Annual Financial Statements

BMO Harris Private Portfolios

December 31, 2012

BMO Harris U.S. Special Equity Portfolio

(formerly BMO Harris International Special Equity Portfolio)

BMO Harris Private Banking®

Independent Auditor's Report

To the Unitholders of:

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

PricewaterhouseCoopers LLP

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

BMO Harris U.S. Special Equity Portfolio

(formerly BMO Harris International Special Equity Portfolio)

STATEMENT OF NET ASSETS

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

As at	December 31, 2012	December 31, 2011
Assets		
Cash	1,704	925
Investments at fair value	29,751	28,314
Income receivable	2	52
Subscriptions receivable	4	4
Due from broker	15	—
Total assets	31,476	29,295
Liabilities		
Due to broker	646	57
Accrued expenses	96	35
Redemptions payable	5	15
Total liabilities	747	107
Net assets representing unitholders' equity	30,729	29,188
Net assets per unit	$ 4.67	$ 4.44

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

BMO Harris U.S. Special Equity Portfolio

(formerly BMO Harris International Special Equity Portfolio)

STATEMENT OF OPERATIONS

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

For the years ended	December 31, 2012	December 31, 2011
Investment Income		
Dividends	834	921
Interest	—	—
Distributions from investment trust units	34	27
Securities lending revenue	13	18
Foreign taxes	(79)	(80)
	802	886
Expenses		
Sub-advisory fees	62	—
Audit fees	3	6
Independent Review Committee fees	2	3
Custodian fees	81	63
Legal and filing fees	15	28
Unitholder servicing fees (note 5)	134	186
Printing and stationery fees	3	5
Operating expenses absorbed by the Manager	(8)	—
Commissions and other portfolio transaction costs (note 5)	153	167
	445	458
Net investment income for the year	357	428
Realized gain (loss) on sale of investments	417	(615)
Realized gain (loss) on foreign exchange	34	(16)
Change in unrealized appreciation (depreciation) in value of investments	1,306	(6,482)
Increase (decrease) in net assets from operations	2,114	(6,685)
Increase (decrease) in net assets from operations per unit (note 2)	0.35	(0.92)

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

BMO Harris U.S. Special Equity Portfolio

(formerly BMO Harris International Special Equity Portfolio)

STATEMENT OF CHANGES IN NET ASSETS
(in thousands of Canadian dollars)

For the years ended	December 31, 2012	December 31, 2011
Net assets – beginning of year	29,188	38,408
Increase (decrease) in net assets from operations	2,114	(6,685)
Unit Transactions:		
Proceeds from sale of units	7,934	10,145
Reinvested distributions	577	785
Amounts paid on units redeemed	(8,498)	(12,667)
Total unit transactions	13	(1,737)
Distributions to Unitholders from:		
Net investment income	(584)	(794)
Return of capital	(2)	(4)
Total distributions paid to unitholders	(586)	(798)
Net assets – end of year	30,729	29,188

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

BMO Harris U.S. Special Equity Portfolio
(formerly BMO Harris International Special Equity Portfolio)

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

Security	Number of Shares or Units	Cost+* ($)	Fair Value ($)
Equities			
Consumer Discretionary – 14.1%			
Arctic Cat Inc.	16,900	644	560
Biglari Holdings Inc.	1,100	399	426
Blue Nile, Inc.	5,100	199	195
Chico's FAS, Inc.	13,700	257	252
HomeAway, Inc.	18,900	427	413
Lions Gate Entertainment Corp.	59,400	943	968
Lithia Motors Inc., Class A	9,700	350	361
Shop Holdings, Inc., The	19,100	278	319
Sinclair Broadcast Group, Inc., Class A	16,100	202	202
Sonic Automotive Inc	18,700	351	388
Tumi Holdings, Inc.	12,500	267	259
		4,317	4,343
Energy – 11.4%			
Advantage Oil & Gas Ltd.	73,700	282	236
Gulfport Energy Corporation	12,700	416	483
Lone Pine Resources Inc	59,600	93	72
PDC Energy, Inc.	38,800	1,258	1,281
Unit Corporation	31,200	1,340	1,398
		3,389	3,470
Financials – 14.2%			
American Capital, Ltd.	109,400	1,301	1,308
Global Eagle Acquisition Corp.	35,100	347	347
ICG Group, Inc.	59,400	669	675
LaSalle Hotel Properties	14,400	356	364
PICO Holdings, Inc.	16,800	365	339
Sabra Health Care REIT, Inc.	4,200	91	91
Safeguard Scientifics, Inc.	65,500	1,024	960
Summit Hotel Properties, Inc.	28,300	233	267
		4,386	4,351
Health Care – 14.6%			
ABIOMED, Inc.	11,700	225	157
Acadia Healthcare Company, Inc.	13,900	295	322
Akorn, Inc.	29,500	379	392
Catamaran Corporation	3,400	168	159
Centene Corporation	6,200	245	253
DexCom, Inc.	22,100	303	299
Emeritus Corporation	10,400	245	256

+*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.*
**For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2).*
The accompanying notes are an integral part of these financial statements.

BMO Harris U.S. Special Equity Portfolio

(formerly BMO Harris International Special Equity Portfolio)

STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

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

Security	Number of Shares or Units	Cost+* ($)	Fair Value ($)
HealthSouth Corporation	7,500	165	157
HMS Holdings Corp.	7,300	193	188
ICON plc, ADR	9,800	243	271
Jazz Pharmaceuticals Plc	8,300	471	439
Mednax, Inc.	4,800	338	380
NxStage Medical, Inc.	12,300	146	138
OraSure Technologies, Inc.	22,800	208	163
PAREXEL International Corporation	12,500	382	368
Salix Pharmaceuticals, Ltd.	3,900	156	157
Thoratec Corp.	6,800	236	254
Volcano Corporation	6,900	181	162
		4,579	4,515
Industrials – 19.3%			
Acacia Research Corporation	48,900	1,194	1,247
Actuant Corporation	8,800	248	244
Advisory Board Company, The,	2,800	124	130
Altra Holdings, Inc.	7,800	137	171
BE Aerospace, Inc.	7,500	331	368
Chicago Bridge & Iron Company N.V.	8,600	336	396
Foster Wheeler AG	11,900	284	288
Healthcare Services Group, Inc.	6,300	149	145
Hexcel Corporation	14,300	365	383
Hub Group, Inc., Class A	6,300	195	210
Lennox International Inc.	3,100	151	162
Manitowoc Company, Inc., The,	13,200	189	206
MSC Industrial Direct Co., Inc., Class A	2,700	191	202
Mueller Industries, Inc.	4,000	186	199
On Assignment, Inc.	14,400	284	290
TriMas Corporation	8,200	200	228
Triumph Group, Inc.	7,200	455	468
United Rentals, Inc.	7,800	304	353
Watsco, Inc.	3,000	211	223
		5,534	5,913
Information Technology – 21.0%			
ACI Worldwide, Inc.	5,700	231	248
Angie's List, Inc.	51,600	528	615
Aruba Networks Inc.	15,400	306	318
Aspen Technology Inc.	15,000	374	412
AVG Technologies NV	33,300	383	524

+*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.*

**For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2).*

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

BMO Harris U.S. Special Equity Portfolio

(formerly BMO Harris International Special Equity Portfolio)

STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

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

Security	Number of Shares or Units	Cost+* ($)	Fair Value ($)
Cardtronics, Inc.	17,300	484	407
CEVA, Inc.	27,500	407	431
Ebix, Inc.	64,600	1,374	1,033
Electronics for Imaging, Inc.	8,000	136	151
ExlService Holdings, Inc.	7,300	212	192
Inphi Corporation	10,400	94	99
Insulet Corporation	12,400	258	262
MAXIMUS, Inc.	1,900	114	119
Microsemi Corporation	15,300	288	320
NICE Systems Ltd., ADR	9,600	318	319
Proofpoint, Inc.	12,440	132	152
Rackspace Hosting, Inc.	2,100	139	155
ServiceSource International, Inc.	2,200	20	13
Tangoe, Inc.	23,500	301	277
Velti PLC	33,100	237	148
VeriFone Systems Inc.	10,100	314	298
		6,650	6,493
Materials – 0.7%			
Caesarstone Sdot-Yam Ltd.	13,000	195	207
Telecommunication Services – 1.5%			
8x8, Inc.	17,500	111	128
inContact, Inc.	31,320	163	161
SBA Communications Corporation, Class A	2,400	159	170
		433	459
Total Investment Portfolio – 96.8%		**29,483**	**29,751**
Other Assets Less Liabilities – 3.2%			**978**
NET ASSETS – 100.0%			**30,729**

+*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.*

**For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2).*

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

STATEMENT OF INVESTMENT PORTFOLIO (cont'd)
As at December 31, 2012 (in thousands of Canadian dollars, unless otherwise noted)

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

	December 31, 2012	December 31, 2011
Consumer Discretionary	14.1%	18.9%
Consumer Staples	—%	5.8%
Energy	11.4%	8.0%
Financials	14.2%	14.3%
Health Care	14.6%	6.6%
Industrials	19.3%	15.2%
Information Technology	21.0%	4.9%
Materials	0.7%	17.7%
Telecommunication Services	1.5%	2.5%
Utilities	—%	3.1%
Other Assets Less Liabilities	3.2%	3.0%
	100.0%	**100.0%**

NOTES TO FINANCIAL STATEMENTS
(all amounts in thousands of Canadian dollars, except per unit data)
December 31, 2012

1. The Portfolio

BMO Harris U.S. Special Equity Portfolio ["the Portfolio"] is an open-ended mutual fund trust established by a Declaration of Trust under the laws of the Province of Ontario, most recently amended on September 18, 2007. BMO Harris Investment Management Inc. ("the Manager") is the Manager of the Portfolio.

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

2. Summary of significant accounting policies

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

Valuation of investments

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

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

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

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

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

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

Investment transactions

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

Securities lending

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

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

Increase or decrease in net assets from operations per unit

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

Short-term trading penalty

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

Other assets and liabilities

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

3. Unit valuation

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

Capital

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

4. Income taxes

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

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

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

5. Related party transactions

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

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

The sub-advisors (including affiliates of the Manager, where applicable) engaged by the Manager provide investment advice and make investment decisions for the Portfolio's investment portfolio. For these services the sub-advisors receive sub-advisory fees that are paid monthly by the Manager and charged to the Portfolio. These expenses are included in "Sub-advisory fees" in the Statement of Operations. Any sub-advisory fees less than or equal to 0.15% of the net asset value of the Portfolio are absorbed by the Manager.

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

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

(b) Other related party transactions

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

NOTES TO FINANCIAL STATEMENTS (cont'd)
(all amounts in thousands of Canadian dollars, except per unit data)
December 31, 2012

6. Financial instrument risk

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

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

(a) Currency risk

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

(b) Interest rate risk

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

(c) Other market risk

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

(d) Credit risk

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

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

(e) Liquidity risk

The Portfolio's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Portfolio primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Portfolio retains sufficient cash and cash equivalent positions to maintain liquidity. The Portfolio may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. Securities for which a market quotation could not be obtained and may be illiquid are identified on the Statement of Investment Portfolio. The proportion of illiquid securities to NAV of the Portfolio is monitored by the Manager to ensure it does not exceed the regulatory limit and does not significantly affect the liquidity required to meet the Portfolio's financial obligations.

7. Future accounting standards

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

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

The framework for fair valuation is set out under IFRS 13 Fair Value Measurement, which includes the requirements for the measurement and disclosure of fair value. If an asset or liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. Thus this standard will impact the net assets per unit for financial statement reporting purposes compared to current standards, and may also result in the elimination of the differences between the net asset per unit and NAVPU at the financial statement reporting date. The Manager has not identified any changes that will impact NAVPU as a result of the transition to IFRS.

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

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

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

NOTES TO FINANCIAL STATEMENTS (cont'd)
(all amounts in thousands of Canadian dollars, except per unit data)
December 31, 2012

8. Portfolio specific information

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

The Portfolio's inception date was September 29, 2006.

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

For the years ended (in thousands of units)	Dec. 31, 2012	Dec. 31, 2011
Units issued and outstanding, beginning of year	6,573	7,030
Issued for cash	1,708	1,892
Issued on reinvestment of distributions	124	176
Redeemed during the year	(1,830)	(2,525)
Units issued and outstanding, end of year	6,575	6,573

Portfolio name change

As at the close of business on October 26, 2012, the Portfolio name was changed from BMO Harris International Special Equity Portfolio to BMO Harris U.S. Special Equity Portfolio.

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

Dec. 31, 2012		Dec. 31, 2011	
NAV per unit	Net Assets per unit	NAV per unit	Net Assets per unit
4.68	4.67	4.44	4.44

(c) Income taxes

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

Total capital losses ($)	Total non-capital losses ($)	Non-capital losses that expire in 2014 ($)	2015 ($)	2026 and thereafter ($)
57,298	—	—	—	—

(d) Related party transactions

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

	Dec. 31, 2012	Dec. 31, 2011
Unitholder servicing ($)	116	153
Sub-advisory ($)	54	—

(e) 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 years are as follows:

	Dec. 31, 2012	Dec. 31, 2011
Total brokerage amounts paid ($)	127	137
Total brokerage amounts paid to related parties ($)	—	—

The ascertainable soft dollar value of services received as a percentage of total brokerage commissions paid under the soft dollar arrangement entered into by the portfolio adviser for the years ended is as follows:

	Dec. 31, 2012	Dec. 31, 2011
Total soft dollars ($)	45	70
Total soft dollars as a percentage of total commissions (%)	35	51

(f) Financial instrument risk

The Portfolio's objective is to achieve long term growth through capital appreciation by investing primarily in small and mid-sized companies internationally.

Effective October 26, 2012, the Portfolio's investment objectives were changed to achieve long term growth through appreciation by investing primarily in small- and mid-sized companies in the U.S. market.

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

NOTES TO FINANCIAL STATEMENTS (cont'd)
(all amounts in thousands of Canadian dollars, except per unit data)
December 31, 2012

Currency risk

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

As at December 31, 2012

Currency	Cash and other current receivables & payables ($)	Invest-ments ($)	Forward currency contracts ($)	Net currency exposure ($)	As a % of net assets (%)
Euro	—	—	—	—	—
Pound sterling	—	—	—	—	—
Japanese yen	—	—	—	—	—
U.S. dollar	1,075	29,751	—	30,826	100.3
Other European currencies	—	—	—	—	—
Other Pacific currencies	—	—	—	—	—
Emerging Market currencies	—	—	—	—	—
Total	1,075	29,751	—	30,826	100.3

All amounts in CA$

As at December 31, 2011

Currency	Cash and other current receivables & payables ($)	Invest-ments ($)	Forward currency contracts ($)	Net currency exposure ($)	As a % of net assets (%)
Euro	28	6,470	—	6,498	22.3
Pound sterling	24	5,554	—	5,578	19.1
Japanese yen	(35)	5,258	—	5,223	17.9
U.S. dollar	233	—	—	233	0.8
Other European currencies	34	2,454	—	2,488	8.5
Other Pacific currencies	53	3,731	—	3,784	13.0
Emerging Market currencies	2	1,122	—	1,124	3.8
Total	339	24,589	—	24,928	85.4

All amounts in CA$

As at the years ended December 31, 2012 and December 31, 2011, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all factors remaining constant, Net Assets could possibly have decreased or increased, respectively, by approximately $1,541 (December 31, 2011 – $1,246). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Interest rate risk

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

Other market risk

As at December 31, 2012, 96.8% (December 31, 2011 – 97.0%) of the Portfolio's Net Assets were traded on respective stock exchanges. If equity prices on respective stock exchanges had increased or decreased by 10% as at the years ended, with all other factors remaining constant, Net Assets could possibly have increased or decreased, respectively, by approximately $2,975 (December 31, 2011 – $2,831). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

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

NOTES TO FINANCIAL STATEMENTS (cont'd)
(all amounts in thousands of Canadian dollars, except per unit data)
December 31, 2012

(g) Fair value hierarchy

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

As at December 31, 2012

Financial assets	Level 1	Level 2	Level 3	Total
Equity securities	29,161	590	—	29,751

As at December 31, 2011

Financial assets	Level 1	Level 2	Level 3	Total
Equity securities	3,725	24,589	—	28,314

Significant transfers

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

(h) Securities lending

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

	Dec. 31, 2012	Dec. 31, 2011
Aggregate value of securities on loan ($)	3,540	512
Aggregate value of collateral received for the loan ($)	3,741	541

Management's Responsibility for Financial Reporting

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

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

PricewaterhouseCoopers LLP is the external auditor of the Portfolios. The auditor has been appointed by Board of the Manager and of the Trustees and cannot be changed without the prior approval for the Independent Review Committee and 60 days notice to the Unitholders. They have audited the financial statements in accordance with generally accepted auditing standards in Canada to enable them to express to the unitholders their opinion on the financial statements. Their report is included as an integral part of the financial statements.

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

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

Manager
BMO Harris Investment
Management Inc.
1 First Canadian Place
100 King St. W., 41st Floor
Toronto, Ontario M5X 1H3

Trustee
BMO Trust Company
1 First Canadian Place
100 King St. W., 41st Floor
Toronto, Ontario M5X 1H3

Independent Auditors
PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto, Ontario M5J 0B2

www.bmoharrisprivatebanking.com

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