position as at January 1, 2013 was restated as though the Portfolio has always applied IFRS with the net impact shown as an adjustment to Net Assets.

Transition elections

The Portfolio had applied the voluntary exemption upon transition to designate financial assets or financial liabilities at FVTPL. All financial assets designated at FVTPL upon transition were previously recorded at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies.

Statement of cash flows

Under Canadian GAAP, the Portfolio was exempt from providing a Statement of Cash Flows. IAS 1,

Presentation of Financial Statements ("IAS 1"), requires that a Statement of Cash Flows to be presented as part of a complete set of financial statements. As such, the Portfolio has presented a Statement of Cash Flows in the interim financial statements for the periods ended June 30, 2014 and June 30, 2013.

Classification of redeemable units issued by the Portfolio

Under Canadian GAAP, redeemable units of the Portfolio were presented as Net Assets. IAS 32, Financial Instruments: Disclosure and Presentation ("IAS 32"), however, requires an assessment to determine whether the units issued to unitholders are puttable instruments that qualify for equity classification. The Portfolio's units do not meet the criteria in IAS 32 for equity classification and therefore, have been reclassified as financial liabilities on transition to IFRS and presented on the Statement of Financial Position as Net Assets.

Revaluation of investments at FVTPL

Canadian GAAP required the use of bid prices for long positions and ask prices for short positions in determining fair valuation of investments traded in an active market, rather than the use of close prices used for the purpose of determining NAV. IFRS 13, Fair Value Measurement ("IFRS 13"), requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. The standard also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. Upon adoption of IFRS, the Portfolio has determined that for traded securities, close prices on the reporting date are considered to be fair value, if they fall within the bid-ask spread. See Note 3 for the Portfolio's fair value measurement policy.

BMO Harris Diversified Yield Portfolio

(unaudited)

NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2014

Reconciliation of Net Assets as reported under Canadian GAAP to IFRS

	Dec. 31, 2013	Jun. 30, 2013	Jan. 1, 2013
Net assets representing unitholders' equity under Canadian GAAP	1,481,747	1,553,594	1,462,351
Revaluation of investments at FVTPL	1,754	3,467	2,840
Net assets attributable to holders of redeemable units	1,483,501	1,557,061	1,465,191

Reconciliation of increase (decrease) in net assets reported under Canadian GAAP to IFRS

	Dec. 31, 2013	Jun. 30, 2013
Increase in net assets from operations under Canadian GAAP	171,567	33,004
Revaluation of investments at FVTPL	1,754	628
Increase in net assets attributable to holders of redeemable units	173,321	33,632

Presentation of Interest Income

Under Canadian GAAP, the Portfolio presented interest income on debt instruments in the Statement of Operations calculated using the stated rate without amortization of discounts, premiums or transaction costs. IFRS requires interest income to be calculated using the effective interest method. As a result, \$14 was reclassified from "change in unrealized appreciation (depreciation)" to "Interest Income" in the Statement of Comprehensive Income for the period ended June 30, 2013 to conform to the IFRS presentation.

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