

Annual Management Report of Fund Performance

BMO Harris Canadian Bond Income Portfolio

For the period ended December 31, 2011

This annual management report of fund performance contains financial highlights but does not contain annual financial statements of the Portfolio. If the annual financial statements of the Portfolio do not accompany the mailing of this report, you may obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-800-361-1392, by e-mailing us at contact.centre@bmonb.com, by writing to us at BMO Harris Investment Management Inc., 1 First Canadian Place, 100 King St. W., 9th Floor, Toronto, Ontario, M5X 1H3 or by visiting our website at www.bmoharrisprivatebanking.com or SEDAR at www.sedar.com. You may also contact us using one of these methods to request a copy of the Portfolio's proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

Management Discussion of Fund Performance

BMO Harris Investment Management Inc. ("BHIMI"), the manager and portfolio manager, is responsible for the management of the overall business, investments and operations of BMO Harris Private Portfolios and has engaged BMO Asset Management Inc. as the sub-advisor of the BMO Harris Canadian Bond Income Portfolio (the "Portfolio").

Investment Objective and Strategy

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

To achieve the Portfolio's objectives, the sub-advisor selects a variety of investment maturities based on the interest rate outlook, seeks to determine the best potential investments for the Portfolio by analyzing the credit ratings of various issuers, and focuses primarily on securities that will provide a steady stream of annual income.

Risk

No significant changes affecting the overall level of risk associated with investing in the Portfolio were made during the period. The risks of this Portfolio remain as discussed in the Portfolio's most recent simplified prospectus or its amendments.

Results of Operations

For the 12-month period ended December 31, 2011, the BMO Harris Canadian Bond Income Portfolio returned 7.3%, after expenses.

The Portfolio's benchmark is made up of the DEX Short Term Bond Index (50.0%) and the DEX Mid Term Bond Index (50.0%), which returned 7.7% on a blended basis over the same 12-month period.

In 2011, concerns over the level of European debt and the unwillingness on the part of many European countries to properly address their fiscal situation raised the possibility that some European countries could default on the money they borrowed from investors. The uneasiness in financial markets over the possibility of European debt default was originally most pronounced in Greece. Unfortunately, this uneasiness grew and concerns spread to Italy and, ultimately, even to France in what is often referred to as a contagion effect. In an attempt to prevent contagion, the European Central Bank ("ECB") began buying the bonds of several sovereign countries, including Italy, in an effort to keep the borrowing costs for those nations as low as possible. In order to secure the ECB's purchase of its bonds, Italy had to agree to aggressive spending reductions in its national budget. Whether the efforts being undertaken to prevent contagion will be effective remains to be seen; however, the uncertainty surrounding how effectively Europe will deal with this type of financial crisis has prompted investors to seek the relative safety of assets like Government of Canada bonds.

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As a result, investors produced a flight-to-quality effect, which drove the prices of Government of Canada bonds up and their yields down. The Portfolio's sub-advisor was concerned that the low level of Government of Canada bond yields would discourage investors from purchasing federal bonds and, as a result, Government of Canada bond yields would rise. In order to deal with the possibility of rising interest rates, the Portfolio's duration (interest-rate sensitivity) was kept below that of its benchmark. When yields actually fell instead of rising during 2011, the Portfolio's performance was negatively impacted.

While Government of Canada bond yields were driven lower on flight-to-quality concerns, provincial and corporate credit spreads (the amount of additional yield an issuer must offer above the Government of Canada yield to attract investors to buy its debt) widened and both provincial and corporate bonds underperformed their Government of Canada counterparts. The Portfolio's underweight position in these sectors, based on the sub-advisor's concerns over their riskiness, added to relative performance during the year.

For information on the Portfolio's longer-term performance and composition, please refer to the Past Performance section and Summary of Investment Portfolio section of this report.

Recent Developments

The sub-advisor believes that low interest rates across the yield curve will limit the upside potential for bonds in 2012. The North American economy should remain stable enough that investors will gradually reduce their bond holdings as the flight-to-quality effects experienced in 2011 abate in 2012. Such a reduction in bond holdings is expected to put downward pressure on bond prices and upward pressure on their yield.

The sub-advisor believes the upward pressure on rates will be modest, but expects to maintain the Portfolio's duration below that of its benchmark. While interest rates have some room to move higher, the sub-advisor believes that in light of the global uncertainties, particularly in Europe, central banks will be reluctant to increase the interest rate for overnight money (the interest rate they administer). A combination of longer-term interest rates rising and overnight rates remaining relatively fixed should see the yield curve steepen. As a result, the sub-advisor will likely overweight bonds

with a term to maturity of seven years, relative to the Portfolio's benchmark.

While investors have seen provincial and corporate credit spreads widen in 2011, the sub-advisor expects further widening in 2012. The spread on provincial and corporate bonds remains at a level where the sub-advisor believes that caution is warranted and that investors are not being adequately compensated for the increased credit risk of provincial and corporate debt. The Portfolio is expected to be positioned so that it is underweight in each of these two sectors relative to its benchmark. It is also expected that the provincial or corporate bonds held in the Portfolio will have a higher average credit rating than the benchmark (for example, the Portfolio will favour bonds with a credit rating of A over bonds with a credit rating of BBB).

With yield spreads on corporate bonds (the amount of additional yield a corporate bond issuer has to offer above a Government of Canada bond with the same maturity in order to receive financing) relatively narrow, the sub-advisor believes a defensive posture in this component of the Portfolio continues to be warranted. The sub-advisor will continue to favour corporate bond holdings with superior credit ratings until corporate bond spreads generally widen out enough to make their yields favourable, relative to their Government of Canada benchmarks.

Transition to International Financial Reporting Standards

In March 2011, the Canadian Accounting Standards Board ("AcSB") amended their mandatory requirement for all Canadian publicly accountable enterprises to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), permitting investment companies, which includes mutual funds, to defer the adoption of IFRS. On December 12, 2011, the AcSB decided to extend by one year the deferral from fiscal year beginning on or after January 1, 2013 to January 1, 2014.

The deferral of the mandatory IFRS changeover date to January 1, 2014 is to prevent Canadian investment companies and segregated accounts of life insurance enterprises from having to change their current accounting treatment for controlled investees while the IASB finalizes its proposed investment entities standard. The AcSB will continue to monitor the need to revise the IFRS changeover date for these entities.

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Under the current IFRS guidance, investment companies are required to consolidate their controlled investments. The IASB has issued an exposure draft that will exempt entities that qualify as investment entities from consolidating their controlled investments, and requires such entities to record, with very limited exceptions, all their investments at fair value through profit or loss account. This exposure draft is still under review. Canadian GAAP permits investment companies to fair value their investments regardless of whether those investments are controlled.

The Portfolio has not elected to early adopt IFRS, therefore it will adopt IFRS effective January 1, 2014. The Portfolio expects to report its financial results for the six month period ended June 30, 2014 prepared on an IFRS basis. The Portfolio will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2013. Further revisions by the AcSB to the IFRS adoption date for investment companies are possible.

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of potential IFRS differences and as new standards are issued by the IASB prior to the Portfolio's adoption of IFRS. The criteria contained within the IFRS Financial Instruments: Presentation standard (IAS 32) 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.

Related Party Transactions

BMO Trust Company, an indirect, wholly-owned subsidiary of Bank of Montreal, is the trustee while BHIMI, is the manager of the Portfolio. From time to time, BHIMI may, on behalf of the Portfolio, enter into transactions or arrangements with or involving other members of BMO Financial Group, or certain other persons or companies that are related or connected to the Portfolio (a "related party").

Portfolio Manager

BHIMI has hired BMO Asset Management Inc. ("BMO AM"), a related party, to provide investment advice and make investment decisions for the Portfolio's

investment portfolio. BMO AM receives an investment advisory fee based on assets under management that is paid monthly. BMO AM is paid by BHIMI and not by the Portfolio.

Wealth Management Fee

Units of the Portfolio are only available through the wealth management service offered through BMO Financial Group. BMO Trust Company (the "trustee"), a related party, receives an annual fee from each investor for the wealth management services offered through BMO Financial Group. A tiered schedule is applied to calculate the annual fee for this service; the fee schedule starts at 1.95% and declines to 0.20% (depending on the nature and size of the investor's investment portfolio), and is calculated as a percentage of the assets under management. The actual investment management fee payable by each investor is set out in the BHIMI Investment Management Fee Schedule that has been provided to the investor in conjunction with the investment management agreement between the investor, the trustee and BHIMI. This fee is paid directly by the investor to the trustee. The trustee may compensate financial institutions and securities registrants within BMO Financial Group for client referrals to the wealth management service.

Unitholder Servicing

The Portfolio is provided with certain facilities and services by related parties. BMO Trust Company is the trustee while BMO AM is the registrar of the Portfolio. BMO Trust Company and BMO AM are paid by the Portfolio for fees relating to the custodial and administrative services they provide, respectively. Administrative services include fund accounting, record keeping and purchases/redemption order processing. The fees charged to the Portfolio during the period were as follows:

	2011 (\$000s)	2010 (\$000s)
Unitholder Servicing	250	201

Management Fee

There is no management fee charged to the Portfolio. The trustee receives an annual fee from investors for the wealth management services offered through BMO Financial Group.

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Financial Highlights

The following tables show selected key financial information about the Portfolio and are intended to help you understand the Portfolio's financial performance for the periods indicated.

The Portfolio's Net Assets Per Unit ⁽¹⁾	Years ended December 31				
	2011	2010	2009	2008	2007
Net assets, beginning of period	\$ 10.66	10.51	10.36	10.28	10.39
Increase (decrease) from operations:					
Total revenue	\$ 0.35	0.41	0.45	0.50	0.50
Total expenses	\$ —	(0.01)	(0.00)	(0.00)	(0.00)
Realized gains (losses) for the period	\$ (0.02)	0.05	0.01	0.05	(0.14)
Unrealized gains (losses) for the period	\$ 0.46	0.10	0.11	0.04	0.02
Total increase (decrease) from operations ⁽²⁾	\$ 0.79	0.55	0.57	0.59	0.38
Distributions:					
From income (excluding dividends)	\$ 0.35	0.41	0.46	0.50	0.52
From dividends	\$ —	—	—	—	—
From capital gains	\$ —	—	—	—	—
Return of capital	\$ 0.00	0.00	0.00	—	0.00
Total Annual Distributions ⁽³⁾	\$ 0.35	0.41	0.46	0.50	0.52
Net assets, end of period	\$ 11.08	10.66	10.51	10.36	10.28

⁽¹⁾ This information is derived from the Portfolio's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for Portfolio pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

⁽³⁾ Distributions were paid in cash or reinvested in additional units of the Portfolio, or both.

Ratios and Supplemental Data	Years ended December 31				
	2011	2010	2009	2008	2007
Total net asset value (000's) ⁽¹⁾	\$ 1,775,435	1,295,450	1,152,943	899,722	944,793
Number of units outstanding (000's) ⁽¹⁾	160,302	121,495	109,709	86,819	91,889
Management expense ratio ⁽²⁾	%	0.03	0.03	0.03	0.03
Management expense ratio before waivers					
or management absorptions	%	0.03	0.03	0.03	0.03
Trading expense ratio ⁽³⁾	%	—	—	—	—
Portfolio turnover rate ⁽⁴⁾	%	1.82	34.85	48.42	17.20
Net asset value per unit	\$ 11.08	10.66	10.51	10.36	10.28

⁽¹⁾ This information is provided as at December 31 of the period shown.

⁽²⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. For all the financial periods listed, no commissions or portfolio transaction costs were incurred by the Portfolio. As a result, the trading expense ratio for all the periods was zero.

⁽⁴⁾ The portfolio turnover rate indicates how actively the Portfolio's sub-advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Portfolio buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio turnover rate in a year, the greater the trading costs payable by the Portfolio in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Portfolio.

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Past Performance

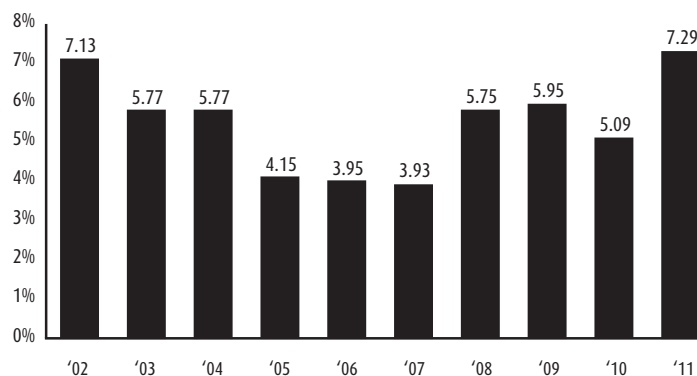
General

The Portfolio's performance information assumes that all distributions made by the Portfolio in the periods shown were used to purchase additional units of the Portfolio and is based on the net asset value of the Portfolio.

The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember, how the Portfolio has performed in the past does not indicate how it will perform in the future.

Year-by-Year Returns

The following bar chart(s) show the performance for each of the financial years shown. The chart(s) show in percentage terms how an investment made on the first day of each financial year would have increased or decreased by the last day of the financial year.



Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the blended return of 50% DEX Short Term Bond Index and 50% DEX Mid Term Bond Index and the DEX Universe Bond Index. The DEX Short Term Bond Index is a measure of total return of Canadian bonds which have a term to maturity of five to ten years, the DEX Mid Term Bond Index is a measure of total return of Canadian bonds which have a maturity of five to ten years and the DEX Universe Bond Index is a broad measure of the total return of all marketable Canadian bonds that mature in more than one year.

	1 yr %	3 yrs %	5yrs %	10yrs %
BMO Harris Canadian Bond Income Portfolio [‡]	7.29	6.11	5.60	5.47
Blended Return	7.72	6.47	6.18	5.96
DEX Universe Bond Index	9.67	7.26	6.37	6.49

[‡]The Portfolio's return is after the deduction of expenses, while the benchmarks do not include any costs of investing.

A commentary on the market and/or information regarding the relative performance of the Portfolio as compared to its benchmark can be found under the Results of Operations section of this report.

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Summary of Investment Portfolio

as at December 31, 2011

Portfolio Allocation	% of Net Asset Value
Government Bonds	60.7
Money Market Investments	13.5
Provincial Bonds	13.5
Corporate Bonds	7.4
Municipal Bonds	3.5
Asset-Backed Securities	0.7
Cash/Receivables/Payables	0.7

Top 25 Holdings	% of Net Asset Value
Government of Canada, 3.500% Jun 1, 2020	35.1
Government of Canada, 2.500% Jun 1, 2015	5.9
Government of Canada, 3.500% Jun 1, 2013	5.5
Government of Canada, 3.000% Dec 1, 2015	5.2
Government of Canada, 3.750% Jun 1, 2019	4.3
Province of Quebec, Senior, Unsecured, Notes, 5.500% Dec 1, 2014	2.8
Province of Ontario, 4.300% Mar 8, 2017	2.7
Government of Canada, 5.250% Jun 1, 2013	2.0
Province of Ontario, Treasury Bills, 0.972% Feb 1, 2012	2.0
Alberta Capital Finance Authority, Notes, 4.350% Jun 15, 2016	1.9
Municipal Finance Authority of British Columbia, 4.875% Jun 3, 2019	1.8
Province of New Brunswick, Notes, 4.500% Jun 2, 2020	1.6
Bank of Nova Scotia, Fixed to Floating, Unsecured, Notes, Subordinated, Callable, 4.990% Mar 27, 2018	1.5
Province of Ontario, Treasury Bills, 0.976% Feb 22, 2012	1.4
Municipal Finance Authority of British Columbia, 5.100% Nov 20, 2018	1.2
Export Development Canada, Unsecured, Debentures, 5.800% Dec 3, 2012	1.1
Sun Life Financial Inc., Series A, Medium Term Notes, Fixed to Floating, Senior, Unsecured, Callable, 4.800% Nov 23, 2035	1.1
Government of Canada, 4.250% Jun 1, 2018	1.1
Province of Nova Scotia, Medium Term Notes, Unsecured, 4.450% Oct 24, 2021	1.0
Province of British Columbia, Series BCEC-19, European Medium Term Notes, Unsecured, Unsubordinated, 5.500% Apr 24, 2013	0.9

Top 25 Holdings	% of Net Asset Value
Province of Ontario, Treasury Bills, 0.935% Jan 4, 2012	0.8
Government of Canada, Treasury Bills, 0.848% Mar 1, 2012	0.8
IGM Financial, Inc., Senior, Unsecured, Notes, Unsubordinated, 6.580% Mar 7, 2018	0.8
Cash/Receivables/Payables	0.7
Greater Toronto Airports Authority, Series 2002-2, Medium Term Notes, Secured, Callable, 6.250% Dec 13, 2012	0.6
Top holdings as a percentage of net asset value	83.8
Total Net Asset Value	\$1,775,434,652

The summary of investment portfolio may change due to the Portfolio's ongoing portfolio transactions. Updates are available quarterly.

Manager

BMO Harris Investment
Management Inc.
1 First Canadian Place
100 King St. W., 9th Floor
Toronto, Ontario M5X 1H3

Trustee

BMO Trust Company
1 First Canadian Place
100 King St. W., 9th Floor
Toronto, Ontario M5X 1H3

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This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Portfolio may invest and the risks detailed from time to time in BMO Harris Private Portfolios’ simplified prospectus. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Portfolio, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, BMO Harris Investment Management Inc. does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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